

Unclassified

DCD/DAC(2006)12



Organisation de Coopération et de Développement Economiques  
Organisation for Economic Co-operation and Development

01-Feb-2006

English - Or. English

DEVELOPMENT CO-OPERATION DIRECTORATE  
DEVELOPMENT ASSISTANCE COMMITTEE

DCD/DAC(2006)12  
Unclassified

### PRO-POOR GROWTH - ISSUES FOR HLM DISCUSSION

14 February 2006

*This note is for CONSIDERATION at the POVNET meeting on 7-8 February 2006 and the DAC meeting on 14 February 2006.*

*On the basis of comments received, it will be revised and submitted to the DAC meeting on 14 March 2006 for approval.*

Contact Person: William Nicol - Tel: +33 (0) 1 45 24 91 37 – E-mail: [William.nicol@oecd.org](mailto:William.nicol@oecd.org)

JT00200376

Document complet disponible sur OLIS dans son format d'origine  
Complete document available on OLIS in its original format

English - Or. English

## PRO-POOR GROWTH – ISSUES FOR HLM DISCUSSION

### I. Introduction and Background

1. Over the past decade, economic poverty has declined most in Asia, spurred by China's growth performance, and the share of people living under the \$1/day threshold fell from 30% to 15%. Growth in Latin America has been slow and unable to reduce the share of people under the extreme poverty threshold, which has remained at 11%. Despite recent improvements, growth in Sub-Saharan Africa was negative on average over the 1990s and the share of people in extreme poverty rose from 47% to 49%, with the very poor getting even poorer.

2. Progress towards the poverty reduction target set out in MDG1 thus needs to be much faster and deeper if we are to approach that target in many more countries and for many more poor women and men. We need to help bring about a dramatic increase in the rate of growth and its impact on poverty reduction to do so. Growth prospects, including in many Sub-Saharan African countries are improving, but the pace of growth has been too slow and sporadic and its impact on poverty reduction has been uneven.

3. Building on the 2001 DAC Guidelines on Poverty Reduction, and in order to strengthen the impact of growth on economic poverty reduction, the DAC Network on Poverty Reduction (POVNET), has developed guidance to donors on promoting pro-poor growth. The results of this latest phase of POVNET work include the "overarching" guidance to donors,<sup>1</sup> which includes the draft policy statement set out in Annex 1 to this note, separate reports on the contributions of private sector development,<sup>2</sup> agriculture<sup>3</sup> and infrastructure<sup>4</sup> to pro-poor growth, and work on the cross cutting themes of risk and vulnerability and poverty impact assessments.<sup>5</sup>

### II. Promoting Pro-poor Growth: Issues for Discussion

4. Growth is an essential requirement and major contributing factor in reducing poverty. The faster and longer sustained is growth, the greater its impact on economic poverty. The impact of a given rate of growth on poverty reduction varies considerably across countries, partly related to "starting points" (e.g. in relation to level of development, macroeconomic stability, quality of governance, business climate, degree of inequality, etc.) and partly related to the extent to which there are effective policies in place to increase the participation of the poor in the growth process (e.g. in areas such as access to markets, assets, health, education, gender, market functioning, risk and vulnerability, occupational and geographic mobility, empowerment, etc.).

---

1. DCD/DAC/POVNET(2005)24/REV1

2. DCD/DAC(2006)9

3. DCD/DAC/POVNET(2005)20

4. DCD/DAC(2006)1

5. DCD/DAC/POVNET(2005)22/REV1

5. Pro-poor growth is growth that is effective in reducing poverty. It refers to both a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth.

6. As the 2001 DAC Guidelines on Poverty Reduction<sup>6</sup> showed, poverty has multiple and interlinked causes and dimensions (economic, human, political, socio-cultural, security) and that gender equity and environmental sustainability cut across all dimensions. The **policy statement** set out in Annex 1 focuses on one particular dimension of that bigger picture – the role of growth in reducing economic poverty. In doing so, it looks at the relationship between economic and other dimensions of poverty and how policies for economic growth and other policy areas (e.g. health, education, security) need to interact so that, collectively, they can make major and sustainable inroads into poverty reduction. Two key messages from this work are that:

- The pace and the pattern of economic growth are both interlinked and critical for long term and sustained poverty reduction. Policies therefore need to promote both dimensions to make growth pro-poor, i.e. to make growth more effective in reducing poverty.
- Policies to tackle the economic, human, social, political and environmental dimensions of poverty go hand in hand and are mutually reinforcing. Perceptions of dichotomies (e.g. economic *versus* social policy approaches to poverty reduction) are misplaced. Policies must build on this consensus and in turn this will help us better manage short term policy trade-offs.

7. When implementing the policy guidance on how aid can contribute to and facilitate pro-poor growth, donors must bear in mind that the poor are not an homogenous group, that country contexts vary considerably, and that policy implementation has to be based on a sound understanding of who the poor are and how they earn their livelihoods.

#### ***Issues for the HLM:***

8. POVNET work suggests that effectively promoting pro-poor growth is not a “business as usual” agenda, but has important implications for the targets and delivery modes of donor support and how donors are organised, individually and collectively, to meet the challenges of promoting pro-poor growth. Are donors prepared and able to work in these ways?

#### ***For Approval:***

- i. Does the HLM approve the policy statement attached in Annex 1?

#### ***For discussion:***

- ii. POVNET work indicates that **dichotomies** between economic and other perspectives on poverty reduction are misplaced and have been **overemphasized**. Do HLM participants agree that seeing the synergies and complementarities between these different dimensions of poverty, and thinking about sequencing and poverty impact assessments, helps manage short term policy trade-offs? What **positive experiences** have Members to share in these respects?

---

6. See [[http://www.oecd.org/document/1/0,2340,en\\_2649\\_33721\\_1885953\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/1/0,2340,en_2649_33721_1885953_1_1_1_1,00.html)]

- iii. Policy agendas need to evolve, sometimes considerably, if we place a pro-poor lens on donors' support to areas such as **private sector development, agriculture and infrastructure** (see Annex 2). Are DAC Members prepared to **move in these directions**, individually and collectively, and what is required to do so?
- iv. Do HLM participants agree that there is a need for donors to **strengthen their support structures and internal incentives and evaluation systems** to improve the ability of field staff to implement the pro-poor growth agenda and to better co-ordinate efforts around country-led poverty reduction strategies? If so, what **practical steps** can Members undertake to deal with it?
- v. Despite some important progress with growth and poverty reduction, there are still countless millions of poor women and men locked in poverty. In what areas do HLM Participants believe **further efforts to deepen and broaden the poverty reduction agenda are needed** to reach these people?

## ANNEX 1

## PRO-POOR GROWTH: DRAFT POLICY STATEMENT

9. The 2001 DAC Guidelines on Poverty Reduction show that poverty has multiple and interlinked causes and dimensions (economic, human, political, socio-cultural, security). This policy statement focuses on one dimension of that bigger picture – the role of growth in reducing economic poverty. In doing so, it looks at the relationship between economic and other dimensions of poverty and how policies for economic growth and other policy areas (e.g. health, education, security) need to interact so that, collectively, they can make major and sustainable inroads into poverty reduction. Two key messages from this work are that:

- The pace and the pattern of economic growth are interlinked and critical for long term and sustained poverty reduction. Policies therefore need to promote both dimensions to make growth pro-poor, i.e. to make growth more effective in reducing poverty.
- Policies to tackle the economic, human, social, political and environmental dimensions of poverty go hand in hand and are mutually reinforcing.

10. When implementing the policy guidance on how aid donors can contribute to and facilitate pro-poor growth, they must bear in mind that the poor are not an 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.

11. **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.** Pattern and pace are interlinked and need to be addressed together. 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.
- ii) **Rapid and sustained economic growth is essential for reducing poverty.** Economic growth is an essential requirement and a major contributing factor in reducing economic poverty. The faster and longer sustained is growth, the greater its impact on economic poverty is likely to be. Policies for sustaining growth (e.g. macroeconomic stability, institutional quality, effective governance to reduce corruption, a favourable investment climate, etc.) should increase the incentives for entrepreneurship, investment and productivity growth.
- iii) **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 differences in initial conditions and whether growth occurs in areas and sectors where the poor 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 and infrastructure.

- iv) **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 pro-poor 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, religion).
- v) **Risk and vulnerability 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. The journey out of economic 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 traps. Policies that tackle risk and vulnerability through prevention, mitigation and coping strategies improve both the pattern and pace of growth and are a cost effective investment in pro-poor growth.
- vi) **Policies need to tackle the causes of market failure and improve market access.** Well functioning markets are important for pro-poor growth. Access to productive assets and for markets for goods and services need to be improved. Market failure hurts the poor disproportionately and is a serious obstacle to pro-poor growth. Policies need to tackle the causes of market failure, such as red tape, regulatory barriers and information asymmetries, particularly in markets that are important for the livelihoods of the poor, e.g. agricultural, financial and labour markets.

12. **Poverty is multidimensional and pro-poor growth will be facilitated by progress on the other dimensions (e.g. human, social, environmental, and political). To be more effective, policy makers need to better understand and tackle these interdependencies and thus promote a virtuous cycle of economic, human, social, environmental and political development in mutually reinforcing ways.**

- i) **Policies to tackle the economic, human, social, environmental and political dimensions of poverty go hand in hand.** Perceptions of dichotomies (e.g. as sometimes set out in terms of economic *versus* social policies) can be misplaced. The pace and pattern of growth have economic, human, social, environmental and political 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. Policies for poverty reduction thus need to build on and implement this consensus.
- ii) **Policy trade-offs still exist, but they need to and can be better managed, including through sequencing to tackle the binding constraints.** Decision makers should avoid policies which promote only one dimension of poverty reduction while undermining others. Policies need to be complementary rather than compensatory. Binding constraints can be identified from analysis of the growth, poverty and inequality experience, and investment decisions need to pay attention to transmission channels in order to increase their impact on poverty reduction. The quality of institutions is crucial to handling trade-offs in ways that foster pro-poor outcomes. Policy choices need to be informed by poverty impact assessments.

13. **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 for their interests.**

- i) **The poor need to be informed and empowered** to participate in and influence the policy reform process that goes with effective poverty reduction strategies (PRSs). Policies are needed to increase the voices and influence of poor women and men in order that evidence-based policies promoting pro-poor growth (rather than narrow vested interests) will prevail.
- ii) **A properly functioning state is essential 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 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 between the diverse interests of different segments of society.** This entails a better understanding of the political economy 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.
- iv) **PRSs need to be nationally owned, to better integrate the multiple dimensions of poverty and to include stronger stakeholder involvement.** The early phases of the PRS process have been weak in these respects. A better evidence based understanding of the social dynamics and political economy of growth together with greater stakeholder dialogue in their preparation and implementation, should contribute to strengthening the national PRS process.

14. **The pro-poor growth agenda has important implications for the targets and delivery modes of donor support. It is not a “business as usual” agenda, and just “more of the same” will not be sufficient.**

- i) **Donors should focus on supporting in-country processes,** identifying and promoting drivers of change, aligning themselves collectively behind credible partner country strategies for pro-poor growth in line with the Paris Declaration principles on aid effectiveness. Where credible strategies are not in place, donors should help partner countries and other stakeholders build the capacities to design and influence such strategies.
- ii) **Donor support needs to be flexible and responsive to country situations.** Policies need to be informed by better analysis of the constraints to growth and poverty reduction and the impacts of their policies through tools such as poverty impact assessments. POVNET has developed a simplified, cost effective approach that may be used widely. Policies must take account of country specificities and the political economy of the poverty reduction agenda, target the binding constraints to pro-poor growth, and be adaptive to what is possible. Effective scaling up requires sufficient absorptive capacity.
- iii) **Donors should stay engaged in states where the above approaches are not replicable because of weak or bad governance.** Donors need to adopt a different approach to fragile and failed states which focuses on investing in human capacity and to find opportunities to strengthen policy and dialogue frameworks. Sustained capacity building efforts are particularly important in such cases.

- iv) **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 their agendas.** The importance of these areas for the pace and pattern of growth has been underestimated. New approaches to strengthen their contributions have been developed in POVNET's work on pro-poor growth.
- v) **Donors need to develop capacities in aid agencies, at both capital and field levels, to effectively promote pro-poor growth.** They need to work in ways that exploit cross-sector synergies and which strengthen donor co-ordination. They need to provide appropriate support and incentives to field staff and move from headquarter driven sector structures to build multidisciplinary teams empowered to influence and implement policies at the field level.



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

**Evolving agendas and policy responses**

<b>Promoting pro-poor growth: Examples of evolving agendas and policy responses</b>		
<b>Private Sector Development</b>		
<b>Evolving agendas</b>		<b>Policy responses</b>
From ...	To ...	
Target firms and sectors directly	Promote enabling environments for pro-poor growth, focusing on market outcomes instead of firms	Strengthen the enabling environment, ensuring an improved risk to reward ratio.
Informal sector is marginal and temporary	Informal sector is large, informality is a continuum	Reduce disincentives to formality, facilitate risk taking. Direct firm level support to be the exception
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 more holistic and integrated agenda for pro-poor growth	Link/merge PSD in wider pro-poor growth strategy focusing on both pace and pattern of growth
<b>Agriculture</b>		
<b>Evolving agendas</b>		<b>Policy responses</b>
From ...	To ...	
Sectoral approach/production units	Rural livelihoods approach	Holistic approaches - build assets and foster diversified livelihoods
One work location	Multiple work locations	Promote diversified livelihoods and rural-urban migration
Focus on food crops	Diverse income streams	Expand/diversify markets Strengthen competitiveness of small-scale producers
Government support and social safety nets	Reduce risk and vulnerability	Assess trade-offs between growth promoting and risk and vulnerability reducing measures; develop new forms of insurance
<b>Infrastructure</b>		
<b>Evolving agendas</b>		<b>Policy responses</b>
From ...	To ...	
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