Strategies for Pro-Poor Growth: Pro-Poor, Pro-Growth or Both?

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Africa is the only region of the developing world in which the number of people living below the international poverty line of $1.00 per day has increased in the last twenty-five years. In response, beginning in the early 1990s, changes in donor objectives and behavior placed the poor at the center of development assistance policy in Africa. Civil society organizations and aid agencies as diverse as Britain’s DFID and the Vatican, advocated developing strategies for “pro-poor growth” in Africa. Both bilateral and multilateral development partners increased their focus on reducing income and non-income poverty, as set out in the Millennium Development Goals (MDGs), often at the expense of such traditional interests as infrastructure and agriculture. The poverty reduction strategy paper (PRSP) initiative of the World Bank and the International Monetary Fund, launched in 1999 reinforced this trend, particularly during its early implementation, by appearing to encourage governments to focus poverty reduction strategies primarily on increases in social expenditures.²

Recently, some revisionism has begun to creep into the donor dialogue. Governments in Africa have become more forceful in advocating for economic growth as the centerpiece of their poverty reduction strategies (World Bank, 2004b). Aid agencies have begun to take a second look at the continent’s mounting infrastructure deficit and

¹ This paper is drawn from a speech delivered at the DPRU, University of Cape Town, TIPS and Cornell University Conference, held in October 2004 in Cape Town, RSA. The views and interpretations are those of the author and do not represent those of the World Bank, its Executive Directors nor the countries that they represent.

² See the discussion in World Bank (2004a)
lagging agricultural productivity, and to ask what role development assistance might play in dealing with these. And the New Economic Partnership for African Development (NEPAD) has taken up the growth agenda with a focus on governance, infrastructure, and regional integration (Commission for Africa, 2005).

Within this evolving context, what is the role for pro-poor growth? How should it be defined? And is the concept useful for development policy in Africa? This paper attempts to address these issues. It is organized in six sections. Section I surveys the definitional debate on “pro-poor growth.” Section II examines the argument that accelerating the rate of growth in low income countries is sufficient to achieve sustained poverty reduction, and contrasts it with the diversity of regional and country experiences with the long-run relationship between growth and poverty reduction. Section III looks at growth and poverty dynamics in Africa, and concludes that economic growth and growth-oriented policies, while necessary for sustained poverty reduction, do not guarantee that it will occur at the country level. Section IV introduces the concept of a shared growth strategy for Africa, and Section V sets out three policy elements of such a strategy that appear relevant to a large number of African economies. Section VI concludes.

I. What is Pro-Poor Growth?

Simple theory and empirical evidence indicate that poverty reduction can be achieved by accelerating economic growth and/or by changing the distribution of income in favor of the poor. We know that sustained economic growth reduces poverty. This is not to say, however, that average income growth increases the incomes of the poor in
every growth episode in every country. Pro-poor growth has been broadly defined by a number of international organizations as growth that leads to significant reductions in poverty (OECD, 2001 and UN, 2000). In attempting to give analytical and operational content to the concept two operational definitions have emerged.

The first draws on the literal meaning of the phrase: growth is pro-poor when the poor benefit disproportionately from it. This criterion is met if the rate of income growth of the poor exceeds the rate of income growth of the non-poor. Thus, in order for growth to be pro-poor, it must be accompanied by a decrease in inequality. The second definition discards the literal interpretation of the concept for a more general, but very much less strict formulation: growth is pro-poor if it reduces poverty. Using this second definition, average income growth will always result in pro-poor growth except when the incomes of the poor are stagnant or decline.

For public policy purposes neither definition of pro-poor growth is fully satisfactory. Both definitions address a common public policy objective -- reducing poverty through economic growth-- and both suggest that there may be trade-offs between development strategies that are pro-poor and those that are pro-growth. Under the first definition of pro poor growth this tradeoff is explicit: policies that promote growth at the expense of increasing income inequality are not pro-poor. This clearly runs the risk of ignoring overall economic welfare and even the fortunes of the nearly-poor. Under the second, the distinction between pro-poor and pro-growth policies is less clear cut. Policies to spur growth can result in increases in income inequality and remain pro

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3 See for example Ravallion (2001) or Kakwani and Pernia (2000).
poor, as long as they continue to raise the incomes of the poor. But, what is a significant reduction in poverty? How much must the poor benefit for growth to be considered pro-poor? Most advocates of even this weaker formulation of pro-poor growth would add that it is also relevant to inquire how the rate of income growth of the poor stacks up, both relative to historical trends and to the current rate of growth of average income.

II. Is Growth Enough?

An important strand of the literature on growth and poverty reduction side steps the definitional debate. It argues that because on average growth benefits the poor to the same extent it benefits the non-poor, the distinction between growth and pro-poor growth as a public policy objective is not practically relevant. Policies designed to maximize the rate of growth in low income countries are likely also to be those that maximize the growth of income of the poor.

The support for this line of argument rests on three simple empirical propositions. First, Dollar and Kraay (2002) – among several others – find that that the poor typically share in rising aggregate income, and suffer from economic contractions, in the same proportion as the non-poor. On average growth is good for the poor, or at least as good for the poor as for everybody else. Second, growth has no apparent systematic impact on income distribution. Thus, growth oriented policies are on average unlikely to affect the pro-poorness of the growth process. Third, growth has been elusive. The fact is that most poor countries are not growing. Put bluntly this line of argument reduces to: “put growth at the center of the policy agenda and poverty reduction will follow.”

While it is difficult to argue that sustained poverty reduction can be achieved alongside economic stagnation or decline, the debate over pro-growth versus pro-poor strategies, hinges on the extent to which the average relationship between growth and income distribution conceals important variations that may, ultimately be addressed by public policy.

There is a substantial literature documenting the large variations in the poverty impact of given growth rates across countries. Figure 1a plots the evolution of per capita income and per capita income of the lowest income quintile of the population for all developing countries. The extent to which the poor have benefited from the process of economic growth has varied quite considerably over time. While between 1970 and 1990 income of the poorest 20 percent of the population grew at a similar pace to average income in developing economies (and the 1980’s expansion appears to have been accompanied by pro-poor distributional change), the early 1990s saw a fall in per capita income levels of the poor (about 2 percent per year on average) in developing countries. The second half of the 1990s was characterized by stagnation in the incomes of the lowest quintile in developing countries, despite renewed average income growth. Underlying the advocacy for pro-poor growth is an assumption that historically the poor have failed to benefit sufficiently – or at all – from the growth experiences of low income

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7 Ravallion (2001) for example finds that, based on cross country evidence, the 95% confidence interval for a 1% increase in average household income or consumption yields anything from a modest drop in the poverty rate of 0.6% to a more dramatic 3.5% decline

8 The data underlying Figures 1-3 are drawn from: (i) Dollar and Kraay (2002). This database contains 418 observations for 133 countries of the income shares by quintile of the population: and (ii) Cord, Lopez and Page (2003) which contains 366 observations on headcount poverty (US$1 (PPP) per day poverty line) for 42 countries, average survey income, and the computed income that would accrue to the lowest quintile of the population.
countries. It is interesting that the global data support this perception in the 1990s but not before.

Figures 1b and 1c show the evolution of the same income indices for two developing regions: East Asia and the Pacific and South Asia. Developments in East Asia are to some extent similar to the world wide pattern, with steady growth in both income per capita and income of the lowest quintile, accompanied by rising inequality. South Asia in contrast shows a strongly pro-poor bias to growth beginning in the 1980s.

Poverty headcount data – which are available only from the mid-1980s – however, indicate that poverty has fallen in East Asia more than in any other region of the developing world.\(^9\) The contrast between East and South Asia illustrates the powerful impact of very rapid income growth on poverty reduction and the practical difficulty of setting more rapid relative growth of increases of the poor in a public policy objective. While in East Asia the income of the lowest quintile increased in the late 1990s to 300 percent of the 1970 level, the income of the lowest quintile in South Asia increased only to about 225 percent. Thus, despite the deterioration in income distribution after 1990, growth in East Asia yielded the largest income gains to the poor.

Underlying these global and regional trends is even greater diversity of country experience. Cord, Lopez and Page (2003) provide evidence – summarized in Table 1 -- of country experience with growth of average income and the income of the bottom quintile for countries where information on growth and distribution exist for ten years or more. The NW quadrant of the table includes countries with “growth” spells that could

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more appropriately be characterized as anti-poor recessions. These are countries for which the available sample years are characterized by negative growth and deteriorations in income distribution (as defined by the difference in growth rates between per capita income and income of the lowest quintile). Countries in this quadrant are mainly transition and conflict affected countries such as Poland, Sierra Leone, and Russia. The SW quadrant includes countries that have experienced pro poor recessions, recessions accompanied by progressive distributional change. In Madagascar, for example, between 1960 and 1993 the income of the lowest quintile of the population appears to have fallen by about 40 percent while the average income level was halved.

In the NE quadrant countries are characterized by positive income growth and rising income inequality. This group contains many of the highly successful economies of East Asia, all of which recorded significant growth accompanied by some deterioration in income distribution. What is striking, however, is the rate of growth of incomes of the poor. The top four – Korea, Taiwan (China), Hong Kong and Singapore – had growth rates of per capita income of the lowest quintile of about 5 percent, less than -- but very close to -- the overall rate of per capita income growth. Within the same category, however, there are a number of countries where the per capita growth rate of the bottom quintile is sufficiently low to have had little impact on poverty. These countries, mainly in Latin America, have growth rates of the poor of less than one percent on average. There are also countries where, despite aggregate growth, the income of the poor has fallen. In Tanzania, for example between 1964 and 1991 per capita incomes increased by 1.5 percent per year while the income of the poorest quintile fell by 2 percent per annum. Senegal and Ethiopia exhibit similar, although less dramatic divergences.
Finally, the SE quadrant contains cases where the relative rate of growth of income of the poor exceeds that of the non-poor. It is worth noting, however, that the median growth rate of the incomes of the poor in countries in the NE quadrant exceeds that for countries in the pro-poor biased growth category. Apart from Gabon, where during 1960-75 the lowest quintile of the population enjoyed growth rates of 9 percent per year on average (against 7 percent per year for society as a whole), the countries where the poor have benefited the most in terms of income growth are those where they have also lagged in relative terms.

The great diversity of relationships between average income growth and income growth of the poor makes the case for a strategy for poverty reduction based solely on pro-growth policies less than fully persuasive. Very rapid growth of the type experienced in East Asia was clearly beneficial to the poor -- although the case of China where rapid growth was accompanied by a rapid increase in inequality and limited gains for the poor provides a cautionary note -- but more modest growth accompanied by increases in inequality of the type experienced primarily in Latin America had little, and in some cases negative, impact on the fortunes of the poor. Moreover, between 1965 and 1995 the high performing Asian economies pursued activist policies to equip the poor to participate in and benefit from growth at the same time that they were pushing the growth agenda, leading to the very close tracking of average incomes and those of the poorest quintile (World Bank, 1993a, 2005a). In countries such as Egypt, Ghana and Tunisia modest growth was accompanied by reductions in inequality and the resulting increase in

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There is no country in the sample where the definition of pro-poor growth requiring absolute income gains of the poor to exceed average absolute income gains is met, and suggests that the definition lacks practical relevance.
the income of the poor was sufficient to place them among the global leaders in terms of growth of income of the poor. Although countries experiencing more rapid relative growth of the income of the poor make up only 20 percent of the top quintile of countries ranked by overall per capita income growth, they comprise half of the top quintile ranked by per capita income growth of the poor.

But, neither do the data offer a fully convincing argument for abandoning the growth agenda in search of policies that bias growth in favor of the poor. The sample contains only six cases in which average per capita income growth greater than 1.0 percent has resulted in declines in incomes of the poor, and only three cases (including the striking case of Jordan) in which growth of average income of less than one percent has translated into a rate of growth of income of the bottom quintile of more than one percent via progressive distributional change. Rapid overall growth, accompanied by modest deteriorations in income distribution had a greater impact on the welfare of the poor than growth that was biased in their favor in an overall low growth environment.

In public policy terms, what are we to make of the pro-poor – pro-growth debate? The cross country evidence offers little support for an a priori choice between growth oriented and poverty oriented strategies. Rather, strategies based on a mix of growth oriented policies and policies intended to ensure that the benefits of growth are widely shared are likely to be most successful in achieving sustained poverty reduction. And, the appropriate mix between the two is likely to vary across countries and over time. China for example has recently turned increasing attention to reducing spatial income inequalities after two decades of rapid but disequalizing growth. Egypt in contrast has
attempted to spur growth while reducing traditional transfer mechanisms and public employment practices intended to promote equity.

Further attempts to define and measure a single concept of pro-poor growth are likely to yield few gains. Indeed they run the risk of diverting attention from the important public policy objective for low income countries – ensuring that the growth income of the poor is sufficient to reduce the incidence of absolute poverty. Economic growth and pro-growth policies are central to this objective, but they are not enough. Progressive distributional change (or even slowing a trend toward rising income inequality) can have an important impact on the rate of growth of incomes of the poor.

III. Africa’s Growth and Poverty Dynamics.

The income and poverty dynamics of Africa illustrate this conclusion well. Africa’s growth story is well known. The 1960s were a period of growth and optimism, but beginning in the 1970s with oil and interest rate shocks, and in many countries deteriorations in economic and political management, Africa’s economies began a protracted decline. The 1980s and the first half of the 1990s saw continued declines in income, and despite some positive changes in the second half of the 90s, the region closed out the century with a record of sustained negative per capita income growth (Figure 2). Despite a modest recovery during 2000 – 2005, Africa is projected to lag all others regions of the developing world through 2015, the target data for attaining the Millennium Development Goals.
The poverty dynamics of the region showed a similar unhappy picture. In contrast to the more rapidly growing regions of the developing world, such as East Asia, the absolute number of poor increased in Africa (Figure 3).

Beginning in the second half of the 1990s, however, a number of Africa’s economies began to perform better. Fifteen countries averaged more than 5 percent growth between 1995 and 2004, and the variation in country performance between peaceful, better managed economies and those in or emerging from conflict -- or with poor economic management -- became more marked. Figure 4 gives the frequency distribution of growth rates by country for the post-1995 period. Of particular note is the high variability of performance across countries and the significant number of countries with low or negative growth.

Based on its track record, Africa would seem to qualify easily as a candidate for the pro-growth approach to poverty reduction. But within the process of decline and recovery the fortunes of Africa’s poor, relative to its non-poor, have also varied over time and across counties. Figure 5 traces the index of mean per capita private consumption and the mean per capita consumption of the bottom quintile of the income distribution for a sample of African countries between 1980 and 2002. During the economic decline of 1980 – 1995 the average consumption of the poor declined more rapidly than that of the non-poor until 1993. Then the trend reversed, and consumption of the poor recovered more rapidly for a period of about five years. Since the end of the 1990’s, the fortunes of the poor have once again lagged, although not to the extent seen in the 1980s.

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11 The data are drawn from the new data set on poverty, income and distribution constructed by Martin Ravallion and Shaohua Chen for the poverty estimates contained in World Bank (2005).
The African economies represented in Table 1 offer a similar diversity of growth and poverty reduction experiences to those of other low and middle income countries. Mauritius, Gabon, and Ghana all experienced growth episodes of ten or more years duration in which per capita income rose at annual average rate of more than two percent. In Gabon and Ghana income growth disproportionately favored the poor, as incomes rose more quickly on average in the lowest quintile of the distribution than for the population as a whole. Mauritius in contrast had a rate of growth of income of the poor that was less than half of its average per capita growth rate. Niger, Sierra Leone and Zambia were characterized by anti poor biased recessions, while in Ethiopia and Senegal extended periods of economic stagnation (average per capita growth of 0.2 percent) saw declining average incomes in the bottom quintile of the income distribution.

Figure 6 presents the country specific patterns of income growth for the poor and non poor for four individual countries in the 1990s. The diversity of experience is striking. In Ethiopia for example modest growth since the early 1990s does not appear to have been reflected in the growth of average income of the bottom quintile. In Ghana the fortunes of the poor first improved relative to the non-poor in the early 1990s and then took a sharp downward turn late in the decade. In Uganda the early stages of its post conflict recovery were highly pro-poor biased, but that pattern reversed itself in the second half of the 1990s. Burkina Faso experienced a growing divergence between the poor and the population as a whole throughout a decade of sustained growth.

Africa’s experience of the 1990s also appears to offer an exception to the widely held view that income distributions do not change very much over time (Deninger and Squire, 1996; Li, Squire and Zou, 1998). Figure 7 presents estimates of the gini
coefficient for two periods – before 1996 and after 1996 – for 13 African countries. Interestingly, while the average gini coefficient across the 13 countries does not change between the two periods, this reflects substantial offsetting movements within individual countries, with some moving in the direction of greater income equality and others moving in the opposite direction.

Africa’s poverty dynamics offer support to both pro-growth advocates and to the advocates of pro-poor interventions. The continent’s long economic decline clearly favored no one, poor and non-poor alike, although the fortunes of the poor on average appear to have deteriorated to a modestly greater extent than those of the non poor. Individual country experiences of the 1990s – the period for which we have most comprehensive data -- offer a diverse set of growth- distribution and poverty reduction outcomes. Clearly, a sharper public policy focus on growth is needed, but the concern that the benefits of growth will not be reflected in improving incomes and welfare of the poor cannot be easily dismissed. “Growth was good for the poor”, but not to the same extent all the time, everywhere in Africa. In short pro-poor or pro-growth? Probably both.
IV. Building a Shared Growth Strategy for Africa.

The notion that a development strategy should include both pro-growth and pro-poor elements is not new.\textsuperscript{12} Indeed the controversial World Bank *World Development Report, 2000: Attacking Poverty* listed creating economic opportunities, together with empowerment and security as key elements of an anti-poverty strategy. In practice, however, the donor community appeared to drift away from these twin objectives in the 1990s, moving in the direction of an almost myopic focus on service delivery in the social sectors as the key public policy objective. Africa’s leaders, sensitive to the priorities of their donor communities, responded accordingly.

The upshot of the development community’s focus on direct interventions to reduce poverty was a profound shift in the composition of public expenditures in Africa. Beginning in 1980, infrastructure spending as a share of GDP declined on average in Africa from about 4 per cent to less than 2 percent. Expenditures on education and health rose during the same period to more than 5 percent and 2 percent of GDP respectively (World Bank, 2005c). Closing the resulting infrastructure deficit in Africa has been estimated to require more than 20 billion dollars per year of new investment (Estache, 2005). Reflecting on the trend, Shigeru Ishikawa (2002), the dean of Japanese development economists, was provoked to observe: “The World Bank advocates a larger allocation [of] fiscal resources to pro-poor targeted expenditures, whereas discontented recipients with better development performances stress the need for broad based growth expenditures”.

\textsuperscript{12} During the past thirty years the development community has toyed with such expressions of this objective as: “Redistribution with Growth”, “Basic Needs”, and “Poverty Reduction Strategies”. See for example Ahluwhalia and Chenery (1974).
How might Africa strike a better balance between pro growth and pro poor policies? A crucial insight may come from the highly successful developing economies of East Asia. The development strategies pursued by all of the first generation high performing Asian economies – Hong Kong, Indonesia, Korea, Malaysia, Singapore Taiwan (China), and Thailand – have been characterized as “shared growth strategies”. These strategies consisted of two components. The political elites fostered growth by encouraging high savings, long term investments, and upgraded organization, technology and management. Growth was at the center of the public policy agenda. But, highly visible wealth sharing mechanisms – such as universal primary education, land reform, and free basic health care -- were put in place to induce non-elites to support the growth process. Unlike simple redistributive mechanisms, such as food or fuel subsidies or public employment in non-productive activities, these mechanisms signaled the population that all parties would share in the benefits of growth through increased capacity to participate in and benefit from the process of economic change.

A shared growth strategy for Africa requires, a renewed focus on growth. African governments have led the way in refocusing the development debate on growth; indeed some would argue that they never abandoned the growth objective. But it is important for the donor community to validate the centrality of growth in both policy and money terms. National poverty reduction strategies can identify key constraints to growth and define appropriate policy and donor responses to relieve them. As growth oriented

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13 The term is due to World Bank (1993a). A fuller exposition of the concept is provided in Campos and Root (1996).
14 See World Bank (2004b); Commission for Africa (2005)
15 Given the pervasive use of Poverty Reduction Strategy Papers (PRSPs) as donor coordination instruments this can be done by modifying the PRSP.
policies are identified and implemented, however, much greater care needs to be given to understanding the distributional consequences of pro-growth public actions. Reforms have both short and long run consequences (some of them unintended) for various income groups, and too little attention has been given by governments and donors alike to their magnitudes. Finally, effective wealth sharing mechanisms – specific to the country context -- must be identified and implemented on a sustained basis. Public investments – for example in basic education, health, or infrastructure for market access -- can be aimed at groups that are not yet benefiting from the expansion of the economy. Initially, such wealth sharing mechanisms may be funded primarily by donor assistance, but as economic expansion takes place, an increasing share of the burden should be taken up from domestic resources. This is important, not only from the point of view of sustainability, but also as a sign of political commitment by the elites to the shared growth agenda.

Making investments in the poor will demand innovation. Governments need to know which segments of the population benefit from particular programmatic commitments, and which may be excluded. Budget allocations must be aligned with wealth sharing priorities. And, well-harmonized support from donors around these priorities will be indispensable. A good example is the recent Free Primary Education program in Kenya, which placed major responsibility with local communities and the schools themselves. The results are encouraging. Enrollments in public primary schools jumped from 5.9 million in 2002 to 7.2 million in 2004, and a massive increase took place in the availability of textbooks. Equally important from the shared growth perspective is that Kenyan parents see every day that their children have access to
improved education. Similarly, in Ethiopia the government’s determination to lessen citizens’ vulnerability to draught and climate change has led to a water-harvesting program intended to create a meaningful safety net for rural communities.

V. Three Building Blocks for Shared Growth.

Given the Africa’s great diversity, shared growth strategies will necessarily need to adapt to local opportunities and constraints. As the East Asian experience has taught, this is an area in which one size emphatically does not fit all.16 Nevertheless, three policy areas can be identified which merit further research and thought as potential building blocks to construct shared growth strategies in many of the continent’s economies. These are (i) managing natural resource revenues; (ii) creating an export push in agriculture and (iii) strengthening sub-regional integration.

Each of these three areas has the potential to contribute to shared growth in different ways. Natural resource revenues accrue primarily to the state, and hence public decision making directly influences their allocation. Governments of mineral exporting economies can invest in both growth promoting assets, such as infrastructure, and in activities to improve the capacity of the poor to participate in growth, such as education, or – as many mineral exporters inside and outside Africa have done – they can dissipate mineral revenues through consumption and corruption.

Most of Africa’s population and the vast majority of its poor live in rural areas. Where poverty reduction has succeeded in Africa in the 1990s it has been attributable

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16 See World Bank (1993a) and Campos and Root (1996) for a presentation of the range of policy instruments employed in the early Asian successes.
primarily to increases in the incomes of rural households (World Bank 2005c). Beginning in the mid 1990s agricultural export production expanded significantly in Africa, responding to improved macroeconomic stability and structural reforms. But agricultural exports remain a small share of total output in most countries on the continent. An agricultural export push thus has the potential to raise both overall and agricultural growth rates and to increase on and off farm incomes in Africa’s rural areas.

Exports – and agricultural exports in particular – are constrained in part by lack of low-cost market access for the large number of landlocked economies in Africa. More than thirty percent of Africa’s population lives in landlocked countries in contrast to about 2 percent of the world’s population. For these economies effective integration with their coastal neighbors is imperative if the benefits of growth in Africa are to be broadly shared across national boundaries as well as within them.

**Managing natural resource revenues**

Forty five percent of all African exports come from the oil and mining sectors, and the volume and range of minerals exports has increased substantially during the last decade (Figure 8). Sixty-five per cent of all the foreign direct investment in Africa during the 1990s was concentrated in oil, gas and mining. Oil revenues for the region are estimated to have increased from $45 billion in 2000 to $81 billion in 2005. Oil production has increased by 26% over the same period and is expected to increase by a further 78% over the next five years. Estimates of the value of the oil price windfall to African oil producers in 2004 range from 9 percent of government revenues in Gabon to 56 percent in Equatorial Guinea.
These are substantial public resources available to African governments. However, much more attention to the management of revenues from natural resources is needed if their promise of supporting shared growth is to be realized. Ironically, African countries dependent on oil, gas and mining tend to have weaker political institutions, higher rates of poverty and higher inequality than non-mineral dependent economies at similar levels of income. Resource rich countries often lag in overall development, with higher levels of child malnutrition, lower educational outcomes, and shorter life expectancy.\textsuperscript{17}

Yet, natural resource wealth can be an effective driver of shared growth. Chile, which has been the fastest growing Latin American country for the past 15 years has relied almost entirely on exports of natural resource products, accompanied by openness to trade and Foreign Direct Investment.\textsuperscript{18} Technological innovation — supported by the resource rich sectors — helped sustained, broad based growth. Indonesia, another important natural resources exporter, successfully pursued a twenty-five year policy of using a share of its petroleum revenues to increase the productivity of small holder agriculture, through targeted fertilizer subsidies and massive investments in rural infrastructure (roads, irrigation, market infrastructure and water systems). Labor intensive public works made jobs available to unskilled workers willing to work a local market wages. Between 1970 and 1998 roads increased at a rate of 8.3 percent per year. (Timmer, 2005; World Bank, 2005c)

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\item[17] Eifert et. al. (2003)
\item[18] de Ferranti et. al. (2001).
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A new approach to natural resource revenue management in Africa will require transparency in accounting for the portion of revenues accruing to governments from the sale of natural resources. Here, there are some encouraging signs, such as the voluntary application of “publish what you pay” under the UK sponsored Extractive Industries Transparency Initiative. It is significant that Nigeria, Africa’s largest oil producer, has embraced the Initiative, but many other African mineral producers continue to keep revenues from public scrutiny. Second, fiscal systems should ensure that surpluses accumulated when commodity prices rise are managed so that countries have a cushion when world prices fall. This can be accomplished by the consistent application of fiscal rules or by the creation of various stabilization mechanisms, but neither practice is widespread in Africa. Moreover, it is important that in federal systems, state and district governments play their in implementing, responsible fiscal management. Third, the ability to translate natural resource wealth into broadly shared growth and poverty reduction rests on public expenditure programs, through which countries establish priorities and allocate available resources to support them. Continued attention to building the capacity of African public expenditure systems to identify, prioritize and evaluate expenditures is essential.

There is a substantial literature on the political economy of natural resources exporters in Africa to suggest that undertaking these changes will not be trivial.  Commodity windfalls have been associated with the prevalence of conflict (Collier and Hofler 2002) and rent seeking behavior. (Bates 1983, Sklar 1991) According to the prevailing wisdom, the concentration of fiscal resources tends to encourage excessive and imprudent investment, while oil revenue distribution through protection of favored activities or firms creates high deadweight costs and encourages corruption. (Gelb 1988, Auty 1998, Eifert, Gelb and Tallroth 2003).
to undermine the effectiveness of institutions designed to limit discretionary behavior in resource revenue management. Substantial new research is warranted – particularly by Africa’s international development partners – into how governments in Africa (such as Botswana and more recently Nigeria) have dealt successfully with these pressures with a view to promoting the more widespread adoption of good practices.

Support for these changes must also come from industrialized nations. Multinational companies, with the active encouragement of their home governments, need to recognize the need for transparency in accounting for revenue, royalty and production sharing payments. Voluntary codes of conduct can also encompass investing in communities, and recognizing the necessity for community participation in mitigating environmental degradation, social disruption, and workplace hazards. Government and industry can also work together, not only to protect local communities from the harmful effects of extractive projects, but also to make sure that these communities are among the very first to benefit from projects that lead to increased natural resource revenue.
Creating an Export Push in Agriculture

The vast majority of Africa’s poor live in rural areas and derive their incomes from agriculture. Thus, poverty levels tend to be highly responsive to agricultural growth. In Uganda for example between 1992 and 2003 agricultural growth accounted for over 50 percent of the reduction in head count poverty (Okidi et. al., 2005). In Ghana between 1991/92 and 1998/99 growth in agricultural incomes resulted in about 44 percent of the reduction in poverty (Aryeetey and McKay, 2004). Yet agricultural productivity in Africa lags that of other developing regions both in terms of output per unit of land and output per unit of labor (Byerlee and Jackson, 2005).

Limited technology for arid agriculture, low access to existing technology – often as a consequence of poor extension systems – and declining investments in rural infrastructure all combine to limit productivity change in African agriculture (World Bank, 2005). Ghana for example allocated only 2.5 percent of its total budget to agriculture and Uganda only 1.5 percent, contrasted with Bangladesh where more than 12 percent of the budget was directed toward agriculture. Failure to resolve land tenure issues and to clearly define the boundaries between public and private roles in such areas as credit, input supply, and marketing also constrain private investments.

Redressing the imbalance in policy attention and public expenditures toward agriculture is likely to require the development of an “agricultural lobby” in many African economies. Such a lobby can emerge from the most rapidly growing segment of African agriculture, the export sector.
As Asian economies grow, especially those of China and India, there is strong potential for increased agricultural exports to Asia in a range of products for which demand rises as incomes rise. The 1990s saw a steady increase in food exports to Asia from sub-Saharan Africa (Figure 9). Europe and North America also represent important market opportunities in such non-traditional agricultural exports as horticultural crops, cut flowers, and processed agricultural products. Kenya‘s success in flower and horticulture exports, has generated over 100,000 jobs. There have also been major export expansions in Senegalese vegetables, roses from Ethiopia and shrimp from Madagascar.

Growth of export agriculture in Africa has had both a direct and indirect poverty impacts. In Ghana and Uganda, poverty headcounts among those engaged in export agriculture declined significantly during the 1990’s, even though rural poverty and poverty among those engaged in food crop agriculture increased during the same time period (Table 2). Increased agricultural exports also had positive spillover effects. As export crops expanded, there were concurrent productivity gains in food-crops. This was apparently the result of increases in the number of providers and improvements in the quality of inputs and services, and of infrastructure improvements. These improvements in rural infrastructure and services while targeted at the export sector, also helped other farmers who made use of the same roads, inputs, and services.

Non-traditional exports including flowers, horticultural crops and processed foods may also offer benefits to the economy at large. Non-traditional exports, including those from agriculture offer possibilities for African firms (and farms) to learn how to

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20 See World Bank (2004c) for a comprehensive review of the emerging patterns of Asia-Africa trade.
penetrate external markets, how the handle the complex logistics of international trade, and how to master new technologies, lessons which may be used and adapted to other lines of economic activity and which can help to raise productivity. Chile’s fresh fruit production for example involves high levels of technology application, with valuable knowledge generation and important spillover effects for the rest of the economy (de Ferranti et. al., 2001).

Pushing agricultural exports will require a renewed focus on the key constraints affecting Africa’s rural economy. Access to markets and inputs is crucial. Africa has 7 km of navigable roads per 100 square kilometers of land — compared to 170 kilometers in Europe. In Burkina Faso and Zambia the road density is 5-7 percent that of India in 1999. Because of poor market access more than three-fourths of African farmers are isolated from national and world markets (Table 3). Kelly and Byerlee (2004) estimate that 60 percent of the rural population in Africa lives in areas of good agricultural potential but poor market access. The consequences of high transport costs and limited infrastructure are particularly severe for exporters. Due primarily to high transport margins African coffee producers receive a farm gate price that is 30 percent below the price received by Vietnamese producers (Diao, et. al., 2005).

Resolving land tenure issues equitably will also be important in many countries. Clarity of ownership and tenure can significantly affect levels of investment in agriculture, and facilitate innovation. Land issues present themselves in a variety of way across the continent, requiring custom made institutional reforms. In Uganda for example the Land Act of 1988 has yet to be fully implemented, due to the cost and complexity of its procedures, but it has made traditional methods of resolving tenure
disputes illegal. Thus, tenants (importantly including women) protected under the law remain without secure tenure and access to collateral (Okidi, et al., 2005). In Ghana difficulties facing non-community members in gaining access to land, constrain commercial farming (Aryeteey and McKay, 2004).

The global system must also open up. African farmers now face a trading system that is in many ways stacked against them. West Africans face damaging cotton subsidies, estimated to cost $250 million a year. Cascading tariffs that penalize agricultural producers when they process or add value are harmful throughout the continent (Figure 10). In Asia, tariffs for cocoa powder, for example, are nearly four times those for cocoa beans. Those for vegetable oil in contrast to oil seeds carry an even larger penalty. The need to level the playing field globally, and build an international environment that supports development, including in agriculture requires that the industrialized nations (including the rapidly industrializing countries in Asia) assign high priority to successful completion of the Doha Round.

**Strengthening Sub-regional integration.**

For a widespread agricultural export push to succeed in Africa, better integration of its economies is essential. Many of Africa’s agricultural exporters are landlocked or far from the coast. A land-locked country in Africa has 50 percent higher transport costs and 60 percent lower trade volumes than a typical costal economy.\(^21\) Africa trades very little with itself. Intraregional trade as a share of GDP was 5.3 percent in 2002, trailing East Asia (26.5%), Europe and Central Asia (15.3%) and Latin America (6.4%) and

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\(^21\) Ndulu (2004).
exceeding only the Middle East and North Africa and South Asia. Sub-regional trading arrangements in Africa provide an opportunity to boost growth, if they can be strengthened and rationalized. But today, Africa’s Partnership Trade Agreements (PTAs) and Regional Trade Agreements (RTAs) present an almost overwhelming confusion of overlapping boundaries and objectives. Figure 11 reproduces the “spaghetti bowl” pattern of PTAs highlighted in the World Bank’s (2005a) report on *Global Economic Prospects*. Forty-eight countries in Africa belong to at least one regional trading bloc, with an average of four per country and a maximum of nine. In Africa about one half of the pairwise trade relationships covered by a regional trading agreement are also covered by another agreement. The associated myriad of rules and procedures – customs procedures, rules of origin, technical standards, etc. – strains both national and regional institutions charged with administering trade, and this complexity undermines trade facilitation.

Focusing Africa’s regional economic groupings on trade and transport facilitation, including investments in regional infrastructure, is an important first step in achieving “open regionalism”—using regional approaches to enhance global competitiveness. Poor trade logistics act as a tax on exports and impose particularly large penalties on the regions land locked countries. Customs delays, roadblocks, arbitrary costs at the borders all tax trade within Africa. Crossing a border in Africa can cost the equivalent of more than 1000 miles of inland transport, contrasted with the equivalent of 100 miles for a similar crossing in Europe. In 2003 delays in the Beit bridge border crossing between Zimbabwe and South Africa led to a loss to shippers of $1750 per vehicle, equal to the
cost of a container shipment from Durban to the United States. Harmonizing national regulations can also play an important role in facilitating trade. Axel load regulations differ for example in Namibia, Botswana, and Zambia, making it possible for a trucker fully in compliance in one to be in violation in another. West Africa is characterized by a plethora of bilateral transport treaties, making a regional approach to harmonization of regulations extremely difficult.

The Economic Partnership Agreements currently under discussion with the European Union have the potential to reinforce the tendency toward outward looking regional trade groupings. To do this, however, the agreements would need to address such key issues as rules of origin, trade in services, temporary location of persons, and standards.

VII. Conclusions

This paper began by asking whether the debate on pro-poor growth in Africa made sense from a public policy point of view. In the 1990s, donors and development practitioners widely shared the view that growth alone was insufficient to ensure acceptable increases in the incomes and capabilities of poor people, and as African governments designed their first generation of poverty reduction strategies, they tended to pay greater attention to allocating public expenditures toward delivering services to identified groups of the poor than to the public actions needed to spur growth. The

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22 See World Bank (2005).
24 This formulation was at the heart of the Poverty Reduction Strategy approach adopted by the World Bank and the IMF in 1999 and subsequently adapted to a wider “development architecture” in the Monterrey Consensus emanating from the UN Financing for Development Conference in 2002.
simple fact, however, was that African economies were not growing, making sustained poverty reduction impossible.

Drawing on the experience of a number of successful East Asian countries, this paper advocates creating shared growth strategies in Africa. These shared growth strategies differ from “pro-poor growth” as it has normally been conceived by the development community, in that they do not take the growth of income of the poor as the primary objective of public policy. Rather, they combine a focus on growth – using all of the public policy means available to create and sustain growth – with specific actions – in education, health, rural development, and micro and small enterprise development for example – designed to equip the poor to participate in and benefit from growth. In this way they recognize explicitly that the pursuit of growth without pro-poor policies may risk bypassing the poor, but equally that a myopic focus on pro-poor policies, may risk diverting attention from growth. The link between growth and poverty reduction in a shared growth strategy is both direct – as rising household incomes draw some of the poor out of poverty -- and indirect – as rising fiscal revenues linked to growth permit improvements in the volume and quality of the public investments directed at bringing the poor into the economic mainstream.

The three areas of public policy outlined in the paper – managing natural resource revenues, pushing agricultural exports, and deepening regional integration – illustrate some of the means by which shared growth strategies might be pursued in Africa. In the case of mineral exporters the state has the opportunity to make both pro-growth and pro-poor investments, if it can manage the political and institutional complexities of good fiscal management in a resource rich economy. Agricultural exports have the capacity to
serve as both a driver of growth in their own right, possibly with important spillovers to
the rest of the economy, and as a means to create a “rural lobby” for the investments and
institutional changes that can lead to more broadly based agricultural growth with its
attendant strong impact on poverty reduction. Effective regional integration is essential if
Africa’s land locked economies are to deepen their links to the global economy, moving
the shared growth agenda to the pan-African plane.
References


Table 1 Cross country evidence on pro-poor growth

<table>
<thead>
<tr>
<th>Anti-Poor Recession</th>
<th>Yrs</th>
<th>g</th>
<th>g20</th>
<th>Broadly Shared Growth</th>
<th>Yrs</th>
<th>g</th>
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Table 2 Export agriculture has a strong pro-poor impact

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### Table 3: Lack of Market Access in Sub-Saharan Africa

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<th>Low Agricultural Potential (percent)</th>
<th>Medium to High Agricultural Potential (percent)</th>
<th>Total (percent)</th>
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<td>Poor Market Access</td>
<td>18</td>
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<tr>
<td>Medium/Good Market Access</td>
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<td>23</td>
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<td>Total</td>
<td>18</td>
<td>83</td>
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Kelly and Byerlee (2004)

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#### Figure 1a: Evolution of Per Capita Income and Per Capita Income of Lowest Quintile in Developing Countries

![Graph showing the evolution of per capita income and per capita income of the lowest quintile in developing countries](image)


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#### Figure 1b: Evolution of Per Capita Income and Per Capita Income of Lowest Quintile in East Asia and Pacific

![Graph showing the evolution of per capita income and per capita income of the lowest quintile in East Asia and Pacific](image)

Figure 1c: Evolution of Per Capita Income and Per Capita Income of Lowest Quintile in South Asia


Figure 2: Growth by region, Africa has lagged behind: Real GDP per capita, annual average percentage change

World Bank (2005a)

Figure 3: Number of people living on less than $1 per day, (millions)

East Asia: Average GDP per capita growth of 5.9%

SSA: Average GDP per capita growth of -0.7%
Figure 6b: Ghana, household consumption changes, bottom 20% vs. the mean

Figure 6c: Uganda, household consumption changes, bottom 20% vs. the mean

Figure 6d: Burkina Faso, household consumption changes, bottom 20% vs. mean

World Bank (2004e, 2004f)
Figure 7: Inequality changed more than we thought

![Gini coefficient comparison chart]

World Bank (2004g)

Figure 8: Countries with significant increase in export of mining and minerals

![Chart showing countries with significant increase in export of mining and minerals]

World Bank (2004c)

Figure 9: Trend in non-oil exports to Asia from SSA, excl. S. Africa

![Chart showing trend in non-oil exports to Asia from SSA, excl. S. Africa]

World Bank (2004c)
Figure 10: Tariffs on raw materials and processed goods, respectively

UN (2004)

Figure 11 Overlapping partnership trade agreements

World Bank (2004h)

AMU: Arab Maghreb Union
CBI: Cross Border Initiative
CEMAC: Economic & Monetary Community of Central Africa
CILSS: Permanent Interstate Committee on Drought Control in the Sahel
COMESA: Common Market for Eastern and Southern Africa
EAC: East African Cooperation
ECOWAS: Economic Community of Western African Studies
IGAD: Inter-Governmental Authority for Government
IOC: Indian Ocean Commission
SACU: Southern African Customs Union
SADC: Southern African Development Community
WAEMU: West African Economic & Monetary Union