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"*Sustainable poverty reduction is the World Bank's fundamental objective. It is the benchmark by which our performance as a development institution should be judged.*"
-Lewis Preston, World Bank President, 1993.

While the statement above shows an acknowledgment of the seminal role that poverty reduction should play in all aspects of the World Bank's development efforts, thus far their rhetorical commitments have not been translated into results on the ground. This paper critically examines the Bank's poverty reduction efforts and describes five challenges that the Bank faces in realizing its poverty reduction goals.

Critique of the Bank's Role

Perhaps the principal reason why poverty reduction is not being achieved by the World Bank is that, contrary to their stated goals, the Bank has adopted a "compensatory" approach to poverty reductio, one that is an "add on" rather than a central objective of the Bank's operations. In addition, existing Bank policies toward poverty reduction focus on the symptoms of poverty rather than on poverty's structural roots. The structural roots of poverty can be grouped into seven categories:

- lack of democracy
- lack of access to means of production and resources by the majority of a population
- lack of adequate mechanisms for savings and distribution
- orienting national economies to foreign markets rather than meeting local needs
- erosion of the role of government's role in administering social services
- overexploitation of natural resources and contamination of ecosystems
- policies that generate greater monopolization and therefore polarization

The Bank's macroeconomic policy prescriptions, even when coupled with compensatory programs for the poor, have sometimes exacerbated the structural roots of poverty and inequality. Th Bank's promotion of Structural Adjustment Programs (SAPs), its failure to address the issue of debt reduction, and its close relationships with economic and political elites, all compromise its ability to serve as an agent of poverty-reducing development.

The Bank has argued that SAPs are necessary to get countries in economic crisis back on a growth trajectory that will lead to long run increases in income and employment. But many of these programs have immediate, disproportionate impacts on the poorest sectors of society. UNICEF reports have shown how SAPs have adversely affected human and ecosystem health, nutrition, education status, and labor interests. In Mexico, SAPs aimed at deregulating the rural sector reduced Mexico's output of basic grains and pushed many peasants to migrate to cities and to the United States. This deterioration of "social capital" is not captured in macroeconomic performance indicators.

A related issues is the burden of foreign debt. From 1982 to 1990, developing countries received $927 billion in total resource flows from the developed countries, while remitting $1,345 billion in debt service. In 1995, the debt burden of developing countries was $1.9 trillion, of which $304 billion (roughly 17 percent) was owed to the World Bank and the IMF. By diverting funds away from productive investments, debt presents a major obstacle to eradicating poverty. Politically, debt forces governments to be more accountable to external donors than to their own citizens. NGOs have long asserted that only serious debt reduction or cancellation, along with a commitment to maintain aid levels, will solve the problem.

World Bank and IMF projects are often biased toward international commercial and political interests at the expense of domestic capital markets and political stability. This is manifest in the Bank's unwillingness to allow market intervention for poverty reduction, while making large loans to bail out private banks and investors. The Bank has also sent wrong signals on democracy and accountability, presenting countries such as Chile (under Pinochet) and Indonesia as models of successful economic management.

The Bank's Poverty Strategy

The Bank has stated a three pronged strategy for poverty reduction:

- promote broad-based growth that makes efficient use of the poor's main asset: labor
- provide the poor with access to social services
- recommend that safety nets be established to protect the most vulnerable in societies

To implement these strategies, the Bank has promoted: labor intensive growth; social sector lending; poverty focused adjustment; a program of targeted interventions; social investment funds (SIFs); and consultative groups to assist the poorest. These programs have had varying degrees of success. Programs designed to stimulate labor-intensive growth have sometimes had perverse consequences, as in the case of Mexico. Lending in the energy sector appears to favor capital-intensive investment, and efforts to deregulate labor markets have undermined minimum wages and health and safety standards. While the Bank has significantly increased social sector lending, dependence on external loan funds requires countries to accept the Bank's guidelines on social policy.

Targeted Interventions and Social Investment Funds are intended to reach those sectors of the population who are least likely to benefit from economic growth. These efforts serve to alleviate some of the symptoms of poverty, but fail to reach its structural roots. For example, the Zapatista rebellion started in the Mexican state of Chiapas, where the Mexican SIF had the highest per capita social expenditure. The Consultative Group to Assist the Poorest (CGAP), launched in 1995, is based on the Grameen Bank's microlending model; it is too early to predict how successful this program will be.

Challenges

Current World Bank President James Wolfensohn has reaffirmed Lewis Preston's commitment to poverty reduction as a main goal of the Bank. The World Bank faces many challenges in realizing this goal. The overarching issue is the need to redirect the Bank's poverty strategy away from reliance on compensatory strategies to one that focuses on the structural roots of poverty. Five dimensions of this challenge are:

1. **Putting Poverty on the International and National Agendas.** While many nations have shifted their language from poverty reduction to poverty eradication, altering policies accordingly will require a great deal of political will on the part of governments and multilateral institutions. The World Bank could play a key role by showing willingness to work with other institutions such as the United Nations and by employing leverage to encourage its borrowers to focus on poverty.

2. **Equity.** The Bank needs to incorporate social equity in its approach to sustainable development. The Latin American and Southeast Asian experiences show that countries with a less skewed income distribution are more likely to be able to reduce poverty. Moreover, it has been shown that unequal societies tend to be politically and socially unstable, and that this is reflected in lower rates of investment and growth.

3. **Forging Consensus on Structural Adjustment and Debt**. Recent constructive dialogue on reforming structural adjustment policies needs to continue. The Bank has shown openness to changing its SAP criteria to include poverty reduction objectives. It has also begun to consider the mobilization of multilateral resources for debt reduction. NGOs critics, who once fundamentally opposed SAPs, are now focusing on analyzing the impacts of particular elements of SAPs. However, they continue to stress that compensatory programs are insufficient to address the structural roots of poverty.

4. **Measurement.** Conventional macroeconomic indicators such as Gross Domestic Product (GDP) often mask poverty and inequality. The Bank need to place greater reliance on measures such as the Human Development Index (HDI) and Gender-related Development Index (GDI). The Bank's recent "Wealth of Nations" analysis is a step towards a better measure of sustainable development, incorporating measures of human, natural, and social capital, but it does not deal with distributional issues.

5. **Participation.** The final challenge to the World Bank is to include the views of the poor in decision making regarding the opportunities and constraints that face them. Important country-level policy planning processes which need more broad-based input include:

- Participatory Poverty Assessments (PPAs) that examine the extent and nature of poverty in borrowing countries and develop policy recommendations for reducing poverty.
- Country Assistance Strategies (CASs) that put forth the priorities for Bank lending in a borrower country over a three to five year period.
- Public Expenditure Reviews (PERs) that examine government expenditure patterns across sectors.

The Bank's current policy of treating these assessments as confidential must be altered to provide for effective contribution by NGOs and other elements of civil society. Re-orienting the Bank's approach to poverty reduction will require support from stakeholders in both shareholder and borrower countries, as well as systematic participation by the poor.