

# **In Search of The Holy Grail: How to Achieve Pro-Poor Growth ?**

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## **1. Introduction**

In recent policy and research documents from various institutions, researchers, and organizations, pro-poor growth has been identified as the most important ingredient to achieve sustainable poverty reduction (e.g. UN, 2000; World Bank, 2000a; Ravallion, 2001, World Bank, 2000b). As poverty reduction has become the central aim of development efforts, as evidenced by the Millennium Declaration, the PRSP process, and the institution of the PRGF by the IMF, aiming for pro-poor growth is, *a fortiori*, the most significant policy measure to achieve this goal.

Although it is rarely spelt out, it is usually implied that pro-poor growth refers to growth that leads to significant reductions of poverty (UN, 2000; World Bank, 2000a). What is less clear is how one defines significant reductions in poverty and how one should consequently monitor how successful countries are in succeeding in pro-poor growth. There is even less clarity on what the policy implications of a call for pro-poor growth are. On one level, there are debates about the linkages between pro-poor growth and its constituent elements, namely growth of mean incomes and reduction in inequality (or at least an enhancement of the income share accruing to the poor, e.g. Dollar and Kraay, 2000; Ravallion, 2001, World Bank, 2000b, Bourignon, 2001). On another level, there are debates and questions about the sectoral, regional, and functional composition of pro-poor growth (Ames et al. 2000, Ravallion and Datt, 2000). Lastly, there are questions about the precise policy measures under control of government (or international development partners) that can generate pro-poor growth; particular areas of dispute remain in the macroeconomic field, but there are also some important questions about sectoral and regional policies.

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This note will address these issues in turn by highlighting the areas of agreement and trying to clarify the areas under dispute in this matter. It will recommend policy implications where there are clear, and suggest further analysis and discussion where they are not. Section 2 will examine the measurement and monitoring of pro-poor growth. Section 3 looks at the linkages between growth, inequality, and poverty reduction. Section 4 examines the sectoral, regional, and functional distribution of growth, while section 5 distills policy messages, in particular with regard to African countries. Section 6 concludes. Given the breadth of topics, this paper will only be able to highlight the issues and present some theses, which hopefully form the basis for further discussion and research.

## 2. Defining and Measuring Pro-Poor Growth

I have not been able to come across a precise definition of pro-poor growth. Many existing definitions all imply that growth must be to the benefit of the poor and give them more access to economic opportunities (e.g. UN, 2000; OECD, 2001). Others define pro-poor growth with as a high elasticity of the poverty rate to economic growth (e.g. Ravallion and Datt, 2000).<sup>2</sup> All these definitions are not very precise and therefore it may be useful to propose a precise definition of pro-poor growth. I define pro-poor growth to mean that the poor benefit disproportionately from economic growth. This is to say the proportional<sup>3</sup> income growth (i.e. their income growth rate) of the poor (say, of the poorest 20% or the people below a national poverty line) must exceed the average income growth rate. If the average per capita growth in a country is, for example, 2%, pro-poor growth must mean that the per-capita income growth rate of the poor must exceed that rate.<sup>4</sup>

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<sup>2</sup> Defining pro poor growth as a high elasticity of the poverty rate to economic growth is theoretically precise, but can lead to counterintuitive results. In particular, a high elasticity is easier achieved in countries where the povrty rate is very low. For example, growth that leads to a reduction in the poverty rate from 2% to 1% i one country constitutes a 50% reduction in the poverty rate which and will thus carry a high elasticity which is arguably less significant from a pro-poor point of view than the same growth that reduces the poverty rate from 50% to 40%, a mere 20% reduction and correspondingly lower elasticity. For these and related issues, see Bourignon, 2001.

<sup>3</sup> One could strengthen the requirement considerably by stating that growth is pro-poor only if the absolute per-capita income gains to the poor are larger than the absolute overall per capita income gains. A quick illustration may show the difference. Assume that the poor, who make up 50% of a society, earn \$100, the rich \$500 and average income growth is 5% (average income is \$300, so absolute average growth is \$15 per capita). Pro-poor growth under the proportionate definition used in the text would 'only' require that income growth of the poorest exceeds 5%, i.e. \$5 for the poor. The stricter definition proposed here, absolute income growth of the poor would have to exceed \$15 and thus be at least 15%, leaving only at most \$15 or only 3% to the rich. Growth would therefore have to be highly redistributive. Such growth is rarely achieved.

<sup>4</sup> One might also want to distinguish between the growth rate of the poor whoever they happen to be in a given year (implied above) or the growth rate of the people who were among the poor in the last period, which we could do by tracking people over time. Given existing mobility, achieving pro-poor growth using the latter definition is easier to achieve. But the latter definition ignores those who have been downwardly mobile and falling into poverty so that it appears preferable to stick with the former definition.

Even if growth is pro-poor as defined here, a given rate of pro-poor growth will lead to different rates of poverty reduction, depending on the level of initial inequality.<sup>5</sup> In a country with high initial inequality, the same rate of pro-poor growth will lead to smaller reductions in poverty as the poor are starting from a lower base and the absolute income increments brought about by growth are smaller than in a country with low inequality and the distance to the poverty line is typically larger.<sup>6</sup> As a result, one needs higher rates of pro-poor growth in countries with high inequality to achieve the same poverty reduction. Alternatively, growth must be more tilted towards the poor in high inequality countries to have the same impact. Or one needs to do something about initial inequality, a subject that is addressed in the following section.

With this definition in mind, one way to monitor the extent of pro-poor growth in countries is to revive an old idea by Ahluwalia and Chenery (1974) who proposed to jointly measure growth and redistribution through their population-weighted and poverty-weighted growth rates. The former is an arithmetic average of the growth rates of different income groups (e.g. deciles or quintiles). It is more pro-poor than the average income growth rate which is largely dependent on income growth rates in the richest two quintiles (Klasen, 1994; Ahluwalia and Chenery, 1974). The poverty weighted growth rate puts greater weight on the income growth rate of the poorest quintiles and declining weights on the income growth rates of richer quintiles and thus may be the most suitable measure of pro-poor growth (Klasen, 1994).<sup>7</sup> An added advantage would be that these measures consider growth and distribution jointly and thus emphasize, as do the proponents of pro-poor growth, that the two cannot easily be separated, either analytically or from a policy point of view (see Ahluwalia and Chenery, 1974; Klasen, 1994).

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<sup>5</sup> It will also depend on the extent of poverty in a country. In a country with high poverty, the same pro-poor growth will have a larger impact on the poverty rate than in the country with a low poverty rate, as a larger share of the population will be closer to the poverty line and thus be lifted above it as a result of pro-poor growth.

<sup>6</sup> Again, an illustration may be helpful. 2 countries have \$300 per capita income, 5% average income growth and 10% income growth of the poor (and thus pro-poor growth). In country A the poor have \$100 and the rich have \$500, in country B the poor have \$50 and the rich have \$550. The poverty line stands at \$110. In country A, pro-poor growth will mean all the poor reach \$110 and poverty is eradicated. In country B, the poor only get to \$55 and are still far away from the poverty line. This numerical example also illustrates how the findings by Dollar and Kray (2000) can be reconciled with the finding that the same amount of growth yields larger poverty reduction in countries with low inequality (e.g. Ravallion, 2001; World Bank, 2000a). Dollar and Kray only relate average income growth to the proportionate income growth rate of the poor and find that the two are very closely correlated. But this still means that poverty reduction, i.e. lifting the poor to the poverty line, will be easier in countries where inequality is lower as their proportionate income gains are larger in absolute terms. See also Ravallion (2001) and World Bank (2000a) for a discussion.

<sup>7</sup> For an empirical application of these measures see Klasen (1994). The class of Atkinson inequality measures are quite similar to this formulation. For a discussion and an application, see Grün and Klasen (2000, 2001).

Before proceeding, it may be important to highlight that the definition and the proposed monitoring tool are all focused on the income dimension of poverty. While most recent studies have emphasized the multidimensionality of poverty and highlighted the importance of health, education, and gender equity (e.g. World Bank, 2000a, UN, 2000), there are no corresponding indicators that have been proposed in capturing pro-poor growth in this wider dimension, although one could easily think of candidates (e.g. Klasen, 2000; Bardhan and Klasen, 1999).<sup>8</sup> Fortunately, there are close causal linkages (with causality running both ways) between income poverty and most other non-income measures of well-being. In particular, as discussed below better health and education of the poor (and reduced gender equity in these achievements) will improve their chances to escape income poverty; conversely, higher incomes will typically allow the poor to get greater access to health and education services. But these linkages are far from perfect so that it is useful to separately monitor progress on these non-income dimensions as well (Dreze and Sen, 1989; Klasen, 2001; UN, 2000).

### **3. Poverty, Inequality, and Pro-Poor Growth**

Recent years have seen a wealth of studies on the linkages between poverty, inequality, and economic growth. Without reviewing them all, it may be useful to point to some of the most important conclusions and their linkages:

- a) Sustained economic growth, on average, reduces poverty (Bruno, et. al. 1998, Dollar and Kraay, 2000; World Bank, 2000a, b, Ames, et.al. 2000)
- b) Inequality has remained fairly stable across most countries (Deininger and Squire, 1998; Li, Squire, and Zhou, 1998). Important exceptions are the transition countries where inequality has sharply increased in the transition process (Grün and Klasen, 2001). An implication of little change in inequality is that income growth has roughly translated into equiproportionate income growth for the poorest in most countries (Dollar and Kray, 2000). Thus most growth has not been explicitly pro-poor, but has given all income groups roughly equiproportionate increases in their incomes.
- c) Higher (income) inequality reduces the poverty impact of growth, as the poor are further away from the poverty line and their (even equiproportionate) income increases start from a lower base (Ravallion, 2001; World Bank, 2000a, b). Thus there is dual poverty pay-off to

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<sup>8</sup>The Millenium Development Goals and the related International Development Goals (OCED, 1996) include improvements in education and health and propose separate indicators. This is one way to address the issue. Another is to propose indicators that capture the multidimensionality of poverty in one indicator (e.g. Klasen, 2000).

reduced initial inequality. It will immediately reduce poverty by giving the poor more resources and it will increase the poverty impact of subsequent growth (Bourgignon, 2001).

- d) There also appears to be a growth pay-off of lower initial (income or asset) inequality (e.g. Alesina and Rodrik, 1994; Deininger and Squire, 1998; Lundberg and Squire, 2000; World Bank 2000a). Countries with lower initial inequality, particularly low inequality in land, appear to experience higher subsequent growth.<sup>9</sup> Thus there is a growth pay-off to lower initial inequality so that we are faced with a triple effect of reduced inequality on poverty. It reduces poverty immediately, increases growth, and enhances the poverty impact of such growth.
- e) The last two findings are also relevant in the context of gender inequality. Higher gender inequality appears increase poverty and to reduce other welfare measures as women appear to allocate more resources to food, health care, and education of their children than men do and female literacy has been found to be one of the most important determinants of the effects of growth on income poverty (Thomas, 1997; World Bank, 2001a, Datt and Ravallion, 2000). Moreover, gender inequality, particularly in education, access to technology, and likely also in employment, reduces economic growth as it fails to make adequate use of female resources (Klasen, 1999; World Bank, 2001a, Knowles, et al. 2001; Blackden and Bhanu, 1999; World Bank, 2000c). Thus reduced gender inequality would boost economic growth and boost the economic impact of growth on poverty reduction, i.e. it would make generate more and more pro-poor growth.

Three obvious policy messages follow from these findings. First, policies to promote growth should help the poor although they could do so more if they made growth pro-poor rather than neutral as it currently is in most places. Second, reducing initial inequality, particularly asset inequality, should receive highest priority, due to its triple effect on poverty. Third, reducing gender inequality should equally be of highest concern to policy makers that want to achieve pro-poor growth.

The first implication is well recognized and in fact is simply a continuation of a traditional emphasis on income growth which has informed development thinking for the past decades. I will comment on the specific (macroeconomic and sectoral) policies that are advocated below.

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<sup>9</sup>Forbes (2000) disputes this link and finds the converse link. But her methods, panel regressions with fixed effects, depend greatly on interpreting minute changes in inequality in countries. Given the poor quality of the data, the signal to noise ratio in such an analysis is likely to be substantial. For a discussion of related issues, see Atkinson and Brondolini (2001).

The second implication has also recently received more attention in policy documents (e.g. World Bank, 2000a, 2000b). But when it comes to policies, there has been a virtually exclusive focus on promoting equality in human capital and on sometimes on promoting greater equality in access to credit (World Bank, 2000a, b, c). When it comes to land redistribution, the policy documents of the World Bank are much more cautious even though land inequality is the most important asset inequality in many countries and appears to have the largest negative impact on growth and efficiency (Ravallion and Dhatt, 1999; Alesina and Rodrik, 1994; Deininger and Squire, 1998, Ray 1998). Here the policy recommendations tend to focus exclusively on market-based land reforms as the only type of reform they are willing to advocate alongside other measures to improve the security of tenure (World Bank, 2000a, b; Alderman et al. 2000a, b). While they mention some objections to such market-based land reforms, e.g. the pushing up of prices for existing users, the high fiscal costs of subsidies to potential buyers and the very slow progress which has been a fact in all countries where this was tried, no alternative policy approaches are discussed.<sup>10</sup> This is somewhat strange given that the same documents give high praise the poverty and growth impact of (partly) confiscatory and compulsory land reforms in China, Korea, and Taiwan that allowed these countries to pursue high economic growth with equity and poverty reduction (World Bank, 2000a, b). Clearly, more work is needed to develop workable models of land reform that are fast, redistributive, affordable, and will ensure the productive use of the land by the beneficiaries. Experiences from successful (partially or fully) confiscatory land reforms suggest that such and reforms must be undertaken quickly, must focus on providing land to the tiller to the extent possible, must be transparent, must be associated with credit and input support to the beneficiaries, and probably should be accompanied with credible guarantees that such redistributions are one-off affairs (to protect investments in the future).<sup>11</sup>

The third implication regarding gender inequality has been receiving more attention and there is an urgent need to follow up on the policy proposals made in recent policy documents (e.g. UNDP, 1995; World Bank, 2001a; Blackden and Bhanu, 1999, World Bank, 2000c). Apart from measures to ensure

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<sup>10</sup> There are other objections to such an approach. In particular, such an approach to land reform may do little to alter inequality in assets as the rich landowners simply trade one assets (land) for another (capital). Also, the poorest may be unable to benefit from such a reform See Zimmermann (2000) and Klasen (2001). The WDR on Poverty (World Bank, 2000: 80) explicitly cautions against coercive land reform by noting that it does not have the political support to be implemented even though it would be good for poverty and good for efficiency. Given that the World Bank tried to implement SAPs which also did not have political support in many countries and promotes other unpopular measures, this caution seems somewhat surprising.

<sup>11</sup> For discussions, see Binswanger, Deininger, and Feder (1995); World Bank (2000b), and Ray (1998). As examples from Latin America and Zimbabwe show, slow land reforms and unresolved land issues can be a powerful source of

and enforce equal rights for women in the political sphere (e.g. representation, input to policy), the economic sphere (esp. equal access to property, including land, non-discrimination in labor market, etc.) and the household sphere (esp. equal rights in marriage and divorce), Table 6.1 of a recent policy research report by the World Bank (2001a) nicely summarizes the most important areas of active state intervention in the economic realm. They range from active intervention to promote female education (subsidies, differential user fees, capitation grants, more female teachers and more appropriate schools), promotion of micro credit targeted to females, affirmative action programs, improved reproductive rights and services, support for out-of-home child care, investments in time-saving infrastructure, and a range of measures to provide gender-appropriate social protection.<sup>12</sup>

#### **4. The Sectoral, Regional, and Functional Distribution of Pro-Poor Growth**

Since the poor are not spread evenly throughout the economy, the distribution of growth is a critical ingredient to pro-poor growth. Before analyzing the distribution of growth, it is important to emphasize that analytically there are two ways in which economic growth can be pro-poor. The first way, which I will call the direct way, is a pattern of growth that immediately raises the incomes of the poor. This must be growth that favors the sectors and regions where the poor are (or are likely to move to) and use the factors of production they possess (or are able to acquire). While this is probably the most sustainable way of ensuring the poor benefit disproportionately from economic growth, it carries the risk that they will also suffer (possibly disproportionately) from economic contractions and high volatility. This is clearly a risk that has to be taken into account if one is able to ensure that the fortunes of the poor are tied more closely to overall economic conditions.<sup>13</sup> The second avenue, however, can be called the indirect way and operates via public redistributive policies (esp. via taxes, transfers, and other government spending).<sup>14</sup> High growth of any sorts could, in principle, be made pro-poor if it involved progressive taxation and targeted government spending on the poor. The government spending on the poor could either try to promote their inclusion in economic growth and thus improve the direct linkage between growth and poverty reduction (see World Bank, 2000b), or it could simply provide transfer

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economic instability. Workable land reforms that contain confiscatory and mandatory elements might be necessary to avoid the unsatisfactory piecemeal approach involved in currently applied methods.

<sup>12</sup> For a similar set of policy messages with slightly different emphases, see Table 3.2 in Blackden and Bhanu (1999).

<sup>13</sup> This may be one of the reasons why the poor have suffered badly in the Asian crisis (Chen and Ravallion, 2000). Targeted safety nets and automatic stabilizers are one way one can ensure that there is an asymmetry in the linkage between growth and poverty reduction between expansions and contractions. For a related discussion, see Easterly (2000).

<sup>14</sup> For a related analysis, see Herr and Priewe (2001).

payments to the poor through a basic safety net that could become ever more generous with the increase in economic growth. The former use is clearly preferable to the latter, although some safety net is important for the poor and can indeed ensure that they become direct beneficiaries of economic growth as it allow them to take greater risks and thus reap higher rewards (Atkinson, 1999; World Bank, 2000a). Let me comment on the direct and indirect linkages in turn.

On the first issue, it is clear that pro-poor growth that directly reduces poverty must be in sectors where the poor are and use the factors of production they possess. The vast majority of the poor are in rural areas, a majority depend directly or indirectly on agriculture for their livelihood, and the factor of production the poor possess and use most is labor, sometimes land, and even more rarely human capital (see Alderman et al, 2000a; Ames et al. 2000; World Bank 2000a, Ravallion and Datt, 2000). Thus pro-poor growth must be focused on rural areas, improve incomes and productivity in agriculture, and must make intensive use of labor. These things are nearly tautological, but often forgotten and are clearly not reflected in public policies or in the allocation of public funds by national governments or donors (World Bank 2000c; Lipton, 1977). The majority of empirical analyses of these linkages have indeed born this relationships out (for a survey, see Lipton and Ravallion, 1995). The experience of virtually all successful developers suggest that rapid growth and poverty reduction always involves an emphasis on improving productivity and incomes in agricultural and non-farm rural occupations (Timmer, 1988, World Bank, 2000c; Lipton and Ravallion 1995).

These are immediate linkages that will have an impact in the short-term. In the medium term, growth can also be pro-poor through indirect linkages between sectors and factors. High and labor-intensive growth in manufacturing can over time, for example, lead to a migration response from poor rural areas and increase the incomes of both poor migrants and those poor left behind. Similarly, growth that is intensive in skilled (non-poor) labor might, in due course, increase the demand for unskilled labor as the two are often complementary. Or as the poor improve their human capital, growth can be pro-poor if it becomes more intensive in human capital rather than simply in unskilled labor. Without relying mainly on these medium term linkages and strategies (which have been rightly criticized as ‘trickle-down’ views of development), these medium and long-term linkages must be borne in mind when long-term development strategies to reduce poverty are devised.<sup>15</sup>

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<sup>15</sup> Recent innovations in generating ever more detailed and precise poverty profiles, spurred by the development of better micro data, have an in-built bias to focus on static views of poverty and may neglect the dynamic options for poor to participate in a multitude of ways in economic growth that cannot easily be deciphered from such poverty profiles. These dynamics, which may, for example, be more adequately captured in CGE modelling of policies that include dynamic responses of the poor, need to complement the static analyses inherent in the poverty profiles.

A set of studies by Datt and Ravallion on the impact of the sectoral composition of growth in India highlight some interesting further linkages. First, they find that rural growth indeed reduced poverty in both rural and urban areas, while urban growth only had some impact on urban poverty. By sector, they showed that output growth in the primary and tertiary sectors reduced poverty in rural and urban areas, presumably because those sectors are where the poor are and make heavy use of labor (Ravallion and Datt, 1996, 2000). In a later study, they find that farm output has the same large impact on poverty reduction everywhere in India, but that non-farm output has a variable impact on poverty reduction. This variability depends largely on the level of female literacy, urbanization, urban-rural disparities, and farm yields. States with high female literacy, high urbanization, low disparities, and high initial farm yields experience a higher elasticity of poverty to non-farm output, with the effect of female literacy being by far the strongest.<sup>16</sup>

While there is a considerable overlap between the sectoral and regional distribution of growth, the two concerns are not identical. While both overlap on emphasizing agricultural growth and growth in non-farm rural activities, the regional distribution of growth is also concerned with differences in poverty that go beyond the rural-urban and sectoral divide. They are concerned with regional inequalities and the impact of growth on the poor in particularly backward areas with high concentrations of poor people. Examples are the North-East of Brazil, Western China, the former homelands in South Africa, etc. The high concentration of poor people can often lead to persistent poverty traps where concentrations of poverty generate negative spill-overs through credit, land, or labor markets, the quality of public institutions (e.g. health and education), through the failure of an agglomeration dynamic to take hold, or through too little public investment (e.g. Jalan and Ravallion, 2000; Ray, 1998).

Pro-poor growth must therefore try to stimulate economic activity in precisely these pockets of poverty (or encourage migration out of them to richer areas). Given the dynamics of poverty traps in such areas, reliance on the private sector is unlikely to succeed. Instead, strong government involvement is typically required, combined with incentives to encourage private sector activities. The recent policy documents on poverty give relatively little guidance on such policies beyond the targeting of safety net programs (e.g. World Bank, 2000a, b).

Regarding the functional distribution of income, growth is pro-poor if it makes use of the factors of production the poor possess. These are primarily labor (predominantly unskilled) and in some

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<sup>16</sup> This last findings confirms that low gender inequality in education not only boosts national economic growth, but also increases the regional poverty impact of such growth.

contexts land if the poor have adequate access to land. The poverty reduction records of countries such as China, India, and the fast-growing East Asian countries show that poverty reduction was largest when growth made use of the assets the poor possess (e.g. Dreze and Sen, 1989; Ravallion and Datt, 1996). While there is some scope for reducing poverty by simply reallocating the functional distribution of income (e.g. through high mandated wages, interventions to raise the returns to land, etc.), such static redistributions are unlikely to reduce poverty significantly unless they are also compatible with (or better foster) economic growth (Dollar and Kraay, 2000). Some interventions are likely to be compatible with sustained economic growth (such as measures to raise the return to land) while others are unlikely to foster economic growth in many contexts (such as measures to artificially raise wages beyond market-clearing levels).

It is also important to note that the extent to which growth will be pro-poor will depend also depend greatly on the amount of human capital the poor possess. As the empirical growth literature has demonstrated, growth is highly contingent on the state of human capital in a country. Thus growth of any variety is higher in countries with sufficient human capital (e.g. Barro, 1991; Mankiw, Roemer, and Weil, 1992; Klasen 1999). Consequently, many of the returns to growth accrue primarily to those with high human capital (although there may be some 'trickle-down' effects to the less-skilled over time). In fact this is likely to be one of the central avenues through which growth is less pro-poor in an environment with high inequality than in one with low inequality, as there is a very close correlation between income inequality and both average and the distribution of human capital (Deininger and Squire, 1998; World Bank, 2000b) Conversely, it is one of the central avenues through which inequality appears to negatively affect economic growth (Deininger and Squire, 1999; World Bank, 2000b, Klasen, 1999).

Thus heavy investment in the human capital of the poor will yield two benefits on poverty reduction. It will increase economic growth and it will make growth more pro-poor. The record of East Asia where high human capital accumulation (and rapidly shrinking disparity in human capital) promoted growth and poverty reduction is an important illustration of these linkages (Dreze and Sen, 1989; World Bank, 1993; World Bank, 2000b).

As already mentioned above, this is true in accentuated fashion, for gender inequality in human capital. Reducing gender inequality in human capital could boost economic growth and increase the poverty impact of economic growth. As estimated by Klasen (1999), had Sub-Saharan Africa had East Asia's record in initial gender inequality in education and closed the gap at the same speed East Asia had, real per-capita annual growth between 1960 and 1992 would have been between 0.4 and 0.6%

faster. In South Asia, where gender gaps are more pervasive and closed even slower, growth would have been 0.7-1.0% faster. These effects only relate to gender inequality in education and are thus in addition to the effects of average human capital on growth (Klasen, 1999, see also Dollar and Gatti, 1999; World Bank, 2001a, Blackden and Bhanu, 1999). In addition, they do not include the growth impact of reduced gender inequality in employment, access to technologies, or credit, all of which have been found to be significant (Blackden and Bhanu, 1999; Klasen, 1999).

Regarding the indirect linkages between economic growth and poverty reduction, it is clear that economic growth provides the opportunities for dynamic redistribution that can have a significant impact on poverty. Such dynamic redistributions are typically easier to achieve as they will only focus on redistributing the gains from growth rather than involve potentially painful and politically difficult static redistributions of income (Ahluwalia and Chenery, 1974). Successful examples of such dynamic redistributions include, for example, the policies adopted by the Malaysian government to reduce poverty and increase the share of economic activity for the Malay population group (Lindauer and Roemer, 1994).

Secondly, growth can generate the necessary fiscal resources to expand investments in the assets of the poor. Also here, the success of the East Asian economies in using the resources generated by growth to expand mass education among the poor (and esp. among women) is an important successful example (World Bank, 1993; Klasen, 1999; Linaduer and Roemer, 1994).

Lastly, growth can generate the resources to expand transfers and safety nets for the poor. Such transfers and safety nets are clearly important from a welfare perspective and can also strengthen the poor's economic self-reliance as they will allow greater risk-taking and thus allow them to reap the benefits of more risky but rewarding income earning opportunities (Atkinson, 1999; World Bank, 2000a, Ray, 1998). Too great a reliance on such programs can, however, generate poverty traps and welfare dependency, esp. in the case of tightly targeted transfers that are sharply reduced as soon as self-earned incomes increase and thus constitute high implicit taxes on economic activities of the poor (e.g. Atkinson, 1999).

It is important to emphasize that all of these indirect mechanisms, while potentially important elements of pro-poor growth, are contingent on a policy process that actually effects these redistributions. If this policy process is absent or lacks the necessary political resolve, these opportunities might not be exploited (see also below). To repeat the obvious: while the direct strategies

will immediately translate into gains to the poor, these indirect strategies are not automatic and are mediated by contentious distributional battles over the resources generated by growth.

In sum, this discussion suggests that pro-poor growth must, in the first instance, focus on growth in agriculture and non-farm rural growth, must be labor-intensive and land-intensive where the poor have access to land, and must be particularly concentrated in geographic pockets of deep poverty. Reducing inequalities in human capital by income and gender will both boost growth and make it more pro-poor. In the medium term, strategies will be needed that will also account for indirect linkages between the sectors and regions where the poor currently are and to which they may be drawn to as economic growth takes hold. Indirect mechanisms to turn growth into pro-poor growth are also feasible but critically depend on the process of redistributing resources.

## **5. Policy Issues for Pro-Poor Growth in Africa**

The discussion above has clarified what is meant by pro-poor growth, how it relates to overall inequality, and how it is related to the sectoral, regional, and functional distribution of incomes. In the course of this discussion, some policy issues were already discussed. At the same time, a lot of the discussion above, and the discussion in many of the policy documents on pro-poor growth (such as World Bank, 2000a,b) have merely clarified the questions that one should ask, rather than provide clear answers on practical policy messages.<sup>17</sup> In particular, the discussion above has clarified the type of growth that is needed but said not enough on how such growth can be achieved. In this section I will attempt to outline some of those issues. This task is considerably more difficult than the previous section, mainly because there continue to be considerable disagreements among researchers and policy-makers.

To begin with, it is useful to briefly discuss past efforts to raise growth and reduce poverty in Africa, including particularly Structural Adjustment Programs (SAPs) that were implemented throughout Africa in the 1980s and 1990s. It is by now clear that SAPs in Africa have, with some exceptions, not had the intended outcome.<sup>18</sup> All empirical studies seem to suggest that the impact of SAPs on growth was

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<sup>17</sup> It is not surprising that many of the new policy documents that have emphasized a new consensus (e.g. UN, 2000; World Bank, 2000a, b, c) on these questions have skirted some of the issues where there continue to be profound disagreements.

<sup>18</sup> Some studies, most notably World Bank, 1994 and Christiaensen, Demery, and Paternostro 2001 argue that SAPs have induced growth and reduced poverty in the countries where they were successfully implemented. The usual indicators used to measure successful structural adjustment are measures of macroeconomic policy outcomes, such as competitive exchange rates, low inflation, and low external and internal imbalances. These findings are not as revealing as one might think at first sight for several reasons. First, SAPs have asked countries do much more than simply adjust a few macro variables so that they are not really a test of the way SAPs were implemented. Second, they do not clearly link macroeconomic policies undertaken as part of SAPs and macroeconomic outcomes measured.

typically negligible, non-existent, or not statistically significant (e.g. Mosley, Harrington, and Toye, 1995; Easterly, 2000 and the literature cited therein). There is an intense debate on whether this is due to insufficient implementation (e.g. World Bank, 1994; Mosley, Harrington, and Toye, 1995; Christiaensen, Demery, and Paternostro, 2001), external factors (e.g. World Bank, 1994, Collier and Gunning, 1997; World Bank, 2000c), or inappropriate policies included in the SAPs (e.g. Mkandawire and Soludo, 1999; Cornia and Helleiner, 1995). Beyond this by now somewhat tedious (though obviously important) debate, however, some consensus appears to have been reached that combination of the three factors are at work. In particular, there is now little debate about the increasingly unfavorable external environment for primary producers (e.g. Mkandawire and Soludo, 1999; World Bank, 2000c), that there was less than full implementation in many countries particularly those that were opposed to some aspects of reforms and only partly implemented conditionalities in order to get continued funds (e.g. Mosley, Harrington, and Toye, 1995; World Bank, 2001b), and that some of the policies were insufficient, improperly sequenced, or too focused on short-term problems (e.g. Cornia and Helleiner, 1995; World Bank, 2000c). Some of this consensus will be highlighted below.

Regarding the impact of SAPs on poverty, the proponents of the programs predicted that SAPs should reduce poverty. This should happen first by restoring economic growth, and second, by shifting relative prices in favor of products and factors the poor disproportionately possess, particularly agriculture (World Bank, 1981). In the event, it turns out that SAPs have not generally delivered on higher growth (with some notable exceptions such as Ghana, Uganda, and Mozambique) and the distributional effect of SAPs appears to have been canceling each other out, with some poor winning (typically some rural poor, esp. those related to agricultural production for exports) and some poor (those in remote areas, the urban poor) losing (World Bank 1994, 2000c; Christiaensen, Demery, and Paternostro, 2001).

Easterly (2000) generates the interesting finding that while SAPs of the World Bank and IMF did not have an impact on poverty on average, they interacted negatively with growth. That is to say the elasticity of poverty with respect to growth was lowered by SAPs. If there was growth, SAPs reduced the positive impact of growth on poverty; if there was a contraction, SAPs reduced the negative impact of the contraction on poverty. He speculates that this is either due to the counter-cyclical nature of

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Third, they essentially only reproduce the well-known finding from the empirical growth literature that macroeconomic stability is good for growth and poverty reduction. Lastly, they beg the question of why some countries adjusted successfully but most did not. This last issue has been taken up in several interesting separate studies (World Bank, 2001b, Mosley, Harrington, and Toye, 1995).

adjustment lending or due to the fact the poor are least affected by the reallocation of economic resources that are associated with SAPs, both positively or negatively (Easterly, 2000).

Given the mixed to disappointing experiences of SAPs in Africa and the findings on pro-poor growth mentioned above, what light do they throw on the appropriate policies to achieve such pro-poor growth? The matrix below tries to summarize the findings and distinguish the areas where there is consensus from the areas where there is continued disagreement on policy measures that could lead to pro-poor growth

Beginning with macroeconomic issues, there is now a widespread consensus that macroeconomic stability is a prerequisite for pro-poor growth (e.g. Ames, et al. 2000; Mkandawire and Soludo, 1999; World Bank, 2000a). In particular, it has been found repeatedly that high inflation (particularly above a level of about 10%) hurts the poor (and economic growth), and that large budget and current account deficits will eventually lead to crises in which the poor will suffer disproportionately (e.g. Ames et al. 2000, Ravallion and Datt, 2000, World Bank, 2000a).

There is also some consensus on how to achieve such stability, although here there are a number of remaining disagreements. In particular, there is consensus that monetary and exchange rate policy must be coordinated to ensure low inflation. Regarding exchange rate policy, there appears to be a consensus that governments should avoid an overvalued real exchange rate at all cost as it will destroy efforts to boost exports, generate a balance of payment crisis in time, and is typically anti-poor as the rich have a much higher propensity to import. While the World Bank tends to suggest a 'competitive' exchange rate, some argue that governments should manage capital flows to generate an undervalued exchange rate to provide incentives to export and to build up cushions against inevitable external shocks (e.g. World Bank, 2000c, Herr and Priewe, 2000a, Ames et al., 2000). This was the policy stance that supported export-led growth in many of East Asia's economies and is well worth emulating (World Bank, 1994; Rodrik, 1995).

There is continuing debate about the nature of the exchange rate regime. While some still argue for fixed exchange rates and the use of the exchange rate as a nominal anchor (e.g. Herr and Priewe, 2000), the experiences of the last decades have shown that fixed exchange rate regimes have much greater difficulties in coping with external shocks (World Bank, 1994), and are prone to speculative attacks unless they are backed by a currency board (which creates their own problems as the current crisis in Argentina demonstrates). At the same time, full flexibility is also not desirable given the large volatility that may happen as a result but a managed flexibility that has characterized the exchange rate policy of

South Africa in the past few years might be just about the right approach.<sup>19</sup> Such managed flexibility becomes much easier if one is aiming for an undervalued exchange rate. Keeping the exchange rate undervalued requires careful management of capital inflows, particularly short-term ones, and the type of policies that Chile is using to manage such flows might be advisable.

Regarding fiscal policy, the consensus is that governments should aim for low budget deficits as only those will support macroeconomic stability and avoid disruptions and distortions to financial markets. There remain considerable disagreements, however, on the precise mix between tax increases and expenditure cuts, on the extent of fiscal tightening during crises, and on what size of budget deficits are 'low enough'. Here it appears, however, that the views of the IFIs have shifted quite a bit from a traditional focus on quick and radical tightening via expenditure cuts in response to a crisis somewhat in the direction of the proponents of alternatives to adjustment policies which call for a more gradual approach that emphasizes the broadening of the tax base and some greater toleration of short-term deficits during stabilization rather than quick and deep expenditure cuts. This way, the deep contractions that have typically characterized the IFI response to crises might be mitigated (Cornia and Helleiner, 1995; Mkandawire and Soludo, 1999; World Bank, 2000c, Ames et al. 2000, Bevan and Adam, 2001). More work is needed to determine what are the options for the return to a balanced fiscal policy in response to a crisis that reduces the danger of severe contractions or recessionary spirals.

Once stabilization has been achieved, the room for maneuver is increased and emphasis should be placed on returning to levels of public expenditures that are required to provide the essential human capital and infrastructure for sustained economic growth (Cornia and Helleiner, 1995; Bevan and Adam, 2001). To what extent this room for maneuver should be further enhanced via further revenue measures or used via increased spending remains a subject of disagreement and needs to be explored.<sup>20</sup>

At the same time, there appears to be a broad consensus that governments cannot allow large and highly unprofitable state enterprises to continually deplete state coffers and thus divert resources from priority investments. The appropriate mix of restructuring, private sector participation, and outright privatization as a way to address this problem, remains controversial.

Liberalized capital accounts and domestic financial markets used to be a key ingredient of SAPs, but here opinion appears to have shifted considerably. Liberalized capital accounts have often led to

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<sup>19</sup> South Africa does not announce an exchange rate target but intervenes occasionally in the market to avoid sharp fluctuations. As a result, South Africa largely escaped the turmoil in the wake of East Asia's crisis. If it combined this policy with a Chilean model of managing capital flows to keep the exchange rate competitive, this might be even better.

<sup>20</sup> See Bevan and Adam (2001) for a careful discussion of these and related fiscal and budgetary issues.

capital flight or high volatility in capital flows particularly in countries where other macroeconomic imbalances persisted. Liberalized financial markets have not delivered higher savings or financial deepening as promised but have often lead to high spreads and high real interest rates (World Bank, 2000c). The new consensus that appears to be emerging is that the capital account should be liberated only gradually and only in an environment of overall macro stability. Financial liberalization should also come after some of reforms (notably reduced budget deficits to reduce the public's demand on funds in the domestic capital markets) and include pro-active measures to improve access of the poor to financial services (through commercial and non-commercial micro credit institutions, World Bank, 2000c), measures to foster competition and better regulation.

Turning to trade policy, also here a new consensus appears to be emerging. In traditional SAPs, trade liberalization, which particularly meant the sharp reduction of import tariffs, the abolition of quotas, and the abolition of export taxes and marketing boards, was a centerpiece of reform efforts. Recent policy documents suggest that the emphasis on rapid import liberalization threatened to undermine what little industrial capacity existed without giving enough impetus to the development of new export sectors (Mkandawire and Soludo, 1999). Also, such liberalization has hurt the poor in some countries and created fiscal problems in others (World Bank, 2000a). Recent World Bank documents now seem to focus more on removing an anti-export bias rather than focus on import liberalization.<sup>21</sup> This surely will involve removing some of the most egregious distortions in tariffs and quotas, the abolition of export taxes and the reform or abolition of state marketing boards, but does not require outright across-the-board import liberalization. Instead, duty draw-back schemes for exporters and a competitive exchange rate are emphasized (World Bank, 2000c). The remaining disagreement is over pro-active policies to promote exporters (such as export subsidies, preferential allocation of credit, etc.) which were a standard tool of export promotion in East Asian countries (Cornia and Helleiner, 1995; World Bank, 1994; Mkandawire and Soludo, 1999, Rodrik, 1995). But the renewed emphasis on infrastructure, human capital, technology, and perceived risks also supports the idea that simply providing the right prices does not generate a vibrant export sector (Mkandawire and Soludo, 1999; World Bank, 2000c). Clearly, there is a role for governments to play to provide the necessary support (infrastructure, credit, technology support, and possibly outright subsidies) for nascent exporters

Similarly, providing sufficient price incentives does not allow domestic industries to recapture domestic markets in those sectors where competencies should exist in many of the larger African

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<sup>21</sup> The practise of trade policy reforms in many countries does not (yet?) seem to bear out this shift in emphasis.

countries or regional groupings (such as light manufacturing, textiles, food processing, etc). Providing sufficient incentives above and beyond undistorted prices (through some time-limited tariff protection and support with infrastructure, finance, etc) and generating regional free trade areas that would allow sufficient market size for such industries remain important areas of discussion that need to be explored further.

Related to trade policy, there are continuing debates about the role of industrial policy in promoting growth. While the recent consensus would appear to suggest that a neutral policy stance is not enough, particularly in the Africa context, where many structural bottlenecks exist, and that diversification is a vital necessity in the face of falling and volatile terms of trade of primary products, some concentrate mainly on improving infrastructure, information, and financial systems, while others call for a more pro-active industrial policy of the types used in East Asia (Mkandawire and Soludo, 1999; World Bank, 2000c). While the desirability of such pro-active industrial policy is more accepted than previously, there remain doubts about the ability of many African governments to provide such support effectively (Lindauer and Roemer, 1994, see also below).

None of the documents that address the issues of industrial policy say much on the use of industrial policy to promote regional industrial development in areas where poverty is concentrated. Given the large regional disparities in poverty, this is another crucial area of policy research where more direction is needed.

Given the renewed emphasis on diversification of the economy, there is a corresponding new appreciation of the indigenous private sector and the large informal economy that will be critical in achieving such a transformation. Both were viewed with great suspicion in the era of state-led development and both sectors suffered as a consequence (Mkandawire and Soludo, 1999). SAPs have often improved the conditions for private enterprise but have not typically had a particular emphasis on indigenous enterprise and the informal economy. Increasingly it is recognized that the indigenous private sector and the informal economy play a vital role in pro poor growth as they are typically highly employment intensive, are less footloose than foreign enterprises, and are a critical ingredient of civil society that has been recognized as vital for pro poor growth and better governance. As a result, there is renewed emphasis on improving the conditions under which indigenous companies operate, address problems of finance, capacity, regulation, and take their views, complaints, and constraints more seriously than in the past (e.g. World Bank, 2000c; Mkandawire and Soludo, 1999). In addition, there

are calls for a much improved dialogue and (possibly state-led or facilitated) coordination of private sector activities (Mkandawire and Soludo, 1999).

There is also much more agreement on budgetary policies than before. In particular, there appears to be a consensus that expenditure-switching, esp. in health and education, needs to focus scarce public funds more on the poor to increase their access to these vital assets (World Bank, 2000a, b, c; Bevan and Adam, 2001). Although there has been some progress, much more needs to be done and this is a major focus of current PRSP processes. Instead of the earlier calls for user fees for health and education to mobilize resources, the new policy emphasis is on lowering barriers to participation for the poor which clearly goes against raising user fees, particularly for primary health care or education (World Bank, 2000a). At the same time, the full implication of these policies has not been spelt out. Should user fees in primary education be lifted for everyone or just the poor? What about secondary education? How to finance tertiary education? Where should the funds for such measures come from? Thus the policy direction appears to be clear, but the implications need to be considered more carefully and hopefully will be clarified in the on-going PRSP discussions.<sup>22</sup>

I already noted the continuing disagreements over land reform, esp. the role of market-based or confiscatory land reform. What is interesting is that land reform is firmly back on the agenda of development policy, particularly in the context of pro-poor growth. The question of land redistribution is particularly critical in some African countries (esp. Zimbabwe, South Africa, and Kenya), while in most other African countries land inequalities are not so large (Deininger and Squire, 1998). Here the most important issues are improving and strengthening use rights (and removing inequalities, particularly gender inequities in them) and improving agricultural productivity. In this area, there is a clear consensus that past policies failed as they did not provide sufficient incentives and were biased against agriculture. SAPs have attempted to alter the incentives and have had some success in doing so. But it is now recognized that sometimes a change in macro incentives does not filter to the individual farmers, or that the right incentives are not sufficient for a dynamic agricultural sector. Instead, more public investment in agricultural, including research, extension, rural infrastructure, irrigation, rural credit is needed to improve productivity in this critical sector. There is also consensus on the burden of agricultural protectionism in the North on agricultural performance in developing countries (World Bank, 2000c).

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<sup>22</sup> It is laudable that the recent World Bank book on gender did provide a calculation of the costs to ensure that all gender bias in education is removed. See World Bank 2001a for details.

There is also a clear consensus that government policies need to target inequality as such, with a particular emphasis on ensuring that the poor have better access to vital economic assets such as land, human capital (education and health), finance, and natural capital (World Bank, 2000a, b, c). This question is also firmly on the agenda of the PRSP discussions in many countries. Thus there is renewed emphasis on land reform, on state policies that reorient state policies to target the poor. I have already commented on the rather limited role envisaged for land reform in many policy documents. Moreover, there remain disagreements over policies that are entirely focused on the poor and policies that attempt to reduce inequality more generally. While there is considerable overlap in both approaches, there are also some differences. Particularly, the role of redistributive policies among the non-poor (e.g. from the rich to the middle class) remain outside a pure poverty focus but are within the purview of a generalized concern over inequality.

I have already commented on policies to remove gender inequality. Here also there appear to be relatively few disagreements, although it is not altogether clear which policies should be prioritized or are affordable for governments. Regarding regional inequality, I have also mentioned the lack of agreement on activist policies to remove regional inequality beyond the targeting of safety net programs to poor regions. While efforts of fiscal equalization and decentralization try to address these issues, they remain largely focused on fiscal issues. Devising policies that promote economic activities in backward regions is a critical policy issue that needs much more attention than it currently gets.

Beyond a concern for increasing average incomes and reducing poverty, there is a greater appreciation for a need to enhance the security for the population if one is to ensure sustainable pro poor growth. The security of the poor is threatened by physical threats such as accidents and violence, by the volatility of macroeconomic conditions, by the varying inevitable hardships of the life cycle, by volatility of the weather and prices, and by volatility of personal and social relations. As a result, the poor are forced to avoid risks that may carry high rewards, can get trapped in cycles of poverty and insecurity, and are regularly pummeled by shocks that militate against sustainable reductions in poverty (e.g. World Bank, 2000a, Ray, 1998). Reducing the source of these instability, the vulnerability of the poor to such shocks, as well as increasing the resilience of the poor to deal with them have become important new themes in the pro poor agenda. These concerns have led to an increased appreciation of public safety nets, disaster relief, public works, and targeted transfers as policies that not only enhance welfare but can also enhance economic productivity (World Bank, 2000a).

There appears to be a clear consensus emerging on the role of aid in these reforms to deliver pro-poor growth. First, rich countries must open their economies more to exports from poor countries, particularly in the agricultural field. Second, debt relief is critical to improve macro stability, reduce the drain on scarce resources, and allow investments in priority sectors such as health and education. Third, aid should be allocated to areas and countries where poverty is highest and the impact of aid on poverty is the largest. Fourth, countries should be determining their strategic priorities and aid should merely support rather than drive these processes. Fifth, the administration of aid should be channeled through government and make use of regular government accounting mechanisms to avoid the duplication of reporting, the Balkanization of the development budget, and the excessive claims on the time of top government officials (Tusiime-Mutebile, 2001).

Lastly, there appears to be a new view emerging on the role of the state in promoting pro poor growth. During the SAP era, the state was largely seen as a central part of the problem and the recommended solution was to shrink the size of the public service, divest from state enterprises, and sharply reduce state interventions in most aspects of the economy. More recently, the state was seen as corrupt, clientelist, and an obstacle to good governance (Mkandawire and Soludo, 1999, Engelbert 2000). While many of the past problems of the state in many African countries have not gone away and some may be deep-rooted and related to the colonial legacy (e.g. Engelbert, 2000), the new consensus appears to suggest that attempts to shrink the state have created serious new problems, including a weakening state capacity, a demoralized civil service more prone to poor governance which appears to hurt the poor the most (World Bank, 2000b), and a private sector that is able to take advantage of weak state capacity in economic affairs (Mkandawire and Soludo, 1999; World Bank, 1997, 2000b). Moreover, poor supply responses of policies to improve incentives in agriculture, in the trade regime, and in industry has renewed the call for state intervention to overcome the myriad of market failures, provide vital infrastructure, improve the ability of the poor to manage risk and uncertainty, and create the necessary human capital (World Bank, 2000b, Mkandawire and Soludo, 1999; Collier and Gunning, 1999).

Given these results and the urgent need for a strong and functioning state to implement the pro-poor agenda, there is a renewed emphasis on strengthening state capacity and on expanding its role in selected aspects of the economy. In addition, there is a new focus on improving governance by strengthening the state's democratic accountability, and the role of civil society in monitoring governance and state performance, the importance of transparent meritocratic hiring and promotion policies, and

competitive salaries. Beyond this consensus, there remain disagreements to the extent of state intervention given current capacity. While there is agreement that, unlike much of state intervention in the past, the state should focus more on providing a facilitating, catalyzing, and regulating role of private sector activity rather than replacing or crowding out the private sector, some argue that particularly weak states in many poor countries should limit their involvement to the provision of the most essential public goods (World Bank, 1997). Others, however, call for a much expanded role and argue that otherwise the pro poor agenda cannot successfully be implemented (Mkandawire and Soludo, 1999). In particular, the role of state in industrial policy remains controversial, as does the appropriate role and extent of private sector participation in the provision of infrastructure. Moreover, not enough is known about the best ways to improve state capacity, esp. when starting from weak states with poor capacity. While much is made of the lessons of the role of the state in East Asia, it is not clear how one can move from the current situation in many countries in Africa to one prevailing in East Asia (Lindauer and Roemer, 1994).

This very short survey suggests that there clearly appears to be a new post-adjustment agenda for pro-poor growth. The disappointing experience with adjustment as well as a constructive debate among proponents and critics of adjustment have generated a new middle ground of policies that could foster pro poor growth. While this new consensus in many policy areas is very encouraging, it is not enough. First, there are remaining and sizable disagreements that have not yet been tackled. Second, recent policy documents have said too little about critical trade-offs between these policies. Which policies should receive priority in terms of legislative agendas and tight government budgets? Which policies are affordable within the tight resource envelope needed to ensure macro stability?<sup>23</sup> How to mobilize resources if the government budget is insufficient? What is the proper sequence of implementing this pro-poor policy framework? It would be ideal for governments to be able to focus on policies that have the largest marginal effect on Pro Poor Growth. Some policies have a large effect on growth and may not be particularly pro-poor; others do not have such a large effect on growth but are very pro-poor. The best policies (win-win) are those that have a large effect on both. But not enough is known which policies fall into what category. In addition, at times it is critical to implement a package of policies as individual policies alone may not be enough. Here more work is clearly needed as the current wish-list for pro poor growth is very long and some kind of sequencing, prioritizing, and packaging is critical. Lastly, there continue to be considerable differences between policy papers and actual operational work,

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<sup>23</sup> See Bevan and Adam (2001) for a discussion of these and related issues.

particularly in the World Bank and the IMF, where many elements of this new consensus is apparent in recent policy work, but has only slowly changed operational policies and procedures.

Table 1: Policies to Promote Pro-Poor Growth: Consensus and Remaining Debates

Policy Issue	Research Finding	Agreed Policy Implication	Areas of Debate
Macroeconomic Stability (see also individual areas of macro policy)	Macroeconomic stability critical necessary (though not sufficient) condition for pro poor growth; poor hurt particularly by high inflation high macro volatility.	Monetary and exchange rate policy Should aim for low inflation and Competitive exchange rates; fiscal policy should aim for low budget deficits; financial policies should promote savings and investment	Role of exchange rate policy to fight inflation; role of financial sector deregulation; how to promote domestic savings
Monetary and Exchange Rate Policy	Overvalued exchange rates and high black market premia hurt economic growth and tend to be anti-poor	A competitive and possibly undervalued exchange rate a critical ingredient to ensure macro stability; government intervention necessary to manage capital flows:	Fixed or floating rates? Role of capital controls?
Fiscal Stance	Large budget deficits hurt growth and are unsustainable	Governments should aim for moderate budget deficits through broadening of the tax base and, if necessary, a focusing of expenditures (esp. cuts in subsidies to state-owned enterprises and unproductive sectors. During crises not feasible or desirable to cut expenditures fast.	Mix of tax increases, tax broadening, and expenditure cuts.
Financial Sector	Poorly sequenced financial sector reforms can be counter-productive and destabilizing.	Capital account and financial sector reform should be phased slowly, be implemented only if macro stability has been achieved, and be accompanied by tight regulation, competition policies, and policies to improve access of the poor.	State allocation of credit to priority sectors? Other policies to mobilize savings?
Trade Policy	Anti-export bias hurts growth and the poor; import liberalization can be anti-poor and not sufficient to generate supply response. Diversification essential for long-term growth.	Focus on removal of anti-export bias (competitive exchange rate, duty draw-back schemes, etc); provision of infrastructure to assist exports, esp. for export diversification.	More activist state intervention to boost non-traditional exports (e.g. export subsidies)?
Industrial Policy	Removal of distortions necessary but not sufficient for vibrant industrial sector	Focus on providing infrastructure and services to industrial sector	Activist industrial policy?
Human Capital	Human Capital is essential for overall growth and low disparity in human capital increases growth and increases the poverty impact of growth	Increased investment in education and health, particularly basic education and primary health care; greater focus on qual reallocation of spending to the poor and use of subsidies and other measures (lifting of user fees) to promote education and health of the poor.	How much new funding (from where?), how much reallocation from higher education without destroying quality in secondary and tertiary education systems?
Land Inequality	Large land inequality reduces economic growth	Removal of subsidies to large landowners land taxes to increase land for sale; land redistribution necessary.	Market- and subsidy-based land reform versus quick one-off (partly) confiscatory land reform
Agriculture	Raising agricultural Productivity critical for pro poor growth. Removal of distortions necessary but not sufficient in the presence of other market failures. Protect and subsidies in North hurt p in South	Renewed emphasis on agricultural research and extension, rural infrastructure, and competitive marketing and input supplies. Open access to OECD markets and removal of OECD subsidies critical.	How to stimulate non-traditional agricultural expo Role of Subsistence production for poverty?

Gender Inequality	Gender inequality reduced growth and makes growth less pro poor.	More supply of education for girls plus targeted subsidies to boost enrollments; removal of restrictions on female control of other assets; affirmative action policies; political empowerment of women.	How to fund expansion of female education?
Regional Inequality	Regional inequality can sharply reduce impact of growth on poverty; possibility of regional poverty traps..	Targeting of state transfer programs and safety nets on regions with high poverty concentration; Regional inequality to be considered in programs of decentralization and fiscal equalization	How to promote economic growth in backward Regions? The role of regionally targeted Industrial policy?
Security	Physical and social security essential for pro poor growth	Safety nets and greater physical security essential measures to promote pro poor growth	Public and private roles in safety net? How Extensive? How funded?
Donor Policies	Donors can assist with pro poor growth when aid and advice is focused on poorest countries and those with highest poverty impact of policies.	Aid should be focused on poorest countries that promote pro poor growth, should flow through budget and be accounted for using national processes, observe country leadership.	What to do in poor Countries with poor Policies? Interactions Between donors and civil society?
Public Sector	Able and functioning state essential for delivering policy package for pro poor growth	Public sector reform focused on improving management and capacity of public service. Strengthen public accountability.	Role of the state where state capacity is weak? How to strengthen capacity effectively?
Private Sector	Indigenous private sector crucial for employment growth and dynamic economy.	State assistance with capacity-building, finance (esp. microfinance), dialogue between state and domestic private sector.	Role of national vs. Multinational companies?
Political Economy of Reform	Domestic political economy crucial for success. Pro-poor coalitions necessary to implement package	Dialogue to replace donor conditionality. Empowerment of poor and local analytical and research capacity critical for implementation.	Role of financial aid and conditionality under some circumstances? Empowerment from outside possible/desirable?

## 6. Conclusion

This short and necessarily cursory survey has tried to move the debate on pro poor growth forward by pointing, on the one hand, to the substantial body of knowledge and policy that appears to form part of the new policy agenda and, on the other hand, by highlighting the remaining substantial disagreements, unfinished agendas, and insufficient research in many aspects. The policy implication following from the discussion is to move forward on the substantial new consensus on policies while resolving the remaining disagreements and filling in the remaining substantial gaps in this new approach.

So far, this policy discussion has been largely from a technocratic point of view. It tried to focus on the critical constituent elements of a strategy to promote pro poor growth, ignoring for a moment the political economy of such policy reforms. One of the important outcomes of the debates about structural adjustment has been, however, that one can only ignore these political economy constraints at one's peril. For example, an interesting new review of the political economy of aid and reform in

Africa (World Bank, 2001b) suggests that, despite conditionalities by donors, the success of economic reforms in African countries depended largely on domestic political considerations (see also World Bank, 1994; Mosley, Harrington, and Teye, 1995). In particular, successful reform was particularly likely in countries that faced severe economic crises with little economic options. These countries built up a consensus for change prior to reforms, had substantial indigenous technical capacity at their disposal, and used aid and technical advice to sustain the reforms. Donors were able to aid successful reformers although donor aid sometimes also delayed reforms in other countries or reduced the ownership of reforms through excessive conditionalities.

Moreover, policies to promote pro poor growth will inevitably depend on the strength of what the World Bank calls 'pro-poor coalitions' (World Bank, 2000a). It is likely to be more difficult to promote pro poor growth in countries where there is high inequality and the poor are politically and economically marginalized. As a result, success in implementing pro poor policies will depend greatly on the creation and strengthening of such 'pro-poor coalitions' which can involve parts of governments, NGOs, donors, and civil society. A free press, democratic institutions, and accountable governments will clearly help in strengthening such coalitions, particularly in countries where the poor are the majority.

Thus one should view the agenda for pro-poor growth as much as a process as a set of policy rules as success will ultimately depend on the domestic political economy of individual countries. In that sense, the PRSP process, which is also largely a process-oriented approach to policy-making but makes (at least in theory) high demands on inclusiveness and country leadership, might be precisely the vehicle for moving forward the pro poor agenda as it has been outlined above.

While the PRSP process thus offers the opportunity to advance the pro-poor agenda within the domestic political economy of each country, there are a number of potential pitfalls. First, the poor are, by virtue of their poverty, typically poorly organized and it will be unclear who will champion their cause in the PRSP process, particularly against the possible resistance of more organized groups. Thus even adequate representation and input from civil society will not necessarily strengthen pro-poor coalitions. Second, the PRSP process appears to date to have been focussed mainly on the budget and particularly expenditure issues. While these are clearly important questions, this survey has suggested, a pro-poor agenda must consider the entire range of economic policies with impacts on the poor and thus become centrally involved in macro, sectoral, and regional policy issues.



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