Selected annotated bibliography in support of the literature review *Pro-poor Growth in the context of the global financial crisis: A selective overview*

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Pro-poor growth in the context of the global financial crisis: A selective overview

Acknowledgements

This bibliography was prepared for Panos London by Dan Harris of the Overseas Development Institute www.odi.org.uk

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This annotated bibliography forms part of a package of materials on economic growth and poverty reduction which includes a media brief Beyond the financial crisis: What next for economic growth and poverty reduction in developing countries? a literature review Pro-poor growth in the context of the global financial crisis: A selective overview and a glossary. All these materials are available for free download from www.panos.org.uk/financialcrisis

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Selected annotated bibliography

The list of references provided at the end of the main body of the review illustrates the breadth and scale of the literature related to issues of pro-poor growth. The annotated bibliography that follows is intended to highlight a further refined selection of key sources for each section of the paper.

Section 2: Back to the future: Economic governance, development, and poverty reduction in historical perspective


This paper, written by the author who originally coined the term 'Washington Consensus' in 1989, describes the context in which the term was conceived, provides a summary of the 10 points included in the original consensus and then describes the ways in which the term became used in such different ways in different quarters and how it came to be at the centre of so many ideological controversies. Williamson asserts that the 10 policies included in the original consensus bear little resemblance to the neo-liberalism and market fundamentalism with which the term is associated.

(Adapted from author's original)

Keywords: Washington Consensus, neo-liberalism, markets


Abstract: In this paper Kanbur gives an account of development debates over the past two decades, focusing on the Washington Consensus and on the broader economic development discourse in its historical context. Section 2 draws heavily on Williamson’s writings on the Consensus, for example Williamson (2004) listed above, to provide a basic account of the Washington Consensus and to show how its meaning changed from the original formulation. Section 3 presents the historical context in which the Consensus arose, and follows the evolution of the economic development discourse since World War II, through the 1980s, up to the present. Section 4 asks if there is now a new consensus on economic development, citing a number of prominent economic sources that appear to be in retreat from the Washington Consensus. This section also presents substantial excerpts from the report of the Commission on Growth and Development. Particularly relevant is the quotation from page 7 of the report, which reads: The Commission strongly believes that growth strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth. But equal opportunities are no guarantee of equal outcomes. Indeed, in the early stages of growth, there is a natural tendency for income gaps to widen. Governments should seek to contain this inequality, the Commission believes, at the bottom and top ends of the income spectrum. Otherwise, the economy’s progress may
be jeopardized by divisive politics, protest, and even violent conflict. Again, if the ethical case does not persuade, the pragmatic one should. Section 5 concludes.

(Adapted from author's original)

Keywords: Washington Consensus, equity, growth, instability


Proponents and critics alike agree that the policies generated by the Washington Consensus have not produced the desired results. The debate now is not over whether the Washington Consensus is dead or alive, but over what will replace it. An important marker in this intellectual terrain is the World Bank's report Economic growth in the 1990s: Learning from a decade of reform (2005). With its emphasis on humility, policy diversity, selective and modest reforms, and experimentation, this is a rather extraordinary document demonstrating the extent to which the thinking of the development policy community has been transformed over the years. But there are other competing perspectives as well. One (propounded elsewhere in Washington) puts faith in extensive institutional reform, and another (exemplified by the UN Millennium Report) puts faith in foreign aid. Sorting intelligently among these diverse perspectives requires an explicitly diagnostic approach that recognises that the binding constraints on growth differ from setting to setting.

(Author's original)

Keywords: Post-Washington Consensus, institutional diversity, growth diagnostics


Abstract: In this paper Vandemoortele presents evidence that growing inequality within and between countries is a major source of the 2009 global financial crisis. At the national level, two key consequences of rising income inequality are a reduction in aggregate demand and social and political instability. In a highly unequal setting, powerful interests are also more likely to dominate politics, entrenching special interests and therefore delaying policy reforms to address the structural issues behind rising inequality. Vandemoortele argues that in order to circumvent the consequences of income inequality, policymakers in western countries allowed, even encouraged, policies that fuelled financial instability. These included lax regulation and loose monetary policy manifest in the easy credit for poor consumers and complex financial instruments and practices to maximise profit.
At the global level, the author identifies three key mechanisms. First, capital flows in an unregulated market can be destabilising. Second, the US dollar as an international borrowing standard generates inherent instability in the global financial system. Third, widening imbalances constrain developing countries' fiscal space to implement countercyclical policies. These national and global level processes are mutually reinforcing.

Unless real incomes improve for the majority of households, reducing inequality and polarisation, a robust and sustained recovery is unlikely. The alternative – returning to the pre-crisis consumption patterns and excessive borrowing – is a very real possibility if policymakers fail to address both domestic and global imbalances.

(Keywords: Growth, inequality, instability, financial crisis)

Section 3: Growth and poverty reduction: 'Pro-poor growth' debates and the impact of a changing policy context


These days it seems that almost everyone in the development community is talking about 'pro-poor growth'. What exactly is it, and how can we measure it? Is ordinary economic growth always 'pro-poor growth' or is that some special kind of growth? And if it is something special, what makes it happen? This paper begins by reviewing different approaches to defining and measuring 'pro-poor growth'. It then turns to the evidence on whether growth is pro-poor, what factors make it more pro-poor (including the role played by both initial inequality and changing inequality), and whether the things that make the distribution of the gains from growth more pro-poor come at a cost to the rate of growth. Some priorities for future research are identified.

(Keywords: Pro-poor growth, measurement, absolute versus relative definitions)


Abstract: Over the past few years pro-poor growth has become a very popular topic among development practitioners. This is despite the fact that in many cases we do not even know what other people mean by pro-poor growth. Is it growth that leads to income redistribution or instead growth that leads to poverty reduction? More importantly, what do we know (and what don't we know) about how we can achieve it? This paper addresses these questions through a survey of the existing literature. To focus the debate, the paper first reviews the different definitions being used in practice. Then it divides contributions to the pro-poor growth literature into three different groups. First, it
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considers papers that have explored the relative role played by growth and inequality in reducing poverty. Second, it reviews works that have focused on the growth–inequality relationship by paying attention to both directions of causality. The third group of reviewed papers is less related to the mechanics of what Bourguignon (2004) refers to as the 'poverty–growth–inequality triangle' and more to the policies that countries should pursue in a successful poverty reduction strategy.

(Author's original)

Keywords: Pro-poor growth, poverty–growth–inequality triangle, definitions


Average incomes of the poorest quintile rise proportionately with average incomes in a sample of 92 countries spanning the last four decades. This is because the share of income of the poorest quintile does not vary systematically with average income. It also does not vary with many of the policies and institutions that explain growth rates of average incomes, nor does it vary with measures of policies intended to benefit the poorest in society. This evidence emphasises the importance of economic growth for poverty reduction.

(Author's original)

Keywords: Income inequality, poverty, growth


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

(Author's original)

Keywords: Pro-poor growth, inequality, sub-Saharan Africa, sectoral and regional policies
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Section 4: Policies for pro-poor growth: A selective overview

4.1 Macro-economic policy

Hicks J R (1937) 'Mr. Keynes and the "classics": A suggested interpretation' Econometrica, 5(2):147-159

Abstract: In this early interpretation of Keynes's influential book *The General Theory of Employment, interest and money* published just a year after Keynes's book itself, Hicks lays out his vision of the major differences between Keynes and the established economic orthodoxy of the time. The paper is grounded in technical economic analysis, but Hicks explicitly draws out the Depression-era economic roots of Keynes's work. (Adapted from author's original)

Keywords: Employment, growth, Keynes


Abstract: This article reviews the pro-poor macroeconomic policy alternative to the Washington Consensus. The pro-poor approach draws heavily on heterodox economic theory, and offers a compelling view of an alternative economic strategy oriented primarily to the satisfaction of the basic needs of the majority of the population, the equitable distribution of income, wealth and power, and the preservation of macroeconomic stability. These aims point to a specific set of fiscal, monetary, trade and exchange rate policies. The paper argues that such policies should be supported by social programmes designed to achieve the desired pro-poor outcomes as rapidly as possible. (Author's original)

Keywords: Fiscal policy, monetary policy, heterodox economics, inflation, capital controls


Abstract: In the past, macroeconomic policies were traditionally assigned the tasks of reducing the twin deficits, containing public debt and inflation, liberalising product and factors markets, privatising state assets and liberalising external trade and capital flows. Their success or failure was assessed in terms of the extent of reform implementation in these areas and not of their impact on poverty, as it was felt that their main task was to re-establish the conditions for growth, and that growth itself, along with safety nets, would take care of poverty. In most developing and transitional countries, the
implementation of such an approach has reduced inflation and, to a lesser extent, current account deficits. Yet the growth performance and poverty reduction were unsatisfactory. With rare exceptions, in the 1980s and 1990s, growth remained elusive in Latin America, sub-Saharan Africa, the Middle East and North Africa and, until the late 1990s, in most transition economies. In these regions, between 1987 and 2000, poverty declined less rapidly than required to halve it by 2015. Where growth accelerated and poverty declined, as in China, India and Viet Nam (see Chapter 11), macroeconomic and development policies differed markedly from those promoted by the liberal approach. While the above disappointing outcomes might have been caused by inappropriate development and social policies, or unexpected shocks or unfavourable initial conditions, this volume argues that they were due to an important extent to unexpected problems caused by liberal macroeconomic policies.

Thus, the nature of a pro-poor macroeconomic (PPM) policy remains controversial, and the controversy has intensified with the liberalisation of the capital account and rapid all-round liberalisation. In this regard, this volume briefly reviews the problems of unsustainable packages, macroeconomic populism and liberal policies, and then proposes the elements of an intermediate approach that can achieve the objective of promoting growth and poverty alleviation in a sustainable way.

(Adapted from author’s original)

**Keywords:** Financial liberalisation, macroeconomic crises, stabilisation, inflation targeting, resource mobilisation, exchange rates


**Abstract:** The objective of this paper is to assemble on a systematic basis the available data on Asian countries and then analyse the relationship between growth and poverty reduction in a long-term perspective, as well as consider the impact of different macroeconomic variables on the intensity of this relationship. The results indicate that there is not only a strong positive relationship between growth and poverty reduction, but also that this relationship is highly variable across countries and time periods. The key macroeconomic determinants of the degree of pro-poor growth appear to be the rates of employment and agricultural growth. Inflation, at least up to a certain rate, does not impact poverty negatively, while the role of exports is essentially indirect through its contribution to the overall rate of economic growth. An examination of the change in policy stance of the Asian countries during the 1990s in relation to the 1980s demonstrates that on balance the mix of policies has not been pro-poor. The apparent sacrifice of growth in pursuit of macroeconomic stability has not contributed to poverty reduction. Given the relatively weak trade-off between inflation and growth with regard to poverty reduction, and the fact that inflation rates are currently low in the region, it is argued that countries can be more flexible in their policy stance with regard to the adoption of more growth-oriented as opposed to stabilising policies. In particular, a case is made for resorting to a more expansionary counter-cyclical fiscal policy, led by higher levels of public investment and supported by appropriate monetary and exchange rate policies. The paper concludes with a detailed description of the policies designed to achieve faster agricultural development and greater employment generation.
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(Author's original)

Keywords: Employment, agriculture, inflation, Asia, stabilisation


Abstract: UNDP has in recent years begun to examine more critically the impact of orthodox (ie neoliberal) economic policies on growth, human development and poverty reduction. It has been motivated by three major concerns: 1) trying to determine, practically, how 'pro-poor growth' can be achieved, 2) trying to reconcile the seeming inconsistencies between neoliberal economic policies and Poverty Reduction Strategy Papers (PRSPs), and 3) trying to promote a broader and healthier policy dialogue on these issues by helping to create a larger menu of viable economic options and alternatives.

'Pro-poor growth' is an unlikely outcome unless economic policies and PRSPs are mutually consistent and this consistency is unlikely, in turn, as long as neoliberalism dominates economic policymaking. In addition, insofar as neoliberalism remains dominant, there is little room for meaningful dialogue and debate on economic policies.

The paper concentrates on seven inter-related issues: 1) the links between participation and economic policy dialogue, 2) the ambiguities of 'national ownership' of PRSPs, especially of pro-poor economic policies, 3) the 'small government' bias of neoliberalism, 4) the need for proactive, public-investment-based fiscal policy, 5) the roadblock of restrictive inflation targeting, 6) the adverse impact of financial deregulation on poor households, and 7) the adverse impact on the poor of privatisation, particularly privatisation of public services.

(Adapted from author's original)

Keywords: Neoliberalism, fiscal policy, inflation targeting, financial regulation, public investment


Abstract: This paper summarises the policy implications of a growing debate about the connections between taxation and the quality of governance in developing countries. Taxation or its absence impacts on the quality of governance through two main channels. The first relates to the degree of dependence of governments on general taxation for their financial resources. Many governments do not need to make much tax effort because they have large non-tax incomes from oil, gas and mineral exports or from foreign aid. State elites are then financially independent of citizen-taxpayers. This changes the political incentives that they face, and the ways in which they seek to obtain, use and retain power.

The long term consequences for governance are malign: state elites are less responsive
and accountable to citizens; and, depending on the sources of non-tax revenue, may have less incentive to build up the political and organisational capacities of the state. States are likely to be simultaneously arbitrary and weak. All else being equal, the dependence of governments on general taxation has positive effects on the quality of governance. But that relationship is not automatic. How governments tax also matters. We cannot assume that, because they are fully dependent on taxation for revenues, governments will be capable, accountable, or responsive. They may levy taxes coercively, and thereby damage state-society relations and reinforce poor governance. Public authorities in contemporary poor countries face some incentives to tax coercively. Establishing more consensual taxation practices is an important practical route to improving governance. Aid donors could play a more constructive role.

(Author's original)

Keywords: Taxation, accountability, responsiveness, state capacity, governance, aid, oil, natural resources


Abstract: This paper presents a broad overview of fiscal issues confronting developing countries. Three of these are (i) developing countries have low tax/GDP and expenditure/GDP ratios compared to developed countries, even though developing countries need more public expenditure; (ii) developing-country fiscal stance is often procyclical; (iii) developing-country tax resources are more volatile than those of developed countries. It also considers the issue of budgetary deficits and problems arising from them in developing countries. It then discusses some widely accepted norms for tax and expenditure reforms as also some issues of intergovernmental transfers in federal developing countries.

(Author's original)

Keywords: Fiscal policy, tax, expenditure, fiscal transfers


Abstract: UNDP's Asia-Pacific Regional Programme on Macroeconomics of Poverty Reduction (henceforth MPAP) is based on the analytical premise that fiscal policy is a major instrument to generate a pattern of growth that maximises poverty reduction, subject to the constraining circumstances in each country; in other words, fiscal policy should foster pro-poor growth. Pro-poor growth itself implies that the poor, however defined in the national context, disproportionately benefit in each period's growth increment. Achieving this outcome requires measures that assure the pro-poor distribution of that increment.

First, while macroeconomic instability usually harms the poor, policy frameworks aimed exclusively at securing such stability do not necessarily benefit the poor. Second, a sometimes neglected option involves giving greater emphasis to fiscal expansion...
through increasing public investment. While such fiscal expansion may generate
government deficits, there is no longer a consensus that these are necessarily
inflationary. UNDP supports forms of public investment that can provide a more long-
term, durable basis for human development and poverty reduction. This implies capital
accumulation and technological innovation that can deliver lasting gains to the poor.
Third, inequality has been rising throughout developing and industrial countries in the
1990s. The reasons for rising inequality are still being debated. Skill-based technological
change seems to explain part of the phenomenon within countries. The weakening of
labour unions and labour legislation, such as on minimum wages, has also contributed to
widening disparities, particularly in middle-income developing countries. The policy
implication of this rise in inequality is that fiscal measures are necessary to generate
growth which is pro-poor.

Much of the focus of traditional pro-poor fiscal analysis has been on expenditure-
switching policies that alter the pattern of government spending in favour of pro-poor
public goods. However, budget re-allocations are not sufficient to have a substantial
impact on poverty when the distribution of productive assets is highly unequal. In these
circumstances, policies that directly redistribute assets, such as land reform or the
construction of low-income housing, are essential initiatives. High inequality can impede
the economic performance of a country by obstructing the formation of governance
structures that enhance productivity. Where this is the case, inequality is likely to be the
result of a distribution of property rights that is inefficient as well as inequitable. If so,
there may be a plausible set of alternative distributions that are both more equitable
and more efficient; ie which foster competition on the basis of a more 'level playing field'
(Adapted from author's original)

**Keywords:** Fiscal policy, pro-poor fiscal instruments, resource mobilisation, public
investment

4.2 Trade

**Bird, K and M Vandemoortele (2009 forthcoming) 'Trade, growth and poverty:

**Abstract:** In this paper Kate Bird and Milo Vandemoortele lay out the state of current
debates on linkages between trade, growth and poverty. The authors present two
perspectives. The first school of thought, 'trade to poverty reduction', assumes a one-
direction causal link between trade and poverty reduction, through the growth
intermediary. It is implicitly assumed that trade triggers growth, and subsequently
poverty reduction, through trickledown effects.

The second, 'growth and development for trade', considers the dynamic and bidirectional
links across all three components. Some contend that economic integration into the
world economy is a result of successful and inclusive growth and development, rather
than a prerequisite for it. In this framework, there are mechanisms that enable a virtuous
cycle of poverty reduction, growth and trade or a vicious cycle of unequal growth, rising
poverty and an inability of the country to fully benefit from trade (see chapter v).
The authors then detail specific linkages between trade and poverty, trade and growth and growth and poverty. The economic structure of a country shapes how it is able to engage in and benefit from international trade. How wealth is distributed in an economy also affects the volume and nature of trade. If wealth is concentrated in a sector, region or particular group and is not equitably distributed, the excluded groups will not benefit from additional resources to build assets to reduce risk exposure that would have otherwise enabled innovation (see chapter vi).

The remainder of the paper addresses the question of how Aid for Trade can promote inclusive growth and poverty reduction.

(Adapted from author's original)

Keywords: Trade, growth, poverty reduction, Aid for Trade

Ravallion, M (2005b) 'Looking beyond averages in the trade and poverty debate'

Abstract: There has been much debate about how much poor people in developing countries gain from trade openness, as one aspect of 'globalisation'. The paper views the issue through both 'macro' and 'micro' empirical lenses. The macro lens uses international comparisons and aggregate time series data; the micro lens uses household-level data combined with structural modelling of the impacts of specific trade reforms. Case studies are presented for China and Morocco. Both the macro and micro approaches cast doubt on some widely heard generalisations from both sides of the globalisation debate. Additionally the micro lens indicates considerable heterogeneity in the welfare impacts of trade openness, with both gainers and losers among the poor. A number of covariates of the individual gains are identified. The results point to the importance of combining trade reforms with well-designed social protection policies.
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(Author's original)

**Keywords:** trade, globalisation, poverty, inequality, China, Morocco


**Abstract:** There is currently great pressure on developing countries to adopt a set of 'good policies' and 'good institutions' to foster their economic development. Naturally, there have been heated debates on whether these recommended policies and institutions are appropriate for developing countries. However, curiously, even many of those who are sceptical of the applicability of these policies and institutions to developing countries seem to assume that these were the policies and the institutions that were used by the developed countries when they themselves were developing.

The book, on the basis of a detailed and careful review of historical evidence, argues that this cannot be further from the truth - developed countries did not get where they are now through the policies and the institutions that they recommend to developing countries today. Most of them actively used 'bad' trade and industrial policies, such as infant industry protection and export subsidies - practices that are frowned upon, if not actively banned, by the WTO these days. Very interestingly, the UK and the USA, which most of us think of as paragons of free-trade and free-market policies, were the most ardent users of such policies in the earlier stages of their development. In terms of institutional development, until they were quite developed (say, until the early 20th century), developed countries had very few of the institutions deemed essential for developing countries today: democratic political institutions, a professional bureaucracy, and a central bank. Indeed, when they themselves were developing, developed countries had much lower-quality institutions than today's developing countries at comparable levels of development.

If this is the case, aren't developed countries, under the guise of recommending 'good' policies and institutions, actually making it difficult for developing countries to use the policies and institutions that had allowed them to develop economically in earlier times? Friedrich List, the mid-19th-century German economist who perfected the theory of infant industry protection (which interestingly was first systematically developed by the first US Secretary of Treasury, Alexander Hamilton), certainly thought so. He criticised the British preaching the virtues of free trade to countries like Germany and the USA as an attempt to 'kick away the ladder', which Britain used to climb to the top.

Pointing out that the allegedly 'good' policies and institutions recommended by the Bretton Woods institutions and developed country governments have not been able to generate the promised growth in developing countries during the last two decades or so, the book calls for radical re-thinking on development strategy.

It argues that, first of all, the above-mentioned historical facts about the developmental experiences of the developed countries should be more widely publicised so that the developing countries can make more informed choices about policies and institutions. Second, it argues, policy-related conditionalities attached to financial assistance from the IMF and the World Bank or from their donor governments should be radically changed, in recognition of the fact that many of the policies that are these days considered 'bad' are in fact not, and that there can be no 'best practice' policy that everyone should use.
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Third, the WTO rules and other multilateral trade agreements should be re-written to allow a more active use of infant industry promotion tools (e.g., tariffs and subsidies) is allowed. Fourth, improvements in institutions should be encouraged, but this should not be equated with imposing a fixed set of (in practice, today's not even yesterday's Anglo-American) institutions on all countries. Special care has to be taken in order not to demand excessively rapid upgrading of institutions that are not really essential in the earlier stages of economic development (such as strong intellectual property rights), when these countries already have relatively high-quality institutions by historical standards and when institutional upgrading can divert resources away from other crucial sectors such as education, health and infrastructure.

The book argues that by adopting policies and institutions that are more appropriate to their stages of development and to other conditions they face, developing countries will be able to grow faster. This will benefit not only developing countries but also developed countries in the long run, as it will increase the trade and investment opportunities available to developed countries in developing countries.

(Author's original)

- The above source is a full-length book. Summary texts and related papers on the same subject from the same author include:


  Keywords: development strategies, industrial policy, globalisation, trade protection, trade agreements


  This debate focuses on the question of whether policies to encourage industrialisation and industrial upgrading should conform to current comparative advantage or aim to miss out steps on the ladder: textiles first or mobile phones? The first position might be thought to be associated with neoliberal theory which eschews intervention, the second with more structuralist policies which favour government support and extended infant industry protection. The debate is more subtle than that, however. Both protagonists favour government intervention, but in different ways and for different purposes. The two protagonists are Justin Yifu Lin, Chief Economist and Senior Vice-President of the World Bank and Ha-Joon Chang, Reader in the Political Economy of Development, Faculty of Economics, University of Cambridge.

  (Adapted from original)

  Keywords: Industrial policy, comparative advantage, development strategies
5 Sector-specific policies for pro-poor growth

5.1 Agriculture


Abstract: This World Development Report covers a wide range of issues related to pro-poor development processes in agriculture. With specific reference to growth, the WDR argues ‘In the agriculture-based countries of sub-Saharan Africa, agriculture is essential to growth, which is in turn necessary to reduce poverty and food insecurity.’ The report lists four reasons why agriculture can kick-start overall growth in the early stages of development.

1. A large sector. In low-income countries at an early stage of transformation, the large share of agriculture in GDP suggests that strong growth in agriculture is necessary for overall economic growth. Indeed, agriculture accounted for about one-third of growth in sub-Saharan Africa over the past 15 years. As GDP per capita rises, agriculture’s share in GDP declines, and so does its contribution to growth, but it can still remain important in some regions of more advanced economies, such as Bihar state in India, and several states of Brazil.

2. Reducing food prices. In many countries of sub-Saharan Africa, food remains imperfectly tradable because of the prevalence of staple foods that are only lightly traded internationally, such as roots, tubers, and local cereals. Even for staples that are widely traded globally, much of the domestic food economy remains insulated from global markets by high transport and marketing costs, especially in the rural hinterlands and in landlocked countries. In these countries, agricultural productivity determines the price of food, which in turn determines wage costs and global competitiveness. Productivity of food staples is thus key to growth.

3. Comparative advantage. Most sub-Saharan Africa economies depend on a diverse portfolio of unprocessed and processed primary-based exports (including mining and tourism). For many years, comparative advantage in sub-Saharan Africa will still lie in primary activities and agro-processing because of natural resource endowments that favour agriculture, a lack of skilled labour, and a difficult investment climate that reduces the competitiveness of manufactured goods.

4. Growth linkages. Agricultural growth has strong growth linkages to other economic sectors. When agricultural incomes are spent on domestically produced non-tradable goods and services, it stimulates demand for domestic industry and services. Production linkages foster growth in agro-processing and food marketing and demand for intermediate inputs and services.

Key points made on the relationship between agriculture and poverty reduction include:

- Seventy-five per cent of the world’s poor live in rural areas. The evidence that growth in agriculture is on average at least twice as effective in reducing poverty as growth outside agriculture is thus no surprise.
- Agricultural growth reduces poverty directly by raising farm incomes, and indirectly through generating employment and reducing food prices.
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- Pro-poor agricultural growth is centred on smallholder farmers who are made more competitive and sustainable through institutional and technological innovations and empowered through producer organisations.
- These interventions must be complemented by massive investments in rural education to transition into more skill-intensive employment and successful migration.

The report concludes rapid growth is essential to poverty reduction, but growth will not guarantee poverty reduction unless policies are designed to ensure that poor people participate in the growth process.

(Adapted from author’s original)

Keywords: Institutions, producer incentives, complementary investments, growth, poverty reduction, security


Abstract: This article proposes a dialogue around a conceptualisation of development as involving three complementary processes: 'hanging in', 'stepping up' and 'stepping out'. These describe different types and scales of structural change in national and sub-national societies and economies, in different sectors within these economies and in people’s evolving livelihoods. The simplicity and strong theoretical, empirical and experiential content of this make it a powerful framework both for inter-disciplinary, inter-sectoral, multi-scale analysis of dynamic development processes, and for structuring dialogue about contested aspirations, assumptions, modalities and constraints among development analysts and stakeholders with different interests and paradigms.

Keywords: Development policy, disagreement, paradigms, livelihoods, poverty, economic growth

5.2 Extractives


Abstract: Today’s resource boom in Africa, driven by Asian economic growth, offers new opportunities for resource-rich African countries. Contrary to the experience of previous booms, however, most mining profits now accrue to foreign companies, leaving little room for governments to use revenues for pro-poor investments or to mitigate adverse distributional impacts. Taking Zambia as a case study, this paper shows that despite privatisation, Dutch disease remains a valid concern and may hamper economic diversification, worsen income distribution, and undermine poverty reduction strategies. Mining royalties must, therefore, be increased and used to finance growth-inducing investments that encourage pro-poor economic diversification, or else many African countries will remain caught in a resource trap.
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Keywords: Dutch disease, resource booms, privatisation, income distribution, Africa, Zambia


Abstract: In this book, the authors provide an in-depth examination of the various systems of mining royalties in a number of regions worldwide. Otto et al argue that 'care should be taken to weigh the immediate fiscal rewards to be gained from high levels of tax, including royalty, against the long-term benefits to be gained from a sustainable mining industry that will contribute to long-term development, infrastructure, and economic diversification' (p276). Their recommendations for policymakers and companies to consider 'the means whereby affected communities can share directly in the benefits of the mines', include the following:

- Recognition that such benefits may be made available through a variety of means that may or may not include taxation.
- Balancing of the overall mineral taxation system, including royalty, to provide an incentive for companies to invest in sustainable development initiatives at the community and regional level.
- Statutory requirements that allow a share of royalty (or other mining taxes) to be paid directly to communities by the company without the funds moving through the central tax authority, or alternatively a system in which the designated community share is paid centrally but is distributed in a transparent and timely manner (p278).

Keywords: Mining, royalties and taxation, enclave economies

5.3 Private sector development


Abstract: The business activities of multinational companies (MNCs) have an important contribution to make to economic development in developing countries. This contribution is particularly significant because the volume of private capital flows exceeds that of development assistance. International business activities and investments in developing countries have the potential to create positive or negative impacts at several levels for people living in poverty. The extent to which the wealth created by business can reduce poverty is determined by many factors. An industry’s operating structure and the values and strategies of individual companies within it are critical factors. Likewise, the opportunities open to people living in poverty, and their negotiating power as citizens, workers, producers, consumers, and community members are key determinants in the local context.
It was in this context that a collaboration began between a major MNC, Unilever, and a large development and humanitarian organisation, Oxfam – two organisations with very different aims and perspectives. This research project attempted to create a space in which to increase understanding of the impacts of business on the lives of poor people, to inform the poverty reduction debate. The project was intended to improve understanding among the wider business community, government, civil-society organisations, and academics about the relationship between a multinational business and poverty. As such, it was first and foremost a 'learning' project. The research does not purport to be comprehensive, and its scope is the operations of Unilever Indonesia (UI), not those of Unilever the multinational company.

This research explores to what extent, and how, the wealth generated by the local operating company of a multinational company in a developing country is translated into poverty impacts in one particular country, in this case Indonesia.

*Author's original*

**Keywords:** Value chain, multinational corporation, SMEs, formal/informal linkages, employment


[www.ide-jetro.jp/English/Publish/Periodicals/De/pdf/62_01_02.pdf](http://www.ide-jetro.jp/English/Publish/Periodicals/De/pdf/62_01_02.pdf)

**Abstract:** In this paper Akamatsu presents the argument that the development process can be understood as a series of stages through which a country will pass. In the international economy, there is significant heterogeneity between countries at different stages. The wild-geese-flying pattern of industrial development denotes the development after the less-advanced country's economy enters into an international economic relationship with the advanced countries (p11). With regard to technical progression, the pattern works as follows: taking the existence of international trade for granted, the industrial development of less-advanced countries will, as a matter of course, take the form of the development of a wild-geese-flying pattern from crude goods towards elaborate goods. First, import of crude industrial goods is initiated, and in time it develops into their domestic production and, further, into their export. Meanwhile, the import of crude goods decreases, but conversely the import of elaborate goods increases in proportion to the increase in the national income. However, the grade of domestic production is raised from crude goods to elaborate goods, and that of export goods is also elevated proportionately. When the development of less-advanced countries reaches the third stage with the consumer goods industry developing into the export industry, crude goods are exported first as a matter of course, in which case the importing countries are naturally less advanced than the exporting countries (pp16–17).

**Keywords:** Specialisation, globalisation, product cycles


**Abstract:** In their analysis of the application of Akamatsu's 'flying geese' theory to East
Asia, the authors find that the 'flying geese' variant of the product cycle theory fails to capture the complexity of the regional political economy, which is increasingly dominated by the regionalisation of industrial production.

The argument advanced here is that three forces are driving the process of economic integration in East Asia: the globalisation of production networks, increased intergovernmental disputes over bilateral economic relationships, and the rapid pace of technological change. The tension between the territorially based *interstate* system and the *globalised* networks of production and exchange has generated a dynamic interplay of 'politics' and 'economics' that is exercising a profound influence on the structure of the East Asian political economy as tensions rise over imbalances in interstate trade. In addition, the complex and rapid nature of industrial change has fragmented product markets, decentralised the locus of manufacturing activity, and shifted the organisational setting in which production takes place from the firm to the network.

Rather than replicating Japan's development experience in country after country throughout the region as the 'flying geese' analogy suggests, the diffusion of manufacturing in East Asia has increasingly been characterised by shifting hierarchical networks of production linked both backward to Japanese innovation and forward to American markets for the export of finished goods. Such networks offer access for some firms and activities and diminish the opportunities for others. *(Adapted from author's original)*

**Keywords:** Globalisation, regionalisation, industrial policy, manufacturing


**Abstract:** In recent years, globalisation has been associated with increasing inequality within and between countries, and with a stubbornly large proportion of the world’s population living in poverty. If the 'losers' had been confined to those who did not participate in the global economy, then the policy implications would be clear — join the rush. But when (as is the case) the 'losers' include those who have participated in global processes, then the policy challenge is much more daunting. It is not so much a matter of whether to participate in global processes, but how to do so in a way that provides sustainable income growth for poor people and for poor countries. In these circumstances, policy needs to address processes of production and product development, including both intra-firm organisation and the relationship between firms. It also needs to address the ways in which poor producers and poor countries connect with producers and consumers in the global economy.

Value-chain analysis — which includes the whole cycle of the organisation, production, and delivery of products from inception to use and recycling — provides a tool for mapping these crucial domains of private and public policy. But, more than that, by focusing on the dynamic shifting of producer rents through the chain, on the processes whereby key actors provide governance to production that occurs on a global basis, value-chain analysis provides important insights into the policy challenges confronting both private and public actors.
This article reviews the unequal character of recent processes of globalisation, summarises the key theoretical concepts that characterise the concept of value chains, and illustrates the contribution of value-chain analysis through summaries of four chain case studies (fresh fruit and vegetables, canned deciduous fruit, footwear and automobile components). It concludes with a discussion of practical ways of how value-chain analysis can inform policy.

Keywords: Value chain analysis, globalisation, production, distribution of rents

Section 6: The political economy of pro-poor growth


Abstract: This paper focuses on the political economy challenges to making growth policies pro-poor. It explores: the importance of governance, institutions, the developmental state and corruption in setting the conditions within which pro-poor growth becomes possible (or not); the role of power-sharing and downwards accountability in pro-poor policy formulation and implementation; key challenges in policy formation and implementation; and implications for donor and government action.

Keywords: Growth, equity, developmental state, power, politics


Abstract: This paper investigates the relationship between economic and social development. Contrary to the view of those who believe in the existence of a trade-off between democracy and growth, the paper contends that consensus-building, open dialogue and the promotion of an active civil society are key ingredients to long-term sustainable development. Development is a participatory process. 'Best practices' or reforms that are imposed on a country through conditionality may very well fail to produce lasting change. They will tend to undermine people’s incentives to develop their own capacities and weaken their confidence in using their own intelligence. Success in a knowledge-based economy requires a highly-educated citizenry, involved in the process of shaping and adapting ideas and policies. Participation and democracy in turn call for greater transparency and accountability in both the corporate and government sectors.

Keywords: Participation, consultation, conditionality, power, politics, democracy


Today a number of sub-Saharan African countries display the outward signs of modern, democratic states. International aid agencies often treat them as though power and
decision-making reside within government institutions and that they function as designed. When they do not, they are labelled dysfunctional though their action is actually quite logical when viewed through a 'neopatrimonial lens'. This article outlines a number of neopatrimonial practices observed in Africa in the past two decades and attempts to explain the 'logic' that underpins them. It provides several recommendations about the way donors should assist states where deeply rooted anti-democratic and non-developmental behaviour dominates.

**Keywords:** Donor policy, aid, developmental state, power, politics, democracy


The developmental state is back at the centre of the international policy debate. But policy-makers still have much to learn from the large research-based literature on the subject. As the introduction to a themed issue of DPR on this subject, this article provides an overview of three central topics: the relationship between the project of building or rebuilding effective states and the 'good governance' agenda; the role of the international aid community in stimulating or hindering state-building; and the search for a way forward which incorporates awareness of the variety of successful development models and of the role that aid inevitably plays in the incentive structure of state elites in poor developing countries.

**Keywords:** Effective states, good governance, aid, developmental state, power, politics, elite behaviour


Theories of growth have made progress in understanding the mechanisms of growth in economic terms. However, there is less understanding of the political processes that enable or obstruct these mechanisms. This article provides a four-stage framework to clarify and analyse the connections between politics and growth: (i) discussing the basic conditions essential for growth; (ii) suggesting that whether or not these conditions emerge depends on specific forms of public-private interaction; (iii) linking these relationships to the incentives facing investors and those in political power; and (iv) considering the factors at country level that may help to push incentives in a pro-growth direction.

**Key words:** Political economy, growth, growth diagnostics
Individuals and organisations of interest

Pro-poor growth covers an enormous array of topics, which presents problems in any attempt to list relevant contacts. In any given country context there are likely to be a number of key organisations and individuals working in sectors that will be relevant to poor people. The list that follows represents a selection of key institutions and individuals whose work is centred on pro-poor growth, with particular emphasis on the theory.

Universities and research institutions

Africa Power and Politics Programme
www.institutions-africa.org/page/home
- Member organisations include:
  o Overseas Development Institute, London, UK, with associates in Malawi, Uganda and Tanzania
  o Center for African Studies, University of Florida at Gainesville, USA
  o Center for Democratic Development, Accra, Ghana
  o Institute of Development Studies, Brighton, UK
  o Laboratoire d’Etudes et de Recherches sur les Dynamiques Sociales et le Développement Local (LASDEL), Niamey, Niger, and Parakou, Benin
  o Sociologie, Histoire, Anthropologie des Dynamiques Culturelles (SHADYC) at the Ecole des Hautes Etudes en Sciences Sociales, Marseille, France
  o Development Research and Training, Uganda

Brookings Institution
www.brookings.edu
- Mwangi S Kimenyi, founding Executive Director of the Kenya Institute for Public Policy Research and Analysis (KIPPRA — see separate entry below), 1999–2005: www.brookings.edu/experts/kimenyim.aspx?e=1

Commission on Growth and Development
www.growthcommission.org
- Brings together 22 leading practitioners from government, business and the policymaking arenas, from developing and industrialised worlds.

International Development Research Centre (IDRC)
- Globalisation, Growth and Poverty programme: www.idrc.ca/ggp

London School of Economics
- Tim Besley: t.besley@lse.ac.uk
  o Link to publications and working papers: http://econ.lse.ac.uk/staff/tbesley/index_own.html

Overseas Development Institute (ODI)
www.odi.org.uk
Pro-poor growth in the context of the global financial crisis: A selective overview

Research Programme Consortium on Improving Institutions for Pro-Poor Growth
www.ippg.org.uk/index.html
• Partner organisations include:
  o Consumer Unity & Trust Society (CUTS) (South Asia)
  o Latin American Centre for Rural Development (RIMISP)
  o African Economic Research Consortium (AERC)

School of Oriental and African Studies (SOAS)
• Terry McKinley: tm9@soas.ac.uk

Università degli Studi di Firenze
• Giovanni Andrea Cornia: giovanniandrea.cornia@unifi.it

University of Göttingen
• Stephan Klasen: sklasen@uni-goettingen.de
  o Link to publications and working papers: www.uni-goettingen.de/en/64786.html

Governmental Bodies

International Policy Centre for Inclusive Growth (IPC-IG) Bureau for Development Policy, UNDP
www.ipc-undp.org/Home.do?active=0

OECD-DAC POVNET
www.oecd.org/department/0,3355,en_2649_34621_1_1_1_1_1,00.html

Train4dev.net
www.train4dev.net/index.php?id=68
• Earnan O’Cleirigh, Irish Aid: earnan.olecirigh@dfa.ie
• Melanie Wiskow, Deutsche Gesellschaft für technische Zusammenarbeit (GTZ): melanie.wiskow@gtz.de

World Bank
• PovertyNet i Achieving Shared Growth: http://go.worldbank.org/E65N0AA0E0
• Poverty and Inequality Research Programme: http://go.worldbank.org/019PBY0LY0
• Operationalising Pro-poor growth Work Programme (with Department for International Development (DFID), French Development Agency (AFD), Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ), Deutsche Gesellschaft für technische Zusammenarbeit (GTZ) GmbH, and Kfw Bankengruppe (Kfw): http://go.worldbank.org/9N4NPP7DY0
• Martin Ravallion: http://go.worldbank.org/O0ERP8VA60

United Nations Conference on Trade and Development (UNCTAD)
www.unctad.org/Templates/StartPage.asp?intItemID=2068
Southern research organisations

African Economic Research Consortium  
www.aercafrica.org/home/index.asp

Bangladesh: Centre for Policy Dialogue  
www.cpd.org.bd/index.asp

Bangladesh Institute of Development Studies (BIDS)  
http://bids.org.bd/bids-bd/activities/proverty.htm

Kenya Institute for Public Policy Research and Analysis  
www.kippra.org

Kenya: Institute of Economic Affairs  
www.ieakenya.or.ke/

Mozambique: Instituto de Estudos Sociais e Económicos  
www.iese.ac.mz

Pakistan: Collective for Social Science Research  
www.researchcollective.org/index.php

Pakistan Institute of Development Economics  
www.pide.org.pk

Tanzania: Economic and Social Research Foundation  
www.esrftz.org

Tanzania: Research on Poverty Alleviation  
www.repoa.or.tz

Uganda: Economic Policy Research Centre  
www.eprc.or.ug

Uganda: Makerere Institute of Social Research  
http://misr.mak.ac.ug/index.html

Zambia: Economics Association of Zambia  
www.eaz.org.zm