POLICY PAPER ON POVERTY REDUCTION
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POVERTY REDUCTION

(Original in English)
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<th>Description</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AfDB</td>
<td>African Development Bank</td>
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<td>ADF</td>
<td>African Development Fund</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FYP</td>
<td>Five-Year Plan</td>
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<td>GAD</td>
<td>Gender and Development</td>
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<td>HIPC</td>
<td>Heavily Indebted Poor Country</td>
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<td>ID</td>
<td>Islamic Dinar</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IDB</td>
<td>Islamic Development Bank</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>IFI</td>
<td>International Financial Institution</td>
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<td>ILO</td>
<td>International Labour Office</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>LDMC</td>
<td>Least Developed Member Country</td>
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<td>MDB</td>
<td>Multilateral Development Bank</td>
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<td>MDG</td>
<td>Millennium Development Goals (of the UN)</td>
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<td>OC</td>
<td>Operations Complex (at IDB)</td>
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<td>OIC</td>
<td>Organization of Islamic Conference</td>
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<td>OCR</td>
<td>Ordinary Capital Resources</td>
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<td>ODA</td>
<td>Official Development Assistance</td>
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<td>OED</td>
<td>Operations Evaluation Department</td>
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<td>PRGF</td>
<td>Poverty Reduction and Growth Facility</td>
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<td>Poverty Reduction Strategy</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<td>SDR</td>
<td>Special Drawing Rights</td>
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<td>SFMW</td>
<td>Strategic Framework for Mainstreaming Women</td>
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<td>UN</td>
<td>United Nations</td>
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<td>WID</td>
<td>Women in Development</td>
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## CURRENCY EQUIVALENTS

SDR 1 = ID 1 = US$ 1.51  
(December 31, 2006 value)
Poverty Reduction at the IDB

**Overall Objectives**

1. In its long-standing commitment to meeting the LDMC's developmental needs, one of the IDB's key objectives is to reduce poverty in its member countries using a south-south approach with specific Islamic characteristics.

2. The Bank's 1440 Vision entitled ‘A Vision for Human Dignity’ presents a unique vision of its role “to be a leader in fostering socio-economic development” and its mission to alleviate poverty and promote human development. It includes ‘empowerment’ as a core value; makes ‘alleviating poverty’ its strategic objective; and identifies ‘human development’ among its priority areas. The Bank’s Vision stresses key aspects of poverty reduction in five of the eight main priorities:

   - Key strategic thrust 2: Alleviate poverty.
   - Key strategic thrust 3: Promote health.
   - Key strategic thrust 4: Universalize education.
   - Key strategic thrust 5: Prosper the people.
   - Key strategic thrust 6: Empower women.

3. In light of this vision and the directive of the 3rd Extraordinary OIC summit held in December 2005 poverty reduction has become the overarching objective of the IDB’s interventions in the member countries.

**IDB’s Achievements to date**

4. The IDB has been engaged in providing concessional finance particularly for its poorest members with a cumulative volume of more than US$ 4.2 billion, half of which was for pro-poor activities. Moreover:

   - The Bank has allocated 50% of total funding to LDMC pro-poor projects, which was associated with a doubling of the Bank’s allocation to the social sectors from an average 11% of total lending 15-25 years ago to around 24% in the last decade;

   - The Bank has given priority to meeting ‘basic needs’, including financing employment opportunities, providing market outlets especially for the rural poor, improving basic rural and peri-urban infrastructure such as the supply of drinking water and electric power, and expanding education and health facilities;

   - The Bank has established a Women in Development Unit (WID), which was merged in 1999 with the NGOs Unit to implement a range of training and capacity-building programs for women in order to promote their participation in the process of economic and human development and poverty reduction; and

   - The Bank has concentrated on five key sectors that form the core of poverty reduction efforts, namely education, health, rural and agricultural development, water supply and sanitation, and transport and power (see box on page 7 for the Bank’s substantial achievements in these areas).
IDB Project Achievements in Poverty Reduction Sectors

**Education:** 4,566 primary schools, 576 secondary schools, 59 colleges & universities, 204 vocational training centres.

**Health:** 2,683 primary healthcare units, 97 district and regional hospitals, 23 specialist and referral hospitals & other health facilities.

**Rural & Agricultural Development:** 15,800 water points, at least 300,000 hectares of irrigation, 88 veterinary centres, 7,000 kilometres of rural & feeder roads.

**Water Supply & Sanitation:** 610 kilometres of water piping and networks, 29,700 boreholes.

**Transport & Power:** 4,934 kilometres of trunk roads, 14,000 MW of power supply, 11,312 kilometres of transmission lines.

**Special Assistance Program:** This Program caters for social sector projects in non-member countries as well as for relief / emergency assistance both in member and non-member countries. A total amount of US$565 million has so far been approved for 1,017 operations under this Program. This includes US$370 million for 374 operations in member countries and US$195 million for 643 operations for Muslim communities in non-member countries.

**NGO & Women in Development:** 62 operations worth US$1.20 million.

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**Escalating IDB’s Poverty Reduction Activities: Establishing the PRF**

5. The Bank has, at the same time, been exploring ways whereby its capacity to meet this challenge could be further improved. A number of conceptual and strategic studies have already been completed. The Bank has gone public with its intention to intensify its efforts to tackle this issue, for example the Ouagadougou Symposium of 2002¹, the discussions at Beirut in 2003 and so on.

6. As part of this process, the Bank submitted a paper to the 3rd Extraordinary OIC Summit held in Makkah in December 2005 which resulted in the endorsement by the Summit of the poverty reduction priority and its resolve to tackle the issue of poverty alleviation in the broadest sense. Subsequently, and guided by this declaration, the IDB Board of Governors in May 2006 decided to:

- Establish a Special Fund within the IDB Group for poverty alleviation, capacity building, elimination of illiteracy and eradication of diseases and epidemics in OIC member states;

¹At the Ouagadougou Annual Meeting, the IDB devoted its 13th annual symposium to the theme “Women in Poverty Alleviation: Better Access to Education and Microfinance”. This generated concrete and constructive recommendations that included the establishment of an IDB Women’s Advisory Panel which assists the Bank in developing suitable strategies to promote the role of women in poverty reduction and the overall development process (NGO & WID Unit, 2005). The Panel has provided a Strategic Framework for Mainstreaming Women in the activities of the IDB Group (SFMW) in 2006, which is currently under further review.
Policy Formulation

7. In order to formulate and rethink its policy on poverty reduction activities, the IDB has drawn on its own experience and that of other institutions engaged in the same endeavour. It has drawn on expertise within the Bank and also engaged external consultants to support the process. Overall, the policy on poverty reduction presented in this Paper is based on three considerations.

- First, the requirements of member countries/beneficiaries, particularly those of LDMCs for their poverty reduction efforts.
- Second, the ‘operating environment’, the international experience, opportunities and challenges, and ‘best practice’ of poverty reduction projects, as well as the ways through which these practices could be attuned and made more responsive in light of the Islamic principles of brotherhood and solidarity.
- Third, the objectives of IDB stakeholders and contributors to the PRF.

Synopsis of the Poverty Reduction Policy Paper

Section 1: The Nature of Poverty

8. Human dignity, brotherhood, social equality and justice constitute natural and inviolable corollaries of the status of all human beings. Islam makes it an obligation on society to help the poor and it also encourages individuals to work hard to be self-sufficient. The notions of self-sufficiency and human dignity incorporate all aspects of life, both material (income) and spiritual (non-income). The thrust and uniqueness of the IDB approach to poverty reduction would be to make the poor help themselves in getting out of the poverty trap.

9. The IDB views poverty as having a multifaceted phenomenon with at least four dimensions which go beyond income alone. These dimensions are:

   a) **Opportunities** – lack of access to the labour market, employment opportunity, mobility problems and time burdens;
   b) **Capabilities** – lack of access to public services such as health and education;
   c) **Security** – vulnerability to economic risks and to civil and domestic violence; and
   d) **Empowerment** – being without voice and without power at the household, community, and national levels.

10. While the Bank recognizes that there are complex issues in defining poverty, it takes the view that the eight Millennium Development Goals (MDGs) agreed at the United Nations Millennium Summit in September 2000 are helpful in defining and identifying poverty (see Annex-1). These MDGs are now at the centre of national development plans and poverty reduction programs, reflecting national ownership and consensus building. The MDGs are also directly compatible with the Bank’s 1440 Vision. Apart from measuring the extent of poverty, the MDGs set out a powerful agenda for global partnership to fight poverty with a vision to create a better world by the year 2015.

11. However, the Bank also retains the freedom to adapt any of the MDGs to suit particular country or project/program circumstances. The IDB considers that the more important issue to be addressed is: what causes poverty and how can it be reduced? In its poverty reduction activities, the IDB will adopt appropriate analytical tools for identifying the causes of poverty so as to address them effectively.

12. On the basis of definitions that are accepted widely today it is estimated that, about 40%, i.e. just under 400 million, of the 1 billion people estimated to be in absolute poverty in 2002 live in 31 of the 56 IDB member states (see Annex-2).

Section 2: Achieving Success in Poverty Reduction

13. The IDB notes that there are some broad lessons about poverty reduction emerging from the comparative experience of developing countries (see also Annex-3):

   - First, rapid rates of economic growth over a sustained period of time are necessary, though not sufficient, for poverty reduction.
   - Second, there are some fundamental economic principles and practices that do have a positive correlation with economic growth. These include macro-economic stability, trade openness, market competition, investment in...
human development and infrastructure, quality of institutions and governance.

- Third, combating poverty also requires targeted interventions in the areas of social and human development such as basic education, health services and enhancing capabilities, particularly for women and children, empowering citizens, men and women equally, and providing the poor and vulnerable with social safety nets.

- Fourth, foreign aid can be a critical support but the country must be in the driver’s seat if reform programs are to succeed.

14. The IDB will, therefore, tailor its poverty reduction activities to:

i) Promoting pro-poor growth with particular concerns for equitable distribution of the benefits;

ii) Addressing the barriers and issues faced by women in economic development;

iii) Emphasising human development; especially improvements in health care and education;

iv) Providing social safety nets for the poor;

v) Insisting on good governance and access to public service delivery by the poor;

vi) Fostering and harnessing full ownership and commitment by member states.

Section 3: Developing a Poverty Reduction Strategy/Approach

15. The IDB aims to maximize its support for reducing poverty by combining accepted successful lessons of experience with unique Islamic characteristics. It aims to achieve a distinct role; one that is closer to its member countries, more in harmony with their thinking, more of a partnership between brothers, and more effective in its support of poverty reduction. The IDB will encourage twinning of south-south actions through exchange of successful experiences from within the member countries and institutions, as well as from the countries outside the OIC.

16. In order to maximize value and impact within obvious constraints, the Bank will adhere to Seven Guiding Principles in its poverty reduction work; namely:

a) Differentiation: The Bank will avoid ‘one-size-fits-all’ and recognizes at the outset that each LDMC has special needs.

b) Selectivity: The Bank will need to be selective in all aspects of its poverty reduction support. The choice of countries, beneficiaries within countries (and specifically the disadvantaged and vulnerable groups) and projects will be determined according to clearly laid down transparent criteria and operational procedures approved by its Board.

c) Community-based: The Bank will explore the possibility to deal with local, community and grass-root entities where practicable and with the knowledge and approval of the Government to achieve an ‘inclusive’ approach to poverty reduction work.

d) Islamic: The Bank will embrace specific Islamic characteristics in its operations which serve not only to differentiate it on the global stage but also to respond more closely to its member countries’ needs and wishes.

e) Actionable: The Bank places top priority on achieving results and will, therefore, emphasize impact and effectiveness, paying sufficient attention to the ability to replicate projects on a multi-year basis with partners (including from the private sector) who could add value and ‘scale-up’ a project.

f) Raising Awareness: The Bank will support activities which raise awareness of the needs of the most marginalized and vulnerable groups in society, i.e. women and children, as well as the need to mainstream women.

g) Measuring Impact: The Bank will develop appropriate mechanisms for assessing the impact of its poverty reduction activities taking into consideration the experience of other similar institutions.

17. In striving for maximum efficiency and effectiveness, the Bank will structure its strategy for poverty reduction activities at the country level within a logical business process with clearly identifiable sequential steps. These are:

- Step 1: Decide country eligibility.
- Step 2: Conduct poverty assessment and agree on national poverty reduction strategy.
- Step 3: Identify eligible projects/activities, beneficiaries, and partners.
- Step 4: Agree on implementation arrangements.
- Step 5: Review impact and benefits.

As an example, th
18. The Bank accepts that there will be an element of differentiation in its policy to reflect the varied needs across identifiable ‘segments / groups’ of LDMCs. This differentiation will affect four key variables:

• The volume of country allocation;
• The structure of the consultation process (and parties involved);
• The eligible activities and projects; and
• The partners in implementation.

Section 4: Priority Areas

19. Two overarching themes define the focus of the IDB’s poverty reduction activities. (a) the need to orient economic growth projects to be pro-poor, ensuring that the additional jobs and employment reach the target groups of poor and disadvantaged people; and (b) to promote the development of human capital by boosting education and health support.

20. Pro-poor economic growth: The Bank has already built up a substantial track record in pro-poor projects. The Bank recognizes that it will need to promote a qualitative growth in its LDMCs by developing the rural and urban infrastructures, increasing the added value of productive sectors and extending financing for income generating activities. It will, therefore, emphasize key aspects of pro-poor growth activities including: rural & agricultural development; rural and secondary infrastructure; micro-finance; guarantee schemes; and selective private sector development. In all these areas policies and support will be slanted to benefit the targeted poor.

21. Developing human capital: The Bank recognizes that human capital is the primary asset of the poor and its development is of fundamental importance in poverty reduction. Projects in the education and health areas create the foundation on which most poverty reduction activities are subsequently built. In education, the IDB will finance primary schools as a top priority, reducing poverty like the environment and promoting the role of women. In education and health support.

22. Within this framework, several types of priority projects can be distinguished:

• **First,** it will finance integrated sector projects aimed at the causes of poverty.
• **Second,** the Bank will support improvements in institutional infrastructure.

• **Third,** the Bank will consider financing cross-cutting projects and programs which are aimed at specific issues that impact on poverty reduction like the environment and promoting the role of women.
• **Fourth,** the Bank will support a range of emergency relief projects, both for short-term support as well as longer-term reconstruction.

Section 5: Road Map for Implementing Policy

23. The Bank will concentrate its poverty reduction activities under the ‘umbrella’ of the Poverty Reduction Fund. Operational Guidelines have been developed to help the operational staff identify, implement, and evaluate pro-poor projects. Activities under the Fund will be undertaken by the same operational staff that has responsibility for Bank’s ordinary operations after undergoing special training. The IDB will base its poverty reduction activities on an extensive research program, drawing on existing skills to the extent possible.

24. The Bank will support the development of poverty reduction programs by structuring a regular dialogue with each LDMC, participating in their PRS process, and transferring best practice. At all times, the Bank will emphasize the need to innovate in project design. When faced with an array of poverty reduction projects, the Bank will apply specific and general criteria to help select projects it should support.

25. The Bank recognizes that intensifying its poverty reduction activities represents an important new departure which will trigger further adjustments. Specifically, in order to be close to member countries and to be able to implement community-based projects through an intensive dialogue, the Bank will need to devise ways of de-centralising its operations somewhat. This implies that the formulation and implementation of many of the activities to be financed under the Fund will be undertaken at the country level.

26. The Bank expects poverty reduction projects to require a greater range of partners, partly as a reflection of their typical multi-sectoral components and partly to reflect their community-based design. In this connection, the Bank will seek out closer links with the private sector and NGOs.

27. The Bank places paramount priority on achieving results for its member countries. In that context, close monitoring of the implementation of its on-going projects as well as measuring the impact of completed projects will be crucial.

28. In line with the OIC mandate, the Bank will seek contributions to the Fund from its member countries. It will also make substantial contributions from its own resources and endorses the policy of multi-sourcing (i.e. other resources that may be received by the Fund).
SECTION-1

The Nature of Poverty
THE NATURE OF POVERTY

Preamble

1.1. Human dignity, brotherhood, social equality and justice constitute natural and inviolable corollaries of the status of all human beings. This emphasis on human dignity requires that available resources be utilized in such a way that the well-being of all people is ensured. The notion of well-being, however, goes beyond income to incorporate all aspects of life that are essential to maintain human dignity. Thus, beside the spiritual need, it also includes items which are necessary to sustain life and make it possible for a person to lead a healthy, comfortable and productive life. The minimum that is essential to attain this goal is the provision of proper nutrition, housing, basic education, healthcare, sanitation and public transport facilities.

1.2. Islam makes it an obligation on society to help the poor. It also encourages individuals to work hard to be self-sufficient. However, even if people have the needed skills, and opportunities for employment and self-employment are also available, they still may not be able to earn a livelihood if they are not healthy and strong. For this purpose, it is necessary to provide proper healthcare alongwith comfortable housing, clean and healthy environment and other amenities. While it is the responsibility of the individual to earn his livelihood, it is also the responsibility of the community and the state to ensure the availability of opportunities for adequate housing, healthcare and other basic services to individuals and families at affordable price. In this context, therefore, the IDB accepts the established view that poverty is multi-dimensional. It defines poverty as encompassing not only low income and consumption, but also low achievement in education, nutrition, primary health services, water and sanitation, housing, crisis-coping capacity, insecurity, and all other forms of human development.

1.3. Thus, beyond income, IDB views poverty as having four dimensions:

- **Opportunities** – lack of access to the labour market, employment opportunity, mobility problems and time burdens;
- **Capabilities** – lack of access to public services such as health and education;
- **Security** – vulnerability to economic risks and to civil and domestic violence; and
- **Empowerment** – being without voice and without power at the community and national levels.

The Millennium Development Goals (MDGs)

1.4. While the Bank recognizes that there are complex issues in defining poverty, the IDB considers that for quantifiable indicators to measure poverty will be required to assess the effectiveness of the policies and the impact of its interventions. The IDB takes the view that, generally speaking, the eight Millennium Development Goals (MDGs) agreed at the United Nations Millennium Summit in September 2000 are helpful in defining and identifying poverty (see Annex-1). Not only have they tended to ‘set the
global development agenda’ – around 190 countries out of 192 UN member states have now signed-up to them – but they also manage to:

- Combine defining – and addressing – poverty with several other important issues, including “gender” equality and the role of women, sustainability (the environment goal), and development partnership;

- Take a broader definition of poverty than income alone, e.g. also focusing on education, child and maternal health and disease eradication; and

- Set quantified stretch targets relative to each goal; the 8 MDG goals are associated with 18 targets, which in turn are measured by 48 indicators.

1.5. Apart from measuring the extent of poverty, which is important for policy implementation and monitoring, the MDGs also set out powerful agenda for global partnership to fight poverty with a vision to create a better world by the year 2015. They aim to halve poverty and hunger by 2015; achieve universal primary education for boys and girls; eliminate gender disparity in primary education by 2005 and at all levels by 2015; and reduce child and maternal mortality rates; among others. The issue of empowerment of women, which is one of the eight goals, is not limited to a single goal – rather it applies to all of them. Empowerment of women is basically a policy of inclusiveness, and such a policy should be an integral part of investment in education, economic opportunities and reproductive health. All IDB member countries are signatories to the MDGs.

1.6. The IDB recognizes that the MDGs are directly compatible with the Bank’s 1440 Vision entitled “A Vision for Human Dignity.” Furthermore, the “common ground” provided by the MDGs in defining poverty and mainstreaming women is shared by almost all leading aid institutions that have adopted the MDGs in their poverty reduction activities. This includes the larger international financing institutions such as the World Bank, the Inter-American Development Bank, the African Development Bank, the Asian Development Bank; the UN Agencies as well as many prominent sub-regional and bilateral aid institutions. In addition, institutions which operate extensively in the IDB’s member countries and have working relationship with the IDB have also adopted the MDGs.

1.7. Thus, the IDB accepts the MDGs as a reference point for measuring and guiding poverty reduction activities. However, the Bank also retains the freedom to adapt these goals where appropriate, to suit particular country or project/program circumstances. This is specifically so for the US$1 per person per day figure; below which poverty is considered absolute by the MDGs. The IDB will endeavour to make this more country-specific (and even region-specific) in dialogue with the member countries, where it feels appropriate. Moreover, a judicious combination of income-based, indicator-based, and participatory/gender-based information could be used to assess poverty and derive policy implications.

1.8. The IDB accepts the view that the definition of poverty is only a beginning to explore a much more important issue: What causes poverty and how can it be reduced? In the Bank’s experience, causes of poverty are
typically a complex interaction of historic, social, and cultural factors within a given institutional framework. So the IDB places high priority on going beyond the definition and asking the question: Why? For instance, is educational enrolment low because of shortage of schools and teachers, or because parents believe that the children can contribute to family income rather than attending schools? It is quite possible that neither of these two factors may be relevant and the problem may be a weak institutional framework and poor and uninspiring teaching that results in high drop out rates. Similarly, are there still significant diseases (say for example polio) because there are no hospitals, or because there is inadequate information about why and where children should be vaccinated? All these considerations have different policy implications.

1.9. In its poverty reduction activities, the IDB will adopt appropriate analytical tools for identifying the causes, such as for example, the use of logical frameworks (log-frames), which go beyond the poverty ‘symptom’ to identifying the cause, after which it can be decided whether that cause is within the scope of a poverty reduction project or not.

The Poverty Reduction Challenge Facing the IDB

1.10. In the global fight against poverty, there is a visible movement in the right direction. The incidence of poverty has declined from an estimated 1.2 billion people living on less than US$1 per day in 1990 (28% of the world’s population excluding high income countries), to just over 1 billion in 2002 (or around 20% of global population excluding high income countries). The global target of reaching 14 percent by 2015 appears to be achievable due to strong improvements in Asia.

1.11. However, the IDB notes that the disparities within the global aggregates are stark, and the plight of its member countries is very serious. The poverty reduction task facing the Bank and its member states remains enormous, and while a full statistical analysis is not contained within this policy document, some key highlights are (see also Annex-2):

- About 40%, i.e. just under 400 million, of the 1 billion people estimated to be in absolute poverty in 2002 lived in 31 of the 56 IDB member states. That, succinctly, is the measure of the overall challenge facing the IDB Group in its poverty reduction efforts;

- In absolute figures, 5 countries accounted for 250 million of this 400 million (Bangladesh, Indonesia, Nigeria, Pakistan and Sudan);

- In relative figures (i.e. expressed as a percentage of national population) 9 smaller IDB member states were estimated to have more than 50% of their population in extreme poverty. In ascending order of severity, these are Sierra Leone, Sudan, Niger, Mali, Gambia, Guinea-Bissau, Somalia, Afghanistan and Mozambique.

- Other data drawn from the MDG poverty analysis also shows that while some Sub-Saharan member countries show a small improvement in ‘percent of population’ figures, the absolute numbers adversely affected by worsening conditions has risen sharply in the 12 years from 1990-2002 (e.g. underweight children, people below minimal level of daily energy intake etc).

1.12. The serious challenge and responsibilities posed by these poverty statistics within the IDB member countries underpin the importance of the policy orientation outlined in this Paper.

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3Source: United Nations MDG monitoring and statistics.

4Regional and country-specific data are widely available from the MDG Statistics service at the UN, the MDG Progress Reports, the Global Monitoring Reports of the World Bank/IMF, the OECD and other MDB data reports.
SECTION-2

Achieving Success In Poverty Reduction
The Overall Framework

2.1. The plight of the poor has been debated extensively during the 20th century but, the global accord on poverty reduction as an overarching development goal, is relatively recent. Similarly, projects devoted exclusively to poverty reduction either by Governments or by international financing institutions (IFIs) are mostly a phenomenon of the last decade. The special role that women play in reducing poverty is beginning to be seriously recognized. As the IDB escalates its poverty reduction activities, it will find that some policy and operational aspects already have precedents while others are still fairly open and flexible.

2.2. Cross-country experience of developing countries over last three decades reveals that there are some broad lessons that can be learnt about the process of poverty reduction.

- **First**, rapid rates of economic growth over a sustained period of time are necessary, though not sufficient, for poverty reduction. However, successful growth strategies are country-specific and there is no single or unique model that can be generalized or applied in all cases.

- **Second**, there are some fundamental economic principles and practices that do have a positive correlation with economic growth. These include macro-economic stability, trade openness, market competition, investment in human development and infrastructure, quality of institutions and governance.

- **Third**, combating poverty also requires targeted interventions in the areas of social and human development such as basic education, health services and enhancing capabilities, particularly for women and children, empowering citizens, men and women equally, and providing the poor and vulnerable with social safety nets. Given the relatively disadvantaged situation of women in LDMCs, special attention needs to be given to the role of women in socio-economic development as one of the basic enablers of poverty reduction.

- **Fourth**, foreign aid can be a critical support but the country must be in the driver’s seat if reform programs are to succeed.

2.3. The Bank will draw upon these valuable lessons in enhancing its efforts to combat poverty in member countries. The Bank has also analyzed a number of specific (and successful) country experiences in order to assess the applicability of these general lessons to its LDMCs (see Appendix-3).

Pro-Poor Economic Growth with Equitable Distribution

2.4. The relationship between economic growth and poverty reduction in developing countries is well documented in the economic literature and this relationship and its underlying determinants is the key to the formulation of successful poverty reduction strategies.

2.5. There is ample evidence that an increase in the rate of per capita income growth can lead to a decrease in the proportion of people living below the poverty line as a result of the ‘trickle-down’ effect. East Asia and China in particular provide excellent examples of this relationship. There are many lessons which the IDB can learn from these and other cases to support the efforts of its member countries to ensure that the poor benefit from economic growth.
- Pro-poor growth makes growth more effective in reducing poverty. There is evidence that growth alone is not sufficient to achieve poverty reduction. In fact, it has been demonstrated that some countries have experienced limited poverty reduction despite impressive growth performance, while others have managed to decrease poverty significantly despite relatively low growth. While policies which are directed towards redistribution of income and assets (increasing access to land ownership in particular) are imperative, the Bank programs could help in the removal of obstacles to the participation of the poor in the growth process by investing in basic social services, social protection and infrastructure (such as roads, telecommunications, electricity, etc.), particularly in rural areas and areas where the proportion of the poor is high.

- As the poor often depend heavily on natural resources for their livelihoods, promoting environmental sustainability is integral to promoting pro-poor growth. Therefore, the IDB will support policies which aim towards environmental sustainability through technical assistance and integrate environmental considerations into its project planning and implementation requirements.

- Women in IDB member countries face particular barriers to participation in the growth process that has serious implications for the ability of growth to be pro-poor. The IDB will, therefore, target sectors (such as health, education, safe water supply) and programs (such as microfinance, agricultural inputs / extension services) which have the potential for enhancing women's ability to participate and benefit from the economic growth process.

- The poor often avoid higher risk opportunities with potentially higher payoffs because of their vulnerability. The IDB policy will aim to support provision of safety nets to the poor to reduce their vulnerability to some extent from participating in the economic growth process. For example, micro-credit and micro-insurance have found to be of some help to the poor in making them less risk averse.

- Market failure hurts the poor disproportionately and the poor may be disadvantaged by the terms on which they participate in markets. The IDB will target sectors and programs which help in increasing the economic capabilities of the poor.

- Employment is one of the main channels through which the link between economic growth and poverty reduction is established. As the level of income is the key determinant of poverty, expanding gainful self employment and wage employment opportunities has to be a major element in the strategy of poverty reduction. The IDB policy will, therefore, target programs and sectors (such as agriculture, micro-enterprises) which are labour intensive, particularly in rural areas.

- For the poor, science and technology are likely to have great impact as they promise to provide new, important, even life-saving economic opportunities. A major benefit of an internet service will be increased access for the poor to agricultural and market information. For example, farmers will be able to learn the current market price of their produce through the internet (or by use of mobile phones as is the case with many rural communities world-wide), resulting in increased appropriation of economic benefits. More importantly,
The experience of many developing countries confirms that gender sensitive development strategies contribute significantly to economic growth and accelerate the poverty reduction process. It is argued that countries that invest heavily in women's education, vocational training, reproductive health and economic opportunities will often fare highly in the attainment of MDGs, irrespective of those countries’ stage in the development ladder.

2.10. While economic growth and rising incomes may reduce inequality between men and women, they do not break down all barriers to women's social participation and development. There must be specific actions to ensure that social and legal institutions guarantee women's equality in basic legal and human rights. Women need access to or control of land and other resources, access to micro finance, and equitable employment opportunities and identical earnings for the same jobs. These actions will help to create more equitable social development, particularly in communities where social cohesion is weak and among groups which suffer from social exclusion. The IDB will, therefore, incorporate gender / women issues explicitly in its programs for poverty reduction to support these objectives. In the Millennium Village Project, for instance, it has been acknowledged that community interventions involving low-cost technologies, such as a combination of agricultural inputs (seeds, fertilizers, tools etc.), safe water points, clinic, malaria control (bed nets) and school feeding, translate into 90% support for women.

Human Development

2.11. Human resources development is the cornerstone of social sector development in any country. This is particularly true for the least developed countries. It is a major contributor to economic growth and well-being as experience elsewhere has shown. In fact, social sector development and poverty reduction should be viewed as mutually supportive goals of planning in any country. Since it is being recognized that people must be the focus of development, efforts must be made to raise the productive capacity of the poor to reduce poverty on a sustainable basis. The best way to do so is to raise the quality of the human capital.

2.12. Therefore, the IDB would attach priority to effective development of human resources in its strategy for poverty reduction. The vicious circles of poverty of large population in densely inhabited countries can be transformed into a valuable asset through human resource development. In this respect, the human factor can be taken as the instrument as well as the ultimate objective of development.

2.13. The exploitation of synergies between different dimensions of human development can prove to be cost-effective. For example, educated mothers provide better nutrition, immunization, safe drinking water to their children and ensure sanitation in their vicinity. These actions, in turn, reduce the incidence of diseases and save substantial healthcare costs for their families. Similarly, birth rates are lower among the women who

2.6. In addition to the above, the IDB recognizes that macroeconomic management and economic reforms such as fighting inflation, land reform, financial liberalization, taxation policies and others all have important implications for the impact of economic growth on the poor. Where appropriate, the IDB will support member countries efforts in these areas through technical assistance or facilitate “twinning” arrangements between countries.

Women and Development

2.8. It is now almost universally understood that any strategy that does not fully mobilize women in social and economic development of a country is likely to falter. Women form almost half the population in all IDB member countries. Yet they are disproportionately represented among the poor and the dispossessed. Women are more vulnerable to poverty whether in terms of money (income poverty) or in terms of well-being (human poverty). Poverty not only distorts women's access to assets, public goods and services and employment but also leads to unequal distribution of resources within the family.

2.9. The combination of the above factors leads to higher poverty levels among women, a phenomenon that is often referred to as the “feminization of poverty.” Therefore, an explicit attention to the women dimension of poverty should guide the definition of priorities, policy and program interventions for poverty reduction. The experience of many developing countries confirms that gender sensitive development strategies contribute significantly to economic growth and accelerate the

1The Millennium Village Project along with the Millennium City Initiative are two “trademarks” under the UN Millennium Project. The latter was commissioned in 2002 by the UN Secretary General to recommend to the UN on the practical strategies for achieving the MDGs.
2.14. Poor health is both a cause and a consequence of poverty. In poor countries, life expectancy is relatively short and one in 10 children does not reach his first birthday. Currently, the healthcare systems in LDMCs, particularly in Africa, are overwhelmed with the exploding crisis from widely prevalent but otherwise treatable diseases. Malaria and other diseases are already slowing economic growth and activity in the worst affected countries which, if unchecked, will deepen further the extent of poverty in those countries. The poor have little access to preventive services. Effective strategies to turn back these epidemics involve a combination of treatment, education and prevention. Such strategies must go beyond medicine and healthcare and reach into the community, particularly among the poor ones. Strong and committed leadership, empowerment of communities, focus on women and continuous monitoring and evaluation have proved to be the critical success factors for execution of such strategies.

2.15. For women, poor reproductive health is responsible for a large part of the burden of disease. Reproductive health has some of the largest gaps between rich and poor. Poor women also face a higher risk of death during pregnancy and birth. A woman's lifetime risk of dying due to maternal causes is one in 19 in Africa, one in 132 in Asia, and one in 188 in Latin America, compared to one in 2,976 in developed countries. Skilled birth attendants could reduce these risks. According to available statistics, the worst place to be a mother is in Sub-Saharan Africa, notwithstanding the country differences within the region. The poorest women start their childbearing at a very young age. In communities where family planning has not been fully accepted and opportunities are limited, people view births and family size as unchangeable conditions, within which they make other choices. Like “empowerment of women”, the concept of “family planning” should be interpreted in its positive sense.

2.16. Malaria, HIV/AIDS, and Tuberculosis are also some of the prevalent diseases among the poor, particularly in Africa. Although both men and women suffer from these diseases, they are nevertheless leading infectious cause of death among women. For example, currently women represent nearly one half of all AIDS infected adults and 58 per cent of adults infected in hard-hit Sub-Saharan Africa. As such, these diseases pose a great threat to development in poor countries and the impact is hardest among the poor segments of the population. Almost 60% of all malarial deaths are concentrated in the poorest 20% of the world’s population, the highest association of any disease with poverty. In Sub-Saharan Africa, the “Malaria growth penalty” may be as high as 1.3% of economic growth per annum.

2.17. Investment in basic health services, particularly preventive services is, therefore, an important aspect for human development and a prime objective of the IDB policy would be to assist member countries to develop their health systems to improve access to services for the poor.

(ii) Education

2.18. Like better health, education also contributes to economic growth and brings substantial returns in terms of poverty reduction. Better education widens economic choices for men and helps women to protect their own and their children’s health. Higher incomes facilitated by education improve living environments, reduce malnutrition and provide a buffer against the costs of poor health.

2.19. Although overall access to basic education has risen substantially in LDMCs over the past three decades, the poor in many of these countries are still less likely to attend school and children from the poorest households may have no schooling at all. Also, while the “gender gap” in education has narrowed over the last decade, girls are still relatively disadvantaged in their access to secondary education, particularly in Sub-Saharan Africa. In fact, female education, apart from empowering the woman herself and widening her choices, is particularly cost-effective because benefits pass on to her children. Educated women value education and are more likely to send their children to school. A study shows that in countries where girls are only half as likely to go to school as boys, there are on average 21 more infant deaths per 1,000 live births than in countries with no gender gap6. Children from less privileged backgrounds and those from socially excluded communities may need special curricula to help overcome the educational attainment gap between them and children from other communities.

2.20. Without education, the poor children will continue to face disadvantages into adulthood and will, therefore, have little chance of breaking away from poverty. Priority should be given both to the access, as well as the quality and relevance of education which are necessary to increase their future participation in the workforce and the society at large. The role of IDB in promoting education will be to take vulnerable and disadvantaged children and put them into classrooms. Such an approach will require IDB to finance stipends, especially for girls to attend schools so that parents are encouraged to send their children to study. The curriculum should encourage moral and spiritual growth as well so that children are

encouraged to aspire higher still and become responsible citizens in the future.

**Safety Nets for the Poor**

2.21. Poor people and other vulnerable groups often face frequent and immediate hardship during periods of crisis and emergencies, which underscore the need for social safety nets. Some families face hardship due to loss of income, illness, or chronic poverty. Safety nets should thus be a permanent feature of social policy. In good times, they help families in difficult circumstances. In bad times, it is much easier and more effective to expand existing programs than to build them from scratch during an emergency.

2.22. Risks can vary and affect households, communities and regions differently (floods, droughts, earthquakes, famines, epidemics, etc.). The adverse impact of these risks can be highly damaging for the incomes and well-being of the poor, and for human development generally. The IDB will, therefore, play a proactive role in helping to extend special assistance to protect poor people during times of widespread crisis.

2.23. Social safety nets offer protection by providing emergency relief aid, staple foods and other items, employment through labour-intensive projects (e.g. "food-for-work"), and aid through targeted human development programs. Also included are programs that give the poor access to essential services, such as schools (e.g. school feeding programs) and health services (including mobile dispensaries / clinics).

2.24. The IDB will help to develop safety net programs in consultation with governments and other key groups such as civil society and community groups, through the Bank’s technical assistance and project financing operations.

2.25. One of the distinct Islamic forms of safety net is the Zakat under which the well-to-do have to take care of the poor and vulnerable by apportioning a part of their income for them. IDB will work with the member countries to develop mechanisms that will effectively target and deliver Zakat to the needy and deserving with the objective of making them economically self reliant.

**Good Governance**

2.26. Good governance is essential to reduce poverty. Without good governance, the benefits of the financed programs will not reach their target recipients, especially the poor. There will also be a real danger that domestically and externally raised financial resources will not be used effectively.

2.27. A growing body of comparative international research has demonstrated that good governance and good social outcomes which reduce poverty are mutually reinforcing – as are poor governance and poor social outcomes\(^1\). That is, good governance leads to increases in income and improvements in social indicators such as literacy and infant mortality. Good social outcomes in turn support good governance. Low levels of education and health and high levels of inequality and unemployment contribute to poor governance.

2.28. The IDB will, therefore, treat good governance – and the associated transparency of processes – as one of the prerequisites for an effective poverty reduction policy in its projects formulation and implementation. The Bank will ensure that projects and programs which it finances are implemented economically and efficiently and that their benefits are not diminished through mismanagement. It will require implementing agencies to adhere more strictly to agreed procurement procedures. Also, bidders, suppliers, contractors and consultants will be required to observe appropriate legal and ethical standards during the procurement and execution of contracts which the Bank finances. This is how the IDB would perceive good governance, by giving prominence to development effectiveness and service delivery.

2.29. The Bank will also encourage research and studies which aim at raising public awareness, disseminate information about the linkages between good governance and economic and social outcomes, and improve performance in this important area in general.

**Country Ownership**

2.30. Poverty reduction has become a pervasive goal of donors’ foreign aid programs and large proportions of foreign aid flows have been directed to poverty reduction programs in poor countries. In the absence of foreign aid, there is no doubt that the incidence and depth of poverty in these countries would perhaps be even higher than that prevailing. However, experience shows that effectiveness of aid programs can be realized only if they are consistent with the national strategy to reduce poverty and are implemented consistently. The IDB recognizes that a country’s ownership of the poverty reduction program is central to its success. Foreign assistance should be based on a nationally-owned poverty reduction program to generate the necessary political commitment. With prior consultations on program design and, therefore, increased national ownership, foreign donors could focus on their core areas of expertise and limit their intervention to measures that have a direct and critical impact on the program’s objectives.

2.31. Therefore, the IDB policy will aim to base all its poverty reduction programs on clear country operational strategies which will be developed on the basis of priorities emerging from rigorous poverty analysis and consultations with the national authorities in member countries. In order to assure broad ownership of the poverty reduction programs, IDB will also have to work with the clients and civil society organizations in the project formulation process, and in designing projects and the operations for targeting of the poor.

\(^1\) See: Frederick T. Temple, World Bank, Governance Matters, in Bangladesh and Elsewhere.
SECTION-3

Developing a Poverty Reduction Strategy / Approach
The Overall Vision and Objective

3.1. The IDB aims to maximize its support for reducing poverty using a south-south approach embodying unique Islamic characteristics. This implies that:

- The Bank will pursue actively its 1440 Vision entitled “A Vision for Human Dignity” and aim to achieve the reduction of poverty.
- The Bank will maximize the resources that it can devote to poverty reduction, both from its own operations as well as by mobilizing resources for the new Fund from diverse sources.
- The Bank will ensure maximum effectiveness of its financial support by adhering to best-practice and full transparency.
- The Bank will incorporate special Islamic features in its financial support which will not only render its interventions unique on the global stage but also enhance its effectiveness in the spirit of solidarity and brotherhood.

3.2. The Bank aims to achieve a unique role; one that is closer to its member countries, more in harmony with their thinking, more a partnership between brothers (kins), and more effective in its support of poverty reduction.

The Approach: Seven Guiding Principles

3.3. The Bank recognizes the huge scale of the endeavour facing it and its member countries: around 400 million people living in extreme poverty in 31 of the Bank’s LDMCs (or 40% of the global total living on less than US$1 a day). And there is some indication that in terms of absolute numbers the problem is getting worse (around 130 million more people in Sub-Saharan Africa lived in extreme poverty in 2002 than in 1990, according to MDG statistics).

3.4. The IDB also recognizes that it cannot tackle this single-handedly, notwithstanding the substantial experience that it already has. So, in order to maximize value and impact within obvious constraints, the Bank will adhere to the following Guiding Principles:

i) Differentiation: The Bank will avoid ‘one-size-fits-all’ and recognizes at the outset that each member country has special needs. This is consistent with international experience and the Bank would strive to identify distinct segments with different needs amongst its member countries for its interventions under the PRF. Continuous consultations with member countries starting from the identification and ending with the impact assessment phase would be the main vehicle for embedding differentiation in its approach.

ii) Selectivity: The Bank will need to be selective in all aspects of its poverty reduction support. The choice of countries, beneficiaries and specifically the disadvantaged and vulnerable groups (for example minorities, chronic poor, women and children) and the projects will be determined through clear transparent criteria.

iii) Community-based: The Bank, where practicable and with the knowledge and approval of the Government, will explore the possibility to deal with local, community and grass-roots entities to achieve an ‘inclusive’ approach to poverty reduction work. In its stakeholder analysis, the Bank will try to minimize ‘top down’ approaches. The Bank will design appropriate agency and
implementation arrangements for ‘local groups’ to act within the overall framework provided by the Government.

iv) **Islamic:** The Bank will embrace specific Islamic characteristics in its operations which serve not only to differentiate it on the global stage but also to respond more closely to its Islamic member states needs and wishes. This will include mobilizing Zakat and Waqf where possible, providing Shari’ah compliant funding, promoting specific social and religious values, and instituting appropriate reforms to empower women within its poverty reduction projects, etc.

v) **Actionable:** The Bank places top priority on achieving results and will, therefore, emphasize impact and effectiveness, paying particular attention to the ability to replicate projects on a multi-year basis with partners (including from the civil society organizations and the private sector) who could add value and ‘scale-up’ a project.

vi) **Raising Awareness:** The Bank will support activities which raise awareness of the needs of the most marginalized and vulnerable groups in society, i.e. women and children, as well as the need to mainstream women.

vii) **Measuring Impact:** The Bank will develop appropriate mechanisms for assessing the impact of its poverty reduction activities taking into consideration the experience of other similar institutions.

3.5. To that end, the IDB’s poverty reduction activities will be designed to maximize ownership, align operations with international best practices, harmonize common procedures where possible, emphasize – and manage – for results, implement mutual accountability and assessment etc. Emphasis should be laid on a multi-year program of assistance, which would allow IDB to finance important long and medium term and large projects having higher impact on poverty reduction instead of doing small marginal operations in diverse sectors each year. Small, disconnected and stand-alone operations are not only costly to process but also have little effect on the ground.

The **IDB Poverty Reduction Strategy at the Country Level**

3.6. In striving for maximum efficiency and effectiveness, the Bank will structure its strategy for poverty reduction activities at the country level within a logical business process with clearly identifiable sequential steps. These are:

- **Step 1:** Decide country eligibility;
- **Step 2:** Conduct poverty assessment and agree on national poverty reduction strategy;
- **Step 3:** Identify eligible projects/activities, beneficiaries, and partners;
- **Step 4:** Agree on implementation arrangements; and
- **Step 5:** Review impact and benefits.

3.7. The Bank accepts that there will be an element of differentiation in its policy to reflect the varied needs across identifiable ‘segments’ of member countries. The table below provides some provisional indication of the likely policy flexibility that will be applied:
### IDB POLICY PAPER ON POVERTY REDUCTION

#### Segment/Group | Characteristics | Key Policy Considerations
--- | --- | ---
Concentration | Absolute number of poor > 20 million (5 IDB member countries) | - Volume of funding should be higher to have greater impact.  
- Partnerships, co-financing etc. are more likely to be needed.  
- Replicability and scaling-up project designs are key considerations.
Severe & Slipping | More than one third of the population in extreme poverty and worsening in several poverty indicators | - The effectiveness of project design should take prominence.  
- Support should concentrate on, and innovate within, problem areas.  
- More socially inclusive processes should be tried to enhance impact.
Severe & Improving | More than one third of the population in extreme poverty and improving in all poverty indicators | - The volume of funding should be much higher, if absorptive capacity allows.  
- Consideration should be given to multi-year poverty reduction projects that form a program, with high funding levels.
More Manageable | Less than one third (but greater than a quarter) in extreme poverty but mixed performance | - The volume of funding should be higher, if absorptive capacity allows.  
- Consideration should be given to multi-year poverty reduction projects that form a program, with medium funding levels.

3.8. As evident from the table, the Bank expects that its differentiation across eligible countries will affect four key variables:

- The volume of country allocation;
- The structure of the consultation process (and parties involved);
- The eligible activities and projects; and
- The partners in implementation.

**Decide Country Eligibility**

3.9. Concerning Step 1: Decide country eligibility: The Bank will set clear transparent criteria to determine eligibility. However, these criteria do not confer “entitlement” to any particular country and the Bank retains the flexibility and latitude to decide whether a country should receive poverty reduction funding, even if it meets the criteria. Resources of the Fund will also be available to countries which are falling behind in making a breakthrough in poverty reduction due to civil strife, conflicts, famines, harsh climatic conditions and other natural impediments.

3.10. The criteria will contain elements of need – i.e. the extent of poverty, and also elements of performance – i.e. the ability to effectively implement poverty reduction projects. Five criteria will be employed initially, and these will be reviewed by the Bank on a regular basis:

a) The incidence of poverty (US$1 a day) should exceed 25% of the population and be widespread across urban and rural areas;

b) The macro situation should accommodate the

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3.11. The Bank has considered using these criteria as a formula i.e. that they should be quantified in order to arrive at a weighted average score, above which a country could be eligible for IDB poverty reduction funding and below not. However, the Bank considers that it needs more flexibility than would be available with such a formula-based approach. Hence, the eligibility criteria will be necessary but not sufficient: a country will only be eligible if it meets the criteria, but the Bank still has the right not to include it in its poverty reduction funding. Country assessment, as it were, would be key to ascertaining country eligibility. In order to provide incentives to good performing countries in terms of implementation record and repayment of obligations, a move could be made towards performance-based allocation with incorporation of country vulnerability criteria.

3.12. Criterion (d) deals with the development of institutional infrastructure. Research has shown that this is one of the key determinants in reducing poverty, as it affects the life chances of individuals as well as access to economic improvements. So, the Bank requires its member states to have developed – or be in the process of developing – institutional infrastructure to acceptable levels (see box below):

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9The Bank is aware that any statistical cut-off limit will cause some countries to move to either side of the line over time, possibly with movement in both directions. For the purposes of this policy paper, the 25% figure includes the countries indicated in Appendix 3.
POVERTY REDUCTION

IDB POLICY PAPER ON

World Bank and the IMF ....

The IDB will:

- Participate in the National Poverty Reduction Strategy (NPRS) process; including the dialogue for the initial NRPS (e.g. PRSP) and its subsequent reviews and updates;

- Arrive at an all-inclusive process with a wide range of partners. These will comprise national, regional/provincial and local governments, civil society groups, other development partners and local success stories. Emphasis should be placed on community-based groups as well as neglected and marginalized groups including women and girls. The Bank will inform – and seek approval from the Government - when it is in dialogue with a non-Government group or organisation. It will also structure agency and implementation operations so that a local non-Government group can operate under the aegis of the Government; and

- Structure transparent agenda for different players in the consultation process; one for central government, one for local players and community groups, one for potential financing partners etc.

3.14. In principle, the Bank will structure this consultative dialogue in the context of the NPRS process considering that all but 2 of the 30 IDB member countries that have “LDMC” status have produced PRSPs (or interim papers), which represents a huge effort. The Bank recognizes this achievement, and will consider the PRSP as one of the sources towards the establishment of its work program for poverty reduction in its member countries. This, in turn, will help control the transaction costs of poverty reduction projects, which could escalate beyond acceptable limits if the Bank were to insist on a separate process.11

3.15. However, the IDB is aware that the experience with the PRSP, and the processes underlying it, varies across its member states. In some cases it is well embedded and reflects member states’ views and requirements. In other cases, including several in francophone Africa, the PRSP process has some shortcomings and is not necessarily a full reflection of the member states’ needs.12 So, the Bank will use its discretion, treating the PRSP process as an important reference point, but judging on a case by

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11 It should be noted that this concept has some similarities with the ‘acquis communautaire’ used by the EU in the 1990s to bring potential new member countries
to the EU.

12 For example, the US MCA and Global Fund require a separate procedure specially designed for access to their funding and often require the beneficiary country to convene ad hoc committees, prepare special documents etc. in their application for poverty reduction funding.

13 The IMF’s Evaluation report (2004) states that the “PRSP process falls short of potential .... There is too much focus on documents and the requirements of the World Bank and the IMF ....”;
3.16. The Bank will ensure that the work program is prepared in close partnership with development partners and stakeholders. The work program will define the sector, sub-sector and project types according to the recommendations and orientations of the NPRS. It will address specific lending and non-lending operations, eligible beneficiaries as well as selecting partners as described in Step-3.

**Decide on Projects, Beneficiaries and Partners**

3.17. Concerning Step 3: Define eligible activities/projects, eligible beneficiaries and suitable partners: The three parameters are briefly discussed below:

3.18. Define eligible activities/projects: the Bank will select eligible activities for financing within the poverty reduction work programs by giving priority to projects which tackle the causes of poverty and enhance life chances. The Bank strongly prefers to finance projects and not provide budget support. The projects that the Bank will consider financing must meet the following criteria:

- They must form part of the approved poverty reduction strategy and aim to achieve a key poverty reduction objective for priority beneficiaries. This typically means that they should be included in the NPRS, or the projects should be agreed separately between the IDB and the Government;

- They must have a suitable project sponsors with a proven track record and good prospects of getting the job done properly; and

- The projects must pass the IDB’s appraisal tests/benchmarks that are analysed during the normal ‘project cycle’.

3.19. The Bank distinguishes several major types of poverty reduction projects which should be eligible for its financing (see Section 4 for details):

i) Integrated sector projects aiming at boosting pro-poor growth and addressing the root causes of poverty; education; health; water; microfinance etc.

ii) Projects which finance improvements in institutional infrastructure.

iii) Projects aiming at specific issues which cut across sectors and promote the role of women.

iv) Investments by private sector arms of the IDB Group in support of micro-credit, micro-insurance and other direct poverty alleviation projects.

3.20. Identify eligible beneficiaries: The Bank identifies ultimate beneficiaries and project sponsors (or initial beneficiaries) as two distinct groups:

**Group 1:** Eligible ultimate beneficiaries comprise the poor and those needing emergency relief.

- The poor are defined as those living on less than US$1 per day (see chapter 1) and seriously lacking in any of the life chances that are defined within the MDGs. Of the 400 million people that are estimated to live in poverty in 31 IDB member countries, it is estimated that there are approximately 300 million in rural areas and 100 million in urban areas. The Bank will, where necessary, develop poverty distribution maps to focus its support on the pockets of poverty.

- The groups needing emergency relief are those suffering from force majeure circumstances (e.g. drought, famine, flood, civil unrest and war etc.) either in their homes or as displaced refugees.

**Group 2:** Eligible initial beneficiaries – as project sponsors – may receive funding from the IDB in order to implement projects for ultimate beneficiaries.

- These project sponsors – chosen for their skills in making projects happen – are potentially a broad group, though they will require Central Government approval. These include:

  i) Central Government institutions such as line Ministries, National Agencies etc;

  ii) Local Government and Municipal institutions;

  iii) NGOs and international institutions;

  iv) Community Groups, civil society entities; and

  v) The private sector; either ‘for-profit’ companies operating under a privatisation agreement and providing a service to a Government agreed standard (e.g. managing hospitals, supplying schools etc); not-for-profit entities providing a service to the poor directly; or financial institutions providing micro-credit & micro-insurance to the poor.

3.21. The Bank will assess which sponsors are best suited to successfully reach ultimate beneficiaries. On the whole, experience to date has favoured local, community groups; so the Bank will favour community-based projects where possible. The Bank will also favour dealing with women’s organizations, many of which have raised concerns that by sidelining women or by not focusing on their needs specifically, governments are not dealing with the roots of the poverty problem. Public-private partnership models are beginning to work well...
in some countries and these will also be considered for financing.

3.22. The Bank is aware that, in order to engage in effective dialogue with such a wide array of interlocutors, it may need to introduce a high degree of flexibility in several of its operational aspects.

3.23. Select suitable partners: the Bank will emphasize diverse partnerships, each making specialist contributions at successive stages of the operational process. Close relations with the private sector and NGOs are envisaged for various purposes:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Likely Key Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource mobilization</td>
<td>Shareholders, Private Sector, Waqf and Zakat Institutions, MDBs and NGOs (for co-financing and agency arrangements)</td>
</tr>
<tr>
<td>Setting strategy and identifying poverty reduction projects</td>
<td>Government, NGOs &amp; community groups with the MDBs (the PRSP process; and beyond)</td>
</tr>
<tr>
<td>Developing and implementing projects</td>
<td>Community based groups, private groups and businesses, NGOs</td>
</tr>
</tbody>
</table>

**Design Project Implementation**

3.24. Concerning Step 4: Project Implementation: The identified operations included in the Poverty Reduction Work Program (PRWP) will be implemented as per the project cycle adopted by the Bank. The Bank recognizes that intensifying its poverty reduction activities represents an important new departure which may trigger further adjustments in procedures governing IDB financial operations. This will focus in all implementation arrangements regarding poverty reduction projects including:

- Preparation and appraisal mechanisms,
- Funding terms and conditions,
- Procurement procedures, and
- Follow-up and supervision mechanisms.

**Review Impact and Benefits to the Poor**

3.25. With regard to Step 5; Review impact and benefits: the Bank will measure these closely at two levels:

a) At the project level; based on its appraisal benchmarks, there will be detailed supervision during implementation, best done by local IDB/PRF offices at quarterly intervals. On project completion the operations evaluation team will do an in-depth review (using appropriate data e.g. disaggregated by gender), followed by further such reviews at agreed intervals in line with normal Bank practices.

b) At the country level; where senior IDB Management would review the quality of the NPRS with Government, key stakeholders and other international agencies, ensuring inter-alia, that the NPRS is a sound reflection of national priorities and has fully addressed gender / women issues. In addition, there should be a bi-annual system of peer review of the ‘3i’; the quality, transparency and effectiveness of the institutional infrastructure and the extent to which it reflects Islamic values.

3.26. The Bank will stress that such reviews are intended to confirm the benefits accruing to poor people. However, an element of project and country ‘performance evaluation’ cannot be excluded. The Bank will avoid a heavy-handed approach, but it will need to discuss performance with Governments and project sponsors and agree corrective actions, where necessary, in a spirit of brotherhood and partnership.

3.27. Should there be a serious problem or non-compliance with the poverty reduction tasks, the Bank will have the authority to suspend, cancel or reformulate a project and take other broader actions, if required.
SECTION-4

Priority Areas
Focus of Poverty Reduction Financing

4.1. The Bank has already built up a substantial track record in pro-poor projects. Typically, these have been in education and health (often seen as the first, and most important, building blocks in poverty reduction programs), and also in rural infrastructure, water supply and sanitation, transport and power.

Boosting Pro-poor Growth

4.2. The Bank is aware that rapid rates of economic growth over a sustained period of time are necessary for poverty reduction, as it generates employment and income. The Bank recognizes that economic growth requires macro-economic stability, trade openness, market competition, investment in human development and infrastructure, and high quality institutions and good governance. But it will need to advise and guide governments to adopt such macro-economic policies that favour the poor and allocate some of their budgetary resources that are targeted at the poor and vulnerable.

4.3. The Bank recognizes that it will need to promote a qualitative growth in its member countries by developing the rural and urban infrastructures, increasing the added value of productive sectors and extending financing for income generating activities. It will, therefore, emphasize key aspects of pro-poor growth activities viz.

- **Rural, Agricultural Development & Food Security:** Since poverty is still predominantly a rural phenomenon, small irrigation schemes, land development, animal health facilities, and rural tracks and feeder roads will occupy a central position in the portfolio of the Fund. The Bank will ensure that these are compatible with present-day environmental standards and also have a facility for moving goods, not just people. The Bank will also highlight some ‘newer elements’ in rural development projects aimed at improving information for farmers and their ability to market their products, specifically computer literacy training, availability of computers at a library, village hall etc. and rural telecoms, typically mobile networks, to facilitate trade by allowing communication between buyers and sellers and disseminating price and market information. Where possible, the Bank will also make available internet links (either mobile or at a local village hall) as an important tool to boost livelihood chances.

- **Infrastructure:** The Bank also will support effective and affordable public transport systems to enhance mobility and access to economic opportunities and, similarly, it will fund rural roads, boost power generation to promote universal access to electricity and expand the network of transmission and distribution lines and improve connectivity of people, goods and information in the rural areas.

- **Microfinance:** The Bank will promote micro-finance schemes because it has generally been difficult for the poor to get credit at
In these areas, the IDB has subsequently built: a foundation on which most poverty reduction activities are of fundamental importance in poverty reduction. The Bank accepts the importance of basic education and literacy programs as an essential first step, but it also considers that advanced education in areas such as information technology (IT), technical fields, teacher training, and business management techniques have an important role in poverty reduction as they boost the chances of establishing businesses and creating jobs. This is also in line with the Bank’s 1440 Vision which emphasizes female, scientific and technical education.

- **Health:** In health, financing primary healthcare units will remain a top pro-poor priority. Within this, ante-natal care and disease eradication will feature prominently. However, district, regional and specialist hospitals will also be financed. In addition, public information programs will be stepped up, as the Bank considers these to be important in disease prevention.

- **Water Supply & Sanitation:** In these areas, the Bank will continue to fund pro-poor water piping, networks, boreholes and other related services.

4.5. In line with these general priorities, the IDB will focus on pro-poor projects that are known to have a substantial poverty reduction impact – to be determined during country assessment and project / program formulation.

**Developing Human Capital**

4.4. The Bank recognizes that human capital is the primary asset of the poor and its development is of fundamental importance in poverty reduction. Projects in the education and health areas create the foundation on which most poverty reduction activities are subsequently built:

- **Education:** In education, financing primary schools will be a top priority, especially linked to intensive literacy programs. However, in order for this to be effective, the Bank will also emphasize secondary schools, colleges and universities, and vocational training centres. The Bank accepts the importance of basic education and literacy programs as an essential first step, but it also considers that advanced education in areas such as information technology (IT), technical fields, teacher training, and business management techniques have an important role in poverty reduction as they boost the chances of establishing businesses and creating jobs. This is also in line with the Bank’s 1440 Vision which emphasizes female, scientific and technical education.

4.6. First, the Bank will finance integrated sector projects aimed at the causes of poverty. These can comprise, in various combinations, the sectors where the Bank already has experience; education of all types (basic literacy as well as more advanced), vocational training, healthcare (general, maternity & paediatric, and disease control/eradication), low-cost housing and electrification, rural roads and rural & urban infrastructure, water & sanitation, urban slum improvements, access to finance schemes including micro-credit, and other sectors/activities where relevant. Many of these focus areas work best in pairs as there are synergies between them: e.g. health and education, water and sanitation, low-cost housing and slum improvement, and access to finance and new credit schemes.

4.7. These integrated projects are likely to address a poverty ‘pocket’ or area identified by poverty distribution maps such as for example, focusing within a province or region, or within an urban / peri-urban area.

**b) Institutional Development and Capacity Building**

4.8. Second, the Bank will support improvements in institutional infrastructure such as public resources management, Zakat and Waqf institutions, licensing...
and regulation of business activity, governance of public institutions, the legal and judicial system, civil society organizations and private sector institutions. It is demonstrated that efficiency, transparency and accessibility in all these areas will enhance living standards for all, including the poor, women and disadvantaged groups.

4.9. The Bank acknowledges that these are all important dimensions for supporting poverty reduction. However, it singles out governance improvements as perhaps the most important aspect of institutional infrastructure deserving active support and emphasis, since it facilitates pro-poor policy and promote effective delivery of public services. In this regard, monitoring and evaluation to measure progress in good governance will be given top priority. The Bank will help LDMCs to improve their capacity to generate information on outputs and outcomes in public service delivery.

4.10. In building institutional capacities, the Bank will favour two approaches for which there are ample precedents:

- Twinning projects; between entities in a more advanced member country with the same/similar entity in the LDMC. These entities can be Ministries, other branches of Government (national, regional, local etc), NGOs, civil society groups, financial institutions and others. In this twinning process, the more advanced partner transfers know-how, systems and other management techniques to its less advanced twin. The Bank will consider financing the twinning process and considers that it has several merits as it represents south-south co-operation, strengthens the bond of Islamic brotherhood, and, if properly structured, usually works as a partnership of equals striving to a common goal.

- Technical assistance projects; aiming at improving the institutional infrastructure in member countries.

c) Cross-Cutting Projects and the Promotion of Women

4.11. The Bank will consider financing cross-cutting projects which are aimed at specific issues that impact on poverty reduction. For example, these can be through supporting decentralization processes and raising local involvement and accountability, improving the environment, and waste management for sustainable development.

4.12. The IDB will also promote the role of women. In designing projects and programs, special consideration is to be given to women issues. Men and women experience poverty differently and have different priorities for the various kinds of development interventions. The IDB’s Background Paper on Women analyzed the role of women in the development process. The draft “Strategic Framework for Mainstreaming Women in the Activities of the IDB Group” (March 2006) recommended that the Bank works with member countries and other donors to “identify the opportunities for poverty reduction and sustainable development” that are linked to the empowerment of women, and support projects and programmes that are specifically targeted to removing obstacles to women’s empowerment as a key element of its poverty reduction strategy.

d) Emergency Relief and Post-Conflict Projects

4.13. The Bank will support a range of projects, both for short-term support as well as long-term reconstruction following conflict, civil disturbance, natural disasters etc. The first priority is the humanitarian aspect, but these projects will address the physical re-building of socio-economic infrastructure and support transition processes.

Stimulation of Projects

4.14. The Bank is also aware that, far from having a long list of potential projects, a least developed member country may have too few, or inadequately developed projects. This could result from an inadequate PRS process, or other reasons. In such situations, the IDB will be pro-active in stimulating project ideas and work closely with the Government, outside the PRS process if necessary, to generate a pipeline of poverty reduction projects that generate enthusiasm and ownership from stakeholders.

Multi-Annual Programs

4.15. The Bank is aware of the advantages of moving towards multi-annual programs. These can act as indications of intentions, thereby strengthening the poverty reduction planning process and improve the ability to forecast available resources for the country.
SECTION-5

Road Map For Implementing Policy
5.1. Operational Guidelines have been developed to help the staff in all operational business units in the Bank identify, implement, and evaluate pro-poor projects. This section deals only with broad policies and the road map governing poverty reduction operations.

**Overall Structure**

5.2. The Bank will concentrate its poverty reduction activities under the ‘umbrella’ of the Poverty Reduction Fund. This will facilitate specialization and management of these operations. The Bank envisages transferring its ongoing concessional portfolio into this Fund when it is formally set up. The concessional funding under the Fund would be additional to the concessional funding received under the normal operations of the IDB.

5.3. The shift to poverty reduction activities on a large scale will necessitate a major restructuring of the present organization of IDB, major up-gradation and induction of new skills among the staff, re-engineering of the operational procedures and business processes and increased use of technology and management information system. The IDB will approach its Board of Executive Directors with a comprehensive time bound plan of reorganization and restructuring.

5.4. Administratively, the Fund will be financially independent with its own accounts and balance sheet, but within the IDB’s existing structure. In addition to sharing the same staff, the Fund will have the same Management, Board of Executive Directors and Board of Governors as the IDB. An Advisory Board, consisting of renowned personalities in the field of development and poverty, may be constituted if need be. The Fund will intensify cooperation and partnering with other development financing institutions and agencies (including the technical cooperation and bilateral arms of the OIC member states), and to benefit from their experience and best practices.

**Supporting “Adaptive” Research**

5.5. The IDB will base its poverty reduction activities on an extensive research program, with focus on:

- Measuring the baseline extent of poverty and the reductions achieved, using intermediate year surveys.

- Analyzing the causes of poverty specific to the Bank’s member countries paying due attention to women’s groups and their problems; and

- Developing case studies of successful poverty reducing projects to build up a data base of best practices.

5.6. The Bank will also hold regular workshops to promote poverty reduction research and elaborate best practices. The Bank will also seek regular
feedback from its LDMCs on poverty reduction activities. It will use such feedback to correct any issues arising.

**Developing Country Poverty Reduction Programs**

5.7. The Bank will support the development of poverty reduction programs by structuring a regular dialogue with each LDMC, participating in their PRS, and transferring best practice. At all times, the Bank will emphasize the need to innovate in project design.

5.8. The Bank accepts that no poverty reduction strategy would be successful without addressing the women dimension explicitly. Studies show that although a number of LDMCs have produced PRSPs as a requirement for securing funds from IFIs, often these lack analysis of the women dimension of poverty.

**Selecting Projects**

5.9. When faced with an array of poverty reduction projects, the Bank will apply specific and general criteria to help select projects it should support. These will be elaborated in the Operational Guidelines, and will include, for example:

- **General Criteria:** Is the project high in the priorities of the countries? Is there a satisfactory project sponsor? And does it meet the appraisal standards?

- **Specific Criteria:** Does the project meet the comparative advantage of the IDB? Is there agreement with other donors that the IDB/Fund will take on this particular project, and if necessary is the co-financing agreed in principle? Does the project meet the set hurdle rates (e.g. the estimated poverty reduction impact per US Dollar spent)?

5.10. The Bank will define hurdle rates, selecting whether these should be either project specific (e.g. indicators such as literacy rates for 11-18 year olds, percent of women in the labour force, proportion of births with medical staff present) or more general (e.g. the reduction in extreme poverty per US Dollar spent).

5.11. In selecting its projects, the Bank will be guided by its policy on portfolio composition and acceptable risk levels. This policy will specify, in operational terms, the risk spreads and concentrations that are acceptable to the Bank, e.g. exposure to any one country and to any one sector and a maximum size for any single project.

5.12. Moreover, the Bank will endeavour to finance projects which use Awqaf as a tool for generating income to the poor and to help ensure the sustainability of projects. It will also explore utilization of non-traditional resources of Zakat.

**Implementing Projects**

5.13. The IDB recognizes that intensifying its poverty reduction activities represents an important new departure which will trigger further adjustments. Specifically, in order to be close to member countries and be able to implement community-based projects with an intensive dialogue, the Bank will need to devise ways of decentralizing its operations somewhat. Apart from being in the interests of the Bank and its member countries, this is also in line with the experience of other MDBs.

5.14. The Bank expects poverty reduction projects to require a greater range of partners, partly as a reflection of their typical multi-sectoral components and partly to reflect their community-based design. In this connection, the Bank will seek out closer links with the private sector and NGOs, which have crucial contributions to make to the effectiveness of poverty reduction projects. Private sector participants can be either ‘for-profit’ companies operating under a privatization agreement and providing a service to a Government agreed standard (e.g. managing hospitals, supplying schools etc), or not-for-profit entities providing a service to the poor directly.

**Diagnostic Tools for Monitoring and Impact Assessment**

5.15. The Bank places paramount priority on achieving results for its member countries. In that context, close monitoring of the implementation of its on-going projects as well as measuring the impact of completed projects will be crucial, not only to demonstrate the quantitative achievements but also the transparency and accountability with which funds reach the ultimate beneficiaries.

5.16. In order to demonstrate these results to itself as well as to its member countries, stakeholders and to the aid community, the IDB will develop a range of monitoring tools that assess results from various policy perspectives. These are summarized below and will be elaborated in more detail in the Operational Guidelines.

5.17. The Bank sees such information as confirming the ‘gold standard’ reputation of the IDB. In order to collect and use such data comprehensively and systematically, the Bank will consider adaptations in its Management Information System.

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13 The Bank will consider using third party research to gather such feedback in an objective and anonymous fashion.
<table>
<thead>
<tr>
<th>Management/ Monitoring</th>
<th>Data</th>
<th>Generated by/Source</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>How well is the project going?</td>
<td>Project Statistics</td>
<td>Project management and supervision</td>
<td>- Before and after project indicators.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Reduction in poverty (i.e. number of absolute poor) overall, or per ID spent.</td>
</tr>
<tr>
<td>How is the country progressing in the fight against poverty?</td>
<td>MDG Indicators &amp; additional local stats.</td>
<td>Government (with IDB)</td>
<td>- Statistics on 18 key targets (see Section-1)</td>
</tr>
<tr>
<td>Are the poor truly better off?</td>
<td>Qualitative judgments</td>
<td>Peer review &amp; interviews</td>
<td>- Review of life changes.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Tracking individuals and families over time.</td>
</tr>
<tr>
<td>How well is the IDB doing?</td>
<td>Opinion Research</td>
<td>Third party questionnaires</td>
<td>- Effectiveness of poverty reduction funding.</td>
</tr>
<tr>
<td>What is the objective opinion about it all?</td>
<td>Evaluation Report</td>
<td>Independent Operations Evaluation Office</td>
<td>- Efficiency &amp; service levels.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Comparative assessments.</td>
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</tbody>
</table>

**Mobilizing Resources for Poverty Reduction**

5.18. In line with the OIC mandate, the Bank will seek special contributions to the Poverty Reduction Fund from its member countries. In the spirit of solidarity, the more well-off member countries will contribute proportionately more to the Fund resources. On its part, the Bank will make substantial contributions from its own resources, and endorses the policy of multi-sourcing comprising:

- A mix of private, commercial and official funds (though not in equal proportions); and
- The allocation of Waqf and Zakat funding where possible (depending on the collection mechanism and the constitution of the member country).
ANNEXES
# The UN Millennium Development Goals (MDGs)

## Millennium Development Goals (MDGs), Targets and Indicators

<table>
<thead>
<tr>
<th>Millennium Development Goals and Targets</th>
<th>Indicators</th>
</tr>
</thead>
</table>
| **Goal 1: Eradicate Extreme Poverty and Hunger** | 1. Proportion of population below $1 (PPP) per day  
2. Poverty gap ratio [incidence x depth of poverty]  
3. Share of poorest quintile in national consumption |
| **Target 1:** Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day | 4. Prevalence of underweight children under-five years of age  
5. Proportion of population below minimum level of dietary energy consumption |
| **Target 2:** Halve, between 1990 and 2015, the proportion of people who suffer from hunger |  |
| **Goal 2: Achieve Universal Primary Education** | 6. Net enrolment ratio in primary education  
7. Proportion of pupils starting grade 1 who reach grade 5  
8. Literacy rate of 15-24 year-olds |
| **Target 3:** Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling |  |
| **Goal 3: Promote Gender Equality and Empower Women** | 9. Ratios of girls to boys in primary, secondary and tertiary education  
10. Ratio of literate women to men, 15-24 years old  
11. Share of women in wage employment in the non-agricultural sector  
12. Proportion of seats held by women in national parliament |
| **Target 4:** Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015 |  |
| **Goal 4: Reduce Child Mortality** | 13. Under-five mortality rate  
14. Infant mortality rate  
15. Proportion of 1 year-old children immunized against measles |
| **Target 5:** Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate |  |
| **Goal 5: Improve Maternal Health** | 16. Maternal mortality ratio  
17. Proportion of births attended by skilled health personnel |
| **Target 6:** Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio |  |
| **Goal 6: Combat HIV/AIDS, Malaria and other Diseases** | 18. HIV prevalence among pregnant women aged 15-24 years  
19. Condom use rate of the contraceptive prevalence rate  
19a. Condom use at last high-risk sex  
19b. Percentage of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS  
19c. Contraceptive prevalence rate  
20. Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years |
| **Target 7:** Have halted by 2015 and begun to reverse the spread of HIV/AIDS | 21. Prevalence and death rates associated with malaria  
22. Proportion of population in malaria-risk areas using effective malaria prevention and treatment measures  
23. Prevalence and death rates associated with tuberculosis  
24. Proportion of tuberculosis cases detected and cured under directly observed treatment short course DOTS. |
<table>
<thead>
<tr>
<th>Goal 7: Ensure Environmental Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target 9:</strong> Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources</td>
</tr>
<tr>
<td>25. Proportion of land area covered by forest</td>
</tr>
<tr>
<td>26. Ratio of area protected to maintain biological diversity to surface area</td>
</tr>
<tr>
<td>27. Energy use (kg oil equivalent) per $1 GDP (PPP)</td>
</tr>
<tr>
<td>28. Carbon dioxide emissions per capita and consumption of ozone-depleting CFCs (ODP tons)</td>
</tr>
<tr>
<td>29. Proportion of population using solid fuels</td>
</tr>
<tr>
<td>30. Proportion of population with sustainable access to an improved water source, urban and rural</td>
</tr>
<tr>
<td>31. Proportion of population with access to improved sanitation, urban and rural</td>
</tr>
<tr>
<td>32. Proportion of households with access to secure tenure</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Goal 8: Develop a Global Partnership for Development</th>
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</thead>
<tbody>
<tr>
<td><strong>Target 12:</strong> Develop further an open, rule-based, predictable, non-discriminatory trading and financial system</td>
</tr>
<tr>
<td>Includes a commitment to good governance, development and poverty reduction – both nationally and internationally</td>
</tr>
<tr>
<td><strong>Target 13:</strong> Address the special needs of the least developed countries</td>
</tr>
<tr>
<td>Includes: tariff and quota free access for the least developed countries’ exports; enhanced program of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Target 14: Address the special needs of landlocked developing countries and small island developing States (through the Program of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term</td>
</tr>
</tbody>
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<thead>
<tr>
<th>Target 16: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth</th>
</tr>
</thead>
<tbody>
<tr>
<td>45. Unemployment rate of young people aged 15-24 years, each sex and total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Target 17: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>46. Proportion of population with access to affordable essential drugs on a sustainable basis</td>
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</table>

<table>
<thead>
<tr>
<th>Target 18: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications</th>
</tr>
</thead>
<tbody>
<tr>
<td>47. Telephone lines and cellular subscribers per 100 population</td>
</tr>
<tr>
<td>48. Personal computers in use per 100 population</td>
</tr>
<tr>
<td>Internet users per 100 population</td>
</tr>
</tbody>
</table>
## Country Segments for IDB’s Poverty Reduction Policies (Tentative)

<table>
<thead>
<tr>
<th>Country</th>
<th>Population millions (2005)</th>
<th>Population at &lt;US$1 per day, Millions</th>
<th>Incidence of extreme poverty (%)</th>
<th>Trend in MDGs indicators (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. CONCENTRATION SEGMENT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sudan</td>
<td>36.2</td>
<td>22.8</td>
<td>63</td>
<td>Progress</td>
</tr>
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<td>Bangladesh</td>
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*Source: Adapted from IDB Background Paper*
a) The Experience of Vietnam

Vietnam's economic structure resembles many of the member states of IDB. Between 1993 and 2002 poverty declined from 58% to 29% - one of the best performing record among the developing countries. How was Vietnam able to bring about such a striking achievement and what lessons does this hold for IDB policy?

Doi moi market oriented reforms in Vietnam started in the mid-1980s have been largely responsible for this favourable outcome but previous investment in schooling and health by the communist governments had paved the way. The work force was well trained, healthy and disciplined and the liberalisation of markets under a watchful eye of a strong government accelerated the process of economic growth. This can be gauged by the fact that Intel, the world's largest microchip firm, has located its latest plant in Vietnam because it can find adequate skilled labour force at relatively cheap wages.

Vietnam achieved high growth rates averaging 7.5% annually rising to 8.4% in recent years. This high growth rate was the result of a ten year Socio-Economic Development Strategy supplemented by sector strategies for health care and protection, rural clean water supply and sanitation, nutrition, reproductive health, public administration reform, targeted poverty reduction and job creation programs.

The ten-year strategy was translated into five year plans with targeted programs and a Comprehensive Poverty Reduction and Growth Strategy (CPRGS). These two instruments were used to produce the overall Public Investment Programs from which the annual plans were prepared, implemented and monitored. This elaborate framework was critical to the success of Vietnam's strategy for rapid growth and poverty reduction.

The CPRGS was a harmony between economic growth and measures to solve social problems. It was aimed at supporting specific poverty groups but also established linkages within the matrix of policies that included:

- Macroeconomic policies
- Policies on structural adjustment
- Sectoral development policies
- Social safety nets

Vietnam's initial priority was to develop agriculture and rural areas, ensure food security, create jobs and improve the rural population's income. As the purchasing power of rural population rose, the business environment for all types of enterprises from all economic sectors including enterprises with FDI was created for providing equal access to public services and investment opportunities. The development of SMEs was particularly encouraged.

At the same time, structural reforms were continued. State owned enterprises were reorganized, renovated and their efficiency improved. The state budget was restructured, commercial banking system was reformed, the health of financial and credit organizations was strengthened, and the pace of trade liberalisation was stepped up to meet and honour international agreements. In brief, the efficiency and competitiveness of the economy were raised.

Vietnam's Government was also careful that growth did not exacerbate income or regional or gender inequalities and therefore designed social protection and safety nets for the poor and for people suffering from natural calamities. Social organisations were involved in developing the social safety nets.

Efficient delivery of basic services and their targeting to the poor could not have been possible without public administration reform in four areas: institutional, administrative apparatus, quality of civil servants, and public finance. Communities and citizens' participation in the planning and implementation of decisions
about their own socio-economic development also helped in achieving the targets.

Finally, a system of qualitative and quantitative socio-economic development and poverty reduction indicators (with breakdown by gender and ethnicity) was put in place to monitor and supervise the progress of implementation.

b) The Experience of Ghana

Ghana is one of the few African countries that brought down the incidence of poverty from 52% in 1991-92 to 32% in 1995, and less more recently. Real GDP has grown at an average rate of 5% annually while per capita incomes have risen by 2.4%.

Ghana’s economy is not strongly diversified and is dependent on agriculture and mineral resources. Gold, cocoa and timber are the main export commodities and manufactured exports are still in their early development stages. The human resource base is relatively better than many Sub Sahara African countries and political stability and internal cohesion are strong. Ghana embarked upon economic reforms about two decades ago and has been a large recipient of assistance from bilateral and multilateral donor agencies. What were the critical success factors of Ghana’s poverty reduction strategy? These can be summarized as follows:

- Pursuit of prudent fiscal and monetary policies.
- Private-sector led industrial production through the application of Science & Technology.
- Sound and sustainable management of the environment.
- Promotion of commercial agriculture using environment-friendly technologies.
- Agro-based industrial expansion.
- Export promotion based on diversification and competitive advantage.
- Increased investments in social services.
- Accelerated decentralization as the key mechanism for policy implementation.

In Ghana, the incidence of poverty in the rural areas and urban areas was correlated with the literacy rate. The poorest 20% in rural areas had literacy rates of 24% vs. 62% among the non-poor while in urban areas the very poor had 40% literacy vs. 80% for the non-poor.

The connection between education, female household heads and income earning capability is strong. About 61% of female household heads in the urban areas fall in the poorest 20% of the population. Female poverty entails further deprivations that manifest in children’s significant under-nourishment and infant mortality. The regions with least reduction in poverty levels tend to have high female population with preponderance of female household heads and low levels of education.

The World Bank observed that it will take the average poor Ghanaian less than 10 years to escape poverty but for the poorest this would be nearly 40 years despite the positive impact of economic growth if specific poverty reduction policies are not in place. The reason for this is that even if economic growth is positive, as it has been throughout the 1990s, the initial structures such as access to markets and the availability of social amenities are very unequal and the poor will get a relatively small share of the benefits. Despite well thought out plans and enormous donor assistance the state has attempted to accomplish more than it is able to given the limited resources it can command and the weak administration apparatus it possesses.

Private sector led growth did not occur as intended because not only were the public policies misguided but the structural rigidities were not tackled. While the public sector crowded out the private sector, public sector expenditures did not adequately address infrastructural constraints and human skills shortages.

Feeder roads and trunk roads in bad condition severely limit access to prime agriculture lands on the production side. On the distribution side, it limits opportunities and access to markets, raises costs to producers and the predominantly self employed women in the distributive trades and serves as disincentives to those who wish to invest in the agriculture sector. A study of peripheral communities around Kumasi found that the improvements in road infrastructure enabled some farmers to supply a much bigger market than they had previously been able to save.
Access to water and sanitation and improved rural electrification have yielded positive results and although the gains are not evenly distributed the lowest three income groups have also benefited.

Agriculture policy outside the limited commercial farming sector has generally failed because it has not effectively addressed the fundamental technical and institutional constraints. It has not yet sorted out pricing in a way that is consistent with competitiveness and incentives for production and marketing. Development in agriculture must encourage and facilitate links with agro industry.

Migration of skilled Ghanaians particularly medical doctors, University professors, scientists etc., abroad have depleted the talent pool required for broad based development. The replenishment of the high skilled manpower is a serious challenge for Ghana.

c) The Experience of Pakistan

Pakistan has been successful, despite a number of adverse exogenous external shocks and internal difficulties, to turn around its economy and bring about a reduction in the incidence of poverty from 34% to 24% over the last six year period. This is the same country which had witnessed an up-surge in poverty from 18% to 28% in the decade of 1990s. The case of Pakistan therefore represents an interesting illustrative study of what works and what needs to be avoided.

The first point that needs to be stressed is that macroeconomic stability in all its multiple dimensions over an extended period provides a solid basis for instilling confidence among investors and economic actors. This confidence translates into decisions for expansion of capacity and new investment. Efficient utilisation of resources and capital inflows raised economic growth rates to match the country's potential that, in turn, generated employment opportunities and reduced poverty.

Second, structural reforms in the form of trade liberalization, financial sector restructuring, tax administration, privatisation and deregulation removed many of the microeconomic distortions and prevented misallocation of resources. Access to capital by agriculturalists, SMEs, middle class consumers through the financial system and lowering of cost of capital by fostering competition in the banking sector increased purchasing power and stimulated aggregate demand. This demand expansion reinforced the supply side response created by macroeconomic stability.

Third, good governance was an integral part of the story as it provided a level playing field to the private sector. The decision-making was by and large transparent and rule bound rather than discretionary and opaque in nature. For example, the new licences for telecommunication companies as well as privatisation of state owned enterprises were carried out through auctions and competitive bidding. This brought in increased foreign investment flows to various economic sectors that had almost dried up by the end of 1990s.

Fourth, a prudent fiscal policy accompanied by plugging leakages in tax collection enlarged the resource envelope available for public sector investment. Development funds for physical infrastructure and social services multiplied four fold over a five year period thus eliminating some of the constraints that were making the economy under-perform. Public investment complemented and crowded in private sector investment that was able to obtain large volumes of credit from the reformed financial system.

Fifth, the process of decentralisation and empowerment of local governments altered the incentives for demand driven projects catering to the specific needs of the communities. The waste and misallocation of resources driven by the central or provincial planners without adequate monitoring and controls was replaced by a new system of identification and implementation of projects by local councils. Emphasis was laid by these local councils on education, health, safe drinking water and rural infrastructure that are key for better human development outcomes and poverty reduction. Citizens Community Boards, Rural Support Programs, Pakistan Poverty Alleviation Fund, National Commission for Human Development are some of the innovative organisational initiatives that target their services to reach the poor and work in tandem with the local government institutions.

Finally, the social safety nets in the form of cash disbursements and in kind payments to the poorest of the poor and those affected by natural disasters such as drought, floods, earthquakes etc. provided some support to those vulnerable segments of the society. Special additional allocations have been made to the most backward district government of Baluchistan to bring the poor into the mainstream of development. Credit to the poor is being provided through micro-financial institutions and a public works program is generating employment and creating infrastructure in rural and backward areas. The food support program covers about 1.2 million poorest households to mitigate the impact of rising food prices.
Micro-Credit: The reasons normally given by commercial banks for diverting only a very small proportion of their funds to micro-enterprises is that, firstly, it is too cumbersome for them to handle a large number of micro-enterprises, and secondly, the risk and expense involved in financing a large number of small firms is much greater than that in financing a few large ones. The problem of cumbersomeness can be solved by the commercial banks by not getting directly involved in the business of microfinance. They can operate through either their own subsidiaries or through the institutions that already exist for this purpose, like the agricultural banks, cooperative banks, development banks and leasing and finance companies.

The risk and expense of such financing for commercial banks also needs to be reduced. The risk is great because micro-enterprises are unable to provide acceptable collateral to the banks. The risk could get reduced to a substantial extent by adopting the group-solidarity method used by Grameen Bank and by not providing financing in the form of cash loans. Tools and equipment may be provided through the less risky Ijarah mode of Islamic financing. Raw materials and merchandise as well as the working capital may be provided on the basis of Murabahah, Salam and Istisna', which would perhaps involve relatively greater risk than the Ijarah mode. To handle the risks involved in all such financing, it is imperative to establish loan guarantee schemes which have been introduced in a number of countries. It may also be possible to cover the losses arising from the default of very small micro-enterprises from the Zakat Fund.

The additional expense incurred by commercial banks in evaluating and financing micro-enterprises also needs to be reduced. In the case of financing provided to the very poor, part of the expense may be covered from the Zakat Fund, one of the primary purposes of which is to enable the poor to stand on their own feet. For those who are not eligible for Zakat but still deserve some help, it would be worthwhile for the governments to consider subsidizing part of the cost, at least in the initial phase, in the interest of helping realize an important socio-economic goal of Islam. As the system matures, the dependence on Zakat as well as the government subsidy should be gradually reduced.

The availability of micro-credit may not be able to go far enough without a significant improvement in the environment for micro business through better access to markets and provision of the needed physical and social infrastructure. Such an infrastructure, including vocational training institutions, roads, electricity, and water supply, will help increase the efficiency of micro-enterprises and reduce their costs, thereby enabling them to compete successfully in the market.

Zakat: This is obligatory on all adult Muslims who own properties that fulfil certain conditions. It is given to the poor on the basis of making him/her the owner of the distributed amount so that the recipient has the full authority on the choice and decision over what is given. The poor and the needy are among the categories of Zakat recipients in Islamic society. Scholars agree that the government is responsible for the implementation of Zakat in a Muslim society.

The potential of Zakat institutions is still largely untapped in poverty reduction efforts. The Zakat collected by the government bodies is very small compared to the potential. According to some studies, the potential of Zakat collection in member countries ranges from 2 percent to 4 percent of GDP. The countries that have a system of Zakat collection have been able to realize hardly one percent of the total potential. Moreover, most of the funds given out as Zakat are made voluntarily by obligors and are most likely used for income support
or consumption purposes and do not solve the problem of poverty in the long run. Therefore, the IDB can act as a facilitator in the development, promotion, and dissemination of best practices to effectuate the effective use of Zakat resources for poverty alleviation. It can also assist in integrating Zakat into countries’ national development programs by providing technical assistance in the areas of capacity building and institutional development. Cross-border revival and revitalization of the institutions of Zakat can also have a potential to mobilize additional non-conventional resources for poverty reduction programs. The IDB can also promote the focus of the Zakat disbursements on capacity building, wealth creation, and microfinance to make the households productive instead of focussing on income support.

The role of Zakat can also be extended to reduce the chances of the vulnerable non-poor to become poor due to external shocks. One way to achieve this objective is to have a scheme of giving interest free loans (Qard Hassan) to the vulnerable. Similarly, technical support can be given to use Zakat funds to insure the assets of the poor to protect them against negative shocks and enable them to achieve sustainable income sources.

Waqf: Islam encourages individuals to make donations to create assets that keep producing benefits/revenues to its targeted objectives. These assets are called Waqf. These Awqaf can be for social purposes like building a house for the poor or digging of a canal, etc. The objective of Waqf may be for the society at large, including socio-economic relief to the needy segment, the poor, education, environmental, scientific, and other purposes.

The potential of Waqf institutions in contributing to poverty alleviation can be enhanced through capacity building in the existing Waqf institutions. It can also be done through improving the quality of existing undeveloped and underdeveloped Awqaf properties by investing in them and thereby increasing their returns. Encouraging and assisting in establishing new Waqf institutions can be very important in enhancing the role of Awqaf in poverty reduction. There is a need to develop alternative models of creating Waqf other than the ones based on land/real estate. Examples of these models include cash Waqf which can be given out as loans to the poor; development of Waqf ‘Certificates’ to raise funds from the market and enable financing of Waqf properties on commercial basis; creation of mutual guarantee funds to pay for accidents, losses of property etc., as well as provision of micro-finance on a concessional basis.
The Scope and Complexity in Defining Poverty

THE ISSUES

The definition of poverty is complex and continues to be the subject of much debate. There are key measurement difficulties at many levels such as:

- Individual or household? Which is the more relevant; to measure the poverty of the individual or the household in which an individual lives?

- Absolute, relative, or extreme? Does the definition aim to capture some absolute level of poverty, e.g. the conditions leading to hunger, lack of shelter etc., or is it relative i.e. that a low-paid worker has less than someone who is well-educated?

- Country specific or global? Poverty, and the fight to stem it, is so closely associated with international development that it is often overlooked that richer nations also have concepts of poverty embedded in their welfare policies and minimum wage legislation. Can one figure be a catch-all across all countries? Should there be national and regional variations?

- Nominal money, real inflation-adjusted money, or ‘purchasing power parity’? For the income part of the poverty definition, questions arise whether this should be expressed in nominal, real or purchasing power parity terms (in fact the US$1 per day figure widely used in measures of poverty was defined in 1985; it is usually adjusted for purchasing power parity).

- Money or more? While income is an important determinant of poverty in non-barter economies, it is not the only factor that defines it. Paul Streeten’s pioneering work with the ILO during the 1970s on the ‘basic needs’ concept demonstrated that there are many other dimensions defining poverty, e.g. lack of adequate shelter, clothing, potable water etc.

- Ability to buy or ability to consume? Although a poor person’s ability to purchase food, shelter etc. may be negligible, this could be compensated by having access to publicly-provided, or socially-provided, consumption of these items. So poverty needs to distinguish between purchasing power and consumption, and between private consumption and having access to public (or social) consumption.

- Life chances or consumption? Should poverty be understood to be a lack of consumption which places a poor person below minimal levels, or should it refer to the life chances that determine that person’s ability to earn? This is similar to the oft-debated concept of ‘stock or flow’; a person may

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15 Professor Amartya Sen has written persuasively about these non-material aspects; seeing development not only as a process where material standards improve but more one of self-realisation and a chance for self-fulfilment for individuals, families and communities (“Development as Freedom”).
be poor in terms of the flow of income, but have access to a stock of resources (e.g. land, diplomas, training, education etc.) that could enhance future living standards.

- Material vs. spiritual? Should the poverty definition deal only with money and non-monetary material goods e.g. income, clothing and shelter, or should spiritual well-being be assessed as well? It is often observed that, notwithstanding material wealth, rich nations have widespread spiritual poverty leading to extensive personal and social problems. Yet a person who may be classified as materially poor could be spiritually and personally well off if she/he has a stable and purposeful set of family, personal and spiritual relationships.

- Permanent or temporary? Another issue, particularly linked to force majeure events such as drought, flood, crop failure, war and civil unrest, refugees and population displacement – all of which have affected quite a number of IDB member states – is the question whether poverty is permanent or transitory? Is a state of poverty linked to such disasters and then overcome, or is it chronic and persistent, a part of ‘steady state’ rather than the result of adverse circumstances?

- Accident of birth or result of inaction? Is poverty the result of lack of opportunities because such access is denied on the basis of one’s gender, race, religion, or ethnicity; or is poverty the result of individual failure and personal indolence? Should poverty be linked to the persistent denial of opportunity among marginalized groups that leads to isolation and ‘ghettoisation’, and exclusion from full participation in the economy and society; or should poverty be ascribed to certain behavioural aspects that constitute deviation from mainstream behaviour and exacerbate the condition of poverty?


United Nations Development Fund for Women (UNIFEM). No date. “Gender Budget Initiatives”. Available online at: www.unifem.org


