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Promoting Pro-poor Growth
Policy Guidance for Donors

PART III

Chapter 16

Advancing the New Agenda

In recent decades the context for developing and implementing policies for agriculture has changed fundamentally. Conditions in markets important for poor producers have deteriorated, partly as a result of protectionist measures in the developed world. The policy context guiding public investment in support of agriculture has been revamped. New health shocks and other forms of shock are changing the demographics in rural areas and having major impacts on productive capacity. And the natural resources supporting agriculture are coming under pressure from processes of environmental change.

The new conditions demand a new agenda, an agenda that includes many traditional approaches to agriculture – but that extends them to support pro-poor growth in agriculture. Some of the new agenda is about delivering on such neglected fundamentals as infrastructure and new technologies and the specific needs and contributions of women producers. Some is about looking at five rural worlds and coming up with policies, institutions and investments that increase the productivity of households in all five. Some is about supporting diversified livelihoods off the farm. And some is about reducing risk and vulnerability.

In advancing the new agenda, policy makers will need to broaden their understanding of poor rural households' livelihoods and work more closely with other sectors. They will need to identify and develop new institutional arrangements, using the best of both public and private sectors, to fill the gaps in markets important to the agriculture of the rural poor. And they will have to develop clear, ambitious visions for agriculture in their countries and ensure that they become central to national strategies. Donors can facilitate the involvement of rural stakeholders in shaping these policies, institutions and investments to ensure that they respond to livelihood needs and promote pro-poor growth processes.

Principles of the new agenda

Against this background, this chapter highlights the four key principles of engagement with developing country partners. These principles are essential in defining how the new agriculture agenda should be promoted, and how the investment and policy options proposed under the new agenda should be articulated. These principles are:

- Adapt approaches to diverse contexts.
- Build institutions and empower stakeholders.
- Support pro-poor international actions.
- Foster country-led partnerships.

Adapt approaches to diverse contexts

Current reality in rural areas is defined by a highly diverse range of stakeholders involved in agriculture – with considerable variation in their assets and access to markets and how institutions promote or constrain their interests. To address the needs of the rural poor, policy needs to be informed by the dynamics in these processes. That, in turn, must be based on an understanding of the place of agriculture in the rural economy and in people's livelihood strategies, the productive potential of the land and labour involved in agricultural production as well as opportunities for agricultural enterprises.

The typology of five "rural worlds" can guide policy makers in understanding the diverse rural and agricultural systems and dynamics and respond with appropriate pro-poor policies. These rural world categories are not mutually exclusive. By using a more differentiated analysis based on people's livelihoods, it makes clear that poverty is located unevenly across and within rural populations, that policy in and for agriculture affects different groups in different ways and that the actions of one group of rural people can improve or impair the livelihoods of others. Indeed, the implication of such analyses is that policy should be primarily focused on facilitating, not prescribing, actions that will help people enhance their own strategies and improve their quality of life.

Local contexts vary in their agro-ecological potential and in the accompanying economic transformation – the contribution from agriculture is high in the early stages and declines as the economy diversifies and other sectors become more important. Public policy linked to agriculture should be tailored to a country's agro-ecological potential and the stage of transformation that it has attained. Policies need to be flexible enough to adapt to success and allow for resources to be transferred to other areas of the economy. Poverty will be reduced further if policy can promote productivity gains for small-scale, labour-intensive operations, recognising the gender division of labour in agriculture tasks. Other contexts could require an emphasis on generating employment from large-scale commercial operations.

Box 16.1. **Policies "for agriculture" and "in agriculture"**

Agricultural policies are about the direct promotion and regulation of the agricultural sector and include research, extension, producer education, inputs and credit, agricultural processing and markets. While these policies are at the heart of agricultural development, they are surrounded and supported by other policies that clearly affect, albeit indirectly, the agricultural sector. Such policies can be labelled as policies "for agriculture" – in contrast to policies "in agriculture". They include education, transport and communication infrastructure and private sector development. These policies "for agriculture" can ensure that the potential released through sound policies "in agriculture" are translated into effective and sustainable pro-poor growth. Without complementary and supportive policies "for agriculture", policies "in agriculture" will not deliver pro-poor development goals.

Build institutions and empower stakeholders

Much of the failure of agriculture to achieve its potential is essentially institutional. Support by the state has been widely discredited and unresponsive to the needs of producers and the poor. It has been inefficient in marketing producers' output, sometimes preventing the natural development of markets for producers. Public institutions need to be strengthened in their capacity to develop an appropriate blend of policy, regulatory frameworks and investments to re-launch and support the agricultural sector. At the same time, the role of private sector institutions in agriculture needs to be strengthened to help address a range of problems including limited access to financial services including credit and risk management instruments, to key inputs such as seed and fertiliser, and to output markets. These problems are often magnified for female producers.

A strategy to strengthen institutions must also develop the skills, the capacity, and organisation of poor rural producers to maximise their input in the policy processes and enable them to analyse and articulate key requirements for pro-poor growth through agriculture. In this way, the focus of policymaking may shift from the claims of competing vested interests, which frequently disadvantage the poor, to a more evidence-based dialogue. A stronger voice should also increase the accountability of the state to those representing the interests of the poor. There is clearly a need to develop innovative solutions that exploit the strengths of the public and private sectors and empower the rural poor through producers' organisations, associations and NGOs, including those that specifically represent the needs of female producers (Russo, 2005).

A major challenge, particularly in public extension and research services, is the capacity of the institutions themselves to deliver client-focused services for households in Rural Worlds 2 and 3. Years of under-funding and relative neglect have greatly weakened the capacity of these institutions to deliver in the new agricultural environment, which requires a demand-led rather than supply-led approach. Producers' associations can enhance agricultural household capacities, reinforcing the learning experience and promoting the dissemination of locally adapted technology.

Support pro-poor international actions

Three important processes can have major impacts on the successful implementation of the new agenda for agriculture. One is the **global trade negotiations** to reduce agricultural subsidies, a high priority for most developing countries. A second is the outlook, particularly since the G8 summit at Gleneagles, for a **major scaling up of aid** in response to the challenge of meeting the Millennium Development Goals. A third is the multi-donor commitment to **improve aid effectiveness**, as set out in the Paris Declaration at the Second High-Level Forum on Aid Effectiveness, 28 February – 2 March 2005. The way these processes play out in the short and medium terms will have an important bearing on conditions for enabling pro-poor growth through agriculture – and on the opportunities for achieving the Millennium Development Goal for reducing income poverty and hunger.

The 2005 WTO ministerial in Hong Kong achieved progress on agricultural subsidies and the provision of aid for trade but may fall short on providing effective market access for developing countries, particularly the least developed. Ministers reached agreement to eliminate, by the end of 2013, all agricultural export subsidies and export measures with equivalent effect such as food aid and other forms of export credits and state trading practices. Export subsidies for the cotton sub-sector will be dropped by the end of 2006, which may have significant benefits for poor West African producers. Domestic subsidy cuts will be deeper and faster than for other agricultural products. And the aid effort for the cotton industry will be further scaled up and better integrated under the special ongoing cotton consultation. The value and impact of these decisions for developing country agriculture however, will undoubtedly depend on a much wider range of factors, including domestic reforms and overcoming supply side capacity.

As noted at the G8 Gleneagles Summit, OECD members have committed to raising aid by nearly USD 50 billion a year by 2010 in order to step up the fight against hunger and poverty. Aid to Africa will be doubled in that period. For agriculture, G8 heads agreed to "support a comprehensive set of actions to raise agricultural productivity, strengthen urban-rural linkages and empower the poor", based on national initiatives and in co-operation with the African Union (AU)/NEPAD Comprehensive African Agriculture

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Box 16.2. **The aid effectiveness agenda**

The aid effectiveness agenda and the commitments made in Rome and Marrakech in 2004 entail four broad areas: ownership, alignment, harmonisation and managing for results. Because these principles apply to aid management and aid delivery systems, they are as relevant for agriculture and pro-poor growth as they are for other sectors and for development co-operation more broadly.

Ownership

This refers to the degree by which partner countries exercise effective authority over their development policies, strategies and co-ordination. Locally owned country development strategies, according to DAC good practice principles, emerge from an open and collaborative dialogue by local authorities with civil society and with external partners about shared objectives and their respective contributions to the common enterprise. Each donor's programmes and activities should then operate within the framework of that locally owned strategy in ways that respect and encourage strong commitment, participation, capacity development and ownership.

Alignment

Donors agree to base their overall support on partner countries' national development strategies, institutions and procedures. Partner country strategies should be linked to multi-year expenditure frameworks and the national budget. Donor strategies, policy dialogue and co-operation should be based on partner strategies and annual progress reviews. Using a country's own institutions and systems, where these provide assurance that aid will be used for agreed purposes, increases aid effectiveness by strengthening the partner country's sustainable capacity to develop, implement and account for its policies to its citizens and parliament. Country systems and procedures typically include national arrangements and procedures for public financial management, accounting, auditing procurement, results frameworks and monitoring.

Harmonisation

Recognising that management of different donor procedures contributes to high transaction costs, donors are committed to implement, where feasible, common arrangements at the country level for planning, funding (such as joint financial arrangements), disbursement, monitoring, evaluating and reporting to government on donor activities and aid flows. One way to achieve harmonisation is to rely increasingly on sector and budget support and less on project approaches. Donors will also work towards a more pragmatic division of labour according to their comparative advantages to avoid fragmentation of aid and strengthen incentives for management and staff. These principles are particularly important in fragile states, which may draw large numbers of development actors and a proliferation of activities.

Managing for results

Managing for results focuses on strengthening performance and accountability in the use of development resources. Partner countries are to link their development strategies to realistic annual and medium-term budget processes and establish assessment frameworks. Donors are to rely as much as possible on partner country monitoring and evaluation systems. To strengthen accountability for development, partner country consultative processes and the role of parliament in approving development strategies and monitoring should be reinforced.

Development Programme (CAADP) and other African initiatives. Africans recognised the need to increase investments in sustainable agriculture as "the most important economic sector for most Africans" and committed to invest 10% of their budgets in agriculture.

Implementing the new agenda for agriculture is guided by, and anchored in, the aid effectiveness agenda agreed to by donors as good practice in the Paris Declaration which was endorsed at the Second High-Level Forum on Aid Effectiveness, 28 February – 2 March 2005. This agreement provides a well defined road map for increasing development effectiveness. It focuses on the need for a collective effort to enhance partnership commitments, align donor support to partner countries' development strategies, institutions and procedures, harmonise donors' actions around partners' development strategies to minimise transaction costs, manage resources with a focus on development results and improve mutual accountability for development results (Box 16.2).

Foster country-led partnerships

The aid effectiveness agenda, articulated in the Paris Declaration, calls for an ambitious reform in the way aid is managed and donors should be guided by those principles in helping countries unlock agriculture's potential contribution to pro-poor growth. National poverty reduction strategies (PRSs), the main point of reference for operationalising the aid effectiveness agenda in countries, are critical in implementing the new agenda for agriculture. But agriculture and rural development have been neglected in past PRSs, largely due to an inadequate understanding of the agricultural and rural dimensions of poverty. A key challenge is to redress the imbalance in the PRSs – to raise the profile of the productive sectors in general, and of agriculture in particular.

More attention must be given in particular to the role of effective monitoring frameworks in supporting improved decision making, flexible implementation, and increased accountability of the governments to all PRS stakeholders. Development processes are the outcomes of power, knowledge and information relationships: open monitoring frameworks can help promote the participation of all PRS stakeholders, including rural producers and their organisations, in the development of policies and investments with the aim of influencing and eventually re-orienting their implementation. In this context, donors need to find ways to work effectively with their partners to promote sustainable, country-driven and programme-based development that gives a higher profile to agriculture. More specifically, donors should:

- *Seek to identify and understand local processes relevant for agriculture,* such as PRSs, sector policy frameworks, sector-wide approaches (SWAps), territorial action plans and decentralisation processes and the links among them. Integrating priority areas of the new agenda for agriculture in PRSs will require active co-ordination and priority-setting at a country level, based on country analysis of bottlenecks and opportunities and a national strategy for pro-poor growth.
- *Help developing countries position agricultural and diversified livelihoods within the strategies for growth and poverty reduction.* This can be done by supporting local research capacity and improving mechanisms for the collection and dissemination of sex-disaggregated data and analyses of rural poverty. Better understanding of rural livelihoods is important for mainstreaming policy responses in growth and poverty reduction strategies. Agriculture policy makers must develop a vision and strategy for action and be accountable to their stakeholders.

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- *Identify and engage the stakeholders and institutions that can engender change.* Mainstreaming is possible only if the new agenda for agriculture becomes a priority, and that will happen only with more knowledge, sensitisation and empowerment. The new approach needs to strengthen the rights and influence of the rural poor, especially women. The private sector, producers and their, associations and civil society must all take part in the policy making process and share accountability for results. Engaging the private sector will promote the buy-in to broader reforms and better co-ordination of investments in transport, market infrastructure, services and agricultural research and extension. Engaging small producers and civil society will improve understanding of the constraints and challenges of poor rural women and men.
- *Foster inter-ministerial dialogue and co-ordination mechanisms.* Addressing the challenges of the new agenda will require comprehensive approaches involving many parts of government. Beyond agriculture, the new agenda requires reform in macroeconomic, labour, land, gender equality, trade and tax policies and in science and education. Links to the ministry of economy or finance are key, but so are those to ministries responsible for social protection – to ensure that policies foster a sustained trajectory out of poverty.
- *Support local ownership through decentralisation and the integration of line ministry functions.* Agriculture policy has traditionally been highly centralised, with sector strategy determined and implemented by the line ministry. Decentralised structures of government and service provision provide poor people with a greater say in the design and implementation of policy. These structures, more responsive to local needs, can provide a forum for investment in the infrastructure and services to support agriculture and non-agriculture enterprises activities in rural areas.
- *Identify appropriate financing instruments that take the new agenda into account.* The agricultural sector is poorly represented in the political processes associated with budget negotiations, and the ministry of agriculture is frequently unable to ensure allocations consistent with the importance for poverty reduction. The decision on a financing modality should be pragmatic and impact-oriented, made in close consultation with the government. A variety of mechanisms are currently used to finance agricultural and rural development: SWAps, general budget support, basket or pooled funding to the sector and earmarked or project funding. In practice, none of these options is as distinct as it appears, and most agricultural and rural SWAps are financed through all these mechanisms. Once priorities have been established for financing, predictable and multi-year donor responses will contribute to effective use of aid.
- *Support local efforts to establish open, participatory monitoring frameworks* that enable the rural poor and their organisations to be active in monitoring the implementation of PRSs and SWAps. This will be critical in assessing whether interventions have been instrumental in responding to the livelihood needs of the rural population. The pattern so far with PRSs and agricultural and rural sector approaches is to give more attention to financial management systems and financial reporting than to qualitative reporting and impact monitoring.

Priorities for action in the new agenda

Actions to stimulate agriculture's role in pro-poor growth should, on the basis of the principles above, be used to guide renewed attention to three priority areas:

- Enhance agricultural sector productivity and market opportunities.

- Promote diversified livelihoods on and off the farm.
- Reduce risk and vulnerability.

Enhance agricultural sector productivity and market opportunities

Improving sector productivity and expanding market access is at the core of a more robust agricultural economy. Productivity gains will depend largely on a stable and supportive policy and regulatory framework to remove market distortions and provide an enabling environment for growth. It will depend on investments in new productivity-enhancing technologies and the dissemination of such technologies to the rural poor. Market access will depend on improved physical access and reduced transaction costs, particularly through appropriately targeted infrastructure and better transport services. And it will depend on improved market information through access to information and communications infrastructure and services. This may require interventions targeted towards women as they are the primary food producers and agricultural labourers in many developing countries. More specific actions that can enhance sector productivity and market opportunities would be to:

- *Tailor strategies to the development of expanded markets in food staples and the diversification into markets for higher value products*, according to local productive and market potential. Agriculture strategies have often been supply-driven, prescriptive and narrowly based, and so have failed to reflect local market and productive potential. Strategic support to agriculture needs to facilitate rather than prescribe pathways to growth and to be responsive to local potential, taking into account the diversity within the sector. It also needs to include strategies for both domestic and regional markets as well as for agriculture linked to international trade.
- *Develop institutions to help small-scale producers respond to changing market opportunities and participate in standard-setting processes*. The structure of domestic and international markets is changing rapidly, and small producers face more risk. On their own, they lack the market information and capacity to respond to many of the new opportunities emerging in these markets. Traditional forms of rural organisation have failed, and new, more effective organisational support is needed. Decentralised structures and more genuinely representative organisations will help provide stronger voice and better market access for these poorer producers. Governments should ensure that institutions exist to facilitate the flow of information to rural producers.
- *Develop effective and sustainable financial services for agricultural producers*. Financial services for agricultural producers, particularly small producers, have traditionally been very weak, and the lack of short-term credit has resulted in a failure to invest in such key inputs as seed and fertiliser. Realising the potential of agriculture to contribute to pro-poor growth will depend on financial services tailored to the needs of both women and men producers. Governments and donors will need to be innovative in their use of both public and private resources to develop models that can fill this gap.
- *Improve the functioning of land markets and generate greater incentives for investment by establishing more secure access to land*. Land policy has been a relatively neglected policy area, and the reforms that have occurred have tended to favour men and neglected women's land tenure and inheritance rights. A high priority should be to establish poor rural households' security of access to assets like land and water resources. This issue is also important for those rural producers who need to diversify out of agriculture and

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migrate out of rural areas. This includes a focus on environmentally sustainable policies and institutions that facilitate informal property rights to water, land, forests and grazing land and good management of common natural resources.

- *Recognise the challenges posed by natural resources degradation to sustainable pro-poor growth,* especially where property rights are poorly defined and negative externalities and other market failures are frequent. New policy and legal frameworks should give a high priority to new natural resource management technologies that improve soil management and water productivity – and strengthen institutions that facilitate informal property rights. Adopting the Integrated Water Resource Management framework will be an important step in this direction. Associations dedicated to land use, water management, irrigation or forest use can work with policy makers to help oversee implementation of natural resource management.
- *Improve the functioning of national innovation systems.* National research and extension systems have been ineffective in addressing the needs of producers, especially poorer ones. They have too often had research agendas that reflected the capabilities and interests of researchers rather than the needs of producers. And they have tended to prescribe production strategies without due consideration of producers' productive potential or access to markets. Agricultural research that identifies low-risk and adaptable technologies for improved productivity is critical. Research and extension should always be strongly linked, with plural extension systems to fit the heterogeneous needs of poor producers. Policy needs to stimulate a broader approach to agricultural innovation – involving universities, civil society and the private sector and emphasising the participation of producers in research needs and priorities.
- *Strengthen the knowledge, skills and confidence of agricultural households to adopt and adapt appropriate practices that enhance productivity in a sustainable fashion.* The weak capacity of the vast majority of agricultural households to access, analyse and use new knowledge on improved practices hinders productivity increases on farms. Public, NGO and private agricultural extension services that provide information through an appropriate mix of channels can enhance agricultural household capacities, such as through irrigation and water conservation techniques, while producer organisations can reinforce the learning experiences. Broader education policy that increases literacy in rural areas has a major role in enabling agricultural households to use extension services. A major challenge, particularly in public extension and research services, is the capacity of the institutions themselves to deliver client-focused services for households in Rural Worlds 2 and 3. These services need to be designed to facilitate women producers' access, meet their needs and adapt to their specific situations. Years of chronic under-funding and neglect, relative to other sectors, has greatly weakened the capacity of these institutions to deliver in a new agricultural environment that requires a demand-led rather than supply-led approach.

Promote diversified livelihoods

The connections between the agricultural and non-agricultural rural economies are key drivers of diversified livelihoods. A thriving agriculture sector underpinned by improved sector productivity will expand the rural economy and influence wages and food security. Traditionally, agricultural policy has focused narrowly on increasing agricultural production, neglecting investment in non-agricultural assets for more diversified rural livelihoods while treating as socially undesirable those diversification strategies involving movement out of rural areas. This has skewed policy to support larger, better-off producers, in the process marginalising poorer producers whose livelihoods depend more on markets outside agriculture and rural areas. This calls for government and external partners to:

- *Improve understanding of labour markets and migration patterns and incorporate that understanding in national policies.* Public policy needs to recognise the importance of enhancing people's capacity to access new markets in a diversified economy, establishing conditions for economic development of agricultural and non-agricultural enterprises and removing the political and regulatory barriers to movement out of agriculture and rural areas. This shift in policy would benefit both the landless poor and large-scale commercial producers who depend on workers for their operations.
- *Establish functioning land markets, including rental markets, with secure tenure so that people are more able to move to new forms of economic activity.* Lack of properly functioning land markets has undermined agricultural growth, and insecure access to land has made it more difficult for people to move to other forms of activity. Properly functioning land markets will provide the basis for a more diversified economy and for more secure livelihoods, making it easier for people to raise funds for investment and providing a safety net in periods of economic stress. Governments need to address land tenure to facilitate diversification.
- *Remove constraints to entrepreneurship.* The climate for investment in developing countries is typically clouded by excessively burdensome taxes and business licensing procedures and various forms of harassment of individuals and companies setting up and operating businesses – such as informal or illegal rents, fees and fines by public sector officials. The movement of people from one area or sector to another is often treated as an opportunity for officials to extract bribes. The landless rural poor who depend on selling their labour are most seriously affected by these constraints. Governments need to remove the impediments to create more equitable conditions in a growing and diversified economy with increased livelihood opportunities for the rural poor. There is evidence that technological change in agriculture frees up time for other income-generating activities and for individual and community development.
- *Tailor investments in infrastructure, education and health services to new livelihood patterns.* This means investing in transport and communication infrastructure and services to support enhanced access to markets. It also facilitates movement between rural and urban areas and makes migration easier. Migrants' needs are traditionally either ignored or even discriminated against by government, with poorly serviced urban ghettoes arising as a consequence. Infrastructure planning and implementation should pay attention to the specific needs of women producers and distributors. Policy makers should address these needs by providing services, including education and health, adapted to their livelihood patterns.

Reduce risk and vulnerability

Poor households whose livelihoods depend on agriculture face numerous setbacks, some potentially catastrophic. The general level of risk facing poor rural households has risen in recent decades with increased market exposure linked to globalisation and governments moving away from providing support to agriculture. The onset of the HIV/AIDS epidemic has further weakened the position of poor households, leaving them more

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vulnerable and less able to engage in the productive economy at any level. Women's caring responsibilities for sick household members reduces the time available for food and other agricultural production.

Reducing these levels of risk and vulnerability has to be a central element of pro-poor agriculture policy, not least because it has important production and social protection impacts, but also because it enables poor rural people to engage more fully in markets. Strong synergies exist between social protection and agriculture policy, and many of the desirable public actions could increase the coherence between them.

Risk and vulnerability measures should be mainstreamed in broader infrastructure – fiscal and regional investment policies on the one hand, and in agriculture, migration and related policy spheres on the other. Sharing lessons of experience within and across countries could also be beneficial. Mainstreaming implies the need to:

- *Strengthen national analytical capacity to assess the wider risks and uncertainties*, identify the people most vulnerable to the resulting shocks and stresses and formulate measures to reduce, mitigate or cope with these potential shocks and stresses. Early warning systems should be made more efficient by advances in data collection, management and forecasting infrastructure to enable faster responses. New policies should also be examined through a risk and vulnerability lens to assess the trade-offs, when evident, between promoting growth and reducing risk. Policies increasing the risk of those most vulnerable should be tempered with stronger risk management instruments.
- *Identify infrastructure investments to reduce the exposure of rural households to risk* through climatic events, price volatility and high transport costs. This can include investing in improved transportation, electrification to reduce the risk associated with perishable crops, local grain storage banks to avoid losses, and land and water management to prevent soil erosion and landslides.
- *Invest in agricultural research and development* and promote effective public-private sector partnerships, recognising both male and female producers and their individual needs. Agricultural technology development projects should be aimed at ensuring more predictable and more productive yields and enable poor producers and workers access to existing technologies. Labour-intensive technologies, if competitive, can increase poor households' assets and so reduce their vulnerability to shocks and stresses.
- *Develop institutions to enable poor women and men to mitigate the effects of shocks and stresses and generate working capital to engage in entrepreneurial activities.* Together with appropriate regulation, institutions are keys to unlocking the development of financial services. There is scope to explore and innovate in the use of private market mechanisms, such as weather-based crop insurance, price hedging, and carefully managed buffer stocks. New forms of health care insurance and pension schemes have also been piloted in some areas to provide coverage to the rural poor.
- *When all else fails, develop social safety nets to help poor rural households cope with sudden shocks*. These take the form of predictable social transfers and emergency assistance, in cash or in kind, but their use should be temporary, as and when needed. Appropriate programmes should be designed specifically for Rural World 5 to enable them to "graduate" to more productive activities in other rural or urban worlds.

- *Assess and modify at the international level the numerous instruments affecting risk and vulnerability*, including international trade conventions, exchange rate policy and the policies controlling foreign direct investment and intellectual property rights. These instruments affect the introduction of new technologies and the degree of risk affecting all categories of farmers in developing countries.

Managing the change process

To sum up: in reality, the transformation from a system wholly dependent on low productivity agricultural production and a weak agricultural sector to one that is diverse and dynamic and that presents broader opportunities to poor rural people is not entirely virtuous. It is a process with serious imperfections. The main imperfection is that poverty persists in communities with poor market access, poor natural resource endowments and little political and social capital. Many households remain vulnerable to shocks of various kinds, and their livelihoods are exposed to high levels of risk.

In advancing the new agenda, policy makers will need to broaden their understanding of people's livelihoods and work more closely with other sectors. They will have to develop clear, ambitious visions for agriculture in their countries and ensure that they become central to national strategies. Pro poor policies must remove and relax the barriers and constraints faced by poor households as well as provide new incentives and support for their sustainable participation in more equal, market based relations and exchanges. Donors can facilitate this policy process by supporting capacity building efforts for the institutions that should lead this change process and re-launching of agriculture. Capacity building efforts can support, in particular, institutions:

- Promoting selective public investments, regulating markets, and designing regulatory frameworks in areas critical for the agricultural sector such as trade policy, tax policy, and land reform.
- Representative of poor rural populations, such as small producers' organisations, to analyse and articulate their key requirements for their development and promote their active participation in decision making processes.

So, for policy to be pro-poor, it should take account of the needs of poor rural households. This does not mean that policies in and for agriculture should become social policy. But it strongly suggests that economic policy, including agricultural policy, should be consistent with social objectives and, where possible, address them directly.

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Foreword

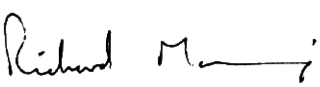
Promoting pro-poor growth – enabling a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth – will be critical in achieving a sustainable trajectory out of poverty and meeting the Millennium Development Goals, especially the target of halving the proportion of people living on less than one dollar a day. Developing and sharing good practice in advancing this agenda has been the focus of the Development Assistance Committee (DAC) through its Network on Poverty Reduction (POVNET) since 2003.

The DAC Guidelines on Poverty Reduction, published in 2001, show that poverty has multiple and interlinked causes and dimensions: economic, human, political, socio-cultural, protective/ security. The work of POVNET since then has given priority to addressing strategies and policies in areas that contribute to pro-poor economic growth, with particular attention to private sector development, agriculture and infrastructure. POVNET has sought to build consensus on the key underpinnings of pro-poor growth and to explore recent thinking on risk and vulnerability and ex ante poverty impact assessment.

This compendium summarises the conclusions and recommendations coming out of POVNET's work on growth and poverty reduction. The key messages are as follows:

- Rapid and sustained poverty reduction requires pro-poor growth, as described above.
- Policies to tackle the multiple dimensions of poverty, including the cross-cutting dimensions of gender and environment, are mutually reinforcing and should go hand-in-hand.
- Empowering the poor is essential for bringing about the policies and investments needed to promote pro-poor growth and address the multiple dimensions of poverty.

For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient. This compendium provides specific guidance to donors on how to make their support to pro-poor growth more effective in the areas of private sector development, agriculture and infrastructure.



Richard Manning
DAC Chair

James T. Smith
POVNET Chair

In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the ***Development Assistance Committee****, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

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Acronyms

ACP	Africa, Caribbean and Pacific countries
ADB	Asian Development Bank
AdI*	*Aguas del Illimani*
AFD*	French Development Agency – *Agence Française de Développement*
AKFED	Aga Khan Fund for Economic Development
AU	Africa Union
BDS	Business development service
BLT	Build-lease-transfer
BMZ*	German Ministry for Economic Co-operation and Development *Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung*
BOT	Build-operate-transfer
BOOT	Build-own-operate-transfer
CAADP	Comprehensive African Agriculture Development Programme
CARICOM	Carribbean Community
CEDAW	Convention of the Elimination of All Forms of Discrimination against Women
CEPA*	*Comision Ejecutiva Portuaria Autonoma*
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
COMESA	Common Market for Eastern and Southern Africa
CSO	Civil society organisation
CUTS	Consumer Unity and Trust Society
DAC	Development Assistance Committee
DCI	Development Cooperation Ireland
DFI	Development financial institution
DTF	Devolution Trust Fund
DFID	UK Department for International Development
EPA	Economic Partnership Agreement
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GIC	Growth incidence curve
GTZ*	German Agency for Technical Co-operation *Deutsche Gesellschaft für Technische Zusammenarbeit GmbH*
ICN	International Competition Network
ICT	Information and communication technology
IDA	International Development Association
IFAD	International Fund for Agricultural Development

IFC	International Finance Corporation
IGE	Intergovernmental Group of Experts on Competition Law and Policy
IICA	Inter-American Institute for Cooperation on Agriculture
IMF	International Monetary Fund
IT	Information Technology
IWRM	Integrated water resource management
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KfW*	German Bank for Development – *Kreditanstalt für Wiederaufbau*
MDG	Millennium Development Goal
MERCOSUR*	*Mercado Común del Sur*
MFI	Microfinance institution
MTEF	Medium-term expenditure framework
SME	Medium, small-sized enterprise
MSME	Micro, small and medium-sized enterprise
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental organisation
NORAD*	Norwegian Agency for Development Co-operation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PIA	Poverty Impact Assessment
PIDG	Private Infrastructure Development Group
PIP	Public investment programme
POVNET	DAC Network on Poverty Reduction
PPD	Public-private dialogue
PPP	Public private-sector partnership
PRS	Poverty reduction strategy
PRSP	Poverty reduction strategy paper
PSD	Private Sector Development
PSIA	Poverty and Social Impact Analysis
PSO	Private sector organisation
RADEEF*	*Régie Autonome de Distribution et d'Électricité de Fès*
REDI	Recent Economic Developments in Infrastructure
Seco*	Swiss State Secretariat for Economic Affairs
Sida*	Swedish International Development Cooperation Agency
SME	Small and medium-sized enterprises
SWAp	Sector-wide approach
TAF	Local Capacity Building Technical Assistance Facility
UEMOA*	West African Economic and Monetary Union *Union Économique et Monétaire Ouest Africaine*
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WTO	World Trade Organization
WFP	World Food Programme

* Denotes acronym in original language.

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Promoting Pro-poor Growth
Policy Guidance for Donors

Pro-poor Growth: Policy Statement

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

Three key messages from this work are that:

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

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

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

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

ii) **A pro-poor pattern of growth makes growth more effective in reducing poverty.** Developing countries with similar rates of economic growth have experienced quite different levels of economic poverty reduction, due to initial conditions and whether growth occurs in areas and sectors where the poor live and are economically active. Policies need to create the conditions and remove the obstacles to the participation of the poor in the growth process, *e.g.* by increasing access to land, labour and capital markets and by investing in basic social services, social protection and infrastructure. As the poor often depend heavily on natural resources for their livelihoods, policies to promote environmental sustainability should also be integral to promoting pro-poor growth.

iii) **Inequality matters.** Inequality of assets and opportunity hinders the ability of poor people to participate in and contribute to growth. High and rising levels of income inequality lower the poverty reduction impact of a given rate of growth and can reduce the political stability and social cohesion needed for sustainable growth. Gender is a particularly important dimension of inequality. Women face particular barriers concerning assets, access and participation in the growth process, with serious implications for the ability of growth to be pro-poor. The growth experience shows that rising inequality is not an inevitable consequence of the growth process, as long as there is a mix of policies that addresses both growth and distributional objectives, strengthens empowerment and deals with gender and other biases (*e.g.* race, caste, disability, religion).

iv) **The vulnerability of the poor to risk and the lack of social protection reduce the pace of growth and the extent to which it is pro-poor.** The poor often avoid higher risk opportunities with potentially higher payoffs because of their vulnerability. In addition, the journey out of poverty is not one way and many return to it because man-made and natural shocks erode the very assets that the poor need to escape poverty. Policies that tackle risk and vulnerability, through prevention, mitigation and coping strategies, improve both the pattern and pace of growth and can be a cost effective investment in pro-poor growth.

v) **Policies need to tackle the causes of market failure and improve market access.** Well functioning markets are important for pro-poor growth. Market failure hurts the poor disproportionately and the poor may be disadvantaged by the terms on which they participate in markets. Programmes are needed to ensure that markets that matter for their livelihoods work better for the poor. Such programmes need to be carefully designed to avoid replacing market failure with government failure. Policies to tackle market failure should be accompanied by measures aimed at increasing economic capabilities of the poor.

In tackling poverty, perceptions of policy dichotomies have been misplaced. Policy trade-offs do exist but can be better managed.

i) **Policies to tackle the multiple dimensions of poverty should go hand-in-hand**. Poverty is multidimensional. Pro-poor growth will be strengthened by progress on the non-economic dimensions of poverty. More effective policies require a better understanding of these interdependencies. Perceptions of dichotomies (*e.g.* economic *versus* social policies) can be misplaced. The pace and pattern of growth have multiple determinants and consequences and each dimension nourishes (or holds back) the other. Progress on the income poverty Millennium Development Goal (MDG) facilitates progress on other MDGs and *vice versa*.

ii) **Policy trade-offs still exist, but can be better managed.** Policies which promote only one dimension of poverty reduction while undermining others should be avoided. Whenever possible, policies need to be complementary rather than compensatory. Sequencing of policies and investments can help manage trade-offs. Policy choices should be based on understanding the binding constraints through analysis of the growth, poverty and inequality experience and the results of poverty impact assessments. The ability of institutions to handle trade-offs is important for achieving pro-poor outcomes.

For pro-poor growth policies to emerge, the poor need to be informed and empowered to participate in a policy-making process that is accountable to their interests.

i) **The poor need to participate in and influence the policy reform process that goes with poverty reduction strategies (PRSs).** Approaches are needed to increase the voice and influence of poor women and men in order that policy making is evidence-based, rather than determined by narrow vested interests.

ii) **A well-functioning state is important for responding to the interests of the poor**. Effective pro-poor growth strategies need policy and institutional change for which the state, in all its dimensions, is made more accountable to the interests of the poor. The state needs to provide the opportunity for structured public-private dialogue at various levels, including with civil society and private sector actors who are frequently marginalised. The state needs to provide the required incentives, enabling environments and policy and planning frameworks to be more accountable to the voices of the poor.

iii) **Pro-poor reform is likely to require changes to the current political settlement among the diverse interests of different segments of society.** This entails a better understanding of the political economy, power relations and drivers of change, and supporting formal, transparent decision making, strengthening the demand for pro-poor change and building capacity of the state to respond to demand.

For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient.

i) **Donors should focus on supporting in-country policy processes.** Policies for pro-poor growth can only be achieved through country-level processes that are inclusive of the poor and based on country-level analyses. Donors should support the emergence and development of processes that are formal, transparent and take account of the interests of the poor, and conduct their policy dialogue through them. Donors should support measures to empower the poor in these policy processes and build the country-level capacity to undertake analyses, including poverty impact assessments.

ii) **Donor support needs to be flexible and responsive to country situations**. The type of support provided needs to take account of the level of development, the policy environment and the extent to which there is a well-functioning state. Donors need to adapt their approach to fragile and failed states and more research is required to inform this process.

iii) **A pro-poor lens on areas important for pro-poor growth, such as private sector development, agriculture, infrastructure and risk and vulnerability, requires a rethinking of donor agendas.** The importance of these areas for the pace and pattern of growth has been underestimated. New approaches to strengthen the contributions of private sector development, agriculture and infrastructure have been developed by the DAC. Work on risk and vulnerability/social protection/human security is ongoing.

iv) **Donors need to enhance their organisational capacities to effectively support country-led, pro-poor growth.** Donors need to provide appropriate support and incentives to field staff, build multi-donor and multidisciplinary teams at the field level, and empower them to negotiate, co-ordinate and implement programmes. Recent progress to establish such teams in several partner countries should be replicated.

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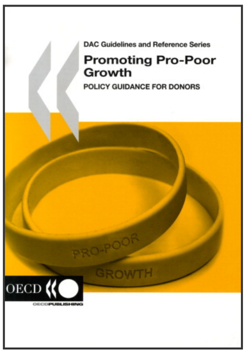

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