9 Prospects for the poor

In the coming decade 850 million people will be born in the developing world. The chance that an individual will be born poor and will grow up in poverty will depend mainly on the region of the world in which he or she is born. But this does not mean that economic policy is unimportant—far from it. Policy choices by domestic governments and the international community can make a critical difference for hundreds of millions of the poor. This chapter examines the prospects for reducing world poverty over the next decade.

Poverty at the end of the century

This Report has emphasized a dual approach to reducing poverty. The elements of this twofold strategy are:

- Efficient labor-intensive growth based on appropriate market incentives, physical infrastructure, institutions, and technological innovation
- Adequate provision of social services, including primary education, basic health care, and family planning services.

In addition, transfers are needed to help those who would not otherwise benefit—the extremely destitute, the sick, and the aged, and safety nets must be provided to protect those most vulnerable to income-reducing shocks.

The projections in this chapter are intended to show what might be achieved if the recommended strategy gained wider acceptance. They do not assume that all countries will fully adopt the strategy. They do assume that where it is in place, countries will persevere and that where it is not, countries will at least move in that direction. More specific details on domestic policy are discussed below, region by region. The projections are based on the relatively favorable assumptions about global economic conditions described in Chapter 1—growth in industrial countries of about 3 percent a year, falling real interest rates, rising commodity prices over the decade, and a successful conclusion to the trade talks at the Uruguay Round of the GATT and other forums. This is the Report's assessment of the most likely outcome. But fear remains that the problems of the 1980s will persist. The projections should be interpreted, therefore, as indicating what can reasonably be expected. It would be possible to do somewhat better—or much worse.

Table 9.1 shows projected changes in two social indicators: under 5 mortality and primary school enrollment. The projections are based on long-term trends in each region. Under 5 mortality is expected to decline throughout the developing world. In South Asia, for example, the rate is expected to fall dramatically, to 98 per thousand. If the experience of recent years continues, even greater progress can be expected. Moreover, the developing world will have attained or nearly attained universal primary enrollment, although some countries in South Asia and in Sub-Saharan Africa show a significant lag.

In Sub-Saharan Africa a return to long-term trends holds the promise of substantial progress. Under 5 mortality is likely to fall but to remain well above 100. Similarly, the percentage of children attending primary school will increase significantly, although it will still be somewhat lower than in other regions. If these projections are to prove accurate, increased spending on the social sectors

Table 9.1 Social indicators, by developing region, 1985 and 2000

Region	Net primary enrollment ratio		Under 5 mortality	
	1985	*2000*	*1985*	*2000*
Sub-Saharan Africa	56	86	185	136
East Asia	96	100	54	31
China	93	95	44	25
South Asia	74	88	150	98
India	81	96	148	94
Eastern Europe	90	92	25	16
Middle East and North Africa	75	94	119	71
Latin America and the Caribbean	92	100	75	52
Total	84	91	102	67

Note: For under 5 mortality, regional figures are weighted averages, 1985 refers to 1985–90, and 2000 refers to 2000–05.
Source: For 1985, United Nations data and Table 5.1; for projections, World Bank estimates.

will be required. A repetition of the experience of the 1980s would imply much higher mortality among children and lower enrollment rates.

Expanded provision of social services for the poor needs to go hand in hand with a greater emphasis on growth that makes productive use of labor. Table 9.2 shows what the two together might achieve. Between 1985 and 2000 the incidence of poverty in the developing world would fall from 33 percent to 18 percent and the number of poor from 1.1 billion to 825 million. This would be remarkable progress by many standards—but one-seventh of humanity would still be living lives of acute deprivation. Moreover, some regions will progress much faster than others. In Sub-Saharan Africa, the number in poverty will rise by 85 million, to 265 million by the end of the century. The distribution of global poverty will shift dramatically. Asia's share of the world's poor will decline to 53 percent from 72 percent in 1985; Sub-Saharan Africa's will double, from 16 to 32 percent.

If the global economy performs less favorably than forecast, the level of world poverty will be considerably higher. A slowdown in industrial country growth, persistently high real interest rates, rising protectionism, or setbacks in the current debt reduction initiatives could all seriously undermine progress. In that case, by 2000 the number of poor would still be hovering around 1 billion. In most regions the expected improvement in social indicators should prove less vulnerable to external events, but, as in the 1980s, Sub-Saharan Africa may be an exception. If the deterioration in services that occurred in the 1980s were to continue, the projections of Table 9.1 would not be realized.

Regional differences in poverty

Regional variations reflect differences in the provision of social services, in the rate and pattern of economic growth, and in population growth. They also reflect differences in the structure of poverty and in administrative capacity for dealing with its problems.

East Asia

East Asia has long followed the broad approach to reducing poverty advocated in this Report. By 1985 the number of poor in the region had declined to 280 million, most of whom were in China, and by the end of the decade it is projected to fall to about 70 million. Growth of GDP in the region should remain strong, at almost 7 percent a year. The countries are expected to continue to provide infrastructure and appropriate incentives for efficient, labor-intensive manufacturing, to maintain domestic terms of trade that encourage agricultural growth, and to allocate a substantial share of government spending to investment in human capital. (The Philippines may be an exception; as in the past, macroeconomic imbalances and an unfavorable distribution of land may lead to slow growth and prolonged underemployment.)

Several factors, however, sound a cautionary note. First, since China accounts for three-quarters of the region's population, any setback there will

Table 9.2 Poverty in 2000, by developing region

Region	Incidence of poverty		Number of poor (millions)	
	1985	*2000*	*1985*	*2000*
Sub-Saharan Africa	46.8	43.1	180	265
East Asia	20.4	4.0	280	70
China	20.0	2.9	210	35
South Asia	50.9	26.0	525	365
India	55.0	25.4	420	255
Eastern Europe	7.8	7.9	5	5
Middle East, North Africa, and other Europe	31.0	22.6	60	60
Latin America and the Caribbean	19.1	11.4	75	60
Total	32.7	18.0	1,125	825

Note: The incidence of poverty is the share of the population below the poverty line, which is set at $370 annual income (the higher line used in this Report).
Source: For 1985, Table 2.1; for 2000, World Bank estimates.

have a significant effect on regional poverty. The projected 6.8 percent growth rate of GDP in the 1990s assumes that internal reforms will continue. The projected drop in the number of poor also depends on maintaining the favorable distribution of income that has marked China's development. An erosion of the agricultural terms of trade or a failure of lagging regions to join in growth could compromise China's overall progress, especially in rural areas. At the same time, greater reliance on market forces and decentralization could further undermine the community-level system of health care and social security. The challenge that China faces is to encourage gains in efficiency through market reform while maintaining or replacing social safety nets threatened by reform. If external conditions are unfavorable and internal reforms are not implemented, annual growth is unlikely to exceed 5 percent in the 1990s. This would leave China with 90 million poor by 2000. A fall in the real incomes of the rural poor (caused, for instance, by a shift in relative prices) could easily boost this number to more than 100 million.

A second reason to temper optimism about the region's poor is that the pattern of poverty is changing. Rising incomes and strong employment growth in the middle-income countries of East Asia have meant that the poor are increasingly confined to those groups that are unable to benefit from employment opportunities and rising real wages—notably, the elderly and the infirm. Demographic and social forces are also increasing the need for state provision of health care and safety nets for these groups. Economies such as Korea and Malaysia have the resources and administrative capacity to put social assistance schemes in place, but a higher share of domestic transfers will be needed for this purpose in the future.

Finally, Southeast Asia, in particular, is vulnerable to protectionism in its export markets. In these countries exports are an exceptionally large share of GNP. In several product areas their potential for further growth has run up against industrial country barriers to imports of, for example, garments, shoes, and electronic goods. For East Asia more than any other region, growth prospects and domestic employment opportunities will be improved by further trade liberalization under the GATT.

Sub-Saharan Africa

Sub-Saharan Africa lies at the other extreme. It has the furthest to go in adopting the strategy proposed here, it has faced more severe external problems than most other regions, and its social and physical infrastructures are seriously debilitated. In addition, the region's population is projected to continue growing at more than 3 percent a year for the next decade. Such rapid growth exacerbates the difficulty of eliminating poverty by undermining efforts to increase labor income and increasing the cost of expanding social services.

The sharp rise in poverty projected for Sub-Saharan Africa distinguishes it starkly from other regions. The 3.7 percent annual growth in GDP that underlies the projections is somewhat higher than the average growth achieved over the previous twenty years, but that will be barely adequate to hold living standards steady over the next ten years. In that time span the population will grow by another 165 million, and an additional 70 million people will be living in poverty.

The plight of Sub-Saharan Africa requires a commitment to fundamental changes in domestic policies and development priorities. During the second half of the 1980s many countries introduced major reform programs. These need to be continued and strengthened. In particular, there must be a continued commitment in three critical areas: reducing regional fertility rates, expanding social investment (especially in education and health care), and rehabilitating the physical infrastructure needed to encourage the expansion of agriculture, commerce, and industry. Many of the policies for achieving this objective were described in a recent World Bank report, *Sub-Saharan Africa: From Crisis to Sustainable Growth*. The analysis of future poverty presented here strengthens that report's conclusions.

To see the scale of the task confronting Sub-Saharan Africa, consider what it would take to prevent the number of poor from increasing. Even with a supportive policy environment that includes greater provision of social services and some improvement in income distribution, a growth rate of about 5.5 percent a year—nearly 2 percent higher than the projected rate—would be needed to raise per capita consumption by enough to meet this target. To achieve this, the region would need much more, and better designed, foreign assistance. Such assistance will be effective (and warranted) only if domestic policy is consistent with the reduction of poverty and the development of indigenous capacity.

South Asia

In South Asia there is considerable potential for progress toward reducing poverty, particularly in

India. But there is also a threat of stagnation, especially elsewhere in the subcontinent. Close to half the world's poor live in the region, and what happens to them will go far toward determining the success or failure of efforts to reduce world poverty. Per capita GDP is still low, but it grew at a steady 3 percent during the 1980s and is likely to continue at this rate through the 1990s. If this strong performance can be maintained, the number of poor is projected to fall from 525 million to 365 million.

Poverty in India is projected to fall dramatically. The key to the gains in India will be sustained growth and further internal policy reforms. Fiscal reforms are needed to curb growing government deficits, contain foreign and domestic debt, and ensure adequate savings to support domestic investment. Servicing domestic and foreign debt accounts for a growing share of government spending and may threaten the government's ability to meet its investment targets. If investment remains squeezed by low domestic saving rates and external borrowing, India's growth is unlikely to exceed 2 percent per capita a year over the decade. Such slippage would imply a poverty count of 370 million people by 2000, eroding much of the potential gain.

Additional domestic measures will be needed in the fight against poverty. Further trade liberalization would encourage exports and allow efficient, labor-intensive import substitution. Agriculture needs access to new technology, and rural infrastructure must be expanded and maintained, particularly in lagging subregions. Exports are projected to become a more important source of growth as public spending is trimmed back. Economywide policies must be supplemented with better-targeted interventions. Public works schemes, for example, have proved successful and could be extended and developed.

The prospects for other countries are bleaker, and strong measures are needed to prevent poverty from deepening significantly over the decade. At the projected growth rates, the number of poor in Bangladesh and Pakistan would increase. Although Bangladesh is endowed with fertile land and natural resources, in other respects it resembles Sub-Saharan Africa. Lack of administrative capacity, weak infrastructure, rapid population growth, and highly distorted domestic policies hamper the reduction of poverty. For external assistance to have a significant impact, fundamental efforts are needed to improve aid administration and to direct resources toward improving preventive health care, nutrition, sanitation, and basic education. By contrast, Pakistan has a sizable manufacturing sector, ample administrative skills, and a per capita income twice that of Bangladesh. Despite these advantages, it has made little progress toward improving the social indicators of poverty. Reducing poverty requires a much higher level of investment in social services for the poor.

Aid has generally been used more efficiently in Asia than in Sub-Saharan Africa, but despite the vast numbers of poor, the flow of aid to the region is much smaller in relation to total population or GDP. One important conclusion of this Report is that aid allocations should be based on a demonstrated commitment to the goal of reducing poverty. More aid should be forthcoming where serious efforts are being made to reduce poverty, whether in Africa or in Asia, and the increase should not come at the expense of the other region. Additional aid from industrial countries will be needed.

Latin America and the Caribbean

Nowhere in the developing world are the contrasts between poverty and national wealth more striking than in Latin America and the Caribbean. Despite average per capita incomes that are five to six times those in South Asia and Sub-Saharan Africa, nearly one-fifth of the population still lives in poverty. This is because of the region's exceptionally high degree of income inequality. Raising all the poor in the continent to just above the poverty line would cost only 0.7 percent of regional GDP—the approximate equivalent of a 2 percent income tax on the wealthiest fifth of the population.

Regional prospects for reducing poverty rest heavily on domestic policy reforms in several areas. Credible macroeconomic stabilization measures are of primary importance. Stabilization is a prerequisite for restoring investor confidence, encouraging the return of flight capital, and breaking the cycle of economic crises that has characterized many countries in the region. Policies to promote inequality-reducing growth are equally important. First, reforms to remove biases that favor the use of capital are needed to ensure that future growth will generate productive employment that reaches the poor. This includes reforms in price and financial policy to encourage private investment in efficient labor-intensive and outward-oriented industries. Moreover, since 40 to 50 percent of the poor will still reside in rural areas in the 1990s, the improvements in incentives for agricultural production that occurred in the 1980s need to be complemented by active support for rural development.

Second, there is a need to maintain and in some areas to expand the provision of social services to the poor. Finally, transfers, such as emergency employment schemes of the type undertaken in Bolivia, Chile, and Peru, may be needed to protect the poor, particularly during the stabilization process.

The average GDP growth of 4.2 percent a year projected for Latin America in the 1990s assumes that during the second half of the decade the debt burden will no longer be a serious constraint on regional investment and that programs to restore economic stability will be put in place over the next few years. If, in addition, income distribution improves with growth (as it did in Indonesia and Colombia, for instance, during the 1970s and 1980s), significant progress can be made in reducing regional poverty. The incidence of poverty is forecast to fall from 19 to 11 percent by 2000.

Adverse developments in the global economy, as described in Chapter 1, would darken the outlook for growth and for reducing poverty in the region. If efforts to ease the debt burden failed, terms of trade grew worse, and world demand for the region's exports fell, the result would be to slow growth and probably undermine adjustment efforts. Under these circumstances growth in per capita consumption would not rise above 1 percent, and an additional 25 million people, or 5 percent of the region's population, would be in poverty by 2000. To avert this outcome, political commitment to adjustment programs in the region is needed, along with adequate external assistance and debt relief to prevent the debt crisis from persisting through the 1990s.

Eastern Europe

The condition of the poor in Eastern Europe is unusual because of the state's large role in providing employment, housing, and other services. Poverty is largely an urban problem associated with low real wages and, increasingly, with outright unemployment. In several countries poverty increased during the 1980s. Structural problems accompanied by low productivity growth and chronic material shortages have caused a drop in real wages for a large part of the work force. Although poverty is already serious and threatens to deepen further during the transition to a market-based system, the number of poor in Eastern Europe is much lower than in Sub-Saharan Africa and South Asia.

Per capita GDP growth over the next decade is projected at only 1.5 percent a year, and the incidence of poverty is expected to remain roughly constant at about 8 percent of the population. Two important issues face the region's governments. One is the speed of reform, which will determine the severity of social dislocation and the time required before market reforms boost productivity. The second is the tradeoff between the reduction of fiscal deficits and state interventions—an essential step if markets are to flourish—and the need to maintain state-provided safety nets. A significant part of the work force is likely to be dropped from state employment rolls at the same time as subsidies on food, housing, and services are cut back. Temporary unemployment insurance and worker training programs will therefore be needed.

The potential for raising regional output, productivity, and labor incomes over the medium and long run is enormous. If the institutional and legal transition to a market-based system can be managed quickly and technical and financial assistance (including foreign investment) can be obtained from abroad, consumption growth could be much higher than in the projections. With a broadly unchanged distribution of income, growth in GDP of 4 percent a year over the decade would eliminate absolute poverty.

Middle East and North Africa

Heavy state intervention in domestic markets has also characterized the countries of the Middle East and North Africa, but the challenges facing them differ from those in Eastern Europe. Many North African countries have relied on food subsidies to help the poor, despite ample evidence that subsidies are an extremely inefficient form of transfer. In Algeria, Egypt, Morocco, and Tunisia food subsidies account for a substantial share of the government budget. More cost-effective means of providing transfers to the truly poor are needed. Several countries also have severely distorted domestic markets, persistent current account imbalances (caused by unsustainable fiscal and exchange rate policies), and high debt-to-exports ratios. The prolonged regional conflicts in the Middle East have been extremely costly and have diverted resources from investment and the needs of the poor. Until these conflicts are fully resolved, prospects for the poor will remain bleak.

Assuming that peace comes to the region in the 1990s and that structural adjustment programs are put in place, growth in per capita GDP should average 2.1 percent a year. Despite high population growth (projected to remain at more than 2 percent a year), modest improvements in income distribution and more cost-effective targeting of the poor could hold the number of poor to about 60 million in 2000, the same as in 1985. On less favorable assumptions, the number of poor could rise to about 85 million.

The potential for action

The decade started with momentous changes in the U.S.S.R. and in many Eastern European countries. These may point the way toward a world less gripped by superpower rivalry and more devoted to improving the quality of life. This Report has discussed a quieter but equally momentous change—the steady movement of households out of poverty. Public action has often been immensely effective in supporting this process, but more than a billion people are still poor. In some parts of the world the number in poverty increased in the 1980s.

The projections presented in this chapter are inevitably uncertain, but they do illustrate the benefits that can flow from appropriate public action. Three conclusions are especially clear. First, a less buoyant external environment would place a greater strain on resources in developing countries and would leave many more people in poverty in 2000. Second, a failure to undertake policy reforms, to reduce income inequality, or to safeguard social services and real incomes where progress has already been made would sharply reduce the potential gains. Together, these might stifle all progress toward reducing poverty over the coming decade. Third, the projections show that between 1985 and 2000 the number of poor in Sub-Saharan Africa will rise by perhaps 85 million. Only through exceptionally bold action by the international community and the governments of the region can this be avoided.

Preventing the number of poor from rising in Sub-Saharan Africa while reducing the number elsewhere in the developing world by nearly 400 million (as compared with 1985) is an ambitious, but achievable, target for the end of the century. In many areas the political and economic obstacles are daunting. Effective action to help the poor involves some costs for the nonpoor in both developed and developing countries. But these costs are modest even in the short term, and they are massively outweighed by the advance in human welfare that a sustained attack on poverty would bring.