Pro-poor growth:

Why do we need it?

What does it mean?

And what does it imply for policy?

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1 Introduction

1.1 The purpose of this paper

1 This paper deals with a key issue for development co-operation – the relationship between economic growth and the reduction of poverty. It aims to provide an accessible summary of what economic theory, evidence, and the balance of specialist opinion, says about this often controversial subject. The intention is to provide guidance to Sida regarding the crucial links in the relationship between growth and poverty reduction, suggesting ways in which this can be operationalised at the country, sector and project levels.

2 The particular focus of the paper is the recent discussion around the concept of *pro-poor growth*, and its implications for policy and development co-operation. After the introductory points that follow, there are three main sections. They deal respectively with:

- why do we need a concept of pro-poor growth? what is the background?
- what is meant by pro-poor growth? how should it be defined?
- what are the implications for policy and for development co-operation?

3 We begin with a brief reminder of the meaning of two basic terms, economic growth and poverty reduction. These sections may be skipped by those who are fully conversant with these concepts. The Introduction concludes with some important provisos about the scope of the discussion in the paper.

1.2 The meaning of economic growth

4 The term "economic growth" is used by economists to refer to an increase in the total value of goods and services produced in an economy. In the case of national economies, it is measured by percentage changes over time in two slightly different summary statistics, the gross domestic product (GDP) and the gross national product (GNP).[1] Inflation is normally taken into account in calculating these changes, so that the figures reflect "real" changes and not those arising from changes in the value of the currency in which they are expressed.

Some necessary clarifications

5 Even among economists, the term economic growth is used in somewhat different ways. For example, an increase in a country's GDP or GNP can, and sometimes does, occur purely as a result of an improvement in the international price of one or more of its main export products (e.g. oil, coffee). It is hard to exclude such processes from the meaning of economic growth. However, the main focus of interest is where the growth in national income is due at least in part to an expansion in the volume or quality of output, arising from improvements in the productivity of the main "factors of production" – land, labour and capital.

[1] GDP is all the goods and services measured for the purpose of preparing a country's national income accounts. GNP is GDP plus rents, profits and wages received from abroad by nationals of the country, minus those flowing out as incomes to foreign nationals.

6 Population growth also complicates matters slightly. When population increases, a country normally gains both additional workers and more mouths to feed. For this reason, discussion of economic growth usually (but not always) focuses on increasing output per head of population (GNP or GDP *per capita* in Latin). Real GNP per capita growth rates in the developing world vary widely, and can be both positive and negative (e.g. in a recession, or as a result of war).

7 There are two final points about the way economics approaches growth that often confuse non-economists, with the effect that the most important issues to do with growth and poverty reduction get missed. They concern the measurement of GDP and GNP, and the conceptual relationship between economic growth and welfare or well being.

What gets counted

8 First, GDP and GNP are subject to notorious measurement problems. It is widely reported that national statistical services undercount "informal" activities and the household economy to a more or less serious degree when computing these figures.

9 This is a serious issue. However, it is important not to exaggerate the degree to which it arises from conceptual problems, as opposed to practical inadequacies. The concepts of national product and national income do have a problem with *domestic* labour, and research has shown that the value of GDP changes considerably once unremunerated work, such as child care and housework is taken into account. But, conceptually, GNP includes all production of goods and services, in both firms and households, and whether or not a market transaction takes place. Consequently, there are more or less serious efforts to estimate informal and unmarketed production in compiling the statistics. Economic growth statistics may well under-count the activities of the poor, but they do not set out to do so.

Growth and "welfare"

10 Second, economic theory does not treat economic growth as a good thing in its own right. Although this is not always clear from the way economists talk and write, it is a well-established theme that economic growth and people's "welfare" are distinct.

11 At the level of the individual, welfare is considered to improve as a result of income growth according to the extent that s/he places value on having access to more goods and services and free time. And it is accepted that there are material and non-material dimensions to welfare improvement. To look at society-wide effects of growth on welfare, economists have to add up what individuals gain from the goods and services produced in the economy, and consider how this would change if more were produced.

12 This is more complicated, as it implies making a decision about how important it is for people to gain equally from the growth process – should every individual's gain be equally weighted, or should a poor person's gain count for

more? – and how to define equity. Economists (and others) do not agree on the definition of equity and there is thus no agreed way of assessing social welfare. It is because of this complication, rather than because they are unconcerned about such matters, that economists appear sometimes to treat economic growth in a rather narrow and uncritical way.

13 It is generally recognised that growth typically produces a combination of benefits (e.g. improvements in average levels of income or education) and disbenefits (e.g. pollution, noise). Some of this awareness is captured in the familiar discussion about the sustainability of development processes. It is relevant more generally to the treatment of growth and poverty reduction, when it is recognised that poverty has various dimensions that can be affected in different ways by a process of economic growth.

14 In sum, there is nothing about the concept of economic growth that implies automatic or unqualified improvements in welfare. Much depends on how welfare is assessed.

1.3 Defining poverty and poverty reduction

15 There is widespread agreement in the world of development cooperation that poverty, and hence poverty reduction, needs to be treated as multi-dimensional. This reflects in part the evolution of philosophical thinking about the "functionings" and "capabilities" that are basic to human well being and human development. It also responds to the evidence that poor people themselves see poverty in ways that are "holistic, diverse, multidimensional, cross-sectoral and culture-specific", with issues other than material welfare often being rated as highly important (MoFA, 1997).

16 The Swedish government report just quoted is fairly representative in seeing poverty reduction as involving changes in three basic dimensions, none of which is simply reducible to income: *security*, *capacity* and *opportunities*. The implication is that, in thinking about the basic objective of raising the living standards of poor people, this should almost never be visualised solely in terms of income improvement.

17 Existing evidence suggests that, to the extent they can be measured, changes on the different dimensions of poverty may not be very closely correlated. The suggestion that improvements on one dimension are commonly accompanied by deterioration in others is not yet established in the literature. However, this possibility needs to be part of our discussion of the meaning of pro-poor growth (Section 3 below).

The problem of measurement

18 A multi-dimensional poverty concept poses big challenges when it comes to measurement. Some of the dimensions are relatively easily captured by indicators or "proxy" measures that can provide evidence of changes through time and differences across space. They include household income or expenditure (private consumption), and the various indicators of "human development" such as infant and maternal mortality rates or literacy. Other

dimensions, such as perceived security or social marginalisation, can be quantified to some degree in local contexts but not reduced to standardised form for wide-ranging comparisons.

Concepts of inequality and poverty in the growth literature

19 Partly on account of these measurement issues, the literature on growth and poverty implicitly employs quite a narrow concept of poverty. Most studies rely on private consumption data from household surveys. A few use a battery of human development indicators instead. Where income inequality is discussed as well as poverty, the source is almost invariably household consumption data (with the answers to questions about expenditure being taken as a good proxy for income). A few words of explanation are needed regarding the particular procedures adopted in applying the household-consumption or "money metric" approach.

20 There are several ways of looking, in quantitative terms, at the distribution of income in a country. In the studies discussed below, the focus on the share of total income accruing to people in different *income categories* – the richest ten per cent, the poorest 20 per cent, etc. It is common to divide this sort of scale into ten or five, instead of 100, in which case the divisions are referred to as deciles or quintiles respectively.

Poverty lines

21 Most current poverty analysis is based on some sort of "poverty line", based on the approaches pioneered in Europe in the late 19th century. The poor are distinguished from the non-poor on the basis of whether their incomes fall below or above the line. Poverty reduction is assessed by changes in people's position in relation to the line. The commonest measure of change, known as the poverty headcount or the incidence of poverty, is the proportion of the national population falling below the line. Two other important measures are the depth and severity of poverty, which attempt to capture how far people are falling below the line.

22 There are different sorts of poverty line, as explained in more detail in Box 1. One type sets at a minimum standard based on the cost of a basket of essentials which is either universal or, at least, fixed for major regions of the world. These lines are referred to as absolute poverty lines. Relative poverty lines are the other major type. The reason for preferring them can be conceptual ("poverty is essentially relative") or practical (it is easier to conduct analysis using the shares of the crude income categories).

1.4 Scope of the discussion

23 The focus of the remainder of this paper is on what is known about the relationship between economic growth and poverty reduction, mostly of the measurable or easily measured sort. The discussion is quite broad in its treatment of the linkages between growth and poverty reduction, with no major topic deliberately excluded. However, it does not attempt to be a complete discussion of poverty-reducing interventions or pro-poor policies.

24 The scope of the paper is in this sense narrow; it deals with the qualities of the *growth process* that seem important for poverty reduction, and not on any aspect of what economists call *transfers*. This involves a distinction between the way incomes are generated, and the way public revenues and private incomes, once generated, may be redistributed in favour of the poor.

Box 1: Key terms for measuring poverty

Absolute poverty line – defines the poor as those whose income or expenditure is less that the cost of obtaining the minimum requirements for a socially acceptable standard of living. E.g. Kwacha 20,181 a month in 1996 prices (Zambia), or US$1 (1985 PPP)* a day for the purposes of international comparison. Some countries employ two absolute poverty lines, representing extreme and moderate poverty.

Relative poverty lines – define the poor in relation to the overall distribution of income or expenditure shares – e.g. as the poorest 20 per cent; or as those with less than two-thirds of mean (average) income.

Poverty headcount or poverty incidence – the proportion of the total population that fall below the absolute poverty line.

Depth and severity of poverty – how far people fall below the line on average; and the same thing with extra weighting to those falling very far below the line.

* PPP = Purchasing power parity, a measure to covert the US dollar into other countries currencies which is more accurate than exchange rate conversions and so gives the "real" purchasing power of the dollar.

Focusing on growth, not transfers

25 As the reader will become quickly aware, limiting the scope of the paper in this way does not imply a passive policy stance or a bias against redistributive measures. On the contrary, it enables adequate attention to be given to the major source of distributive implications – the growth process itself – and the way policies can influence that, including by redistributive measures of certain sorts.

26 These growth-influencing measures include some forms of income transfer. But it is not the case that all forms of transfer that are significant for poverty reduction are important because of the way they affect the pattern of growth. The large topic of social protection and income smoothing through transfers is very important – too important, in fact, to be treated as an aspect of "pro-poor growth". It deserves separate treatment.

2 Pro-poor growth: why do we need it?

2.1 Introduction

27 The question of "pro-poor growth" arises from an attempt to understand better the causal relationship between economic growth and poverty reduction. As we see presently, it is not strictly true that overall growth in the national economy is a necessary condition for poverty reduction, even when this is measured in narrow income terms. It is, however, fairly widely accepted[2] that rapid economic growth is a precondition for *substantial* and *sustained* reductions in income poverty. To put it another way, it is a general rule that the higher the levels of sustained growth, the greater the prospects for reducing poverty (Seshamani, 2001). Also, while much can be done to raise human-development standards with little or no growth (e.g. Cuba, Kerala, Sri Lanka), growth is important to maintaining those achievements in the long run.

Growth – necessary but not sufficient

28 This summary of the current consensus has to be somewhat cautious because of the considerable diversity of national experiences, which means there is an exception to almost any simple rule. But there is no need for similar caution in stating the other side of the argument. While growth may well be a necessary condition for substantial poverty reduction, it is certainly not a *sufficient* condition. In other words, countries can and do experience economic growth that reduces poverty little or not at all.

29 This is why development researchers and practitioners have increasingly given attention to the conditions under which growth has strong poverty-reducing effects, or what *sort* of economic growth is preferable from the point of view of rapid poverty reduction. The concept of pro-poor growth represents the latest of a series of attempts, starting in the 1970s, to answer these questions.

Scope of the section

30 This section of the paper explains the basis of the generalisations just made, which provide necessary background to the concept of pro-poor growth. The following section then reviews different approaches to the conceptualisation of pro-poor growth, and considers the implications of alternative criteria for assessing pro-poor performance. The last section takes up the distinct question of how this sort of performance is likely to be achieved in different sorts of Sida partner country.

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2 According to the review of Sida documentation and practice by Lindahl and Karlström (2000: 2.2), this is not very widely accepted in Sida, with most emphasis being placed with the points that follow below. We suspect this means that positions have been rather polarised, for not very sound reasons, and not that there is no need to go into both sides of the debate.

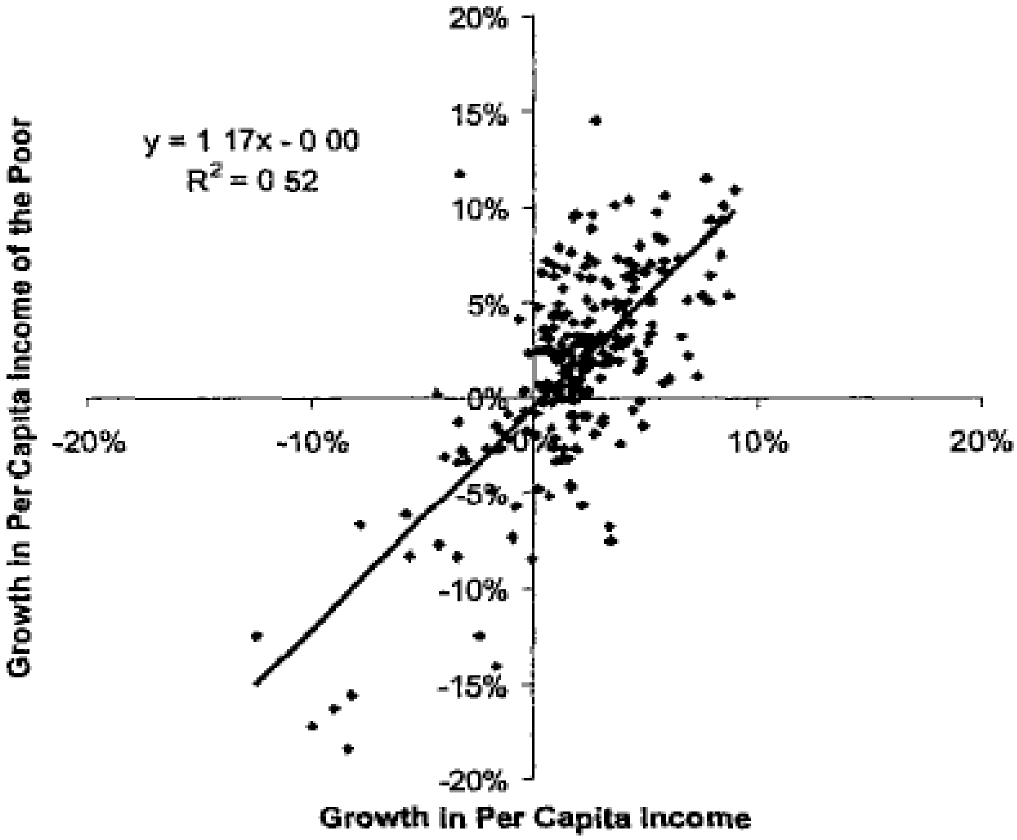
2.2 What the past tells us about growth and poverty reduction

31 The most usual method economists use to shed light on the growth-poverty relationship is to look at the evidence of the past. This can be done by looking at statistics for a single county or region over time ("time-series data"), but it usually begins with figures on what happened during a limited period in a large number of countries for which relevant statistics are available ("cross section data").

Using "cross section" data

32 A powerful way of presenting the relevant cross-section data is to place each country on a graph or scatter diagram in terms of its performance on two dimensions – the rate of growth of the income or consumption of the whole population, and the equivalent rate for the poor. This provides an indication of the degree to which improvements for the poor are driven by economic growth. A recent example of such an exercise is reproduced as Figure 1. This is based on data from 65 countries in the 1980s and 1990s, with the poor being defined as the bottom fifth of the income distribution – the poorest 20 per cent.

Figure 1: Overall growth and the poorest 20 per cent



Source: Dollar and Kraay (2000)

33 Using the technique of regression analysis, economists have fitted a graph line to the scatter diagram and used this to assess the closeness of the correlation between the rate of growth and income improvements for the poor. The World Development Report *Attacking Poverty* (World Bank, 2000) undertakes a similar exercise and also does the same using an absolute poverty line. The relative and absolute poverty-line results show a consistent pattern.

34 The "headline" conclusion from this work is the one trumpeted by the title of the paper by Dollar and Kraay (2000) and repeated in the WDR, "growth *is* good for the poor!". According to the best-fitting graph line, on average the income of the poor rises one for one with overall growth.

The diversity of experience

35 This is not an altogether surprising conclusion. It does deserve to be pointed out anyone who maintains that growth, in general, is not good for the poor. However, for most development professionals, a more interesting and important observation is how much the country experiences are scattered on all sides of the regression line. The relationship highlighted by the reports is an *average* one. Around the average, the experience of individual countries varies quite considerably, and in some striking ways.

36 In some countries (those in the top right-hand quadrant and above the regression line) the poorest fifth's income grew *faster* than overall income. In other countries (in the top right-hand quadrant but below the regression line) the poorest fifth's income grew less fast than average income. In some cases, overall economic growth was accompanied by *negative* income growth for the bottom fifth (shown in bottom right-hand quadrant of the figure) – implying increasing poverty in spite of overall growth.

What happens in a recession?

37 It is also important to consider is how the poor fare during recession – that is under conditions of negative overall growth in incomes. The scatter diagram shows (in the bottom left-hand quadrant) that the poor do not necessarily suffer disproportionately during recession. In some countries, in the period covered, the costs of recession were born disproportionately by the richer groups.

38 This does not mean that recessions are not perilous for poor people. As Dollar and Kraay recognised in summarising the "average" results, the same proportional income decrease can have greater *impact* on the poor, especially if the "social safety nets" are weak. Furthermore, in many countries, including several Latin American countries the poor do seem to be disproportionately affected by recession (Box 2). But from the point of view of getting a handle on what it is about growth that matters for poverty reduction, it is again the diversity of the country results that is most important.

39 A final clue, from this point of view, is provided by the remaining quadrant of Figure 1. The fact that there are a few "outliers" in this quadrant – representing cases where the poor actually improved their income levels during a recession –

may not be significant, and could be put down to various sorts of measurement error. But there are some reasonably well-documented country studies where this happened. Zambia in the 1990s is one such case (McCulloch et al., 1999).

Box 2: The poverty impact of growth and recession

Data for several African countries in the late 1980s and early 1990s suggest that in many cases where household incomes increased this was accompanied by increasing inequality, so reducing the impact on poverty reduction.

Conversely, in Cote d'Ivoire, where average household incomes fell from 1985 to 1988, the poverty increasing effects of this were partly mitigated by a simultaneous reduction in inequality; the recession hit the incomes of richer households harder.

In Latin America recent experience is that increases in household income are often accompanied by falling inequality and reduction in income by rising inequality – recessions hit poorer households hardest.

(Source: McKay 2000: 2)

What lies behind these findings?

40 Why does the relationship between growth performance and poverty-reduction performance vary so much between countries? Why is the correlation between growth (including negative growth) and poverty reduction as *weak* it is? Another way to put these questions would be to ask, for a given country, what it is that determines the *poverty-reduction elasticity of growth*. "Elasticity" is the term economists use to express how much change in one variable is produced by one unit of change in a factor that influences it. The poverty-reduction elasticity of growth is the reduction in the incidence of poverty (in percentage points) brought about by an economic growth rate of 1 per cent per year.

41 Poverty elasticities vary considerably. They range from 3 in China at the upper end, to 0.2 in a low case like Zambia (Seshamani). Why do they vary so much? The first step in answering this question is to appreciate some essential points 1) about the way income inequality intervenes between growth and its effects on the poor; and 2) about inequality as an influence on the pace of growth. The second step is to see how inequality and poverty reduction are determined by the structure of an economy and the pattern of any growth that occurs.

2.3 Poverty, inequality and the pattern of growth

42 How much overall economic growth reduces income poverty depends on how the additional income is distributed – in other words, *whose* income it is. This is normally influenced quite strongly *by the existing distribution of income, and of productive assets*. The patterning of inequality is in turn strongly influenced by the *structure of the economy* – the relative importance and productivity of different sectors and sub-sectors. Last but not least (because this

is where policy comes in) the impact of growth is much affected by the *pattern of growth* – that is, whether or not it follows the lines of previous growth.

43 In this section, these observations are developed in turn. We begin with the influence of inequality on poverty reduction on the one hand, and growth on the other.

It is harder to reduce poverty in unequal societies

44 It may seem obvious that countries with unequally distributed income need more growth to achieve a given amount of poverty reduction than countries with equal income distributions. In other words, they have lower overall poverty-reduction elasticities. Recent empirical research based on cross-section data and country case-studies confirms this proposition, and also underlines it by putting some numbers on just how much difference initial inequality makes (see Box 3).

Box 3: The effect of inequality on poverty reduction

Analysis of developing countries in the 15 years between 1985 and 1990 shows that they fall into two groups. In low income-inequality countries, 10 per cent economic growth was sufficient to reduce the proportion of people below the absolute poverty line by 9 percentage points. In the high income-inequality group of countries, 10 per cent growth was associated with only a 3 percentage point reduction.

Source: Hanmer, Healey and Naschold (2000)

45 These results suggest that a country's chances of reducing poverty are very substantially affected by its initial degree of inequality. A reduction in inequality would unquestionably improve the prospects for poverty reduction, if this could be achieved. It may not be easy to achieve, because of the way the pattern of inequality is bound up with the structure of the economy.

46 For example, Zambia has high inequality, and hence a low overall poverty-reduction elasticity of growth, because of its enclave-type mineral economy and pattern of urbanisation. Redistribution is possible, and has occurred to some degree, but it implies a change in economic structure.

47 We shall pursue that line of thinking presently. First, we have to confront the possibility that although relative equality helps improve the poverty-reducing effects of economic growth, it may be impossible to achieve in the early stages of development, and may indeed undermine the prospects for achieving growth in the first place. This, in fact, is the traditional view.

Increasing inequality is not inevitable

48 At one time, most economists thought that in the initial stages of development the gains of growth would accrue disproportionately to the richer groups and sectors in society. It seemed obvious that the already better-off

classes and geographical regions would benefit more than others from new economic opportunities. Industrial investments would be irresistibly attracted to areas where modern infrastructure and skills were to be found. Laggard areas and social groups, including most of the rural sector in most countries, would fall behind. Only eventually would the gains from growth trickle down to reach the poor. As a result of these structural changes, income inequality would rise during the initial stages of development, reach a peak, and then begin to fall as higher levels of per capita income were reached.

49 This pattern is known as the Kuznets hypothesis. It was tested and confirmed on historical data for the now "developed" countries, and formed the basis of much teaching in development economics in the 1950s and 1960s. However, more recent cross-section evidence on countries developing since the 1960s has overturned this conclusion, suggesting that there is no inevitable rise in income inequality associated with the transition to higher national levels of per capita income. Rapid growth can, in fact, be accompanied by income inequality that starts and remains low and even by declining inequality, with notable examples among the fast-developing East Asian economies. It can also be associated with increasing income inequality, as has been the case in a number of Latin American countries (Bigsten and Levin, 2000: 11-12).

Box 4: Key terms on inequality and the pattern of growth

Trickle down – implies a sequencing in the effect of growth through which the rich get richer first and eventually the benefits trickle down to reach the poor.

Gini coefficient – a statistical measure of the degree of income inequality in the distribution of household income. Gini coefficients range between 0 (total equality) and 1 (total inequality).

Enclave – a centre of economic growth that has few linkages, through employment or exchange, with the rest of the economy.

There is no growth-equality trade-off

50 As well as regarding increased inequality as more or less inevitable, the older school of development economics was inclined to accept that inequality was good for growth, and hence no bad thing for reducing poverty in the medium or long run. This was partly based on the belief that rates of growth are determined by how much people save, and that the better-off groups save a large proportion of their income. Hence, later growth would be faster if initial increases in income accrued to the wealthy than if income accrued to middle class and poor who consume most of it. Countries could achieve greater income equality but only at the price of accepting lower economic growth.

51 Without going into the technicalities, this view has also been overturned by more recent evidence and theoretical work. Today, economists put less emphasis on the role of domestic savings, and do not accept the assumption that

less wealthy people do not save (Addison and Cornia, 1999: 5-6; Goudie and Ladd,1999).

52 There has also been a broader attack on the notion that distributional issues can be settled on the basis of what is "efficient" in terms of the theoretical models of economics. That is, what can be shown to produce the most with the least, combining inputs in the way that produced the greatest total output.

53 The idea of a growth-equity trade-off (that you can only have more of one by accepting less of the other) has roots in the abstract models that economics textbooks used to illustrate what is meant by an efficient allocation of resources. Those models support the trade-off idea. But modern economic theory recognises that real economies are simply "inefficient" according to the criteria of economic theory. Under those conditions, gains in both efficiency (and therefore growth) and equity are possible simultaneously.

Equality may improve efficiency, and spur growth

54 In fact recent developments in economic analysis go further than this. They suggest a *complementarity* between growth and progressive redistribution policies – greater equity results in greater economic efficiency and so higher growth. It is argued that this applies under circumstances that apply in many developing countries (e.g. where certain institutions are absent and credit markets operate imperfectly – i.e. exclude the poor; Kanbur and Lustig, 1999; Bourguignon, 2000).

Box 5: Greater equality can make economies more efficient

"… there is micro economic evidence that basic market imperfections offer opportunities of improving locally both the equity and efficiency of an economy and also that these market imperfections may be compensated by some asset redistribution….

Many slums in the cities of the developing world [were?] built up as a result of illegal occupation of idle land … granting some property rights to established dwellers in these areas is giving value to the dwellings in these slums, which may modify radically the situation of the new owners, giving them access to credit in particular. In turn this may permit them to improve their dwellings and invest in infrastructure with all the positive externalities this may involve".

Source: Bourguignon, 2000: 26-27, 30

55 There is not yet a perfect consensus on the proposition that income inequality hinders growth (as opposed to extreme inequality in the holding of assets such as land, for which the evidence is clear). However, there are a number of different reasons being advanced for believing so, in addition to those just mentioned (Addison and Cornia: 6-7, 10-21; Bigsten and Levin: 12-10.

56 The case for thinking that low levels of human development and widespread poverty make rapid growth difficult is more obvious and easily

demonstrated. Levels of investment in social infrastructure and human capital explain most of the differences in long-run growth performance between the different world regions. Moreover, it seems from international experience that human development standards have to be raised *first*, before a virtuous circle of faster growth and further human development can get established (Bigsten and Levin: 8, 17, 21-29; Lindahl and Karlström, 2000: 3.5).[3]

57 Extreme poverty, and the vulnerability usually associated with it, makes people adopt livelihood strategies in which risk-reduction is the dominant concern. This often implies low-productivity options (e.g. not producing high-value crops, or specialising at all) which are good for livelihood security but bad for overall economic growth (Bigsten and Levin: 15

58 On the basis of any one of these propositions, there is a strong case for arguing that even if you are only interested in raising the growth rate, you should begin by thinking about improving distribution (Addison and Cornia: 20; White and Killick, 2001; Seshamani). To put it more sharply: "Seeking to build growth on the foundations of extreme inequality is not just socially unjust, it is also inefficient" (Oxfam, 2000).

Poverty reduction and the pattern of growth

59 For development practitioners, especially the non-economists among them, discussions among economists about growth and inequality sometimes seem have a slightly unreal quality. This is because, under the impetus of quantification, inequality is abstracted out from the structures of economic activity, the social relationships (of class, ethnicity, gender and age) and the political institutions that embody them.

60 In fact, economists *do* recognise that the structure of an economy is the major factor determining the pattern of inequality. For example, whether the largest contributions to national output stem from enclave activities, such as oil extraction, from capital-intensive manufacturing, or from sectors in which many people participate, directly or indirectly, such as coffee, cocoa or staple food production is what, in the large, determines the pattern of inequality. The balance, and degree of difference, between the informal and the formal sectors – what used to be called the "traditional" and "modern" sectors – is also acknowledged to be of critical significance for asset and income distribution.

61 In turn, it is recognised that the pattern of new growth – whether it reproduces or begins to alter the existing structure of the economy and the existing distribution of assets – is the major source of changes in the pattern of inequality. These facts set limits to what can be achieved quickly to bring about greater equality, but this should not be exaggerated.

[3] The connection is not completely automatic; recent African evidence indicates that where opportunities for productive activity are very scarce, the private income benefits that have been associated with primary education can decline sharply (Bigsten and Levin, 2000: 28-29).

The role of policy in the pattern of growth

62 The fact that inequality is embodied in structures does not mean that it is fixed and unresponsive to policy. Although the past patterns of growth that have given us today's economic structures were to an important extent dictated by countries' resource endowments, they were also to a greater or lesser degree the result of policies.

63 Economic structures which generate inequality and poverty stem in many instances from past policies which assigned assets to particular groups – e.g. colonial settlers and post-independence carpet baggers – or gave priority to creating new assets – e.g. roads and human capital – among particular sorts of beneficiaries and not others. In many countries, sectoral policy biases helped to discourage investments in agriculture over quite extended periods of their modern history. Policies and institutional arrangements still discriminate against informal and household-based enterprises to the benefit of firms. Instances of "market failure" – where the operation of markets produce results that are neither fair not efficient – have often been matched by the failure of states to take the necessary remedial action.

64 All of these things can change, and they need to, because in very many instances the sectors and activities discriminated against are those that have high poverty-reduction growth elasticities. Those that have been inherited from the past sometimes have extremely low potential from this point of view. This provides the starting point for our discussion of how pro-poor growth is to be obtained in Section 4.

65 It remains for us to consider what should count as pro-poor growth – what standard to set in deciding whether a particular growth process has been, or may be expected to become, pro-poor. This is more complicated than may appear at first sight. It is the subject of Section 3.

3 What is pro-poor growth?

3.1 Introduction

66 Attempts to characterise the sort of economic growth that developing countries committed to poverty reduction need to achieve have quite a long history. They go back to the time in the 1970s when the diversity of actual outcomes from growth was first widely recognised. The case made by the 1990 WDR for a poverty-reduction strategy based on labour-intensive growth, human capital investments and social safety-nets, had several precursors. Also, further layers of debate have been added since then.

67 Some of these ideas and proposals have survived the test of time better than others. However, what has been recognised recently is that all of them had an important feature in common. They did not made a clear distinction between:

- ❐ the criteria used to judge whether a given growth process has performed adequately in terms of poverty reduction;
- ❐ the qualities of the process that are most likely to make such a performance possible.

The concept of pro-poor growth has the function of allowing the first question to be addressed clearly. That should allow the second question to be dealt with in a more consequential and less confused way. Our treatment of it is reserved for Section 4.

3.2 Income-based approaches

The poverty head-count approach

68 Pro-poor growth is generally thought to refer *to a growth process that reduces the absolute poverty head-count*. This is a simple and apparently straightforward approach (refer back to Box 1 for definitions). However, it has both substantive and methodological disadvantages.

69 Leaving for later the problem of non-income dimensions of poverty and the issue of sustainability (which apply to all of the approaches reviewed here), there is a question about whether this criterion is sufficiently demanding. Pro-poor growth should surely be equitable in the way it benefits the different strata under the poverty line. That is, it should address the severity and not just the incidence of poverty. An operational danger from making judgements based on the head-count alone is that it could lead to the prioritisation of measures to assist people just below the poverty line. For the purposes of characterising the performance of a particular growth process, it will always be optimal to use both incidence and severity measures.

70 A methodological difficulty with the poverty head-count approach is that it makes international comparisons difficult. For one growth pattern in one country to be compared with another in another country, the poverty lines would need to be fixed in terms of an international currency such as the dollar. This can be

done, as mentioned in Section 1, but it is costly and fraught with difficulty. The options considered next avoid this problem (White and Anderson, 2001: 268n).

Income-share approaches

71 Pro-poor growth may, alternatively, be taken to mean *a growth pattern that is redistributive*, particularly in high income-inequality countries; or growth that is *distributionally neutral* in low income-inequality countries. This is unsatisfactory in so far as it involves a retreat from a universal standard. However, there are sound reasons for applying a measure of flexibility, so long as this can be rendered more precise.

72 White and Anderson (2001) suggest three working definitions of pro-poor growth, from which two survive initial tests of viability.[4] Growth is pro-poor where either:

- the poor's share of an increase in income is greater than their current share of total income; or
- the poor's share of an increase in income is greater than some international norm (e.g. the median share of the poorest fifth in the countries of the world: 5.6 per cent).

73 For the first, they note that it has some "unfair" results. Countries with very unequal initial income distributions qualify more easily as having achieved pro-poor growth than those where the initial income distribution was already quite equal. For example, Honduras (1968-92) qualifies as having had extremely pro-poor growth, on the basis of the poor getting only a 6 per cent share of additional income, because their initial share was only 2 per cent. Although Poland's poor gained 7 per cent of the growth of income (1981-8), this appears as extreme "anti-poor growth", since the initial share of the poor was 10 per cent.

74 This leads to the suggestion of using an international norm, the second definition. The result is that the positions of Honduras and Poland are more or less reversed. Poland's performance qualifies as pro-poor, and Honduras's as neutral – neither pro- nor anti-poor.

75 The two income-share approaches produce broadly similar distributions of actual world-wide growth experiences, with more or less equal numbers in the pro- and anti-poor columns (Box 6). This is probably a positive feature from the point of view of practical policy dialogue, although it rightly will not satisfy the more radically-minded. The international-norm approach avoids the "Honduras" problem, while being straightforward to apply.[5] It therefore seems preferable for the purposes of comparative assessments of the pro-poorness of countries' growth trajectories.

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4 The rejected option calls for the poor's share in additional income to correspond to their share of population. On this criterion, very few actual growth processes qualify.

5 It is still subject to the danger noted in relation to the poverty head-count approach, that it will result in neglect of equity below the chosen (in this case relative) poverty line. Similar precautions would need to be applied.

Box 6: How much pro-poor growth has there been?

White and Anderson analysed 143 growth episodes in the 1980s and 1990s, about half of which were from developing countries, using the definitions above. The poor are defined as the bottom fifth of the income distribution.

The pattern of growth over 143 growth episodes

	Growth (number of episodes)		
Definition	*Pro-poor*	*Neutral*	*Anti-poor*
1. Initial share	58	16	69
2. International norm	65	16	62

The table shows that according to the first definition there have been more anti-poor than pro-poor growth episodes. Once an international norm is used (in this case the median income share of the poor, 5.6%) pro-poor and anti-poor episodes are more or less evenly divided.

Source: White and Anderson, 2001: Table 2

3.3 Non-income dimensions and sustainability

76 A major disadvantage of all the definitions offered above is that they are mono-dimensional in their handling of poverty. Although they are helpful in setting a reasonably high and measurable standard of performance, they pose the danger that they will tend to reward some types of poverty-reduction performance that do not deserve it. For example, it is well known that the incomes of poor households can be increased, especially in the context of marked gender inequity within households, by means that lower nutritional standards and/or weaken the formation of human capital through education.

77 Poverty head-counts can also be reduced dramatically by mining irreplaceable environmental resources. The livelihoods of particular groups of poor people can be shattered by major infrastructure projects that promise livelihood improvements for large numbers of other poor people. These familiar dilemmas need to be part of the discussion on the meaning of pro-poor growth.

78 The challenge of assessing past and prospective development performance in terms of a multi-dimensional poverty concept is a general one. It is not peculiar to the definition of pro-poor growth. There is no wholly satisfactory solution, given the value, for certain policy purposes, of highly aggregated quantitative treatments, and the very uneven measurability of the relevant variables. The operational implication is that much of the assessment of growth options needs to take place at the country, and even regional level, where a wider range of criteria can be applied. An example of the feasibility of this sort of more nuanced assessment of a growth process that gets top marks for pro-poorness in terms of reducing absolute poverty incidence is Uganda's series of *Poverty Status Reports* (Uganda, 1999, 2001).

4 What does it imply for policy?

4.1 Introduction

79 This section brings together some of the highlights of what is currently known about the policy requirements of pro-poor growth. Like the previous sections, this one is intended to provide an accessible introduction to some of the newer themes in the specialist literature, including key concepts and empirical evidence. The treatment is obviously not comprehensive. It is in fact highly selective, especially in two respects.

80 First, the section *does not discuss the general conditions for rapid economic growth*. These are, by and large, well known and increasingly accepted by all concerned. Avoidance of war and runaway inflation, for example, are vital to growth in general. It follows that they are no less important for prospects of achieving pro-poor growth. Since our aim is economy and not completeness, these things are assumed. The general conditions for growth are considered only where making the growth process more pro-poor might seem to threaten its pace or sustainability.

81 Second, we place a strong emphasis on following through and illustrating the policy uses of the *concepts and major empirical findings* that have been introduced in explaining the background to pro-poor growth.

82 Most of the policy design work, including that undertaken by co-operation agencies, needs to be country- or at least region-specific. Economic structures and patterns of inequality and poverty vary too much across the developing world for general policy prescriptions to have much value. Even at the level of fairly homogeneous sub-regions (say, eastern and southern Africa) policy content needs to be sensitive to particularities of place. On the other hand, recent concepts and research do suggest *a few bold themes or questions worth asking* that are likely to be of relevance in almost all low-income settings. It is on these that we concentrate.

83 To provoke the reader and get his/her attention for what may otherwise seem rather abstract prescriptions, we title each section with a suggested specific action that a Sida desk officer or programme adviser might take. Thus, without losing the general policy relevance of what is said, we have, in each case, a point of engagement with the real world of development co-operation.

4.2 Getting pro-poor growth: six things to do or ask about

84 We concluded Section 2 with the thought that policies can and do influence patterns of growth, and through them levels of inequality and impacts on poverty. Policy is taken here to mean the policies of Sida partner countries and of the bilateral co-operation agencies and multilateral actors as a group. In what ways would their policies be different if a pro-poor pattern of growth was being resolutely sought? What issues should Sida desk officers be alert to undertaking background work and contributing to the design of Sida policies and programmes and those of its partners?

85 A number of major themes are worth singling out from recent thinking on the subject. These are signalled by the large bullet points and the section headings. Several subsidiary themes, which are hardly less important, are indicated by the arrow points within each section. For space reasons, evidence and examples are given sparingly, with references to further reading where appropriate.

Check up what is known about sectoral poverty-reduction elasticities!

- Unless there are strong countervailing arguments, the composition of the growth process should favour sectors and sub-sectors where the poverty-reduction elasticity is known to be high – thereby raising the overall average pro-poor-ness of the growth process.

86 If this information is not readily available, e.g. from a World Bank poverty assessment, first find out "where the poor are" in broad sectoral terms, and then seek information on sectoral elasticities in comparable countries; it is very likely to favour agriculture, or the rural sector generally. *Example:* in Tanzania in 1996, the World Bank estimated that growth in rural areas was possibly *four times* as efficient in reducing poverty than growth in towns excluding Dar es Salaam. Growth in Dar es Salaam was even less efficient for poverty reduction than growth in other towns (World Bank, 1996: 77).

87 It is not sufficient for growth to be "broad based". The meaning of this phrase has never been clarified, but if it implies that there should be some growth in all sectors, it is clearly insufficient to distinguish the objective from what has been routinely achieved in the past. If it implies equal growth across the sectors, so that small-holder agriculture grows as fast as, say, manufacturing, this is quite an ambitious objective for most poor countries. But that fact is obscured by the blandness of the phrase.

88 The concept of "efficient labour intensive growth" is close to what is being advocated here. However, that phrase from the 1990 WDR on poverty has been seen as problematic on a number of counts.

89 First, it is very aggregative and needs unpacking (DFID, 2000) – there are a number of different labour-intensive activities whose development faces different bottlenecks. Second, it needs detaching from the particular context of export-oriented manufacturing in which it was visualised – as the conditions under which this was a successful form of pro-poor growth in East Asia are not easily reproduced. In particular, the concept should not have built into it assumption that a pattern of growth that is intensive in relatively unskilled labour is automatically produced by an open trade policy, which now seems doubtful (Addison and Cornia: 7-9).

90 Third, the concept does not give sufficient weight to the evidence that agricultural productivity growth – under conditions of reasonably equitable distribution of agricultural assets – has had a singularly powerful impact on poverty, with larger employment and income multipliers than other labour-intensive sectors. Agriculture is a major sector in all poor countries and provides

the main source of demand for the labour intensive non-agricultural activities that take place in rural areas and market towns (Bigsten and Levin: 16-17; Mellor, 2000).

91 It is possible that the sectoral growth pattern that is most effective in reducing poverty will not be based on the sectors where the majority of the poor make their livelihoods. In exceptional cases, of which Botswana is perhaps an example, the existence of effective mechanisms for redistributing public revenues from an enclave-type extractive industry may permit "pro-poor growth" to be achieved by transfers. Depending on how they are calculated, such a conclusion might and might not show up from the sectoral poverty reduction growth elasticities. Such cases are likely to be rare however, since transfers on such a scale are hard to set up and sustain, as Zambia's experience underlines.

How could the growth process be biased towards women?

- Unless there is clear evidence that this would be ineffective or counter-productive, all available means should be used to impart a positive gender bias to the growth process, so that incomes controlled by women increase faster than those controlled by men, and women's time constraints become less binding.

92 If gender-disaggregated poverty-reduction elasticities were available (they are not) there would be a clear case for shifting priority to goods and services provided by women. This would in any case be amply justified by the evidence that in very many societies women's expenditures are more likely to be used for purposes that reduce poverty directly or indirectly (by building all of the main components of human capital). However, such a simple approach problematic for a number of well-known reasons.

93 A pro-poor growth strategy needs to take into account the interdependence of the monetised and the non-monetised sectors of the economy. The gender division of labour allocates the bulk of responsibility for non-monetised economic activities (food production, child care, water and firewood fetching), which are nonetheless essential for household welfare, to women and (girl) children. A gender perspective on pro-poor growth starts from the perspective that women's responsibility for unremunerated and unmarketed activities makes them relatively time-poor.

94 Pro-poor growth strategies thus need to take into account the gender division of labour and the pressures on women's time. This might entail introduction of time saving technologies usable by or beneficial to women, for example.

95 Experience of implementing gender sensitive policies and interventions is developing in a number areas.[6] It will almost always be relevant to ask: is what is known about gender-aware policy being applied in the particular case?

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[6] Blackden and Bhanu (1999) provide a good overview of experience in all these areas for sub-Saharan Africa.

Look into whether* all *the available policy instruments are being mobilised to get the right sort of growth going!

96 Changing the sectoral pattern of growth in ways that favour the poor, or which facilitate poverty reduction by having a positive gender bias, is likely to call for concerted use of the available policy instruments. It is not enough that only some of these have been brought into use.

97 Conceptually, the policy instruments fall under three headings:[7]

- Incentives and disincentives arising from the distribution of public investments, including loan and aid-funded projects, and recurrent expenditure:

98 Patterns of public spending and aid that discourage investment in the priority sectors, or encourage scarce resources into alternative uses, should be changed. This should be a number-one concern when assessing the country's budget and Medium Term Expenditure Framework or Public-Expenditure Review, as well as reviewing the agency's country strategy and programme. Explicit policies are needed to deal with the regional disadvantages that show up as a major feature of many national poverty profiles (Addison and Cornia: 27).

99 Major episodes of agricultural growth which transformed rural economies in the past were the product of major public investments in research and technological development, including the work in internationally-funded research stations whose discoveries became "global public goods". It is once again clear today that policies need to consist of more than market liberalisation. Public investment in research and development is needed to generate country appropriate technologies that can produce sustained agricultural growth. Specific interventions may be required to meet the technological needs of environmentally fragile marginal regions where poor people live, and to reduce the risks that prevent poor farmers adopting new crops (Addison and Cornia: 30)

- Incentives and disincentives arising from the tax system, particularly as it relates to small-scale trade and the use of land:

100 Tax systems in poor countries have been neglected for too long as candidates for thorough reform. The reform agenda has been strongly influenced by the World Bank and the IMF, which have been wary of getting involved in taxation. Yet in many countries systematic evasion and avoidance of the more progressive taxes has made the overall tax incidence regressive. This needs tackling. In many low-income agrarian economies, there is a particular case for reducing the burden of taxation on small-holders, operating through a host of petty taxes and cesses, while introducing a progressive tax on landed property to

[7] To repeat what we said earlier, we do not review policy conditions that can be considered essential to the achievement of sustained economic growth in general. It is arguable that some of these – such as a reasonable standard of public regulation of major financial institutions – are not just (by definition) preconditions for PPG, but also particularly important for the poor (as costly bail-out operations are often funded at the expense of services to the general population).

encourage more effective use of large holdings and increase tax revenue (Addison and Cornia: 26, 29-30).

- Instances of “market failure” – that is to say, where actual markets do not work as efficiently or as fairly as economic theory says they should:

101 A reasonable generalisation is that real markets almost never “work for the poor” unless special measures have been taken by someone. Markets function optimally only when certain very stringent assumptions apply, and these are rarely realistic where poor people are concerned. Lopsided (monopsonistic) marketing arrangements and poor information are notable features of the way poor people typically come to markets, if they come at all. Labour markets are typically lopsided, and have become more so with the elimination of minimum wage laws and the dismantling of collective bargaining under free-market reforms (Addison and Cornia: 27; van der Hoeven, 2000).

102 In addition to trading on unfavourable terms, poor farmers invariably face high “transaction costs” – that is, the effort of securing a deal is close to prohibitive because of poor information and lack of trust. They have difficulties in getting access to credit because they have insecure or non-existent land rights and few other assets. These problems are typically much worse for farmers who are women. Improving information flows, building institutions that people can trust and addressing or getting around the lack of loan collateral – these are familiar kinds of development intervention. But they are often handled on a small scale, by NGOs. Transforming major public institutions to meet these needs is rare indeed, especially in low-income Africa.

103 The overwhelming concern of the very poor to minimise risks and the need for better forms of risk-management is a further important topic. This is picked up in a later section.

104 Dealing with market failure is well-established as a proper role for government even in strongly market-oriented economic theory. But concerns about state incapacity and the long record of ill-advised interventions in markets, especially agricultural markets in Africa, had led to a neglect of issues of this sort by both governments and donors until quite recently. Today, a sound question to ask in thinking about the pattern of growth is: is anyone dealing with the relevant market failures?

Take a new look at asset redistribution and a radical approach to asset creation!

- Where it is clear that basic assets such as land and education are distributed inequitably, so that poor people do not have the means to profit from market opportunities or provision themselves adequately, radical means of remedying this situation should be considered.

105 Income distribution is an outcome of the distribution of assets. Hence, to create or maintain pro-poor growth it is important to develop policies that build up, as well as increase the returns to, the assets that poor people own or use. Asset (land) redistribution and a radical approach to basic asset creation (universal

primary education) was an essential prelude to poverty-reducing growth in the most successful East Asian economies.

106 Assets include those that are usually privately owned – land, labour, physical plant and equipment, financial resources and human capital. They also encompass commonly owned or open-access resources: pasture lands, forests and other environmental resources, public infrastructure and (on some definitions) social capital.

- Where assets are in fixed supply and their distribution is strongly conditioned by historic factors, asset redistribution will need to be countenanced.

107 In that case, attention should be paid to the ample experience of how to do this in a market-friendly way, paying attention to the necessary complementary measures to ensure the effective use of transferred assets. In principle, land reforms are good for both equity and efficiency, and there is contemporary evidence to suggest that it can be so in practice too (Deninger and May, 2000). But it is important to learn from some historical experiences, mostly in Latin America, where insufficient care was taken and the promised benefits did not materialise.

108 As well as being technically sound, land redistribution has to consider social and political power structures and tailor policies accordingly. Addison and Cornia (1999: 29) note that land reform policies must be “power compatible”. That is, measures need to be taken to reduce political opposition not only among landowners but also among urban consumers who may face temporarily higher food prices.

- In other fields, a deliberately redistributive approach should be taken to the creation of new assets.

109 Current poverty reduction policies generally include measures designed to increase access to credit through micro finance schemes; human capital, through provision of basic health and education services; and infrastructure, through market reforms and public and private investment in transport, power, telecommunications and agricultural works. In almost all circumstances, it will be relevant to ask whether these current schemes are as thoroughgoing, comprehensive and embedded in national institutions as they need to be in order to provide a platform for pro-poor growth. Within sector investment programmes and SWAps, a key question will be: is anything being done to improve access and meet the needs of those who never take advantage of public services?

110 It is worth bearing in mind that more radical measures can almost certainly be justified in terms of their likely contribution to general growth as well as in terms of the need to nudge the pattern of growth in a pro-poor direction (Bigsten and Levin: 30; Seshamani).

- ➢ Unequal gender relations mean that it is universally true that it is harder for women to transform their capabilities into incomes and other dimensions of well-being.

111 One of the reasons for this is that control and ownership of assets and income are usually unequally divided between men and women, resulting in lower labour productivity much higher perceived insecurity. In many countries, and throughout sub-Saharan Africa, women's inheritance rights should be considered a top priority for those wishing to promote pro-poor growth.

Ask how growth-enhancing income-stabilisation measures might also help the poorest of the poor

112 Ways of focusing increased growth that have a strong effect on *the depth and severity*, as well as the incidence, of poverty should obviously be favoured. But even with deliberate policies to address regional imbalances, this may be difficult. Apart from those suffering regional or ethnic disadvantage, the poorest of the poor often turn out to be categories of people who have few assets and whose assets are difficult to build up, such as the old, infirm and disabled. Social protection policies based on income transfers should be applied in these cases. How such transfers should be funded and delivered, given different levels of national income, is an important question that falls outside the scope of this paper (but see Norton and Conway, 2000).

113 What is very much part of the pro-poor growth discussion is the provision of social protection as part of a wider system for reducing poverty and enhancing growth by dealing with risk. Risk is to some degree a feature of all economic life, but, as argued earlier, the extreme vulnerability of many of the poor to natural and socio-economic risks has strongly negative consequences for their productivity. This does not just apply to the poorest. Studies using panel data (where the same households are surveyed repeatedly) are now suggesting that quite large numbers of people fall into poverty, or pull themselves out of it, over various time periods – much poverty is temporary, not chronic.

114 Thus there would be much to be gained, from both a poverty-reduction and a pro-poor growth perspective, from a successful system for income smoothing (Addison and Cornia: 30; Bigsten and Levin: 15, 37-38). The general case for affordable crop insurance is not new. It would be an important achievement to put in place a workable scheme with wide coverage. Were such a scheme to become established, it might not be hard to accommodate a safety net for the poorest of the poor within it. None of this absolves governments and donors from avoiding macro-economic and other policies that increase the risks faced by poor people (Addison and Cornia: 27-28)

Take politics seriously!

- A politically conscious implementation strategy should be adopted for each of the above measures, taking into account the need to win friends and buy off opponents, and to make a big impression where it is feasible even at the cost of doing nothing in other areas.

115 Recent research suggests that the political-system issues in redistribution and pro-poor policy making are not simple, but neither are they hopeless (Moore and Putzel, 1999). It is important to take into account that national policy processes are not usually driven by an overarching rationality – as some of the language used in development co-operation seems to imply (e.g. poverty-reduction *strategy*). Politicians, policy implementers and stakeholders at all levels are motivated by self-interest, occasionally moderated by vision, as structured by the political relationships and culture of the society. On the other hand, political alliances that have pro-poor implications *are* sometimes built, and under the right conditions poor people can take a hand in their own liberation.

116 Co-operation agency staff cannot be expected to understand all the intricacies of the political systems in the countries they deal with. But they do have a responsibility to be interested, and do their best to contribute, with partners, to the building of political conditions for pro-poor growth. This may not be possible on every issue. For that reason, at the end of the day priorities derived from sectoral poverty-reduction elasticities and the like may need to be moderated by what is feasible within existing structures of power and resistance (Farrington, 2001).

4.3 What this paper has not covered

117 To repeat what was said at the beginning, this paper has not been about pro-poor policy, or economic growth, in general but about pro-poor growth in particular. Although it turns out that the conditions for pro-poor growth include very many things that have been pursued for other and more general reasons, we have not discussed everything that should be covered in an introduction to poverty-reduction policies. The topics we have dealt with have been treated in a general way. Much else could be said, but if the reader is left with a somewhat clearer picture of what the pro-poor growth debate is all about, the paper's limited purpose has been met.

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