

## Meeting the Poverty Challenge: Progress toward the Goals ...and uneven progress across regions...



### **PROGRESS TO DATE**

Substantial progress in poverty reduction has been made in some areas. In the 1990s significant progress was made in reducing income poverty in East Asia before the 1997 financial crisis, and the negative impact of the crisis was partially reversed during the subsequent recovery. The share of people living below \$1 per day also declined in Latin America and the Caribbean, and in South Asia, although the number of poor people still increased in South Asia because of population growth. On average, poverty declined in fast-growing countries and increased in countries experiencing stagnation or contraction.

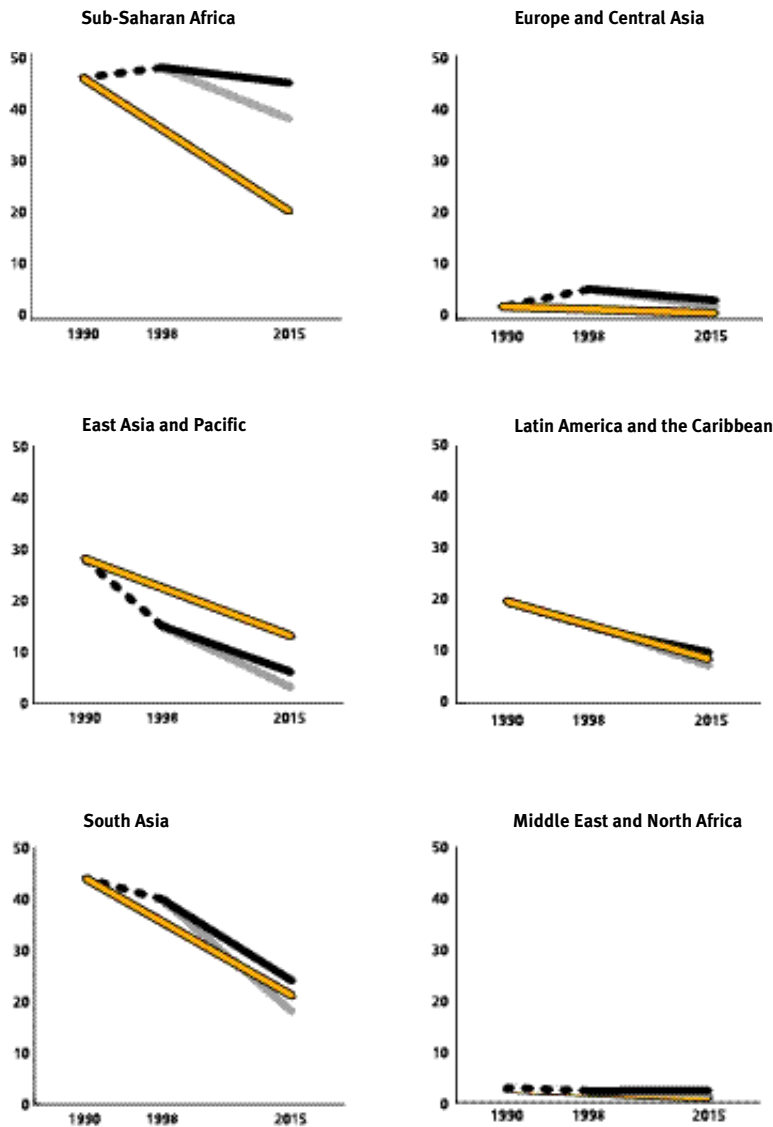
### **PROSPECTS FOR 2015**

Projections indicate that, if developing countries' average per capita gross domestic product (GDP) were to grow at a sustained rate of 3.7 percent ("base case" in the graphs)—higher than the 1990s' average of 1.8 percent and the 2.3 percent average of the low case used for the graphs—the global incidence of absolute poverty could decline from 23 percent in 1998 to 13 percent in 2015. The number of poor could drop from 1.2 billion to less than 800 million. But many countries, especially in Africa, would still not reach the goal of halving poverty by 2015.

## The International Development Goals: A Particular Challenge for Africa

### Progress in Some Regions, Setbacks in Others

Proportion of people living on less than \$1 a day (percent)



Source: World Bank. 2001. *Global Economic Prospects and the Developing Countries 2001*. Washington, D.C.

- Actual poverty reduction
- ▬ Reduction needed to halve poverty by 2015
- ▬ Poverty reduction with low-case growth
- ▬ Poverty reduction with base-case growth

- **Life expectancy** decreased, on average, from 50 years in 1987 to 47 years in 1999, largely under the devastating impact of HIV/AIDS; in hardest-hit countries such as Botswana, Lesotho, South Africa, and Zimbabwe, life expectancy fell by more than 10 years.
- **Child mortality** increased from 155 per 1,000 in 1990 to 161 per 1,000 in 1999; it declined in all other regions.
- **Health-care systems**, weakened by conflict, poor management, and the impact of HIV/AIDS, are finding themselves unable to cope with traditional illnesses, and malaria and tuberculosis continue to kill millions.
- **Gross primary school enrollment** rates declined between 1980 and the mid-1990s; nine countries still reported net primary enrollment rates of less than 50 percent in the 1990s, with even lower rates for girls.

But breaking the cycle of impoverishment is possible: in countries such as Ethiopia, Ghana, Mauritania, and Uganda, sustained economic recovery and stability have helped reduce poverty and improve living conditions.

# Meeting the Poverty Challenge: An Agenda for Action

## ...demand that all partners accept responsibility...

### The World Bank and the International Development Goals

The Bank is weaving the goals into its operations by:

- Including the goals in country dialogue through the Comprehensive Development Framework, Poverty Reduction Strategy Papers, Country Assistance Strategies, and Sector Strategy Papers, and seeking a better alignment between the goals and those strategies.
- Supporting outcome-based development programs and enhancing statistical and analytical capabilities in many client countries.
- Expanding research on how to increase public sector effectiveness and accelerate progress.
- Working with partners to harmonize donor support at the country level and cooperating with other donors in a program of global monitoring and reporting.

The international development goals reflect an unprecedented consensus of the international community. Shared goals support the effort to increase aid effectiveness through stronger partnership and country leadership.

### A NEW DEVELOPMENT COMPACT

**The agenda facing developing countries is formidable.** Many developing countries already reflect the goals in their strategies; others have identified specific intermediate measures linked to longer-term poverty reduction outcomes. Pursuing sound domestic policies will be critical to attracting greater resources. Sound macroeconomic policies, strong financial systems, and well-functioning regulatory, legal, and judicial frameworks will enhance the effectiveness of aid and attract more productive private investment.

**The responsibility of developed countries stands out even more clearly** as developing countries take full responsibility for their own choices. Key areas for action are summarized below:

- 1 Dismantling trade barriers is fundamental**  
Trade barriers in high-income countries cost developing countries over \$100 billion a year. Trade restrictions set by the high-income members of the Organisation for Economic Co-operation and Development (OECD) offset the benefit of their aid contributions. (See left figure below.)

### 2 The debt relief agenda must go forward

Following the substantial advances made in fiscal 2001, the next challenge is to move forward with implementation of the Heavily Indebted Poor Countries Initiative, in particular in those countries affected by conflict. Securing sustainable financing on appropriately concessional terms will also be important. (See middle figure below.)

### 3 Now is the time to increase aid

Developing countries' efforts to improve their policy environments are allowing them to make more effective use of aid. Support from most members of the OECD Development Assistance Committee (DAC) falls well short of the pledged 0.7 percent share of gross national income; so far only Denmark, the Netherlands, Norway, Sweden—and most recently Luxembourg—have met this target. While average DAC contributions declined in 2000, however, aid levels from 15 of 22 DAC members increased over the prior year. (See right figure below.)

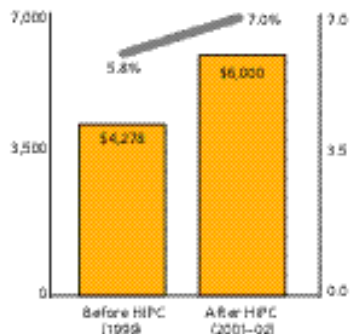
### 4 Simplifying and harmonizing aid procedures will lower the burden on developing countries

Multilateral and bilateral donors, working together, can do much to reduce the costs to developing countries of managing aid programs in areas ranging from strategy and medium-term financing to procurement and evaluation. Recent progress in untying aid and procurement will promote efficiency.

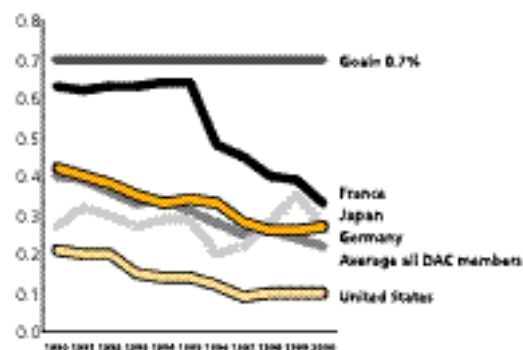
**The Welfare Costs of Tariffs in 1995**



**Trends in Social Spending before and after Assistance under the Heavily Indebted Poor Countries Initiative**



**Net Official Development Assistance as Percent of Gross National Income**



Source: World Bank. 2001. *World Development Indicators*, 2001. Washington, D.C.

Source: World Bank. 2001. *World Development Indicators*, 2001. Washington, D.C.

# Meeting the Poverty Challenge: The World Bank's Strategy ...and that the World Bank sharpen its strategy...

## WORLD BANK MISSION

Poverty reduction is the World Bank's mission, guided by the international development goals. In pursuit of poverty reduction, the World Bank will rely on its business approach and institutional strengths.

### Business approach:

- A long-term, comprehensive, country-led approach to development
- Participatory development and partnership
- A focus on operational quality, development effectiveness, and outcomes
- Knowledge sharing and capacity building
- Increasing selectivity within countries, across countries, and at the global level

### Institutional strengths:

- Financial strength
- Global reach
- Broad diagnostic capabilities
- Operational knowledge
- Strong partnerships with clients, other donors, and civil society

## BANK ASSISTANCE WILL BE DELIVERED PRIMARILY AT THE COUNTRY LEVEL, FOCUSED ON:

### Building the climate for investment, jobs, and growth

- Private investment climate
- Public sector governance

For **low-income countries**, priority areas of assistance will be:

- Where poverty is concentrated
- Where the policy environment is favorable for poverty reduction
- Where post-conflict challenges are urgent

### Empowering poor people to participate in development, and investing in them

- Empowerment, security, and social inclusion
- Education
- Health

For **middle-income countries**, priority themes of assistance will be:

- Policy and institutional reform for reducing poverty
- Well-targeted, high-impact investments
- Promoting competitiveness in the global knowledge economy

## BANK SUPPORT FOR INTERNATIONAL EFFORTS TO PROVIDE CRITICAL GLOBAL PUBLIC GOODS WILL FOCUS ON:

- Communicable diseases
- Environmental commons
- Trade and integration
- Information and knowledge
- International financial architecture

## Meeting the Poverty Challenge: The Role of IBRD ...relying on the unique strengths of IBRD...

IBRD provides important support for poverty reduction. How? By providing its middle-income client countries access to capital in larger volumes, on good terms, with longer maturities, and in a more sustainable manner than the market provides. IBRD:

- Supports long-term human and social development needs that private creditors largely find unappealing.
- Preserves borrowers' financial strength by providing support in crisis periods, when poor people are most adversely affected.
- Uses the leverage of finance to promote key policy and institutional reforms (such as safety-net or anticorruption reforms).
- Catalyzes private capital by helping create a favorable investment climate.
- Provides financial support (in the form of grants made available from IBRD net income) for global public goods that are critical for the well-being of poor people in all countries.

*The Treasury trading room is the nerve center of the Bank's innovative financial transactions such as the e-bond issued in January 2000. Investing the Bank's liquid assets, managing balance sheet risks, and meeting bond investor needs are crucial to the Bank's ability to respond to clients' financing needs.*



### What Is IBRD?

IBRD is a AAA-rated financial institution—with some unusual characteristics. Its shareholders are sovereign governments. Its member borrowers have a voice in setting its policies. They also usually accord preferred creditor status to IBRD, helping it stay financially strong. IBRD loans are typically accompanied by nonlending services to ensure more effective use of funds. Also, unlike commercial banks, it is driven by a development impact, rather than profit maximization, objective.

### Who Are IBRD's Clients?

Seventy-five percent of people who live on less than \$1 per day live in countries that receive IBRD lending, which are typically middle-income and enjoy some access to private capital markets but include countries that also borrow from IDA. Even excluding countries that also borrow from IDA, such as India, Indonesia, Nigeria, and Pakistan, a full 25 percent of the world's \$1-a-day poor live in countries that are IBRD borrowers.

### Elements of IBRD's Financial Strategy

#### Preserving AAA-rated financial strength

*To maintain income-generating capacity, help manage risk, and support IBRD's development objectives*

- Capital commitments of 183 sovereign shareholders
- Strong record of repayment by borrowers, reflecting priority given to IBRD debt
- Conservative financial management
- Substantial liquidity
- Conservative capital structure
- Risk-minimizing lending policies

#### Achieving efficient intermediation

*To ensure cost-effective funding for development uses*

- Wide access to markets
- 50 years of capital market innovation
- Leadership in new products, structured finance, emerging market issuance
- Wide underwriter partnerships
- Diversified global investor base
- Ample Treasury liquidity
- Strong derivatives capacity
- Active asset-liability management

#### Adapting to borrower needs

*To ensure flexibility and innovation in meeting diverse and changing client needs*

- Product innovations to help clients manage their financial, debt, and crisis strategies
- Wide borrower choice in loan types
- Increasing currency and interest rate choice
- Flexible guarantees, both to help private sector financing and to support reforms
- Increased choice of lending terms

## Meeting the Poverty Challenge: The Role of IDA

### ...and on IDA as an agent for progress in the poorest countries

IDA helps the world's poorest countries reduce poverty by providing "credits," which are loans at zero interest with a 10-year grace period and maturities of 35 to 40 years. These countries face complex challenges in striving for progress toward the international development goals. They must, for example, respond to the competitive pressures as well as opportunities of globalization; arrest the spread of HIV/AIDS; and prevent conflict or deal with its aftermath. To help these countries improve their prospects, the policy framework emphasizes:

- Accelerating broad-based growth through sound macroeconomic and sectoral policies, especially for rural and private sector development.
- Investing in people through strong support for the social sectors (see figure), including gender mainstreaming and efforts to counter the challenge and social impact of communicable diseases, especially HIV/AIDS.
- Building capacity for improving governance—including in public expenditure management—and combating corruption.
- Protecting the environment for sustainable development.
- Fostering recovery in post-conflict countries.
- Promoting trade and regional integration.

#### Increasing Aid Effectiveness through Performance-Based Allocations

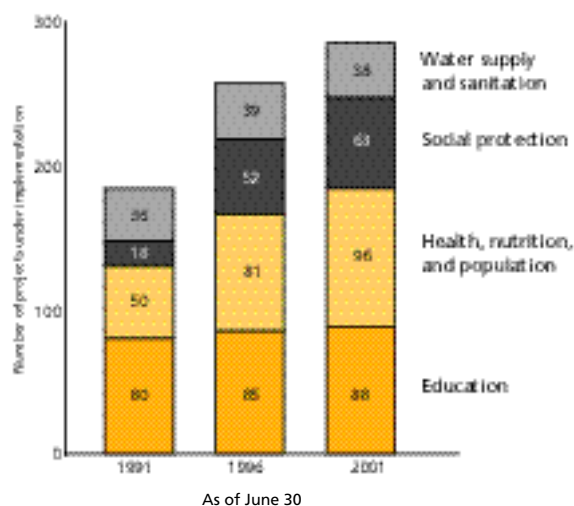
Research shows that aid is most effective in spurring growth and poverty reduction in countries that have a strong commitment to reforms. IDA leads all development institutions in directing its assistance to countries that pursue poverty-reducing policies. IDA employs a performance-based allocation system to channel its resources to countries that are undertaking reforms. Through targeted allocations, effective leveraging of resources, and country-based strategies, IDA is helping the poorest countries participate in the global economy, and promoting equity and inclusive growth for their poorest citizens.

#### IDA'S EVOLVING ROLE: GREATER EMPHASIS ON PARTICIPATION AND PARTNERSHIPS

Responding to recent changes in the international development environment, IDA works more closely with borrowers and other development partners. The Poverty Reduction Strategy Papers, prepared in a participatory manner by IDA countries, offer an opportunity to align donor strategies more closely with country strategies.

The Bank took important steps in the spring of 2001 to increase transparency and broaden participation in the formulation of IDA's operational approaches. Documents for the donor meetings on the 13th Replenishment of IDA (IDA-13)—which will fund lending in fiscal 2003–05—are publicly available at [www.worldbank.org/ida](http://www.worldbank.org/ida). And in June 2001, for the first time in IDA's 41-year history, representatives of borrowing countries joined donors in discussions about IDA's future directions.

#### IDA's Stepped-up Effort in the Social Sectors 285 Projects ongoing (compared with 184 a decade ago)



#### IDA commitment value of ongoing social sector projects

1991: \$7.7 billion  
1996: \$13.1 billion  
2001: \$13.9 billion