Part Two
CORE ISSUES

1. Neither at the preparatory meetings for the World Summit for Social Development nor at the Summit itself was an attempt made to arrive at a comprehensive definition of social development. Indeed, it was realized at the outset that no agreement was likely to be reached and that attempts to force an agreement would only jeopardize the Summit. Rather than developing a comprehensive definition of social development, Summit participants identified three core issues—poverty, unemployment and discrimination—of concern to all countries.

2. In keeping with the approach taken at the Summit, part two of the present *Report on the World Social Situation* examines the core issues identified at the Summit in order to provide background to the discussion of the measures needed or taken to advance the objectives agreed upon at the Summit.

Chapter VI
POVERTY

1. From its inception, the United Nations has made social development and poverty eradication one of its primary concerns. A review of the annual agendas of the General Assembly reveals a steady expansion over the years of its involvement in a wide array of poverty reduction issues, usually in tandem with economic development concerns. In support of the increasing attention given to social development as a goal of the international community, the United Nations has convened since 1990 a number of mutually supportive conferences renewing the priority given to social development.[1] Of special importance to these meetings has been the eradication of poverty and the reduction of disparities among social groups and among countries.

2. The present chapter examines main trends in global absolute poverty and its relationship to world economic growth, and provides a tentative assessment of the progress made towards the goal of the eradication of global poverty and its present dimensions. It also provides an overview of key elements in a comprehensive strategy for poverty reduction and reviews recent research on selected issues and polices involved in designing a programme for the further reduction and eventual eradication of absolute poverty.

3. In order to provide a foundation for a quantitative assessment of global poverty, the chapter begins with a discussion of the characteristics of poverty and problems involved in the measurement of its various manifestations. While the entire range of its manifestations cannot be summarized in a single index, poverty is often measured by an income or expenditure level that can sustain a minimum level of living. For a full assessment of poverty and its manifestations, however, this measure of access to resources must be supplemented by additional indicators describing other attributes of poverty. Deficiencies of available statistics on poverty and indicators used to measure its severity and depth must also be taken into account when assessing the extent and nature of global poverty.

4. Despite inadequacies in available data, the statistical evidence supports the conclusion that while the overall average level of living of the developing countries taken as a group has increased at a rapid rate over the past quarter of a century, this impressive collective performance conceals the fact that large segments of the world's population have not benefited from this general improvement and are falling behind in both relative and absolute terms. A review of recent estimates of the number of people living below a common global poverty line indicates that while the overall incidence of poverty in the world appears to be declining, it still encompasses one quarter of the world's population and in many regions is on the increase. The chapter supports the increasing volume of information that there has been a tendency for an increase in inequality of living standards in the world across broad groups of countries.

5. In a review of policies for poverty reduction, the chapter describes a number of issues involved in designing a poverty reduction strategy and points to a number of policy priorities: the key role of an enabling environment for macroeconomic growth in providing a supportive context for national efforts directed at poverty reduction; the importance of a wide range of domestic social services in reducing poverty, particularly those directed at reducing inequalities in the primary distribution of income through education and training and the provision of basic health services; the contribution that programmes providing greater opportunities to the poor can make to poverty reduction, especially through the enablement of individuals in their role as producers; the need to have information about the poor, particularly about who they are and where they reside, and to target poverty reduction efforts on the specific needs of the poor where they are concentrated; the necessity of providing for and promoting the well-being of those who are aged, too infirm or too young to care for themselves; and, finally, the importance of taking part in the general expansion of the world economy in a way that maximizes benefits to the poor.

A. Concepts and measurement of poverty

Poverty: What are we talking about?

6. Because of their multidimensional nature, it is difficult to provide a precise definition of poverty and the poor. Poverty is associated with a state of physical want characterized by insufficient means to meet minimum needs for nutrition, housing, health and education. It is often aggravated by lack of access to employment opportunities and by various forms of discrimination. Poverty has many manifestations: starvation, malnutrition, illiteracy, poor health, substandard clothing and housing, vulnerability to events and circumstances which place lives and livelihoods in jeopardy, environmental degradation and insecure employment or habitation, and the stigma associated with a precarious financial situation. In many cases, poverty is perpetuated by exclusion from decision-making and lack of participation in the political process and in business and cultural affairs.

7. Poverty occurs in all countries: as mass poverty in developing countries with low average incomes and as pockets of poverty in economically advanced countries with high average incomes. The poor everywhere suffer from isolation from productive employment, from basic social services and from civil, social and cultural life. Those living in a state of poverty are persons and families who by the nature of their circumstances must struggle continuously against malnutrition and deprivation. Poverty is a condition characterized by deprivation of basic human needs, including food, safe drinking water, sanita-

tion facilities, health, shelter, education and information. Among the poor are the abject poor and utterly destitute lacking access to the most fundamental and elementary human requirements for life and whose very lives are thereby threatened by an ongoing lack of resources in dire circumstances of hopelessness. They are often older people, people with disabilities, indigenous people, refugees and internally displaced persons, and those without family support structures. Poverty also includes the structural poor, who have been affected negatively by the forces of modernization and development, and those rendered poor, and in many cases destitute, by devastating wars, prolonged droughts and other natural calamities.

8. Poverty extends beyond those who suffer from deep, persistent and widespread want and isolation. The poor also include the indigent, who must live below minimum acceptable standards in a given time and place, and those who feel deprived of what is enjoyed by other people in the society of which they consider themselves to be a part. In this sense, poverty is not entirely a matter of absolute levels of living but must be assessed in relation to what is available to others. Extreme inequality in incomes and wealth creates conditions of relative poverty where many people exist at a minimal level of living and share only marginally in the benefits from economic growth and development.[2] As the process of globalization continues and education and communication improve, people who formerly compared their own status with that of those immediately in their vicinity are becoming increasingly aware of the living standards of the wealthy in their own countries and even of standards that prevail in other parts of the world.

9. Poverty affects disproportionately women and children, the weak and disabled and those in rural areas. In almost all countries, there are more women than men at the lowest level of income and households headed by women are among the poorest groups in every society. Extreme poverty at once creates and reinforces the conditions for its continuation and deepening through its effect on children and the disabled. Poor nutrition, illiteracy and innumeracy, disease-ridden habitations and lack of immunization, and the disabilities and infirmities of the young and the old cause the stunting and wasting of children and the inability of adults to lead productive lives and contribute to society. Finally, absolute poverty is disproportionately located in rural areas, where people are isolated from markets and ideas and the poor are reduced to scraping out a livelihood from subsistence agriculture or working as low-paid farm workers. Many of the rural poor, and some of those located on the fringes of urban areas, attempt to eke out a meagre living through uncertain and low productivity activities such as small-scale trading and commerce or petty services.

1. *Measurement of poverty*[3]

10. Because poverty is a complex and multidimensional phenomenon, it is difficult to measure. In order to fully assess the nature and extent of poverty, the entire range of its manifestations must be clarified and made quantitatively measurable through the use of indicators that reflect the different conditions defining poverty. However, while alternative indicators make it possible to survey trends and conditions that describe poverty and appraise the effectiveness of policies directed towards the reduction and alleviation of its various manifestations, multiple sets of indicators are inherently difficult to summarize so as to provide a single, unique measure of poverty. This is particularly true when some attributes of poverty are present in a society and others are not.

11. Moreover, it is difficult, costly and time-consuming to collect information on the many specific characteristics of the poor, such as the sources of their income, family size and access to education, health and sanitation services, as well as on attributes surrounding poverty, such as discrimination and vulnerability. While progress is being made in collecting information for monitoring poverty, and an increasing number of household surveys of living conditions are providing key data on the income and expenditures of the poor, comprehensive sets of indicators providing specific information on infant mortality, life expectancy and health conditions, protein consumption, adult literacy and other characteristics of the poor population are far from being systematically available at the present time. Even when a full range of indicators is available for a country, disentangling the separate effects of these factors on the poor population and evaluating the effectiveness of policies directed at poverty reduction remains a difficult exercise. Similarly, combining different indicators into a single index presents difficult problems of proper weighting of the different attributes of poverty so as to arrive at a measure appropriate to all countries and all circumstances.

12. While all the manifestations of poverty cannot be summarized in a single index, and comprehensive sets of data on specific characteristics of the poor are not available for all or even most countries, a broad conventional measure of poverty which can be applied to a large number of countries is "an income or expenditure level which can sustain a minimum level of living". This working definition of poverty is interpreted to mean not only the consumption of food, clothing and shelter, but also access to education, health services, clean water and other basic necessities of life. It has the advantage of encompassing an entire range of needs and includes both privately obtained commodities and publicly provided goods and services. For purposes of international comparisons, a global poverty line can be set at a level representative of actual poverty lines in some of the lowest-income countries and interpreted as a measure of absolute poverty.[4]

Absolute poverty

13. A predefined minimum of level of income and expenditure per person or household is therefore used as the main index for assessing absolute poverty. A common approach to defining a global poverty line relevant for cross-country comparisons is to set the poverty line at a level corresponding to the cost of a bundle of goods deemed to assure that basic consumption needs are met in the lowest-income countries. Depending on the chosen concept, the poverty line assumes minimum levels of consumption below which survival is threatened. People below this line may be further disaggregated into the poor and the ultra poor. A global poverty line approach allows for determining the size of the world's poor population in terms of the same level of real consumption available to each individual or household, regardless of where they reside. Because the global poverty line is usually set at a minimal level, it excludes from the calculation of those

living in absolute poverty the poor residing in the more economically advanced countries, where low levels of income nonetheless tend to be higher than an absolute poverty standard.

14. It should be noted, however, that a global poverty line is intrinsically limited in that it reveals nothing about many conditions and circumstances associated with poverty and, moreover, suffers from well-known deficiencies that arise from using the consumption of goods and services as a measure of welfare. While this poverty line is appropriate for assessing the dimensions of poverty at the global level, to get a clearer picture of poverty in a particular country, a poverty line appropriate to the country should be established, and a range of social indicators for the country, broken down, when feasible, into "poor" and "non-poor", should be taken into account. While national averages for these latter indicators are available for many countries, insufficient information on social variables exists to assess separately trends and conditions of the poor and non-poor at the global level.

Relative poverty

15. While the elimination of widespread absolute poverty is at the core of development concerns, large inequities in incomes are also recognized as a significant and growing problem in many developed and developing countries. Relative poverty reflects large disparities in incomes. It is a matter not just of lack of resources and bare survival but of the minimum standard of living as determined by the community in which one lives. Relative poverty focuses on inequalities in the distribution of income and wealth rather than the absolute level of income available to different groups in the population. In order to assess the degree of inequality in the distribution of income (or consumption) among individuals or households, the percentage of all income received by the poorest segments of the population can be compared with the percentage of income received by the richest (or other) segments of the population. One common method is to divide the population into successive quintiles or deciles according to ascending income levels and then compare the proportion of income received by each income group. Another common measure of income inequality is the Gini income concentration ratio, discussed below.

16. These approaches to income comparisons focus attention on disparities in the income or consumption between different segments of the population, regardless of how the income was obtained or the consumption financed. Given data on the size distribution of income for different countries, broad patterns of relative income differences among countries can be assessed by reference to summary indicators of the degree of inequality, such as the ratio of the percentage of income received by the highest and lowest income groups, or the Gini concentration ratio measuring the skewness of the entire distribution. While these aggregate measures of inequality are appropriate to an assessment of broad global patterns of size distributions of income among different groups of countries, they provide an inadequate basis on which to assess the host of factors determining and affecting income distribution at the individual country level. Similarly, standards of relative poverty—and hence the definition of what constitutes an equitable distribution of income—differ from country to country, and cannot be evaluated at the global level using some uniform criteria relevant for all countries.

2. *Indicators of poverty*

17. The identification of levels, trends and patterns of poverty necessitates using economic and social indicators that can provide a profile of the poor and allow for an assessment of the effectiveness of different policies aimed at reducing absolute and relative poverty. Because of its complex nature and the limited volume and usefulness of available data, no one set of indicators can serve to measure all aspects of poverty. A fundamental constraint exists, moreover, in that for reasons of data availability traditional measures of poverty and the poor population focus on the income dimension of poverty. The present section sets forth some income (or consumption) measures of poverty used in the chapter to estimate the number of people living below a specified poverty line. When possible, these income-based measures should be supplemented by indicators of living standards and social conditions to provide a more complete profile of poverty.

Standard of living indicators

18. General levels of living for the vast majority of people are reflected in their household expenditure per person, which is the preferred indicator of the present standard of living. Looking to the future, however, the total resources available for all purposes—investment for future growth as well as consumption for present sustenance—are linked to the domestic production of goods and services. Here the preferred indicators are the level and growth in economic activity measured per capita, indices which reflect the productivity of the labour force and the potential for future increases in the standard of living.

19. National accounting aggregates for such series as real private final consumption expenditure (or total final consumption expenditure) and gross domestic product (GDP) per capita provide some indication of average levels of living for the population as a whole and overall resource availability, respectively, although they may be subject to substantial measurement errors and problems associated with the cross-country comparison of different mixes of consumption and output. Household sample surveys used to compile size distribution data have frequently used consumption expenditure as their indicator of living standards. In order to improve the comparability of the distributional data used by the World Bank in its studies of poverty, reported household sample survey data are either based on consumption expenditure or adjusted to reflect it. These adjusted data form the basis of the World Bank's estimates of the number and percentage of the population living below a specified global poverty line discussed below.

20. Average levels and increases in GDP per capita are used as a basis for classifying countries by level of income and by rate of economic growth in this chapter. However, because a large proportion of the expenditures of the poor consist of goods and services which do not enter international trade, exchange rate translations of national currency estimates of consumption and production can lead to distortions in the relative economic distance between countries. For this reason, and to provide a consistent poverty line across countries, data relating to

gross domestic product, total and per capita, have been converted on the basis of purchasing power parity indices (PPPs) rather than exchange rates.[5] In principle, purchasing power parity converts one unit of the currency of the numéraire currency, in this case, the United States dollar, into the number of units of national currency needed to buy some defined package of goods and services in some other country. However, PPPs are both difficult to estimate for reasons rooted in the comparability of the different kinds of goods and services bought and sold in different countries. Because they value all goods and services at some common set of prices, estimates of gross domestic product expressed as PPP weighted "international dollars" are regarded as superior for purposes of poverty comparisons than those expressed at exchange rate weighted "United States dollars".

Poverty incidence indicators

21. While poverty among the population is recognized as a broader concept than simply the mere absence of money, the overall prevalence of poverty as traditionally measured refers to the percentage of people whose income or consumption falls below some established poverty line fixed in terms of a standard of living indicator. This poverty line may be defined in different ways:

(*a*) A basic needs approach assumes that a minimum set of food and non-food requirements must be satisfied. This minimum basket determines the requisite minimum income/consumption level;

(*b*) A food-ratio approach assumes that a certain food-income ratio characterizes the pattern of consumption behaviour. This method uses actual expenditure patterns to determine the poverty line and avoids the problem of identifying minimum nutritional needs;

(*c*) A percentage of mean income approach describes poverty as a situation of relative deprivation. This requires the determination of an income indicator (mean level) and a percentage of this indicator (e.g., 40, 50 or 60 per cent);

(*d*) The percentile approach ranks the population by income level and identifies the poor in terms of the lowest percentiles of the distribution.

22. In a global comparison, the poverty line indicator should be set at the same level for all countries so that each individual is measured against the same standard of basic needs or nutritional requirements. In this way, the incidence of poverty, measured by a headcount ratio showing the number of poor living below a threshold poverty line as a proportion of the total population, can then be calculated. This index does not measure the depth of poverty, but rather treats all poor alike, regardless of whether they are near the poverty line or markedly below it. Measured in this way, a headcount ratio is a simple index of the severity of absolute poverty where a higher poverty line increases the estimated incidence of poverty and a lower poverty line decreases it. This shows the proportion of the population within income or expenditures below the poverty line.

23. In order to estimate a headcount index showing the relative number of people living in absolute poverty both a specified poverty line and data on the distribution of income or consumption are required. When preparing the estimates of the number and percentage of the population living in poverty discussed below, the World Bank used a standard of I$1 (one international dollar) per person per day measured in 1985 international dollars as the minimum poverty line for consistent international comparisons.[6] On the basis of distributional data prepared for this purpose, the size of the poor population was determined in a sample of countries in each main world region. Because the comparability of underlying household surveys was limited, an effort was made to standardize the available data on the concept of consumption and adjust the date of the distributions to the same reference years. The World Bank cautions that the resulting headcount index differs from previous estimates prepared by the Bank and those of other studies of poverty.

Poverty depth indicator

24. The pattern of poverty cannot be described in terms of the overall magnitude of the numbers in poverty alone; a poverty depth indicator of the extent to which the incomes of the poor fall below the poverty line is also required. Great inequalities and a very low average income among the poor imply greater depth to poverty and worse living conditions than less inequality and a higher average income. Reductions in poverty would then be measured in terms of a fall in the percentage of the poor population or through increases in the average income of the poor and improvements in its distribution.

25. One indicator of the depth of poverty is the poverty gap used by the World Bank. This indicator measures the distance between the mean income (or expenditure) of the poor and the poverty line, expressed as a ratio of the poverty line. The sum of all poverty gaps may be interpreted as the minimum amount of transfers required to bring the entire poor population up to the poverty line. When multiplied by the headcount index it yields the poverty gap index, or the poverty gap as a percentage of the poverty line. While indicating how far, on average, a poor person or household lies below the poverty line, and hence the depth of poverty within the poor population, it does not provide a precise measure of the extent of inequality among the poor.

Relative poverty indicator

26. Relative poverty is reflected by marked inequalities in the size distribution of income among the population and in the contrasts in consumption that accompany a poor distribution of income. There are many alternative aggregate measures of income inequality, such as the Lorenz curve and the Gini concentration ratio. Another commonly used indicator of relative poverty focuses on the relative differences in incomes received by the poorest and other segments of the population. This latter ratio allows the average expenditures incomes of the poor to be compared with the average expenditures of higher income groups.

Social indicators

27. Measures of poverty incidence and the poverty gap do not normally include the benefits the poor derive from the provision of public goods nor do they measure the social dimensions of development. Social indicators can supplement poverty measures based on income/consumption concepts and provide information about specific characteristics of the poor and their access to social services such as education and health care. However, specific social indicators, such as those on infant mortality,

primary school enrolment and life expectancy, are not regularly compiled with reference to the poor population and therefore reflect only indirectly the actual conditions of the poor.

3. *Estimating the number of world poor*

28. Direct evidence on the extent and change in poverty in different areas of the world is often sparse or non-existent, making a quantitative assessment of the distribution and change in global poverty difficult.[7] In recent years, however, efforts to improve data quality and increase country coverage have been made by the United Nations (under the National Household Survey Capability Programme) and the World Bank (under the Living Standards Measurement Study and the Social Dimensions of Adjustment Project in sub-Saharan Africa). In the case of the developed market economies, microdata from the Luxembourg Income Study project begun in 1983 contains information for 25 countries, and allows a comparison of cross-country income distribution in a unified household income database environment. Finally, a considerable amount of additional data relating to the distribution of income has been compiled at the country level, and improvements in the methodology of poverty assessments using distributional data have yielded more reliable estimates of the number of poor than in the past. In addition to data on income distribution, an increasing volume of social indicators relevant for assessing poverty have also become available and, as discussed above, a large body of literature on alternative poverty measures exists.

29. Despite these improvements, it remains difficult to bring separate estimates together as part of a consistent and comparable assessment of global poverty reduction efforts. First, official poverty lines established at the country level to measure the number of poor, while appropriate in the context of the country, do not refer to a common poverty line, and hence may include individuals with a substantially higher (or lower) standard of living than estimates made for another country. In this regard, when establishing official poverty lines at the country level, there is a marked tendency for the real value of the local poverty line to increase with the average per capita income of the country.[8] Second, while more comparable than in the past, country data on the distribution of income are nonetheless often based on different survey methods and various definitions of income, and therefore require further standardization before they may be used as a basis for assessments of poverty across countries or over time. Since estimates of the number of poor can be sensitive to where a common poverty line is set and how it is translated into a level appropriate to each country, there is a need to use a common methodology that ensures that the conditions defining poverty are the same in each country and that similarly situated individuals are included or not included as among the poor regardless of where they reside. And third, the availability of poverty statistics and complementary data on education, health and housing for the poor differs markedly from one region to another, with considerable coverage in Latin America, East and South Asia and East Europe and Central Asia but only a few sets of data on poverty incidence for countries in North Africa, sub-Saharan Africa and West Asia. These problems of estimation and differences in data availability imply that estimates of poverty must be regarded as only approximate and for these latter regions—which include many of the world's poorest countries—are likely to be imprecise.

B. Trends and patterns in world economic growth and global poverty

30. The present section looks at the linkages between economic growth and poverty reduction. It presents evidence from a recent World Bank study on progress and setbacks in reducing absolute poverty in developing and transition countries. That study provides a profile of poverty in different areas of the world and identifies the changes that have taken place in the number of poor and the incidence of poverty during the past 5 to 10 years. The section then reviews the recent experience of the transition economies and examines the increase in the number of poor that has occurred in the aftermath of the decline in economic activity registered during the present decade. Finally, it addresses the long-term pattern of world economic growth and the rate of increase in per capita GDP in different parts of the world.

31. While this section focuses on the income dimension of poverty, other dimensions of poverty should not be overlooked. Extreme poverty is often characterized by malnutrition, hunger, illness and illiteracy; absolute poverty is usually associated with lack of access to productive resources and discrimination in or exclusion from the workplace, educational opportunities and the political process. Nonetheless, the income dimension is at the core of most poverty problems, and poverty frequently arises from a lack of sufficient income to purchase a critical minimum of goods and services for active participation in society. Understanding the relationship between economic growth and poverty reduction and income inequality therefore provides a key perspective on the problem of global poverty and prospects for its eradication.

1. *Dimensions of global poverty*

32. Divergent trends in the pattern of long-term world economic growth have led to marked contrasts in eradicating poverty and inequality. At one extreme, the rapid growth experienced by most countries in South and East Asia, combined with supportive macroeconomic and trade policies and an egalitarian pattern of income distribution, helped diminish absolute poverty substantially over the past 25 years. At the other extreme, the incidence of poverty has increased in those low-income countries—especially the poorest countries in sub-Saharan Africa—that have suffered from a general economic decline during the past quarter of a century. In Latin America higher levels of poverty in some middle-income countries may be attributed to the debt crisis and the subsequent stabilization policies, which hurt the poor in the medium term. In other countries slower economic growth, very unequal access to productive resources by different groups in society and inappropriate policies, regulations and practices all contributed to rising numbers of poor. In Eastern Europe and the States of the former Soviet Union, the sharp economic decline increased poverty considerably during the 1990s.

33. A comprehensive assessment of the number and distribution of people living in absolute poverty and changes in their status over time is difficult to carry out because of poor data availability and questions about

estimation methodology. Previous estimates of the incidence of poverty have covered only a limited proportion of the world's population and have been based on different methodologies for different regions. The World Bank has attempted to track the number and percentage of the world's population living at or below a common poverty line over a period of years.[9]

Specifying a common poverty line

34. In preparing its estimates of the number of world poor the Bank drew upon household surveys of income and living conditions. To improve the quality of the data for purposes of cross-country studies, the Bank standardized the results of individual country surveys for such variables as household size, private consumption and the date of the survey. In order to ensure that the same standard of living was used as the criterion for estimating the number of poor in different countries and regions, a common poverty line for consistent cross-country comparisons was established. This standard poverty line, equal to I$1 per day per person measured in purchasing-power-parity-adjusted 1985 United States dollars, provides a consistent measure for determining the number of poor across countries.[10] In studies of poverty in Latin America, a poverty line of I$2 per person per day is often used; in Europe and Central Asia a standard of close to I$4 per person per day is frequently used, reflecting the higher average level of income. China's official poverty line has been estimated at approximately I$0.60 per person per day. The I$1 per person per day standard used by the World Bank represents a constant real poverty line relevant for international comparisons of absolute poverty, rather than the relative poverty that prevails in countries with high average levels of consumption expenditure per capita. This I$1 a day standard for a poverty line is used to establish an incidence of moderate absolute poverty as measured by a headcount ratio, or proportion of poor in the population. Extreme absolute poverty, as contrasted with moderate poverty, refers to a level of income sufficient to purchase only a minimum food basket. The degree of extreme poverty is reflected by the poverty gap index, which measures the mean distance below the poverty line (zero for the non-poor), expressed as a percentage of the poverty line.[11]

Patterns of poverty in developing and transition countries

35. Using a poverty line of I$1 a day (in 1985 prices) the World Bank estimates indicate that, although inroads have been made in reducing the incidence of poverty throughout the world, more than a fifth of the world's population is living on less than I$1 a day and the number of people in poverty continues to rise (see table 6.1). Between 1987 and 1993 the overall incidence of poverty in transition and developing countries fell slightly, from 30.0 to 29.5 per cent, but the number of the world's poor rose from 1.23 billion to 1.31 billion. The overwhelming majority of people living on I$1 a day or less are located in South Asia, sub-Saharan Africa, the countries of Indochina, Mongolia, Central America, Brazil and the hinterland provinces of China, with the incidence of poverty particularly high in sub-Saharan Africa, South Asia and China.

Latin America and the Caribbean

36. The 1980s were a devastating decade for the poor in Latin America and the Caribbean, as poverty increased substantially as a result of the debt crisis. The very high level of income inequality in the region means that the incidence of poverty is high relative to income. The recessions that accompanied the adjustment process of the 1980s increased income inequality and poverty. The urban poor and the poor in Brazil, Peru and several small Central American countries were particularly hard hit by falling living standards. As the incidence of poverty rose among the urban poor, it disproportionately affected single mothers, parents with little or no education and young people, for whom there were insufficient jobs. Low agricultural productivity and the lack of non-farm jobs intensified poverty among the poorest 10 to 20 per cent of the population concentrated in remote rural areas. Since 1989 there has been an economic revival in Latin America, and robust rates of expansion in some countries have helped stabilize the incidence of poverty. Nonetheless, the number of people in Latin America living on less than I$1 a day is estimated to have risen from 101 million in 1990 to 110 million in 1993.

North Africa and West Asia

37. In North Africa and West Asia average income is relatively high, the incidence of absolute poverty is relatively low and income inequality is relatively modest. As in Latin America and the Caribbean, poverty is most pronounced in rural areas, but urban poverty is rising as lack of opportunity in rural areas causes rural-urban migration. Poverty is especially prevalent among the self-employed engaged in small-scale trading activities and among the elderly, people with disabilities and households headed by women. Social indicators continue to improve in the region, but remain below levels achieved in countries with comparable levels of per capita income. The World Bank estimates that the percentage of the population living on less than I$1 a day was less than 5 per cent in 1987 and had declined to just over 4 per cent by 1993; the absolute number of poor remained about the same over this period. Because employment and poverty levels are closely linked to the rate of economic growth, which has been slow and halting in many of these countries, increasing the pace of growth is an essential prerequisite of creating employment opportunities for the poor and providing social services, such as basic health and education, which benefit poor households.

Sub-Saharan Africa

38. The people of sub-Saharan Africa remain among the poorest in the world, with a high incidence of absolute poverty and a pattern of income distribution characterized by large gender differences. The region also has the greatest depth of poverty, as measured by the poverty gap index. Countries in the region also tend to have more unequal distribution of income (and expenditure) than most other developing countries. Poverty in the region is characterized by lack of access to productive resources, employment opportunities and social services; low endowments of human capital; and inadequate programmes and policies directed at the special needs of the poor. Although urban poverty is growing rapidly, the poor in sub-Saharan Africa are still overwhelmingly found in

TABLE 6.1. NUMBER OF PEOPLE AND PERCENTAGE OF THE POPULATION IN DEVELOPING AND TRANSITION COUNTRIES LIVING ON LESS THAN US $1 PER DAY, 1987-1993

Region	Per cent of population covered by at least one survey	Number of poor (millions)			Headcount index (percentage of population below poverty line)			Poverty gap (percent)		
		1987	1990	1993	1987	1990	1993	1987	1990	1993
Developing and transition countries	85.0	1227	n.a.	1314	30.1	n.a.	29.4	9.5	n.a.	9.2
Eastern Europe and Central Asia	85.9	2	n.a.	15	0.6	n.a.	3.5	0.2	n.a.	1.1
Developing countries	85.0	1225	1261	1299	33.3	32.9	31.8	10.8	10.3	10.5
Latin America and Caribbean	83.9	91	101	110	22.0	23.0	23.5	8.2	9.0	9.1
Middle East and North Africa	46.7	10	10	11	4.7	4.3	4.1	0.9	0.9	0.6
Sub-Saharan Africa	65.9	180	201	219	38.5	39.3	39.1	14.4	14.5	15.3
South Asia	98.4	480	480	515	45.4	43.0	43.1	14.1	12.3	12.6
China, East Asia and Pacific	88.0	464	468	446	28.2	28.5	26.0	8.3	8.0	7.8

Source: *Table 1.2 of World Bank, "Poverty Reduction and the World Bank" (15 April 1996).*

Note: These estimates revise and update those in Implementing the World Bank's Strategy to Reduce Poverty (Washington, D.C., World Bank, 1993). There are several differences between these numbers and previous estimates of the World Bank, including those in World Development Report 1990 (Washington, D.C., 1990). New household survey data have become available, and a total of 122 surveys for 67 countries were used in constructing the above estimates. They also incorporate new estimates of purchasing power parity exchange rates for converting I$1 per day (in 1985 prices) into local currencies. Figures are estimated from those countries in each region for which at least one survey was available for the period 1985-94. Survey dates often do not coincide with the dates in the table. Survey estimates were adjusted using the closest available survey for each country and applying the consumption growth rate from the national accounts. The number of poor were then estimated by region based on the assumption that the sample of countries is representative of the region as a whole. This assumption is obviously less robust in the Middle East and Africa than elsewhere. Details on data and methodology can be found in Martin Ravallion and Shaohua Chen, What can new survey data tell us about recent changes in living standards in developing and transitional Economies", Policy Research Department (Washington, D.C., World Bank, 1996).

rural areas; they generally have less land, capital and education, and lower health status and lower entitlements than people in higher income groups. The availability of social services in most sub-Saharan African countries is the lowest in the world. The average gross primary school enrolment rate, which declined in many countries in the Sahel during the 1980s, is significantly lower than in other regions; infant mortality is higher than in the low-income countries of other regions; and life expectancy is low and probably falling, given the impact of AIDS, as described in chapter III).

39. Growth rates of per capita incomes were negative in most countries in sub-Saharan Africa during the 1980s and 1990s, and living standards are eroding. Despite a slight decline in the incidence of poverty from 1987 to 1993, more than 200 million people were estimated by the World Bank to be surviving on less than I$1 a day in 1990, and the number of poor rose almost 40 million from 1987 to 1993. While more rapid growth is obviously essential to poverty reduction in sub-Saharan Africa, faster aggregate economic growth alone is not likely to have a discernible effect on poverty indicators or the number of poor people. A pattern of growth that emphasizes increased demand for labour and higher productivity through access to productive assets and technologies, particularly in agriculture, is also required to make significant progress towards poverty reduction.

South Asia

40. According to the World Bank, the largest number of people living in absolute poverty and the highest incidence of poverty are in South Asia, where almost 40 per cent of the total number of people in the world living on less than I$1 a day reside. This high proportion of world poverty reflects not only the size of the region's population but also its relatively low per capita income and more modest income inequality; more than 40 per cent of the population in South Asia is below the poverty level, an even higher proportion than in sub-Saharan Africa. As in sub-Saharan Africa, the poor in South Asia tend to reside mainly in rural areas, to be largely illiterate and to depend on subsistence agriculture and low-skill wage employment for their livelihood. The poverty gap index for the region is relatively high; on average a poor person or household is more than 12 per cent below the I$1 a day poverty line. In many parts of the region, women have less education, poorer health and lower life expectancy than men and work longer hours. Social indicators rank among the weakest in the world, with high infant mortality and low school enrolment rates. A comparison of estimates of the number of poor in 1987 and 1993 shows that the number of people living in absolute poverty remained unchanged between 1987 and 1990 but rose between 1990 and 1993, as reform programmes designed to deal with increasing fiscal and balance of payments difficulties were introduced. The incidence of poverty fell during the period 1987-1993 and, with the recent return to more rapid growth, poverty reduction should improve. More than economic growth is needed to meet the needs of the region's poor, however. Given South Asia's weak social indicators, improving access by the poor to basic education, health, nutrition, water and sanitation, and family planning services must be seen as a key priority.

East Asia

41. In contrast to other regions, a dramatic reduction in poverty has taken place in East Asia and China over the longer term. In 1970 average annual income in the developing countries in East Asia and the Pacific was less than I$1,500; over the following two and a half decades it more than tripled. This rate of increase can be explained by the rapid accumulation of human and physical capital and the allocation of that capital to highly productive investments. With rapid growth, the number of poor people and the incidence of poverty have continued to drop sharply in the region. The incidence fell from more than 23 per cent in 1987 to less than 14 per cent in 1993, according to World Bank estimates. As in other regions, poverty is more pronounced in rural areas, but income inequality tends to be more modest than in Latin America, Africa or West Asia. Strong gains have been recorded in social indicators over the past quarter of a century, as life expectancy rose steadily, infant mortality was cut in half and educational opportunity expanded. The Bank cautions that growth alone cannot be relied upon to reduce poverty in countries in which the poor are concentrated in remote areas. Even with continued rapid growth, narrowly targeted programmes will be necessary to reach remaining pockets of poverty.

China

42. The large drop in the region's incidence of poverty reflects the marked progress in reducing poverty that occurred in China during the early 1980s, following reforms in agriculture. Since then poverty reduction has continued at a slower pace despite rapid overall growth. Periods of macroeconomic tightening have led to temporary setbacks in poverty reduction, and overall progress has been slowed by declining gains in agricultural productivity and relatively limited rural migration to fast-growing urban and coastal areas. World Bank estimates of poverty indicate that the share of the population living on less than I$1 a day increased between 1987 and 1990 and fell thereafter. More data and analysis are needed to understand why the tremendous gains in poverty reduction recorded in China during the 1970s and early 1980s have slowed.[12] As in the case of other countries in East Asia, even broad-based and labour-intensive growth cannot be relied upon exclusively to reduce the number of poor people in China. Comprehensive programmes designed to increase access to basic services and generate employment opportunities for the poor will also be required.

Eastern Europe and Central Asia

43. In the transition countries of Eastern Europe and the former Soviet Union, per capita income is relatively high and the incidence of poverty is the lowest among the regions for which estimates have been prepared. But poverty has increased sharply in the region; output and employment fell precipitously in the late 1980s and early 1990s, and income inequality rose as these countries introduced reforms intended to restructure their economies, raise their efficiency and improve their external account positions. The incidence of absolute poverty is estimated to have risen from 0.6 per cent in 1987 to 3.5 per cent in 1993. In most of these countries poverty is shallow, however, with many households concentrated around the poverty line, and there is evidence of considerable movement

into and out of poverty. The new poor in this region are largely working families who are hampered in their ability to adjust to a changing labour market by limited education. Pockets of deep poverty have also appeared, and vulnerable groups, such as elderly non-working pensioners and the unemployed, have seen their incomes decline significantly. Successful implementation of the transition from state socialist economies to more market-oriented economies is a necessary condition for restoring economic growth in the region and reducing poverty. As this process continues, safety nets will be needed to protect low-income recipients of social transfer benefits and to target assistance to those most in need.

Relationship between economic growth and poverty reduction

44. According to the World Bank, the incidence of poverty in transition and developing countries fell slightly between the late 1980s and the early 1990s, but absolute poverty continues to affect more than 1.3 billion people. Remarkable progress has been made in reducing the number of poor people in those parts of the world in which economic growth has been both rapid and broad based, most notably in East Asia. The proportion of the population in poverty has also been reduced in South Asia, where output per capita rose by more than 2 per cent a year over the longer-term, and in North Africa and West Asia, where growth has been slower and more erratic but where income has risen. Prospects for economic growth and further substantial declines in poverty in Asia, where over 70 per cent of the world's absolute poverty is concentrated, remain favourable. The situation in much of Latin America, though fragile, appears promising, as a continuing recovery from the setbacks of the 1980s sets the stage for longer-term economic expansion and the potential for significant reductions in poverty. In contrast, sub-Saharan Africa has experienced negative per capita growth and a high and rising incidence of absolute poverty. Increased institutional capacity and macroeconomic stability, without which no country has achieved sustained reductions in poverty, must be achieved in sub-Saharan Africa if the incidence of absolute poverty is to be reduced.

45. While economic growth is not the only factor affecting the standard of living of the poor and the extent of absolute poverty, and poverty reduction depends upon much more than rapid and broad-based growth, economic growth nonetheless remains the main channel through which the standard of living is raised and the benefits of a larger volume and wider variety of goods and services are made available to all segments of the population. The impact of growth on poverty reduction, however, depends not merely on the pace of expansion but also on the distribution of growth income. If growth is rapid and income distribution becomes flatter, the number of poor living in absolute poverty can be reduced significantly. Conversely, if growth is slow or halting and income inequality widens, absolute poverty may increase. The distribution of income; its structure in terms of earnings from wages, rent, interest and profits; and factors affecting the generation of income, such as employment opportunities, the allocation of productive assets and credits, opportunities for enhancing skills and education, and introducing new technologies, are all key determinants of progress in reducing poverty over the longer term. Policies directed at promoting a more equitable distribution of income and assets will have to be implemented if the effect of growth on poverty reduction is to be maximized.

2. *Poverty in countries with economies in transition*

46. The incidence of poverty and the experience with poverty-reducing policies have been fundamentally different in the transition economies and the developing countries. Poverty in the transition economies of Central and Eastern Europe, the Baltic States, Belarus, the Russian Federation and Ukraine has not been endemic and pervasive, as it is in many developing countries. In the transition economies the percentage of the population living in absolute poverty increased from 0.6 per cent in 1987 to 3.5 per cent in 1993; in the developing countries the percentage of the population living in absolute poverty declined from 33.3 per cent to 31.8 per cent over the same period.

47. Using a higher poverty line of $120 per capita per month in 1990 prices, the incidence of poverty in Central and Eastern Europe rose from about 3 per cent in 1987-1988 to 25 per cent in 1993-1994 (table 6.2). Use of the higher poverty level caused almost no increase in the incidence of poverty in the Czech Republic, Slovakia and Slovenia, and poverty remained at a low level in Hungary. Steep increases were seen in Bulgaria and Romania (to more than 30 per cent) and, to a lesser extent, in Poland (to nearly 20 per cent). In the Baltic States, Belarus, the Russian Federation and Ukraine, the incidence of poverty rose to 25-50 per cent; in Moldova the incidence of poverty rose to 65 per cent. In the Central Asian countries the higher initial poverty rates in 1987-1988 (of 15 per cent on average) rose to an average of 50 per cent in 1993-1994.

48. With the exception of the Central Asian countries, where poverty was initially more widespread, the situation in the transition countries resembles in some respects that of the developed countries during the depression of the 1930s, when a sharp decline in economic activity thrust many of those who had been enjoying a reasonable standard of life into poverty.

The centrally planned model for growth, equality and poverty reduction

49. Widespread poverty is a new phenomenon for many economies in transition. Although poverty existed before the beginning of the systemic transformation, the present rise in poverty is largely a product of external shocks and the country-specific strategies chosen for transformation. According to World Bank estimates, the number of absolute poor in the transition economies grew nearly sevenfold—from 2.2 million in 1987 to 14.5 million, or 3.5 per cent of the population, in 1993. This increase was caused largely by the erosion in real wages and the decrease in entitlements, including cutbacks in the provision of social services. Contributing to the increase in poverty is the difficulty the transition economies have experienced in implementing adequate safety nets as a result of resource constraints and the unanticipated increase in poverty, the magnitude of which was not foreseen at the outset of transition. The social costs of economic reform moved to the centre of political debate in many economies in transition, forcing Governments to rethink their social policies and to introduce, sometimes

TABLE 6.2. ESTIMATED POVERTY HEADCOUNT IN THE TRANSITION ECONOMIES, 1988-1994

Country	Poverty headcount (percentage)		Total number of poor (in millions)	
	1987/88	1993/94	1987/88	1993/94
Eastern Europe				
Bulgaria	2	33	0.1	2.9
Czech Republic	0	<1	0	0.1
Hungary	<1	3	0.1	0.3
Poland	6	19	2.1	7.4
Romania	6	39	1.3	8.9
Slovakia	0	<1	0	0.0
Slovenia	0	<1	0	0.0
Subtotal	3.3	25.5	3.6	19.6
Baltic States				
Estonia	1	40	0.02	0.6
Latvia	1	25	0.03	0.7
Lithuania	1	46	0.04	1.7
Subtotal	1	38	0.1	3.0
Central Asian Republics				
Kazakhstan	5	50	0.8	8.5
Kyrgyzstan	12	84	0.5	3.8
Turkmenistan	12	57	0.4	2.2
Uzbekistan	24	47	4.8	10
Subtotal	15	52	6.5	24.5
Other former Soviet Union countries				
Belarus	1	23	0.1	2.4
Moldova	4	65	0.2	2.8
Russian Federation	2	45	2.2	67.7
Ukraine	2	41	1	21.4
Subtotal	2	44	3.5	94.3
TOTAL	4	38	13.6	141.5

Source: Branco Milanovič, "Income, inequality and poverty during the transition," World bank Research Paper Series, No. 11 (Washington, D.C., World Bank, 1996), pp. 93-94.

Notes: Poverty line is $PPP 120 per person per month at 1990 prices. Regional means are weighted averages.

belatedly, social welfare measures aimed at abating growing poverty.

50. Now that the elimination of poverty has once again risen to the top of the international agenda, a study of poverty in the transition economies is highly relevant. It identifies in very stark terms the possible conflicts between liberty and equality and poses questions about the extent and effectiveness of admissible government action in pursuit of socio-economic goals. All countries can be said to adopt, either implicitly or explicitly, a socio-economic model. The experience of the centrally planned economies illustrates how the choice of a particular model affects the overall socio-economic situation, and shows that the transition from one model to another can have profound consequences for poverty.

51. The model that the transition economies rejected when they adopted central planning was essentially the model of "civil society" advocated by the philosophers of the Enlightenment.[13] In contrast to tribal societies, which were held together by ties of kin and blood and may have been more virtuous and egalitarian, "civil society" was a highly segmented society in which individuals were motivated by self-interest. Under the rule of law—and almost spontaneously—civil society witnessed an orderly and dynamic accumulation of prosperity unprecedented in human history.

52. According to the philosophy underpinning the centrally planned economies, civil society served the interests of only one class, the bourgeoisie, and would eventually lead to mass poverty.[14] The way to abolish poverty, then, was to abolish private property and the class-based system that created it. Centrally planned economies did not arise spontaneously, but were imposed by force on resisting populations. The costs involved varied across different countries; the full costs, especially in terms of lives lost, are still coming to light as archives are opened. In almost all cases, the greatest costs were borne by the peasantry, who were dispossessed of their land and capital (carts, farm implements, horses) and forced into collectives. The agricultural sector was expected to generate surpluses which, under central planning, would make possible "extensive" growth, particularly of heavy industry.

53. One of the justifications for central planning was the universal and egalitarian provision of social benefits, which were granted to all citizens and were not tied to individual work efforts or contributions. Free universal access to health care, education and other social services provided an important guarantee of social security for the entire population (even if certain sectors of society maintained privileged access to such services). The centrally planned system also ensured that those requiring access to health care received it: employment was guaranteed and workplaces often had medical facilities or ensured that workers received regular check-ups (for a discussion of the provision of health care in the centrally planned economies, see chapter I).

54. The central planning system succeeded in narrowing inequality in measured income[15] and eliminating absolute poverty. Income differentials across occupations, sectors and regions were allowed, but these differences were typically narrower than those in the developed market economies. The scope for personal or enterprise-wide incentives was limited as enterprises producing unwanted and low-quality products were rewarded in the same way as companies producing high-quality items in demand.

Difficulties with the central planning model

55. By the 1960s, it had become impossible to subject the agricultural sector to the same level of coercion as before, and the model of "extensive" growth was replaced by an "intensive" model of growth. The basic problem with central planning—the fact that a central bureaucracy is much less effective than the market at efficiently allocating scarce inputs—remained unresolved, however.

56. By the mid-1960s, the growth rates of the planned economies started to slow, ultimately declining to zero or worse.[16] The most striking feature of this slowdown was that it occurred at levels of per capita income and consumption far lower than those attained elsewhere in Europe; central planning had resulted in both a lower standard of living than that enjoyed in other European countries and declining living standards. This experience differed from that of the poorer European market economies, such as Ireland, Portugal and Spain, which witnessed rapidly rising living standards as they caught up with their neighbours.

57. Even when growth started to slow, progress in reducing poverty continued. Some countries, such as the Soviet Union, benefited from favourable developments in the terms of trade. Other countries, such as Poland, relied on foreign borrowing to help maintain living standards. In the long run, of course, continued poverty reduction could not be sustained without economic growth; by the late 1980s, poverty rates measured in national terms started to increase.[17] The poverty profile shifted towards urban areas—which by then contained the largest share of the population—and young families with children.

58. When central planning was abandoned and a new model that allowed for initiative and incentives adopted, Governments should have prepared the public for the widening gap in income and consumption which would ensue in the short term. Instead, Governments generally failed to educate the public about these aspects of the reform process, and the public expected immediate prosperity as a result of reform. In many countries these hopes gave way to disillusionment as it became apparent that the transition would be long and costly and that the growth produced by the incentive system would not be adequate to lift the poorest out of poverty in the short term.

Poverty during the transition

59. Transition began with large declines in output, which inevitably meant less employment and income for much of the population. As a result living conditions deteriorated and poverty rates rose.

60. The timing, extent and duration of the declines in output varied considerably across the transition countries. The largest decline in output—about 35 per cent—occurred in the Russian Federation; other transition economies experienced about a 20 per cent decline in GDP (see table 6.3). Poland has come closest to regaining its 1989 level of output but that level was already low because of the economic difficulties of the 1980s.[18] The hardest hit sector was usually industry, where output declined by more than 50 per cent in several countries. In all coun-

tries, the decline in industrial production was greater than the decline in GDP.

61. These declines in output were related to the theoretical foundations of the central planning system, under which there had been little reason to build factories that could compete on world markets or that could supply goods the population actually wanted. Instead the function of industry had been to provide the goods that planners had determined the population wanted, which were then distributed in an egalitarian fashion. Central planners paid little attention to the environmental impact of the industries they were creating. Many of these industries were producing output that was worth less than the cost of producing the inputs, and producers were unable to supply goods that the population demanded.

62. The liberalization of economic activity brought about the closure of many factories and the unemployment of their labour forces, but also led to an increase in "shadow" or "second economy" activities.[19] Moreover, with the move to a market economy service industries sprang up. For these and other reasons there was often a sharp difference between the decline in measured real incomes and the decline in measured GDP.

63. Before the transition, important safety nets were in place in centrally planned economies, some of them handled by state-owned enterprises. But the "transformation recession" affected these institutions as well. The immediate result was an increased incidence of poverty.[20]

64. Where it was conducted at all, poverty analysis was undertaken in these economies only in the late 1980s. Introducing household surveys to measure individual and family income has allowed poverty headcount estimates to be made in these countries, but these estimates have been made using different methods, thereby limiting the possibility of direct international comparison. Other problems also cast doubt on the validity of these estimates. First, important conceptual gaps exist in the statis-

TABLE 6.3. DEVELOPMENT INDICATORS FOR SOME TRANSITION ECONOMIES, 1995

Country	GDP (constant prices)	Gross industrial production (constant prices)	Real wages[a]	Real income[b]	Unemployment rate (percentage)
Bulgaria	79.8	52.1	48.8	61.0	10.5
Czech Republic	84.5	72.6	93.1	101.2	2.9
Hungary	86.0	79.7	85.3	83.7	10.4
Poland	98.6	88.5	78.4	76.0	14.9
Romania	81.7	52.4	75.6	79.0	8.9
Slovakia	83.8	63.8	102.9	106.0[c]	13.1
Russian Federation	65.5	53.4	48.7	89.0	3.5[d]

Source: National statistical sources.

Notes: For all columns except unemployment, 1989 = 100.

[a] Average nominal wage deflated by the national consumer price index.

[b] Nominal gross income of the population deflated by the consumer price index.

[c] 1994 data.

[d] Share of registered unemployed. Combined with the unemployed no longer registered the figure would be about 7.2 per cent. See Universitet Severnoi Karoliny v Chepel Khile, "Monitoring ekonomicheskikh uslovii v Rossiiskoi Federatsii," *Rossiiski monitoring ekonomicheskhogo polozhenia i zdorovia naselenia 1992-95* (February 1996), p. 13.

tical system of these economies. Changing from the national account system based on net material product (NMP) to System of National Accounts (SNA) accounting involves entirely different methods of pricing and accounting. Entire sectors such as education, health and social affairs, previously considered non-productive and therefore excluded from the national accounts, need to be priced and accounted for. The theoretical and practical difficulties are enormous. Second, because of serious shortcomings in measuring the contribution of the informal sectors, estimates of poverty incidence and headcounts based on household surveys may conceal important private sector activities and incomes which are not reported in order to escape taxation. In general, household surveys before the transition tended to underestimate poverty, while post-transition surveys tend to overestimate it by inadequately accounting for informal sector incomes.

65. Discrepancies in the data on income and poverty are widespread in the Russian Federation and yield a fuzzy picture of poverty. The figure for real incomes in the Russian Federation shown in table 6.3 is difficult to reconcile with some estimates of a catastrophically sharp increase in poverty, for example. Although measured 1995 GDP in the Russian Federation was lower relative to its 1989 level than in any of the other transition economies shown, real income was relatively higher than in all these economies, except the Czech Republic and Slovakia. Both registered unemployment and real wages were relatively lower than in all the other countries. Although production of meat was estimated to have decreased by 53 per cent in the first half of 1994 and sausage production was estimated to have dropped by 28 per cent compared with 1991 levels, consumption of meat products fell by only 9 per cent.[21]

66. One explanation for these apparent inconsistencies is the rapid expansion in entrepreneurial activities and incomes in the Russian Federation. Another is that official employment ensured workers social benefits and access to housing. Enterprises that were not producing a marketable output still served a function by continuing to exist and keeping people on their books, even when they did not pay them on time, because they still provided social benefits (such as access to health, education, heating and pension entitlements) and used their assets to build housing.

67. Other data confirm the difficulty in drawing conclusions about the increase in poverty in the transition economies and suggest that the situation did not deteriorate to the extent that some headcount estimates would suggest. The share of food expenditures in total expenditures increased in several countries, especially those that had been part of the Soviet Union (see table 6.4), implying a decrease in average living standards as relatively less income is available for non-food consumption. In Central and Eastern Europe, the pattern was different. The share of food in total expenditure rose in Bulgaria and Romania, but fell in Poland after 1990 (while average per capita calorie consumption rose over time).

68. Measurement questions are particularly important when assessing relative poverty in a country in which small changes in per capita income can result in large changes in the number of people living in poverty.[22] If the measure of relative poverty is set as 50 per cent of the initial mean, an egalitarian distribution of income would mean that a drop in income would bring a greater percentage of the population into poverty than would a more unequal distribution. Indeed, a study of a sample of countries found that whereas in developing countries a 10 per cent decline in mean income would increase by 15.5 per cent the percentage of the population with relative poverty of less than 50 per cent of the initial mean, the same decline in the transition economies would cause poverty to rise by 95 per cent.[23]

69. Another feature of a society in which people are clustered around the poverty line is that the relative position of different social groups changes during periods of rapid change. In many transition economies, for example, pensioners' income rose faster than that of workers and farmers, and the position of non-farm workers relative to farmers either improved or remained unchanged.[24]

70. Poverty is becoming an urban phenomenon in the transition economies[25] and its social profile has changed. Before the transition, the poor belonged to the same social groups that constitute the "residual" poor in many societies: the elderly, households headed by women with many children and those at the social margin. Since the transition, the profile includes young skilled workers, adult workers and public sector employees.[26] In all countries, the unemployed and farmers are more likely than average to be poor, and larger households tend to be poorer both in per capita terms and in equivalent terms, which take into account the smaller consumption of children. Poverty rates of families with five or more members are 1.5 to 2.5 times higher than average. People with lower levels of education are more likely to be poor than people with higher levels of education. Heads of family with no more than elementary education are 20 to 60 per cent more likely than the average to be poor.[27] Moreover, children in the poorest groups are less likely to obtain vocational training after finishing primary school.

71. This change in relative positions has been accompanied by a rapid movement in and out of poverty. In the Russian Federation 63 per cent of those in poverty in 1992 emerged from poverty in 1993, and only 27.5 per cent of the very poor in 1992 remained very poor the following year.[28] In Hungary 23.4 per cent of the population represented in a 1994 poverty panel belonged to the bottom two deciles for certain periods between 1992 and 1994, but only 6.3 per cent remained in poverty throughout the period.[29]

Policy implications

72. The transition economies reveal that different conclusions about the rate of poverty emerge depending on the measure of poverty used. In the Russian Federation, official statistics report that poverty increased from 10 to 12 per cent in 1985 to about 30 per cent in 1993 and 1994 while a World Bank study (table 6.2) estimates that poverty rose from 2 per cent to 45 per cent. These differences are important because assessment of the poverty situation can help to spur government action to alleviate poverty by increasing social protection or changing the direction of policy.

73. Researchers in the Russian Federation have raised doubts about policies to reduce income disparities, arguing that such policies may not lead to reductions in poverty, especially since as many as 90 per cent of the lowest

TABLE 6.4. CONSUMPTION INDICATORS IN SELECTED TRANSITION ECONOMIES, 1980-1994

Indicator/country	1980	1985	1989	1990	1991	1992	1993	1994
Average daily calorie consumption per capita								
Bulgaria	..	..	3 269	3 289	2 894	2 801	2 682	2 665
Hungary	..	..	3 499	3 386	3 218	3 298	3 126	..
Latvia	2 868	2 747	2 618	2 587	2 496	2 315	2 375	2 293
Moldova	..	..	2 951	2 969	2 842	2 577	2 566	..
Poland	..	..	2 891	..	2 767	2 744	2 667	2 955
Romania	..	..	2 949	3 038	2 832	2 758	2 959	..
Slovakia	..	..	3 234	3 333	3 276	3 126	3 143	..
Russian Federation	2 834	2 739	2 603	2 590	2 527	2 438	2 552	2 427
Ukraine	..	..	3 517	3 597	3 445	3 151	2 860	2 895
Share of food in consumption expenditures								
Belarus	..	..	37.5	33.7	35.7	39.0	49.3	57.2
Bulgaria	..	..	42.5	40.6	52.1	47.4	46.6	48.5
Czech Republic	..	34.9	33.0	31.9	33.3	33.6	32.2	..
Estonia	..	..	..	..	..	31.9	31.9	29.2
Hungary	..	..	37.4	..	37.6	..	38.2	..
Latvia	32.5	32.0	36.0	33.8	42.5	53.7	50.5	51.5
Lithuania	41.4	35.4	35.0	34.1	38.6	60.0	61.9	57.3
Moldova	..	..	40.4	38.3	42.2	50.5	58.6	45.5
Poland	..	..	49.2	51.8	45.8	43.5	44.2	42.8
Romania	..	..	51.6	49.9	52.5	57.5	60.0	62.3
Slovakia	..	..	31.4	30.2	33.5	32.8	32.4	35.3
Russian Federation	42.5	40.8	34.4	36.1	38.5	47.1	46.3	46.8
Ukraine	..	..	39.0	..	43.8	45.6	54.5	64.7

Source: International Child Development Centre, Economies in transition studies. Regional monitoring report No. 3 (Florence, UNICEF, 1995), pp. 136-137, 139.

paid workers are not the primary breadwinners, and that the reduction in incentives to new forms of active labour could itself reduce the potential for future employment growth.[30]

74. The experience of central planning before the transition raises questions about what can usefully be concluded from income equality measures and how such measures can, or should, guide policy. Household surveys, which were instituted only in the late 1980s, present a picture of a society that has become less egalitarian and has witnessed a rise in poverty. Because income surveys cannot, of course, measure the costs of creating and maintaining the type of society that existed before transition, the original income distribution cannot be used as the standard against which to measure progress. Larger income differentials are a legitimate part of market reforms based on adequate incentive structures. But adequate public expenditure policies in such areas as health, education and housing based on reformed tax systems and sufficient levels of government revenues need to be targeted at alleviating poverty. At the same time, social safety nets must gradually be implemented to cushion the negative social effects caused by structural change. More equitable realization of the tangible benefits of socio-economic reforms will strengthen support for the transition and help sustain the reforms politically. Identifying the appropriate mix of economic and social policies to stimulate economic growth and achieve sustainable levels of income equality remains critical to successfully concluding the transition.

75. Understanding the extent and dynamics of poverty is also important for formulating the direction of economic policy. If, for example, policy makers fear that the transition will create semi-permanent "classes" of impoverished people, they may be less willing to proceed with reform. If, however, they believe that during and after transition individuals will quickly move in and out of poverty, they may more readily recognize the need for reforms which lead to sustained growth in a market economy framework and for careful targeting of safety net programmes.

76. One lesson from central planning is that the implicit or explicit choice of a model is vitally important in

terms of the effect on poverty. Although the system of central planning was successful in eliminating absolute poverty, opportunities for raising living standards and reducing poverty even further were missed.[31] The institutions of a "civil society" were not allowed to emerge spontaneously under central planning; the Governments in the transition economies were forced to create these institutions at a time of economic difficulty.

3. *World growth and global poverty*

77. During the past quarter of a century, real gross world product, which measures the aggregate volume of economic activity produced by all people in all countries, has more than doubled. This long-term rise in the capacity of the world economy to supply goods and services has been accompanied in all main regions by significant changes in patterns of resource use and structures of production and in population dynamics, labour force characteristics and social conditions. Overall, the quality of life for much of the world's population has improved as per capita incomes, life expectancy and levels of education have risen, but the distribution of these gains has been unequal both across and within countries.

Patterns of long-term world economic growth

78. Sharp contrasts in long-term patterns of world economic growth have occurred during the past quarter of a century as economic progress and social advance have taken place unevenly. While the overall average rate of world economic growth has been relatively rapid, and marked improvements in a wide range of social indicators have been recorded in all areas of the world, the pace of world economic growth has fallen during the past quarter of a century, and a growing gap in average levels of income has emerged within and between different groups of countries. Analyses of estimates of per capita GDP, measured in purchasing power parities, reveal several important trends.[32]

Patterns of growth across countries

79. The overall pattern of growth by geographical area was described in chapter I, which showed that growth in Latin America and the Caribbean, West Asia and sub-Saharan Africa was generally slow—and in many countries negative—while growth in South and East Asia, including China, was considerably more rapid.

80. Over the course of a quarter of a century, differences in growth rates are translated into considerable differences in per capita incomes. Measured in constant terms, incomes per head in 1995 were about 90 per cent higher in the developing countries than they had been in 1970. The figure for the developed countries was about 60 per cent. But there were enormous differences across regions: in West Asia and sub-Saharan Africa per capita incomes had fallen to between 80 and 90 per cent of their 1970 level (although figures for West Asia should be treated with caution because of the effects of oil price changes), in North Africa and Latin America incomes had risen by between 25 and 50 per cent of the 1970 levels, in South Asia income had risen by more than 60 per cent of the 1970 level, while in East Asia, including China, 1995 per capita incomes were more than twice the 1970 levels.

81. Growth rates experienced by the high-income, upper middle-income, lower middle-income, low-income and least developed groups of developing countries (classified by 1990 per capita GDP) between 1970 and 1995 are shown in table 6.5. The poor performance of the least developed countries in each of the sub-periods (1971-1980, 1981-1990 and 1991-1995) is in marked contrast to that of the low-income developing countries as a whole, in which per capita output accelerated over the period and grew faster than all other income groups.

82. Annual growth of per capita output of about 2 per cent can be considered normal for the developed countries over the long term (such a growth rate raises incomes by about 65 per cent over a 25-year period). The 2 per cent rate represents a good benchmark against which to assess progress in the developing countries, which should be able to grow even faster as they catch up. Indeed, developing countries making up more than 50 per cent of the world's population grew at an annual rate of more than 2 per cent per capita over the period 1971-1995; among these, developing countries constituting nearly 30 per cent of the world's population grew by more than 3 per cent a year in per capita terms. But developing countries constituting more than a quarter of the world's population failed to grow 2 per cent a year in per capita terms, and in countries representing nearly 10 per cent of the world's population, the level of per capita income was lower in 1995 than in 1971 over time. Low-income countries that experienced a decline in income represented 5.6 per cent of the world's population.

83. Table 6.6 illustrates these growth differentials over the period 1971-1993. In 1990 the low-income countries constituted about 70 per cent of the population of the developing countries shown. Four of these countries—China, India, Lesotho and Pakistan—grew by an annual rate of more than 2 per cent per capita over the period. Together with several higher-income developing countries that grew by more than 2 per cent a year, these countries accounted for about two thirds of all people living in developing countries.[84] More moderate per capita income growth at rates between 0 and 2 per cent was experienced by several low-income countries, many of which were either classified as least developed countries at the beginning of the period or became so during the period. These moderate growth low-income countries made up almost 9 per cent of the population of the developing countries in 1990. Other developing countries that together constituted about 11 per cent of the population in developing countries experienced moderate growth over the period.

85. The countries that saw a decline in their per capita incomes over the period constituted about 12.5 per cent of the total population of developing countries in 1990; of these, low-income countries represented more than 7 per cent. The groups included some oil-exporting countries, which still had high incomes in 1990, several Latin American and Caribbean countries, which were in all income categories, and many African countries. The majority of the African countries that experienced negative growth were low-income countries in 1990, and many of them were either least developed countries in 1971 or became so by 1993. A particularly disturbing fact is that only a few African countries were able to achieve a rate of growth of more than 2 per cent.

86. The effect of negative growth on such indirect measures of progress against poverty as the infant mortality rate (IMR), life expectancy and the primary school

TABLE 6.5· GROWTH OF GROSS DOMESTIC PRODUCT, POPULATION AND PER CAPITA GDP IN DEVELOPING COUNTRIES, 1971-1995

Country group	1990 share of world population	Average annual rate of increase									Per capita GDP in 1990 international dollars		Percent of average for developed market economies	
		1971-1980			1981-1990			1991-1995						
		GDP	Population	Per capita GDP	GDP	Population	Per capita GDP	GDP	Population	Per capita GDP	1970	1995	1970	1995
Developing countries	77.2	5.4	2.2	3.1	3.9	2.1	1.7	5.4	1.9	3.5	1446	2743	12.4	14.4
Developing countries classified by level of per capita GDP in 1990														
High income countries	0.4	6.5	3.2	3.2	3.8	2.2	1.6	5.4	1.1	4.2	8659	16894	74.0	89.2
Upper middle-income countries	10.9	5.9	2.4	3.5	1.9	2.1	-0.3	3.3	1.7	1.5	4025	5966	34.4	31.3
Lower middle-income countries	11.9	5.9	2.5	3.4	2.9	2.4	0.5	3.9	2.1	1.8	1841	2987	15.7	15.7
Low income countries	54.0	4.4	2.2	2.2	6.2	2.0	4.1	7.5	1.8	5.5	816	1946	7.0	10.2
Least developed countries	9.3	2.0	2.7	-0.7	2.9	2.6	0.3	3.0	2.7	0.3	1069	1038	9.1	5.4
Developing countries classified by average annual rate of increase in per capita GDP														
Rapid growth of more than 3 per cent	29.1	7.5	1.9	5.5	7.9	1.5	6.3	9.5	1.2	8.2	707	3244	6.0	17.0
Moderate growth of between 2 and 3 per cent	22.3	3.9	2.2	1.6	5.4	2.3	3.0	4.1	2.0	2.0	1210	2094	10.3	11.0
Modest growth of between 1 and 2 per cent	8.7	6.9	2.6	4.3	1.9	2.4	-0.5	3.4	2.2	1.2	2163	3434	18.5	18.0
Slow growth of less than 1 per cent	7.5	6.0	2.8	3.2	1.6	2.7	-1.1	1.8	2.6	-0.7	2243	2636	19.2	13.8
Negative growth	9.6	3.3	2.7	0.6	-1.3	2.7	-4.0	0.7	2.5	-1.9	3448	2263	29.5	11.9
Decline and low income	5.6	0.8	2.7	-1.7	0.3	2.8	-2.6	1.2	2.9	-1.7	1227	733	10.5	3.8

Source: *Department for Economic and Social Information and Policy Analysis.*

Note: Estimates of gross domestic product at 1990 international prices and exchange rates are based on replies to the questionnaire on national accounts sent each year by the Statistical Division of the United Nations to national statistical offices. Data on the questionnaires generally conform to concepts and recommendations of the 1968 United Nations System of National Accounts. Where Statistical Division data had gaps in coverage or were subsequently revised, data from United Nations regional commissions, the World Bank, the International Monetary Fund and national publications were used to complete or update the basic set of Statistical Division data. Because concepts, definitions and reported base years of data for individual countries often differ, it was necessary to adjust further the assembled data to eliminate incomparabilities and shift constant price data to a common 1990 base. Country estimates were aggregated into country groups as discussed below. Official exchange rates as reported by the International Monetary Fund were used wherever appropriate to initially translate the national currency data to U.S. dollars. For countries with multiple exchange rates, an effective exchange rate was derived from trade data in national currency and U.S. dollars. In several countries in several years, a free market rate or a United Nations operational rate was used. Constant price data expressed in 1990 U.S. dollars were computed from the constant price national curreny data by applying the exchange rate for 1990 to the constant price data for all years. Exchange rate deviation coefficients measuring the extent of distortion from purchasing power parity introduced by using U.S. dollar exchange rates were applied to the individual country series for total GDP in order to obtain estimates in 1990 international dollars. These coefficients were estimated on the basis of the methodology and results of the United Nations International Comparison Project, as extended by R. Summers and A. Heston, "The Penn World Table (Mark 5): An extended set of international comparisons, 1950-1988", Quarterly Journal of Economics Vol 106, No. 2 (May 1991), pp. 327-368, and as further supplemented by the Secretariat. Population estimates and projections are those of the Population Division of the United Nations prepared for the 1994 assessment of world population trends under the medium variant assumption. The classification of countries by major economic region and geographic area generally conforms to that given in the United Nations World Economic and Social Survey, 1996. Data used in this report include additional country detail for developing countries but a smaller sample of countries in the case of economies in transition; in addition, Nigeria and South Africa are included in the total for Sub-Saharan Africa. The classification of developing countries by level of per capita GDP in 1990 and by average annual increase in GDP per capita is given in Table 6.6.

TABLE 6.6. GROWTH OF PER CAPITA GDP IN DEVELOPING ECONOMIES, BY INCOME GROUP, 1971-1993

	Growth rate		
Income level	**2 per cent and more**	**0 to 2 per cent**	**Negative**
High and upper middle-income countries	Hong Kong Singapore Cyprus United Arab Emirates Israel Republic of Korea Malta Thailand Botswana Mauritius Malaysia Seychelles Syrian Arab Republic Turkey	Bahrain Barbados Oman Mexico Suriname Uruguay Fiji Chile Brazil Trinidad & Tobago Costa Rica	Qatar Kuwait Libyan Arab Jamahirya Saudi Arabia Venezuela Iraq Yugoslavia Argentina
(GDP) 36.6% 14.6%	(GDP) 13.7% 5.1%	(GDP) 15.0% 6.5%	(GDP) 7.9% 3.0%
Lower middle-income countries	Indonesia Yemen Arab Republic * Colombia Tunisia Ecuador Egypt Jordan Morocco Paraguay Sri Lanka Swaziland	Iran Panama Algeria Dominican Republic Congp Honduras Namibia Guatemala Philippines	South Africa Gabon Peru Jamaica Djibouti Cote d'Ivoire Sao Tome & Principe ** Angola ** Bolivia
(GDP) 18.3% 15.4%	(GDP) 9.9% 8.8%	(GDP) 5.2% 4.3%	(GDP) 3.2% 2.3%
Low-income countries	China Pakistan India Lesotho *	Cape Verde ** Niger* Burundi * Burkina Faso * Myanmar ** Bangladesh ** Cameroon Kenya Nigeria Nepal * Mali * Guinea * Malawi *	El Salvador Lebanon Papua New Guinea Nicaragua Senegal Guyana Equatorial Guinea ** Zimbabwe Haiti * Benin * Ghana Sierra Leone * Mauritania ** Mozambique ** Togo ** Zambia ** Rwanda * Gambia ** Guinea-Bissau ** Central African Rep. ** Madagascar ** Ethiopia * Uganda * Comoros ** Somalia * United Rep. of Tanzania * Zaire ** Chad *
(GDP) 44.9% 69.8%	(GDP) 37.9% 53.9%	(GDP) 4.6% 8.7%	(GDP) 2.4% 7.2%
	(GDP) 61.5% 67.8%	(GDP) 24.8% 19.5%	(GDP) 13.5% 12.5%

Source: United Nations, Department of Economic and Social Information and Policy Analysis (DESIPA).

(GDP) = share in 1990 income; person symbol = share in 1990 population

Notes: * Least developed country in 1971
** Least developed country in 1993

enrolment rate is shown in table 6.7. Illustrative of this effect is the fact that IMR in sub-Saharan Africa, which was lower than IMR in South Asia in 1970-1975, exceeded the South Asian rate by 1990-1995. Life expectancy and school enrolment rates had also increased faster in South Asia.

87. Another striking comparison is between countries in which per capita GDP declined between 1970 and 1995 and the other groups of countries. Countries that saw a decline in per capita output had an average IMR of 118.4 per 1,000 live births at the beginning of the 25-year period, a lower rate than in countries that subsequently saw a moderate increase in output. By 1990-1995 the IMR of the countries in which per capita output had shrunk was 87.9, higher than that of any other group. Similarly, life expectancy in the countries in which per capita output declined over the 25-year period improved by much less—5.5 years—than in any other group. Finally, gross primary school enrolment rates in the fast-growing countries rose from an average of 88 per cent in 1970 to 115 per cent in the latest year available; in the other countries with positive growth, the figure rose from about 70 per cent to 95 per cent. In contrast, in countries with negative growth, gross primary school enrolment rose from 60 per cent in 1970 to a temporary peak of 79 per cent in 1980, but then fell back to just 71 per cent in the 1990s.

88. Social indicators for the least developed of the developing countries remained weak over the period. Per capita income alone fails to describe fully the life of the average citizen in these countries, where infant mortality is higher, life expectancy lower and health status poorer than elsewhere, and citizens are not receiving the education required to enable them to improve their living standards.

Impact of economic growth on poverty

89. Growth in GDP is related to social development, especially the reduction of absolute poverty, in a variety of ways:

(*a*) Economic development exhibits diverse patterns in the pace of growth and the level of income. This affects opportunities for social development, including the possibility of reducing absolute poverty;

(*b*) Economic growth is a necessary but not sufficient condition for reducing absolute poverty in low-income countries. Economic growth strategies must include social and redistributive policies that address the needs of the poor;

(*c*) The marked slowing of the pace of economic growth after 1980, especially in middle-income and many low-income developing countries, has limited the scope for poverty reduction. In many cases, slower growth has been exacerbated by growing income inequalities within countries, which have increased the incidence of absolute poverty;

(*d*) The absolute decline in per capita incomes for more than half of all low-income developing countries from 1970 to 1995 increased disparities in income levels and increased the level of poverty within those countries;

(*e*) Negative per capita growth was experienced in the least developed countries, and the number of such countries increased over time. Only one country—Botswana—graduated from this group. This trend has increased the incidence of extreme and absolute poverty within the least developed countries;

(*f*) Although growth is essential for reducing poverty, it is not the only determinant of the incidence of absolute poverty. Equally important are policies for equitable growth, which improve the domestic distribution of the benefits of growth, reduce inequalities and benefit the poor;

(*g*) In order for social policies to improve the quality of life for all citizens and eliminate absolute poverty, they must be based on sound economic policies, which can provide the financial basis for implementing those policies.

C. Policies for poverty reduction

90. Despite setbacks and ongoing difficulties, the global economic expansion of recent decades has brought great economic and social progress to many areas of the world and unprecedented prosperity to a large proportion of mankind. Mass poverty has been eliminated in the more economically advanced countries and significantly reduced if not eradicated in many developing countries. Infant mortality has fallen almost steadily in all regions and life expectancy has risen all over the globe. Educational attainment is rising, health care and living conditions are improving in most countries and the quantity, quality and range of goods and services available to a large majority of the world's population is increasing. Technology and continued economic growth promise further advances to those individuals with the knowledge, skills, capital and experience to benefit from the demands for change and adaptation that economic development requires.

91. But not everyone has shared in this prosperity. Economic growth has been slow or non-existent in many of the world's poorest countries, and the World Bank estimates that about a quarter of the world's population live in dire poverty. The plight of the poor stands in stark contrast to the rising standards of living enjoyed by those favoured by growing abundance. This contrast—and what would appear to be a widening gap between the rich and the poor both across and within countries—has generated an explicit international commitment to eradicating poverty by a target date to be set by each country.[33] Ensuring that heretofore excluded segments of the population share in the benefits of economic expansion and social development is also seen as a key objective of domestic policy, and special attention has been focused on people living in absolute poverty and people permanently disadvantaged by discrimination or made vulnerable by age, disability or infirmity.[34]

92. Any national strategy for reducing and eventually eradicating absolute poverty must set in motion a process of modernization rooted in both the long-term growth of labour productivity and the enhancement of each individual's potential to contribute to society. Increasing output and earnings per worker requires a better educated and more adaptable labour force, the provision of more and better capital per worker, improved technology and more capable management, all of which require investment in human and physical capital. Eradication of poverty also depends on creating an environment in which individuals can develop and use their initiative and creativity to ad-

TABLE 6.7. INFANT MORTALITY, LIFE EXPECTANCY AND SCHOOL ENROLMENT, BY MAJOR ECONOMIC REGION, 1970-1995

Country group	Infant mortality rate (per 1000 live births)			Life expectancy (years)			Gross primary school enrolment ratio (per cent)			
	1970-75	1980-85	1990-95	1970-75	1980-85	1990-95	1970	1980	1990	Latest year
Developed market economies	18.0	10.4	7.4	72.1	74.9	76.8	103.6	102.2	103.3	104.4
Economies in transition	35.6	25.3	20.1	69.2	69.9	70.2	103.8	104.3	108.4	106.6
Developing countries	114.3	94.2	74.9	52.9	58.8	61.2	78.8	100.8	104.2	101.3
Latin America and Caribbean	81.7	59.7	45.7	60.7	64.8	68.2	93.2	106.2	107.2	108.4
North Africa	136.4	102.1	63.7	53.1	58.2	64.5	70.5	82.5	91.0	94.6
Sub-Saharan Africa	129.5	114.2	97.2	44.7	47.8	50.8	46.1	82.3	69.3	69.1
West Asia	112.6	76.4	47.5	55.3	60.5	65.8	70.7	89.9	103.5	97.7
South Asia	133.8	110.5	86.2	49.6	54.5	59.8	66.6	75.9	90.1	93.1
East Asia and Pacific	68.2	56.9	44.5	60.8	64.6	67.6	88.8	105.7	109.6	108.0
China	71.0	52.0	47.0	61.4	66.0	67.8	89.0	113.0	125.5	118.0
Mediterranean	116.5	86.7	57.1	60.4	64.0	67.5	109.1	97.0	106.4	101.0
High income developing countries	26.5	16.9	11.3	70.0	73.0	75.8	101.7	100.9	96.3	95.7
Upper middle income developing countries	78.3	57.6	42.1	61.0	65.2	68.7	91.3	102.7	106.0	103.9
Lower middle income developing countries	110.7	83.9	57.4	53.0	58.4	63.6	83.6	101.1	105.8	105.8
Low income developing countries	107.2	94.9	78.2	53.5	56.3	59.6	69.5	69.2	97.2	96.2
Least developed countries	144.4	128.5	108.6	39.9	47.3	51.1	n.a.	n.a.	n.a.	n.a
Rapid increase in per capita GDP	69.2	57.9	46.0	60.8	64.5	67.4	87.9	110.8	121.2	115.3
Moderate increase in per capita GDP	131.8	105.4	79.7	51.2	56.3	61.4	72.5	79.6	92.6	95.6
Modest increase in per capita GDP	114.6	93.8	71.3	53.1	57.3	62.2	71.5	84.7	96.6	97.0
Slow increase in per capita GDP	104.4	86.4	70.8	51.5	55.0	58.2	67.8	104.6	95.2	96.7
Decline in per capita GDP	118.4	103.4	87.9	49.0	51.9	54.5	60.4	79.4	73.3	70.8

Source: ***Department for Economic and Social Information and Policy Analysis.***

Notes: Estimates of infant mortality and life expectancy are those of the Population Division of the United Nations Secretariat, as calculated in accordance with the country coverage and classifications given in Table 6.6. Infant mortality refers to the mortality of live-born children who have not yet reached their first birthday, and is computed as the ratio of deaths of children under 1 year of age per 1000 live births during the period indicated. Life expectancy refers to average life expectancy of men and women at birth during the period indicated. Estimates of gross primary school enrolment ratios were calculated by the Department for Economic and Social Information and Policy Analysis on the basis of estimates reported by the United Nations Educational, Scientific and Cultural Organization for a sample of individual countries corresponding to the country coverage and classifications given in Table 6.6. Gross primary school enrolment ratio is the total enrolment, regardless of age, divided by the population of the age group of the level considered.

vance the economic, social and cultural development of the community. In support of efforts at the national level, the international community must grant high priority to integrating the world's poorest countries more fully into the global trading system and building human and institutional capacities in these countries.

93. The processes of productivity advance and social development are not costless. Economic growth and higher productivity bring great rewards but also the disruptions and setbacks associated with rapid and uneven development. Some industries, some occupations and some regions undergo a dramatic expansion and pull a large segment of the population out of poverty, while others decline and leave large numbers of people even poorer than they were before. New firms, new lines of production and new occupations spring up as a result of economic development but established firms and older industries often weaken in their wake. In the process, prevailing cultures and mores are challenged and social advance in one area often stands in contrast to a decline in traditional values widely regarded as important for social cohesion and good governance.

94. This section examines several issues entailed in designing a poverty reduction strategy that can promote the ultimate goal of eliminating absolute poverty while contributing to the broader objectives of economic and social development. It sets forth the following six dimensions of a national strategy for addressing the problem of absolute poverty, and identifies the following key objectives that must be the focus of policy:

(*a*) Promoting high and sustained rates of economic expansion and employment creation through policies designed to create an enabling environment for poverty reduction;

(*b*) Increasing incomes and participation in the economy by the unemployed and working poor through targeted measures to improve their skills and training and upgrade their health status and living conditions;

(*c*) Expanding opportunities for the poor to engage in gainful economic activity by widening their access to land, credit and other productive factors;

(*d*) Targeting those localities and intervening in those areas where the poor reside and where needs are greatest in terms of priorities for poverty reduction;

(*e*) Addressing the pressing economic and social problems of the aged, the disabled, the infirm and those otherwise unable to engage in productive economic activity through programmes of public assistance and income maintenance;

(*f*) Channelling the benefits from increased participation in the world economy towards the poorest segments of the population through policies promoting an expansion of labour-intensive exports and a reduction of trade restrictions on consumer goods.

95. While these dimensions are all essential in a successful programme for poverty reduction, they must contribute in a way that promotes both higher incomes and improvements in the health, education and nutrition of the poor. In turn, programmes in support of primary health care, family planning, nutrition and primary education must both raise the quality of life of the poor directly and equip them to take advantage of and contribute to the opportunities presented by a growing economy. A coordinated set of public policies and government programmes directed at both raising rates of economic growth and providing basic social services to the poor may have a greater effect on poverty reduction than policies or programmes directed at a single objective.

96. Equally important, however, is adapting anti-poverty programmes and policies to the needs and circumstances of a particular country. Strategic components must be tailored to country-specific conditions, and they must focus on a wide range of clearly defined objectives that have poverty reduction as their primary goal. Public sector interventions need to take into account cultural values as well as financial and institutional constraints. Doing so demands a strategy that is broad, internally consistent, and feasible to implement. In the poor countries of sub-Saharan Africa and South Asia, where poverty is pervasive, any national strategy must be broad enough to encompass the range of the country's economic and social policies, from its macroeconomic policy stance through its institution-building efforts to its implementation of individual projects and programmes. In the very poorest countries, all policies—those that affect the national economy, those that affect the local economy, those that focus on the internal economy and those that focus on the external sector—must be adapted to the overriding goal of reducing poverty.

97. This section reviews recent studies of poverty reduction programmes and assesses the contribution that different kinds of policies can make to poverty reduction. Studies on clarifying the various characteristics of absolute poverty are also examined briefly in order to help define its nature and target its manifestations. The aim here is to provide an overview of some of the important issues involved in designing a national strategy for reducing absolute poverty, and to identify the implications of recent studies for anti-poverty strategies and programmes.

1. *Promoting high rates of economic expansion and employment creation*

98. There is a growing awareness of the importance of creating an enabling environment for development which facilitates economic growth and human development by providing a supportive macroeconomic and institutional framework for stability and which encourages enterprise and productivity increases by individuals, especially those at the bottom of the income distribution. Creating an enabling environment goes beyond maintaining political stability and adopting sound macroeconomic policies and encompasses the adoption of legal frameworks and policy guidelines which reflect a commitment to broad-based economic growth and the participation by all in widening prosperity.

The poor and economic growth

99. Broad-based economic growth is critically important to the poor because they are directly affected by its pace, its stability and its distribution over sectors of the economy and over segments of the population. Sustained high rates of growth can contribute to a decline in poverty as an expanding economy creates new employment opportunities and new sources of income associated with greater production of goods and services. Rising aggregate demand, in turn, stimulates greater use of existing

manpower, plant and equipment, and natural resources. Tighter labour markets raise the wages of the poor who are employed, provide better employment opportunities for those with part-time or very low-paying jobs and create more jobs for the unemployed. As employment expands among the skilled and the highly trained, low skilled and poorly qualified workers (many from the poorest segments of the population) are trained and find their productivity and wages rising. In a growing economy, all segments of the population should also benefit from the lower level of real prices for products that is associated with the expansion of the aggregate supply of goods and services that accompanies economic growth.

100. When the distribution of growth favours the poor it can have a significant impact on the living conditions of the poorest segments of the population. For households that are now poor, higher incomes from faster growth mean access to more of those types of goods and services regarded as necessities by the non-poor but not affordable by the absolute poor—for example, adequate and varied diets, basic health care, satisfactory housing, and a good education for children. As the incomes of the poor rise above the poverty line, spending shifts towards consumer durable goods previously unavailable to them, such as improved medical care leading to longer life expectancy, better housing and improved living conditions, and, eventually, recreation and other leisure activities. Higher incomes also allow the poor to invest in their agricultural holdings and in small-scale commercial activities. Improved nutrition, housing, health care and educational opportunities; less time devoted to household subsistence activities and more time available for leisure; and greater investment in their productive activities not only improve the well-being of the poor but raise the quality of the labour force and the time available for remunerative activities outside the home, increasing the level of productivity in the economy.

Growth and poverty reduction

101. Studies by international agencies confirm that overall growth is indeed linked to a reduction in poverty and that sustainable economic growth generally benefits all layers of society roughly in proportion to their initial levels of living.[35] Recent estimates of the elasticity of the poverty gap index to overall growth calculated from separate studies indicate that a 2 per cent annual rate of growth in per capita consumption at all consumption levels will result in a 3 to 8 per cent annual decline in the poverty gap index. Other measures of poverty show a similar relationship, although estimates for reductions in the headcount ratio tend to be slightly lower in absolute value while estimates for the severity of poverty among the poor tend to be higher, suggesting that the benefits of growth are felt well below the poverty line.[36] Another study found that across several countries the elasticity of the incidence of poverty is about -2, indicating that each percentage point increase in average consumption is associated with a reduction of 2 percentage points in the proportion of the population living below the poverty line.[37] However, as the World Bank has noted, the strength of the relationship between overall growth and poverty reduction weakened in the 1980s, mainly because of fluctuations in income inequality. Hence, the pattern of growth among different income groups remains an important factor in determining the benefits the poor receive from higher economic growth.

102. A review of trends in economic growth and poverty over past decades concludes that, whatever its effects on inequality, economic growth, over the longer term, generally reduces poverty.[38] The pattern of growth matters, and income inequality is an important element in the growth-poverty relationship. The challenge to policy is to make economic growth broad-based. An emphasis on labour-intensive growth and more investment in human capital is required to generate sustained long-term growth. The increasing external economic instability of the 1980s adversely affected the poor, but the recovery in output arising from better-designed adjustment policies reduced poverty, especially in Latin America in the late 1980s and early 1990s. In Africa, where implementation of reform was mixed, there is evidence that the poorest segments of the population, particularly in rural areas, have been largely unaffected by the recent recovery. The review also concludes that basic investment in infrastructure and human capital appear necessary to improve living standards among the poorest groups in Africa.

103. Several other studies also substantiate the strong link between economic growth and poverty reduction.[39] Drawing on data from the early 1980s to the mid-1990s, these analyses show that positive growth is associated with a falling incidence of poverty, and economic contraction is associated with a rising incidence of poverty. Another set of studies has also found a clear association between growth and poverty, an association which holds for all regions and appears to hold during both short-run periods of economic recovery and longer-term periods of growth.[40] One of these studies indicates that the impact of growth on reducing poverty appears to be greater among the poorest segment of the population than for the moderately poor.[41]

104. Although the nature of poverty and the economic conditions and problems facing each country differ widely, some general lessons about economic growth and poverty reduction can be drawn from these studies. For example, political stability has been found to be critical in achieving sustainable equitable growth leading to poverty reduction, and government policies that improve the allocative efficiency of resource use (by reducing distortions in relative prices, exchange rates and trade patterns) can be a key factor in raising the incomes of the poor. Economic stability, macroeconomic balance and growth based on a country's abundant factor of production (usually labour) are also essential to providing a foundation for sustainable long-term economic growth, suggesting the importance of agriculture and openness to international trade, with an emphasis on export expansion. Social development, especially education, has also been a critical component of equitable growth; without the allocation of significant resources to education there can be little prospect of long-term growth or poverty reduction.

Growth and social development

105. The degree of improvement in particular indicators of social development that can be expected from higher levels of output varies considerably across countries. One study showed that the average level of per capita output accounted for only a small part of the differences

in the number of people living in dire poverty. In that study, two sets of percentages of heads of households, one with an average private consumption of less than I$21 a month and another with an average of I$30 a month (in 1985 prices), were related separately to average gross national product (GNP) per head and to total private consumption, respectively. The resulting regression relationships for GNP could explain only 15 to 25 per cent of the variance of the percentage of people in poverty—implying that overall macroeconomic output was a significant factor in determining the volume of goods and services consumed by poor households but that other factors had a greater effect. The corresponding relationships between the national average for private consumption per capita explain 40 to 50 per cent of the percentage of people in poverty (at I$21 and I$30 per month, respectively).[42] Similarly, the level of GNP per head (together with the percentage of people with private consumption below I$21 and I$30 a month) could explain only 48 and 38 per cent of the variance among countries in the infant mortality rate and the literacy rate, respectively.[43]

106. These results suggest several broad conclusions. First, attaining favourable levels of illiteracy and infant mortality is harder for countries with a lower level of GNP per person and a given incidence of poverty, as well as for countries with a higher incidence of poverty, and a given level of GNP per person. Second, because the variance among observations of per capita consumption per person and average GNP is associated with no more than half of the variance in infant mortality and literacy rates, policy intervention has wide scope to increase literacy and survival prospects, even at low levels of per capita income. Raising income levels through faster economic growth, supported by appropriate social development policies, can contribute to eliminating the manifestations of poverty.

Governance and poverty reduction

107. Good governance is essential and efficiency and equity must be at the centre of policy concerns if growth is to take place as rapidly as feasible and provide maximum benefit to the poor. Good governance is associated with the rule of law, equity, participation by all in civil society, and the provision of basic services. At the national level, promoting efficiency involves an array of policies to create and maintain a stable environment for modernizing enterprise, boosting investment, correcting factor-price and other distortions in the economy to ensure accurate signals and incentives to producers and consumers, stimulating competition to promote greater productive efficiency, and ensuring that all of society's resources are fully and effectively utilized. At the community level, implementation of poverty programmes may best rely on local self-governing institutions and local involvement to raise the productivity and material conditions of the poor. Programmes administered by a distant, uncoordinated central bureaucracy may be insensitive and unaccountable to the poor, with too much spent on middlemen, contractors, officials and politicians. Devolution of decision-making to the local community can centre responsibility in those most affected by the decisions being made and improve information about the best way to implement public services. Peer monitoring and enforcement of local social sanctions also improve accountability and provide incentives for maintaining the quality and cost-effectiveness of poverty programmes.

2. *Investing in human capital*

108. The central goal of development is the strengthening of human resources: improving the education, health and productivity of the work force and breaking down barriers which prevent men and women from fully developing their abilities and training. The economic and social benefits of a literate population support economic growth through its effects on productivity and enhance the well-being of the community through an informed and tolerant population. The cost to society of preventable illness and premature death cannot be measured in economic terms alone—although the economic cost alone is high—but is also seen in terms of suffering, pain and grief. Similarly, when all groups do not share equally in the opportunities that life affords, not only do those subject to discrimination—usually the poorest segments of society—bear the costs in terms of higher unemployment and lower incomes but the entire society is diminished by lost human potential and antagonisms created by unequal opportunity. Neither economic growth nor poverty reduction can take place without individuals learning more, experiencing improved health and interacting on the basis of equality. For this reason, policies directed at strengthening human resources are a key to both economic growth and poverty reduction.

Investing in people

109. Efforts to strengthen the human resources of the poor must recognize that, unlike the non-poor, the absolute poor are trapped in a situation in which economic growth and social development are interdependent. The strong interrelationship between economic growth and social development highlights the vicious circle wherein low growth spawns low growth and poverty breeds poverty. By definition, the absolute poor are those who subsist on very low incomes. Low incomes carry with them a limited capacity to save and invest, limited means for obtaining health services and hence a high risk of personal illness, limitations on job and locational mobility, and limited access to education, information and training. Poor parents cannot provide their children the opportunities for better health and education needed to improve their lot. Lack of motivation, hope and incentives creates a barrier to growth that is just as real as a lack of financial means. Because the poor lack the social characteristics necessary to emerge from poverty, the legacy of poverty is often passed from one generation to the next. To rise out of poverty, the poor need not only the enhanced opportunities brought about by faster economic growth but also an enhanced capacity to respond to the opportunities created by a growing economy. This requires a wide range of policies and a concerted effort sustained over many years.

110. Poverty reduction policies for able-bodied young and working age individuals must focus on raising their productivity through investments in human and physical capital leading to higher levels of output and income. The connection between education and earning capacity is well documented, and programmes directed at strengthening educational opportunities for the poor are therefore essential to raising the incomes of those mired in poverty. These programmes should have three principal

objectives: preparing the unskilled for better jobs, augmenting the supply of scarce skills and upgrading the training of the poor, and improving the functioning of labour markets. Similarly, the striking discrepancies between the health status of the poor and the non-poor, apart from its inherent inequity, point to the need to improve the health attributes of the young and working poor so as to increase their capacity to engage in productive activity.

111. Investment in human capital must be complemented by investment in physical capital. Inferior facilities and poorly qualified teachers and health workers, for example, may lower the value of education and the benefits from health care. For the full benefits of better education and health care to be reaped by the poor, a major effort may be necessary to upgrade schools and clinics in terms of their physical plant and their staff; similarly, programmes to improve education and health care may have to be supported by a range of community services such as improvements to sanitation facilities, roads and the private housing stock.

112. Knowledge about the circumstances in which the poor live, their demographic characteristics and social attributes, and where they reside is essential if a sound poverty reduction policy is to be formulated. Information about the absolute poor, however, is spotty. If programmes and policies for attacking poverty are to be tailored to the needs of different segments of the poor population, more needs to be known about their numbers and characteristics. For this reason, a main focus of the literature on poverty has been on identifying characteristics of the poor which distinguish them from the non-poor and affect the design of programmes for social development targeted to the specific needs of different groups in poverty.

Human resource profiles of the poor and poverty reduction[44]

113. In terms of their demographic profile, the poor reflect social characteristics different from those of the non-poor, which diminish their opportunities for development. The poor tend to be part of larger households and have more children than the non-poor, with the result that children appear to be more likely than adults to be poor. Households with low per capita consumption or income are typically younger and their members are more likely to die prematurely. In developing countries, infant and child mortality increases steeply with poverty. High infant and child mortality in the poor population leads to early marriage and a high number of births to achieve a completed family size. High fertility is also encouraged by the need for support from children in old age and by the need for supplementary labour in the household and on the farm. These factors tend to lower average per capita incomes, hinder the accumulation of physical and human capital and lead to fragmented agricultural plots and scarcer land resources relative to the non-poor population. Any poverty reduction strategy must address these population issues.

114. In terms of a profile by gender, several recent studies suggest that women do not appear to be overrepresented in consumption-poor households nor do they find that female-headed households are more likely to be poor. One reason may be the pervasive nature of mass poverty in some developing countries, which simply engulfs a large proportion of the total population. On the other hand, a major study of the International Fund for Agricultural Development (IFAD) found that women were overrepresented among the rural poor in 114 developing countries.[45] Based on the IFAD data, ILO calculated that the number of rural women living below their country's poverty line was much larger, and rose more quickly, than the number of men, suggesting that there has been a relative rise of poor households headed by women.[46] Because national statistics rarely provide an enumeration of men or women living in poverty, the question of the feminization of poverty in developing countries is one that requires further study.

115. Even if women are not overrepresented among the poor, poverty nonetheless affects women disproportionately because of their dual role as both domestic and market labour. Poor women in developing countries carry the burden of work both inside and outside the household, preparing meals and taking care of children within the home; gathering firewood, carrying water and planting, tending and harvesting crops and animals in the family plot; and working outside the home, often for long hours at marginal wages as the sole means of survival for their families. Except among the very poor, there is evidence that as poverty deepens, female age-specific labour force participation rates increase sharply as income falls while the child/adult woman ratio rises. In the market, poor women are often relegated to work in the agricultural or informal sectors, where labour is hard, hours are long and wages are low. With their domestic responsibilities, poor women face less chance of escaping poverty as their commitments to their families lower their mobility. Older sisters must often care for their younger siblings rather than attend school, perpetuating a cycle of low education and low-paid jobs for women from one generation to the next. Cultural discrimination in education, job assignments and property rights also often prevent them from seizing opportunities available to men.[47] Finally, in some cultures, widows (and women in general) face discrimination in employment and at home, leading to a higher risk of poverty.[48] If policies aimed at eliminating absolute poverty are to be successful, special efforts must be made to improve education, employment opportunities and the status of women.

116. In terms of their human capital profile, the poor lack the investments made available to the non-poor. Human capital encompasses education, work experience, physical fitness and stamina, and other characteristics which make people productive and self-reliant. The relationship between human capital and poverty is a complex one: a lack of human capital takes a variety of forms—illiteracy, lack of income-augmenting skills, and malnutrition and morbidity affecting physical stamina—which lower the ability to invest in human capital. Moreover, the production of human capital takes time, both in terms of the time necessary to put in place required infrastructure and inputs and in terms of the time necessary to gain a basic education and learn new skills.

117. In the case of the absolute poor, given their heavy dependence on unskilled labour, the contribution that improved skills and knowledge can make to growth and poverty reduction can be very high since training and education yield benefits not only to the person receiving it but also to society at large. For the individual, educa-

tion produces tangible rewards from increased productivity and a higher paying job and intangible rewards from being able to live a fuller life in every sense. Some of these benefits relate to consumption and contribute immediately to an improvement in living conditions, while others are "investment in human capital" and like investment in machinery and equipment yield compounding benefits over a period of years. For society as a whole, education provides the basis for a more informed and effective citizenry and is the most important force behind economic growth. Formal education also tends to acculturate different groups in society, encourage attitudes of cooperation and participation, and equalize opportunities within a society.

118. The contribution of education to the increase in labour productivity and poverty reduction has long been recognized and documented.[49] Recent research supports the conclusion that education can make a significant contribution to the reduction of absolute poverty in developing countries. According to one study, literate farmers with at least a primary education are more productive and more responsive to new agricultural technology than illiterate farmers, and education improves their prospects for escaping poverty.[50] Craftsmen and mechanics who can read and write are believed to be better able to keep up to date with changing technology in their fields. In other studies based on cross-section evidence from both household surveys and international data sets, strong links between health and education in a region or country and its subsequent growth and poverty reduction have been noted, especially where primary education has been extended to women and is completed.[51] Intra-country comparisons between individuals who have received some education and individuals who have not also confirm that poverty reduction through education is cost-effective. Some of these data sets also suggest diminishing returns, however. Moreover, the benefits from primary education undertaken for only a few years appear to be small. Increasing the proportion of education resources allocated to basic and primary education and to the poorest groups or regions in a country reduces poverty, according to these studies, but complementarities across different levels of education must also be considered. The capacity of the poor to benefit also depends on nearby opportunities to use acquired capacities.[52] The strong correlation between educational attainment and poverty reduction supports the conclusion that strategies for poverty reduction must focus on reducing widespread illiteracy, especially among women, and improving the quality and orientation of educational opportunities, especially as they relate to the needs of the labour market.

119. In terms of their health profile, people in poverty carry a greater burden of disease and illness, but because health systems are skewed towards large urban areas, they are rarely accessible to the absolute poor, most of whom reside in rural areas. Malnutrition, particularly of children, and problems of food security are also linked to poverty. Lack of adequate health services and deficits in food-energy and protein reduce the productivity of the poor and impair the ability of impoverished children to learn.

120. Finally, it must be noted that, when improving the health profile of the poor, greater food security is essential for breaking the vicious circle of poverty and malnutrition. In rural areas, this requires measures to promote subsistence farming and to raise the returns farmers receive on marketed crops by creating a policy environment that promotes increased food production through secure land tenure arrangements and appropriate pricing and incentive policies. It would also provide better infrastructure, especially feeder roads and small-scale irrigation, improved access to credit and inputs, research and extension services and agricultural marketing. In the majority of developing countries, where women constitute more than 80 per cent of food producers, measures to enhance household food security must address institutional discrimination against women in their attempts to gain access to land, credit, education and technology.

121. With regard to social services in general, some studies suggest that the incidence of benefits from public spending on rudimentary social services such as primary education and basic health care is usually somewhat pro-poor, possibly because the non-poor often turn to the private market for primary education and health care and because the poor tend to have larger families and more dependants. The distribution of benefits from higher education and tertiary medical care in hospitals is much more regressive. Similarly, the practice in many countries of charging low prices for social services regardless of cost may result in the non-poor being subsidized more than the poor. In these cases, selective user fees for basic health services, with exemptions for the very poor, can promote both efficiency and equity.

122. The literature on poverty suggests that social sector expansion must be accompanied by a recognition that social development for the poor can occur only if priorities are shifted and the organization and financing of social services changes to include wider coverage for the poorest segments of the population. Developing the necessary physical infrastructure—roads, schools, sanitation facilities and primary health clinics—in support of a reorientation of social investments must also be seen as a high priority, especially through targeted programmes of public and private investment in those areas (rural districts and urban pockets) and for those groups (usually minorities and the disadvantaged) most vulnerable to poverty.

3. *Targeting poverty where it is concentrated*

123. Because general policy measures may fail to provide the targeted assistance required to deal with the needs of the poor, additional measures are needed to alleviate malnutrition and other immediate needs and to improve the capacity of the poor to lift themselves out of poverty. Targeting poverty where it is concentrated requires knowing where the poor reside and designing policies appropriate to the environment in which they live.

Intra-country distribution of the poor[53]

124. Information about the distribution of the poor between the countryside and the cities of developing countries—and hence the priority to be given to rural and urban areas when designing programmes for poverty reduction—is very limited. The available data show that, although less visible than in urban areas, the poor are disproportionately found in rural areas where they are engaged primarily in agricultural and associated activities. The concentration of the poor in rural areas reflects both the high rural share in the total population of most

developing countries and what would appear to be the higher incidence of poverty in rural areas.

125. Comparisons of rural and urban poverty rates are difficult to make for several reasons. While settlement patterns in developing countries tend to concentrate the majority of the population into clearly urban or rural places, the terms urban and rural are not used consistently across studies or across countries. Another problem when comparing poverty between urban and rural areas arises because of spatial cost-of-living differences that result in urban poverty lines being set at a higher real level than rural poverty lines. Notwithstanding these measurement problems, data on consumption or income per person which allow for rural-urban price differences for several countries in the 1980s show a wide range of rural-urban poverty ratios, all of which exceed 1.0. This strongly suggests that the incidence of poverty is considerably higher in rural areas.[54] Consistent with the higher incidence of poverty in the countryside, the incidence of poverty was found to be lower in large cities than in other urban areas in some countries (Indonesia, Tunisia and Côte d'Ivoire).

126. The high incidence of poverty in rural areas creates several problems. Because average incomes are very low, rural communities have difficulty investing in schools and other public facilities, and low incomes and poor facilities cause out-migration to the cities, often by the most enterprising and productive individuals, leaving behind the less employable, the less skilled and educated, and the oldest and youngest segments of the population. In addition to the rural/urban dichotomy, sharp regional disparities in poverty incidence ratios have also been noted. For example, in Indonesia in 1990 the rural-urban poverty incidence ratio was estimated to be 2.2, while the ratio of the highest poverty incidence in rural areas of any province to the lowest was estimated at 4.3. Regional variations in the incidence of rural poverty are often strongly associated with rainfall and dependence on rainfed agriculture. The persistence of these differences in poverty incidence indicates that regional factor mobility has plainly not equalized the risk of being poor.

127. Poverty in the countryside is marked by its common connection to agriculture and land, whereas urban poverty is more heterogeneous in how people are employed and incomes are generated. Poverty in the rural sector also tends to be explained more by poor access to physical assets (particularly land), outdated farm technology, the lack of non-farm employment opportunities, and inadequate schooling and health care rather than by the kinds of labour market distortions that characterize the urban sector. A comparative study of seven Asian developing countries in the late 1980s showed that the rural poor depended more on agriculture than the rural non-poor. A similar relationship has also been observed in West Africa. Relative to the non-poor, a smaller proportion of the rural poor are engaged in such non-agricultural activities as petty services, local trading and various forms of low-paid, small-scale commerce. Their prosperity is nonetheless linked to agriculture because it depends on forward and backward production and consumption linkages with farmers.

Urban policy[55]

128. Developing countries have experienced a rapid growth of cities and an unprecedented movement of people from the rural countryside to urban areas. With the rapid spread of urbanization has come a tremendous growth of slums and shantytowns where the urban poor reside. As in the countryside, most of these new settlements are without clean water, sewerage systems or electricity. Even in more established urban areas, the poor live amidst deteriorating facilities, inadequate social services and high unemployment, which create a dehumanizing and hostile environment. Despite the poor urban living conditions, large-scale migration from rural to urban areas continues.

129. Considerable success has been achieved in helping the urban poor, especially through improvements to housing, sanitation and utility services. The policy approach to housing problems in developing countries has gone through three phases. In the first phase (1950-1975) policy makers sought to solve the urban poverty problem by clearing slums, introducing zoning and restrictions on migration and constructing low-cost housing. As a result, some poor were expelled from urban areas and others were exposed to arbitrary harassment by settled townspeople and local authorities, while civil servants and local authorities were subsidized. Scholars, activists and others helped terminate, or at least modify, these anti-poor policies, many of which had proved ineffective.

130. In the second phase (mid-1970s to late 1980s) policy makers recognized the poor as a lasting urban presence and sought to enlist their participation in "people-oriented" development projects, such as developing their housing areas. These efforts, including site and service projects and slum upgrading, reached the poorest segments of the population (albeit seldom the lowest categories of income recipients). Some restrictions placed on these projects were later abandoned as counter-productive. For example, in the early site-and-service upgrading schemes, beneficiaries of materials and loans were forbidden (albeit not very effectively) from hiring labour or renting out their improved dwellings. The effect of such restrictions was to prevent renters or hired workers from sharing the benefits of the upgrading schemes with the dwellers, even though excluded tenants or workers were usually poorer than the dwellers themselves.[56]

131. In the third phase, which began in the early 1990s, emphasis has been placed on improving the provision of services to these upgraded areas—and to a lesser extent to the much poorer unregistered slums—mainly through better financial management and cost recovery. Effort has been made to secure and clarify the property rights of the urban poor. Throughout this three-phase learning process, urban housing policy has generated substantial benefits per unit of cost for the urban poor, although probably not for the very poorest.

132. Most of the urban poor work in the informal sector, traditionally viewed as characterized by easy entry, little unionization, no legal minimum wage, weak safety standards, low physical capital inputs, low returns to labour and mainly small, often family-based enterprise units typically producing non-traded goods consumed mainly by the poor. This view of the informal sector has changed recently in the light of new data on the diversity of products and skills in the sector. Large income inequalities are often found within the informal sector, with some workers earning far more than some formal sector workers. Current thinking on urban poverty puts greater

emphasis on individual characteristics such as human capital endowments than on migration equilibrium with a fixed urban wage. Consistent with this emphasis, the urban informal sector has increasingly been viewed as having substantial growth potential, although this potential is hampered by market failures, excessive governmental regulations and a bias in favour of the formal sector.

Rural policy

133. Despite the importance of agriculture in developing countries and the concentration of the absolute poor in the countryside, government expenditure is usually directed towards urban areas and, within those areas, towards manufacturing and commercial activities. Given that the bulk of the poor are in the countryside and the incidence of poverty is higher in rural areas, increased attention and more resources must be directed towards rural development in general, and to the role of the poor in the agricultural sector in particular, if substantial progress is to be made in rural poverty reduction in developing countries. Rural anti-poverty policy should focus on improving the amount, productivity, stability and distribution of farm inputs, employment and output, and on the social and physical infrastructure of rural areas.

Targeted intervention for poverty alleviation

134. Governments of many developing countries have used targeted measures to enhance food entitlements and raise the income of the poor.[57] As part of structural adjustment programmes implemented since the early 1980s, however, food subsidies have been reduced in many developing countries explicitly through budget allocations and implicitly through overvalued exchange rates when food is imported. Untargeted food subsidies, which can account for a large proportion of government expenditures and often benefit the non-poor as well as the poor, have in many cases been replaced by more targeted interventions, such as selected subsidies, food rations, food stamps and food supplementation. Targeting has been based on the selection of inferior foods (presumably consumed mostly by the poor), geographical area, income level, employment status, season of the year and attendance at health care clinics. Despite this shift in emphasis, abuses and leakages continue, and the information needed to design targeted programmes and the capacity to administer them remain insufficient. In the end, the efficiency of the different instruments will have to be balanced against the importance of the problem they address and their effectiveness in the light of the political situation. This analysis will lead to different kinds of interventions in different countries.

135. The issue of targeting is especially relevant for food assistance in emergencies. Because of the life-or-death nature of assistance to the absolute poor in times of food scarcity, assistance must be immediate and unconditional. In dire emergencies, food for the famine stricken must be distributed rapidly, not simply for humanitarian reasons but also to prevent increases in the price of food. Often it is the rise in food prices—or the anticipation of a price rise—rather than the actual lack of food availability that causes starvation. Waiting to deal with an emergency until the desperate have congregated in camps or migrated in search of food can breed disease and result in death.[58]

136. Once the immediate threat is over, programmes can target reconstruction and relief directed at preventing a recurrence of the emergency. Public employment programmes are a form of intervention which can simultaneously prevent a decline in food production and distribution and help prevent future emergencies and disasters. Such programmes can include replenishment of seeds and young stock and drought-proofing through improved water management. In countries in which scarcity of infrastructure constrains relief efforts or exacerbates a disaster, public employment programmes to construct roads, breakwaters and irrigation systems will have positive long-term benefits.

4. *Advancing opportunities for the poor*

137. Efforts to reduce poverty must go beyond promoting prosperity through faster economic growth, and social development through the provision of social services, especially education. Strategies for reducing poverty must also include programmes that deal with the specific economic and social problems of the poor in the circumstances of each country and, indeed, in the communities and rural areas in which the poor are concentrated. Programmes for the poor must be tailored to address local problems and local conditions, and they must aim to overcome obstacles and widen opportunities for the poor where they live and work.

Providing access to credit

138. One important way that the potential of the poor can be tapped is by improving access to credit.[59] Because input requirements and output flows vary throughout the year, poor people in rural areas need credit to smooth consumption and production. In urban areas credit is needed to finance self-employment activities. High transaction and enforcement costs deter commercial and public sector lenders from lending to poor people or to people in remote areas, leaving the poor with insufficient credit in many developing countries. Inadequate access to credit may make it impossible for poor people to take advantage of opportunities that involve an initial period of learning or high risk. In such cases, subsidized credit may be justified as a means of encouraging experimentation (especially by the poor, the less literate and the more risk averse) and may be preferable to subsidies for specific productive inputs.

139. Thirty years ago directed credit programmes were a major development tool, and it was widely believed that the poor could be helped through massive subsidized credit, provided either by state-run or private banks. As problems with these schemes emerged, however, their usefulness was reconsidered. Experience in most countries showed that directed credit programmes stimulated capital-intensive, labour-displacing investments and involved high lending costs. Moreover, much state-subsidized credit never reached the poor but instead benefited rich clients, who borrowed at below-market rates and who often defaulted on their loans. To save agencies and banks from bankruptcy central banks were induced to expand credit, exacerbating inflation. These actions tended to drive out private savers and lenders by subsidizing their competition. A fundamental dilemma of the credit market in poor developing countries is that outside agencies (including government banks) lack sufficient information about borrowers and consequently in-

sist on conditions that disqualify many of the poor. Where government programmes are not available, however, local lenders generally have limited funds and charge high interest rates.

140. The critique of the early experience with credit for the poor exaggerated the system's problems and overlooked some of its achievements. Expansion of formal credit to the rural sector in India, for example, had a substantial impact on non-farm rural growth and appears to have realized an acceptable economic return. Because of high transaction costs and collateral requirements, bank loans to rural households reached only a small proportion of the poor and provided less credit to the poor than to the non-poor. But the poor were not discriminated against in terms of loans per hectare, and they received a larger per hectare share of cooperative and regional rural bank lending than did the non-poor. Farmers operating less than two hectares received 62 per cent of Indian commercial bank loans in 1985 although they farmed only 26 per cent of the operated area. Because banks forgave unpaid loans, such lending did constitute a huge cost to the State, but levels of amounts overdue on formal credit grossly exaggerate the volume of bad debts.

141. A "new synthesis", based on more detailed analyses of financial institutions' experience in the 1980s and early 1990s, recognizes that lending to the poor, even if competitive, is inevitably expensive. Transaction costs per loan are in part fixed, for both borrower and lender, and thus represent a high proportion of the small loans that poor people often need. Such costs account for an especially high proportion of the small, seasonally peaked, often consumption-oriented loans sought by the very poor. Formal lenders face even higher costs than local informal lenders in reaching and screening dispersed rural poor borrowers and in monitoring loans to them. Banks face greater problems in enforcing repayment in remote and inaccessible areas, especially if there is no plausible collateral, as is usual for poor non-landowning borrowers. Lack of local knowledge raises the costs to large formal lenders arising from adverse selection (the fact that people likely to default on loans are more likely to seek them) and moral hazard (the fact that people may take greater risks if those risks can be shared with a lender). Even local moneylenders often face high screening costs to reduce such dangers. Local lenders face greater covariance because many borrowers in a region may simultaneously be unable to repay loans during bad times, especially in agricultural areas. Such covariance is much smaller for large, multi-purpose, multi-sector (and geographically diversified) lenders.

142. Because the use of insurance and intermediation as substitutes for small loans to individuals is costly, emphasis has shifted to the role of group lending. Members of a group jointly take responsibility for repayment by each member. If any member defaults, other members are denied future group loans, and the individual loses his or her reputation and has difficulty joining other groups. "Peer monitoring" within such groups enables lenders to reduce supervision costs and the risk of default on small loans without improving collateral requirements that exclude the poor. What is new in this approach is the combination of group lending and peer monitoring with intermediation, usually by branches of non-governmental organizations and with a primarily developmental role for credit that recognizes the issue of fungibility. Experience has shown that credit groups are most likely to succeed if they are small, voluntary and homogeneous. Of course, group homogeneity also creates economic risk, but this risk can sometimes be reduced by credit insurance. Moreover, high covariance of activities among members of a small group raises each member's concern about joint default and reduces the cost of mutual monitoring; it also increases the likelihood of benefit, since advice by fellow group members is likely to be based on similar experience.

143. Because even the best-run credit agency will experience some defaults, and small loans to the poor have high ratios of enforcement and administrative costs to loan size, interest rates on loans to the poor must be high. Local intermediation, however, can reduce administrative costs by 1 to 2 per cent of loan values, and efficient administration can reduce costs by another 3 per cent, according to Women's World Banking, an international non-governmental organization. Women borrowers—who are almost always under-supplied with credit because inheritance practices deny most of them the land needed as collateral—repay significantly larger proportions of their loans than do men.

144. Strict repayment discipline has been associated with larger proportions of credit reaching the poor (and women) and with larger amounts of credit available for lending in the medium term. New wave lenders have often had to overcome an initial hurdle created by past politicalization of debt repayment, namely, the perception that the banks or other apex agencies were making gifts rather than loans. Many new wave semi-formal credit institutions have had repayment rates of 90 to 99 per cent. In contrast, most established formal lenders and cooperatives, which have been far less successful in reaching the poor, have repayment rates of only 50 to 75 per cent.

145. A recent review of the experience with credit policies and programmes in East Asia indicates that both economic and institutional factors are important in the design of successful directed credit policy programmes.[60] Economic factors include macroeconomic stability, a competitive domestic environment, an orientation towards exports and effective coordination of the range of policies involved in promoting growth and poverty reduction. Institutional factors include effective monitoring systems and coordination arrangements and an ability by government agencies to ensure compliance. The Asian experience with credit suggests that credit programmes should be small, narrowly focused and of limited duration; subsidies should be low (to minimize distortion of incentives); and credit programmes should be financed by long-term funds (to prevent inflation and macroeconomic instability) channelled through well-capitalized, administratively capable financial institutions which are professionally managed.

Land reform

146. Another important way in which opportunities can be promoted is by redistributing existing stocks of assets to the poor. Since the major asset potentially available to the absolute poor, especially in rural areas, is access to land, many of these efforts have focused on land reform. Large redistributions of land, such as those undertaken following the Second World War, have been

associated with rapid reductions of poverty, but they have occurred only in times of great political upheaval. The pace of redistributive land reform slowed after the mid-1970s, but is picking up again in Latin America, Eastern Europe, South Africa and north-east Brazil, where it is being intermediated by local authorities and non-governmental organizations.

147. Based on a review of 11 studies, two conclusions can be drawn about the experience with land reforms over the past few decades. First, the only type of land reform that reliably reduces poverty and enhances efficiency and growth is redistribution that transfers land from large farms to small private farms. Other types of land "reform", including enforced registration of individual title, collectivization, state farming and prohibition of tenancy almost always hurt the poor and reduce farm efficiency. Second, to evaluate the impact of land reforms on poverty, it is necessary to assess the impact of such reforms on the sources of employment and incomes and their impact on the distribution and amount of net income received from land, which may on balance adversely affect the poor.[61]

148. The issue of land reform remains central to discussions of poverty reduction because in most of Africa and Asia the poor are overwhelmingly rural, and rural poverty incidence is strongly correlated with inequality in the size of farmland holdings. Indeed, the absolute poor are disproportionally engaged in agricultural and associated activities, often eking out meagre livelihoods from subsistence agriculture or as low-paid farm workers, and the most important determinant of inequality in rural income and wealth is the structure of land ownership. When undertaken in a decentralized, market-friendly fashion, non-confiscatory land reform can contribute significantly to poverty reduction, economic growth and more even income distribution. The smaller holdings created by more even distribution of land are usually more productive than larger holdings, because of higher cropping intensities and greater labour intensity.[62]

Public works measures

149. A third way of promoting opportunities for the poor is by creating jobs through public works measures, most of which involve the construction, upgrading or maintenance of public infrastructure.[63] Public works programmes have several advantages. First, they tend to self-target the able-bodied poor. If the wage offered is low, such schemes attract only people who have few other opportunities to earn a living; and the corruption and arbitrary outcomes of direct targeting by project managers—and, to some extent, the imperfections of indirect or indicator targeting on groups or areas believed to have a high incidence or severity of poverty—are avoided.[64] Second, public works programmes provide an opportunity for training and removing barriers to job access. On-the-job training through public works projects can facilitate eventual private sector employment and higher incomes; public works jobs can also provide experience in the formal sector, with opportunities for counselling and training to raise the productivity of participants, particularly young workers. Arbitrary hiring standards and customary employment practices in the private sector often limit work opportunities for the poor, and public works employment can adjust standards and restructure work patterns until the level of workers' skills and experience meets private sector standards. Third, through the multiplier effect public works programmes raise the level of income in the local economy as a whole, thereby indirectly affecting poor people who do not participate in these schemes.

150. The record of public infrastructure employment for the poor has been mixed. Although early schemes were largely ineffective, programmes implemented since about 1980 have created many jobs for the poor and enhanced their incomes in the short term. Over the longer term, however, the effect on poverty has been small. Such programmes must thus be supplemented by other types of programmes and by the poverty-reducing impact of macroeconomic policy that promotes strong economic growth.

151. To be successful a public works employment programme must employ enough people to account for a significant share of the workforce. Bolivia's Social Insurance Fund, for example, employed 3 per cent of the workforce in mid-1987. In Chile public works programmes employed 6 per cent of the workforce in 1976 and 13 per cent in 1983 (at a cost of only 1.4 per cent of GNP in 1983, indicating very low average wages and successful self-targeting). In Honduras some 5 per cent of the workforce was employed by public works projects in 1990-1993, which was enough for unemployment to fall by 20 per cent. In Cape Verde in 1983 and Botswana in 1985-1986 some 25 to 30 per cent of the workforce was employed in labour-intensive public works; income generated from these projects appears to have prevented rising mortality despite a prolonged and severe drought. Two of the largest programmes in terms of number of workers employed and duration are Bangladesh's Food for Work Programme and the successors of Food-for-Work in India, which are now largely based on cash payments. The Employment Guarantee Scheme (EGS) in Maharashtra (India) appears to have reduced rural unemployment by 10 to 35 per cent; in a sample of villages almost half of wage employment was supplied by the scheme, which cost about 10 to 14 per cent of the state budget. In India as a whole, about 2.2 million full-time-equivalent working years have been generated by major employment schemes, the vast majority of them in rural areas. Although the number of jobs created has been large, less than 2 per cent of India's rural workforce has been employed in public works schemes. Moreover, not all of the jobs created by public works programmes have represented additional employment because low wage rates have encouraged local officials to use these programmes for construction that would have taken place even in its absence. Nonetheless, public works programmes in India have probably created enough new jobs, including multiplier and subsequent spreading effects, to reduce poverty significantly, at least in the short run.

152. Although public works programmes have helped reduce poverty in the short run, they do not facilitate a permanent escape from poverty—unless the programme has been designed to build up financial, physical or human capital assets (savings, buildings and equipment, infrastructure, skills and training, and health) owned by or providing future employment to the poor. Some forms of village infrastructure, such as the drought management works favoured by Maharashtra's EGS, may help the poor directly by providing some protection against crop loss. However, between 1984 and 1990, EGS resources drifted

towards other projects, such as road building. These projects tended to benefit the wealthier rural population. Employment schemes to build primary schoolrooms (as in Kenya's Harambee programme in the 1960s, for example) can help the poor by increasing their human capital. In Bolivia a programme that focused on small basic health and education projects has created social services likely to benefit mainly the poor. In Honduras health care and primary school attendance both appear to have risen by about a quarter as a result of new facilities created by employment projects.

153. Public works projects should benefit the poor. However, if only the poor benefit, support by the rest of the population for costly employment schemes may be weak. Moreover, according to one researcher, employment schemes are designed mainly to alleviate current poverty, and there are better ways of creating assets.[65]

154. Although anti-poverty programmes tend to be implemented at the local level, extensive poverty—especially mass absolute poverty—is not simply a local phenomenon, and the problem of poverty is not confined to the localities in which it is most prevalent. Poverty may reflect more basic national problems—unequal distribution of opportunities and wealth, an unstable macroeconomic environment, a legacy of social tensions—that local efforts and local programmes cannot overcome. For this reason, reducing poverty must be seen as both a national responsibility and a local commitment. Finally, anti-poverty programmes that provide opportunities for the able-bodied poor cannot address the needs of the aged poor or those made poor by disability and infirmity, who lack not only income but also any realistic opportunity to become productive and raise their incomes.

5. *Providing a safety net for vulnerable groups*

155. The problems of the poor are many and diverse.[66] Families are large, health status is poor, living conditions are hostile, and employment opportunities are scarce. Poor people who are unable to work are often isolated from their families, friends and society at large. For the working poor, the very changes associated with economic and social development often threaten their already meagre livelihoods. The pace of rapid and uneven development may make "adjustment" impossible, even for those willing and able to adapt under less demanding circumstances. In these situations, safety nets may help address the problems of those permanently living in poverty or affected by change in a way that prevents them from being able to respond to the transformations and opportunities brought about by development. Specific groups for whom safety net programmes may be needed include the aged, the ill, the disabled, broken families and victims of discrimination.

Social security and social assistance

156. Formal arrangements for protecting individuals, families and communities from income inadequacy, variability and loss depend on a country's capacity to protect its population against various contingencies through institutionalized mechanisms for redistribution and insurance. As of 1990 about 150 countries had established some type of social security programme; a much smaller number of countries have programmes for social assistance benefits.[67] Social security programmes in developing countries differ widely in coverage and usually developing countries cannot afford to include the poor in their schemes. Coverage of these programmes varies considerably across countries. While most countries have some type of employment injury compensation programme, few developing countries currently extend unemployment benefits to their working population or have schemes covering sickness or maternity. Most of the programmes cover only workers in the formal sector, where the workforce is stable. The large share of the population that lives in rural areas and engages in subsistence activities or works in the informal sector in rural and urban areas is not protected under current formal arrangements. Compliance with social security and other regulations by employers and others is often weak, administrative overhead expenses are high and disbursements are delayed, limiting the benefits of these programmes. Many programmes have also run into actuarial imbalances which threaten their longer-term viability.[68]

157. Several middle-income developing countries, mainly more urbanized countries in Latin America, have introduced formal social security and insurance programmes which cover such contingencies as unemployment and employment injury benefits, old age pensions, medical care and disability, and widowhood needs. In some countries in Latin America, North Africa and South-East Asia, social security coverage has been extended to some agricultural workers and people engaged in the informal sector, such as domestic workers and some of the self-employed. Other countries have made voluntary coverage available,[69] but in most developing countries coverage remains low and does not extend to the working poor.

158. Where absolute poverty is pervasive and the average level of income is low, formal systems for social protection and income transfers are not available and will not be feasible in the near future. In these countries, credit and insurance markets are underdeveloped and the labour market is characterized by a high proportion of self-employment in an informal setting. Tax collection in these countries is difficult, and competing demands on budgetary funds—for capital outlays on infrastructure and for primary education and basic health care—exhaust available resources. Formal social security schemes require the regular collection of contributions, the timely recording of these collections, their safe and productive investment and the eventual payment of benefits in a timely manner, all at reasonable cost. Programme implementation requires a highly developed organization to collect, administer and disburse funds, a requirement which is beyond the financial, human and physical resource capacity of many developing countries, especially the poorest.[70]

159. Distribution of low-cost or free food rations, especially at times of natural disaster and in the aftermath of war and civil calamities is provided in almost every country. National efforts in this area are often assisted by the international community, including many non-governmental institutions, as well as donor Governments and international agencies.

The family and the community

160. The family is the principal informal source of security, and often the only means of averting stark deprivation. It is particularly important for supporting chil-

dren, the elderly and the disabled. For all people, the family is the prime source of support for the young. Young people seeking their first job depend more on parents than they do later in life,[71] but poor parents are unable to give their children the same opportunities as children from non-poor families. More than half of the elderly people in the world depend on the family to provide them with the necessary resources, and the family remains a major source of support for the disabled.[72]

161. In developing countries, support for people without families who are unable to work, for households without income earners and for individuals and households suffering from adverse events beyond their control tends to be based on community-level food security arrangements. Community-based efforts are also common where the local population shares a high-risk occupation, as, for example, in traditional fishing communities or drought-prone agricultural areas. In these kinds of situations, shared contacts among the local population and common risks across households often generate informal arrangements within the community for providing for the elderly and for poor families that have lost all adult income earners. Often these support systems are based on religious customs. Local provision can be effective in identifying the indigent and providing for households in immediate distress, but it can also break down at times of severe adversity. Moreover, family and local ties appear to be weakening, which may impair the ability of community-based mechanisms to cope with adversity. Formal efforts by the State can play an important role in aiding those most vulnerable to poverty and least able to overcome it, especially in the face of severe shocks which threaten households or entire communities at the margin of subsistence.

Public and private sector support for the most vulnerable

162. Formal efforts by the public sector may supplement and enhance long-standing informal efforts by families and the community to provide for those without a secure means of support. This is particularly important when communities are faced with natural disasters, civil strife and economic shocks. In dire emergencies, the international community, particularly non-governmental organizations, can and does provide a wide range of relief and emergency assistance, including food, emergency health care, technical assistance related to relief efforts and a variety of other resources and programmes (the term non-governmental organization (NGO) is applied to a variety of non-profit or voluntary organizations, ranging from international development organizations to religious groups to informal associations such as women's groups and sports teams).

163. Governments of very poor countries are less likely to be able to respond than Governments with greater resources at their disposal, and mainstream development organizations and international agencies have been criticized for failing to provide adequate relief for the vulnerable. For this reason, the international community has increasingly turned to NGOs, which are perceived as more flexible, participatory and responsive to the needs of the poor. Whatever their organization or scope, many NGOs share a dedication to poverty eradication and social development. They tend to work on a smaller scale and are closer and more sensitive to community values and environmental conditions than traditional national and international agencies. In the field, NGOs are often more resourceful and flexible, require less financial input than government agencies and involve more local people, both in identifying and resolving development problems and in implementing their programmes.

164. Much of the work of NGOs has focused on humanitarian emergencies, but attention has also been given to longer-term work in institutional development, education and other aspects of local capacity-building. NGOs have been particularly effective in projects promoting micro-enterprises, micro-credit schemes, support for small farmers and other rural production activities. Their role also encompasses extension services and natural resource management, especially programmes targeted at disadvantaged groups. Because of their relative independence, NGOs have been difficult to integrate into national strategies for poverty reduction and lack the leverage necessary to maintain their influence when other, more powerful competing interests are involved. Nonetheless, they remain an increasingly important instrument in efforts to reduce poverty.

6. *Participating in the world economy*

165. Increased participation in the world economy promotes faster economic growth and higher incomes as efficiency increases as a result of heightened competition, improved resource allocation based on more rational prices, access to cheaper sources of finance for capital accumulation, exposure to new ideas and access to more advanced technologies and products. The process of global integration spurs demand for labour-intensive exports from low-income countries with low wages and wide scope for productivity increases and enlarges the supply of consumer goods in the domestic markets of these countries. The resulting pressures to raise wages in the export sector and lower prices in consumer markets help to move the poor out of poverty by increasing the real purchasing power of their growing income. In low-income countries, policy reforms at the national level designed to expand labour-intensive exports, encourage direct investment and increase competition from imports can therefore make a major contribution both to economic growth and to poverty reduction. Specific actions in support of poverty reduction can also be taken by the international community when integrating poor countries into the global economy, such as improving market access for their exports, providing greater foreign investment in their labour-intensive industries and increasing development assistance for building the human, physical and institutional capacity required to compete in world markets.

166. While the international economy holds great potential benefits for poor countries and a promise of higher wages and real incomes for those who labour in poverty, the requirements of an increasingly integrated world economic system present great challenges for countries handicapped by shortages of physical and financial capital, limited trained manpower and few established channels of commerce and communication with the rest of the world. Moreover, modern international commerce requires great flexibility in the movement of labour and capital from activities of low return to those of high and

rising productivity and the rapid incorporation of technological advances and new methods of production. For developing countries—especially low-income and least developed countries—the already difficult problems of competing in international markets are compounded by tariffs, quotas and other barriers to the export of primary products and manufactured goods and by fundamental imbalances and structural rigidities in their domestic economies. These constraints on generating export revenues are reflected in a persistent import surplus, a growing burden of interest and amortization payments on external debt and an inability to establish stable patterns of trade with other countries.

Requirements for participating in world markets

167. The limited success least developed and disadvantaged countries have had in expanding their exports and containing their imports has brought into sharper focus four essential requirements for successful participation in world markets:

(i) *Closer integration of domestic and international markets requires structural adjustment by withdrawing labour and other resources from areas of low productivity and high underemployment and shifting them to activities and processes in which productivity and incomes are higher and the country has a comparative advantage.*

168. To respond to the potential demand for low-cost labour for producing manufactured exports, poor countries must adapt production to export requirements—something that is often difficult in developing countries because the relevant forces and policies are either too weak to expand and diversify exports or the domestic costs of adjustment are unacceptably high in terms of displacement and hardship imposed on an already poor population. Moreover, the domestic and external resources required to effect adjustment are often inadequate. The domestic economy of a poor country tends to be undiversified, with large agricultural and mining sectors. Consequently, low-income and least developed countries depend heavily on export earnings from the sale of a few primary products. Prices for primary products are subject to marked year-to-year fluctuations—and in the case of many of them, declining price trends—making primary products an unreliable source of foreign exchange and an inadequate basis for generating the resources necessary to undertake large-scale adjustment. The low skill level of workers and the technological backwardness of industry also make it difficult for these countries to break into the market for manufactured goods.

(ii) *In order to identify lines of production in which to specialize, the terms of exchange between the local currency and those of each trading partner must reflect relative costs of production in the two countries, and they must be sufficiently stable to foster confidence in international dealings but not so rigid as to preclude necessary adjustments in response to changes in patterns of commerce and the terms of trade.*

169. The limited extent of the market in many poor countries and the administrative nature of the price systems in many of them tend to divorce prevailing prices from costs or supply and demand conditions. Artificially low relative prices for farm output, for example, create a terms of trade imbalance between rural and urban areas and between agricultural and manufactured goods and affect the determination of comparative advantage on world markets. As a result of this divergence between costs and prices, prevailing prices cannot serve as adequate indicators of factor costs incurred in production or consumer wants satisfied in consumption. In countries in which relative prices in the domestic market do not reflect relative costs of producing exportables and importables, the exchange rate will fail to link the domestic economy efficiently with the rest of the world and cannot serve as a basis for decision-making for either domestic resource allocation or international trade. In low-income countries, distortions in domestic prices and an overvalued exchange rate are likely to lead to trade patterns that are inconsistent with their comparative advantage in low-cost labour-intensive exports.

170. Another factor adversely affecting the ability of developing countries to increase exports is the rate of inflation. In poor countries excessive internal demand on the limited resources available (especially from the government sector), an expansive monetary policy to accommodate high levels of public spending, price rigidities in domestic markets and price fluctuations in external markets all combine to promote domestic inflationary pressures. A country incurring price increases greater than the average of other countries will find its exports becoming less competitive and its domestic markets more accessible to imports through an increasingly overvalued exchange rate. While a country can discourage imports and encourage exports by adjusting its exchange rate downward, lowering the value of the currency is in itself inflationary; devaluation may seriously impair the ability of a small poor country to borrow on capital markets and finance existing debt. Persistent upward cost and price pressures and repeated devaluations in response to internal and external imbalances also destroy the confidence of producers and investors in the economic climate and the convertibility of the country's currency.

(iii) *National policies must give high priority to achieving domestic economic balance and balance-of-payments equilibrium by avoiding excessive domestic demand and promoting the supply of exportables.*

171. When a deficit in the balance-of-payments arises a country can seek to correct the imbalance by fiscal and monetary measures that affect the total level of domestic demand or by selective measures directed at external transactions (such as imposing import surcharges or quotas or restricting capital movement). To increase exports it can adopt measures to improve the country's productivity and resource mobility, especially measures directed at raising efficiency in its export-oriented industries, and it may use wage-price policies to affect both exports and imports. Countries with a balance-of-payments surplus have a special responsibility to maintain an adequate pace of economic expansion and a sufficiently open domestic market to help the balance-of-payments adjustment process of countries with a deficit.

172. Policy effectiveness can vary markedly from country to country. Many low-income developing countries are characterized by a weak administrative apparatus

and few policy instruments acting on a narrow economic base, which make policy support for balance-of-payments adjustment and other policy objectives ineffective. Tax systems, for example, are often unreliable as sources of government revenue and as a basis for instruments of policy, and government spending may be difficult to control for political reasons. Techniques for carrying out monetary policy are imperfect in all countries and, in any event, monetary policy tends to be ineffective in an economy in which a high proportion of transactions with the rest of the world are carried out with reference to the local currency. Finally, short-term supply-oriented measures designed to spur exports or restrict imports are normally not effective in a country in which only a limited range of trade activities are carried out. In these circumstances the balance-of-payments adjustment process tends to focus on restrictions on imports rather than promotion of exports, limiting the inflow of cheaper imported goods and minimizing the expansion of labour-intensive export.

(iv) *There must be sufficient liquidity to finance temporary external imbalances and adequate domestic saving and inflows of foreign capital to finance capital formation and investments in human capital leading to a faster rate of economic growth and higher standards of living.*

173. International specialization and exchange facilitate access to finance from other countries, which can help prevent short-term disruptions in the domestic supply of goods and services and provide long-term inflows of capital and technology. External capital is obtained by offering a future stream of a country's own products in payment, where the decision to borrow is based on the sacrifice of the domestic resources that would be required to produce the imported goods at home and instead pay principal and interest on loans and investments. When supplementary external resources are used efficiently, a country can gain time to redress potentially disruptive imbalances in its external accounts; long-term borrowing can augment a country's productive capacity at a higher rate than domestic saving would allow. In both situations the cost of the foreign resources is less than the disruptions avoided and the additional productive capacity created.

174. Most developing countries have financed short-term balance-of-payments deficits and the bulk of their development needs from their own domestic saving and reserves, although some countries emerged as major borrowers on international capital markets in the 1970s. In the 1970s and 1980s, many countries faced severe international shocks, including increases in oil prices and interest rates, which led to large government deficits, rising inflation, overvalued exchange rates and pervasive governmental controls on the domestic economy and international payments. Combined with domestic policy failures these difficulties placed a number of developing countries, especially Latin American and African countries, under severe balance-of-payments pressures, and they were unable to make regular payments to service their accumulated external debts. In response to the deteriorating situation, stabilization and adjustment measures were introduced. Real wages fell significantly, social services were curtailed in many countries and income inequality increased. The adjustment process severely affected workers in the public and parastatal sectors, privatized firms and import-competing enterprises. The majority of the absolute poor in these countries were affected by cutbacks in social expenditures for primary education and health care.

175. Deregulation and liberalization policies introduced at this time—often as part of structural adjustment programmes supported by the World Bank and the International Monetary Fund—were intended to liberalize their trade and investment regimes, strengthen their export capacity and adapt their domestic economic structures to world market conditions. While substantial progress has been made towards liberalization in developing countries over the past decade and a half—especially in trade reform and the inflow of foreign direct investment—and faster economic growth has been registered in Latin America and the Caribbean, many least developed and other disadvantaged countries have failed to recover from the depressed conditions of the 1980s, largely because of constraints on the implementation of liberalization policies and the limited responsiveness of the economy to them. Because of their positive effects on trade and investment, liberalization policies have been seen as offering the best prospects for economic growth and poverty reduction in developing countries. There is, however, widespread concern about potential adverse effects on the poor in some developing countries, especially those in sub-Saharan Africa, where poverty is most entrenched.

Integrating poor countries into the world economy

176. Participation in the world economy has the potential of being of greatest benefit to the absolute poor in least developed and other disadvantaged countries. By redirecting their production and offering low-cost, labour- intensive products in payment, these countries can acquire imports with less sacrifice of their limited domestic resources than would be required to produce the same goods at home; and at the same time they can boost the incomes of the working poor. This redirection of production requires large-scale reorientation of their domestic economies, stable exchange rates that translate exporters' selling prices into importers' currencies at relative factor costs, domestic policies that encourage macroeconomic balance, foreign investment and exports, and sufficient finance and capital inflows to promote a high and stable rate of economic growth. Achieving the required restructuring of economic activity and reorientation of policy is much more difficult for the poorest countries than for other developing countries.

177. For poor countries, domestic liberalization demands implementation of a sound macroeconomic policy framework, with small deficits in their budgets and balance-of-payments; establishment of realistic prices, interest rates and exchange rates in a commercial setting that encourages efficiency, productivity and international competitiveness; a shift in economic structure towards a more deregulated and market-oriented system, with a small but efficient public sector and a more vigorous private economy; and a significant opening of the economy to the rest of the world, through both a lowering of foreign import barriers and an increase in foreign investment. Steps taken towards achieving a rapid expansion of output and employment in labour-intensive industries geared

to exports must be seen as central to reducing poverty, since without structural change and increased investment continued stagnation will increase inequality and result in even larger numbers of people living in absolute poverty. Similarly, efforts to improve efficiency and competitiveness will be handicapped by shortages of trained manpower and a workforce hampered by poor health. For this reason, economic reform must be accompanied by higher social expenditures directed at both improving the human capital of the labour force and the social development of all groups, particularly children.

178. Given the magnitude of the task facing poor countries, it is clear that this transition cannot be accomplished without the support of the international community. Although policy priorities, institutional changes and implementation of programmes directed at reorienting the domestic economy remain the responsibility of national Governments, balance-of-payments constraints and insufficient domestic saving limit this transformation. Least developed and other low-income countries will require substantially more capital than they can accumulate from domestic savings or raise externally on commercial terms in the foreseeable future. Additional support for empowering the poor through social development expenditures is also necessary. The restructuring of the economies of the developing countries and their successful integration into world markets will thus depend on an enabling international environment.

Contribution of the international community

179. Improved access by poor countries to foreign markets, increased use of external financing of cyclical short-term balance-of-payments fluctuations and higher levels of foreign investment and concessional assistance are critical for poor countries. Debt servicing continues to require a high level of resources in many developing countries. Efforts will be needed to reduce the constraint of debt burdens on the balance of payments. Demand for and prices of goods exported by many poor countries remain low, and their access to markets for labour-intensive products in which they have a comparative advantage continues to be constrained by trade barriers. Relaxation of farm trade policies and non-tariff trade barriers on agricultural exports to the developed market economy countries would represent a modest step towards meeting the foreign exchange needs of the countries that export these commodities. A shift in public and private international investment flows towards poor countries is required to support their efforts to expand and restructure their economies. Private foreign investment has proved to be a particularly effective mechanism for the transfer of capital and the associated technical and managerial skills. Such investment has been made in only a small number of countries, however.

180. Both increased development assistance and greater national commitment are essential for the full and effective implementation of strategies to eradicate poverty from the globe. Experience has demonstrated both the value of foreign assistance in promoting development and the need to ensure that it is effectively utilized. Concessional finance and technical assistance from both public and private sources have been important in accelerating development in many developing countries, but they have been unevenly distributed across countries and have not focused narrowly enough on the problem of poverty reduction in the poorest countries. Multilateral lending agencies—the World Bank family and the regional development banks—have given greater priority to poverty reduction in their operations, and poverty reduction is now seen as an important element in the design of adjustment programmes of the International Monetary Fund. Indeed, the World Bank has played an important role in protecting social expenditures by increasing its volume of lending for primary education and health care in recent years and by making protection of those sectors a requirement in its lending for structural adjustment. Assistance channelled through other international agencies has also been redirected to emphasize the importance of poverty reduction. A substantial increase in the total volume of international aid will be required, however, to support a reorientation of policies and programmes in the poorest countries.

181. At the same time recipient countries must use these resources more effectively in the fight against poverty. Many donor countries have insisted that increased assistance be conditional upon both a change in priorities towards poverty reduction and more efficient use of available technical and financial resources, including those associated with social development and environmental protection.

NOTES

[1]These conferences include the World Summit for Children (New York, 1990), the World Conference on Education for All (Jomtien, Thailand, 1990), the International Conference on Nutrition (Rome, 1992), the World Conference on Human Rights (Vienna, 1993), the International Conference on Population and Development (Cairo, 1994), the World Summit for Social Development (Copenhagen, 1995), the Fourth World Conference on Women (Beijing, 1995) and the United Nations Conference on Human Settlements (Habitat II) (Istanbul, 1996).

[2]In this regard, as noted in the *Report on the World Social Situation 1993* (United Nations publication, Sales No. E.93.IV.2) and further substantiated below, there has been an increasing tendency towards inequality in incomes and living standards both nationally and internationally.

[3]There is a vast body of literature dealing with poverty concepts and measurements. See, *inter alia*, M. Ravallion, *Poverty Comparisons—A Guide to Concepts and Methods*, Working Paper No. 88 (Washington, D.C., World Bank, 1992); S. Carvalho and H. White, *Indicators for Monitoring Poverty Reduction*, Discussion Paper No. 254 (Washington, D.C., World Bank, 1996).

[4]The most widely known composite index is the Human Development Index formulated by the United Nations Development Programme (UNDP) in its annual *Human Development Report*. This index combines indicators of life expectancy, educational attainment and income. Several variants of the basic index have been prepared by UNDP to take into account such disparities as gender inequalities and income distribution. For a detailed discussion, see UNDP, *Human Development Report* 1994 (chap. 5) and 1995 (New York and Oxford, Oxford University Press, 1994 and 1995). As in constructing any composite index, there is no generally accepted method of determining the weights to be used when combining the different components into a single index. For this reason, ranking may vary according to the particular weights chosen.

[5]The international comparisons of consumption and gross domestic product presented below are based on purchasing power parity conversion factors compiled as part of the International Comparison Programme (ICP) coordinated by the Statistics Division of the United Nations. The most recent phase of ICP, which was for 1985, covered a set of only 64 countries (see *World Comparisons of Real Gross Domestic Product and Purchasing Power, 1985: Phase V* of the

International Comparison Programme (United Nations publication, Sales No. E.94.XVII.7)). Information from ICP studies have been used to prepare a more comprehensive set of estimates as part of the "Penn World Table" issued by the University of Pennsylvania. A revised version of the "Penn World Table" (PWT Mark 5.6) was used for countries that had not participated in ICP (see R. Summers and A. Heston, "The Penn World Table (Mark 5): an expanded set of international comparisons, 1950-1988", *Quarterly Journal of Economics*, vol. 106, No. 2 (May 1991), pp. 327-368, for a description of procedures used to extend the original data set).

[6]Alternative methods and problems and bias involved in estimating the incidence of poverty are discussed in H.-J. Brinkman, "Why estimates of the incidence of poverty differ", Department of International Economic and Social Affairs (DESIPA) Working Paper Series No. 14 (October 1990).

[7]It should be noted that the choice of welfare indicator when estimating the number of poor can make a substantial difference. As mentioned above, the focus of this section is on the income dimension of poverty, and the estimates prepared by the World Bank use an income criterion as a basis for estimating the number in poverty. Other potential indicators are household food expenditure per capita, household caloric intake per capita and the share of food in household expenditure. For a brief discussion of the implications of different welfare indicators for assessing economic behaviour and characteristics of the poor and for counting the number of poor, see S. Anand and C. J. Harris, "Choosing a welfare indicator", *American Economic Review* (May 1994).

[8]See M. Ravallion, G. Datt and D. van de Walle, "Quantifying absolute poverty in the developing world", *Review of Income and Wealth* (December 1991).

[9]The estimates discussed here revise and update those in *Implementing the World Bank's Strategy to Reduce Poverty* (Washington, D.C., World Bank, 1993). There are a number of differences between these figures and previous estimates, including those in *World Development Report 1990* (Washington, D.C., World Bank, 1990) because of (*a*) an increase in coverage as new household survey data became available; (*b*) a change in methodology, which avoids many of the extrapolations used in earlier estimates; and (*c*) a switch to new purchasing power parity (PPP) indices. Significant changes in the estimates occurred because of a revision to the PPP index for China, which substantially raised the estimates of absolute poverty there. Revisions to the PPP index for India and other countries lowered the poverty rate in South Asia, North Africa and West Asia. Estimates for Latin America and sub-Saharan Africa were affected only slightly by the revisions to the PPPs.

[10]Two differences between the PPP estimates presented in the previous section and those presented here should be highlighted. In the discussion above of world growth and global poverty, economic growth and levels of output per capita were estimated in terms of GDP measured in constant 1990 prices and PPP exchange rates. In preparing its estimates of the population living below I$1 per day, the World Bank focused on consumption measured in constant 1985 prices and PPP exchange rates. The use by the World Bank of the same level of real consumption rather than GDP to define the poverty line focuses on the actual level of goods and services available to the poor; the use of GDP focuses on the total amount of resources available for both consumption and capital formation. The use of a different base year for the constant price data is unlikely to have a significant effect on estimates of rates of growth, the classification of countries by level of per capita product or the number of poor or incidence of poverty in a region.

[11]Details on the data and methodology used in preparing the World Bank's estimates of the number and percentage of the population in poverty are given in Martin Ravallion and Shaohua Chen, *What Can New Survey Data Tell Us About Recent Changes in Living Standards in Developing and Transitional Economies?* (Washington, D.C., World Bank, Policy Research Department, 1996) and *Poverty Reduction and the World Bank* (Washington, D.C., World Bank, 1996).

[12]One reason may be that income distribution became more uneven in China after the economic reforms of 1978 and 1985. For further information on income distribution trends in China, see *Report on the World Social Situation 1993* (United Nations publication, Sales No. E.93.IV.2), p. 90.

[13]See Michael Ignatieff, "On civil society", a review of Ernest Gellner, *Conditions of Liberty: Civil Society and its Rivals, Foreign Affairs*, vol. 74, No. 2 (March/April 1995), pp. 128-136. The seminal work is *Essay on the History of Civil Society* (1767) by Adam Ferguson, Professor of Moral Philosophy at the University of Edinburgh.

[14]As the Communist Manifesto expressed it, "The modern labourer, on the contrary, instead of rising with processes of industry, sinks deeper and deeper below the conditions of existence of his own class. He becomes a pauper, and pauperism develops more rapidly than population and wealth. And here it becomes evident that the bourgeoisie is unfit any longer to be the ruling class in society, and to impose its conditions of existence upon society as an overriding law".

[15]The Gini coefficients oscillated between 20 per cent for Czechoslovakia and 26 per cent for the Soviet Union; the interdecile ratio varied between 2.4 and 3.6, values even lower than those prevailing in the Western developed market economies other than Scandinavian countries. For a detailed discussion of this issue, see *Report on the World Social Situation 1993* (United Nations publication, Sales No. E.93.IV.2), p. 95; Giovanni Andrea Cornia, *Income Distribution, Poverty and Welfare in Transitional Economies: A Comparison Between Eastern Europe and China*, Innocenti Occasional Papers No. 44 (Florence, Italy, UNICEF, International Child Development Centre, 1994); and Branco Milanovic, *Income, Inequality and Poverty During the Transition*, World Bank Research Paper Series No. 11 (Washington, D.C., World Bank, 1996), p. 22.

[16]See *World Economic and Social Survey 1996* (United Nations publication, Sales No. E.96.II.C.1), table VI.2, p. 112.

[17]In the 1980s, poverty in Poland increased from less than 10 per cent to almost 23 per cent; in Yugoslavia, it rose from 17 per cent to 25 per cent. In Hungary it remained about 15 per cent. See Sándor Sipos, *Poverty Measurement in Central and Eastern Europe Before the Transition to the Market Economy*, Innocenti Occasional Papers No. 29 (Florence, Italy, UNICEF, International Child Development Centre, 1992), p. 4.

[18]The 1989 level, which Poland attained in 1996, was about equal to the 1975 level.

[19]There is no agreement on how to estimate the contribution of the shadow economy to annual GDP in the transition economies and various estimates abound. In Hungary, Ékes estimates the size of the shadow economy at 15 per cent in 1992; Árvay and Vértes have come up with a figure of 17 per cent in 1993. Milanovi estimates the size of the shadow economy at 10 per cent in the Czech Republic and about 20 per cent in the Russian Federation in 1994. See I. Ékes, *Rejtett gazdaság. Láthatattan jövedelmek tegnap és ma* (The hidden economy: invisible incomes yesterday and today) (Budapest, 1993); János Árvay and András Vértes, *The Share of the Private Sector and the Hidden Economy in Hungary* (Budapest, Gazdaságkutató Intézet, 1994); and Branco Milanovic, *Income, Inequality and Poverty During the Transition*, World Bank Research Paper Series No. 11 (Washington, D.C., World Bank, 1996), p. 22.

[20]In early 1994, 30.7 per cent of the population in the Russian Federation lived below the subsistence level of 63,945 rubles. By region, 43.7 per cent of the population in Eastern Siberia, 22.1 per cent in the central region, 28.5 per cent in Western Siberia, and 37.9 per cent in the Far Eastern region lived below the regional subsistence level (*Ekonomicheskie novisti Rossii i Sodruzhestva*, No. 13 (July 1994), p. 8).

[21]OECD Economic Surveys, *The Russian Federation 1995* (Paris, 1995), p. 9.

[22]In Poland, for example, each 10 per cent increase in the poverty line adds about 2.5 million people to the ranks of the poor. See World Bank, *Understanding Poverty in Poland* (Washington, D.C., 1995), p. xiii.

[23]See Martin Ravallion and Shaohua Chen, *What Can New Survey Data Tell Us About Recent Changes in Living Standards in Developing and Transition Economies?* (Washington, D.C., World Bank, Policy Research Department, 1996), p. 22.

[24]Although poverty among pensioners in the Russian Federation increased from 21 per cent in December 1994 to 34 per cent in October 1995, it remains below the national average. See UNICEF, International Child Development Centre, *Poverty, Children and Policy: Responses for a Brighter Future*, Economies in Transition Studies, Regional Monitoring Report No. 3, (Florence, Italy, 1995), p. 16.

[25]About 70 per cent of Poland's estimated 7.5 million poor reside in cities (see Carol Graham, *Safety Nets, Politics and the Poor* (Washington, D.C., The Brookings Institution, 1994), p. 219). Using

the minimum pension as the poverty line, the World Bank comes up with a lower estimate of the number of people living in poverty (5.5 million), but confirms that 70 per cent of that population reside in urban areas (see *Understanding Poverty in Poland* (Washington, D.C., 1995), p. xiii).

[26]In Siberia 80 per cent of the income of the average worker in the scientific sector (education and research) is now spent on food (see N. Tchernina, *Economic Transition and Social Exclusion in Russia*, International Institute for Labour Studies and United Nations Development Programme Research Series No. 108 (1996), p. 48).

[27]Branco Milanovic, *Income, Inequality and Poverty During the Transition*, World Bank Research Paper Series No. 11 (Washington, D.C., World Bank, 1996), p. 134.

[28]See UNICEF, International Child Development Centre, *Poverty, Children and Policy: Responses for a Brighter Future*, Economies in Transition Studies, Regional Monitoring Report No. 3 (Florence, Italy, 1995), p. 10.

[29]Rudolf Andorka and Zsolt Spéder, "Szegénység alakulása 1992 és 1994 között a 90-es évek elején" (Development of poverty between 1992 and 1994 at the beginning of the 1990s), in I. Gy. Tóth, ed., *Társadalmi átalakulás 1992-1994: jelentés a magyar háztartás panel III. hullámának eredményeiröl* (Social transformation: report on the results of the third wave of the Hungarian household panel) (Budapest, Aula, 1994).

[30]M. Mozhina, "The poor: what is the boundary line?", *Problems of Economic Transition*, vol. 35, No. 6, pp. 70-75.

[31]In 1913, per capita income in Russia was about 12 per cent, per capita income in Spain was 20 per cent and per capita income in Italy was 25 per cent that of the United States (see P. Gregory, *Russian National Income 1885-1913* (Cambridge, United Kingdom, Cambridge University Press, 1982), pp. 155-157, and *World Development Report 1996* (Washington, D.C., World Bank, 1996)). By 1991, according to World Bank statistics, per capita income had risen to 14 per cent of United States income in the Russian Federation, 56 per cent of United States income in Spain and 83 per cent of United States income in Italy.

[32]Such figures are subject to wide margins of error, and extreme caution should be used in making cross-country comparisons. The deficiencies of GDP as an indicator of economic activity and economic well-being and methods used to compare different output mixes in different countries should be noted when assessing economic performance as indicated by average rates of economic growth for different groups of countries. GDP encompasses mainly the production of marketed goods and services; aggregate figures for the GDP and overall averages, such as GDP per capita, provide no information about the distribution of income or the economic benefits different segments of society may gain from economic growth. International comparisons, even those based on purchasing power parity, provide only a proximate measure of the economic distance between countries.

[33]See *Report of the World Summit for Social Development, Copenhagen, 6-12 March 1995* (United Nations publication, Sales No. E.96.IV.8).

[34]In March 1995, UNDP launched a Poverty Strategies Initiative designed to support countries' follow-up to and implementation of Social Summit commitments on poverty reduction. This effort provides help in formulating and strengthening policies that address the structural causes of poverty and inequalities among various population groups.

[35]World Bank, *World Development Report 1990* (New York and Oxford: Oxford University Press, 1990), Food and Agriculture Organization of the United Nations, *Employment Wages and the Rural Poor* (Rome, 1991), and Michael Bruno, Martin Ravallion and Lyn Squire, *Equity and Growth in Developing Countries*, World Bank Policy Research Working Paper (Washington, D.C., World Bank, January 1996). See an earlier study, by A. Saith, "Production, prices and poverty in rural India", *Journal of Development Studies* (1981), pp. 196-214, for a counter point of view.

[36]Michael Lipton and Martin Ravallion, "Poverty and policy", *Handbook of Development Economics*, vol. IIIB, J. Behrman and T. N. Srinivasen, eds. (Amsterdam, Netherlands. Elsevier Science Publishers, 1995), chap. 41, p. 2603.

[37] Michael Bruno, "Development issues in a changing world: new lessons, old debates, open questions", keynote address, in *Proceedings of the World Bank Annual Conference on Dveelopment Economics* (Washington, D.C., World Bank, 1994).

[38]L. Demery, B. Sen and T. Vishwanath, *Poverty, Inequality and Growth*, Discussion Paper 70, World Bank, Education and Social Policy Department, June 1995).

[39]Klaus Deininger and Lyn Squire, *Measuring Income Inequality: A New Data-base* (Washington, D.C., World Bank, Policy Research Department, 1995) and Ravallion and Chen, op. cit. (1996).

[40]Demery, Sen and Vishwanath, op. cit. (1995).

[41]Ravallion and Chen, loc. cit. (1996).

[42]Private consumption as measured in the study excluded consumption out of common property and the value of public services provided to the poor. For results of the regression exercise, see Michael Lipton, *Successes in Anti-poverty*, Issues in Development, Discussion Paper No. 8 (Geneva, International Labour Office, Development and Technical Cooperation Department, 1996), p. 11.

[43]Ibid., p. 16.

[44]Except as otherwise indicated, this section is based mainly on Lipton and Ravallion, loc. cit. (1995), pp. 2586-2589, and Lipton, op. cit. (1996), pp. 69-70.

[45]See I. Jazairy, M. Alamgir and T. Panuccio, *The State of World Rural Poverty: An Inquiry into its Causes and Consequences* (New York, New York University Press, 1992).

[46]Mayra Buvinic, "The feminization of poverty? Research and policy needs", in José B. Figueiredo and Zafar Shaheed, *Reducing Poverty Through Labour Market Policies* (Geneva, International Labour Office, 1995), pp. 133-154.

[47]As an example of the economic impact of cultural discrimination against women, credit programmes often exclude women because they cannot provide collateral in the form of secure property rights to land.

[48]M. A. Fakhro, "Poverty in the Arab World", in UNDP, *Preventing and Eradicating Poverty: Report on the Experts' Meeting on Poverty Alleviation and Sustainable Livelihoods in the Arab States* (1996).

[49]Some of the linkages among education, productivity and economic growth have been surveyed by T. P. Schultz in *Handbook of Economic Development*, vol. I (Amsterdam, Netherlands. Elsevier Science Publishers, 1988), chap. 13. See also *Global Outlook 2000* (United Nations publication, Sales No. E.90.II.C.3).

[50]Jamison and Lau (1982), as cited in Lipton, op. cit. (1996), pp. 69-70.

[51]See *World Development Report 1990* . . . and Schultz, op. cit. (1988), among others, for a summary of the available evidence on education and growth.

[52]See Lipton, op. cit. (1996), p. 70, for a discussion of evidence of good returns to education and cost-effective poverty reduction through education.

[53]This section is based mainly on Lipton and Ravallion, loc. cit. (1995), pp. 2599-2602.

[54]The following rural-to-urban poverty incidence ratios were calculated by Lipton and Ravallion, loc. cit. (1995), p. 2599, based on data reported in *World Development Report 1990*, p. 31: Kenya 6.0; Côte d'Ivoire 4.6; Ghana 2.2; Indonesia 3.7; Malaysia 2.5; Thailand 1.7; Philippines 1.4; Panama, Peru and Venezuela 1.4 each; Guatemala and Mexico each 1.3; India 1.1. Even in India, the vast majority of the poor are rural, because most of the population as a whole still live in rural areas.

[55]This section is based mainly on Lipton, op. cit. (1996), pp. 73-75, and Lipton and Ravallion, loc. cit. (1995), pp. 2600-2601.

[56]See also *Housing and Economic Adjustment* (United Nations publication, Sales No. E.88.IV.1).

57See, for example, FAO, The S*tate of Food and Agriculture 1995* (Rome, 1995), pp. 65-69; FAO, "Food security and nutrition", World Food Summit, Technical Paper No. 9, provisional version (Rome, June 1996), pp. 24-26 and 30; Michael Lipton and Martin Ravallion, "Poverty and policy"; in J. Behrman and T. N. Srinivasan, eds., *Handbook of Development Economics*, vol. 3B (Amsterdam, Netherlands. North-Holland, 1995), pp. 2551-2657; Per Pinstrup-Andersen, "Targeted nutrition intervention", *Food and Nutrition Bulletin*, vol. 13, No. 3 (September 1991), pp. 161-169; and Joachim von Braun, ed., *Employment for Poverty Reduction and Food Security* (Washington, D.C., International Food Policy Research Institute, 1995).

[58]For an analysis of famine and its prevention, see *World Economic*

Survey 1993 (United Nations publication, Sales No. E.93.II.C.1), chap. VI. The classic reference on the analysis of famines is Amartya Sen, *Poverty and Famines: An Essay on Entitlement and Deprivation* (Oxford, Clarendon Press, 1981).

[59]This section is based mainly on the discussion in Michael Lipton, *Successes in Anti-poverty,* Issues in Development, Discussion Paper No. 8 (Geneva, International Labour Office, Development and Technical Cooperation Department, 1996), pp. 25-42.

[60]D. Vittas and Y. J. Cho, *Credit Policies: Lessons from East Asia,* Policy Research Working Paper 1458 (Washington, D.C., World Bank, 1995).

[61]Lipton, op. cit. (1996), pp. 63-64.

[62]Ibid., pp. 63-65.

[63]This discussion of public works is adapted from Lipton, op. cit. (1996), pp. 43-47.

[64]There is potential for corruption and arbitrariness in public infrastructure programmes. Favouritism, discrimination and corruption may enter into the selection of public works crews, especially when an intermediate labour contractor has control in the local labour market.

[65]M. Ravallion, "Employment guarantee schemes: Are they a good idea?", in *Indian Economic Journal,* 1991, as cited in Lipton, op. cit. (1996), p. 45.

[66]Current issues in social security policies, many of which are relevant to the question of safety nets, were recently reviewed in chapter 15 of *World Economic and Social Survey 1995* (United Nations publication, Sales No. E.95.II.C.1). The present discussion is therefore only a brief summary of several issues particularly relevant for the reduction of poverty.

[67]The 1993 System of National Accounts distinguishes between social assistance and social insurance, based on the source of the funds. "Social assistance benefits" refer to transfers made by Governments to households, outside of any social insurance scheme. Social security benefits, in contrast, are social insurance benefits paid to households out of social security funds. See *System of National Accounts 1993* (United Nations publication, Sales No. E.94.XVII.4), chap. VIII, sects. D, E and F.

[68]The safety net role of social security was reviewed in *Report on the World Social Situation 1993 . . .* , chap. XI. It was concluded that in developing countries social security is provided largely by families and voluntary agencies and that government services tend to benefit those in the higher income brackets. Current issues in social security policy are discussed in *World Economic and Social Survey 1995 . . . ,* chap. XV.

[69]Malaysia has voluntary schemes for domestic workers and the self-employed; Tunisia has schemes against work injuries for the self-employed; the Republic of Korea has schemes for employees of firms with fewer than five workers and for the self-employed (including farmers and fishermen). In Mexico all persons not covered by old age, disability and death benefit programmes sponsored by the Government are allowed to affiliate themselves on a voluntary basis. See United States, Social Security Administration, *Social Security Programs Throughout the World 1993* (Gopher version) (Washington, D.C., 1993).

[70]For a discussion of the limitations of the formal model of social security for many developing countries, see S. Guhan, "Social security options for developing countries", in *Reducing Poverty Through Labour Market Policies,* José B. Figueiredo and Zafar Shaheed, eds., International Institute for Labour Studies, New Approaches to Poverty Analysis and Policy, vol. II (Geneva, International Labour Office, 1995), pp. 91-92.

[71]See M. Bligh and M. Weethalle, *The Causes of Graduate Unemployment in India* (London, Penguin Press, 1969).

[72]For an extensive discussion of the issue of providing support for the ageing, see World Bank, *Averting the Old Age Crisis* (New York and Oxford, Oxford University Press, 1994).