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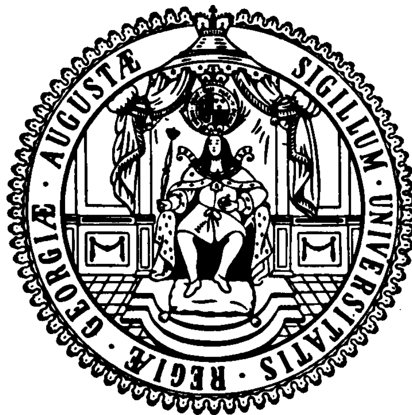

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Stephan Klasen

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Gosslerstrasse 1 B · 37073 Goettingen · Germany · Phone: +49-(0)551-398172 · Fax: +49-(0)551-398173

e-mail: uwia@gwdg.de · http://www.iai.wiwi.uni-goettingen.de

In Search of The Holy Grail: How to Achieve Pro-Poor Growth ?

Stephan Klasen[1]

Department of Economics

University of Goettingen

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Abstract:
Pro Poor Growth has become a central concern to achieve sustainable poverty reduction in developing countries. Despite being widely used, the term is not well-defined nor has there been a clear policy document that would summarize the determinants and policy implications of pro poor growth. This paper seeks to fill this void by first proposing a definition of pro poor growth, then summarizing the linkages between inequality, poverty, and pro poor growth, before proceeding to analyze the micro and sectoral determinants of pro poor growth. The final section spells out the recently emerging consensus on policy implications for pro poor growth, with particular emphasis on policy issues in Sub Saharan Africa and points to remaining disagreements and areas for further research. The paper emphasizes the particular importance of inequality-reducing policies for pro poor growth as well as the need to further analyze the scope of activist state policies to deliver a pro poor agenda.

Keywords: Pro Poor Growth, Inequality, Sub Saharan Africa, Sectoral and regional policies

JEL Code: E6, I3, O1

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[1] Address of author: Department of Economics, University of Goettingen, Platz der Göttinger Sieben 3, 37073 Göttingen / Germany. Tel: +49-(0)551-397303, Fax: +49-(0)551-397302, email: sklasen@uni-goettingen.de.

1. Introduction

In recent policy and research documents from various institutions, researchers, and organizations, pro-poor growth has been identified as the most important ingredient to achieve sustainable poverty reduction (e.g. UN, 2000; World Bank, 2000a; Ravallion, 2002, World Bank, 2000b) As poverty reduction has become the central aim of development efforts, as evidenced by the Millenium Declaration, the PRSP process, and the associated lending instruments by the IMF and the World Bank, aiming for pro-poor growth is, *a fortiori*, the most significant policy measure to achieve this goal.

Although it is rarely spelt out, it is usually implied that pro-poor growth refers to growth that leads to significant reductions of poverty (UN, 2000; World Bank, 2000a). What is less clear is how one defines significant reductions in poverty and how one should consequently monitor how successful countries are in succeeding in pro-poor growth. There is even less clarity on what the policy implications of a call for pro-poor growth are. There are debates about the linkages between pro-poor growth and its constituent elements, growth of mean incomes and changes in inequality (e.g. Dollar and Kraay, 2002; Ravallion, 2002, World Bank, 2000b, Bourgignon, 2001a) debates about the sectoral, regional, and functional composition of pro-poor growth (Ames et al. 2000, Ravallion and Datt, 2002), and debates about the precise policy measures under control of government (or international development partners) that can generate pro-poor growth; particular areas of dispute remain in the macroeconomic field, policies to address inequality, and some important questions about sectoral and regional policies. Despite the centrality of pro poor growth for the formulation and implementation of poverty reduction strategies, there are few policy documents that comprehensively tackle this set of issues.[2]

This paper will address these issues by defining the terms of the debate and by identifying areas of policy consensus and remaining disagreements. Section 2 will examine the measurement of pro-poor growth. Section 3 looks at the linkages between growth, inequality, and poverty reduction, thus focusing an macro linkages. Section 4 examines the micro linkages between the sectoral, regional, and functional distribution of growth and poverty reduction. Section 5 distills policy messages, with particular regard to African countries. Section 6 concludes.

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[2] Despite being at the forefront of the PRSP process and having provided substantial analysis and documentation in the PRSP Sourcebook, the World Bank decided to drop earlier plans to include a chapter in that sourcebook that would explicitly address this issue. For some discussion documents from researchers from within or related to major development partners, refer to Edgren 2001; White and Anderson, 2000; Eastwood and Lipton, 2001; Hanmer and Booth, 2001.

2. Defining and Measuring Pro-Poor Growth

While there have been a number of proposals to define pro-poor growth, official documents from the international agencies involved with the International and the Millenium Development goals have not included a precise definition of pro-poor growth. Policy documents usually imply that pro poor growth is growth that benefits the poor and give them more access to economic opportunities (e.g. UN, 2000; OECD, 2001). These statements are very vague and give little guidance to policy-makers about how to achieve and monitor success in achieving pro poor growth.

Among academic researchers, there have been a number of proposals to define pro poor growth (e.g. Ravallion and Datt, 2002; Ravallian and Chen, 2003; Hanmer and Booth, 2001; White and Anderson, 2001; Kakwani and Pernia, 2000; McCulloch and Baulch, 1999). Rather than discussing the merits of each of those contributions, I would like to structure the debate a bit and begin by suggesting a few desirable requirements of a definition and then propose a simple definition that would meet these requirements.[3]

A first requirement of such a definition is that it should clearly differentiate between pro poor growth and other types of economic growth while at the same time indicate the amount of pro poor growth. That is, it should answer the questions 'Was growth pro-poor?' and 'How large was pro-poor growth?' This requirement rules out the proposals by McCulloch and Baulch (1999), who compare the actual income distribution with one that would obtain in the case of distribution-neutral growth, and Kakwani and Pernia (2000), whose pro-poor growth index is the ratio between total poverty reduction and poverty reduction in the case of distribution-neutral growth, as both only provide a clear answer to the first, but not to the second question.

A second requirement is that it must at least imply that the poor have benefited disproportionately more from growth than the non-poor. Disproportionate must mean at obtain at least in a relative sense, i.e. that the income growth rate of the poor is larger than the income growth rate of the non-poor.[4] The finding from Dollar and Kraay (2002) that there is nearly a

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[3] For other possible requirements for such measurement which are grounded in traditional poverty measurement theory, see Ravallion and Chen (2003).

[4] This would ensure that the relative gap between the non-poor and the poor (e.g. the income ratio of the non-poor to the poor) would fall over time. One could think of a stronger requirement which suggests that the absolute income growth of the poor must exceed the absolute income growth of the non-poor. This would be very high standard to meet as it would mean that the growth rate of the poor would have to be much larger than the growth rate of the non poor (in fact, by a factor which equals the ratio of the non-poors' to the poors' initial average incomes). This would ensure not only that the relative but also the absolute gap between rich and poor would decline. As shown by White and Anderson (2001), less than 3% of actual growth episodes in past decades would meet this definition and for countries with high initial inequality.

one-to-one relationship between average income growth rate and the income growth rate of the poorest quintile would therefore not qualify as 'pro-poor growth.' Using the poverty elasticity of growth (i.e. the percentage change in the poverty rate divided by the percentage change in the growth rate) as the measure of 'pro-poor growth' is not suitable for this requirement as it is hard to discern whether a particular elasticity actually implies that the poor have benefited disproportionately or not.

A third requirement is that the assessment should be sensitive to the distribution of incomes among the poor in the sense of giving greater weight to the poorest of the poor. Also, this way the measure should not be sensitive to the particular choice of the poverty line. All indicators that use the poverty rate in the calculation of a measure of pro-poor growth, such as the much used elasticity of the poverty rate with respect to the mean growth rate, would not meet this requirement as they are highly sensitive to the choice of the poverty line and do not include information about the distribution of incomes among the poor.[5]

Lastly, while giving more weight to the poor, the measure should allow an overall assessment of economic performance, and should therefore not be exclusively focused on the fortunes on the poor. This would rule out the proposal by Ravallion and Chen (2003) who suggest a measure of pro poor growth that integrates the growth rates of the poorest quantiles up until the poverty line in the first period.[6]

One simple measure that would fit all these requirements are the population and poverty-weighted growth rates proposed by Ahluwhalia and Chenery (1974). The former is an arithmetic average of the growth rates of different income groups (e.g. deciles or quintiles). By treating income growth *rates* (rather than *absolute* increments) of everyone the same, it gives more implicit weight to the absolute income growth of the poor than the average income growth rate which is largely dependent on income growth rates in the richest two quintiles (Klasen, 1994; Ahluwalia and Chenery, 1974). The poverty weighted growth rate puts greater weight on the income growth rate of the poorest quintiles and declining weights on the income growth rates of richer quintiles and thus may be the most suitable measure of pro-poor growth (Klasen, 1994).[7] If either of these measures would exceed the average income growth rate, growth would be pro-

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[5] Some measures, such as the one proposed by Kakwani and Pernia (2000) could accommodate this requirement if they were based on the poverty severity measure rather than the poverty head count.

[6] They specifically want a measure that focuses exclusively on the performance of the poor so that they did not intend it to be a measure of aggregate, but poverty-weighted, performance.

[7] For an empirical application of these measures see Klasen (1994). The class of Atkinson inequality measures are quite similar to this formulation. For a discussion and an application, see Grün and Klasen (2000, 2001).

poor;[8] and the amount of pro-poor growth is simply the population-weighted or poverty-weighted growth rate. An added advantage would be that these measures consider growth and distribution jointly and thus emphasize, as do the proponents of pro-poor growth, that the two cannot easily be separated, either analytically or from a policy point of view (see Ahluwalia and Chenery, 1974; Klasen, 1994).[9]

Before proceeding, it may be important to highlight that the definition and the proposed monitoring tool are all focused on the income dimension of poverty. While most recent studies have emphasized the multidimensionality of poverty and highlighted the importance of health, education, and gender equity (e.g. World Bank, 2000a, UN, 2000), there are no corresponding indicators that have been proposed in capturing pro-poor growth in this wider dimension, although one could easily think of candidates (e.g. Klasen, 2000; Bardhan and Klasen 1999).[10]

Fortunately, there are causal linkages (with causality running both ways) between income poverty and most other non-income measures of well-being. In particular, as discussed below better health and education of the poor (and reduced gender equity in these achievements) will improve their chances to escape income poverty; conversely, higher incomes will typically allow the poor to get greater access to health and education services. But these linkages are far from perfect so that it is useful to separately monitor progress on these non-income dimensions as well (Drèze and Sen, 1989; Klasen, 2000, 2002a; UN, 2000).

3. Poverty, Inequality, and Pro-Poor Growth

Recent years have seen a wealth of studies on the linkages between poverty, inequality, and economic growth. Without reviewing them all, it may be useful to point to some of the most important conclusions and their linkages, as well as point to important caveats.

a) Sustained economic growth, on average, reduces poverty (Bruno, et. al. 1998, Dollar and Kraay, 2002; World Bank, 2000a, b, Ames, et.al. 2000, Christiaensen, Demery, and

[8] One can construct (somewhat unlikely) cases where particularly the population-weighted growth rate exceeds the average income growth rate yet the poor had lower growth than the average due to particularly high income growth of the middle income groups. Except in extreme cases, this would not happen if the poverty-weighted growth rates were used which give greater weight to the growth rates of the poor.

[9] There is a close relation to the proposal by Ravallion and Chen (2003) and those growth rates. Ravallion and Chen use a population-weighted growth rate applied to centiles and just focused on the poor, while the Chenery and Srinivasan measures are more aggregative and give some weight to growth of the non-poor. Both measures also share the feature that they consider the growth rates of quantiles of the income distribution which may not contain the same people in two periods. Thus none of the measures are able to say much about the mobility of people in and out of poverty for which different types of data (panel data) and different measures (mobility measures) are needed.

Paternostro, 2002; White and Anderson, 2001). While this is the case on average and in the long-term, there are many examples of short-term growth episodes in individual countries that have had little or even negative impact on poverty (Ravallion, 2002; Bourguignon, 2001a).

b) While comparable data on inequality across space and time are still rare and error-prone, it appears that inequality has remained fairly stable across most countries (Deininger and Squire, 1998; Li, Squire, and Zhou, 1998). Thus most growth has not been explicitly pro-poor, but has given all income groups roughly equiproportionate increases in their incomes. An implication of little change in inequality is that income growth has roughly translated into equiproportionate income growth for the poorest in most countries (Dollar and Kray, 2002). Important exceptions are the transition countries, the US and the UK where inequality has sharply increased over the past two decades (Grün and Klasen, 2001; 2002). In addition, there are significant short-term variations in inequality that greatly affect poverty. For example, Bourguignon (2001a) shows that short-term changes in poverty are due in roughly equal amounts to changes in mean incomes and changes in the income distribution. Finally, this relative long-term stability might often be due to off-setting trends rather than the absence of significant changes. For example, Bourguignon (2001b) shows that demographic trends that lowered inequality off-set labor market trends that increased inequality leaving a net effect of little change in Brazil and Indonesia.[11] This suggests that the average stability in distribution need not continue nor is immune to policy interventions.

c) Higher (income) inequality reduces the poverty impact of growth regardless of the poverty measure chosen, as the absolute increments of (even equiproportionate) increases in income of the poor are much smaller in a high inequality environment (Ravallion, 2002; World Bank, 2000a, b).[12] Thus there is dual poverty pay-off to reduced initial inequality. It

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[10] The Millenium Development Goals and the related International Development Goals (OCED, 1996) include improvements in education and health and propose separate indicators. This is one way to address the issue. Another is to propose indicators that capture the multidimensionality of poverty in one indicator (e.g. Klasen, 2000).

[11] For a related paper on the relationship between demographics and inequality, see Kremer and Chen (2002) which show that high inequality countries have large fertility differences between rich and poor which tends to reproduce inequality.

[12] An illustration may be helpful. 2 countries have $300 per capita income, 5% average income growth and 10% income growth of the poor (and thus pro-poor growth). In country A the poor have $100 and the rich have $500, in country B the poor have $50 and the rich have $550. The poverty line stands at $110. In country A, pro-poor growth will mean all the poor reach $110 and poverty, measured using the head count, the poverty gap or the squared poverty gap, is eradicated. In country B, the poor only get to $55 poverty remains substantial (in fact, it does not change using the head count ratio, and is reduced slightly using the poverty gap measure). This numerical example also illustrates how the findings by Dollar and Kray (2002) can be reconciled with the finding that the same amount of growth yields larger poverty reduction in countries with low inequality (e.g. Ravallion, 2002; World Bank, 2000a). Dollar and Kray only relate average income growth to the proportionate income growth rate of the poor and find that the two are very closely correlated. But this still means that poverty reduction, i.e. lifting the poor to the poverty line,

will immediately reduce poverty by giving the poor more resources and it will increase the poverty impact of subsequent growth (Bourgignon, 2001a).

d) There also appears to be a growth pay-off of lower initial (income or asset) inequality (e.g. Alesina and Rodrik, 1994; Deininger and Squire, 1998; Lundberg and Squire, 1999; World Bank 2000a; Christiaensen, Demery, and Paternostro, 2002; Rodrik, 1999). Cross-country studies show that countries with lower initial inequality, particularly low inequality in land, appear to experience higher subsequent growth.[13] They also appear to be better able to manage external shocks and reduce latent social conflict (Rodrik, 1999). Moreover, micro panel studies show that households with few physical and human assets are often caught in a poverty trap that sharply reduce their chance of economic advancement and thus harm the overall economic performance of an economy (Woolard and Klasen, 2002; Christiaenson, Demery, and Paternostro, 2002). Thus there is a growth pay-off to lower initial inequality so that we are faced with a triple effect of reduced inequality on poverty. It appears to reduce poverty immediately, increases growth, and enhances the poverty impact of such growth.[14]

e) The last two findings are also relevant in the context of gender inequality. Higher gender inequality appears to increase poverty and to reduce other welfare measures as women appear to allocate more resources to food, health care, and education of their children than men do and female literacy has been found to be one of the most important determinants of the effects of growth on income poverty (Thomas, 1997; World Bank, 2001a, Datt and Ravallion, 2000). Moreover, gender inequality, particularly in education, access to technology, and likely also in employment, reduces economic growth as it fails to make adequate use of female resources (Klasen and Lamanna, 2003; Klasen, 2002b; World Bank, 2001a, Knowles, et al. 2002; Blackden and Bhanu, 1999; World Bank, 2000c). Thus reduced gender

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will be easier in countries where inequality is lower as their proportionate income gains are larger in absolute terms. See also Ravallion (2002) and World Bank (2000a) for a discussion.

[13] In contrast, Forbes (2000) using a fixed effects specification, finds that changes in inequality appear to be positively correlated with growth in the subsequent five years. But her methods, panel regressions with fixed effects, depend greatly on interpreting minute changes in inequality in countries. Given the poor quality of the data, the signal to noise ratio in such an analysis is likely to be substantial. For a discussion of related issues, see Atkinson and Brondolini (2001), Barro (2000), Banerjee and Duflo (2000). Easterly (2001) finds that not all types of inequality harm growth, but a small middle-class appears to be particularly detrimental. See also Rodrik (1999).

[14]While the cross-sectional findings about the negative impact of existing inequality and growth are fairly robust, it is somewhat less clear whether *reducing* inequality in a particular country will boost growth in all cases. Forbes (2000) finds that it would reduce growth, at least in the short term, Barro (2000) finds that it would increase growth in poor countries, Banerjee and Duflo (2000) find that any change in inequality (improvement or worsening) appears to reduce growth, and Eastwood and Lipton (2001) argue that it depends on the type of inequality is tackled. Clearly, more research is needed here, particularly focusing on empirically investigating specific causal pathways from changes in inequality to economic growth.

inequality would boost economic growth and boost the economic impact of growth on poverty reduction, i.e. it would make generate more and more pro-poor growth.

Apart from supporting a traditional emphasis on furthering economic growth, these findings suggest that pro-poor growth policy should have a significant emphasis on reducing inequalities, particularly asset and gender inequalities, in order to benefit from the triple pay-off to redistribution. While this has been recognized in theory (World Bank, 2000, 2001; Ravallion, 2002), there is no clear equality-enhancing policy agenda spelt out to achieve the necessary inequality reduction, particularly for high inequality countries where such an agenda would be most urgent in order to further pro poor growth. Elements of such an agenda will be outlined in the fifth section.

4. The Sectoral, Regional, and Functional Distribution of Pro-Poor Growth

The previous section has examined macro linkages between growth, distribution, and poverty reduction. Here we take a more disaggregated look at the determinants of pro poor growth. Since the poor are not spread evenly throughout the economy, the sectoral, regional, and functional distribution of growth matters for poverty reduction. Before analyzing the distribution of growth, it is important to emphasize that analytically there are two ways in which economic growth can be pro-poor. The first way, which I will call the direct way, is a pattern of growth that immediately raises the incomes of the poor. This must be growth that favors the sectors and regions where the poor are (or are moving to) and use the factors of production they possess (or are able to acquire). While this is probably the most sustainable way of ensuring the poor benefit disproportionately from economic growth, it carries the risk that they will also suffer (possibly disproportionately) from economic contractions and high volatility.[15] The second avenue, however, can be called the indirect way and operates via public redistributive policies (esp. via taxes, transfers, and other government spending).[16] High growth of any sorts could, in principle, be made pro-poor if it involved progressive taxation and targeted government spending on the poor. The government spending on the poor could either try to promote their inclusion in economic growth and thus improve the direct linkage between growth and poverty reduction (see World Bank, 2000b), or it could simply provide transfer payments to the poor through a safety net that could become ever more generous with the increase in economic growth. The former use is clearly preferable to the

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[15] This may be one of the reasons why the poor have suffered badly in the Asian crisis (Chen and Ravallion, 2000). Targeted safety nets and automatic stabilizers are one way one can ensure that there is an asymmetry in the linkage between growth and poverty reduction between expansions and contractions. For a related discussion, see Easterly (2000) and Christiaensen, Demery, and Paternostro (2002).

[16] For a related analysis, see Herr and Priewe (2001).

latter, although some safety net is important for the poor and can indeed ensure that they become direct beneficiaries of economic growth as it allow them to take greater risks and thus reap higher rewards (Atkinson, 1999; World Bank, 2000a). Let me comment on the direct and indirect linkages in turn.

On the first issue, it is clear that pro-poor growth that directly reduces poverty must be in sectors where the poor are and use the factors of production they possess. The vast majority of the poor are in rural areas, a majority depend directly or indirectly on agriculture for their livelihood, and the factor of production the poor possess and use most is labor, sometimes land, and even more rarely human capital (see Alderman et al, 2000a; Ames et al. 2000; World Bank 2000a, Ravallion and Datt, 2000; Eastwood and Lipton, 2001). Thus pro-poor growth must be focused on rural areas, improve incomes in agriculture, and must make intensive use of labor. While conceptually quite obvious, they are often forgotten and are clearly not reflected in public policies or in the allocation of public funds by national governments or donors (World Bank 2000c; Lipton, 1977). The majority of empirical analyses of these linkages have indeed born this relationships out (for a survey, see Lipton and Ravallion, 1995, Eastwood and Lipton, 2001). The experience of virtually all successful developers suggest that rapid growth and poverty reduction always involves an emphasis on improving productivity and incomes in agricultural and non-farm rural occupations (Timmer, 1988, World Bank, 2000c; Lipton and Ravallion 1995).

These are linkages that will have an immediate impact on poverty. In the longer term, growth can also be pro-poor through indirect linkages between sectors, regions, and factors. High and labor-intensive growth in manufacturing and services can over time, for example, lead to a migration response from poor rural areas and increase the incomes of both poor migrants and those poor left behind and/or lead to improved opportunities for non-farm rural growth. Similarly, growth that is intensive in skilled (non-poor) labor might, in due course, increase the demand for unskilled labor as the two are often complementary. Or as the poor improve their human capital, growth can be pro-poor if it becomes more intensive in human capital rather than simply in unskilled labor. While it would be unwise to simply assume these longer-term linkages and base poverty reduction strategies on them (which has been rightly criticized as 'trickle-down' views of development), these longer-term linkages must be borne in mind when long-term development strategies to reduce poverty are devised.[17]

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[17] Recent innovations in generating detailed and precise poverty profiles have an in-built bias to focus on static views of poverty and may neglect the dynamic options for poor to participate in a multitude of ways in economic growth that cannot easily be deciphered from such poverty profiles. These dynamics, which may, for example, be more

A set of studies by Datt and Ravallion on the impact of the sectoral composition of growth in India highlight some interesting further linkages. First, they find that rural growth indeed reduced poverty in both rural and urban areas, while urban growth only had some impact on urban poverty. By sector, they showed that output growth in the primary and tertiary sectors reduced poverty in rural and urban areas, presumably because those sectors are where the poor are and make heavy use of their labor (Ravallion and Datt, 1996, 2000).[18] In a later study, they find that farm output has the same large impact on poverty reduction everywhere in India, but that non-farm output has a variable impact on poverty reduction. This variability depends largely on the level of female literacy, urbanization, urban-rural disparities, and farm yields. States with high female literacy, high urbanization, low disparities, and high initial farm yields experience a higher elasticity of poverty to non-farm output, with the effect of female literacy being by far the strongest.[19] These findings not only confirms the importance of agriculture for poverty reduction, but also the complementary between income and gender inequality and poverty reduction, particularly related to non-farm rural growth. Related analyses in Eastwood and Lipton (2001) confirm that both in country studies as well as in cross-country analyses, improvements in labor productivity in agriculture have been more pro poor than improvements in non-agriculture. But cross-country analyses suggest that such improvements in agriculture may have a much smaller or even negligible effect in high inequality countries, further emphasizing the need to tackle distributional issues.

While there is a considerable overlap between the sectoral and regional distribution of growth, the two concerns are not identical. Most backward regions are rural and need agricultural and non-farm rural growth. But the regional distribution of growth is also concerned with differences in poverty that go beyond the rural-urban and sectoral divide and focus on pockets of deep poverty in particularly backward areas. Examples are the North-East of Brazil, Western China, the former homelands in South Africa, etc. The high concentration of poor people can often lead to persistent poverty traps where concentrations of poverty generate negative spill-overs through credit, land, or labor markets, the quality of public institutions (e.g. health and education), through the failure of an agglomeration dynamic to take hold, through too little public

adequately captured in using dynamic techniques (such as microsimulation or dynamic CGE modeling) that include dynamic responses of the poor, need to complement the static analyses inherent in the poverty profiles.

[18] See also White and Anderson (2001) for a similar finding in a cross-country context.

[19] This last findings confirms that low gender inequality in education not only boosts national economic growth, but also increases the regional poverty impact of such growth.

investment, or through sheer remoteness from markets (e.g. Jalan and Ravallion, 2000; Ray, 1998; Christiaensen, Demery, and Paternostro, 2002).

Pro-poor growth must therefore try to stimulate economic activity in precisely these pockets of poverty (or encourage migration out of them to richer areas). Given the dynamics of poverty traps in such areas, reliance on the private sector is unlikely to succeed. Instead, strong government involvement is typically required, combined with incentives to encourage private sector activities. The recent policy documents on poverty give relatively little guidance on such policies beyond some focus on infrastructure investments and the targeting of safety net programs (e.g. World Bank, 2000a, b, Christiaensen, Demery, and Paternostro, 2002).

Regarding the functional distribution of income, growth is pro-poor if it makes use of the factors of production the poor possess. These are primarily labor (predominantly unskilled) and in some contexts land if the poor have adequate access to land. The poverty reduction records of countries such as China, India, and the fast-growing East Asian countries show that poverty reduction was largest when growth made use of the assets the poor possess (e.g. Dreze and Sen, 1989; Ravallion and Datt, 1996). While there is some scope for reducing poverty by simply reallocating the functional distribution of income (e.g. through high mandated wages, interventions to raise the returns to land, etc.), such static redistributions are unlikely to reduce poverty significantly unless they are also compatible with (or better foster) economic growth (Dollar and Kraay, 2002). Some interventions are likely to be compatible with sustained economic growth (such as productivity enhancements in agriculture that raise the return to land) while others are unlikely to foster economic growth in most contexts (such as measures to artificially raise wages beyond market-clearing levels).

It is also important to note that the extent to which growth will be pro-poor will depend also depend greatly on the amount of human capital the poor possess. As the empirical growth literature has demonstrated, growth is highly contingent on the state of human capital in a country. Thus growth of any variety is higher in countries with sufficient human capital (e.g. Barro, 1991; Mankiw, Roemer, and Weil, 1992; Klasen 2002b). Consequently, many of the returns to growth accrue primarily to those with high human capital (although there may be some 'trickle-down' effects to the less-skilled over time). In fact this is likely to be one of the central avenues through which growth is less pro-poor in an environment with high inequality than in one with low inequality, as there is a very close correlation between income inequality and average human capital as well as its distribution (Deininger and Squire, 1998; World Bank, 2000b) Conversely,

it is one of the most important way through which inequality appears to negatively affect economic growth (Deininger and Squire, 1998; World Bank, 2000b, Klasen, 2002b).

Thus heavy investment in the human capital of the poor will yield two benefits on poverty reduction. It will increase economic growth and it will make growth more pro-poor. The record of East Asia where high human capital accumulation (and rapidly shrinking disparity in human capital) promoted growth and poverty reduction is an important illustration of these linkages (Dreze and Sen, 1989; World Bank, 1993; World Bank, 2000b).

This is true in accentuated fashion for gender inequality in human capital. Research suggests that gender inequality in human capital could boost economic growth and increase the poverty impact of economic growth. As estimated by Klasen (2002b), had Sub-Saharan Africa had East Asia's record in initial gender inequality in education and closed the gap at the same speed East Asia had, real per-capita annual growth between 1960 and 1992 would have been between 0.4 and 0.6% faster. In South Asia, where gender gaps are more pervasive and closed even slower, growth would have been 0.7-1.0% faster. These effects only relate to gender inequality in education and are thus in addition to the effects of average human capital on growth (Klasen, 2002b, see also Dollar and Gatti, 1999; Knowles, Lorgelly, and Owen, 2002; World Bank, 2001a, Blackden and Bhanu, 1999).[20]

Regarding the indirect linkages between economic growth and poverty reduction, it is clear that economic growth provides the opportunities for dynamic redistribution that can have a significant impact on poverty. Such dynamic redistributions are typically easier to achieve as they will only focus on redistributing the gains from growth rather than involve potentially painful and politically difficult static redistributions of income (Ahluwalia and Chenery, 1974). Successful examples of such dynamic redistributions include, for example, the policies adopted by the Malaysian government to reduce poverty and increase the share of economic activity for the Malay population group (Lindauer and Roemer, 1994).

One way this indirect linkage can work is if growth enables the necessary fiscal resources to expand investments in the assets of the poor. The success of the East Asian economies in using the resources generated by growth to expand mass education among the poor (and esp. among women) is a case in point (World Bank, 1993; Klasen, 2002b; Lindauer and Roemer, 1994).

[20] In addition, they do not include the growth impact of reduced gender inequality in employment, or access to assets and technology which have been found to be significant (Blackden and Bhanu, 1999; Klasen and Lamanna, 2003).

Lastly, growth can generate the resources to expand transfers and safety nets for the poor. Such transfers and safety nets are clearly important from a welfare perspective and can also strengthen the poor's economic self-reliance as they will allow greater risk-taking and thus allow them to reap the benefits of more risky but rewarding income earning opportunities (Atkinson, 1999; World Bank, 2000a, Ray, 1998). Too great a reliance on such programs can, however, generate poverty traps and welfare dependency, esp. in the case of tightly targeted transfers that are sharply reduced as soon as self-earned incomes increase and thus constitute high implicit taxes on economic activities of the poor (e.g. Atkinson, 1999).

It is important to emphasize that all of these indirect mechanisms, while potentially important elements of pro-poor growth, are contingent on a policy process that actually effects these redistributions. If this policy process is absent or lacks the necessary political resolve, these opportunities will not be exploited (see also below). While the direct strategies discussed above will immediately translate into gains to the poor, these indirect strategies are not automatic and are mediated by contentious distributional battles over the resources generated by growth.

In sum, this discussion suggests that pro-poor growth must, in the first instance, focus on growth in agriculture and non-farm rural growth, must be labor-intensive and land-intensive where the poor have access to land, and must be particularly concentrated in geographic pockets of deep poverty. Reducing inequalities in human capital by income and gender will both boost growth and make it more pro-poor. In the longer term, strategies will also need to take account of indirect linkages between the sectors and regions where the poor currently are and to which they may be drawn to as economic growth takes hold. Indirect mechanisms to turn growth into pro-poor growth are also feasible but critically depend on effective redistributive processes.

5. Policy Issues for Pro-Poor Growth

The discussion so far (and in documents such as World Bank 2000a, b) has focused on the state of research on the macro and micro determinants of pro poor growth. While this is helpful and clarifies many policy debates, it is critical to discuss specific policies that are likely to promote high and pro poor economic growth. In this section I will attempt to outline some of those issues. This task is considerably more difficult, mainly because there continue to be considerable disagreements among researchers and policy-makers. While the discussion will mostly be applicable to other developing regions, it will have a particular focus on Sub-Saharan Africa where the poverty problems appear most intractable.

To begin with, it is useful to briefly discuss past efforts to raise growth and reduce poverty in Africa, including particularly Structural Adjustment Programs (SAPs) that were implemented

throughout Africa in the 1980s and 1990s. It is by now clear that SAPs in Africa have, with some exceptions, not had the intended outcome.[21] All empirical studies seem to suggest that the impact of SAPs on growth was typically negligible, non-existent, or not statistically significant (e.g. Mosley, Harrington, and Toye, 1995; Easterly, 2000 and the literature cited therein). There is an intense debate on whether this is due to insufficient implementation (e.g. World Bank, 1994; Mosley, Harrington, and Toye, 1995; Christiaensen, Demery, and Paternostro, 2002), external factors (e.g. World Bank, 1994, Collier and Gunning, 1999; World Bank, 2000c), or inappropriate policies included in the SAPs (e.g. Mkandawire and Soludo, 1999; Cornia and Helleiner, 1995). Beyond this by now somewhat tedious (though obviously important) debate, however, some consensus appears to have been reached that combination of the three factors are at work. In particular, there is now little debate about the increasingly unfavorable external environment for primary producers (e.g. Mkandawire and Soludo, 1999; World Bank, 2000c), that there was less than full implementation in many countries particularly those that were opposed to some aspects of reforms and only partly implemented conditionalities in order to get continued funds (e.g. Mosley, Harrington, and Toye, 1995; World Bank, 2001b), and that some of the policies were insufficient, improperly sequenced, or too focused on short-term problems (e.g. Cornia and Helleiner, 1995; World Bank, 2000c). Some of this consensus will be highlighted below.

As SAPs have, in general, not delivered higher growth (with some notable exceptions such as Uganda, Ethiopia, and Mozambique) and as the distributional effects of SAPs appear to have been canceling each other, with some poor winning (typically some rural poor, esp. those related to agricultural production for exports) and some poor (those in remote areas, the urban poor) losing (World Bank 1994, 2000c; Christiaensen, Demery, and Paternostro, 2002), the impact of SAPs on poverty have been very small, despite initial claims that they should help reduce poverty (World Bank, 1981).[22]

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[21] Some studies, most notably World Bank, 1994 and Christiaensen, Demery, and Paternostro 2002 argue that SAPs have induced growth and reduced poverty in the countries where they were successfully implemented. The usual indicators used to measure successful structural adjustment are measures of macroeconomic policy outcomes, such as competitive exchange rates, low inflation, and low external and internal imbalances. These findings are not as revealing as one might think at first sight for several reasons. First, SAPs have asked countries to do much more than simply adjust a few macro variables so that they are not really a test of the way SAPs were implemented. Second, they do not clearly link macroeconomic policies undertaken as part of SAPs and macroeconomic outcomes measured. Third, they essentially only reproduce the well-known finding from the empirical growth literature that macroeconomic stability is good for growth and poverty reduction. Lastly, they beg the question of why some countries adjusted successfully but most did not, despite all having agreed to SAPs. This last issue has been taken up in several interesting separate studies (World Bank, 2001b, Mosley, Harrington, and Toye, 1995).

[22] The claim had been that SAPs, with their emphasis on improving incentives for agriculture, should sharply reduce poverty by raising the incomes of poor rural dwellers. Easterly (2000) claims that the SAPs have had no aggregate impact on poverty, but interacted negatively with growth, in the sense that in countries with SAPs poverty was

Given the mixed to disappointing experiences of SAPs in Africa and the findings on pro-poor growth mentioned above, what light do they throw on the appropriate policies to achieve such pro-poor growth? While The matrix (in Tables 1 and 2) below tries to summarize the findings and distinguish the areas where there is consensus from the areas where there is continued disagreement on policy measures that could lead to pro-poor growth. It is useful to divide issues into policy issues and process issues which is done in Tables 1 and 2.

Beginning with policy issues, there is now a widespread consensus that macroeconomic stability is a prerequisite for pro-poor growth (e.g. Ames, et al. 2000; Mkandawire and Soludo, 1999; World Bank, 2000a). This implies both that short-term stabilization measures are necessary in the case of a fiscal, financial or balance of payments crisis, and that, more importantly, macro policy should aim for stability that would reduce the likelihood of such crises. In particular, it has been found repeatedly that high inflation (particularly above a level of about 10%) hurts the poor (and economic growth), and that large budget and current account deficits will eventually lead to crises in which the poor will suffer disproportionately (e.g. Ames et al. 2000, Ravallion and Datt, 2000, World Bank, 2000a).

There is also some consensus on how to achieve such stability, although here there are a number of remaining disagreements. In particular, there is consensus that monetary and exchange rate policy must be coordinated to ensure low inflation. Regarding exchange rate policy, there appears to be a consensus that governments should avoid an overvalued real exchange rate at all cost as it will destroy efforts to boost exports, generate a balance of payment crisis in time, and is typically anti-poor as the rich have a much higher propensity to import. While the World Bank tends to suggest a 'competitive' exchange rate, some argue that governments should manage capital flows to generate an undervalued exchange rate to provide incentives to export and to build up cushions against inevitable external shocks (e.g. World Bank, 2000c, Herr and Priewe, 2001, Ames et al., 2000). This was the policy stance that supported export-led growth in many of East Asia's economies and is well worth emulating (World Bank, 1994; Rodrik, 1995).[23]

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reduced less if there was growth and increased less if there were contractions. Christiaensen, Demery, and Paternostro (2002) find that contractions have been strongly pro-poor while expansions have been mildly pro-poor in most African countries with the exception of Zambia. The finding that the contractions are pro-poor might well be related to the use of consumption as the poverty measure. In contractions, the poor will try to stabilize their consumption by eating into their assets and their greater stability in consumption might come at the expense of reduced assets and thus reduced opportunities to escpate poverty. See also discussion below.

[23] There is continuing debate about the nature of the exchange rate regime. While some still argue for fixed exchange rates and the use of the exchange rate as a nominal anchor (e.g. Herr and Priewe, 2001), the experiences of the last decades have shown that fixed exchange rate regimes have much greater difficulties in coping with external shocks (World Bank, 1994; Fisher, 2001), and are prone to speculative attacks unless they are backed by a currency board

Regarding fiscal policy, the consensus is that governments should aim for low budget deficits as only those will support macroeconomic stability and avoid disruptions and distortions to financial markets, all of which tend to hurt the poor disproportionately. There remain considerable disagreements, however, on the precise mix between tax increases and expenditure cuts, on the extent of fiscal tightening during stabilisation, and on what size of budget deficits are 'low enough'. Here it appears, however, that the views of the IFIs have shifted quite a bit from a traditional focus on quick and radical tightening via expenditure cuts in response to a crisis somewhat in the direction of the proponents of alternatives to adjustment policies which call for a more gradual approach that emphasizes the broadening of the tax base and some greater toleration of short-term deficits during stabilization rather than quick and deep expenditure cuts. This way, the deep contractions that have typically characterized the IFI response to crises might be mitigated (Cornia and Helleiner, 1995; Mkandawire and Soludo, 1999; World Bank, 2000c, Ames et al. 2000, Bevan and Adam, 2001). More work is needed to determine what are the options for the return to a balanced fiscal policy in response to a crisis that reduces the danger of severe contractions or recessionary spirals.

Once stabilization has been achieved, the fiscal room for maneuver is increased and emphasis should be placed on returning to levels of public expenditures that are required to provide the essential human capital and infrastructure for sustained pro poor economic growth (Cornia and Helleiner, 1995; Bevan and Adam, 2001). To what extent this room for maneuver should be further enhanced via further revenue measures or used via increased spending remains a subject of disagreement and needs to be explored.[24]

Regarding the role of privatization in policy reform, there appears to be a broad consensus that governments cannot allow large and highly unprofitable state enterprises to continually deplete state coffers and thus divert resources from priority investments such as pro poor investments in infrastructure and human capital, distort markets, and lead to serious inefficiencies. This was the main reason SAPs pushed hard for divestiture of the state from most

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(which creates their own problems as the crisis in Argentina demonstrated). At the same time, full flexibility is also not desirable given the large volatility that may happen as a result but a managed flexibility that has characterized the exchange rate policy of South Africa in the past few years (where the Reserve Bank doe not announce an exchange rate target but occasionally intervenes to reduce sharp fluctuations) might be just about the right approach. Such managed flexibility becomes much easier if one is aiming for an undervalued exchange rate. Keeping the exchange rate undervalued requires careful management of capital inflows, particularly short-term ones, and the type of policies that Chile has been using to manage such flows might be advisable. During currency crisis, the option to resort to short-term capital controls (as Malaysia did during the Asian crisis) is also firmly back as an option on the policy agenda, although the extent of reliance on such a measure remains controversial (Lane, 1999; IMF, 1999a, b).

[24] See Bevan and Adam (2001) for a careful discussion of these and related fiscal and budgetary issues.

productive enterprises. At the same time, it is also clear that often privatizations have been captured by political elites, have occurred at very low fiscal benefit to the government, and have led to rising costs of services for some poor. For a pro poor agenda, it is imperative that loss-making state enterprises are reformed through corporatization or private sector participation, that private sector participation in public utilities must ensure extension of services to poor households, and that the process is managed in a transparent and competitive manner. To what extent corporatization versus privatization is able to deliver, remains controversial and depends on the country-context. The use of cross-subsidies to subsidize services to the poor is also an area of remaining contention. (World Bank, 1997; 2002, Mkandawire and Soludo, 1999).

Liberalized capital accounts and domestic financial markets used to be a key ingredient of SAPs, but here opinion appears to have shifted considerably. Liberalized capital accounts have often led to capital flight or high volatility in capital flows particularly in countries where other macroeconomic imbalances persisted. Liberalized financial markets have not delivered higher savings or financial deepening as promised but have often lead to high spreads and high real interest rates (World Bank, 2000c). The new consensus that appears to be emerging is that the capital account should be liberated only gradually and only in an environment of overall macro stability. Financial liberalization should also come after some of reforms (notably reduced budget deficits to reduce the public's demand on funds in the domestic capital markets) and include pro-active measures to improve access of the poor to financial services (through commercial and non-commercial micro credit institutions, World Bank, 2000c), measures to foster competition and better regulation.

Turning to trade policy, also here a new consensus appears to be emerging. In traditional SAPs, trade liberalization, which particularly meant the sharp reduction of import tariffs, the abolition of quotas, and the abolition of export taxes and marketing boards, was a centerpiece of reform efforts. Recent policy documents suggest that the emphasis on rapid import liberalization threatened to undermine what little industrial capacity existed without giving enough impetus to the development of new export sectors (Mkandawire and Soludo, 1999). Also, such liberalization has hurt the rural poor (esp. food producers) in some countries and created fiscal problems in others (World Bank, 2000a; Milanovic, 2002). Recent World Bank documents now seem to focus more on removing an anti-export bias rather than focus on import liberalization.[25] This surely will involve removing some of the most egregious distortions in tariffs and quotas, the

[25] The practise of trade policy reforms in many countries does not (yet?) seem to bear out this shift in emphasis.

lowering or abolition of export taxes and the reform or abolition of state marketing boards, but does not require outright across-the-board import liberalization. Instead, duty draw-back schemes for exporters and a competitive exchange rate are emphasized (World Bank, 2000c). The remaining disagreement is over pro-active policies to promote exporters (such as export subsidies, preferential allocation of credit, etc.) which were a standard tool of export promotion in East Asian countries (Cornia and Helleiner, 1995; World Bank, 1994; Mkandawire and Soludo, 1999, Rodrik, 1995). But the renewed emphasis on infrastructure, human capital, technology, and perceived risks also supports the idea that simply providing the right prices does not generate a vibrant export sector (Mkandawire and Soludo, 1999; World Bank, 2000c). Clearly, there is a role for governments to play to provide the necessary support (infrastructure, credit, technology support, and possibly outright subsidies) for nascent exporters.

Regarding agricultural policies, there is a clear consensus that pro-poor policies must focus on improving agricultural productivity and incomes, as the poor disproportionately depend on agriculture. It is also largely agreed that past policies failed as they did not provide sufficient incentives and were strongly biased against agriculture (Mkandawire and Soludo, 1999; World Bank, 2000c). SAPs have attempted to alter the incentives (primarily through devaluations and the abolition of marketing boards and the reduction of export taxes) and have had some success in doing so (World Bank, 1994, Christiaenson, Demery, and Paternostro, 2002). But it is now recognized that, due to other market failures, sometimes a change in price incentives does not filter to the individual farmers, or that improving price incentives are not sufficient for a dynamic agricultural sector. Moreover, a reliance on improving price incentives might will help poor agricultural producers, but will hurt poor food consumers so that the net impact on poverty can be small. To achieve a significant poverty impact, much greater emphasis must be placed upon improving agricultural productivity (Eastwood and Lipton, 2001). To achieve this, more public investment in agricultural, including basic and applied research, extension, rural infrastructure, irrigation, rural credit is urgently needed. There is also consensus on the burden of agricultural protectionism in the North on agricultural incomes in developing countries (World Bank, 2000c; Eastwood and Lipton, 2001). But disagreements remain regarding the extent of state activism in the promotion of non-traditional agricultural exports, the role of input subsidies, and on measures to ensure successful extension services.

While past efforts at industrial policy in many developing countries were not able to generate a vibrant and competitive industrial sector, relied heavily on fiscal transfers and protection, and benefited mostly the non-poor, it is clear that a long-term strategy for pro poor

growth must support the emergence of a labor-intensive small to medium scale industrial sector. The experience of East Asia, where labor-intensive export-led industrialization was strongly supported by state policy, shows that successful industrial policy can help deliver high growth and fast poverty reduction. Providing a neutral policy stance is not sufficient in most countries in the face of many structural bottlenecks including poor infrastructure, poor financial systems, high risk, and strong international competition from established producers (Collier and Gunning, 1999). There is an emerging consensus on state support in the form of improving infrastructure, information, and financial systems, while some call for a more activist industrial policy of the type used in East Asia (including subsidies and subsidized credit and some time-limited protection) although there are doubts whether many African governments have the capacity to provide such support effectively (World Bank, 1997; Mkandawire and Soludo, 1999; World Bank, 2000c).

There is also much more agreement on policies to promote human capital of the poor. In particular, there appears to be a consensus that expenditure-switching, esp. in health and education, needs to focus scarce public funds more on the poor to increase their access to these vital assets (World Bank, 2000a, b, c; Bevan and Adam, 2001). Although there has been some progress, much more needs to be done and this is a major focus of current PRSP processes. Instead of the earlier calls for user fees for health and education to mobilize resources, the new policy emphasis is on lowering barriers to participation for the poor which clearly goes against raising user fees, particularly for primary health care or education (World Bank, 2000a). At the same time, the full implication of these policies has not been spelt out. Should user fees in primary education (and secondary education?) be lifted for everyone or just the poor? How to finance tertiary education? Thus the policy direction appears to be clear, but the implications need to be considered carefully and hopefully will be clarified in the on-going PRSP discussions.[26]

I already noted the importance of an inequality-reduction agenda for pro poor growth where inequality reduction reduces poverty directly, increases the poverty impact of growth, and may increase economic growth. As a result, equity issues are receiving much greater emphasis in policy documents as well as the on-going PRSP processes (World Bank 2000a, b, c; 2002). There is disagreement, however, on whether to target the asset and income base of the poor, or

[26] It is laudable that the recent World Bank book on gender did provide a calculation of the costs to ensure that all gender bias in education is removed. See World Bank 2001a for details.

target inequality-reduction per se. While both policies have obvious overlaps, they are not identical.[27]

Moreover, there is surprisingly little policy discussion on how to reduce asset inequalities. While land reform in countries with highly unequal distribution of land (such as most of Latin America and Southern Africa) is back on the policy-agenda, only market-based land reforms where the poor receive subsidies to purchase land from willing sellers, are usually advocated (World Bank 2000a, b; Alderman et al. 2000a, b). Despite some compelling arguments in favor of such an approach, the high fiscal costs of the subsidies sharply reduce the pace and scope of such reforms. Moreover, the redistributive impact of market-based land reform is minor, the efficiency gain may be modest, and experience has suggested that the poorest are often excluded (Banerjee, 1999; Zimmermann, 2000; Klasen, 2002a, Binswanger, Deininger, and Feder, 1995). There is virtually no discussion of partially confiscatory reforms despite the evidence of their great success in some East Asian economies (World Bank, 2000a, b; Binswanger, Deininger, and Feder, 1995).[28]

Similarly, other forms of asset redistribution such as land or inheritance taxes are scarcely mentioned. While there are clear administrative difficulties to tackle these types of taxation, they could be among the most effective and non-distortionary policies of asset redistribution (Eastwood and Lipton, 2001).[29] In the case of land taxes, progressive land taxes could also greatly assist in speeding up market-based land reforms. There is, however, consensus that targeted subsidies could be used to improve the poor's access to financial assets (e.g. subsidies for operating costs of microlenders) or other important productive assets (e.g. one-time subsidies for electricity hook-ups or clean water access).

On policies to reduce income inequality, there exists a consensus on safety nets, social funds, micro credit, and targeted cash and in-kind programs, especially in health and education (World Bank, 2000a, b, c). While these policies are likely to help the poor in high inequality

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[27] Conceptually, the main difference is that a poverty-focused policy will only indirectly be inequality-reducing to the extent that it finances poverty-reducing policies through overall taxation and favors the poor in other policy arenas. A policy targeting inequality directly would focus on inequality per se and use policy instruments to address this. In practise, many policies would serve both ends, but policies targeting inequality would typically be broader in scope and intensity as they not only seek to overcome specific barriers of the poor but alter the distribution of resources in society.

[28] The WDR on poverty (World Bank 2000a) explicitly cautions against confiscatory land reform and argues that it lacks political support. Given that the World Bank has been willing to advocate and enforce policies such as structural adjustment that similarly lacked political support in many countries, this caution seems somewhat surprising.

countries, the scale of income redistribution through these measures is usually quite limited due to the small size of most of these programs. Finer targeting, often seen as the best way to increase the resource flow to the poor, carries the risks of high implicit taxes when benefits are withdrawn as poor people increase their incomes. Thus there is great need to investigate to what extent these programs can be scaled up to levels that would have a serious impact on redistribution. Moreover, using the tax and expenditure system for explicitly redistributive policies remains controversial, although there appears to be some scope for doing so, e.g. luxury VAT rates and import duties, greater reliance on personal income taxation, or greater scale of redistributive transfer programs.

Regarding policies to reduce gender inequality, there is consensus to reduce gender inequality in education, in access to land, inputs, and technologies, while affirmative action policies to improve labor market access for females are more controversial (Blackden and Bhanu, 1999; World Bank 2001a). There is comparatively little work on combating regional inequality. That work mostly emphasizes regionally targeted transfers, the use of fiscal equalization, and an emphasis on infrastructure development for remote areas. There is a lack of agreement on activist policies to remove regional inequality such as regionally focused industrial policies or other policies that encourage populations to move away from the remotest areas to areas where it is easier to reduce poverty. Given the large regional disparities in poverty, this is another area of policy research where more direction is needed.

The role of population policy in pro poor growth is rarely discussed. This is despite the research finding that high fertility among the poor can become a poverty trap and that smaller family sizes among the poor have been one of the most powerful ways to reduce inequality in developing countries (Kremer and Chen, 2002; Bourguignon, 2001b; Eastwood and Lipton, 2001). Nevertheless, there is a broad consensus on the importance of female education and good access to reproductive health services in reducing fertility rates. The role of family planning programs and the question of altering the incentives for large family sizes among the poor remain controversial (e.g. Pritchett, 1995).

Apart from increasing average incomes, there is greater appreciation that the incomes of the poor are more volatile than those of the non-poor. As they are so close to subsistence, they cannot tolerate such risk and therefore engage in activities that reduce risk at the cost of lowering

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[29] Eastwood and Lipton (2001) distinguish between ascribed (e.g. inherited) and achieved (earned) inequality and argue that the former is particularly harmful for growth. Land reform as well as land taxes and inheritance taxes would directly tackle such ascribed inequality.

their return (World Bank, 2000a; Ray, 1998). There is consensus that disaster relief, public safety nets, public works, and state support for micro credit and insurance can assist the poor in managing these risks. At the same time, there remain serious disagreements about initiatives such as crop insurance, social health insurance, and the extent of state support in such ventures.

Turning to process issues, a critical ingredient of pro poor policies relate to the need for improved governance. Delivering even the consensus policy proposals, let alone the more activist approaches advocated by some, requires peace, political stability, absence of corruption, and higher levels of state capacity in policy formulation and implementation. Also here, a consensus has emerged that sees a functioning state at the heart of pro poor policies (e.g. World Bank, 1997, 2002, Mkandawire and Soludo, 1999). During the SAP era, the state was largely seen as a central part of the problem and the recommended solution was to shrink the size of the public service, divest from state enterprises, and sharply reduce state interventions in most aspects of the economy. More recently, the state was seen as corrupt, clientelist, and an obstacle to good governance (Mkandawire and Soludo, 1999, Engelbert 2000). While many of the past problems of the state in many African countries have not gone away and some may be deep-rooted and related to the colonial legacy (e.g. Engelbert, 2000), the new consensus appears to suggest that attempts to shrink the state have created serious new problems, including a weakening state capacity, a demoralized civil service more prone to poor governance which appears to hurt the poor the most (World Bank, 2000b), and a private sector that is able to take advantage of weak state capacity in economic affairs (Mkandawire and Soludo, 1999; World Bank, 1997, 2000b).

Given these results and the urgent need for a strong and functioning state to implement the pro-poor agenda, there is a renewed emphasis on strengthening state capacity and on expanding its role in selected aspects of the economy. In addition, there is a new focus on improving governance by strengthening the state's democratic accountability, and the role of civil society in monitoring governance and state performance, the importance of transparent meritocratic hiring and promotion policies, and competitive salaries (World Bank, 1997). Beyond this consensus, there remain disagreements to the extent of state intervention given current capacity. While there is agreement that, unlike much of state intervention in the past, the state should focus more on providing a facilitating, catalyzing, and regulating role of private sector activity rather than replacing or crowding out the private sector, some argue that particularly weak states in many poor countries should limit their involvement to the provision of the most essential public goods (World Bank, 1997). Others, however, call for a much expanded role and argue that otherwise the pro poor agenda cannot successfully be implemented (Mkandawire and Soludo, 1999). Not

enough is known about the best ways to improve state capacity, esp. when starting from weak states with poor capacity. While much is made of the lessons of the role of the state in East Asia, it is not clear how one can move from the current situation in many countries in Africa to one prevailing in East Asia (Lindauer and Roemer, 1994).

There is also a corresponding new appreciation of the indigenous private sector and the large informal economy that will be critical in diversifying the economy and generating a labor-absorbing growth path. Both were viewed with great suspicion in the era of state-led development and both sectors suffered as a consequence (Mkandawire and Soludo, 1999). SAPs have often improved the conditions for private enterprise but have not typically had a particular emphasis on indigenous enterprise and the informal economy. Increasingly it is recognized that the indigenous private sector and the informal economy play a vital role in pro poor growth as they are typically highly employment intensive, are less footloose than foreign enterprises, and are a critical ingredient of civil society that has been recognized as vital for pro poor growth and better governance. As a result, there is renewed emphasis on improving the conditions under which indigenous companies operate, address problems of finance, capacity, regulation, and take their views, complaints, and constraints more seriously than in the past (e.g. World Bank, 2000c; Mkandawire and Soludo, 1999). In addition, there are calls for a much improved dialogue and (possibly state-led or facilitated) coordination of private sector activities (Mkandawire and Soludo, 1999).

Lastly, there also appears to be a clear consensus emerging on the role of aid in these reforms to deliver pro-poor growth. One important lesson of the Structural Adjustment era was that it was problematic and unsuccessful to try to drive policy reform from outside using aid conditionality (World Bank, 1994; Mosley, Harrington, and Toye, 1995). It was precisely this realization, combined with the emergence of the debt crisis and increasing pressure from NGOs in North and South that led to the new approach to aid that is embodied in the combination of HIPC and the PRSP process (see below).

In this context, recent policy documents have revealed a new direction for donor policies. First, rich countries must open their economies more to exports from poor countries, particularly in the agricultural field (World Bank, 2000a). Second, debt relief is critical to improve macro stability, reduce the drain on scarce resources, and allow investments in priority sectors such as health and education. Third, aid should be allocated to areas and countries where poverty is highest and the impact of aid on poverty is the largest (World Bank, 1998). Fourth, countries should be determining their strategic priorities and aid should merely support rather than drive

these processes. Fifth, the administration of aid should be channeled through government and make use of regular government accounting mechanisms to avoid the duplication of reporting, the Balkanization of the development budget, and the excessive claims on the time of top government officials (Tusiime-Mutebile, 2001).

This survey suggests that there appears to be a new post-adjustment agenda for pro-poor growth. The disappointing experience with adjustment as well as a constructive debate among proponents and critics of adjustment have generated a new middle ground of policies that could foster pro poor growth. While this new consensus in many policy areas is very encouraging, it is not enough. First, there are remaining and sizable disagreements that have not yet been tackled. This is particularly the case in the area of activist state policies and in policies to tackle inequality. Second, recent policy documents have said too little about trade-offs and proper sequencing (World Bank/IMF 2002)[30] It would be ideal for governments to be able to focus on policies that have the largest marginal effect on Pro Poor Growth. Some policies have a large effect on growth and may not be particularly pro-poor; others do not have such a large effect on growth but are very pro-poor. The best policies (win-win) are those that have a large effect on both. But not enough is knows which policies fall into what category.[31] In addition, at times it is critical to implement a package of policies as individual policies alone may not be enough. Here more work is clearly needed as the current wish-list for pro poor growth is very long and some kind of sequencing, prioritizing, and packaging is critical. Lastly, there continue to be considerable differences between policy papers and actual operational work, particularly among the World Bank and the IMF and also among many donors, where many elements of this new consensus is apparent in recent policy work, but has only slowly changed operational policies and procedures. For example, only some of the new thinking of policy reform has influenced the first generation of PRSPs and the associated lending policies (World Bank/IMF, 2002). Also, many donors continue to rely on old procedures of project-based support instead of program-based funding, and many trade-distorting policies in the North persist (World Bank/IMF 2002).

6. Conclusion

This broad and necessarily cursory survey has tried to move the debate on pro poor growth forward by pointing, on the one hand, to the substantial body of knowledge and policy that appears to form part of the new policy agenda and, on the other hand, by highlighting the

[30] See Bevan and Adam (2001) for a discussion of these and related issues.
[31] The World Bank has developed a set of tools as part of its poverty and social impact analysis that allows a partial assessment of these important questions.

remaining substantial disagreements, unfinished agendas, and insufficient research in many aspects. In particular, the critical policy areas of inequality reduction and the scale and scope of activist state policies to support pro goor growth remain controversial and further research and policy work is urgently needed.

So far, this policy discussion has been largely from a technocratic point of view. It tried to focus on the critical constituent elements of a strategy to promote pro poor growth, ignoring for the moment the political economy of such policy reforms. One of the important outcomes of the debates about structural adjustment has been, however, that one can only ignore these political economy constraints at one's peril. For example, an interesting new review of the political economy of aid and reform in Africa (World Bank, 2001b) suggests that, despite conditionalities by donors, the success of economic reforms in African countries depended largely on domestic political considerations (see also World Bank, 1994; Mosley, Harrington, and Toye, 1995). In particular, successful reform was particularly likely in countries that faced severe economic crises with little economic options. These countries built up a consensus for change prior to reforms, had substantial indigenous technical capacity at their disposal, and used aid and technical advice to sustain the reforms. Donors were able to aid successful reformers although donor aid sometimes also delayed reforms in other countries or reduced the ownership of reforms through excessive conditionalities.

Moreover, policies to promote pro poor growth will inevitably depend on the strength of what the World Bank calls 'pro-poor coalitions' (World Bank, 2000a). It is likely to be more difficult to promote pro poor growth in countries where there is high inequality and the poor are politically and economically marginalized. As are result, success in implementing pro poor policies will depend greatly on the creation and strengthening of such 'pro-poor coalitions' which can involve parts of governments, NGOs, donors, and civil society. A free press, democratic institutions, and accountable governments will clearly help in strengthening such coalitions, particularly in countries where the poor are the majority.

Thus one should view the agenda for pro-poor growth as much as a process as a set of policy rules as success will ultimately depend on the domestic political economy of individual countries. In that sense, the PRSP process, which is also largely a process-oriented approach to policy-making but makes (at least in theory) high demands on inclusiveness and country leadership, might be precisely the vehicle for moving forward the pro poor agenda as it has been outlined above.

While the PRSP process thus offers the opportunity to advance the pro-poor agenda within the domestic political economy of each country, the experience with the first round of PRSPs, while overall showing considerable promise has also shown clear limitations. In particular, many PRSPs did not go far beyond poverty-oriented (often unrealistic) goal-setting exercises, lacked country-specific research to define a new policy agenda along the lines outlined above, and have been too focused on pro-poor budget policies rather than a comprehensive economic policy framework that includes all aspects of the economy related to poverty reduction (World Bank/IMF 2002; Demery, 2002). In addition, there are further pitfalls to be concerned about. First, the poor are, by virtue of their poverty, typically poorly organized and it will be unclear who will champion their cause in the PRSP process, particularly against the possible resistance of more organized groups. Thus even adequate representation and input from civil society will not necessarily strengthen pro-poor coalitions. Second, the PRSP process appears to date to have been focussed mainly on the budget and particularly expenditure issues. While these are clearly important questions, this survey has suggested, a pro-poor agenda must consider the entire range of economic policies with impacts on the poor and thus become centrally involved in macro, sectoral, and regional policy issues.

Table 1: Policies to Promote Pro-Poor Growth: Research Findings, Consensus Policies, and Remaining Debates

Policy Issue	Research Finding	Agreed Policy Implication	Areas of Debate
Macroeconomic Stability (see also individual areas of macro policy)	Macroeconomic stability critical necessary (though not sufficient) condition for pro poor growth; poor hurt particularly by high inflation and high macro volatility.	Monetary and exchange rate policy should aim for low inflation and competitive exchange rates; fiscal policy shou aim for low budget deficits;	Role of exchange rate policy to fight inflation; pace and extent of stabilization during crises.
Monetary and Exchange Rate Policy	Overvalued exchange rates and high black market premia hurt economic growth and tend to be anti-poor.	A competitive and possibly undervalued exchange rate a critical ingredient to ensure macro stability; government intervention necessary to manage capital inflows:	Fixed or floating rates? Role of capital controls manage inflows and outflows during crises?
Fiscal Stance	Large budget deficits hurt growth and are unsustainable. Rapid expenditure cuts can often undermine delivery and quality of critical services (e health and education) and hurt the poor.	Governments should aim for moderate budget deficits throu broadening of the tax base and, if necessary, a refocusing of expenditures (esp. cuts in subsidies to state-owned enterprises and unproductive sectors). During crises not feasible or desirable to cut expenditures fast.	Mix of tax increases, tax broadening, and expenditure cuts?
Privatization	Loss-making state-owned enterprises undermine fiscal stability, with negative implications for the poor. Some privatizations have been captured by lo elites and have not led to better services for poor.	Reform of loss making state-owned enterprises and parastat critical. Privatization processes must be transparent and competitive.	How to ensure expansion of services for the poor? Use of cross-subsidies for vital services?
Financial Sector	Severe financial repression hurts savings and promotes capital flight. Poorly sequenced financial sector reforms can be counter-productive and destabilizing.	Capital account and financial sector reform should be phased slowly, be implemented only if macro stability has been achieved, and be accompanied by tight regulation, competition policies, and policies to improve access of the poor.	State allocation of credit to priority sectors? State involvement in credit for the poor? Policies to mobilize domestic savings?
Trade Policy	Anti-export bias hurts growth and the poor; import liberalization can be anti-poor and not sufficient to generate supply response. Diversification essential for long-term growth.	Focus on removal of anti-export bias (competitive exchange rate, duty draw-back schemes, etc); provision of infrastructure to assist exports, esp. for export diversification.	More activist state intervention to boost non-traditional exports (e.g. export subsidies, subsidized credit for exporters)?
Agriculture	Raising agricultural productivity critical for pro poor growth. Removal of price distortions necessary but not sufficient in the presence of other market failures. Protection and subsidies in North hurt poor in South.	Renewed emphasis on agricultural research and extension, rural infrastructure, and competitive marketing and input supplies. Open access to OECD markets and removal of OECD subsidies critical.	How to stimulate non-traditional agricultural exports? Role of subsidies to promote new seeds and fertilizer use?
Industrial Policy	Removal of distortions necessary but not sufficient for vibrant industrial sector, esp. small and medium enterprises.	Focus on providing infrastructure and services to industrial sector.	Activist industrial policy? State credit or subsidies? Cluster initiatives?
Human Capital	Lack of human capital of the poor hurts growth and	Increased investment in education and health, particularly	How to finance expansion of primary education a

	poverty reduction. Education and health services ha suffered greatly under economic crises and SAPs. Credit constraints and high costs for health significant deterrent for the poor.	basic education and primary health care; greater focus on quality; reallocation of public spending to the poor, lowering costs of primary health care and education through greater subsidies and use subsidized community insurance.	health care (esp. in Africa)? Phasing out of all user fees for primary health care and education?
Asset Inequality	Asset inequality (in particular land) reduces economic growth and poverty impact of growth.	On land inequality: Removal of subsidies to large landowne land taxes to increase land for sale; land redistribution necessary. Other asset inequalities: microcredit and subsidies for infrastructure extensions for the poor (e.g. electricity hook-ups)	On land inequality: Market- and subsidy-based la reform versus quick one-off (partly) confiscatory land reform. Other asset inequalities: role of lan and inheritance taxes to reduce asset inequality?
Income Inequality	High income inequality associated with higher poverty and lower poverty impact of growth; high initial income inequality may reduce subsequent gro	Safety nets, social funds, and some targeted cash and in-kind transfers to the poor.	Increasing progressivity of tax system (e.g. luxury VAT and import duties, greater reliance on personal income tax for formal sector employed)? Scaling up of redistributive transfe programs (e.g. Progresa)?
Gender Inequality	Gender inequality reduced growth and makes growth less pro poor.	More supply of education for girls plus targeted subsidies to boost enrollments; removal of restrictions on female control of other assets; political empowerment of women.	How to fund expansion of female education? Role of affirmative action policies in labor market?
Regional Inequality	Regional inequality can sharply reduce impact of growth on poverty; possibility of regional poverty traps.	Targeting of state transfer programs and safety nets on regions with high poverty concentration; Focus on improvi infrastructure; Regional inequality to be considered in programs of decentralization and fiscal equalization	How to promote economic growth in backward Regions? The role of regionally targeted Industrial policy? Role of incentives to move industries or people?
Population Policy	High fertility among the poor a constraint to pro poo growth. Inequality reduction often a result of fertilit decline among the poor.	Emphasis on female education and employment as well as access to reproductive health services.	Role of family planning policies? How to alter incentives for large families among the poor?
Security	Physical and social security essential for pro poor growth	Safety nets and greater physical security essential measures promote pro poor growth	Public and private roles in safety net, e.g. credit and insurance provision? How extensive? How funded?

Table 2: Process Issues in Promoting Pro-Poor Growth: Research Findings, Consensus Policies, and Remaining Debates

Policy Issu	Research Finding	Agreed Policy Implication	Areas of Debate
Governance	Poor governance, corruption, political instability and civil strife a major deterrent to investment, growth, and poverty reduction. Poor suffer more under poor governance.	Reducing incentives and possibilities for corruption by simplifying rules and regulations that invite rent-seeking behavior; merit-based pay and recruitment; increase public accountability through greater transparency, better institutic oversight of governments (parliaments, independent boards and decentralization. Donor support for conflict preventior resolution, and post-conflict reconstruction critical.	Role of privatization to improve governance? How to improve governance when public sector is contracting? Role of the state where state capacity is weak? Reliance on parliaments or extra-parliamentary means for public oversight? How to ensure decentralization that reduces incentives and possibilities for corruption?
Private Secto	Indigenous private sector critical for employment growth and dynamic economy.	State assistance with capacity-building, finance (esp. microfinance), dialogue between state and domestic private sector.	Role of national vs. Multinational companies?
Political Economy of Reform	Domestic political economy crucial for success. Pro-poor coalitions necessary to implement package	Dialogue to replace donor conditionality. Empowerment of poor and local analytical and research capacity critical for implementation.	Role of financial aid and conditionality under sor circumstances? Empowerment from outside possible/desirable?
Donor Polici	Donors can assist with pro poor growth when aid an advice is focused on poorest countries and those with highest poverty impact of policies.	Aid should be focused on poorest countries that promote pro poor growth, should flow through budget and be accounted for using national processes, and observe country leadership.	What to do in poor countries with poor policies? Interactions between donors and civil society? How to ensure accountability of resources?

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