

Chapter 4: Prospects for Growth and Alleviation of Poverty

The deep uncertainty about how the policy issues discussed in the last chapter will be resolved makes it risky to project economic growth. Nonetheless, a framework is necessary to lend perspective to the discussion of development issues and to the scope of actions required. It is for this purpose, rather than as a forecast of the future, that the projections in this chapter are presented.

Progress in the developing countries will require a combination of three elements: maintaining high rates of growth in incomes; modifying the pattern of growth so as to raise the productivity and incomes of the poorer sections of the population; and improving the access of the poor to essential public services.

Rapid economic growth is essential not only to keep pace with growth in population and provide productive employment for the growing labor force, but to generate increased savings for investment. Raising the rate of economic growth is a central element in the continuing process of modernization, strengthening institutions, spreading education, and increasing management and technical skills. It provides the resources necessary to improve living standards and extend public services.

But, in most countries, the poor are apt to be bypassed by growth: many of them have only weak links to the organized market economy; they own fewer productive assets; they are often less educated and frequently in poor health; and with lower incomes they have less ability to save and invest. Furthermore, rates of population increase are often higher among the poor, so that the productive assets they own must be more thinly spread. Modifications in the pattern of growth to increase the productivity of the poor must thus be central to an effective attack on poverty. These modifications have two essential aspects. The first is to raise the productivity of those who have some access to productive assets such as land, even if only as tenants. The second is to increase employment opportunities in both urban and rural areas, particularly by encouraging more labor-intensive patterns of production. The relative importance of these two approaches will vary in different countries. In general, however, it should be recognized that the employment problem in developing countries is not long-term joblessness as convention-

ally understood, but absence of productive earning opportunities, so that long hours of hard work yield only small incomes. Hence, the solution lies not only in accelerating the growth of employment in modern industry but also in raising the productivity of those in small enterprises.

The poor suffer not only from low incomes but also from inadequate access to public services essential to their health and productivity. As many of these services, such as sanitation and water supply, cannot be privately purchased, an expanded public program for wider distribution of services must be an important element of strategies to alleviate poverty.

The prospects for economic growth are the subject of the next section of this chapter. A global quantitative model has been used to project the growth of various groups of countries, on the basis of assumptions about trade and capital flows which are consistent with the assessment of international economic conditions in Chapter 3. Such an aggregative model is suitable for the analysis of only some of the important influences on growth, such as increases in investment and import capacity. Other important influences, such as the efficiency of resource use, institutional measures to stimulate agricultural productivity, and the interaction of demographic trends and growth potential, which can only be treated in qualitative terms in the context of specific economic settings, are discussed in the succeeding chapters on development problems and prospects in Low Income Asia, Sub-Saharan Africa, and the Middle Income countries.

Following the discussion of aggregate growth prospects is a projection of their implications for the alleviation of poverty, extrapolating from available experience of the relations between aggregate growth and the distribution of income. The last section of the chapter discusses the use of direct measures to alleviate malnutrition and improve the access of the poor to essential public services.

Growth Projections for the Medium Term

The projected rates of income growth are compared in Table 23 with those achieved in the past. The aggregate growth rate for all developing countries is projected to remain about the

same as in recent years; growth in the Low Income countries is projected to accelerate.

23. Growth of Gross Domestic Product, 1960-85
(Average annual percentage growth rates,
at 1975 prices)

	1960-70	1970-75	1975-85
Low Income Asia	2.4	3.9	5.1
Low Income Africa	4.3	2.8	4.1
Middle Income	6.3	6.4	5.9
All Developing Countries	5.5	5.9	5.7
Industrialized Countries	4.9	2.8	4.2
Centrally Planned Economies	6.8	6.4	5.1

The projected acceleration in the economic growth of the Low Income countries hinges on the assumption that their agricultural performance can be improved substantially. The prospects for such an acceleration and its implications for policy are discussed in the next two chapters, on Low Income Asia and Sub-Saharan Africa. The uncertain outlook for trade and capital flows poses severe problems for the Middle Income countries, and is projected to have an adverse influence on their growth. Some of the major Middle Income countries face large debt service obligations arising from the rapid increases in external borrowing in recent years. For them, it is vital to preserve a stable climate

mobilize domestic resources, including the reform of taxation systems, introduction of more realistic prices for public-sector products and services, restraint in government consumption expenditures, and increased incentives for private savings. Increases in the investment levels of the Low Income countries will depend on their success in raising domestic savings since the contribution of net foreign resource inflows is expected to decline from the exceptionally high levels of recent years. The Middle Income countries are expected to maintain their high rates of domestic savings. But with the need to limit external borrowing to keep their foreign debt within manageable limits, the contribution of net foreign resource inflows will decline, and consequently their investment is projected to rise more slowly than their income.

Exports

The exports of developing countries are projected to grow as shown in Table 25. Exports are the principal determinant of a country's foreign exchange availability, since they affect both its direct earnings on trade account and its access to the international capital markets. The growth prospects of the Middle Income countries, which rely heavily on capital from these markets, will therefore depend on expanding exports, mainly those of manufactures. Export earnings below the projected levels would complicate the effective management of their debt and adversely affect their creditworthiness.

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24. Developing Countries: Investment and Savings Rates, 1975 and 1985
(Percentages of gross domestic product, at 1975 prices)

	Gross Domestic Investment		Gross Domestic Savings		Net Foreign Resource Inflows	
	1975	1985	1975	1985	1975	1985
Low Income Asia	19.2	22.5	16.7	20.5	2.5	2.0
Low Income Africa	18.4	19.1	8.4	11.4	10.0	7.7
Middle Income	26.4	24.4	22.1	21.8	4.3	2.6
All Developing Countries	25.2	24.1	21.0	21.5	4.2	2.6

for commercial capital flows to avert severe balance of payments problems and a sharp decline in their economic growth. The main issues involved in the Middle Income countries' reassessment of development strategies in response to the uncertain international environment are discussed in Chapter 7.

Savings and Investment

To achieve the projected rates of growth it will be essential to sustain high domestic savings rates. Particularly in the Low Income countries, which will need to raise their savings rates substantially, this will require major efforts to

Reduced investments and slower growth would follow.

For the purposes of these growth projections, the price of oil is projected to remain at its present level in real terms. Though a large expansion of energy production capacity is planned in countries that are not at present large-scale exporters of oil, most of their incremental production will be for domestic use. As shown in Table 25, fuel exports from developing countries (which exclude the major capital surplus oil exporters) are expected to grow much more slowly than over the past fifteen years.

25. Developing Countries: Growth of Merchandise Exports, 1960-85
(Percentages, at 1975 prices)

	Average Annual Growth Rate		Share of Commodity Group in Exports	Share of Commodity Group in Increase of Exports	
	1960-75	1975-85	1975	1960-75	1975-85
	Food and Beverages	2.8	3.0	21	13
Non-food Agricultural Products	2.6	3.4	6	3	3
Non-fuel Minerals and Metals	4.8	5.8	7	6	6
Fuel and Energy	6.2	3.4	40	42	18
Manufactures	12.3	12.2	26	36	64
Total Merchandise	5.9	6.4	100	100	100

Exports of foodgrains from developing countries are also projected to grow more slowly than before, reflecting the rapid growth of domestic demand due to increases in population and incomes. Favorable market prospects for timber, rubber, and bauxite are projected to lead to an increase in developing countries' shares of world trade in primary commodities other than foodgrains.

Manufactured goods, which are projected to expand by about 12 percent a year, are expected to be the most vigorous element in the growth of developing countries' exports. While the share of developing countries in world merchandise trade remains about the same, their share in world exports of manufactures is projected to rise, from 9 percent to about 13 percent.

Manufactured exports has been so unpredictably dynamic in the past decade that projected magnitudes can only be regarded as illustrative. Nonetheless, it is useful to examine the potential for export growth in various categories of manufactured products and to identify some of the problems that must be surmounted in order to achieve this potential. The approach adopted is to make assumptions on the growth of textiles, clothing, chemicals, steel, and the miscellaneous category of "other" manufactures, and then consider the feasibility of achieving the growth that would be required in the category that has expanded most vigorously in the past: machinery and transport equipment.

Assuming that the present quantitative restrictions will be implemented fairly strictly

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26. Manufactured Exports of Developing Countries as a Share of Markets in Industrialized Countries, 1960-85
(Percentages)

	1960	1970	1975	1985	Share in Market Growth		
					1960-70	1970-75	1975-85
In Imports	5.9	5.8	8.9	13.6	5.8	18.6	17.5
In Consumption	0.4	0.7	1.2	2.7	1.0	7.1	5.4

The industrialized countries are projected to obtain a gradually rising share of their imports of manufactures from developing countries. Even so, these imports will continue to account for an extremely small share of their total consumption of manufactures. On the assumption that trade barriers remain roughly as they are now, manufactured exports from developing countries are projected to grow more slowly than between 1970 and 1975, and to supply a smaller share than before of the growth of consumption in the industrialized countries. They are expected to account for only 2.7 percent of the market in industrialized countries by 1985.

The growth and country composition of manu-

and extended up to 1985, an annual growth of 4 percent in the volume of clothing exports and of 3.5 percent in textiles is projected. It is also assumed that the quality of these products will be upgraded somewhat, raising the projected real annual growth to 5.5 percent in clothing and 4.5 percent in textiles. These growth rates are applied to the actual exports of 1976, which were about 30 percent higher than in 1975, to give the projected growth rates of clothing and textile exports for 1975-85 that are shown in Table 27. The growth of exports in these categories could be slightly higher if there is some flexibility in the application of the import quotas.

If exports of iron and steel, chemicals, and

27. Developing Countries: Growth of Manufactured Exports, 1970-85

(Average annual percentage growth rates, at 1975 prices)

	1970-75	1975-85
Clothing	20.3	8.3
Textiles	17.8	6.2
Chemicals	16.5	13.0
Iron and Steel	10.7	14.5
Machinery and Transport Equipment	20.3	17.3
Other	10.2	10.0
All Manufactures	14.9	12.2

“other” miscellaneous manufactures grow at the rates shown in Table 27, developing countries’ penetration of industrialized countries’ markets for these products will still be modest.¹ To achieve the projected aggregate growth of manufactured exports at 12.2 percent a year from 1975 to 1985, the required annual growth of machinery and transport equipment would have to be about 17 percent, compared with a rate of growth of 20 percent a year during 1970-75.

Over one-half of developing countries’ exports of machinery and transport equipment to industrialized countries consists of electronics—a category that has grown extraordinarily rapidly in recent years to a value of over US\$3 billion in 1975. These imports accounted for 14 percent of the total imports of electronics products and for about 4 percent of the total consumption in the industrialized countries. In specific categories, the penetration is much higher, especially in the United States. About half the radios and monochrome television sets purchased by United States consumers come from developing countries. Given that this market is practically saturated, further rapid growth in developing countries’ exports of these items depends on their ability to displace producers in industrialized countries, especially Japan, and to a lesser extent in Europe.

Exports of these and other electronics products, such as office equipment and calculators, and especially electronic components, are mostly organized by transnational firms. The prospects for exports thus depend largely on the decisions made by these firms on subcontracting, the economics of which is influenced by the tax laws of the industrialized countries.

¹It is impossible to make an informed estimate of future growth in “other” manufactured exports, a category that includes a wide variety of products including footwear, plywood, toys, watches and simple products made of metal and plastic.

Another structural factor of some importance could be the evolution of technology that affects the labor intensity of electronics assembly, and hence the cost advantage hitherto enjoyed by developing countries. Though these factors suggest caution in projecting high rates of growth for developing countries’ exports of electronics, the field is a rapidly growing one, where technology changes quickly and new products can readily emerge. Provided there are adequate links to ensure the transfer of technology and to keep marketing channels open—in both of which transnational firms will undoubtedly play an important part—continued rapid export growth is conceivable.

Developing countries’ exports of other engineering products are extremely heterogeneous, and a significant share, perhaps one-third, goes to other developing countries. In this category, developing countries supply a very small share of the market in industrialized countries: about 3 percent of imports and less than 1 percent of consumption. Except in shipbuilding, penetration rates in specific products are low and the potential market in industrialized countries is still large. The essential problems in expanding these exports are technological and organizational. The great diversity and complexity of technology in this area; the close links between the scale of manufacture, quality of product, and ability to market; the importance of modern management techniques, engineering design capabilities and, in some cases, the need to extend credit to importers are among the factors that make the expansion of machinery exports a slow and difficult task. Without a large industrial base, it is difficult to export machinery. Hence relatively few developing countries will have the opportunity to diversify into these areas in any sizable volume during the next decade.

On balance, the projected growth of manufactured exports seems feasible, but it will require great efforts by the developing countries to diversify commodities and markets. If they face an increase in protection, it will be extremely difficult for them to diversify enough to achieve this growth. Even small reductions in the quantitative restrictions on textiles and clothing, or small improvements in the way they are administered, can make a big difference to the export prospects of newly emerging exporters of manufactures. The more restrictive the international trade environment, the fewer the countries that will have the flexibility necessary to exploit the remaining opportunities for growth in exports of manufactures.

External Capital Flows

Despite the rather optimistic assumptions made about external trade, and despite the somewhat lower rates of economic growth projected for the Middle Income countries, the developing countries' requirements for external finance are projected to increase significantly. The estimated financing requirements are US\$276 billion at current prices (US\$141 billion at 1975 prices) in 1985, compared with US\$63 billion in 1975, as shown in Table 28.

More than half of the increased financing requirements from 1975 to 1985 represents the payment of interest and the amortization (i.e., repayment of principal) of external debt, the latter reflecting the growing share of medium-term private debt at maturities that are less than half as long as those of official loans. Another 15 percent of the increase is needed for the accumulation of international reserves in line with the growth of imports.

The bulk of the financing requirements will continue to be met by inflows of loans with maturities exceeding one year. Net disbursements of medium- and long-term loans and official grants are projected to grow at 4.6 percent a year in real terms, to US\$118 billion at current prices (US\$61 billion in 1975 prices) in 1985.

28. Developing Countries: External Financing Requirements, 1970-85 (Billion current US dollars)

	1970	1975	1985
Net Imports	8	44	103
(Imports of Goods and Non-factor Services)	(62)	(280)	(900)
Less: (Exports of Goods and Non-factor Services)	(55)	(236)	(797)
Interest on Medium- and Long-term Loans	3	8	37
Amortization	6	16	108
Increase in Reserves	-1	-5	28
Total to be Financed	17	63	276
Net Factor Income, excluding Interest on Medium- and Long-term Loans	-4	2	12
Transfers (net)	3	10	26
Direct Investment and Other (net)	3	2	30
Medium- and Long-term Loans (gross)	15	49	208
Sources of Finance	17	63	276

Note: Totals may not add due to rounding. The assumed annual rate of inflation between 1975 and 1985 is about 7 percent.

source for about three-quarters of their net medium- and long-term external capital, and

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29. Net Disbursements of Medium- and Long-term Capital to Developing Countries, 1970-85

	Billion Current US Dollars			Average Annual Real Growth Rate (percent)	
	1970	1975	1985	1970-75	1975-85
Official Grants	2.1	6.0	18.5	11.5	4.7
Concessional Loans	2.4	7.6	21.7	13.9	3.9
Bilateral ODA	2.2	6.3	17.4	11.7	3.5
Multilateral	0.2	1.3	4.3	32.0	5.4
Loans at Market Terms	6.0	25.1	78.2	20.0	4.8
Multilateral	0.5	2.3	9.4	23.5	7.6
Official Export Credits	0.8	1.0	1.2	-5.1	-5.0
Private	4.7	21.7	67.6	23.0	4.8
Total	10.5	38.8	118.4	17.4	4.6
Note: At 1975 prices	17.4	38.8	60.7		

Note: Totals may not add due to rounding. The data on official grants and concessional loans in this table are not comparable with those in Table 22. Table 22 shows disbursements by donor countries for all purposes; Table 29 shows receipts of medium- and long-term capital by developing countries. The principal differences are that Table 22 covers technical assistance and contributions to multilateral institutions, including paid-in capital. The latter is the basis for multilateral lending at market terms. The data on official grants and concessional loans in Table 29 do not include technical assistance; they are net of the outflow of official grants from developing countries; and they include the disbursements of concessional loans from multilateral institutions.

As shown in Table 29, the projected growth in each category of capital is much slower than what was achieved in 1970-75.

The projected slowdown in the growth of private lending is of enormous importance for the Middle Income countries, which rely on this

which absorb almost all the private lending to developing countries. As emphasized in Chapter 3, for these countries to manage their debt satisfactorily, the average maturities of their external borrowing must be lengthened. Extending the maturities of loans from banks,

improving access to the bond market, and raising the share of official loans, which are lent at market interest rates but with much longer maturities, can make an important contribution in this regard. The Low Income countries rely heavily on official grants and concessional loans, and the projections assume a moderate increase in their share of these categories of

countries would be only 18 percent of exports, rather than 22 percent, in 1985.

Alternative Scenarios

The scenario described above is based on a set of assumptions that can be varied in innumerable ways. Some of the assumptions pertain to the internal policies of the developing

30. Net Disbursements of Medium- and Long-term Capital to Developing Countries, by Type of Capital and Country Income Group, 1970-85
(Percentages)

	Low Income Countries			Middle Income Countries			All Developing Countries		
	1970	1975	1985	1970	1975	1985	1970	1975	1985
A. Distribution of Capital by Category									
Official Grants	38	28	39	13	12	11	20	16	16
Concessional Loans	42	39	52	17	14	11	23	19	18
Loans at Market Terms	15	29	8	71	74	78	57	64	66
Official	11	1	7	12	11	9	12	9	9
Private	4	28	1	59	63	68	45	56	57
Total	100	100	100	100	100	100	100	100	100
B. Distribution of Capital by Income Group ^a									
Official Grants	50	38	42	50	63	58	100	100	100
Concessional Loans	46	43	48	54	56	52	100	100	100
Loans at Market Terms	7	10	2	92	91	98	100	100	100
Official	23	3	13	69	100	87	100	100	100
Private	2	11	—	98	89	100	100	100	100
Total	25	21	17	74	79	83	100	100	100

Note: Totals may not add due to rounding.

— Negligible.

^aThe distribution of concessional capital by income group is highly sensitive to the criterion used in classifying countries into Low and Middle Income groups.

capital (see Table 30). To achieve the projected net disbursements, the gross flows of concessional loans to Low Income countries would need to grow by 5.2 percent a year in real terms during 1975-85 (or by 12.4 percent a year in nominal terms, to reach US\$12.3 billion in 1985).

On the assumptions about the size of the financing requirements of developing countries and the terms on which they are met, reflected in Tables 28-30, debt service obligations will rise in relation to both exports and GNP, especially for the Middle Income countries (see Table 31). The projected ratios are not unacceptably high, however, and should pose no general problem of debt management provided exports can grow at the projected rates. A modest lengthening of the maturities of private flows would result in considerably lower debt service ratios than projected. For example, if the average initial maturity of new disbursements of private loans were to rise from five to seven years, the debt service of the Middle Income

countries, and are discussed in subsequent chapters on the supposition that the external conditions are as outlined above. However, to emphasize the sensitivity of the projections for the developing countries to the assumptions made about external conditions, the implications

31. Developing Countries: Debt Service Ratios, 1970-85

	As Percentage of Exports of Goods and Non-factor Services			As Percentage of Gross National Product		
	1970	1975	1985	1970	1975	1985
Low Income Asia	16.8	12.6	12.6	1.0	1.3	1.4
Low Income Africa	4.8	6.7	9.6	1.2	1.5	2.5
Middle Income	15.6	11.8	22.0	2.4	2.7	4.8
All Developing Countries	15.2	11.8	21.0	2.1	2.4	4.3

Note: Debt service on public and publicly guaranteed medium- and long-term loans only.

of change in one major factor—growth in the industrialized countries—have been assessed.

32. Alternative Assumptions on Average Annual Growth Rates, 1975-85
(Percentages)

	Base Scenario	Low Growth Scenario	High Growth Scenario
GDP of Industrialized Countries	4.2	3.7	4.7
World Trade	6.4	5.7	7.4
Developing Countries' Exports	6.3	5.4	7.4

As shown above, in one alternative the industrialized countries are projected to grow at an annual rate of 3.7 percent instead of the 4.2 percent previously assumed. Despite the intentions and best efforts of their governments, such a result is not implausible, though it obviously is highly undesirable. Still lower growth rates are not considered here, not only because they are thought to be unlikely but also because they would be associated with structural changes in trade and other relations between countries that could not be captured in the present analytical framework. In the second alternative, higher average growth rates are postulated: 4.7 percent annually instead of 4.2 percent. However, these rates seem improbable in view of the performance in 1976-77 and the estimated results for 1978.

In the lower growth case, the growth of world trade is reduced in the same proportion as the decline in growth of industrialized countries, and there is a slightly larger drop in the growth rate of developing countries' exports. Regarding capital flows, it is assumed that the same percentage of industrialized countries' GNP will be allocated to concessional assistance as in the original scenario, but because of their lower levels of GNP the projected growth rate of bilateral ODA during 1975-85 is reduced from 3.5 percent a year to 2.8 percent a year in real terms. No alternative assumptions have been made for other capital flows. The principal impact of these changes would be a reduction in the economic growth of the developing countries, with the Middle Income countries bearing the brunt of the decline.

The higher growth case is virtually the mirror image. World trade growth is assumed to increase proportionately to the increase in growth in industrialized countries, while the exports

of developing countries are assumed to grow slightly more rapidly. Most of the increase would be in manufactures. Because of the faster growth of income in industrialized countries, the availability of ODA would grow more rapidly. The developing countries' requirements for capital would rise, largely to maintain reserves in line with the increases in imports. The principal impact of these changes would be to raise the rates of growth of the developing countries; with the Middle Income countries as the prime beneficiaries.

33. Implications of Alternative Global Assumptions for Developing Countries

	Average Annual Percentage Growth Rates, 1975-85		
	Base Scenario	Low Growth Scenario	High Growth Scenario
GDP			
Developing Countries	<u>5.7</u>	<u>5.2</u>	<u>6.1</u>
Low Income Countries	5.0	4.8	5.1
Middle Income Countries	5.9	5.3	6.3
Gross Investment	<u>5.3</u>	<u>4.4</u>	<u>5.7</u>
Low Income Countries	6.5	5.8	6.7
Middle Income Countries	5.1	4.2	5.6
Imports	<u>5.6</u>	<u>4.8</u>	<u>6.5</u>
Low Income Countries	5.7	4.8	6.3
Middle Income Countries	5.6	4.9	6.5

The impact on the Middle Income countries is much greater than on the Low Income countries because the former are more sensitive to changes in the growth of external trade. In the low growth alternative, their reduced import capacity slows the growth of their incomes. It also causes a more than proportionate decline in savings and investment. Since many Middle Income countries now produce most of their consumer goods domestically, their imports largely consist of capital goods and raw materials. As reductions in the latter lead to an immediate reduction in production and employment, it is generally capital goods imports, mostly from industrialized countries, that are curtailed in response to balance of payments pressures, with adverse consequences for future growth.

There is small scope for offsetting slower

growth of export earnings by additional borrowing, because of the difference in magnitudes. For example, a 10 percent increase in net inflows of medium- and long-term capital in 1985 would raise the Middle Income countries' capacity to purchase imports by only 1 percent, whereas a 10 percent increase in exports would increase their import capacity by almost 9 percent.

The Impact on Poverty

Even if the developing countries' incomes grow as in the base scenario, absolute poverty will continue to be a problem of immense dimensions. A sense of these dimensions is given by the results of a simulation model that projects the proportion of population in absolute poverty under alternative assumptions. Such projections unavoidably have large margins of error, since so little is known about the interaction of economic and social structures with development policies, which produces particular patterns of economic growth with different effects on the poor. Nonetheless, the projections give a sufficient indication of aggregate trends to be of interest.

The model combines the GNP growth rates projected for different groups of countries with

erately rapid growth, the distribution of income has initially worsened, as demonstrated by analyses of the experience of Brazil, Kenya, Mexico, the Philippines, and Turkey.

Assuming that the rates of growth projected for the period 1975-85 hold to the end of this century, and assuming the relation between income distribution and aggregate growth just described, the proportion of population living in absolute poverty in the year 2000 is projected as shown in Table 34.

On the assumptions above, which constitute the "base scenario" in Table 34, the proportion of the absolute poor in the total population is projected to decline by one-half in the Low Income countries and by three-quarters in the Middle Income countries. Despite this, the number of people in poverty declines only slightly because of the growth of population. This is a disturbing result, especially since the projected income growth rates for the Low Income countries are, if anything, somewhat optimistic.

The "alternative scenario" shown in Table 34 shows the reduction in poverty that is implied by much more favorable assumptions about the pattern of growth. In the base scenario, the poorest 60 percent of the population received 18 to

34. Projected Decline in Absolute Poverty, 1975-2000

	1975		Simulated Result in 2000			
	Percentage of Population	Number of Absolute Poor (millions)	Base Scenario		Alternative Scenario	
			Percentage of Population	Number of Absolute Poor (millions)	Percentage of Population	Number of Absolute Poor (millions)
Low Income Countries	52	630	27	540	13	260
Middle Income Countries	16	140	4	60	—	—
All Developing Countries	37	770	17	600	7	260

— Negligible.

the assumption that the inequality of incomes is likely to increase in the early stages of development, and then to decrease in the later stages of development, implying that the incomes of the poorer sections of the population will grow more slowly than average income per person over the projection period. This assumption can be supported by tests based on cross-country comparisons relating measures of income equality to the average income levels in each country. Though there are too few studies of changes in the distribution of income within individual countries over a period of time to establish its validity, it is consistent with the results of the studies that do exist. In most developing economies that have sustained mod-

25 percent of the increments to income; in the alternative scenario, their share is assumed to be as much as 45 percent. This is the highest known to have been achieved by any developing country apart from the centrally planned economies. Under these conditions, absolute poverty could be virtually eliminated in the Middle Income countries, but would still afflict 13 percent of the population in the Low Income countries in the year 2000. The extreme optimism of the assumptions underlying the alternative scenario should be underlined.

Given the obstacles they face, elimination of absolute poverty in the Low Income countries by the end of this century seems impossible. A more realistic target would be to reduce the

proportion of their populations living in poverty to about 15 to 20 percent by the year 2000, which would still leave nearly 400 million people in absolute poverty. To realize even this gain will require massive efforts to raise the productivity and incomes of the poor.

Policies for Reducing Poverty

While poverty could be reduced to low levels in the Middle Income countries by the end of this century, it will continue to plague the Low Income countries. Improvements in the pattern of growth are necessary in both groups of countries. But especially in the Low Income countries, where the numbers in poverty are so enormous, such improvements can only make a significant contribution if growth itself is more rapid. Policies for accelerating growth through efficient use of resources, and for ensuring that aggregate growth leads to rising income levels for the poor, are discussed in the following chapters dealing with the problems of separate groups of countries. In this section, the discussion focuses on the use of those direct measures to improve living standards that must supplement measures designed to increase the incomes of the poor.

There normally must be a close interaction between improvements in individuals' productivity and incomes and improving their living standards through direct intervention. The pattern of growth influences the structure of production and demand, affecting a country's ability to invest and to sustain rapid aggregate growth; increases in the income of the poor may be necessary for them to take full advantage of even "free" public services; faster growth can make it easier to mobilize resources to finance the expansion of public services; broadening access to public services such as health and education can increase productivity, as well as reducing fertility rates and population growth in the longer run, improving the prospects of increasing income per person. A notable example of the importance of the interaction between income growth and the use of direct measures to alleviate poverty is nutrition.

Nutrition

The most widespread form of malnutrition is protein-calorie deficiency, which in general results from inadequate intake of calories.² An important strategic issue in combating malnutri-

tion is the extent to which increases in incomes can be relied upon to eliminate widespread deficiencies, and how far specific programs are necessary.

Programs to raise incomes must generally play an important role in relieving malnutrition, for many reasons. First, poor people who are undernourished will typically spend a large part of any increases in their income on food, and hence income increases may well be the most efficient way of improving the nutrition levels of a large mass of the population. Second, the nutritional status of subsistence farmers, who are a substantial part of the population in the Low Income countries, depends critically on their own productivity. Third, increases in income will help improve health and education, which can contribute significantly to the effective nutrition gained from given levels of expenditures.

But although over the very long run income growth may eliminate malnutrition in most places, countries where large numbers of people are undernourished cannot wait that long. Measures to improve the nutrition of the poor without necessarily increasing their incomes can be broadly divided into two groups: those that increase food consumption without increasing household food expenditures; and those that improve the nutritional value of given food levels.

The most prominent example of the first group is the use of government procurement, fiscal subsidies, and price controls to reduce the retail price of foodgrains and permit greater consumption for given levels of food expenditure. Such measures have been widely used, but the experience has not been evaluated sufficiently to permit a definitive judgment on their benefits. They are apt to be very expensive, but in several countries, notably Egypt and Sri Lanka, they have contributed to dramatic improvements in nutrition and life expectancy. The problems with these types of measures are many and serious: the distribution schemes are generally restricted to urban areas and do not benefit the majority of the really poor, many of whom live in rural areas; the schemes often rely on low procurement prices and increased imports, which may discourage the growth of domestic agriculture and deplete foreign exchange reserves; if they do not rely on low procurement prices, they often require very high government subsidies—in some cases up to 3 percent of GNP; and some of the subsidies are apt to go to undeserving households because of the administrative difficulties of distinguish-

²Malnutrition is defined by a complex set of relations between such factors as the nutritive value of the quantity and types of foods consumed, the sex and age of the consumers, the type of work undertaken in different climatic environments, and the health status of the affected population.

ing between rich and poor households even within urban areas. It is at times possible to reduce some of these problems by restricting subsidies to foods that are generally consumed by the poor, for example coarse grains and broken, unpolished rice. But, in general, fiscal and administrative considerations limit the extent to which large-scale food subsidy programs can be effectively used to reach the poor.

. Programs to feed specific groups that are vulnerable—pre-school children, pregnant women, and lactating mothers—have promise but have not yet been extensively used in developing countries, and their effectiveness is not established. The main problems are administrative. Though school children are relatively easy to reach, attempts to reach pre-school children and women directly have not generally been successful, although these groups may benefit indirectly from school feeding programs if food at home is diverted toward them as a result.

A wide range of measures can improve the nutrition derived from a given expenditure on food. A simple one is the fortification of commonly consumed foods with special nutrients: the iodization of salt dramatically reduced the incidence of goiter in some areas of India; and enrichment of rice with thiamine eliminated beri-beri in a province in the Philippines. Products fortified with vitamin A include milk in Brazil and India, sugar in Guatemala, and tea, margarine, and cooking oils in other countries. India has recently developed a technology to fortify salt with iron. With all its effectiveness, however, fortification has the obvious disadvantage that it can only be applied to foods that are centrally processed; moreover, it cannot reduce calorie deficits.

Also of importance for nutrition are health and education. Gastro-intestinal diseases seriously impede the absorption of food by large numbers of the poor. Control of these diseases through improvements in water supply and personal hygiene, which requires better education, can do much toward reducing malnutrition in the poorer countries. Although there is some evidence that the diets of the poor are often remarkably well balanced, given their low expenditures on food, increasing people's awareness of the nutrient needs of various family members (for example, the importance of breast feeding, and of introducing supplementary foods at the appropriate age) can help improve their diets. It is difficult to overcome strongly held personal prejudices through education, but given its importance and some, albeit few, successes, the effort should be made.

Public Services

While malnutrition can be largely overcome if the incomes of individuals are raised, inadequate access to essential public services cannot. Safe drinking water, sanitation, health, and education are supplied by public agencies, and the complete absence or poor quality of these services afflicts the poor even in Middle Income countries. A vital component of any strategy for poverty alleviation is thus a concerted attempt to bring these services to the poor at a price they can afford.

One aspect of the problem is to seek design standards and technology that will permit a wide extension of such services at low unit costs (for example, installing public standpipes widely, rather than house connections for piped water in only a few areas). Equally important are the problems of administration associated with implementing such systems.

For example, it is now widely accepted that more extensive use of paramedical staff, rather than doctors and nurses, can effectively broaden access to health facilities at lower public cost. However, experience suggests that the simpler the training and facilities for providing health care, the more important is the quality of the administration in supervising and supporting the entire system. Paramedical personnel can be trained to identify the types of health problems they are able to handle, to provide the appropriate care in a relatively short time, and to refer cases that are beyond their ability to more qualified diagnosis and care. Their difficulties lie more in adhering to the principles of their training in the face of the criticism and folklore of elders and other prestigious persons, while obtaining and keeping the confidence of their patients. Equally important and difficult administrative problems are the maintenance of adequate supervision, of material and moral support for the paramedical staff, and of finance, staff, equipment, and supplies to permit the full use of clinics and small hospitals, particularly in rural areas.

The roots of these problems vary from the unwillingness of doctors and other highly trained personnel (needed for supervision and for staffing local or regional hospitals) to live outside major cities, to the temptation to put too large a share of the health budget into high technology equipment and services to major teaching hospitals and urban medical care. The unmet demands for medical services in cities have enabled health workers to choose urban jobs, and efforts to compel them to serve in rural areas have generally been unsuccessful.

Attempts to upgrade locally recruited personnel and to introduce career ladders for them have too often resulted in inadequate attention to their current duties, and excessive attention to preparation for examinations and possible admission to medical school. Usually more than 50 percent of the health budget in countries with basic health care systems goes into the operation of one or more teaching hospitals, and at least another 20 percent into district or regional hospitals and bedded clinics. Basic health services usually account for only 8 to 10 percent of central government health expenditures.

The fact remains, however, that even with better technology, design and administration, any sizable improvement in the distribution of public services will require an enormous increase in expenditures. The financial costs could be reduced if local participation could be effectively mobilized—as is the case with the site-and-services approach to urban housing, various rural works, and community building of schools. Indeed, in the poorer countries, there may be no hope of meeting even modest targets for the provision of services unless there is community participation. The experience of nationwide participatory programs is far from encouraging, since they require effective local leadership and adequate central support, which have often been lacking. Even if such an effort can be mounted, a large increase in public expenditures would seem to be necessary. While there are no reliable estimates of either the investments required or the recurrent expenditures that would be needed to operate such a vastly expanded system, it seems clear that the costs would far exceed the resources currently available, especially in the Low Income countries. Obviously the resources for public services could be increased if the industrialized countries were to expand their aid flows. However, to redirect presently planned flows of aid toward programs of this type would reduce the availability of finance for other sectors whose development is also essential to improve the conditions of the poor.

Monitoring Performance

Programs for alleviating poverty are often hampered by scarcity of resources, conflicts between different interests and objectives, uncertainty about how to resolve conflicting objectives over an acceptable period of time, administrative structures that are too weak to support more extensive intervention and services, and incomplete knowledge about the actual effects of different policies on the people

they are meant to benefit. Moreover, there frequently is a lack of clearly defined objectives and realistic implementation schedules. This need not be so. It is more difficult to specify the actions needed to increase the purchasing power of the rural poor than to specify the number of villages to be supplied with potable water in each of the next ten years. But if more progress is to be made in alleviating poverty, it is essential that objectives be defined so that governments can monitor them regularly. Large amounts of resources and energy can be dissipated if operational clarity is lacking about targets, designs, and plans for the execution of poverty programs. Without such clarity, it is difficult either to assign administrative responsibility for implementation or to evaluate the effectiveness of different approaches to poverty alleviation, and impossible to learn from experience.

One step that many countries have already taken is to define the areas of deficiency and to formulate a realistic program for improvement. Such specific targets might initially involve the supply of potable water and local health facilities, and be gradually extended to improvements in other public services. A second step would be to define a precise set of objectives for programs designed to raise the incomes of low income groups.

Monitoring and evaluation are particularly important in anti-poverty programs since information on the characteristics of the absolute poor, and how their conditions are affected by particular programs and policies, is scarce. To monitor progress and evaluate the effectiveness of programs requires the establishment of a strong nationwide statistical base, drawing on detailed household surveys that will measure changes in income, expenditure, and consumption in real terms, as well as access to public services.

A monitoring system must also involve review of the implementation of specific programs to establish how far their benefits actually reach the poor. There are a host of such activities in each country that are worth monitoring. They include rural development projects, irrigation works, credit institutions, public works, provision of school meals, food subsidies, health clinics, housing projects, and labor training. Funds for their evaluation should ideally be built into the budgets of such programs at the outset and the findings should be widely shared to assist in improving the design of subsequent efforts. Understanding of the cost, efficiency, and social impact of anti-poverty programs is

still so limited that many years' experimentation and evaluation will be necessary before they can be designed with confidence.

The need for a precise definition of objectives and how they are to be met applies not only to public programs for extending the provision

of essential services but also, more broadly, to questions of relative emphasis in the design of development strategies. The latter are the subject of the next three chapters, which examine the principal choices and priorities for different groups of countries.