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Changing views on growth: What became of pro-poor growth?

By Michael Grimm, Kacana Sipangule, Rainer Thiele,
and Manfred Wiebelt

Key Points

- Pro-poor growth is a promising development concept that links economic growth and poverty reduction
- ...and is still an integrated part of recent concepts like inclusive growth and shared prosperity
- ...but faces the danger of losing priority in the extended list of goals and targets of the SDGs

Over the decades, the views on the interrelation between poverty reduction, inequality and growth have undergone different waves within the development community. Development discourse in the decades after the Second World War was largely framed by Kuznets' model. This model proposed rising inequality levels in the early stages of the growth process in developing countries, and falling inequality at later stages (inverted 'U' curve). The 1980s were dominated by the Washington Consensus which called for macroeconomic stabilization and economic liberalisation by poor countries as a means of achieving sustained growth.

By the 1990's, it was realised that the Washington Consensus relied on a small set of instruments and a fairly narrow goal that neglected wider aspects of development such as income distribution and did not reduce levels of poverty in many developing countries (Stiglitz, 1998). This paved the way for the so-called 'pro-poor growth' strategies that dominated the development agenda in the late 1990s and early 2000s.

Pro-poor growth showed the most promise amongst all the earlier strategies as it offered to tackle three of the most pressing challenges in the developing world, - stagnant economic growth, rising inequality and high levels of poverty - within one strategy.

Since the late 2000s, the concept of pro-poor growth was gradually replaced by other concepts for which it was however instrumental. In this policy brief, we discuss the pro-poor growth concept and how it has shaped development policy and discourse.

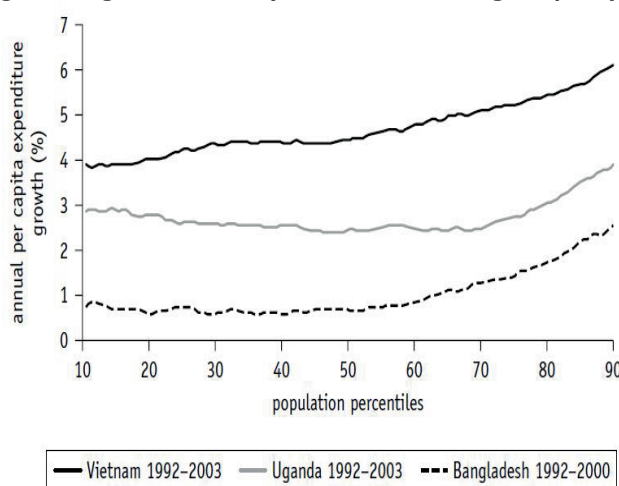
Pro-poor growth: A promising development approach

Pro-poor growth rekindled the debate on the interrelation between poverty, inequality and growth (Besley and Cord, 2007). Although no consensus was reached on one universal definition of pro-poor growth in the academic literature, the concept was divided into two categories, i.e. relative and absolute pro-poor growth. Absolute pro-poor growth focuses on the rate at which the incomes of the poor rise. Fast growing incomes are expected to reduce the incidence (proportion of people living below the poverty line) as well as the depth of poverty (their income distance from the poverty line) (Ravallion and Chen, 2003). This definition was the most consistent with the Millennium Development Goal (MDG) number one that sought to halve the proportion of people living on less than \$1.25 a day between 1990 and 2015. Relative pro-poor growth refers to the rate at which the incomes of the poor grow in comparison to the average incomes of society as a whole. Under this definition, growth is considered to be pro-poor if the income growth rate of the poor exceeds the average income growth rate. The implication of this definition is that growth can be both poverty and inequality reducing.

One notable initiative that demonstrated the potential of the pro-poor growth concept was the Operationalizing Pro-Poor Growth (OPPG) project initiated by the World Bank and several bilateral donors. The results of this project are summarized in two books (Besley and Cord, 2007; Grimm et al., 2007) and a synthesis report (AFD et al., 2005).

The book edited by Besley and Cord compiles eight case studies of countries that were fairly successful in achieving absolute pro-poor growth. It shows that a rebound in growth in the mid-1990s resulted in overall reductions in poverty in all of the country case studies. However, this increased growth was accompanied by rising levels of inequality that partially offset the poverty reducing effects of growth in five of the eight countries studied.

Figure 1: Significant Poverty Reduction but Rising Inequality



Sources: Besley and Cord (2007)

For instance, the poverty rate would have been 8 percentage points lower if inequality had not risen in Uganda between 1992 and 2002. Similarly in Bangladesh, instead of a 16 percentage points reduction in poverty rates, poverty only fell by 9 percentage points due to rising inequality between 1992 and 2000.

In **Figure 1**, the growth incidence curves for the three countries with the greatest increase in inequality indicate the average rate of consumption growth per capita for each percentile of the distribution. The positive rates of growth for the bottom percentiles indicate that incomes of the poorest groups rose; however the upward slope of the growth incidence curves indicates that incomes grew faster for richer groups leading to greater inequality. Besley and Cord (2007) concluded in their book, that more research will be needed to assess whether specific growth strategies pursued by these countries led to the observed increase in inequality or whether the relationship merely reflects specific initial conditions present in these countries.

Besley and Cord (2007) mainly focus on countries that were successful in delivering pro-poor growth and accordingly draw an optimistic conclusion. By contrast, the volume by Grimm et al. (2007) contains a much more diverse set

of country experiences, with some countries performing disappointingly in terms of both poverty reduction and growth. For countries with high initial inequalities, for example Bolivia, it is argued that rapid pro-poor growth cannot be achieved unless these inequalities are addressed because they reflect deep-seated factors such as ethnic discrimination.

Overall, the OPGG project and related research on pro-poor growth made great strides in clarifying the links between growth, inequality and poverty as well as measuring the pro-pooriness of growth in an intuitively appealing way. More importantly from a policy perspective, the research also provided hints on how to achieve pro-poor growth. The synthesis report of the OPGG project, for example, lists a number of pro-poor policy options such as supporting small farmers in managing risks or facilitating their access to modern technologies.

This helped the international development community and domestic policy makers to increasingly focus development strategies on poverty reduction alongside traditional growth objectives. What remained contentious is the extent to which governments should directly tackle inequalities, for example, through the redistribution of assets. Furthermore, the pro-poor growth literature was primarily concerned with measurement, even though it also put some effort into identifying growth patterns that benefit the sectors where the poor work.

Inclusive growth and shared prosperity: New terms but continuous focus on poverty

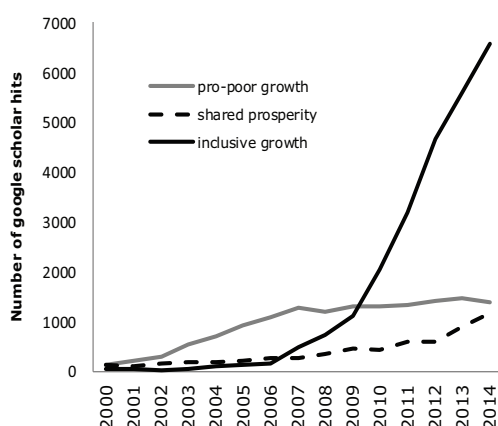
Towards the mid-2000s, a new concept of 'inclusive growth' was introduced that shifted the focus to a better understanding of the pace and patterns of growth (Ianchovichina and Lundstrom, 2009). For some time, these concepts co-existed on the development agenda in spite of the absence of a clear specification of their relationship. By the late 2000s, inclusive growth replaced pro-poor growth as the dominant term in international development discourse. This is illustrated by **Figure 2** that shows the trends in the google scholar hits of the three most prominent growth concepts in the last decade.

The inclusive growth concept takes a longer term perspective and a closer look at the underlying process of growth. It argues that the pace of growth should be rapid to ensure substantial poverty reduction and that the pattern should be broad-based across all sectors and inclusive of all parts of the country's labour force, poor and middle-class alike, thus it does not just focus on the poor.

The concept places a particular emphasis on



Figure 2: The use of various growth concepts



Sources: Authors own

analysing a country's structural transformation based on the premise that no country has been able to achieve significant income growth and poverty reduction without it.

Productive employment is regarded as the main instrument for achieving inclusive growth. Employment growth generates new jobs and income for the individual – from wages or self-employment – while productivity growth has the potential to lift the wages of those employed and the returns to the self-employed. But economic transformation in low-income countries is changing. For years, developing countries have tended to transition

from agriculture to manufacturing to services. Yet recent evidence suggests that countries are running out of Asian style industrialisation options based on large scale formal enterprises (Rodrik, 2015). In many developing countries, the informal sector, particularly small and medium scale enterprises in manufacturing and services has now begun to act as an intermediary that absorbs labour from the agricultural sector (Diao and McMillan, 2014).

The inclusive growth concept is not only about policies that should be implemented in the short term, but also for sustained inclusive growth in the future. Guidance could come from ex-ante analysis of sources and constraints to sustained, high growth over the whole income distribution. This is in contrast to the pro-poor growth literature, which has traditionally focused on ex-post analysis of the impact of growth on poverty reduction by tracking various poverty measures. Still, the inclusive growth approach, and in particular the more universal and encompassing shared prosperity approach recently adopted by the World Bank (see **Box 1**), are closely in line with the absolute definition of pro-poor growth.

In recent years, a growing emphasis has also been placed on ensuring that growth is environmentally sound and sustainable over the long run. Environmental sustainability goals have been incorporated into inclusive growth and have resulted in a new approach that calls for inclusive green growth. This approach combines all three pillars of sustainability, i.e. the economic, environmental and social dimensions (World Bank, 2012). It supports growth that is broad-based across all sectors and that at the same time is environmentally sustainable. It argues that green growth should be efficient in its use of natural resources, clean in that it minimises pollution and environmental impacts and resilient in that it accounts for natural hazards and the role of environmental management and natural capital in preventing disasters (World Bank, 2012).

While these new approaches take on more different foci than pro-poor growth, the ultimate goal of attaining economic growth and reducing poverty are still central within the concepts. The concepts both build on the foundations of absolute pro-poor growth and have evolved to address concerns such as environmental sustainability and long term broad-based growth. Addressing these concerns is necessary to ensure the transformation of developing and emerging economies.

Box 1: Shared prosperity and pro-poor growth

- In April 2014, the World Bank adopted two goals that are expected to drive its work forward: ending extreme poverty by 2030 and promoting shared prosperity for the poorest 40 percent in developing countries. Currently, it is projected that 700 million people live on less than \$1.90 a day – the updated poverty line.
- Shared prosperity seeks to sustainably raise the well-being of the poorer segments of society. The goal is measured by the pace of real income or consumption growth at the household level, for the bottom 40 percent of the income distribution in each country.
- The emphasis on raising the average income of the bottom 40 percent in absolute terms is very similar to the absolute pro-poor growth approach that also aimed at increasing the pace at which the incomes of the poor rise. It is likely that the shared prosperity approach may revive an interest in policies that favour absolute pro-poor growth.
- While shared prosperity will also be measured using a money metric, it departs from pro-poor growth by placing a greater emphasis on other non-income dimensions. Pro-poor growth was mostly concerned with income measures although suggestions were put forward on how non income dimensions can be incorporated into the concept.

World Bank (2015)



Sustainable Development Goals: Poverty is still on the agenda, but will possibly compete with other goals

The focus on more environmentally sustainable and inclusive growth for shared prosperity has also been the basis for the new set of Sustainable Development Goals (SDGs) that replace the MDGs and are at the centre of the 2030 Agenda for Sustainable Development. The SDGs explicitly address poverty reduction and the promotion of economic growth that respects planetary boundaries. The first goal seeks to end poverty in all its forms everywhere.

One of its targets (target 7) advocates the creation of sound policy frameworks based on pro-poor strategies. This hints at the continued role that pro-poor growth will play within this new development framework in the years to come. In addition, another of the 17 goals (goal 10) explicitly aims at reducing inequality while goal 8 calls for the promotion of sustained, inclusive and sustainable economic growth along with full and productive employment and decent work for all.

This might give rise to renewed interest in concepts such as relative pro-poor growth, and might even lead to a consensus on a set of promising inequality-reducing policies.

Yet, it remains to be seen how powerful the SDGs will be in shaping the development agenda. Concerns have been raised that the 17 goals and 169 targets will hinder prioritisation on poverty reduction and growth in developing countries where basic needs have not yet been fully met (Klasen, 2015).

To avoid this, country strategies have to be developed carefully, each with specific priorities that vary with local conditions under the general assumption that not all goals can be reached at the same time.

These strategies should also clearly spell out possible complementarities and trade-offs between targets so as to identify win-win options. For example, a win-win situation may occur in dry areas, through the adoption of ambitious water conservation programs that encourages pro-poor growth. Moreover, the promotion of efficient and renewable energy technologies may have a poverty-reducing impact through increased access to energy services and the creation of new business and job opportunities for the poor. However, caution should also be taken to avoid trade-offs, for example, policy makers should ensure that the adoption of climate mitigation policies does not come at the expense of poverty reduction at least in the short run.

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PEGNet Policy Briefs

provide information and key policy recommendations on the poverty-equity-growth nexus. The views presented are those of the authors and do not necessarily reflect the views of PEGNet. In case of questions or comments, please directly contact the authors.

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