

# DELIVERING ON THE PROMISE OF PRO-POOR GROWTH

*Insights and Lessons from Country Experiences*

Editors

Timothy Besley · Louise J. Cord



**DELIVERING ON THE PROMISE  
OF PRO-POOR GROWTH**



# **DELIVERING ON THE PROMISE OF PRO-POOR GROWTH**

*Insights and Lessons from Country Experiences*

**Timothy Besley and Louise J. Cord, Editors**

**A copublication of Palgrave Macmillan  
and the World Bank**

© 2007 The International Bank for Reconstruction and Development / The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)  
E-mail: [feedback@worldbank.org](mailto:feedback@worldbank.org)

All rights reserved.

1 2 3 4 10 09 08 07

A copublication of The World Bank and Palgrave Macmillan.

Palgrave Macmillan  
Houndmills, Basingstoke, Hampshire RG21 6XS and  
175 Fifth Avenue, New York, NY 10010  
Companies and representatives throughout the world

Palgrave Macmillan is the global academic imprint of the Palgrave Macmillan division of St. Martin's Press, LLC and of Palgrave Macmillan Ltd.

Macmillan® is a registered trademark in the United States, United Kingdom, and other countries. Palgrave is a registered trademark in the European Union and other countries.

This volume is a product of the staff of the International Bank for Reconstruction and Development / The World Bank. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgement on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

### **Rights and Permissions**

The material in this publication is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. The International Bank for Reconstruction and Development/The World Bank encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly.

For permission to photocopy or reprint any part of this work, please send a request with complete information to the Copyright Clearance Center Inc., 222 Rosewood Drive, Danvers, MA 01923, USA; telephone: 978-750-8400; fax: 978-750-4470; Internet: [www.copyright.com](http://www.copyright.com).

All other queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher, The World Bank, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2422; e-mail: [pubrights@worldbank.org](mailto:pubrights@worldbank.org).

ISBN-10: 0-8213-6515-0 (softcover)  
ISBN-10: 0-8213-6670-X (hardcover)  
ISBN-13: 978-0-8213-6515-1  
eISBN-10: 0-8213-6516-9  
eISBN-13: 978-0-8213-6516-8  
DOI: 10.1596/978-0-8213-6515-1

Library of Congress Cataloging-in-Publications Data has been applied for.  
Cover design: Paine Bluett Paine, Inc.

---

# Contents

|  |     |
|--|-----|
| Acknowledgments  | ix  |
| Abbreviations  | xi  |
| 1. Overview  | 1   |
| <i>Louise J. Cord</i>  |     |
| 2. How Indonesia Connected the Poor to Rapid Economic Growth                     | 29  |
| <i>C. Peter Timmer</i>   |     |
| 3. The Policy Origins of Poverty and Growth in India                             | 59  |
| <i>Timothy Besley, Robin Burgess, and Berta Esteve-Volart</i>                    |     |
| 4. Explaining Pro-Poor Growth in Bangladesh: Puzzles, Evidence, and Implications | 79  |
| <i>Binayak Sen, Mustafa K. Mujeri, and Quazi Shahabuddin</i>                     |     |
| 5. Pro-Poor Growth in Vietnam: Miracle or Model?                                 | 119 |
| <i>Rainer Klump</i>  |     |
| 6. Ghana: The Challenge of Translating Sustained Growth into Poverty Reduction   | 147 |
| <i>Ernest Aryeetey and Andrew McKay</i>  |     |
| 7. Uganda's Experience with Operationalizing Pro-Poor Growth, 1992 to 2003       | 169 |
| <i>John A. Okidi, Sarah Ssewanyana, Lawrence Bategeka, and Fred Muhumuza</i>     |     |
| 8. The Success of Pro-Poor Growth in Rural and Urban Tunisia                     | 199 |
| <i>Mohamed Hédi Lahouel</i>  |     |
| 9. Human Capital, Inequality, and Pro-Poor Growth in Brazil                      | 219 |
| <i>Naércio Menezes-Filho and Lígia Vasconcellos</i>                              |     |
| Index  | 245 |

## TABLES

|      |  |     |
|------|--|-----|
| 1.1  | Initial Conditions in the Eight Countries Studied  | 3   |
| 1.2  | Basic Poverty, Growth, and Inequality Trends in the Eight Countries Studied  | 5   |
| 2.1  | Income Distribution and the Share of the Poor in National Income, 1964/65–2002                                     | 37  |
| 2.2  | Percentage of Employment by Major Sector, Urban and Rural Areas, Formal and Informal Sectors, Indonesia, 1986–2004 | 38  |
| 2.3  | Factors Affecting Changes in the Headcount Index of Poverty  | 43  |
| 2.4  | Roads and Trucks in Indonesia, 1939–98   | 49  |
| 3.1  | Poverty and Growth across Indian States  | 63  |
| 3.2  | Classification of States according to Total Poverty Elasticity and Growth Components                               | 64  |
| 3.3  | Rankings of Growth Elasticities of Poverty, Growth Rates, and Policies of Indian States, 1958–2000                 | 73  |
| 4.1  | Trends in Foster-Greer-Thorbecke Measures of Poverty: Consumption Expenditure Data                                 | 81  |
| 4.2  | Social Development in Bangladesh: Predicted versus Actual Values   | 83  |
| 4.3  | Average Annual Economic Growth in Bangladesh at Constant 1995/96 Prices  | 85  |
| 4.4  | Trends in Inequality: Consumption Data (Tk/month/person)   | 86  |
| 4.5  | Ordinary Growth and Pro-Poor Growth Rates in Bangladesh: 1990s versus 1980s  | 87  |
| 4.6  | Ordinary Growth and Pro-Poor Growth Rates in Bangladesh: Rural, Urban, and National, 1991/92–2000                  | 88  |
| 4.7  | Relative Performance of Macroeconomic Indicators, 1975–2000  | 89  |
| 4.8  | Percentage Distribution of Public Expenditure in Agricultural and Rural Development in Bangladesh: 1980–2001       | 91  |
| 4.9  | Returns to Labor by Mode and Sector of Employment and by Poverty Status in Rural Areas: 1999/2000                  | 98  |
| 4.10 | Percentage of Rural Labor Force in Nonfarm Sector, 1983–2000   | 99  |
| 4.11 | Changes in Land Tenure: 1983/84–1996   | 100 |
| 4.12 | Rural Income Inequality and Its Sources, 1991–2000   | 106 |
| 4.13 | Urban Income Inequality and Its Sources, 1991–2000   | 108 |
| 5.1  | Vietnam's Per Capita Income (Percentage) Relative to Important Neighboring Countries, 1950–99                      | 121 |
| 5.2  | Dimensions of Poverty in Vietnam, 1993–2004  | 124 |
| 5.3  | Indicators of Growth and Inequality in Vietnam during the 1990s  | 124 |
| 5.4  | Rates of Pro-Poor Growth, 1993–2002  | 126 |
| 5.5  | Growth Accounting for Vietnam, 1987–2002   | 127 |
| 5.6  | Net Enrollment Rates (%) in Vietnam, 1993–2002   | 129 |
| 5.7  | Ownership Structure of Total Investment in Vietnam, 1991–2000  | 131 |
| 5.8  | Growth and Structural Changes in the Vietnamese Economy, 1986–2001   | 132 |
| 5.9  | Sectoral Employment Elasticities and Labor Productivities, 1986–2001   | 133 |
| 6.1  | Changes in Poverty and Inequality at the National Level, 1991/92–1998/99   | 150 |

|     |   |     |
|-----|---|-----|
| 6.2 | Trends in Poverty Incidence by Main Economic Activity of Household, 1991/92 and 1998/99   | 152 |
| 6.3 | Poverty Reduction by Main Economic Activity, Decomposed into Intragroup and Migration Effects (Percentage Contributions), 1991/92–1998/99 | 153 |
| 6.4 | Collins and Bosworth Growth Accounting-based Decomposition of Sources of Growth, Ghana versus Sub-Saharan Africa, 1960–97                 | 153 |
| 7.1 | Decomposing Poverty Trends in Uganda, 1992–2003   | 172 |
| 7.2 | Contribution of Growth and Inequality to Poverty Reduction by Region and Category of Employment, 1992–2003                                | 175 |
| 7.3 | Rates of Average Expenditure and Pro-Poor Growth, 1992–2003   | 176 |
| 7.4 | Growth Rates by Industry Group, 1992–2003   | 177 |
| 8.1 | Incidence of Poverty in Tunisia: Headcount Ratios for the Lower and Upper Poverty Lines, 1980–2000  | 201 |
| 8.2 | Poverty Incidence in Tunisia: Regional Headcount Ratios for the Lower Poverty Level, 1980–2000  | 202 |
| 8.3 | Growth Performance, 1962–2000 (Annual Averages)   | 203 |
| 8.4 | Growth Decomposition, 1962–2000 (in Percentage of Total GDP Growth)   | 203 |
| 8.5 | Trends in Income Inequality, 1980–2000 (Gini Coefficient)   | 205 |
| 8.6 | Pro-Poor Growth Rates, 1980–2000  | 206 |
| 8.7 | Population Growth and Poverty   | 215 |
| 9.1 | Inequality Decompositions in Brazil (%)   | 220 |
| 9.2 | Effect of Pensions on Extreme Poverty   | 223 |
| 9.3 | Growth and Inequality Poverty Decomposition, 1981–2001  | 227 |
| 9.4 | Distribution of Students in Public Schools by Consumption Brackets (%)  | 227 |
| 9.5 | Growth Elasticity of Poverty by State and Area  | 232 |
| 9.6 | Determinants of Pro-Poor Growth   | 236 |
| 9.7 | Determinants of Growth  | 237 |

## FIGURES

|     |   |    |
|-----|---|----|
| 1.1 | The Eight Countries   | 2  |
| 1.2 | Urban Poverty Fell More Rapidly than Rural Poverty except in Indonesia  | 6  |
| 1.3 | Most Poverty Reduction Occurred in Rural Areas except in Brazil   | 6  |
| 1.4 | Economic Growth Reduces Poverty   | 7  |
| 1.5 | Consumption by the Poor Generally Grew Slower than Average Consumption  | 8  |
| 1.6 | National Averages in Ghana Mask Significant Regional Variation in the Contributions of Growth and Inequality to Poverty Reduction | 9  |
| 1.7 | Changes in Growth and Inequality Are Related  | 10 |
| 1.8 | Significant Poverty Reduction but Rising Inequality in Bangladesh, Uganda, and Vietnam  | 10 |
| 1.9 | Nonagricultural Growth Was almost Triple Agricultural Growth  | 16 |
| 2.1 | Indonesia's Growth Incidence Curve, 1996–2002   | 33 |



|      |   |     |
|------|---|-----|
| 2.2  | Income Growth for Bottom Quintile Plotted against Growth for Average Per Capita Incomes, Indonesia, 1967–2002 | 33  |
| 2.3  | Road to Pro-Poor Growth   | 35  |
| 3.1  | Changes in Total Real Income Per Capita, Total Official Poverty, and Inequality, by Indian State, 1957–2000   | 61  |
| 4.1  | Long-Term Trends in Infant Mortality  | 84  |
| 4.2  | Bangladesh's Growth Incidence Curves, 1991/92–2000  | 87  |
| 5.1  | Vietnam's Growth Incidence Curve, 1993–2002   | 125 |
| 6.1  | Ghana's Growth Incidence Curve, 1991–98   | 149 |
| 7.1  | Prior to 2000 Growth Was Robust and Pro-Poor in Absolute Terms  | 173 |
| 7.2  | Structural Transformation Tapered Off, 1992–2003  | 178 |
| 7.3  | Ugandan Policy Makers Control Inflation to a Single Digit, 1991–2004  | 183 |
| 7.4  | Policy Liberalization Reverses Capital Flight and Attracts FDI to Industry and Services                       | 184 |
| 7.5  | After the Boom of the Mid-1990s, Coffee Prices Plummeted  | 185 |
| 8.1  | Tunisia's Growth Incidence Curve, 1980–2000   | 206 |
| 9.1  | Poverty Reduction in the 1970s  | 222 |
| 9.2  | Brazil's Growth Incidence Curve, 1981–2001  | 226 |
| 9.3  | Average Years of Schooling and Income by Brazilian State, 1981  | 228 |
| 9.4  | Years of Schooling and Inequality by State, 1981  | 229 |
| 9.5  | Average Education by Race and State   | 230 |
| 9.6  | Average Education by Gender and State   | 230 |
| 9.7  | Initial Share of Higher Education and the Growth Elasticity of Poverty, 1981                                  | 233 |
| 9.8  | Previous Change in Higher Education and in the Growth Elasticity of Poverty by State, 1981–93                 | 233 |
| 9.9  | Change in Higher Education and Inequality by State, 1981–2001   | 234 |
| 9.10 | Change in Higher Education and Poverty Reduction by State, 1981–2001  | 235 |



## *Acknowledgments*

This book was prepared under the auspices of the Operationalizing Pro-Poor Growth (OPPG) research program cosponsored by Agence Française de Développement (AFD), German Development Policy, the UK Department for International Development (DFID), and the World Bank. The members of the OPPG research program include Mandy Chatha, Tom Crowards, Will Gargent, Manu Manthri, and Christian Rogg (DFID); Jacky Amprou, Jean Marc Chataigner, Christian Flamant, and François Pacquement (AFD); Daniel Alker, Hartmut Janus, Annette Langhammer, Ulrike Maenner, Ute Möhring, Birgit Pickel, and Julius Spatz (German Development Policy); and Sabine Bernabè, Louise Cord, Ignacio Fiestas, and Humberto Lopez (World Bank).

The work was carried out under the direction of Adrian Wood (DFID), Luca Barbone, Danny Leipziger, and Sudhir Shetty (World Bank). The team also gratefully acknowledges Gobind Nankani and John Page (World Bank), who initiated this work.

The book reflects comments received during a workshop with the authors in Frankfurt in June 2004 and during workshops with the authors, the core donor team, and World Bank and DFID staff in London in December 2004 and in Washington in February 2005. These workshops also included academics, nongovernmental organization representatives, and representatives of other donor agencies. The book reflects valuable feedback received during the World Bank's 2005 Poverty Reduction and Economic Management Conference sessions, "Equity and Pro-Poor Growth" and "Making Growth Pro-Poor: Cases and Policies," which were organized jointly with the 2006 World Development Report team.

Many others provided helpful comments. They include Gary Fields (Cornell University); C. Peter Timmer (Center for Global Development); Alan Gelb, Indermit Gill, Daniela Gressani, Catherine Hull, Tamar Manuelyan Atinc, John Page, and Martin Ravallion (World Bank); Lionel Demery (consultant); Max Everest-Phillips and Arjan de Haan (DFID); and Marc Raffinot (AFD-Development, Institutions, and Long-Term Analysis).

The editors gratefully acknowledge production assistance provided by Aliya Husain, Nelly Obias, and Jae Shin Yang. They also acknowledge the support of Stephen McGroarty, Dina Towbin, and Nora Ridolfi from the World Bank Office of the Publisher.

---

## *Abbreviations*

|         |   |
|---------|---|
| AFD     | Agence Française de Développement                             |
| AGOA    | African Growth Opportunity Act                                |
| BBS     | Bangladesh Bureau of Statistics                               |
| DFID    | UK Department for International Development                   |
| DHS     | Demographic and Health Survey                                 |
| FDI     | foreign direct investment                                     |
| GDP     | gross domestic product  |
| GEP     | growth elasticity of poverty                                  |
| GIC     | growth incidence curve  |
| GLSS    | Ghana Living Standards Surveys                                |
| HCMC    | Ho Chi Minh City  |
| HCS     | Household Consumption Survey                                  |
| HEPR    | National Program for Hunger Eradication and Poverty Reduction |
| HIES    | Household Income Expenditure Survey                           |
| HIPC    | Heavily Indebted Poor Country                                 |
| IMR     | infant mortality rate   |
| NGO     | nongovernmental organization                                  |
| NSS     | National Sample Survey  |
| OPPG    | Operationalizing Pro-Poor Growth Research Program             |
| PNAD    | Pesquisa Nacional por Amostra de Domicílios                   |
| RMG     | ready-made garments   |
| SMEs    | small and medium-size enterprises                             |
| SOEs    | state-owned enterprises                                       |
| SUSENAS | national socioeconomic survey                                 |
| TFP     | total factor productivity                                     |
| TFR     | total fertility rate  |



# 1

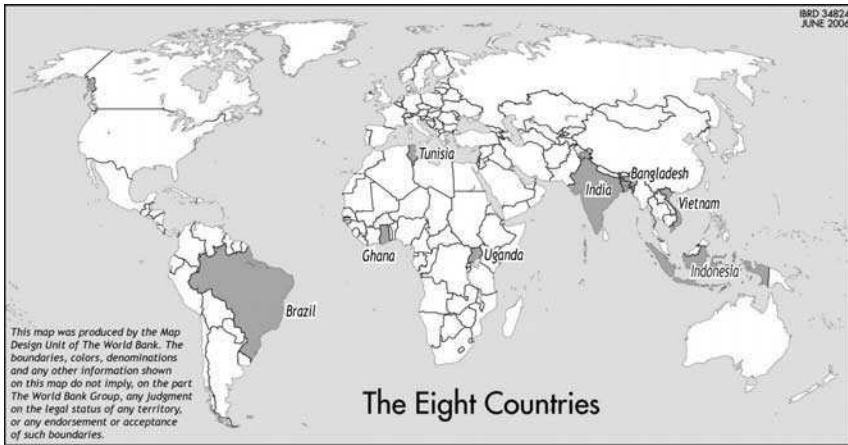
## Overview

Louise Cord

Broad-based growth is critical to accelerating poverty reduction. The most successful East Asian countries in the 1970s and 1980s showed that rapid growth, combined with low initial inequality and pro-poor distributional change, could significantly reduce poverty (World Bank 1993). Analysis of changes in poverty levels across a sample of developing countries in the 1980s and 1990s also highlights the importance of fast growth for poverty reduction (Dollar and Kraay 2002; Foster and Székely 2001; Kraay 2006; Ravallion and Chen 1997).

But income inequality also affects the *pace* at which growth is translated into poverty reduction. Growth is less efficient in lowering poverty levels in countries with high initial inequality or in which the distributional pattern of growth favors the nonpoor (Bourguignon 2004; Ravallion 1997, 2004). In the late 1990s the term *pro-poor growth* became popular as economists recognized that accelerating poverty reduction required both more rapid growth and lower inequality.<sup>1</sup>

Despite the attention given to the relative roles of growth and inequality in reducing poverty, we know little about how the microunderpinnings of growth strategies affect the ability of poor households to participate in and benefit from growth. This book contributes to the debate on how to accelerate poverty reduction by providing insights from studies of eight countries that have been relatively successful in delivering pro-poor growth: Bangladesh, Brazil, Ghana, India, Indonesia, Tunisia, Uganda, and Vietnam (figure 1.1). The studies analyze the distributional pattern of growth and the ways in which country policies and conditions affected it. They use an income-based

**Figure 1.1** *The Eight Countries*

methodology built on Ravallion (2004) to analyze the distributional impact of growth. Because institutions and nonincome dimensions of poverty are considered highly relevant determinants of this, they are discussed where relevant.

Table 1.1 shows conditions in the eight countries in the early 1990s. The three middle-income countries (where gross domestic product [GDP] per capita exceeded \$1,000 in 1990) and India experienced sustained long-term pro-poor growth. The studies of Indonesia, India, and Tunisia start in the 1950s and 1960s, while analysis of Brazil goes back to the 1980s. Growth has ebbed and flowed in these countries, reflecting exogenous forces and macro- and structural policies, as well as political and financial events, but overall these economies have shown a great deal of resiliency in delivering development.

In India and the three middle-income countries (Brazil, Indonesia, and Tunisia), governments have been able to promote public and private accumulation of physical and human capital across most households in the income distribution. (The exception may be Brazil, where capital accumulation occurred disproportionately at the middle and top end of the income distribution.) Yet these governments differ widely with respect to institutional qualities: Indonesia has a high level of corruption, whereas Tunisia has a low level. India has relatively strong democratic and federal traditions and stable public institutions, whereas Tunisia and Indonesia have largely centralized and autocratic systems of governments that are relatively effective but associated with lower levels of voice (citizen input) and accountability.

**Table 1.1** *Initial Conditions in the Eight Countries Studied*

|  | <i>Bangladesh</i> | <i>Brazil</i> | <i>Ghana</i> | <i>India</i> | <i>Indonesia</i> | <i>Tunisia</i> | <i>Uganda</i> | <i>Vietnam</i> |
|--|-------------------|---------------|--------------|--------------|------------------|----------------|---------------|----------------|
| <b>Geography and level of economic development</b> |                   |               |              |              |                  |                |               |                |
| Population density (1990)                          | 845.2             | 17.5          | 67.1         | 285.7        | 98.4             | 52.5           | 88.1          | 203.4          |
| GDP per capita (early 1990s)                       | \$291.5           | \$4,116.0     | \$356.6      | \$360.3      | \$1,113.2        | \$1,823.2      | \$260.3       | \$247.2        |
| Dollar-a-day poverty (early 1990s)                 | 49.7              | 61.6          | 51.7         | 36.0         | 15.4             | 6.7            | 55.7          | 58.1           |
| Gini coefficient (early 1990s)                     | 0.28              | 0.61          | 0.37         | 0.28         | 0.36             | 0.40           | 0.36          | 0.34           |
| Share of urban population (1990)                   | 20                | 75            | 36           | 26           | 31               | 58             | 11            | 20             |
| Share of GDP in agriculture (1990)                 | 30                | 8             | 45           | 31           | 19               | 16             | 57            | 39             |
| <b>Human development outcomes (1990)</b>           |                   |               |              |              |                  |                |               |                |
| Fertility  | 4.1               | 2.7           | 5.5          | 3.8          | 3.0              | 3.5            | 7.0           | 3.6            |
| Infant mortality                                   | 96.0              | 50.0          | 74.0         | 80.0         | 60.0             | 37.0           | 100.0         | 36.0           |
| Male literacy                                      | 44.3              | 82.9          | 70.1         | 61.9         | 86.7             | 71.6           | 69.3          | 94.0           |
| Female literacy                                    | 23.7              | 81.2          | 78.5         | 35.9         | 72.5             | 46.5           | 43.5          | 87.1           |
| <b>Macroeconomic stability and trade openness</b>  |                   |               |              |              |                  |                |               |                |
| Average inflation rate (1985–90)                   | 7.3               | 934.8         | 28.0         | 8.0          | 7.0              | 7.2            | 134.8         | n/a            |
| Trade openness (1989–91)                           | 19.2              | 15.0          | 42.1         | 16.1         | 48.2             | 90.6           | 27.4          | 68.7           |
| <b>Public accountability and governance (2000)</b> |                   |               |              |              |                  |                |               |                |
| Voice and accountability                           | 38.7              | 63.9          | 52.9         | 62.8         | 32.5             | 26.2           | 19.4          | 6.8            |
| Corruption   | 33.9              | 59.7          | 44.6         | 49.5         | 11.3             | 78.0           | 17.7          | 27.4           |
| Government effectiveness                           | 35.5              | 47.3          | 59.1         | 52.7         | 38.7             | 86.6           | 48.9          | 43.0           |

*Sources:* Public accountability and governance data are from Mastruzzi, Kraay, and Kaufmann 2005; all other data are from the World Bank's *World Development Indicators 2004*.

*Note:* n.a. = not available.



In the four low-income countries (Bangladesh, Ghana, Uganda, and Vietnam) much of the progress toward poverty reduction has been spurred by peace dividends and one-off gains from macrostabilization along with structural reforms. Attractive world market conditions and trade liberalization also allowed these countries to benefit from export growth in agriculture and manufacturing, albeit somewhat sporadically in Uganda and Ghana. In addition, increased aid flows and public expenditures have helped these countries to promote human capital accumulation with investments in health and education and, to a lesser degree, to finance improvements in their infrastructure base.

Progress in delivering human and physical capital (particularly infrastructure) has been spotty in the more remote areas of these low-income countries. The difficulty of creating pro-growth environments in these more challenging areas may particularly explain the rise in inequality that these countries experienced in the 1990s. Moreover, only Vietnam and Bangladesh achieved any measure of structural transformation with growing agricultural productivity and the release of labor into dynamic industrial and services sectors. In Ghana and Uganda, the gains from economic policy reforms appear to be shorter-lived; the bulk of the population and in particular the poor remain in agricultural and low-return nonagricultural self-employment activities.

### **Poverty, Growth, and Inequality Trends in the 1990s and Early 2000s**

Table 1.2 summarizes the main poverty, growth, and inequality trends in the countries studied. Vietnam was the most successful: it reduced poverty by almost 8 percent a year between 1993 and 2002, while Ghana, India, Uganda, and Tunisia all experienced falling poverty rates that were just under 4 percent a year in the 1990s and early 2000s. Poverty also fell in Bangladesh and Brazil but at a lower rate: just under 3 percent per year. It rose slightly in Indonesia, reflecting the 1998 financial crisis.<sup>2</sup> Although poverty tended to fall more rapidly in urban areas of the sample countries, most poverty reduction was in rural areas, where the share of poor households tended to be higher (figures 1.2 and 1.3). The exception was Brazil, where most poverty reduction occurred in urban areas, because only 30 percent of the poor resided in rural areas in 1990.

Driving these overall reductions in poverty was the rebound in growth in the mid-1990s, which led to a median growth rate for the countries of 3.1 percent in the late 1990s and early 2000s. This rate was slightly higher than the average of 2.5 percent for all low- and middle-income countries for

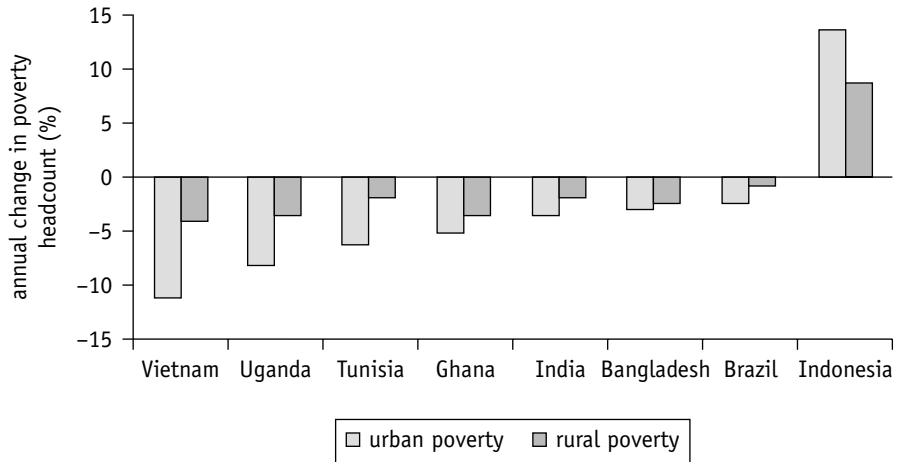
**Table 1.2 Basic Poverty, Growth, and Inequality Trends in the Eight Countries Studied**

|                   | Survey<br>year 1 | Survey<br>year 2 | Initial<br>GDP per<br>capita (\$) | Annual<br>GDP<br>growth rate<br>(%) | Initial<br>national<br>poverty<br>rate | Annual<br>change in<br>poverty rate<br>(%) | Initial Gini<br>coefficient | Annual<br>change in<br>Gini (%) |
|-------------------|------------------|------------------|-----------------------------------|-------------------------------------|--|--|-----------------------------|---------------------------------|
| <b>Bangladesh</b> | 1990             | 2000             | 292                               | 3.03                                | 49.7                                   | -3.8                                       | 0.28                        | 0.2                             |
| <b>Brazil</b>     | 1992             | 2002             | 4,116                             | 3.34                                | 61.6                                   | -3.9                                       | 0.61                        | 1.8                             |
| <b>Ghana</b>      | 1992             | 1999             | 357                               | 1.63                                | 51.7                                   | -3.9                                       | 0.37                        | 0.6                             |
| <b>India</b>      | 1994             | 2000             | 360                               | 4.18                                | 36.0                                   | -3.8                                       | 0.28                        | 0.6                             |
| <b>Indonesia</b>  | 1993             | 2002             | 1,113                             | 5.70                                | 15.4                                   | -7.8                                       | 0.36                        | 0.9                             |
| <b>Tunisia</b>    | 1996             | 2002             | 1,823                             | -0.81                               | 6.7                                    | 0.7  | 0.40                        | -0.9                            |
| <b>Uganda</b>     | 1993             | 2001             | 260                               | 1.47                                | 55.7                                   | -2.3                                       | 0.36                        | -0.2                            |
| <b>Vietnam</b>    | 1992             | 2000             | 247                               | 3.09                                | 58.1                                   | -2.8                                       | 0.34                        | 1.5                             |
| <b>Median</b>     | n.a.             | n.a.             | 360                               | 3.06                                | 50.7                                   | -3.8                                       | 0.36                        | 0.7                             |

*Source:* With the exception of national Gini in Bangladesh and poverty data on India, poverty and inequality data come from country case studies, which used national household survey data as cited in the case studies. GDP data were obtained from *World Development Indicators 2004*.

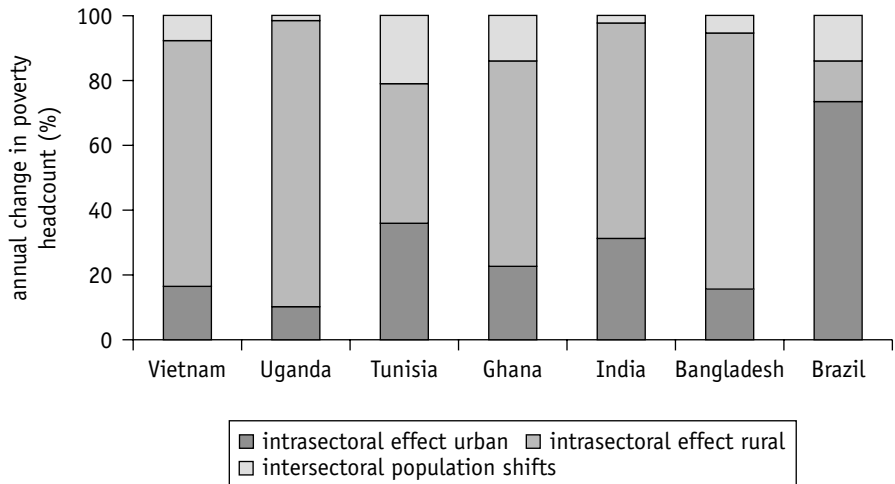
*Note:* Country-based poverty data for seven of the countries are based on expenditure/consumption household surveys. Data for Brazil are based on income household surveys. Poverty rates are based on national poverty lines and are therefore not comparable across countries. n.a. = not applicable.

**Figure 1.2** Urban Poverty Fell More Rapidly than Rural Poverty except in Indonesia



Source: Country case studies.

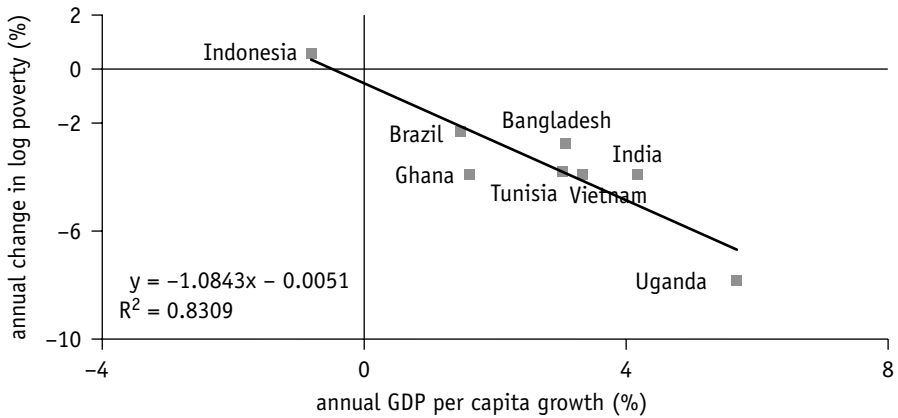
**Figure 1.3** Most Poverty Reduction Occurred in Rural Areas except in Brazil



Source: Country case studies.

Note: In Brazil only 30 percent of the poor lived in rural areas in the early 1990s.

the same period. The economic recovery in the countries can be linked to the successful implementation of macrostabilization reforms, which were particularly effective in stimulating nonagricultural growth.<sup>3</sup> Beyond these policies, trade and exchange rate reforms, improvements in the investment

**Figure 1.4** Economic Growth Reduces Poverty

Sources: Country case studies and *World Development Indicators 2004*.

climate, attractive world market prices for key export commodities, and investments in education and infrastructure also increased the rate of agricultural and nonagricultural growth. Not surprisingly, countries that experienced the strongest growth also had the greatest poverty reduction. The correlation between changes in poverty and changes in GDP per capita growth (differences in logs) was positive and significant, with a regression coefficient of  $-1.1$  (0.01) (figure 1.4).<sup>4</sup>

However, rising inequality offset the gains from growth in all countries but Brazil and Indonesia, where inequality fell, and Tunisia, where inequality was relatively constant. The increase in inequality was highest in Bangladesh, followed by Uganda and Vietnam. Comparing changes in average consumption with the rate of pro-poor growth (the mean growth rate of consumption for the poor) provides a more precise measure of the impact of growth on the well-being of the poor and nonpoor.<sup>5</sup> The regression coefficient between the logged changes in the rate of pro-poor growth and the mean growth rate in consumption is  $0.89$  (0.01) (figure 1.5). The latter implies that the rate of pro-poor growth is less than the average growth rate in mean consumption, indicating that on average inequality rose among the eight countries.

Although extremely important, these results underscore that growth (either in GDP or in consumption) does not explain all the variation in poverty reduction across the eight countries. Initial inequality and changes in inequality were also important factors. In Uganda the impact of changes in growth and inequality on poverty offset each other. More specifically, if