



DETERMINANTS OF PRO-POOR GROWTH

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With 2015 only eight years away, it is becoming clear that many countries in the developing world will not be able to meet the first Millennium Development Goal (MDG1) of halving absolute poverty. In fact, many countries in Sub-Saharan Africa and several in Asia and Latin America are seriously off track for meeting that goal. In a large number of cases, this is related to poor growth performance that has made it difficult to reduce absolute poverty. In addition, in most of these countries, the growth they have been experiencing has had little impact on poverty. Moreover, rising inequality in many developing countries is further mitigating the impact of growth on poverty. Even in countries that are projected to meet MDG1 as a result of high growth (like China and India), rising inequality has sharply reduced the poverty impact of that growth, so that poverty is falling at unacceptably low rates. Given this situation, it is clearly insufficient to simply focus research and policy on the determinants of overall economic growth. Instead, it is critical to examine the determinants of pro-poor growth—that is, growth that has a particularly large impact on reducing poverty. This policy brief summarizes what is currently known about the definition, measurement, and determinants of such pro-poor growth, primarily drawing on results from a recently completed multidonor research program called Operationalizing Pro-Poor Growth, which was coordinated by the World Bank.

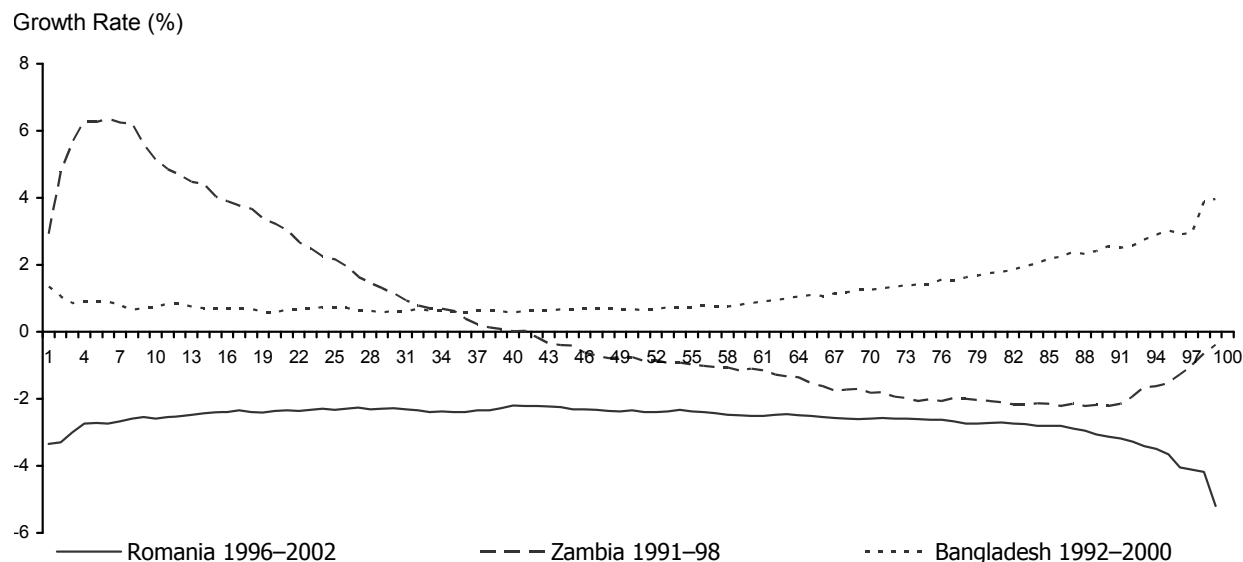
Defining and Measuring Pro-Poor Growth

There is a vibrant debate on different ways to conceptualize pro-poor growth. For some observers, growth is pro-poor if it leads to any reduction in poverty; for others, it is pro-poor only if it leads to a disproportionate increase in the incomes of the poor—that is, if it is associated with declining inequality. Although each of these views has merits, from a policy perspective, it is particularly useful to define *pro-poor growth* as growth that maximizes the income gains of the poor and thus accelerates progress toward meeting MDG1. Achieving high overall income growth can be one important way of achieving high income growth for the poor, but only

if the poor are able to share in this growth. But even in such situations, the income growth of the poor will be higher if that growth is accompanied by pro-poor distributional change—in other words, a reduction in inequality. Such reductions in inequality immediately raise the incomes of the poor, and they have also been found to permanently increase the poverty impact of future growth and to help promote overall income growth in many circumstances. Thus, not only high and broad-based growth, but also pro-poor distributional change can be a powerful driver of pro-poor growth.

The growth incidence curve proposed by Ravallion and Chen is a particularly useful tool for tracking progress on pro-poor growth. They plot the growth rates of percentiles of the income distribution, which are lined up on the x-axis from poorest to richest. Figure 1 gives three examples—Bangladesh, Romania, and Zambia—from the Operationalizing Pro-Poor Growth case studies. Growth incidence curves (GICs) that are upward sloping suggest that the rich have benefited more from growth, as is the case for Bangladesh from 1992 to 2000. Downward-sloping GICs suggest that the poor have benefited disproportionately from growth, as is the case for Zambia from 1991 to 1998. In Romania (1996–2002), all groups suffered declining incomes, but the rich more so than the poor. One way to summarize the information contained in the GIC is the rate of pro-poor growth proposed by Ravallion and Chen, which is simply the average of the growth rates for the percentiles below the poverty line (or graphically, the area under the GIC up until the poverty line in the first period). In the three examples shown, the difference between growth and pro-poor growth becomes apparent. In Bangladesh, overall annual per capita growth was 1.8 percent, but the anti-poor nature of that growth meant that the rate of pro-poor growth was only 0.7 percent. Conversely, in Zambia, overall per capita growth was negative (–1 percent), but pro-poor distributional change meant that the rate of pro-poor growth, at 1.1 percent, was actually higher than in Bangladesh.

Figure 1—Selected Growth Incidence Curves



Determinants of Pro-Poor Growth

As the discussion so far has suggested, high rates of pro-poor growth can be achieved by generating high overall growth from which the poor benefit, by achieving pro-poor distributional change, or both. There is a large amount of literature examining the determinants of overall economic growth. The World Bank Growth Commission is currently distilling the most important policy messages from this literature. This brief focuses instead on the determinants of the distributional pattern of economic growth—that is, the difference between growth and pro-poor growth. Many of the determinants of pro-poor growth depend on country conditions, just as they do for growth. Thus, it is not easy to generalize policy messages that apply to all settings. Instead, pro-poor growth analysis should be seen as a toolbox for studying the country-specific determinants of growth and distributional change and for deriving country-specific policy conclusions. One important outcome of the Operationalizing Pro-Poor Growth project has been the development and application of such an analytical toolbox.

Nonetheless, the cross-country analyses and country studies have generated some important policy messages that appear to be relevant beyond the specific country context. At the most general level, pro-poor growth will require growth that is focused on sectors where poor people are active (or could become active), on regions where poor people live (or could move to), and using production factors that poor people possess. In most poor developing countries, meeting these requirements will typically call for growth that includes the agricultural sector, that reaches rural areas and remote regions, and that is labor intensive. To the extent that poor people are able to diversify into nonfarm sectors or move to more dynamic regions, and to the extent that doing so would demonstrably enhance their

incomes, the development of such sectors and regions could also support pro-poor growth, although the benefits are likely to be smaller and more indirect and occur with a time lag. Finally, pro-poor growth could be achieved through ex post pro-poor redistribution of the benefits from growth through the tax and transfer system. Although this approach is possible in principle and is a significant factor affecting pro-poor growth in developed countries, the ability of the tax and transfer systems in developing countries to achieve such ex post redistribution is much more limited and cannot generally be relied on to produce pro-poor outcomes.

From these general principles, several more-specific determinants of pro-poor growth have been derived, which are discussed below.

Improved Productivity in the Food Crop Sector

Productivity improvements in agriculture are a key determinant of pro-poor growth, particularly in countries where the poor are predominantly rural. Such productivity improvements require research and extension into better seeds and inputs, improved rural infrastructure, and improved access to credit. Although investments in cash crops can play a significant role in promoting pro-poor growth in some settings, productivity improvements in food crops are a more powerful driver of pro-poor growth, as the examples of China (particularly between 1978 and 1985) and Indonesia show. Conversely, the experience of China since the mid-1980s demonstrates that even very high growth can lead to little further poverty reduction when that growth largely bypasses the agricultural sector. Similarly, the failure to achieve sustainable pro-poor growth in many African countries is closely related to the inability to generate lasting productivity improvements in the food crop sector.

Reduced Regional Inequality

Improving the growth potential of lagging and remote regions is a second critical ingredient of a pro-poor growth agenda. Much of the observed increase in inequality in developing countries is due to rising regional inequality. Brazil, China, Ghana, India, and Vietnam are good examples in this regard. Such rising regional inequality increasingly undermines the ability of growth to have an impact on poverty. As a result, great attention must be placed on promoting growth in lagging regions. Among the policies to be pursued with greater vigor are infrastructure policies favoring lagging regions, targeted public investment programs and support for private investments there, support for migration and remittances, pro-poor fiscal decentralization measures that increase local public resources in poor regions, and specific safety nets such as conditional cash transfer programs focused on lagging regions. Ensuring success in this area is going to be one of the greatest challenges for pro-poor growth policies.

Improved Asset Base for the Poor

Improving the asset base of the poor is another critical element in promoting pro-poor growth. In many countries, the most important asset base is the human capital of the poor. Developing countries have made considerable progress in expanding educational opportunities, but the poor are still lagging behind in terms of access to high-quality schooling, particularly beyond the primary level. Improving school quality and increasing the enrollment and retention of the poor can play important roles here. The positive educational impacts of conditional cash transfer programs are particularly relevant and worth emulating as ways to improve the educational opportunities of the poor and to reduce income inequality. It is also important to monitor the distributional pattern of educational achievements and investments more carefully than has been done to date. One way to do this is to generate growth incidence curves for education to examine the distributional impact of schooling investments.

In countries where the poor in rural areas are landless or near landless, improving the asset base of the poor will also require greater access to land. Here speedy and effective land reform must be on the pro-poor growth agenda. Although market-based land reforms that support the poor in purchasing land on a willing buyer-willing seller basis can be part of a land reform strategy in countries such as Colombia or South Africa, this approach is usually insufficient to effect large-scale land redistribution where it is urgently required. In these cases, progressive land taxation might be an important tool to increase the available land for sale, and partly confiscatory land reform might be required, as was the case in many East Asian countries in the 1940s and 1950s.

Reduced Gender Inequality

In many countries, promoting pro-poor growth has an important gender dimension. Particularly in South Asia and Sub-Saharan Africa, pro-poor growth is undermined by high gender inequality in education, access to resources at the farm level, and nonfarm employment. There is overwhelming evidence now that these inequalities not only hurt the females affected, but also reduce overall economic growth and thus poverty reduction. Conversely, investing in female education and employment has enabled countries to draw on their entire pool of talent for production and growth (rather than restricting the pool to males). It has also had indirect benefits for economic growth by, for instance, lowering fertility and population growth rates and improving the health and education of the next generation. The East Asian countries, for example, invested heavily in female education in the 1950s and 1960s and are now reaping the benefits in terms of female-intensive, export-oriented growth strategies and a rapid demographic transition with drastically lowered dependency rates. The examples of Bangladesh, Botswana, and Tunisia in the 1990s show that such progress is also possible in South Asian and African settings. Interestingly, the impact of improved gender equity on pro-poor growth is related more to improving overall economic growth than to achieving pro-poor distributional change.

Reduced Inequality for Disadvantaged Groups

In some country contexts, promoting pro-poor growth will have to focus on other particularly disadvantaged groups. Often these groups are indigenous populations in Latin America, lower caste and tribal groups in South Asia, and ethnic minorities in East and Southeast Asia. Many of these groups suffer from multiple disadvantages, including a poor asset base, a remote location, a history of poverty, and ongoing discrimination. A pro-poor policy agenda in these countries will require an end to discrimination in education, labor, and credit markets and targeted initiatives to promote education and access to resources for these disadvantaged groups. Here the example of Malaysia's policies of affirmative action has demonstrated the capacity to reduce historic inequalities without compromising high economic growth.

Political Commitment to Pro-Poor Policies

The promotion of pro-poor policies depends to a significant extent on political economy issues. The case studies on pro-poor growth reveal that a strong commitment of the political leadership to equity and poverty reduction is critical to implementing a consistent pro-poor policy agenda. Indonesia is a good example of how strong government commitment to poverty reduction and rural development over several decades was critical for the success of its pro-poor growth policies. Although

an open society with a tradition of public debates can do much to promote a pro-poor agenda, as has been the case in India (which recently introduced a national employment guarantee scheme, for example), the mere presence of regular elections does not necessarily ensure a pro-poor policy focus.

A Strong State

Finally, the research program on pro-poor growth showed that a strong state is needed to implement a pro-poor policy agenda. Although economic reforms and liberalization can play an important role in improving the incentives of the poor, these changes are usually insufficient in the face of market imperfections, poor infrastructure, poor endowments, and little access to productive inputs and credit. In these contexts, the improved border or capital city prices will not be transmitted to the farm gate, or farmers will lack the capital and technology to react to these improved opportunities. A strong state can effectively implement proactive policies to improve the productivity of the poor and increase their access to markets and productive inputs and credit. Thus a policy agenda for pro-poor growth must consider policies that were frowned on and dropped in the reform era of the 1980s and 1990s, such as state support for exporters, input subsidies, directed credit, regional and industrial policies, price regulation of goods produced or consumed by the poor, land reform, and redistributive taxation. Many of the East and Southeast Asian success stories of pro-poor growth (including early reform-era China, as well as Indonesia, Korea, and Malaysia) used some or all of these measures to successfully promote growth and improve its distributional pattern. To be sure, in many other countries, similar policies were poorly implemented, were fiscally unsustainable, created new distortions, or were captured by narrow interest groups. A pro-poor growth agenda suggests that it is critical to learn from the successes and failures of such past interventionist policies and redesign future policies and their institutional setups accordingly.

Concluding Remarks

Economic growth in developing countries has recently accelerated across the board. Not only have high-growth economies such as China, India, and Vietnam been able to maintain their spectacular growth performance, but also growth has picked up in many parts of Africa, Latin America, and across Asia. From a pro-poor growth perspective, these generally positive trends carry two risks. First, much of the improvement in economic performance, particularly in Africa and parts of Latin America, are closely related to a boom in commodity prices that may be short lived or may lead to distortions in the economies and political systems of these countries. If and when the current commodity boom comes to an end, these distortions threaten to undermine the long-term growth potential of these countries. Second, in many countries, the high growth of the past 10 to 15 years has been accompanied by rising inequality, which slows the poverty impact of that growth. The pro-poor growth research has shown that this rise in inequality was not inevitable. In fact, a focus on the pro-poor policy agenda outlined here could ensure that growth is shared broadly among the population or, ideally, is accompanied by pro-poor distributional change. The experiences of Indonesia, Korea, Malaysia, and Taiwan also show that growth with equity is possible over long periods.

For Further Reading: T. Besley and L. Cord, eds., *Delivering on the Promise of Pro-Poor Growth* (London: Palgrave Macmillan, 2006); M. Grimm, S. Klasen, and A. McKay, eds., *Determinants of Pro-Poor Growth: Analytical Issues and Findings from Country Cases* (London: Palgrave Macmillan, 2007); S. Klasen, "In Search of the Holy Grail: How to Achieve Pro-Poor Growth?" in *Toward Pro Poor Policies*, B. Tungodden, N. Stern, and I. Kolstad, eds. (New York: Oxford University Press, 2004); S. Klasen, "Gender and Pro-Poor Growth," in *Pro-Poor Growth: Policies and Evidence*, L. Menkhoff, ed. (Berlin: Duncker and Humblot, 2006); S. Klasen, "Economic Growth and Poverty Reduction," *World Development* (forthcoming); Organisation for Economic Co-operation and Development, *Promoting Pro-Poor Growth* (Paris, 2006); M. Ravallion and S. Chen, "Measuring Pro-Poor Growth," *Economics Letters* (Vol. 78, No. 1, 2003).

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