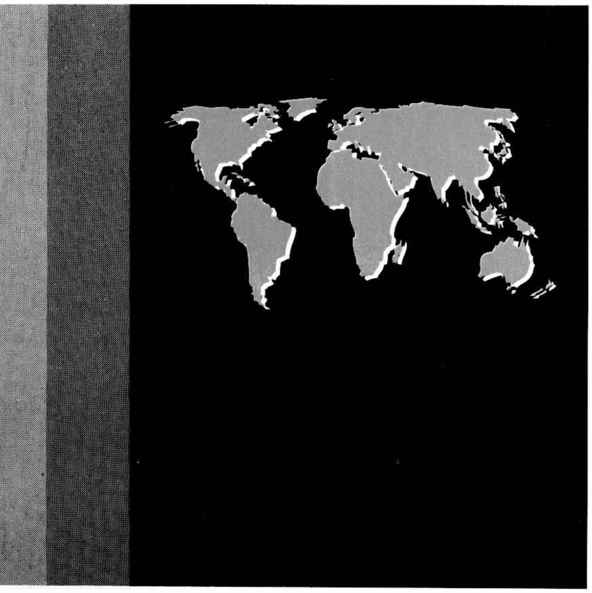
World Development Report 1990

POVERTY

WORLD DEVELOPMENT INDICATORS



World Development Report 1990

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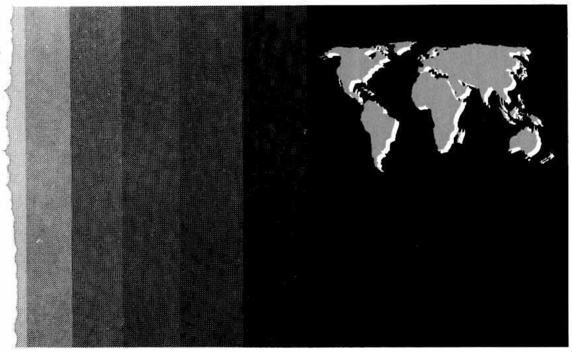


Foreword

This Report is the thirteenth in the annual series addressing major development issues. Like its predecessors, it includes the World Development Indicators, which provide selected social and economic data on more than 120 countries. The Report addresses the most pressing issue now facing the development community: how to reduce poverty. Its main conclusions are summarized below.

The world economy enjoyed moderate growth in the closing years of the decade. But the auspicious picture was not uniform. The industrial countries saw favorable developments in growth, trade, and investment. Real per capita incomes grew (and poverty declined) in South Asia and, even more markedly, in East Asia. But in some countries of Latin America and in most of Sub-Saharan Africa, real per capita incomes, living standards, and investment have slipped. For the poor in these countries, the 1980s was a lost decade.

In 1985 more than one billion people, or almost one-third of the total population of the developing world, were living on less than $370 per capita a year. The percentage of the population living in poverty was especially high in South Asia and Sub-Saharan Africa. Other aspects of the quality of life—already lower, on average, in developing than in developed countries—varied dramatically among regions, with the bleakest figures for regions with the greatest incidence of poverty. For example, in 1985 life expectancy was 76 years for the developed world but only 50 years for Sub-Saharan Africa and 56 years for South Asia. Some regions were close to achieving universal enrollment in primary education, but in Sub-Saharan Africa net primary enrollment was only 56 percent, and in South Asia it was about 75 percent. Women often constitute a deprived group even among the poor; in most areas literacy rates and wages are much lower for women than for men, and access to social services and employment is more difficult. The plight of poor women is troubling in itself. It is even more troubling because the health and education of mothers greatly influence the well-being and future of their children.

A review of development experience shows that the most effective way of achieving rapid and politically sustainable improvements in the quality of life for the poor has been through a two-part strategy. The first element of the strategy is the pursuit of a pattern of growth that ensures productive use of the poor's most abundant asset—labor. The second element is widespread provision to the poor of basic social services, especially primary education, primary health care, and family planning. The first component provides opportunities; the second increases the capacity of the poor to take advantage of these opportunities. The strategy must be complemented by well-targeted transfers, to help those not able to benefit from these policies, and by safety nets, to protect those who are exposed to shocks.

Although domestic policy is critical to the reduction of poverty, international assistance is needed to support countries' efforts. Simply increasing resources, however, will not solve the problem. Aid is most effective when it complements the recipients' efforts. The allocation of aid should be more closely linked to a country's commitment to pursue development programs geared to the reduction of poverty.

The Report's projections for the 1990s show buoyant growth of about 3 percent a year in the industrial countries and about 5.1 percent in the developing world—compared with the 4.3 percent achieved by developing countries in the 1980s. If this forecast is correct, prospects for improving the quality of life are bright in most regions—except where rapid population growth is expected to offset the beneficial effects of economic growth.

In East Asia and South Asia the number of poor is expected to fall dramatically, and social indicators should continue to improve. The countries of Latin America and the Caribbean, Eastern Europe, and the Middle East and North Africa will see only modest reductions in the number of poor, but improvements in social indicators will continue. In Sub-Saharan Africa the expected growth in gross domestic product of 3.7 percent a year, although significantly higher than in the 1980s, will not be sufficient to offset the effects of rapid population growth, and the number of poor will increase. Even so, adequate provision for the social sectors should allow a rapid reduction in child mortality and a reversal of the decline in primary school enrollment experienced in the 1980s.

The hurdles to be overcome in decreasing poverty throughout the world remain formidable. They are especially daunting in Sub-Saharan Africa. Nevertheless, the key measures for combating poverty are known, and the resources to support such an effort are there to be mobilized. Containing the number of poor in Sub-Saharan Africa until population growth can be brought under control and reducing the number elsewhere by 400 million are feasible goals for the century's end. The main obstacle is not the availability of resources but the willingness of governments in both developing and developed countries to commit themselves to these goals.

Like previous World Development Reports, this Report is a study by the staff of the World Bank, and the judgments in it do not necessarily reflect the views of the Board of Directors or the governments they represent.

Barber B. Conable

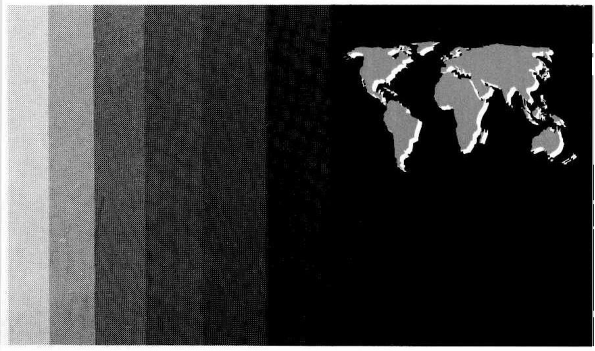
Barber B. Conable
President
The World Bank

June 1, 1990

This Report has been prepared by a team led by Lyn Squire and comprising Ehtisham Ahmad, Robert L. Ayres, Gary Fields, Helena Ribe, Mark Sundberg, Jacques van der Gaag, Dominique van de Walle, and Michael Walton. The team was assisted by Lara Akinbami, Fernando J. Batista, Robin Burgess, Elaine K. Chan, Pierre Englebert, Carlos Alberto Herran, Kathryn A. Larin, Natasha Mukherjee, and Anna-Birgitta Viggh. The work was carried out under the general direction of Stanley Fischer.

Many others in and outside the Bank provided helpful comments and contributions (see the bibliographical note). The International Economics Department prepared the data and projections presented in Chapter 1 and the statistical appendix. It is also responsible for the World Development Indicators. The production staff of the Report included Les Barker, Kathy Dahl, Connie Eysenck, Kenneth Hale, Jeffrey N. Lecksell, Nancy Levine, Hugh Nees, Joyce C. Petruzzelli, Kathy Rosen, Walt Rosenquist, and Brian J. Svikhart. Library assistance was provided by Iris Anderson. The support staff was headed by Rhoda Blade-Charest and included Laitan Alli, Trinidad S. Angeles, and Maria Guadalupe M. Mattheisen. Clive Crook was the principal editor.

Fondly remembered and acknowledged, too, is Pensri Kimpitak (1945–1990), illustrator and graphics designer for the Report since its inception in 1978, whose final illness prevented her participation in this edition.



Acronyms and initials

CMEA Council for Mutual Economic Assistance (Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania, and U.S.S.R.)

DAC Development Assistance Committee of the OECD

DPT Diphtheria, pertussis, and tetanus (vaccine)

EC The European Community (Belgium, Denmark, Federal Republic of Germany, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, and United Kingdom)

ECE Economic Commission for Europe

EFTA European Free Trade Association

EGS Employment Guarantee Scheme (Maharashtra State, India)

EPI Expanded Programme on Immunization

EPZ Export processing zone

ESCAP Economic and Social Commission for Asia and the Pacific

Eurostat European Statistical Office

FAO Food and Agriculture Organization

GATT General Agreement on Tariffs and Trade

GDP Gross domestic product

GNP Gross national product

GSP Generalized system of preferences

G-7 Group of Seven (Canada, France, Federal Republic of Germany, Italy, Japan, United Kingdom, and United States)

IBRD International Bank for Reconstruction and Development

ICRISAT International Crops Research Institute for the Semi-Arid Tropics

IDA International Development Association

IFAD International Fund for Agricultural Development

IFC International Finance Corporation

IFPRI International Food Policy Research Institute

IMF International Monetary Fund

LIBOR London interbank offered rate

NATO North Atlantic Treaty Organization

NGO Nongovernmental organization

ODA Official development assistance

OECD Organisation for Economic Co-operation and Development (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States)

OPEC Organization of Petroleum Exporting Countries (Algeria, Ecuador, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela)

PPP Purchasing power parity

Unesco United Nations Educational, Scientific, and Cultural Organization

UNDP United Nations Development Programme

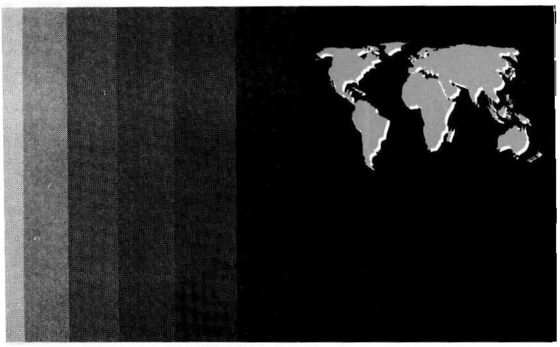
UNIDO United Nations Industrial Development Organization

UNICEF United Nations Children's Fund

USAID United States Agency for International Development

WHO World Health Organization

WFP World Food Programme



Definitions and data notes

Demographic terms

- *Total fertility rate.* The average number of children that would be born alive to a woman during her lifetime if she were to bear children at each age in accordance with the prevailing age-specific fertility rates.
- *Infant mortality rate.* The probability of dying between birth and age 1, per thousand births.
- *Under 5 mortality rate.* The probability of dying between birth and age 5, per thousand births.
- *Life expectancy at birth.* The number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.
- *Net primary enrollment rate.* The number of children age 6 to 11 enrolled in primary school as a percentage of the population age 6 to 11, adjusted for each country's age structure for primary school.

Country groups

For operational and analytical purposes the World Bank classifies economies according to their gross national product (GNP) per capita. (Other international agencies maintain different classifications of developing countries; a table describing the classifications was included in *World Development Report 1989.*)

Country classifications were revised in the 1989 edition of the *World Development Report* and its statistical annex, the World Development Indicators. The principal changes were: (a) the "developing economies" group was dropped, but references to the specific income groups *low- and middle-income economies* were retained; (b) all economies with a GNP per capita of $6,000 or more were classified as *high-income economies,* and (c) the subgroups "oil exporters" and "exporters of manufactures" under "developing economies" were dropped. In addition, "high-income oil exporters" is no longer a separate group; "industrial economies" has been renamed *OECD members,* which is a subgroup of the new category *high-income economies;* and a new aggregate, *total reporting economies* and its subcategory *oil exporters* has been added. As in previous editions, this Report uses the latest GNP per capita estimates to classify countries. The country composition of each income group may therefore change from one edition to the next. Once the classification is fixed for any edition, all the historical data presented are based on the same country grouping. The country groups used in this Report are defined as follows.

- *Low-income economies* are those with a GNP per capita of $545 or less in 1988.
- *Middle-income economies* are those with a GNP per capita of more than $545 but less than $6,000 in 1988. A further division, at GNP per capita of $2,200 in 1988, is made between lower-middle-income and upper-middle-income economies.
- *High-income economies* are those with a GNP per capita of $6,000 or more in 1988.

Although the dividing line between low and middle income used in the *World Development Report* has always been a specific level of GNP per capita, editions prior to 1989 were ambiguous about the line between middle income and high income. Industrial market economies and high-income oil exporters were shown separately, but some economies remained in the middle-income group despite having a GNP per capita above that of some countries classified as high-income. The high-income cutoff point of $6,000 removes that anomaly.

Low-income and middle-income economies are sometimes referred to as developing economies. The use of the term is convenient; it is not intended to imply that all economies in the group are experiencing similar development or that other economies have reached a preferred or final stage of development. Classification by income does not necessarily reflect development status. (As in last year's edition of the World Development Indicators, high-income economies classified by the United Nations or otherwise regarded by their authorities as developing are identified by the symbol †.) The use of the term "countries" to refer to economies implies no judgment by the Bank about the legal or other status of a territory.

- *Nonreporting nonmembers* are Albania, Bulgaria, Cuba, Czechoslovakia, German Democratic Republic, Democratic People's Republic of Korea, Mongolia, Namibia, and the Union of Soviet Socialist Republics. In the main tables of the World Development Indicators, only aggregates are shown for this group, but Box A.2 contains key indicators reported for each of these countries.

Analytical groups

For analytical purposes, other overlapping classifications based predominantly on exports or external debt are used in addition to geographic country groups. The lists provided below are of economies in these groups that have populations of more than 1 million. Countries with less than 1 million population, although not shown separately, are included in group aggregates.

- *Oil exporters* are countries for which exports of petroleum and gas, including reexports, account for at least 30 percent of merchandise exports. They are Algeria, Bahrain, Brunei, Cameroon, People's Republic of the Congo, Ecuador, Arab Republic of Egypt, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libya, Mexico, Nigeria, Norway, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates, and Venezuela.
- *Severely indebted middle-income countries* (abbreviated to "Severely indebted" in the World Development Indicators) are nineteen countries that are deemed to have encountered severe debt-servicing difficulties. They are Argentina, Bolivia, Brazil, Chile, People's Republic of the Congo, Costa Rica, Côte d'Ivoire, Ecuador, Honduras, Hungary, Mexico, Morocco, Nicaragua, Peru, Philippines, Poland, Senegal, Uruguay, and Venezuela. The 1989 edition used the category "seventeen highly indebted economies," which did not include the People's Republic of the Congo, Honduras, Hungary, Nicaragua, Poland, and Senegal and did include Colombia, Jamaica, Nigeria, and Yugoslavia.
- *OECD members*, a subgroup of high-income economies, comprises the members of the Organisation for Economic Co-operation and Development except for Greece, Portugal, and Turkey, which are included among the middle-income economies.

Geographic regions (low-income and middle-income economies)

- *Sub-Saharan Africa* comprises all countries south of the Sahara except South Africa.
- *Europe, Middle East, and North Africa* comprises eight European countries—Cyprus, Greece, Hungary, Malta, Poland, Portugal, Romania, and Yugoslavia—all the economies of North Africa and the Middle East, and Afghanistan. For some analyses in the *World Development Report* separate groupings are used for Eastern Europe and for Middle East and North Africa (or Middle East, North Africa, and other Europe, depending on the database used). Eastern Europe comprises the former centrally planned economies in the group (Hungary, Poland, and Romania) and Yugoslavia.
- *East Asia* comprises all the low-income and middle-income economies of East and Southeast Asia and the Pacific, east of and including China and Thailand.
- *South Asia* comprises Bangladesh, Bhutan, India, Myanmar, Nepal, Pakistan, and Sri Lanka.
- *Latin America and the Caribbean* comprises all American and Caribbean countries south of the United States.

Data notes

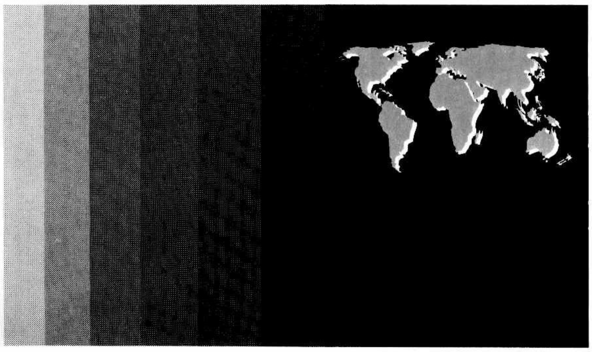
- *Billion* is 1,000 million.
- *Trillion* is 1,000 billion.
- *Tons* are metric tons. equal to 1,000 kilograms, or 2,204.6 pounds.
- *Dollars* are current U.S. dollars unless otherwise specified.
- *Growth rates* are based on constant price data and, unless otherwise noted, have been computed with the use of the least-squares method. See the technical notes of the World Development Indicators for details of this method.

- *The symbol* . . in tables means not available.
- *The symbol* — in tables means not applicable.
- *The number 0 or 0.0* in tables means zero or a quantity less than half the unit shown and not known more precisely.

All tables and figures are based on World Bank data unless otherwise specified. The cutoff date for all data in the World Development Indicators is April 30, 1990.

Data for secondary sources are not always available after 1987. Historical data in this Report may differ from those in previous editions because of continuous updating as better data become available and because of new group aggregation techniques that use broader country coverage than in previous editions.

Economic and demographic terms are defined in the technical notes to the World Development Indicators.



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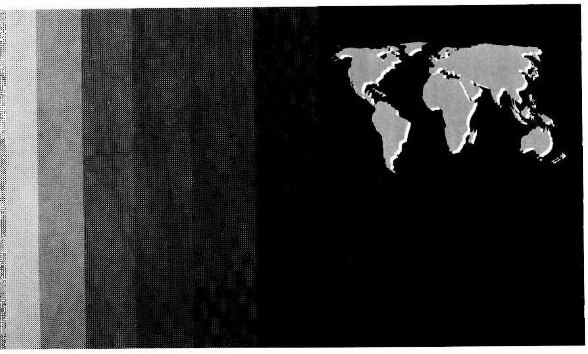


Overview

During the past three decades the developing world has made enormous economic progress. This can be seen most clearly in the rising trend for incomes and consumption: between 1965 and 1985 consumption per capita in the developing world went up by almost 70 percent. Broader measures of well-being confirm this picture—life expectancy, child mortality, and educational attainment have all improved markedly. Viewed from either perspective—income and consumption on the one hand, broad social indicators on the other—the developing countries are advancing much faster than today's developed countries did at a comparable stage.

Against that background of achievement, it is all the more staggering—and all the more shameful—that more than one billion people in the developing world are living in poverty. *World Development Report 1990* estimates that this is the number of people who are struggling to survive on less than $370 a year. Progress in raising average incomes, however welcome, must not distract attention from this massive and continuing burden of poverty.

The same is true of the broader measures of well-being. Life expectancy in Sub-Saharan Africa is just 50 years; in Japan it is almost 80. Mortality among children under 5 in South Asia exceeds 170 deaths per thousand; in Sweden it is fewer than 10. More than 110 million children in the developing world lack access even to primary education; in the industrial countries anything less than universal enrollment would rightly be regarded as unacceptable. The starkness of these contrasts attests to the continuing toll of human deprivation.

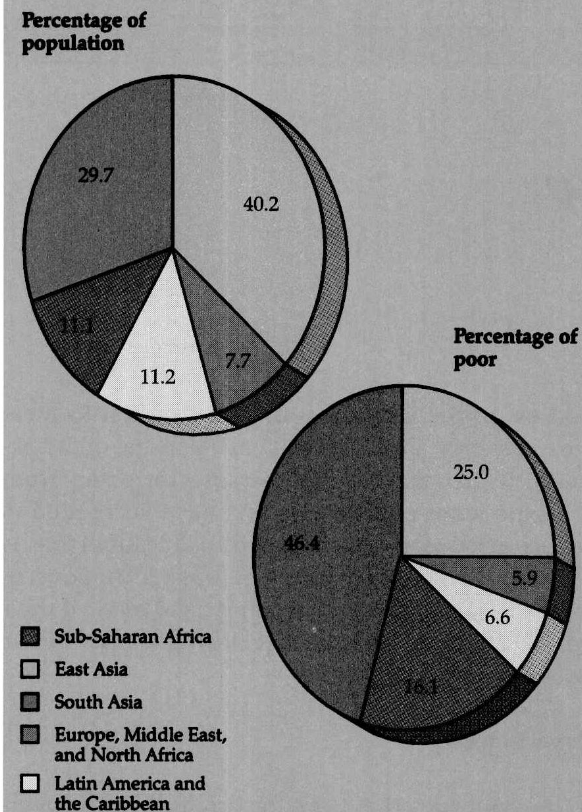
This Report is about poverty in the developing world—in other words, it is concerned with the poorest of the world's poor. It seeks first to measure poverty, qualitatively as well as quantitatively. It then tries to draw lessons for policy from the experience of countries that have succeeded in reducing poverty. It ends with a question that is also a challenge: what might be achieved if governments in rich and poor countries alike made it their goal to attack poverty in this closing decade of the twentieth century?

Poverty today

In the countries that have participated in the overall economic progress that has taken place since the 1960s, poverty has declined and the incomes even of those remaining in poverty have increased. In some cases this change has been dramatic. Indonesia, for example, took less than a generation in the 1970s and 1980s to reduce the incidence of poverty from almost 60 percent of the population to less than 20 percent. On a variety of social indicators, some developing countries are now approaching the standards of the developed world. In China, which accounts for a quarter of the developing world's people, life expectancy reached 69 in 1985. But in many countries economic performance was weaker, and the number in poverty fell more slowly. Where rapid population growth was an important additional factor, as in much of Sub-Saharan Africa, consumption per head stagnated and the number in poverty rose.

The 1980s—often called a "lost decade" for the poor—did not, in fact, reverse the overall trend of progress. The incomes of most of the world's poor went on rising, and under 5 mortality, primary school enrollment ratios, and other social indicators also continued to improve. The setbacks of the

Figure 1 Population and poverty in the developing world, 1985



1980s fell heavily on particular regions. For many in Sub-Saharan Africa and Latin America incomes fell during the decade, and the incidence of poverty increased—although the social indicators, at least in Latin America, proved somewhat more resilient.

The burden of poverty is spread unevenly—among the regions of the developing world, among countries within those regions, and among localities within those countries. Nearly half of the world's poor live in South Asia, a region that accounts for roughly 30 percent of the world's population (Figure 1). Sub-Saharan Africa accounts for a smaller, but still highly disproportionate, share of global poverty. Within regions and countries, the poor are often concentrated in certain places: in rural areas with high population densities, such as the Gangetic Plain of India and the island of Java, Indonesia, or in resource-poor areas such as the Andean highlands and the Sahel. Often the problems of poverty, population, and the environment are intertwined: earlier patterns of development and the pressure of rapidly expanding populations mean that many of the poor live in areas of acute environmental degradation.

The weight of poverty falls most heavily on certain groups. Women in general are disadvantaged. In poor households they often shoulder more of the workload than men, are less educated, and have less access to remunerative activities. Children, too, suffer disproportionately, and the future quality of their lives is compromised by inadequate nutrition, health care, and education. This is especially true for girls: their primary enrollment rates are less than 50 percent in many African countries. The incidence of poverty is often high among ethnic groups and minorities such as the indigenous peoples in Bolivia, Ecuador, Guatemala, Mexico, and Peru and the scheduled castes in India.

In many but not all cases low incomes go hand in hand with other forms of deprivation. In Mexico, for example, life expectancy for the poorest 10 percent of the population is twenty years less than for the richest 10 percent. In Côte d'Ivoire the primary enrollment rate of the poorest fifth is half that of the richest. National and regional averages, often bad enough in themselves, mask appallingly low life expectancy and educational attainment among the poorest members of society.

Policies for attacking poverty

In the 1950s and 1960s many saw growth as the primary means of reducing poverty and improving the quality of life. For example, the Indian Planning Commission viewed rapid growth as the main (although not the only) instrument for achieving this objective. In the 1970s attention shifted to the direct provision of health, nutritional, and educational services. This was seen as a matter for public policy. *World Development Report 1980*, marshaling the evidence available at the time, argued that improvements in the health, education, and nutrition of the poor were important not only in their own right but also to promote growth in incomes, including the incomes of the poor.

The 1980s saw another shift in emphasis. Countries, especially in Latin America and Sub-Saharan Africa, struggled to adjust after the global recession. The constraints on public spending tightened. At the same time, many began to question the effectiveness of public policy, and especially policy toward the poor. Against this background, *World Development Report 1990* reexamines how policy can help to reduce poverty and explores the prospects for the poor during the 1990s.

The evidence in this Report suggests that rapid and politically sustainable progress on poverty has been achieved by pursuing a strategy that has two equally important elements. The first element is to promote the productive use of the poor's most abundant asset—labor. It calls for policies that harness market incentives, social and political institutions, infrastructure, and technology to that end. The second is to provide basic social services to the poor. Primary health care, family planning, nutrition, and primary education are especially important.

The two elements are mutually reinforcing; one without the other is not sufficient. In some countries, such as Brazil and Pakistan, growth has raised the incomes of the poor, but social services have received too little attention. As a result, mortality among children remains unusually high and primary enrollment unusually low, and the poor are not as well equipped as they might be to take advantage of economic opportunities. Some other countries, by contrast, have long stressed the provision of social services, but growth has been too slow. In Sri Lanka, for example, primary enrollment rates and under 5 mortality rates are exceptionally good, but the potential for raising the incomes of the poor has gone to waste for lack of economic opportunity.

Progress has been greatest in the countries that have implemented both parts of the strategy. By promoting the productive use of labor these countries have furnished opportunities for the poor, and by investing in health and education they have enabled the poor to take full advantage of the new possibilities. In Indonesia and Malaysia this approach has brought about a substantial reduction in poverty along with rapid improvements in nutrition, under 5 mortality, and primary enrollment.

Even if this basic two-part strategy is adopted, many of the world's poor—the sick, the old, those who live in resource-poor regions, and others—will continue to experience severe deprivation. Many others will suffer temporary setbacks owing to seasonal variations in income, loss of the family breadwinner, famine, or adverse macroeconomic shocks. A comprehensive approach to poverty reduction, therefore, calls for a program of well-targeted transfers and safety nets as an essential complement to the basic strategy.

During the 1980s many developing countries had to cope with macroeconomic crises. Their experience drew attention to a new concern: the need to frame adjustment policies that give due weight to the needs of the poor. In many developing countries a period of painful macroeconomic adjustment was unavoidable. In the longer term the economic restructuring associated with adjustment is perfectly consistent with the two-part strategy. In the short term, however, many of the poor are at risk. During the transition period the poor can be protected through a judicious mix of macroeconomic policies (for example, pricing policy reforms that benefit poor farmers) and measures to moderate declines in private consumption. Experience also shows that it is possible to shift public spending in favor of the poor, even within an overall framework of fiscal discipline, and to target transfers more accurately. In addition, increased capital inflows can be used to help cushion the impact of adjustment on the poor.

The politics of poverty

The framework of political and economic institutions is important because policies to reduce poverty involve a tradeoff. This tradeoff is not, in the main, between growth and the reduction of poverty. Switching to an efficient, labor-intensive pattern of development and investing more in the human capital of the poor are not only consistent with faster long-term growth; they contribute to it. Since these actions mean that a larger share of income and more public spending will go to the poor, the principal tradeoff, especially in the short run, is between the interests of the poor and those of the nonpoor. The two-part strategy is, therefore, more likely to be adopted in countries where the poor have a say in political and economic decision-making.

Although the two-part strategy does involve a politically sensitive tradeoff between the poor and the nonpoor, it is likely to prove more feasible than other strategies. Large-scale redistributions of land have sometimes been successful. In Japan and the Republic of Korea, for example, land redistribution was central to the reduction of rural poverty and laid the basis for the other policies advocated in this Report. Where it can be done, redistribution of land should be strongly supported. But the political obstacles to such reform are great. In most countries the two-part strategy outlined here, which sees investment in education as the best way of augmenting the assets of the poor, is more likely to succeed.

Reaching the poor

Even when macroeconomic adjustment is not a primary issue, the strategy requires an increase in certain categories of public spending that specifically benefit the poor. If these are to be affordable and hence sustainable, they must be cost-effective. Experience since the 1970s shows, however, that reaching the poor with targeted programs can be difficult. Nongovernmental organizations have made important contributions here. Self-selecting programs, which exclude the nonpoor by offering benefits that are of interest only to the poor, are another promising approach. Low-wage public employment programs, for instance, have provided an effective safety net for the poor in certain parts of South Asia and have been especially valuable in preventing famine. Chile's experience suggests that such schemes may also be helpful during recessions.

To be truly cost-effective, interventions must be not merely well targeted but also carefully designed to meet the specific needs of poor people. This means developing technologies suited to the risky environment that confronts small farmers, devising credit schemes to serve small borrowers, combining feeding programs for especially vulnerable groups with education on health and nutrition, and so on. Successful programs have usually involved the poor both at the design stage and during implementation.

Public spending that is well designed and accurately targeted can play an important part in the fight against poverty. But such programs, however cost-effective, are no substitute for efforts to attune the broad stance of economic policy to the needs of the poor. Attacking poverty is not primarily a task for narrowly focused antipoverty projects, vital though these may be. It is a task for economic policy in the large.

Aid

Aid has often been an effective instrument for reducing poverty—but not always. Donors sometimes have other objectives. In 1988 about 41 percent of external assistance was directed to middle- and high-income countries, largely for political reasons. Even when aid has been directed to the poor, the results have sometimes been disappointing—especially in countries in which the overall policy framework has not been conducive to the reduction of poverty.

The world is at a turning point: the geopolitical tensions that have prevailed since World War II are easing rapidly. This offers a unique opportunity to cut military spending and increase international assistance. A cut of just 10 percent in military spending by the countries of the North Atlantic Treaty Organization would pay for a doubling of aid. The resources can be made available—although little will be achieved unless they are used effectively.

The analysis in this Report provides the basis for a better aid strategy. External assistance should be more tightly linked to an assessment of the efforts that would-be recipients are making to reduce poverty. This principle already underlies procedures for allocating the resources of the International Development Association (IDA). Carrying out this principle would mean that countries committed to the two-part strategy would be the main recipients of aid. This reflects the conviction that aid works well only when it complements a sound development strategy.

In countries where policies (on prices and public spending, for instance) are inconsistent with efforts to reduce poverty, external resources would achieve far less. Yet there are many poor people in such countries. Indeed, these are the very countries in which poverty is going to get worse. The judgments that have to be made in such cases will be extremely difficult. Aiming moderate quantities of aid directly at highly vulnerable groups seems the appropriate response. Health clinics that serve the poor, immunization programs for children, and targeted nutrition programs are the sorts of intervention that might be supported by the aid community in such circumstances.

Many countries will fall between these two extremes. In such cases, intermediate amounts of assistance would be appropriate. Careful judgment is needed to determine how this aid can best be used to make policy more responsive to the needs of the poor.

These principles certainly bear on the operations of the World Bank, but they should be regarded as applicable to the aid community as a whole. If the aid strategy outlined here were adopted and followed consistently by bilateral donors, nongovernmental organizations, and multinational agencies, its effectiveness would be greatly increased.

What can be achieved?

The Report projects that if, over the next ten years, the industrial countries grow at about 3 percent a year (the historical trend) and real aid flows increase at a similar rate, per capita incomes in the developing countries will grow by between 5.1 percent a year in East Asia and 0.5 percent a year in Sub-Saharan Africa. With some progress toward adopting the strategy advocated by the Re-