

*Part 3*





*Pro-poor growth strategies that  
reflect country conditions*

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The relationships between poverty, growth and inequality in the 14 countries in the 1990s and early 2000s confirm the importance of growth for poverty reduction. They also indicate that the growth-poverty relationship, while strong, is not invariant across countries. And they suggest that while economic growth led to significant poverty reduction in the 14 countries in the 1990s, some poor households were less able to take advantage of the opportunities generated by faster growth.

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### **Policy lessons for pro-poor growth**

The macro, structural and sectoral policies of the country cases in the 1990s and how they affected the ability of poor households to increase their agricultural and nonagricultural earnings provide several important policy lessons. Five policy messages emerge for agriculture:

- First, investments in infrastructure connect poor households with economic potential to higher growth markets in small towns and urban areas, particularly in the low income countries of Sub-Saharan Africa and remote areas of the Asian and middle income countries in the sample.
- Second, strengthening property rights of poor households, and in particular women, and reinforcing market institutions that support fair and equitable land transactions strengthen the investment incentives for small farmers and facilitate out-migration from agriculture.
- Third, creating an incentive framework that does not discriminate against those economic activities where poor households are engaged (as was the case prior to the reforms for export crops in many African countries) is essential for pro-poor growth. In addition, when carrying out price and trade policy reforms, which will expand long-run growth opportunities, there may be some short-run transition costs that are particularly difficult for poorer farmers to incur.
- Fourth, improving the technology available to both men and women smallholders in arid climates, particularly foodcrop producers, raises the incomes of poor rural households and helps meet rising urban demand for food products, particularly in Sub-Saharan Africa.
- Fifth, helping poorer households reduce and cope with risk helps avoid deprivation but also has important secondary effects through

encouraging poorer households to invest in higher yielding but higher risk activities.

Strong growth in services and industry increased earnings in non-agricultural employment. But to help poor workers reap the benefits of nonagricultural growth, the study identified four policy lessons:

- First, the quality of the investment climate, including the macro and trade framework, and the incentives for labor-intensive production (labor market regulations, overall regulatory framework for formal enterprises, manufacturing export promotion policies) determine the quality and quantity of employment opportunities for poor workers, particularly in the more attractive formal sector.
- Second, access to secondary and girls' education is important for poor households, given the growing skill bias of nonagricultural employment. Increasing girls' education, associated with falling fertility rates and rising female labor market participation, is essential in a pro-poor growth strategy.
- Third, designing labor market regulations that balance workers' needs and employers' needs, while reflecting the country's capacity to implement the regulations, can expand attractive employment opportunities for poor workers in the formal sector.
- Fourth, increasing infrastructure access stimulates growth of non-agricultural earnings in poorer areas. Greater spending is required, but so is addressing the institutional quality of service delivery and ensuring that core infrastructure inputs are provided together (for example, roads and electricity).

*Six country characteristics were particularly relevant for the case study countries*

### Country conditions affect pro-poor growth priorities

The priorities, phasing and implementation of pro-poor growth strategies will differ across countries. As with growth strategies, the binding constraints that need to be addressed to enhance the ability of poor people to participate in growth will depend on country conditions. Six country conditions that were particularly relevant for the case study countries are:

- *Population density and its degree of urbanization.* A country's population density and degree of urbanization determine the extent to which transaction costs and remoteness preclude rural households from participating in growth and the relative importance of a targeted infrastructure strategy. For example, in Bangladesh transaction costs are less of a constraint than in Uganda, where the population density is much lower. Variations in population density within countries also influence regional priorities. In Viet-

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nam transaction costs may not be a major constraint for rural entrepreneurs in the Southwest, but they are for producers in the remote Northern mountain region.

- *Asset and income inequality.* The initial asset and income inequality influences the poverty-reducing impact of future growth. It may also reveal gender or ethnic discrimination or other inequality traps that keep certain groups from having an equal footing in factor or input markets.
- *Importance of agriculture.* The relative importance of agriculture in the economy and the workforce determines the need to raise agricultural earnings or encourage mobility. For example, in Uganda where 90 percent of poor households are in rural areas and 80 percent of the workforce is engaged in agriculture, promoting sectoral growth for smallholders and sectoral mobility will be central to the country's pro-poor growth strategy.
- *Importance of climatic variability.* Climatic instability affects agricultural earnings and the need for risk management initiatives to protect poor farmers and to encourage their investments in higher yielding but riskier activities.
- *Fertility.* The fertility rate indicates how women, particularly poorer women (since they tend to have higher birth rates), can participate in the workforce. Where the fertility rate remains high, as for most of Sub-Saharan Africa, countries should accelerate girls' education.
- *Institutions.* The quality and capacity of institutions (accountability and transparency) for service delivery affect how much public investments can help link the poor to growth.

### **Country analysis of growth-poverty linkages**

These country conditions are only some of the characteristics affecting the design and implementation of pro-poor growth policy packages. Strategies need to be built around a thorough analysis of what limits the participation of poor households in the growth process in specific countries. Annex 1 outlines 10 lines of enquiry to consider in designing country-specific studies to understand growth-poverty linkages. The main elements of growth-poverty analysis are discussed here.

The analysis needs to start with a good understanding of poverty trends, the distributional pattern of growth and the evolution of sources of income for poor households. Panel data on how income-generating strategies of poor men and women have evolved over time, if available, would help in understanding sectoral mobility, the variability in earnings and income and the extent to which households can shift to areas of faster growth.

The analysis would then evaluate the patterns of economic growth, along with key macro and structural policies affecting growth trends (price, trade, labor market regulations, quality of investment climate in urban and rural areas). Because political economy considerations affect the design of structural policies, it would be important to understand the concerns of key proponents and key opponents for, say, labor and land market policies and agricultural pricing.

Understanding market participation rates and how they vary for different regions and groups (by gender, ethnicity, occupation, education) can help identify some of the key constraints that make it difficult for poor households to share in the benefits of growth. For example, identifying households who are participating in land rental markets can provide insights on the evolution of land distribution and on the households that are intensifying or reducing their involvement in agriculture.

Because public expenditures are one of the most important instruments in a pro-poor growth strategy, determining the incidence of education and infrastructure spending as well as the quality of service delivery (particularly if governance is an issue) is a core part of the analysis.

### **Areas for further research**

The experience of the 14 countries in the 1990s underscores three broad areas of future research to help policymakers understand how to increase the participation of poor households in growth and accelerate poverty reduction.

- First, moving from agricultural to nonagricultural employment was important in raising the incomes of poor households in many countries. But there is also evidence that the more educated, better connected workers were more successful in this regard. Understanding how sectoral mobility might be enhanced is an important area for further research.
- Second, the impact of growth was uneven across regions within countries. Understanding how to craft public investment strategies that can address subregional constraints is another important area for further analysis. The findings may differ for low and middle income countries and be particularly important for countries with decentralized governments.
- Third, political economy considerations often affect the distributional outcomes of structural and investment policies, often at the expense of poor households. Understanding how efforts to make governments more accountable can enhance the ability of the poor to participate in and influence government processes is also an area for further explanation.

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The 1990s saw a substantial reduction in poverty (in its income dimension) across much of the developing world. But the decline was uneven across geographic areas, with East and South Asia, especially China and India, accounting for large reduction, while Sub-Saharan Africa made little progress. Although the country studies do not provide all the answers for this differentiated performance, they do give useful insights on how to better integrate short-term and long-term policies to increase the impact of growth on poverty reduction. While policymakers cannot systematically “trade less growth for more equity,” they can and should focus on country-specific interventions that make growth more poverty-reducing. Ensuring that national planning and strategic processes, such as poverty reduction strategies, take more fully into account the factors discussed here, and how they apply to different countries, will be a key ingredient for reducing poverty more rapidly in the coming decade.