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Promoting Pro-poor Growth
Policy Guidance for Donors

PART III

Chapter 12

Why we Need a New Agenda for Agriculture

Throughout history, increases in agricultural sector productivity have contributed greatly to economic growth and the reduction of poverty. The past 30 years have seen global successes in food production lead to an overall decline in world food prices; increased caloric intake; reductions in the percentage of undernourished people; and boosted rates of return to some key investments in agriculture.

We know that economic growth is essential for reducing poverty and that agriculture has in many places connected broader economic growth and the rural poor, increasing their productivity and incomes. Those higher rural incomes increase the demand for consumer goods and services, in turn stimulating the rural economy, boosting growth and reducing poverty even further. Agricultural sector growth reduces poverty by harnessing the productive capacity of the poor's key assets of land and labour, by lowering and stabilising food prices, by providing labour-intensive employment for the poor and by stimulating growth in the rural economy.

In recent decades, however, this virtuous set of relationships has been threatened. New global trading conditions have been disadvantageous to poorer producers. Developing countries continue to give high levels of protection to their own markets. Recent policies for economic restructuring have not produced positive results. Gaps opened by the removal of public support to agriculture have not been filled by the private sector. And public investment in agriculture has declined.

At the same time, the focus on reducing poverty has sharpened. International donors and national governments are targeting poverty more explicitly, through new and more effective approaches. But these efforts have not yet given enough attention to what economic growth can do to reduce poverty or how agriculture can contribute to that growth.

This is the new context for agricultural policy, and a new agriculture agenda is needed to address it. The new agenda must promote investments in higher productivity activities and links to new market opportunities in urban centres and in regional and global markets. In tandem with improved productivity, it must encourage the development of the broader agricultural sector and rural economy, so that the benefits from agriculture can be realised. It must also make it easier for small producers and landless agricultural workers to diversify out of agricultural production. And it must reduce risk and vulnerability across the rural world. In short, there has to be a shift from a traditional sectoral agenda for agricultural production to a broader agenda for the agricultural sector and rural livelihoods.

Understanding the diversity and dynamics of rural livelihoods

Devising the right policy environment requires in-depth knowledge of the livelihood strategies of rural households and careful consideration of ways to protect and promote

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those strategies. It also needs to reflect the large disparities among the many categories of rural households, or "rural worlds". Consider five:

Rural World 1: Large-scale commercial agricultural households and enterprises.

Rural World 2: Traditional land holders and enterprises, not internationally competitive.

Rural World 3: Subsistence agricultural households and micro-enterprises.

Rural World 4: Landless rural households and micro-enterprises.

Rural World 5: Chronically poor rural households, many no longer economically active.

These categories are not mutually exclusive, and there will always be important exceptions to the general classifications here. The typology (Orden, 2004) is intended as a guide rather than a rigid framework for differentiating rural households.

The interdependencies among these rural worlds are critical to understanding the challenges facing the rural poor and to finding solutions. They deserve close examination – and good understanding of the local rural economy. The main factors in developing this typology include the financial and physical holdings of the household; the access to labour and product markets and to a variety of services needed to sustain livelihoods, including finance, information and infrastructure; the provisions for health care, education, and training and upgrading skills (especially for women); and the social networks that enable households to benefit from their participation in economic, political and social institutions and organisations.

Livelihoods in rural areas are complex and diverse, affected in different ways by policies to promote agricultural growth. Policies for effective poverty reduction need to be informed not just by the evidence of agriculture's contribution to pro-poor growth but by a good understanding of the realities and dynamics of both the agricultural sector and rural livelihoods – and of how poor rural households are constrained or supported by policies and institutions. The challenge for policy makers is to base policies on good understanding of their complexity and diversity.

In addition, the feminisation of agricultural work requires a clear gender perspective to be integrated into policies for effective poverty reduction (Box 12.1). Not only are women the mainstay of the agricultural food sector, labour force and food systems – they are also largely responsible for post-harvest activities (CIDA, 2003).

Box 12.1. **Cambodia: Agriculture feminised**

In Cambodia 65% of the agricultural labour and 75% of fisheries production are in the hands of women. In all, rural women are responsible for 80% of food production. Half the women producers are illiterate or have less than a primary school education; 78% are engaged in subsistence agriculture, compared with 29% for men. In rural areas only 4% of women and 10% of men are in wage employment.

Households headed by women are more likely than households headed by men to work in agriculture, yet they are also more likely to be landless or have significantly smaller plots of land. Policies, programmes and budgets for poverty reduction must thus address the situation of Cambodian women.

Source: Gender and Development Network and NGO Forum on Cambodia (2004).

The rural world typology helps in beginning to understand these systems and dynamics and to develop pro-poor policies (see the spotlight at the end of this chapter) (Mahoney, 2004). By using a more differentiated analysis based on people's livelihoods and how these livelihoods are situated in the local agricultural and broader rural economies, the typology makes it clear that poverty is located unevenly across and within rural populations, that agricultural policy affects different groups in different ways and that the actions or activities of one group of rural people can improve or impair the livelihoods of others.

This analysis of rural livelihoods in relation to the agricultural sector reveals the rising dependence of many people on sources of support from outside the household's agricultural production unit, from activities outside the broader agricultural sector and from urban (even regional and global) markets. It also reveals how some rural households have few or no assets for productive activity and are highly vulnerable to all sorts of shocks (Box 12.2).

Box 12.2. **Defining agriculture**

Agriculture includes households engaged in farming, herding, livestock production, fishing and aquaculture. Also included are other producers and individuals employed in cultivating and harvesting food resources from salt and fresh water and cultivating trees and shrubs and harvesting non-timber forest products – as well as processors, small-scale traders, managers, extension specialists, researchers, policy makers and others engaged in the food, feed and fibre system and its relationships with natural resources. This system also includes processes and institutions, including markets, that are relevant to the agriculture sector.

Agriculture's importance for pro-poor growth – the evidence

Agriculture accounts for the bulk of employment in developing countries and contributes significantly to national income and export earnings. Given its dominance in the economy, it will remain a primary source of growth and means of poverty reduction for some time. It remains the backbone of the rural economy, and employs the majority of the world's poor people. The proportion of poor people remains highest in sub-Saharan Africa, where slow economic growth has left millions at the margins of survival. In sub-Saharan Africa alone, more than 314 million people continue to live on less than USD 1 a day. And in most regions poverty remains a largely rural phenomenon.

The contribution of primary agricultural activities to the economy of developing countries averages about 13%, ranging from 8% in Latin America and the Caribbean to some 28% in South Asia, with much heterogeneity among countries in the different regions. In addition, "extended agriculture", which incorporates farm and non-farm agricultural enterprises, contributes a much greater share of gross domestic product (GDP) – in Latin America, 30% of GDP. As countries develop, primary agriculture's share in national income declines. For example, the share of agriculture in India's GDP declined from about 45% in the early 1970s to 27% in 2001. Despite this decline, some 60% of India's people still depend on agriculture for their livelihood. In sub-Saharan Africa, agriculture accounts for 20% of GDP, employs 67% of the total labour force and is the main source of livelihood for poor people. The World Bank estimates that in African countries women do at least 70% of the agricultural work (Mark Blackden, interview, World Bank, 23 February 2005). Although the share of GDP in agriculture is declining in many countries in the region, it is increasing in others, as agricultural value added rises or non-agricultural sectors shrink (Dixon *et al.,* 2001).

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At the macro level, growth in agriculture has consistently been shown to be more beneficial to the poor than growth in other sectors. In several South Asian countries poverty reduction through growth in agriculture was higher than that through growth in manufacturing (Warr, 2001). Similarly, for every 1% of growth in agricultural GDP the positive impact on the poorest was greater than that from similar growth in manufacturing or services (Gallup *et al.,* 1997). Such impacts are usually best realised where there is an equitable distribution of assets, particularly land (de Janvry and Sadoulet, 1996). Rural-urban links are also important. Growth in India's rural sector reduced poverty in both rural and urban areas, while urban growth reduced rural poverty (Datt and Ravallion, 1996).

Variations in poverty reduction mirror the variations in per capita agricultural growth. And agricultural growth, particularly the growth of agricultural sector productivity, plays a significant role in poverty-reducing growth (Thirtle *et al.,* 2001). Very few economies around the world have achieved broad-based economic growth without agricultural and rural growth preceding or accompanying it (Mellor, 2000; Pinstrup-Andersen and Pandya-Lorch, 2001).

In Asia, the rapid productivity gains of the Green Revolution offered a route out of poverty by increasing incomes and labour rates, lowering rural and urban food prices and generating new upstream and downstream livelihood opportunities. This productivity growth further stimulated and sustained wider economic diversification and transformation beyond agriculture. But in much of sub-Saharan Africa, with a different set of predetermining factors, productivity has stagnated or even fallen (Nkamleu *et al.,* 2003).

The multiplier effects of agriculture on the economy are estimated to be in the range of 1.35 to 4.62 (Thirtle *et al.*, 2001), though those for sub-Saharan Africa are at the lower end, with important implications for investment decisions in agriculture there (Box 12.3). Income from agriculture tends to be spent on a range of goods and services at the local or sub-national level, fostering opportunities for local diversification. So, while agriculture remains a primary contributor to growth, particularly in the early stages of development, it cannot function in isolation from the wider economy. It requires a supportive environment, including the removal of factors constraining its growth such as infrastructure. Nor can it drive growth alone – also needed are structural changes that support knock-on effects in local product and labour markets (Dorward *et al.,* 2004).

Box 12.3. **What impact can higher agricultural sector productivity have on reducing poverty?**

A lot. Consider these figures:

- A 10% increase in crop yields leads to a reduction of between 6% and 10% of people living on less than USD 1 a day (Irz *et al.*, 2001).
- The average real income of small farmers in south India rose by 90% and that of landless labourers by 125% between 1973 and 1994 as a result of the Green Revolution (World Bank, 2001).
- A 1% increase in agricultural GDP per capita led to a 1.61% gain in the per capita incomes of the lowest fifth of the population in 35 countries (Timmer, 1997).
- A 1% increase in labour productivity in agriculture reduced the number of people living on less than USD 1 a day by between 0.6% and 1.2% (Thirtle *et al.*, 2001).

A recent companion study to this report, *Pro-Poor Growth in the 1990s: Lessons and insights for 14 countries,* confirms what agricultural growth, with its strong links to non-agricultural growth, can do to reduce poverty. In the case study countries, most of the reduction in poverty was among households primarily (though not exclusively) engaged in agriculture. This was true even though non-agricultural growth was generally faster and even though agriculture contributed only 10%-30% of GDP. Agricultural growth had its greatest impact when it was driven by the crops that poor farmers cultivated most (World Bank, 2005a).

The changing context

In recent decades the context for formulating and implementing agricultural policy has changed fundamentally. Today's explicit focus on poverty reduction informs international and national policy. But public investment in support of agriculture has been withdrawn. Markets important to poor producers have deteriorated, partly a result of protectionist measures in the developed world. New health and other shocks are changing the demographics in rural areas, reducing productive capacity. And the natural resource base that agriculture depends on is succumbing to environmental pressures.

Some key details:

- Since the Green Revolution of the 1960s – the main benchmark historical event for understanding agriculture's impact on poverty reduction – prices for the main commodities produced by developing countries have declined steeply. In more recent times, retail chains and their high product standards have become more influential, often leaving poor small-scale producers, especially women, unable to engage.
- Policies for more market-based development – promoted by the international financial institutions that poorer countries depend on – have not been very successful in agriculture. Indeed, they have constrained governments from providing support to producers. Many producers have in the process lost access to key inputs and services, including credit and extension.
- Many producers continue to lack financial services, are poorly linked to markets and do not have the information or knowledge to exploit beneficial technologies. The private sector has failed to fill gaps created by the withdrawal of public services because of the inherently risky nature of agriculture and because governments have failed to generate positive and stable enabling environments.
- The new context has particular impacts on women, given their prominence in agriculture. Their mobility is often restricted to the neighbourhood, to daytime and to interactions with familiar locals, clearly reducing their access to work, markets and transportation. The implicit lower ranking of women in society is associated with less ownership, access to and control of resources and decision-making.
- The natural resource potential for agricultural development is different from that in the 1960s. The degradation of resources is more common. The opportunities for irrigating new areas are more limited. And climate change might disrupt agriculture in many areas.

An important dimension of the new context for agricultural policy is the record of poverty reduction in the world's different regions. Although poverty persists in parts of South and Southeast Asia, the projections are reasonably promising. The reverse is so for sub-Saharan Africa, where poverty is in many areas becoming deeper and solutions seem

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very difficult to find. The relatively poor status of sub-Saharan Africa is highlighted in the UN's recent assessment of the Millennium Development Goals, which indicated little or no progress being made across the main targets in sub-Saharan Africa while greater progress was being achieved in the other regions (UN, 2004). International efforts thus need to be focused predominantly (but not exclusively) on sub-Saharan Africa. Because the conditions there are so different from those in Asia in the 1960s, this poses new challenges for agriculture. Can an African process be established to match that of Asia in the 1960s?

Another important dimension is that the imperatives of policy have shifted to a more explicit focus on the reduction of poverty, with increases in agricultural production seen as means to that end rather than ends in themselves. International objectives – such as the Millennium Development Goals and national poverty reduction strategies – have become major determinants of the priorities for public investment. It is now recognised that achieving internationally-agreed poverty reduction targets depends on establishing higher rates of economic growth, which means growth in agriculture for the majority of countries where these targets are relevant. For most developing countries, poverty targets will not be reached without increases in agricultural output and sector productivity.

Given this new context, a new response is needed from agriculture. In the new agenda, many of the needed investments and actions will be recognisable from traditional approaches to agriculture. Some of the new agenda is about delivering on such neglected fundamentals as infrastructure and the development of new technologies. But some is about looking at the wide range of rural livelihoods and coming up with policies, institutions and investments that increase the productivity of households across that range. Some is about supporting diversified livelihoods off the farm. And some is about reducing risk and vulnerability.

What's needed for pro-poor growth in agriculture? The new agenda

Part III identifies three priority actions at the core of the new agenda that should guide policy formulation, institutional development and investments for and by the poor:

- Enhancing agricultural sector productivity and market opportunities (Chapter 2).
- Promoting diversified livelihoods (Chapter 3).
- Reducing risk and vulnerability (Chapter 4).

The potential for enhanced agricultural sector productivity to stimulate pro-poor growth has been demonstrated most vividly in the Green Revolution, but there has been a failure to realise this potential more widely through existing policy and market arrangements. Greater harnessing of this potential has to be a central policy objective, especially in areas where the natural resources are available for sustained increases in productivity and in countries at a stage where agriculture can make a significant contribution to economic development. In these countries, small production units predominate and account for a large share of employment. A focus on enhancing the productivity of small producers is thus justified because of the greater impact on poverty and growth generated through increases in employment.

It has been realised for some time that rural people do not specialise in crop production, fishing, forest management or livestock-rearing to the exclusion of other sources of income. Instead, they combine a range of activities and occupations to build a diverse portfolio of activities. One reason for this diversification is the need to address the inherent risk and vulnerability of an activity that is dependent on the vagaries of nature and is thus inherently risky. Although few longitudinal studies exist, there is general agreement among researchers that the diversification of occupations and the proportion of income from sources outside the household's agricultural production unit are increasing.

The importance of non-production unit occupations for reducing poverty may be recognised by governments and donors, but policy has not reflected it. Why? Perhaps because it is widely believed that agricultural growth is the most important driver of the rural economy. The focus has thus remained on increasing producer incomes, with supplementary efforts to enhance skills and improve access to credit and productive assets.

The neglect of the largely unrecognised potential in input enterprises and post-harvest agricultural enterprises continues to hinder the development of policies and supports to encourage and expand the agricultural industries and services that add value to produce. There is substantial scope to marry improved production-unit productivity and market access with agricultural enterprises that contributes to the local and national economy through increased employment and new investments.

Recent research on rural livelihoods shows, however, that many diversified occupations are closely linked to urban areas. The synergy between agricultural sector growth and urban-based enterprises is a key to local economic development and, at a wider level, to pro-poor growth (Tacoli, 2004). It is also becoming more apparent that many diversified occupations, especially those pursued by people in marginal areas, are situated in urban locations – and given the poor prospects for substantial increases in household incomes in these marginal areas, those occupations are providing an important livelihood source.

There is also growing awareness of the problems facing those in many marginal areas – where mutually reinforcing environmental, physical, institutional, social and political factors trap them in low-productivity agricultural production and low levels of diversification, with few prospects for exiting poverty. But policies remain ill-informed about such constraints – and are ill-equipped to support multi-locational livelihoods. Indeed, governments often discourage mobility and informal activities, vital for livelihood diversification, in an effort to control urban "explosions".

What is needed, therefore, is a broader entry point for poverty reduction, one tailored to the diversity of livelihoods, not just to increasing the incomes of production units. Better understanding is needed of the market and non-market constraints facing the poor in rural areas – and of how greater mobility and stronger rural-urban links can reduce poverty and promote regional development (Box 12.4).

While strategies for diversified incomes enable both men and women to increase their income, they may also create problematic livelihood situations. Many who cannot obtain a livelihood from their land must migrate to cities or to other rural areas for seasonal work. The needs and realities of migrant women and men, seasonally employed in the agricultural sector, need to be addressed, and gender-sensitive services need to be adapted to their livelihood patterns.

Box 12.4. **What's new in the broader agenda for agriculture**

Views under the traditional agenda	Views under the new agenda
Policies, institutions and investments in agriculture	Policies, institutions and investments *in* and *for* agriculture
One rural world	Multiple rural worlds
National markets	National, regional and global markets
Production units	Livelihood units
Agriculture = production	Agriculture = agricultural sector (inputs + production + post-harvest + manufacturing)
One work location	Multiple work locations
Single sector approach	Multi-sectoral approaches
Public sector	Public and private sectors
Food crops	Diverse income streams
Growth only	Growth that minimises risk and vulnerability
Driven by supply	Driven by supply and demand
Fundamentals acknowledged	Fundamentals delivered

The fundamentals are science, technology, infrastructure, land policy and education, extension and training.

Implications for policy

Economic transformation reduces the direct opportunities for poor people in primary production agriculture but also increases the opportunity for them elsewhere in the economy, including agricultural and non-agricultural industries and services. If policy is to have a much greater impact on poverty, it needs to address the needs of poor people, including those who have to move out of agricultural production. Policy, to be genuinely *pro-poor*, should at a minimum not constrain the access of poor people to the new opportunities – and should preferably make it easier for them to participate in those opportunities, be they rural or urban based. It must also have an integrated gender perspective.

In the real world the transformation from a system wholly dependent on low-productivity agricultural production to one that is diverse and dynamic and that presents broader opportunities to poor people is not entirely virtuous. It is a process with serious imperfections. The main one is that poverty persists in communities with poor market access, poor natural resource endowments and little political and social capital. Many people remain vulnerable to shocks of various kinds, and their livelihoods are exposed to high levels of risk. So for policy to be pro-poor, it should take account of the needs of people left behind. Again, this does not mean that agricultural policy should become social policy. It strongly suggests, however, that policy should be consistent with economic and social objectives and, where possible, address them both directly.

Within agriculture, policies are needed to ensure that small producers and the landless have a viable future. Unlike the rich countries, which can afford to subsidise their small producers, the preponderance of small production units in most developing countries requires that, net of the costs of assisting them, those units add to national economic growth, not detract from it. Needed therefore are public policies and investments that promote small producers and are tailored to the local context.

Implications for institutions

One of the main constraints to pro-poor growth through agriculture has been the weak link between poor rural households and public and private institutions for research, extension, marketing and finance. The most effective roles for government and the private sector are not well understood. The private sector has been slow to fill the gaps left behind when public sector support was withdrawn. In many cases, institutional arrangements limit the extent to which poor people can be engaged. Inappropriate service locations and staff capabilities, coupled with the low education levels and meagre assets of producers and landless labourers, continue to result in widespread and deeply embedded failures to address the problems of poorer households.

Overcoming these constraints requires a fundamental realignment of the institutions that provide agriculture-related services to poor rural households. It requires innovative institutional arrangements, including partnerships among public, private and civil society organisations. It requires appropriate services for poorer men and women and for more market-oriented producers. These new arrangements must be matched with processes that encourage staff within those organisations to work with poor households and to build their capacities to do this work. The capacities of agricultural producers, both individual and collective, must also be built through educational and social processes that can enable them to shape the nature and quality of services they receive. Meeting this challenge of institutional reform will require substantial commitments and resources from the public sector.

Implications for investments

Many poor rural households suffer from "ecological poverty", their livelihoods constrained by the impoverishment of the natural resources they depend on. Investing in natural capital can be a central part of poverty reduction strategies addressing the needs of poor rural households. These investments must be coupled with efforts to ensure that the poor obtain a fair share of the benefits generated by the natural assets they already own and manage. And greater attention must be devoted to sound stewardship of "open access" environmental resources, often appropriated by the more economically powerful in society, to the disadvantage of poor people.

Aid needs to be channelled through effective mechanisms, such as those linked to the poverty reduction strategies of governments, especially where economic growth and rural poverty are being targeted. For Development Assistance Committee (DAC) member countries, this implies substantial, long-term commitments and a more harmonised approach to aid investment. For national governments it implies policies, developed with the participation of the poor, that give priority to the reduction of poverty and are conducive to the promotion of pro-poor growth.

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Spotlight on Five Rural Worlds

Rural World 1 – large-scale commercial agricultural households and enterprises

Rural World 1 households and enterprises engaged in high-value, export-oriented agriculture, make up a very small minority of rural households and firms in the developing world. In addition to their land and other holdings, producers and firms in this category have direct access to finance, risk management instruments, information and infrastructure necessary to remain competitive in their business operations. Most have an influential voice in national policies and institutions affecting their enterprises and, perhaps even more important, close ties to buyer-driven value chains associated with global agriculture. Rural World 1 producers and firms are considered to be important sources of employment because they depend on inexpensive labour and reliable contract farming agreements to ensure a timely supply of quality produce.

The economic power of this group enables them to influence the political affairs of their countries. They often use this influence to shape public policies that favour their interests and to steer public expenditures to investment priorities that meet their needs. They are well positioned to meet the strict new regulations imposed by importing nations and by retail buyers expanding operations in regional and national markets.

Rural World 2 – traditional landholders and enterprises, not internationally competitive

Rural World 2 accounts for a substantial number of rural households and agricultural firms in the developing world. The one word that most aptly characterises them is “traditional”. They are frequently part of the local elite but have little influence at the national level. They have sizable landholdings often devoted to both commercial and subsistence agriculture. They previously had access to basic services, such as finance, but with the advent of liberalisation and the consequent withdrawal of the state from a direct role in agriculture, the availability of these services declined rapidly. Access to formal risk management instruments is limited.

Rural World 2 producers have few ties (if any) to the important agribusiness supply chains. Their traditional orientation, embedded in local networks, is becoming less appropriate as national and international interdependencies reshape rural societies throughout the developing world. Some researchers argue that with better access to improved technologies and infrastructure services, Rural World 2 producers could regain some of their competitiveness, particularly in food staples. The more entrepreneurial members of this group are learning from their Rural World 1 neighbours and becoming more commercial. They are also benefiting from investments in services directed primarily at Rural World 1, such as improved transport systems.

Rural World 3 – subsistence agricultural households and micro-enterprises

Rural World 3 households – fisherman, pastoralists, smallholders and associated micro-enterprises – are survivalist. Food security is their main concern, and their small production units are almost totally dedicated to home consumption. Their assets are poorly developed, and they have very limited access to services (credit) that would enable them to increase the returns to their assets. Their ability to manage risk and associated vulnerability is limited to informal means, thus severely constraining their ability to take on higher risk, higher return livelihood opportunities. Many live in fragile ecosystems or less favoured regions and depend on off-farm employment for a significant percentage of their livelihood. This group embraces many women and female-headed households, who are among the poorest and most exposed in rural areas. The social sphere of Rural World 3 rarely extends beyond local communities, and their voice is almost unheard in the broader socioeconomic and political affairs shaping their lives. The economic fortunes of Rural Worlds 1 and 2 greatly affect Rural World 3's employment and income-earning opportunities, and sustained periods of growth give some the option of leaving subsistence production altogether.

Rural World 4 – landless rural households and micro-enterprises

Rural World 4 households are landless, frequently headed by women, with little access to productive resources other than their own labour. Sharecropping or working as agricultural labourers for better-off households in their communities is perhaps the most secure livelihood option for many of them. For others, migrating to economic centres on a daily, seasonal or even permanent basis is their best hope for survival. But their low education levels are a major barrier to migrating out of poverty.

Community ties, the glue in this group's socioeconomic sphere, can be an important asset in seeking out alternative livelihood options. But participation in more influential economic and political networks is not common. As for Rural World 3, the fortunes of Rural World 4 rely on Rural Worlds 1 and 2 for employment and income-earning opportunities.

Rural World 5 – chronically poor rural households, many no longer economically active

Rural World 5 households are chronically poor. Most have sold off or been stripped of their asset holdings during periods of crisis. Remittances from relatives, community safety nets and government transfers are vital to their sustenance. As a result of the HIV/AIDS pandemic, many more households are facing this precarious situation. Entrenched gender inequalities exacerbate this problem. Social exclusion often typifies the relationship of Rural World 5 to the larger community. Cash and in-kind transfer schemes will be critical for this group for some time.

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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.

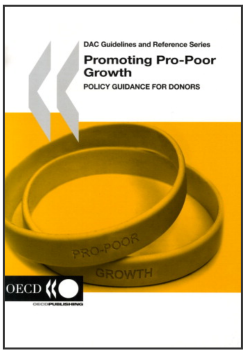
For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient.

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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