



CHAPTER 2

Causes of Poverty and a Framework for Action

From *World Development Report 1990* . . .

- Labor-intensive growth
- Broad provision of social services

. . . to *World Development Report 2000/2001*

- Opportunity
- Empowerment
- Security

A decade ago *World Development Report 1990* presented a two-part strategy for poverty reduction:

Countries that have been most successful in attacking poverty have encouraged a pattern of growth that makes efficient use of labor and have invested in the human capital of the poor. Both elements are essential. The first provides the poor with opportunities to use their most abundant asset—labor. The second improves their immediate well-being and increases their capacity to take advantage of the newly created possibilities. Together, they can improve the lives of most of the world's poor.

—World Bank 1990 (p. 51)

That report also noted that these efforts had to be complemented by safety nets for people exposed to shocks and unable to benefit from the strategy. But safety nets were clearly seen as playing a supporting role for the two main parts of the strategy.

The 1990 report's framework for action was derived from its concept of poverty, its analysis of the causes of poverty, the experience of the 1970s and 1980s, and the state of the world economy at the end of the 1980s. It viewed poverty as low consumption and low achievement in education and health. Economic development—brought about essentially by liberalizing trade and markets, investing in infrastructure, and providing basic social services to poor people, to increase their human capital—was seen as key to reducing poverty.

The experience that defined the 1990 report, from its vantage of 1989, was the contrasting experience in the 1970s and 1980s of East Asia, where poverty had fallen sharply, and of Africa, Latin America, and South Asia, where poverty had declined less or even risen. Why did Indonesia outperform Brazil in the 1970s and 1980s in reducing income and nonincome (education and health) poverty? The answer was labor-intensive

growth and broad provision of social services—the report’s two-part strategy.

This report uses new evidence and multidisciplinary thinking that together broaden the choices for development action to reduce poverty in its multiple dimensions. The evidence confirms that economywide growth improves the incomes of poor people—and in the longer run reduces nonincome poverty. And expanding the human capabilities of poor people remains central in any poverty reduction strategy, both for the intrinsic value of such capabilities as health and education and for their instrumental contribution to other dimensions of well-being, including income.

But the experiences of the 1990s show that:

- Growth cannot be switched on or off at will. Market reforms can indeed boost growth and help poor people, but they can also be a source of dislocation. The effects of market reforms are complex, deeply linked to institutions and to political and social structures. The experience of transition, especially in the countries of the former Soviet Union, vividly illustrates that market reforms in the absence of effective domestic institutions can fail to deliver growth and poverty reduction. Furthermore, there is evidence that technological change in the past decade has been increasingly biased toward skills. So in contrast to what was expected and needed, the pattern

of growth in developing countries is not necessarily intensive in unskilled labor.

- The emphasis on social services for building human capital was perhaps too optimistic about the institutional, social, and political realities of public action. Public investment in basic education and health in developing countries has been rising—though in some countries more slowly than GDP, suggesting a possible lack of commitment to expanding social services. In many countries social spending is regressive. Moreover, such investment has been less effective than expected, in part because of serious problems in quality and in responsiveness to poor people’s needs—institutional failures highlighted in the *Voices of the Poor* study and other research. But there have been successes even in seemingly difficult conditions of low resources. Experience and research show that effectiveness in service delivery is highly dependent on local institutional capabilities, market structure, and patterns of political influence.
- There is a powerful case for bringing vulnerability and its management to center stage. Participatory poverty work underlines the importance of vulnerability to economic, health, and personal shocks. So do the financial crises of the 1990s—not least in East Asia, the shining example of success in development and poverty reduction—and the sequence of devastating natural disasters.

BRAZIL

Brazil has made impressive improvements in social indicators. Net enrollment in primary education increased from 88.2 percent in 1992 to 97.1 percent in 1997. Infant mortality fell from 62 per 1,000 live births in the mid-1980s to 38 in the mid-1990s. And much urban infrastructure helps poor people. New programs guarantee minimum per capita spending for basic health care and minimum per student spending in primary schools. Innovative action to get children into school includes the Bolsa Escola, which gives poor families grants if their children go to school.

Despite the advances, the inequalities in health and education remain great, with the poorest fifth of the population having three years of education, and the top fifth more than nine years. The income-poor

still leave school with skills inadequate for a middle-income country integrated with the global economy. And reducing income poverty has proved difficult. Indeed, in the unstable macroeconomic environment of the 1980s and early 1990s, poverty rose. Two recent events confirm that the groups most vulnerable to economic insecurity are those with the highest incidence of poverty. Drought in the Northeast hit poor rural workers severely, and the ripple effects of the East Asian crisis, though more benign than expected, reduced the income of workers with the least education.

Some illustrative priorities for action: job growth through productive investment and prudent macroeconomic management is clearly central to increasing income opportunities. But unless structural inequali-

ties are tackled effectively, the gains for poor people will be modest. To reduce structural inequalities, a large land reform program is under way, and there have been promising experiments in negotiated land reform in the Northeast. In the ongoing education effort the next steps will probably require even broader, deeper, and more participatory reforms—many of these are now under discussion. The government is also continuing to ease the constraints of constitutional entitlements, which limit the room for maneuver on public spending. Finally, successful community-driven development approaches—in urban upgrading, small-farm investments, and community health agents—show what is possible when there is an empowering mobilization of citizens.

- Inequality is back on the agenda—in the realm of ideas and experience and in the political discourse of many developing (and developed) countries. New work shows the importance of gender, ethnic, and racial inequality as a dimension—and a cause—of poverty. Social, economic, and ethnic divisions are often sources of weak or failed development. In the extreme, vicious cycles of social division and failed development erupt into internal conflict, as in Bosnia and Herzegovina and Sierra Leone, with devastating consequences for people.
- The global forces of integration, communication, and technological advance have proceeded apace, bringing significant advances to some. But they have passed others by. Private capital flows now dominate official flows in the world, but they reinforce positive economic developments, either neglecting or punishing countries with weak economic conditions.

The new evidence and broader thinking do not negate earlier strategies—such as that of *World Development Report 1990*. But they do show the need to broaden the agenda. Attacking poverty requires actions beyond the economic domain. And public action has to go beyond investing in social services and removing antilabor biases in government interventions in the economy.

Acknowledging the need for a broader agenda, this report proposes a general framework for action in three equally important areas:

- *Promoting opportunity*: expanding economic opportunity for poor people by stimulating overall growth and by building up their assets and increasing the re-

turns on these assets, through a combination of market and nonmarket actions (part II).

- *Facilitating empowerment*: making state institutions more accountable and responsive to poor people, strengthening the participation of poor people in political processes and local decisionmaking, and removing the social barriers that result from distinctions of gender, ethnicity, race, and social status (part III).
- *Enhancing security*: reducing poor people's vulnerability to ill health, economic shocks, policy-induced dislocations, natural disasters, and violence, as well as helping them cope with adverse shocks when they occur (part IV).

Opportunity, empowerment, and security have intrinsic value for poor people. And given the important complementarities among them, an effective poverty reduction strategy will require action on all three fronts, by the full range of agents in society—government, civil society, the private sector, and poor people themselves.

Actions cannot be confined to individual countries in the developing world. Harnessing global forces in favor of poor countries and poor people will be essential. Actions are needed to promote global financial stability—and to ensure that poor countries are not left behind by advances in technology and in scientific and medical research. The markets of rich countries must be opened to the products of poor countries, and aid and debt relief must be increased to help poor people help themselves. And poor countries and poor people need to be given a voice and influence in international forums (part V).

CHINA

China stands out for its extraordinary decline in income poverty and its high levels of education and health. But it has also had significant increases in inequality—between town and country, and between the coastal areas and inland China, with the poor, semi-arid areas of inland China participating little in growth.

Formal structures of security are in transition, and there are deep concerns about the less dynamic parts of urban China, which are experiencing the beginnings of a major shakeout in state enterprise and government employment. Formal provision of security was always weaker in rural

areas, but micro evidence suggests that village mechanisms continue to provide high levels of food security through land allocation processes—confirmed as politically popular in villages by democratic votes. Ensuring the voice of the new poor in urban areas and those left behind in inland China will be important in guiding action.

Three areas for action are illustrative. First, maintaining rapid growth through high nonstate investment is crucial if there is to be a smooth process of job destruction in inefficient state activities and smooth reform of the social protection arrangements for state employees. If there is a sustained

slowdown, insecurity in areas dependent on now inefficient state production could be acute. Second, the smooth integration of China into the global trading system will be key in locking in reforms and ensuring economic stability and steady job growth. But if new opportunities are not to widen disparities, this will have to be accompanied by greater emphasis on building the assets of people living in the poorer areas. Third, continuing area-based integrated rural development activities in poor areas of inland China and, more generally, balancing investment across geographic areas need to be important parts of any overall strategy.

The causes of poverty

One route for investigating the causes of poverty is to examine the dimensions highlighted by poor people:

- Lack of income and assets to attain basic necessities—food, shelter, clothing, and acceptable levels of health and education.
- Sense of voicelessness and powerlessness in the institutions of state and society.
- Vulnerability to adverse shocks, linked to an inability to cope with them.

To understand the determinants of poverty in all its dimensions, it helps to think in terms of people's assets, the returns to (or productivity of) these assets, and the volatility of returns. These assets are of several kinds:

- *Human* assets, such as the capacity for basic labor, skills, and good health.
- *Natural* assets, such as land.
- *Physical* assets, such as access to infrastructure.
- *Financial* assets, such as savings and access to credit.
- *Social* assets, such as networks of contacts and reciprocal obligations that can be called on in time of need, and political influence over resources.

The returns to these assets depend on access to markets and all the global, national, and local influences on returns in these markets. But returns depend not just on the behavior of markets, but also on the performance of institutions of state and society. Underlying asset ownership and returns to assets are not only economic but also fundamental political and social forces. Access to assets

depends on a legal structure that defines and enforces private property rights or on customary norms that define common property resources. Access may also be affected by implicit or explicit discrimination on the basis of gender, ethnicity, race, or social status. And both access to assets and returns to assets are affected by public policy and state interventions, which are shaped by the political influence of different groups.

Also important is the volatility of returns. Volatility results from market fluctuations, weather conditions, and, in some societies, turbulent political conditions. Volatility affects not only returns, but also the value of assets, as shocks undermine health, destroy natural and physical assets, or deplete savings.

Lack of income and assets

If you have a job at all now, you're overworked and underpaid.

—Young woman from Dimitrovgrad, Bulgaria

Some have land, but they can't buy fertilizer; if some work as weavers, they aren't well paid; if some work for daily wages, they aren't paid a just wage.

—Cackchiquel Indian, Guatemala

Poor people consistently emphasize the centrality of work to improving their lives. A country's overall wealth is an important influence on this: as countries grow richer, so on average do poor people in those countries,

INDIA

India suffers severe deprivations in education and health—especially in the North, where caste, class, and gender inequities are particularly strong. In studies in Bihar and Uttar Pradesh poor women and men emphasized their extreme vulnerability and the ineffectiveness of state institutions, from schools to police.

In the past, poverty reduction in India lagged behind that of East Asia because of slower growth and significantly less progress in promoting mass education and basic health. More recently, however, growth has accelerated and poverty has fallen, although the actual impact of growth on poverty reduction remains controver-

sial because of measurement problems (see box 1.8).

There are also marked differences within India—with the South, particularly the state of Kerala, having sharply better education and health. Kerala has life expectancies greater than those in Washington, D.C., despite vastly lower income levels. The effectiveness of public action in Kerala has been attributed to its strong tradition of political and social mobilization.

What are the priorities for action in India? Accelerated poverty reduction will require faster growth, which in turn demands liberalization, especially in agriculture, and better provision of infrastructure, sorely lacking

in most of India. In areas with deep deprivation in health and education, the development of social infrastructure is critical. Expanding education and health services will require that state governments reverse the deterioration in their fiscal positions, as subsidies to the loss-making power sector crowd out spending in the social sectors. The higher spending will need to be matched by better service provision. This will require deep improvements in governance, often weakest in India's poorest regions, and in combating teacher absenteeism. Also needed is more equitable service provision, which will require empowering women and members of lower castes.

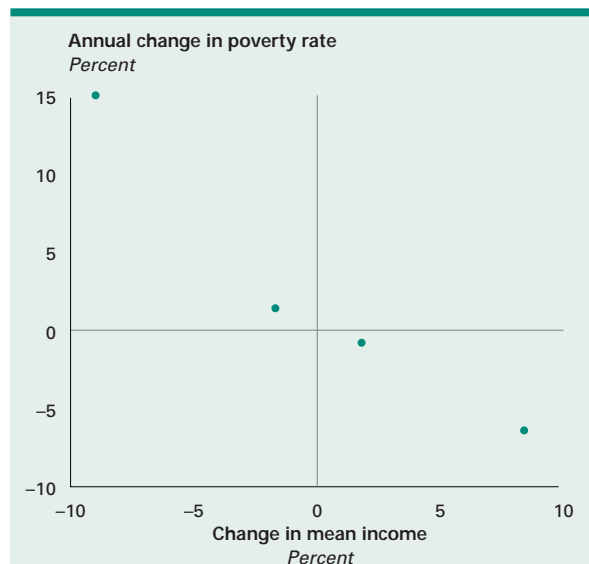
with the main mechanism being better-paid work. With economic growth, income poverty falls; with economic contraction, income poverty rises (figure 2.1). Some countries in East Asia sustained per capita GDP growth rates of 4–5 percent over four decades, with massive improvements in living standards and in health and education for poor people and for everyone else. Other countries, most in Africa, registered negative growth or no growth at all over the same period, delivering no improvements even in average living standards.

While economic growth is systematically associated with poverty reduction, the rate at which growth translates into lower poverty depends on the initial level of inequality in the distribution of income and how that distribution changes over time. Growth—and its effectiveness in reducing poverty—also depends on sound, stable governance. So confronting socioeconomic inequalities and building sound institutions can be important both for providing a socially sustainable basis for overall growth and for ensuring that poor people gain substantially from that growth.

Voicelessness and powerlessness— the institutional basis of poverty

Those materially deprived feel acutely their lack of voice, power, and independence (see box 1.1 in chapter 1). This helplessness subjects them to rudeness, humiliation, shame, inhumane treatment, and exploitation at the

Figure 2.1
Poverty shows a strong link with economic contractions and expansions



Note: The data refer to 150 country-level spells of poverty change and mean income change from poverty surveys in 1980–98. Each point represents one-fourth of the sample, ordered from strongest contraction to strongest expansion.

Source: World Bank staff estimates based on Chen and Ravallion (2000).

hands of the institutions of state and society (box 2.1). Absence of the rule of law, lack of protection against violence, extortion and intimidation, and lack of civility and predictability in interactions with public officials—all these

JORDAN

Poverty and inequality in Jordan increased at the end of the 1980s as a result of a macroeconomic shock. But between 1992 and 1997 Jordan reduced income poverty, despite lagging—at times even negative—per capita GDP growth rates. The explanation lies in a decline in inequality due in part to the phaseout of regressive food subsidies coupled with expansion of the government safety net (World Bank 1999q). To sustain these gains, it is important to improve growth—to make social spending more affordable and to directly expand opportunities for poor people.

Government assistance is impressive—targeted cash transfers favoring female and elderly heads of household and the

disabled, microcredit, and health insurance benefits. But by focusing on the always poor rather than the sometimes poor, government programs fail to address the shallowness of poverty in Jordan. So the vulnerability of the poor and the near-poor to outside shocks is high, though tempered by substantial nongovernmental and religious charitable activity that complements strong family and community networks. That vulnerability can be addressed by community-based public work programs offering low-wage jobs and by unemployment insurance and assistance. The National Aid Fund (in charge of the government safety net) could identify other means of assistance by soliciting ideas from beneficia-

ries. Its 1998 service delivery survey reflects dissatisfaction among beneficiaries, who complain of procedural difficulties and obstacles, benefits canceled without verification, and inadequate assistance. The fund is acting on some of these findings, moving it closer to true accountability and to empowering poor people.

Jordanians stand to gain much from the long-awaited Arab-Israeli peace dividend. But for the gains to materialize, Jordanians must have the tools that education provides. So continued emphasis on ensuring access for poor people to publicly provided basic education services is critical both for the short and the long run.

Box 2.1**On interacting with state institutions: the voices of the poor**

Although there are pockets of excellence, poor people in the *Voices of the Poor* study generally rated state institutions low on fairness, honesty, relevance, effectiveness, responsiveness, and accountability. Nevertheless, they view government agencies as having an important role in their lives, and they have a clear picture of the qualities they would like to see in the institutions with which they interact.

In India the characteristics of credit institutions can deter poor people from seeking loans. Poor people in many regions also report widespread corruption in health care systems. But when facing serious health conditions, they feel they have no choice but to comply with demands for bribes. In Macedonia people conclude, "nobody wants you to come with empty hands."

The behavior of health care providers becomes another deterrent to those needing health services. In Tanzania in many areas, men, women, and youth stated over and over that they are treated like animals, worse than dogs. They report that even before they could explain their symptoms, they would be

shouted at, told they smelled bad and were lazy and good-for-nothing.

Poor people in many countries spoke about being kept endlessly waiting while the rich went to the head of the queue.

In Europe and Central Asia pensioners trying to collect their meager pensions experience endless red tape, rude and unresponsive officials, and withholding of information. Poor people in the region criticize mayors and local authorities for their arbitrariness, inefficiency, and often corruption (though there are notable exceptions).

Poor people hunger for institutions that are fair, polite, honest, listening, trustworthy, and neither corrupt nor corrupting. A poor woman in Vila Junqueira, Brazil, summed it all up:

An institution should not discriminate against people because they are not well dressed or because they are black. If you wear a suit you are treated as sir; if you are wearing sandals they send you away.

Source: Narayan, Chambers, Shah, and Petesch 2000; Narayan, Patel, Schafft, Rademacher, and Koch-Schulte 2000.

place a large burden on poor people. They are prevented from taking advantage of new economic opportunities or engaging in activities outside their immediate zone of security. Threats of physical force or arbitrary bureaucratic power make it difficult for them to engage in public affairs, to make their interests known, and to have them taken into account. And unaccountable and unresponsive state institutions are among the causes of relatively slow progress in expanding the human assets of poor people.

In agrarian societies poor people's lack of assets and income-earning opportunities ties them to rich landowners in patron-client relationships. And for women, a lack of savings and assets precludes a more independent role in decisionmaking in the household and the community.

Social norms and barriers can also contribute to voicelessness and powerlessness. While local cultures have intrinsic value, they can sometimes be inimical to reducing human deprivation. Pervasive in almost all societies is inequality between men and women. Poor women are discriminated against in the household and in land, labor, and credit markets. This both causes poverty and undercuts development—for women's agency is a powerful source of human gains, especially for children. Discrimination based on ethnicity, religious beliefs, social status, and race has similar effects.

Vulnerability

Three years ago it was a very bad year. The flood washed away all of our crops, and there was a lot of hunger around here, to the point that many people actually died of hunger. They must have been at least a dozen, mostly children and old people. Nobody could help them. Their relatives in the village had no food either; nobody had enough food for his own children, let alone for the children of his brother or cousin. And few had a richer relative somewhere else who could help.

—Poor villager, Benin

Vulnerability is a constant companion of material and human deprivation, given the circumstances of the poor and the near-poor. They live and farm on marginal lands with uncertain rainfall. They live in crowded urban settlements where heavy rains can wipe out their homes. They have precarious employment, in the formal or informal sector. They are at higher risk of diseases such as malaria and tuberculosis. They are at risk of arbitrary arrest and ill treatment at the hands of local authorities. And they—women in particular—are at risk of being socially excluded and victims of violence and crime.

The risks that poor people face as a result of their circumstances are the cause of their vulnerability. But the

deeper cause is the inability to reduce or mitigate risk or cope with shocks—a cause that both draws from and feeds into the causes of other dimensions of poverty. Low levels of physical, natural, and financial assets make poor people especially vulnerable to negative shocks—those with more assets can weather these shocks as long as they are temporary. Lack of adequate assets can set up a vicious downward spiral in which actions to cope in the short term worsen deprivation in the long term. Pulling children out of school to earn extra income during an economic crisis. Depleting natural resources beyond the sustainable level. Making quick sales of land or livestock at desperately low prices. Lowering nutritional intake below the levels necessary to sustain health (chapters 8 and 9).

Another underlying cause of vulnerability is the inability of the state or community to develop mechanisms to reduce or mitigate the risks that poor people face. Irrigation, infrastructure, public health interventions, honest police and a fair legal system, public work schemes in times of stress, microcredit to tide people through the aftermath of an adverse shock, social networks of support and insurance, famine relief in extreme circumstances—all reduce vulnerability for poor people. The diverse cross-country experience with each of these mechanisms can help in developing actions to address vulnerability in specific circumstances.

Poor people also are exposed to risks beyond their community—those affecting the economy, the environment, and the society in which they live. Civil conflict and wars, economic crises, and natural disasters affect not only their current living standards but also their ability to escape poverty. And to the extent that global forces—

such as volatile capital flows, global climate change, and arms sales—are the causes of shocks and disruptions in poor countries, the inability or unwillingness of the global community to address them increases the vulnerability of poor people (chapter 10).

A framework for action

What framework for action is needed to effectively reduce poverty in all its dimensions? National economic development is central to success in poverty reduction. But poverty is an outcome of more than economic processes. It is an outcome of economic, social, and political processes that interact with and reinforce each other in ways that can worsen or ease the deprivation poor people face every day. To attack poverty requires promoting opportunity, facilitating empowerment, and enhancing security—with actions at local, national, and global levels. Making progress on all three fronts can generate the dynamics for sustainable poverty reduction.

The areas for action illustrate the complexity of development. How can priorities be decided in practice? Do all actions have to be carried out in all three areas? Both the strategic approach and the areas of suggested action are only a guide. Actual priorities and actions need to be worked out in each country's economic, sociopolitical, structural, and cultural context—indeed, each community's. But even though choices depend on local conditions, it generally is necessary to consider scope for action in all three areas—opportunity, empowerment, and security—because of their crucial complementarities. The country examples in this chapter illustrate how to

RUSSIAN FEDERATION

Like other countries of the former Soviet Union, Russia has had a dramatic rise in both poverty and inequality and a worsening of adult mortality. The Russian people have experienced large increases in insecurity—through macroeconomic volatility, the loss of old job-related forms of security, and the sharp rise in violence—and often acute psychological stress from the rise in poverty. While the electoral process has been important in empowering the citizenry, this has been offset by the profound feelings of disempowerment stemming from the new sources of insecurity and by the problems

of elite capture of the state. As the new oligarchs have also captured privatized assets and resource rents, the rise in inequality is the product not of the market-oriented reforms themselves but of the interactions between the reforms and the political and institutional structures during the transition process.

What are the priorities for action to reduce poverty? Fundamental to improving the overall environment is reducing the elite's capture of the state at the national level, including through further market reforms to deconcentrate economic power.

Today's structural inequality, closely linked to the political structure, runs the risk of becoming deeply embedded, if it has not already become so. Dealing with associated issues of governance is likely to be a prerequisite to reduced macroeconomic volatility and a business environment that fosters the investment needed to counter the extraordinary collapse in formal sector jobs. It is also a prerequisite to pro-poor budget allocations, backed by decentralization and participatory engagement to foster greater accountability and responsiveness in service provision.

identify priorities and areas of action in country-specific poverty reduction strategies.

Opportunity

Growth is essential for expanding economic opportunity for poor people—though this is only the beginning of the story of public action (chapter 3). The question is how to achieve rapid, sustainable, pro-poor growth. A business environment conducive to private investment and technological innovation is necessary, as is political and social stability to underpin public and private investment. And asset and social inequalities directly affect both the pace of growth and the distribution of its benefits. The distribution of growth benefits matters, not least because distributional conflict can undermine the stability needed for overall growth.

Markets are central to the lives of poor people (chapter 4). The evidence shows that on average countries that are open to international trade and have sound monetary and fiscal policy and well-developed financial markets enjoy higher growth. Where market-friendly reforms have been successfully implemented, on average stagnation has ended and growth resumed. But at times reforms to build markets fail entirely. The impact of market reforms on economic performance and inequality depends on institutional and structural conditions, including the comparative advantage of countries and patterns of asset ownership. And the impact of market reforms differs for different groups in an economy—there are winners and losers, and the losers can include poor people. The design and sequencing of such reforms thus need to take account of local conditions and the likely

effects on poor people. This does not necessarily mean going slow: rapid reforms can be important to bring gains to poor people and to break down monopoly privileges for the rich. Adverse effects of reforms on poor people can be compensated for by action in other areas, such as safety nets to ease the transition costs.

Relatively neglected is market reform targeted to poor people. Such reforms may have a different focus than other reforms—eliminating or simplifying the regulations affecting microenterprises and small and medium-size firms, strengthening registries to allow small producers to use land as collateral, or developing the policy framework for small-scale insurance.

Key in expanding economic opportunities for poor people is to help build up their assets (chapter 5). Human capabilities such as health and education are of intrinsic value, but also have powerful instrumental effects on material well-being. Also important to the material prospects of poor people is ownership of—or access to—land, infrastructure, and financial services. And social assets, including social networks, often also play an instrumental role.

A range of actions can support poor people in expanding their assets. The state—because of its power to raise revenues and use them as an instrument of redistribution—has a central role, especially in providing basic social services and infrastructure. Where access to land is highly unequal, there is a social and economic case for negotiated land reforms. For many services the state's role in provision can be complemented by market mechanisms, civil society, and the private sector, increasing the benefits to poor people. And for local ser-

SIERRA LEONE

Sierra Leone, by the latest price-adjusted measures, is the poorest country in the world. But this statement fails to convey the true depth of human deprivation in that nation. The people of Sierra Leone remain caught in a tragic conflict—one that has taken a terrible toll through lost lives, rape, mutilation, and the psychological harm to boys abducted into the army and militias.

Work on the sources of conflict in developing countries suggests that material poverty and weak democratic structures in-

teract with ethnic and other social divides to cause internal strife. The effects of conflict—destruction of fragile institutions of governance, flight of skills, personal losses, and social wounds that could take generations to heal—create a vicious cycle of continued poverty and strife.

Sierra Leone has a desperate need for assets—human, physical, and social—and for greater market opportunities. And the personal insecurity is unimaginable. But there can be no progress without mechanisms to resolve the social conflict, deal

with citizens' disempowerment by those with guns, and re-create the institutions for mourning and for managing psychological losses.

International action will be important. Once there is a basis for some development, concerted external support will be crucial. The Enhanced Heavily Indebted Poor Countries Debt Relief Initiative provides transitional support to postconflict societies for economic reconstruction. Much more challenging will be the delicate task of social and institutional reconstruction.

vice delivery, engaging poor people and communities can have a powerful impact on effectiveness.

Empowerment

Empowerment means enhancing the capacity of poor people to influence the state institutions that affect their lives, by strengthening their participation in political processes and local decisionmaking. And it means removing the barriers—political, legal, and social—that work against particular groups and building the assets of poor people to enable them to engage effectively in markets.

Expanding economic opportunities for poor people indeed contributes to their empowerment. But efforts are needed to make state and social institutions work in the interests of poor people—to make them pro-poor (chapter 6). Formal democratic processes are part of empowerment. As important are the mechanisms through which everyday state interventions help or hurt poor people. Here, more detailed processes of accountability come into play—mobilizing poor people in their own organizations to hold state institutions accountable and ensuring the rule of law in their daily lives.

Empowering poor people is part of the broader agenda of sound governance and accountability of state institutions to their citizens. National empowerment of citizens can have important indirect effects on poor people, by influencing the quality and pace of economic and social development. But the outcome for poor people depends on the political and social structures within a society. Governments are often more responsive to the concerns of elites than to the needs of poor groups. So the extent to which the concerns of nonpoor and poor groups coincide will frequently determine whether governance is pro-poor.

Improving governance also requires building administrative and regulatory capacity and reducing corruption.

The burden of petty corruption falls disproportionately on poor people, who generally have common cause with an anticorruption agenda.

Social interactions between individuals and communities also have an important influence on poverty outcomes. Culture's part in the development process is complex. The beliefs and practices that are part of local culture can be a source of sustainable development. But customary practices and discrimination on the basis of gender, ethnicity, race, religion, or social status can also be a source of inequality in many countries. Removing discrimination and managing these divisions can help reduce poverty. Confronting gender inequities is a fundamental part of this, with direct benefits for women (and men) and instrumental effects on growth and development. Recent evidence shows that greater gender equity is associated with faster growth (chapter 7).

Security

Enhancing security for poor people means reducing their vulnerability to such risks as ill health, economic shocks, and natural disasters and helping them cope with adverse shocks when they do occur (chapters 8 and 9).

Poverty reduction strategies can lessen the vulnerability of poor households through a range of approaches that can reduce volatility, provide the means for poor people to manage risk themselves, and strengthen market or public institutions for risk management. The tasks include preventing or managing shocks at the national and regional level—such as economic downturns and natural disasters—and minimizing the impact on poor people when they do occur.

Supporting the range of assets of poor people—human, natural, physical, financial, and social—can help them

UGANDA

Having emerged from a period of destructive conflict just over a decade ago, Uganda suffers deep poverty in many dimensions. But it also shows what an immensely poor Sub-Saharan African country can achieve.

The first country to receive enhanced debt relief on the basis of its poverty reduction strategy, Uganda stands out for its steady growth in the 1990s. It also stands out for significant reductions in income

poverty, impressive efforts toward universal primary education, and a major effort to ensure transparent, poverty-focused budgets, both centrally and locally. One of its main vulnerabilities is health. HIV/AIDS hit Uganda early: a tenth of adults are now infected, and AIDS orphans are straining traditional systems of fostering children.

Three areas are priorities for future action. Consolidating and deepening the ac-

countability and participation in resource allocation and strengthening central and local state institutions, to provide a basis for sound local investment programs in social and physical capital. Tackling the perceived risks in the business environment so that job-creating growth can take off. And furthering current efforts to stop the spread of HIV/AIDS and such diseases as tuberculosis.

manage the risks they face. And supporting the institutions that help poor people manage risk can enable them to pursue the higher-risk, higher-return activities that can lift them out of poverty. Improving risk management institutions should thus be a permanent feature of poverty reduction strategies. A modular approach is needed, with different schemes to cover different types of risk and different groups of the population. The tools include health insurance, old age assistance and pensions, unemployment insurance, workfare programs, social funds, microfinance programs, and cash transfers. Safety nets should be designed to support immediate consumption needs—and to protect the accumulation of human, physical, and social assets by poor people.

In addressing risk and vulnerability, the issue once again is whether public interventions and institutions work well—and in the interests of poor people. Famines are a constant threat in many parts of the world, yet some countries have been able to avoid mass deaths. In the 20th century no democratic country with a free press and a free political opposition ever experienced famine (box 2.2). Access to information and participation can reduce vulnerability.

Interconnections at local and national levels

Just as the dimensions and causes of poverty are interlinked, so the areas for action are interconnected. Action to expand opportunity is itself a potent source of empowerment, in a deep, intrinsic sense with respect to basic human capabilities, but also instrumentally—for as the asset base, incomes, and market opportunities of poor people increase, so will their potential political and social influence. Improving material conditions is also instrumental in enhancing security: adverse shocks have lower costs when a person is above the margin of bare survival, and assets are at the heart of people's risk management strategies. Empowerment is fundamental in determining action in market reforms and the expansion of assets that affect the pattern of material opportunities and in shaping the design of policies and institutions that help poor and non-poor people manage the risks they face. Finally, reducing vulnerability, with all its debilitating consequences, is central to improving material well-being (or preventing reversals) and empowering poor people and communities.

International actions

With global forces having central—and probably rising—importance, actions at the local and national level are not

Box 2.2

Preventing famines: the local press matters

Famines are often the result of crises that affect agricultural production—floods or droughts. How quickly governments respond to such crises depends on many factors. A fundamental one is the level of democracy and the extent to which politicians are held accountable for the efficiency of relief programs. A recent study in India shows that the distribution of newspapers can play a big part.

India has a relatively free press, with only 2 percent of newspapers controlled directly by central or state governments. The study looked at the interaction between government responsiveness to floods and droughts (measured in public relief funds) and the circulation of newspapers across Indian states. The hypothesis: an informed population can link inefficiency to a particular politician and therefore elicit a greater response to crises.

The results confirmed the hypothesis: for a given shock (drought or flood), higher newspaper circulation leads to greater public food distribution or relief spending. A 10 percent drop in food production due to a crisis is associated with a 1 percent increase in public food distribution in the states with the median newspaper circulation per capita but a more than 2 percent increase in states in the 75th percentile of newspaper circulation.

Separating newspapers by language yields an interesting result. Among three types of papers—those in Hindi, English, and local languages—only those in local languages seem to enhance government responsiveness to crisis. The state governments' responses to local crises are thus very sensitive to the distribution of local newspapers, typically read by the local electorate.

Source: Besley and Burgess 2000.

enough. Global economic advance, access to international markets, global financial stability, and technological advances in health, agriculture, and communications are all crucial determinants of poverty reduction (chapter 10). International cooperation is thus needed to reduce industrial countries' protectionism and avert global financial volatility. And the growing importance of such international public goods as agricultural and medical research calls for a shift in the focus of development cooperation. Furthermore, because of the importance of international actions in poverty reduction, the voices of poor countries and poor people should be strengthened in international forums.

Country-focused aid programs remain essential—to help countries implement poverty reduction strategies that empower poor people, enhance their security, and expand their opportunities (chapter 11). Aid should be

Box 2.3 Attacking poverty in Vietnam

Vietnam has made striking progress against poverty, reducing the share of its population in income poverty from 58 percent to 37 percent in 1993–98. A recent analysis by the Poverty Working Group, with members from government, donors, and NGOs, found that:

- *The main engine of the rapid poverty reduction was reform.* Especially important were the land reforms that Vietnam launched in the mid-1980s, which created enormous opportunities for people to improve their lives and livelihoods.
- *Despite the gains, poor people expressed a sense of voicelessness and powerlessness.* Participatory poverty assessments (done jointly with Oxfam, Actionaid, and Save the Children) found that people were hungry for a two-way flow of information—from the government to them about the nature and timing of public policies and programs affecting their lives and from them to the government to influence those policies and programs.
- *Poverty remains deep and widespread—and the gains fragile.* Millions of people are still vulnerable to poverty. Illness, the death of a family member, and natural disasters (flooding,

Source: World Bank 1999bb.

drought) remain ever-present threats. Women, ethnic minorities, and unregistered urban migrants remain especially disadvantaged.

The analysis—which involved a wide range of stakeholders—identified three areas of policy action:

- *Launch a new round of reforms* that unleash the dynamism of the private sector and create opportunities for employment and productivity growth, so that incomes rise and poor people are able to escape poverty.
 - *Implement the Grassroots Democracy Decree*, which aims to empower people by authorizing their direct participation in local decisionmaking and improving local governance.
 - *Strengthen safety nets and targeted programs*, such as the Hunger Eradication and Poverty Reduction Program, to reduce the vulnerability of poor people to risks (illness, poor harvests).
- The report on the study has been disseminated widely in Vietnam, including to all 450 members of the National Assembly and to all 61 provinces. The prime minister has asked the Poverty Working Group to translate the findings into a comprehensive poverty reduction strategy for Vietnam before the end of 2000.

directed to countries with high levels of poverty. But that should be only part of the criteria for allocating aid. Also essential is having the right policy and institutional framework in place to make poverty reduction a success.

Debt relief for the world's poorest nations, the heavily indebted poor countries, has been the most prominent issue in development cooperation in recent years. This report recognizes that debt reduction must play a central part in an overall strategy for attacking poverty.

The chapters that follow outline different sets of actions to consider in devising a poverty reduction strategy. The priorities cannot be set in the abstract. They must fit the context—and reflect a broad national consensus. Recent experience in Vietnam shows how this process can be set in motion (box 2.3).

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This chapter has presented an overall framework for actions in three areas—opportunity, empowerment, and security—to reduce poverty in its different dimensions. Actions need to be taken by the full range of agents in society—poor people, government, the private sector, and civil society organizations—and at local, national, and global levels. The country examples in this chapter illustrate three fundamental points:

- Actions affecting opportunity, empowerment, and security are interconnected—there is no hierarchy, and advances in one area generally depend on gains in the others.
- In all cases the social, political, and institutional underpinnings for action are of fundamental importance.
- Context matters. While it generally is always desirable to take or sustain action in all three areas, the design of action, and the agents that matter, depend on the economic, social, and political conditions prevailing in the country.