



DIRECTIONS IN DEVELOPMENT

Poverty

Understanding Growth and Poverty

Theory, Policy, and Empirics

Raj Nallari and Breda Griffith



THE WORLD BANK

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Preface

This volume is an introduction to the theories and policies that affect economic growth and poverty. It is a compilation of lecture notes used in face-to-face and e-learning courses presented by the World Bank Institute's (WBI) Poverty Program during 2004–08. The Poverty Program is one of WBI's core learning programs. The discussion is less technical than others, and the intended audience includes policy makers, policy analysts, and representatives of donor agencies and civil society organizations.

The volume is divided into three parts. Part I discusses basic concepts and measurement issues pertaining to poverty, national income, and economic growth. Part II deals with the macroeconomic policies that are critical for economic growth in the short term. It covers government-enforced fiscal and exchange-rate policies and the roles of financial institutions, development assistance (or aid), debt relief, and trade policies. Part III covers the structural and sectoral policies that affect longer-term economic growth and poverty reduction. To underscore the impact of good governance and effective service delivery in growth and poverty reduction, separate chapters are devoted to institutional and technological development, education, health, labor, and land. Newer growth issues—urbanization, regulation, infrastructure, the informal economy, the political economy of policy making, volatility, and the

globalization of financial flows—are also discussed. So-called natural capital and climate change are introduced and linked to growth.

The volume ends with a chapter that summarizes our knowledge of growth theory, reviews the process of growth in 13 successful countries, and draws out implications for other developing countries. We hope that this chapter may be of help to policy makers in identifying the constraints to economic growth and development that may be unique to each country.

Throughout, attempts have been made to bring together theoretical discussions with empirical evidence to give readers a clearer picture of the impact of economic policies on growth and poverty reduction.

The lecture notes that underpin this volume were prepared under the guidance of Roumeen Islam. Research assistance from Indira Iyer and Oliver Rajakaruna and the financial support of the government of Japan are greatly appreciated.

Abbreviations

ADF	African Development Fund
AE	adult equivalent
AfDB	African Development Bank
AfDF	African Development Fund
AIDS	acquired immune deficiency syndrome
BMGF	Bill and Melinda Gates Foundation
C	consumption
CarDB	Caribbean Development Bank
CAMELS	capital adequacy, asset quality, management soundness, earnings and profitability, liquidity, and sensitivity to market risk
CAB	current-account balance
CBN	cost-of-basic-needs
CE	Council of Europe
CEPR	Centre for Economic Policy Research
CIS	Commonwealth of Independent States
CMH	Commission on Macroeconomics and Health
CPI	consumer price index
DAC	Development Assistance Committee
DAH	development assistance for health

EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	export credit agency
EFA	Education for All
ESAF	Enhanced Structural Adjustment Facility, IMF
EU	European Union
FDI	foreign direct investment
FEI	food-energy intake
FTI	Fast-Track Initiative
G-3	Group of Three
G-7	Group of Seven
G-8	Group of Eight
GAVI	The Global Alliance for Vaccines and Immunisations
GDP	gross domestic product
GEF	Global Environment Facility
GEM	Global Entrepreneurship Monitor
GER	gross enrollment rate
GF	Global Fund
GFATM	Global Fund for AIDS, TB, and Malaria
GHG	greenhouse gas
GNDI	gross national disposable income
GNI	gross national income
GNP	gross national product
HBS	household budget survey
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries (Initiative)
HIV	human immunodeficiency virus
I	investment
IAEA	International Atomic Energy Agency
IBRD	International Bank for Reconstruction and Development
ICT	information and communication technology
IDA	International Development Association
IDB	Inter-American Development Bank
IDP	internally displaced persons
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation

IFI	international financial institution
IFMC	International Monetary and Financial Committee
ILO	International Labour Organization
IMF	International Monetary Fund
LSMS	Living Standards Measurement Study
M	imports
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MFI	microfinance institution
NDP	net domestic product
NER	net primary enrollment rate
NGO	nongovernmental organization
NPV	net present value
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OLS	ordinary least squares
PCR	primary completion rate
PEPFAR/ Emergency Plan	President's Emergency Plan for AIDS Relief
PFM	public financial management (system)
PIU	project implementation unit
PPP	purchasing power parity
PRGF	Poverty Reduction and Growth Facility, IMF
PRSP	Poverty Reduction Strategy Paper
R&D	research and development
SAF	Structural Adjustment Facility, IMF
SAR	Special Administrative Region
SEEA	System of Integrated Environmental and Economic Accounting
TB	tuberculosis
TFP	total factor productivity
TI	Transparency International
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNESCO	United Nations Education, Scientific and Cultural Organization

UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
UNHCR	United Nations Refugee Agency
UNICEF	United Nations Children's Fund
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNTA	United Nations Transitional Authority
UPE	universal primary education
VA	value added
VAT	value added tax
VSL	value of a statistical life
WBI	World Bank Institute
WDI	World Development Indicators
WEF	World Economic Forum
WFP	United Nations World Food Programme
WHO	World Health Organization
WPI	wholesale price index
X	exports

All dollar amounts are U.S. dollars unless otherwise indicated.

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