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Supporting pro-poor growth processes: Implications for donors

Policies and programmes to strengthen the productive capacities of poor people

Key points

- Pro-poor growth requires attention on productive sectors and on developing an enabling environment
- Strategies for pro-poor growth must be embedded in nationally-owned development plans
- Donors must understand the political economy of pro-poor policy processes, and provide support that is long-term, predictable, flexible and responsive to country situations

Despite rapid urbanisation in developing countries, most of the world's poor live in rural areas. Thus, reducing poverty depends, to a large extent, on reducing rural poverty. Evidence suggests that increases in agricultural productivity are closely related to poverty reduction. However, whether or not poor rural people can access markets and services to identify and grasp opportunities greatly depends on the availability and quality of infrastructure and on the institutional environment.

Pro-poor growth policies aim to boost economic development while paying attention to the interests of the poor and reducing poverty. For pro-poor growth to be sustainable over the long term, the pace and pattern of growth must be right. Growth must be sufficiently rapid and broadly based; the institutional setting must be conducive and growth must be inclusive and must aim at reducing both inequality and adverse incorporation. Such an approach must ensure that women are included in growth processes, that gender equity is addressed and that fundamental rights and freedom for women in the political, economic, social, cultural and civic fields are delivered. Pro-poor growth also needs to be environmentally sustainable. The state of the environment and the productivity of natural resources affect both the pace and pattern of growth. They are also important because poor rural households depend disproportionately on natural resources for their livelihoods.

Pro-poor interventions need to consider the multiple risks poor people face and their vulnerability, i.e. their exposure to stress and shocks and their ability to prevent, mitigate, or cope with an event. Taking advantage of opportunities requires taking risks – growing new crops, engaging in new sectors, being entrepreneurial, migrating etc. Development policies, therefore, need to support poor people in risk prevention and mitigation by:

- increasing their assets and capabilities;
- supporting them to diversify their livelihood strategies; and
- strengthening coping strategies that reduce vulnerability to risk and stress.

Increased recognition of this has seen publicly provided social assistance programmes, in the form of public works schemes, transfers or subsidies, gain in importance.

Rural market in Ethiopia

There is no blueprint for poverty reduction, and each country needs to identify the mix of economic and social policies that best suit its own context. This also applies to how donors interact with partner countries. Nevertheless, there are some general guiding principles for how donors should relate to partner countries, and which sectors with a potentially large pro-poor impact should be given more attention by both governments and donors. This Briefing

Paper explores key lessons for donor engagement from such sectors and reviews the challenges facing donors seeking to support pro-poor growth processes in partner countries.

Lessons from the agriculture sector

In most poor countries, agriculture is a major source of livelihoods, national income and export earnings, and provides a number of vital environmental services. Growth in agriculture tends to be pro-poor when it: harnesses poor people's assets (i.e. land and labour); increases poor people's productivity and income; leads to lower and stabilised food prices, through linkages to other sectors; increases demand for goods and services; and stimulates growth in the non-farm economy. But the sector today faces many challenges, among them a substantial decline in public-sector support; more demanding wholesalers, retailers and consumers in terms of quality and food safety; more concentrated and integrated markets; volatile prices for many traditional agro-commodities; rising food prices affecting net purchasing rural households negatively; agricultural subsidies (especially in OECD countries); new technologies; resource degradation and climate change; or weakened workforces from diseases like HIV/AIDS.

Despite agriculture's importance for poor people and growth, investments and policy attention from donors and governments have generally fallen, in part because of doubts about the effectiveness and feasibility of public intervention in the sector. If pro-poor growth is to be achieved, renewed government and donor engagement in agriculture is essential. There are at least three key elements to an effective pro-poor growth strategy:

Enhancing agricultural sector productivity and improving market opportunities. Productivity gains depend on a supportive policy environment that enables rural producers to use the assets available to them more efficiently and sustainably. Secure and equitable access to natural and other productive resources is key. Well-functioning rural financial services and markets are of equal importance, as access to savings, credit and insurance allows investment, the purchase of inputs and the mitigation of risk. Demand-led improvements in access to information and technology also play an important role. For markets to function in such a way that poor people can benefit, transport and communications need to improve in order to increase physical access and reduce transaction costs. Poor people's negotiating power needs to increase, through producer associations, vertical integration, and — where necessary — regulation.

Promoting diversified livelihoods. A focus on increasing productivity is not enough. Links between the agricultural and non-agricultural, and rural and urban economies, must be strengthened. An improved understanding of labour markets, migration patterns, and diverse livelihood strategies can contribute to improved national policy-making. Securing land rights and promoting the improved functioning of land markets can help enable people to diversify their livelihoods, and invest in or move into higher return non-agricultural activities. Investments in infrastructure, education and health services are also important in terms of supporting livelihood diversification.

Reducing risk and vulnerability. Interventions to reduce these are crucial elements of any effective pro-poor policy. They can protect people from unacceptably low levels of well-being and enable them to undertake new, viable, but more risky livelihoods, increase their participation in markets and generate pro-poor growth.

Strategies in support of pro-poor agricultural growth must recognise that the agenda has widened to include not only increasing staple food production or agricultural export products, but also the sector's role in poverty reduction, environmental sustainability, gender equity and counteracting the marginalisation of remote and less-favoured areas. Considering these multiple challenges, sequencing government and donor interventions is essential.

Some potential priorities are:

- Supporting the development of pro-poor agro-marketing institutions (e.g. development of marketing chains, improving information, facilitating trade);
- Promoting rural financial institutions to finance investment, input supply and trade (e.g. resolving market failures, scaling up microfinance institutions);
- Strengthening farmer organisations (e.g. enabling vertical integration, horizontal coordination, organisation);
- Tackling poor (or insecure) access to land and fragmented land markets;
- Promoting development and communication of appropriate agricultural technology (techniques for marginal areas, intellectual property rights, private and public agricultural research, biotechnology, etc.) and natural resource conservation technologies and approaches;
- Enabling sustainable irrigation (e.g. through loans for micro-irrigation, improving the operation and management of infrastructure, regulation of the private sector).

Across these, issues of spatial variation and social stratification have to be considered, especially how to tailor measures to marginal areas, facilitating out-migration on advantageous terms from marginal areas, and how to devise social protection mechanisms for the poorest.

Lessons from the private sector

The private sector contributes to poverty reduction through two main channels: employment and changes in prices. Private-sector development needs to provide opportunities for the poor to raise productivity and efficiency, thus reducing the prices of goods in their consumption basket. In many developing countries, the challenges faced by the private and agricultural sectors are similar. As a result, many of the strategies outlined for the agricultural sector will also improve the enabling environment for a pro-poor private sector.

Priorities for private-sector support are:

- Encouraging entrepreneurship and investment by lowering risks and the costs of doing business;
- Enabling the growth of sectors and sub-sectors which have a high growth potential and the greatest potential for up-stream and down-stream linkages to other sectors in the economy, particularly to agriculture and enterprises with high concentrations of poor workers;
- Identifying and unlocking the potential for economic development in sectors and regions where the poor are concentrated;
- Removing barriers to formalisation;
- Advocating the use of market-based approaches to address obstacles to market development;
- Strengthening the functioning of natural resource markets by improving legal, regulatory and administrative frameworks; and
- Improving access to infrastructure, services, skills and knowledge.

Besides measures to improve the investment climate in general, concrete measures to support the creation of and access to employment for poor people are also necessary – for example, the encouragement of labour-intensive manufacturing, where poor, usually low-skilled, people find employment.

Lessons related to the labour market

Employment is a key link between economic growth and income poverty reduction. One of the many reasons why people remain poor is because they are excluded from, or adversely incorporated into, labour markets. Many poor people are unemployed or underemployed, work in low-return occupations or for salaries that are too low to enable an escape from poverty. So, for growth to reduce poverty efficiently, the poor need to be able to participate fully and on an equal basis in the economy. This means enhancing employment and returns to labour by: (1) strengthening the productive resources and capacity of poor people, and (2) creating opportunities for everyone to make full use of the productive resources at hand.

Limited human capital can both trap people in poverty and inhibit private-sector growth. In many developing countries, the labour market is composed of a large majority of unskilled workers and a modest skilled labour force. For many people, therefore, additional literacy; skills acquisition; and health, education and professional training would help them to become more productive workers and to gain higher return employment.

The importance of infrastructure

Infrastructure — i.e. transport, energy, information and communication technology, and water resources for drinking, sanitation and irrigation — is crucial for raising labour and land productivity, and for lowering production and transaction costs. The infrastructure sector has been seriously neglected by both government investments and donor attention in recent decades, despite the positive relationship between infrastructure and poverty-reduction.

Infrastructure development can contribute to pro-poor growth if:

- partner countries are supported in developing comprehensive infrastructure strategies linked to other economic and social sectors and plans;
- it is geographically targeted, actively involves poor communities in prioritising, designing, planning and implementing local infrastructure, promotes synergies between economic and social infrastructure, meets the needs of different groups with appropriate services and tariff levels, and considers the differential needs of women and poor people if they are to benefit from new infrastructural investments;
- the sustainability of infrastructure is enhanced by developing a cost-recovery system that allows maintenance and expansion while at the same time taking into account poor peoples' ability to pay, fostering public-private partnerships, enhancing accountability of agencies for overseeing, regulating and delivering infrastructure services, promoting transparency and reducing corruption, and by ensuring that negative impacts on the environment and vulnerable groups are prevented or mitigated;
- financial resources are better used by improving efficiency and cost recovery, improving private participation, and providing more predictable public funding and donor assistance.

Key challenges for donors

Pro-poor processes must be supported in an aligned and harmonised way. Activities intended to contribute to pro-poor growth must be firmly embedded in national poverty-reduction strategies (PRSs), and based on a detailed diagnosis of poverty, disaggregated along social, spatial and sectoral lines. It is important for donors to assist partner countries in identifying those sectors with the biggest potential contribution to poverty reduction and pro-poor growth, and to developing and implementing nationally owned PRSs and development plans suited to the local context — a requirement in line with the Paris Declaration on Aid Effectiveness. As far as possible, donor support to partner country governments should be provided in a flexible, aligned and harmonised way, supporting governments to set their own development strategies, devise the necessary policies and implement related programmes which best reflect domestic circumstances. A key challenge for donors lies in balancing the need for predictable support with the need to respond quickly and flexibly as domestic circumstances change.

Supporting pro-poor growth processes is more than doing 'business as usual'. The pro-poor growth agenda requires donors to support partner countries in adapting their policies and institutions. Donors must collaboratively identify likely entry points for pro-poor advice to key decision-makers. The implications of this are that donors recognise the specific country context and are able to identify the binding political, social and economic factors that either drive or block change in a country. This implies that donors:

- have a good understanding of the political economy of (pro-poor) policy processes;
- reorient agendas and approaches to sectors that have a major impact on pro-poor growth;
- can draw lessons from ex-ante poverty impact assessments; and
- provide support that is long-term, predictable, flexible and responsive to country situations.

Supporting the development of pro-poor institutions. Reforms for pro-poor growth require the existence of a developmental state and an elite that supports poverty reduction. However, if the functioning of the state and the actions of the elite are to support pro-poor growth, institutions (e.g. norms and practices) need to be supportive. Donor interventions should seek to strengthen institutions that will enable pro-poor growth.

Working in fragile states. An estimated 30% of the world's poor live in fragile states — i.e. where governments lack either the will or the capacity to engage productively with their citizens to ensure security, safeguard human rights and provide the basic functions for development. Such states pose particularly severe development challenges. Donor approaches towards fragile states need to recognise the political-security-development nexus, understand the political economy and the reasons for state failure, and adapt, mix and sequence aid instruments appropriately.

In countries with conflict, the restoration of peace must be the priority. Donor assistance should further focus on state-building — i.e. enhancing the capacity of the state to perform its core functions, increasing its legitimacy and accountability, and supporting it to provide an enabling environment, ensure service delivery and protect and promote livelihoods. It is important that interventions are coherent and well coordinated among donors, that they avoid the creation of development islands or pockets of exclusion, and that actors and institutions are supported in building and strengthening a conducive social contract.

Where the state lacks capacity, some deficiencies may persist for long periods, and priorities must be sharply defined and sequenced. The state can establish its legitimacy by providing valued public services, such as schools or health clinics for all. Accountability can be enhanced by increasing the likelihood that poor performance will be exposed and dealt with. More challenging still is what to do where the state is strong but unresponsive to its citizens' needs or where it lacks both capacity and the political will to deliver.

Rethinking agendas and approaches. There is increasing evidence that if pro-poor growth is to be attained, attention has to be focused on productive sectors and on developing an enabling environment. Donor agendas and approaches need to reflect this. There is also growing evidence that substantial synergies exist between areas such as agriculture, infrastructure, and the private sector, which can result in improvements to the productive capabilities of the poor. Standalone donor assistance is not sufficient.

Moving beyond standalone approaches points to the importance of programmatic forms of assistance, and in particular budgetary support. While there is optimism that budget support is more effective in supporting government ownership and accountability, and in aligning donor finance with national policy preferences, some donors remain concerned that programmatic approaches involve a loss of visibility and feedback on the effectiveness of their aid spend. There are also concerns that assistance going through the central budget reduces the space for experimentation and innovation which are important for testing pro-poor approaches. While there is increasing recognition of the many strengths of programmatic assistance, donors need to acknowledge that the links between these aid modalities and pro-poor outcomes remain complex and often indirect. These findings force donors to carefully evaluate which aid modalities and approaches are likely to be most effective in supporting pro-poor growth while at the same time supporting harmonisation and alignment. The need for careful choices is further heightened in countries where state capacity is limited or missing or where the existing policy regime effectively ignores the poor, marginalised and adversely incorporated.

Written by ODI Research Fellow, Eva Ludi (e.ludi@odi.org.uk) with Kate Bird (k.bird@odi.org.uk). An earlier version of this Briefing Paper was presented at a learning event on pro-poor growth in December 2007, hosted by the OECD POVNET and Train4Dev and co-funded by GTZ, SDC and Irish Aid.

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Overseas Development Institute

111 Westminster Bridge Road, London SE1 7JD

Tel +44 (0)20 7922 0300

Fax +44 (0)20 7922 0399

Email publications@odi.org.uk

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