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REPORT OF THE TASK FORCE ON THE BANK'S POVERTY FOCUS

Policy Planning Division
Policy Planning and Program Review Department
January 12, 1982

Report of the Task Force on the Bank's Poverty Focus

TABLE OF CONTENTS

TABLE OF CONTENTS (continued)

January 12, 1982

REPORT OF THE TASK FORCE ON THE BANK'S POVERTY FOCUS

EXECUTIVE SUMMARY

1. In September 1981, the Managing Committee authorized a DPS/CPS Task Force to undertake an internal evaluation of the Bank's general approach to poverty alleviation. It was to be a relatively brief review of this broad and complex subject with a more comprehensive examination to follow as a second stage, if necessary. This report was to address three areas: the continuing relevance of the objective, the appropriateness of the means of implementation, and suggestions for changes and improvements based on past experience and future trends. The attached report is intended to fulfill these objectives.

2. The World Bank has always stressed the need for economic growth and efficiency in economic development programs. In the 1970s, as part of a growing worldwide recognition that economic growth was not reaching the poor majority in many developing societies, the Bank placed special emphasis on direct measures to alleviate poverty both in its lending operations and in its economic research and policy analysis.

3. As a result, the Bank increased its lending to sectors and sub-sectors considered more directly beneficial to large numbers of poor people - e.g. rural development, primary education, population, health and nutrition, small scale industry, water supply, and urban development -- from 5% in 1968 to 30% in 1980. This expansion in Bank lending paralleled similar changes in the policies of many developing countries and aid donors.

4. A number of key findings emerge from the Task Force's review, the most important of which are:

- rural dev't samples.
- greater impact alleviation press.

- There are broad and important areas of complementarity between the twin objectives of efficient economic growth and poverty alleviation; this combined approach may well be essential to lasting and stable development.
- Through its project lending the Bank has effectively reached substantial numbers of poor people, particularly through poverty-oriented "new style" projects.

We learned.

- While there have been mistakes and failures, there has been much "learning by doing". Bank projects have generally been effective in directly increasing the productivity of small farmers or indirectly enhancing productive capacity through investments in improved education, health and nutrition.
- "New style" projects have rates of return as high as other projects, have stimulated replication by borrowers, and have resulted in widespread distribution of benefits to poor people.

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- The Bank has pioneered innovative techniques for reaching the poor (e.g. rural development and urban slum upgrading projects) which have been adopted in the national programs of many countries and by other assistance agencies.
- The Bank has introduced poverty concerns into country economic work and its policy dialogue with some member governments. Where this has occurred, the Bank has had a positive influence on government policies and programs. The change in the character of the country policy dialogue has been hindered by a variety of factors, however, and the link with lending is still not as close as desirable.

5. Urgent priorities face developing nations in the 1980s: developing indigenous energy resources, undertaking structural adjustment to reduce unsustainable balance of payments deficits, and coping with diminishing resource availabilities. Because of these immediate problems, there is a danger that attention to the long-term objective of poverty alleviation will be neglected. Some short-term trade-offs will no doubt occur.

6. The central theme of this report, however, is that a balanced strategy of growth combined with poverty alleviation remains correct as a general framework for development in the 1980s. There is no panacea in this approach, nor will it provide precise answers for each country-specific case. No development strategy does. What it does is to provide a viable and sensible point of departure for making critical decisions. The Bank's task is to build on the considerable achievements of the 1970s and to modify and strengthen the basic approach which now underlies its lending program.

7. To implement the findings of this report, the Task Force suggests that the Managing Committee issue clear guidance to all staff that:

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plans vs. actual achievement

- The poverty focus remains a key feature of the Bank's overall development and lending strategy. Our discussions reveal widespread uncertainty about whether the commitment to poverty alleviation has been weakened or abandoned. The current concern with energy and structural adjustment, combined with the transition to a new chief executive, make many staff members question the Bank's commitment to this objective. New signals, real or imagined, are

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staff overemphasised this
Mac ~~[illegible]~~ always balance.

already affecting both policy dialogue and planned lending. The Managing Committee should reaffirm the commitment to finance new style projects, to achieve increased poverty impact from all our lending, and to help LDCs adopt policies and programs supportive of these goals.

- <u>The staff should draw upon the experience of the 1970s to improve the quality of existing poverty focused work and to extend this work to other areas.</u> This recommendation includes four major parts which require further elaboration based on the preliminary findings contained in this report.

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    (a) Poverty and employment concerns should be included in the analysis for structural adjustment lending. A brief "poverty impact statement" should be prepared for each SAL which would discuss possible effects of the loan on the poor, both beneficial and adverse.

    No

    (b) Bank lending and that of other donors is but a small part of the total investment program in most borrower countries. The overall policy framework of a country is certainly the crucial determinant of success of the poverty alleviation effort. Thus, the effects of government programs and policies on the poor should be an increasingly important part of the Bank's macro-economic policy dialogue with member governments; necessary analysis should be incorporated in economic and sector reports on a more consistent basis. Increased analytical work and research and staff support should be directed to helping the formulation of sound Bank positions on specific poverty policy issues. This should increase the capacity of the Bank to intervene at the right level - e.g. project, sector, macro-policy - in support of sound government policies.

(c) More attention should be devoted to the poverty and employment impact of traditional projects which account for about 70% of Bank lending. Without excessive attempts at precision, project documents should describe "who benefits" in the short and long run from the project (and, where possible, the program of which it is a part) and whether alternatives with greater poverty and employment impact have been considered. At the same time, the misleading distinction between "poverty" and "non-poverty" projects should be phased out as it suggests that only certain projects can benefit the poor and neglects the important indirect effects many activities can have on poverty alleviation.

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(d) Project identification, design and implementation need to take more account of complex problems of institution building, sociological, political and cultural factors, deficiencies in administration and management, the development of efficient "technical packages" and the need for technical assistance. Moreover, most Bank projects have not encompassed the poorest 20%, especially the rural landless

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and urban unemployed. Greater efforts are needed to direct more project benefits to such people.

These recommendations are developed further in Part III of the main report.

To transform the analysis and recommendations in this report into specific guidelines and directives for staff, the Task Force also suggests that two special committees (one for projects, the other for policy) be established within the operations complex to assure effective follow up.

8. The Bank can be proud of its record of economic and social accomplishments. This report does not call for radical departures. It simply urges that we build upon what we have learned to further strengthen our balanced approach to development. There is no other sensible way to proceed but to pursue the twin goals of economic growth and poverty alleviation. This is sound economics and politics as well.

DRAFT
PPD
January 12, 1982

REPORT OF THE TASK FORCE ON THE BANK'S POVERTY FOCUS

Introduction

In September 1981, the Managing Committee authorized a DPS/CPS Task Force to undertake an internal evaluation of the Bank's general approach to poverty alleviation. This report briefly describes the policy and its origins (Part I) and then reviews a decade's experience (Part II). It concludes with suggestions for the Managing Committee as to how the Bank's approach might best be adapted to suit the needs of the 1980s (Part III).

Part I: The Origins of the Poverty Focus and Its Introduction in the Bank

A. The Changing Focus of Development Thinking

Thinking about development has changed gradually over the past several decades. There is now a greater appreciation of the complexity of the development process, and more attention to the question of "who benefits" from growth. In the 1950s and 1960s, most analysts focused solely on the need to accelerate economic growth in poor countries. They presumed that reduction in poverty within countries, as well as the narrowing of enormous income disparities between countries, would follow. Stress was placed on increasing investment by domestic and foreign savings, as well as on the need to modernize through technical assistance and enhanced education.

By the 1970s, it was recognized that economic growth alone would not reduce poverty at an acceptable rate, [1/] and so the complementary (and possibly growth-reinforcing) objectives of expanding employment and raising the productivity of the poor became central elements of the development agenda.

1/The experience of several major countries helped reinforce this point. For example: India, with a large and near constant share of its population in absolute poverty; Brazil, where rapid growth did little for the rural poor in the North-East; and Pakistan, where the imbalance in development between the East and West contributed to the 1971 war.

Early emphasis was on increasing employment by removal of price distortions that tended to promote capital intensive and inefficient development. Importance was also given to limiting population growth. Later, more attention was given (as in the Bank's Redistribution with Growth) to increasing the productive assets of the poor. Investment in the poor was justified not only for humanitarian and political reasons, but on grounds of economic efficiency and growth promotion as well. Small farmers, for instance, were found to be efficient users of land and capital, responsive to changes in incentives, and willing to adopt new technology when benefits were clearly positive. Research and experience, moreover, provided increasingly strong evidence that productivity gains from outlays on primary education, family planning, basic health care and nutrition made them worthwhile economic investments. 1/

While not universally accepted, this broad approach to development became the stated policy of most countries - lenders and borrowers alike - during the 1970s. The Bank's approach developed along similar lines, and its policy positions and papers often influenced other agencies and governments. As part of its overall economic development program, the Bank has implemented projects designed to promote growth by directly increasing the productivity of the poor or by investing in human resources. The Bank has helped poor people expand their assets and make them more productive, exemplified by the rural development strategy enunciated in 1973-75. The Bank also recognized the necessity of redesigning and expanding shelter and public service programs on a low-cost, replicable basis. This was a particularly important means for reaching and improving the productivity of poor people with few assets other than their own labor (e.g. urban workers and the rural landless).

1/ Documented in World Development Report - 1980

Some critics have argued that emphasis on reducing poverty will slow down economic growth. In general, the evidence does not support this fear for there are large areas of complementarity between these two objectives. Several countries, for example, attacked poverty through dramatic land redistribution (e.g., Taiwan, South Korea) and then grew rapidly. In general, countries that have done well on poverty have average or somewhat above average growth rates. 1/ This is consistent with Bank evaluation data that investments in "poverty projects" have returns equal to or greater than other kinds of investments. Reduction of poverty and more equitable distribution can help avoid political tensions which disrupt steady growth. Development strategies which bypass large numbers of people are not the most effective way - economically, ethically or politically - for developing countries to raise their standard of living.

Many developing countries, assisted by the Bank and other donors, have made progress in reducing the incidence of poverty. But the long-term character of the development process and the distance yet to go are demonstrated by the especially difficult position of the low-income countries and of the poorest people within them. Even with sound development policies and programs, there would still be, mostly in low-income countries, hundreds of millions of poor people in the year 2000; evidence suggests that without the shift toward poverty-focused strategies, the number of poor would be even greater.

B. Change of Emphasis Within the Bank

During the 1970s the Bank's policy gave strong emphasis to poverty alleviation. To what extent were there actual changes in the Bank's lending program and country and economic sector work?

As most poor people live in poor countries, the Bank group redirected its

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1/ See World Development Report - 1980, pp. 35-38 lending program. Bank/IDA commitments to low-income countries (per capita incomes below $680 in 1979) increased from 37% of the total program during the years before 1968 to 58% in the current five-year lending program. 1/ IDA now lends only to this group. The share of IBRD lending to low-income countries has increased from 29% before 1968 to 39% now - a 34% increase, despite creditworthiness constraints which impose limits on IBRD lending to many poor countries.

The Bank also increased its lending for "new-style" sectors and subsectors considered more directly beneficial to large numbers of poor people - notably rural development, primary education, population, health and nutrition, small-scale industry, water supply, and urban development. 2/ Their share of Bank/IDA lending has increased from 5% in 1968 to 30% in 1980 with major reductions in the share - though not absolute amounts - of lending to electric power and transportation. 3/

To help focus its lending program, the Bank has attempted to measure who benefits from poverty-oriented projects. Per capita income benchmarks for absolute poverty (mainly for low-income countries) or relative poverty (largely middle-income countries) are estimated by Bank country economists. Broadly speaking, people whose income is too low to afford an "adequate diet" are counted as absolute poor. This approach has been difficult to apply in many countries where basic household data

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1/ See Appendix A, Table 1

2/ There has been a tendency in the Bank in recent years, as part of the evolution of the poverty focus, to distinguish between "poverty" and "non-poverty" lending. A sharp distinction between these two categories is inappropriate since it is misleading to imply that only a small number of sectors or programs have a significant impact on poverty. It also tends to downplay the often important direct and indirect effects of various other sector programs. (For example, the Bank's definition of rural development projects is based on whether a project provides over 50% of the benefits to rural poor. Initially Bank monitoring focused on these projects, while not taking into account large numbers of beneficiaries in more traditional agricultural projects. Since 1979, however, a requirement for poverty analysis has been incorporated into the analyses of all agricultural-based projects.) Nevertheless, this distinction has some value as a means of stressing areas of emphasis and we use it in this paper simply to indicate certain trends in the lending program.

3/ See Appendix A, Table 2

are weak. The relative poor are more simply defined as those below one-third the national average. Useful definitions of the poor have often been achieved in practice by defining in an approximate way a more readily identified target group such as small farmers, urban slum dwellers and those lacking adequate water or access to primary schools; these measures are used in parallel with the poverty line measure. Improvements in the measurement system are being examined to make it simpler, more practical and reliable.

Bank country economic and sector work has moved toward consideration of poverty issues more slowly than has project lending. While some economic reports in the early 1970s contained sections dealing with employment and income distribution, the coverage was uneven. Towards the latter part of the decade there was a heavy concentration of reports on poverty, partly as an outgrowth on the Bank's work on basic needs. 1/ Despite some initial hesitation, poverty and basic needs issues are frequently discussed in most Country Program Papers (CPPs). 2/

In the last year or two, poverty-related studies have received less special attention in economic work. In part this is because a large number of reports were completed in the late 1970s; there was thus no need to repeat the analysis when detailed country studies (as in East Asia) were already in hand to serve as useful background for important sectoral reviews. Some previously planned poverty studies have been delayed or replaced, however, by structural adjustment and energy-related work, particularly in Africa. While this suggest that attention to longer

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1/ Between FY1978-80, the Bank completed ten country reports on basic needs, five on poverty and income distribution, and six on employment and labor markets. Of 49 special economic studies completed during FY1978-80, 28 were on poverty-related issues. The countries covered included the most significant Bank borrowers - e.g. Brazil, Egypt, Indonesia.

2/ Of the 26 CPPs that were produced in FY1981, nearly all mention poverty-related issues although the extent of coverage varies widely, and the relation to lending program choices is still often tenuous.

term development issues may suffer in the face of urgent short term requirements, 1/ review of regional CESW projections for FY1982-1983 provide a more encouraging picture. Nearly all regions propose an increase in manpower allocations for poverty, basic needs and related topics in special economic reports, for example. 2/

1/ Manpower allocations forpoverty, basic needs and related topics in special economic reports have declined from 20% of total allocations in 1980 to 12% in 1981. Priority for SAL work in Senegal, Cameroon and Ivory Coast, for example, caused delay or cancellation of plans for employment, income distribution and human resource development studies.

2/ PABCP Table 1-07-82.

Part II: Lessons of the 1970s - An Interim Assessment of Our Experience

Most new style projects did not begin until the mid-1970s and are still being disbursed, so there are few evaluations of completed projects. Given the long-term nature of development programs, we can offer only a preliminary assessment of how well these projects have done in reaching the poor, but the evidence suggests that projects with a special poverty focus have at least as good rates of return as other Bank projects even without taking into account any special weight that might be given for poverty emphasis. They have stimulated borrower replication and have resulted in more widespread distribution of benefits to poor people.[1/] Moreover, these projects have introduced approaches, ideas and techniques which have helped developing countries and the Bank to implement sound programs. Such learning, from both successes and failures, should help poverty-oriented development in the 1980s.

This part briefly reviews our project and policy dialogue experience; more detail and case studies are found in Appendices B-G.

1. Agriculture and Rural Development

Agricultural and rural development projects play a crucial role in the Bank's attack on poverty. Lending for agriculture and rural development projects increased dramatically since the Bank's poverty focus was first articulated.[2/] In FY78-81 lending for these projects totalled more than $13.1 billion or 31 percent of total Bank lending, up from $2.6 billion (20 percent) in FY69-73. An increasing proportion of loans has gone to the poorer LDCs, and there has been greater emphasis on crops most likely to be grown and eaten

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1/ OED also shows that they have similar appraisal times, delays and problems in implementation, and cost overruns, and Bank supervision time per project or per beneficiary (though more per dollar loaned because many new-style projects are smaller than traditional projects).

2/ See Appendix A, Table 3.

by the poor.

The prominent position of agriculture and rural development in the Bank's overall poverty orientation results from the simple fact that the majority of poor people live in rural areas: over two-thirds of the world's poor depend on farm income and work, and over two-thirds of poor people's income is spent on food. Projects which increase the productivity of the rural poor - particularly small farmers - not only contribute to poverty alleviation but also supply food, inputs, and markets for overall national growth and development.

The guidelines in the 1974 Rural Development Policy Paper stated that poverty-oriented projects should reach large numbers of the poor and achieve economic growth rates similar to those of more traditional projects. Appraisal estimates of agricultural and rural development projects approved since FY74 show that about 24 million poor families were expected to benefit directly. Assuming 5.2 individuals per family, this translates into approximately 125 million beneficiaries. OED audits of completed poverty-oriented projects indicate that direct beneficiaries have exceeded appraisal estimates.

OED audits also found that poverty-oriented projects averaged as good rates of return as other agricultural projects.[1/] Small farmers are also less likely to default on project-related loans and obtain higher returns on investment. Bank projects are effective in reaching large numbers of small farmers. For instance, small farmer projects audited in 1979 were found to have reached 660 farmers for every $1 million loaned ($1,500 per farmer) while other agricultural projects reached 47 farmers per $1 million ($21,200 per farmer). While this average data covers a wide range of individual results, the findings suggest that the emphasis on small farmers seldom conflicts with economic and financial efficiency.

1/ The small-farmer projects reviewed in OED's 7th Annual Review of Project Performance Audits showed slightly higher returns than those of agricultural projects as a whole. (Report No. 3640, p. 44)

Thus, the available evidence strongly suggests that poverty-oriented projects have been quite successful in meeting their primary objective of increasing the productivity and incomes of the small farmers. They are also attractive vehicles for co-financing by public agencies.[1/] These are important accomplishments, but difficult problems remain for the Bank, other donors and countries themselves.

First, serious technical problems exist. Low-risk technical "packages" appropriate for poor farmers in semi-arid rainfed areas, particularly in Africa, are not readily available.

Second, because the main emphasis has been on small farmers with productive potential, direct benefits have been small for the landless and for the marginal farmer who finds it hard to borrow, acquire inputs, and take risks. Some projects have been successful in this respect (e.g. dairy cooperatives in India), but others may have inadvertently made the landless worse off. The bottom 20% have seldom been reached by rural development projects, suggesting the need for further Bank emphasis in some countries on various aspects of land reform.

Third, pricing and post harvest policies often undermine the success of projects aimed at the rural poor. In Tanzania and Zambia, inadequate price-incentives have jeopardized several small farm projects. Large scale storage projects, including some shown by OED to have very low returns, too often withdraw grain from efficient small farm stores to less efficient centralized systems. These are complex issues because consumers gain when food prices are low, but price and market policy is a serious weakness in some of the Bank's attempts at rural poverty focus.

1/ Since 1973, total public co-financing for agriculture and rural development projects was $2.6 billion with an eight-fold increase from FY73-75 to FY79-81. Over 60% has gone to poverty oriented projects.

Fourth, the Bank has some difficulty with rural development because it tends to use institutional models perfected for traditional infrastructure projects. The key to success in poverty-oriented projects often rests on sociological, cultural and political factors, including the important role of local participation. These are not areas where the Bank has demonstrated particular expertise.[1/]

2. Urban Poverty Projects

Development investment in small farmers attacks poverty and speeds up growth. It is harder to combine these objectives in towns, where investments in industry, power, and transport are often efficient only if large-scale, and not especially focused on employment or poverty. This problem pushed the Bank into one of its most innovative contributions. The 1972 Urbanization Sector Working Paper recognized that rapid urban growth denied the poor affordable housing and strongly endorsed the "sites and services" approach. This evolved to include squatter settlement upgrading, which reached far more poor people per dollar, and avoided politically unpopular bulldozer-type slum clearance.

These urban programs applied six new concepts: low-cost housing built by self-help labor, rather than high-standard, contractor-built public housing affordable only to the middle class; secure land tenure which gave settlers, particularly squatters, adequate incentives to build permanent housing; appropriate design standards which helped ensure affordability; and cost recovery which reduced the drain on funds from other high priority areas, and thus enhanced broader replicability. Bank projects have, through successive loans, strengthened institutions and gained acceptance of new approaches which serve as the base for national programs (e.g. Philippines).

1/ See Appendix B for a more complete presentation on agricultural and rural development.

Since 1972, 52 Bank projects centered on urban shelter have involved $1.6 billion of Bank/IDA funding and $2 billion of borrower government and other financing. On appraisal, real economic returns averaging 20-25% were predicted; of project costs, over 55% were expected to benefit the poor. Evaluations of completed projects are few, but they suggest high returns, good cost recovery, and success in reaching the poor. Some among the poorest have gained, as with experience the self-help approach was modified to encourage direct beneficiaries to hire labor and rent out rooms.

Housing is the largest single component of the urban poor's assets. It provides shelter (income in kind) to owner occupants, monetary income to some owners from room rentals, and collateral for loans which might be used for financing education or small business ventures. It is clear that better and healthier urban shelter is needed and the poor are prepared to pay for it. We are less clear, despite some interesting experiments, as to how urban development programs can better expand income from work. This suggests more stress may be needed in the future on project components which increase the productivity of the poor and/or support small scale urban businesses.[1/]

3. Other Sectors

Comments on the full range of Bank projects with an impact on poverty would require a review of the entire portfolio. In this section we concentrate only on several types of projects where special emphasis has been placed on re-orientation towards alleviating poverty.

(a) Small-Scale Non-Farm Enterprises

Small scale enterprises can be a cost-effective way of reaching the poor. In most countries and industries, the capital cost per job is lower in such firms, especially the smallest. With low cost per job an important criterion of se-

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1/ See Appendix C for more details on urban programs.

lection, Bank projects for small enterprises have grown from none before 1974, to 2% of lending in FY1980-81, almost all industrial and mostly in urban areas.

Problems have emerged in the Bank's limited experience with these firms: supervision requirements have been high, loans have fallen short of targets, and state schemes have been unable to protect, subsidize or train small businessmen. In an effort to achieve hoped-for benefits, Bank project emphasis has now shifted towards ample but not subsidized credit, sub-contracting from big firms to small-scale enterprises, and modification of regulations that give undue advantages to larger firms. There is also evidence to suggest that firms with 1-9 workers get more output per dollar of capital, reach the poor more effectively, and as a group survive better than somewhat larger enterprises.[1/]

(b) Education

Investment in sound and relevant education programs is essential if poor countries are to make the most of their investments in other sectors.[2/] About five percent of Bank lending is for education. In an effort to provide the poor with useful skills, the Bank has increased the proportion of lending for primary and informal education - now 40% of Bank education lending compared with near zero in 1969. This approach has been designed both to meet minimum education needs and to promote efficiency and equity. Recent research shows consistently high returns to completed primary education; educational improvements are linked to increased income, health and receptivity to family planning as well.

While economic returns were good and the poor benefited from this shift, rapid expansion of primary schooling may have sacrificed quality. Especially through mass textbook distribution (as in the Philippines), Bank-supported projects now attempt to deal with this problem as well. While con-

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1/ See Appendix D for more details on this sector.

2/ See World Development Report, 1980, pp. 46-52.

centrating on primary schooling for most countries, a shift to secondary schooling can be both efficient and poverty-focused in those LDCs which now enjoy adequate, near-universal primary education (e.g. Kenya).

Timing, location and cost of schooling greatly affect demand for schools by poor families. Some cost recovery, alongside general revenue improvements, affects governments' readiness to supply it. Bank interest in these matters has helped increase participation by poor families and will be especially important as budgetary constraints became even tighter in the 1980s.1/

(c) Population/Health/Nutrition

Despite their importance to broadly based poverty alleviation, these areas still comprise less than 1% of the Bank's total lending program. Concentrated effort by the Bank will be required if these areas are not to be shunted aside in the 1980s due to constrained budgets and other pressures on country budget allocations.

Alleviation of poverty is closely linked to a reduction of population growth rates. Several countries have made encouraging progress through a combination of more effective economic development programs and increased access to family planning services, but in most, only a small percentage of fertile couples practice family planning. In Africa, few countries have even rudimentary programs and the growth of food production has fallen behind increases in population. Only $400 million in population loans were made to thirteen countries in the 1970s, reflecting the fact that the Bank has not found this an easy area in which to work. The Bank's investments in agriculture, education and other sectors can be critical to strengthening the role of women in development and in helping reduce fertility, but these indirect approaches will not fund the increased access to services that is needed. The very high returns to investment in prevented births and the major gains which accrue to the poorest

1/ See Appendix E for more background on education.

suggest the importance of increased lending for population and related projects in the 1980s by the world's major development institutions, including the Bank.[1/]

In the 1970s, Bank lending for health was a component of projects in other sectors and we have only recently focused on developing free-standing health projects. These projects and associated policy and institution building activities should be an important part of future poverty focus given the demonstrated contribution of improved health to labor productivity and benefits to the poor, particularly given the Bank's emphasis on primary and preventive measures. Multisectoral nutrition projects are hard to administer, but persistent Bank project and policy work in this area has raised the priority of nutrition in national policies and has induced replicative projects, as in Brazil, Colombia and Indonesia.

Expanded health coverage is needed to establish the effective maternal and child health and family planning services linked to successful efforts to limit population growth. Public and private expenditures for health services in many countries is substantial, but often misdirected. In this, as in other human resource-related areas, the Bank's ability to work closely with Finance and Planning ministries can be extremely important in assuring more attention to allocations which will expand the number of beneficiaries.

(d) Water Supply and Waste Management

These sectors now absorb over 6% of Bank lending. Due to innovative technologies and pricing procedures, projects reach mostly poor beneficiaries - though, by value, most benefits reach the non-poor. Only in towns, where rich and poor share the problem, have vigorous pressures and therefore public funds led to major improvement in water and waste disposal. Rural water supply, especially frustrated by inadequate infrastructure for operations and maintenance,

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1/ See Appendix E for additional comment on population.

is now a major health need. More emphasis needs to be placed on health, education, staff training and institutional development in future lending.[1/]

4. Bank Rhetoric, Style and Project Design

On the whole, the Bank can be proud of its lending record both in economic and social terms. Despite political and other country specific constraints, the Bank has often succeeded in introducing improved management and businesslike methods to the solution of difficult economic and social problems. Bank projects have pioneered new approaches and institutions through which millions of poor people have been reached. Infrastructure development has provided a foundation for broadly based modernization and poverty alleviation. There is also room for future improvement as we learn from our experience. In this context, Bank rhetoric, style and project design deserve careful attention. This section represents only a cursory, beginning effort at this examination.

Annual Presidential speeches to the Board of Governors and many policy papers have since 1973 focused attention on the scale of world poverty and on the firm Bank commitment to attack it. These goals required rhetorical emphasis, optimism about the Bank's own potential impact on poverty, and probably some exaggerated claims of precision about numbers of the poor helped by Bank projects. In the mid-1970s, this approach was essential to gain the attention and support of Bank staff and world leaders. It has had a significant impact, and the objectives are as valid today as they were then. It is important, however, that we not now risk jeopardizing the accuracy and professionalism of project work by unnecessarily heightened rhetoric. This suggests the need to strengthen our commitment to raising the productivity and living standards of the poor while avoiding claims and numbers that raise

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1/ See Appendix E for further background on this sector.

excessive hopes or cannot be substantiated (e.g. regarding our current capacity to reach "the poorest of the poor").

At the same time, the Bank's desire to commit large and growing amounts of resources (and by use of staffing coefficients achieve greater commitments with less staff time) may occasionally have stood in the way of undertaking smaller, more experimental projects although these are often necessary precursors to larger projects designed to reach substantial numbers of poor people. As management signals go out to further reduce administrative costs, staff may be all the more reluctant to devote the time necessary to identify, design, implement and monitor smaller, riskier, poverty-oriented projects. Both objectives are important and major efforts should be made to save staff time in less critical areas while strengthening others (e.g. less time might be spent in report writing and re-writing, for example, and more time on field work). Bank procedures may not be excessively rigid and restrictive, but some staff members may be unaware of the considerable flexibility that already exists.[1/] Moreover, there is a tendency to perceive and react to signals where none may exist, and subtle peer pressure in some quarters may further dissuade staff from taking chances by proposing innovative projects or approaches.

Some observers find a lingering tradition in the Bank which places greatest priority in financing physical assets, rather than expenditures for technical assistance, training, institutional development and operating costs, and that Bank project selection and design may be biased towards large foreign exchange components. Where true, this perception can handicap new style projects which frequently have a large share of "software" and local costs,

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1/ For example, some project staff found few problems in getting major Bank support for local costs in otherwise good poverty-focused projects; other staff appear to have assumed this could not be done.

especially where the developing country applicants themselves may favor large foreign exchange components. It would be useful to correct any continuing misperceptions regarding the Bank's policy on these matters.

New style projects also tend to have high ratios of recurrent to capital costs - a severe budgetary strain, especially in Africa. As international capital flows harden, it becomes increasingly urgent for governments to contain recurrent costs, and to improve cost recovery, increase community-level contributions, and collect taxes due. Little has been done by lenders and borrowers to address this issue of the recurrent cost implications of investment projects in a coordinated and positive fashion. The Bank lacks clear guidance on the subject, although decisions are now being taken to stop a few projects which have proven especially costly and unaffordable in some countries.

New-style projects always require a significant technical assistance component. While the Bank provides, through a great variety of channels, much more technical assistance than is usually understood, much more is needed. A good deal more attention should be given to linking technical assistance more carefully to the design of the project and giving it a heightened place in the overall country assistance program. This is especially true in the poorer African countries, which are often the least able to make satisfactory arrangements for selection of advisors. More frequent reliance upon other institutions, local and international, with country expertise and proven track records may be one way for the Bank to achieve more impact at lower cost. Where program size warrants it, there may also be a need for more resident Bank field staff experienced in and sensitive to local conditions and oriented towards implementation, although this step would entail higher administrative costs.

5. The Poverty Focus and the Macro-Economic Policy Dialogue

The way the Bank redirects its lending and the lessons learned serve as useful examples to borrower governments and other donors. For this reason, it is important to move towards encompassing all Bank project activities within the broad poverty focus strategy.[1/] But regardless of how much reorientation is achieved in Bank lending, it remains less than 2% of total LDC investment. This places a very high priority on the demonstration effect of Bank projects, but there are limits to what can be expected from the project approach as broad government policies have such a critical impact on vast numbers of poor people. In addition, government policies are often a critical element affecting project success. This makes the macro-economic policy dialogue about poverty that the Bank conducts with borrower governments especially important.

Examination of this issue cannot be extricated from the question of how effective the Bank, as a project-oriented institution, has been in its overall macro-economic policy discussions with borrowers. Such anecdotal evidence as we have collected is very mixed but does suggest that this has not been the Bank's strength. Structural adjustment lending, however, has been extremely useful in strengthening the macro-economic policy dialogue with a number of member governments.

In general, the poverty focus has not been very significant in the macro-economic dialogue. Sometimes the Bank has tried to persuade countries to reallocate public investment expenditures toward sectors (e.g. agriculture) or subsectors (e.g. primary health care) with greater direct benefits for poverty groups. Some countries were ahead of the Bank and other donors on

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1/ See footnote on page 5 for further amplification of this point.

these issues (e.g. Sri Lanka); other governments, initially reluctant, modified their stance somewhat as the decade progressed, to some extent due to donor pressure (e.g. Brazil). Bank support and economic efficiency arguments provided encouragement to advocates of such shifts in domestic priorities, but we have been unable to determine how widespread the shift in actual government expenditures in key sectors or subsectors has been. This merits additional inquiry.

Most LDC governments are more likely to believe that the Bank's major concern in the policy dialogue has been for cost recovery or freer trade, for example, than for poverty alleviation. Bank-led consortia and consultative groups (such as for India and Pakistan) generally focus on the sectoral issues, government finance, and the balance of payments. These factors are important, of course, to the position of the poor, but poverty and related questions are seldom discussed in depth.1/

The policy dialogue in many countries has focused on the correction of distortions in capital and labor markets, yet here the Bank has not developed a consistent approach for balancing efficiency and poverty concerns, and has often not been willing to raise these issues at the highest levels when they entailed politically difficult adjustments. While the Bank has argued forcefully for the removal or gradual reduction of subsidies, it has been less effective in finding positive ways of targeting subsidies to low income consumers or taking other steps that are more convincingly poverty focused. This was particularly

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1/ The Bank did provide several CGs background material on the country's poverty situation, e.g., Thailand, Indonesia. However, not one of nine aid groups that met between December 1977 and June 1978 gave enough attention to poverty issues to rate a mention in the summary report (Study of Aid Groups, Sec. M. 78-72[illegible] World Bank. 9-21-78, pp. 16-18.)

true in Egypt and Morocco, where consumer subsidies drain government resources, but benefit rich and poor alike. In both cases, attempts by the government to follow IMF/Bank advice and eliminate subsidies led to political unrest and demonstrations.

Brazil is an interesting example of a country where the Bank's policy dialogue has been very active. During the 1960s and 1970s rapid growth helped the Brazilian poor, but had largely benefited the better-off. The top ten percent of families earned 50 percent of the national income, and the Northeast Region contained the area's largest concentration of absolute poor. The Bank joined those inside and outside the country who sought to address "the social question" by arguing that a more aggressive attack on poverty makes good economic and social sense and would contribute to long-run political stability; in this effort the Bank was generally ahead of the government although well behind foreign and Brazilian critics.1/

Generalizations are extremely risky in this area as variations occur over time, and within regions and countries but overall our assessment is that poverty concerns seem not to have been pressed consistently or often in macro-economic policy dialogues. The Bank was particularly reticent in those countries with severe objections to a poverty focus, e.g. Chile, Nicaragua, Argentina. In those countries which were reasonably receptive, the Bank tended to emphasize the issues more strongly - e.g. Thailand and Tunisia. In other countries that had already made significant progress in reducing poverty through human resource programs, the policy dialogue shifted to other issues, including control of costs in social sectors and acceleration of growth (e.g. Costa Rica, Sri Lanka).

1/ See Appendix G for a more detailed review of Bank experience in Brazil.

Experience in the 1970s suggests that Bank macro-dialogue would be more successful in supporting poverty alleviation if it stressed that poor people can benefit from market-freeing and similar actions only if they acquire, through concomitant structural changes, the access, assets or information needed to compete in the marketplace. For instance, when the Bank advises governments to raise interest rates to market levels, it could also support schemes to enable commercial banks to lend to (and perhaps offer technical assistance) to small enterprises. Or, when the Bank advises governments to remove artificial restraints on food prices, it could also advise (and offer loans to support) land redistribution. That way, sound efficiency arguments would receive poverty-focused policy support.

The ultimate choice, of course, is the country's to make, and the Bank can only suggest sensible approaches. It does have considerable prestige and influence in many countries, however, which it is not using to its best advantage. Some staff suggest, for example, that the Bank has been somewhat inconsistent and poorly coordinated in its work on poverty and that greater efforts are needed to bring our lending program and the policy dialogue into closer alignment. One approach would be to give increased weight to poverty alleviation performance in future lending allocations. Another important way to help would be to focus more Bank research and follow up support for country economists, _et. al._ on implementation of the poverty alleviation policy. The current effort to provide greater analytical capacity for country policy work in Africa should be helpful. These steps should be taken to increase the Bank's ability to choose the most propitious place to make its greatest impact - at the project, sector or macropolicy level, or more likely, in a carefully integrated selection of interventions combining all levels.

On the whole, through its policy dialogue, the Bank tried to reduce disincentives to production and to employment-intensive activities. It also opposed subsidies and benefits that went largely to the rich. However, the dialogue concentrated heavily on efficiency ("getting the prices right"), rather than on poverty reduction as such. This may indeed be necessary to raise demand for the labor of the poor, but not sufficient to do so, or to reduce poverty. The other side of the coin - better market access, institutions and public sector programs for the poor - should equally be the concern of policy dialogue. The link between projects and the policy dialogue was often tenuous, with the concentration normally placed on the former, thereby diminishing the breadth and depth of our possible contribution to poverty alleviation as part of our growth strategy.

Part III: Implications for Bank Action

A. Introduction

As we have seen, the World Bank did not originate the concern for poverty. Sometimes leader, sometimes follower, the Bank has been neither enforcer nor conscience, but rather a partner with donors and borrowers in a major effort to enhance growth and reduce poverty in developing countries.

Overall, the Bank's poverty strategy in the 1970s produced efficient projects that have reached the poor both directly and through some local replication; the nature of the policy dialogue has shifted in some countries; and experience gained through learning by doing has resulted in improvements in development programs. In some countries the incidence of poverty fell sharply in the 1970s, and poverty alleviation policies, including the Bank's, can take some of the credit. But massive poverty still exists. What is needed now are further improvements in our approach based on the lessons of the past, especially because the difficult circumstances of the 1980s present the poor with increased risks.

B. Poverty in the Context of the Concerns of the 1980s

The "oil shocks" of the seventies, slower world growth and the increasing costs of financing development compound the difficulties of alleviating world poverty. Developing countries need to deal with the problems of energy development and structural adjustment in an environment where worsening trade prospects and scarcer and/or costlier inflows of capital threaten the resources and concern previously devoted to poverty questions. Some trade-offs in resource allocations probably cannot be avoided, yet with appropriate analysis and policy changes excessive hardships for the poor should be avoided and the growth path strengthened.

1. Energy and Poverty

Many governments rightly emphasize the need to develop alternatives to imported energy sources. Particularly important is the need to alleviate the chronic shortage of fuelwood, the energy crisis that directly affects much of the world's poor. As fuelwood is exhausted, the poor must turn to fossil fuel substitutes, thus reducing their own welfare and increasing balance of payments deficits. The danger exists, however, that resources will be pulled exclusively toward capital-intensive projects to find and exploit fossil fuels and away from high employment and poverty-focused productive and social sectors. While the Bank has thus far tended to expand energy lending at the cost of heavy oil-consuming sectors, 1/ spending on human resource development is often most vulnerable to domestic budgetary reductions, even though projects in these areas save little foreign exchange or energy. The energy intensity of outlays in such projects - and of poor people's own spending - is relatively small. Labor energy may be substituted for fossil fuel energy sources, thus stimulating employment. 2/

2. Structural Adjustment and the Poor

For many developing countries the effects of energy crises have brought deficits to 10-15% of GNP, which cannot be sustained indefinitely. Sudden sharp adjustments to eliminate these deficits could, even if equally shared, endanger the lives of millions of poor people. Attempts to smoothe the transition via structural adjustment loans (SALs) also represent an extremely important addition

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1/ See Appendix A, Table 2.

2/ See World Development Report - 1981, Ch. 7 for a detailed examination of how this trade-off can be minimized.

to the policy influencing instruments of the Bank as development of adjustment programs provides the opportunity to discuss major macro-economic issues with key decision-makers. Bank support via SALs for planned, gradual adjustment that takes proper account of impact on the poor could minimize damage to (and ultimately help) the poor.

SALs have been designed to have a direct and early impact on the balance of payments. Thus far, with an exception or two (e.g., Thailand), SAL analyses, conditions and procedures have not given priority to the likely impact on specific poverty groups nor have specific studies been undertaken to determine who will carry the heaviest burdens of adjustment. Stabilization and adjustment programs supported by the IMF and the Bank have emphasized adjustment in exchange rates, elimination of consumer and producer subsidies, reduction in redundant public sector employment, raising taxes and surcharges, and rationalization of public sector investment programs. These measures have often had an adverse effect on the small farmer and urban poor. In principle, "getting the prices right" in a SAL context could encourage labor intensive exports and expanded farm production which could increase employment and lower the prices of basic foods. However, unless a conscious effort is made in each case to assess the effect of proposed adjustment programs on the poor, it is possible that the poor will bear the heaviest burden.

3. <u>Poverty Projects and Costly Capital</u>

Most low-income oil importing developing countries have to finance development now with declining real levels of concessionary assistance. They must thus turn to costly non-concessional lending, when they can get it. The sharp decline in IDA VI availabilities is symptomatic of this problem and will be a major impediment in the Bank's continued efforts to concentrate resources in countries where poverty is worst. There may also be a tendency for finance ministers to give priority to projects - even with low returns and little poverty-focus - that rapidly return foreign exchange to governments to pay debt service bills. Poverty oriented projects, although efficient and important to growth, most often produce benefits that are long-term, widely diffused, or otherwise hard for governments to tap and apply to short-term payments. At the same time, the search for new revenues may lead to higher taxation or reduced subsidy programs that, unless carefully targeted, adversely affect the poor. More attention will need to be given to improving cost recovery, improving existing tax yields and, more broadly, identifying efficient ways of reaching the poor.

C. Conclusions and Recommendations

The Task Force has reviewed the Bank's experience and recommends that the Managing Committee issue guidance along the following lines to the staff.

1. The poverty focus remains a key feature of the Bank's overall development and lending strategy.

A balanced strategy of growth combined with poverty alleviation remains correct as a general framework for development in the 1980s. Based on the best available evidence, there are large areas of complementarity between the twin objectives of growth and poverty reduction. This strategy should assist political stability, and it conforms to the stated priorities of many lenders, of most borrowers, and of the United Nations system.

It thus has a strong political rationale as well as sound economic and humanitarian bases. There is no panacea in this approach, nor will it provide precise answers for each country specific case. No development strategy does. What it does provide is a viable and sensible point of departure for making critical decisions. The Bank's task is to build on the considerable achievements of the 1970s and to modify and strengthen the basic approach which now underlies its lending program.

Our discussions revealed widespread uncertainty about whether the commitment to poverty alleviation has been weakened or abandoned. The current concern with energy and structural adjustment, combined with the transition to a new chief executive, make many staff members question the Bank's commitment to this objective. New signals, real or imagined, are already affecting both policy dialogue and planned lending. The Managing Committee should reaffirm the commitment to finance new style projects which have a particularly direct impact on the poor, to achieve increased poverty impact from all our lending, and to help LDCs to adopt policies and programs supportive of that goal.

2. In a number of specific ways the staff could improve the quality of existing poverty focused work and broaden the coverage. This recommendation needs to be applied in four broad areas which should be elaborated based on the preliminary findings of this report. For this purpose the Task Force recommends that two committees - one for projects, the other for policy - be established within the operations complex to assure follow up.

(a) Structural Adjustment Lending

Each SAL should have an assessment of its expected impact on the poor based on analysis done in preparation for the program. SALs currently give little attention to their impact on poverty alleviation. The question of poverty impact needs to be explicitly introduced as a legitimate concern of structural adjustment. The anticipated impact of SALs on the poor should be described in a brief "poverty impact statement" in each loan document. Growth of exports, public-sector cost recovery, and economies in less efficient sectors should be the preferred ways to meet SAL conditions. Borrowers should be pressed to minimize cuts, especially if costly to reverse, in urban shelter, rural development, primary education, population and basic health programs; to assist in this, such programs should, if possible, receive priority in project lending to SAL countries. Analytical work should give more attention to how to mitigate the adverse effects on the poor of increased unemployment, higher prices of basic goods, higher taxes and other adjustment.

(b) Policy Dialogue

Despite some successes, the macro-economic policy dialogue lags behind project concerns with poverty. If the project work of the Bank is to be most effective, and if the Bank is to have greater impact, concern for poverty alleviation must play an increased role in the macro-economic policy dialogue. Careful attention to policy implications at the project, sector and national level can provide a very powerful instrument for poverty alleviation. When advocating price adjustments for example, the Bank should equally stress concomitant changes - both to improve poor people's market and bargaining knowledge, access and power, and to steer government outlay towards poor but promising areas and groups. Increased analytical work (and OED evaluations) and staff support should be directed to give more help to country economists and others in formulating Bank positions on poverty - including the poverty impact of SALs and of trade liberalization.

(c) Expanding the Poverty Focus in Project Work

The Bank devotes about two-thirds of its loans to projects in traditional sectors. More attention should be paid to their poverty impact - notably in power, transport and industry - at identification, appraisal, design and implementation stages. Minimally, even if by "quick and dirty" measurements, project officers should ascertain who benefits from a project in the short and long run (and, where possible, the program of which it is a part), or should determine , by allowing roughly for employment and other effects, whether the poor are affected adversely. DFCs and parastatals receiving loans should be pressed to on-lend or contract to small, labor-intensive local firms. These changes would normally increase efficiency (at appropriate prices) as well as help the poor; if there is a trade-off, at least project documents should spell out the options.

The Bank should move towards similar procedures for all projects, seeking both efficiency and alleviation of poverty. We should phase out use of the distinction between "poverty" and "non-poverty" projects (thereby broadening the poverty focus concept to encompass nearly all Bank activities), while expanding new style project lending where possible. That move should be accompanied by additional guidance to project officers on how they can roughly assess, under field conditions, the likely total impact of (say) transport or power project alternatives on the poor.

Guidelines on procurement, local currency proportions and recurrent financing should be examined with project officers to determine if greater flexibility or clarity in Bank policy is needed to develop efficient poverty-focused activities. Especially with new funding constraints, the Bank's Operational Guidelines - and less formal signals, including career incentives - should emphasize project quality and impact more and financial targets less; this could greatly improve the impact on the poor.

The country's overall portfolio and its investment budget are the crucial determinants of priorities; the Bank has an important role to play in the choices many countries make, however, and should exercise that role. Although a decline in IDA availabilities may unavoidably cut total Bank lending to the poorest countries, this should not justify shifting the Bank's project-mix within such countries away from a poverty-orientation. On the contrary, since that orientation (e.g., in rural development, urban shelter, and primary education and health) is fully consistent with high project returns, scarcer IDA/Bank resources should wherever possible be even more firmly directed, within the poorest countries, towards projects meeting both efficiency and anti-poverty objectives. These decisions should be made, of course, in the context of the total government program to assure maximum benefits are obtained from Bank investments.

(d) Improving the Effectiveness of Project Work

While the Bank has been generally efficient and effective in reaching the poor through certain types of projects, there is much room for improvement. (A great deal of benefit can be obtained by careful reading and use of OED evaluations, many of which have been drawn upon for this report.) More staff resources are needed for identification, design and implementation; for expert analysis and projection of social impact of projects; and above all, for technical assistance. Past project failures often relate to the inability to overcome deficiencies in administration and management, or to build a permanent and strong institutional base that will endure after the project. In Africa especially, these changes, and other investments in human resources, are crucial to lasting and successful development activities.

A constant theme in our review of poverty alleviation programs has been the need to pay increased attention to finding productive ways of reaching the poorest 20%. Neither donors nor borrowers have been very good at benefiting the 15-25% without productive assets - e.g., the rural landless, the urban jobless, most adult illiterates, female-headed households, etc. The Bank should intensify its efforts to understand how to increase productivity and/or employment for such people. Bank lending policies should allow considerable room for further testing of ways to assure that project benefits reach the poorest families.

In addition, our brief review indicated a number of ways to further strengthen the Bank's poverty lending, many of which are described in more detail in the appendices.

Rural development projects, for example, could do much more to reach the landless and near-landless. Project design guidelines should emphasize the need for favorable direct and indirect employment effects, and (normally) for avoiding labor-replacing mechanization. To increase the productive potential of the poor, and following up its Brazilian and other experience, the Bank should restate its 1975 position of readiness to lend in support of well-planned efficient land reforms. Bank support for research and field-testing of labor-intensive small-farm "packages" (especially in semi-arid Africa), and of water delivery systems that reach "tail-enders" in big irrigated schemes, should be increased. Post-harvest projects, and dialogues with government about price incentives, should give much greater stress to avoiding policies that discourage or damage small farmers. Bank successes in participatory activity with the rural poor should be reviewed, and built on in further project work.

Urban poverty projects have been cost-effective, and innovative in providing cheap shelter to the poor. Additional Bank research and experimentation are urgently needed to find ways to increase the productivity of poor urban workers, e.g., small-scale enterprises or service industry support programs.

In primary education, both the expansion in the 1970s, and the shifts from student quantity to educational quality in the 1980s, were cost-effective, helped the poor, and should continue. Water and sewerage has very cheaply reached many urban poor (partly due to Bank research and lending). Further activities should increase the proportions of project funds and staff time devoted to rural areas (now often those with most water borne disease, yet the worst facilities), and to training, institutional development, and interaction with health and education programs. Population growth rates in the 1980s will outpace real economic growth and the consequences will be felt most strongly by the poor. At the household level, failure to limit family size will aggravate the poverty cycle. Bank population lending, now at a very low level should expand substantially in the 1980s, as should free-standing health projects and attention to undernutrition.

Conclusion:

The Bank can be proud of its record of economic and social accomplishments. This report does not call for radical departures. It simply urges that we build upon what we have learned to further strengthen our balanced approach to development. There is no other sensible way to proceed but to pursue the twin goals of economic growth and poverty alleviation. This is sound economics and politics as well.

APPENDIX A: Trends in Bank/IDA Lending

TABLE 1

Bank/IDA Allocations to Low-income Countries
(% of total)

Income Group a/		Thru FY68	FY69-FY73	FY74-FY78	FY79-FY83
Group I (up to $390)	IBRD	19	11	16	17
	IDA	80	80	86	89
TOTAL		27	31	33	39
Group II ($391-680)	IBRD	10	12	19	22
	IDA	6	10	12	11
TOTAL		10	12	17	19
Total of Group I and Group II	IBRD	29	23	35	39
	IDA	86	90	98	100
TOTAL		37	43	50	58

a/ Per capita GNP in 1979 dollars.
Source: FY82 Budget (R81-113) May 5, 1981, page 9.

TABLE 2

Bank/IDA Sector Lending
(%, 3 year average)

	Fiscal Years 1968-70	1971-73	1976-78	1979-81
New Style Projects				
Rural Development	3.2	7.6	16.5	15.3
Education - Primary & Nonformal	.2	.8	1.4	1.6
Population, Health & Nutrition	0.0	.7	.6	.8
Small-Scale Industry	0.0	.2	1.7	1.7
Urbanization	0.0	1.3	2.6	3.4
Water Supply/Sewage	1.6	4.7	4.6	6.7
Sub-Total	5.0	15.3	27.4	29.5
Traditional Projects				
Agriculture	16.1	13.8	15.8	13.4
Energy - Power	24.6	14.9	13.8	15.0
Energy - Oil, Gas & Coal	.3	.9	.9	3.5
Industry (including DFCs)	15.7	16.4	16.6	13.8
Transportation	27.5	21.9	15.9	13.4
All Other	10.9	16.8	9.6	11.4
Total	100.0	100.0	100.0	100.0
Total Lending, amount (million $)	$1641.3	$2959.7	$7369.9	$11261.1

TABLE 3

Agricultural and Rural Development Lending
(Bank + IDA): Appraisal Data

	RURAL DEVELOPMENT Projects (no.)	Loans ($m.)	Poor Beneficiaries a/ (mn. families)	AGRICULTURE Projects (no.)	Loans ($m.)	Poor Beneficiaries a/ (mn. families)
FY69-73	50	548	-	100	2,038	-
FY74-77	137	3,484	6.7	113	3,038	1.0
FY78-81	136	5,939	12.2	159	6,267	4.1

a/ At appraisal; direct beneficiaries only, i.e. farm families below one-third of borrowing country's income-per-head and/or in absolute poverty. Source: CPS/AGR

APPENDIX B: Agriculture and Rural Development

The Bank's approach to rural poverty was outlined in the Rural Development Report Policy(1974). This policy emphasizes activities that increase the productivity of the rural poor (particularly small farmers), and requires examination of the likely production and income effects of projects and the distribution of benefits with respect to nationally identified poverty groups. Such projects must focus either on activities involving the rural poor, or on areas where they live. Physical and social infrastructure components (roads, health, nutrition, etc.) are to be included when they are necessary for the success of the productive activities. Guidelines in the policy paper also specified that:

i. Approximately half of planned lending for 'agriculture and rural development' should benefit the poor, through efforts to increase their productivity;

ii. Poverty-oriented rural development projects should reach large numbers of the poor at cost per beneficiary low enough to allow replication given the availability of of additional resources, and

iii. Rural development (RD) projects should make contributions to economic growth no worse than those of traditional agricultural projects. They would thus be required to show economic rates of returns at least equal to the opportunity cost of capital.

This last expectation is fully based in experience and research. Small (family) farmers usually saturate land and capital with more effort than big ("commercial") farmers, and hence usually obtain higher output both per farmed acre and per unit of capital. While slower to adopt risky innovations, they do so at least as intensively as larger farmers in the medium term. Partly for these reasons, small farmers usually show considerably lower ratios of defaults to borrowing (although the administrative cost per dollar loaned is often rather higher).1/

Did Bank RD projects support these expectations of small-farm success? The record of audits, as discussed in the text, is generally favorable. It is important to underline the fact that there are experimental, open-ended projects which involve large amounts of learning-by-doing. For example, in the Upper Volta Rural Development Fund Project, the farmers' reactions to components implemented early in the project were instrumental in the design and implementation of subsequent components. Equally important is Bank support for pilot projects. In Mexico (PIDER), India (Rajasthan Dairy), Nepal (Rural Development), and Malawi (Lilongwe) the Bank helped initiate projects which formed the basis for wider follow-on projects and national programs.

Despite considerable progress in many areas, serious technical problems still exists. Low-risk technical "packages" appropriate for poor farmers in semi-arid rainfed areas, particularly in Africa, are not readily available. In irrigated areas inadequate or corrupt water delivery practices often deny water to both poor and downstream farmers. Research and field-testing of economic, labor-intensive remedies to these problems are needed for improved project impact on rural poverty.

1/ R. A. Berry and W. R. Cline, Agrarian Structure and Productivity in Developing Countries, Johns Hopkins, 1979; U. Lele, 'The Role of Credit and Marketing in Economic Development', in N. Islam (ed.) Agricultural Policy in Developing Countries, MacMillan, 1974; M. Lipton, 'Agricultural Finance and Rural Credit in Poor Countries', World Development, IV, 7, 1976

In addition, Bank projects have provided few direct benefits for the landless, for tenants unable to offer collateral for loans, and for the "near-landless" mini-farmer, eking out farm income by working for others, and finding it hard to borrow, to acquire inputs, and to take risks.[1/] Nonfarm components of RD projects might reach these groups - but such components were only 14% of project value[2/] in FYs 1979-81, half of it for rural roads, and hardly any for off-farm enterprises. Employment benefits have reached some people in construction stages of public works or settlement projects; less often, as farm output rose, significantly more farm workers have been hired.[3/] There is some evidence, however, that these indirect benefits often do not reach the poor. For example, DRC research on the Muda project (Malaysia) showed that while 75 cents of indirect benefits were generated for every dollar of direct benefit, they hardly reached the poor at all (see Appendix C).

Furthermore, a small minority of Bank projects appear to have made the landless worse off. In some instances, though not all, finance for mechanization (combines, tractors, modern rice mills) has reduced employment, thereby adding to rural poverty; or has encouraged landlords to evict tenants, and farm with greater capital-intensity on larger holdings. Again in the Muda project, larger farmers mechanized, displacing landless workers, while small farmers tended to use more hired labor. OED's parallel audit of the neighboring

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1/ In Bangladesh, landless labor comprises about 20% of rural populations; people farming less than an acre of rented land and owning no land, 8%; and others farming below an acre, 10%. T. Jannuzi and J.T. Peach, The Agrarian Structure of Bangladesh, An Impediment to Development, Boulder, Colorado, Westview Press, 1980.

2/ Excluding contingency costs.

3/ Typically a 10% rise in cereal yield means a 3-4% rise in labor requirements per acre - less if mechanization increases. J. W. Mellor, The New Economic Growth: A strategy for India and the Developing World, Ithaca, N.Y Cornell University Press, 1976.

Kemubu project, where initial inequalities were less, showed much less tendency to mechanize, similar rates of return and a wider spread of benefits. These Malaysian projects were approved long before the emphasis on poverty in the Bank began, but similar problems have recurred elsewhere. In some cases Bank projects will inevitably increase inequality because all farmers are not equally endowed with skills and resources. Our concern, however, is for the minority of projects where very poor people are inadvertently harmed. Greater Bank involvement with land reform - as in N. E. Brazil - may in some circumstances avoid such risks.

Third, pricing and post-harvest policies often undermine projects aimed at the rural poor. In Tanzania and Zambia, inadequate price-incentives have jeopardized several small-farm projects. Furthermore, the Bank's emphasis on increasing productivity and the belief that marketing will take care of itself once production is increased has often meant inattention to the post-harvest needs of the poor. Yet where the Bank has supported post-harvest systems, the results have tended to be disappointing. Large-scale storage projects, including some shown by OED to have very low returns, too often withdraw grain from efficient small-farm stores to less efficient centralized systems. These are complex issues because consumers gain when food prices are low - but price and market policy is a serious weakness in some of the Bank's attempts at rural poverty-focus.

Fourth, the Bank has some difficulty with rural development because it tends to use institutional models perfected for traditional infrastructure projects. Success in poverty-oriented projects depends, much more often than in traditional projects,on sociological, cultural and political factors. These are not areas where the Bank has demonstrated particular expertise. For example, inadequate attention to the social and political context in the Lake Alaotra project (Madagascar) helped create a system of absentee landlords, sharecropping tenants and migrant farm laborers. Community cooperation and responsibility were destroyed and wealth disparities, social stratification and ethnic conflict have increased. Other projects (Semry I (Cameroon), Casamance (Senegal), Benin Hini (Benin)) have ignored the role of women in the production process, adversely affecting their income-earning capacity.

Such effects upon women show that "local participation" is no magic solution. It all depends who participates. Participant men can skew projects against less-articulate women; landlords, against tenants; bigger farm lenders and water-sellers, against smaller-farm borrowers (as in the otherwise successful "integrated rural development program" in Comilla, Bangladesh). To ensure that the poor benefit, it may be necessary to mix participation with instruction, as in the Bank's successful "training and visit" system of agricultural extension in Rajasthan, India; or even with some outside organization and paternalism, as with the successful Bank-supported Indian dairying "co-operatives" based in Anand. These have benefited many thousands of landless persons owning no more than a milch buffalo or two. While formally participant owners of co-operative dairy facilities, they would surely have found their interests - and maybe lives - subjugated to the local power elites, unless "protected" by the almost parastatal, centralized, and formal organization of the AMUL "co-operative". To understand, support, and selectively finance such activities in a truly poverty-oriented fashion, the Bank requires more local expertise, social-anthropological in nature, than it usually seeks out.

APPENDIX C: Case Studies

1. Sierra Leone: Integrated Agricultural Development Project [1/]

This rural development project provided small farmers in Sierra Leone with credit extension and training in support of the development of 6,000 acres of swamp rice, 750 acres of cocoa and 1,830 acres of oil palm plantings. In addition, the project financed the completion of a oil palm plantation and an oil mill, and assisted in establishing an autonomous project authority. The project was supported by an IDA credit of $4.3 million, signed in June, 1972, which covered 75% of total project costs.

The project was fairly representative of early rural development projects in that it resulted in a mixture of successes and shortcomings. Overall, the project had a favorable impact on the economy and the rate of return re-established by OED at audit was 20%, compared to the appraisal estimate of 15%. The area planted to rice, oil palm and cocoa actually exceeded the orginal estimates, as did the number of farmers receiving farm credit. A significant amount of farmer and staff training was accomplished, some of which was useful in carrying out a subsequent project in the country.

The major failure of the project was in institution-building. The project was largely implemented by expatriate staff operating out of a separate project unit in the Ministry of Agriculture and Natural Resources. There was no enhancement of the known weak administrative capabilities of the government, and there was a marked deterioration in project performance once the expatriate staff were withdrawn. Because of a deterioration in the extension services, yields on oil palm and cocoa were less than expected.

The appraisal report seems to have badly misjudged the on-farm conditions and social complexities. It was assumed, for instance, that rice farms could be managed with family labor, when in fact they have required as much as 50% hired

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1/ This section is based on OED's Project Performance Audit Report No. 2066 (May 22, 1978).

labor. The result has been a labor shortage, rising wages, and reduced profitability in rice farming. Combined with low procurement prices for rice, and a weak extension service, this has had the effect of reducing farmer interest in swamp rice production, and a return to more traditional and more profitable upland rice cultivation. The recalculated rate of return from this component of the project turns out to be 6% or less, suggesting that it was probably an inefficient use of national and Bank resources. Land tenure disputes also arose as a direct result of the project, as traditional chiefs attempted to exert their influence over newly cultivated lands, and from a prevalent feeling that the project unduly benefited a minority of farmers. The appraisal mission's decision to allow farmers to borrow only for one crop, and for a limited acreage, proved difficult to implement and in practice was often circumvented through intricacies of the extended family system. By having several family members apply for loans, a single family unit could obtain the necessary credit it needed without regard to project limitations. Because of this, it is difficult to estimate the total number of project beneficiaries, particularly small farmers.

The success of the project was also limited by government official price policies, which set official procurement prices below that in the free market for rice and oil palm. As a result, the oil mill financed by the project has been unable to purchase sufficient inputs to operate at full capacity, and thus does not operate profitably. Low rice prices are considered to be one of the most critical reasons for declining interest in swamp rice production. Despite a project financed rice marketing study, the Bank was unable to get the government to raise prices of rice or to undertake other marketing improvements.

Despite these deficiencies, the project successfully increased productivity of a large number of small farmers, and increased incomes for landless laborers as well. Many of the lessons of this project, particularly on project administration and socio-economic conditions, have been drawn upon the design of other projects, including a follow-on project to this one.

2. Malaysia: Muda and Kemubu Irrigation Projects [1/]

Bank financing ($45 million) was provided to the Government of Malaysia in November 1965 and June 1967 for two irrigation projects, respectively the Muda Irrigation Scheme on the northwest coast of peninsula Malaysia and the Kemubu Irrigation Scheme on the northeast coast. Both projects aimed to provide controlled irrigation to settled paddy rice farmers, so as to secure their main-season crop and permit them to grow an off-season crop of paddy, thereby increasing the country's self-sufficiency in rice and improving farmers' incomes in previously depressed areas. The total project cost of $114 million covered the construction of dams, canals, pumps and other irrigation infrastructure; no provision was made for the financing of on-farm development or supporting services.

The Muda and the Kemubu schemes achieved their explicitly stated goals, and by all conventional test they were successful development undertakings. Yet, in the broader development context, with regard to their implict income goals and their intended role as instruments for addressing social equity issues, they were less successful. This stems from the fact that these are land poor regions with limited alternative development opportunities and an initially skewed distribution of land and other assets. Paddy oriented development activities tended to magnify this skewness. Thus, while most people in the project areas are better off, some have benefited more than others and some farmers remain below the country's poverty line. While this result was predicted at the time the projects were designed, it could have been offset if complementary programs aimed at low-income farmers had been developed.

The provision of irrigation water has been a key factor in making feasible, important technological transformations in both Muda and Kemubu schemes.

1/ This section is based on OED's Impact Evaluation Report No. 3587 (August 24, 1981).

By the time the initial investment period ended, the use of improved rice varieties, agrochemicals, and machinery for land preparation was generalized in Muda and widespread in Kemubu. After 1974, improvement of the paddy production technology has been slow.[1/] The major reasons appear to be the absence of timely follow-up on infrastructure development and the limited applied research and extension support to help farmers take fuller advantage of and build upon the basic technological knowledge available. Nevertheless, the initial gains in productivity were preserved, although not further augmented after the project were completed.

In addition to the production goal, there were two equity goals enunciated for both the Muda and Kemubu Schemes. The first, which was to raise aggregate incomes in two of the poorest regions of the nation, was in harmony with the goal of increasing production. The Muda and Kemubu projects succeeded in contributing to improving the aggregate income of the rural population in both schemes. Average real income of paddy households in Muda increased by 47% from 1966 to 1979, while in the case of Kemubu, average income of paddy households has tripled.

The second equity goal was to ensure that the income gains generated by the projects were distributed equitably among the schemes' population. This goal, particularly in Muda, was not in harmony with increased production *per se* and has proven to be elusive. Not only has the improvement in aggregate income in Muda masked inequities in the distribution of that income, but such inequities tend to

1/ The ministry of Agriculture indicated that new varities have been introduced, fertilizer recommendations refined, insect control improved and better rodent control initiated.

perpetuate themselves through institutional means. Small farmers, comprising nearly 50% of Muda's farm households, have realized only minimal gains in real income since 1966, while those with access to larger plots, particularly large owner-tenants, have experienced substantial gains in income. In addition, there has been a marked decline in the ranks of tenants as higher profits and mechanization have encouraged landlords to resume cultivation.

This substantial group of small tenants and owners represents the heart of the equity problem in Muda. Their poverty emanates from their meager productive resources, but has been aggravated by increasing costs of production and the loss of wage labor opportunities due to the mechanization of harvesting. From 1966 to 1979, the gap between their real incomes and those of larger operators has grown substantially. They were well below the Malaysian poverty line income before the scheme began and they remain nearly as far below that line today. The otherwise laudable growth of autonomous Farmers' associations, dominated by larger operators, threatens to permanently exclude them from access to credit and influence over agrarian policy. There seems no way, under existing institutional arrangements, that their plight can easily be remedied in the context of the Muda Scheme alone.

For the Kemubu scheme, the equity goals were similar to those in Muda although the results were substantially different. Owing to the extremely small average farm sizes and low yields in Kemubu, the average income of all tenure categories remained below the poverty level, even after the recent increase in paddy prices. An estimated 60-80% of the households in Kemubu live at or below the minimal standard of livelihood as compared with 40-45% in Muda.

As landownership and operating farm size remain fairly equitably distributed in Kemubu (especially in comparison with Muda), the returns to double-cropping have not been notably maldistributed. The only exception to this pattern is the class of pure tenants who have extremely low net returns owing to small farm size and share-cropping rents which take half the gross yield. As in Muda, this class of tenants is being liquidated as landowners resume cultivation in their own right. Thus, aside from the problem of low income tenants, the central problem of Kemubu is not equity within the scheme, but rather shared poverty throughout it.

APPENDIX D: Urban Development

In East Asia, Latin America and EMENA, towns contain a rapidly growing proportion of the population, and nonagriculturists form an actual or emerging majority of workers. For most people in developing countries, this is not the case. Cities of over 2 million contained only 2.7% of Africans, and 4.8% of South Asians, in 1975.[1/] The proportion of India's people living in places with over 5,000 persons grew only from 17% in 1951 to 22% in 1980.[2/] However, rapid urban growth in LAC and EMENA - and even the more modest growth of most of Asia and Africa, superimposed as it is upon much lower average incomes, severer land shortages, and great intra-urban inequality - causes severe problems to the urban poor.

These problems were addressed in policies flowing from the Bank's 1972 Urbanization Sector Working Paper. It noted the special importance of growing shortages of shelter - and of supporting services, especially sanitation and drinking water - affordable to the urban poor. It stressed that housing comprises much the largest part of their physical assets by value - more evidence for this has since accumulated - so that upgrading and servicing of this housing stock appeared to be a very promising way to raise the incomes of the urban poor. However, in the 1960s, most so-called "poor people's" or "low-cost" urban housing was in fact built to high standards, on a large scale, with standardized Western-style design. Therefore, such housing was seldom affordable except to the richest 40% of urban people - and this despite heavy subsidies, which made the approach infeasible on any large scale.

1/ UN, Patterns of Urban and Rural Population Growth, Population Study No. 68, New York, 1980, pp. 11, 49, 51.

2/ UN, pp. 26, 161.

Hence the new Bank approach involved "sites and services" construction, and later shifted to "squatter settlement upgrading" (see text). This new urban shelter program applied six key concepts. Self-help labor provided low-cost housing, rather than high-standard, contractor-built public housing affordable only by the middle class. Secure land tenure gave settlers, particularly squatters, adequate incentives to build permanent housing. Local government acceptance of appropriate design standards helped ensure affordability. Cost recovery reduced the drain on funds from other high-priority areas, and thus enhanced broader replicability.

Recently, the Bank has moved from first-generation shelter-based projects to integrated urban programs, including transport, social services, and some direct employment generation (which remains a major problem area). Attention has shifted from site-specific to city-wide problems and to the development of stronger urban institutions, at the cost of some reduction in direct poverty impact.

About 1.5 million households are benefiting, or expected to benefit, from the 52 projects with major urban shelter components. 1/ The Bank's investment was $1.6 billion, matching $2 billion of domestic and external co-financing. Appraisal data suggest that over 55% of project costs were incurred to provide direct benefits for the poor. Appraised rates of real economic return are well over 20%, although with much variation among projects.

As few projects are complete, evaluations of actual performance are few. A recent intensive evaluation of four early projects, however, concluded

1/ These include 36 urban shelter, 13 integrated urban and 3 regional development projects. The last two incorporate wider objectives and more components, but most spending is for urban shelter. Source: Retrospective Review of Urban Operations, Operations Support and Review Unit, CPS/URB, November 1981, and information from Mr. G. Beier, CPS/URB.

that they were "remarkably successful."[1] The switch to self-help measures raised national production of low-cost housing by as much as 50%. The beneficiaries have been stimulated to invest money and time in further improvements.

Sites and services projects reached many urban households in the second and third poorest quintiles. While much better than most public housing (which rarely reaches below the second-richest quintile) they did little for the poorest group. Squatter upgrading schemes have done somewhat better. The main benefits for the poorest have come indirectly, as with experience project strategies have been changed to encourage direct beneficiaries to hire labor and to rent out rooms. It is not feasible, however, to target many benefits only to the poorest groups, and these programs do efficiently reach large numbers of the urban poor.

As for cost recovery, proportions have varied from 99% of recurrent costs plus interest charges in Indonesia to 63% for five projects in East Africa.[2] Poor people have not been found to be less reliable debtors. Effective cost recovery, however, requires local enforcement, better record-keeping, and clearer communication of intentions to beneficiaries. Perhaps the biggest problem is that some municipalities lack a tradition of paying taxes or the will to collect them.

The generally good record on cost recovery shows that the urban poor not only need, but also effectively demand, simple improved shelter. These assets provide housing services (income in kind) to their occupants, monetary income when rental occurs, and collateral for loans whose proceeds might be used for education or for the financing of small business ventures. Shelter projects have

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1/ DED/IDRC study on Zambia, Philippines, El Salvador and Senegal projects.

2/ Retrospective Review of Urban Operations, p. 65.

attempted to increase employment and income through on-site small-enterprise loans, but these have so far been rather unsuccessful. Reasons include lack of markets, inadequate support by implementing agencies, and problems in assessing support requirements at appraisal. The issue is crucial, and experiments continue; the Philippines Urban Project III seems especially promising. However, in poor (and rich) countries, small formal enterprise is plagued by poor management, diseconomies of scale, marketing weaknesses, and hence frequent bankruptcies; there may be more scope for support of informal, family enterprises (see Appendix E).

The Bank seems ahead of recipient governments and other donors in producing and financing innovative, improved ways to shelter large numbers of the urban poor. Bank programs, by initially "seeding" private self-help by the poor, have dramatically changed the accepted view of low-income housing in many countries. Even where pilot projects have not gone well - e.g. Senegal - governments have adopted the more affordable sites and services approach. Better and healthier shelter should indirectly increase the productive capacity of the poor; the poor want these programs and they are prepared to pay for them. A main task in the 1980s is to build on experience - with urban development projects, small scale enterprises and the more employment-intensive components of DFCs - that will encourage urban employment. 1/ To achieve this, Bank policy dialogue will need to complement its projects more than in the past - and, in particular, to assist governments to modify policies on technology, licensing, and pricing in an employment-creating way.

1/ Great care should usually be taken to avoid <u>subsidizing</u> urban employment (or wage-rates) <u>relatively to rural incomes</u>. This would encourage migration to the towns, and hence fail to reduce the incidence of urban employment and poverty - apart from being inefficient.

APPENDIX E: Small-Scale Non-Farm Enterprises (SSEs)

A 1978 sector policy paper 1/ summarized evidence that, typically, "small manufacturing (and service) firms generated" more direct and probably more indirect jobs per unit of invested capital" than larger organizations - although often by producing "physically and/or qualitatively different" output. The SSEs' genuine weaknesses and artificial disadvantages were listed, and remedial policies (and suitable institutions to channel Bank loans) were specified. Higher administrative costs than for large-scale industrial lending were accepted, and a steady increase in Bank lending - partly experimental - "from about $50 million in FY 1977 to $300 million (in constant 1977 dollars)", in FY 81 or from 7% to 30% of DFC commitments, was proposed.

SSEs are potentially a promising and efficient way to reach the poor. More readily than large firms, they replace imported materials by local substitutes, and oil by animal-power; engage in small-batch production, sub-contracting and finishing; take on seasonal work; and move family assets (e.g. the ox-cart) between domestic use and market production. In rural areas, SSEs account for over a quarter of working time - closer to a third for non-farmowners, and hence for the landless poor - and for over a third of income. 2/ In cities, the "informal sector" can make the difference between an urban slum and a self-improving system of production and trade - albeit often vulnerable, and dependent on bigger firms. 3/ Yet OED audits show that Bank SSE funds seldom reach really small firms, despite a clear statement of the intention (and the difficulties) in the sector policy paper.

1/ Employment and Development of Small Enterprises, World Bank, Feb. 1978.

2/ E. Chuta and C. Liedholm, Rural Non-Farm Employment: the State of the Art Michigan State University, 1979, summarizing their micro-studies in eight developing countries.

3/ See 1978 special number of World Development on 'the urban informal sector' edited by R. Bromley.

Moreover, Bank lending to SSEs in 1981 was only 22% of all DFC lending.

Very small firms are much the greater part of SSEs. Even in manufacturing, more than twice as many people work in firms with 1-9 workers in Egypt, Ghana and Ethiopia as in firms with 10-49 workers.[1/] Workers in very small firms are likelier to be non-unionized, and hence to earn lower wages. Most importantly, crucially, in Malaysia, Mexico and Pakistan, each unit of fixed capital produced about twice as much value-added in firms with 1-9 workers, as in firms with 10-100 workers - which did no better than bigger firms.[2/] Similarly in India in the early 1960s, the very small firms did best on output per unit of capital, the big firms on labor-productivity - and the intermediate SSEs on neither.[3/] Attempts to "train" entrepreneurs seemed in several countries to succeed much more often if the workforce did not expand beyond the typical "family span" of 2 to 7.[4/] Moreover it is these really small enterprises that show the greatest capacity to retain workers, even competing against (or complementing) large enterprises, in advanced economies such as France and Italy.[5/]

The DFCs and banks, to which Bank lending for SSE is advanced initially, tend - for reasons of administrative cost, default risk, and familiarity - to on-lend to biggish SSEs, typically with well over 50 employees. Thus three loans to the CFP (Colombia) and four to the SMIB (Korea), while quite successful, did not get to really small firms. Better results in this respect are likely from the 1980 loan to the Korean CNB, with its branch network to the neighborhood level and an excellent

1/ J. R. Page, Small Enterprises in African Development, Staff Working Paper No. 363 (Oct. 1979), p. 2.

2/ Sector Policy Paper, p. 67.

3/ P. N. Dhar and H. Lydall, The Role of Small Enterprises in Indian Economic Development, Asia (New York), 1961.

4/ J. Hunter, Things Fall Apart: A Study of the Botswana Enterprise Development Unit, mimeo, Institute of Development Management, Gaborone, 1978.

5/ S. Berger, in M. Piore and S. Berger, Dualism and Discontinuity in Industrial Societies, Cambridge, 1981.

loan collection record.[1] The issue is especially important because "the small is the enemy of the smallest"; small-to-medium millers, brickmakers, etc. tend to compete away the livelihoods, not of large urban or foreign firms (which usually have differentiated products), but of tiny family enterprises, especially in rural areas.[2]

Some of the initial approaches, outlined in the sector policy paper, have proved doubtful. In Indonesia and in Kenya, promising alternatives are being explored to the unsatisfactory forms of "technical assistance" hitherto offered SSEs. Industrial estates often subsidize, or otherwise coddle, SSE inappropriately. Legal protection or interest-rate subsidization, if specific to SSEs, is open to assorted abuses. A current DPS/DED project should help to identify the products, places and problems most relevant for cost-effective lending to assist really small firms. The Bank's emphasis has already shifted, especially where more than two successive SSE programs have permitted learning-by-doing - in Bangladesh, Colombia and the Philippines. In trade promotion (Nepal), tanning (Bangladesh), and rubber products (Sri Lanka), the stress is increasingly on ample, not on subsidized, credit; on sub-contracting from big firms to SSEs (outwork); and on modification of regulations, unless needed for health and safety, that give undue advantages to larger firms.[3] Such shifts may help to overcome the present bias in Bank DFC lending towards formal, urban, industrial, and especially not-so-small firms.

1/ J. Levitsky, World Bank Assistance to SSEs, Industrial Development and Finance Department, August 1981.

2/ M. Lipton, Botswana: Employment and Labor Use, Gaborone, 1978, Ch. 8.

3/ K. Marsden, Finance and Development, Dec. 1981.

APPENDIX F: Projects in Human Resource Development

1. Education

In the early 1970s, most children in poor countries did not complete primary school. Moreover, the quality of primary schooling was low. For both reasons, secondary (and subsequent) education drew on an inadequate pool of candidates. The large proportions of developing countries' spending and lending that went to non-primary education, therefore, produced disappointing results. There was a strong case for raising the efficiency of total educational systems by raising the share of education resources for primary schooling.

Apart from the efficiency case, there is also an equity case. Only poor families are likely (even in developing countries) to miss out on primary schooling. On the other hand, the better-off are heavily overrepresented in most expansions of secondary, and especially in tertiary, education. Therefore, a growing proportion of outlay on primary schooling, within educational or total development expenditure, is likely to benefit the poor.

Primary education raised its share in Bank/IDA education loans from 8% in FYs 1968-70 to 23% in 1973-5 and 33% - i.e. 1.6% of all loans - in 1979-81. There is evidence that this was efficient. ERRs are consistently higher to primary education than to other education.[1/] Moreover, primary education is necessary for overall education, which in turn is associated with higher agricultural yields, higher

1/ G. Psacharopoulos, 'Returns to education: an updated international comparison', in T. King (ed.), Education and Income, Staff Working Paper #402, World Bank, July 1980.

off-farm labor productivity,[1/] and greater receptivity to family planning.[2/] OED evaluations do not suggest that Bank projects in primary education (relative to further education) were less satisfactory than other projects. Hence we may conclude that this shift was both efficient and equitable.

In many countries, however, rapid growth of primary education has sacrificed quality. Recent Bank projects have therefore shifted from increasing numbers to improving curricula, teacher-training, student health, and especially textbooks. The Philippines Education III project helped to produce 97m. modern textbooks, reaching almost every child - usually (especially in science and mathematics) with greatest effect on poor children.[3/] Moreover, once a country has achieved widespread and adequate primary schooling, a renewed emphasis on secondary and tertiary education may be both efficient and - provided access is assured - good for the poor. DPS/DED research shows that income growth in 1970-80 for the earning poor (absolutely and relatively to the better-off) was faster in Kenya than in Tanzania, as a direct result of Kenya's much faster expansion of secondary schooling.

Schools and teachers do not suffice to ensure that poor children participate. In poor families, children's earnings are often important. In some countries with education projects, the Bank has insisted on sector-wide "school mapping" - planning school locations to minimize travel time. There has also been Bank pressure to shift school terms away from agricultural peak periods, making it easier for poor children to attend.

1/ M. Lockheed *et al.*, 'Farmer education and farm efficiency', and A. Berry, 'Education, income, and urban poverty', in *ibid*.

2/ R. Ridker (ed.) *Population and Development*, Resources for the Future, 1976, esp. Ch. 1.

3/ S. Heyneman and X, Ontenegro, *Social Environmental Factors which Influence Student Learning in the Philippines*, mimeo, World Bank Research Project RP0671-60, Oct. 1980.

Costs of books and uniforms, too, can easily deter poor children. However, cost recovery - at least from better-off families, and in higher education - may become essential, alongside general revenue improvements if governments are to be persuaded to expand education while funds (including Bank loans) are expensive. Bank readiness to support local and recurrent costs, especially for primary schooling where these form the bulk of outlays, could greatly help continued expansion in the 1980s of poverty-focused and efficient educational programs. 1/

2. Population

Poverty and high fertility are mutually reinforcing. Moreover, both social and economic conditions and family planning are important to determining birth rates.

Very poor families typically contain small children, and suffer high infant and child mortality. They are locked into two vicious circles. First, many births are needed to make up for high death-rates and poor work prospects; but numerous small children deplete savings and income, impede family nutrition and prosperity, and thus perpetuate high death-rates and family poverty. Second, poor parents have many children, to improve their chances of support in old age; yet each couple's children mean more competition for limited jobs. 2/ The link between poverty and high rates of childbearing is further cemented by the fact that the poor have very limited access to modern and simple means of contraception.

1/ Apart from the massive shift towards primary schooling, Bank loans also shifted towards non-formal and technical education. Evidence does not yet permit assessment of the poverty impact or overall success of such loans.

2/ R. Cassen, India: Population, Economy, Society, MacMillan, 1979, esp. Chs. 1-3; World Development Report; 1980, Ridker, op. cit.

Existing funding (about $1 billion) for population programs reach no more than 1/3 of the couples of reproductive age with family planning services; about 1/4 actually practice, as a rough approximation. In such a context major contributions with modest increases in investment are possible. Given the Bank's lending role, and the emphasis which should be placed on population issues in the policy dialogue, a strong argument can be made for increased Bank lending in the 1980s; consideration should also be given to inclusion of population in the SAL or other non-project mechanisms.

3. Water Supply and Waste Management

Water Supply/Sewerage. Bank lending for water supply and waste management has benefited entire communities, rather than the poor alone. Economies of scale usually permit municipal authorities to provide water and sewerage to the poorest 40% of the population with less than a tenth of total outlays, although at lower service standards (e.g. by standpipes). The Bank has promoted tariff schedules that permit the poor to purchase essential quantities of water with 5% of income; non-essential consumption is then billed at marginal cost. This permits financially viable projects; although 70% of benefits go to the nonpoor, most beneficiaries are poor.

Recent refinements of on-site technologies reduce investment cost substantially, while services remain acceptable and convenient. Improvements have been devised which permit households to upgrade sanitation as incomes and water supplies permit. Reduced water distribution costs are being explored by installing pipelines, which may be supplemented to improve the convenience of standpipes, and ultimately to offer house connections.

Expanded efforts to bring safe water and waste disposal to the poor are hampered by inadequate funding. Only in urban areas, where both problems and solutions are shared by rich and poor alike, has there been a vigorous constituency for investment programs. Rural water supply, which has been especially frustrated by inadequate infrastructure for operations and maintenance, is now usually a greater health need. More emphasis needs to be placed on integration with health, education and staff training, and on institutional development in future lending for water supply and waste management.

APPENDIX G: Case Study in Country Dialogue

1. The World Bank and Poverty in Brazil: A Case Study

Poverty in Brazil: The Record

Between 1960-80 Brazil's GDP growth rate averaged 7.1 percent a year, or 4.8 percent per capita, reaching an average of about $1940 per capita in 1980 - an extraordinarily good performance by any standard. The available evidence suggests that to a considerable degree this rapid growth benefited the poor. Over the period 1960-78 the number of Brazilians with jobs paying more than one "minimum wage" (1970 level) rose almost twice as fast as the working age population, but roughly 30 percent slower than GDP. By 1978, such jobs were held by about half the employed labor force, compared with one-third in 1960.

But the gains of the rich have been much larger than those of the poor, reflecting persistently high levels of income inequality. The richest 10 percent of the families still receive over 50 percent of the income, while the poorest 40 percent continue to receive well under 10 percent of the income. The large differences in the incomes earned by different groups correspond to large differences in public services available to different regions. In 1970, the latest year for which sufficiently detailed data are available, life expectancy at birth in the industrialized southern regions of Brazil was roughly comparable to that in many developed countries; the average life expectancy of the lowest income group in the urban areas of the central northeast states, however, at 40 years, was about the same as the average for Ethiopia - a country with a per capita GNP about one-eighth of Brazil's.

The Evolution of the Bank's Program

The Country Program Paper (CPP) review process was the principal instrument used to effect a major reorientation of the Bank's lending program to Brazil, particularly at the Management Review level where the Bank's President had played a very active role. While the pressure to change clearly came directly from Mr. McNamara, his views were formed by the evolution of development thinking, both worldwide and in Brazil, which had placed progressively greater emphasis on equity and poverty alleviation.

The first CPP on Brazil (reviewed by senior management in 1970) expressed concern at the concentration of income and wealth in Brazil, but indicated that "at this point the Bank did not have a specific prescription for improving the distribution of income."

The distribution issue was strongly highlighted in Brazil by the 1970 census results, and the 1973 CPP review focused on the distribution of the benefits of growth as a criterion for judging government programs. It noted that the economic management of the government had recently been criticized on distributional grounds, which "explained the anxiousness of President Medici to find new solutions to the poverty problems of the Northeast" and observed that "a preoccupation with the equity of the development process appears to be figuring in the selection of Brazil's next president."

This CPP was the first to analyze the composition of the proposed lending program by major development objectives, one of which was "support to the programs to raise low incomes" and proposed a change of emphasis to weight the lending program "as much as possible - more than in the past - towards projects designed to assist lower income groups." The Bank would seek "to impart more emphasis to the new trend in the Government's policy, while helping the Government to apply it practically."

Following this review, the Bank initiated conversations with the Brazilian Government designed to increase the flow of projects coming to the Bank which would benefit the low-income segments of the population. It was decided to reopen discussions with the Government on agricultural credit for smallholders, despite the continuing problem of negative real interest rates, and to respond favorably to the Government's request for agricultural research and extension projects and integrated rural development projects with a focus on small farmers in the Northeast. A flurry of project identification and preparation missions followed in the course of 1973, the DRC-SUDENE research project was initiated and the Brazilian Government established an interministerial working group to prepare and support integrated rural development projects.

The 1974 CPP indicated that Brazil had been chosen by the Bank as one country in which special efforts would be made to implement the objectives of the 1973 Nairobi speech and contained a 10 page attachment entitled "Program of Action for Promoting Increased Productivity of Small Scale Farmers in Northeast Brazil." The postscript to this CPP noted that Mr. McNamara expressed the view that it was imperative that Brazil adopt policies that would raise real income for the lowest income groups and improve the income distribution. He requested that the Bank in its policy dialogue explore every possibility of bringing about such a policy orientation and stressed that it was particularly important to increase the productivity of small farmers in the Northeast, Brazil's poorest region. The pressure to maintain and extend this focus was continued in each subsequent CPP review.

As a result of this pressure, the composition of the Bank's lending program in Brazil gradually changed. Prior to FY1973, 86% of the Bank's loans went for electric power, highways, ports, industrial development and other infrastructure sectors; after FY76, this proportion fell to about 50%. Between FY71 and FY75 there were five projects with a specific objective of assisting Brazil's low income population focused on water supply, rural development and vocational education. The realdividing line, however, occurred in FY76 when three loans were made for rural development, nutrition and agricultural research in the Northeast. The discussion of rural development in this region led the government to implement a series of credit programs aimed at small farmers who previously had remained outside the credit system. At the Bank's insistence, some fo these early projects included minor land reform activities. The successful implementation of these activities gave rise to government support for the Piaui Rural Development Project, where landless peasants, sharecroppers and tenants will be sold land bought by the state government from large landowners. It is viewed by the Gvoernment as a pilot endeavor which could be widely replicated.

Bank Impact on Poverty Alleviation

Brazil has made significant progress in raising the incomes of the poor and in providing them with basic public services such as safe water, education, health care and even nutrition programs. This has helped both to alleviate material deprivation and to increase the productivity of the poor. But serious social problems persist. Given the country's rapid economic growth over the past decade and continued extremely unequal distribution of income, it is obvious that more could have been done if the political will to do so had been present.

It is clear that the Bank was prepared to proceed faster in poverty alleviation than the Brazilian Government, though no doubt not as fast or as forcefully as some Brazilians outside and even inside the Government would have liked. The process of change towards a greater poverty focus in Brazil and in the Bank was complex, with foreign and Brazilian critics of Brazil's development strategy well ahead of the Bank, and the Bank generally ahead of the Government. The Bank has lent its great authority to those in Brazil, inside and outside the Government, who have sought to address what Brazilians call "the social question" by arguing forcefully that a more aggressive attack on poverty makes good economic as well as social sense and will contribute to long run political stability.

Following the Northeast droughts of the early 1970s, the internal debate on income distribution and the 1973 oil shock, the Medici Government in its last months became more receptive to the Bank's urgings. President Medici, on a visit to the drought-stricken Northeast just before he left office, made his famous remark that the "economy is doing well, but the people badly." The Geisel Government, which took office in March 1974, was still more receptive.

This acceptance of responsibility did not always translate into the financial and administrative resources necessary to execute new poverty-oriented programs with vigor and efficiency. Many of these projects suffered serious delays and other implementation problems which in the last analysis suggests that they did not enjoy the top priority of the Braziliam Government. On the macro-economic level, a regressive tax system and huge credit subsidies have tended both to concentrate income and wealth and to slow job creation, working against improved income distribution and faster progress in poverty alleviation. Nevertheless, on balance, despite delays and implementation problems, these Bank projects designed to reach the poor appear to be meeting most of their objectives.

2. MOROCCO - Impact of the Bank's Poverty Focus

Until the end of the 1960s, as in most other developing countries, the primary goal of Government policy was to accelerate economic growth. In the early 1970s however, the social aspects of development received special attention as the third development plan (1973-77) noted the worsening of income distribution that occurred between economic policy measures such as subsidizing food prices, promoting job creation and implementing more ambitious social policies, particularly in the field of education. It was however recognized that the special situation of certain groups called for more targeted measures such as the expansion of the public works program (Promotion Nationale), which provided temporary employment to unemployed workers in rural areas during the off-peak season, the expansion of the land distribution program (initiated when expatriate farmers left Morocco), and the provision of free medical care to the poor.

Despite these efforts, progress realized by Morocco remained minimal. More detailed analysis by the Bank of the 1970-71 and the 1959-60 household consumption surveys pointed out that household consumption declined in real terms from 1960 to 1971 for the poorest households, and particularly in rural areas. As social indicators were tabulated for different countries, it also became apparent that Morocco still ranked below the levels reached by other countries at a similar level of development. This led to a series of recommendations on the part of the Bank for Morocco to implement a shift in policy towards greater emphasis on basic needs delivery. These recommendations were conveyed to Morocco on various occasions and at the highest level. Those led to the decision by the Bank to undertakee a major assessment of social policies within the framework of a Basic Economic Report in 1978-79. As this report attempted to analyze employment and labor markets, health services delivery, population policies, price and subsidy policies, income distribution changes and the evolution of absolute poverty, it generated a considerable interest in Morocco and lengthy discussions as major parts of the report (still of a confidential nature) were quoted in the local and international press.

Despite the occasional tensions created by the sharp criticism of economic and particularly social policies expressed in the BER, the overall impact of the Bank recommendations for improving basic needs delivery and reaching a more equitable distribution of income both geographically and across households has been substantial and positive. Many recommendations of the BER have now been implemented by Morocco or are proposed in the 1981-85 development plan. Despite the cost of the Sahara war since 1975 and the economic stabilization program in 1978-80, social expenditures have been maintained at a high level accounting for more than one-third of total budgetary expenditures (including capital investment). The lack of a clear definition of the focus of social expenditures in terms of target groups and type of services and the relative inefficiency of past social policies in reaching lower income groups - especially in rural areas - have been increasingly recognized as a major issue. An attempt by the government to follow IMF/Bank advice by sharply reducing subsidies, particularly for food, led to public protest and demonstrations in 1981. Despite these problems, subsidies have been reduced, and a new series of socially-oriented development projects have been gradually implemented in collaboration with Bank project departments. In the public health sector, for instance, a pilot program is being prepared to deliver basic health services in rural areas, including family planning (which until 1978 did not receive much official support in Morocco), nutritional and environmental sanitation activities.

In urban development, slum upgrading in conjunction with the areas where innovative solutions have been implemented. An effort is also being made to improve the access to basic needs, especially for water supply through the creation of a revolving fund to help finance house connections for the low income families, for electricity through a series of village electrification projects, and for education by emphasizing primary and basic education. In agriculture, following the recommendations of our recent sector memorandum, the Government has devoted a larger share of its resources to the traditional sectors in rainfed areas where productivity is typically low. This represents a significant shift in government policy as in the past the long-term objective of irrigating one million hectares was the backbone of the Government's agricultural policy and drained most financial resources allocated to agriculture. In the industrial sector, an effort is also being made to improve the access of small enterprises to credit through a series of Bank-financed loans and preparation of a project is underway for artisanal mining.

Overall, it would be certainly exaggerated to attribute all the changes in Morocco's policy to the role of the Bank and our dialogue with the Government on social policies. The impact of the Bank has nevertheless been substantial in part because through a series of circumstances our emphasis on social policy was provided at a time when the country itself decided that a different approach was needed.

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March 3, 1981

PRC/s/M/81-3

POVERTY AND THE LEAST DEVELOPED COUNTRIES

STAFF REVIEW

Attached is the paper "Poverty and the Least Developed Countries" prepared by the Policy Planning and Program Review Department. The staff level review on the paper will be held on Thursday, March 12, 1981, at 3:30 p.m., in Room I-8-218.

This paper will be the Bank's official submission to the forthcoming U.N. Conference on the Least Developed Countries, which is scheduled for September 1 to 14, 1981, in Paris. The paper has been requested for the Inter-Agency Meeting, which is scheduled for the last week in April. The purpose of the Bank's paper is to establish that the Bank is sensitive to the problems of the LLDCs and to outline its approach to poverty alleviation and human resource development. The PRC Staff Level Review is intended to ensure that the final paper is consistent with World Bank policy.

Please inform this office if you cannot attend.

Norman L. Hicks
Acting Secretary
Policy Review Committee

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POVERTY AND THE LEAST DEVELOPED COUNTRIES

Policy Planning and Program Review
Department

March 2, 1981

POVERTY AND THE LEAST DEVELOPED COUNTRIES

POVERTY AND THE LEAST DEVELOPED COUNTRIES

CHAPTER 1: THE PROBLEM

1.1 The Nature of the Poverty Problem

The problem of poverty in the Least Developed Countries (LLDCs) is chronic and severe. 1/ In the 1970s, it was difficult for most of the LLDCs to generate many resources internally for growth or development. The international environment for the LLDCs has in some ways grown less supportive and the prospects for the 1980s are not encouraging.

For the individuals who are poor, in the LLDCs and elsewhere, the condition of poverty is characterised by more than a very low level of income and expenditure. Low income is often associated with very low productivity, for those in the labor force. Low expenditure often means so little food is consumed that malnutrition results. The poor almost always have nothing or next to nothing by way of useful physical assets. Commonly, though not invariably, they have few useful skills and most are illiterate or semi-literate. Ignorance and deprivation greatly increase the chances of poor health and an early death. Absolute poverty is a condition so characterized by malnutrition, ignorance and disease, that it is difficult for the human spirit to rise above it.

Obviously, the many aspects of poverty are interrelated. For the landless laborer paid in kind, or the subsistence farmer tilling infertile ground, low productivity is likely to translate directly into malnutrition for him and his family. For many a poor urban laborer, work conditions

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1/ See Annex 1 for a list of the LLDCs and Annex 2 for a brief statement of the criteria used to define them.

expose him to a high risk of accident or disease. In these situations the interrelations compound the problem of poverty and, because malnutrition and poor health lower productivity, they create a vicious circle.

For similar reasons, poverty is passed on to children. Malnutrition in infancy, little exposure to education in childhood and an early recruitment into the ranks of the under-employed are among the factors that disadvantage the children of the poor.

To interrupt these cycles presents a massive challenge for public policy. There are, perhaps, six more aspects of poverty that create special problems from the policy viewpoint:

- unemployables: the very old, the very young and the diseased, and in some cases households without adult male workers are amongst the poorest of the poor. Because they are unable to work, they must depend on charity from their family, or from a larger social organization such as the village. However, if they are orphaned or outcast, then their last hope may be the state. Such people, if they can be helped, need a long term commitment of support;
- intra-family disparities: in some cultures, children and women eat less well than men. For infants and for breast-feeding mothers, adequate nourishment is very important to avoid long-term damage to the child and, when some food could be redistributed to them and is not, they are critically poorer than need be. Yet to change family attitudes in traditional cultures may be very difficult;
- inaccessibility: the poor are sometimes hard to locate physically. Nomads in rural areas, such as those in the Sahel, and some of the

urban poor move a good deal. The rural poor who are settled may be equally difficult to reach if population densities are low and infrastructure inadequate. Even if contact has been made, there can be grave communication problems and basic differences in culture and understanding between the individual concerned and the agent of government. Traditional public channels may be ineffective in helping the very poor;

- social attitudes: there are sometimes persistent differences in poverty levels, by region, by language or cultural group. For example, despite the efforts of the Government of India, untouchables in several states continue to have poorer social and economic opportunities than the average Indian, though the gap has narrowed greatly since Independence. Overcoming prejudice can be a long and difficult process for a government;

- insecurity: naturally enough, the very poor are often risk-averse. Without savings to tide over temporary setbacks, without land tenure assured or secure employment guaranteed, the very poor cannot afford to experiment much or to look far into the future for payoffs. Consequently, any policy of poverty alleviation that seeks to involve the poor actively, must offer short-term as well as long-term prospects of betterment and must not be too risky. Yet without the involvement of the poor, programs of poverty alleviation are far less likely to be worthwhile.

- seasonality: who the poor are and how serious is their condition varies over time, particularly over the year. The rural poor of

West Africa, for example, tend to be underoccupied for about half the year, and it is during this season that their deprivation is most acute.

The nature of poverty varies, as does the difficulty of designing appropriate policies greatly among and within countries, depending upon the relative importance of these different characteristics. For this reason, a global strategy may be much less effective than a set of tailor-made country-specific strategies. This point is addressed at the beginning of Chapter 2.

1.2 The Extent of Poverty and Poverty Trends in the LLDCs

Though no one doubts the seriousness of the poverty problem, it is difficult to achieve a consensus about the incidence of poverty. The incidence of low income, of malnutrition, of poor health and of poor education are not the same, and different choices of standards have different implications for estimates of where the poor are and how numerous they are. Compounding the problem is the inevitable arbitrariness of any cut-off line, or poverty line. A small change in the positioning of this line can lead to large changes in the numbers of people thought to be poor. To circumvent such difficulties, some have suggested measures of poverty that reflect the distribution of income (or malnutrition, or whatever) below the poverty line, giving a heavier weight to those further down. But these measures are more difficult to estimate and to interpret. Besides, there is inevitably a large margin of error in estimating the number of poor, because the basic data are approximate and likely to be biased. Household surveys, which are one of the more reliable sources, are typically biased against a full enumeration of the poor and rarely provide much information about the lot of individual members of a household.

Table 1: The Extent of Poverty in the LLDCs 1/

	Mid 1978 Total Population (millions)	Population Below Absolute Poverty Line 2/ (millions)	Percent in Absolute Poverty (%)	GNP Per Capita (1978$)	Life Expectancy at Birth (1978 years)
Low-Income 3/ Countries	1,294	660	51	200	50
--of which LLDCs 4/	261	175	67	170	45
Middle-Income Countries	873	120	14	1,250	61

Sources: World Development Report, World Bank, August 1980 (WDR III), and provisional staff estimates.

1/ This table excludes China, from both the total population estimates and the estimates of the population below the absolute poverty line. China is excluded from all subsequent statistical analyses in this paper, unless otherwise stated.

2/ This estimate was based on available national income distribution data and a standard for the poverty line equal to the income of the 45th percentile in India. (see Ahluwalia, 1979).

3/ WDR III, page 110: excludes -- each with population less than 1 million -- Botswana, Maldives, Comoros, Gambia, Western Samoa, and Cape Verde. Their total population is 2.4 million.

4/ All but 3 of the LLDCs are low-income countries.

Nonetheless, to identify the most serious problems and to set policy priorities, some quantification must be made. In the World Development Report, 1980, the number of people throughout the world living below the absolute poverty line in 1978 was estimated as 780 million. This is 18% of the population of the world and 51% of the population of the low income developing countries where virtually all the absolute poor are found.

The World Bank has also made estimates of the extent of poverty in subgroups of countries, based on income levels needed to provide adequate nutrition and shelter. These estimates are closely comparable to the aggregate estimate of the latest World Development Report. According to these estimates, of the 261 million people in the 30 LLDCs, about 175 million or roughly two-thirds fell below the poverty line in 1978. They represent one fifth of the world's absolute poor. The remaining four-fifths are heavily concentrated in the other low-income countries. Of the one billion or so people in the low-income countries not included among the LLDCs, 485 million live in absolute poverty.

Among the LLDCs, the larger countries account for most of the absolute poor. Between them, Bangladesh, Nepal and Afghanistan in Asia and Uganda, the Sudan and Tanzania in Africa have 160 million of the 261 million total population of the LLDCs, and account for 110 million of the 175 million absolute poor. However, the problem of the smaller LLDCs is no less acute.

Over the last two decades, the growth in income per capita in the average LLDC, large or small, has been disappointingly low, at only 0.3 percent per annum. As a measure of welfare, of activity and of resources in use, it suggests a very slow rate of economic progress (Table 2).

The condition of the absolute poor may have improved somewhat nonetheless. Life expectancy in the LLDCs rose from 28 to 45 years between 1960 and 1978 and the crude death rate fell from 26 deaths per thousand to 20 deaths per thousand. However, the average calorie intake was stagnant over this period at roughly 87% of requirements. This is largely attributable to the low rate of economic growth and in particular the relative neglect of

Table 2: Poverty Trends for the LLDCs: 1960-1977

	1960	1977 or Most Recent Estimate	Average Annual Percentage Change
Life Expectancy (years)	38	45	1.0
Crude Birth Rate (per 000)	49	47	(0.2)
Crude Death Rate (per 000)	26	20	(1.5)
Population (millions)	166.6	260.9	2.7
Population, per Physician (000s)	18.7	14.8	(1.4)
Population per Nurse (000s)	11.3	5.2	(4.5)
Population per Hospital Bed (000s)	1.8	1.4	(1.5)
Calorie Intake as % of Requirements	87	86	(0.1)
Primary School Enrollment Rate (%)	29	57	4.1
Primary School Enrollment Rate (%) (female)	17	44	5.8
Adult Literacy Rate (%)	16	24	2.4
Income Per Capita (constant prices)	152	160	0.3

Sources: WDR III and provisional staff estimates.

agriculture. What improvements there have been should be attributed in general to better health care and education. For example, the number of physicians increased from one for every 18,700 or so of the population in 1960 to about one for every 15,300 in 1978 for the average LLDC. More educational opportunities appear to be available now than formerly and the populations of the LLDCs appear on average to be correspondingly better educated. Between 1960 and 1978, average primary school enrollment rates rose from 35 percent of the age group in question to 66 percent and female enrollment rates increased from 17 to 44%. Adult literacy rates increased from 18 to 28 percent. But perhaps most important have been the early programs of disease eradication in the 1960s. Their low cost and considerable effectiveness meant that significant gains in health and life expectancy were possible without much real per capita income growth. In general, it is hard, if not impossible, to improve living standards further without significant economic growth.

The conditions of the absolute poor may have improved, but it may or may not be by as much as these indicators would suggest. Given the uncertainties in national estimates of social indicators, and the difficulties of aggregating across countries, trends are tentative at best. Moreover, just as income is unevenly distributed throughout national economies, so are life expectancy, food, and other economic benefits. Very little is known about the changes in the distribution of these measures. With these caveats in mind, it still seems reasonable to conclude that levels of nutrition, health care and education have not risen as quickly as they might.

The question remains, are the problems of poverty for the LLDCs special to them? Considering the LLDCs, the low-income countries and the middle-income countries, are the differences between groups greater than the differences between countries within groups? Though such a question defies analysis across all the pertinent aspects of the economies concerned, still some light can be shed on the question by comparing social and economic indicators for these three groups of countries.

1.3 The Special Position of the LLDCs

As in the low income countries as a whole, 1/ the condition of life in the LLDCs is harsh and difficult. In almost all respects, the average condition is, in fact, worse. Life expectancy, which is 61 years in the middle-income countries, and 50 years in the low-income countries taken as a whole, is only 45 years in the typical LLDC. Crude birth and death rates and child mortality rates are significantly higher and the balance of these demographic factors is such that the populations of the LLDCs has grown over the period from 1970 to 1978 at an average annual rate of 2.6% as opposed to 2.2% in the low-income countries as a whole and 2.4% in the middle-income countries (Table 3.)

Low life expectancy reflects to some extent a relatively poor availability of health care, even of a most basic kind. Comparing health care indicators, the population per physician is higher in the LLDCs than in either the low-income or middle-income countries, but the population per nurse, somewhat surprisingly, appears to be lower than for the low-income countries. Like the low- and middle-income countries, the health services are concentrated in urban areas.

Food consumption also contributes towards health. Once more, in this regard, the LLDCs are somewhat worse off than the average low-income country, since calorie intakes as a percentage of requirements average only 86 or 87 percent, compared with 91% in the low-income countries.

1/ The analysis here compares all low-income countries and all middle-income countries with the LLDC grouping of countries. Most LLDCs are low-income countries, though 2 or 3 are middle-income (see Annex 1).

Table 3: The Position of the LLDCs -- Socio-Economic Indicators
1978 or Most Recent Estimates

	LLDCs	Low-Income Countries	Middle-Income Countries
Demographic Factors			
Life Expectancy (Yrs.)	45	50	61
Child Mortality Rate (per 000)	25	20	10
Crude Birth Rate (per 000)	47	39	35
Crude Death Rate (per 000)	20	15	11
Population (millions)	261	1,293	873
Annual Average Population Growth Rate (1970-78)	2.6%	2.2%	2.4%
Income per Capita ($ dollars)	170	200	1,250
Health Care Indicators			
Population per Physician (000s)	14.8	9.9	4.3
Population per Nurse (000s)	5.2	8.8	1.9
Calorie Intake as a percent of Requirement	86	91	108
Education Indicators			
Primary School Enrollment Rate	57	77	97
Primary School Enrollment Rate (Females)	44	64	93
Adult Literacy Rate	24	38	71

Sources: WDR III and preliminary staff estimates.

While adult literacy rates and school enrollment ratios have risen, they still fall well below the average for all low-income countries. The implication is serious not only in terms of the present parlous state of LLDC populations, but also because of its implications for future development.

The LLDCs include some very small countries. Of the 43 countries with per capita income of $360 or less in 1978, 29 had a population of 10 million. 1/ Of these, 22 were LLDCs. Of the 11 countries with populations below 3 million, 9 were LLDCs (Table 4). With their low GNP per capita, these are very small economies, with a low level of aggregate demand and few opportunities to realize economies of scale, unless it be through trade.

Partly because of low standards and an insufficient amount of education in the past, many of the LLDCs face a manpower constraint. In Upper Volta, for example, the number of adults who are literate is estimated to be less than 200,000. The weakness of many of its public institutions can be traced to the shortage of skilled personnel, in particular, technicians. The Maldives, with a total population of only 150,000, has grave difficulty finding qualified people to fill a wide variety of essential positions, despite a high adult literacy rate of 86 percent. Even for large LLDCs the problem is acute. In Tanzania, which is remarkable among developing countries for the emphasis it has put on basic education, and where as many as two-thirds of the population are literate, there is a severe shortfall in the supply of skilled professionals. Uganda, after its recent civil war, faces massive manpower shortages. For the smallest LLDCs, the problem is not merely one of the present inadequate availability of skilled manpower, but the absolute

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1/ Note that Botswana had an estimated GNP capita of more than $360 in 1978, a population of less than 1 million and it is an LLDC.

Table 4: The Population Size Distribution of the LLDCs and Other Low-Income Countries

	LLDCs		Other Low-Income Countries	
Size Class of Population	Number of Countries	Average Population (millions)	Number of Countries	Average Population (millions)
Below 1 million	6	0.4	-	-
1 to 3 million	4	1.6	2	1.9
3 to 10 million	13	4.7	5	6.7
10 to 25 million	5	15.0	3	12.4
Above 25 million	2	57.9	6	161.3
Total/Average	30	8.7	16	65.2

constraint of very small populations (Table 5). Moreover rapid population growth exacerbates the situation, since high birth rates and dependency ratios make for a less healthy population, for lower savings and in general for slower per capita growth.

Table 5: The Literate Population of the Smaller LLDCs as an Indicator of the Constraints of Small Size

Population Size	Number of LLDCS	Number of LLDCs in Sample	Average Estimated Number of Literate Adults (000s)
Below 1 million	6	4	76
1 to 3 million	4	2	325
3 to 10 million 1/	13	11	468

1/ In the sample of countries in the range of 3 to 10 million population, Niger, Upper Volta and Benin have an estimated adult literate population of less than 200,000.

Source: World Bank social and economic data files.

Indeed, the rate of population growth is higher in the LLDCs than in the low or middle income countries, and at the same time, their economies have on average grown more slowly, so that the per capita incomes of LLDC countries have fallen behind those of the rest of the developing world (Table 6).

One further factor distinguishing some of the LLDCs, is their low population densities. Bangladesh excepted, whose population density is amongst the highest in the world at 871 persons per square kilometer of agricultural land, the average population density is only 114 per square kilometer. The great majority of the LLDCs with very small populations also have very low densities: Mali, Niger, Chad, the Central African Republic and Botswana all have densities below 20 persons per square kilometer. For comparison, the average population densities in the low-income, and middle-income countries are respectively, 359 and 594 people per square kilometer of agricultural land respectively.

The implication of low population density for development is, of course, that providing adequate physical and institutional infrastructure to develop the rural sector is likely to come at a very high per capita cost. The development and maintenance of roads, irrigation, input supply systems, agricultural product markets and so forth is more difficult and more costly, where densities are low. The design of rural development schemes, and the efficient maintenance of existing systems under these circumstances demands great administrative skill.

Some indication of the extent of physical infrastructure is given from the level of commercial energy consumption per capita. Between 1960 and 1978 it roughly doubled for the LLDCs but, even then, it was at the very low

Table 6: The Position of the LLDCs: Structure and Growth of Output and Demand

(Percentages)

	LLDCs	LICs	MICs
Annual Growth Rates: 1970 - 1978			
GDP	2.9	3.6	5.7
Agriculture	2.4	2.0	3.1
Industry	2.6	4.5	7.1
Manufacturing	3.0	4.2	6.8
Services	4.4	4.3	5.8
Origin of GDP: 1978			
Agriculture	54	38	16
Industry	11	24	34
Manufacturing	(7)	(13)	(25)
Services	35	38	50
Distribution of GDP: 1978			
Public Consumption	10	12	13
Private Consumption	83	73	65
Gross Domestic Investment	13	21	25
Gross Domestic Saving	7	15	22
Exports	10	12	21
Exports minus Imports	- 6	- 6	- 3

Sources: WDR III and preliminary staff estimates.

level of 53 kilograms of coal equivalent per year (Table 7). This compared with an average of three times as much for the low-income countries taken as a whole, and eighteen times as much in the middle-income countries. Moreover, energy consumption per dollar of GNP is between one-third and one-half of that for the low- or the middle-income countries, suggesting that their economies are not overly commercial energy-intensive. 1/

Table 7: Commercial Energy Consumption in the LLDCs: 1978

	Energy Consumption per Capita (Kilograms of Coal Equivalent)	Income per Capita (1978 dollars)	Energy Consumption per $ of GNP (Kilograms of Coal Equivalent for Dollar)
LLDCs	53	170	0.3
Low-Income Countries	161	200	0.8
Middle-Income Countries	903	1,280	0.7

Source: WDR III

Over 50 percent of GDP originates in agriculture in the LLDCs. This, combined with the need to increase the incomes of the rural poor and the imperative to meet basic human needs (among them, food) as quickly as possible,

1/ However, given the very limited growth in GNP and the sharp rise in commercial energy consumption, what growth there has been was very energy-intensive.

suggests that agricultural investment should receive a high priority. Where the natural resource base is unfavorable, as is the case in many of the LLDCs, productivity gains are unlikely to be dramatic, but the need for increased agricultural output is so urgent that agricultural investment should still have a high priority. It is, however, important that this investment should be selective and concentrated in those areas where there is the greatest potential.

Related to the low rate of growth of their economies and to high dependency ratios is a low rate of savings. Gross domestic saving averaged only 7 percent of GDP in 1978, as opposed to 15 percent for the low-income countries as a whole. This is both a contributory cause and an effect of slow economic growth. Although additional external resources brought gross domestic investment up to an average of 13 percent of GDP, still investment was at a much lower relative level than in the typical low-income country (21 percent of GDP).

As a group, the LLDCs are about as autarchic as the average low-income country (Table 6). They trade 13 percent of GDP as opposed to 14 percent for the low income countries. This is considerably less than the 22 percent of GDP traded by the middle-income countries. While the advantages to be reaped from trade should be great for economies in the early stage of development, since their relative resource endowments are so different from the industrialized world, these advantages may have been underexploited. For the landlocked countries of Africa and for the island countries -- the Maldives and the Comoros, for example -- transportation costs are high. The availability and quality of goods for exports is also a constraint. Partly for these reasons trade has been limited, but it is nonetheless a matter for concern that exports, in real terms, have fallen quite sharply over the decade.

By 1978, imports exceeded exports by 60 percent. Ninety percent of exports were commodities, but only a small proportion of these were minerals or fuels: most were agricultural. Typically, these commodity exports were and are concentrated in a handful of goods, so that for some LLDCs, the level of export earnings is quite vulnerable to changes in market conditions. Thus, to the extent that imports are vital for the process of economic development -- which is usually a great extent -- these economies are heavily dependent on a few commodity exports and on foreign aid (Table 8). Since aid finances almost one third of all imports as well as almost one half of all investment, official development assistance bears an especially heavy responsibility in these economies.

It is not surprising, therefore, that external public debt outstanding and disbursed is a high proportion of GDP -- about 28%. This compares with 18 percent for the middle income countries. However, for the LLDCs, debt has usually been contracted on such liberal terms that the average debt service ratio is low. Debt servicing problems have not been an issue for the majority of the LLDCs and are unlikely to become such in the future, if real export earnings can be stabilized.

1.4 Prospects for Poverty in the LLDCs

The prospects for the LLDCs for the next twenty years or so are sobering. Any material progress for the absolute poor in these countries will be achieved only by means of a very major effort, both national and international.

Table 8: The Position of the LLDCs -- Trade, the Balance of Payments and Debt Service

	LLDC	LICs	MICs
Percent of Merchandise Exports: 1977			
Fuels, Minerals and Metals Exports	13	37	33
Other Primary Commodity Exports	77	44	30
Textiles and Clothing Exports	6	7	10
Machinery and Transport Equipment Exports	--	2	9
Other Manufactures Exports	4	10	18
Energy Imports	29	16	20
Growth of Trade: 1970 - 1978 (Annual percent changes)			
Exports 1/	(3.5)	(0.8)	5.2
Imports	1.6	3.2	5.8
Terms of Trade 1978 (1970 = 100)			
Balance of Payments and Debt - 1978			
Current Account Balance as a % of GDP	(6)	(6)	(3)
Debt Service as a % of GDP	1.0	1.7	2.9
External Public Debt as a % of GDP	27.6	21.7	17.6
International Reserves in Months of Import Coverage	3.8	3.5	2.5
Debt Service as a % of Exports	7.5	11.7	13.8

1/ Two-thirds of both LIC and MIC exports go to Industrial countries, and only a quarter to other developing countries.

Sources: WDR III and preliminary staff estimates.

The LLDCs are likely to be hurt particularly by slower economic growth in the OECD. Typically less open than the average middle-income country, the trade impact of slower growth in the industrialized countries may be less for the LLDCs. But, as inputs into manufacturing and as consumer goods not otherwise obtainable, commodity exports, which dominate LLDC exports, are unlikely to face significantly higher trade barriers (Table 8). The precise effect will vary from commodity to commodity and will depend upon the income elasticity of demand in the industrialized countries.

The difficulty of maintaining flows of concessionary assistance is potentially more serious. The industrialized nations, from whom most of this assistance still comes, are faced with domestic pressures to limit aid. The climate of public opinion is adverse since problems of structural adjustment and slower growth are causing domestic hardships which, although less serious than those faced by the LLDCs, many people feel should be addressed before the needs of foreigners. Unlike the situation in the mid-1970s, there is now almost universal recognition that energy will be more costly for the indefinite future, and that adjustment in the industrialized nations is inevitable. Also changed is the seriousness of inflation and the priority being given to controlling it. Thus a second reason why concessionary aid is likely to be under pressure is the perceived urgency of fiscal restraint.

This is particularly unfortunate, since it is likely that the number of absolute poor will increase. It is not inevitable, but forecast population growth is such that a very major reduction in the incidence of poverty is necessary to avoid that outcome.

The World Bank recognizes that the need for external assistance is great, and every effort should be made to maintain as high a level of aid as possible. Every effort must also be directed to making the best possible use of that aid. However, the contribution that can be made by international agencies is small beside the responsibilities and the opportunities of the governments of the countries concerned. How much can be done to alleviate poverty depends critically on the choice of national development strategy. Some of the more viable approaches to the alleviation of poverty are the subject of Chapter 2.

CHAPTER 2: SOME APPROACHES

2.1 Increasing Rural Productivity

A sustained improvement in the welfare of the poor must be based on an improvement in their productivity. Especially in the LLDCs, where resources for public transfers are very limited, it is not practical to think of alleviating poverty in the long run without increasing the productivity of the poor. Underemployment is common in many rural areas, because of seasonal variations in the demand for labor and the infertility of the land. Off-farm employment opportunities may be too few. Even for those of the rural poor who are employed full time, productivity is likely to be so low that incomes will be inadequate to meet basic needs. Increasing productivity is particularly important in rural areas as a precondition for poverty alleviation.

There is a second reason to concentrate on rural productivity. Many of the LLDCs are short of food and other agricultural goods needed to meet the basic needs of the poor. Both their purchasing power and the availability of necessities must increase, if the lot of the very poor is to improve.

Productivity increases are a necessary but not a sufficient condition for increased income for the poor. Unless output rises by at least as much as productivity, employment must necessarily fall, and output will increase only if there is effective demand for the product. In the case of subsistence farmers, as they reach towards a level of productivity necessary to meet directly their own basic food needs, this is not a problem. But for the farmer who has graduated to cash crops, productivity increases may rebound to the benefit of his landlord, depending on his tenancy arrangements, or of the consumer, depending on agricultural pricing policies. Where either subsistence or cash crop farming is taking place, the landless laborer may be especially vulnerable to productivity increases that outstrip effective demand, because he is the marginal laborer who is first to be unemployed.

Thus, there appear to be two policy problems. First, how to increase productivity in agriculture and the other rural sectors of the economy. Second, how to ensure as far as possible that the poor benefit from these productivity gains.

In practice, the two problems are often one and the same. Where landholdings are small and owned by the farmer, or where the landlord is as poor as his tenant, which is sometimes the case, any increase in productivity of subsistence crops will help the poor. Alternatively, improvements in output on tribally-owned land have a high probability of benefitting the poor within the tribe. If land ownership is concentrated, then land reform, by redistributing land, creates a strong incentive for the poor farmer to invest in land improvement and other types of capital expense. Moreover, evidence from India suggests that small farms tend to be farmed more intensively, with higher yields per hectare and a far greater labor input, possibly because of the low opportunity cost of family labor. Less drastic forms of tenancy reform, that provide landlord and tenant with more stability and with more incentive to invest individually or jointly, may also lead to higher productivity. Schemes to encourage sharecropper landlords to share in seed and fertilizer costs have also contributed to productivity gains. But in many countries, reforms short of land redistribution have been difficult to enforce.

An alternative approach to land ownership policy, that has been applied in Algeria, China, Peru, and Cuba is the establishment communes or cooperatives. This form of organization offers the potential advantages of economies of scale, and therefore may be more suitable to estate crops, such as tea, mulberry and banana, than to grains or livestock. However, the advantages are not always realized because of difficulties of management and incentives. For the majority of the LLDCs, with limited administrative capacity, cooperative organization of farming may not be a viable alternative.

While land reform may offer some countries a way of increasing productivity to the benefit of the poor, it must usually be accompanied by investment in infrastructure and institutional support. For example, rural feeder roads that reach the poorest villages increase the access of the very poor to seeds, insecticides and fertilizer inputs as well as their opportunities for productive employment elsewhere. Investment in irrigation -- either surface or tube well -- has, in many countries, contributed to large productivity gains and, because irrigated agriculture can be labor intensive, to employment gains among the landless poor.

In parallel, it is important to extend new knowledge of cultivation techniques, high-yielding varieties and water conservation methods to poor farmers via an effective agricultural extension system. Behind this, must be a competent body of expertise in agricultural methods, adapted as far as possible to local agricultural conditions. For this reason, agricultural research and development specific to soil and climate conditions of a locality and to the crops that can be grown profitably can be important for productivity gains. In dry-land farming in particular, research undertaken with such a local orientation has had a rate of return of 20 to 30 percent.

Together with the extension of knowledge, extension of credit is almost always essential for poor farmers to be able to develop their land. The twin difficulties that have been encountered in the past have been the development of an effective delivery mechanism and how to set terms so that they are responsive to farmers needs without needing subsidy. Pakistan and Karnataka in Southern India offer examples of effective delivery systems that have helped the poor increase their productivity. Both relied on commitment for borrowings by whole villages on behalf of single borrowers, so that peer group pressure could be brought to bear to discourage defaults. This replaced the need for specific collateral at the time of the loan. But should it be needed, future crops could be hypothecated. The Syndicate Bank in Karnataka avoided many of the pitfalls that traditional banks have faced in rural lending for small borrowers, by recruiting their staff from rural areas and locating their headquarters in the countryside. In this way, their managers were attuned to the investment opportunities in rural areas, familiar with how business could be done most effectively and committed to the rural communities they served.

Among the most important policy changes that many LLDCs could make to increase their agricultural productivity would be to change their pricing policies. Unlike the provision of physical and institutional infrastructure, pricing policy changes involve no commitment of scarce physical or human capital. Substantially freeing cash crop prices -- permitting the rural-urban terms of trade to change -- will create a strong incentive to increase outputs in those countries where policies have held down agricultural prices. At the same time, higher prices would provide farmers with the purchasing power they need to use new infrastructure. However, allowing agricultural prices to increase will reduce the real value of urban incomes, unless the urban economy is also growing sufficiently fast. If there is a real decline, there may be a case for food subsidy programs in the short run to sustain the urban poor through a transition period.

Price increases and increasing infrastructure are complementary strategies to increase agricultural output. Their relative importance varies from country to country. But there are few indeed that have been able to do all that could be done in these two policy areas.

2.2 Increasing Urban Employment

In most of the LLDCs, urban poverty is closely associated with urban unemployment. As in the rural sectors, there is often widespread underemployment in both what is sometimes called the informal, small-scale sector and the formal service and manufacturing sectors. It is also, typically, related to rural-urban migration.

In recent years, this phenomenon has been subjected to close academic scrutiny. The basic thesis, that rural workers are attracted to cities by the promise of high-paying formal sector jobs, until the levels of urban unemployment and underemployment rise to equate expected rural and urban incomes, has been elaborated and new insights have emerged. It now appears that migrants often graduate from small town to small city to metropolis over a number of years, and that the somewhat better off and better educated among migrants make the most substantial gains in welfare. There is also significant re-migration, either to meet seasonal rural labor needs, or of a more durable kind.

In the past, the informal, small-scale sector was seen as a staging post for rural migrants or urban poor, where they waited for the growth of the formal sector eventually to accommodate them. In recent years, it has been recognized that there are long-term employment opportunities in the informal and small scale sectors.

Moreover, while there are labor-intensive occupations in large scale enterprise -- especially in services -- which offer employment opportunities at a relatively low cost in capital-scarce economies, high labor-intensity is more typical of the small-scale and informal sectors. Consequently, policy makers have begun to look for ways of helping these neglected sectors of the urban economy to flourish.

The approaches that have been developed parallel the two-pronged strategy outlined above towards rural development. The first is to provide infrastructure. This may consist of factory space and access to utilities and transport on an industrial estate or technical assistance, to improve product quality and worker productivity. As in agriculture, access to credit is also pivotal for many small enterprises to succeed. Both physical and institutional infrastructure are important.

However, as in agriculture, projects aimed at increasing employment or productivity will force workers elsewhere out of a job unless demand expands. This consideration underlies the focus in some countries on developing export markets for small-scale business. One problem they meet, however, is the difficulty of assuring reliable delivery of high quality products. For this purpose, export cooperatives have been tried and state export agencies have been developed. One of the more successful approaches is to enhance the natural tendency of large businesses to subcontract work to smaller ones, and in effect achieve exports from the small-scale sector as components of complete products exported by larger concerns.

Demand expansion, however, re-emerges as a problem, even for exports, when the LLDCs are taken as a group. There is likely to be competition for markets in the industrialized countries and, in the 1980s, it now appears likely these markets will be growing at a more modest pace than before. In such a situation, one LLDC may gain, and alleviate its urban employment problem via an export strategy, but only at some expense to other LLDCs facing similar difficulties.

Faced with this dilemma, one further source of demand growth warrants serious consideration: the rural sector. Although rural demand for urban products may be very limited in the earliest stages of development, the demand for household utensils, farming implements, clothing and footwear are all highly income elastic at low income levels and are likely to increase rapidly as rural development becomes a reality. This bootstrapping of urban growth on rural may not provide a strong initial stimulus to urban employment growth, but it is able to help sustain it.

2.3 Reducing Fertility and Population Growth

While there has been wide acceptance of the need for improved general health systems throughout the developing world, there is not the same unanimity about programs to control fertility. The WHO disease eradication programs of the 1950s and 1960s and the often fairly major expenditures on establishing curative medical services over the same period and beyond, have had a substantial impact on the crude death rates of all developing countries. It has fallen on average from over 20 deaths per thousand to about 12 in the last 30 years. However, it is a simple syllogism that improved health and increase life expectancy, with stationary or increasing fertility rates, will lead to an acceleration in the rate of population growth at least in the short run.

There is evidence within many countries to suggest that fertility rates decline as family incomes rise. As incomes rise, parents' and potential parents' preferences tend to shift towards fewer children in whom they can concentrate resources to improve their health and education. At the same time, they are less in need of many infants, to ensure significant survival rates, for the supplementary labor power they have in middle childhood or to provide for them in old age. Moreover, women are likely to value their time differently as family income increases, spending less in rearing small children and more in either non-traditional work or leisure activities. This explains, in part, why higher levels of female education are closely related to decreases in fertility.

The general correlation between income and fertility rates is also apparent between major groupings of countries. In addition to the factors already discussed, the value of higher levels of education for fewer children may be greater in higher income countries where employment opportunities, rewarding educational qualifications are more plentiful. Equally, women in lower-income, traditional societies are able to perform traditional kinds of employment, such as those in cottage industries or small shopkeeping, while attending to their children. They therefore experience a less clear trade-off between time used in raising a family and time used for other purposes.

The consequences of a failure to stem population growth are serious for economic development. In the first place, the proportion of children in the population is high, so that either the cost of their dependency to individual families and to society at large drains more resources that would othewise be necessary into educating, feeding and clothing them, or their claims of dependency are ignored. Second, for poor countries with scarce natural resources and limited capital, a larger labor force implies lower productivity per worker and smaller surpluses for investment. Third, rapidly growing populations inevitably multiply difficult administrative and managerial problems that sap what is often a poor country's scarcest resource, organizational ability.

Among the LLDCs, population and fertility problems are almost universally severe. However, the Asian countries appear to have achieved a turning point, while the African nations lag behind. Their rates of population growth remain high, as a source of general frustration to all other developmental efforts for their economies. High fertility rates seem to be induced by poverty and to perpetuate it.

These social and economic determinants of fertility do not explain it entirely. The commitment of government to reducing fertility is also a key factor. While higher education levels and higher income contribute to lower fertility rates, they are greatly reinforced by programs that distribute contraceptives, and incentive schemes to encourage family planning. Conversely, government programs are more likely to succeed in societies where attitudes are changing.

Sterilizations and legally induced abortions are more common now than formerly. Both methods of family planning require clinical support, making programs dependent on the health care system. However, para-medical personnel and family planning aids in India and Pakistan have learned to insert IUDs and to carry out menstrual regulation, and some have been trained to perform sterilizations. The provision of the simpler methods and of oral contraceptives is well within the competence of para-medical personnel. Nevertheless, it is noteworthy that family planning services separate from health services appear to have been less successful.

2.4 Meeting Basic Needs

While an increase in productivity and employment may contribute to higher incomes among the poor, it is only half the story. Higher income and productivity may be a necessary condition for sustained, significant improvements in welfare, but it is necessary in parallel to address the basic needs of the very poor, their needs for food and nutrition, shelter, clothing, water and sanitation, education and good health. Increases in income may provide the poor with increases in entitlements to necessary goods and services, but this is futile unless these necessities are actually distributed and available.

The basic needs of individuals do, of course, embrace non-material requirements too: people need to have a sense of purpose, a sense of cultural identity and social status, and they need to participate in events that effect them. It is difficult for policy to address these issues directly, though the way policy is developed and implemented will affect them. There are almost always social groupings among the poor that can help official channels to extend assistance. New and separate administrative structures may not offer the same level of involvement and may, therefore, reduce the chances of widely meeting material basic human needs.

It is difficult to meet all these needs through the private market, though the fact that resources of the public sectors of many developing countries are limited should always lead policy makers to bear that alternative in mind. In particular, education, health, and water supply and sanitation are most readily supplied by the public sector.

In education, there are four common requirements. First, greater emphasis should be placed on basic primary education. This is a long term venture, gradually to improve the capabilities of the population in fundamental skills such as reading and arithmetic. These are of relevance to even the remotest of the rural poor, for they give them a greater ability to recognize and exploit all kinds of opportunities. Second, it is necessary to improve the quality of and relevance of basic education. This in turn requires emphasis on teacher training and efficient administration of the school system, to ensure that standards of instruction are maintained. The imaginative task of tailoring basic educational methods and content to local needs is demanding, but without it the value of formal education is greatly diminished. Third, there is an immediate need for specific kinds of training and instruction. For example, extension work in rural areas to improve water management can yield significant productivity gains in short order. Equally, education regarding food preparation and personal hygiene can often greatly improve nutrition and health, at almost no incremental resource cost.

To meet health requirements of the poor, a reorientation of health policy is often needed. In many cases, curative health care has been emphasized at the expense of preventive, and urban at the expense of rural. Community based health care systems are valuable if they emphasize prevention of disease through guidance and advice, and through innoculation programs, and they are able to provide basic treatment for injuries and illnesses as mild as cuts and colds. By prevention, immediate treatment and diagnostic screening, they can greatly ease the demand for more traditional curative health care. Moreover, by their close proximity to the poor in rural communities, they reduce the out-of-pocket and opportunity costs the poor typically face, when they seek out health care. Otherwise, even when the care itself is free, these incidental expenses can prevent the very poor from using it.

Nutrition problems are related to those of health and education. For example, perverse effects have been noted in some countries, where increases in income have been associated with changes in crops, from coarse grains to fine, with a loss in family nutrition as a result. Equally, an increasing income realized by lactating women going into non-traditional work, indirectly endangers the nutrition of infants if they are no longer breast-fed. Both influences could be avoided if the nutrition loss was understood. As education can assist with nutrition, so nutrition has an impact on health, for vulnerability to diseases of many kinds is reduced as nutrition improves.

The costs of water supply and sanitation could be significantly reduced by lowering construction and service standards judiciously. More households in urban areas can be served with standpipes rather than with water piped into individual dwellings. Equally, sanitation standards can often be improved with simple bore hole or vault systems, which cost much less than conventional flush toilets connected to centralized disposal systems.

A general point emerges. Meeting basic human needs in one area -- say in education -- is likely to help in meeting other basic needs. This interconnection is potentially an appealing aspect of the approach, for it implies that costs can be held down. It is true that sometimes the effectiveness of one kind of service may be jeopardized by a shortfall in the provision of another. At the same time, the externalities between services can reduce the total cost of meeting given standards.

It is also evident that meeting basic needs can contribute towards the goal of enhancing productivity. A healthier, better fed and better educated individual can achieve more in almost any occupation than a person who is sick, hungry and ignorant. Thus, even if the effect is gradual only, a sustained emphasis on basic needs fulfillment can be expected to contribute toward productivity gains and toward economic growth. In this regard, it is not necessary to trade basic needs fulfillment for economic growth; basic needs are a complementary objective.

It might be argued that meeting basic needs, whether through public or private interventions, is likely to absorb additional resources, and thereby detract from growth. But this is not necessarily so. Often resources can be effectivelv reallocated within sectors. For example, there is in many countries over-investment in secondary and higher education, at the expense of basic education and practical training. Equally, in many countries curative health expenditures are large and concentrated in urban hospitals, while rural areas are neglected. There are significant resources already committed, even in some of the LLDCs, that could be used more effectively, though often there are social and political barriers to their redeployment.

Whereas the bare outline of a basic needs strategy in a general developmental context, the transformation of strategy into a specific approach can be achieved only by taking the conditions of each country and region into account. The value of global targets is particularly limited. Individual country considerations must to shape policy prescriptions. Nonetheless, it remains the case that, the specific requirements of poverty alleviation can be highlighted by addressing attention to basic human needs and setting standards for meeting them. If these standards can be met, or at least if policy can be focused towards meeting them, the underlying human resource of a country can be developed. This is a necessary prerequisite for sustained economic growth.

2.5 Special Problems for the LLDCs

The limited human resource base of the smaller LLDCs constitutes a constraint on their development. Their absorptive capacity for new aid and investment must be increased. This suggests two hypotheses: that, in the short run, technical assistance can play a vital role, and that, in the long run, building up the human resource base through judicious investment in basic needs is essential.

Indeed, the improvement in human resources involves attention to other needs than education. And all aspects of strengthened human capabilities can contribute to growth as well as being desirable in themselves. Neither the low-income countries nor the LLDCs can afford to neglect basic needs of their populations.

The problem of absorptive capacity is, unfortunately, most acute where development is most urgent -- in the rural areas. The difficulties of managing public projects in remote areas, where supply lines and communications are poor, far from the centers of administrative authority, can be especially severe. For this reason, the resources devoted to agricultural development may not always yield a high return, measured in conventional terms. To improve this rate of return requires imaginative and capable management and often a degree of decentralization in decision-making, both of which may be difficult to achieve.

The review of macroeconomic issues also underlined the crucial importance of curbing population growth. While, for small countries, it may seen anathema to limit the future size of their population, the ability to generate internally the resources needed for poverty alleviation and growth, depends on the ability to control fertility.

Finally, it is evident that, as for all low income countries, concessionary assistance is vital to the LLDCs. It has been important in the past, but there has been little growth nonetheless. The challenge for the international community is to sustain this flow of assistance, while devising new methods to make it more effective. The World Bank, for its part, has in the last decade pursued the two objectives of increasing the quantity and the quality of aid to the poorest countries, and expects to continue to do so.

CHAPTER 3: THE BANK´S ROLE

The World Bank´s strategies of assistance reflect the results of an on-going dialogue between the Bank and its borrowing member countries. Each strategy reflects the country´s development objectives, its past and prospective performance and the country´s needs for financial and technical assistance as well as the broad policies and priorities of the Bank. The Bank´s approach recognizes that the process of economic development is unique to each country.

The size of individual country lending programs, determined in the process of country assistance planning, is influenced by criteria that reflect policies set by the Board of the World Bank. Thus, there is a general presumption that the lower the per capita income of a country, the greater is its per capita claim on Bank Group resources. This consideration is tampered by judgments regarding the country´s economic and social performance and its ability to use Bank Group resources. Where this ability is constrained, the Bank´s lending programs and technical assistance are designed, inter alia, to increase absorptive capacity. In addition, for IBRD lending, the creditworthiness of a country is analyzed.

3.1 Important Sectors for Poverty Alleviation

Since the late 1960s, the World Bank´s country lending programs have emphasized lending to develop sectors of key significance to the poor. Among these, agriculture stands out for its importance both to increased the availability of necessities, and to increased incomes and productivity. Agricultural lending rose from 24.1 percent of all Bank and IDA lending in the FY 1971 - 75 period to 30.2 percent in FY 1976 - 80 (Table 9). This compares with 19.9 percent at the end of the 1960s. 1/

The same shift in the composition of the total Bank lending program is apparent in lending to the LLDCs as a group: lending for agricultural projects rose from 33.1 to 36.7 percent between FY 1971-75 and FY 1976-80. Indeed, the absolute increase was so large that it appears to have constrained the share of lending that could go to the more socially oriented sectors of education, population and urbanization. The share of these sectors in lending to the LLDCs fell slightly, from 10.1 percent to 10.0 percent.

However, there was substantial total growth in lending to the LLDCs from an annual average (in 1980 dollars) of $600 million for the first half of the 1970s to $889 million for the second, or from $316 million to $762 million in current dollars (Table 12). As a result, the current dollar value of annual lending to the social sectors rose from $31.7 million to $76.9 million, more than doubling in nominal terms for both education and population projects and more than quadrupling for urban projects (Table 10).

1/ FY 68 and FY 69 combined.

Table 9: IBRD/IDA Sectoral Lending FY 1971 - 1980: the LLDCs and All Borrowers 1/

(Percentage Distribution)

	LLDCs		All Borrowers	
	FY 71-75	FY 76-80	FY 71-75	FY 76-80
Agriculture	33.6	36.7	24.1	30.2
Social Sectors	10.1	10.0	6.9	8.2
- Education	(8.4)	(7.6)	(4.9)	(4.4)
- Population	(1.0)	(0.8)	(0.6)	(0.9)
- Urbanization	(0.7)	(1.6)	(1.4)	(2.9)
Infrastructure 2/	32.6	27.0	43.8	40.4
Program Lending/ Structural Adjustment Loans	14.6	14.5	6.7	4.0
Technical Assistance	0.3	1.0	0.2	0.3
Others 3/	8.8	10.8	18.3	16.9
TOTAL	100.0	100.0	100.0	100.0

1/ Includes Lending in the FY 1978-80 period through the Third Window, a temporary arrangement whereby loans were made at a rate between the IDA and IBRD rates.

2/ Communications, Power, Energy, Transportation and Water Supply.

3/ Industrial Development and Finance, Industry and Tourism.

Table 10: IBRD/IDA Lending in Agriculture and the Social Sectors: FY 1971 - 1980; the LLDCs and All Borrowers 1/

(Current $ millions: annual averages)

	LLDCs		All Borrowers	
	FY 71-75	FY 76-80	FY 71-75	FY 76-80
Agriculture	105.7	279.8	921.3	2,637.1
Social Sectors	31.7	76.9	263.9	710.2
- Education	(26.4)	(58.2)	(188.3)	(379.6)
- Population	(3.0)	(6.4)	(24.1)	(77.6)
- Urbanization	(2.3)	(12.2)	(51.5)	(252.9)
Total	137.4	356.6	1,185.3	3,347.2
TOTAL, ALL SECTORS	316.1	762.5	3,817.7	8,720.5

1/ Includes Third Window Lending in FY 1976 - 80 figures; see Table 9 footnotes.

The Bank´s policy within these sectors has also evolved over the last decade. Agricultural projects increasingly emphasize assistance to smallholders and more marginal farmers. For example, the Bank´s agricultural credit policies now emphasize accessibility of credit institutions to small scale farmers, encouraging lenders to send representatives into the fields and villages rather than depending on visits to branches by potential borrowers. Credit is often provided in kind -- as fertilizer, seed, or livestock -- and the timeliness of lending is closely scrutinized. Intermediating institutions are encouraged to use flexible repayment schedules that recognize how uneven the cash flow of a small farmer is likely to be.

Education sector lending has moved away from our emphasis on bricks and mortar and is increasingly stressing the importance of teaching materials, curriculum development, planning and management and teacher training. At the same time, far greater emphasis is being laid on vocational and basic education, which can give the poor better specific and general skills to improve their living standards.

The lending program aggregates mask some other developments in Bank policy. In particular, the Bank has actively supported health care development, through health components in education, population, agriculture, and rural development projects. Over the period, fiscal 1976-1978, the Bank assisted health components in 70 projects at a total cost of $405 million. It has financed medical education; training for nurses, auxiliaries and assistants; the development of health education programs; and the construction and staffing of primary health care facilities.

Equally, some of the lending included in the residual category in Table 9 has been shaped towards the needs of the poor. In particular, an expanding share of lending through development finance companies has been directed towards small scale enterprises. The Bank recognizes that medium and large scale projects may be able to foster rural and urban employment creation, that they may be labor-intensive or have strong linkages to labor-intensive activity. However, small scale undertakings, in services as well as manufacturing, are typically more labor-intensive. In many instances, these projects have called for credit to be matched by technical assistance, to address the managerial and technical problems of small scale firms.

3.2 Small Country Bias

Measured by per capita lending, the World Bank has for some time tended to favor small countries (Table 11). Bank and IDA lending per capita to countries with populations of less than 3 million averaged $10.60 between 1976 and 1980, compared with an average among all borrowers of $4.20. Similarly, IDA lending, taken by itself, was tilted to favor smaller borrowers, though with somewhat less bias.

Some countries are so small that a single operation of a few million dollars will lead to a high per capita lending figure. For these countries, where economies of scale dictate a certain minimum size of operation, the per capita lending criterion is misleading: their situation is comparable to a small region of a large country where Bank lending may, for a period, happen to be concentrated.

However, there is a second reason for a small country bias. This is related to the difficulty, already touched on, that small nations face in achieving a "critical mass" for development. Their internal markets for

Table 11: IBRD/IDA Lending by Population Size of Country FY 1976-80

Population Size Class (Millions)	Lending ($ Millions)	Percent Share (Percent)	Lending Per Capita Per Annum ($)	Population (Millions)
IBRD/IDA 1/				
0.0 - 3.0	2,175.9	5.0	10.6	40.9
3.0 - 15.0	6,917.4	15.9	5.3	261.1
15.0 - 30.0	9,260.5	21.2	8.2	224.6
30.0 and above	25,248.3	57.9	3.2	1,567.1
IBRD/IDA TOTAL	43,602.1	100.0	4.2	2,093.7
IDA				
0.0 - 3.0	476.5	3.9	3.7	26.0
3.0 - 15.0	2,486.6	20.5	2.8	176.7
15.0 - 30.0	1,132.7	9.3	3.0	
30.0 and above	8,039.0	66.2	1.4	1,184.9
IDA TOTAL	12,134.8	100.0	1.7	1,463.5

1/ Includes Third Window; see footnote to Table 9.

goods and services are small and their linkages with other economies, even when they have an open trade regime, are often weak if transportation is costly. But perhaps most important is the frequent dearth of human capital and of management experience, especially in technical skills at the intermediate levels such as foreman and factory floor manager for industry or extension worker and primary health worker in rural areas.

3.3 Poor Country Emphasis

Over the last 10 years, the proportion of Bank group lending to low-income countries has risen (Table 12). In the FY1971-75 period, 31 percent of all lending was directed to the low-income countries; over the next 5 years, the average was 36 percent. In the early 1980s, it is presently forecast to rise further, if the resources mobilized in the VIth and VIIth IDA Replenishments are sufficient. For IDA resources taken separately, the emphasis on low-income countries has, of course, been more pronounced: in FY1971-75, 83 percent and in FY1976-80, 87 percent of all IDA lending was to low-income borrowers, and the program for the next five years envisages a further rise to about 90 percent.

The LLDCs, since all but two are among the low-income countries, have received an increasing share of Bank and IDA resources. Moreover, because the LLDCs are in general smaller than the average low-income country, they have also benefitted from the small country bias of the Bank's lending. Thus, in the last 5 years, IDA per capita lending was $3.0 in the LLDCs as opposed to $2.50 for the typical low-income country.

The contrast between the typical LLDC and the average low-income country borrower is yet more marked, if grant equivalents per capita per annum are compared. The respective figures were $2.5 and $1.7 for FY1976-80.

Table 12: IBRD/IDA Lending Programs: FY 1971 - 1980 -- the LLDCs, Low Income Countries and All Borrowers

	FY 71 - 75			FY 76 - 80		
	Annual Average Lending ($millions)	Lending per Capita per Annum 2/ (dollars)	Percent Share of Total (Percent)	Annual Average Lending ($millions)	Lending per Capita per Annum 2/ (dollars)	Percent Share of Total (Percent)
Constant 1980 Dollars						
IBRD/IDA 1/						
Least Developed Countries	600.1	2.4	8.1	888.6	3.4	8.8
Low Income Countries	2,309.1	1.9	31.0	3,629.4	2.9	35.8
All Borrowers	7,437.6	3.6	100.0	10,133.7	4.8	100.0
IDA						
Least Developed Countries	510.3	2.0	23.2	806.4	3.1	29.1
Low Income Countries	1,801.2	1.5	82.1	2,417.2	1.9	87.3
All Borrowers	2,195.7	1.0	100.0	2,768.8	1.3	100.0
Current Dollars						
IBRD/IDA 1/						
Least Developed Countries	316.1	1.2	8.3	762.5	3.0	8.7
Low Income Countries	1,209.4	1.0	31.7	3,130.7	2.5	35.9
All Borrowers	3,817.8	1.8	100.0	8,700.4	4.2	100.0
IDA						
Least Developed Countries	272.9	1.1	24.3	696.0	2.7	28.7
Low Income Countries	923.9	0.8	82.3	2,114.8	1.7	87.1
All Borrowers	1,122.5	0.5	100.0	2,477.0	1.2	100.0

1/ Includes Third Window in FY 1976-80 figures; see footnotes to Table 9.
2/ Based on estimated 1978 populations

3.4 Human Resource Development and Basic Needs

The importance of meeting basic needs is discussed above. The World Bank gave explicit recognition to the significance of basic needs fulfillment as a development goal in 1978. A research program was launched which produced general studies of the concept; country and cross-country studies of the extent of unmet basic needs and the range of policy interventions that have been attempted so far; and sector studies that analyzed the implications of meeting basic needs in the relevant sectors. The sectoral shifts in lending and the increased emphasis on aid to the low-income countries both reflect the Bank's increased commitment, for over a decade, to proverty alleviation. However, the composition of lending within sectors is also crucial to achieving the basic needs objective. For example, the value of benefits from water supply and sanitation projects depend on the proportion of recipients who are poor. At present, only 14 percent of beneficiaries of water supply and sewerage projects are believed to be among the absolute poor. The share of basic education in total education lending is estimated to be 25 percent. While these are only rough estimates and there are real and significant benefits from say, industrial water supply and higher education, it does seem likely that there is room to shift more resources towards directly meeting basic needs.

Greater emphasis on alleviating poverty has important implications for Bank lending procedures. First, many basic needs projects are characterized by high operating costs in relation to capital costs. Some financing of incremental costs has already been undertaken by the Bank in agricultural extension projects, but not, until recently, in education. Such financing is now being included. This incremental financing does not in any case extend beyond the implementation period of the project. Second, the opportunities to assist in meeting basic needs are often best conceived as part of integral sector strategies. With this in mind, the Bank seeks a greater involvement in sector lending in the basic needs sectors. To facilitate such a move, strong sector institutions are necessary. The Bank has therefore adopted an explicit policy of helping create and develop institutions in education, health, water supply and other human resource related sectors that can act effectively as intermediaries for sector loans. The Bank is also committed to increasing sector lending where suitable institutions already exist.

The special developmental challenges of the LLDCs, like those of other poor countries, are well recognized by the World Bank. It is understood that these create an urgent and continuing need for assistance. Nonetheless, the political will to address national development problems pragmatically is essential for sustained economic progress. The Bank's role is, and will continue to be, as far as it is able, to provide international support to such pragmatism throughout the developing world.

THE LEAST DEVELOPED COUNTRIES AND OTHER DEVELOPING COUNTRY GROUPINGS

Least Developed Countries 1/	Low-income Countries 2/	Middle-income Countries 2/
Afghanistan	Kampuchea, Dem.	Egypt
Bangladesh	Bangladesh	Ghana
Benin	Lao PDR	Yemen, PDR
Bhutan	Bhutan	Cameroon
Botswana	Ethiopia	Liberia
Burundi	Mali	Honduras
Cape Verde	Nepal	Zambia
Central African Republic	Somalia	Zimbabwe
Chad	Burundi	Thailand
Comoros	Chad	Bolivia

1/ Listed alphabetically.

2/ Listed in ascending order of GNP per capita.

Notes: 1. Cape Verde, the Comoros, Gambia, the Maldives and Western Samoa have GNP/capita of less than $360 and therefore qualify as low-income countries according to the World Bank definition. Botswana, with a higher GNP per capita, would qualify as a middle-income country. These six countries are excluded from the low-income and middle-income listing because their population is below one million and because very little data is available about their economies.

2. The two (three) least developed countries that are not low-income countries are Yemen PDR and the Yemen Arab Republic (and Botswana).

3. The sixteen low-income countries excluded from the least-developed country list are:

Kampuchea, Dem.	Pakistan
Mozambique	Madagascar
Burma	Mauritania
Vietnam	Angola
India	Togo
Sri Lanka	Kenya
Sierra Leone	Senegal
Zaire	Indonesia

Least Developed Countries 1/	Low-income Countries 2/	Middle-income Countries 2/
Ethiopia	Mozambique	Philippines
Gambia	Burma	Yemen Arab Rep.
Guinea	Upper Volta	Congo, People's Rep.
Haiti	Viet Nam	Nigeria
Laos	India	Papua New Guinea
Malawi	Malawi	El Salvador
Maldives	Rwanda	Morocco
Mali	Sri Lanka	Peru
Nepal	Guinea	Ivory Coast
Niger	Sierra Leone	Nicaragua
Rwanda	Zaire	Colombia
Somalia	Niger	Paraguay
Sudan	Benin	Ecuador
Tanzania	Pakistan	Dominican rep.
Uganda	Tanzania	Guatemala
Upper Volta	Afghanistan	Syrian Arab Rep.
Western Samoa	Central African Rep.	Tunisia
Yemen, PDR	Madagascar	Jordan
Yemen, Arab Republic	Haiti	Malaysia
	Mauritania	Jamaica
	Lesotho	Lebanon
	Uganda	Korea, Rep. of
	Angola	Turkey
	Sudan	Algeria
	Togo	Mexico
	Kenya	Panama
	Senegal	Taiwan
	Indonesia	Chile
		South Africa
		Costa Rica
		Brazil
		Uruguay
		Argentina
		Portugal
		Yugoslavia
		Trinidad and Tobago
		Venezuela
		Hong Kong
		Greece
		Singapore
		Spain
		Israel

THE CRITERIA USED TO DEFINE THE LEAST DEVELOPED COUNTRIES

At the time of writing, the criteria for identifying the LLDCs were under review at the request of the UN Economic and Social Council. The established criteria, of some years standing, are:

(i) GDP per capita of less than $100 at 1968 prices;

(ii) a share of manufacturing in GDP of 10% or less; and

(iii) an adult literacy rate of 20% or less.

Among the major revisions under consideration is using a more up-to-date price level for the GDP per capita cut-off, and increasing the adult literacy rate cut-off.

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POVERTY AND THE LEAST DEVELOPED COUNTRIES

Policy Planning and Program Review
Department
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POVERTY AND THE LEAST DEVELOPED COUNTRIES

POVERTY AND THE LEAST DEVELOPED COUNTRIES

CHAPTER 1: THE PROBLEM

1.1 The Nature of the Poverty Problem

The problem of poverty in the Least Developed Countries (LLDCs) is chronic and severe. 1/ In the 1970s, it was difficult for most of the LLDCs to generate many resources internally for growth or development. The international environment for the LLDCs has in some ways grown less supportive and the prospects for the 1980s are not encouraging.

For the individuals who are poor, in the LLDCs and elsewhere, the condition of poverty is characterised by more than a very low level of income and expenditure. Low income is often associated with very low productivity, for those in the labor force. Low expenditure often means so little food is consumed that malnutrition results. The poor almost always have nothing or next to nothing by way of useful physical assets. Commonly, though not invariably, they have few useful skills and most are illiterate or semi-literate. Ignorance and deprivation greatly increase the chances of poor health and an early death. Absolute poverty is a condition so characterized by malnutrition, ignorance and disease, that it is difficult for the human spirit to rise above it.

Obviously, the many aspects of poverty are interrelated. For the landless laborer paid in kind, or the subsistence farmer tilling infertile ground, low productivity is likely to translate directly into malnutrition for him and his family. For many a poor urban laborer, work conditions

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1/ See Annex 1 for a list of the LLDCs and Annex 2 for a brief statement of the criteria used to define them.

expose him to a high risk of accident or disease. In these situations the interrelations compound the problem of poverty and, because malnutrition and poor health lower productivity, they create a vicious circle.

For similar reasons, poverty is passed on to children. Malnutrition in infancy, little exposure to education in childhood and an early recruitment into the ranks of the under-employed are among the factors that disadvantage the children of the poor.

To interrupt these cycles presents a massive challenge for public policy. There are, perhaps, six more aspects of poverty that create special problems from the policy viewpoint:

- unemployables: the very old, the very young and the diseased, and in some cases households without adult male workers are amongst the poorest of the poor. Because they are unable to work, they must depend on charity from their family, or from a larger social organization such as the village. However, if they are orphaned or outcast, then their last hope may be the state. Such people, if they can be helped, need a long term commitment of support;
- intra-family disparities: in some cultures, children and women eat less well than men. For infants and for breast-feeding mothers, adequate nourishment is very important to avoid long-term damage to the child and, when some food could be redistributed to them and is not, they are critically poorer than need be. Yet to change family attitudes in traditional cultures may be very difficult;
- inaccessibility: the poor are sometimes hard to locate physically. Nomads in rural areas, such as those in the Sahel, and some of the

urban poor move a good deal. The rural poor who are settled may be equally difficult to reach if population densities are low and infrastructure inadequate. Even if contact has been made, there can be grave communication problems and basic differences in culture and understanding between the individual concerned and the agent of government. Traditional public channels may be ineffective in helping the very poor;

- social attitudes: there are sometimes persistent differences in poverty levels, by region, by language or cultural group. For example, despite the efforts of the Government of India, untouchables in several states continue to have poorer social and economic opportunities than the average Indian, though the gap has narrowed greatly since Independence. Overcoming prejudice can be a long and difficult process for a government;
- insecurity: naturally enough, the very poor are often risk-averse. Without savings to tide over temporary setbacks, without land tenure assured or secure employment guaranteed, the very poor cannot afford to experiment much or to look far into the future for payoffs. Consequently, any policy of poverty alleviation that seeks to involve the poor actively, must offer short-term as well as long-term prospects of betterment and must not be too risky. Yet without the involvement of the poor, programs of poverty alleviation are far less likely to be worthwhile.
- seasonality: who the poor are and how serious is their condition varies over time, particularly over the year. The rural poor of

West Africa, for example, tend to be underoccupied for about half the year, and it is during this season that their deprivation is most acute.

The nature of poverty varies, as does the difficulty of designing appropriate policies greatly among and within countries, depending upon the relative importance of these different characteristics. For this reason, a global strategy may be much less effective than a set of tailor-made country-specific strategies. This point is addressed at the beginning of Chapter 2.

1.2 The Extent of Poverty and Poverty Trends in the LLDCs

Though no one doubts the seriousness of the poverty problem, it is difficult to achieve a consensus about the incidence of poverty. The incidence of low income, of malnutrition, of poor health and of poor education are not the same, and different choices of standards have different implications for estimates of where the poor are and how numerous they are. Compounding the problem is the inevitable arbitrariness of any cut-off line, or poverty line. A small change in the positioning of this line can lead to large changes in the numbers of people thought to be poor. To circumvent such difficulties, some have suggested measures of poverty that reflect the distribution of income (or malnutrition, or whatever) below the poverty line, giving a heavier weight to those further down. But these measures are more difficult to estimate and to interpret. Besides, there is inevitably a large margin of error in estimating the number of poor, because the basic data are approximate and likely to be biased. Household surveys, which are one of the more reliable sources, are typically biased against a full enumeration of the poor and rarely provide much information about the lot of individual members of a household.

Table 1: The Extent of Poverty in the LLDCs 1/

	Mid 1978 Total Population (millions)	Population Below Absolute Poverty Line 2/ (millions)	Percent in Absolute Poverty (%)	GNP Per Capita (1978$)	Life Expectancy at Birth (1978 years)
Low-Income 3/ Countries	1,294	660	51	200	50
--of which LLDCs 4/	261	175	67	170	45
Middle-Income Countries	873	120	14	1,250	61

Sources: World Development Report, World Bank, August 1980 (WDR III), and provisional staff estimates.

1/ This table excludes China, from both the total population estimates and the estimates of the population below the absolute poverty line. China is excluded from all subsequent statistical analyses in this paper, unless otherwise stated.

2/ This estimate was based on available national income distribution data and a standard for the poverty line equal to the income of the 45th percentile in India. (see Ahluwalia, 1979).

3/ WDR III, page 110: excludes -- each with population less than 1 million -- Botswana, Maldives, Comoros, Gambia, Western Samoa, and Cape Verde. Their total population is 2.4 million.

4/ All but 3 of the LLDCs are low-income countries.

Nonetheless, to identify the most serious problems and to set policy priorities, some quantification must be made. In the World Development Report, 1980, the number of people throughout the world living below the absolute poverty line in 1978 was estimated as 780 million. This is 18% of the population of the world and 51% of the population of the low income developing countries where virtually all the absolute poor are found.

The World Bank has also made estimates of the extent of poverty in subgroups of countries, based on income levels needed to provide adequate nutrition and shelter. These estimates are closely comparable to the aggregate estimate of the latest World Development Report. According to these estimates, of the 261 million people in the 30 LLDCs, about 175 million or roughly two-thirds fell below the poverty line in 1978. They represent one fifth of the world's absolute poor. The remaining four-fifths are heavily concentrated in the other low-income countries. Of the one billion or so people in the low-income countries not included among the LLDCs, 485 million live in absolute poverty.

Among the LLDCs, the larger countries account for most of the absolute poor. Between them, Bangladesh, Nepal and Afghanistan in Asia and Uganda, the Sudan and Tanzania in Africa have 160 million of the 261 million total population of the LLDCs, and account for 110 million of the 175 million absolute poor. However, the problem of the smaller LLDCs is no less acute.

Over the last two decades, the growth in income per capita in the average LLDC, large or small, has been disappointingly low, at only 0.3 percent per annum. As a measure of welfare, of activity and of resources in use, it suggests a very slow rate of economic progress (Table 2).

The condition of the absolute poor may have improved somewhat nonetheless. Life expectancy in the LLDCs rose from 28 to 45 years between 1960 and 1978 and the crude death rate fell from 26 deaths per thousand to 20 deaths per thousand. However, the average calorie intake was stagnant over this period at roughly 87% of requirements. This is largely attributable to the low rate of economic growth and in particular the relative neglect of

Table 2: Poverty Trends for the LLDCs: 1960-1977

	1960	1977 or Most Recent Estimate	Average Annual Percentage Change
Life Expectancy (years)	38	45	1.0
Crude Birth Rate (per 000)	49	47	(0.2)
Crude Death Rate (per 000)	26	20	(1.5)
Population (millions)	166.6	260.9	2.7
Population, per Physician (000s)	18.7	14.8	(1.4)
Population per Nurse (000s)	11.3	5.2	(4.5)
Population per Hospital Bed (000s)	1.8	1.4	(1.5)
Calorie Intake as % of Requirements	87	86	(0.1)
Primary School Enrollment Rate (%)	29	57	4.1
Primary School Enrollment Rate (%) (female)	17	44	5.8
Adult Literacy Rate (%)	16	24	2.4
Income Per Capita (constant prices)	152	160	0.3

Sources: WDR III and provisional staff estimates.

agriculture. What improvements there have been should be attributed in general to better health care and education. For example, the number of physicians increased from one for every 18,700 or so of the population in 1960 to about one for every 15,300 in 1978 for the average LLDC. More educational opportunities appear to be available now than formerly and the populations of the LLDCs appear on average to be correspondingly better educated. Between 1960 and 1978, average primary school enrollment rates rose from 35 percent of the age group in question to 66 percent and female enrollment rates increased from 17 to 44%. Adult literacy rates increased from 18 to 28 percent. But perhaps most important have been the early programs of disease eradication in the 1960s. Their low cost and considerable effectiveness meant that significant gains in health and life expectancy were possible without much real per capita income growth. In general, it is hard, if not impossible, to improve living standards further without significant economic growth.

The conditions of the absolute poor may have improved, but it may or may not be by as much as these indicators would suggest. Given the uncertainties in national estimates of social indicators, and the difficulties of aggregating across countries, trends are tentative at best. Moreover, just as income is unevenly distributed throughout national economies, so are life expectancy, food, and other economic benefits. Very little is known about the changes in the distribution of these measures. With these caveats in mind, it still seems reasonable to conclude that levels of nutrition, health care and education have not risen as quickly as they might.

The question remains, are the problems of poverty for the LLDCs special to them? Considering the LLDCs, the low-income countries and the middle-income countries, are the differences between groups greater than the differences between countries within groups? Though such a question defies analysis across all the pertinent aspects of the economies concerned, still some light can be shed on the question by comparing social and economic indicators for these three groups of countries.

1.3 The Special Position of the LLDCs

As in the low income countries as a whole, 1/ the condition of life in the LLDCs is harsh and difficult. In almost all respects, the average condition is, in fact, worse. Life expectancy, which is 61 years in the middle-income countries, and 50 years in the low-income countries taken as a whole, is only 45 years in the typical LLDC. Crude birth and death rates and child mortality rates are significantly higher and the balance of these demographic factors is such that the populations of the LLDCs has grown over the period from 1970 to 1978 at an average annual rate of 2.6% as opposed to 2.2% in the low-income countries as a whole and 2.4% in the middle-income countries (Table 3.)

Low life expectancy reflects to some extent a relatively poor availability of health care, even of a most basic kind. Comparing health care indicators, the population per physician is higher in the LLDCs than in either the low-income or middle-income countries, but the population per nurse, somewhat surprisingly, appears to be lower than for the low-income countries. Like the low- and middle-income countries, the health services are concentrated in urban areas.

Food consumption also contributes towards health. Once more, in this regard, the LLDCs are somewhat worse off than the average low-income country, since calorie intakes as a percentage of requirements average only 86 or 87 percent, compared with 91% in the low-income countries.

1/ The analysis here compares all low-income countries and all middle-income countries with the LLDC grouping of countries. Most LLDCs are low-income countries, though 2 or 3 are middle-income (see Annex 1).

Table 3: The Position of the LLDCs -- Socio-Economic Indicators
1978 or Most Recent Estimates

	LLDCs	Low-Income Countries	Middle-Income Countries
Demographic Factors			
Life Expectancy (Yrs.)	45	50	61
Child Mortality Rate (per 000)	25	20	10
Crude Birth Rate (per 000)	47	39	35
Crude Death Rate (per 000)	20	15	11
Population (millions)	261	1,293	873
Annual Average Population Growth Rate (1970-78)	2.6%	2.2%	2.4%
Income per Capita ($ dollars)	170	200	1,250
Health Care Indicators			
Population per Physician (000s)	14.8	9.9	4.3
Population per Nurse (000s)	5.2	8.8	1.9
Calorie Intake as a percent of Requirement	86	91	108
Education Indicators			
Primary School Enrollment Rate	57	77	97
Primary School Enrollment Rate (Females)	44	64	93
Adult Literacy Rate	24	38	71

Sources: WDR III and preliminary staff estimates.

While adult literacy rates and school enrollment ratios have risen, they still fall well below the average for all low-income countries. The implication is serious not only in terms of the present parlous state of LLDC populations, but also because of its implications for future development.

The LLDCs include some very small countries. Of the 43 countries with per capita income of $360 or less in 1978, 29 had a population of 10 million. 1/ Of these, 22 were LLDCs. Of the 11 countries with populations below 3 million, 9 were LLDCs (Table 4). With their low GNP per capita, these are very small economies, with a low level of aggregate demand and few opportunities to realize economies of scale, unless it be through trade.

Partly because of low standards and an insufficient amount of education in the past, many of the LLDCs face a manpower constraint. In Upper Volta, for example, the number of adults who are literate is estimated to be less than 200,000. The weakness of many of its public institutions can be traced to the shortage of skilled personnel, in particular, technicians. The Maldives, with a total population of only 150,000, has grave difficulty finding qualified people to fill a wide variety of essential positions, despite a high adult literacy rate of 86 percent. Even for large LLDCs the problem is acute. In Tanzania, which is remarkable among developing countries for the emphasis it has put on basic education, and where as many as two-thirds of the population are literate, there is a severe shortfall in the supply of skilled professionals. Uganda, after its recent civil war, faces massive manpower shortages. For the smallest LLDCs, the problem is not merely one of the present inadequate availability of skilled manpower, but the absolute

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1/ Note that Botswana had an estimated GNP capita of more than $360 in 1978, a population of less than 1 million and it is an LLDC.

Table 4: The Population Size Distribution of the LLDCs and Other Low-Income Countries

	LLDCs		Other Low-Income Countries	
Size Class of Population	Number of Countries	Average Population (millions)	Number of Countries	Average Population (millions)
Below 1 million	6	0.4	-	-
1 to 3 million	4	1.6	2	1.9
3 to 10 million	13	4.7	5	6.7
10 to 25 million	5	15.0	3	12.4
Above 25 million	2	57.9	6	161.3
Total/Average	30	8.7	16	65.2

constraint of very small populations (Table 5). Moreover rapid population growth exacerbates the situation, since high birth rates and dependency ratios make for a less healthy population, for lower savings and in general for slower per capita growth.

Table 5: The Literate Population of the Smaller LLDCs as an Indicator of the Constraints of Small Size

Population Size	Number of LLDCS	Number of LLDCs in Sample	Average Estimated Number of Literate Adults (000s)
Below 1 million	6	4	76
1 to 3 million	4	2	325
3 to 10 million 1/	13	11	468

1/ In the sample of countries in the range of 3 to 10 million population, Niger, Upper Volta and Benin have an estimated adult literate population of less than 200,000.

Source: World Bank social and economic data files.

Indeed, the rate of population growth is higher in the LLDCs than in the low or middle income countries, and at the same time, their economies have on average grown more slowly, so that the per capita incomes of LLDC countries have fallen behind those of the rest of the developing world (Table 6).

One further factor distinguishing some of the LLDCs, is their low population densities. Bangladesh excepted, whose population density is amongst the highest in the world at 871 persons per square kilometer of agricultural land, the average population density is only 114 per square kilometer. The great majority of the LLDCs with very small populations also have very low densities: Mali, Niger, Chad, the Central African Republic and Botswana all have densities below 20 persons per square kilometer. For comparison, the average population densities in the low-income, and middle-income countries are respectively, 359 and 594 people per square kilometer of agricultural land respectively.

The implication of low population density for development is, of course, that providing adequate physical and institutional infrastructure to develop the rural sector is likely to come at a very high per capita cost. The development and maintenance of roads, irrigation, input supply systems, agricultural product markets and so forth is more difficult and more costly, where densities are low. The design of rural development schemes, and the efficient maintenance of existing systems under these circumstances demands great administrative skill.

Some indication of the extent of physical infrastructure is given from the level of commercial energy consumption per capita. Between 1960 and 1978 it roughly doubled for the LLDCs but, even then, it was at the very low

Table 6: The Position of the LLDCs: Structure and Growth of Output and Demand

(Percentages)

	LLDCs	LICs	MICs
Annual Growth Rates: 1970 - 1978			
GDP	2.9	3.6	5.7
Agriculture	2.4	2.0	3.1
Industry	2.6	4.5	7.1
Manufacturing	3.0	4.2	6.8
Services	4.4	4.3	5.8
Origin of GDP: 1978			
Agriculture	54	38	16
Industry	11	24	34
Manufacturing	(7)	(13)	(25)
Services	35	38	50
Distribution of GDP: 1978			
Public Consumption	10	12	13
Private Consumption	83	73	65
Gross Domestic Investment	13	21	25
Gross Domestic Saving	7	15	22
Exports	10	12	21
Exports minus Imports	- 6	- 6	- 3

Sources: WDR III and preliminary staff estimates.

level of 53 kilograms of coal equivalent per year (Table 7). This compared with an average of three times as much for the low-income countries taken as a whole, and eighteen times as much in the middle-income countries. Moreover, energy consumption per dollar of GNP is between one-third and one-half of that for the low- or the middle-income countries, suggesting that their economies are not overly commercial energy-intensive. 1/

Table 7: Commercial Energy Consumption in the LLDCs: 1978

	Energy Consumption per Capita (Kilograms of Coal Equivalent)	Income per Capita (1978 dollars)	Energy Consumption per $ of GNP (Kilograms of Coal Equivalent for Dollar)
LLDCs	53	170	0.3
Low-Income Countries	161	200	0.8
Middle-Income Countries	903	1,280	0.7

Source: WDR III

Over 50 percent of GDP originates in agriculture in the LLDCs. This, combined with the need to increase the incomes of the rural poor and the imperative to meet basic human needs (among them, food) as quickly as possible,

1/ However, given the very limited growth in GNP and the sharp rise in commercial energy consumption, what growth there has been was very energy-intensive.

suggests that agricultural investment should receive a high priority. Where the natural resource base is unfavorable, as is the case in many of the LLDCs, productivity gains are unlikely to be dramatic, but the need for increased agricultural output is so urgent that agricultural investment should still have a high priority. It is, however, important that this investment should be selective and concentrated in those areas where there is the greatest potential.

Related to the low rate of growth of their economies and to high dependency ratios is a low rate of savings. Gross domestic saving averaged only 7 percent of GDP in 1978, as opposed to 15 percent for the low-income countries as a whole. This is both a contributory cause and an effect of slow economic growth. Although additional external resources brought gross domestic investment up to an average of 13 percent of GDP, still investment was at a much lower relative level than in the typical low-income country (21 percent of GDP).

As a group, the LLDCs are about as autarchic as the average low-income country (Table 6). They trade 13 percent of GDP as opposed to 14 percent for the low income countries. This is considerably less than the 22 percent of GDP traded by the middle-income countries. While the advantages to be reaped from trade should be great for economies in the early stage of development, since their relative resource endowments are so different from the industrialized world, these advantages may have been underexploited. For the landlocked countries of Africa and for the island countries -- the Maldives and the Comoros, for example -- transportation costs are high. The availability and quality of goods for exports is also a constraint. Partly for these reasons trade has been limited, but it is nonetheless a matter for concern that exports, in real terms, have fallen quite sharply over the decade.

By 1978, imports exceeded exports by 60 percent. Ninety percent of exports were commodities, but only a small proportion of these were minerals or fuels: most were agricultural. Typically, these commodity exports were and are concentrated in a handful of goods, so that for some LLDCs, the level of export earnings is quite vulnerable to changes in market conditions. Thus, to the extent that imports are vital for the process of economic development -- which is usually a great extent -- these economies are heavily dependent on a few commodity exports and on foreign aid (Table 8). Since aid finances almost one third of all imports as well as almost one half of all investment, official development assistance bears an especially heavy responsibility in these economies.

It is not surprising, therefore, that external public debt outstanding and disbursed is a high proportion of GDP -- about 28%. This compares with 18 percent for the middle income countries. However, for the LLDCs, debt has usually been contracted on such liberal terms that the average debt service ratio is low. Debt servicing problems have not been an issue for the majority of the LLDCs and are unlikely to become such in the future, if real export earnings can be stabilized.

1.4 Prospects for Poverty in the LLDCs

The prospects for the LLDCs for the next twenty years or so are sobering. Any material progress for the absolute poor in these countries will be achieved only by means of a very major effort, both national and international.

Table 8: The Position of the LLDCs -- Trade, the Balance of Payments and Debt Service

	LLDC	LICs	MICs
Percent of Merchandise Exports: 1977			
Fuels, Minerals and Metals Exports	13	37	33
Other Primary Commodity Exports	77	44	30
Textiles and Clothing Exports	6	7	10
Machinery and Transport Equipment Exports	--	2	9
Other Manufactures Exports	4	10	18
Energy Imports	29	16	20
Growth of Trade: 1970 - 1978 (Annual percent changes)			
Exports 1/	(3.5)	(0.8)	5.2
Imports	1.6	3.2	5.8
Terms of Trade 1978 (1970 = 100)			
Balance of Payments and Debt - 1978			
Current Account Balance as a % of GDP	(6)	(6)	(3)
Debt Service as a % of GDP	1.0	1.7	2.9
External Public Debt as a % of GDP	27.6	21.7	17.6
International Reserves in Months of Import Coverage	3.8	3.5	2.5
Debt Service as a % of Exports	7.5	11.7	13.8

1/ Two-thirds of both LIC and MIC exports go to Industrial countries, and only a quarter to other developing countries.

Sources: WDR III and preliminary staff estimates.

The LLDCs are likely to be hurt particularly by slower economic growth in the OECD. Typically less open than the average middle-income country, the trade impact of slower growth in the industrialized countries may be less for the LLDCs. But, as inputs into manufacturing and as consumer goods not otherwise obtainable, commodity exports, which dominate LLDC exports, are unlikely to face significantly higher trade barriers (Table 8). The precise effect will vary from commodity to commodity and will depend upon the income elasticity of demand in the industrialized countries.

The difficulty of maintaining flows of concessionary assistance is potentially more serious. The industrialized nations, from whom most of this assistance still comes, are faced with domestic pressures to limit aid. The climate of public opinion is adverse since problems of structural adjustment and slower growth are causing domestic hardships which, although less serious than those faced by the LLDCs, many people feel should be addressed before the needs of foreigners. Unlike the situation in the mid-1970s, there is now almost universal recognition that energy will be more costly for the indefinite future, and that adjustment in the industrialized nations is inevitable. Also changed is the seriousness of inflation and the priority being given to controlling it. Thus a second reason why concessionary aid is likely to be under pressure is the perceived urgency of fiscal restraint.

This is particularly unfortunate, since it is likely that the number of absolute poor will increase. It is not inevitable, but forecast population growth is such that a very major reduction in the incidence of poverty is necessary to avoid that outcome.

The World Bank recognizes that the need for external assistance is great, and every effort should be made to maintain as high a level of aid as possible. Every effort must also be directed to making the best possible use of that aid. However, the contribution that can be made by international agencies is small beside the responsibilities and the opportunities of the governments of the countries concerned. How much can be done to alleviate poverty depends critically on the choice of national development strategy. Some of the more viable approaches to the alleviation of poverty are the subject of Chapter 2.

CHAPTER 2: SOME APPROACHES

2.1 Increasing Rural Productivity

A sustained improvement in the welfare of the poor must be based on an improvement in their productivity. Especially in the LLDCs, where resources for public transfers are very limited, it is not practical to think of alleviating poverty in the long run without increasing the productivity of the poor. Underemployment is common in many rural areas, because of seasonal variations in the demand for labor and the infertility of the land. Off-farm employment opportunities may be too few. Even for those of the rural poor who are employed full time, productivity is likely to be so low that incomes will be inadequate to meet basic needs. Increasing productivity is particularly important in rural areas as a precondition for poverty alleviation.

There is a second reason to concentrate on rural productivity. Many of the LLDCs are short of food and other agricultural goods needed to meet the basic needs of the poor. Both their purchasing power and the availability of necessities must increase, if the lot of the very poor is to improve.

Productivity increases are a necessary but not a sufficient condition for increased income for the poor. Unless output rises by at least as much as productivity, employment must necessarily fall, and output will increase only if there is effective demand for the product. In the case of subsistence farmers, as they reach towards a level of productivity necessary to meet directly their own basic food needs, this is not a problem. But for the farmer who has graduated to cash crops, productivity increases may rebound to the benefit of his landlord, depending on his tenancy arrangements, or of the consumer, depending on agricultural pricing policies. Where either subsistence or cash crop farming is taking place, the landless laborer may be especially vulnerable to productivity increases that outstrip effective demand, because he is the marginal laborer who is first to be unemployed.

Thus, there appear to be two policy problems. First, how to increase productivity in agriculture and the other rural sectors of the economy. Second, how to ensure as far as possible that the poor benefit from these productivity gains.

In practice, the two problems are often one and the same. Where landholdings are small and owned by the farmer, or where the landlord is as poor as his tenant, which is sometimes the case, any increase in productivity of subsistence crops will help the poor. Alternatively, improvements in output on tribally-owned land have a high probability of benefitting the poor within the tribe. If land ownership is concentrated, then land reform, by redistributing land, creates a strong incentive for the poor farmer to invest in land improvement and other types of capital expense. Moreover, evidence from India suggests that small farms tend to be farmed more intensively, with higher yields per hectare and a far greater labor input, possibly because of the low opportunity cost of family labor. Less drastic forms of tenancy reform, that provide landlord and tenant with more stability and with more incentive to invest individually or jointly, may also lead to higher productivity. Schemes to encourage sharecropper landlords to share in seed and fertilizer costs have also contributed to productivity gains. But in many countries, reforms short of land redistribution have been difficult to enforce.

An alternative approach to land ownership policy, that has been applied in Algeria, China, Peru, and Cuba is the establishment communes or cooperatives. This form of organization offers the potential advantages of economies of scale, and therefore may be more suitable to estate crops, such as tea, mulberry and banana, than to grains or livestock. However, the advantages are not always realized because of difficulties of management and incentives. For the majority of the LLDCs, with limited administrative capacity, cooperative organization of farming may not be a viable alternative.

While land reform may offer some countries a way of increasing productivity to the benefit of the poor, it must usually be accompanied by investment in infrastructure and institutional support. For example, rural feeder roads that reach the poorest villages increase the access of the very poor to seeds, insecticides and fertilizer inputs as well as their opportunities for productive employment elsewhere. Investment in irrigation -- either surface or tube well -- has, in many countries, contributed to large productivity gains and, because irrigated agriculture can be labor intensive, to employment gains among the landless poor.

In parallel, it is important to extend new knowledge of cultivation techniques, high-yielding varieties and water conservation methods to poor farmers via an effective agricultural extension system. Behind this, must be a competent body of expertise in agricultural methods, adapted as far as possible to local agricultural conditions. For this reason, agricultural research and development specific to soil and climate conditions of a locality and to the crops that can be grown profitably can be important for productivity gains. In dry-land farming in particular, research undertaken with such a local orientation has had a rate of return of 20 to 30 percent.

Together with the extension of knowledge, extension of credit is almost always essential for poor farmers to be able to develop their land. The twin difficulties that have been encountered in the past have been the development of an effective delivery mechanism and how to set terms so that they are responsive to farmers needs without needing subsidy. Pakistan and Karnataka in Southern India offer examples of effective delivery systems that have helped the poor increase their productivity. Both relied on commitment for borrowings by whole villages on behalf of single borrowers, so that peer group pressure could be brought to bear to discourage defaults. This replaced the need for specific collateral at the time of the loan. But should it be needed, future crops could be hypothecated. The Syndicate Bank in Karnataka avoided many of the pitfalls that traditional banks have faced in rural lending for small borrowers, by recruiting their staff from rural areas and locating their headquarters in the countryside. In this way, their managers were attuned to the investment opportunities in rural areas, familiar with how business could be done most effectively and committed to the rural communities they served.

Among the most important policy changes that many LLDCs could make to increase their agricultural productivity would be to change their pricing policies. Unlike the provision of physical and institutional infrastructure, pricing policy changes involve no commitment of scarce physical or human capital. Substantially freeing cash crop prices -- permitting the rural-urban terms of trade to change -- will create a strong incentive to increase outputs in those countries where policies have held down agricultural prices. At the same time, higher prices would provide farmers with the purchasing power they need to use new infrastructure. However, allowing agricultural prices to increase will reduce the real value of urban incomes, unless the urban economy is also growing sufficiently fast. If there is a real decline, there may be a case for food subsidy programs in the short run to sustain the urban poor through a transition period.

Price increases and increasing infrastructure are complementary strategies to increase agricultural output. Their relative importance varies from country to country. But there are few indeed that have been able to do all that could be done in these two policy areas.

2.2 Increasing Urban Employment

In most of the LLDCs, urban poverty is closely associated with urban unemployment. As in the rural sectors, there is often widespread underemployment in both what is sometimes called the informal, small-scale sector and the formal service and manufacturing sectors. It is also, typically, related to rural-urban migration.

In recent years, this phenomenon has been subjected to close academic scrutiny. The basic thesis, that rural workers are attracted to cities by the promise of high-paying formal sector jobs, until the levels of urban unemployment and underemployment rise to equate expected rural and urban incomes, has been elaborated and new insights have emerged. It now appears that migrants often graduate from small town to small city to metropolis over a number of years, and that the somewhat better off and better educated among migrants make the most substantial gains in welfare. There is also significant re-migration, either to meet seasonal rural labor needs, or of a more durable kind.

In the past, the informal, small-scale sector was seen as a staging post for rural migrants or urban poor, where they waited for the growth of the formal sector eventually to accommodate them. In recent years, it has been recognized that there are long-term employment opportunities in the informal and small scale sectors.

Moreover, while there are labor-intensive occupations in large scale enterprise -- especially in services -- which offer employment opportunities at a relatively low cost in capital-scarce economies, high labor-intensity is more typical of the small-scale and informal sectors. Consequently, policy makers have begun to look for ways of helping these neglected sectors of the urban economy to flourish.

The approaches that have been developed parallel the two-pronged strategy outlined above towards rural development. The first is to provide infrastructure. This may consist of factory space and access to utilities and transport on an industrial estate or technical assistance, to improve product quality and worker productivity. As in agriculture, access to credit is also pivotal for many small enterprises to succeed. Both physical and institutional infrastructure are important.

However, as in agriculture, projects aimed at increasing employment or productivity will force workers elsewhere out of a job unless demand expands. This consideration underlies the focus in some countries on developing export markets for small-scale business. One problem they meet, however, is the difficulty of assuring reliable delivery of high quality products. For this purpose, export cooperatives have been tried and state export agencies have been developed. One of the more successful approaches is to enhance the natural tendency of large businesses to subcontract work to smaller ones, and in effect achieve exports from the small-scale sector as components of complete products exported by larger concerns.

Demand expansion, however, re-emerges as a problem, even for exports, when the LLDCs are taken as a group. There is likely to be competition for markets in the industrialized countries and, in the 1980s, it now appears likely these markets will be growing at a more modest pace than before. In such a situation, one LLDC may gain, and alleviate its urban employment problem via an export strategy, but only at some expense to other LLDCs facing similar difficulties.

Faced with this dilemma, one further source of demand growth warrants serious consideration: the rural sector. Although rural demand for urban products may be very limited in the earliest stages of development, the demand for household utensils, farming implements, clothing and footwear are all highly income elastic at low income levels and are likely to increase rapidly as rural development becomes a reality. This bootstrapping of urban growth on rural may not provide a strong initial stimulus to urban employment growth, but it is able to help sustain it.

2.3 Reducing Fertility and Population Growth

While there has been wide acceptance of the need for improved general health systems throughout the developing world, there is not the same unanimity about programs to control fertility. The WHO disease eradication programs of the 1950s and 1960s and the often fairly major expenditures on establishing curative medical services over the same period and beyond, have had a substantial impact on the crude death rates of all developing countries. It has fallen on average from over 20 deaths per thousand to about 12 in the last 30 years. However, it is a simple syllogism that improved health and increase life expectancy, with stationary or increasing fertility rates, will lead to an acceleration in the rate of population growth at least in the short run.

There is evidence within many countries to suggest that fertility rates decline as family incomes rise. As incomes rise, parents' and potential parents' preferences tend to shift towards fewer children in whom they can concentrate resources to improve their health and education. At the same time, they are less in need of many infants, to ensure significant survival rates, for the supplementary labor power they have in middle childhood or to provide for them in old age. Moreover, women are likely to value their time differently as family income increases, spending less in rearing small children and more in either non-traditional work or leisure activities. This explains, in part, why higher levels of female education are closely related to decreases in fertility.

The general correlation between income and fertility rates is also apparent between major groupings of countries. In addition to the factors already discussed, the value of higher levels of education for fewer children may be greater in higher income countries where employment opportunities, rewarding educational qualifications are more plentiful. Equally, women in lower-income, traditional societies are able to perform traditional kinds of employment, such as those in cottage industries or small shopkeeping, while attending to their children. They therefore experience a less clear trade-off between time used in raising a family and time used for other purposes.

The consequences of a failure to stem population growth are serious for economic development. In the first place, the proportion of children in the population is high, so that either the cost of their dependency to individual families and to society at large drains more resources that would othewise be necessary into educating, feeding and clothing them, or their claims of dependency are ignored. Second, for poor countries with scarce natural resources and limited capital, a larger labor force implies lower productivity per worker and smaller surpluses for investment. Third, rapidly growing populations inevitably multiply difficult administrative and managerial problems that sap what is often a poor country's scarcest resource, organizational ability.

Among the LLDCs, population and fertility problems are almost universally severe. However, the Asian countries appear to have achieved a turning point, while the African nations lag behind. Their rates of population growth remain high, as a source of general frustration to all other developmental efforts for their economies. High fertility rates seem to be induced by poverty and to perpetuate it.

These social and economic determinants of fertility do not explain it entirely. The commitment of government to reducing fertility is also a key factor. While higher education levels and higher income contribute to lower fertility rates, they are greatly reinforced by programs that distribute contraceptives, and incentive schemes to encourage family planning. Conversely, government programs are more likely to succeed in societies where attitudes are changing.

Sterilizations and legally induced abortions are more common now than formerly. Both methods of family planning require clinical support, making programs dependent on the health care system. However, para-medical personnel and family planning aids in India and Pakistan have learned to insert IUDs and to carry out menstrual regulation, and some have been trained to perform sterilizations. The provision of the simpler methods and of oral contraceptives is well within the competence of para-medical personnel. Nevertheless, it is noteworthy that family planning services separate from health services appear to have been less successful.

2.4 Meeting Basic Needs

While an increase in productivity and employment may contribute to higher incomes among the poor, it is only half the story. Higher income and productivity may be a necessary condition for sustained, significant improvements in welfare, but it is necessary in parallel to address the basic needs of the very poor, their needs for food and nutrition, shelter, clothing, water and sanitation, education and good health. Increases in income may provide the poor with increases in entitlements to necessary goods and services, but this is futile unless these necessities are actually distributed and available.

The basic needs of individuals do, of course, embrace non-material requirements too: people need to have a sense of purpose, a sense of cultural identity and social status, and they need to participate in events that effect them. It is difficult for policy to address these issues directly, though the way policy is developed and implemented will affect them. There are almost always social groupings among the poor that can help official channels to extend assistance. New and separate administrative structures may not offer the same level of involvement and may, therefore, reduce the chances of widely meeting material basic human needs.

It is difficult to meet all these needs through the private market, though the fact that resources of the public sectors of many developing countries are limited should always lead policy makers to bear that alternative in mind. In particular, education, health, and water supply and sanitation are most readily supplied by the public sector.

In education, there are four common requirements. First, greater emphasis should be placed on basic primary education. This is a long term venture, gradually to improve the capabilities of the population in fundamental skills such as reading and arithmetic. These are of relevance to even the remotest of the rural poor, for they give them a greater ability to recognize and exploit all kinds of opportunities. Second, it is necessary to improve the quality of and relevance of basic education. This in turn requires emphasis on teacher training and efficient administration of the school system, to ensure that standards of instruction are maintained. The imaginative task of tailoring basic educational methods and content to local needs is demanding, but without it the value of formal education is greatly diminished. Third, there is an immediate need for specific kinds of training and instruction. For example, extension work in rural areas to improve water management can yield significant productivity gains in short order. Equally, education regarding food preparation and personal hygiene can often greatly improve nutrition and health, at almost no incremental resource cost.

To meet health requirements of the poor, a reorientation of health policy is often needed. In many cases, curative health care has been emphasized at the expense of preventive, and urban at the expense of rural. Community based health care systems are valuable if they emphasize prevention of disease through guidance and advice, and through innoculation programs, and they are able to provide basic treatment for injuries and illnesses as mild as cuts and colds. By prevention, immediate treatment and diagnostic screening, they can greatly ease the demand for more traditional curative health care. Moreover, by their close proximity to the poor in rural communities, they reduce the out-of-pocket and opportunity costs the poor typically face, when they seek out health care. Otherwise, even when the care itself is free, these incidental expenses can prevent the very poor from using it.

Nutrition problems are related to those of health and education. For example, perverse effects have been noted in some countries, where increases in income have been associated with changes in crops, from coarse grains to fine, with a loss in family nutrition as a result. Equally, an increasing income realized by lactating women going into non-traditional work, indirectly endangers the nutrition of infants if they are no longer breast-fed. Both influences could be avoided if the nutrition loss was understood. As education can assist with nutrition, so nutrition has an impact on health, for vulnerability to diseases of many kinds is reduced as nutrition improves.

The costs of water supply and sanitation could be significantly reduced by lowering construction and service standards judiciously. More households in urban areas can be served with standpipes rather than with water piped into individual dwellings. Equally, sanitation standards can often be improved with simple bore hole or vault systems, which cost much less than conventional flush toilets connected to centralized disposal systems.

A general point emerges. Meeting basic human needs in one area -- say in education -- is likely to help in meeting other basic needs. This interconnection is potentially an appealing aspect of the approach, for it implies that costs can be held down. It is true that sometimes the effectiveness of one kind of service may be jeopardized by a shortfall in the provision of another. At the same time, the externalities between services can reduce the total cost of meeting given standards.

It is also evident that meeting basic needs can contribute towards the goal of enhancing productivity. A healthier, better fed and better educated individual can achieve more in almost any occupation than a person who is sick, hungry and ignorant. Thus, even if the effect is gradual only, a sustained emphasis on basic needs fulfillment can be expected to contribute toward productivity gains and toward economic growth. In this regard, it is not necessary to trade basic needs fulfillment for economic growth; basic needs are a complementary objective.

It might be argued that meeting basic needs, whether through public or private interventions, is likely to absorb additional resources, and thereby detract from growth. But this is not necessarily so. Often resources can be effectivelv reallocated within sectors. For example, there is in many countries over-investment in secondary and higher education, at the expense of basic education and practical training. Equally, in many countries curative health expenditures are large and concentrated in urban hospitals, while rural areas are neglected. There are significant resources already committed, even in some of the LLDCs, that could be used more effectively, though often there are social and political barriers to their redeployment.

Whereas the bare outline of a basic needs strategy in a general developmental context, the transformation of strategy into a specific approach can be achieved only by taking the conditions of each country and region into account. The value of global targets is particularly limited. Individual country considerations must to shape policy prescriptions. Nonetheless, it remains the case that, the specific requirements of poverty alleviation can be highlighted by addressing attention to basic human needs and setting standards for meeting them. If these standards can be met, or at least if policy can be focused towards meeting them, the underlying human resource of a country can be developed. This is a necessary prerequisite for sustained economic growth.

2.5 Special Problems for the LLDCs

The limited human resource base of the smaller LLDCs constitutes a constraint on their development. Their absorptive capacity for new aid and investment must be increased. This suggests two hypotheses: that, in the short run, technical assistance can play a vital role, and that, in the long run, building up the human resource base through judicious investment in basic needs is essential.

Indeed, the improvement in human resources involves attention to other needs than education. And all aspects of strengthened human capabilities can contribute to growth as well as being desirable in themselves. Neither the low-income countries nor the LLDCs can afford to neglect basic needs of their populations.

The problem of absorptive capacity is, unfortunately, most acute where development is most urgent -- in the rural areas. The difficulties of managing public projects in remote areas, where supply lines and communications are poor, far from the centers of administrative authority, can be especially severe. For this reason, the resources devoted to agricultural development may not always yield a high return, measured in conventional terms. To improve this rate of return requires imaginative and capable management and often a degree of decentralization in decision-making, both of which may be difficult to achieve.

The review of macroeconomic issues also underlined the crucial importance of curbing population growth. While, for small countries, it may seen anathema to limit the future size of their population, the ability to generate internally the resources needed for poverty alleviation and growth, depends on the ability to control fertility.

Finally, it is evident that, as for all low income countries, concessionary assistance is vital to the LLDCs. It has been important in the past, but there has been little growth nonetheless. The challenge for the international community is to sustain this flow of assistance, while devising new methods to make it more effective. The World Bank, for its part, has in the last decade pursued the two objectives of increasing the quantity and the quality of aid to the poorest countries, and expects to continue to do so.

CHAPTER 3: THE BANK'S ROLE

The World Bank's strategies of assistance reflect the results of an on-going dialogue between the Bank and its borrowing member countries. Each strategy reflects the country's development objectives, its past and prospective performance and the country's needs for financial and technical assistance as well as the broad policies and priorities of the Bank. The Bank's approach recognizes that the process of economic development is unique to each country.

The size of individual country lending programs, determined in the process of country assistance planning, is influenced by criteria that reflect policies set by the Board of the World Bank. Thus, there is a general presumption that the lower the per capita income of a country, the greater is its per capita claim on Bank Group resources. This consideration is tampered by judgments regarding the country's economic and social performance and its ability to use Bank Group resources. Where this ability is constrained, the Bank's lending programs and technical assistance are designed, inter alia, to increase absorptive capacity. In addition, for IBRD lending, the creditworthiness of a country is analyzed.

3.1 Important Sectors for Poverty Alleviation

Since the late 1960s, the World Bank's country lending programs have emphasized lending to develop sectors of key significance to the poor. Among these, agriculture stands out for its importance both to increased the availability of necessities, and to increased incomes and productivity. Agricultural lending rose from 24.1 percent of all Bank and IDA lending in the FY 1971 - 75 period to 30.2 percent in FY 1976 - 80 (Table 9). This compares with 19.9 percent at the end of the 1960s. 1/

The same shift in the composition of the total Bank lending program is apparent in lending to the LLDCs as a group: lending for agricultural projects rose from 33.1 to 36.7 percent between FY 1971-75 and FY 1976-80. Indeed, the absolute increase was so large that it appears to have constrained the share of lending that could go to the more socially oriented sectors of education, population and urbanization. The share of these sectors in lending to the LLDCs fell slightly, from 10.1 percent to 10.0 percent.

However, there was substantial total growth in lending to the LLDCs from an annual average (in 1980 dollars) of $600 million for the first half of the 1970s to $889 million for the second, or from $316 million to $762 million in current dollars (Table 12). As a result, the current dollar value of annual lending to the social sectors rose from $31.7 million to $76.9 million, more than doubling in nominal terms for both education and population projects and more than quadrupling for urban projects (Table 10).

1/ FY 68 and FY 69 combined.

Table 9: IBRD/IDA Sectoral Lending FY 1971 - 1980: the LLDCs and All Borrowers 1/

(Percentage Distribution)

	LLDCs		All Borrowers	
	FY 71-75	FY 76-80	FY 71-75	FY 76-80
Agriculture	33.6	36.7	24.1	30.2
Social Sectors	10.1	10.0	6.9	8.2
- Education	(8.4)	(7.6)	(4.9)	(4.4)
- Population	(1.0)	(0.8)	(0.6)	(0.9)
- Urbanization	(0.7)	(1.6)	(1.4)	(2.9)
Infrastructure 2/	32.6	27.0	43.8	40.4
Program Lending/ Structural Adjustment Loans	14.6	14.5	6.7	4.0
Technical Assistance	0.3	1.0	0.2	0.3
Others 3/	8.8	10.8	18.3	16.9
TOTAL	100.0	100.0	100.0	100.0

1/ Includes Lending in the FY 1978-80 period through the Third Window, a temporary arrangement whereby loans were made at a rate between the IDA and IBRD rates.

2/ Communications, Power, Energy, Transportation and Water Supply.

3/ Industrial Development and Finance, Industry and Tourism.

Table 10: IBRD/IDA Lending in Agriculture and the Social Sectors: FY 1971 - 1980; the LLDCs and All Borrowers 1/

(Current $ millions: annual averages)

	LLDCs		All Borrowers	
	FY 71-75	FY 76-80	FY 71-75	FY 76-80
Agriculture	105.7	279.8	921.3	2,637.1
Social Sectors	31.7	76.9	263.9	710.2
- Education	(26.4)	(58.2)	(188.3)	(379.6)
- Population	(3.0)	(6.4)	(24.1)	(77.6)
- Urbanization	(2.3)	(12.2)	(51.5)	(252.9)
Total	137.4	356.6	1,185.3	3,347.2
TOTAL, ALL SECTORS	316.1	762.5	3,817.7	8,720.5

1/ Includes Third Window Lending in FY 1976 - 80 figures; see Table 9 footnotes.

The Bank's policy within these sectors has also evolved over the last decade. Agricultural projects increasingly emphasize assistance to smallholders and more marginal farmers. For example, the Bank's agricultural credit policies now emphasize accessibility of credit institutions to small scale farmers, encouraging lenders to send representatives into the fields and villages rather than depending on visits to branches by potential borrowers. Credit is often provided in kind -- as fertilizer, seed, or livestock -- and the timeliness of lending is closely scrutinized. Intermediating institutions are encouraged to use flexible repayment schedules that recognize how uneven the cash flow of a small farmer is likely to be.

Education sector lending has moved away from our emphasis on bricks and mortar and is increasingly stressing the importance of teaching materials, curriculum development, planning and management and teacher training. At the same time, far greater emphasis is being laid on vocational and basic education, which can give the poor better specific and general skills to improve their living standards.

The lending program aggregates mask some other developments in Bank policy. In particular, the Bank has actively supported health care development, through health components in education, population, agriculture, and rural development projects. Over the period, fiscal 1976-1978, the Bank assisted health components in 70 projects at a total cost of $405 million. It has financed medical education; training for nurses, auxiliaries and assistants; the development of health education programs; and the construction and staffing of primary health care facilities.

Equally, some of the lending included in the residual category in Table 9 has been shaped towards the needs of the poor. In particular, an expanding share of lending through development finance companies has been directed towards small scale enterprises. The Bank recognizes that medium and large scale projects may be able to foster rural and urban employment creation, that they may be labor-intensive or have strong linkages to labor-intensive activity. However, small scale undertakings, in services as well as manufacturing, are typically more labor-intensive. In many instances, these projects have called for credit to be matched by technical assistance, to address the managerial and technical problems of small scale firms.

3.2 Small Country Bias

Measured by per capita lending, the World Bank has for some time tended to favor small countries (Table 11). Bank and IDA lending per capita to countries with populations of less than 3 million averaged $10.60 between 1976 and 1980, compared with an average among all borrowers of $4.20. Similarly, IDA lending, taken by itself, was tilted to favor smaller borrowers, though with somewhat less bias.

Some countries are so small that a single operation of a few million dollars will lead to a high per capita lending figure. For these countries, where economies of scale dictate a certain minimum size of operation, the per capita lending criterion is misleading: their situation is comparable to a small region of a large country where Bank lending may, for a period, happen to be concentrated.

However, there is a second reason for a small country bias. This is related to the difficulty, already touched on, that small nations face in achieving a "critical mass" for development. Their internal markets for

Table 11: IBRD/IDA Lending by Population Size of Country FY 1976-80

Population Size Class (Millions)	Lending ($ Millions)	Percent Share (Percent)	Lending Per Capita Per Annum ($)	Population (Millions)
IBRD/IDA 1/				
0.0 - 3.0	2,175.9	5.0	10.6	40.9
3.0 - 15.0	6,917.4	15.9	5.3	261.1
15.0 - 30.0	9,260.5	21.2	8.2	224.6
30.0 and above	25,248.3	57.9	3.2	1,567.1
IBRD/IDA TOTAL	43,602.1	100.0	4.2	2,093.7
IDA				
0.0 - 3.0	476.5	3.9	3.7	26.0
3.0 - 15.0	2,486.6	20.5	2.8	176.7
15.0 - 30.0	1,132.7	9.3	3.0	
30.0 and above	8,039.0	66.2	1.4	1,184.9
IDA TOTAL	12,134.8	100.0	1.7	1,463.5

1/ Includes Third Window; see footnote to Table 9.

goods and services are small and their linkages with other economies, even when they have an open trade regime, are often weak if transportation is costly. But perhaps most important is the frequent dearth of human capital and of management experience, especially in technical skills at the intermediate levels such as foreman and factory floor manager for industry or extension worker and primary health worker in rural areas.

3.3 Poor Country Emphasis

Over the last 10 years, the proportion of Bank group lending to low-income countries has risen (Table 12). In the FY1971-75 period, 31 percent of all lending was directed to the low-income countries; over the next 5 years, the average was 36 percent. In the early 1980s, it is presently forecast to rise further, if the resources mobilized in the VIth and VIIth IDA Replenishments are sufficient. For IDA resources taken separately, the emphasis on low-income countries has, of course, been more pronounced: in FY1971-75, 83 percent and in FY1976-80, 87 percent of all IDA lending was to low-income borrowers, and the program for the next five years envisages a further rise to about 90 percent.

The LLDCs, since all but two are among the low-income countries, have received an increasing share of Bank and IDA resources. Moreover, because the LLDCs are in general smaller than the average low-income country, they have also benefitted from the small country bias of the Bank's lending. Thus, in the last 5 years, IDA per capita lending was $3.0 in the LLDCs as opposed to $2.50 for the typical low-income country.

The contrast between the typical LLDC and the average low-income country borrower is yet more marked, if grant equivalents per capita per annum are compared. The respective figures were $2.5 and $1.7 for FY1976-80.

Table 12: IBRD/IDA Lending Programs: FY 1971 - 1980 -- the LLDCs, Low Income Countries and All Borrowers

	FY 71 - 75			FY 76 - 80		
	Annual Average Lending ($millions)	Lending per Capita per Annum 2/ (dollars)	Percent Share of Total (Percent)	Annual Average Lending ($millions)	Lending per Capita per Annum 2/ (dollars)	Percent Share of Total (Percent)
Constant 1980 Dollars						
IBRD/IDA 1/						
Least Developed Countries	600.1	2.4	8.1	888.6	3.4	8.8
Low Income Countries	2,309.1	1.9	31.0	3,629.4	2.9	35.8
All Borrowers	7,437.6	3.6	100.0	10,133.7	4.8	100.0
IDA						
Least Developed Countries	510.3	2.0	23.2	806.4	3.1	29.1
Low Income Countries	1,801.2	1.5	82.1	2,417.2	1.9	87.3
All Borrowers	2,195.7	1.0	100.0	2,768.8	1.3	100.0
Current Dollars						
IBRD/IDA 1/						
Least Developed Countries	316.1	1.2	8.3	762.5	3.0	8.7
Low Income Countries	1,209.4	1.0	31.7	3,130.7	2.5	35.9
All Borrowers	3,817.8	1.8	100.0	8,700.4	4.2	100.0
IDA						
Least Developed Countries	272.9	1.1	24.3	696.0	2.7	28.7
Low Income Countries	923.9	0.8	82.3	2,114.8	1.7	87.1
All Borrowers	1,122.5	0.5	100.0	2,477.0	1.2	100.0

1/ Includes Third Window in FY 1976-80 figures; see footnotes to Table 9.
2/ Based on estimated 1978 populations

3.4 Human Resource Development and Basic Needs

The importance of meeting basic needs is discussed above. The World Bank gave explicit recognition to the significance of basic needs fulfillment as a development goal in 1978. A research program was launched which produced general studies of the concept; country and cross-country studies of the extent of unmet basic needs and the range of policy interventions that have been attempted so far; and sector studies that analyzed the implications of meeting basic needs in the relevant sectors. The sectoral shifts in lending and the increased emphasis on aid to the low-income countries both reflect the Bank's increased commitment, for over a decade, to proverty alleviation. However, the composition of lending within sectors is also crucial to achieving the basic needs objective. For example, the value of benefits from water supply and sanitation projects depend on the proportion of recipients who are poor. At present, only 14 percent of beneficiaries of water supply and sewerage projects are believed to be among the absolute poor. The share of basic education in total education lending is estimated to be 25 percent. While these are only rough estimates and there are real and significant benefits from say, industrial water supply and higher education, it does seem likely that there is room to shift more resources towards directly meeting basic needs.

Greater emphasis on alleviating poverty has important implications for Bank lending procedures. First, many basic needs projects are characterized by high operating costs in relation to capital costs. Some financing of incremental costs has already been undertaken by the Bank in agricultural extension projects, but not, until recently, in education. Such financing is now being included. This incremental financing does not in any case extend beyond the implementation period of the project. Second, the opportunities to assist in meeting basic needs are often best conceived as part of integral sector strategies. With this in mind, the Bank seeks a greater involvement in sector lending in the basic needs sectors. To facilitate such a move, strong sector institutions are necessary. The Bank has therefore adopted an explicit policy of helping create and develop institutions in education, health, water supply and other human resource related sectors that can act effectively as intermediaries for sector loans. The Bank is also committed to increasing sector lending where suitable institutions already exist.

The special developmental challenges of the LLDCs, like those of other poor countries, are well recognized by the World Bank. It is understood that these create an urgent and continuing need for assistance. Nonetheless, the political will to address national development problems pragmatically is essential for sustained economic progress. The Bank's role is, and will continue to be, as far as it is able, to provide international support to such pragmatism throughout the developing world.

THE LEAST DEVELOPED COUNTRIES AND OTHER DEVELOPING COUNTRY GROUPINGS

Least Developed Countries 1/	Low-income Countries 2/	Middle-income Countries 2/
Afghanistan	Kampuchea, Dem.	Egypt
Bangladesh	Bangladesh	Ghana
Benin	Lao PDR	Yemen, PDR
Bhutan	Bhutan	Cameroon
Botswana	Ethiopia	Liberia
Burundi	Mali	Honduras
Cape Verde	Nepal	Zambia
Central African Republic	Somalia	Zimbabwe
Chad	Burundi	Thailand
Comoros	Chad	Bolivia

1/ Listed alphabetically.

2/ Listed in ascending order of GNP per capita.

Notes: 1. Cape Verde, the Comoros, Gambia, the Maldives and Western Samoa have GNP/capita of less than $360 and therefore qualify as low-income countries according to the World Bank definition. Botswana, with a higher GNP per capita, would qualify as a middle-income country. These six countries are excluded from the low-income and middle-income listing because their population is below one million and because very little data is available about their economies.

2. The two (three) least developed countries that are not low-income countries are Yemen PDR and the Yemen Arab Republic (and Botswana).

3. The sixteen low-income countries excluded from the least-developed country list are:

Kampuchea, Dem.	Pakistan
Mozambique	Madagascar
Burma	Mauritania
Vietnam	Angola
India	Togo
Sri Lanka	Kenya
Sierra Leone	Senegal
Zaire	Indonesia

Least Developed Countries 1/	Low-income Countries 2/	Middle-income Countries 2/
Ethiopia	Mozambique	Philippines
Gambia	Burma	Yemen Arab Rep.
Guinea	Upper Volta	Congo, People's Rep.
Haiti	Viet Nam	Nigeria
Laos	India	Papua New Guinea
Malawi	Malawi	El Salvador
Maldives	Rwanda	Morocco
Mali	Sri Lanka	Peru
Nepal	Guinea	Ivory Coast
Niger	Sierra Leone	Nicaragua
Rwanda	Zaire	Colombia
Somalia	Niger	Paraguay
Sudan	Benin	Ecuador
Tanzania	Pakistan	Dominican rep.
Uganda	Tanzania	Guatemala
Upper Volta	Afghanistan	Syrian Arab Rep.
Western Samoa	Central African Rep.	Tunisia
Yemen, PDR	Madagascar	Jordan
Yemen, Arab Republic	Haiti	Malaysia
	Mauritania	Jamaica
	Lesotho	Lebanon
	Uganda	Korea, Rep. of
	Angola	Turkey
	Sudan	Algeria
	Togo	Mexico
	Kenya	Panama
	Senegal	Taiwan
	Indonesia	Chile
		South Africa
		Costa Rica
		Brazil
		Uruguay
		Argentina
		Portugal
		Yugoslavia
		Trinidad and Tobago
		Venezuela
		Hong Kong
		Greece
		Singapore
		Spain
		Israel

THE CRITERIA USED TO DEFINE THE LEAST DEVELOPED COUNTRIES

At the time of writing, the criteria for identifying the LLDCs were under review at the request of the UN Economic and Social Council. The established criteria, of some years standing, are:

(i) GDP per capita of less than $100 at 1968 prices;

(ii) a share of manufacturing in GDP of 10% or less; and

(iii) an adult literacy rate of 20% or less.

Among the major revisions under consideration is using a more up-to-date price level for the GDP per capita cut-off, and increasing the adult literacy rate cut-off.

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