



DEVELOPMENT CO-OPERATION DIRECTORATE  
DEVELOPMENT ASSISTANCE COMMITTEE

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PRO-POOR GROWTH - POLICY STATEMENT AND ISSUES FOR DISCUSSION

DAC High Level Meeting, 4-5 April 2006

*The present phase of work of the DAC Network on Poverty Reduction has focused on the relationship between economic growth and poverty reduction. The DAC approved the results of this work on 15 March, including its policy guidance to donors on promoting pro-poor growth, and its companion reports on private sector development, agriculture, infrastructure and poverty impact assessment.*

*HLM participants are invited to "welcome and endorse" the policy statement based on this work, set out in Annex 1, and to discuss the operational issues set out in paragraph 4.*

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## PRO-POOR GROWTH – POLICY STATEMENT AND ISSUES FOR DISCUSSION

### I. Background

1. Building on the 2001 DAC Guidelines on Poverty Reduction, the DAC Network on Poverty Reduction (POVNET) was mandated in June 2003 to:

- Focus on the multidimensionality of poverty and on the relationship between inequality, economic growth and poverty reduction in developing countries.
- Provide a forum for the exchange of experience and best practice on pro-poor growth, i.e. involving the poor in generating growth and benefiting from growth and globalisation.
- Address, from this perspective, strategies and policies in areas such as infrastructure, agriculture, trade and investment capacity building, information and communication technology, the role of the private sector and public-private partnerships.
- Promote the pursuit of the Millennium Development Goals and a central role for broad-based growth and its determinants within the strategic framework of national Poverty Reduction Strategies.

2. In response to this mandate, POVNET has prepared guidance to donors on promoting pro-poor growth.<sup>1</sup> The policy statement developed from this phase of work is set out in Annex 1 to this note. POVNET has also produced reports on promoting the contribution of private sector development, agriculture and infrastructure to pro-poor growth.<sup>2</sup> Annex 2 of this note illustrates how a pro-poor lens on these areas requires agendas and associated policy responses to evolve. All of these work streams bring in the results of work on the cross-cutting themes of risk and vulnerability and poverty impact assessment.<sup>3</sup>

3. Three key messages from POVNET guidance to donors on promoting pro-poor growth (reproduced from Annex 1) are:

- Rapid and sustained poverty reduction requires pro-poor growth, i.e. a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth. Policies therefore need to promote both the pace of economic growth and its pattern, i.e. the extent to which the poor participate in growth as both agents and beneficiaries, as these are interlinked and both are critical for long term growth and sustained poverty reduction.
- Policies to tackle the multiple dimensions of poverty, including the cross-cutting dimensions of gender and environment, are mutually reinforcing and should go hand-in-hand. Progress in one dimension will be accelerated by progress in others. In tackling poverty, perceptions of policy dichotomies have been misplaced. Policy trade-offs do exist but can be better managed

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1. DCD/DAC(2006)22.

2. See respectively, DCD/DAC(2006)9, DCD/DAC(2006)23/REV1 and DCD/DAC(2006)1.

3. See DCD/DAC(2006)24 .

- Empowering the poor is essential for bringing about the policies and investments needed to promote pro-poor growth and address the multiple dimensions of poverty. To achieve this, the state and its policy-making processes need to be open, transparent and accountable to the interests of the poor. Policies and resources need to help expand the economic activities of the poor.

## **II. Issues for the HLM**

4. HLM participants are invited to welcome and endorse the attached policy statement, set out in Annex 1 below, and to discuss the following operational issues:

- Are DAC Members ready to scale up in the ways and areas proposed by POVNET's recommendations?
- What is required for DAC Members to strengthen the effectiveness of field level teams to promote pro-poor growth through PRS processes?

## ANNEX 1

### PRO-POOR GROWTH: POLICY STATEMENT

5. The 2001 DAC Guidelines on Poverty Reduction show that poverty has multiple and interlinked causes and dimensions: economic, human, political, socio-cultural, protective/security. This policy statement focuses on one dimension of that bigger picture – reducing economic poverty through pro-poor growth. In doing so, it looks at the relationship between the economic and other dimensions of poverty and how policies for pro-poor growth and other policy areas need to interact so that, collectively, they can make major and sustainable inroads into poverty reduction.

6. **Three key messages from this work are that:**

- Rapid and sustained poverty reduction requires pro-poor growth, i.e. a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth. Policies therefore need to promote both the pace of economic growth and its pattern, i.e. the extent to which the poor participate in growth as both agents and beneficiaries, as these are interlinked and both are critical for long term growth and sustained poverty reduction.
- Policies to tackle the multiple dimensions of poverty, including the cross-cutting dimensions of gender and environment, are mutually reinforcing and should go hand-in-hand. Progress in one dimension will be accelerated by progress in others. In tackling poverty, perceptions of policy dichotomies have been misplaced. Policy trade-offs do exist but can be better managed.
- Empowering the poor is essential for bringing about the policies and investments needed to promote pro-poor growth and address the multiple dimensions of poverty. To achieve this, the state and its policy-making processes need to be open, transparent and accountable to the interests of the poor. Policies and resources need to help expand the economic activities of the poor.

7. When implementing the policy guidance on how donors can support and facilitate pro-poor growth, they must bear in mind that the poor are not a homogenous group, that country contexts vary considerably, and that policy implementation must be based on a sound understanding of who the poor are and how they earn their livelihoods. Promoting pro-poor growth requires policy choices to be guided by assessments of their expected impact on the income and assets of the poor.

8. ***Rapid and sustained poverty reduction requires pro-poor growth, i.e. a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth.***

- i) **Both the pace and the pattern of growth are critical for long term and sustainable poverty reduction.** Economic growth is an essential requirement and, frequently, the major contributing factor in reducing economic poverty. For growth to be rapid and sustained, it should be broad-based across sectors and regions and inclusive of the large part of the work force that poor women and men make up. Pattern and pace are thus interlinked and need to be addressed together. Policies for sustaining growth such as those aiming at macroeconomic stability, institutional quality, democratic and effective governance and a favourable investment climate should promote the engagement of the poor in economic growth by increasing their incentives, opportunities and capabilities for employment and entrepreneurship.

- ii) **A pro-poor pattern of growth makes growth more effective in reducing poverty.** Developing countries with similar rates of economic growth have experienced quite different levels of economic poverty reduction, due to initial conditions and whether growth occurs in areas and sectors where the poor live and are economically active. Policies need to create the conditions and remove the obstacles to the participation of the poor in the growth process, e.g. by increasing access to land, labour and capital markets and by investing in basic social services, social protection and infrastructure. As the poor often depend heavily on natural resources for their livelihoods, policies to promote environmental sustainability should also be integral to promoting pro-poor growth.
  - iii) **Inequality matters.** Inequality of assets and opportunity hinders the ability of poor people to participate in and contribute to growth. High and rising levels of income inequality lower the poverty reduction impact of a given rate of growth and can reduce the political stability and social cohesion needed for sustainable growth. Gender is a particularly important dimension of inequality. Women face particular barriers concerning assets, access and participation in the growth process, with serious implications for the ability of growth to be pro-poor. The growth experience shows that rising inequality is not an inevitable consequence of the growth process, as long as there is a mix of policies that addresses both growth and distributional objectives, strengthens empowerment and deals with gender and other biases (e.g. race, caste, disability, religion).
  - iv) **The vulnerability of the poor to risk and the lack of social protection reduce the pace of growth and the extent to which it is pro-poor.** The poor often avoid higher risk opportunities with potentially higher payoffs because of their vulnerability. In addition, the journey out of poverty is not one way and many return to it because man-made and natural shocks erode the very assets that the poor need to escape poverty. Policies that tackle risk and vulnerability, through prevention, mitigation and coping strategies, improve both the pattern and pace of growth and can be a cost effective investment in pro-poor growth.
  - v) **Policies need to tackle the causes of market failure and improve market access.** Well functioning markets are important for pro-poor growth. Market failure hurts the poor disproportionately and the poor may be disadvantaged by the terms on which they participate in markets. Programmes are needed to ensure that markets that matter for their livelihoods work better for the poor. Such programmes need to be carefully designed to avoid replacing market failure with government failure. Policies to tackle market failure should be accompanied by measures aimed at increasing economic capabilities of the poor.
9. ***In tackling poverty, perceptions of policy dichotomies have been misplaced. Policy trade-offs do exist but can be better managed.***
- i) **Policies to tackle the multiple dimensions of poverty should go hand in hand.** Poverty is multidimensional. Pro-poor growth will be strengthened by progress on the non-economic dimensions of poverty. More effective policies require a better understanding of these interdependencies. Perceptions of dichotomies (e.g. economic versus social policies) can be misplaced. The pace and pattern of growth have multiple determinants and consequences and each dimension nourishes (or holds back) the other. Progress on the income poverty MDG facilitates progress on other MDGs and vice versa.
  - ii) **Policy trade-offs still exist, but can be better managed.** Policies which promote only one dimension of poverty reduction while undermining others should be avoided. Whenever possible, policies need to be complementary rather than compensatory. Sequencing of policies and investments can help manage trade-offs. Policy choices should be based on understanding the binding constraints through analysis of the growth, poverty and inequality experience and the results of poverty impact assessments. The ability of institutions to handle trade-offs is important for achieving pro-poor outcomes.

10. *For pro-poor growth policies to emerge, the poor need to be informed and empowered to participate in a policy making process that is accountable to their interests.*
  - i) **The poor need to participate in and influence the policy reform process that goes with poverty reduction strategies (PRs).** Approaches are needed to increase the voice and influence of poor women and men in order that policy making is evidence-based, rather than determined by narrow vested interests.
  - ii) **A well-functioning state is important for responding to the interests of the poor.** Effective pro-poor growth strategies need policy and institutional change for which the state, in all its dimensions, is made more accountable to the interests of the poor. The state needs to provide the opportunity for structured public-private dialogue at various levels, including with civil society and private sector actors who are frequently marginalised. The state needs to provide the required incentives, enabling environments and policy and planning frameworks to be more accountable to the voices of the poor.
  - iii) Pro-poor reform is likely to require changes to the current political settlement among the diverse interests of different segments of society. This entails a better understanding of the political economy, power relations and drivers of change, and supporting formal, transparent decision making, strengthening the demand for pro-poor change and building capacity of the state to respond to demand.
11. *For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient.*
  - i) **Donors should focus on supporting in-country policy processes.** Policies for pro-poor growth can only be achieved through country-level processes that are inclusive of the poor and based on country-level analyses. Donors should support the emergence and development of processes that are formal, transparent and take account of the interests of the poor, and conduct their policy dialogue through them. Donors should support measures to empower the poor in these policy processes and build the country-level capacity to undertake analyses, including poverty impact assessments.
  - ii) **Donor support needs to be flexible and responsive to country situations.** The type of support provided needs to take account of the level of development, the policy environment and the extent to which there is a well-functioning state. Donors need to adapt their approach to fragile and failed states and more research is required to inform this process.
  - iii) **A pro-poor lens on areas important for pro-poor growth, such as private sector development, agriculture, infrastructure and risk and vulnerability, requires a rethinking of donor agendas.** The importance of these areas for the pace and pattern of growth has been underestimated. New approaches to strengthen the contributions of private sector development, agriculture and infrastructure have been developed by the DAC. Work on risk and vulnerability/social protection/human security is ongoing.
  - iv) **Donors need to enhance their organisational capacities to effectively support country-led, pro-poor growth.** Donors need to provide appropriate support and incentives to field staff, build multi-donor and multidisciplinary teams at the field level, and empower them to negotiate, co-ordinate and implement programmes. Recent progress to establish such teams in several partner countries should be replicated.

**ANNEX 2**  
**THE CONTRIBUTION OF PRIVATE SECTOR DEVELOPMENT, AGRICULTURE AND**  
**INFRASTRUCTURE TO PRO-POOR GROWTH:**

**Evolving agendas and policy responses**

**Promoting pro-poor growth: Examples of evolving agendas and policy responses**

**Private Sector Development**

<b>Evolving agendas</b>		<b>Policy responses</b>
<i>From ...</i>	<i>To ...</i>	
Target firms and sectors directly.	Promote enabling environments for pro-poor growth, focusing on market outcomes.	Strengthen the enabling environment, ensuring an improved risk to reward ratio. Any direct firm level support should be non-market distorting.
Informal sector is marginal and temporary.	Informal sector is large, the way from informality to formality is a continuum.	Reduce disincentives to formalisation, facilitate risk taking.
Institutions and processes of institutional change were neglected.	Policy and institutional reforms	Promote dialogue between the state, the private sector and civil society.
The private sector is one of many stand-alone sectors.	PSD is a central part of a national poverty reduction strategy (PRs).	Link/merge PSD in wider PRs focusing on both pace and pattern of growth.

**Agriculture**

<b>Evolving agendas</b>		<b>Policy responses</b>
<i>From ...</i>	<i>To ...</i>	
Focus on commodity production and increasing farm productivity.	Focus on household productivity through diversified production and off farm work.	Build household assets, reduce market-related barriers and expand access to local, national and international markets.
One work location	Multiple work locations	Support diversified livelihoods
Smallholders are marginal.	Reduce risk and vulnerability to increase market participation.	Secure assets (land, water, finance) and mitigate shocks (new forms of insurance).
One size fits all technologies.	Technologies that respond to the very diverse needs of a wide range of small producers.	Target research and development investments to smallholders.
Agriculture is synonymous with the farm.	Agriculture contributes to growth and poverty reduction beginning at the field level all the way to the table.	Promote a holistic approach to rural poverty reduction in country PRs.

**Infrastructure**

<b>Evolving agendas</b>		<b>Policy responses</b>
<i>From ...</i>	<i>To ...</i>	
Donor driven/project based	Country led/programmes	Coordinate and align donor support to country led frameworks.
Infrastructure for growth	Infrastructure for inclusive growth, involving and benefiting the poor.	Target the poor to improve their access, encourage their involvement and promote their employment, ensure affordability, e.g. by use of "smart subsidies".
Finance capital costs	Greater focus on governance structures and the sustainability of infrastructure facilities; stronger focus on maintenance.	Emphasize cost recovery, improved public operator management and enhanced transparency to address corruption and environmental sustainability.
Private sector fills the gap	Greater public sector role with support from donors with public private partnerships.	Make aid predictable, apply mix of financial instruments to leverage private sector investment and build capacity in capital and financial markets.