

## How to accelerate pro-poor growth: a basic framework for policy analysis

**This note for DFID staff and partner governments suggests four conditions that need to be met in the design of policies to achieve faster pro-poor growth.**

Many low-income countries have experienced limited, erratic or even negative growth in recent decades. For these countries, the challenge is to get on to more robust growth paths. Furthermore, many people still live in poverty in fast-growing developing countries, as well as in middle-income countries. For these countries, the challenge is to bring the poor into the growth process, so that they can both contribute to it and benefit from it.

Briefing Note 1 defined pro-poor growth as the average growth rate of the incomes of poor people. This note is about the policies needed to raise the rate of pro-poor growth. It sets out four broad conditions for accelerating pro-poor growth: creating strong incentives for investment; fostering international economic links; providing broad access to assets and markets; and reducing risk and vulnerability.

What is offered here is not a list of specific policies that need to be implemented to accelerate pro-poor growth – each of these conditions can be met in several ways, the choice among which depends on country circumstances. Rather, it is a framework for policy analysis that may help development partners to identify gaps or imbalances in their strategies.

### 1. Create strong incentives for investment

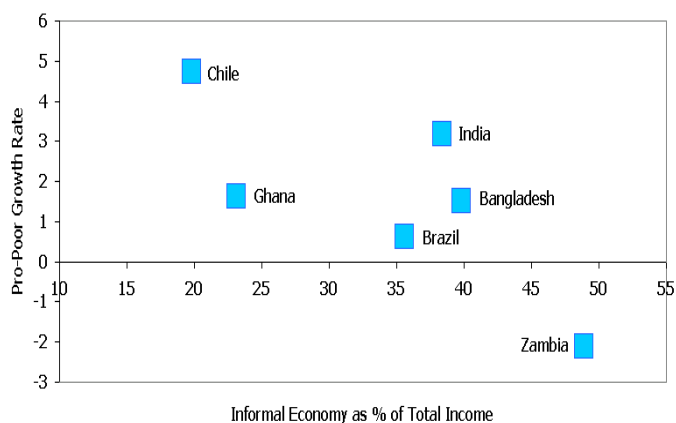
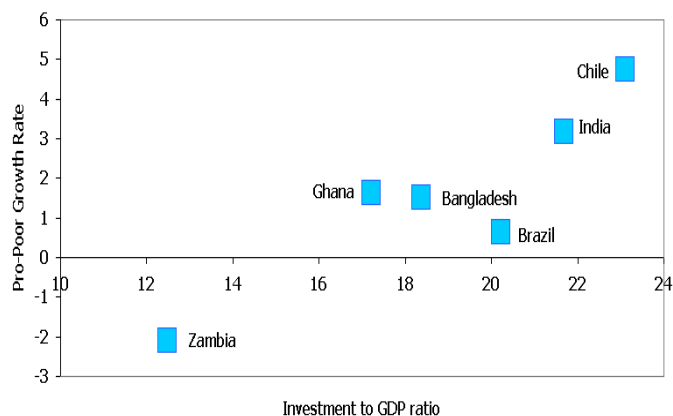
Private investment is essential for growth: it creates jobs, increases capacity, raises productivity, and lays the foundations for higher future income. The level of investment in a country depends on its 'investment climate'. Whether investors are large or small, urban or rural, domestic or foreign, they will not invest if doing business is too costly or risky, or if they fear that they would not get to keep the profits of a successful investment. The costs and risks of doing business are increased, for example, by unreliable power, transport and telecommunications networks, and by conflict, crime, corruption and arbitrary or unanticipated taxation.

Governments can play a critical role in encouraging productive investment by providing stability and security, economic and political. Even if the president or party in power changes, potential investors need to know that the overall conditions for investment will remain stable. Sound macroeconomic policy is essential. Microeconomic policies must be consistent, predictable and transparent. They should promote competition in markets and minimise the red tape cost of any necessary regulations. The government should also promote essential infrastructure services and a well-functioning financial sector, ensure effective enforcement of property rights and fight corruption.

Figure 1 illustrates the positive association between higher investment and faster pro-poor growth for six countries (the same as those referred to in Briefing Note 1). Figure 2 suggests that pro-poor growth is faster in countries where the informal sector is smaller. This is likely to be the result of less burdensome regulation of business, which leads to greater willingness of firms to participate in the formal economy.

**Figure 1: Pro-poor growth is faster in countries with more investment**

**Figure 2: Pro-poor growth is faster where the informal sector is smaller**



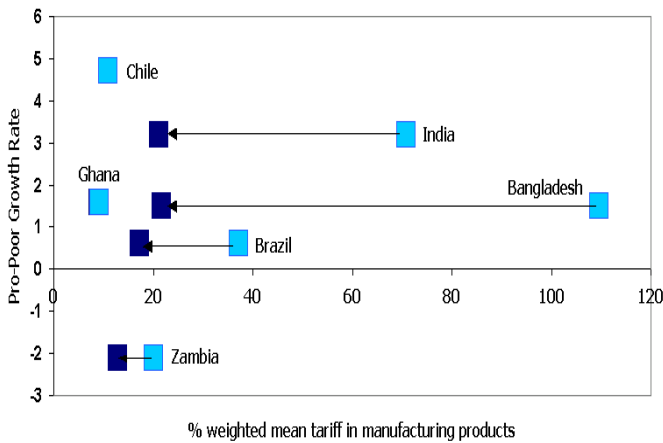
## 2. Foster international economic links

Producers, consumers and governments interact across borders with each other more and more. This integration of the world economy offers opportunities for developing countries, as new markets, business partners, jobs, goods and services become available. The contribution of investment to pro-poor growth can be increased by fostering international economic links and speeding the transfer of knowledge. While domestic investment remains the most important component in almost all countries, foreign investment and trade bring access to better technology, management skills and markets, which can boost productivity and accelerate growth.

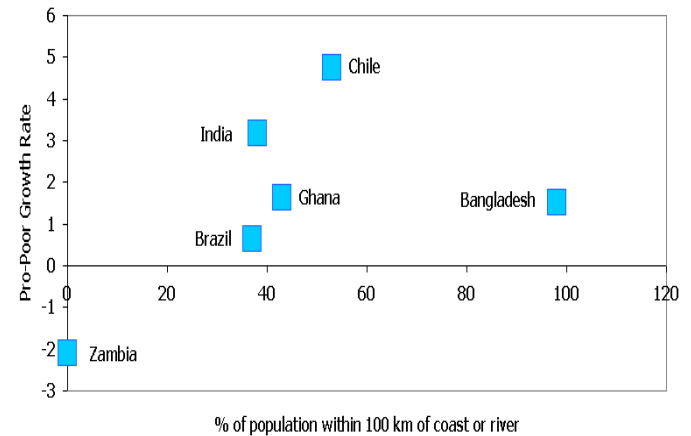
To foster links, developing countries need willing partners – other countries which will buy their exports, particularly of agricultural goods and labour-intensive manufactures. But there is much that countries themselves can do to make it easier and cheaper for foreigners to do business with them and for their own citizens to do business abroad. Good transport and communications services are obviously essential. Information for exporters and low policy barriers to imports can also promote trade, though the reduction of barriers should be timed and sequenced to minimise adjustment costs, especially for poor people. And all the same ingredients that make for a good climate for domestic investment also attract foreign investment and promote international trade.

Figure 3 suggests that low policy barriers to imports are necessary but not sufficient for rapid pro-poor growth. The light and dark blue squares show tariffs on manufactured products at the beginning and end of the pro-poor growth period respectively. Countries with similar policy barriers had different rates of pro-poor growth, but none of these countries achieved rapid pro-poor growth while maintaining high tariffs. Figure 4 illustrates the importance of non-policy barriers to trade: countries where more people live near a coast or big river tend to achieve faster pro-poor growth. The disadvantages of remoteness can be overcome, nevertheless, by improving transport infrastructure and by well-managed internal migration.

**Figure 3: Low tariffs are necessary but not sufficient for rapid pro-poor growth**



**Figure 4: Proximity to a coast or big river improves the prospects for pro-poor growth**



### 3. Provide broad access to assets and markets

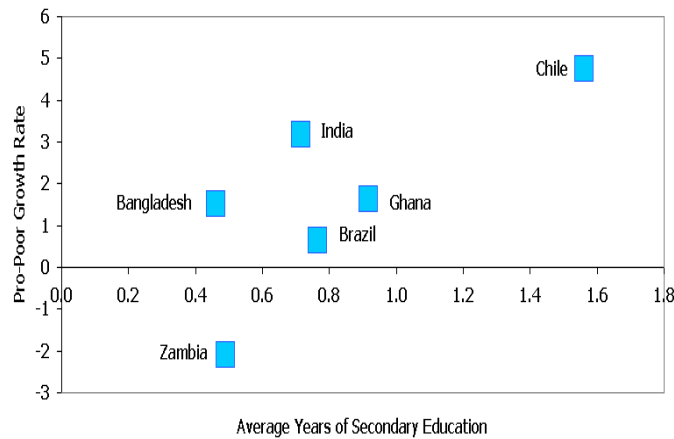
Most poor people benefit from sustained growth, either directly – through participation in productive activities from which they get income – or indirectly, when the government spends increased tax receipts on basic services such as water, sanitation, health and education. But poor people benefit more from growth in countries where there is broad access to assets and markets, which allows more of them to be involved in the growth process. This raises the pro-poor growth rate in two ways: by distributing the benefits of growth more widely, and by achieving faster overall growth through harnessing the labour and initiative of a larger proportion of the country’s population.

The assets to which people need access are human, physical, financial, natural and social. Governments can broaden access to all these assets, both across social groups and across geographical areas. Widespread schooling of good quality and access to primary health care increase the poor’s human assets, and therefore the return on their labour. Reform of land ownership and tenure can also be valuable – including by enabling people who own land to use it as collateral and thus to get access to credit. Accessible financial services, too, make it easier to get credit and build up capital.

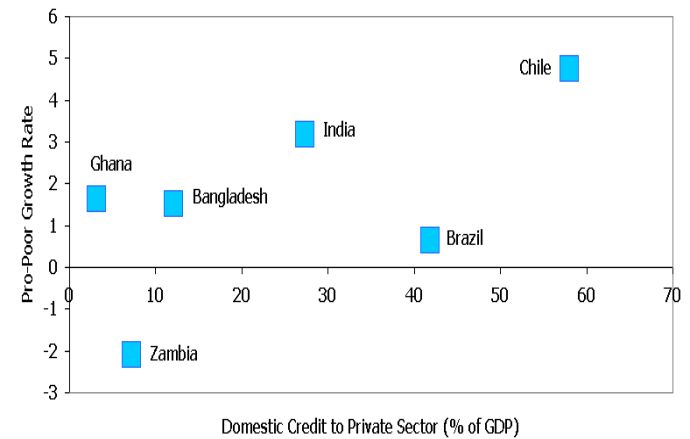
Poor people need access to a wide range of markets, but particularly to markets for goods – in which they can sell their outputs and buy inputs and consumables – and to markets for labour, in which they can get employment and thus earn an income from their human assets. Governments can lower the two main sorts of barrier that reduce (and often deny) poor people access to markets. One is distance, which can be overcome by diffusion of transport and communications services such as rural roads. The other is policy, institutional and social obstructions to entry, which can be reduced by breaking monopolies, liberalising internal trade and attacking discrimination, for example against women, old people, the disabled and ethnic or religious minorities.

Figure 5 illustrates the positive impact on pro-poor growth of broader initial diffusion of secondary education. Figure 6 suggests that wider access to credit at the beginning of the pro-poor growth period tends to be associated with faster pro-poor growth.

**Figure 5: Pro-poor growth is faster in countries where more people are educated**



**Figure 6: Pro-poor growth is faster in countries where there is more access to credit**



#### 4. Reduce risk and vulnerability

Poor people are particularly vulnerable to fluctuations in income that may result from economic shocks, sickness, death or bad weather. As Figure 7 shows, even in a period of rapid pro-poor growth in Uganda, in which many households escaped from poverty, a substantial minority fell back into poverty. Nor will rapid pro-poor growth necessarily help poor people who are unable to work. Figure 8 shows that in Bangladesh poverty rates were unusually high among households with no adults of working age, or headed by women, or affected by long-term illness.

In addition to the conditions discussed above that are needed to achieve high rates of pro-poor growth, measures are also needed to reduce the effects on poor people of risk, vulnerability and adverse personal circumstances. Such measures can make pro-poor growth faster, too, by enabling poor people to keep their children in school and to engage in economic activities that are riskier but more profitable.

Governments can reduce risk and vulnerability by pursuing stable economic policies. Broadening access to assets and markets also helps: education and access to labour markets diversify livelihood options; and accessible financial services provide savings vehicles, insurance and credit to allow smoothing of consumption despite variations in income. Targeted public works schemes and relief payments in cash and kind can also help to cushion the immediate adverse effects of shocks and to enable poor people to recover and resume their normal patterns of work. Governments need to be prepared – and to be seen to be prepared – to implement such emergency programmes.

Other forms of social protection are needed for poor people who cannot participate in productive activities – the old, the young and the chronically sick. While these groups are often looked after by their families and local communities, there is also a role for government support. Small pensions and other cash transfers can yield major improvements in well-being, and the problems of financing and administering them have not proved insurmountable, even in low income countries.

**Figure 7: Poverty in rural Uganda 1992-99 – % of households which:**

Escaped poverty -30.7	Stayed poor -20.5
Were never poor -37.7	Became poor -11.1

**Figure 8: Chronic poverty in rural Bangladesh, 1998-2000**

% of households that stayed poor by household type	
No working age adults	63.0
Female-headed households	50.0
With long-term illness	41.6
All households	29.8

## Choices and trade-offs

Most poverty reduction strategies acknowledge the importance of growth, but need to pay greater attention to the sources of growth and to links between growth and poverty reduction. The four conditions outlined above offer a framework in which priority public actions for pro-poor growth strategies can be considered.

There are some complementarities between the conditions. For example, broadening access to assets and markets reduces risk and vulnerability, which in turn encourages people to invest in more productive activities and boosts growth. However, there are also trade-offs between the four conditions. Fostering international economic links through greater trade openness, for example, may increase vulnerability to shocks by increasing exposure to fluctuating primary commodity prices. There are also trade-offs within each of the conditions. Given limited budgets, governments face hard choices about how to allocate expenditures on health, education and infrastructure services. Spending more on primary education, for example, might imply less investment in roads connecting rural villages to markets.

For many poor countries, there is no trade-off between pro-poor growth and overall growth, because the only way to sustain faster growth is to give more of a country's people the opportunity to participate and contribute. For other countries, though, there may be trade-offs between pro-poor growth and overall growth. For example, more emphasis on raising agricultural productivity may lead to faster pro-poor growth, even though investment in urban sectors could lead to faster overall growth. Nor is it always obvious which government expenditures are most pro-poor. For example, investment in port facilities may boost exports, growth and consequently poverty reduction more than investment in expansion of education.

Success in achieving all four of these conditions is likely to depend on the quality of a country's governance. Most countries that have achieved rapid pro-poor growth have been characterised by political commitment to general improvement of living standards and by competent and effective public administration. Meeting the conditions highlighted in this note is not easy, especially for a poor country with weak governance, but experience shows that it is possible with political leadership, persistence and external support.

For more information, contact the Pro-Poor Growth Team on [growth@dfid.gov.uk](mailto:growth@dfid.gov.uk) or visit the Team's [intranet site](#).

## Notes on data

Figure	Indicator	Source
1	Investment is measured by average gross fixed capital formation as % of GDP over the pro-poor growth period <sup>1</sup> .	World Bank World Development Indicators
2	Output of informal sector is estimated as a percentage of gross national income in 1999/2000.	Schneider, July 2002
3	Tariff barriers are measured by % weighted mean tariffs towards the beginning and end of the pro-poor growth period <sup>2</sup> .	UNCTAD TRAINS database
4	Remoteness is measured by % of people within 100 km of a coast or ocean-navigable river.	Gallup, Sachs and Messenger, 1999
5	Domestic credit to the private sector is measured as % of GDP at the beginning of the pro-poor growth period	World Bank World Development Indicators
6	Access to education is measured by average years of secondary education in the five years up to and including first year of pro-poor growth period.	Dollar and Kraay, 2001
7	Households are classified by their poverty status at the end of the period, compared to the start of the period.	Chronic Poverty Research Centre 2004
8	'Working age adults are aged between 15 and 59. 'With long-term illness' means at least one household member cannot work for 15 or more days out of 30.	Chronic Poverty Research Centre 2004

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<sup>1</sup> The pro-poor growth period under analysis varies across this set of countries: India (1983-97), Bangladesh (1984-2000), Chile (1987-98), Ghana (1987-97), Zambia (1991-98), and Brazil (1985-96)

<sup>2</sup> Initial tariff measure is 4-5 years into the pro-poor growth period due to lack of earlier data.