

# THE CONCEPT OF SHARED GROWTH

## A Draft Note

### 1. INTRODUCTION

The last decade has seen significant improvement in the growth performance of a number of African countries, even if the overall story is not entirely positive or striking in many places. At the same time that this has happened, there has been a mixed story on the poverty reduction front in most countries. While a number of them have seen the incidence of poverty come down in the last decade, sometimes quite significantly, there are several countries that have experienced no such improvements. It is important to observe that in many of the countries, the types of economic policies that have led to these different outcomes have had considerable similarity and the general rhetoric about what the future should bring in terms of welfare and development are not too dissimilar. Even more interesting is the fact that the general desire to achieve the Millennium Development Goals provides all the countries a common future aspiration. The important question therefore is whether it is possible to influence in a general way the trajectory towards the dual goals of growth and poverty reduction in Sub-Saharan Africa. Is there a way to assist as many countries as possible, if not all, to realize significant growth outcomes that are accompanied by significant reductions in the incidence of poverty?

Discussions about the links between growth and poverty are not new. Indeed the past decades have seen an intermittent upsurge of interest in the issues concerning growth, equity and income or asset distribution. Thus, following from the Kuznets (1955) hypothesis of an inverted U shape of the relationship between economic growth and income inequality, Adelman and Morris (1973) provided one of the earlier studies to question the automaticity of the relationship between economic growth and benefits to the poor. And then came the influential contribution by Chenery, et al. (1974), focusing on the importance of redistribution alongside economic growth. In more recent times, the debates have been closely related to the growing emphasis assigned to poverty reduction as the most important goal for the development effort (Kakwani, Khandker and Son 2004). The debate on whether economic growth is an effective vehicle for poverty reduction continues to dominate both national and international meetings on development, and recent initiatives on what constitutes pro-poor growth are probably the largest manifestation of the inconclusiveness of the discussions to date.

It is worth noting that while the debates about the links between growth and poverty have been going on, the African Economic Research Consortium has also been conducting various studies into the two issues for African economies, albeit separately. While the studies have helped to deepen our understanding of the growth experiences and also documented the poverty trends in several African countries, they have not focused on explaining the link between the two. And yet there is growing evidence that they are both important and will dominate the development policy landscape over the foreseeable future. Being able to achieve growth and poverty reduction outcomes with the available policy tools, and relying on the synergies of the two, remain crucial for most African economies.

This note will provide an overview of the current state of the debate, including the underlying theories and the methodologies that have been used to support the various arguments. It will review in section 2 the literature on the links between growth and poverty and how this has evolved in the last two decades. In section 3 the note will present recent research initiatives centering on pro-poor growth. In section 4, we set out our own views of the unfinished business, highlighting areas requiring further research after all the earlier initiatives. This will identify and articulate the key research and policy issues in linking growth and poverty reduction at country and sub-regional levels and propose a methodological approach for conducting studies.

## **2. REVIEW OF THE LITERATURE ON GROWTH AND POVERTY REDUCTION LINKS**

The development literature over the last half-century has been quite littered with ‘mood swings’, from “right to left” and back, with strong emphasis on either growth or redistribution at one time or the other. After the 1960s strong interest in rapid growth and trickle down, the 1970s saw considerable interest in redistribution. The reforms that were associated with the Washington consensus tended to emphasize economic growth after initial stabilization and adjustment in the 1980s. The 1990s then saw effort to shift to the middle ground as opposed to wide swings from one extreme to the other.

We observe that in the last decade, while growth has continued to occupy the centre stage in the development literature, there have been many more studies, especially in recent years, arguing that although growth is necessary for poverty reduction, it is not sufficient. Recent empirical evidence suggests that sustained economic growth leads to sustained poverty reduction, thus revealing a strong and positive growth-poverty nexus (Norton 2002). The existing literature does indeed suggest some important empirical questions. For example since economic growth has a positive impact on poverty reduction, does this necessarily imply that a country should follow a strategy of growth maximization as its pro-poor growth stance? Norton (2002) suggests that this might well be the case even though the issue is complex. The caution comes from the fact that the impact of economic growth on the rate of poverty reduction depends on the nature, strength, and other characteristics of the links that exist between growth and poverty at a given point in time in any given country. This suggests that the extent and direction of the link between economic growth and poverty reduction is derived from the initial conditions in that country (Norton, 2002). But he argues that as much as the quality of growth may be important, growth itself is the surest way to reduce human deprivation around the world.

It may be noted that since the assumption of an automatic link between growth and poverty reduction became questioned, attempts have been made to understand the mechanisms through which the benefits of growth may be transmitted to the poor. Some of the studies in this area refer to the role of employment, and yet a rigorous analysis of the role of employment in the linkage between economic growth and poverty reduction appears to be missing in the literature.

Studies that suggest that the pattern of growth is important from the point of view of its effectiveness in reducing poverty abound (World Bank 1990; Lipton and Ravallion 1995; Squire 1993; McKay 1997; DFID 1997). According to the Asian Development Bank (2004) the links between growth and poverty are not direct and work in two stages which determine, *first*, the relationship between economic growth and the distribution of income and, *second*, the relationship between the distribution of income and poverty. In particular, the impact of growth acceleration on poverty depends, to a large extent, on what happens to inequality. If income inequality does not rise or rises only modestly, a faster economic growth will result in faster poverty reduction (ADB 2004). In effect, their argument is that a particular growth strategy followed by a country generates a specific growth path and its associated distribution of income. This is the result of the underlying allocative and distributive policies of the strategy that bring about changes in the existing sectoral allocation of resources and the ownership pattern of the factors of production (ADB 2004).

Nissanke and Thorbecke (2005) suggest that the UNU-WIDER study outcomes (see Cornia (2004) “challenge the dominant mainstream views derived from a number of World Bank studies”). These include the conventional views on the relationship between inequality and growth that suggest no clear association between growth and poverty reduction in view of a neutral distribution (Deininger and Squire 1996; Li, Squire and Zou 1998); Dollar and Kraay 2001a, 2001b). Dollar and Kraay argue that growth is good for the poor because the share of income going to the poor does not change on average with growth. They estimate that the average growth elasticity of poverty reduction ranges from 0.6 percent to 3.5 percent.

In the spirit of the UNU-WIDER studies, Cornia (2004) has argued that since inequality affects future growth, it also affects poverty. He suggests that the widespread increase in inequality has not helped much the objective of poverty reduction as large rises in inequality have stifled growth. It has also been noted that at any given growth rate of GDP, poverty falls less rapidly when inequality is high.

Cornia’s findings are supported by the position of Ravallion (2002) who has indicated that the critical question is whether or not high inequality is an impediment to poverty-reducing growth. His analysis confirms that the elasticity of poverty with respect to growth declines with the extent of inequality.

With all the above in the background, for evaluating alternative growth strategies from the poverty reduction perspective, it is important, therefore, to consider both the rate of economic growth and the resulting income distribution that emerges from a particular strategy (ADB 2004). One obvious conclusion that follows from the above is that whether maximizing the rate of economic growth is equivalent to maximizing the rate of poverty reduction at a given point in time is very much an empirical issue on which no general conclusions can be drawn. In particular, the degree of inequality determines the strength of the poverty elasticity of growth<sup>1</sup> so that if the strategy of growth maximization leads to a rapid accentuation in income inequality, the poverty-reducing impact of the strategy may be less compared to an alternative strategy which, despite its generating a lower economic growth, can have a higher impact on poverty

---

<sup>1</sup> This elasticity is the reduction in the incidence of poverty (in percentage points) brought about by an economic growth rate of 1 per cent per year.

due to its generating a growth process which is more equalizing in nature. In theory, a country could enjoy a high average growth rate without any benefit to its poorest households if income disparities grew significantly, i.e., if the rich got richer while the incomes of the poor stagnated or declined. This outcome is rare, and income distribution (for example, as measured by the Gini coefficient) tends to be stable over time within countries. Moreover, the relationship between income distribution changes and economic growth varies from country to country. For example, growth has been accompanied by greater equality of income in Bangladesh, Egypt, and Taiwan Province of China, but by greater inequality in Chile, China, and Poland. This suggests that the magnitude of the poverty reduction payoff from growth depends, in part, on a country's specific circumstances and policies.

The empirical evidence from East Asian countries shows that countries with less initial inequality were able to realize higher growth, but inequality also tended to widen with growth (ADB 2004). For assessing the poverty impact of growth, it is important to recognize that the “growth versus redistribution” dichotomy is not tenable due the fact that the effect of economic growth on poverty is itself a function of the level of inequality and its changes with growth since (i) the level of inequality affects poverty for any given level of income; (ii) inequality affects the growth elasticity of poverty and lower inequality accelerates the poverty reduction impact of a given growth rate; and (iii) a serious initial inequality is harmful for growth (ADB 2004)

The evidence also indicates that economic growth does not necessarily bypass the poor, including the poorest of the poor (ADB 2004). These findings suggest that rising per capita income will generally lead to lower poverty especially if the rate of growth is sustained at a reasonably high level and higher economic growth does not lead to any serious worsening of the distribution of income. In general, the policy implications of the above are that economic growth is the major tool for fighting poverty and “growth is a powerful ally of the poor, not their enemy”.

#### *Explaining the Growth and Poverty Reduction Links through Inequality*

The recent comprehensive review of the literature on growth and poverty reduction by Nissanke and Thorbecke (2005) provides some of the most notable explanations of the links to inequality. They note that there is an increasing recognition that the pattern of growth rather than the rate of growth *per se* is crucial for poverty reduction since the growth-poverty relationship is heterogeneous and non-linear. Growth can be pro-poor, distribution neutral or even poverty-increasing. While it is likely that the poor will benefit from growth, the ultimate poverty-reduction effects will depend on how the growth pattern affects income distribution. In this regard, inequality is the filter between growth and poverty reduction (Nissanke and Thorbecke 2005).

Relying on the filter of inequality, Nissanke and Thorbecke (2005) highlight the fact that “there are two contradictory theoretical strands relating income- and wealth-inequality to growth”. The classical approach associated with Kaldor “argues that a higher marginal propensity among the rich to save than among the poor implies that a higher degree of initial income inequality will yield higher aggregate savings, capital accumulation and growth. In contrast is the new political economy theory which links reduced growth to greater inequality through

- the unproductive rent seeking activities that reduce the security of property,

- the diffusion of political and social instability leading to greater uncertainty and lower investment,
- redistributive policies encouraged by income inequality that impose disincentives on the rich to invest and accumulate resources,
- imperfect credit markets resulting in under investment by the poor particularly human capital.
- A relatively small income share accruing to the middle class implying greater inequality has a strong positive effect on fertility and this in turn has a significant and negative impact on growth (Nissanke and Thorbecke 2005).

It is further argued in the new political economy literature that growth patterns that engender high inequality are also likely to endanger future growth. The evidence that is used to support this is derived from the study by Benjamin, Brandt and Giles (2004) in Chinese villages. They argue that the negative influences on future growth come through the moving away of village economic activity from more productive non-agricultural activities towards agriculture. This process slows down structural transformation.

Basically inequality can slow down growth through impact on incentives, social conflicts, transaction costs and property rights. This has led to a number of studies conducted by UNU-WIDER to examine the link between growth and poverty-reduction through the medium of inequality. They have argued that growth can be low at low levels of inequality due to disincentive effects and again low at high levels of inequality through depressing effects on private investment caused by social conflicts. This leads to a concave relationship between inequality and growth. (See for example Cornia 2004; Shorrocks and van der Hoeven 2004). In this concave inequality-growth relationship there is a ‘growth-invariant inequality’ range and any “country that intends to maximize poverty reduction should choose the lowest level of inequality within the broadly growth-invariant, efficient inequality range” (Nissanke and Thorbecke 2005).

While there is no doubt that growth is generally good for poverty reduction, there remain questions about how the impact and magnitude of such an effect can be measured. What all these conceptual issues lead to is what type of growth is best for poverty reduction and what channels there are for transmitting this. The role that different economic agents play, i.e. private individuals and the state in relation to markets is deemed to be crucial in defining the nature of the transmission mechanism. It is this current discussion that has led to calls for pro-poor growth.

### *The Concept of Pro-Poor Growth*

There are different understandings of the concept of pro-poor growth, as reflected in debates in academic literature and policy environments. This essentially revolves around a distinction between an absolute and a relative concept of pro-poor growth (DFID 2004). The absolute concept is that growth is pro-poor when it reduces poverty in absolute terms, i.e., any growth in mean income that benefits the poor in absolute terms (Ravallion 2004), whereas the relative concept is that growth is pro-poor when the poor benefit disproportionately implying a reduction in inequality (Kakwani and Pernia, 2000). Both notions are relevant. The absolute concept is important because it focuses attention on the rate of growth specifically for the poor. But it is also very im-

portant to consider the distributional pattern of growth and the evolution of inequality. For a given rate of growth, the more it reduces inequality the bigger its poverty reduction impact is likely to be. Osmani (2004) observes that both concepts are crucial to policy makers. While the relative concept emphasizes the nature and pattern of poverty, the absolute concept captures the effect of the totality of the growth process on poverty. To ensure that the measurement of growth is realistic in assessing the poverty impact, Kakwani et al (2004) propose another measurement of pro-poor growth which is the concept of 'poverty equivalent growth rate (PEGR).' This measures both the magnitude of growth and how the benefits of growth are distributed to the poor and non-poor. If PEGR is larger than the actual growth rate, which occurs when the income of the poor grow more than the average income then growth is pro-poor; if PEGR is equal or less than the actual growth rate, growth is deemed not to be pro-poor.

Focusing on what happens to poverty, Ravallion and Chen (2003) define growth processes to be pro-poor if and only if poor people benefit in absolute terms, as reflected in an appropriate measure of poverty (the Watts Index). By this definition, the extent to which growth is pro-poor depends solely on the rate of change in poverty. Their argument is that, a good measure of pro-poor growth is the average (across all percentiles) growth rate of people below the poverty line, that is, the average growth rate of incomes of the poor. Ravallion (2004) suggests that this definition avoids the problem of distributional changes in which in shrinking economies, distributional changes can be "pro-poor" with no absolute gain to or falling standards for the poor people. Similarly, a "pro-rich" distributional shift during a period of overall economic expansion may come with large absolute gains to the poor.

Some refer to pro-poor growth as growth that results in significant poverty reduction, thereby benefiting the poor and improving their access to opportunities (e.g., UN 2000, World Bank 2000, OECD 2001). But it is not clear how significant a reduction in poverty must be and how progress in achieving pro-poor growth is to be monitored. Others equate pro-poor growth with high elasticity of poverty with respect to growth (e.g., Ravallion and Datt 2002), but this still begs the question of measuring and monitoring. Ravallion and Chen (2003) also introduce the concept of "mean growth rate of the poor", which seems analytically ambiguous.

Pro-poor growth is the type of growth that enables the poor to actively participate in economic activity and benefit proportionally more than the non-poor from overall income increase. Klasen (2001) similarly defines "pro-poor growth to mean that the poor benefit disproportionately from economic growth." Key to the definition of pro-poor growth is the joint consideration of growth and its distribution. From a policy or operational standpoint, the method suggests that in the design of a growth strategy or programmatic approach, a minimum objective should be to maximize the pro-poor growth index by minimizing any regressive distributional consequences (Pernia 2003).

This signals a clear departure from the trickle-down development notion of the 1950s and 1960s that meant a gradual top-down flow from the rich to the poor. Pernia, (2003) has tested for how pro-poor recent growth has been by allowing the relationship between income of the poor and overall income to vary by decades. He found no significant evidence that growth has become less pro-poor than it was in the past. In

fact, in his study the point estimates indicate that, if anything, growth has become slightly more pro-poor in recent decades, although this trend is not statistically significant. In summary, none of the efforts to distinguish among the poverty-growth experiences based on level of development, time period, or crisis situation changes the basic proportional relationship between incomes of the poor and average incomes (Pernia 2003).

According to the Pernia (2003) study the effect of growth on the distribution of income is tiny and not significant. The same is true for improved rule of law and financial development, which raise overall per capita GDP, but do not significantly influence the distribution of income. Reducing government consumption and stabilizing inflation are examples of policies that are “super-pro-poor”. Not only do both of these raise overall incomes; they appear to have an additional positive effect on the distribution of income, further increasing incomes of the poor. In the case of reducing government consumption, this additional distributional effect is statistically significant in some of his specifications, and the pro-poor effect of reducing high inflation is also close to significant. From this he concludes that the basic policy package of private property rights, fiscal discipline, macro stability, and openness to trade increase the income of the poor to the same extent that it increases the income of the other households in society. “This is not some process of “trickle-down,” which suggests a *sequencing* in which the rich get richer first and eventually benefits trickle down to the poor. The evidence, to the contrary, is that private property rights, stability, and openness directly and contemporaneously create a good environment for poor households to increase their production and income” (Pernia 2003).

Pernia (2003) also suggests that pro-poor growth requires that the mean incomes of the poor rise faster than overall average incomes. He contends that a poverty reduction strategy that aims for less would not be worthy of its name and basically amounts to a trickle-down development strategy. He suggests that pro-poor growth calls for policies that promote efficient and equitable growth, that is, increased market-based activity that ensures access to all participants, especially the poor. He emphasizes that achieving pro-poor growth entails institutional and policy reforms that not only expand economic opportunities but also empower the poor to gainfully participate in and measurably benefit from them. Strong public–private partnerships are needed to accelerate both the expansion of opportunities and the empowerment of the poor. Multilateral development banks can assist in speeding up institutional and policy reforms and in catalyzing public–private partnerships.

Ravallion (2004) on the other hand has indicated that growth has not been pro-poor in some developing economies. Also, higher growth in a number of developing countries has come with widening regional disparities and often little or no growth in lagging poor areas. For example, non-farm economic growth in India has not occurred in the states where it would have the most impact on poverty nationally (Ravallion and Datt, 2002).

In their paper “Growth is Good for the Poor” Dollar and Kraay (2000) noted that average incomes of the poorest fifth of society rise proportionately with average incomes. According to them this is a consequence of the strong empirical regularity that the share of income accruing to the bottom quintile does not vary systematically with average income. They documented this empirical regularity from a large sample of 92 countries spanning four decades, and show that it holds across regions, time periods,

income levels, and growth rates. They also investigated whether the factors that explain cross-country differences in growth rates of average incomes have differential effects on the poorest fifth of society and found that several determinants of growth -- such as good rule of law, openness to international trade, and developed financial markets -- have little systematic effect on the share of income that accrues to the bottom quintile. Consequently these factors benefit the poorest fifth of society as much as everyone else. They also identified some weak evidence that stabilization from high inflation as well as reductions in the overall size of government not only raise growth but also increase the income share of the poorest fifth in society. Dollar and Kraay (2000) also examined several factors commonly thought to disproportionately benefit the poorest in society. However, they found little evidence of their effects. They concluded that the absence of robust findings emphasizes that relatively little is known about the broad forces that account for the cross-country and intertemporal variation in the share of income accruing to the poorest fifth of society.

In recent years there has been a great deal of emphasis in the development community on making growth even more “pro-poor.” Given the evidence of Dollar and Kraay(2000) that neither growth nor growth-enhancing policies tend to be systematically associated with changes in the share of income accruing to the poorest fifth of societies, they interpret the emphasis on “pro-poor” growth as a call for some other policy interventions that raise the share of income captured by the poorest in society. They empirically examine the importance of four such factors in determining the income share of the poorest: primary educational attainment, public spending on health and education, labor productivity in agriculture relative to the rest of the economy, and formal democratic institutions. While it is plausible that these factors are important in bettering the lot of poor people in some countries and under some circumstances, Dollar and Kraay’s study was unable to uncover any systematic evidence that they raise the share of income of the poorest in their large cross-country sample.

Dollar and Kraay (2001) indicate the importance of analyzing the critical pathways by which broad-based growth leads to poverty reduction. According to them the analysis of the pathways should not be limited to “pro-poor targeted.” In this case, the expenditure items do not have the aim of reducing poverty directly. Rather, they initially contribute to an expansion of GDP, and the resultant increase in savings leads to poverty reduction through fiscal, financial and various other routes. When “broad-based growth expenditure” is preferable to “pro-poor targeted expenditure,” the scale of poverty reduction through the former is greater than the latter. Here, it is necessary to evaluate the scale of poverty reduction by calculating its cumulative total, in terms of present value and throughout the entire stream of time. Thus, the level of discount rates also matters (Dollar and Kraay, 2001).

This result from Dollar and Kraay (2001) is consistent with existing evidence in smaller samples. Agenor (1998) finds an adverse effect of inflation on the poverty rate, using a cross-section of 38 countries. Easterly and Fischer (2000) show that the poor are more likely to rate inflation as a top national concern, using survey data on 31,869 households in 38 countries. Datt and Ravallion (1999) find evidence that inflation is a significant determinant of poverty using data for Indian states.

Again in Dollar and Kraay’s study they argued that it does not follow that policies that are known to be good for growth are good for poverty reduction in the specific

sense that absolute poverty (measured against a poverty line with fixed real value) tends to fall with growth. They noted that growth-promoting policies often have distributional implications that cannot be ignored if one is interested in the impacts on poverty (Dollar and Kraay 2002). They used the case of India to illustrate their argument. Poverty incidence in India has been falling at a trend rate of about one percentage point per year since about 1970, and the country appears now to have returned to this trend decline since the macroeconomic difficulties of the early 1990s (Datt and Ravallion 2002). However, performance has been uneven between states. Some states have been doing far better than others, both in the longer term, and in the wake of economic reforms over the last 10 years. But the growth rate needed to achieve this trend decline has been rising over time. The responsiveness of national poverty incidence to both non-agricultural output per capita and agricultural yields have been declining over time, especially so for non-agricultural output (Datt and Ravallion 2002).

In the case of India the geographic composition of their growth has played an important role: widening regional disparities and limited growth in lagging areas has made the overall growth process less pro-poor over time. (Dollar and Kraay 2002). By and large, economic growth in India has not occurred in the states where it would have the most impact on poverty nationally. These differences in the impact of growth on poverty relate in turn to differences in access to infrastructure and social services (health care and education) that make it harder for poor people to take up the opportunities afforded by aggregate economic growth (Datt and Ravallion 2002). Such heterogeneity in the impact of growth on poverty holds important clues as to what else needs to be done by governments to promote poverty reduction, on top of promoting economic growth. According to some observers “such actions are not needed...Growth is sufficient. Period.” (Bhalla 2002). The basis of this claim is the evidence that poverty reduction has generally come with economic growth. But that misses the point. Those who are saying that growth is not enough are not typically saying that growth does not reduce absolute income poverty, which (as an empirical generalization) is hard to deny. They are saying that combining growth-promoting economic reforms with the right policies to help assure that the poor can participate fully in the opportunities unleashed by growth will achieve more rapid poverty reduction than would be possible otherwise (Dollar and Kraay 2002).

According to Klein (2003) it is important to consider what pro-poor policies mean in market economies. Some analysts focus on redistributing incomes. For example, a guaranteed basic income for all was recently proposed by the Basic Income European Network. The massive redistribution required for such a plan on a global scale would require that economic growth is adequate to fund it. In addition, it requires willingness of rich countries to fund the plan. Yet, the official development aid of all nations amounts to less than \$0.15 for each person living on less than \$1 a day, and most of that has to be repaid. Comparing this with the Republic of Korea, which took about 10 years to generate more income for its citizens from the manufacturing sector alone than all of the world's development aid together even doubling the world's official aid and transforming all loans into grants would not achieve sustained economic growth in countries and areas where poor people live. Klein (2003) therefore concluded that the hope for poor people lies in productivity rather than redistribution.

Relating to the broad or absolute poverty definition given by Ravallion and Chen (2003), Kraay (2004) identified three potential sources of growth, namely, a high rate

of growth of average incomes, a high sensitivity of poverty to growth in average incomes, and a poverty reducing pattern of growth in relative incomes, using standard poverty decomposition techniques.

Increasingly, for advocates of pro-poor growth attention is paid to distributional shifts accompanying economic growth that favour the poor, meaning that poverty falls more than it would have if all incomes had grown at the same rate (Baulch and McCulloch (2000); Kakwani and Pernia (2000)). The main focus of this definition is the changes in inequality during the growth process; requiring that incomes of the poor grow at a faster rate than those of the non-poor. Thus, as explained in Kraay (2004), the above definition implies that, the rapid growth and dramatic reduction in poverty in China during the 1980s and 1990s could not have been pro-poor since the poor gained relatively less than the non-poor.

The debates about what is or is not pro-poor growth appear to be leading to some convergence, thus making Bourguignon (2002 and 2004) observe two effects for poverty reduction. This is the growth effect (looking at the effect of the growth rate of the mean income of the population) and the distribution effect (the change in the income distribution). These effects are interrelated and interact over time in a dynamic sense, which leads to heterogeneity and non-linearity in the poverty-growth relationship. The final outcome is country-specific.

Ravallion (2004) does not dispute the presence of the two effects, suggesting that what may be good for growth may also be good for distribution. Nissanke and Thorbecke (2005) conclude that growth can be considered pro-poor if in addition to reducing poverty it also decreases inequality. They advance the argument that pro -poor growth cannot be achieved spontaneously. Pro-poor growth requires strong commitments on the part of policy makers to adopt policies capable of producing and sustaining a distribution-corrected growth path.

### **3. RECENT EMPIRICAL WORK ON PRO-POOR GROWTH**

The best known recent study of pro-poor growth was initiated by a number of donors in 2003. The Operationalizing Pro-Poor Growth (OPPG) program was put together by the AFD, BMZ (KfW Entwicklungsbank /GTZ), DFID and the World Bank in order to better understand the options facing policy makers to increase the impact of growth on poverty reduction and how variations in outcome are influenced by policies and country conditions. “The goal was not to provide a specific policy framework for pro-poor growth, but rather to explore various channels that connect the poor to economic growth, as well as how country context and initial conditions affect the efficiency of growth in reducing poverty” (Cord 2005).

Much of the existing literature earlier reviewed is complemented by the OPPG work. What the project does is to apply the cross-country analysis of the pro-poor growth framework to 14 country case studies, namely Bangladesh, Bolivia, Brazil, Burkina Faso, El Salvador, Ghana, India, Indonesia, Romania, Senegal, Tunisia, Uganda,

Vietnam, and Zambia.<sup>2</sup> The country studies were used to analyze the distributional pattern of growth and the influence of country policies and conditions on the process and outcome. This was intended to avoid the problems associated with cross country econometrics including uncontrolled country heterogeneity, or endogeneity and/or lack of variance in explanatory variables and bias towards extreme results.

Like earlier AERC collaborative projects, the case studies applied a common empirical methodology to analyze the distributional impact of growth. This was built around the framework of Ravallion (2004). They also focused on four broad policy areas and how they affected the ability of poor people to participate in growth. These were the macro framework and the composition of growth; agriculture and non-farm income; labor markets and employment; and, public expenditure policies. Also covered were the role of gender and institutions in affecting policies and their outcomes, as cross cutting themes. In addition teams were free to introduce additional relevant themes if they were considered important within a country context.

The OPPG program used the case study material to prepare seven thematic papers to cover macro stability and pro-poor growth, growth and inequality, labor markets and employment, agriculture, public expenditures, institutions, and gender.

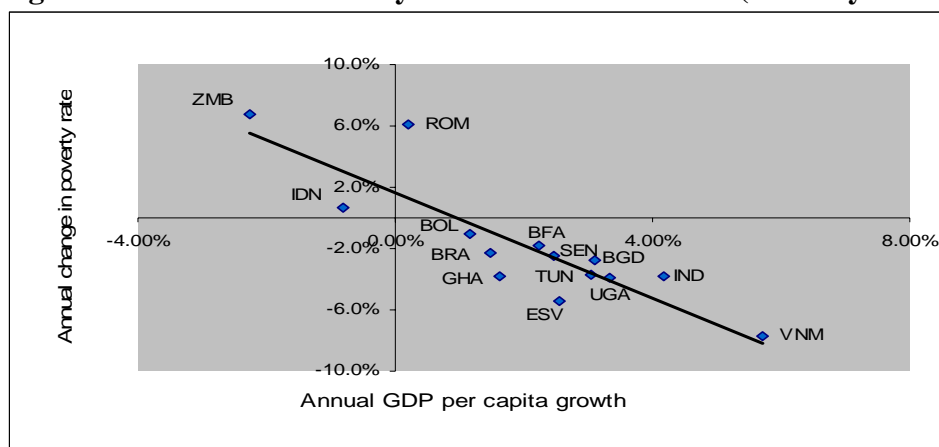
For the study of the distributional impact of growth on the poor, the OPPG study utilized an income based metric of poverty reduction (based on national poverty lines). The country cases and the synthesis paper are focused on the 1990s. But the analysis of overall poverty, growth and inequality trends have mainly been considered in the last decade. In many cases, the broader historical situation informed the period of analysis. The program coordinators have explained that “the limitation on the 1990s is partly data driven, but also reflects the relatively limited time horizon available to many policy makers, and allows us to investigate how the economic developments of the 1990s may have affected the relationships between poverty, growth and inequality” (Cord, 2005).

In terms of the findings, the synthesis report suggests that there is a strong link between overall economic growth and the speed of poverty reduction. They show that poverty incidence fell in the 11 countries that experienced significant growth during the period, and rose in the three countries that saw little or no growth (Zambia, Indonesia and Romania). It is observed that on average, a one percent increase in GDP/capita across these countries reduced poverty by 1.7 percent during this period (Figure 1). The most significant improvement in poverty reduction occurred in Vietnam, where poverty incidence fell by 7.8 percent per year, reducing the poverty rate in half over the period (from 58 to 29 percent) between 1993 and 2002. Other countries that were observed to have impressive rates of poverty reduction included El Salvador, Uganda, Tunisia, Ghana and India, where poverty incidence fell on the order of 3 to 6 percent per year.

---

<sup>2</sup> The selected countries had at least two household surveys in the 1990s/early 2000s that offered comparable methodologies, consumption aggregates and poverty lines.

**Figure 1. Growth and Poverty Reduction in the 1990s (Country Cases)**



Source: Cord (2005)

The OPPG studies also show that in countries where there was growth, most of the poverty reduction in absolute terms occurred in rural areas, since this was where most poor households lived. In terms of the proportional decline in poverty rates, however, there was more to be observed in urban areas, which were characterized by higher growth. The report argues that “trade liberalization, market-oriented reforms along with export incentives and massive increases in infrastructure and education in urban growth poles led urban poverty to decline by 11 percent per year in Vietnam between 1993 and 2002”. In Sub-Saharan Africa that most of the agricultural growth came from export crops, and that is where the largest drops in poverty were found. Examples are cotton growers in Burkina Faso, the coffee and cotton farmers in Uganda, and the cocoa farmers in Ghana. “But, given the predominance of poor households involved in producing food crops, this group accounted for the greatest share of poverty reduction even in these countries” (Cord 2005).

#### **4. POSSIBILITIES FOR NEW RESEARCH ON GROWTH AND POVERTY: SHARED GROWTH**

Current projections on the millennium development goals suggest that Sub-Saharan Africa is the only region where most of the goals are unlikely to be met. It is obvious that the simple “growth versus distribution” dichotomy is not enough for addressing the problem. Clearly, without growth there is no prospect of the goals being met. But even with growth, at current levels of inequality many of the goals will not be met. It is our view that what is needed, rather, is *shared growth*. The concept is similar in interpretation to the relative pro-poor growth concept which focuses on the distributional profile over time. It is however potentially broader than the concept of pro-poor growth (Nissanke and Sindzingre 2005). Shared growth is important not only because for a given rate of growth more sharing leads to more poverty reduction. It is also important because, given Africa’s current inequalities, ethnic divisions, geographic-climatic disadvantages, and the epidemic of HIV/AIDS, without shared growth there might be no growth at all.

But the issue of how to achieve shared growth in Africa is still open. What policy and intervention mix has the best prospect of delivering shared growth? How does this mix differ from country to country? What is the balance between macroeconomic

policies and policies for micro-sectoral transformation in agriculture, education, health and in gender relations? What institutional transformations, ranging from property rights to improving the public sector, are going to be necessary? What is the role of local level, community based organizations and initiatives? At the same time, what is the role of the global system of trade and finance? These are among the questions that are in need of answers through research.

### *The Concept of Shared Growth*

Shared growth may be defined in three different ways in the view of Nissanke and Sindzingre (2005). First, it may be viewed as relating to “the mechanism and processes, whereby gains from growth are widely shared *ex-post* through various *retrospective* fiscal tax-cum- subsidies/transfers policies for redistribution” (Nissanke and Sindzingre, 2005). Second, shared growth can be seen as another term for “redistribution with growth”. According to Thorbecke (2005) such a strategy is essentially incremental in nature and relies on existing distribution of assets and requires increasing transfers in projects benefiting the poor. This strategy of redistribution of growth thus focuses on the redistribution of at least the increments of capital formation in contrast with the initial stock of assets. Third, shared growth can be defined as the “*inclusive process of growth*” wherein sharing opportunities for growth and development takes place *ex-ante*, all- encompassing and inclusive of the poorer segments of the population (Nissanke and Sindzingre, 2005). This view of shared growth suggests that economic growth can be accompanied by some sort of equalization of asset/income and thus leading to an equitable growth path. According to Nissanke and Sindzingre (2005), defining shared growth in such a manner allows for a more apt addressing of the issues bothering on the relationship between equity/inequality on one hand, and growth/efficiency on the other. In their view, it is important to use such adjectives as ‘inclusive’, ‘sharing’ or ‘equitable’ since this would help incorporate into the economic analysis of poverty issues a fundamental ethical principle of striving for a fair and just human society. This is significant for addressing the question as to whether there exists a trade-off between equity and growth, explicitly from an ethical or moral standpoint.

The new political economy literature contends that the perceived trade-off between productive efficiency or growth and social justice represented by equity/equality consideration was overplayed in the past. Instead the suggestion is that there is a long-run complementarity between equity/equality and growth. According to Nissanke and Sindzingre (2005), if there is no clear trade-off on economic grounds, equity and shared growth should be good for efficiency and growth.

With regard to shared growth, equity/equality issues, the critical policy question remains how best to effect redistribution. Redistribution can take place through standard fiscal instruments such as a tax-cum-transfer/subsidies system which is likely to be more incremental and affecting individuals’ relative endowments at the margin (Nissanke and Sindzingre, 2005). As far as policy is concerned there is a possibility of immediate conflict between redistributive policy and pro-growth policy. It is often argued that pro-poor redistributive policies are best to effect through incremental measures and in order to minimize interference with economic growth, redistributive measures should be allowed to operate strictly only on an *ex-post* corrective basis. Some of these measures include instituting ‘safe nets’ to deal with in retrospect ad-

verse effects of growth on the vulnerable poor particularly exposed to negative shocks (Nissanke, 2005).

There exist in many Sub-Saharan African economies institutions that prevent such economies from emerging from a low-equilibrium poverty trap to achieve a growth path that is equitably shared among individuals. This suggests that institutions in Sub-Saharan African play an important part in ensuring shared growth. The pattern of emergence and establishment of norms and institutions in Sub-Saharan Africa constitute an important obstacle for shared growth.

### *Potential Areas for Studying Shared Growth*

While the OPPG Project provided an opportunity to study in a more general sense a number of the institutional bottlenecks to achieving broader based growth with strong distributional outcomes, it is also clear that a number of gaps still exist in our knowledge of what type of growth processes and outcomes will yield the poverty reduction effects that are considered desirable. The most obvious gap in the context of Africa is found within the scope of the country selection. The African countries in OPPG were six mostly relatively successful cases. But there are several African countries that have vastly different experiences that could easily contribute to a better understanding of the relationship between growth and poverty for policy purposes. It is therefore necessary to design a follow-up study that looks into many more countries with varied characteristics for the purpose of learning what may lead to effective policy design for different parts of the region.

There are a number of other points that may be observed about the OPPG study outcomes which provide an opening for a fresh investigation that complements the earlier study. We note for example that

1. The OPPG project did not deal comprehensively enough with political economy and institutional issues. While some of the case studies did address these, they were not emphasised sufficiently in the thematic and synthesis papers. This was perhaps especially the case with the political economy dimensions relating to conflict, conflict prevention or recovery from conflict. What kinds of growth and distributional initiatives help avoid conflict and which ones help to provide enduring peace and further growth?
2. The challenge of creating formal employment and attracting sustained investment is a very key issue in Africa, even in the relative success stories. As we know, there are important political economy dimensions to this among other things. There is the key question of what interventions will lead to increased formalization of employment and other investment activities that will be part of a broader transformation of the economy..
3. Spatial differentials in growth patterns came out quite strongly from several case studies. The issue of how growth can incorporate lagging regions or areas is a difficult and important issue which is certainly relevant in Africa, as anywhere else. Democratic reform does not necessarily deal with the problem. What institutional reform leads to greater inclusiveness without com-

promising future growth? What form of decentralization is most effective in this regard?

4. Gender is also an important issue for growth understudied in the OPPG project despite Stephan Klasen's thematic paper on the subject. How best can women's involvement in the economy be structured and enhanced taking into account such issues as technology development and productivity for rural women, intra-household resource allocation, property ownership, etc. This is as relevant in Africa as anywhere.
5. But the need to generate profitable non-agricultural activities in rural areas has wider application and should be seen within the context of transformation of economic structure. While there may appear to be a lot of work done in this area, it is obvious that country studies could build on these to generate appropriate interventions.
6. Other important issues that have not been adequately addressed are: agriculture and its modernization, including a discussion of the land tenure problems; major illnesses (including HIV/AIDS); the extent to which external aid is supportive of sustained growth; the role of global trade and finance in poverty reduction.

Based on the above observations it will be important to conduct studies that answer the following questions:

1. Has the growth experience of country being broadly shared?
2. Does the extent and depth of sharing reflect in recent growth and poverty trends?
3. What policies explain the presence or absence of sharing?
4. What institutional arrangements are in place for linking growth and poverty and how effective are these?
5. What is the political economy context within which growth sharing does or does not take place?
6. What are the prospects for increased shared growth in country and what policy and institutional development will deliver this?

EGN will seek to do that.

## REFERENCES

- Agenor, Pierre-Richard (1998). "Stabilization Policies, Poverty, and the Labour Market." Manuscript, International Monetary Fund and the World Bank.
- ADB (Asian Development Bank) (2004). "Economic Growth and Poverty Reduction in Bangladesh". Asian Development Bank, JBIC/JICA.
- Bhalla, Surjit, (2002). "Imagine There's No Country: Poverty, Inequality and Growth in the Era of Globalization". Institute for International Economics, Washington D.C.
- Booth, David., and Hanmer Lucia (2001). "'Pro Poor Growth: Why do we need it, what does it mean and what does it imply for policy?'. ODI.
- Bourguignon, F. (2002). 'The Growth Elasticity of Poverty Reduction: Explaining Heterogeneity across Countries and Time-Periods'. DELTA Working Paper2002 03. Paris.
- Bourguignon, F. (2004), 'The Poverty-Growth-Inequality Triangle'. Paper presented at the Indian Council for Research on International Economic Relations, New Delhi, 4 February.
- Chenery, H., M.S. Ahluwalia, C.L.G. Bell, J.H. Duloy, and R. Jolly (1974). *Redistribution with Growth*. Oxford University Press, New York.
- Cornia, A. G. (ed.) (2004). *Inequality, Growth, and Poverty in an Era of Liberalization and Globalization*. Oxford: Oxford University Press for UNUWIDER.
- Datt G. and M. Ravallion (1999) "When is Growth Pro-Poor? Evidence from the Diverse Experiences of India's States" *Policy Research Working Paper #2263*, Washington DC: World Bank
- Department for International Development (DFID) (2004), "What is Pro-Poor Growth and Why Do We Need to Know?". Pro-Poor Growth Briefing Note No.1. London: DFID.
- Department for International Development (DFID) (1997). International Development White Paper. DFID: London.
- Dollar, D. and A. Kraay (2000): "*Growth Is Good For the Poor*", Washington DC: World Bank, Development Economics Research Group, mimeo
- Dollar, D., and A. Kraay (2001a). 'Growth is Good for the Poor'. WB Policy Research Working Paper. Washington, DC: World Bank.
- Dollar, D., and A. Kraay (2001b). 'Trade, Growth and Poverty'. Washington, DC: Development Research Group, World Bank.

- Dollar, D. and Kraay (2002). "Growth is Good for the Poor". *Journal of Economic Growth* 7, 195-225
- Deininger, K., and L. Squire (1996). "A New Data Set Measuring Income Inequality". *World Bank Economic Review*, 10 (3): 565-91.
- Easterly, William and Stanley Fischer, 2000, "Inflation and the Poor," *Journal of Money Credit and Banking*.
- Kakwani, N., S. Khandker, and H. H. Son (2004). 'Pro-Poor Growth: Concepts and Measurement with Country Case Studies'. Working Paper 1. Brazilia: UNDP International Poverty Centre, August.
- Kakwani, N., and Pernia E. (2000). "What is pro-poor growth?". *Asian Development Review*. 19(1): 1-16.
- Klasen S. (2001). "In Search of the Holy Grail: How to Achieve Pro-Poor Growth?". Paper Presented at World Institute for Development Economics Research (WIDER) Conference on Economic Growth and Poverty Reduction, Helsinki, May 25-26, 2001.
- Klein, Michael (2003). "Ways Out of Poverty. Diffusing Best Practices and Creating Capabilities –Perspectives on Policies for Poverty Reduction." PSAS Policy Research Working Paper 2990. World Bank, Washington D.C.
- Kuznets, S. (1955) "Economic Growth and Income Inequality" *American Economic Review*, Vol. 45
- Lipton, M. and M. Ravallion (1995) "Poverty and Policy" in J. Behrman and T. N. Srinivasan (eds.): *Handbook of Development Economics*, Vol. III, Amsterdam: North-Holland
- McKay, Andrew (1997). "Poverty Reduction through Economic Growth: Some Issues". *Journal of International Development*, vol. 9, no. 4.
- Nissanke, Machiko and Alice Sindzingre (2005). "Institutional Foundations for Shared growth in Sub-Saharan Africa". *Paper prepared for the International Conference on Shared Growth in Africa*, July 21-22, 2005, Institute of Statistical, Social and Economic Research, Accra
- Nissanke, Machiko and Erik Thorbecke (2005). "Channels and Policy Debate in the Globalization-Inequality-Poverty Nexus". WIDER Discussion Paper No. 2005/08. Helsinki: UNU-WIDER.
- Norton Seth W. (2002). "Economic Growth and Poverty: In Search of Trickle-Down". *Cato Journal*, Vol. 22, No. 2 (Fall 2002).
- Osmani, S.R. (2002). "Exploring the Employment Nexus: Topics in Employment and Poverty". (Mimeo) UNDP, New York and ILO, Geneva.

- Pernia E. (2003). "Pro-Poor Growth: What is it and how is it Important". ERD Policy Brief No. 17. Manila: Asian Development Bank.
- Ravallion, M. (2004). 'Defining Pro-Poor Growth: A Response to Kakwani'. *One Pager*, 4. Brazilia: UNDP International Poverty Centre, November.
- Ravallion, M. (2003). 'The Debate on Globalization, Poverty and Inequality: Why Measurement Matters'. *International Affairs*, 79 (4): 739-53.
- Ravallion, M. (2002). 'Growth, Inequality and Poverty: Looking Beyond Averages'. Paper presented at World Bank Annual Bank Conference of Development Economics-Europe, June. Oslo.
- Ravallion, M. and Chen, S. (2003). "Measuring Pro-Poor Growth". *Economics Letters* 78: pp 93-99.
- Ravallion, M., and S. Chen (1997). 'What Can New Survey Data Tell Us about Recent Changes in Distribution and Poverty?'. *The World Bank Economic Review*, 11 (2): 357-82.
- Ravallion, M., and G. Datt, (2002). "Why Has Economic Growth Been More Pro-Poor in Some States of India than Others?" *Journal of Development Economics* 68(2):381-400.
- Sala-i-Martin, X. (2002). 'The World Distribution of Income (Estimated from Individual Country Distributions)'. NBER Working Paper 8933. Cambridge, MA: National Bureau of Economic Research.
- Seshamani (2001). "What is Pro Poor Growth: A Perspective from Zambia". University of Zambia 2001
- Squire, Lyn. 1993. "Fighting Poverty," *American Economic Review, Papers and Proceedings* 83(2): 377-382.
- Shorrocks, Anthony and R. van der Hoeven (eds) (2004). "Growth, Inequality and Poverty". Oxford University Press and WIDER.
- Thorbecke (2005). "*The Evolution of the Development Doctrine, 1950-2005*". Mimeo, Helsinki, WIDER Jubilee Conference.
- UNCTAD (2002). *The Least Developed Countries Report 2002*. New York: United Nations, and Geneva: UNCTAD.
- World Bank (1990). "Making Adjustment Work for the poor, A Framework for Policy Reform in Africa. World Bank, Washington D.C.
- World Bank (2000). *World Bank Report 2001/2: Attacking Poverty*. New York: Oxford University Press for the World Bank.