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Benchmarking Global Poverty Reduction

Goals for future poverty reduction should be challenging, but not impossible

International development institutions and almost all developing countries track poverty measures, and the results are watched keenly. But how do we judge performance? When do we say that it is good or bad? Little attention has been given to these questions.

A closely related issue is how to set goals for future performance. Setting goals can motivate achieving them. But to motivate extra effort, the goals that are set must represent real progress but not be impossible. Nor can they be too easy.

A new paper by Ravallion draws on recent research on the measurement of poverty and on global economic prospects to try to identify measures and seemingly defensible benchmarks for judging progress going forward. The measures proposed span both absolute and relative poverty. The benchmarks for each rest on explicit assumptions about future growth and distributional change, though they are assumptions informed by knowledge of recent past performance against poverty and current expectations about growth prospects across the developing world.

For absolute poverty the proposed optimistic benchmark for the $1.25 poverty rate in 10 years' time is 9 percent. Achieving this would clearly be a very good performance—maintaining an impressive trajectory of poverty reduction going back to the early 1980s, when the corresponding poverty rate was more than 50 percent. In the 20 years from 1990 to 2010 the developing world cut its overall poverty rate by half, from 43 percent to 21 percent. The optimistic trajectory would entail halving it again in another 10 years.

A very ambitious but still imaginable benchmark for even better performance would be a 3 percent poverty rate by 2022. This could be achieved by a 1 percentage point higher growth rate than we have seen recently, but it would also require that there be no further deterioration either in overall inequality or in the household sector's (survey-based) share of national income.

Alternatively, moderately lower inequality (achieved by bringing overall inequality back to its level in 1999) could attain the ambitious target without higher growth. While the 3 percent target for 2022 is clearly ambitious, it appears to be within the range of experience for what is possible with a concerted effort toward equitable growth.

Allowing for social inclusion, the optimistic target for 2022 implied by the past trajectory would be to ensure that no more than 40 percent of people in the developing world are either absolutely poor or poor by standards typical of the country they live in. The ambitious target corresponding to the 3 percent target for absolute poverty would be to ensure that at least two-thirds of the developing world's people are neither absolutely poor nor relatively poor in 10 years.

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Rethinking the State's Role in Finance

What should be the role of the state in financial development? What lessons can we learn from the global financial crisis?

The global financial crisis has prompted many to reassess state interventions in financial systems—from regulation and supervision of financial institutions and markets to state guarantees and state ownership of banks. But the crisis does not necessarily negate the body of evidence on these topics accumulated over the past few decades. It is important to use both the crisis and precrisis experience to examine what went wrong and how to fix it. This is the motivation of the World Bank's *Global Financial Development Report 2013: Rethinking the Role of the State in Finance*, the inaugural edition of a new World Bank series.

The report reexamines a basic question: What is the proper role of the state in financial development? To address this question, it synthesizes new and existing evidence on the state's performance as financial sector regulator, overseer, promoter, and owner. It builds on novel data, surveys, research, and wide-ranging country experience, with an emphasis on emerging market and developing economies. The report also tracks financial systems in more than 200 economies before and during the global financial crisis.

The report strikes a cautionary chord. It acknowledges that the global financial crisis has given greater credence to the idea that direct state involvement in the financial sector, such as lending by state-owned banks, can help maintain economic stability, drive growth, and create jobs. And it provides evidence that some of these direct interventions may have had an impact, at least in the short run. But it emphasizes that there is also evidence of potential longer-term negative effects. The report suggests that as the crisis subsides, there may be a need to adjust the role of the state from direct interventions to less direct involvement. This does not mean a withdrawal of the state from overseeing finance. On the contrary, the state has a very important role, especially in providing strong supervision, ensuring healthy competition, and enhancing financial infrastructure.

The report's underlying message is that in the financial sector incentives are crucial. The main challenge of financial sector policies is to better align private incentives with public interest without taxing or subsidizing private risk taking. The design of public policy needs to strike the right balance—promoting development, yet in a sustainable way. This approach leads to challenges and trade-offs. The report studies these in depth, focusing on four main areas.

The first area of focus is regulation and supervision. The report examines new evidence from the crisis using a unique survey covering some 730 features of the regulatory framework in 143 jurisdictions. One finding is the importance of first getting the "basics" right—through strong, timely, and anticipatory supervisory action complemented by market discipline. In many developing economies this means giving priority to building up supervisory capacity. Less can mean more: less complex regulations, for example, can allow more effective enforcement by supervisors and better monitoring by stakeholders.

The second area is competition policy. The crisis fueled criticisms that "too much competition" in the financial sector led to instability. But research presented in the report suggests that for the most part instability is due to other factors, such as a poor regulatory environment and distorted risk-taking incentives. With good regulation and supervision, bank competition can help improve efficiency and enhance access to financial services without necessarily undermining systemic stability. Rather than restricting competition, the state needs to encourage contestability, improve the flow of information, and strengthen the contractual environment.

The third area relates to direct interventions, such as lending by state-owned banks. The report finds that such lending can help stabilize aggregate credit in a downturn, but it can also lead to resource misallocation and deterioration in the quality of intermediation. The report presents evidence that lending by state-owned banks tends to be less procyclical and that some state-owned banks even played a countercyclical role during the global financial crisis. But the track record of state banks in credit allocation remains generally unimpressive, undermining the benefits of using them as a countercyclical tool. Policy makers can limit the inefficiencies associated with state bank credit by paying special attention to the governance of these institutions and schemes and ensuring that adequate risk management processes are in place. This oversight is challenging, however, particularly in weak institutional environments.

Finally, the report examines the role of the state in financial infrastructure, particularly credit information sharing systems. Evidence points to a useful role for the state in promoting transparency of information and reducing counterparty risk. The report shows that the state can facilitate the inclusion of a broader set of lenders in credit reporting systems and promote the provision of high-quality credit information, particularly where there are significant monopoly rents that discourage information sharing.

World Bank. 2012. Global Financial Development Report 2013: Rethinking the Role of the State in Finance. *Washington*, DC: *World Bank*.

For data sets on financial development, financial regulation and supervision, and state-owned banks, visit http://www.worldbank.org/financialdevelopment.

Coordinating Housing and Transport Policies in Urban South Africa

People often choose dwellings for their proximity to jobs—but land markets and transport infrastructure can be major constraints

The United Nations projects that 2 billion people will live in slums by 2030. How to manage slum formation and reduce the hazards faced by slum dwellers? Most policy discussions tend to focus on moving people to safe environments or providing better housing elsewhere—such as through urban upgrading, resettlement, housing subsidies, and land titling. But many of these policies do not work. The reason is that people do not always willingly trade away a better location for a better home with modern utilities.

People choose neighborhoods for their affordable services and their amenities—but also for their proximity to jobs. But in many developing country cities it can be difficult to live near one's job because land markets have failed: formal housing supply is low, in part because of restrictive regulations. But it may also be difficult and costly to commute to work because transport infrastructure fails to connect urban neighborhoods.

A new paper by Lall, van den Brink, Dasgupta, and Muir Leresche takes a close look at the interplay between urban regulations and public sector housing development in South Africa to examine the impact on living standards for the beneficiaries of the government's flagship housing program, the Reconstruction and Development Program (RDP).

Comparison of RDP beneficiaries and similar nonbeneficiaries does not show that public housing provision generated multiplier effects by stimulating complementary private investments in housing maintenance or upgrading. Why? Households that receive RDP housing are often dissatisfied with their dwellings because they are far from employment centers; the new houses were often built in the "old" apartheid locations (deliberately sited far from urban centers and white neighborhoods). In addition, households rarely receive title deeds immediately but are instead allocated houses administratively, with the condition that the houses cannot be sold or rented for a period of eight years, recently reduced to five. Even if they do receive title, this condition is attached. And even after five years the government has a right of first refusal on the sale of the property. So poor location and lack of fully tradable property rights limit the benefits of the program.

To undo the "geography of apartheid," South Africa needs to find ways to enable poor workers to gain access to land and housing closer to jobs in urban centers

To complement the view from the supply side, the authors fielded a small pilot survey in an informal settlement in Cape Town to investigate how much the poor actually pay for the land on which they have their dwellings and their willingness and ability to pay for different quality of housing. The survey revealed an active informal market for land and housing. Among the respondents, 66 percent said that they had paid for, or were renting, the land on which they had built their dwelling. Respondents reported paying prices for their small plots that, on a per-hectare basis, are similar to those found in the upscale market for undeveloped land. Collectively, then, the very poor could compete with the high end of the property development market. But land zoning regulations and subdivision laws do not allow the supply of such small plots.

To improve the equity and efficiency of cities and undo the "geography of apartheid," South Africa needs to find ways to enable poor workers to gain access to land and housing closer to job opportunities in urban centers. Many households live in informal settlements not because of affordability but because of the lack of suitable small plots of land in the formal market.

In light of these findings, the authors suggest five policy innovations:

- To remedy the location of the RDP-subsidized houses, allow eligible individuals and groups to use grants to buy land and build or upgrade their own houses or to buy already-built houses.
- Increase the flexibility of the housing grant structure in such a way that beneficiaries themselves are able to make a trade-off between location and value of the housing. Some would opt for a location closer to work while others would prefer more housing value in a location farther away.
- To create more incentives to improve and invest in the housing asset, substantially reduce or eliminate the "no sale and no rental" and "right of first refusal" period.
- Increase the supply of subsidized land and houses by making it easy for developers and commercial banks to provide "sites and services" or fully built houses by using them as agents to manage and disburse the grants.
- Remove the many land use and housing development regulations that date to the apartheid era—regulations that had the explicit objective of barring blacks from well-located land and preventing them from accumulating capital and that continue to have the originally intended effect.

Somik V. Lall, Rogier van den Brink, Basab Dasgupta, and Kay Muir Leresche. 2012. "Shelter from the Storm—but Disconnected from Jobs: Lessons from Urban South Africa on the Importance of Coordinating Housing and Transport Policies." Policy Research Working Paper 6173, World Bank, Washington, DC.

Making Public Sector Reforms Work

Political economy factors can make providing effective support for public sector reforms challenging. What are some solutions?

Supporting effective public sector reforms is a big challenge for development agencies. Part of the reason for this is the crucial role that political economy factors play in such reforms. A new paper by Bunse and Fritz examines this role. The paper reviews the existing literature to identify key propositions about factors that trigger or delay reforms. It also draws lessons from World Bank public sector operations over the decade 2000–10.

Political economy incentives to *initiate* public sector reforms—such as regional and global trade integration, fiscal pressures, and, for lower-income countries, donor demands—are present in a wide range of countries. But *dis*incentives to *implement* more challenging aspects of public sector reforms are also widespread. Economic and political conditions for successful large-scale public sector reforms—including a process of economic transformation and the presence of programmatic parties or otherwise strongly motivated leadership—are less frequent.

Consequently, while governments in many developing countries face incentives to initiate public sector reforms, at the implementation stage political costs often outweigh potential gains—and reforms are therefore abandoned or left to wither. Real breakthroughs have been achieved in countries experiencing major structural shifts (such as Brazil) and those with a political leadership committed to higher-level goals. In addition, in a number of countries incremental gains are observable even if broad, overall reform goals were not achieved (such as in Ghana).

The review of World Bank operations yields interesting findings. Nearly 70 percent of all potential client countries borrowed from the Bank for public sector reforms over the decade, indicating a significant interest in such reforms. Only a quarter of the countries borrowing for public sector reforms can be considered aid dependent (with aid accounting for more than 10 percent of gross national income). Among those with multiple public sector operations, many are middle-income countries. Global integration appears to be the most common driver of public sector reforms.

World Bank support for public sector reforms typically involves areas that are narrow and technical (for example, revising a chart of accounts or introducing a medium-term expenditure framework) as well as areas that are more politically salient or sensitive (such as strengthening external audit, which is aimed more directly at reducing rent-seeking behaviors). Nearly three-quarters of all Bank-supported public sector reform projects receive an internal rating of moderately successful or better upon completion. This is higher than the literature would expect. Well-performing operations are more common in countries with greater prior government effectiveness (as rated by the World Bank's Worldwide Governance Indicators) and worse-performing ones at the medium to low end of prior effectiveness. But moderately successful operations are found across a wide range of country contexts, including postconflict countries with the most limited prior government effectiveness.

Political economy obstacles figure prominently in ex post reviews of Bank-supported public sector reform projects. For operations whose performance was assessed as moderately unsatisfactory or worse, they are the most frequently cited source of failure. In addition, many ex post reviews of operations raise concerns about the sustainability of their achievements because of political economy disincentives. Currently, there is no tracking over time to see whether achievements are in fact sustained. Moreover, reviews do not specifically address whether and how political economy challenges could have been better managed to make reform achievements more robust and more likely to be sustained.

The paper explores efforts made by Bank staff to understand levels of government commitment and incentives and examines whether more intensive efforts to do so appear to pay off. Staff typically seek to understand commitment, but in most cases such efforts are limited and implicit. There are institutional disincentives in the Bank to fully acknowledge risks, especially in country contexts that make success more uncertain. There is some tentative evidence that operations designed with greater explicit awareness of governance and political economy drivers have been more successful in implementation, but the number of operations for which this can be assessed is small.

The findings suggest a need to differentiate more clearly between country contexts, so as to develop an explicit understanding of the potential for reform and the risk involved. Based on this understanding, choices and approaches should be calibrated—by designing approaches that seek a "feasible stretch" in environments offering some opportunity; focusing on incremental but tangible reforms within limited windows of opportunity (such as the years between elections) while avoiding wasting time on large-scale or complex reform designs; balancing reforms that are more technically focused with reforms that "bite" and are politically sensitive (for example, by directly addressing rent seeking); and working with progressive local stakeholders to strengthen pro-reform incentives. Given the urgent need to enable better service delivery, the paper advocates continuing to seek public sector reforms even in unpropitious environments.

Simone Bunse and Verena Fritz. 2012. "*Making Public Sector Reforms Work: Political and Economic Contexts, Incentives, and Strategies*." Policy Research Working Paper 6174, World Bank, Washington, DC.

Helping Women Get to Work

Many programs have sought to improve employment and earnings outcomes for women. Which are effective?

Developing countries have tried a range of policy interventions aimed at improving women's employability and quality of work—including active labor market programs, microfinance programs, conditional cash transfer programs, education and training programs, entrepreneurship and leadership programs, and programs that facilitate work (child care subsidies, parental leave programs, land titling programs). Common objectives are to reduce unemployment, increase wages, provide social protection, and increase women's empowerment in the household. How effective are such programs? A new survey paper by Todd reviews a subset of recent programs that have been subjected to rigorous impact evaluations and were aimed at directly affecting employment and earnings outcomes.

Active labor market programs are often adopted as a way to ease the effects of economic shocks. These programs are not usually targeted at women, though women often seek out the employment and training services they offer. On the whole, the evidence suggests that in Latin America many of these programs have been effective in reducing labor market frictions and facilitating firm-worker matches, though not very effective in increasing worker productivity. But it is perhaps unsurprising that productivity cannot be greatly enhanced through relatively short-term interventions.

Only a few active labor market programs have been subjected to rigorous evaluation of rates of return, making it difficult to assess which have generated benefits that exceed program costs. One study finds that program impacts have to be sustained over the longer term (nine years or more) for the program to be cost-effective. In the transition economy settings of Poland, Romania, the Russian Federation, and the Slovak Republic there is some evidence suggesting that active labor market programs have helped workers find jobs more quickly but at the expense of lower wages than they would otherwise have been able to obtain searching on their own. Highly educated workers on the whole did not benefit much from these programs.

The survey of microfinance programs found mixed evidence on their effectiveness and on the benefits of gender-targeted lending. Many studies document high rates of return to such programs, but the returns can be compromised by targeting the loans to narrowly specified groups. In implementation, the relative redistributive benefits of targeting loans to women or to poor borrowers need to be weighed against the benefits of allocating funds to the highest-return activities. Using a theoretical model, one study analyzes the relative effectiveness of (non-gender-targeted) microcredit and cash transfers in increasing the consumption and utility of poor people. It concludes that a microcredit program was more effective than a conditional cash transfer program in increasing consumption, because the credit was used for productive purposes.

In recent years conditional cash transfer programs have become a common strategy for reducing poverty and encouraging investment in children's schooling. Many give the transfers to mothers, under the assumption that they are more likely to spend the transfers on children and that providing transfers to women improves their relative bargaining position in the household. The effects of such programs on women's labor force participation have not yet been systematically studied, particularly in the urban context. In urban areas of Mexico, however, there is some evidence that some families did not take up the program in part because working mothers were unable to meet the time requirements of participation (such as attending meetings).

Another class of policies reviewed are those designed to influence women's working behavior by affecting the availability and pricing of child care. A review of child care programs in Argentina, Colombia, and Guatemala found that the availability of child care had strong effects on mothers' rates of working and on the number of hours worked. The programs also had substantial positive effects on the nutrition and development of the young children participating in them, suggesting high benefit-cost ratios. In Accra, Ghana, however, it was found that the local supply of child care was not a significant determinant of mothers' working behavior. One reason is that mothers worked mainly in the informal sector, where it was easier to combine work with child care.

By contrast, in formerly communist countries that have seen enormous changes in the costs of child care—such as Romania and Russia—there is strong evidence of these costs having a substantial effect on working behavior. In some countries child care went from being free and widely available to being expensive and a major determinant of whether women worked. Two studies find women's labor supply to be fairly elastic with respect to the price of child care. An important finding is that child care subsidies were more effective than wage subsidies or family income subsidies in increasing family income levels, in part because of better targeting of women whose labor force behavior was potentially affected by the policy.

Petra Todd. 2012. "Effectiveness of Interventions Aimed at Improving Women's Employability and Quality of Work: A Critical Review." Policy Research Working Paper 6689, World Bank, Washington, DC.

Export Superstars

The top 1 percent of exporters drive comparative advantage and export growth and diversification in developing countries

Large firms define exports. Consider such well-known examples as Nokia in Finland, Samsung in the Republic of Korea, and Intel in Costa Rica. Each of these accounts for around 20 percent of its country's total exports. But patterns are not that different elsewhere. On average across 32 developing countries, the top firm alone accounted for almost 15 percent of total (nonoil) exports between 2006 and 2008. The top 1 percent of exporters accounted for 53 percent of exports on average during that period. The remaining volume of trade was concentrated mainly in the next tier of large firms: the top 5 percent of exporters accounted for almost 80 percent of exports on average, and the top 10 percent for almost 90 percent.

Using a novel firm-level panel, based on highly disaggregated customs data across all regions, a new paper by Freund and Pierola examines the role of these "superstars" in defining trade patterns and uncovers their origins. The paper makes several contributions to the literature on firm-level analysis of trade.

First, the paper reveals the importance of export superstars—the top 1 percent of firms—in defining comparative advantage. The authors decompose the variation in sectoral export shares across countries and industries into the part due to firm size (intensive margin) and the part due to firm count (extensive margin). They find that variation in average firm size accounts for two-thirds of the variation across countries in export shares, with variation in firm concentration explaining the remaining third. In addition, they show that the variation in average exporter size comes largely from the exports of superstars—other exporters are more similar across countries and industries. The results suggest that revealed comparative advantage is driven more by having a few giants than by having more firms.

Second, the paper shows the importance of superstars for export growth and diversification. Over the latest period of three consecutive years for which data are available, superstars account for more than half of total export growth as well as more than half of the growth driven by product markets new to the country (the extensive margin) during that period. This suggests that stimulating trade growth and diversification depends largely on creating an environment where large firms can thrive.

Export superstars are unique—they are born as large exporters rather than becoming superstars by learning through domestic production or exporting

Third, the paper explores the origins of new superstars—defined as firms that entered the export sector during the period for which data are available and grew to be superstars by the end of the period. Using the most recent period of three consecutive years for which data are available for 18 countries, the authors find that more than 80 percent of the new superstars entered the export sector very large—in the top 5 percent of exporters.

For three countries where the time series allow analysis over a decade (Costa Rica, Morocco, and Peru), the authors also find that superstars are born relatively large and grow quickly into the top 1 percent. Among the new exporters that became superstars during the decade, more than half entered the export sector in the top 5 percent of exporters and grew into superstars within three years of entry on average. In addition, nearly all of the incumbent superstars had been large one decade earlier—so cases of exporters that transitioned slowly from the bottom to the top of the size distribution are extremely rare. These results suggest that superstars start as large exporters and grow fast—implying that they are already highly productive when they enter the export sector and become superstars without a long period of learning.

The data do not permit systematic examination of superstars before they began exporting to shed light on their potential previous experience in domestic markets. But for three countries where the authors could identify the superstars by name (Jordan, Peru, and Tanzania), they researched the origins of these superstars to understand how they started as exporters. This made it possible to determine whether the firms grew slowly in the domestic market before becoming exporters and whether they are domestically or foreign owned. It also alleviates potential concerns about traders (nonproducers) in the sample. The authors find that the majority of superstars are foreign owned and began operations as exporters and that only a very small fraction are exclusively traders.

This finding further supports the argument that superstars are unique—they are born as large exporters rather than becoming superstars by learning through domestic production or exporting. Coupled with the large foreign ownership share in superstars, this finding also highlights the role of multinationals in exports.

Caroline Freund and Martha Denisse Pierola. 2012. "Export Superstars." Policy Research Working Paper 6222, World Bank, Washington, DC.

Why Did Inequality in Latin America Decline in the 2000s?

Two main factors drove the drop in inequality in Latin America: lower skill premiums and more progressive social spending

High and persistent inequality is a distinctive feature of Latin America. After rising in the 1990s, however, income inequality unambiguously declined in the majority of countries in the region in the 2000s. Of the 17 countries for which there are comparable data, 13 experienced a decline between about 2000 and 2010, a trend not observed in other parts of the world. Existing analysis suggests that the decline in inequality is robust to the selection of the time interval, income variable, inequality measure, and data source. The decline is nontrivial and statistically significant. Moreover, a decomposition of the changes in poverty during the 2000s reveals that the reduction in inequality accounted on average for 50 percent of the observed decline in poverty.

To a large extent, inequality in Latin America is the result of state capture by elites, capital market imperfections, inequality in access to good-quality education, labor market segmentation, and discrimination. Thus the observed decline in inequality is good news both for fairness and for growth. Why has inequality declined? Have the changes in inequality been driven by market forces such as the demand for and supply of labor with different skills? Or have governments become more redistributive than they used to be?

A recent study by Lustig, Lopez-Calva, and Ortiz-Juarez examines the role of the skill premium and government cash transfers in changes in inequality in Latin America's three largest economies (as measured by GDP): Argentina (urban areas), Brazil, and Mexico. The authors' analysis finds that the decline in overall inequality can be attributed to a decline in both labor and nonlabor income inequality.

A decline in labor income inequality can occur because of an expansion of employment of low-skilled workers and because of changes in the distribution of hourly wages, which in turn can be driven by changes in the distribution of characteristics, especially education and experience, and by changes in returns to those characteristics, especially education. The authors show that in all three countries the changes in the skill premium were equalizing. The skill premium is affected by the demand for and supply of workers with different skills and by institutional factors such as the minimum wage and the influence of unions. Labor demand by skill is affected primarily by the characteristics of technological change and international trade. The composition of the labor supply is determined to a large extent by the characteristics of educational upgrading and demographic factors.

Income inequality unambiguously declined in the majority of countries in Latin America in the 2000s—a trend not observed in other parts of the world

The authors' results show that the fall in the skill premium in Argentina can be explained by a decline in the relative demand for skilled workers and by a rise in the minimum wage and the power of unions. In Brazil, in addition to demand-side and institutional factors, supply-side factors played an important part. In Mexico institutional factors were unimportant and the demand for skilled labor may even have continued to rise; the fall in the skill premium was therefore driven primarily by an expansion in the supply of skilled workers.

In Brazil and Mexico then, the decline in labor income inequality was linked to the fact that unskilled labor became relatively less abundant. The significant expansion of basic education underlying the change in labor composition by skill in these two countries seems to be associated with conscious government efforts. Higher spending per student in basic education and an effort to make education accessible in rural areas eased supply-side constraints. In addition, conditional cash transfer programs reduced demand-side constraints by compensating poor households for the costs of schooling, including the opportunity cost in the form of forgone child labor earnings.

The reduction in the inequality of nonlabor income can be attributed in part to more progressive social spending. Although in Mexico, for example, private transfers such as remittances proved to be equalizing (in particular, because they narrowed the rural-urban income gap) and became even more so in the 2000s, the most important factor in the decline in nonlabor income inequality was a significant increase in the equalizing contribution of government transfers. These transfers not only rose over time but were large enough to offset the unequalizing effect of other sources of nonlabor income, such as interest, profits, and rents. These cash transfers are a small share of total government social spending but go a long way in redistributing income to the lowest-income households. The expansion of their coverage during the 2000s was key to reducing both inequality and poverty.

Nora Lustig, Luis Lopez-Calva, and E. Ortiz-Juarez. 2012. "Declining Inequality in Latin America in the 2000s: The Cases of Argentina, Brazil, and Mexico." Policy Research Working Paper 6248, World Bank, Washington, DC.

(continued from page 1)

How exactly we get there will therefore matter, and the best sustainable route will vary from country to country. The growth projections underlying these targets are grounded in the economic realities of the countries concerned and of the global economy. But the policy challenges in ensuring that poor households share sufficiently and sustainably in that growth at the country level will need to be addressed in depth.

Most of the work needed to reach such global targets would be done at the country level. A similar benchmarking exercise for individual countries would be desirable. Naturally this would reflect the specifics of each country. One should be cautious in trying to infer what any one country can do through cross-country comparisons, even when these control for observable exogenous differences. Ideally the country-level benchmarking would come with a reasonably clear plan for achieving the targets. Different tools of economic analysis could inform such plans, ranging from computable general equilibrium models to micro-simulation tools, all with both strengths and weaknesses.

Monitoring performance against these benchmarks would pose serious data challenges. There has been huge progress in collecting the primary household survey data. When the World Bank's current global poverty monitoring effort began in 1990, the estimates used 22 surveys for 22 countries. Today we use more than 850 surveys for 125 countries—more than six per country; the latest estimates use a "global" sample of 2.1 million households. Many problems remain, however. There are persistent lags and uneven coverage. There are continuing concerns about the comparability of the surveys over time and across countries. And there are continuing concerns about underreporting and selective compliance in household surveys; the rich are hard to interview, and that task is not getting any easier. The weak integration of "macro" and "micro" data is also a long-standing concern, warranting far more attention than it has received.

Our collective success in addressing these and other data problems will determine how confident we are about these benchmarks and about our ability in the future to assess how close we are to reaching them.

Martin Ravallion. 2012. "Benchmarking Global Poverty Reduction." Policy Research Working Paper 6205, World Bank, Washington, DC.

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