Chapter 9

Poverty Reduction Policies

Summary

Given a description and analysis of poverty, what policies may be invoked to reduce poverty?

There is a very strong link between economic growth and poverty reduction; Dollar and Kraay (2002) found, based on a study of 418 "episodes" worldwide that a 1 percent increase in per capita income is associated with a 1 percent increase in the incomes of the poor. The relationship is robust and has not changed over time. Although a number of policy variables, as measured by economic openness, the rule of law, and fiscal discipline, appear to boost economic growth, they do not have a discernible independent effect on the incomes of the poor.

The World Bank classifies its antipoverty activities into three groups:

- *Fostering opportunity*—through well-functioning and internationally open markets, and investments in infrastructure and education.
- *Facilitating empowerment*, which amounts to including people in the decision-making process. This requires government accountability, strong media, local organizational capacity, and mechanisms for participation in making decisions.
- *Addressing income security*, which tackles the problem of vulnerability. This calls for insurance programs, disaster relief procedures, and a solid public health infrastructure.

The chapter concludes with a brief sketch of poverty reduction policies in Tanzania.

Learning Objectives

After completing the chapter on *Poverty Reduction Policies*, you should be able to

1. Explain the methodology used by Dollar and Kraay to reach the conclusion that growth is good for the poor.
2. Evaluate the role of other influences—including government spending, openness to trade, democracy, fiscal discipline, and the rule of law—on the growth of incomes, and of the incomes of the poor.
3. Describe what is meant by "pro-poor growth."
4. For each of the three groups of antipoverty activities identified by the World Bank, that is,
   - promoting opportunity,
   - facilitating empowerment, and
   - enhancing income security,

   justify the importance of each broad activity and identify specific policies within each of these activities that are likely to work to reduce poverty.

Introduction

Previous chapters have discussed the concept of poverty and well-being, the various indicators used to measure poverty, the idea of poverty profiles, and the factors that determine poverty. In this chapter, we address a more difficult question: What policies might one pursue in an effort to reduce, or at least alleviate, poverty?

Is Growth Good for the Poor?

Few economists doubt that economic growth is necessary for the long-term reduction of poverty. But how close is the link between the two? If the incomes of the poor rise closely in line with incomes overall, the key to poverty reduction is rapid economic growth; however, if the relationship is weak, other policies, such as targeted subsidies, are likely to be important and the concept of "pro-poor growth" has more relevance.

David Dollar and Aart Kraay have addressed the problem directly, in a paper entitled "Growth is Good for the Poor" (Dollar and Kraay 2002). They gathered information on the per capita incomes of the poor (defined as those in the bottom quintile of the income distribution) and on overall per capita income. The data

come from 137 countries over the period 1950–99. Dollar and Kraay were able to piece together 418 "episodes"—periods with an interval of at least five years during which it was possible to measure changes in the income of the poor and of the country overall.

They first regressed the log of per capita income of the poor (ln(poor)) on overall per capita income (ln(inc)) and got

$$\ln(\text{poor}) = 1.07 \ln(\text{inc}) - 1.77. \quad R^2 = 0.88. \tag{9.1}$$

This relationship and the underlying data are reproduced in figure 9.1 (top panel). Two points are worth noting: First, the relatively high value of R^2 means that 88 percent of the variation in the log of per capita income of the poor is associated with changes in the log of per capita income overall. Second, the coefficient on the ln(inc) term is 1.07, which means that when average incomes are 10 percent higher, the incomes of the poor can be expected to be about 10.7 percent higher. This coefficient is close to 1, so perhaps it would be wiser to conclude that the incomes of the poor tend to rise and fall in line with incomes in the country as a whole.

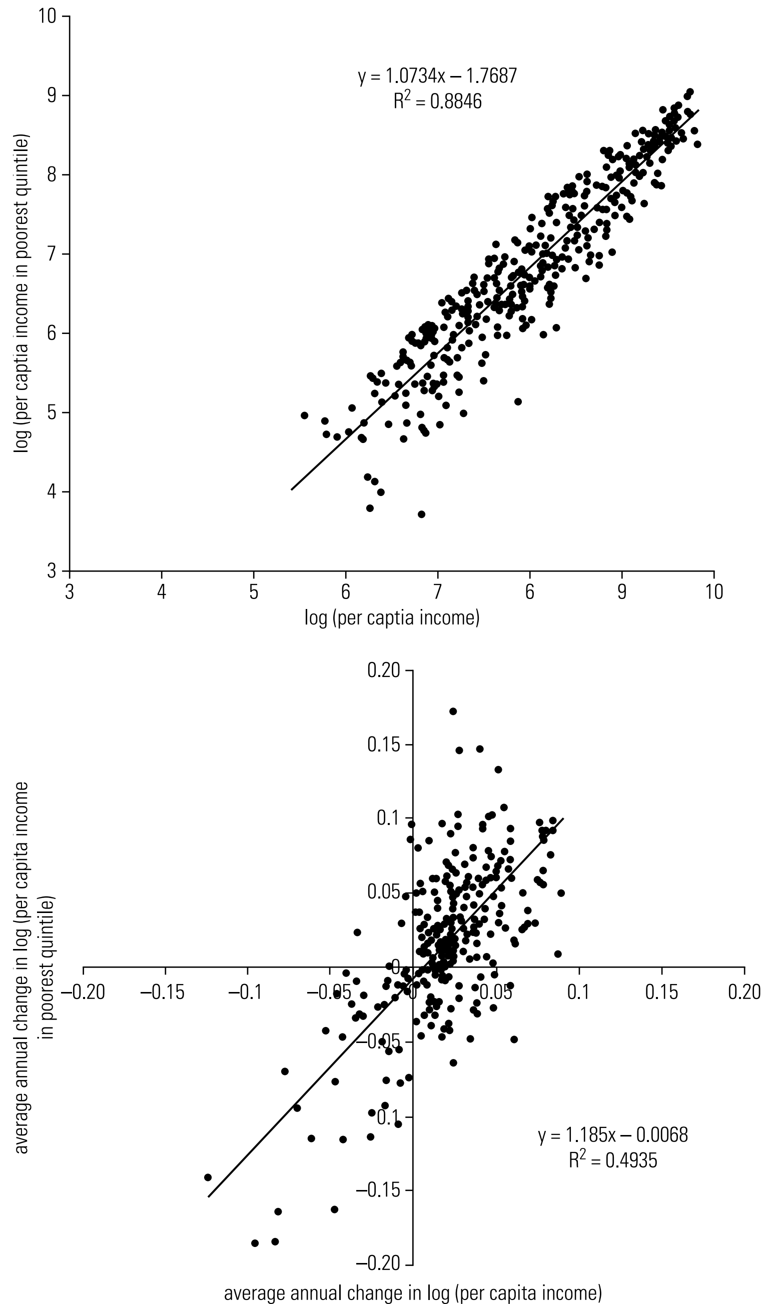
As an alternative, Dollar and Kraay regressed the change in ln(poor) on the change in ln(inc), where these changes are typically measured (at an annualized rate) over intervals of at least five years. In this case they found (see figure 9.1, bottom panel)

$$\Delta\ln(\text{poor}) = 1.19\ \Delta\ln(\text{inc}) - 0.007. \quad R^2 = 0.49. \tag{9.2}$$

The fit is weaker in this equation, with only about half of the variation in the change in the log of incomes of the poorest quintile being associated with changes in the log of overall income. The elasticity (1.19) is still close to unity. A reasonable interpretation of these results is that while the association between average income and the income of the poor is very strong over the long term, there is considerably more variation in the medium term; this raises the possibility that other influences on the income of the poor may be important, especially over a horizon of several years.

To test the robustness of their results, Dollar and Kraay estimated a number of variations on the original equation—adding dummy variables to account for different time periods, for countries that are growing and countries that are shrinking, for low- and high-growth countries, for poor countries and rich. They addressed the issues of measurement error (it washes out), omitted variable bias (the use of instruments gives similar results), and endogeneity (systems estimators also give similar results). They also included a number of measures of "policy," designed to capture the effects of economic openness, macroeconomic management, the size of government, the rule of law, and financial development. A sampling of these results is reproduced in table 9.1; the strongest conclusion is that the log of per capita income of the poor moves in synch with the log of per capita income in the country as a

Figure 9.1. Relating the Income of the Poor to Average Incomes



Source: Dollar and Kraay (2002, figure 1).

Note: The top panel graphs the log of per capita income of those in the poorest quintile (vertical axis) against average per capita income (horizontal axis); the bottom panel graphs the changes in these magnitudes.

Table 9.1 Growth Determinants and the Incomes of the Poor

Variable	Coefficient	Standard error
ln(per capita GDP)	1.020	0.128***
(exports + imports)/GDP	–0.067	0.208
government consumption/GDP	0.401	1.013
ln(1 + inflation)	–0.216	0.077***
commercial bank assets/total bank assets	0.264	0.282
rule of law	–0.011	0.071
Memo items		
Number of observations		137
p-value for hypothesis that first coefficient ≠ 1		0.876

Source: Dollar and Kraay 2002, table 5.

Note: Dependent variable is ln(per capita GDP) for those in the poorest quintile. The estimates shown here instrumented the ln(per capita GDP) variable, and included regional dummy variables (not shown here). Standard errors are corrected for heteroskedasticity.
*** denotes significantly different from 0 at the 1 percent level.

whole, and this conclusion holds whether a country is poor or rich, growing or shrinking, or whether one looks at earlier or more recent decades. However, with the exception of macroeconomic management (as measured by the inflation rate), none of the policy variables has any discernible additional effect.

Other researchers have also found that poverty trends tracked growth trends very closely in the 1980s and 1990s. According to Chen and Ravallion (2001), on average, growth in the consumption of the poorest fifth of the population tracked economic growth one-for-one over this period. In the vast majority of countries that they studied, growth led to rising consumption in the poorest fifth of the population, while economic decline led to falling consumption.

Dollar and Kraay conclude that their results imply that "policies that raise average incomes are likely to be central to successful poverty reduction strategies" (2002, 4). These might include improvements in education, health, infrastructure, and the like; but "existing cross-country evidence ... provides disappointingly little guidance as to what mix of growth-oriented policies might especially benefit the poorest in society" (Dollar and Kraay 2002, 27). This does not imply that growth is the only thing that matters for improving the position of the poor, but it does show how difficult it is to identify robust policies, other than those that enhance economic growth, that might make a large and sustainable difference to those at the bottom of the income distribution.

Pro-Poor Growth

If the incomes of the poor are closely tied to overall economic growth, how much room remains for a poverty reduction policy? Put another way, how much substance is there in calls for "pro-poor" growth?

In a controversial paper, Aart Kraay (2004, 1) argues that "in the medium run, most of the variation in changes in poverty is due to growth, suggesting that policies and institutions that promote broad-based growth should be central to pro-poor growth." He goes on to argue, "most of the remainder is due to poverty-reducing patterns of growth in relative incomes," but "cross-country evidence provides little guidance on policies and institutions that promote these other sources of pro-poor growth." In other words, we do not know enough about what drives pro-poor growth—roughly, growth accompanied by a reduction in inequality—to be in a position to design viable pro-poor policies.

The important qualifier here is "in the medium run," because the evidence shows that in the short run, meaning over a period of five years or so, changes in distribution can overwhelm the effects of income growth on poverty rates. To see this, it is helpful to decompose the change in poverty rates into a component resulting from growth, and a component resulting from changes in distribution.

Suppose that we have information on poverty rates, as shown by one of the Foster-Greer-Thorbecke measures, for a country at two points in time ($P_{\alpha,t=0}$ and $P_{\alpha,t=1}$), based on data that are reliable enough to allow for a viable comparison between the two. We would like to determine the extent to which the change in poverty is due to a rise in mean expenditure (for a given distribution), and the extent to which the change is due to a change in the distribution of expenditure (for a given mean level of expenditure). Datt and Ravallion (1991) propose the following decomposition (see Ravallion 1992, 54):

$$\begin{aligned} P_{\alpha,t=1} - P_{\alpha,t=0} &= \text{growth component} + \text{redistribution component} + \text{residual} \\ &= (P^{*}_{\alpha,t=1} - P_{\alpha,t=0}) + (P^{**}_{\alpha,t=1} - P_{\alpha,t=0}) + \text{residual} \end{aligned}$$

Here, $P^{*}_{\alpha,t=1}$ is an estimate of poverty in the second period that is found by grossing up the first-period expenditure of every individual in the survey by β (where β is the average growth rate of expenditure between the two periods) and then recomputing the poverty rate; it measures the change in poverty that would have occurred if there were no change in the distribution of expenditure. The redistribution component, $P^{**}_{\alpha,t=1}$, is measured by reducing second-period expenditure by its average growth rate; by comparing this with $P_{\alpha,t=0}$—which now has the same mean—we can isolate the effect of changes in the distribution of expenditure. In practice there will also be a residual, which is typically quite small.

Table 9.2 presents information on headcount poverty rates in the mid- and late 1990s, and again early in the new millennium, for a selection of countries. It decomposes the changes in the poverty rates into the growth component, the distribution component, and a residual. In some cases these pull in the same direction: the poverty rate in Moldova fell from 51 percent in 1998 to 29 percent by 2003; this 22 percentage point drop was largely the result of growing incomes, but income distribution became

Table 9.2 Growth and Distribution Effects of Poverty

Country	Starting survey year	End survey year	Headcount index (P_0) in starting year	Headcount index (P_0) in end year	Gini in starting year	Gini in end year	Decomposition of change in headcount index (P_0)		
							Growth component	Distribution component	Residual
Brazil	1998	2004	22.7	19.8	0.598	0.570	0.9	–3.7	0.0
China, rural	1996	2001	72.5	71.0	0.336	0.363	–2.2	0.4	0.2
China, urban	1996	2001	9.7	6.5	0.291	0.333	–6.9	6.0	–2.3
Jordan	1997	2002/03	7.4	7.5	0.364	0.389	–3.3	4.6	–1.2
Madagascar	1993	2001	46.3	61.0	0.461	0.475	13.6	3.3	–2.1
Moldova	1998	2003	51.2	29.1	0.391	0.351	–17.8	–1.8	–2.5
Nigeria	1996/97	2003	77.9	71.0	0.520	0.436	–3.6	–2.3	–1.0
Pakistan	1998/99	2002	13.6	17.8	0.330	0.306	7.7	–2.9	–0.3
Peru	1996	2002	28.4	32.1	0.462	0.547	–5.7	9.4	0.0
Ukraine	1996	2003	16.4	5.0	0.351	0.281	–3.9	–8.4	0.9

Source: Tables D.2 and D.4 in World Bank (2006).

more equal over the same period, which helped lower poverty even more rapidly. Madagascar had a less happy experience: between 1993 and 2001, incomes fell and income distribution worsened. These combined to raise the poverty rate from 46 percent to 61 percent.

Sometimes growth and distribution tug in opposite directions. Between 1996 and 2002, the poverty rate actually increased in Peru, despite some growth in incomes. This increase was due to a sharp worsening in the income distribution. The poverty rate also rose in Pakistan at about the same time, but in this case incomes fell, and the rise in poverty would have been worse but for an improvement in the distribution of income.

The central conclusion is that even if the growth effects dominate in the medium term, distributional considerations play a non-negligible role.

Ravallion (2007) makes this case more strongly, arguing that inequality is bad for the poor. First, he argues that economic development does not inevitably require a period of rising inequality; then he finds that when countries are more unequal, overall growth translates less successfully into higher incomes for the poor; and he suggests that more unequal countries may often grow less rapidly in the first place. These are important arguments and merit some further explanation.

Using data from 290 pairs of surveys in 80 countries over the period 1980-2000, Ravallion graphs the percentage change in the Gini coefficient between one survey and the next against the percentage change in real per capita income (or expenditure) over the same interval. He estimates the coefficient of correlation to be 0.13, and finds that it is not statistically significantly different from zero. In other words, there is no robust correlation between economic growth and changes in inequality, and, on average, economic growth tends to be distributionally neutral. These results also imply that rising inequality is not inevitable as countries grow and develop, a conclusion that is somewhat at odds with the finding by Simon Kuznets that (at least for the United States and the United Kingdom) inequality first worsens and then improves in the course of economic development.

Now define the *elasticity of poverty reduction* (ε) as the percentage change in the poverty measure divided by the percentage change in per capita income (or expenditure). For instance, if per capita income rises by 10 percent and, as a result, the headcount poverty rate falls from 20 percent to 19 percent (that is, by 5 percent), then $\varepsilon = -0.5$. We expect ε to be a negative number and typically find that it lies in the range of $[-3.5, -0.5]$.

Again using survey results from multiple countries over the period 1980–2000, Ravallion finds that, in practice, the elasticity of poverty reduction is smaller (absolutely) in countries in which income is distributed more unequally. More specifically, he found that when the Gini coefficient of inequality is very low, the elasticity of poverty reduction is about –4, but when the Gini coefficient rises to 0.6 (which represents very considerable inequality), the elasticity of poverty reduction is

close to zero. The relationship is statistically significant, if not watertight. The finding is important, because it means that "poverty responds more slowly to growth in high inequality countries" (Ravallion 2007, 14). This suggests that countries may need to strive to keep inequality low if economic growth is to translate effectively into improvements in the position of the poorest.

There is also some evidence that countries that are more unequal grow more slowly. To the extent that this is true, then poor people in highly unequal countries "face a double handicap" (Ravallion 2007, 19): not only is national income expected to increase less rapidly, but when it does rise, the reduction in poverty will be slower. However, it would be unwise to push the argument too far; China and Vietnam have grown rapidly over the past two decades, in part because they allowed for greater inequality and the associated increase in incentives to work, invest, and take risks.

The *World Development Report 1990* (World Bank 1990) focused on tackling poverty and proposed a two-part strategy that would (a) encourage labor-intensive growth (essentially by removing antilabor biases in public policy), and (b) invest in the human capital of the poor, especially in education and health. These remain important, but in the influential *World Development Report 2000/2001: Attacking Poverty* (World Bank 2000), the World Bank broadened the analysis, separating its antipoverty—as distinct from pro-growth—activities into three groups: promoting opportunity, facilitating empowerment, and enhancing (income) security. We now consider each of these in some detail.

Opportunity

We argued in chapter 8 that, at the level of individual households, a lack of material opportunities is a direct cause of poverty. As Lustig and Stern (2000) put it, "poor people consistently emphasize the centrality of material opportunities: jobs, credit, roads, electricity, and markets for their produce, as well as schools, clean water, sanitation services, and health care."

The human, physical, natural, financial, and social assets that poor people possess—or have access to—affect their prospects for escaping poverty because these assets can enable poor people to take advantage of opportunities. For example, a study of irrigation in Vietnam (van de Walle 2000a) found that there are complementarities between education and gains from irrigation, and more specifically that households with higher education levels received higher returns to irrigation.

It is widely, if not universally, believed that well-functioning markets are helpful in generating sustainable growth and expanding opportunity for the poor. This is because poor people in most countries rely on formal and informal markets to sell their labor and products, to finance their investments, and to insure against risks. Case studies of Chile, China, Ghana, Uganda, and Vietnam show

that agricultural reforms have helped raise producer prices for small farmers by eliminating marketing boards, changing real exchange rates through broader economic reforms, lowering tariffs, and eliminating quotas (for an example, see Haughton and Kinh [2003]).

The World Bank argues that robust economic growth is at the heart of generating opportunity. Growth, in turn, requires investment, both private and public. Private investment is seen as effective in creating jobs and labor income, and in turn is helped by a sound fiscal and monetary policy, stable investment rules, and a sound financial system. Encouragement to microenterprises—for instance, through microcredit or simplified tax and licensing procedures—and to small and medium enterprises is likely to be helpful.

However, private investment must also be complemented by public investment in expanding infrastructure and communications, and also in education and training. Many developing countries face the challenge of increasing the quality, rather than merely the quantity, of their educational systems. Getting infrastructure and knowledge to poor and remote areas can be a particular challenge because the costs are high relative to the number of beneficiaries, and there are often linguistic and other barriers that have to be tackled.

Economic growth is also likely to be enhanced by opening up to international markets, especially for countries with the infrastructure and institutions to stimulate a strong supply response (for example, call centers in Ghana, coffee farmers and garment factories in Vietnam). Therefore, the market opening needs to be well designed with special attention to bottlenecks.

Even with economic growth, measures may be needed to ensure that poor people can expand their assets. These measures might include scholarships for children from poor families; free health care for the poor; or land reform, including land redistribution (as in parts of Brazil) or titling (as in Vietnam since about 1990). In some countries, special efforts may be needed to address socially based inequality, such as underschooling of girls relative to boys, or the limited independence of women resulting from lack of access to productive means, or ethnic inequalities in access to public services. Ethnic inequalities can easily erupt into violence; civil war inevitably sets back economic development for a generation (Haughton 1998).

Empowerment

The premise underlying an emphasis on empowerment is that a lack of representation in the policy-making process, resulting from social and institutional barriers, has impeded poor people's access to market opportunities and to public sector services.[1] It follows that empowerment—defined succinctly as including people who were previously excluded in the decision making process—should help. Unfortunately, there

is very little empirical evidence, to date, on how well empowerment policies along the lines discussed below contribute to reducing poverty.

Broadly, empowerment refers to being able to make informed decisions and choices effectively. But there is some disagreement about the true content of empowerment. Mahatma Gandhi emphasized self-reliance; Paolo Freire (2000) stressed the need for conscientization, for helping the poor to learn about and perceive “social, political and economic contradictions” and then to stir to act against “the oppressive elements of society.” E.F. Schumacher, author of *Small is Beautiful* (1973), argues that empowerment follows when one makes up deficiencies in education, organization, and discipline. The World Bank finesses these differences by defining empowerment as “the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives” (World Bank 2002, vi). The Bank sees the four major elements of empowerment as (a) access to information, (b) inclusion and participation, (c) accountability, and (d) local organizational capacity.

State institutions must be responsive and *accountable* to poor people. In nearly every country the public sector often pursues activities that are biased against poor people, and poor people have trouble getting prompt, efficient service from the public administration. Accountability is helped when there is good *access to information*.

> ***Example:*** The Public Expenditure Tracking Survey conducted in 1996 in Uganda found that only 22 percent of the central government funds intended to support locally run schools were reaching their intended destination. By 1999–2000, after the government made the budgetary transfers public via the media and required schools to share financial information, 80–90 percent of the funds began to reach the schools for which they were intended.

Amartya Sen (1999) sees poverty as consisting of a “deprivation of capabilities,” so that the poor have inadequate resources (financial, informational, and so on) to participate fully in society; in short, they are socially excluded. It follows that *inclusion*, which encompasses economic and political participation, is inherently part of the solution to poverty. The process of including the poor is likely to require the development of their social capital, the “features of social organization, such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit” (Putnam 1995, 67). Social capital takes time to build, but contributes to stronger *local organizational capacity*.

Good social institutions—kinship, community organizations, and informal networks—can play an important role in poverty reduction. For example, many development programs succeed because they mobilize local groups of project beneficiaries in program design and implementation. However, when social institutions are weak,

fissures such as ethnic cleavages can explode into open conflict; most of the world's 20 poorest countries have experienced civil war within the past generation.

Some social norms and practices help generate and perpetuate poverty. Discrimination on the basis of gender, ethnicity, race, religion, or social status can lead to social exclusion and create barriers to upward mobility, constraining people's ability to participate in economic opportunities and to benefit from and contribute to economic growth. For example, one cross-country study indicates that countries that invest in girls' education have higher rates of economic growth (Klasen and Woolard 1999).

It is difficult to empower the poor if decision making is concentrated in a faraway capital city; hence, the conclusion that a major component of empowering the poor is the need to decentralize power, particularly through delegating it to subnational levels of government, and privatizing some activities (for example, grain marketing). Decentralization is not, however, a panacea (see Bardhan and Mookherjee [2006]); when decentralization is done badly, power may be captured by local elites, who may be even less concerned about the poor than the central government. In India, for instance, the state of Kerala has used its powers to spread development widely, while in the state of Bihar local decision making has not been particularly beneficial to the poor.

Empowerment is difficult to measure. The UNDP's Gender Empowerment Measure (GEM) includes indicators such as male and female shares of parliamentary seats, managerial positions, and earned income, but also has serious limitations in that it does not include information on the informal sector, or on such items as the right to vote. By design, the GEM focuses on gender empowerment, and not specifically on empowerment of the poor.

To empower poor people, policies needed to facilitate active collaboration among the poor and other groups in society include strengthening the participation of poor people in political processes and local decision making; making changes in governance that make public administration, legal institutions, and public services delivery more efficient and accountable to all citizens; and removing the social barriers that result from distinctions of gender, ethnicity, race, and social status. Worthy as this sounds, it is not at all obvious how to achieve such changes, but some policies that have been suggested include the following:

- To improve *access to information*, encourage the development of the media. For instance, Besley and Burgess (2002) show that there is a robust link between media development and government responsiveness in India; states with higher newspaper circulation also undertake more extensive relief efforts in the wake of natural disasters.
- To increase *participation and inclusion*, it helps to institutionalize transparent, democratic, and participatory mechanisms for making decisions and monitoring

implementation. In this context, it may also be useful to provide legal assistance to poor people who usually have limited access to the legal system.

- *Accountability* is increased by strengthening the mechanisms used to monitor the performance of public administrations and by providing access to budgetary information and participatory mechanisms. There are many possible ways to do this:
  - Publication of complete and timely budgetary information. Until recently, Vietnam did not publish such information, for instance, so it was impossible to hold the government to account for how it spent its money.
  - Institutional and Governance Reviews, which use surveys and other quantitative measures to analyze the functioning of public institutions.
  - Citizen Report Cards, which allow citizens to express their opinions on the performance and quality of government services.
  - World Bank Corruption Surveys, which are designed to extract information on corruption from households, the private sector, and public officials. Based on such a survey, for instance, Albania requested an anticorruption program to undermine patronage in judicial and civil service appointments (Orhun 2004, 7).
  - Public Expenditure Tracking Surveys, which have helped ensure that budgeted funds get to their intended recipients in places such as Ghana and Uganda.
  - Private Enterprise Surveys of the Business Environment, and Investor Roadmaps. These indicate the problems and costs faced by entrepreneurs.
  - Participatory Poverty Assessments. Using focus groups, in-depth interviews, and other measures, Participatory Poverty Assessments complement survey data to help build a more detailed picture of the nature and roots of poverty; they have been influential in Vietnam, for instance.
- To increase *local organizational capacity*, it helps to do the following:
  - Promote decentralization and community development to enhance the control that poor people and their communities have over the services to which they are entitled. Decentralization needs to be combined with effective participation and monitoring mechanisms.
  - Promote gender equality by promoting women's representation in decision making and providing special assistance for women's productive activities.
  - Tackle social structures and institutions that are obstacles to the upward mobility of poor people by fostering debate over exclusionary practices and supporting the participation of the socially excluded in political processes.
  - Support poor people's social capital by assisting networks of poor people to engage with market and nonmarket institutions to strengthen their influence over policy.

Income Security

Poor people are exposed to a wide array of risks that make them vulnerable to income shocks and losses of well-being. Reducing poor people's vulnerability to ill health, economic shocks, natural disasters, and violence enhances well-being on its own and encourages investment in human capital and in higher-risk, higher-return activities as well. Although the issue of vulnerability is treated in more detail in chapter 12, a few more comments are in order here.

Households and communities respond to their risk exposures through diversification of assets and sources of income, and through various types of self-insurance and networks of mutual insurance mechanisms. For instance, some family members may travel to cities to seek work, sending remittances home; if they cannot find work they return home. Or farmers may store grain from one season to the next, in case crops fail. In a number of countries, such as Mali, some very poor rural women wear large gold ornaments—in effect carrying their savings, which could be sold if necessary to tide the household over during a bad year.

Mechanisms such as these help to reduce risks or soften the impact of negative events, but the effect may be limited. To counter the incentive and information problems that exclude poor people from many market-based insurance mechanisms, the state has, in principle, a special role in providing or regulating insurance and setting up safety nets. Health, environmental, labor market, and macroeconomic policies can all reduce and mitigate risk.

Large adverse shocks—economic crises and natural disasters—cause poor people to suffer not only in the short run. Such shocks undercut the ability of the poor to move out of poverty in the long run as well, by depleting their human and physical assets, which depletion may be irreversible. So it is crucial to prevent economic crises and be prepared to react quickly to natural disasters, as well as to protect poor people when these events occur.

National programs to manage economywide shocks and effective mechanisms to reduce the risks faced by poor people, as well as to help them cope with adverse shocks when they occur, are useful. Appropriate measures might include the following:

- Formulating programs to help poor people manage risk. Micro-insurance programs, public works programs, and food transfer programs may be mixed with other mechanisms to deliver effective risk management.
- Developing national programs to prevent and respond to macro shocks—financial or natural.
- Supporting minority rights and providing the institutional basis for peaceful conflict resolution, to help prevent civil conflict and mobilize more resource into productive activities.

- Tackling health problems, including widespread illnesses such as malaria and tuberculosis, as well as moderately common but serious conditions such as HIV/AIDS.

The World Bank (2000, 40) argues for a modular approach, "with different schemes to cover different types of risk and different groups of the population," and where "the tools include health insurance, old age assistance and pensions, unemployment insurance, workfare programs, social funds, microfinance programs, and cash transfers." These safety nets should not only support immediate consumption needs, but also "protect the accumulation of human, physical, and social assets by poor people."

There is no simple, universal blueprint for implementing this strategy for poverty alleviation and reduction. Each country needs to prepare its own mix of policies, reflecting national priorities and local realities. But there are examples of approaches that work, particularly at the level of individual projects, as the optimistic assessment by Smith (2005) illustrates.

An Example: Tanzania

Any good poverty reduction plan begins with an analysis that identifies the nature and evolution of poverty, a profile of poor people, and the factors that contribute to poverty. Building on an accurate understanding of poverty, the strategy for poverty reduction has to prioritize the poverty reduction goals and take into account complementarities and compatibilities of various policy tools. Then specific implementation modules, including resource allocation and monitoring mechanisms, need to be designed. By way of an illustration, we finish this chapter with a brief sketch of Tanzania's program for tackling poverty.

In the years following independence, the government of Tanzania focused on three development problems: ignorance, disease, and poverty. National efforts to tackle these problems were initially channeled through centrally directed, medium-term and long-term development plans; despite high levels of foreign aid, these efforts were a complete failure, and poverty was higher in 1990 than at the time of independence.

In June 2005, Tanzania issued its "National Strategy for Growth and Reduction of Poverty 2005–2010," known more commonly by its Swahili acronym MKUKUTA. The strategy is divided into three main clusters: growth and the reduction of income poverty, improvement in the quality of life and social well-being, and governance and accountability. The broad outcomes that are hoped for within each cluster are shown in table 9.3, along with the associated goals. As stated here many of the goals are rather general, although some do, in fact, have specific targets. An elaborate monitoring

Table 9.3 Summary of Tanzania's National Strategy for Growth and Reduction of Poverty (MKUKUTA)

Cluster 1: Growth and reduction of income poverty	
Broad outcomes	Achieve and sustain broad-based and equitable growth
Goal 1	Ensure sound economic management
Goal 2	Promote sustainable and broad-based growth
Goal 3	Improve food availability and accessibility at the household level
Goals 4 and 5	Reduce income poverty, both for men and women, and in urban and rural areas
Goal 6	Provide reliable and affordable energy to consumers
Cluster 2: Improvement of quality of life and social well-being	
Broad outcomes	Improve quality of life and social well-being, with particular focus on the poorest and most vulnerable groups; and reduce inequalities (for example, education, survival, health) across geographic, income, age, gender, and other groups
Goal 1	Equitable access to quality primary and secondary education; universal literacy among men and women; expansion of higher, technical, and vocational education
Goal 2	Improved survival, health, and well-being of all children and women, especially for vulnerable groups
Goal 3	Increased access to clean, affordable, and safe water; sanitation; decent shelter; and a safe and sustainable environment
Goal 4	Adequate social protection and provision of basic needs and services for the vulnerable and needy
Goal 5	Effective systems to ensure universal access to quality and affordable public services
Cluster 3: Governance and accountability	
Broad outcomes	Good governance and the rule of law; accountability of leaders and public servants; democracy, and political and social tolerance; peace, political stability, national unity, and social cohesion deepened
Goal 1	Structures and systems of governance as well as the rule of law to be democratic, participatory, representative, accountable, and inclusive
Goal 2	Equitable allocation of public resources with corruption effectively addressed
Goal 3	Effective public service framework in place to provide foundation for service delivery improvements and poverty reduction
Goal 4	Rights of the poor and vulnerable groups are protected and promoted in the justice system
Goal 5	Reduction of political and social exclusion and intolerance
Goal 6	Improve personal and material security, reduce crime, and eliminate sexual abuse and domestic violence
Goal 7	Natural cultural identities to be enhanced and promoted

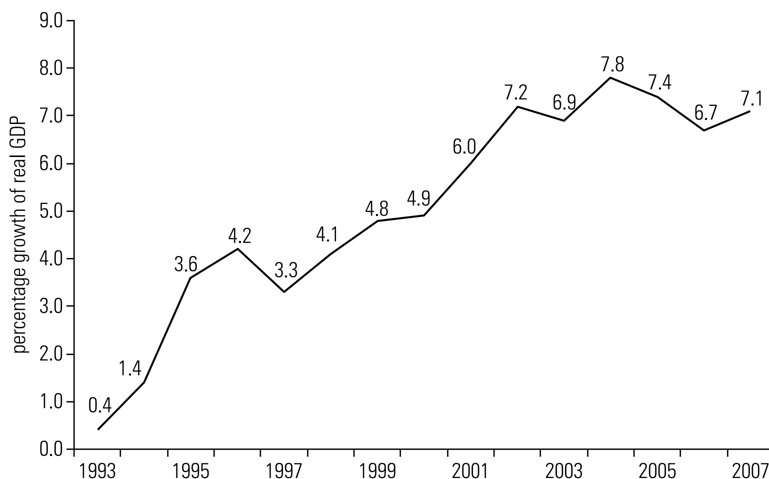
Sources: Tanzania 2005, 2007.

component is built into the process: the annual implementation report for 2006/2007 was produced by the Ministry of Planning, Economy, and Empowerment "in collaboration with a wide range of stakeholders, including government ministries, departments, and agencies, local government authorities, research and academic institutions, as well as non-state actors" (IMF 2007, 1) but was hampered by a lack of timely data and the fact that it was not integrated with the domestic budget and accountability systems (IMF 2007).

At the heart of the strategy is a strong emphasis on sustaining economic growth, which MKUKUTA states should be in the range of 6–8 percent annually. In this respect, Tanzania has seen a remarkable turnaround. In contrast to the anemic rates of economic growth in the 1990s, the real increase in GDP has exceeded 6 percent annually in every year since 2001, as figure 9.2 shows. This has been achieved in the context of sound macroeconomic management, including fairly modest rates of inflation, and adequate fiscal discipline. However, the growth has been geographically uneven, and most private credit goes to "a small number of enterprises with solid collateral in key urban areas" (Tanzania 2007, 9). Although Tanzania achieves food self-sufficiency in most years—it exported food in 2006–07—almost all agriculture is dependent on rainfall, and some regions and districts have experienced seasonal food shortages in the months before the harvest.

The second cluster in the MKUKUTA strategy aims to improve the quality of, and access to, health and education. There has been recent improvement in this goal: the net primary enrollment rate rose from 89 percent in 2003 to 97 percent

Figure 9.2 Real GDP Growth, Tanzania, 1993–2007 (in Constant Prices)



Sources: Data since 1998 from Tanzania (2008, 15); earlier data from Tanzania (2007, 4).

in 2007, and is on target to reach the goal of 99 percent by 2010. However, the quality of primary schools remains poor, with a pupil-to-teacher ratio of 53:1; fewer than three teachers in four have relevant qualifications; and there is, on average, only one textbook for every three pupils. And although half of all pupils at the start of primary education are girls, this proportion falls to a third at the level of higher education. All of these indicators are improving markedly, but the MKUKUTA goal of one textbook per pupil by 2010 is unlikely to be achieved. There have been some improvements in health, with the under-five mortality rate dropping from 147 per 1,000 in 1999 to 112 per 1,000 in 2004–05, although by world standards this is still a very high rate.

The third cluster in the MKUKUTA strategy—governance and accountability—deals with many of the issues considered under the "empowerment" label above. As part of the monitoring efforts, two national surveys undertaken in 2007 asked respondents for their opinions on the efficiency of public services, and the extent of actual or perceived corruption. It is too soon to be able to judge the trends in these areas because this is the first time that such surveys have been undertaken in Tanzania, but they indicate that improvement is needed: over a third of respondents said that there is "a lot" of corruption in the police, in the legal system, and in the health services. In Dar es Salaam, over half of those who came into contact with the police (one person in five) said they paid a bribe. These findings point to the potential value of a solid structure for monitoring performance; the statement of goals and objectives is not enough, and will achieve little unless there is follow through, which, in turn, is usually helped by the availability of good data and sound analysis—the very subjects of this book.

Review Questions

1. In reaching their conclusion that "growth is good for the poor," Dollar and Kraay (2002)

- A. Regress national poverty rates on income.
- B. Regress the log of the income of the poorest quintile on the log of total income.
- C. Regress the change in the poverty rate on the growth in income.
- D. Regress the income share of the poorest quintile on the log of income.

2. Changes in P_0 can be decomposed into all of the following *except*:

- A. A redistribution component reflecting a change in the Gini coefficient over time.
- B. A growth component reflecting change in P_0 for a given Gini.
- C. A between component, reflecting change in the rich/poor gap over time.
- D. A residual.

3. There is strong empirical evidence that empowerment policies contribute to reducing poverty.
○ True ○ False

4. Accountability has been improved by all of the following *except*:
○ A. Public Expenditure Tracking Surveys. ○ B. Citizen Report Cards. ○ C. Poverty Reduction Strategy Papers. ○ D. Institutional and Governance Reviews.

5. According to the discussion in the text, which is *not* true about Tanzania's efforts at poverty reduction?
○ A. GDP growth was above 6 percent per year from 2001 through 2007. ○ B. They include attention to governance and accountability. ○ C. They favor low-income provinces. ○ D. Sustaining growth is at the heart of the poverty reduction strategy.

Note

1. The material in this section relies heavily on Orhun (2004).

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