Elites, Production and Poverty research program (www.diis.dk/epp)
Drivers of Successful Economic Transformation research theme
First paper in the series

**Pro-Poor Growth: a review of contemporary debates**

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September 2008

In the late 1990s the term *pro-poor growth* became popular as mainstream economists 'recognized' that accelerating poverty reduction required both faster growth and lower inequality. New cross-country analyses in the early 2000s showed that rapid growth has the largest effect on poverty reduction, but not all growth has the same effect on poverty reduction so the pattern of growth also matters. The focus is now on discerning what patterns of growth are more beneficial for the poor and the policies that are needed to promote both higher growth and rapid poverty reduction.

The purpose of this paper is to examine the rise of the concept of pro-poor growth and what it means today. It first introduces the reader to the contemporary debates around pro-poor growth, including how to define and measure it and what makes growth pro-poor, before exploring the longer journey of the idea of pro-poor growth in development debates. This second part looks at the policy implications of these debates around pro-poor growth. We explore the argument that there is a new post-adjustment agenda for pro-poor growth. In doing so, we identify the policy areas where there is agreement, as well as areas where there is still substantial disagreement. This part on policy implications concludes with a skeptical view of whether such a new agenda exists.

## Ideas of Pro-Poor Growth

At the turn of the twentieth century, a spate of new cross-country analyses of the macro linkages among economic growth, income distribution and poverty led to a new consensus among orthodox development economists, particularly among those in the World Bank (see OPPG 2005):

- Sustained growth on average reduces poverty. The pace of overall economic growth is the main factor that determines how quickly poverty declines.
- Higher income inequality reduces the poverty impact of growth, and lower initial inequality leads to higher subsequent growth.
- Economic growth was more powerful in reducing poverty in some countries than others. Thus, the *pace* as well as the *pattern* of economic growth matter for the poor.

The common emphasis in discussions about pro-poor growth is on 'growth that expands the opportunities and capabilities of the poor so that they can participate more and benefit more from economic activities' (Kimenyi 2006). Thus, the objective is to combine growth-promoting policies with policies to ensure that the poor can 'participate in the opportunities unleashed' by growth (Ravallion 2004). This is the new discourse, and it can be found repeated in many analyses. Donors are

encouraged to shift their attention from a sole focus on the pace of growth and from direct help to poor people through the provision of basic services, towards increasing people's incomes through their participation in the growth process. The Development Assistance Committee of the OECD is encouraging this pro-poor growth perspective:

> Pro-poor growth focuses attention on the extent to which poor women and men are able to participate in, contribute to and benefit from growth, as measured by changes in the incomes of the households in which they live and the assets they and their children acquire….unlike past approaches that sought to focus initially on the rate of growth with the hope of addressing its pattern and distribution of its benefits later, it has become clear that the two need to be addressed together (OECD 2006a).

In sum, the idea of pro-poor growth recognizes that even where on the whole growth and poverty reduction have been satisfactory, evidence shows that a significant proportion of poor people have been marginalized in the growth process and thus have not escaped poverty. Growth is essential to reducing poverty but some patterns of growth are better at doing so than others, and thus we need to find out which kind of growth is more beneficial for the poor and the best at reducing poverty, and devise policies to facilitate that kind of growth.

## Debates on Defining Pro-Poor Growth

The pro-poor growth concept stems from an attempt to marry the twin objectives of faster growth and greater equity. But this has not been an easy task, as it seeks to bring together two sides of an ongoing and unresolved debate on whether to give priority to growth or distribution. The pro-poor growth concept recognizes the need for growth strategies with better distribution of income gains. This recognition came after a long debate among economists in the 1990s over the trade-offs between growth and equity. World Bank quantitative studies during this time showed no consistent relationship between growth, inequality and poverty across countries and over time, and thus economists working at the Bank argued that distributional changes in income are both too small and too slow to be relied on to bring about substantial reductions in poverty, that the main force for eliminating poverty is growth, and that there is no evidence of any systematic relationship between distribution and growth, thus we should expect the poor to be able to enjoy the benefits of growth. However, other studies suggested that in many developing countries in Africa, transitional economies and Latin America stabilization and adjustment policies had an adverse impact on poverty and inequality or at best did little to improve the conditions of the poor. This evidence that inequality and poverty rose in the 1980s and 1990s in many countries rekindled the debate about growth and equity 'which had fluctuated (rather than evolved) over the past fifty years' (Shorrocks & van der Hoeven 2004b). Challenges to the trade-off and trickle down approaches of structural adjustment resulted in a debate focused on producing general laws about the relations between growth, poverty and inequality. In the face of quantitative studies showing the effects of growth on inequality to be distribution-neutral or to have no universal relationship, some scholars sought more refined quantitative methods.

Thus, the pro-poor growth concept partially aimed to create a consensus among economists who had previously emphasized either growth or equity in analyzing development outcomes. However, this fragile consensus appeared to disintegrate in debates over how to define pro-poor growth. This debate

has largely centered on the positions taken by Ravallion (from the World Bank) and Kakwani (from the UNDP's International Poverty Centre). Ravallion defined pro-poor growth as any growth in mean income that benefits poor people. Kawani argued that this definition would encompass the vast majority of growth episodes so long as poverty decreases and proposed instead that growth is pro-poor if it benefits the poor proportionally more than the non-poor. This definition is now referred to as *relative* pro-poor growth, which means that poverty falls more than it would have if all incomes had grown at the same rate. Thus ensued a debate in which what is considered pro-poor growth depends on the choice of standards for gauging the distributional impact of a growth episode (see Grinspun 2004). The relative definition focuses on the distributional shifts during the growth process and requires that the incomes of the poor should grow at a higher rate than those of the non-poor. Critics point out that under this definition, economic expansion that leads to large absolute gains for the poor but results in rising inequality would not be considered pro-poor growth (see also Lopez 2004). Ravallion's definition, now referred to as the *absolute* definition, avoids this problem by focusing only on what happens to average living standards. It defines pro-poor growth as growth that reduces poverty, full stop.

A third way was proposed in which growth is not considered pro-poor or anti-poor, but rather more or less poverty reducing (McKinley 2007). It became clear that both Kakwani and Ravallion's definitions (and perhaps more importantly their methods of measurement which we have not discussed here) had problems. McKinely asked, which is a better outcome: a period of faster growth but greater inequity, or a period of slower growth but greater equity? He suggested that growth champions might opt for the former because of greater non-poor gains, while equity advocates might choose the later because of lower inequality. For example, DFID's policy division states that the preferable definition depends on one's objective: 'If the objective is to reduce absolute poverty, then the absolute definition is evidently better' (DFID 2004a). Many practitioners take the pragmatic view that both the relative and absolute concepts of pro-poor growth are relevant and 'complement each other in the analysis of growth processes from a pro-poor perspective' (OECD 2006a: 17). The introduction of new adjectives in front of growth such as 'broad-based', 'shared' or 'inclusive' also appears as an attempt to resolve or move beyond this dispute (McKinely 2007).

Lopez (2004), another World Bank economist, also tries to find a middle ground. He argues that how much growth will contribute to poverty reduction differs according to the initial levels of development and of inequality. The poorer a country is the more important that growth becomes in explaining changes in poverty, and thus pro-growth strategies will likely be good poverty reduction strategies and policy makers might be willing to trade-off slight deteriorations in inequality for faster growth. In richer countries, however, growth explains a much smaller share of changes in poverty, and thus a pro-growth strategy needs to be balanced with concerns about inequality. This finding seems rather intuitive and unsurprising, but again it has to be understood within this debate over the macro linkages among growth, poverty, and inequality. But cross-country regressions gloss over significant differences in inequality among countries. Klasen (2004) points out that while quantitative analyses showing a negative impact of existing inequality on growth are fairly robust, it is less clear whether reducing inequality in a particular country will boost growth in all cases. Levels of inequality differ significantly across countries, between Brazil and Ghana for example. In highly unequal Brazil, poverty can be reduced in a context of slow or stagnant economic growth (see Arbache 2006; Kakwani et al 2007), but

most African countries will need rapid growth in order to effect large changes in income of the poor because inequality is not high and is not the main obstacle to poverty reduction.

## What Makes Growth Pro-Poor?

Analytically there are two ways in which economic growth can be pro-poor (Klasen 2004; McKay 2007). First, the pattern of growth is one which *directly* raises the incomes of the poor, and second, poor sections of the population can benefit from growth *indirectly* through public redistributive policies, such as taxes, transfers and other government spending. This second way of understanding pro-poor growth in principle means that any kind of high growth could be made pro-poor if it involved progressive taxation and targeted government spending on the poor. Most of the academic and donor literature has the first way in mind when referring to pro-poor growth; however, pro-poor growth strategies will almost inevitably aim at a combination of direct and indirect benefits of growth.

So how does growth *directly* raise the incomes of the poor? There is consensus that the extent to which growth will be pro-poor depends on the amount of human capital the poor posses, usually referring to education, skills training and good health, which is essential for the poor to take advantage of economic opportunities (see for example Lopez 2004). It is also commonly repeated that growth must favor sectors and regions where the poor are (or are moving to) and use the factors of production they possess (or are able to acquire). It is generally agreed that 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. Thus, it is overwhelmingly agreed that pro-poor growth must be focused on rural areas, improve incomes in agriculture and make intensive use of labor, in order to have an immediate impact on poverty. The Operationalizing Pro-Poor Growth research project studied countries with pro-poor growth in the 1990s and concludes that most of the poverty reduction occurred among households engaged primarily, but not exclusively, in agriculture (Cord 2007). More generally, Klasen (2004: 68) argues, ´Virtually all cases of successful development indicate that rapid growth and poverty reduction always involve an emphasis on improving productivity and incomes in agricultural and non-farm rural occupations'.

This new consensus on the importance of agriculture has effectively taken on board critiques of structural adjustment policies that have been around for a long time. Critics of structural adjustment generally acknowledged that the single most important policy mistake in Africa in the 1960s and 1970s was the neglect of agriculture, especially food agriculture, which received inadequate investment, research and development, infrastructure and prices in most countries. They admit that poor agricultural performance led to adverse consequences for food availability, nutrition and balance of payments problems. However, they argued that structural adjustment measures really only improved prices for export crops, neglecting food crop production and in some cases worsening the position of food producers. Other components of adjustment worked to disadvantage of small-scale producers: tight and more expensive credit combined with cutbacks in public sector extension services and the withdrawal of subsidies on agricultural inputs inhibited expansion of small-scale agricultural production (Jespersen 1992). The deterioration of roads and other infrastructure caused by the curtailment of public investment in infrastructure inflated costs and further eroded profit margins and trade opportunities. Critics of adjustment argued *in the early 1990s* that a strong focus on agriculture

must form a central role in economic development, in order to provide food supplies, to extend the benefits of economic growth to the whole population, to achieve regional balance in economic development, to generate rural linkages because non-agricultural incomes in rural areas are linked to agricultural productivity, and to provide foreign exchange, especially in the short run (Stewart et al 1992b). They stressed that the price incentives emphasized under adjustment were at best only a necessary condition for securing improved agricultural performance, and that other changes in supply of inputs, infrastructure, and technology were essential to bring about improved output.

As with the issue of agricultural, there is also now agreement that rural non-agriculture activities are important. Again, Stewart, Lall and Wangwe (1992b) had argued that rural non-agriculture activities could play a very important role in medium-term development, permitting more employment-intensive growth and bringing to the countryside the goods and services and information likely to stimulate agricultural production. In order to do so, it would be necessary to improve supply conditions by developing rural infrastructure (of roads, communication, energy and technology dissemination), improving rural education with an emphasis on technical areas, and creating and improving credit institutions directed towards small-scale borrowers. All of these points about agriculture and the rural non-farm sector are now recognized as part of the consensus around pro-poor growth. For example, the World Bank has recently acknowledged the importance of the agricultural sector in its 2008 *World Development Report*, which advocates increasing productivity in the staple foods sector, connecting smallholders to expanding high-value horticulture, poultry and aquaculture, and generating jobs in the rural non-farm economy.

For growth to benefit concentrations of poor in neglected geographical regions, some scholars argue that governments will have to try to stimulate economic activities in these ‘pockets of poverty’ (or encourage migration out of them to richer areas) by using a combination of incentives to encourage private sector activities and government involvement (see for example Klasen 2004). It has also been mentioned that pro-poor growth may not be enough for groups with very low initial per capita income, and thus targeted policies and investments will be needed to help those who fall far below the poverty line to rise above it (Easterly 2001, cited in Breisinger et al. 2008).

## Antecedents of the Pro-Poor Growth Focus

It might appear from the discussions so far that the idea of pro-poor growth is new and that this ‘truth’ about the pace and pattern of growth mattering for poverty reduction as well as access to assets and capabilities of the poor has just been discovered. However, this is far from the case. The ideas behind the current concept of pro-poor growth have been said before, many times. The origins of ideas about pro-poor growth can be found in the New Poverty Agenda that emerged from the World Bank and other UN agencies around 1990 in response to the deficiencies of the Washington Consensus policies embodied in structural adjustment lending. Structural adjustment policies had pushed policies to address macroeconomic policies that resulted in an excessive contraction of the economy, no safety nets to help the poor adjust, an excessive ideological swing against state involvement in the economy and failed to did not deliver on its promise of rapid growth.

Thus poverty reduction became a focus of the international agenda in the early 1990s. Lipton and Maxwell (1992) coined the term the New Poverty Agenda. Its beginning is most often marked by the World Bank's 1990 *World Development Report* which recognized that the Washington Consensus policies were not enough to tackle poverty reduction. The report emphasized a three pillar poverty reduction strategy of labor-intensive growth, improved social services and safety nets. The World Bank report used the same discourse of increasing the assets, employment and incomes of the poor and bringing poor into the growth process. It focused on labor intensive growth and small holder agriculture as well, especially encouraging labor intensive growth of small farms. The report argued that growth is much more likely to be effective in reducing poverty if it promotes the use of the poor's most abundant asset—labor. With such growth, there is not a trade off against reduction of poverty, because an efficient labor-intensive pattern on development contributes to faster longer term growth. The argument for focusing on agriculture was made in a context where government and donor spending and investment in the agricultural sector fell during the 1980s in much of Sub-Saharan Africa (Lipton & Maxwell 1992). However, the New Poverty Agenda did not have much of an impact on donor and government policies in terms of fostering agricultural productivity and labor intensive growth.

The emphasis on poverty reduction came around again in the World Bank's 2000/01 *World Development Report*. Like the 1990 report, the Bank suggested a three pillar prescription for global poverty, but this time focused on opportunity, security and empowerment. The opportunity theme had much in common with the 1990 pillar of improved social services (investment in the human capital of the poor), and the security theme had much in common with the 1990 pillar of social safety nets (Mosley 2001). Although it did not mention the term pro-poor growth, the 2000/01 report emphasized increasing the opportunities of the poor in the growth process, who were often excluded from markets. The focus moved from 'unleashing markets' to how to create them. Mosley (2001) asks whether the World Bank had abandoned the preference for the Washington Consensus for free over controlled markets and its prescriptions of stabilize, liberalize and privatize. He concludes 'yes and no'. Much of the old agenda of the Washington Consensus remained, but was supplemented with poverty monitoring and analysis, pro-poor targeting, efficiency and equity of resource mobilization and efficiency and equity of public expenditures. Similarly, the repetition of themes from the 1990 World Bank report led Maxwell (2001) to call it the 'new New Poverty Agenda', which included a diluted and more pragmatic version of the Washington Consensus prescriptions for growth, social services in health and education, safety nets, and good governance.

**Déjà vu?**

Going even further back in time, one can find an earlier version of the contemporary pro-poor growth idea espoused in the 1970s. Development economics focused almost entirely on economic growth in the 1950s and 1960s, with the objective of jump starting growth in the colonies and then post-colonial countries. Common theories at the time argued that a period of growing inequality was necessary during initial growth phases, but then would decline. By the beginning of the1970s, however, it was clear that despite the impressive growth performance on average across the 'developing world', that this growth had been unequally distributed among countries, regions within countries and among socio-economic groups. From examining countries' experiences in the 1960s, a research project led by Hollis Chenery (and partially based at the World Bank) concluded that 'while in some growing economies the

poor receive little or no benefit, in others the opposite is true' (Chenery et al 1974). It was recognized in the 1970s that industrialization, which was typically capital intensive, was not enough for poverty reduction and led to income inequality.

The arguments of their report for 'redistribution with growth' are strikingly similar to those currently behind the idea of pro-poor growth. They confirmed that in the early stages of development, the distribution of income tends to become more concentrated, due to increases in output coming disproportionately from relatively small modern sectors of primary production and industry. As growth continues, its benefits spread more widely, but there are obstacles that limit the share received by the poor, due to an excess supply of unskilled labor. Since they cannot be absorbed in wage employment, the bulk of the poor are self-employed small farmers, rural artisans and members of the rapidly growing urban informal sector—for whom income growth is limited by lack of access to land, capital, education and other public facilities. However, Chenery et al. state that further increases in concentration are not inevitable, as shown by the experiences of several countries where access to modern sector employment was improved through education and rapid growth of demand for labor, while in others land was redistributed and public investment directed to offset the initial disadvantages of the poor. Thus, positive government action is needed which includes a mix of policy instruments that can reach identified target groups. They advocated targeting the rural poor through a strategy focused on increasing the productivity of the small farmer and self-employed through better access to land, water, credit markets and other facilities. They also advocated targeting the urban poor through a shift towards more labor-intensive products and processes as well as making small-scale producers more efficient by improving access to inputs and ending discrimination against them in favor of large scale, capital intensive production. Interestingly, intervening in contemporary debates on how to measure pro-poor growth, Klasen (2004) suggests the measure proposed by Chenery et al. in *Redistribution with Growth*: a population and poverty-weighted growth rate which averages the growth rates of different income groups but puts greater weight on the income growth rate of the poorest quintiles and declining weights on the income growth raters of the richer quintiles.

But the beginning of the 1980s brought changes which put a halt to this agenda. Changes in global economy and international politics resulted in the emergence of the Washington Consensus as a new set of policy prescriptions for adjusting to the economic crises brought on by macroeconomic problems and for stimulating economic growth. In this set of prescriptions, poverty moved out of focus as the assumption was that growth would eventually trickle down and benefit the poor. Throughout the 1990s a consensus developed in the international community that these policies were not enough to reduce poverty and shifted attention towards growth with poverty reduction. In addition to the World Bank, we see this in UN conferences and OECD reports which talk about broad-based economic growth, appropriate macroeconomic policies, social development, and good governance (see Storey et al 2005). Thus, at the turn of the century, we get the Millennium Development Goals as the new framework for development aid.

The current emphasis on the pattern as well as the pace of growth and the return to a focus on agriculture is indeed déjà vu! However, the contemporary idea of pro-poor growth differs from the redistribution with growth idea of the 1970s in terms of explicitly linking growth with structural change of the economy, and also in terms of what policies are seen to promote growth for structural change.

We turn now to the policy implications of contemporary debates around pro-poor growth, but will return to this issue of structural change as the long term objective and its policy implications in Part III.

## Policy Implications

Having achieved a consensus on the need for rapid *and* pro-poor growth in order to achieve high and sustained poverty reduction, the debate then turns to what specific policies promote such rapid and pro-poor growth. Klasen (2004) argues that there is now more agreement in many policy areas than in the past two decades due to a shift in thinking among many adherents to the economic orthodoxy of the Washington Consensus, especially within the World Bank, in response to critiques of structural adjustment policies. He even proposes that the new areas of agreement, despite remaining important disagreements, might constitute a new post-adjustment agenda for pro-poor growth. We summarize these areas of agreement and disagreement on economic policies and point out plenty of reasons to be skeptical of whether such a post-adjustment agenda exists.

### A New Post-Adjustment Agenda for Pro-Poor Growth?

As already discussed, there is a new consensus on the importance of improving agricultural productivity. In policy terms, this requires more public investment in agriculture, including research, extension, rural infrastructure, irrigation, and rural credit. For example, the Operationalizing Pro-Poor Growth research identifies five policy interventions as key to raising the agricultural earnings of poor households in the 1990s: (1) improving market access and lowering transaction costs particularly through the provision of infrastructure; (2) strengthening property rights for land; (3) creating an incentive framework that benefits all farmers; (4) expanding the technology available to smallholder producers; and (5) helping poorer and smaller producers deal with risk. The OECD DAC research network on poverty also recommends increasing access to markets and assets, improving access to productivity enhancing technology and increasing investment in infrastructure; increasing opportunity to earn non-farm incomes through policies that increase access to capital, facilitate the movement of labor, investment in transport and communications services and access to health and education; and addressing risk and vulnerability by focusing on prevention, mitigation and coping strategies (OECDb).

However, although there is a lot of consensus on what is lacking and what needs to be done, there is not as much agreement on how it should happen. For example, it is commonly pointed out that the cost of inputs in agriculture is too high, reducing productivity, so the policy question is how to reduce the cost. The old Washington consensus answer was to liberalize the market in fertilizer, but that has not worked. The 'Pro-Poor Growth in 1990s' study does not state a specific policy to achieve this, but rather the new mantra is that policies will be country context specific. However, we can draw on historical experience is countries which successfully increased agricultural productivity: governments facilitated the supply of inputs at lower costs, as well as other things such as the emergence of affordable credit, etc. Thus, 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 effective extension services. The recent controversy over the Malawian government's policy of

subsidizing fertilizer caused huge debate and divisions within the donor community, but seems to have resulted in significant increases in crop yields [citations].

To take another example, all recent work on pro-poor growth points to need for serious improvements in infrastructure, such as, but not limited to, roads to decrease transport costs for farmers to get their produce to local, national, regional and international markets. (Infrastructure also includes water and electricity, key inputs for productive sectors). The question is then who provides the infrastructure. Donor documents still allocate a small role for governments and advocate private investment where possible. More generally, while there is general acknowledgement that investment and savings levels are too low in the poorest developing countries, much lower than what was required for sustainable growth in the East Asian countries for example, there is disagreement on where that investment should come from. Donor documents still privilege private investment, mainstream economists talk about public and private investment, while the critics continue to point to the role that increased public investment must play.

While there is the most agreement on what policies in the areas of agriculture are needed to support pro-poor growth, there is also more agreement in other areas of economic policy than has been the case since the introduction of structural adjustment. Klasen (2004) points to a now widespread consensus that macroeconomic stability is a prerequisite for growth. This means that short-term stabilization measures are necessary in the case of fiscal, financial or balance of payments crisis, and that macroeconomic policy should aim for stability that would reduce the likelihood of such crises. However, there is less agreement on how to achieve such stability. For example, it is agreed that governments should avoid an overvalued real exchange rate, as it will destroy attempts to boost exports and eventually create a balance of payments crisis, but views differ on *how* an over-valued exchange rate is to be avoided. There is a continuing debate about the nature of the exchange rater regime. To take another example, there is a consensus that governments should aim for low budget deficits in order to support macroeconomic stability and avoid disruptions to financial markets, there is much disagreement on the precise mix between tax increases and expenditure cuts, on the extent of fiscal tightening during stabilization, and on what size of budget deficits are low enough. Furthermore, there appears to be movement on the issue of capital account liberalization towards a consensus that the capital account should be liberated gradually and in an environment of macroeconomic stability, because of the failure of past liberalization to achieve their state goals and the negative effects of capital flight and high volatility of capital flows. In particular, it has not led to greater access to financial services, and thus needs proactive measures to improve access of the poor to financial services, and in other areas such as competition and regulation. In sum, as Cornia (2006) argues in the book *Pro-Poor Macroeconomics*, a consensus has only been reached on the need to avoid the excesses of macroeconomic populism and that viewpoints still differ on how ambitious stabilization targets should be, the choice of exchange rate, the effectiveness of devaluation, the appropriate level of taxation, the extent of deregulation, the opening of the capital account, the effectiveness of capital controls, and the speed of adjustment to shocks.

In other areas of economic policy, there are also elements of consensus, but substantial disagreements remain. On privatization, Klasen (2004) argues that there seems to be a broad consensus that governments cannot allow large and highly unprofitable state enterprise to deplete state resources and divert resources from priority investments in infrastructure, health and education; however, he also

acknowledges that privatizations often have occurred at a very low fiscal benefit to the government and have led to rising costs of services to the poor in public utilities. Major disagreements remain on the extent to which corporatization versus privatization can deliver, and to which cross-subsidies should be used to subsidize services to the poor.

On trade policy, Klasen (2004) perceives an emerging consensus that rapid import liberalization threatened to undermine what little industrial capacity existed without giving enough impetus to the development of new export sectors, and that recent World Bank documents have shifted focus from import liberalization to removing any anti-export bias. However, the practice of trade policy reforms, and we would add trade policy advice from donors, does not seem to bear out this shift in emphasis. Large disagreements remain over pro-active policies to promote exporters.

On industrial policy, Klasen (2004) states that there is an emerging consensus on state support in the form of improving infrastructure, information and financial systems. While he recognizes that a long term strategy for pro-poor growth must support the emergence of a labor intensive small to medium scale industrial sector, this recognition is not always evident in much of the literature on pro-poor growth. Furthermore, there is huge disagreement on a more activist industrial policy, especially regarding whether African governments have the capacity to provide such support effectively. It is increasingly recognized that indigenous private sector has an important role in generating employment, and as a result there is much emphasis on improving the conditions under which companies operate and calls for improved public-private sector dialogue. Donor documents often talk about these issues under the concept of ‘private sector development’. In particular, the OECD identifies private sector development as a key pillar for promoting pro-poor growth. It advocates reducing the costs of doing business as a way to provide incentives for entrepreneurship and investment; increasing productivity through competition and innovation by expanding access to business associations and clusters of informal firms; harnessing international economic linkages through focusing on one’s comparative advantage in international trade and attracting foreign investment, but through sequencing and with safety nets for those who lose from these greater linkages; improve market access and functioning (too broad to summarize here!); and reduce risk and vulnerability (OECD 2006c). But this concept of private sector development seems to a large extent to aggregate existing donor practices aimed at creating an ‘enabling environment’ for markets (in an abstract sense) with extensions to enable the poor to access those markets.

Klasen identifies a new consensus that has emerged from the debate between proponents and opponents of adjustment policies which has generated some middle ground of policies to foster pro-poor growth. But this consensus leaves many substantial disagreements unresolved. Furthermore, there are reasons to be skeptical as to whether the limited areas of the new consensus are having an impact on policy prescriptions, as major gaps remain between what Klasen outlines as policy shifts among proponents of adjustment and what donor documents say and their policy advice to recipient countries. For example, policy recommendations in the report on pro-poor growth by the Network on Poverty Reduction of the OECD Development Assistance Committee contain much of the previous agenda for promoting growth:

> Factors that contribute to sustained growth include—macroeconomic stability; institutions that provide clear rules that are enforced predictably, good governance that will reduce corruption and rent seeking; a favourable investment climate which includes secure property rights and efficient markets that allow the productive assets of land, labour and capital to flow to areas where the returns are highest and increases access to these resources, including for the poor (OECD 2006a: 21).

The way to address the issue of how the poor participate in this growth is to 'tackle the causes of market failure and to improve market access'. These approaches need to include 'investment in the economic capabilities of the poor'. But we must still be cautious of 'replacing market failure with government failure'. What is needed is increased access of the poor to financial services, greater access and security over land and other property for the poor, and well-functioning labor markets that increase formal job creation, enable labor mobility and meet core labor standards. Targeted assistance may be necessary, but 'such assistance needs to be "smart", to avoid distortions, to address the binding constraints and to reach the intended target group, and it should be temporary' (ibid: 28). The report does note lessons learned from past experience. For example, it states that macroeconomic stability needs to be achieved through a flexible approach, rather than rigid adherence to targets. To take another example, it indicates that harnessing the international economic linkages of trade and investment is more likely to contribute to sustained pro-poor growth if the international trading system is more equitable and trade policy is accompanied by policies to build domestic capacity and competitiveness, and reducing the costs and risks of trading.

The report emphasizes the importance of infrastructure, agriculture, and private sector development as important for pro-poor growth and areas which have been neglected by donors. It suggests revising the current private sector development agenda of OECD donors away from attempting to assist types of firms towards focusing more on how policies combine to provide incentives that shape private sector activity that brings about outcomes in markets that matter for the poor. Under private sector development, the Network suggests removing barriers to formalization, implementing competition policy, promoting the supply side response through business development services and financial assistance, improve the financial sector, enhance women's market access, and construct an inclusive private sector-government dialogue (OECD 2006c). On infrastructure (which includes transport, energy, ICT and water resources), the Network suggests focusing on bottlenecks; meeting the needs of different groups with appropriate services and tariff levels and benefiting from synergies between different types of infrastructure; improving management of infrastructure by prioritizing maintenance and rehabilitation, building management capacity, reducing corruption; and increased and better use of financial resources by greater efficiency and cost recovery, improving private participation and more predictable public funding and donor assistance. Its views on agricultural have been mentioned already. Thus, there does not seem to be much new in the policies that donors should support, except for some new focal points in and greater emphasis on the agricultural sector. The interesting thing is that while diagnosis of the problems facing low income countries, particularly in Africa, have evolved to recognize constraints that went unnoticed before, the policy prescriptions have not really changed.

To take another example, DFID proposed the following four conditions that need to be met in the design of policies to achieve faster pro-poor growth: create strong incentives for domestic private investment; focus on foreign investment and trade; provide broad access to assets and markets; and reducing risk and vulnerability (DFID 2004b). Not much new there! In its Pro-Poor Growth Briefing

Note, DFID explicitly pointed to the usefulness of the pro-poor growth concept in forging coalitions around poverty reduction:

> the pro-poor growth banner is useful because it aligns economic growth with changes in the well-being of the poor. This helps to build coalitions between developing-country governments, the private sector and donors. In particular, it makes clear that policy-makers do not have to choose between pro-growth and pro-poor policies. The two outcomes overlap, because most policies that increase growth also reduce poverty, and many policies that are effective for reducing poverty also increase growth (DFID 2004a: 4).

Danida's 2005 strategy document for promoting trade, growth and development in the world's poorest countries recognizes the need to focus more on growth and trade in poverty reduction strategies, but also repeats the free trade doctrine that trade liberalization and specializing in one's comparative advantage is the best way to sustain growth. While some of the negative effects of trade liberalization are recognized, these effects relate to helping those adjust who work in the sectors that are inefficient and thus lose out from trade liberalization. There is also emphasis on ending European subsidies on agricultural products and pushing for special consideration of goods from the poorest developing countries. The document only refers to export diversification in terms of branching into different agriculture products and processing.

Current policy advice does not seem much different from the mainstream position underlying the new New Poverty Agenda: Washington Consensus growth policies, plus increased spending on health and education, plus good governance, civil society participation and empowerment. In sum, the skeptical view that a new post-adjustment agenda for pro-poor growth exists points to the gap between shifts in orthodox thinking in some circles and the practices of policy advice of donors.

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