



Federal Ministry
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SPECIAL 146

“Pro-Poor Growth” a focal point of development policy



“Pro-Poor Growth” a focal point of development policy

- Pro-poor growth (PPG) is a strategic approach whereby economic growth is specifically used to reduce poverty. The focus is on promoting the economic potential of (extremely) poor and disadvantaged people.
- PPG is helping to halve by 2015 the proportion of the world’s population living on less than one dollar a day (Millennium Development Goal No. 1). PPG is also an important prerequisite for achieving the other Millennium Development Goals (MDGs).
- PPG has meanwhile become a key issue for many partner countries. This is also clear from the second generation of national Poverty Reduction Strategy Papers (PRSPs), in which greater attention is given to the role of the productive sectors and of growth than was hitherto the case.

What is PPG?

- PPG is a development policy strategy in order to enable (extremely) poor and disadvantaged men, women and youths, who are excluded from growth processes, to contribute to and benefit from them.

PPG is high up on the development policy agenda

- PPG is a highly topical issue within international development cooperation: the World Bank, the British Department for International Development (DFID), the Agence Française de Développement (AFD) and the BMZ, GTZ and KfW Entwicklungsbank carried out a joint research project in 2005 on “Operationalising Pro-poor Growth”, using findings from 14 country studies on four continents. The OECD’s DAC Network on Poverty Reduction (Povnet) published a Policy Guidance on Promoting Pro-poor Growth in 2006.
- The PPG approach has been included in the UNDP’s Human Development Report 2005, the World Development Report 2006, the World Bank’s Infrastructure Action Plan, the report issued by the Global Commission for Africa and in many other documents recently published by the international donor community.

In order to clarify just when economic growth is “pro-poor”, a distinction is made in the international development policy debate between two definitions:

- **Relative definition:** Economic growth is pro-poor when poor people derive disproportionate benefits from it and their share in the national income increases. The relative definition is therefore concerned with a reduction in inequality. Based on this definition, if the average income of poor people increases by two per cent whilst the overall rate of economic growth is one per cent, then this growth is described as “pro-poor”. If the average income of poor people increases by five per cent, whilst the overall rate of economic growth is six per cent, then this growth is not pro-poor since social discrepancies have grown rather than diminishing, despite the higher increase.

- **Absolute definition:** Economic growth is pro-poor when it results in as large a number of (extremely) poor people as possible being lifted above the poverty line of the country concerned thanks to income growth. The influence of these increases on income distribution within society is irrelevant here.

Both of these definitions of PPG are incomplete:

- First of all, they only consider one dimension of poverty – income poverty. The OECD’s DAC Povnet is therefore calling for the PPG approach to be extended to include other dimensions, e.g. wealth, health, education, social security and political participation, all of which determine the ability of (extremely) poor and disadvantaged people to achieve higher incomes in the future.
- Secondly, they neglect the aspect of mutual interaction. They only consider from a one-sided point of view the effect of economic growth on social inequality (relative definition) or the consequences for the degree of poverty within a society (absolute definition). They fail to take account of the fact that inequality and poverty also have an effect on economic growth.

Empirical studies show that both high levels of poverty and a high degree of inequality can have a negative impact on overall economic growth rates. They exacerbate social tensions, limit the functioning of markets and adversely effect the employability of (extremely) poor and disadvantaged people.

That is why a PPG approach that considers the many varied dimensions of poverty and their mutual interaction with social inequality and economic growth is best able to do justice to the Millennium Goal of achieving sustainable improvements in the living conditions of as many

impoverished people as possible. It also corresponds to the human rights orientation pursued by the German government in its development policy, an orientation to which most countries in the world have committed themselves in numerous United Nations agreements.

Putting PPG into operation

- PPG seeks to achieve broad-based and sustainable reductions in poverty. Plenty of experience with this approach is available today, but there are no universally applicable blueprints. PPG measures are specific for certain contexts and certain countries. This is especially true when it comes to the weighting of growth-based and distribution-based approaches. Examples from recent decades taken from South Korea, Botswana, Tunisia and Costa Rica show that broad-based growth is possible in a variety of social, economic, cultural and political settings.
- In order to give a geographical and sectoral focus on PPG to development activities, an exact understanding of their chains of impact is needed. The causes of poverty as well as the impacts of alternative options must be carefully investigated first of all. A better understanding of the chains of impact and of how to plan for and steer activities towards PPG can be arrived at by recording and assessing the impacts that actually occur.
- PPG can only be put into operation in a labour-sharing process together with the partners concerned. The conceptual planning and implementation of appropriate support measures should be firmly embedded in national poverty reduction strategies and should be carried out in close consultation with the partners concerned and with other donors.

- The primary target group of PPG projects is the (extremely) poor and disadvantaged people who can be integrated into the growth process by enabling them to engage in productive employment and entrepreneurial activities. PPG calls for programme and project concepts to be based on the existing or emerging potential of the target group. Geographic and sectoral factors must be analysed to determine what prerequisites they offer for reaching the largest possible number of poor people. This is not just a matter of analysing the sectors and regions in which poor people are currently working and living; sectors and regions to which they may be able to gain access must also be analysed. In order to be able to develop this potential for growth, development obstacles that are specific to the sector or region must be addressed. An essential element here is removing regulatory and administrative hurdles, thereby making it easier to formalise entrepreneurial activities and employment relationships.
- A decisive factor for income distribution and for broad-based participation in economic growth is that as many people as possible have access to productive employment. Economic growth only helps to reduce poverty and support sustainable development when more people, especially more poor people, can be given the opportunity to engage in decent work and to explore their entrepreneurial potential. Needs-oriented training is often required. Therefore measures concerned with vocational training and labour market issues are important elements of development cooperation that is directed towards pro-poor growth.
- Worsening ecological conditions have a particularly negative impact on (extremely) poor and disadvantaged people. In order to safeguard the natural resources which are the basis for their existence and bring about sustainable improvements in their income possibilities, PPG strategies must promote production that has a low impact on resources.
- PPG presupposes that discrimination because of gender, ethnic origin, cultural or religious adherence, or because of handicaps is recognised and eradicated. Only then can the productive potential of women and disadvantaged members of society be promoted, enabling them to increasingly participate in economic growth on an equal footing.
- In order for (extremely) poor and disadvantaged people to be able to contribute to and benefit from economic growth, the transparency and predictability of state actions must be increased and greater equality of opportunities must be achieved in business and society (good governance / participatory development). (Extremely) poor and disadvantaged people must be better able to get their interests heard and to express them in the political arena.
- It is equally important that the risks to which (extremely) poor and disadvantaged people are particularly vulnerable are dealt with in such a way that these people are not forced to concentrate solely on daily survival and on preserving their health, but are able instead to increasingly channel their potential into productive activities. For this it is necessary to develop and expand national social security systems, which can provide partial or total support in the case of situations involving disablement, illness, failed harvests and natural disasters.
- Sustainable funding for national poverty reduction strategies and social security

systems is a prerequisite for PPG. To achieve this, the country’s own financial capacities must be strengthened through an efficient and socially just tax policy and steps must be taken to ensure that other state revenues (such as income from customs duties or the exploitation of natural resources) and development cooperation funding are used in a pro-poor fashion.

- A rapid increase in the size of the population can considerably restrict the progress resulting from broad-based growth and may even make such progress impossible. The sustainability of PPG is therefore substantially

dependent on whether and how a country’s population development is managed.

PPG is a constant challenge for international development cooperation. This paper is intended to stimulate critical reflection about how the elements outlined in the paper can be included in country-based cooperation. In order to contribute to PPG, sectoral approaches must be directed more towards protecting and mobilising the productive potential of (extremely) poor and disadvantaged people. This is not just true for the field of “Sustainable Development”; it also applies in other priority areas of development cooperation. The following table offers some examples:

Priority area	Focus given by PPG
Sustainable economic development	Stronger focus on regions and sectors and (private) businesses with economic potential. Improved business and investment climate and improved functioning of goods, capital and labour markets (making markets work for the poor) in connection with potential-based promotional approaches. Mobilising private capital, incl. foreign direct investment and public-private partnerships.
Agriculture	Emphasis on increasing productivity (e.g. through agricultural research and development) and the market orientation of agriculture. Increasing the competitive opportunities for small-scale farmers. Definition and enforcement of ownership rights and redistribution of land. Income diversification through processing and marketing activities (off-farm employment) and value chains.
Education	Greater focus on the quality of universal basic education and on access to further (secondary school) education and vocational training, with the focus on rural and poor urban areas. Overcoming gender-based discrimination in the education sector. Enhancing the employability of (extremely) poor and disadvantaged people.
Health	Fighting diseases with particularly negative impacts on the productivity of (extremely) poor and disadvantaged people (e.g. HIV/AIDS and malaria). Increasing significance of sustainable social insurance models and systems.
Water	Transferring the emphasis to sustainable agricultural irrigation in order to develop the growth potential of (extremely) poor and disadvantaged people.
Energy	Emphasising the impacts on income and employment through improved access to energy and its productive use by (extremely) poor and disadvantaged people.
Transport	An important focus for access by (extremely) poor and disadvantaged people to local, national and international economic cycles. Strengthening institutional structures for the sustainable maintenance of productive infrastructure.

Current background reading

Tim Besley and Louise Cord: *Delivering on the Promise of Pro-Poor Growth – Insights from Country Experiences*. London 2006

Michael Grimm, Stephan Klasen and Andrew McKay: *Pro-Poor Growth: Analytical Issues and Findings from Country Case Studies*. London 2006

Stephan Klasen: *In Search of the Holy Grail: How to Achieve Pro Poor Growth?*, in B. Tungodden, N. Stern and I. Kolstad (Publ.), *Towards Pro Poor Policies. Aid, Institutions, and Globalization*. New York 2004

OECD DAC: *Policy Guidance on Promoting Pro-Poor Growth*. Organization for Economic Co-operation and Development, Development Assistance Committee. Paris 2006

AFD-BMZ-DFID-The World Bank: *Pro-Poor Growth in the 1990s – Lessons and Insights from 14 Countries. Operationalizing Pro-Poor Growth Research Program*. Washington 2005

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