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Foreword

By *Lukas Menkhoff,* Hannover

Worldwide poverty forms one of the greatest problems of our present economic and social life. Whether you take the United Nations human rights declaration, the German constitution ("Grundgesetz") or any other commitment to ethical standards – the banishment of poverty is unequivocal. Accordingly, the de facto existence of large-scale poverty – i.e. the violation of basic rights – in a globalizing world that seems to be richer then ever, may well be seen as a puzzle.

This puzzle does not become easier to tolerate when we look at two details (*Besley* and *Burgess,* 2003): first, while talking about poverty in developing countries we do not talk about relative poverty as in rich countries (often defined as having less than 50% of the median income). The poor in developing countries are not relatively disadvantaged; they are poor in a very basic sense. An intuitive indicator is the fact that these people spend most of their income for food, even though they will often stay hungry. At the same time, rich countries have the problem of large-scale obesity. Second, poverty is a permanent phenomenon. There are areas in the world, in particular in Sub-Saharan Africa and South Asia, where the probability of being poor is very high and where the hope for improvement is low. At the same time people in industrialized and industrializing economies get used to ever increasing aspiration levels with respect to material aspects of life.

Indeed the embarrassing living conditions of more than one billion poor people in developing countries in combination with the increasing gap of living standards between the poor and the rich, has provided a strong motivation for development policy to change this situation. From its beginning, policy has aimed for stimulating economic growth in order to improve living conditions for everyone. The endurance of poverty, however, has motivated to extend the traditional "growth is good for the poor" (*Dollar* and *Kraay,* 2002, *Kraay,* 2006) by a more targeted policy that combines growth with a particular emphasis on improving the situation of the poor (*Besley* and *Burgess,* 2003). This is exactly the objective of "pro-poor growth", a term that became popular during the late 1990s and which seemed to dominate the stage with the propagation of the Millennium Development Goals, including its goal to halve poverty by 2015.

This volume contains six papers that address various core issues of pro-poor growth policies. These papers were presented at the annual meeting of the Research Committee Development Economics (Ausschuss Entwicklungsländer des Vereins für Socialpolitik) in 2005. All papers were lively discussed at the meeting and later on improved by comments from anonymous referees. I would like to thank the authors, discussants as well as the referees for their most helpful contributions in order to meet serious academic standards.

All authors have done extensive research in the field of pro-poor growth, including field studies. Accordingly, their contributions – reflecting this knowledge and proficiency – pick up recent developments in the field. The discussion of most appropriate pro-poor growth policies is an ongoing process which has been documented by a growing literature, including some earlier collected volumes (e.g. *Krakowski* 2004, *Tungodden* et al., 2004, *Besley* and *Cord,* 2006). The value added of the present volume is obviously not to be more comprehensive than others but rather to continue the line of work by bringing some recent research findings to a broader audience. As papers are introduced by an abstract each, I do not want to highlight their contents and findings here but restrict the introduction to relating the papers to each other.

The volume is opened by the survey article of *Rainer Klump* and *César A. Miralles Cabrera* (Goethe University Frankfurt / Main). The authors introduce the concept of pro-poor growth including the main measurement controversy which is exemplified by a nice simulation exercise. The main emphasis is based upon deriving policy implications from theoretical work and from 14 country studies on pro-poor growth coordinated by the World Bank.

The following article by *Michael Grimm* (Georg-August-University Göttingen) deepens the question how to measure pro-poor growth. Whereas Klump and Miralles Cabrera discuss the conceptual debate between UNDP and the World Bank, Grimm shows that pro-poor growth measurement should be based on individual data if possible. Theoretical and applied work demonstrates that information on individual mobility is important to assess the pro-poor impact of growth appropriately.

A different issue of pro-poor growth measurement is focused by *Stefan Klonner* (Cornell University). His concern implies that ideal household data (as used in Grimm's contribution) are usually not available when long-term studies are conducted. Another concern being the unwanted effect in traditional growth regressions that poverty elasticities depend on the ex ante distribution. In order to appropriately assess a pro-poor development in time-series data Klonner suggests a new approach and applies it to Indian data from the 1950s to the early 1990s.

The next three papers accept existing measures of pro-poor growth and examine further issues. *Rainer Thiele* (Kiel Institute for the World Economy) demonstrates how a dynamic Computable General Equilibrium (CGE) framework can be used to analyze pro-poor growth. An application to the case of Bolivia shows, how this instrument can simulate and asses various policy measures with respect to their impact on the poor.

One particular policy measure which has often been mentioned to pay a double dividend – that is to foster growth and to be of particular advantage to the poor – is the improvement in primary education. *Jean Bourdon* (University of Bourgogne), *Markus Frölich* (University College London) and *Katharina Michaelowa* (Hamburg Institute of International Economics) examine an important option for developing countries, i.e. to complement (expensive) teachers within the public service sector by (cheaper) contract teachers. Careful examinations for Niger show that this seems to be an instrument to realize pro-poor growth.

Another issue of pro-poor growth which might yield a double dividend is discussed by *Stephan Klasen* (Georg-August-University Göttingen). It is known that women are positioned in precarious situation quite often, hence a gender-sensitive design of growth policies could target growth and gender objectives simultaneously. Klasen's evaluation of 14 country studies shows that this is not an easy task but that country clusters seem to emerge. Nevertheless, despite varying country experiences there are clear signs that measures to reduce the gender gap often also reduce poverty and promote growth. Thus they can create a highly warranted pro-poor growth effect.

Finally, I gratefully acknowledge the important contributions from three sides which have made the first international conference of the Research Committee Development Economics (Ausschuss Entwicklungsländer des Vereins für Socialpolitik) in July 2005, hosted by the Kiel Institute of World Economics, a great success and which have motivated to continue this experiment. First, the conference had been perfectly organized by the local organizer Rolf Langhammer (Vice-President of the Kiel Institute for the World Economy), Ingrid Lawaetz (Kiel Institute for the World Economy) and Daniela Beckmann (Manager of our research committee, University of Hannover). Second, we had received most useful financial support by Wissenschaftsförderung der Sparkassen-Finanzgruppe e.V., Gesellschaft zur Förderung des IfW, Wirtschaftswissenschaftlicher Club des IfW, Commerzbank Private Banking Kiel, Sparkasse Kiel, as well as Palgrave MacMillan. Third, I would like to thank the members and friends of our group who served as referees for this volume as well as for the papers submitted to the conference:

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Katharina Michaelowa, Hamburg Institute of International Economics (HWWA)
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Contents

Pro-poor Growth: Theory, Measurement, and Policy Implications*

By *Rainer Klump* and *César A. Miralles Cabrera,* Frankfurt

Abstract

The conceptual basis and the practical implications of the concept of pro-poor growth have been highly debated over the last years. This paper aims at: (i) presenting a theoretical framework that explains under what circumstances growth becomes more pro-poor; (ii) comparing and testing the robustness of the two most important measures of pro-poor growth, the rate of pro-poor growth (RPPG) and the poverty equivalent growth rate (PEGR) (iii) investigating the most likely policy instruments that qualify for a support of pro-poor growth strategies; and (iv) proposing a framework for pro-poor growth diagnostics, which might help to prioritize pro-poor growth policy instruments. By simulating several forms of the Growth Incidence Curve, we demonstrate that the RPPG is biased, so that the higher the initial mean income level of the poor, the higher would be this measure in absolute terms. We also explain why macro stability, public investment in both human and physical capital as well as pro-poor policies (i.e. safety nets and targeted interventions) are the most efficient policy instruments for promoting pro-poor growth processes in developing countries.

A. Introduction

The concept of pro-poor growth as a suitable normative guideline for practical development economics is intrinsically linked to the "Post-Washington Consensus". The original "Washington Consensus" (*Williamson,* 1990) had formulated ten policy prescriptions for economic development based on liberalization, privatization and deregulation which were meant to foster economic growth in the developing countries. The structural reforms which IMF and World Bank implemented along these lines had led, however, to growing criticism about their effects on poverty und income distribution. Therefore ways had to be found to link the interest in a further promotion of growth with a particular focus in poverty reduction.

The following decisions, declarations and insights contributed to the emergence of the pro-poor growth paradigm:

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* A preliminary version of this paper was presented and discussed at the Annual Meeting 2005 of the Research Committee Development Economics of the German Economic Association (Verein für Socialpolitik) in Kiel. We would like to thank committee members for their comments and an anonymous referee for very valuable suggestions.

- In a speech given 1998 at the World Institute for Development Economics Research (WIDER) in Helsinki, titled "More Instruments and Broader Goals: Moving Towards the Post-Washington Consensus", the then World Bank Chief Economist Joseph Stiglitz proposed the so-called "Post-Washington Consensus", which introduced three new dimensions of development: (i) sustainable development, which includes preserving natural resources; (ii) equitable development, which ensures that all groups in society enjoy the fruits of development; and lastly (iii) democratic development, in which citizens participate in making the decisions which affect their lives (*Stiglitz,* 1998).
- In 1999, the World Bank makes the formulation of Poverty Reduction Strategies (PRS) a pre-condition for obtaining debt rescheduling in the Heavily Indebted Poor Countries Initiative, HIPC, which the World Bank and the International Monetary Fund (IMF) had been carrying out in 42 poor countries since 1996, the majority of which are located in Africa. Since then, a Poverty Reduction Strategy Paper (PRSP), approved by the boards of the IMF and the World Bank, opens the doors to debt rescheduling as well as to increased flows of bilateral and multilateral aid. PRSPs were meant to replace ineffective Structural Adjustment Programs (SAPs) and should follow five principles: They should be (i) country-driven, (ii) results-oriented, (iii) comprehensive, (iv) partnership-oriented and (v) long-term. Today, PRSPs are being elaborated in close to 60 countries in Africa, Asia and Latin America as well as in East and Central Asia and other transition economies (*Hermele,* 2005)
- In September 2000 the world leaders signed "The United Nations Millennium Declaration" in order to commit their nations to strengthening global efforts for peace, human rights, democracy, strong governance, environmental sustainability and poverty eradication, and to promote the principles of human dignity, equality, and equity. The "UN Millennium Declaration" brought forward the importance and the essential of eradicating poverty and promoting development to achieve sustainable and broad-based economic growth[1]. Later on, in September 2001, eight "development goals" and 18 "targets" were firstly documented and classified[2]. All of them are causes and dimensions of poverty, such as income, level of health and education, gender discrimination against women, and environmental vulnerability. For example, the first goal, the eradication of extreme poverty and hunger aims at two targets, to halve the proportion of people with income no more than one dollar a day and the proportion of people who suffer from hunger between 1990 and 2015.
- The World Development Report (WDR) "Attacking Poverty: Opportunity, Empowerment, and Security" (*World Bank,* 2000) explicitly proposed a strategy for

1 See the United Nations Millennium Declaration (*UN,* 2000) and the Report (*UN,* 2001): "Road map towards the implementation of the United Nations Millennium Declaration" on the following web pages: www.un.org / millenniumgoals / and www.developmentgoals.org.

2 See the Report of the Secretary-General: "Road map towards the implementation of the United Nations Millennium Declaration" (*UN,* 2001).

attacking poverty with three key principles: (i) promoting opportunity by stimulating economic growth, making markets work better for poor people, and building up their assets, (ii) facilitating empowerment by making state and social institutions more responsive to them, and (iii) enhancing security by reducing vulnerability and risks of such events as wars, disease, economic crises, and natural disasters.

- The 1990s had been a period of new worldwide growth (*Zagha,* 2005) but also growing intra- and international inequality. The successful development of the East Asian "miracle countries" (*World Bank,* 1993) had supported the idea, however, that by means of an appropriate economic policy a sharing of the growth dividend among rich and poor might be possible (*Klump* and *Menkhoff,* 1995). Of course, the idea of linking growth to redistribution in order to fight poverty is much older and goes back at least to *Ahluwalia* and *Chenery* (1974).

As it stands now poverty reduction has become a central element of the "Post-Washington Consensus" and the achievement of pro-poor growth has become the new "Holy Grail" (*Klasen,* 2003) of international development economics. Over the recent years the empirical meaning, the conceptual basis and the practical implications of the concept of pro-poor growth have been highly debated. *Eastwood* and *Lipton* (2000) and *Klasen* (2003), among many others, have already provided excellent summaries. A recent series of 14 country studies initiated by the World Bank and national development agencies, supplemented by further empirical evidence and theoretical concept papers, has aimed at synthesizing this discussion and contributing to a better operationalization of pro-poor growth policies (*Cord,* 2005). Even if the high ambitions in this project have not been met, the results of this comprehensive work are a natural starting point for the analyses in our paper.

The paper is organized as follows. Chapter 2 aims at developing a theoretical framework that explains under what circumstances growth becomes pro-poor or not. Chapter 3 deals with the important issue of how to define and how to measure pro-poor growth (PPG). As it happens very often in applied economics the way how goals are defined has already important implications for the choice of appropriate policy instruments. Chapter 4 discusses the possible policy instruments that qualify for a support of pro poor growth strategies. Chapter 5 presents two approaches which might help to prioritize pro-poor growth policy instruments, and Chapter 6 concludes.

B. How to explain why and when growth becomes pro-poor?

A specific theory of pro-poor growth is still lacking. Such a theory should explain how the same rate of aggregate growth could be achieved together with different speeds in poverty reduction. Unfortunately, the "Operationalizing Pro-