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# The world bank and donors: Poverty and economic growth

By The Mirror Economist

Poverty is a central theme of donors and multilateral agencies these days. Despite various achievements in economic growth globally, the problem of poverty persists. Poverty has grown rather than diminished, especially if one is looking at relative poverty and the mal distribution of incomes.

Therefore it is not surprising that the World Bank, donors and other institutions are focussing heavily on poverty. In other words, it is also an admission that their strategies of the past have failed to reduce poverty. Whether their current strategies are any better in resolving the fundamental problems that give rise to poverty and fail to reduce poverty is another moot question.

Much of the assistance that is forthcoming for poverty reduction has as its approach the development of infrastructure and support for economic growth. There is no doubt that infrastructure development improves the economic opportunities and incomes of the poor. Equally true is the factthat economic growth is the best overall factor that could reduce poverty.

The economic growth experience of East and South East Asia demonstrates this rather clearly. With rapid economic growth these countries reduced their poverty levels to below 10 per cent of their households, some muchless.

The rapid rates of economic growth in the 1980s and 1990's resulted in increases in wages, growth in employment opportunities and a better distribution of incomes among the lower income groups. On the other hand, in South


World Bank Country Director Peter Harrold and Country Coordinator Ms. Debbie A. Bateman at a recent news conference in Colombo. (File photo)

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Asia the lower rates of economic growth ailed to raise the poor from poverty.

This is so with respect to Sri Lanka as well where about one forth of the population is estimated to be below the poverty line. Even though there is some evidence to show that the level of poverty may have declined somewhat in recent years, the statistic of one quarter of the population remaining poor has been a feature for the last two decades.

Poverty in Sri Lanka is essentially a rural phenomenon. Most of the poor live in rural areas. Since about 70 per cent of the population live in rural areas, unless their condition is improved, the aid flow will not makea significant impact on the bulk of the poor. It has to be pointed out that not only are the larger number of the poor in rural areas, the incidence of poverty is also highest in rural Sri Lanka. About 27 per cent of the rural population is estimated to be poor compared to only 14 per cent of the urban population being poor. The poverty on the estates is estimated at slightly lower than in rural areas.

There are also significant variations in poverty with the highest incidence of poverty being in Uva, Central, North Western, Sabaragamuwa and North Central Provinces. The North- East is no doubt suffering the worst deprivations. The pertinent issue is whetherthe aid flow will in fact reach these areas to benefit the large numbers in poverty in these areas? On the other hand it must be pointed out that poverty as well as human deprivation is least in the Western Province, which is the most industrialised and has the best economic and social infrastructure. Do we improve the infrastructure in this area or in the hinterland?

A mistaken view of the East and South East Asian experience is to attribute the reduction in poverty to economic growth alone. The distribution of incomes, the developments in agriculture, investments in rural developments and land policies also played an important role in the reduction of poverty.

Therefore strategies for rapid economic growth, especially through export led growth in the modernized industrial sector, should also be complemented with other support measures and economic reforms that are applicable of improving the capacity of the poor to access the economic opportunities. These must complement the overall measures.

Without such efforts and policies economic growth can exacerbate income differentials and have little impact on the poor.

There is scepticism that the donor assistance is far too weighted in the direction of supporting overall economic growth. The fear is that even though these measures may assist the economy and indirectly the poor, the main gains would be to the more prosperous sectors of the economy.

The gains would in due course trickle down, but as the phrase itself signifies, it is a trickling down effect, where only the crumbs will reach the poor.

And it will also take time for any benefits to reach the poor. With reference to infrastructure development too there can be different approaches. If the resources were spent on large projects in the urban areas and for the benefit of the industrial sector, these would only help the poor marginally.

In the other hand, of the infrastructure is especially targeted to the development of the rural economy, then the direct benefits to the poor would be larger. Improvements in infrastructure that increase the productivity of agriculture would have a more significant impact on poverty than those that build highways and ports. Investments in agricultural research, extension, improve marketing of agricultural produce, build rural roads, irrigation, rural transport and communication, can have a more beneficial and durable impact on poverty reduction.

No doubt some of the aid would be so directed. The assistance for housing and infrastructure in the war affected areas of the North and East would have such an impact.

Similarly the Japanese assistance of Rs. 50 million for women 's' projects in the South would directly improve the condition of poor women and their families. The other Rs. 50 million would essentially go towards the poor in the North and East.

The extent to which the aid moves into such areas could be a very important determinant of the success of aid for poverty reduction. It is one thing to invest in general infrastructure development and quite another to direct aid to the ruralpoor.

It is not only the amount of aid received that would be important, it is the way it is utilised to improve the conditions of the poor that wouldmatter in whether poverty would be reduced to any significant extent.

Pastexperience does not offer much hope that the aid flow would benefit thepoor significantly. Let us hope the new thrust on poverty would be very different.