ISLAMIC DEVELOPMENT BANK

THE CHALLENGES OF POVERTY ALLEVIATION IN IDB MEMBER COUNTRIES

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Rajab 1420H (October 1999)

Preface

In 1996 the Islamic Development Bank (IDB) published its " *Strategic Agenda for the Medium-Term: Priorities and Main Operational Aspect* " with poverty alleviation and human resource development as two of the key five development themes. This coincided with the declaration of "1996 the International Year for the Eradication of Poverty" by the General Assembly of the United Nations. Moreover, the four priority sectors in the Agenda (agriculture and food security, medium and small-scale enterprises, education and health, and transport and communications) are related directly or indirectly to poverty alleviation and human resource development. Indeed, the share of the Bank's financing allocation to social sectors has doubled, in real terms, since 1977. Furthermore, the Bank established a special concessional lending account for the least developed member countries (LDMCs).

The IDB's Board of Executive Directors suggested that the Bank consider preparing an occasional paper on the challenges of poverty alleviation in member countries. In this context, this paper attempts to review profile of poverty in IDB member countries, for the first time, using the most recent information, take stock of efforts by member countries in poverty alleviation strategies, including Islamic precept of Zakat and other Sadaqat, and draw lessons learned from experience and these are part of the "experience" as well as modes of operation for IDB and its member countries to emulate or to improve on.

Despite efforts by governments, civil communities, families, the Bank, donor community and other development partners, progress in reducing poverty has been negligible in member countries as a whole. In fact, earlier gains were reversed recently in some countries, although some progress has been achieved in a few other countries. Part of the goal of this study is to refocus attention on the former group of countries, because poverty in these countries is widespread, deep and severe. In this context, the successful stories of the latter group have implications for other countries on economic growth, poverty and inequality. The paper identifies elements of an implementable action programme in terms of broad-based growth strategy, investment in human capital and social security arrangements for those who are not likely to benefit from such a strategy.

The components of a meaningful poverty-reducing development strategy, coupled with other important modalities derived from an evolutionary process of sister development finance institutions and other development organisations in implementing such strategies have operational implications for the Bank. Attention to poverty issues is increasing, but this paper will show that much greater effort is required to attain the international development goals of reducing poverty by a half in all countries by the year 2015. Among the essential lessons learned is that a large proportion of incremental growth must reach the poor, in order to make a significant dent in poverty. The unfortunate members of society, incapable of benefiting from growth, must receive much larger proportion of Zakat and Sadaqat, an Islamic right of the poor in the wealth of the rich. The quality of growth is as important as the sustainability of growth for member countries to meet the challenges of the 21st century. The Bank is, therefore, renewing its commitment to support its member countries in achieving their socio-economic development goals.

Abbreviations and Acronyms

AERC	African Economic Research Consortium
AfDB	African Development Bank
AGETIP	Agence d'Execution de Travaux d'Interet Publique
AsDB	Asian Development Bank
CAS	Country Assistance Strategy
CASS	Country Assistance Strategy Study
CBN	Cost of Basic Needs
CDF	Comprehensive Development Framework
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
DAC	Development Assistance Committee
DID	Department of International Development of the United Kingdom
ECA	United Nations Economic Commission for Africa
EDI	Economic development Institute of the World Bank
ESAF	Extended Structural Adjustment Facility
ESCAP	United Nations Economic and Social Commission for Asia and Pacific
ESCWA	United Nations Economic and Social Commission for West Asia
FAO	Food and Agriculture Organization of the United Nations
FEI	Food Energy Intake
FGT	Foster-Greer-Thorbecke
FSSI-ONG	Fonds Senegalais de Solidarite Islamique
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GNP	Gross National Product
H	Headcount Ratio
HDI	Human Development Index
HDR	Human Development Report
HI	High Income
HPI	Human Poverty Index
IADB	Inter-American Development Bank
IADP	Integrated Agricultural Development Programme
ID	Islamic Dinar
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IRTI	Islamic Research and Training Institute
KAPF	Kuwait Awqaf Public Foundation
KD	Kuwaiti Dinar
KLSS	Kazakhstan Living Standards Survey
LDMCs	Least Developed Member Countries
LI	Low Income
LMI	Lower Middle Income
MCB	Minimum Consumer Budget
MENA	Middle East and North Africa

MOU	Memorandum of understanding
NGOs	Non-Governmental Organizations
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OTS	Operations Technical Services Unit
PA	Poverty Assessment
PERs	Public Expenditure Reviews
PG	Poverty Gap Ratio
PPP	Purchasing Power Parity
PTI	Programme of targeted Interventions
R&D	Research and Development
SPA	Special Programme of Assistance
SPG	Squared Poverty Gap Ratio
SSA	Sub-Saharan Africa
UAE	United Arab Emirates
UN	United Nations
UNDDSMS	United Nations Department for Development Support and management Services
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
US	United States
TA	Technical assistance
WBG	World Bank Group

Qur'anic translations from Yousuf Ali (1413H), ed. Mushaf Al-Madinah AlNabawiyah,
With Roman numerals referring to the Surrah and Arabic numerals to the corresponding Aiyah (verse) number.

Acknowledgements

A group of distinguished poverty experts have made significant contributions to this study. Ali A.G. Ali, Nader Fergany and N. Haidy A. Pasay provided background regional and country studies and recent information on Africa, Arab countries and Indonesia, respectively. Their contributions provided most primary data, valuable insights on policies, programmes and other related information to the first three chapters of the occasional paper. Several friends and colleagues also made valuable contributions from the World Bank, IMF and the United Nations. Khalid Al-Saad, Harold Alderman, Mark Blackden, Lionel Demery, Shanta Devarajan, Ibrahim Elbadawi, Ariel Fitzbien, Fareed Hassan, Jesko Hentschel, Emmanuel Jimenez, Ravi Kanbur, Tim Marchant, Nadir Mohammed, Azedine Ouerghi, Jack van Holst Pellekan, Martin Ravallion, Salman M.A. Salman, Kinnon Scott, Antoine Simonpietri, Kouassi Soman and Willem van Eeghen of the World Bank contributed most recent information on poverty and useful advice too.

Discussions with distinguished friends and colleagues from the International Monetary Fund provided valuable insights and information on poverty issues, despite their busy schedule. I am grateful for their encouragement and support, particularly S. Ehtisham-Uudin Ahmad, Ke-Young Chu, Nancy Happe, Eltigani Ibrahim, Christian Schiller and Vito Tanzi. Mayra Buvinic, Alexander Kazan and Nora Lustig of the Inter-American Development Bank also provided useful information utilised in chapter four of the paper. This chapter also draws on much of the ongoing institutional work on poverty alleviation strategies and experience from the African Development Bank, the Asian Development Bank, the Islamic Development Bank, ECA, ESCAP, ESCWA, IFAD, the United Nations, UNDP and UNICEF. Azizul Islam also provided useful information on IDB member countries from Asia and CIS.

Further details and supporting analysis for the material in chapter five of the paper depended on information from IRTI, Al-Tayib Zein Al-Abdin, Ali A.G. Ali, Nader Fergany, and Monzer Kahf among others. Valuable comments on the draft paper were received from Ali A.G. Ali, Jorge T. Araujo, Nader Fergany, Ariel Fitszbein, El-Tigani E. Ibrahim and other colleagues from the International Monetary Fund, the World Bank, and my colleagues at IDB. None of them, however, is responsible for the findings of the paper, which are the errors and views of the author.

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“ *Poverty is almost like unbelief in God.*”
Prophet Muhammad (P.B.U.H)

IDB member countries face unprecedented challenges, triggered by the dramatic political , social, and economic changes that have overtaken the world in the last decade of this century. Now with the new millenium approaching, a new international dialogue on the future of development is taking shape. Succession of world conferences, sponsored by the major agents of this process (United Nations system, international financial institutions and donor community), with governments coming together, have charted new development strategies for the 21st century.

Development Challenges

The programme of actions adopted by all heads of governments in the 1995 World Social Summit and refocused recently into six goals (distilled from various international conferences, experience of the past 50 years and its unfinished agenda) are shaping the international development agenda of the 21st century. These programmes and the ambitious goals set by the world community (reducing poverty by half in 2015, universal primary education to all by 2005, gender equality, reducing mortality rates for children under-5 by three-fourth in 2015, access to health services for all by 2015, and environmental sustainability by 2015 in all countries) emphasize poverty reduction as the most challenging objective of the next century and the remaining targets are also poverty-related objectives.

Reducing Poverty

Only East and South Asia regions (but not necessarily all the countries in these regions) are expected to reduce poverty by half in 2015; meaning that all developing regions have lost momentum in achieving their poverty goals. If nothing is done and the proportion in poverty stays at 30% (half the proportion for IDB member countries), the number of people in poverty would rise from 1.3 billion in 1999 to nearly 2.0 billion by 2015, at the expected increase in population. Lack of progress in reducing poverty increases the risk of social upheaval. All this assumes that the gap between the poor and the rich remains constant. However, past and current economic crises have increased inequality, unless appropriate measures to protect the poor are taken. The large and growing inequality exacerbate the risk of social upheaval. The magnitude of poverty and deprivation that exist in this world is adversely impacting on social security and peace. The world is now, however, more informed and concerned about poverty, and is investing in fighting it. Indeed, investments in poverty alleviation can have high economic and social returns.

This study is intended to contribute to this new emerging development consensus, with poverty alleviation undoubtedly constituting its supreme objective, subsuming all other objectives. The idea, originated from the Board of Executive Directors of IDB, is to review the incidence of poverty in member countries, their efforts to deal with poverty, recommending ways and means to combat poverty from the experience of other partners, and drawing operational lessons learned for areas of focus to the Bank and its member countries to emulate or improve on.

Progress in Poverty Reduction

Available data show that more than 660 million people in IDB member countries, or as many as three out of five individuals, are currently living on incomes that are less than US$ 2 a day; representing about a quarter of the world's poor. Availability of data and its quality is a serious issue in many IDB member countries. Data on poverty is reported systematically for less than a third of member countries, based on international measures, which is much lower than that of other developing countries. In fact, high quality data permitting analysis and monitoring of poverty become available only recently for few member countries. Indeed, lack of information on the magnitude and behavior of poverty is among its main causes.

Nonetheless, in the early 1990s, poverty seems to have decreased in few Arab countries and all IDB member countries from Asia. But recent figures are showing a sharp reversal in these countries after the financial crisis. This reversal coupled with the wide-spread, deep and severe poverty in Africa and some Arab countries has led to the increase in the absolute number of the poor, given high rates of population growth in IDB member countries. Rural poverty incidence is more deep and severe than the urban poverty in many countries. Half of the population in member countries from Africa lives on less than a dollar a day (US$ 0.50 for rural and US$ 0.80 a day for urban poor). This high degree of deprivation among the rural poor is reflected in lowest access to safe drinking water and sanitation, low enrollment rates in primary education and lowest literacy rates, particularly among women.

The disturbing statistical evidence indicates that a child born today in the IDB's least developed member countries (LDMCs) is still more likely to be malnourished than to enroll into primary school and is as likely to die before the age of five than to go to secondary school. The experience of the past three decades suggests that the income poverty be closely linked to economic growth and its distribution. The growth of income in IDB member countries, except in few of them, during these decades is dismal, at annual per capita rate of growth of 1%. At this rate, it would take per capita income in LDMCs half a century to double, and to make a significant dent in poverty, assuming that income inequality remains unchanged. But inequality in a number of IDB member countries is among the highest in the world, meaning that meeting the international goal of reducing poverty by half may take a decade longer than desired.

Causes and Consequences of Poverty

At the root of this slow economic growth were weak initial conditions, unfavorable external environment, including adverse supply shocks, and ill-conceived domestic policies.

These conditions had a serious negative impact on employment opportunities (given unprecedented high population growth and youthful demographic profile), social development, and concomitant increases in poverty. Fortunately, phenomenal economic growth records in few member countries from Asia and other oil exporting countries during 1980-95, coupled with improved policies in many more member countries, were good news for poverty reduction.

Policy Responses

Success stories in economic growth and reduction of poverty and income inequality lend insights and provide feedback in the form of good practice in development strategies to other member countries. A successful broad-based growth strategy includes macroeconomic stabilization policies that provide incentives for employment-creating production, augmented by sectoral policies. This encourages employment of the poor and improve social services, rural development and investment policies that institutionalize structural transformation and expand employment opportunities, making services accessible to the poor (education, health and other amenities).

In turn, job opportunities and structural transformation in the economy would require higher skills, including skills of low-income groups, to effect and sustain growth, which is a basic ingredient for the reduction of poverty. This entails increasing both the quality and quantity of human capital. In this setting, social and private returns to investment in education are higher than returns to investment in physical capital. Experience of successful member countries has also demonstrated that education helps to reduce poverty directly and further strengthened institutions that implement sound development programmes.

However, many member countries still face social problems: highest rates of illiterate people entering the 21st century, many unable to read or write, much less to operate a computer or work with complex technologies. Because the illiterate will continue to be poorer than their literate counterparts, while their numbers are growing, education remains the single-most important priority sector for member countries in their struggle to meet the development goals of the 21st century. The cost to countries that fail to achieve these goals, on targeted dates, would be substantial, and its burden would, in all likelihood, fall hardest on the young and poor. Nearly half the population in member countries is currently below 19 years.

Strategies and Programmes to Reduce Poverty

At the prevailing state of the art, youthful demographic profile imposes heavy burden of young dependants and the current dependency ratio is still too high to reduce the demographic pressure on poverty. However, the key to converting the population, dominated by youthful profile, from a liability to an asset, lies in a comprehensive approach to developing the human potential of these countries and acquiring dynamic comparative advantage; by investing in human capital. The first important element in this approach is to improve education outcome by correcting past deficiencies in general education and adult education programmes. Building and maintaining human capital require: achievement, measured by adult literacy rate; access and participation in universal basic education, measured by net primary enrollment; retention in school, measured by progression to grade 9; quality of education, proxies by masterly of science and technology, and access to information; maintenance of human capital, measured by access to primary health, safe drinking water, sanitation and adequate nutrition.

Another element of fundamental importance to successful poverty reduction strategy is the inclusion of mechanisms to help the poor withstand adverse shocks such as economic crises or natural disasters. Whenever these events occur, the number of poor increases and the poor are disproportionately affected by these calamities. Among the messages to emerge from past responses by various governments to these events is that they are more often weak and inept. Clearly other supportive development partners must place more emphasis on building capacity and coordinating assistance programmes better for a concerted timely response.

Complementary Measures

As well as promoting broad-based economic growth and investing in human capital of the poor, the provision of social protection for the vulnerable groups of society is an important element in a comprehensive strategy to reduce poverty. Modern, publicly organized safety nets are designed to help the poor people satisfying minimum standard of living and protecting them against unpredictable shocks. Safety nets for the poor are either private or public. Private income transfers, including Islamic percept of alms (*Zakat*), are the most commonly used tools in IDB member countries and other Muslim communities to deal with social insecurity arising generally from incapability, whether permanent, chronic or transient.

Similar to modern and publicly organized safety nets, compulsory Zakat aim mainly at guaranteeing minimum standard of living or satisfying cost of basic needs (CBN) and to a lesser extent at protection against unpredictable external shocks. Recent evidence suggests that public safety nets, including Zakat institution, can be effective when poverty is strongly associated with family size, inequality or economic transition. However, public transfers and social funds suffer from relatively high administrative and transaction costs as percentage of total budget as well as fiscal sustainability. Unlike, other public transfer, Zakat is a right for the poor and a claim on the wealth of the rich, which is to be paid willingly or unwillingly, mostly on annual basis.

Empirical evidence, cited in the study, corroborates four basic principles. First, Zakat has led to alleviation of poverty in the past, during the reigns of Omar Ibn Al-Khattab (the second Caliph) and Omar Ibn Abdul Aziz. Perhaps, the expansion of the Islamic state brought with it wealth and growth, which is distributed efficiently and effectively. That is, when Zakat is collected and distributed to its intended recipients, at minimum administrative costs, it proved to be an effective measure of poverty alleviation. Second, revenue collection from compulsory Zakat is rising nominally in many member countries, albeit below its potential. Third, in few countries the institution is demonstrating ability to mobilize social and cultural capital through pious and voluntary contributions, revealing potential savings in administrative and transaction costs. Finally, at the margin, Zakat appears to reduce measured income inequality.

The Need to Focus on Potential Niche in IDB Operations

Other emerging evidence suggests, however, that in countries with high incidence of rural poverty, such limited public transfers are ineffective in terms of targeting needy households; because of its inefficient delivery mechanism, lack of fiscal sustainability, in attaining its social outcome, or failing to make a significant dent in poverty in such countries. In addition, loss of confidence between Zakat payers and Zakat institutions has led many people in member countries and Muslim communities' abroad to seek non-official alternatives. Recent evidence indicates that donors prefer to donate their charities (*Sadaqat*) directly to private individuals, poor families or private charities.

Consensus among Muslim scholars suggests that the primary responsibility for compulsory levy of Zakat and its distribution lie with the governments of the countries themselves. Institutions such as the Islamic Development Bank, have an important supporting role to play by providing information, analysis, finance and by coordinating actions, to fill a gap created by the absence of private institutions or NGOs capable of attracting and disbursing Sadaqat, on behalf of several Muslims, to an increasingly large numbers of poor and needy people. Such a demand-driven activity is capable of pooling voluntary Sadaqat with the focused objective of disbursing its proceeds for poverty alleviation. Indeed, establishment of Sadaqat fund at the Bank complements Zakat institutions, reinforces and mimics family assistance or private transfer programmes practiced everywhere in Muslim communities, on a limited scale.

Cross-country experience shows that private transfers have the greatest impact on reducing poverty, when they are targeted to the poorest and the most vulnerable group. In examining the feasibility of pooling unmobilized private Sadaqat, the disbursement of fund may be linked initially to social safety nets or similar result-based targeted schemes. Result-based targeted schemes tend to attract additional voluntary contributions and private donations, if focused on specific goal, and have tangible impact. At subsequent stages, the fund must expand its reach to include other poverty eradication programmes, such as financing micro-enterprises. Operational experience of other development finance institutions in implementing safety nets, suggests that safety net programmes alone cannot reduce poverty. Safety nets should complement broad-based, labor-demanding growth strategies and human capital investments. This is an empirical issue for the Bank to address; given the religious duty, social practice, uniqueness and importance of result-oriented poverty-focused programmes in its member countries.

Actions by IDB

IDB's contribution to poverty reduction in its member countries can be seen through the totality of its ordinary operations. The medium-term strategic agenda of the Bank, around which projects aimed at its priority areas are designed, includes poverty alleviation and human resource development among its five development themes. Operations of the Bank, within its strategic focus on priority sectors, have contributed either directly or indirectly to poverty alleviation in member countries. The Bank has emphasized investments in education and health with the view to enhancing national capacity building and promoting greater access to basic health services. As a result, the share of financing allocation to the social sectors relative to the overall Bank's financing activities have more than doubled over the past two and a half decade, surpassing 23% at present.

In addition, the special LDMCs programme of the Bank focuses on projects covering education, health, water supply, agriculture and transport. Its initial amount of US$ 100 million have been utilized in these projects and an additional tranche of US$ 150 million has been replenished last year, to be utilized over five years. The central issue here is not the proportion of lending in the previously identified broad sectors, but rather the extent to which these sectors are pro-poor or poverty-focused. Unlike other development finance institutions, information on resources targeted directly to the poor are not readily available, with no explicit allocation criteria to poverty-focused projects and no assessment procedure to measure impact on poverty. In order to increase the effectiveness of IDB's aid, provided through LDMCs account or ordinary operations, there is a need to strengthen the link between assistance to the poorest countries and indicators of policy performance. Adoption of result-oriented target of assessing performance in support of poverty reduction typically does that.

Lessons for the Bank

Other important lessons also emerged from the evolutionary process of poverty-reducing operations implemented by other multilateral development finance institutions that supported governments' efforts of member countries in fighting poverty. Consequently, this paper identified some areas, which merit consideration and increased emphasis in the future. For example, improvement of country assistance strategy (CAS) documents to explicitly include poverty reduction as one of its major objectives. CAS is the main document outlining the Bank's operational strategy in a country, together with letters or lists of projects submitted to the Bank in support of government requests for financing credit operation. Typically, CAS document summarizes the Bank's analysis of the country's economy, its most important policy issues, and the country's commitment to and prospects for economic and social development; from which the Bank's lending operations emerge.

Focusing Country Assistance Strategies on Poverty

To complement the Bank's operations in poverty alleviation, there is a need to introduce explicit poverty alleviation guidelines. These guidelines could be derived from poverty assessment at country level or as part of a poverty-focused criterion. To institutionalize and operationalize such a criterion, there is a need to conduct post-evaluation assessments by the Bank, with a view to providing feedback on poverty-focused projects. Such a criterion is consistent with today's version of the second-generation CAS. Today's version of CAS invariably focuses on a strategy for reducing poverty, particularly in attaining quantitative targets in poverty lending, and its strategy is derived from poverty assessment (PA) and other related economic and sector work.

At present, it may be mutually cost-effective for IDB and its counterpart institutions to engage in effective partnership in preparation of CAS, tapping on available PAs and other related information, within the existing cooperation agreements, in order to avoid duplication, to build capacity for both member countries and IDB in this area, and to minimize mismatch between the Bank's medium-term strategic agenda and its operations plan. This institutional partnership could be extended to encompass other operations of mutual-interest: in building capacity of member countries, in monitoring and assessing poverty issues, and in coordination of assistance in integrated way, such as safety nets.

Focussing on Poverty Outcomes and New Criteria

Another area of importance to improve our understanding of the effectiveness of poverty alleviation strategies, would be the promotion of inclusion of impact (result-oriented) evaluation component within projects. Operational experience shows that it is possible to determine impact on specific projects or overall programme by developing sector-specific indicators to track performance trends and to monitor progress throughout the life of the project, at minimum costs.

Finally, of pressing importance is to adopt operational guidelines, similar to other sister institutions, with the aim of identifying and classifying operations as poverty-focused. These include specific mechanisms for targeting the poor by setting ratios and proportions of beneficiaries, expenditure switching, or targeting specific programmes. Operations that meet these criteria are more likely to have a significant impact on poverty. In addition, applying the recommended criteria (reviewed in the concluding section of chapter four), will enable practitioners to know the trends in the sectoral composition of the Bank's lending and the rate of change in lending to sectors with direct poverty-focused. The latter will also feed in the assessment of the impact of a specific project or sectoral programmes on poverty alleviation.

Epilogue

Learning from past experience is essential to the effort to help member countries address poverty in the future. Building on what has worked, avoiding interventions that have been unsuccessful, adding value to new creative solutions and assisting in exchanging and disseminating good practices to other countries will enhance both the effectiveness and sustainability of actions to reduce poverty. Renewed efforts, in partnership with other interlocutors, to improve our understanding, to enhance capacity building at country and Bank levels and to expand the Bank's reach to poverty-focused operations, are critically needed at this juncture, if the lives of more than 660 million persons in IDB member countries are to escape from poverty they suffer today. This is a challenge that the Bank cannot afford to ignore.

Organization of the Occasional Paper

The rest of the paper is organized as follows. Chapter one briefly introduces issues relating to concepts, methods and data of poverty analysis, with comparison of global, regional and country indicators of major development variables and correlates of poverty as a background to the analysis of poverty and inequality in IDB member countries. Chapter two presents the available evidence on the state of deprivation; including results on income distribution, state of poverty and decomposing poverty profile into its growth and inequality determinants; and briefly summarizes the causes of poverty in these countries. Chapter three draws some implications of the results and the set of policies that enabled successful member countries to reduce poverty and concludes by asking whether new developments, given resource endowment, warrant any policy change or new modalities to bring about a meaningful development strategy.

Chapter four reviews strategies, operations plan, and programmes of major actors and development partners, including IDB, in their efforts to support countries reduce poverty. The chapter draws important lessons for the Bank to strengthen its poverty-focused operations and impacts on poverty alleviation. Chapter five summarizes experience of traditional Islamic institutions and instruments utilized in combating poverty, with particular emphasis on the role of IDB in facilitating and stimulating its member countries and other Muslim communities in realizing the effectiveness as well as the limits of these institutions and their resources. The executive summary condenses the main findings of the study, elements of successful poverty-reducing development strategies, and concludes by identifying areas, which need increased attention and emphasis by the Bank's lending to its constituency in the future.

INTRODUCTION

“ Poverty: The Great Death.”
Ali Ibn Abi Taleb, the fourth Caliph

1.1 Objectives

This paper deals with the nature of challenge facing poverty alleviation efforts in IDB member countries. Despite efforts by member countries and their development partners in introducing poverty reduction strategies, progress has been slow in many countries, with signs of success in only few instances. Evidence and lessons learned from such experience seem to serve well the three objectives of this paper. First, to describe the incidence of poverty in IDB member countries using the most recent available information. Second, to take stock of policies and programmes implemented for poverty alleviation in IDB member countries. Third, to draw lessons from experiences of countries and development partners in effective strategies that work; with the view to developing useful guidelines and strategies to combat poverty in IDB member countries.

1.2 Development Indicators

Aggregate data show that the world today is more prosperous, with average per capita incomes more than tripled as global Gross Domestic Product (GDP) increased ninefold, from $3 trillion to $30 trillion, in the past 50 years. Consequently, expenditure on global consumption, private and public, has grown at an unprecedented pace, averaging 3 per cent a year since 1970 (UNDP 1998). But these overall figures mask enormous disparities in growth that widens gaps between regions, countries and between rich and poor since the turn of the century. By the late 1990s, the fifth of the world’s people living in the highest income countries had 86% of world GDP, compared to barely 1% for the bottom fifth. Of the 4.5 billion people in developing countries, nearly three-fifth lack access to sanitation, a third have no access to clean water, a quarter do not have adequate housing and a fifth have no access to modern health services of any kind. A fifth of primary-school-age children are out of school. About a fifth do not have enough dietary energy and protein, and micronutrient deficiencies are even more spread (UNDP 1998). Inadequate dietary requirements persist, despite the fact that poor households spend at least half their income on food.

Of the 52 IDB member countries (excluding Palestine), for which data on per capita GNP is available, more than half (or 27 countries) are classified as low-income economies; 15% (or 8 countries) are low-middle-income economies; a quarter (or 13 countries) are high-middle-income countries and only 8% (or 4 countries) are high-income economies in 1997 (Table 1.1).[1]

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[1] Low-income economies are those with a GNP per capita of $785 or less in 1997. Middle-income economies are those with a GNP per capita of more than $785 and less than $9656. Lower-middle-income and upper-middle-income economies are separated at a GNP per capita of $3125. High-income economies are those with a GNP per capita of $9656 or more (World Bank 1999a).

Table 1.1: Main Development Indicators for IDB Member Countries

COUNTRY	Popula-Tion (million) 1997	GNP per capita $ 1997	HD I Value 1997	HD I Rank 1997	Literacy Rate 1997 (%)	Net Primary Enrol-Ment 1997 (%)	Net Secondary Enrol-Ment 1997 (%)	Life Expec-tancy at birth	Under 5-Mortality Rate 1997 Per 1,000 1997	Access to safe Water 1997	% Pop. below $1 a day	% Pop. Below $2 a day	HPI 1 %
AFGHANISTAN	25.0	LI	-	-	33.4	-	-	45.0	257.0	12	-	-	-
ALBANIA	3.0	760	0.699	100	85.0	-	-	72.8	40.0	76	-	-	-
ALGERIA	29.0	1,500	0.665	109	60.3	96.0	68.5	68.9	39.0	78	2.0	17.6	28.8
AZERBAIJAN	8.0	510	0.695	103	96.3	-	-	69.9	45.0	-	-	-	-
BAHRAIN	0.6	UMI	0.832	37	86.2	98.2	87.2	72.9	22.0	94	-	-	-
BANGLADESH	124.0	360	0.440	150	38.9	75.1	21.6	58.1	109.0	95	28.5	-	44.4
BENIN	6.0	380	0.421	155	33.9	67.6	28.2	53.4	167.0	56	-	-	50.9
BRUNEI	0.7	HI	0.878	25	90.1	87.9	81.9	75.5	10.0	-	-	-	-
BURKINA FASO	10.0	250	0.304	171	20.7	32.3	12.8	44.4	169.0	42	-	-	59.3
CAMEROON	14.0	620	0.536	134	71.7	61.7	39.8	54.7	99.0	50	-	-	38.1
CHAD	7.0	230	0.393	162	50.3	47.9	17.9	47.2	198.0	24	-	-	52.1
COMOROS	0.5	400	0.506	139	55.4	50.1	35.7	58.8	93.0	53	-	-	34.6
DJIBOUTI	0.6	LMI	0.412	157	48.3	31.9	19.6	50.4	156.0	90	-	-	-
EGYPT	60.0	1,200	0.616	120	52.7	95.2	75.1	66.3	73.0	87	7.6	51.9	30.0
GABON	1.0	4,120	0.607	124	66.2	-	-	52.4	145.0	67	-	-	-
GAMBIA	1.0	340	0.391	163	33.1	65.9	33.3	47.0	87.0	69	-	-	49.9
GUINEA	7.0	550	0.398	161	37.9	45.6	14.6	46.5	201.0	46	26.3	50.2	50.5
GUINEA-BISSAU	1.0	230	0.343	168	33.6	52.3	24.1	45.0	220.0	43	88.2	96.7	51.8
INDONESIA	200.0	1,110	0.681	105	85.0	99.2	56.1	65.1	68.0	75	7.7	50.4	27.7
IRAN	61.0	1,780	0.715	95	73.3	90.0	81.2	69.2	35.0	90	-	-	20.4
IRAQ	22.0	LMI	0.586	125	58.0	74.6	42.9	62.4	122.0	81	-	-	-
JORDAN	4.0	1,520	0.715	94	87.2	-	-	70.1	24.0	98	2.5	23.5	25.4
KAZAKHSTAN	16.0	1,350	0.740	76	99.0	-	-	67.6	44.0	-	2.0	12.1	-
KUWAIT	2.0	HI	0.833	35	80.4	65.2	63.2	75.9	13.0	100	-	-	-
KYRGYZ REP.	5.0	480	0.702	97	97.0	-	-	67.6	48.0	81	18.9	55.3	-
LEBANON	4.0	3,350	0.749	69	84.4	76.1	-	69.9	37.0	94	-	-	11.3
LIBYA	5.0	UMI	0.756	65	76.5	99.9	99.9	70.0	20.0	97	-	-	16.4
MALAYSIA	22.0	4,530	0.768	56	85.7	99.9	64.0	72.0	11.0	78	4.3	22.4	14.2
MALDIVES	0.3	1,180	0.716	93	95.7	-	-	64.5	74.0	60	-	-	-
MALI	10.0	260	0.375	166	35.5	38.1	17.9	53.3	239.0	66	-	-	52.8
MAURITANIA	2.0	440	0.447	149	38.4	62.9	-	53.5	183.0	74	31.4	68.4	47.5
MOROCCO	27.0	1,260	0.582	126	45.9	76.6	37.7	66.6	187.0	65	2.0	19.6	39.2
MOZAMBIQUE	17.0	140	0.341	169	40.5	39.6	22.4	45.2	208.0	63	-	-	49.5
NIGER	10.0	200	0.298	173	14.3	24.4	9.4	48.5	320.0	48	61.5	92.0	65.5
OMAN	2.0	UMI	0.925	89	70.9	67.7	66.6	67.1	18.0	85	-	-	23.7
PAKISTAN	128.0	500	0.508	138	40.9	-	-	64.0	136.0	79	11.6	57.0	42.1
PALESTINE	3.0	-		-	-	-	-	-	28.0	-	-	-	-
QATAR	0.7	HI	0.814	41	80.0	83.3	73.3	71.7	20.0	-	-	-	-
SAUDI ARABIA	20.0	7,150	0.740	78	73.4	60.1	58.7	71.4	28.0	95	-	-	-
SENEGAL	9.0	540	0.426	153	34.6	59.5	19.8	52.3	124.0	63	54.0	79.6	49.6
SIERRA LEONE	5.0	160	0.254	174	33.3	44.0	-	37.2	316.0	34	-	-	57.7
SOMALIA	8.8	LI	-	-	-	-	-	47.0	211.0	26	-	-	-
SUDAN	28.0	290	0.475	142	53.3	-	-	55.0	115.0	73	-	-	36.8
SURINAME	0.4	1,320	0.757	64	93.5	99.9	-	70.1	30.0	-	-	-	-
SYRIA	15.0	1,120	0.663	111	71.6	94.7	42.3	68.9	33.0	86	-	-	-
TAJIKISTAN	6.0	330	0.665	108	98.9	-	-	67.2	76.0	69	-	-	-
TOGO	4.0	340	0.469	143	53.2	82.3	58.3	48.8	125.0	55	-	-	38.4
TUNISIA	9.0	2,110	0.695	102	67.0	99.9	74.3	69.5	33.0	98	3.9	22.7	23.1
TURKEY	64.0	3,130	0.728	86	83.2	99.9	58.4	69.0	45.0	49	-	-	16.7
TURKMENISTAN	5.0	640	0.712	96	98.0	-	-	65.4	78.0	60	4.9	25.8	-
UGANDA	20.0	330	0.404	158	64.0	-	-	39.6	137.0	46	69.3	92.2	40.6
U.A.EMIRATES	3.0	HI	0.812	43	74.8	82.0	77.8	74.8	10.0	97	-	-	17.7
YEMEN REP.	16.0	270	0.449	148	42.5	-	-	58.0	100.0	61	-	-	49.2
World	5,820.0	5,180	0.706	-	78.0	87.6	65.4	66.7	85.0	75	-	-	-
Low Income	2,036.0	350	0.430	-	50.7	85.7	60.4	51.7	162.0	69	-	-	44.9
Middle Income	2,857.0	1,890	-	-	-	95.0	-	-	43.0	79	-	-	-
E.Asia & Pacific	1,751.0	970	0.695	-	87.9	97.8	58.3	65.9	64.0	77	-	-	25.0
Europe & Central Asia	474.0	2,310	0.754	-	98.7	-	-	68.6	33.0	-	-	-	-
Middle East & N.Africa	280.0	2,070	0.626	-	58.6	86.4	61.7	65.1	70.0	72	-	-	32.4
South Asia	1,281.0	380	0.544	-	48.4	78.0	56.5	63.0	106.0	81	-	-	36.6
Sub-Saharan Africa	612.0	510	0.463	-	58.5	56.2	41.4	48.9	169.0	47	-	-	40.6

Notes: LI = Low income; LMI = lower middle income; UMI = upper middle income; HI = High income; Pop = total population; GNP= gross national product; HDI = human development index; HPI1 = human poverty indicator; - indicates unavailable data.

Sources: Tables 1,4,5,8,10,16 and 30 in UNDP (1999) and 1.1,1.2,1.6,2.1 and 2.7 in the World Bank (1999a).

Although the link between economic prosperity and human development is neither automatic nor obvious, progress in overall economic growth has been accompanied by substantial progress in social indicators for several countries. Measured by the human development index (HDI), every region of the world has made progress in human development, over the past three decades (UNDP 1999). HDI reflects achievements in the most basic human capabilities: leading a long life, being knowledgeable and enjoying a decent standard of living. With normalization of the values of the variables that make up the HDI, its value ranges from 0 to 1.[2]

Of the 50 IDB member countries for which data on HDI is available this year, only 10% (or 5 countries) are in the high human development category, compared to 25% for the world (with an HDI value of no less than 0.800). Like the average for the world, 54% of IDB member countries (or 27 countries) are in the medium human development category (0.500-0.799). 36% of IDB member countries are in the low development category; i.e., exceeding the share of 20% for the whole world in this category (less than 0.500).

IDB member countries not only have nearly double the share of the world average in the low human development category, but member countries have a lion share in the least developed categories: 60% of the 20 least human development category, two-thirds of the 9 least developed category, and three-fourth of the 4 least developed category are IDB member countries. Furthermore, the ranking on the HDI for three of the four affluent countries and some of the poorest member countries is lower than on GNP per capita, suggesting that these countries failed to translate economic prosperity into correspondingly better lives of their people (Table 1.1 and UNDP 1998). Notwithstanding these shortcomings, few member countries, for which data on HDI trends between 1975 and 1997 are available, have made substantial progress in human development. For example, Egypt and Indonesia have graduated from low human development category to join the medium human development category; while Tunisia advanced progressively within the medium development category, compared with its comparators.

The world's fastest progress in raising life expectancy since 1970 has been in four countries, three of them are IDB member countries: Oman, Saudi Arabia and Yemen (Table 1.1 and UNDP 1998). Indeed, during the past 36 years life expectancy at birth has increased in developing countries, from 46 to 62 years. However, life expectancy in 40% of IDB member countries are significantly lower than 62 years, and in more than half of these countries, life expectancy is lower than the average for low-income countries (Table 1.1). For example, in Sierra Leone and Uganda the civil war and/or the spread of HIV/AIDS have set back the average to less than 40 years, the lowest in the world.

Similarly, infant mortality rate in developing countries during the past 35 years has been more than halved and the share of underweight children has declined. Again, 70% of the

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[٢] The HDI value for a country shows the distance that it has already traveled towards the maximum possible value of 1 and also allows comparisons with other countries. Methodology of HDI has been evolving over time and in 1999 its methodology has been significantly refined. Interested readers may consult technical notes on conceptual and formulation issues of HDI in Anand and Sen (1999) and UNDP (1999).

countries that have achieved the fastest progress in reducing under-five mortality since 1970 are IDB member countries, of which three are among the ten countries with lowest under-five mortality rate. But 40% of the slowest progress countries are IDB member countries and so are 70% of the highest under-five mortality rate (Table 1.1). Although more than 70% of the people in developing countries have access to safe water, more than half of IDB member countries are below that average, 45% are below the average for low-income countries and, more alarming, less than half the people (12-48%) in 25% of member countries have access to safe water.

Since 1970 adult literacy rates in developing countries have increased by nearly half. Despite fast progress in increasing adult literacy rate, more than half of the IDB member countries is below the average for developing countries. In fact, nearly 90% of the lowest literacy rates in the world belong to IDB member countries (Table 1.1 and UNDP 1999). Recent empirical evidence suggests that illiterate people will continue to be poorer and sicker than those who are literate (UNICEF 1999). Only three CIS member countries are approaching the 100% literacy rate. CIS countries have always prided themselves on high standard of education, but they have recently lost ground (UNDP 1998).

Improvements in school enrolment account for much of the progress in literacy. Indeed, industrial countries have achieved nearly 100% literacy rates and 85% enrolment ratios. Slightly less than a third of IDB member countries (12 out of 38 countries for which data are available) have reached or exceeded 85% enrolment ratio in primary education and 30% have surpassed the world average for secondary enrolment ratio of 85% (Table 1.1). However, eight IDB member countries have fewer than half their children enrolled in primary school (Burkina Faso, Chad, Djibouti, Guinea, Mali, Mozambique, Niger and Sierra Leone). Given unfavorable initial social conditions, IDB member countries as a group, have a long way to achieve the goal of universal primary education by 2015, as adopted by the World Summit for Social Development (Box 1).

In recent years insights from the literature in endogenous growth emphasized the importance of education as the principal means of increasing the quantity and quality of human capital in the economy. In turn, the accumulation of knowledge is considered the main driving force to foster technological change and thus to achieve faster and sustained growth. The experience of developing countries attests to this fact and demonstrates further that education helps to reduce poverty (Lucas 1988, Barro 1991 and World Bank 1995, 1999a).

Box 1: Key International Development Goals

The World Summit for Social Development was held in Copenhagen, Denmark, in March 1995 and adopted the Copenhagen Declaration and Programme of Action for Social Development. Heads of State and Government reaffirmed the Declaration to end global poverty; achieve the goal of full employment and foster stable and just societies. The Programme of Action for Social Development outlines policies, actions and measures to implement the principles and fulfil the commitments articulated in the Copenhagen Declaration on Social Development. The actions recommended relate to creating, within a framework of sustained growth and sustainable development, an environment at the national and international levels, which will be supportive and conducive to social development, including eradicating poverty, enhancing productive employment and reducing unemployment, and fostering social integration.

The Thirty-fourth High Level Meeting of the Development Assistance Committee (DAC) of the OECD reviewed the many targets discussed and agreed at international fora, achievements over the past 50 years, unfinished agenda, and calls for a global partnership to focus on and pursue only six key goals for the start of the 21st century. These are:

For economic well-being

1. Reducing by half the proportion of people in extreme poverty by 2015.

For social development

2. Achieving universal primary education in all countries by 2015.
3. Demonstrating progress towards gender equality and the empowerment of women by eliminating gender disparities in primary and secondary education by 2005.
4. Reducing by two-thirds the mortality rates for infants and children under-5 and by three-fourths the mortality rates for mothers by 2015.
5. Providing access to reproductive health services for all individuals of appropriate age no later than 2015.

For environmental sustainability and regeneration

6. Implementing national strategies for sustainable development by 2005 to ensure that 2015 reverse the current loss of environmental resources globally and nationally.

Source: OECD (1996) and World Bank (1998a).

1.3 International Poverty Comparisons

An international comparison of poverty data entails both conceptual and practical problems. Local poverty lines tend to have higher purchasing power in rich countries, where more generous standards are used than in poor countries (World Bank 1999a). In addition, definition of poverty differs for different countries, thus making comparison between countries problematic. Despite these difficulties, attempts were made to develop relative poverty measures based on an international poverty line to make such comparisons possible. The commonly used \$1 a day and \$2 a day standards, measured in 1985 international prices and adjusted to local currency using purchasing power parities (PPP), were chosen in poverty studies.[3]

Based on these international poverty measures, recent evidence suggests that an estimated 1.3 billion people live on incomes of less than $1 a day (at the 1985 PPP$), and almost 3 billion on less than $2 a day in the world (UNDP 1999, World Bank 1998a). 60% of IDB member countries, for which data is available, live on less than $2 a day (Table 1.1). Only 32% of IDB member countries reported poverty data (28% for Arab countries, 33% for Africa, and 50% for Albania and CIS), based on international poverty measures, which is significantly lower than the average of 50% for developing countries.[4] Experience in some developing regions of the world suggests that lack of information on the magnitude and behavior of poverty is among the main causes of poverty (Salih 1997, 1998). Other poverty measures reveal, *inter alia*, significant disparities of all kinds: between developed and developing countries and within countries by regions, gender, ethnic groups or rural and urban areas. Before discussing results of the incidence of poverty, the following section briefly introduces methodological issues relating to analysis of poverty measures.

1.4 Concepts, Data and Methods of Poverty Analysis

Poverty and deprivation are found in all countries of the world and are growing rapidly in a number o developing countries and in some communities within the industrial countries. The persistence of povert coupled with the increased risk of pushing poor people and poor countries to the margin have brought th challenge of poverty alleviation to the forefront of the development agenda, to the extent that poverty reductio is considered the overarching objective of development in the 1990s and beyond. To go beyond counting th poor, it is necessary to assess the intensity and distribution of poverty. At the global level, such assessmen shows where the problem is greatest, when and where it is increasing or decreasing, and perhaps what it correlates are.

At national and regional levels, measuring poverty has proved crucial for explaining appropriate step towards fighting poverty (Lipton & Van Der Gaag 1993, World Bank 1997a). Empirical evidence, from th preceding section and the sections to follow, suggests that until very recently there existed little or n information about poverty in more than two-thirds of IDB member countries. Indeed, high quality dat permitting poverty results to be reported have become available only recently for few IDB member countrie Deininger and Squire (1996) proposed a standard for high quality data that requires “observations be based o household surveys, on comprehensive coverage of population, and on comprehensive coverage of incom sources".

For some IDB member countries, a summary of relevant information is reported in a regular fashion i the World Bank Annual Development Indicators and to a lesser extent in the UNDP Annual Huma

[٣] $1 a day and $2 a day standards are typical of the poverty lines in low-income countries, as shown in this paper and similar studies elsewhere. Population below $1 a day and $2 a day are the percentages of the population living on less than $1 a day and $2 a day, respectively, at the 1985 international prices, adjusted for PPP.

[٤] For operational purposes, IDB classifies its member countries into four broad groups: African, Arab, Asian and Commonwealth of Independent States (CIS) & Albania. Under other classifications such as the World Bank Djibouti, Mauritania, Somalia and Sudan belong to Sub-Saharan Africa (SSA).

Development Report.[5] The reported information is for five sets of broad indicators. These include demographi indicators (population below 15 years, number of households and average household size); education an literacy indicators (net primary enrollment, net secondary enrollment and literacy rate); status of head o household indicators (male headed households, female headed households, educational level of head and secto of employment of head); household expenditure indicators (per capita expenditure, poverty line and food shar in total expenditure); and household amenities indicators (type of fuel for cooking, access to safe sanitation an access to water). These indicators comprise the database used for analysis contained in this paper.

It is widely known that the dominant approach to the measurement of poverty, using the informatio generated by surveys, involves two interrelated issues: one dealing with identifying the poor and the other wit aggregating the identified poor into a suitable aggregate index of poverty. The identification process involve agreeing on a suitable representation of a standard of living for a given society and specifying a threshold o deprivation according to which people could be classified as poor.

The relevant measure of the standard of living is usually represented by the per capita income of society in advanced countries and per capita consumption expenditure (including the consumption of own production) for developing countries. Given agreement on the standard of living, there are a number of methods to determine the threshold of deprivation, which will enable the identification of the poor from the non-poor. This threshold is commonly known as the poverty line. The most widely applied method in developing countries starts with identifying a specific basket of basic goods and services (food, shelter and health) necessary to lead a healthy life in a given social context. The required quantities of these goods are appropriately priced to arrive at a monetary value defining the poverty line. This is the well-known cost of basic needs (CBN) method of estimating a poverty line.[6] In this setting, the poverty line varies between countries depending mainly on the level of development and within one country over time. Earlier Islamic jurists also knew CBN approach to the determination of poverty lines (Al-Qaradawi 1393H).

Having specified the poverty line, and given the expenditure distribution, those with consumption expenditures falling below the poverty line are deemed poor. Therefore, the ratio of the poor adjusted to the total population defines the well-known head-count ratio (H). H is the most widely used and easily understood measure of poverty. Other popular measures of poverty include the poverty-gap ratio (PG), which takes into account the extent to which consumption by the poor falls below the poverty line, and the squared poverty-gap ratio (SPG) which measures the severity of poverty by taking into account the distribution of expenditure among the poor. Whenever available, the three measures will be reported in the study.[7]

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[0]Other measures of poverty, not based necessarily on quality data, for some IDB member countries are published by UN Regional Commissions and regional development banks such as ECA and AfDB for African countries, ESCAP and AsDB for Asian and Pacific countries and ESCWA for Arab and other West Asian countries.

[6.] The other famous method is the food energy intake (FEI) method that estimates a relationship between energy intake and total expenditure and applies the estimated parameter to generate the poverty line (Ravallion 1995, 1998 & Ravallion and Sen 1996).

[7]. It can easily be shown that the three poverty measures are special cases of the Foster-Greer-Thorbecke (FGT) measure. The latter is defined as $P(\alpha) = 1/n\ \Sigma[(z - y_i)/z]^{\alpha}$, where z is the poverty line, y_i is the income (or expenditure) of poor person i and α is a non-negative poverty aversion parameter, and where the summation is over q poor persons. When α takes the value 0, 1 and 2, the measure reduces to the head-count ratio, the poverty-gap ratio and the squared poverty-gap ratio, respectively.

Alternative approaches to the analysis of poverty combine indicators of well being such as per capita income, life expectancy, infant mortality and school enrolment to measure the extent of deprivation in a given society. This approach has become popular since the publication of the first UNDP Human Development Report (HDR) in 1990. The human development index (HDI), which the HDR has made into something of a flagship, summarizes a balance sheet of human development, under the inspiration and leadership of its architect, the late Dr. Mahbub ul Haq. This study joins other publications in paying tribute to his special contribution to human development (Box 2). The value of this alternative approach derives from its underlying concern with the definition of the standard of living as having to do with capability to live: being well-nourished, living a long life and participating fully in social life (Sen 1997).

Box 2: Special Contribution of the late Mahbub ul Haq to Human Development

The 1999 Human Development Report is dedicated to the memory of the late Mahbub ul Haq (1934-98), the originator of the Human Development Reports. As stated by the authors of the 1999 report, his vision and commitment to human development will continue to inspire the future reports. Indeed, Mahbub's initial attempt to catch in one simple number a complex reality about human development and deprivation was met with considerable skepticism from leading scholars and authorities in the field. But Mahbub prevails, hoping that " not only would the HDI be something of an improvement on - or at least a helpful supplement to- GNP, but also that it would serve to broaden public interest in the other variables that are plentifully analyzed in the Human Development Report". His idea and the conceptual framework therein proved useful in the development process and debate, as confirmed by:

President Thabo Mbeki (1999) of South Africa, " Human Development Report has become an important instrument and the concept of the human development index a fundamental tool in formulation of policy by government."

Amartya Sen (1999), the 1998 Nobel Laureate in Economics, "Mahbub got this exactly right, I have to admit, and I am very glad that we did not manage to deflect him from seeking a crude measure. By skilful use of the attracting power of the HDI, Mahbub got readers to take an involved interest in the large class of systematic tables and detailed critical analyses presented in the Human Development Report. The crude index spoke loud and clear and received intelligent attention and through that vehicle the complex reality contained in the rest of the Report also found an interested audience."

Source: UNDP (1999).

Poverty measures used, in the dominant poverty analysis, can be expressed as depending on the average consumption of society, the poverty line, and the distribution of expenditure in society. It is generally agreed that, for a given income distribution, an increase in mean expenditure of society reduces poverty. Similarly, an improvement in the distribution of income, meaning less inequality, would reduce poverty for a given mean consumption expenditure. Under such a relationship, changes in poverty can be analyzed in terms of changes in average expenditures and the changes in the distribution of expenditure. Thus, the elasticity of any poverty measures with respect to mean expenditure and to the inequality index assumes an important role in such an approach (Ali 1998). The following chapter presents empirical findings on the state of deprivation, income distribution, incidence of poverty and draws some implications of these empirical findings.

II. PROFILE OF POVERTY IN IDB MEMBER COUNTRIES

" Oh Allah, I seek your refuge from poverty, insufficiency and lowliness"
Prophet Muhammad Ibn Abd Allah (P.B.U.H)

A multidimensional measure of poverty, modeled on the HDI but not necessarily identical, was introduced by UNDP in 1997. This composite human poverty indicator (HPI) measures the extent of deprivation, the proportion of people in the community who are left out of progress (UNDP 1998).[8]

2.1 The State of Deprivation

Measured by the Human Poverty Index (HPI1), more than a quarter of the 4.5 billion people i developing countries are still deprived of some of the most basic dimensions of human life (survival beyon age 40, access to knowledge and minimum private and public services). Nearly 1.3 billion people do not hav access to clean water. A one in seven children of primary school age is out of school; and 840 million ar malnourished. Updated HPI1, calculated by UNDP for 92 countries (for which 33 are IDB member countries) reveals the following:

- Human poverty ranges from as low as 2.6% for Barbados to a high 65.5% in Niger (Table 1.1);
- The index exceeds 50% in eleven countries, nearly three-fourth of them are IDB member countries;[9]
- Twelve of the severely poorest fifteen countries (80%), measured by HPI1, are also IDB member countries (Table1.1 and UNDP 1999); and
- Human poverty is not only confined to developing countries. Among the industrialized countries, characterized by medium human development levels, four of IDB member countries from CIS (for which data are available) recorded 61-88% of population below income poverty line of $14.40 a day (at 1985 PPP$) during the period 1989-95.

On aggregate HPI1 suggests, *inter alia,* a fairly high degree of deprivation in Africa relative to othe regions of the world. Recent evidence also reveals that Sub-Saharan Africa (SSA) records a much highe incidence of poverty, where 51% of the population lived below a poverty line of $34 per person per month compared with North Africa, where only 22% of the population were living below a poverty line with $54 pe person per month (ECA 1999).[10] For comparison purposes, two sets of education and health indicators for IDI member countries from Africa were contrasted with deprivation indicators in the poorest region of the worl

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[8] Although HDI measures progress in a community or a country as a whole, HPI provides an aggregate human measure of the prevalence of poverty in a community. In this setting, a high HDI value does not automatically imply low levels of human deprivation, as confirmed empirically (Table 1.1).

[9] Countries with HPI1 exceeding 50% include Benin, Burkina Faso, Central African Republic, Chad, Ethiopia, Guinea, Guinea-Bissau, Mali, Nepal, Niger and Sierra Leone; suggesting that poverty affecting no less than half population in these countries (UNDP 1999).

[10] The marked difference between North Africa (basically Arab countries) and other IDB member countries from Africa is that the latter accounted for 17.6% of Africa's population and only 10.5% of its GDP; while North Africa accounted for 40.5% of Africa's GDP and 23.4% of its population

(SSA). Table (2.1) summarizes the two sets of education indicators (primary enrolment rates and literacy rates and health indicators (access to sanitation and access to clean water) for both rural and urban sectors in SSA and in IDB member countries from Africa (AIC) in the 1990s.

Table 2.1: Major Characteristics of Rural and Urban Sectors in AIC in the 1990s

Indicator	Rural Sector		Urban Sector	
	AIC	SSA	AIC	SSA
Average Household Size	07.34 (02.26)	05.46 (01.83)	06.64 (01.33)	05.93 (01.57)
Population below 15 years (%)	45.00 (05.30)	47.80 (02.50)	41.00 (06.64)	44.06 (04.77)
Net Primary enrollment (%)	29.78 (16.35)	42.50 (19.50)	59.11 (06.67)	66.06 (10.63)
Male Primary enrollment (%)	35.11 (18.62)	46.40 (18.60)	63.44 (07.99)	69.19 (09.64)
Female Primary enrollment	24.56 (15.05)	39.90 (22.00)	56.00 (07.24)	63.00 (12.22)
Literacy Rate(%)	23.40 (16.51)	39.54 (19.02)	44.90 (20.23)	56.06 (19.86)
Male Literacy Rate %)	36.56 (19.62)	47.96 (21.54)	54.60 (22.28)	64.88 (23.51)
Female Literacy Rate (%)	15.30 (14.35)	32.14 (18.19)	35.50 (19.26)	47.50 (20.45)
Female Headed Households (%)	16.55 (11.66)	17.98 (09.81)	21.10 (08.29)	21.88 (08.14)
Heads in agro-pastoral activities (%)	78.86 (17.41)	76.98 (11.95)	19.00 (16.11)	17.56 (10.81)
Access to Sanitation (%)	29.00 (25.65)	53.73 (30.73)	73.70 (25.16)	84.55 (12.95)
Access to Piped water	16.70 (14.39)	10.64 (11.35)	66.30 (20.86)	58.14 (23.46)

Figures between brackets are standard deviations.
Source**:** World Bank (1997c) and Table 1 in Ali (1999a).

Deprivation in the Rural Sector

About three-fourth of the population of the sampled countries is rural (ECA 1999). In addition, a fairly young population characterizes the rural sector of AIC; where on average 45% of the population is below the age of 15 years. This has obvious implications for the future; carrying with it both developmental challenges and promises. Six countries have youth percentages higher than the average: 50% for Uganda; 49% for each of Burkina Faso and Gambia; 48% for Guinea and 47% for each of Niger and Senegal (Ali 1999a). Medium-sized households with a mean household size of 7 persons also characterize the rural sector (Table 1.2). Relatively higher rural household size is recorded for Gambia and Senegal (at 11 persons) and Mali (with 9 persons).

The tabulated results also reflect a fairly high degree of deprivation in the rural sector of AIC. Thus, for example, only 30% of the rural AIC children of primary school age (6-13 years) are enrolled in primary education. The net primary enrollment ratio for male children is higher (35%) than for female children (25%), indicating an aspect of gender bias in AIC (Table 2.1). Similarly, the average literacy rate (the proportion of the population above the age of 15 years who are able to read and write) in AIC is reported as only 23% with male literacy (37%) higher than female literacy (15%). However, the average picture masks a lot of variation between countries as indicated by the standard deviation. On the one hand, Uganda has made commendable progress in rural education with a literacy rate of 59% (i.e., 74% rates for males and 47% for females), taking the literacy rate as a proxy for educational achievement. On the other hand, Mali recorded a literacy rate of 4% (i.e., male literacy rate of 7% and female literacy rate of 1%), Guinea (7%, 13% and 2% respectively), and Guinea-Bissau (12%; 22% and 4% respectively); implying that these countries have still a long way to go to meaningfully reduce illiteracy rates. Given the centrality of education in reducing poverty and in the development process, this is, indeed, a very high level of deprivation.

By the same vain, access to piped water and sanitation, a proxy for rural health achievement suggests a similar pattern of deprivation in the rural sector of AIC. Only 17% and 29% of the rural population have access to piped water and sanitation, respectively (Table 1.2). The highest access to piped water (45% of the population) is recorded for Djibouti, followed by Senegal (30%) and Mali (25%). The lowest access is recorded for Guinea (only 1% of the population) followed by Uganda and Guinea-Bissau (2% each). The highest access to sanitation is recorded for Uganda (75% of the population), followed by Senegal (45%) and Guinea (40%).

Deprivation in the Urban Sector

A fairly young population also characterizes the urban sector of AIC; where on average 42% of the population is below the age of 15 years. Six countries have youth percentages higher than the average: 50% for Niger; 47% for Sierra Leone; 46% for Guinea-Bissau and Uganda; 44% for Guinea and 43% for Burkina Faso. Similar to the rural sector, the urban sector is characterized by medium-sized households with a mean household size of 6.6 persons with no significantly higher household size recorded for any country.

Not surprisingly, the tabulated results reflect a medium degree of deprivation in the urban sector of AIC compared to that prevailing in the rural sector. Thus, for example, 59% of the urban AIC children of primary school age (6-13 years) are enrolled in primary education. A slight gender bias in education is also recorded for this sector, where net primary enrollment ratio for male children is higher (63%) than for female children (56%). Medium urban deprivation, compared to the rural sector, is also confirmed by the reported literacy rates The average literacy rate is 45%; with male literacy rate of 55% and female literacy rate of 36%. However, the average masks significant variation between countries as indicated by the standard deviation. Taking the literacy rate as an indicator of educational achievement, once again, Uganda has made commendable progress in urban education with a literacy rate of 86% (91% rates for males and 82% for females). At the other extreme, Mali registered a literacy rate of 2% (male literacy rate of 3% and female literacy rate of 1%), Guinea (7%, 13%, and 2% respectively), and Guinea-Bissau (12%; 22% and 4% respectively); implying that these countries have a long way to go in reducing illiteracy; as noted in the rural sector before.

A contrasting picture to that of a very high degree of deprivation in the rural sector of AIC is clearly shown by urban access to piped water and sanitation, as a proxy for health achievements. On average 66% and 73% of the urban population have access to piped water and sanitation respectively (Table 1.2). The highest access to piped water (90% of the population) is recorded for Niger, followed by Mauritania (88%), Senegal (84%) and Djibouti (81%). The lowest access is recorded for Guinea-Bissau (26% of the population) followed by Uganda (35%). The highest access to sanitation is recorded for Uganda (95% of the population), followed by Senegal (93%), Burkina Faso (88%) and Guinea (86%). The lowest access is recorded for Djibouti (only 19%).

The above analysis summarizes the general state of deprivation characterizing the rural and urban sectors of AIC. Considering the historical juncture of entering the 21st century, the reported results demonstrate the extent of the development challenge facing this group of countries.

2.2 The State of Income Distribution

Rapid increase in world income has been accompanied by steady rising of world inequalities for nearl two centuries, perhaps in support of Kuznets hypothesis without verifying the direction of causation. Analysi of long-term trends in world income distribution shows that the gap between the richest and poorest countr was about 3 to 1 in 1820, 11 to 1 in 1913, 35 to 1 in 1935, 44 to 1 in the early 1970s and 72 to 1 in the earl 1990s. By the late 1990s, the assets of the world's three richest people are more than the combined GNP of al least developed countries and the assets of the 200 richest people are more than the combined income of 41% of the world's population (UNDP 1999).[11]

These initial and subsequent disparities have been transmitted into huge inequalities in consumptio patterns and levels. For example, the fifth of the world's people who live in the highest-income countrie consume 86% of total expenditure: 87% of the world's cars, 84% of paper, 74% of telephone, 65% o electricity, 58% of energy and 46% of meat (UNDP 1998). In each of these areas the share of the bottom fifth in the lowest-income countries, is less than 10%. Conversely, recent empirical evidence confirms the revers direction of causation (Squire 1998). That is, increased inequalities and shortfalls in basic consumption reflec unequal distribution of income and assets and uneven rate of economic growth both at the global and nationa levels.

The most widely used measure of the distribution of income inequality is the Gini coefficient. The Gini coefficient varies from zero (where every person earns the mean income, indicating a condition of perfect equality) to unity (where one person gets all the income and the rest receive nothing, indicating the presence of complete inequality). In addition to the Gini coefficient, this study presents inequality results, using the shares of total expenditure received by the various population groups. As mentioned before, the inequality results are also based on high quality information. Most of the information on AIC is based on expenditure distribution rather than income distribution. Results of inequalities for each region of the world are summarized in Table (2.2).

A Gini coefficient of 0.32 indicates that South Asia has the lowest inequality among the regions of the world. A similar picture emerges on the account that the richest 20 per cent of the population in South Asia receive 40 percent of the expenditure, the smallest share compared to all other developing regions of the world. The share of the poorest 20% is 9% of total expenditure. However, in Latin America and the Caribbean region, income distribution is the most unequal in the world, with the highest Gini coefficient of 0.49. Moreover, the share of the richest 20% of the population is 53% of total income, while that of the poorest 20 percent is only 4.5% of total expenditure.

Table 2.2: Inequality Measures by World Regions in the 1990s (%)

Region	Gini Coefficient	Share of Top 20%	Share of Middle Class	Share of Bottom 20%

[11] Kuzents hypothesis or inverted-U hypothesis states that inequality first increases and then decreases during growth (development) process (Kuznets 1955). The hypothesis also implies that for cross-country studies, low and high-income countries will have lower inequality than middle income countries. The testable hypothesis is such that causality runs from growth to inequality.

Africa	44.4	50.6	34.4	5.2
E. Asia and Pacific	38.1	44.3	37.5	6.8
South Asia	31.9	39.9	38.4	8.8
Latin America	49.3	52.9	33.8	4.5
Industrial Countries	33.8	39.8	41.8	6.3

Source: Tables 5 and 6 in Deininger and Squire (1996).

Based on these three measures of inequality, Africa ranks as the second most unequal region in the world. However, if the African Gini is adjusted appropriately to reflect the inequality in the distribution of income, Africa becomes the region with the highest inequality in the world, with an adjusted average Gini coefficient of 51%.[12] The estimated standard of deviation for African countries reflects significant variations among countries (Ali 1998). For example, two of IDB member countries in the sample of African countries ranked 4th and 6th (Guinea-Bissau with a Gini coefficient of 56% and Senegal with a coefficient of 54%). These are, indeed, high degrees of inequality, particularly if adjusted to account for inequality in the distribution of income.

Given the above observations about inequality in Africa, results of inequality for AIC are compared with those for SSA in Table (2.3).

Inequality in the Rural Sector

The tabulated results depict a fairly high unequal distribution of expenditure in the rural sector of Islamic countries from Africa (Table 2.3). The mean share of the lowest 40% of the population is only 17% of total income, implying a shortfall of 23% of total income. By contrast, the mean share of the top 20% of the population is 46%, with 26% of total income accruing to this group as a bonus. The share of the top 20% in total income is 3.3 times that of the lowest 40% of the population. This state of inequality is shown by a Gini coefficient of about 0.40. The underlying distribution of income is, even, more unequal with an adjusted Gini coefficient of about 0.47.

Table 2.3: Inequality Measures in Rural and Urban Sectors in Africa in the 1990s

Inequality Measure	Rural Sector		Urban Sector	
	AIC	SSA	AIC	SSA

[12] Gini coefficients based on expenditure distribution are usually lower than those based income distribution by about 6.6 percentage points, researchers are advised to adjust their results accordingly (Deininger and Squire 1996).

Income Share of Lowest 40% of Population	16.62 (04.70)	15.59 (09.00)	16.24 (02.11)	15.44 (02.79)
Income Share of Top 20% of Population	46.37 (07.02)	49.45 (11.25)	48.31 (03.35)	49.26 (04.10)
Gini Coefficient	39.91 (08.96)	43.40 (13.15)	41.89 (04.28)	46.27 (05.60)
Ratio of Income Share of Top 20% to that of Lowest 40% of the Population	03.27 (01.94)	04.54 (05.08)	03.04 (00.60)	03.35 (00.94)

Source: Table (A.2), (A.3) of the Annex and Table 4 in Ali (1999a).

An average measure masks, however, a lot of variation between countries in the sample. For all the inequality measures reported, however, Senegal comes out as having the most equal rural distribution in SSA with the highest share of income for the lowest 40% of the population (22%), the lowest share for the top 20% of the rural population (39%), the lowest Gini coefficient (0.305) and the lowest ratio of the share of the top 20% to that of the lowest 40%. At the other extreme, Sierra Leone comes out as having the most unequal rural distribution in SSA with the lowest share of income for the lowest 40% of its rural population (only 3.6%) and the highest values for the remaining inequality (Table A.2).

The distribution of the sample countries with respect to the mean of the inequality measures reveals the following:

- five countries have a share of the lowest 40% less than the mean (Gambia, Guinea, Mauritania, Senegal, and Uganda);
- four countries have a share of the top 20% greater than the mean (Burkina Faso, Guinea- Bissau, Mali, Sierra Leone and Uganda);
- three countries have a Gini coefficient greater than the mean (Guinea-Bissau, Mali and Niger); and
- Two countries have a ratio of the top 20% to the share of the lowest 40% greater than the mean (Mali and Niger).

Inequality in the Urban Sector

Similar to the expenditure distribution profile in the rural sector, a fairly high unequal distribution of expenditure in the urban sector of AIC also exists (Table 2.3). The mean share of the lowest 40% of the urban population is only 16% of total income implying a shortfall of 24% of total income entitlement under conditions of complete equality, while the mean share of the top 20% of the population is almost 48% with 27% of total income accruing as a bonus to this group. The share of the top 20% in total income is 3 times that of the lowest 40% of the population. This state of inequality is confirmed by a mean Gini coefficient of about 0.42.

As usual, an average masks significant variations between countries in the sample. The highest share of the lowest 40% of the urban population is 19.4% for Mauritania, followed by Guinea with 18.6%, while the lowest share of 12.9% is recorded for Guinea-Bissau followed by Burkina Faso with13.9%. The lowest share for the top 20% of the urban population of 42.3% was recorded for Mauritania, followed by Niger (45.3%), while the lowest Gini coefficient of 0.346 is recorded for Mauritania. The lowest ratio of the share of the top 20% to that of the lowest 40% is 2.2; in case of Mauritania, while the highest such a ratio of 4.04 is recorded for Guinea-Bissau. It is, therefore, no coincidence that Guinea-Bissau also recorded the highest Gini coefficient of 0.48, followed by Burkina Faso and Uganda (0.45 each).

The distribution of the sample countries with respect to the mean of the inequality measures could be summarized as follows:

- five countries have a share of the lowest 40% less than the mean (Burkina Faso, Gambia, Guinea-Bissau, Mali and Uganda);
- five countries have a share of the top 20% greater than the mean (Burkina Faso, Gambia, Guinea-Bissau, Mali and Uganda);
- five countries have a Gini coefficient greater than the mean (Guinea-Bissau, Burkina Faso, Mali, Gambia and Uganda); and
- five countries have a ratio of the top 20% to the share of the lowest 40% greater than the mean (Burkina Faso, Guinea-Bissau, Mauritania, Mali and Uganda).

Comparing the two sectoral distributions, it can be shown that for all inequality measures used in the analysis there are no statistically significant difference between the two sectors at conventional test levels. This is an important conclusion in view of the standard assumption of development economics, where the distribution of income in the rural sector is usually taken to be more equal than that of the urban sector.

Following the preceding results, aggregate Gini coefficients are calculated for Arab countries, using the identical method in Ali (1999a). The distribution information for a sample of IDB member countries from the Arab region (AAIC), for which high quality data is available, is summarized in Table (2.4).

As illustrated in the table, the AAIC boast a relatively modest degree of inequality in the distribution of expenditure at the beginning of the 1990s, compared to AIC. The highest degree of inequality is recorded for Mauritania (with a Gini coefficient of 0.43), followed by Tunisia (a Gini of 0.40). While the lowest degree of inequality is recorded for Egypt (with a Gini coefficient of 0.32), followed by Algeria (with a Gini of 0.36). A similar trend emerges in comparing Gini coefficients of Arab countries to those of their comparators from South, Central and East Asia. Only Indonesia and the Central Asian countries, for which data are available, have lower income inequality than the average for Arab countries (Table 2.4). Like the majority of the IDB member countries from Africa, inequality in Islamic countries from East and South Asia exceed their regional averages, whether measured by the Gini coefficient or the ratio of the richest 20% to the poorest 20% (Tables 2.2 and 2.4). For example, inequality in Bangladesh witnessed fluctuations until the mid 1980s and appears to have been increasing since then. Similarly inequality in Pakistan exhibited a downward trend in the 1980s and then an increase in the early 1990s. Recent income distribution data on Malaysia reveals a slight worsening of inequality between 1990 and 1995 (ESCAP 1998).

Table (2.4): Expenditure Shares of Quintile Groups and the Gini Coefficient in AAIC and IDB Member Countries from Asia (in percentage)

Country	Survey Year	Lowest 20%	Second Lowest 20%	Third Lowest 20%	Fourth Lowest 20%	Top 20%	Gini Coefficient
Algeria	1995	7.0	11.6	16.1	22.7	42.6	35.5
Egypt	1991	8.7	12.5	16.3	21.4	41.1	32.0
Mauritania	1988	3.6	10.6	16.2	23.0	46.5	42.5
Morocco	1991	6.6	10.5	15.0	21.7	46.3	39.1
Tunisia	1990	5.9	10.4	15.3	22.1	46.3	40.2
Mean (SD)		6.4 (1.9)	11.1 (0.9)	15.8 (0.6)	22.2 (0.7)	44.6 (2.5)	37.9 (4.1)
Bangladesh	1992	6.5	10.9	-	-	44.9	39.0
Indonesia	1993	8.7	12.3	-	-	42.0	31.7
Kazakhstan	1993	7.5	12.3	-	-	40.4	32.7
Kyrgystan	1993	6.7	11.5	-	-	42.3	35.3
Malaysia	1989	4.6	08.3	-	-	53.7	48.4
Pakistan	1993	6.2	10.9	-	-	48.2	41.0
Turkey	1987	5.2	09.7	-	-	49.9	44.1

Note: SD is an abbreviation to standard deviation and - indicates that data are unavailable.
Source: Table B.1 in Ali (1999a), Table IV.2 in ESCAP (1998), and own calculations.

2.3 The State of Poverty

Head-count ratio, based on country-specific poverty line, measures the proportion of the total population falling below the poverty line for that country (Table 2.5). It is to be noted that strict comparisons between countries are not possible because of differences in poverty lines and methodology. Nonetheless, these estimates are acceptable indicators of trends in poverty over time within a country. These measures show that, with the exception of one country, the incidence of poverty has decreased in all IDB member countries from Asia, increased in Africa to new high levels, and mixed results for Arab countries (Table 2.5). However, the rate of decline in the incidence of poverty in some Asian and almost all Arab countries (for which data are available) has slowed down in recent years. This finding, coupled with high population growth, has led to the increase in the absolute number of the poor in IDB

Table 2.5: Trends in Poverty in Selected IDB Member Countries

Country	Survey years		Head Count Ratio (%)	
			First year	Final year
Albania	1994	1996	28.9R	19.6U
Algeria	1988	1995	12.2	22.6
Azerbaijan	-	1995	-	68.1
Bahrain*	1992	-	15.0	-
Bangladesh	1991-92	1995-96	42.7	35.6

Benin	-	1993	-	33.0
Burkina Faso	-	-	-	65.9
Cameroon	1984	-	40.0	-
Chad	-	1995-96	-	64.0
Egypt	1990-91	1995-96	21.0	44.0
Gambia	1992	-	64.0	-
Guinea	-	1993	-	59.3
Guinea Bissau	1991	1990	48.8	56.4
Indonesia	1987	1993	17.4	14.0
Iraq	1988	1993	17.0	72.0
Jordan	1992	-	23.0	-
Kazakhstan	-	1996	-	34.6
Kuwait*	1992	-	11.0	-
Kyrgyz	-	1993	-	40.0
Lebanon	1992	-	19.0	-
Malaysia	1989	1995	15.0	9.0
Mali	-	1993	-	57.4
Mauritania	1990	-	57.0	-
Morocco	1984-85	1990-91	26.0	13.1
Niger	1989-93	-	63.0	-
Oman	1992	-	17.0	-
Pakistan	1991	1993	22.0	22.0
Qatar*	1992	-	11.0	-
Saudi Arabia*	1992	-	21.0	-
Senegal	1991	-	33.4	-
Sierra Leone	1989	-	68.0	-
Sudan	-	1993	-	75.0
Syria	1992	-	22.0	-
Togo	1987-89	-	32.3	-
Tunisia	1990	1993	21.6	21.3
Uganda	-	1993	-	55.0
UAE*	1992	-	3.0	-
Yemen	1992	-	19.1	-
AIC	-	1993	-	50.3
AAIC	-	1993	-	22.3

Notes: R indicates rural; U indicates urban; * means the figure includes foreigners (percentage of poor for nationals varies from 1-5% for countries for which data are available).

Source: Table A.3 and A.6 in Ali (1999a) and Ali (1997); Table IV.1 in ESCAP (1998); Table 1.2 and Annex in Fergary (1999); Table 1 in Kossafi (1997); Salih (1997); Table 1.2 in World Bank (1997b); Table 2.1 in World Bank (1998b); and Table 2.7 in the World Bank (1999a).

member countries, thus corroborating the claim that poverty in the Muslim world is among the highest in the world (Al-Abdin 1997).

Again, table (2.5) confirms that panel and/or time series data for poverty comparisons are inadequate and at times information on poverty measures are insufficient or simply lacking; particularly in many African, Arab and CIS countries (Box 3). Availability of data and its quality, a serious issue in many IDB member countries, merit urgent attention if policymakers are to take the assessment and monitoring of the international development goals seriously (Box 1). In this context, IDB should take the lead in raising awareness and in strengthening the capacity of its member countries, perhaps in partnership with other concerned international agencies, and to monitor closely progress on outcome.

Box 3: Information on Poverty Measures in IDB Member Countries from CIS

There are serious data problems in assessing intertemporal changes in poverty and equity in IDB member countries from CIS. However, fragmented data point to a marked increase in the inequality and a greater incidence of poverty (ESCAP 1998 and World Bank 1997, 1998).

The sharp contraction in GDP and per capita income that the CIS have experienced until recently, coupled with increased inequality in income distribution and major reductions in government expenditure on social services, have led to a high incidence of poverty. According to a recent study which used PPP income per head of $4 a day as a poverty line, the proportion of the population below the poverty line was as high as 76% in Kyrgyz Republic, 50% in Khazakhstan and 48% in Turkmenstan (ESCAP 1998).

The national estimates show a different, yet very high, incidence of poverty. In Azerbaijan, national estimates reported more than 90% of the population were poor in 1995; however, the World Bank estimated a lower share of over 60% of the households surveyed as poor, using another definition of the poverty line. In Khazakhstan, one of the least poor CIS, according to the national estimates 60% were found to be living in poverty in 1995 and over 80% in 1996, based on income distribution generated by the Family Budget Survey. However, using the Khazakhstan Living Standards Survey (KLSS), the World Bank estimated the proportion of the poor at nearly 35% for the national average and 69% in the south of the country in July 1996. In Kyrgyz, using the Minimum Consumer Budget (MCB) needed for a normally functioning human being adopted by the Parliament, slightly more than 90% of the population were estimated to live in poverty in 1995. However, MCB was later revised downward to eliminate some costly item. Even then, the share of people living below the poverty line in 1995 was estimated at more than 70% of the population.

Turning to inequality, in Azerbaijan, the ratio of income of the highest decile to the lowest decile increased from 3.3 in 1989 to 8.5 in 1995 with a Gini coefficient of 0.35, the highest among the CIS for which data are available. In Kazakhstan, while the average income of the richest quintile of the population in 1989 was 3.6 times higher than that of the lowest quintile, by 1993 the ratio increased to about 7 and moderated to slightly below 6 in 1994.
Sources: ESCAP (1998) and the World Bank (1997d, 1998a).

Just as there are problems in comparing poverty measure across countries, there are also difficulties in comparing poverty measures within countries. For example, the cost of living is typically higher in urban than in rural areas; indicating that the urban monetary poverty line is higher than that for rural areas. But it is not always clear that the actual difference between urban and rural poverty lines, found in practice properly reflects the difference in cost of living (World Bank 1998a). However, the choice of poverty lines is always arbitrary. In practice, two broad schools of thought are distinguished: absolute and relative methods (Blackburn 1994, Ravallion 1994, 1998). In an absolute approach, poverty lines in other countries are set so as to maintain a constant purchasing power of the poverty line across countries. Alternatively, a relative approach, in a cross-national context, would suggest choosing a poverty line that varies with each country's average income. A commonly used choice is to set poverty line at a common percentage of median income. The latter has been more popular in developing countries.[13]

Adopting the relative approach and using the distribution information discussed in the previous section, the sectoral poverty results are summarized in (Table 2.6).[14] Results are reported for a sample of 9 IDB member countries from Africa, for which such data are available, using a poverty line which will make it possible to aggregate over countries. Mean income and the poverty line of all countries are adjusted to correspond to 1993.

Table 2.6: Sector Specific Poverty in AIC in the 1990s

Poverty Indicator	**Rural Sector**		**Urban Sector**	
	AIC	**SSA**	**AIC**	**SSA**
Head-Count Ratio (%)	57.39 (020.12)	60.35 (013.15)	27.48 (009.52)	32.35 (011.92)
Poverty-Gap Ratio (%)	25.76 (013.80)	28.20 (014.24)	08.94 (005.43)	11.32 (005.50)
Squared Poverty-Gap Ratio (%)	15.20 (010.63)	17.18 (012.12)	04.13 (004.14)	05.74 (004.14)
Mean Expenditure ($ / person/year)	354.00 (123.30)	381.00 (146.00)	840.00 (276.00)	829.00 (337.00)
Mean Poverty Line ($/person/year)	304.00 (029.24)	317.00 (025.50)	404.00 (050.16)	400.00 (074.00)

Source: Table 5 in Ali (1999a) and Tables (A. 4) and (A.5) in the Annex.

At the beginning of the 1990s, poverty in rural areas of IDB member countries from SSA spread widely: where nearly 57% of the rural population are found to be living below the poverty line of approximately $ 25 per month per person Table (2.6). In these countries, rural poverty is also found to be deep, measured by a poverty-gap ratio of 26% , and severe, measured by a squared poverty-gap ratio of 15%. The average income of the poor in 1993 amounted to only $14 per person per month, confirming the seriousness of the extent of poverty in these countries.

Rural Poverty

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[13]This paper adopts the relative approach and allows the poverty line to change with income, but instead of setting the poverty line as a common percentage, an estimated equation is posited to allow for non-proportional variation of the poverty line with income. The estimated relevant sectoral poverty lines, similar to those in Ali (1998), are obtained from:

$$Ln(z) = \underset{(38.64)}{3.0487} + \underset{(7.98)}{0.00623}\,\mu - \underset{(3.90)}{0.0000039}\,\mu^2 \;; \quad \text{Adjusted } R^2 = 0.95,$$

Where Ln refers to natural logarithm of the variable z, z is the poverty line in per capita terms per month evaluated in 1985 PPP, μ is mean per capita expenditure per month in 1985 PPP, standard deviations of the estimated parameters are enclosed between brackets, and the coefficient of determination suggests that about 95% of the variations in the independent variables explain the variation in the dependent variable.

[١٤] A well-known software package, POVCAL, developed by the World Bank is used to calculate poverty measures from grouped data developed by Chen, Datt and Ravallion (1993). National poverty results are obtained by using distribution data reported in World Development Indicators (World Bank 1999a).

The spread, depth and severity of rural poverty in IDB member countries from Africa differ between countries, as demonstrated by the magnitude of the reported standard deviations. In terms of spread, Senegal ranks as the country with the least rural poverty, measured by a head-count ratio of 25%. In contrast, Mali ranks as the worst with 78% of its rural population living below a poverty line of $286 per person per annum (or only $23.8 per person per month). In terms of both depth and severity, Senegal ranks as the country with the least poverty (at a poverty-gap measure of 6.1% and a squared poverty-gap measure of 2.08%). While Niger ranks as the country with the worst rural poverty (at a poverty-gap measure of 45.9% and a squared poverty-gap measure of 33.3%).

Furthermore, the distribution of the countries, in the sample with respect to the reported mean head-count ratio, is such that six countries have a ratio greater than the mean (Burkina Faso at 69.7%; Gambia at 60%; Guinea at 71%; Guinea-Bissau at 65%; Niger at 76% and Mali at 78%). Five countries have a poverty-gap ratio greater than the mean: Burkina Faso (28%),Guinea (29%), Guinea-Bissau (27%), Mali (38%) and Niger (46%). The distribution of countries with respect to the average squared poverty-gap ratio shows that three countries have such ratios greater than the mean (Guinea-Bissau at 27%, Mali at 22% and Niger at 33%).

Urban Poverty

Urban poverty in IDB member countries from Africa is also shown in Table (2.6). As noted earlier, these results are based on grouped data of Table (A.3). The summary results show that at the beginning of the decade, 28 % of the urban population of these countries were living below the poverty line of approximately $34 per month per person. Urban poverty is also found to be moderately deep, as reflected by a poverty-gap ratio of 9%, and relatively severe, as reflected by a squared poverty-gap ratio of 4%. As before, to confirm the extent of the incidence of urban poverty, it can easily be shown that the average income of the urban poor in 1993 amounted to only $22 per person per month.

The spread, depth and severity of urban poverty differ between countries as captured by the magnitude of the reported standard deviations. In terms of spread, Senegal ranks as the country with the least urban poverty at a head-count ratio of 7.8%. While Niger ranks as the country with the highest incidence of urban poverty, since 45% of its urban population are living below the poverty line of $26 per person per month. . In terms of both depth and severity, Senegal also ranks as the country with the least urban poverty (at a poverty-gap measure of 0.73% and a squared poverty-gap measure of 0.09%). Although Niger ranks as the country with the worst depth of poverty (measured by a poverty-gap ratio of 17.2%), Guinea-Bissau ranks as the country with the worst urban poverty in terms of severity (at a squared poverty-gap measure of 9.4%).

Moreover, the distribution of the countries in the sample, with respect to the reported mean head-count ratio, suggests that half of the eight African countries with a ratio greater than the mean are IDB member countries (Guinea at 36%; Guinea-Bissau at 45%; Niger at 41% and Sierra Leone at 34%). Similarly, half of the six African countries, with their measure of the depth of poverty exceeding the mean value for the continent, are IDB member countries, measured by the poverty-gap ratio (Guinea-Bissau at 20%; Niger at 13% and Sierra Leone at 19%).

2.4 Linkages among Growth, Poverty and Inequality

It is widely recognized that high and sustained economic growth is a prerequisite to reducing poverty. Improved growth performance typically leads to faster improvement at the initial stages of development, when the incidence of poverty is high. However, an impact of growth on poverty reduction is not always monotonic, because of several reasons. One important reason, as an example, is the high initial inequality. Development experience suggests that a highly unequal income distribution makes it harder to reduce poverty (Demery and Walton 1997).[15] Other empirical evidence suggests that practically subsequent reduction for a given rate of growth, after the initial fall in incidence of poverty, is likely to become slower because of the existence of the hard-core poor. That is, incidence of poverty is a function of both economic growth and income distribution.

Thus, the relative contribution of growth and distribution to changes in poverty can be quantified through a decomposition analysis. Decomposition of the total change in poverty between economic growth and distribution change has been conducted for some IDB member countries in different regions. For example, changes in poverty in Asian countries between the mid 1980s and the late 1980s or the early 1990s have been carried out for Bangladesh, Indonesia, Malaysia and Pakistan, among other five Asia countries (Sen 1996). Growth helped to reduce poverty in all these countries. Decline in inequality further helped to reduce poverty in rural Indonesia, Malaysia and Pakistan; while an increase in inequality dampened the impact of growth on poverty in Bangladesh. Similar studies confirmed that economic growth was sufficiently strong to outweigh the distribution effect in Indonesia and Malaysia (ESCAP 1998).

A summary of results for sensitivity of poverty to changes in mean income and the Gini coefficient in IDB member countries from Africa (AIC) is presented in Table (2.7).

Table 2.7: Responsiveness of Poverty to Growth and Distribution

Poverty Index	Rural		Urban	
	Elasticity with respect to Mean Income	Elasticity with respect to the Gini	Elasticity with respect to Mean Income	Elasticity with respect to the Gini
Head count Ratio	-1.09 (0.66)	0.36 (0.63)	-2.13 (1.35)	2.73 (2.78)
Poverty Gap Ratio	-1.58 (0.79)	1.60 (1.17)	-3.16 (2.63)	6.34 (5.45)
Squared Poverty Gap Ratio	-1.96 (0.99)	2.85 (1.70)	-4.17 (3.92)	9.95 (8.13)

Note: Figures in brackets are standard deviations.
Source: Table 6 in Ali (1999a).

[10] Specifically, when growth is accompanied by increased equality in income distribution, more people will benefit from the same average rate of growth. Conversely, higher inequality will increase the rate of growth needed to yield the same reduction in poverty (Ali and Elbadawi 1999, ESCAP 1998, World Bank 1998b).

In terms of its sensitivity to its major determinants, rural poverty in AIC exhibits a stylized pattern for the three measures of poverty. Thus, for example, the head-count ratio is relatively more responsive to growth in income than to changes in the Gini coefficient. A one percent increase in mean income leads to a one percentage point reduction in poverty while a one percent increase in the Gini coefficient leads to an increase in poverty by 0.38 of a percentage point. The poverty-gap ratio and the squared poverty-gap measure are more sensitive to changes in the distribution than to changes in mean income. The elasticities of the two measures with respect to the Gini coefficient are almost double those with respect to mean income (in absolute value). Using the latter two indices, recent evidence supports our findings that poverty is relatively more sensitive to distribution than to growth in SSA (Ali and Elbadawi 1999). This is an important conclusion for policy purposes.

Similarly, urban poverty is found to be more sensitive to distribution factors than to growth variables (Table 2.7). Thus, for all poverty measures the elasticity with respect to the Gini coefficient is greater than the absolute value of the elasticity with respect to mean income. Moreover, the magnitude of the response is higher in urban AIC compared to that of the rural sector. Using the population weights in the two sectors (0.75 of the population being rural); it is easily shown that about 49.2% of the population of AIC were poor in the early 1990s. However, using the distribution data from the World Development Indicators (1999a), the overall poverty status for AIC is marginally different from the former (using the weighted average of the sector specific results) as shown in Table (2.8). This means that, about 50% of the total population of IDB member countries from Africa were considered poor in 1993.

Table 2.8: Poverty in AIC in the 1990s: A Summary

Poverty Indicator	Mean	Standard Deviation	Minimum	Maximum
Head-Count: (%)	50.28	10.95	34.20	65.90
Poverty-Gap: (%)	21.98	7.11	11.20	29.60
Squared PG: (%)	12.58	8.05	4.90	21.40
Mean Income ($)	488.00	203.00	240.00	768.00

Source: Table 7 in Ali (1999a).

The lowest incidence of poverty is calculated for Senegal, with only 34% of the population living below the national poverty line. The highest head-count ratio is calculated for Burkina Faso, where 66% of the population were poor in 1993. Furthermore, four additional countries reported a head-count ratio of 55% or above: Guinea (at 59%), Mali (at 57%), Guinea-Bissau (56%), and Niger (at 55%). These results confirm the general impression that more than 50% of the population of SSA were considered poor during the 1990s.

In this section, the empirical findings confirm the widely held view that the magnitude of poverty in the Muslim world is high, if not the highest in the world. Similar to the majority of IDB member countries in other regions of the world, AIC supports that claim, as summarized below:

- ♦ poverty in IDB member countries from Africa is wide-spread (head-count ratio of about 50%), deep (with a poverty-gap ratio of about 22%) and severe (with a square poverty-gap ratio of about (13%). The incidence, depth and severity of poverty in the rural sector of these countries are much more serious than that in the urban sector. While the incidence of rural poverty is slightly more than twice that of the urban sector (57% of the rural population as compared to 28% of the urban population), the depth of rural poverty is nearly three times that of urban poverty and severity is more than three times;
- ♦ the rural poor live on an average income of about US$ 14 per person per month compared to the urban poor who live on an average income of about US$ 24 per person per month. Both levels are very low reflecting the depth of the deprivation in these countries; and
- ♦ the incidence of rural poverty in these countries is found to be relatively more responsive to growth (changes in per capita income) than to distribution (changes in the Gini coefficient), though the response rate is relatively low. In confirmation to recent findings, the reverse is true for the response of the depth and severity of poverty. Urban poverty, in contrast, is more sensitive to distribution than to growth, with relatively higher response rates.

2.5 Causes of Poverty

Identification and assessment of the magnitude and severity of poverty (discussed above), coupled with recognition of the events affecting the poor, will help policymakers in taking appropriate steps towards addressing it. The main causes of poverty in IDB member countries, frequently cited in country and regional studies, can be briefly summarized as follows:

- Inadequate access to employment opportunities, to markets for the poor to sell goods and services and to physical assets (such as capital, land and credit);
- Low endowment of human capital;
- Worsening living conditions of people in increasing number of countries that have been afflicted by armed conflict (civil war and social unrest);
- Supply shocks; basically in terms of lower commodity prices and a slowdown in international trade (e.g., impact of the recent financial crisis on reversing previous improvements in poverty and its spillover effect on incomes of other low-income countries);
- Inadequate access to assistance for those living at the margin and those victimized by transitory poverty;
- Inadequate access to the means of supporting rural development in poor regions;
- Destruction of natural resources, leading to environmental degradation and reduced productivity; and
- Lack of participation of the poor in the development process (including design of poverty alleviation programmes).

The main policy components required to generate pro-poor growth and to reduce inequalities are widely debated in the economic literature. Policies that promote growth are reasonably well understood (UNDP 1999, World Bank 1998a among others). However, policies that promote better income distribution are far from being understood and are controversial, given their political nature. The next chapter discusses these issues.

III. EFFICACY OF POVERTY ALLEVIATION POLICIES AND PROGRAMMES

“ *When you give, enrich*”
Omar Ibn Al-Khattab, the Second Caliph

Concern about poverty in the world is reaffirmed as the highest priority of the international development goals (Box 1). Indeed, major world summits; international events and initiatives call for explicit objective of eradicating poverty in the world through decisive national actions and international cooperation. Eradication of poverty as an overarching objective of development has always been central to development thinking. In the history of ideas about poverty, debate has been dominated by devising appropriate policy to cure it: from the moral approach of combating poverty in most cultures and early civilizations, to new modes of governance and social regulations in the invention of liberal governments at the end of the eighteenth century, to revisiting the developmental approach to poverty alleviation. This paradigm shift, matched by international alliance to targeting the poor via basic need provisions, has implicitly recognized the role of a strong state in achieving development objectives.

It is widely accepted, in the 1990s that explicit state policies are effective instruments in influencing poverty by, *inter alia*, causing changes in the level or stability of the poor's real per capita consumption. If poverty were to be taken seriously, governments will need to implement appropriate policies tailored to the specific challenges of poverty eradication in IDB member countries. Emerging consensus around some principles of poverty alleviation strategy has been reinforced by the impressive reductions in absolute poverty in few member countries. In this regard, appropriate policy frameworks leading to rapid growth and declining inequality proved to be successful in reducing poverty in East Asian economies and, in turn, some South Asian countries followed suit (ESCAP 1998, Johansen 1993, Salih 1997 and World Bank 1993, 1998a). Other member countries can learn from the Asian strategies initially designed to reduce poverty.

3.1 Poverty Alleviation Strategies

These strategies consist of four main elements: an appropriate balance between the state and other institutions, labor-intensive growth, investment in poor people's human capital, and safety nets for the poor and vulnerable groups (Lipton and Ravallion 1993, Salih 1997 and Watts 1997). The state, as a collective embodiment of society's power, retains considerable authority. In this setting, Governments in IDB member countries retain considerable authority because they control a significant share of national resources and shape the policy environment for private economic agents and civil society. In the prevailing political economy of the time, government role should be conducive to sustaining broad-based economic growth, equity and social progress. In this, and further guided by Islamic principles, a more balanced division of disciplined responsibilities between the state, the private sector and the family are essential in promoting and implementing poverty alleviation strategies.

Labor-demanding growth strategies will enable the poor to increase their incomes from their main asset (labor) through increases in wages and work in self-owned farms, micro-enterprises or the manufacturing sector. Although increasing income has been an important objective in many poverty alleviation programmes, several of these have focused exclusively on employment and income generation (Box 4). Income-generating schemes can be divided into two broad categories: those that directly provide local employment to the poor, mostly with no or low skill requirements, and those that seek to initiate a process by which the poor are able to ultimately engage themselves in income-generating activities (ESCAP 1998 and Salih 1997).[16]

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[16] The distinction between the two is that in the former poor people are helped directly, whereas, in the latter they are helped indirectly. In the first activity, the poor are helped through provision of direct employment. Its benefits are instantaneous, but usually short-term in nature. In the latter the poor are helped indirectly and the impacts are

Box 4: Senegal's Public Works and Employment Project

The objectives of the project were to create new employment in urban areas, improve the skill levels of employees in the construction and urban services industries, demonstrate the feasibility of labor-intensive techniques, and implement economically viable and socially beneficial projects. The project was managed by Agence d'Execution des Travaux d'Interet Public (AGETIP), a nongovernmental, nonprofit, contract management agency with delegated responsibilities for providing infrastructure services on behalf of the government and for managing the procurement process and supervision of works on behalf of the contractor, the World Bank. The project began in March 1990, initially in primary cities. After the first year implementation gradually expanded to secondary cities.

The project's results have been satisfactory: 416 subprojects were completed, and a total of 8713 man-years of employment were created in urban areas. The project contributed to the renovation of 221820 square meters and the construction of 101300 square meters of simple buildings, including schools and dispensaries, the rehabilitation of 133 kilometers of urban roads and paving of 523500 square meters of roads, the rehabilitation of 65000 square meters of sidewalks, the demolition of 15000 square meters of derelict buildings, the cleaning of 37200 linear meters of drainage canals and the cleaning of 122000 square meters of bush, the transport of 7700 cubic meters of sand, and the construction of 18000 cubic meters of embankments.

The project had a strong impact on the growth of the building and construction industry and on human resource development. AGETIP's success led the government to introduce an executing agency into some of its other activities. The project is being replicated in a growing number of countries, including Burkina Faso, Chad, Gambia, Mali, Mauritania, and Niger, and has spread to southern and eastern Africa and even beyond Africa.

Sources: *World Bank (1995, 1997c)*

Social investments (in education, health and social security) can reduce poverty by improving the productivity and health of all people, particularly the poor. Therefore, patterns of expenditure on social investment are important and, in fact, government financing and provisioning of social services contributed to equitable growth in capabilities in East Asia (Salih 1997). However, country experience in targeting social spending to the poor varied considerably. For example Malaysia, among other non-IDB member countries, has succeeded in targeting social spending to the poor (Castro-Leal, Deaton and Demery 1996). While none of the African countries, for which data are available and analyzed during 1986-95 had succeeded in targeting their social spending to the poor (World Bank 1996b).

In education, all East Asian societies made expansion of primary and then secondary education a high priority. Government provisioning partially solved credit constraint; particularly those faced by poor people in financing education of their children (Ahuja *et al.* 1997). For example, starting in the 1970s, Indonesia invested oil rents to fund a nationwide

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felt only after a lapse of some time, e.g., the Rangpur Dinajpur Rural Service's comprehensive project in Bangladesh. The project services 120,000 households who are either wholly landless or own up to one acre of land. The programme engages in group-based motivation and training for income generation through crop-production, livestock rearing, as well as for other purposes (ESCAP 1995a).

school-building campaign, resulting in a massive public campaign in primary schooling, but much secondary, tertiary education and technical training remains privately financed (World Bank 1997b). Other studies also confirmed that primary schooling had relatively more equitable incidence in the 1980s, and more so than income, while secondary and tertiary spending is relatively inequitable (Ahuja *et al.* 1997, Van der Walle and Nead 1995). Moreover, recent findings also suggests that education, health and income in East Asia have significant indirect gains for poverty alleviation, by contributing to demographic transition (Box 5). In general, rising capabilities due to better health and educational outcomes leads to direct welfare improvements (Dreze and Sen 1989).

Box 5: Building Human Capital of the Poor

Basic education is essential to reduce both individual and countrywide poverty. The poor benefit more from basic education than from any other level, as they are rarely able to afford it. In addition, returns as measured by individual wage gains tend to be larger for primary education compared to other levels. Empirical evidence has confirmed the strong links between education and an individual income. There are many other benefits to basic education; particularly female education. For example, one year of a mother's education has been associated with a 9 per cent decrease in the mortality rate of children under the age of five, and the children of better-educated mothers, other things being equal, tend to be healthier.

Although developing countries have made massive investments in education, particularly primary education, in recent years, many of them still suffer from low enrolment rates, high dropout and repetition rates, and poor quality teaching. In contrast, some IDB member countries have initiated successful anti-poverty programmes, including basic education and health services. For example, Presidential Instruction on elementary school has been implemented from early years of the development era in Indonesia.It benefited local population, since the provincial government is in charge of the full responsibility of its daily operation; and is consistent with local needs. The Presidential Instruction and the 6-year obligatory education have not only provided widespread facilities for elementary education, but enrolment rate has exceeded 100% of the corresponding age group. As a result average educational attainment has increased significantly. In the 1990s the obligatory education have been raised to 9-year. This expansion is expected to increase incomes of the lower strata of employees, since the current average years of schooling of Indonesian employees are slightly higher than 7 years. One of the earliest measures taken in Indonesia to minimize the impact of the crisis on keeping as many students as possible in school has been through a combination of waiving fees, financial aid programmes and grants. Resources from IDB and the World Bank have been mobilized for the purpose of providing US$ 100 million and $250 million, respectively, for basic education, among others, with priority given to poor children who are now lacking textbooks.

Sources: ESCAP (1999), IDB (1999a), Pasay (1999) and World Bank (1996a).

For groups that cannot benefit from employment creation and enhancement of human capital (i.e., the aged, disabled, sick or otherwise vulnerable), social safety net programmes are sometimes put in place to safeguard them. Such groups (unable to provide for themselves) would require long-term assistance. In addition, safety nets are designed to help those who suffer temporary setbacks owing to seasonal fluctuations in income, the loss of the family breadwinner, famine, or macroeconomic shocks. Such target groups may require short-term assistance.

Safety nets for the poor and vulnerable are either private or public. Private income transfers, including Islamic precept of alms (*Zaka*t), are the most commonly used tool in IDB member countries and other Muslim communities to deal with social insecurity arising from hunger, ill health, disablement, unemployment, or old age. Anecdotal evidence suggests that many people in IDB member countries prefer to pay and give *Zakat* by themselves, not through government (Al-Abdin 1997, Muhammad 1992). Experiences show that processing time to apply for public cash transfers in these countries takes a long time. In addition, there is the stigma of receiving money from the government (Van Eeghen 1995). In general, traditional social solidarity system among members of one family is spread widely and is used as safety net and cash assistance extended by the Islamic family institution everywhere, to protect its members, to provide basic needs and to care for the sick and handicapped.

For example, the support of extended family in the Arab region, the main component of its social and cultural capital, is more effective, stable, socially acceptable than that of other institutions (Al-Saqour 1997, Salih 1997). Indeed, private transfer (provided by friends and family) often turn out to be a more significant source of income for the poor than government transfers in these countries. For example, it is estimated that some 180,000 more people (5% of total) would have been added to the poor in Morocco, were it not for private transfers from relative working abroad (Van Eeghen 1995). Moreover, private transfers accounted to nearly half the income of the poorest fifth of households, corroborating other findings that private transfers in East Asia have enabled the elderly to share in overall income increases (Ahuja *et al.* 1997, Van Eeghen 1995). Furthermore, other traditional safety nets, mostly in subsistence societies, include, for example, sharecropping, entitlement to sufficient land to support poor families.

Like traditional schemes, modern, publicly organized safety nets for the poor aim at a guaranteed minimum standard of living and protection against unpredictable external shocks (Ahmad 1993, Lipton and Van der Gaag 1993). Broadly defined, these schemes include publicly funded health and education programmes, social insurance programmes and transfer programmes targeted to the poor. The choice of safety net programmes depends, to a large extent, on the nature of poverty (permanent, chronic, transient) and other country-specific factors (growth prospects, policy reforms, administrative capacity, socioeconomic and infrastructure constraints, fiscal constraints, etc.).

In countries with a high incidence of rural poverty, where it is difficult to distinguish needy households from other, cash transfers will not be feasible either in terms of targeting or of fiscal sustainability (World Bank 1997d). For example, many African countries may find programmes that include a work requirement to be most effective because they involve self-screening by the genuinely needy and can complement growth by focusing on building infrastructure (Box 4).[17]

In countries that are experiencing sudden economic shocks or those that are in economic transition, mean-tested cash transfers can work only if the information base is

[١٧] In Burkina Faso and Senegal programme, wage rates that were lower than market rates resulted in high participation rates by the poor (World Bank 1997d).

strong.[18] Cash transfers have the advantage of not contributing to price distortions and they are relatively transparent in terms of cost. Where poverty is clearly and strongly correlated with family size, a universal family allowance can be effective safety net, thus utilizing the institution of Zakat to target such households that fall outside the private safety net.

Recent evidence suggests that not all-poor households receive voluntary private transfers. To protect households and individuals that fall outside the private safety net, the government of Pakistan has introduced targeted income-transfer programmes. The two major programmes targeted the poor are the Zakat and Ushr and the Pakistan Bait-ul-Maal programmes. These two programmes pool resources obtained from the population at large and redistribute them to the neediest throughout the country (World Bank 1997d). Although the coverage of these two programmes falls short of the intended targets, the system of religiously motivated charitable giving in Pakistan appears to reduce both intra and inter-province income inequality and so fulfills some part of its intended social functions (Jehle 1994). Public transfers have also the advantage of being based on the poor's needs rather than on the generosity of family and friends.

Evidence from other regions also confirms that most programmes of direct assistance to the poor either cover only a small fraction of the poor or consist of amounts usually too small to lift people above the poverty line. For example, Jordan's national assistance fund covers only 22,000 households, compared to Egypt's social assistance programme that affects an estimated 2.7 million beneficiaries (Van Eeghen 1995). However, the average payment to a beneficiary is very small, representing about 5% of the absolute poverty line . Although these social funds contribute substantially to economic growth, administrative and/or transactions costs as percentage of total programme budget can be high, reaching 12% in one of these programmes (Box 6).

[١٨] Information on an individual's living standard (income-cum-consumption) can be used to carry out a screening procedure for identifying the poor who are eligible to receive benefits under a poverty alleviation programme. This procedure is generally called mean testing. The screening officials usually obtain such information through detailed individual interviews of the potential beneficiaries. The information so obtained, especially that on income is then checked by the officials of the programme against the poverty norm for these variables. Participants whose income/consumption is found to be above such norm are declared ineligible to take part in the programme (ESCAP 1995b).

Box 6: Model for Social Funds

Social funds are quasi-financial intermediaries that finance projects in multiple sectors and government agencies. They are a valuable institutional resource for providing funding more flexibly and transparently than regular government and line ministries usually do. Social funds are demand-driven institutional arrangements that fund (on the basis of a set of guidelines) request from community organizations for implementing small-scale projects. The activities they support include creating employment, providing basic services, strengthening institutions, and targeting and monitoring. In contrast to social funds, social action programmes, which are also meant to reduce poverty and reintegrate poor and vulnerable groups into the economy, are designed to regular investment projects.

IMF (1999) and the World Bank (1997d) reviews of country experience with safety net programmes (including more than a dozen IDB member countries) indicate that best practice on these programmes would, inter alia, require:

- *Designing the programme appropriately so that methods of targeting are chosen with care to minimize leakage of benefit to unintended recipients;*
- *Keeping administrative costs low as a percentage of the total programme budget in order to ensure its sustainability;*
- *Keeping transactions costs low promotes participation of the poor, particularly in credit programme;*
- *Weighing social benefits-costs of safety nets programmes against alternative uses that could be more effective in reducing poverty; and*
- *Monitoring and follow-up performance of social safety nets to identify whether intended population received benefits.*

However, these funds have limitations. Their ability to reach the poorest communities is one reason for concern, because the use of these funds depends on initiatives that may not involve the poor. There are also tradeoffs between rapid implementation of social funds project and the need to build institutional and technical ability. Where local ability is limited, additional capacity for capacity building and institution strengthening may be needed. For example, shortcoming in local capacity in Guinea required the social funds to pay for technical assistance to local organizations, public agencies, and community groups to ensure that they were able to undertake the project. Since social funds have limited resources, they must be part of a larger, coordinated effort to meet social and economic need, and they should not replace critical policy and public sector reforms.

Sources: Chu and Gupta (1998), IMF (1999) and the World Bank (1997c, 1997d).

Cross-country experience shows that family assistance (cash transfer programme) has the greatest impact on reducing poverty, when it is targeted to the poorest and most vulnerable households (Subbarao *et al.* 1997, World Bank 1997d).[19] The World Bank (1997d) review of country experience also suggests that:

[١٩]The other common cash transfer programme is the general cash social assistance, used in high-income countries, a few countries in Latin America, and some countries in transition as part of a much broader social safety net that includes social insurance. In some developing economies in Africa and South Asia, social and family assistance are often the only cash transfer since there is no nationwide social insurance programme (World Bank 1997d).

- The introduction of public transfer programmes tends to reduce some portion of private transfers in most developing countries. If public transfers crowd out private transfers, the latter will be much less effective in reducing poverty, especially those from the well off to the poor; and
- Safety net programmes alone cannot reduce poverty, even when they are well designed, so they should never be used as the primary means to reduce poverty. I.e., safety net programmes should complement broad-based, labor-demanding growth strategies and human capital investments.

However, to generate pro-poor growth, specific national actions are needed. The most important of such actions are:

- Achieving high rates of sustained growth that benefit the poor, either directly through increased employment and incomes or indirectly through improved social services;
- Reducing inequality through progressive income taxation and other redistributive policies; and
- Building and maintaining human capabilities through education, health and other related social services; with a view to ensuring access of the poor to these services.

3.2 Economic Growth in IDB Member Countries

IDB member countries are diverse, in terms of their stage of development, economic fortune and growth history. Despite the distinction made by the World Bank (1999a) between countries as high, middle and low-income groups in terms of the level of income, there is no significant difference between IDB member countries in terms of long-term economic growth rates, measured by the mean growth rate for 1965-97 (Table 3.1). Indeed, negative average rate of growth of per capita GNP is recorded for both high and many low-income IDB member countries, for which data are available, during 1965-97. The table suggests that average growth rate of population exceeded that of GNP in 15 out of 32 (nearly half) IDB member countries and per capita growth rates for three-fourth of IDB member countries were lower than the average for both low-income countries and the world during 1965-97. Only four middle-income countries registered average growth rate higher than that for lower-middle-income group. Cross-country experience reveals that high and sustained growth rates have led to significant poverty reduction (Box 7).

Table 3.1: Trends in Long-Term Economic and Population Growth

Country	Gross national product Average annual % growth		Population Growth
	Total 1965-97	Per capita 1965-97	Rates Average % 1965-97
Afghanistan	-	-	-
Albania	-	-	1.8
Algeria	4.0	1.1	2.8
Azerbaijan	-	-	1.6
Bahrain	-	-	-
Bangladesh	3.9	1.4	2.3
Benin	3.1	0.1	2.8
Brunei	-	-	-
Burkina Faso	3.2	0.9	2.2
Cameroon	4.2	1.4	2.7
Chad	1.6	-0.8	2.4
Comoros	-	-	-
Djibouti	-	-	-
Egypt	5.8	3.4	2.2
Gabon	3.4	0.4	2.6
Gambia	4.0	0.5	3.4
Guinea	-	-	2.1
Guinea Bissau	2.9	0.1	2.4
Indonesia	7.0	4.8	2.0
Iran	1.5	-1.4	2.8
Iraq	-0.3	-	3.1
Jordan	3.9	-0.4	4.3
Kazakhstan	-	-	0.9
Kuwait	1.1	-3.0	4.2
Kyrgyz Republic	-	-	1.8
Lebanon	-	-	1.9
Libya	1.2	-	3.6
Malaysia	6.8	4.1	2.6
Maldives	-	-	-
Mali	2.9	0.5	2.4
Mauritania	2.4	-0.2	2.5
Morocco	4.3	2.0	2.2
Mozambique	1.6	-0.1	2.2
Niger	0.5	-2.5	3.1
Oman	9.7	5.1	4.0
Pakistan	5.7	2.7	2.8
Palestine	-	-	-
Qatar	-	-	-
Saudi Arabia	5.6	0.7	4.5
Senegal	2.3	-0.5	2.8
Sierra Leone	0.6	-1.4	2.1
Somalia	-	-	-
Sudan	2.4	-0.2	2.5
Suriname	-	-	-
Syria	5.5	2.1	3.2
Togo	2.4	-0.6	3.1
Tunisia	5.1	2.7	2.2
Turkey	4.3	2.0	2.2
Tajikstan	-	-	2.7
Turkmenistan	-	-	2.8
Uganda	-	-	2.9
U.A.E	3.8	-4.0	9.6
Yemen	-	-	3.2
World	3.2	1.4	1.8
Low income	3.8	1.4	2.4
Low middle income	4.7	3.0	1.7

Notes: - indicates unavailability of data. ***Source:*** Table 1.4 in World Bank (1999a).

Box 7: Lessons from Broad-Based Economic Growth

The Malaysian economy has achieved high growth of about 7% for the past three decades, with the exception of the recession in the mid 1980s and the current crisis (Table 3.1). This rapid growth rate has transformed the structure of the economy from agricultural to a leading modern manufacturing sector economy since 1987. In concomitant with this fast growth, poverty reduction has been quite phenomenal, particularly over the last quarter of a century. Poverty alleviation strategy was brought by both rapid growth following its industrialization drive and government interventions. The government has created an enabling environment for high growth through macroeconomic stability, trade-friendly policies, and major investment in infrastructure and development of human capital.

Recognizing that poverty in Malaysia is predominantly rural, emphasis was given by the government to agricultural and rural development in earlier years. The core of Malaysian rural development strategy lies in area (in situ) development, which encompasses two components: the Integrated Agricultural Development Programmes (IADPs) and the regional development strategy. IADPs were designed to revitalize and rehabilitate in situ (agricultural areas) that face problems of low productivity and poverty. The strategy integrated comprehensive programmes of agricultural, socioeconomic and institutional development, in partnership with various local development agencies that are responsible for coordinating basic physical and economic infrastructures with social amenities. Whereas, regional development is targeted at redressing economic and structural imbalances between regions, slowing down rural-urban migration and promoting agricultural and industrial development.

The complementary component of rural development strategy focused on provision of institutional and agricultural support services and subsidies. This strategy includes, inter alia, extension services, research, training, subsidized credit and other essential farm inputs, price subsidies, processing and marketing with the view to reducing cost of production and increasing efficiency. Other measures to supplement rural incomes of smallholders and traditional farmers were also in place, such as replanting grants and subsidies to rubber, pineapple and coconut. Finally, social development programmes complemented these strategies, including provision of basic social services, community development through which positive values and self-help among rural households and youths have been instilled, and provision of better food and nutrition to rural households to improve their health and nutritional standards. These development programmes have contributed to raising rural income and welfare, and in turn, reduced rural poverty.

Although development of the rural sector provided more jobs and enabled poverty reduction in earlier years, growth of modern urban sector further generated more productive employment opportunities in subsequent years. The provision of education, health and other supporting facilities enabled all, particularly the poor, to seize these opportunities. In addition, transfer payments were used to ensure that benefits of urban industrialization also trickle down to the rural households. In sum, sustained high growth rates made it possible to create gainful employment opportunities that led to a widespread poverty reduction.

Source: Ahuja *et al.* (1997), ESCAP (1998) and Zin (1999).

The level of growth required to reduce poverty by half in 2015, as defined in the adopted international development goals (Box 1), is estimated at a robust annual rate of 5.6% for the Arab region (mainly North Africa) and 7.4% for IDB member countries from Africa (AIC) for the next fifteen years (Table 3.2).[20] The former rate confirmed an earlier estimated GDP growth rate of at least 5%, required to make significant dent on poverty in the Middle East and North Africa (MENA) region (Van Eeghen 1995). Whereas, the latter estimate is

[٢٠] Similar to the decomposition framework of the changes in poverty analyzed in chapter 2, the estimation is based on poverty measured by level of income or consumption. I.e., poverty is affected by three factors: growth in mean income, changes in the underlying income distribution and adjustment of the concept of basic needs to changes in overall standard of living.

quite a high rate of growth requirement, even by the standards of Sub-Saharan Africa (SSA) and the historical trend of low growth in these countries.[21] I.e., growth rates for most African economies are not high enough to reduce poverty significantly or to attain the objective of reducing it by half in 2015.[22] Even with most optimistic forecast of an average growth rate at 3.8% a year in the next decade (about 1.3% per capita a year), per capita income will take half a century to double and to reduce poverty significantly in these economies. Perhaps this remains as a challenge to these countries and their development partners, if the development community is serious to achieve its daunting task of reducing poverty by half in 2015. In contrast, the required growth rate to attain the objective, for the Arab region, is feasible if these countries were to sustain the rate achieved by Tunisia in the 1990s (Table 3.1, Table A1 in IDB 1999a).

Table 3.2: Required Annual GDP Growth to Reduce Poverty by Half in 2015 (%)

Region	Elasticity of Headcount w.r.t mean income	Required per capita growth	Population growth Rate	Required GDP Growth Rate
AIC	-0.9	4.6	2.9	7.4
Arab Region	-1.1	3.6	2.8	5.6
SSA	-0.9	4.4	2.8	7.1

Note: w.r.t = with respect to

Source: Adapted from Table 8 in Ali (1999a) and Tables A1-A4 in Annex.

3.3 Other Determinants of Living Standards

Weak initial conditions and unfavorable long-term constraints that are likely to cause and be impacted by poverty include high population growth, its composition, fragile natural resource base and environmental degradation. Population growth, in relation to the limited and often fragile resource base, is both a cause and a consequence of poverty (World Bank 1997c). The population of IDB member countries is one of the fastest growing in the world. The population of IDB member countries is growing faster than the average rate for both the world and their regional averages (Table 3.1). For example, the population of IDB member countries from both Africa and the Arab region are growing at nearly 3% a year, higher than the fastest-growing SSA, and the rates are forecast to decline marginally by the turn of the century.

At this rate, the population could more than double before attaining the objective of reducing poverty by half, even in 2025. Of course, the high rate of population growth will offset any reduction in the number of the increasing poor in most IDB member countries, all the more so because the rate is higher among the poor than the nonpoor. Table (2.1) suggests

[٢١] The growth trajectory at a country level is diverse. Countries like Niger, Mozambique, Uganda and Togo would require a growth rate in the range between 8-9% per annum, in order to attain the objective of reducing poverty by half. However, countries like Benin and Senegal would require a lower growth rate ranging between 6.3-6.6% (Ali 1999a).

[٢٢] In 1991-97 only East and South Asia regions were growing fast enough to reduce poverty by half by 2015. Current forecasts for 1998-2015 suggest that only South Asia will grow fast enough to halve poverty by 2015. It is estimated that it will take Indonesia two years more than before the crisis, to attain the objective of reducing the poverty by half (World Bank 1999a).

that average household size in the rural sector of IDB member countries from Africa is relatively higher than in urban households, three-fourth of the population are rural and the youth percentage (below 19 years) are higher in rural than urban households. In IDB member countries, over 40% of the population are below 19 years, nearly half of the population in IDB members from Africa and the Arab region and half in populous countries from Asia (Table 2.1, Pasay 1999 and Salih 1997). In contrast, the proportion is only 20% in the mature market economies and 30% in the developing economies of South-East Asia.

Youthful demographic profile imposes a disadvantage, in terms of the heavy burden of young dependants. The increasing dependency ratios, resulting from high youthful age structure, are still too high to reduce the demographic pressure on poverty. The remaining young people below age 19, who are entering the labor market, are susceptible to low wage and unemployment, thus having high risk of being poor. The high proportion of young people coupled with high population growth rates will exert considerable pressure on the labor market unless employment opportunities increase substantially (no less than the required GDP growth rates to reduce poverty significantly). High population growth and low incomes (proxy for income poverty) are considered the two common causes, among other controversial determinants, of environmental damage in the least developed countries (Salih 1994 and World Bank 1996b, 1997c). For example, these factors are prompting people to cultivate fragile land in their struggle for survival. Such damage can be mitigated if these people become more aware about improved productivity of land and environment on a sustainable basis.

3.4 Implications for Policy Design and Implementation

The key to converting the population, dominated by youthful profile, from a liability to an asset lies in a comprehensive approach to developing the human potential of these countries; by investing in human capital or by taking a holistic approach to poverty reduction or adapting a strategy of broad-based growth (Boxes 6 & 7). If IDB member countries were to adopt poverty reduction as an overarching objective of development, in accordance with a development strategy, a set of development fundamentals can be gleaned from East Asian experience. These fundamentals are predicated on the observation that East Asian economies, like those anchored on a typical successful regional growth pole, continue to retain significant aspects of underdeveloped and undeveloped market economy. Thus, in the economic growth analysis of the developing economies, it is essential to underscore the characteristics of under-developed market-economy and to try to explain the growth process in relation to the process of market economy development.

While this approach recognizes the importance of macroeconomic fundamentals in relevant settings of mature market economies, it proposes that non-market coordination in the various stages of underdeveloped market economies is an obvious requirement if the economy is to graduate to an advanced stage. In the early stage of the structural changes (in industry, trade, productivity gains, and international competitiveness), requirements for realized economic growth, will not be emerging solely from the spontaneous operation of the price mechanisms.

Rather, in the early stages of development, three decisive events in the agricultural sector will take place: a productivity "breakthrough" in the main agricultural sector; a parallel invigoration of the rural economy; and, the creation of the conditions (in savings increase and market expansion) for getting industries (either local or urban) started. On the basis of this approach, the policy option of getting prices right alone is not sufficient to bring about these three decisive events. Moreover, in the early stages of development the government will continue to have an important role to overcome the facets of market economy underdevelopment (externality).

The preceding remarks are relevant to the challenge facing some IDB member countries, particularly in relation to their current state of inequality and poverty (discussed in chapter 2). Redistribution of assets and incomes using progressive taxation on incomes and assets was central to the equalization process that has taken place in the present day advanced countries. However, these fiscal measures are not likely to be cost-effective in developing countries, in view of the occupation of the majority of the population in agriculture, casual labor and informal sectors. Alternatively, the Islamic redistributive instrument of Zakat can be used as a fiscal measure, at the margin.

Other redistributive mechanisms include asset distribution, basically land reform. Land reform was applied with a large measure of success in Asia, but a much less success in Latin America and Africa. The most significant reason from the policy failure in implementing land reforms, was the absence of social and political conditions for an effective implementation of the measures (Hayami 1998). The social and political conditions in North-East Asian countries were such that Japan's reform was directed by the US occupation forces, Korea's reform was undertaken under the ideological threat of aggression from the northern part of the country, and Taiwan's reform was undertaken by a political elite which did not face credible threats from landowners interest. These factors, among others, provided the favorable conditions for the institutional innovations of land reform.

Hence, it is futile to blame "lack of political will" and/or "loopholes in laws and regulations" for the failure of other land reform experiments. Indeed, the prospects do not seem bright for Islamic developing countries to use land reform as a practical means to counteract growing inequality (Hayami 1998). Alternatively, one would appeal to the fundamental Islamic values of equality practiced by the second Caliph Omar Ibn Al-Khattab and by the benevolent ruler Omar Ibn Abdel Aziz, during the golden age of Islamic civilization, to create the "social and political" conditions required to effect a desired land reform (Al-Qaradawi 1994). Of course, this would require mobilization of cultural values and utilization of the potential social capital of a typical Islamic society, which is committed, transparent and accountable to its ideal principles.

Another alternative to land reform is land taxation, in proportion to its asset value. In this respect, the equalizing effects of land would be especially large if increased rent incomes could be taxed and used as a source of public investment in irrigation and technological development. Under this alternative the tax rate, as a proportion of its asset value, could be fixed for a predictable and extended period of time to avoid the disincentive and distorting effects of other taxes used to mobilize agricultural resources for development.

Broadly speaking, the main components of the proposed strategy is not necessarily at odd with the ambitious goals of the international development "*shaping the 21st century*". Although these goals are expressed in global terms, but " must be pursued country by country through individual approaches that reflect local conditions and locally owned development strategies". In fact, strategy 21 commits OECD countries to help countries that want to make a serious effort to attain these development goals (Box 1 and World Bank 1998a).

The new consensus emerging around a meaningful development strategy, that is capable of reducing poverty effectively, recognizes that sustained growth and the quality of growth (its distribution), including social development, are the vital elements of any successful development strategy. I.e., there is statistically positive relationship between economic growth and poverty reduction and this strong positive correlation is confirmed in vast majority of cases.[23] Moreover, cross-country evidence indicates that economic growth accounts for up to half of poverty reduction.[24]

At present, some developing countries are frequently engaged in a dialogue with their development partners regarding policy areas deserving special attention from policymakers to realize such a development strategy. Others are emphasizing the social and structural dimensions of development, but at the prevailing state of knowledge, there is no consensus on the policy areas that promote better income and wealth distribution and at the same time reduce poverty significantly. In this regard, the comprehensive development framework (CDF) adopted by the World Bank and other analytical frameworks proposed by other development institutions involved on poverty-reduction work, will shed light on the feasibility of such strategies. For a given approach to alleviate poverty, adopted modalities to effect such embedded programmes may provide some operational implications for the IDB and its member countries in improving effectiveness of their efforts to reduce poverty. These issues are reviewed in the following chapter with the view to developing areas of focus for greater impacts on poverty alleviation.

[٢٣] Recent evidence suggests that a one-percentage increase in average real household's income is associated with a two-percentage decline in poverty incidence (Ravallion and Chen 1997).

[٢٤] When using average real household consumption, economic growth explains 50% of intercountry variation in poverty incidence; however, the corresponding figure when using GDP per capita is 35-36% (UN 1998).

IV. EXPERIENCES OF MAJOR DEVELOPMENT INSTITUTIONS IN POVERTY ALLEVIATION

"*And spend (in charity) out of the (substance) whereof He has made you heirs.*"
AL-Qur'an LVII: 7

Although structural adjustment programmes are essential for long-run sustained growth and this is a necessary condition for reducing poverty, the operations of Bretton Woods institutions in adjustment programmes of the 1980s have been criticized by a number of the United Nations (UN) agencies, NGOs and researchers, in part because of their associated short-term costs. On the one hand, many criticisms focus on the unintended consequences of these programmes on government expenditures for social services. On the other hand, there is an adjustment cost that relates to some of the key components of the reform programme (such as devaluation, trade liberalization and privatization), which are perceived to be inimical to the interest of the poor, at least in the short run (World Bank 1996b). Indeed, anecdotal evidence links individuals, groups and communities that are hurt in the transition period while these changes are taking effect, particularly retrenchments in the public sector. Perhaps, at the circumstances of the time, no compensation or adequate safety nets were provided to them.

As more information becomes available about the effects of adjustment on growth and poverty, concerns about the sustainability of reforms have been heightened and consequently there have been gradual responses by the Bretton Woods institutions, among others, albeit at varying degrees. In the following sections of the chapter, we will review these responses with respect to poverty reduction strategies from selected international institutions, development organizations and bilateral donors and draw the relevant lessons from such experiences for IDB and its member countries in their efforts to combat incidence of poverty.

4.1 The World Bank

Poverty reduction strategy proposed by the World Bank since its publication of the *1990 World Development Report*, heralded a major policy shift in its operations. Poverty reduction has become the World Bank's core operational objective, broadly guided by the strategy proposed in its 1990 World Development Report, the 1991 policy paper on " *Assistance Strategy to Reduce Poverty*", and *Operational Directive 4.15* (Box 8). This strategy stressed fostering labor-based growth while investing in human capital and providing safety nets for those unable to benefit from this growth.

The most recent internal assessment of the World Bank's performance in support of poverty reduction found progress in some areas and concluded that, relative to past benchmarks, performance has been good (World Bank 1999b).[25] As the most important global actor involved in the design and implementation of poverty reduction strategies, the World Bank, along with other development partners, has raised expectations for a substantial poverty reduction within only two decades (Box 1). In confirmation to earlier findings from other

[٢٥]The World Bank has published a series of assessments (reaching six by 1999) on how well the World Bank activities support the institution's overarching goal of reducing poverty.

regional studies, this paper argues that the ambitious target of halving poverty is difficult to achieve by 2015 and will likely take a decade longer than anticipated, at least for the vast majority of IDB member countries.

Box 8: World Bank's Strategy on Poverty Reduction

The most recent major effort at conceptualizing the Bank's poverty reduction strategy took place in the early 1990s, a decade after the first World Development Report on poverty, and was developed in three key documents: World Development Report 1990: Poverty (World Bank 1990), the 1991 policy paper Assistance Strategies to Reduce Poverty (World Bank 1991), and Operational Directives 4.15 on Poverty Reduction (issued in December 1991).

"… 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. … a programme well-targeted transfers and safety nets is an essential complement to this basic strategy" (World Bank 1990).

Progress in the mid 1990s was tracked through the annual Progress Reports on Poverty Reduction in 1993, 1994, 1995, 1996, 1998 and 1999. The Strategic Compact, issued in 1996, reaffirmed the importance of rural development in line with World Development Report 1990, but recognized the importance of social and institutional factors (World bank 1997e).

The World Bank is now entering a new phase of strategy and policy formulation. Guidelines for country assistance strategies, and other Bank operations are being revised. World development Report 2000/01, now under preparation, will provide an opportunity to take stock of what has worked and what has failed in poverty reduction over the past decade and will recommend actions for the Bank and other international institutions. Finally, a new policy paper will explore the implications of the report for Bank policy.

Sources: UN (1998), World Bank (1999b).

Formulation of strategies and placement of poverty reduction at the center of assistance strategies and country dialogue have been implemented through better formulated country assistance strategies (CAS) and poverty assessments (PA). 56% of the CAS presented to the World Bank's Board of Executive Directors in fiscal year 1998 were judged fully satisfactory in their integration of poverty issues into the framing of the forward-looking strategy, compared with 20% a year earlier, while only 7% were judged unsatisfactory (World Bank 1999b). As of the end of the fiscal year 1998, more than a100 PA were completed, nearly a third of them (or slightly more than 30 PA) were completed for IDB member countries during 1989-98. However, 23 IDB member countries (or more than 40% of the countries) are yet to complete the first round assessments. Although the World Bank remains fully committed to complete all first-round assessments over the next three years, continuing conflicts in some countries may delay this in some cases.

The World Bank has increased, over the years, its emphasis on conducting good evaluations of programmes and projects. Plans to gather data are often followed through; project monitoring and evaluation systems are more often linked to key performance indicators. This is in line with the move toward addressing outcomes rather than inputs and the need to learn from past experience.[26] The review of all 240 investment projects approved by fiscal year 1998 suggests that only 5% (or 12 projects) included outcome or impact indicators (a baseline survey and control groups), which make it possible to conduct a good evaluation (Subbarao *et al.* 1998). An additional 32% (or 77 projects) included some of the elements necessary for a good evaluation, but not all (World Bank 1999b).[27] For example, 63% of the projects did not provide for adequate evaluation. However, several activities are underway to improve coverage and quality of evaluations.

Projects that are classified as part of the Programme Targeted Interventions (PTI) increased from 38% of the total in fiscal year 1997 to 42% in fiscal year 1998, while loan amounts rose from 29% to 40% of total lending (World Bank 1999b). These increases are due partly to increases in lending for education, social protection and environment; as well as to a large increase in overall lending under the programme to countries in South Asia. Similar to 1997, loan amounts to IDA countries under the programme remain at around 54% of all IDA lending this year. However, the share of lending for poverty-focused adjustment operations increased significantly from 52% in 1997 to 64% in fiscal year 1998.[28]

Training programmes and partnerships on poverty issues have been expanded over the years. In fiscal year 1998, ten training courses on poverty-related topics were held within the Bank, and three courses were sponsored by the World Bank Institute outside the Bank, often in partnership with local research institutions (such as the African Economic Research Consortium, AERC, and Economic Research Forum for Arab-Speaking Countries, Iran and Turkey). In addition, networks of poverty experts have been formed in several regions of the world (such as East Asia and Latin America).

Drawing from a growing body of empirical experience coupled with progress in implementing both the programme of poverty assessments and a subset of interventions that were specifically targeted to the poor have built up considerable technical expertise in poverty reduction at the World Bank, compared with other actors. Given the enormous technical expertise and particularly its analytical focus, the World Bank has significant influence on poverty alleviation strategies adopted by other regional development banks.

For example, poverty reduction has become one of the development objectives of the Medium-Term Strategic Framework of the Asian Development Bank (AsDB) and organizationally AsDB has set up a Social Dimensions Unit to operationalize its poverty

[٢٦]There is a shift in direction for evaluating the World Bank's performance from tracking inputs to focusing on outcomes (outputs). Efforts are underway to monitor national and global trends in the multidimensional indicators of poverty identified by the International Development Goals and to carefully evaluate the impact of specific interventions (World Bank 1999b).

[٢٧]In particular, they did not lay out plans for assessing the impact of interventions relative to a control group; for projects in this group evaluations may still be conducted, but they were clearly not well planned at the time of project approval (World Bank 1999b).

[٢٨]However, poverty-focused adjustment lending to IDA countries declined in both absolute and percentage terms (53 and 47%, respectively) from their peak levels (68-82% and 61-73%, respectively) of the previous two years; because of much higher IDA adjustment lending not classified as poverty-focused (World Bank 1999b).

alleviation strategy (AsDB 1992). Similarly, the African Development (AfDB) adopted its Action Programme for Poverty Alleviation in 1992, prepared guidelines for its implementation in 1994 by integrating poverty concern into country programming and the project cycle, and further strengthening its capacity to conduct poverty-related work (AfDB 1994). The Inter-American Development Bank (IADB) officially presented its strategy for poverty reduction in Latin America and the Caribbean during 1997, influenced to a great extent by the World Bank strategy. To achieve such a strategy, IADB is using a combination of the basic tools available to it, such as lending, advisory services, technical assistance and the development of strategies and policies and conducting research (IADB 1999, Lustig and Deutsch 1998).

In recognition of the holistic nature of the development process, the comprehensive development framework (CDF) argues for full integration of the macroeconomic objectives with the development and social goals. For operational purposes, the CDF, as a strategic framework, seeks to coordinate and integrate the efforts of the country authorities, international financial institutions, bilateral lenders and donors, NGOs, and civil society (Wolfensohn 1999). In turn, the international community is emphasizing collaboration to enhance modalities of strengthening their poverty reduction strategies with the World Bank, the United Nations system, regional organizations and bilateral donors. The International Monetary Fund (IMF) is furthering links and relying on the World Bank and other regional development banks for information and ideas on social policy issues.

4.2 International Monetary Fund (IMF)

The IMF-supported reform programmes have evolved over the years from emphasis on demand-management policies, aimed at creating the conditions for macroeconomic stability and growth, to a broader consideration of the structural requirements for growth and the quality of adjustment. The operations of the IMF-supported programmes of the 1980s have also received more than its share of criticism from the UN agencies, NGOs, researchers and academia. In partial response to the concern about the social implications of economic reform programmes, the IMF is paying increasing attention to social issues in its policy advice.

The focus of the IMF's policy advice is to help member countries achieve a sustainable macroeconomic framework that creates the conditions for growth and the reduction of poverty (Gupta *et al.* 1998).[29] The aim is to devise macroeconomic policies that foster sustainable macroeconomic framework, while reforming expenditures and tax policies to reinforce this process; with the view that such a framework might improve income distribution and reducing poverty. For example, IMF is paying more attention to the distributional implications of fiscal policy and its role in fostering long-term growth, particularly during adjustment.

A recent review of the experience with public spending on education and health care in eleven-low income countries with ESAF-supported programmes illustrates that results are mixed with regard to social spending and indicators.[30] Nonetheless, the evidence reveals a

[٢٩] As laid out in its Article I (ii) of the Articles of Agreement, a fundamental objective of the IMF is to promote high levels of employment and real income (IMF 1999).

[٣٠] These countries include four IDB member countries (Burkina Faso, Kyrgyz Republic, Mozambique and Uganda), three of the five HIPCs are IDB member countries (IMF 1999).

positive association between the level of social spending in terms of GDP and total government spending and improvements in social indicators (Ibrahim 1996, IMF 1999 & Tanzi *et al. 1999*).

IMF-supported programmes have sought to mitigate the social impact of adjustment programmes in three ways: first, by adapting the programme design; second, through specific safety net measures implemented during the reform period; and finally, through facilitating the establishment of cost-effective social protection arrangements of a more permanent nature (IMF 1999). Social safety nets in IMF-supported programmes have included new arrangements of a temporary nature, as well as adaptation of social protection instruments, such as social security arrangements for pensions and unemployment benefits (Chu and Gupta 1998). However, lack of social policy instruments, and the limited ability of countries to reform existing social protection mechanisms have hampered implementation of social safety nets. In addition, monitoring has been weak, in part due to lack of data.

At present, IMF is relying largely on the World Bank, as its major source of social policy analysis and advice. In addition, inputs are also drawn from other institutions with expertise in analysis of social issues, such as regional development banks and UN agencies, for the integration of social issues in IMF-supported programmes.[31] I.e., IMF's growing involvement in social sector issues has led to a strengthening of collaboration with the UN system and the regional development banks.

4.3 The United Nations (UN) System

At the World Summit for Social Development held in Copenhagen in March 1995, a hallmark for collaboration between the UN agencies, regional organizations, donor communities and the Bretton Woods Institutions, the international community reaffirmed its commitment to fighting poverty in all its aspects by committing to a set of targets for poverty reduction (Box 9). The UN system, along with other partners, is frequently monitoring progress made by countries either through regional follow-up conferences, high-level policy forums and/or dissemination of published information on assessment of development indicators. The UN system has consistently adopted a long-term view of poverty reduction strategies since its involvement in poverty alleviation in the 1970s.[32]

[٣١] For example, the World Bank's design for a targeted rice subsidy in Indonesia in 1998 and community-based public works programmes in Thailand were incorporated in the IMF-supported programme. Elements of the IADB and the World Bank co-financed social sector project in Brazil in 1999 were integrated in the IMF-supported programme (IMF 1999).

[٣٢] For example, the World Food Congress of 1974 and the World Conference on Agrarian Reform and Development of 1979 (FAO 1991, Salih 1995).

Box 9: Copenhagen Declaration on Social Development and Programme of Action

Signatories to the Copenhagen Declaration on Social Development and Programme of Action committed themselves to an action plan covering a range of operational activities. Commitment to eradication of poverty was the primary objective of the social summit. At the outset, Heads of State and Government to end global poverty reaffirmed that

" We commit ourselves to the goal of eradicating poverty in the world, through decisive national actions and international cooperation, as an ethical, social, political and economic imperative of humankind."

To this end, at the national level, in partnership with all actors of civil society and in the context of a multidimensional and integrated approach, we will:

- *Formulate or strengthen, as a matter of urgency, and preferably by the year 1996, the International Year for the Eradication of Poverty, national policies and strategies geared to substantially reducing overall poverty in the shortest possible time, reducing inequalities and eradicating absolute poverty by a target date to be specified by each country in its national context;*
- *Focus our efforts and policies to address the root causes of poverty and to provide for the basic needs to all. These efforts should include the elimination of hunger and malnutrition; the provision of food security, education, employment and livelihood, primary health-care services including reproductive health care, safe drinking water and sanitation, and adequate shelter; and participation in social and cultural life. Special priority will be given to the needs and rights of women and children, who often bear the greatest burden of poverty, and to the needs of vulnerable and disadvantaged groups and persons;*
- *Ensure that people living in poverty have access to productive resources, including credit, land, education and training, technology, knowledge and information, as well as to public services, and participate in decision-making on a policy and regulatory environment that would enable them to benefit from expanding employment and economic opportunities;*
- *Develop and implement policies to ensure that all people have adequate economic and social protection during unemployment, ill health, maternity, child-rearing, disability and old age;*
- *Ensure that national budgets and policies are oriented, as necessary, to meet basic needs, reducing inequalities and targeting poverty, as a strategic objective;*
- *Seek to reduce inequalities, increase opportunities and access to resources and income, and remove any political, legal, economic and social factors and constraints that foster and sustain inequality.*

At the international level, we will:

- *Strive to ensure that the international community and international organizations, particularly the multilateral financial institutions, assist developing countries and all countries in need in their efforts to achieve our overall goal of eradicating poverty and ensuring basic social protection;*
- *Encourage all international donors and multilateral development banks to support policies and programmes for the attainment, in a sustained manner, of the specific efforts of the developing countries and all countries in need relating to people-centered sustainable development and to meeting basic needs for all; to assess their existing programmes in consultation with the concerned developing countries to ensure the achievement of the agreed programme objectives; and to seek to ensure that their own policies and programmes will advance the attainment of the agreed development goals that focus on meeting basic needs for all and eradicating absolute poverty. Efforts should be made to ensure that participation by the people concerned is an integral part of such programmes; and*
- *Focus attention on and support the special needs of countries and regions in which there are substantial concentrations of people living in poverty, in particular in South Asia, and which thereof face serious difficulties in achieving social and economic development.*

Sources: UN (1996, 1998).

After the conclusion of the social summit, the Executive Board of the United Nations Development Programme (UNDP) declared poverty eradication its operational priority. UNDP is known for its social deprivation model. Deprivation includes inadequate consumption, inadequate access to basic goods and services and lack of autonomy, knowledge, security, etc. (UNDP 1995, UN 1998). However, UNDP's strategy emphasized empowerment and sustainable livelihood approaches to poverty intervention.

The empowerment approach is explicitly endorsed as a policy priority and receives implicit endorsement under the themes of employment through self-reliance, community participation, social mobilization, and promotion of gender equity and democratic decision-making (governance agenda). The sustainable livelihood approach is explicitly endorsed as a policy priority and implicitly endorsed, given the emphasis placed on food security and environmental sustainability. In this context, a technical meeting on poverty alleviation and sustainable livelihoods in the Arab States was organized by UNDP in 1996 in collaboration with other international and regional organizations to come up with the key elements of a possible strategy to eradicate poverty in the region. 14 IDB member countries from the region participated in the meeting, in addition to representatives from 12 NGOs and 11 regional and international organizations (UNDP 1997).[33]

Other UN agencies and affiliated organizations have been involved in policies and programmes of poverty alleviation with operational focus on specific issues. For example, the United Nations Children's Fund (UNICEF) operational focus is encoded in the Goals of the Year 2000, officially adopted by the World Summit for Children in 1990 (UNICEF 1991). Overall goals include reduction in under-5 death rates, maternal mortality rates, adult literacy rates and malnutrition incidence as well as provision of safe water and sanitation, basic education and protection of children. In practice, most UNICEF country programmes devote 80% of their resources to health, education, nutrition and water/sanitation (UN 1998).

Another example is the International Fund for Agricultural Development (IFAD), which was entrusted in 1977 to concentrate on a tripartite strategy of increasing food production, reducing undernutrition, and alleviating rural poverty. More recently, IFAD has focused on the latter objective through promotion of the productive capacity of the poor. To meet this objective, IFAD has emphasized the economic integration of the poor with a special focus on people's participation, grass-roots organizations, environment, gender and ethnic minorities (Abdouli 1997, UN 1998).

Recently, there has been increasing emphasis on the empowerment approach to poverty reduction, particularly by the international donor community. Internal empowerment directs attention to the objective of changing cultural capital through raising awareness (soliciting support for local organizations such as instilling self-help and positive values among rural households in Malaysian social development programme (Box 7)). While external empowerment draws attention to the objective of building social capital through collective organization and mobilization. External empowerment may serve a range of objectives, including access to credit, land or health, protection of the rights of women, etc. (UN 1998).

[٣٣] UNDP and UNDDSMS published two volumes, in Arabic and English languages, of the report on the Strategy of Poverty Eradication and Sustainable Livelihoods in the Arab States in 1997.

Complementary poverty interventions include support for those grass roots, local and NGOs that focus on improving living conditions of marginalized groups. Two examples of bilateral donors emphasizing such an approach are discussed below.

4.4 Selected Bilateral Donors

The Canadian International Development Agency (CIDA) and the Department of International Development (DID) of the United Kingdom, among others, are advocating the empowerment approach, particularly in with regard to women. The purpose of Canada's official development assistance (ODA) is to support sustainable development in developing countries, in order to reduce poverty and to contribute to a more secure, equitable and prosperous world. Reducing poverty places a focus on people's capabilities to avoid deprivation. Key aspects of this is the recognition of the significant potential that the poor themselves have and develop through their empowerment; investments to increase their productive capacity; reduction of barriers limiting their participation in society and economic growth. Poverty reduction focuses, therefore, on improving the poor's access to, control of, and benefit from economic, social and natural resources decision-making (CIDA 1995). For example, CIDA combines the social concept of deprivation with public transfer, empowerment and sustainable livelihood approaches to poverty reduction.

The social deprivation model is reflected in the importance attached to the gender aspects of deprivation, political disenfranchisement, and violation of human rights (UN 1998). The public transfer approach stems from the focus of provision of basic human needs (education, health care, nutrition, family planning, water/sanitation, etc). The empowerment approach is reflected in the overriding emphasis placed on promoting grass-roots participation in society and in empowering women. The sustainable livelihood approach is operationalized through a focus on food security issues.

In comparison, operational framework of DID is exceptionally broad as outlined in its recently launched White Paper on: " *Eliminating World Poverty: A Challenge for the 21st Century*" (DID 1997, UN 1998). DID focused its international development efforts on the elimination of poverty and encouragement of economic growth that benefits the poor. Particular operational emphasis is placed on the goal of promoting sustainable livelihood through a range of interventions including pro-poor growth, development of efficient and well-regulated markets, access of poor to land, resources and markets, the prevention and resolution of conflicts, sustainable management of physical and natural resources, etc.

4.5 IDB Strategies and Operations for Poverty Alleviation

The Islamic Development Bank (IDB) identified poverty alleviation as one of its main development themes in its medium-term Strategic Agenda in 1996. In addition to its cross-cutting theme of the promotion of cooperation among member countries in all aspects of its operations, the Bank's Agenda identified five interrelated development themes, which are mutually reinforcing in their impact on the basic objective of " promoting the socioeconomic development of the Bank's member countries" (IDB 1996a). The five themes are poverty alleviation, science and technology, human resource development, preservation of the environment and private sector assistance.

Similar to other development financing institutions, IDB recognized that economic growth is a necessary but not a sufficient condition to reduce poverty. IDB also recognized that investments in eradication of poverty could have very high rates of economic and social return. Therefore, poverty alleviation is a critical element of the development assistance of the Bank, which guidelines for addressing poverty alleviation are:

- Conscious efforts to develop projects that have direct poverty alleviation elements, particularly in its 23 Least Developed Member Countries (LDMCs).[34] To revitalize assistance to depressed areas and to target its support to the most vulnerable groups from among small holders, landless, artisans, fisherfolk and pastoralists;
- In the process of developing and designing projects, the Bank will pay due regard to address issues pertaining to poverty alleviation. It will specifically target projects which can support and promote self-esteem and self-supportiveness of the poorer segments of the population;
- Such projects will attempt to raise the productivity of the physical assets of the poor. This may be done through the provision of adequate infrastructure, technology, appropriate financing and availability of complementary and marketing facilities in the context of demand-driven agricultural extension services as well as availability of inputs;
- Involving community-based organizations as a means to promote the effective participation of beneficiaries in project sustainability;
- Most importantly, giving preference to projects for improving the human capital of the poor by focusing on basic education, particularly vocational training, adult education, education for women and health services; and
- Expanding social sector assistance to provide a sharper focus on rural development by reinforcing complementarities between projects, which strengthen food security and poverty alleviation, such as the enhancement of incomes of small farmers and the rural poor.

The Bank emphasizes, in particular, investments in education and health with the view to enhancing national capacity building efforts and to promoting greater access to better quality of basic health services. Indeed, the share of financing allocation to the social sectors relative to the overall Bank's financing activities have been increasing steadily over the past two and a half decade: from an annual average of 11.4% during 1397-1405H (1977-85G), to 12.9% in 1406-1410H (1986-90), to 21.1% in 1411-1415H (1991-95) and 23.7% in 1416-1420H (IDB database, Table 4.1). In addition, IDB has established a special account for the Least Developed Member Countries (LDMCs) in November 1992 (IDB 1996b).[35] The

[٣٤] The member countries classified as least developed are Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, The Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda and Yemen. The State of Palestine is also treated as an LDMC by the IDB as a special case (IDB 1999a).

[٣٥] The Special Account for LDMCs provides interest free loans to these countries, with a 25-30 years maturity and a 10-year grace period and a lower service fee charge of 0.75%. Following the full utilization of the initial objective of the programme is to help in meeting the urgent and basic needs of the people, especially the poor, in LDMCs by:

- Increasing their productivity, income and opportunities for employment;
- Providing outlets, especially for the rural poor, so as to enable them to market their products and secure access to inputs and consumer goods; and
- Improving their quality of life through access to education and health facilities.

Table 4.1: DISTRIBUTION OF PROJECT & TECHNICAL ASSISTANCE FINANCING* BY SECTOR (1415H-1419H; CUMULATIVE 1396H-1419H)

(In ID Million)

Sectors	1415H			1416H			1417H			1418H			1419H			1396-1419H		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
Agriculture & Agro-Industry	11	32.69	12.4	13	64.03	19.8	19	77.97	19.8	15	31.40	7.1	24	76.72	14.6	227	715.14	16.6
Industry & Mining	8	52.95	20.1	4	28.34	8.8	5	23.99	6.1	5	86.69	19.6	3	33.09	6.3	137	792.76	18.4
Transport & Communication	5	10.44	4.0	9	56.00	17.3	11	73.15	18.6	10	57.96	13.1	14	67.61	12.9	175	718.07	16.7
Public Utilities	10	106.78	40.5	17	106.87	33.1	12	106.18	27.0	23	143.58	32.5	20	155.58	29.6	170	1096.22	25.5
Social sectors	12	54.51	20.7	18	65.52	20.3	22	107.23	27.3	27	119.69	27.1	24	109.12	20.8	197	824.30	19.1
Financial Services/Others**	4	6.40	2.4	3	2.16	0.7	5	4.77	1.2	4	2.57	0.6	13	83.16	15.8	62	160.12	3.7
Total	**50**	**263.77**	**100.0**	**64**	**322.91**	**100.0**	**74**	**393.29**	**100.0**	**84**	**441.89**	**100.0**	**98**	**525.28**	**100.0**	**968**	**4306.61**	**100.0**

Notes: * Project financing and technical assistance operations financed both from the Ordinary capital resources and from the Special Account for the LDMCs. It should be noted that canceled operations are excluded ** In addition to the financial and business services sector, these approvals include all those falling outside the enlisted sectors.
Sources: Table 4.2 in IDB (1999a).

The Bank's assistance to the LDMCs focuses on the development of human resources through targeted interventions in the education and health sectors. The Bank also finances projects in water supply, agriculture and transport. Projects in agriculture aim at enhancing food security and in transport, particularly feeder roads, aim at facilitating movement of farm produce and agricultural inputs (IDB 1999a). These operations are financed from two sources, namely, the ordinary capital resources of the Bank and the LDMCs account. The cumulative aggregate financing approved for LDMCs (project financing, technical assistance (TA), import trade and special assistance) during the period 1396H up to the end of 1419H amounts to US$ 3229.56 million, representing about 19% of the aggregate financing approved for all types of operations (Table 4.2).

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amount of US$ 100 million, the account has been replenished in 1419H with a second tranche of US$ 150 million to be utilized over a period of five years (IDB 1999a).

Table 4.2: CUMULATIVE FINANCING APPROVED FOR THE LDMCs 1396-1419H

(Amount in Million)

MODE OF FINANCINNG	AMOUNT APPROVED			% OF	
	NO	ID	US$	TOTAL ID AMOUNT	LDMCs SHARE*
LOANS (ORDINARY RESOURCES)	169	785.20	1001.19	30.0	52.9
LOANS (SPECIAL LDMC ACCOUNT)	49	84.47	118.58	3.2	100.0
EQUITY	22	53.35	67.63	2.0	24.3
LEASING	9	60.38	73.85	2.3	4.9
INSTALMENT SALE	10	47.60	63.83	1.8	5.0
PROFIT SHARING	1	3.50	4.35	0.1	5.6
LINE OF EQUITY	1	0.54	0.59	--	2.0
COMBINED LINES	8	30.42	37.99	1.2	24.7
TECHNICAL ASSISTANCE (TA)	168	56.75	68.79	2.2	62.4
TOTAL PROJECT FINANCING & TA	**437**	**1122.21**	**1436.79**	**42.9**	**26.1**
IMPORT TRADE FINANC. OPERATIONS	150	1356.97	1631.57	51.8	15.1
SPECIAL ASSISTANCE OPERATIONS	114	138.11	161.20	5.3	35.7
GRAND TOTAL	**701**	**2617.29**	**3229.56**	**100.0**	**19.1**

Note: * expressed as a share (%) of the cumulative approvals this far.
Source: Table 4.14 in IDB (1999a).

In addition to its ordinary operations, IDB also provides financing for special operations. These operations are financed from the special assistance account (Waqf fund) of the Bank, which was established in 1399H (1979G). The objectives of this trust fund include the provision of relief to member countries afflicted by natural disasters and refugees' problems, and provision of financial assistance to Muslim communities in non-member countries to improve their social and economic conditions.[36] Since its inception and up to the end of 1419H (April 1999), the total amount approved reached US$ 468.23 million covering 481 operations and programmes: 197 operations (or US$ 314.03 million) in member countries and 284 operations for Muslim communities in non-member countries (IDB 1996b, 1999a).

In general, operations of the IDB, within its strategic focus on priority sectors, have contributed either directly or indirectly to poverty alleviation in member countries.[37] Similar to the recent practice and experience in other multilateral development finance institutions, this paper will consider banking activities based on poverty-focused operations. The amounts lent under these categories give an indication to the inputs that go to the poor: resources targeted directly to the poor or to areas with a higher-than-average incidence of poverty. Information on resources targeted directly to the poor are not readily available at IDB, because the Bank does not use such classifications (IDB database, IDB 1996b). There is no criterion to classify investment projects and other operations as poverty-focused or to determine the major

[٣٦] For example, IDB provided financial assistance to Indonesia, in its efforts to mitigate the impact of the Asian financial crisis, amounting to US$ 100 million for projects in the social and agricultural sectors, including rural development (IDB 1999a)

[٣٧] The priority sectors that have been earmarked for IDB's strategic focus are agriculture and food security, medium and small-scale industries or microenterprises in general, education and health and transport and communications (IDB 1996a).

beneficiaries as poor. For example, names of projects from IDB database on projects indicate that the share of poverty-targeted lending ranges from less than 1% to 27% of total operations.[38]

The following concluding section of this chapter discusses a criterion, among other useful lessons learned in the past few years from the institutional experience in poverty alleviation strategies, with particular emphasis on appropriate criteria to classify an operation as poverty-focused.

4.6 Areas of Focus for Greater Impacts on Poverty Alleviation

Several important lessons emerged from the evolutionary process of the poverty reduction strategies and operations implemented by multilateral development finance institutions that supported governments' efforts in fighting poverty and the insights in how to maximize the impact of programmes and investment projects to reduce poverty. These lessons include:

First *lesson to emerge from effective operations in support of country efforts to reduce poverty was to work with other development actors in an integrated way for development assistance*. In common parlance, resources required to make a dent in poverty are huge and are beyond the capacity of a single development financial institution. For budgetary considerations, it is operationally cost-effective to coordinate activities needed to meet specific country programmes in an integrated way with that country's development partners, given today's realization of the merits of working in partnerships with others in increasing the effectiveness of efforts to reducing poverty.

Second *related effectiveness principle is the international emphasis on result-oriented (or outcome-based) target of assessing performance in support of poverty reduction*. Since helping governments to reduce poverty coincides with the ultimate goal of their development partners, it is imperative that the impact of strategies and operations be measured to determine their effectiveness. Operational experience shows that it is possible to determine impact in two related areas: specific projects and the overall impact of all programmes and other measurable factors on poverty reduction. Household-level data and poverty monitoring systems usually serve the latter.[39]

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[٣٨]Only four projects refer directly to poverty alleviation (BD 0109 for Greater Khulna District of Bangladesh on 'Poverty Alleviation' and JO0073-75 projects of Jordan on 'Net Safety Net Packages'), representing less than 1% of total projects for the period 1977-99 as shown in the OTS database. On the other hand, tallying projects for primary education, primary health, water supply and sanitation, feeder roads, rural development, and other poverty-focused projects up to the end of 1995, will represent either 10% of total approved Bank's project or 27% of all loans and TA approvals (IDB database, IDB 1996b).

[٣٩]Significant progress is being made in collecting data needed to monitor impact of poverty-reduction efforts (both in quantitative household surveys and a variety of qualitative surveys), but that less progress is being made in developing and implementing sustainable, government-owned poverty monitoring systems that can help countries to track progress in reducing poverty over time (World Bank 1996b). Indeed, poverty monitoring systems in many IDB member countries are donor-driven and donor-supported exercises.

The effects of a specific project on reducing poverty can be determined if appropriate indicators are used in the former. For example, the World Bank (1996b) has developed since 1994 sector-specific indicators that are included at the inception of each of its projects and can be monitored throughout the lifetime of the project to track their effects on poverty. By establishing a series of benchmarks from the outset, it is possible to track the trends in the performance indicators both during and after project implementation. This makes it possible for monitoring and drawing lessons while the project is progressing and to streamline project design so that it can be changed for the better while it is still being implemented.[40]

Third*, in assessing the impact of a specific project, it is important to bear in mind that this project is only one of a range of actions being taken in a given country as part of a comprehensive strategy of policies and investments aimed at reducing poverty*. In practice, *country assistance strategy* (CAS) document usually incorporates such a strategy, with the view to placing poverty at the center of that formulated strategy, given the country's specific circumstance. Since the problem of poverty is overwhelming in many countries, it is no coincidence that reducing poverty is almost invariably the key element of today's CAS. Typically, partner institutions define the most appropriate package of instruments supporting the governments' efforts to reduce poverty in the context of that country's assistance strategy.

As a programming tool, CAS prepared by IDB supports and complements member countries' development efforts, more explicitly on economic issues with less or no emphasis on poverty issues. At the same time, CAS provided major input in the Bank's annual operation plans and three-year work programmes (IDB 1999a).[41] In contrast, CAS prepared by the World Bank addresses poverty issues more explicitly and comprehensively each year, and is increasingly incorporating the findings of poverty assessment, PA (World Bank 1996b, 1999b).[42]

Fourth*, there is a need to improve the way that CAS incorporate poverty as outlined in the poverty alleviation and human resource development themes of the IDB's medium-term strategic agenda*. The need for a better formulated, strategically focused and cost-effective CAS, at the prevailing state of the art, could be served by forging effective partnership and/or by establishing a joint work programme with the World Bank, within the framework of the cooperation that exists between the two institutions.

The work programme may be implemented through a joint IDB-World Bank task-oriented team: either by direct consultation and coordination on planned CAS for IDB member countries; exchange of information on strategies, policies, and economic and social issues to be considered for CAS; conducting joint missions for preparations of CAS, and/or revision and updating of CAS. Arrangements to share resources (human and financial) required to

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[٤٠] However, the choice of indicators, especially for monitoring a project's impact on poverty, is in many cases a learning-by-doing experience (World Bank 1996b).

[٤١] So far IDB has prepared a total of 22 country assistance strategy studies (CASS) and plans to complete the undertaking of CASS to the remaining eligible countries during 1420H. Two CASS were conducted during this year (IDB 1999a).

[٤٢] CAS, prepared by the World Bank, is continually revised in light of updated information.

prepare CAS can be worked out between the two institutions, as per the articles of cooperation between these institutions (IDB 1999b).[43] Other operational modalities, at the inception of this cooperation, may require secondment of experienced professionals, attachment of young and mid-career professionals to CAS team, or conducting short-term CASS assignment under the leadership of experienced country-consultant, preferably nationals of a member country.

Fifth*, to ensure that necessary information (from CAS, PA, and other findings from this analysis) are reflected in the Bank's projects and lending programme on poverty alleviation*. The Bank may consider using the results of poverty assessments and other relevant analytical work and research findings (such as public expenditure reviews) in preparing its CAS (or joint CAS with the World Bank) and that the findings of this analysis feed into adopted poverty reduction strategy of that country.[44] This process will also enable the Bank to identify projects and programmes that are poverty-focused.

Sixth*, for a systematic way of identifying a project and an investment operation as poverty-focused, the operation must conform with the guidelines adopted by similar development finance institutions, namely, by meeting at least one of the following criteria*:

- The project must have a specific mechanism for targeting the poor (i.e., narrow targeting: resources targeted directly to the poor or to areas with a higher-than-average incidence of poverty);[45]
- The proportion of the poor among project beneficiaries must be significantly higher than their proportion in the overall population (i.e., broad targeting at the level of expenditure category, subsector or geographic region);[46]
- The operation must focus specifically on eliminating distortions that disproportionately disadvantage the poor;
- Supports a shift in public expenditures toward physical infrastructure or basic social services for the poor; and
- Supports prgrammes that provide safety nets or that target specific groups of the poor.

Operations that meet these criteria are more likely to have a significant positive impact on poverty. Using the above criteria, World Bank's (1999b) projects classified as poverty-focused reached 42% of the total in fiscal year 1998, compared to 38% in 1997, while loan amounts reached 40% of total investment lending in 1998, compared to 29% in 1997.

[٤٣] Such proposed elements could be incorporated in the existing draft MOU between the World Bank Group (WBG) and IDB concerning the staff exchange programme or other appropriate modality (IDB 1999b).

[٤٤] It is to be noted that PAs take more time and resources to complete than anticipated (World Bank 1996b). If IDB were to conduct joint CAS with the World Bank or to engage in some form of cooperation in this area, completed PAs by the World Bank for IDB member countries could be used in preparation of CAS. For countries with no PAs, IDB, perhaps in collaboration with other donors, would encourage governments to take a leading role in following-up the preparation of poverty assessments.

[٤٥] For example, nutrition projects for malnourished children.

[٤٦] For example, a water supply project in a poor region. Although benefits accrue to all, the poor are most likely to benefit relative to the nonpoor. The poor are more likely to lack access to such services and these services are affordable to nonpoor.

Applying this criteria to IDB's operations would indicate that trends in the sectoral composition of Bank lending during 1977-99 shows an increased support for activities closely linked to poverty reduction, such as the social sector (IDB database, Table 4.1).

However, to evaluate the magnitude of this trend in lending to sectors with direct poverty-focus (such as agriculture, education, health, social protection, transport and water supply and sanitation), using the above criteria, would require detailed information on allocation of resources within this group, shift of lending between sectors and the share of lending in the Bank's total portfolio during the period of analysis. Such information will also serve the assessment of the effectiveness and impact of a specific project on poverty alleviation.

Finally*, to know the impact of efforts to reduce poverty and to monitor progress, local institutional capacity is often too weak to further implementation and to sustain progress.* Indeed, operational experience suggests that available institutional capacity to develop and implement poverty reduction strategies, among other factors, retards concerted efforts of all involved in reducing poverty, including the governments' own commitment to reducing poverty. In the face of such obstacles, training programmes on poverty issues can expand the reach of partnerships among development finance institutions, international agencies and donor community, with the view of building the required capacity in these countries. IDB may also expand its reach, in collaboration with other partners, to support member countries in building capacity on poverty-related topics and at the same time recharge its internal capacity on poverty issues.[47]

Other targeting mechanisms designed to protect the most vulnerable members of society and to support member countries in their efforts to provide effective social funds, at a potentially low cost, are analyzed in the concluding chapter of this study. Such mechanisms are likely to constitute one of the important components of IDB's poverty reduction strategy.

V. ISLAMIC INITIATIVES AND FUTURE DIRECTIONS

" Charities (sadaqat) are for the poor (al-fuqara'), and the needy (al-masakin), and for those employed to administer [the funds], for those whose hearts have been [recently]

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[٤٧] Several training courses and modules are readily available or are adapted to meet specific needs for poverty-related topics at the World Bank Institute, formerly known as the Economic Development Institute (EDI) of the World Bank. For example, 10 training courses on poverty-related topics were held within the World Bank in 1998 and 3 outside the Bank, often in partnership with other institutions (World Bank 1999b). A course in the analysis of household data was held in Turkey jointly with the Economic Research Forum for Arab-speaking countries, Iran and Turkey. Another course in poverty was held in South Africa in partnership with AERC in poverty analysis and a recent training workshop was conducted in partnership with ECA in Ethiopia for African countries.

reconciled [to the Truth], for those in bondage and in debt, in the cause of Allah, and for the wayfarer. [Thus it is] ordained by Allah. And Allah is full of knowledge and wisdom.”

Al-Qur’an, IX: 60.

5.1 Islamic Views of Poverty

Islam views poverty as a threat to human’s believes and to the security and stability of the society as a whole. The objectives (Maqassid) of Shari’a in preserving faith, human soul, progeny, property and mind will be difficult to fulfill in the state of poverty (Al-Abdin 1997). These objectives require the provision of basic human needs so that people may not be obliged to cross the limits of religion and morality (Al-Qaradawi 1393H). Islam has made the state as well as the community responsible for eliminating poverty from the society. The Qur’an and the *Sunnah* of the Prophet (P.B.U.H), within the generality of the Message that came for all times and places, identify the ways and means by which this responsibility should be carried out (Al-Abdin 1997). Indeed, the Prophet (P.B.U.H) linked poverty to unbelief by saying, “ *Poverty is almost like unbelief in God*”[48].

Islam considers poverty as a test of man’s allegiance to his Creator and a great fear: Allah says “ *Be sure we shall test you with something of fear ,and hunger ,some loss in goods, lives and the fruits (of your toil) but give glad tidings to those who patiently persevere*”(Al-Qur’an II:155). At the same time to be free from fear and hunger is a blessing from Allah who deserves thanks and worship: Allah says “*Let them worship the Lord of this House who provides them with food against hunger, and with security against fear (of danger)*” (Al-Qur’an VI:3-4). Islam looks upon poverty as a religious and social problem, which pushes a person to lowliness, sin and crime (Al-Abdin 1997).That is why the Prophet (P.B.U.H) sought the refuge of Allah from it by saying “*O Allah ,I seek your refuge from poverty ,insufficiency and lowliness*”.[49]

5.2 The Role of Zakat in Poverty Alleviation

The Prophet (P.B.U.H) told Mu’adh Ibn Jabal when he was sent as governor of Yemen to remind the people and to “*Tell them that Allah has decreed upon them alms on their wealth, to be taken from their rich and be given to their poor”.*[50] Allah has prescribed Zakat as an act of worship and a sacred exercise for all Muslims. Zakat, one of the five fundamental duties (5 Pillars of Faith), is an annual levy on wealth above some threshold (revenue), the proceeds of which were to be distributed (expenditure) to the needy (Jehle 1994). From the revenue side, and as part of the Islamic faith (duty), Zakat would be paid willingly. From the expenditure side, it is a right for the poor and a claim on the wealth of the rich.

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[٤٨] Abu Na’im in Al Hilyah, Al Bayhaqi and Al Tabarani.

[٤٩] Abu Dawud ,Al Nissa’I, Ibn Majah and Al Hakim.

[٥٠] Bukhari, Muslim and Ibn Majah.

Accordingly, Islamic economists consider Zakat as a more effective weapon against poverty and inequality than the redistribution instruments used by modern states. There are differences among jurists on the form and sources of Zakat (Al-Abdin 1997). Notwithstanding these disagreements, Zakat is understood to include a levy on idle wealth at 2.5%, as a benchmark. Many contemporary scholars are widening the sources of Zakat and several countries are adopting these views in their Zakat laws (AL-Qaradawi 1393H, Al-Abdin 1997).[51] This view is considered appropriate for needs of the time and the significant contribution of Zakat to alleviate poverty.

The general opinion among jurists is that the main recipients of Zakat (the poor and the needy) should be paid as much as required to satisfy their needs, provided that there are sufficient funds (Al-Abdin 1997, Kahf 1997). This opinion is based on the aim of Zakat, as confirmed by the Second Caliph Omar Ibn Al-Khattab when he instructed his employees on Zakat: *" when distributing Zakat to the poor give them in abundance so that they are satisfied, repeat giving them even if one has to get a hundred camels".*[52] According to Muhammad Ibn Al Hassan Al Shaibani, the famous Hanafi jurist, the aim of Zakat is to satisfy the needs of the poor and if Zakat cannot meet their needs the Imam should take from other sources of his treasury so that he may satisfy every person and his family (Al-Sarakhasi 1978). For example, Zakat is considered by the Muslim as a tool to alleviate poverty because it is an obligation, an act of worship for the Muslim and is directed in the first place to help the poor as prescribed by the Holly Qur'an.

5.3 The Share of the Poor in Zakat

The Holy Qur'an specified the disbursement of Zakat into eight types of persons: poor (fuqara), needy (masakin), those employed to administer the funds, whose hearts have reconciled to the truth, freeing slaves (in bondage), indebted, in the cause of Allah, and wayfarer in need. For example, to distribute Zakat to all eight types, if the funds are available and condition of need is the same. However, it is not necessary to give equal shares to the different types, the share should be determined according to their number and their needs (Al-Qaradawi 1393H). Indeed, five of the eligible recipients are considered poor: fuqara, masakin, slaves, indebted and wayfarers (Al-Abdin 1997). In addition, poverty is rampant among the majority of member countries and is increasing among some of these countries (Tables 1.1, 2.5, 2.6 and 2.8).

In practice, most of the Zakat institutions accept the idea of giving preference to the poor. In Pakistan the Zakat law gives 90 % of the Zakat proceeds to the poor (Council of Islamic Ideology). The Sudanese Zakat law adopts the view of distributing the Zakat proceeds to the eight categories mentioned in Qura'n but giving priority to the *fuqara* and *masakin* by giving them 45% of the revenue, in addition to 2% to the indebted and 3% to the needy wayfarer (AL-Abdin 1997, Diwan Al-Zakat 1993). The studies and reports written about Nasir

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[٥١] Al-Qaradawi discusses the different juristic opinions on sources of Zakat, given the circumstances of the time. Zakat laws in Malaysia, Pakistan, Sudan and Yemen adopted the view of widening the sources of Zakat (Al-Abdin 1997).

[٥٢] Abu 'Ubayd, *op. Cit., p. 502.*

Bank of Egypt and Kuwait Zakat House show that most of the Zakat proceeds are distributed to the poor and low-income people (Al-Umar 1989).

Although Zakat did reduce measured income inequality in Pakistan during 1987-88, none of the official Zakat systems has put a significant dent in poverty (Jehle 1994, Mohammad 1991). The likely explanation for the disappointing effect of Zakat as an equalization instrument rests on a number of observations. First, Zakat revenue is limited almost everywhere by low rates, loopholes and widespread evasion (Al-Abdin 1997, Ghazali *et al.* 1990, Kuran 1995, Mohammad 1991). Second, the cost of administering the system is about a third in Sudan, more than two and a half times its designated share or nearly three times the recorded highest cost of administering a comparable social fund (Fergany 1999, Ministry of Manpower 1997). Third, large shares of the raised revenue are financing causes other than poverty reduction (Anwar 1991). Despite these critical observations, past experience showed that Zakat led to alleviation of poverty when it is collected and distributed appropriately.

5.4 The Role of Zakat Institutions in Poverty Alleviation

During the reign of the second Caliph Omar Ibn Al-Khattab, Mu'adh Ibn-Jabal as governor of Yemen did not find a poor person to whom he could give Zakat in the country. It was reported that the second Caliph had admonished Mu'adh after the latter had sent him one third of the Zakat-proceeds informing him that "I have not sent you as a tax-collector, but to take from the rich and give to the poor". Mu'adh answered the Caliph "I would not have done so, had I found somebody to take it from me". During the second year, Mua'dh sent half of the Zakat proceeds to the Caliph, and on the third year he sent all the proceeds of Zakat of Yemen to Medina telling the Caliph Omar that he did not find any poor person to accept Zakat (Abu 'Ubaid 1988). A similar story was reported during the reign of Imam Omar Ibn Abdul-Aziz. This clearly shows that Zakat institution was efficient in addressing poverty in the past and that it can again be useful, among other devises used now, to combat poverty in the Muslim World.

Zakat revenue depends on the sources from which it is collected. Islamic Jurists have different opinions about the sources from which Zakat can be collected. Three juristic opinions are used by Kahf (1997) to estimate the Zakat proceeds for a sample of eight countries[53]. The estimated Zakat proceeds, following Kahf (1997) for the three *Fiqhi* views, as percentages of GDP in these countries, are summarized in Table (5.1).

Table 5.1 Estimation of Zakat Revenue as % of GDP based on three Fiqhi Opinions

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[٥٣] In a detailed study Kahf employed the following three different views to estimate Zakat revenue for eight Muslim countries: that of the majority of the Fuqaha, that of Sheikh Al-Qaradawi, and that of Ibn Aqil Al Hanbali. For further details, interested readers may consult " Zakat : Unresolved issues in the contemporary Fiqh" in Majalat Al Abhath Al Iqtissad Al Islami, Vol.2, No 1, 1989.

Country	Opinion 1	Opinion2	Opinion3
Egypt	2%	3.9%	4.9%
Pakistan	1.6%	3.5%	4.4%
Indonesia	1%	1.7%	2%
Qatar	0.9%	3.7%	3.2%
Saudi Arabia	1.2%	3.7%	3.4%
Sudan	4.3%	6.3%	6.2%
Syria	1.5%	3.1%	3.1%
Turkey	1.9%	4.9%	7.5%

Based on the above estimates, the average percentage of Zakat proceeds according to the three *Fiqhi* opinions are approximately equal to 1.6%, 3.7% and 4.3% of GDP, respectively, indicating that the average Zakat revenue ranges between 1.6% and 4.3% of GDP. However, the actual revenues of Zakat, reported in selected countries gives lower estimates (Table 5.2).

Table 5.2: Zakat Revenue of Selected Muslim Countries

Country	Zakat Revenue in Millions	% of GDP	Period	Currency
Yemen	499.5	0.6	89	Yemeni Riyal
Pakistan	2705.53	0.26	91	Rupees
Sudan	570	0.5	91	Pound
Kuwait	5.799	0.03	88	U.S $
Egypt	21.9	0.01	88	Pound
Malaysia	26.7	0.02455	94	R.M

Sources: Al-Abdin (1995), Al-Qussi (1998), Bait Al-Zakat (1999), Mueen (1995) and Zakuallah & Bin Osman (1995).

It is clear from the results in tables 5.1 and 5.2 that the actual Zakat proceeds are even far less than the lower bound of the estimated average percentage of the Zakat revenue. This indicates that the Zakat revenue is far less than the potential of Zakat on the wealth or its return (measured by GDP) of those countries. A corollary to these findings would claim that there are obstacles in collecting Zakat in these countries, and consequently this calls for the removal of such obstacles in order to increase the Zakat collection, with a view to distribute the proceeds to its eligible recipient.

However, several studies argue that the main reasons behind this poor collection are the changing character and functions of the voluntary Zakat to obligatory Zakat, the inefficiency of the collecting agencies and relatively high administration costs, the poor propagation of the importance of Zakat as a religious duty, and the loss of confidence between the contributors of Zakat and the Zakat institutions. Obligatory Zakat systems established in recent decades have bred resentment, partly because of their widely recognized inequities, and partly because payers like to have some say in how their contributions are spent (Kuran 1995). Indeed, recent findings suggest that most Zakat payers would rather make their donations to private charities, if not directly to individuals of their own choice (Al-Abdin 1997, Ghazali *et al.* 1990, and Mohammad 1990).

Despite these critical observations, some empirical evidence points to various innovations. For example, the collection of Zakat in Pakistan increased by 52% in real terms from 1980 to 1989 and that a significant number of persons volunteered to serve in Zakat committees without any remuneration, demonstrating the ability of Zakat to mobilize social and cultural capital in facilitating poverty reduction schemes (Al-Abdin 1997, Mohammad 1990). The payment of Zakat in the year 1990-91 was five times (14.4 billion rupees) what the Government managed to collect.

In Sudan, the Zakat law adopts the juristic opinion that widens the sources to make all forms of properties and incomes subject to Zakat. The statistics indicate that the average growth rate in Zakat collection during the four years 1411H-1415H reached 135% per year (Diwan Al-Zakat 1993). In Egypt, the Zakat proceeds collected by Nasir Social Bank between 1972 and 1991 reached 118 million Egyptian pounds and benefited 12 million deserving people (Hassan 1995). The Zakat income of Faisal Islamic Bank during 14 years (1400-1414H) amounted to about 37.2 million Egyptian pounds.

5.5 The Role of IDB in the establishment of Zakat Institutions

IDB has consistently played a facilitating role in stimulating its member countries in important issues such as poverty alleviation. The Islamic Research and Training Institute (IRTI) at IDB, aware of this important mission, launched a series of seminars of awareness on the role of Zakat, as a means of alleviating poverty in the most deprived member countries in West Africa. These seminars generated debate and interest from participants and government officials, attending the seminars. Partly as a result of these seminars, several countries took the necessary and pragmatic steps in establishing the Zakat Institutions in a short period of time.

Among the member countries and Muslim communities that have already made progress in the establishment of Zakat institution are Senegal (Fonds Senegalais de Solidarite Islamique: FSSI-ONG), Benin, Congo-Brazzaville, Congo-Kinshasa, Cote d'Ivoire, Guinea-Conakry and Cameroon. Although there is a positive tendency and eagerness in the Muslim countries and communities on the importance of the socioeconomic role that the Islamic institution of Zakat can play in alleviating poverty, such a pious desire could have been served by following-up progress and providing a forum to exchange and disseminate information on experience and lessons learned since the establishment of these institutions.

5.6 The Role of *Waqf* in Contemporary Muslim Countries and Communities

In its basic meaning and content, the institution of *Waqf* represents an economic and social institution, which is able to discharge its developmental role in society if certain conditions have been met. Important among these conditions is the existence of a strong will on the part of decision-makers to activate and revive the traditional role of *Waqf* in the development and maintenance of human capital, other social services and environmental protection. Throughout the golden age of Islamic history, the institution of *Waqf* has played an important role in economic and social development. *Waqf* has taken upon itself to finance and satisfy many of the society's basic needs and services, an undertaking that has relieved the burden of many national governments in various countries.

Waqf has been a source of finance for places of worship (mosques), education and research centers, including building schools, institutes and colleges, libraries, caring for nurseries and *katateeb* (traditional elementary schools, where reading and writing are taught). At times, *Waqf* has financed the entire needs of the education sector, including housing, clothing, feeding and medical care of students and staff. In addition, Waqf has provided medical care and fully equipped hospitals, among other charitable purposes. In the area of social services, the benefits of the institution of *Waqf* have reached the poor, the needy, the wayfarer, the blind, the handicapped and the mentally ill, and the prisoners of war. The institution of *Waqf* has even gone beyond the financing of basic social services to include contribution to society's defense and security by financing the construction of high walls, digging ditches, etc.

However, the development and investment of *Awqaf* properties cannot be achieved without facing up to the challenges posed by a number of obstacles and difficulties. These include the administrative and legislative hurdles. One of the operational tasks needed to facilitate development of *Awqaf*, is related to the challenge of adapting modern management techniques to the prevailing economic relations among societies where Waqf exists. Similarly, the absence of a legislative or juridical framework for *Waqf* is an area which requires re-formulation of *Waqf* jurisprudence in accordance with the contemporary environment of the Muslim communities, and consideration of contemporary juridical opinions regarding *Waqf* and its newly emerging issues, from the perspectives of development, investment and financing of its properties, as well as consideration of those issues in relation to the distribution of *Waqf* yield and its disbursement among its eligible recipient. Lessons from development of legislative framework that is appropriate to the contemporary reality of new *Awqaf* properties as well as other similar issues which are required by the management of economic and social institutions in modern age can be learned from the good practice in promoting Waqf in Kuwait (Box 10).

Box 10: *Waqf* – A Distinguished Leader in the Progress of Society

Kuwait experience in promoting Waqf in the State of Kuwait dates back to 1108H (corresponding to 1695G). Waqf at that time represented independent social solidarity, without *affiliation to any central official activity. The introduction of the 20th century governmental system necessitated establishment of Waqf department in 1921, based on the past experience of Waqf as a social solidarity institution. With the application of Islamic sharia' in matters related to Awqaf, the institutional structure of Waqf was introduced in 1951. The independence of Kuwait in 1965, upgraded the department into a Ministry. 1993 established Kuwait Awqaf Public Foundation (KAPF) established, with a mandate to propagate Waqf and carrying out its normal duties.*

KAPF started by adopting a strategic vision to conduct its business, based on its stated objectives, future direction, building on past experience and modern institutional techniques. Abided by the strategic approach in planning its Waqf work, KAPF accorded priority to institutional dimension of its work, since it is expected to expand its role within the framework of modern and developmental role of Waqf. KAPF built, inter alia, a network of specializes institutions to effectively conduct specifically assigned tasks, with a simplified control system.

The main pillars of such a system are: separation between Waqf assets management outcome and the management of Waqf service programmes, effectiveness of organizational communication lines and the smoothness of administrative movement, and striking a balance, when distributing powers, between the necessities of taking initiatives and control requirements. In addition to KAPF, the institutional network includes the specialized funds in Waqf sector, Waqf community development, Waqf projects, Waqf investment staff and private Awqaf administration.

The network establishes both local and foreign relations. The former focuses on organizational relation with official government entities and activities as well as charitable and investment relations with private a local popular organization. The foreign relation campaign covers various activities, such as mustering international support to promote Waqf; technical cooperation and exchange of experience with other Islamic countries, academic centers, and international organizations; coordinating activities to develop foreign Waqf investments in collaboration with other partners; and exhibition of the Islamic civilized face of Kuwait abroad.

KAPF's investment strategy is maintaining a balance between financial and development criteria in investing Waqf assets, with emphasis on diversifying its sharia-compatible resources and commitments both locally and internationally. Its financial performance suggests enormous growth with some success: volume of newly established Awqaf of 1996 exceeded KD 4.2 million, net revenues of Waqf investment reached KD 10.1 million and expenditure on development projects amounted to KD 4.0 million. Information system of KAPF encompasses several objectives: modern systems, integrated Awqaf database, expansion of computerized information system and integration with Islamic and global systems. KAPF's research and development (R & D) activities are feeding and refining its strategic planning, management and investment functions.

Its future Awqaf work will address new activities (such as propagating the Waqf formula in private organization of Waqf investment and developing Waqf legislation) and dissemination of knowledge on modern experience of Islamic Waqf, issuing Waqf bibliography and periodical on Islamic Waqf. I.e., information technology and R & D are helping KAPF to achieve its objectives and to renew itself to meet challenges of promoting Waqf and revitalizing its community role.

Source: Al-Fadli (1998).

Again, the above experience highlights the need to complement and to disseminate such practices, perhaps through effective partnerships with Waqf institutions in member countries. Indeed, IDB attaches special importance to the development and investment of

Awqaf properties in its member countries and Muslim communities. Since 1404H, IDB had organized more than 11 training courses, seminars and symposia on various aspects of *Waqf*. Moreover, it has undertaken many research studies on the subject of *Waqf*, its contemporary applications and experiences of Muslim member countries and communities in this area. IRTI has also implemented joint *Waqf* projects in cooperation with many *Awqaf* ministries and institutions in Muslim countries and communities, especially in cooperation with the General Secretariat of *Awqaf* in Kuwait. Programmes that are designed to document and disseminate knowledge include Documentation of *Waqfi* Experiences; *Waqfi* Concordance Program and Encyclopaedia of *Waqf* Information Bank.

In addition to financing several investment and development projects through Special Assistance Programme of the Bank, the utilization of Waqf resources, augmented by charitable funds, in financing poverty-related activities such as microenterprises and social funds deserves special consideration. Empirical evidence attests to the fact that sadaqat payers would rather make their donations to (non-governmental) private charities, if not directly to individuals of their own choice. In this respect, IDB may wish to explore the viability of establishing such a body (pooled funds of sadaqat) as a magnet to collect (in an escort account) charities with the aim of disbursing funds only for poverty alleviation. At its initial stage, the fund can be utilized only in social safety nets and investment in micro-enterprises of the poor. At subsequent stages, depending on growth of voluntary contributions and its achievements, the fund might expand its reach to other poverty eradication programmes. This is a well-targeted programme and the fund to be generated is independent of the Zakat and Waqf activities, and the intermediary role to be played by the Bank or a specialized entity will complement and reinforces poverty alleviation efforts in member countries.

The institution of Waqf entails the use of cash, land, and real estate for charitable purposes (Basar 1987, Cizaka 1996, El-Ashkar and Haq 1995). There are certain conditions governing Waqf, but the objective is to serve the poor and the community. Similarly, the institution of *Zakat* and other forms of charity (*sadaqat*) in Islam are also important tools for the redistribution of income and growth. Zakat and other forms of charities can also be used to increase the participation in production of the poor (Habib 1998). Although Islamic social and cultural capital, inculcated in the behavioral norms of Muslims (such as honesty, generosity, and work effort), are difficult to quantify, mobilization of these enormously unutilized assets in managing and disbursing charitable funds are likely to reduce cost of operation in financing micro-enterprises and other social funds. Thus, mobilizing charities, perhaps through unofficial channels such as NGOs is a venue and mechanism to increase participation of the community in implementing social assistance programmes for the poor. Emerging evidence elsewhere (such as the Grameen Bank in Bangladesh) suggests that if credit programmes (targeted to the poor) were to succeed in reaching the poor, it is important to:

- Drop the requirements for collateral or search for alternatives to physical collateral (ESCAP 1995b, World Bank 1997d);
- Reduce the transactions costs of these programmes to the poor, possibly with support of NGOs;
- Encourage potential borrowers to organize groups to borrow collectively;
- Include incentives that encourage prompt repayments; and

- Incorporate savings as a necessary component of the programme.

The presence of Waqf and Zakat funds on the liability side of microfinance institutions is compatible with the social financial intermediation role of these institutions. What remains to be investigated by scholars of Fiqh in this aspect is whether the funds of Waqf, Zakat, and other forms of charities can be used to finance the enterprises of the poor. The terms and conditions under which this can be done would require some guidelines. Another related issue to resolving the possibility of the giving Waqf, Zakat, and other charities as outright grants to micro-entrepreneurs, Islamic scholar also need to explore whether the microfinance institutions can give these funds on different non-interest bearing modes of financing. I.e., although development of micro-enterprises are important means to alleviate poverty (by increasing employment), financing of micro-enterprises requires social financial intermediation of funds in operations (to internalize risks). An Islamic approach, in light of the above observations, may contribute to operationalizing such temporary programmes, at least to complement and sustain growth-promoting activities of the Bank.

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Annexes

Annex Table (A.1): The State of Rural Inequality in a Sample of African Islamic Countries (%)

Country	Survey year	Gini	Q1	Q2	Q3	Q4	Q5
Burkina Faso	1994	38.7	7.35	11.02	14.69	20.41	46.53
Gambia, The	1992	35.2	5.96	11.93	17.19	23.51	41.4
Guinea	1994	32.60	7.95	12.11	16.43	22.69	40.82
Guinea-Bissau	1991	57.40	1.88	6.18	11.31	20.31	60.31
Mali	1994	43.10	5.91	10	14.09	20.45	49.55
Mauritania	1995	33.30	7.20	12.4	16.8	22.8	40.8
Niger	1995	50.50	2.50	7.14	13.57	23.21	53.57
Senegal	1991	30.50	8.54	13.13	16.88	22.08	39.37
Uganda	1992-93	37.90	6.67	11.67	15	21.67	45
Mean		39.91	6.00	10.62	15.11	21.90	46.37
Standard Deviation		8.96	2.32	2.42	1.94	1.26	7.02

Notes: Q1, Q2, Q3, Q4, and Q5 corresponds to the first, second, third, fourth and fifth quintile, respectively.
Source: Table A.2 in Ali (1999a).

Annex Table (A.2): The State of Urban Inequality in a Sample of African Islamic Countries of SSA (%)

Country	Survey year	Gini	Q1	Q2	Q3	Q4	Q5
Burkina Faso	1994	45.4	4.84	9.07	13.91	21.24	50.93
Gambia, The	1992	44.2	5.85	10	14.15	19.63	50.37
Guinea	1994	39.08	6.66	10.88	14.97	21.24	46.24
Guinea-Bissau	1991	47.7	3.78	9.11	13.83	21.17	52.11
Mali	1994	43.6	5.87	9.93	13.99	20.28	49.93
Mauritania	1995	34.6	7.37	12	16	22.32	42.32
Niger	1995	39.06	5.76	11.19	15.76	22.03	45.25
Senegal	1991	38.3	7.62	11	14.72	20.26	46.41
Uganda	1992-93	45.1	5.6	9.6	13.6	20	51.2
Mean		41.89	5.93	10.31	14.55	20.91	48.31
SD		4.28	1.19	1.01	0.87	0.92	3.35
T-ratios for Rural-Urban differential		**-0.64834**	**0.087464**	**0.382429**	**0.83062**	**1.860895**	**-0.79748**

Notes: SD denotes standard deviations and Qs as defined in Table (A.1).
Sources: Table A.3 in Ali (1999a) and World Bank (1999b).

Annex Table (A.3): The State of Rural Poverty in a Sample of African Islamic Countries

Country	Per capita exp/month in	z per month in 1985 PPP	P_{0r}	P_{1r}	P_{2r}	$_{0r}$	$_{1r}$	$_{2r}$	v_{0r}	v_{1r}	v_{2r}

	1985PPP										
Burkina Faso	24.07	24.4	69.7	27.6	13.6	-0.8	-1.5	-2.03	0	1	2
Gambia, The	24.52	24.5	60.2	24.9	13.9	-1.08	-1.4	-1.6	0	1	2
Guinea	21.22	24.0	70.5	28.6	14.5	-0.81	-1.5	-1.94	-0.09	0.7	1.54
Guinea-Bissau	29.05	25.2	65.2	37.8	26.9	-0.54	-0.72	-0.81	0.08	1.3	2.5
Mali	19.96	23.8	78.2	38.01	22.4	-0.53	-1.05	-1.4	-0.088	0.65	1.43
Mauritania	46.68	28.0	28.12	8.5	3.58	-1.86	-2.3	-2.75	1.26	3.24	5.22
Niger	16.96	23.4	75.8	45.9	33.3	-0.42	-0.64	-0.76	-0.11	0.56	1.27
Senegal	45.73	27.8	25.5	6.17	2.08	-2.3	-3.13	-3.9	1.52	3.65	5.8
Uganda	37.12	26.4	43.27	14.36	6.5	-1.5	-2	-2.42	0.65	2.3	3.9
Mean	29.48	25.29	57.39	25.76	15.20	-1.09	-1.58	-1.96	0.36	1.60	2.85
SD	11.11	1.71	20.12	13.80	10.63	0.66	0.79	0.99	0.63	1.17	1.70

Notes: z is the poverty line in per capita terms, per month, evaluated at the 1985 PPP. Pi, is the poverty measure, for i=1 means head-count ratio, i=2 corresponds to poverty-gap ratio and for i= 3 means squared poverty gap ratio. The remaining symbols refer to parameters used in calculation of elasticities, using POVCAL.
Source: Table A.4 in Ali (1999a) and POVCAL results.

Annex Table (A. 4): The State of Urban Poverty in a Sample of African Islamic Countries

Country	**per capita exp/month in 1985PPP**	**Z per month in 1985 PPP**	**P_{0u}**	**P_{1u}**	**P_{2u}**	$_{0u}$	$_{1u}$	$_{2u}$	**v_{0u}**	**V_{1u}**	**v_{2u}**
Burkina Faso(W)	79.08	33.7	28.1	9.5	4.3	-1.4	-1.94	-2.4	1.89	4.89	7.86
Gambia, The(W)	70.56	32.1	24.9	7.3	2.9	-1.8	-2.4	-2.9	2.2	5.2	8.08
Guinea(W)	44.93	27.7	38.23	11.9	4.9	-1.6	-2.2	-2.78	0.95	2.94	4.9
Guinea-Bissau(W)	54.76	29.3	36.6	15.9	9.4	-1.17	-1.3	-1.4	1.05	3.06	5.05
Mali	64.88	31.1	28.5	8.4	3.28	-1.72	-2.4	-3.08	1.88	4.7	7.6
Mauritania	88.70	35.5	12.6	2.4	0.61	-2.8	-4.3	-5.8	4.11	8.7	13.4
Niger(W)	35.74	26.2	45.3	17.2	9	-1.36	-1.6	-1.8	0.49	1.95	3.4
Senegal	110.04	39.9	7.83	0.73	0.09	-5.5	-9.8	-14.1	9.6	19.9	30.2
Uganda	77.33	33.4	25.3	7.14	2.7	-1.8	-2.5	-3.3	2.4	5.7	9.04
Mean	69.56	32.10	27.48	8.94	4.13	-2.13	-3.16	-4.17	2.73	6.34	9.95
SD	22.77	4.18	11.92	5.50	3.26	1.35	2.63	3.92	2.78	5.45	8.13
T-ratio for Rural-Urban differential	-9.25	-6.08	4.33	3.55	3.04	1.76	1.95	2.24	-2.91	-4.06	-4.86

Notes: Variables as defined in Table A.3 above.
Source: Table A.5 in Ali (1999a).

Annex Table (A.5): The State of Poverty in a Sample of African Islamic Countries

Country	Mean per capita exp. per month in 1985 PPP	Poverty lines(mean per capita per month in 1985PP	P_0	P_1	P_2	0	1	2	v_{0u}	v_1	v_2
Burkina Faso(W)	32.91	27.49	65.9	28.7	15.3	-0.7	-1.3	-1.7	0.2	1.5	2.8
Gambia, The(W)	45.18	26.48	42.4	17.2	9.3	-1.2	-1.5	-1.7	0.83	2.8	4.7
Guinea(W)	29.04	25.00	59.3	23.3	11.8	-0.98	-1.5	-1.96	0.15	1.4	2.6
Guinea-Bissau(W)	36.81	26.07	56.4	30.8	21.4	-0.68	-0.83	-0.89	0.28	1.8	3.2
Mali	27.22	19.57	57.4	25.1	13.6	-0.8	-1.2	-1.7	0.34	1.96	3.6
Mauritania	64.42	37.87	34.2	11.2	4.9	-1.5	-2.04	-2.5	1.1	3.2	5.2
Niger(W)	19.99	15.34	54.8	29.6	20.3	-0.7	-0.8	-0.9	0.21	1.6	2.9
Senegal	70.50	31.00	36.9	16.5	9.7	-1	-1.24	-1.4	1.3	3.8	6.3
Uganda	40.21	28.90	45.2	15.4	6.9	-1.4	-1.9	-2.4	0.59	2.2	3.9
Mean	40.70	26.41	50.28	21.98	12.58	-1.00	-1.37	-1.68	0.56	2.25	3.91
Standard Deviation	16.93	6.43	10.95	7.11	5.66	0.31	0.42	0.57	0.43	0.84	1.25

Notes: Variables and parameters as defined in Table A.3.
Source: Table A.6 in Ali (1999a) and World Bank (1999b).