Strategies for: Pro-Poor Growth; Pro-Poor; Pro-Growth or Both?

John Page, Chief Economist, Africa Region, The World Bank
October 2004
“When I use a word...”
Pro-poor growth… is a major departure from the trickle-down development concept. Promoting pro-poor growth requires a strategy that is deliberately biased in favor of the poor so that the poor benefit proportionally more than the rich.

– GTZ website
An IDS study sought to establish and test a clear and simple definition of pro-poor growth. A measure called the 'poverty bias of growth' (PBG) was calculated. It was derived by subtracting changes in the poverty headcount that occurred between any two periods under actual circumstances, from the change in poverty that would have occurred if all had gained equally.

– IDS website
The World Bank advocates a larger allocation for fiscal resources to pro-poor targeted expenditures, whereas discontented recipients with better development performances stress the need for broad-based growth expenditures.

– Shigeru Ishikawa
“Growth Promotion versus Poverty Reduction”
The most important problem in the fight against poverty in the era of globalization, is the one of the growing inequalities both between and within states. ... A successful way of achieving the poverty reduction goal is to promote a more pro-poor growth. More pro-poor growth needs more pro-poor national policies...

– The Vatican
Why All The Fuss?

- Aid policies and allocations in the 1990’s stressed poverty reduction and social expenditures.
- Poverty Reduction Strategy Papers (PRSPs) resulted in the new and sharper focus on poverty and human development at the national level in low income countries.
- The MDG’s provided an international benchmark for comparing development performance.
What is pro-poor growth?

- Pro-poor growth is growth that is good for the poor - two definitions:
  - Under the relative definition, growth is pro-poor if the incomes of poor people grow faster than those of the population as a whole, i.e., inequality declines.
  - Under the absolute definition, growth is considered pro-poor if and only if poor people benefit in absolute terms, as reflected in some agreed measure of poverty.
Does the Definition Matter?
Yes, for Public Policy

- Intuitive preference for pro-poor biased growth (option 1). However, it:
  1. ignores overall economic performance and the fortunes of the non-poor.
  2. is inconsistent with applied welfare economics
  3. can lead to undesirable public choices
  - Which is preferable?
    - An average rate of growth of 2%, where the poorest quintile grows at an average rate of 3%, or,
    - an average rate of growth of 6%, where the poorest quintile grows at 4%?
Why Growth?

Growth (Almost) Always Reduces Poverty

Annual Growth in Mean Income or Consumption

Average Annual Change in Headcount

$y = -0.39x + 0.00$

$R^2 = 0.46$

Source: Dollar and Kraay
Why Growth?

While we debate how to make growth pro-poor, most poor countries are not growing.
Why Growth?

Growth Does not Raise Inequality

Average annual change in Inequality

Average annual per capita GDP growth
AFRICA IS NOT GROWING ROBUSTLY

Why Growth?
Why Growth?

Country growth performance varies risks are underestimated

Data sources: SPA data sheets, growth rate is population weighted
Why Bother With Distribution?

• “on average over time” conceals striking regional and country variation
• Time periods matter a lot
• Distribution changes “more than we thought”
Why bother with Distribution?

Growth and Distribution 1970-2000: Developing Countries

Evolution of Per Capita Income and Per Capita Income of Lowest Quintile in Developing Countries

Per Capita Income of Lowest Quintile

Per Capita Income
Why bother with Distribution?

East Asia

Evolution of Per Capita Income and Per Capita Income of Lowest Quintile in East Asia and Pacific

Latin America & Caribbean

Evolution of Per Capita Income and Per Capita Income of Lowest Quintile in Latin America & Caribbean
Why bother with Distribution?

South Asia

Evolution of Per Capita Income and Per Capita Income of Lowest Quintile in South Asia

Middle East & North Africa

Evolution of Per Capita Income and Per Capita Income of Lowest Quintile in Middle East and North Africa
Why bother with Distribution?

Time Periods Matter A Lot

### Why bother with Distribution?

**Cross country evidence on pro-poor growth**

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<tr>
<th>Negative Growth Inequality Rises</th>
<th>Positive Growth/Inequality Rises</th>
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<td><strong>Anti-Poor Recession</strong></td>
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<td>Yrs</td>
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Why bother with Distribution?

In Africa the Fortunes of Poor Have Changed over Time

Why bother with Distribution?

Country Patterns in Africa

Ethiopia, household consumption changes, bottom 20% vs. the mean

Ghana, household consumption changes, bottom 20% vs. the mean
Why bother with Distribution?

Country Patterns in Africa

**Madagascar, household consumption changes, bottom 20% vs. the mean**

**Mali, household consumption changes, bottom 20% vs. the mean**
Why bother with Distribution?

Country Patterns in Africa

**Mauritania, household consumption changes, bottom 20% vs. the mean**

index 1981=10

- Mauritania, poor
- Mauritania, mean

**Nigeria, household consumption changes, bottom 20% vs. the mean**

index 1981=100

- Nigeria, poor
- Nigeria, mean
Why bother with Distribution?

Country Patterns in Africa

Zambia, household consumption changes, bottom 20% vs. the mean

Index 1981=10

Zambia, poor  
Zambia, mean
WHY BOTHER WITH DISTRIBUTION?

INEQUALITY CHANGE “more than we thought”

Data sources: Africa Region Standardized Files
“...The Question is, Who is to be the master? That is all”

• Definitional debates are interesting but not useful for public policy.
• Africa needs a sharper focus on growth without abandoning the poor.
“Shared growth” strategies are needed:

1. Over the long run growth must benefit the poor
2. Governments should seek out & adopt policies & public actions that increase the benefits of growth to the poor
3. Care needs to be given to understanding the distributional consequences of growth oriented policies

Shared growth strategies focus on growth & on public expenditures/services aimed at all the population as objectives of public policy
Three Elements of Shared Growth in Africa

• Managing natural resource rents;
• An “export push” in Agriculture;
• Getting Serious about (sub) regional integration.
Managing Resource Rents

Resource Based Rents are Widespread and Growing
65% of all FDI during the 1990’s was concentrated in oil, gas and mining.

Between 2000-2010, $200 billion in oil revenue will accrue to African Governments;

The 2004 oil windfall ranges from 9 percent of Government Revenues in Gabon to 56 percent in Equatorial Guinea (and average 21 percent);
Managing Resource Rents

...But management of Rents has not generally been effective
Mineral Dependent Economies in Africa tend to have:

- Higher poverty rates
- Greatly income inequality
- Less spending on health care
- Higher child malnutrition
- Lower literacy and school enrollments
- More than non-mineral economies at the same income level.
Managing Resource Rents

But other Mineral Exporters Have Achieved Shared Growth
Managing Resource Rents

ELEMENTS OF STRATEGY FOR MINERAL REVENUE MANAGEMENT

• Transparency in accounting for revenues (EITI; “Publish What You Pay”)
• Fiscal Rules (Savings and Fiscal federalism)
• Strengthening Public finances (PRSPs and the MTEF);
• Monitoring and Evaluation.
An “Export Push” in Agriculture

The fortunes of Africa’s poor Reflect Agricultural Prices
An “Export Push” in Agriculture

Growth in Asia will provide an Expanding Market for Agricultural Exports

Trend in Non-Oil Exports to Asia from Sub-Sahara Africa (Excl. S. Africa)
EXPORT AGRICULTURE HAS A STRONG PRO-Poor IMPACT

Growth of the Export Agricultural Sector May also lead to increased productivity in Food Crop Agriculture
### Some Elements of an Export Push Strategy in Agriculture

**Improve Market Access Globally**

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<tr>
<th>SITC</th>
<th>Product</th>
<th>China</th>
<th>India</th>
<th>Indonesia</th>
<th>Japan</th>
<th>Korea</th>
<th>Asia Average</th>
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<td>2.12</td>
<td>5.72</td>
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Some Elements of an Export Push Strategy in Agriculture

- Improve Market access locally
- Address Land Tenure Issues Equitably
- Focus on Trade Logistics
Get Serious About Regional Integration

- Define the scope and purpose of Regional Agreements;
- Use Regional Agreements to facilitate Trade with global system;
- Start managing migration.
Strengthen Regional integration

**Spaghetti and Rigatoni:** Overlapping Partnership Trade Agreements

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**AMU:** Arab Maghreb Union  
**CBI:** Cross Border Initiative  
**CEMAC:** Economic & Monetary Community of Central Africa  
**CILSS:** Permanent Interstate Committee on Drought Control in the Sahel  
**COMESA:** Common Market for Eastern and Southern Africa  
**ECOWAS:** Economic Community of Western African Studies  
**IGAD:** Inter-Governmental Authority for Government  
**IOC:** Indian Ocean Commission  
**SACU:** Southern African Customs Union  
**SADC:** Southern African Development Community  
**WAEMU:** West African Economic & Monetary Union
**Strengthen Regional integration**  
**Define the Scope of Africa Regional Agreements**

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<th>East Asia</th>
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<th>LAC</th>
<th>MENA</th>
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<td>All others</td>
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Strengthen Regional integration

... BORDER DELAYS TAX TRADE...

- Delays at the Zimbabwe – South Africa Crossing (Beit Bridge) were six days (in Feb 2003) leading to an estimated loss of earnings per vehicle of $1750 (equal to the cost of a shipment from Durban to the US).
- Crossing a border in Africa can be equivalent to the cost of more than 1000 miles of inland transport (in Western Europe – the equivalent is 100 miles)

.. As can National Regulations

- Axel load regulations differ in Namibia, Botswana and Zambia
- Bilateral transport treaties in West Africa Impede Regional Arrangements
Strengthen Regional integration

Managing Migration

Percent of the Population that is Foreign Born

- Cote d'Ivoire: 15.4%
- Congo: 10.6%
- Ethiopia: 6%
- Kenya: 3.3%
- Uganda: 3.8%
- Zambia: 6%
- Dem.Rep. Of the Congo: 2.2%
- Sudan: 4.4%
- Guinea: 14.3%
- Tanzania: 1.8%

Countries:
- Cote d'Ivoire
- Congo
- Ethiopia
- Kenya
- Uganda
- Zambia
- Dem.Rep. Of the Congo
- Sudan
- Guinea
- Tanzania