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Promoting Pro-poor Growth
Policy Guidance for Donors

PART III

Chapter 13

Increasing Productivity and Improving Market Access

Increasing productivity and improving market access

Successful pro-poor growth strategies led by agriculture depend on increased agricultural sector productivity and improved access to domestic, regional and global markets. But there is potential for further production unit – based productivity growth, which has not been fully exploited under existing policy and market arrangements. Harnessing this potential will immediately improve conditions for poor rural households – either directly through market prices or indirectly through labour markets.

The weak human capacity of producer households and inappropriate and risky technologies can undermine efforts to achieve higher levels of productivity and diversify production into higher value products. Insecure and limited access to land, water and finance compound these weaknesses. Sustained and targeted policies that address these challenges and take account of local contexts can help realise agricultural households' production potential. Delivering such policies requires combined and co-ordinated efforts by public, private and civil society organisations.

Market access is critical for agriculture to become the main driver of pro-poor growth. Households and firms in Rural Worlds 1 and 2 rely heavily on access to markets for their agricultural production and on the labour from Rural Worlds 3 and 4 to produce surpluses. Reasons for poor market access include the global "rules of the game" – restrictions, standards and subsidies of wealthy states – down to local-level factors. They also include the poor organisation and influence of producers, weak transport and communications infrastructure and limited market information. Addressing these constraints requires policy shifts at the regional and global levels – and substantial investment in the transport infrastructure to enable produce to move from production units to the marketplace. Strengthening social capital, in such forms as producer organisations, can ensure that agricultural households have the ability to negotiate in the marketplace and secure fairer prices for their products.

Agricultural households in Rural Worlds 2 and 3 can improve their incomes through enhanced engagement with the market place underpinned by an ability to increase productivity in a sustainable way. Commercial producers and firms in Rural World 1 provide employment opportunities for households in Rural Worlds 3 and 4 and their pioneering in regional and global markets open future opportunities to producers in Rural Worlds 2 and 3. These commercial agricultural businesses can be viewed as "engines of growth" within the wider rural economy, stimulating and sustaining the labour market and opening commodity markets.

Framing agriculture's contribution to pro-poor growth in the new context

Agricultural sector productivity gains and market access lie at the core of a more robust agricultural economy and of pro-poor growth. Endeavours to increase sector productivity and expand market access must recognise from the outset, however, that the challenges facing today's rural households are much different from those confronted by

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the Green Revolution producers who recorded rapid and sustained gains only two or three decades ago. Many of today's poorest producers live in less favoured or fragile regions, whose agricultural potential is being jeopardised by degradation of the natural resource base and constrained by inadequate attention to infrastructure needs.

In sub-Saharan Africa, where many of the poorest rural households are located, there is no dominant food-production system. Instead, a wide variety of production systems serve as the livelihood foundation for agricultural communities. The demography of these and many other rural communities is also changing rapidly, as agriculture is increasingly becoming feminised through the effects of migration and the impacts of HIV/AIDS. Many producers lack access to key inputs and services, including credit and extension. Moreover, many small producers now compete in markets that are much more demanding in quality and food safety and distorted by OECD agricultural subsidies and the trade barriers of developing countries.

In many poor countries, especially in Africa, there still is excellent growth potential for small producers in the food staples sector (cereals, roots and tubers and traditional livestock products). For Africa as a whole, the consumption of these foods accounts for the lion's share of agricultural output and is projected to double by 2015. This will add another USD 50 billion to demand (in 1996-2000 prices). Moreover, with more commercialisation and urbanisation, much of this added demand will translate into market transactions, not just additional household consumption.

No other agricultural markets offer growth potential on this scale to reach huge numbers of Africa's rural poor. Many small producers could double or triple their incomes if they could capture a large share of this market growth. Simulations with economy-wide models at the International Food Policy Research Institute confirm this conjecture. For Ethiopia (a poor and food-deficit country) the fastest way to reduce poverty by 2015 is through productivity growth in food staples. This strategy outperforms a strategy built around increasing the production of high-value products (Hazell, 2004). If small producers are to capture a fair share of this growth in food staples, particularly in Africa, they will have to become more competitive, especially against cheap food imports from abroad.

In many middle- and higher-income countries in Asia and Latin America, food staple market opportunities are more constrained, with demand growth linked more to growth in livestock feed or export opportunities than to domestic human consumption. In these cases small producers need urgently to diversify into higher value products that face much better demand prospects. A challenge for this "new" high-value agriculture is to make it pro-poor. Left to market forces alone, the major beneficiaries of the new high-value agriculture will mostly be the larger and commercially oriented producers and producers well connected to roads and markets. The majority of small producers are likely to get left behind. Fortunately, there is great opportunity to guide the new high-value agriculture so that small producers and even many backward regions can participate.

Influence in society, both in official organisations and informal village associations, is distributed along gender lines. Hence policy needs to consider women's access to, and interaction with, informal and formal networks, marketing organisations and administrations – as well as training for women producers and entrepreneurs to learn about and adapt to new economic structures and marketing.

Increasing the agricultural sector's productivity

The productive potential of agriculture is highly varied and depends on the natural endowment, geographical location, links to the rest of the economy and social dimensions of the population. But the general failure in recent decades to achieve sustained rates of agricultural sector productivity and the pro-poor growth linked to it, especially in sub-Saharan Africa, can be put down to inappropriate policies; inadequate institutions and services; failures to invest in appropriate infrastructure; and failures to invest in the development of the human, social and natural capital that agricultural households need to achieve higher productivity.

Governments need to make choices in allocating resources for the support of agriculture. There is a strong argument to prioritise such support to producers and enterprises of Rural Worlds 2 and 3, where the stage of economic development of a country and the availability and relative cost of labour mean that there would be a greater impact on poverty from government support (Box 13.1). For poorer countries the attraction of small production units lies in their economic efficiency relative to larger units. They can create large amounts of productive employment, reduce rural poverty, support a more vibrant rural economy and help reduce rural-urban migration.

The very limited capacity of the vast majority of poor rural households to access, analyse and utilise new knowledge on improved practices is a binding constraint to enhanced productivity. Research, development and information services that address this constraint have been weakened by years of under-funding and by failures of institutions to respond in relevant ways to the needs of agricultural producers, especially those in Rural Worlds 2 and 3 (IFAD, 2004). As a result, producers who lack the resources to obtain it on their own have not had access to the information and technologies that would enable them to adopt improved production strategies and increase the income and well-being of their households.

Pro-poor strategies for agricultural research and its dissemination need to be tailored to the needs of the rural worlds and be aware of the broad range of factors affecting their adoption of new technology. Research strategies need to incorporate knowledge from local actors, and an institutional framework based on much greater participation of a wide range of stakeholders needs to be developed. Innovative approaches to the delivery of associated information services, including public, private and civil society actors, also need to be developed.

In identifying the constraints to productivity enhancement in the different rural worlds it is important to recognise that both land and labour productivity are central to pro-poor growth. In the early stages of development, land productivity is most critical in order to create additional employment opportunities in agricultural production. In the later stages, labour productivity increases in importance as off-farm wage rates rise but demands for agricultural workers remain high. Three broad categories of technology are available to increase the productivity of agricultural households: intensifying input-based production, managing natural resources better, and diversifying outputs in primary production or household post-harvest processing to capture more value added.

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Box 13.1. **Why should we care about the future of small-scale agriculture?**

The efficiency of smaller production units in most developing countries is demonstrated by an impressive body of empirical studies showing an inverse relationship between unit size and land productivity (Heltberg, 1998). Moreover, small producers often achieve higher land productivity with lower capital intensities than large units. These are important efficiency advantages in many poor countries where land and capital are scarce relative to labour.

The greater land productivity of small units stems from their greater abundance of household labour per hectare cultivated. Household workers are typically more motivated than hired workers are, and they provide higher quality and self-supervising labour. They also tend to think in terms of whole jobs or livelihoods rather than hours worked, and are less driven by wage rates at the margin than hired workers. Small producers exploit labour-using technologies that increase yields (hence land productivity), and they use labour-intensive methods rather than capital-intensive machines. As a result, their land and capital productivities are higher and their labour productivity is typically lower than that of large production units. This is a strength in labour-surplus economies, but it becomes a weakness for the long-term viability of small-scale production as countries get richer and labour becomes more expensive.

In poor, labour-abundant economies, small producers are not only more efficient but they also account for large shares of the rural and total poor, so small production unit development can be win-win for growth and poverty reduction. Asia's Green Revolution showed how agricultural growth that reaches large numbers of small units could transform rural economies and raise enormous numbers of people out of poverty (Rosegrant and Hazell, 2000). Recent studies show that a more egalitarian distribution of land not only leads to higher economic growth but also helps ensure that the growth achieved is more beneficial to the poor (Deininger and Squire, 1998; Ravallion and Datt, 2002). Small producers also contribute to greater food security, particularly in subsistence agriculture and in backward areas where locally produced foods avoid the high transport and marketing costs associated with many purchased foods.

Small producer households have more favourable expenditure patterns for promoting growth of the local rural economy, including rural towns. They spend higher shares of incremental income on rural non-tradables than large production units (Mellor, 1976; Hazell and Roell, 1983), thereby creating additional demand for the many labour-intensive goods and services that are produced in local villages and towns. These demand-driven growth links provide greater income-earning opportunities for small producers and landless workers.

Intensifying input-based production

Intensifying input-based production, centred on seed varieties with higher productive potential and the fertilisers and pesticides to realise these potentials, was the focal point of the Green Revolution in Asia. Similar efforts, expanded to include livestock breeds and associated veterinary drugs and compound feeds, hold great potential for rural households in Rural Worlds 1, 2 or 3. This is particularly true in areas with good agro-ecological resources, low climatic risks, good access to input suppliers and to markets.

Most of the opportunities for intensifying input-based production have already been exploited, however, and new opportunities will require much improved dissemination of existing intensification technologies, significant investments in infrastructure programmes and functioning input markets. Input-based production intensification can also degrade land, which over time limits the yield responses. Furthermore, in Africa far fewer producers have irrigation, resource endowments are often too poor, and risks are too high for input-based intensification to be relevant to more than a few producers in Rural Worlds 1 and 2.

Producers and processors in Rural World 1, also in some cases in Rural World 2, already benefit from advanced technologies based on the recent discoveries of molecular biology and genetic manipulation. However, much of this technology remains primarily aimed at users in developed countries and has been financed by multinational companies. For the originators of the technology, research and development geared to the needs of the rural poor in developing countries are not considered high return investments. Application of some of the principles of these advanced technologies to the needs of poorer producers in Rural Worlds 2, 3 and 4 could nevertheless do much to raise their productivity and reduce risks. For instance, tissue culture can generate virus-free, and hence more productive, stocks of perennial crops that are important to the survival strategies of poor households.

Managing natural resources better

Natural resource management practices typically raise the productivity of household labour through changes in agricultural practices, such as managing water, soils and crop residues to augment *in situ* capture and retention of rainfall and raise land productivity or controlling pests and weeds by exploiting natural biological processes. Approaches such as dry-land cultivation, water harvesting and flood recession farming as well as dissemination of demand management techniques such as irrigation water conservation and waste water reuse can help address the needs of poor agricultural households while promoting sustainable use of water. Genetic improvements can play an important part in these efforts, but often do more to reduce risks by stabilising and diversifying production rather than maximising yield.

This category of technology is knowledge-intensive and often location-specific. With less stress on maximising yields, it seeks to lower risks and unit costs of output. It can be a first technology for many agricultural households in Rural World 3 that retain some usable land and labour but have no financial reserves, as well as for the financially vulnerable in Rural World 2. It can help women, the old and households with labour forces depleted by migration or HIV/AIDS to increase household food production on the small parcels of land they have retained. Developing the needed natural resource management technologies will require investments in science and technology, and disseminating existing technology will require widely distributed and skilled technical support on the ground.

Integrated water resource management can support the sustainable and equitable use of water. An integrated water policy relies on improved planning and legal frameworks, analysis of supply and demand, improved education and sector co-ordination. Co-ordination and arbitration are essential in conflicts arising due to increasing water scarcity, especially for cross-border resources where only supra-national or external bodies can provide a structure for dialogue. Co-ordination also improves water governance by enhancing decision makers' accountability for resource development and management (*Promoting Pro-poor Growth: Infrastructure*, 2006).

Policy must be tailored to increase the efficiency of natural resource management by incorporating knowledge from women and promoting greater participation of women stakeholders. Erosion, drought, floods, desertification and pollution mean that women find it harder to collect food, fuel and water. Poor sanitation has implications for health and the schooling of girls and women. In addition, women often have more knowledge about the ecosystems, but are often not included in natural resource management and environmental protection.

Diversifying outputs

The diversification of outputs involves a change in primary production or household post-harvest processing to capture more value added. This category spans a wide range of technological options from household processing of cassava roots – to making milk products to sell to passers by – to organic farming and the production of fruits or poultry to supply global supermarket chains. Often market demands make this category of technology better suited to well-resourced producers in Rural Worlds 1 and 2, who can more easily meet demands for volume, quality and timeliness of deliveries. Others in Rural World 2 as well as in Rural World 3 are likely to need finance and extensive institutional support to diversify, organise marketing and maintain technical quality.

Risks and financing needs for diversification will tend to be higher than those for merely upgrading production technology for existing staples. Careful prior assessments of markets and their needs, good information systems and ready rural access are other prerequisites for successful diversification. But for many small producers for whom the returns from staple crop production are no longer sufficient to earn a living, diversifying outputs may be the only technical strategy that will allow them to stay on the land.

Improving market access

Productivity gains can mean little without expanded access to markets. Market structures in many rural regions of the developing world are very weak, so the allocative efficiencies that markets achieve in fast-growing sectors of their economies do not materialise. Instead, undeveloped market demand for outputs discourages producers from raising production, while the consequent failures of incomes to rise in rural areas deters private traders and rural enterprises from entering and doing business. A vicious cycle. In the absence of functioning markets, rural areas remain trapped in a subsistence economy in which neither the narrow agricultural production sector nor the wider rural economy (both of which generate off-farm employment opportunities) can grow.

In the past many governments tried to address agricultural market failures in rural areas by creating state-managed organisations, such as marketing boards. Most of these interventions proved to be costly failures, often enabling widespread corruption to take hold to rural economies, and are becoming less and less common. The problems associated with weak markets remain, however, and new efforts are required if the agricultural sector is to spark sustained and rapid growth in poor countries. These efforts should focus on creating effective markets through improving the enabling conditions for wider private sector participation. Removing restrictions on the movement, sale and purchase of agricultural products is one example where changes are needed.

Box 13.2. **A new framework centred on the small producer for investment in science and technology**

The new framework for future investments in science and technology has as its primary aim the alleviation of rural poverty. The framework shifts the past emphasis on technology supply by scientists to a system that responds to user demands and needs. It also:

- Links the search for new technology much more closely to efforts to resolve non-technical impediments to change.
- Fosters equal partnerships between scientists and rural people in the search for technologies adapted to the needs of the different rural worlds.
- Recognises and provides for diversity between rural worlds in needs and solutions.
- Is multidisciplinary in its approach to constraint identification and alleviation; it widens stakeholder participation to engage the contributions of those concerned with the many non-technical constraints to poverty reduction.
- Favours the emergence of knowledge-based optimisation in the use of available resources.
- Allows for progressive technical change or upgrading based on experiment and learning by poor producers and workers themselves.
- Focuses the use of public funds on the generation and dissemination of public goods technologies, but with government agencies as facilitators rather than masters of development.

The new framework empowers rural communities by giving them access to public funds to hire those service providers best able to support participatory stakeholder efforts, and to form alliances that will draw in complementary funds from the voluntary and private sectors. The new framework has the empowerment of rural communities and specific common interest groups within communities as the centre and starting point of efforts to relieve rural poverty. Without investments to strengthen the capacity and opportunity for poor producers and workers to direct, manage and control their own circumstances, future investments in technology will be of no more value than those of the past.

Governments have a critical role in financing the support needed for small producers or rural communities to establish their own institutions – for example, Farmers' Field Schools for accessing and evaluating new agricultural technologies; village banks and rotating savings and credit associations for accessing financial services, and so building informal sector micro-enterprises; water users associations to manage irrigation infrastructure; or producer enterprise groups or associations to negotiate with market intermediaries. Empowerment needs to be central to all initiatives that seek to harness science and technology to alleviate poverty.

Insecure property rights, weak financial services and poor infrastructure are three of the most common barriers to more efficient rural markets, often to the notable disadvantage of women. There is mounting evidence for attention to all three areas to transform stagnating rural areas.

Extending secure property rights

For most of the rural poor in developing countries, land is the primary means for generating a livelihood and a main vehicle for investing, accumulating wealth and transferring it between generations. Because land makes up such a large share of the asset portfolio of the poor, giving secure property rights to land they already possess can greatly increase the wealth of poor people who, unlike the rich, cannot afford the (official and unofficial) fees needed to deal with the formal system.

Unequal ownership of land is also a critical factor that creates and maintains differences between women and men, with consequences for the coming generations. In Kenya, for example, only 5% of the landowners are women, despite the fact that African women produce 60%-80% of the continent's food (Kameri-Mbote and Mubuu, 2002). A World Bank policy research report, "Land Policies for Growth and Poverty Reduction", concludes that the increased control by women over land titles could have "a strong and immediate effect on the welfare of the next generation and on the level and pace at which human and physical capital are accumulated" (World Bank, 2003). Ensuring that women have secure rights to land is thus critical in many respects, including the challenges arising in the context of the HIV/AIDS epidemic, where the absence of secure land tenure for women who have lost their husbands has been shown to be a key reason for costly conflict and additional hardship.

Secure title to land not only promotes wealth creation but can also enhance security. China illustrates that broad-based land access can provide a basic social safety net at a cost much below alternative government programmes, allowing government to spend scarce resources on productive infrastructure instead of safety nets. Having their basic subsistence ensured is likely to have allowed Chinese households to take on greater risks in non-agricultural businesses. With policies to foster lease markets for land, this also contributed significantly to a vibrant rural economy.

Box 13.3. **Protecting women's property and land rights**

Protecting the property and land tenure rights of women in AIDS-ravaged parts of Africa is vital to prevent rural households from slipping into a spiral of poverty. Losing land or property can unravel the whole fabric of a household, limiting access to safe, inexpensive and nutritious food and forcing children out of school and into work.

In Namibia and Uganda, where land law and property rights are made up of a complex system of overlapping official and traditional law, the rights of women to inherit, own and manage land can fall through the cracks. Widespread illiteracy and lack of access to formal court systems, lawyers and other legal resources can make matters worse. For many women in AIDS-affected households, losing a husband is the first of many losses she will face. She risks being thrown off her land, perhaps her only source of income and security, by relatives and robbed of her assets.

The Food and Agriculture Organization (FAO) is working with local authorities and communities to guarantee that women's rights are protected by ensuring they have access to sources that explain their rights and the means to defend them. They found that more than 40% of widows had lost cattle and tools, seized by relatives after the male head of household died.

When women lack title to land or housing, they have to face a narrower choice of economic options. They may have to deal with homelessness, poverty and violence, contributing to their impoverishment and that of their children. Poverty can also encourage high-risk behaviour such as engaging in unsafe sex in exchange for money, housing, food or education.

Source: FAO Newsroom (2004).

Box 13.4. **Pro-poor land administration**

It is now well recognised that, in many settings where land is rather abundant, full title may neither be needed nor be the most cost-effective way to secure the land rights of small producers. While a number of countries have started experimenting in this area, and interesting experience is accumulating, few models can be easily scaled up to deliver tenure security at sufficient speed and scale to be widely replicable.

Increasing the contribution of land rental markets

Even though land rental markets contribute to greater productivity in many countries, their potential to stimulate structural change has thus far been limited by the fact that most of the contracts have been short term. Various countries are now exploring measures – ranging from adjustments in the legal and regulatory framework to investment grants for long-term renters – that aim to maximise the contribution of land rental markets to enhancing structural change within the agricultural production sector while contributing to the emergence of a rural enterprise sector in the affected areas (China).

Exploring new mechanisms for land reform

New approaches to land reform recognise the importance of land as one among several different assets in households' portfolios, the importance of market and non-market mechanisms for accessing land, and the fact that land reform can be sustained in the long term only if the new landowners can make productive use of their new asset. In general, all the approaches are much more decentralised, relying on incentive-compatible mechanisms to complement, rather than substitute for, the operation of land markets.

Securing the possible equity and efficiency gains from past land reforms

Many reforms have left a legacy of legislation (land ceilings and tenancy regulation) that reduce the scope for land access by poor people. At the same time, the rights given to reform beneficiaries have often remained incomplete (rewarding only usufruct rights with the landowner or the government retaining ownership rights), thus limiting investment incentives and the ability of the beneficiaries to access credit markets. Clarifying the ownership of such plots may lead to significant gains in efficiency. Programmes to facilitate this in a more systematic manner could extend benefits to those not able to muster the necessary resources on their own and could thus combine the efficiency gains with significant equity benefits.

Institutional reform of the registry

Even where the ownership distribution of land is not an issue, institutional inefficiencies, such as a large number of unco-ordinated institutions, imply high cost of registering land that preclude realisation of the potential benefits from the land administration system. Best practice examples of institutional reform can be drawn on to learn lessons on this, including the use of technology as a means rather than as an end in itself.

Decentralising land administration institutions

Decentralisation of land administration services can help bring such services closer to the customers and thereby improve the ability of poor landowners to access services and thus reduce the transaction costs in dealing with the land administration system. At the same time, the rules to be followed in this process have to be clear to prevent local agents from using discretionary power to undermine the security of land rights.

Opening access to rural land by outside investors

Despite evidence on the productive efficiency of small producers, policy makers in many developing countries prefer large-scale production, often an excuse to give very generous land concessions at conditions very favourable to the awardees. There is a real issue, however, on how to provide access to the links, for marketing and processing, necessary for small producers to make the optimum use of their land and to choose a model for the organisation of production that helps to maximise economic efficiency, especially in very land-abundant settings, such as Mozambique or Cambodia. Models to do that exist but need to be developed further.

Source: Deininger (2004).

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Increasing access to finance

One of the critical reasons that well-functioning land institutions and markets improve the environment for private sector investment is that the ability to use easily transferable land titles as collateral reduces the cost of credit for entrepreneurs and increases opportunities for gainful employment. It has the added advantage of developing rural financial systems.

Deepening rural financial markets is a high priority in an improved incentive framework that enables the agricultural sector to serve as a key driver for pro-poor growth. For the past two decades, however, most donors have provided very little funding for rural finance, and as part of structural adjustment programmes many partner countries have ended their substantial involvement in this area of activity. That has left a vacuum in the supply of seasonal credit for small producers. While private banks may still service the needs of large commercial enterprises, small producers and firms who want to finance the purchase of productivity-enhancing technologies or access new markets often have to rely on self-financing or household financing, sell livestock and other assets, borrow from local money lenders or use remittances from household members.

A return to the previous subsidised government credit schemes, with their artificially low interest rates and high rates of delinquency, is neither feasible nor desirable. Earlier government involvement in the management and implementation of rural financial systems was expensive and inefficient. The programmes were plagued by a poor repayment culture and the financial instability of the lending institutions.

In much of the developing world today, the inability of poor rural households, particularly female members, and enterprises to access credit on competitive terms to invest in new economic opportunities means that their incomes are lower than they need be. Moreover, without adequate access to risk-reduction instruments (such as weather-based crop or insurance for commodity market prices), rural households and enterprises may even retreat from profitable projects for which they have adequate liquidity. The absence of savings instruments also leads to less productive forms of savings, further reducing the scarce liquidity of poor rural households.

A number of factors thwart the development of vibrant financial markets in rural areas. The high transaction costs associated with dispersed populations and poor physical infrastructure, along with the particular needs and higher risk factors inherent in agriculture, result in the under-provision of financial services (USAID, 2003). It is critical that strategies for rural financial market development be put in place and that rural households have equitable access to financial services for their business and domestic needs.

Giving micro credits to poor women in rural areas has proved to be a strong concept. Taking into account the vulnerable livelihood situation of many women and, for the most part favourable results of, for example Grameen Bank, more micro credit facilities for women producers should be actively promoted.

Improving infrastructure

Improved infrastructure, including rural roads, rural electrification, irrigation and storage facilities links small producers to markets and reduces their risks and transaction costs. It saves time in transporting water, crops, wood and other products rural households produce. It increases the volume of marketable goods and reduces costs for inputs needed to produce these costs. And it gives them much greater access to social services, including health and education, which can provide them with new livelihood opportunities. It is important to encourage the participation of beneficiaries in planning, construction and operation, and maintenance of the infrastructure in order to strengthen their ownership and sustainability.

Several recent studies highlight the link between weak infrastructure and rural poverty. Jalan and Ravallion (2002) find that road density has a significant positive effect on consumption expenditure in agricultural households in poor regions of China. Research in Vietnam indicates that poor households have a much greater probability of escaping poverty if they live in communities with access to paved roads (Glewwe *et al.*, 2000). Fan (2004) has also demonstrated that investments in rural infrastructure significantly contribute to agriculture growth and to poverty reduction. Improved infrastructure not only expands opportunities for growth but also ensures that growth is more diffused and equitable.

Despite infrastructure's recognised importance, many governments and donors have slashed their infrastructure investments in rural areas in recent years. Many developing countries, especially in Africa, still have inadequate infrastructure. Achieving pro-poor growth through agriculture will require much greater attention to this critical area of investment.

Improving institutions for higher productivity and greater market access

The challenge for many developing countries is to find more effective ways to pay for additional public investments, and to develop suitable institutional arrangements for their delivery. Effective public institutions require an adequate supply of trained people, including policy advisors, agricultural researchers and extension workers, business managers and financial and computer experts. Past investments in training did increase the supply of some types of key personnel, despite the fact that many did not return from overseas training. But HIV/AIDS, ageing, and low salaries and morale within public institutions have contributed to chronic staff shortages in many countries.

Strengthening public institutions that provide public goods and services can reduce costs while improving the quality of services. New innovations may be needed for this. Increased donor support of key public sector investments could be provided through new financing arrangements (vouchers, user fees and some co-financing mechanisms) that empower the users of public services and through appropriate institutional reforms to improve mandates and performance. And new partnerships need to be formed by the public, private and NGO sectors for the provision of public services.

Even though government must pay for many goods and services, it does not have to deliver them. Recent years have seen considerable success in using non-governmental and community-based organisations to deliver targeted assistance to the poor, and private firms can be contracted to build and maintain schools, health centres, roads and the like. Contracting arrangements can be very cost-effective and may offer better possibilities for involving local people and communities. The types of partnerships desired will vary by sector and function, with many more opportunities to diversify supply arrangements for education and health services than for rural roads and market regulation.

Organising small producers for marketing

Small producers have always been at a disadvantage in the marketplace, and in some places these disadvantages are increasing. Small producers typically trade only in small volumes, often have variable and sub-standard quality products to sell and lack market information and links with buyers in the marketing chain. These inefficiencies can all too easily offset the efficiency advantages of small production units.

Many small producers must now also compete in ever more integrated and consumer driven markets where quality and price are everything. In the new and rapidly expanding global value chains, the private sector is emerging as a key player in linking larger-scale commercial producers with markets (contract farming and supermarkets), but they have less interest and ability in dealing with small-scale producers on an individual basis. Those small-scale producers will need to organise themselves to overcome these problems and to exploit the new opportunities that these market changes offer. Otherwise, they risk losing market access (Vorley and Fox, 2004).

Box 13.5. **Smart transfers**

Widespread and pervasive market failures, particularly in countries at the earliest stages of economic development, may provide some justification for a more direct role for the state, through using subsidies to create or build markets aimed to kick-start productivity gains. Fertiliser and irrigation subsidies had a powerful effect on development during the Green Revolution in Asia. But they can also distort markets and deliver decreasing returns as productivity and overall levels of development rise; they demand levels of state capacity and governance that may be lacking. Furthermore, subsidy systems are highly politicised and can be difficult to dismantle once set up – as current experience in India shows. Thus subsidies present governments with dilemmas when it comes to justifying their use to overcome initial perceptions of commercial risk or the high costs of working in thin and weak markets.

Subsidies or guarantees should generally be temporary measures to tackle specific barriers to private participation in markets. Persistent use may add to rather than solve underlying problems. Subsidies should not be used to provide a market for all producers or to provide general support to producers' incomes, since this will tend to benefit disproportionately the larger and more successful producers.

Many now believe that improved market access for small producers can best be promoted as one plank in the platforms of well-structured producer federations that can defend the interests of the small producers in a range of policy and programme negotiations and to ensure that the necessary services are put into place. Unlike former state co-operatives, widely discredited because of their poor performance and high cost, the new producer organisations should be voluntary, economically viable, self-sustaining, self-governed, transparent and responsive to their members. The functions of these associations should include establishing information systems and connections to domestic and global markets, creating good governance practices, and creating the infrastructure to connect small holders to finance and input supply systems. The associations can also have a role in establishing new forms of production insurance, hedging price "fluctuations" and developing new forms of public and private partnerships.

Policy implications

Agricultural sector productivity gains – combined with increased access to domestic, regional and international markets – are key elements of a pro-poor growth strategy that can deliver sustainable improvements in the livelihoods of poor households. But policies and investments to unlock the productive potential of poor households are often ill-informed about the constraints and fail to address the range of interlinked environmental, physical, institutional, social and political factors that trap them in a stagnant growth setting. Appropriate policy responses must thus be based on sound diagnosis of rural poverty, an understanding of local realities in the different rural worlds and on the dynamics of occupational diversification and geographic mobility.

Enhancing agricultural sector productivity requires a stable and supportive policy and regulatory framework to remove market distortions, provide an enabling environment for market participation and entrepreneurship and stimulate innovation. Some basic requirements include reforming the property system and irrigation sector, fostering investments in productivity-enhancing technologies, recognising female as well as male producers, improving transport services, strengthening integrated water resource management and other infrastructure to link markets and reduce transactions costs, broadening access to information and finance, and strengthening the capacity of agricultural households and their associations to voice their needs and share knowledge and to improve the sustainability of infrastructure assets.

New policy and legal frameworks should give a high priority to establishing poor peoples' security of access to assets like land and water resources – for all rural producers, including those who need to diversify out of agriculture and migrate away from rural areas – developing natural resource management technologies and administrative frameworks, and strengthening institutions that facilitate informal property rights. Associations dedicated to land use, water management, irrigation or forest use can work with policy makers to oversee natural resource management.

Many countries have, in the last decade, enacted innovative pieces of land legislation and initiated institutional reforms to increase the security of land tenure and the ease of transferring it between users. Countries as diverse as Brazil, Guatemala, Honduras, India, Mexico and South Africa, have started to implement programmes to expand, complement or "complete" past efforts towards land reform. It is now recognised that, unless land inequality is attended to in an appropriate way, it can easily escalate into much bigger conflicts. In many contexts, from Afghanistan to Colombia, East Timor and Sudan, land issues are emerging as central elements to a peaceful resolution of conflicts. Similar efforts are underway to improve laws and systems governing water use and to strengthen enforcement.

Weak capacity of the vast majority of agricultural households to access, analyse and utilise new knowledge on improved practices hinders the extent to which productivity can be increased. Policy can strengthen links between research and extension, enable the participation of producers in setting research needs and priorities and enhance the ability of households to adopt and adapt appropriate practices that enhance productivity. A mix of public, NGO and private extension services can be exploited to respond better to the needs of rural households.

Support for producer organisations is also important, particularly for delivering client-focused services, improving the quality and timeliness of production and linking small producers to food processors, supermarkets and other food outlets. Reinforcing producer organisations can also be important to sustain and strengthen local development and decentralisation.

A gender lens

Women operate at a distinct disadvantage in increasing their productivity and improving their market access. Several studies have documented how women have poor access to the resources to respond to market signals. Secure land rights are perhaps the most important for the interventions proposed here. In addition, women generally enter labour markets on inferior terms and use their scarce time in easy-entry, low-return activities.

There is now a significant body of evidence that gender inequality limits economic growth directly and indirectly, particularly in Africa, and diminishes the effectiveness of poverty reduction efforts. Gelb (2001) describes this as "Africa's missed potential". Improving the circumstances of women producers and raising their productivity are critical to an agriculture-led, pro-poor growth strategy in sub-Saharan Africa. Critical elements include security of land tenure and control over other productive assets and increased access to financial services, technologies, fertilisers and extension services. Concurrent investments are required in domestic labour-saving technology and infrastructural investments that enable women to participate in higher productivity activities and to access markets. All of that needs to be underpinned by continuing to focus on girls' educational achievement and investing in improved health services that meet women's needs.

Removing gender-based barriers to growth will make a substantial contribution to realising Africa's growth potential. Reducing gender inequalities in access to and control of key resources is a concrete means of accelerating and diversifying growth, making growth more sustainable and ensuring that the poor both contribute to, and benefit from, that growth (Blackden and Canagarajah, 2003).

Spotlight on sub-Saharan Africa

Increasing sector productivity and expanding market opportunities

For most sub-Saharan African countries, agricultural growth clearly offers the most promising avenue to pro-poor growth. The continent has abundant natural resources, and agriculture is the primary source of livelihood for 60% of the population, much higher than in Asia and in Latin America. Female producers are also more dominant in sub-Saharan Africa than in any other continent. sub-Saharan Africa is rapidly urbanising, and by 2020 almost half the African population will live in urban areas (Rosegrant *et al.*, 2001). This offers important new opportunities for agricultural diversification into agro-industry, food wholesaling, and higher value products for African producers and entrepreneurs.

But the focus on staple food production should not be lost. Most poor Africans relying on agriculture are trapped in the low yields and high risks connected with staple food production, especially maize and cassava. To make a dent on poverty, a pro-poor growth strategy must emphasise higher land and labour productivity for such crops, while recognising the dynamics of increased production for local, national and regional markets.

Agricultural growth in sub-Saharan Africa has been disappointing over the past 30 years. Since 1990 food availability per capita in sub-Saharan Africa has declined by 3%, a stark contrast with increases of more than 30% in Asia and 20% in Latin America.

Several factors help explain Africa's poor performance in recent decades. Inappropriate policies, weak institutions and inadequate infrastructure are major contributors as are the spread of HIV/AIDS and worsening terms of trade. The gains that have occurred are primarily the result of an expansion of areas under cultivation rather than increasing yields, not too surprising given the very low rate of fertiliser use and the very small amount of land that is irrigated (Kydd, 2004).

Enabling agriculture to serve as a main driver of pro-poor growth in sub-Saharan Africa will require a major shift in current policies and practices, including a more gender-sensitive approach – and must be viewed as a long-term endeavour. Increasing sector productivity and expanding market opportunities will be the twin engines of this effort. Emphasis thus needs to go to technology options that can make a difference for both land and labour productivity as well as policies and programmes that improve market access and lower transaction costs.

Increasing sector productivity

Farming systems in sub-Saharan Africa are particularly diverse, reflecting both the huge range of agro-ecological conditions and socio-economic diversity. In many areas, also, pressure on resources has risen sharply: with fallows, rangeland and forest recovery periods much reduced, productivity of traditional systems is declining, soil nutrients are being "mined" unsustainably and land cover is being destroyed. Yet paradoxically, as FAO

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and the World Bank (2001) note, considerable areas of underexploited potential remain in sub-Saharan Africa, with opportunities both to enhance the productivity of rain fed land and expand irrigation. For several of the major crops also – maize, cassava and rice especially – improved varieties on which to base such exploitation are already available.

Attempts to unlock these potentials for greater productivity must, however, above all respond to Africa's diversity. One-size-fit-all recommendations for intensification technology of the sort that spread the Green Revolution to great swaths of the rice/wheat lands of South Asia tend to find only scattered adopters in sub-Saharan Africa – often only those, predominantly in Rural Worlds 1 and 2, who are well connected to markets and with ready access to finance. For many years to come the main way ahead for the poorer producers and workers in Rural Worlds 2, 3 and 4, and the basis for any further technical upgrading, is more likely to start with improved management of natural resources already in hand. New forms of sustainable use need to be evolved which can replace the systems of bush fallow and transhumant grazing that sustained people in a less crowded past. Because of the diversity of systems and the wide spread of current problems and their origins, technical solutions will be far more specific to locations and clients that in other regions.

Government policies to initiate these forms of change need to concentrate on three main issues: security of access to resources; drawing resource users themselves into devising and spreading new production systems; and sharing with resource users the costs of transition.

To initiate a spiral of rising productivity and enhanced sustainability that exploits biological processes – for example, conservation agriculture that controls erosion and builds fertility through mulching and reduced tillage, Integrated Pest Management or Integrated Soil Fertility Management – takes time. Policies must assure potential adopters of reliable access to their land, whether as private owners, longer-term tenants or under customary law.

Given the diversity of potential changes in practices that may be needed, it is not possible to rely solely on organisational models that use external technical expertise to drive change. Producers themselves know most about local resources and risks, and which technical changes are, or are not, compatible with local livelihoods. Participatory methods are needed to communicate demands on the ground to those providing research and extension support. Producers themselves should evaluate, help refine and disseminate locally adapted technologies. To support these participatory approaches new types of research and extension organisations are needed, with staff prepared through training and reformed agricultural education systems to accept as partners, members or representatives of local communities, and co-operate with them.

On their own, however, mere policies to secure access to resources and participatory R&D will mean little to the poor of Africa, forced into daily resource depredation to survive. To have any impact such policies will need to be linked to incentives for technology change.

Expanding market opportunities

New, more input-intensive agricultural technologies can succeed only when small production units produce for the accessible market. With transaction costs as high as they are in much of sub-Saharan Africa, producing for the market can have high risks. But when markets eventually develop, transport and transaction costs usually decline substantially, which makes production for the market more attractive.

Market reforms in Africa aimed at reducing risk and increasing efficiency have for some time been considered necessary to stimulate agriculture-led growth. Too often however, these reforms have not generated the expected supply response. Nor have they removed many of the price distortions embedded in these markets. So, the reforms have done little to benefit small producers, especially those in more isolated and underserved areas. The yields of major staple crops fall considerably and the use of agricultural inputs declines sharply as one moves farther from markets. Without access to new markets, successes in increasing production frequently result in large price drops because of inelastic local demand.

The absence of markets reflects perhaps more than anything else the lack of infrastructure in many rural areas of sub-Saharan Africa. The road system in Africa today, only a fraction of what India had decades ago (Spencer, 1994), leaves about 70% of its producers poorly connected to markets. Many producers can neither procure fertilisers and other inputs at affordable prices nor market their own products effectively. Poor telecommunications infrastructure also keeps producers in isolation. Similarly, low investments in such key services as health and education diminish agricultural sector productivity.

Africa's low population densities make investments in infrastructure and key services difficult to finance. Achieving realistic levels of infrastructure will require substantial increases in public investment. Such investment in rural areas has fallen in many African countries over the past few decades due to the fiscal pressures imposed through structural adjustment programmes and a decline in donor support for infrastructure investments (Fan and Rao, 2003).

This needs to be reversed. The overzealous downsizing of the public institutions that provide essential public goods and services like agricultural research and extension will also need to be reversed. These institutions have key roles and need to be revamped and strengthened to fulfil their functions in cost-effective and demand-responsive ways.

Expanding trade

Africa currently imports 25% of its food grains. This offers scope for better integration of domestic and intraregional food-grain markets within Africa and expanded intra-African trade. Such integration is constrained by poor regional infrastructure, institutions, market co-ordination and competition from low-cost and often subsidised imports from OECD countries. To take advantage of expanding trade opportunities African producers must be able to meet more stringent demands for grading and food quality and safety standards. This will require strengthening market-support services, especially financial services, and improving rural infrastructure, especially roads, information and communications technology and telecommunications. It will also require attention to strengthening institutions responsible for standards and quality control, for enforcing contracts and for providing market information. Donors recognise that the potential effects of food aid on domestic agricultural production is extensively discussed in other forums (FAO, OECD, WFP) and have not thought it useful to add to these discussions in the present document.

Diversifying livelihoods

Many households in rural areas of sub-Saharan Africa, particularly poor households, obtain a significant share of their income and devote a large part of their assets (especially labour) to other activities. The most recent studies of this phenomenon (Deshingkar, 2005; Tacoli, 2004) find an increasing dependency on alternative sources of income, with contribution to total income well more than 50% in some areas.

Agriculture sector growth, with its strong upstream and downstream linkages to the local economy, can provide many new income opportunities for households that will rely increasingly on other sources of income. But other measures can assist households in gaining higher returns from other activities. Skill development is perhaps most critical for many poorer households. Also important are access to finance to start a business and a regulatory environment that facilitates starting up a business and doing business.

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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.

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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.

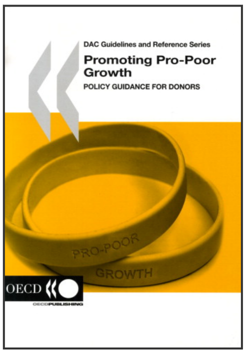
For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient.

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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