ISBN 978-92-64-02477-9
Promoting Pro-poor Growth
Policy Guidance for Donors

PART II

Chapter 10

Enhancing Women's Market Access and Promoting Pro-poor Growth

Why is the topic important for pro-poor growth?

The majority of workers in the developing world cluster in small and medium-sized enterprises in the private sector. They may be own-account workers in services or agriculture, or employees in small and medium-sized firms in manufacturing. Some of these enterprises are informal and unregistered, others are fully integrated into the national tax base, reporting income and expenditures and complying with laws and regulations that govern hiring, firing, production and sales. Whatever their status as enterprises, these economic activities are critical for workers and owners alike.

Entrepreneurship and investment influence the rate and pattern of growth, the types of forward and backward linkages that develop in an economy, the labour demanded and the human capital investment required to meet these labour demands (Ranis, Stewart and Ramírez, 2000). Rapid growth can contribute effectively to poverty reduction (OECD, 2004). If growth is broad-based and inclusive, benefiting multiple sectors and economic activities, it is likely to provide greater opportunities for the poor to increase their incomes, acquire skills and assets and transform and upgrade their livelihoods. Rapid growth is also frequently associated with greater international trade and regional development linkages (OECD, 2004). Greater integration has the potential to stimulate foreign direct investment (FDI), raise productive capacity and generate benefits that accelerate the transfer of skills and knowledge. Yet for these gains to be equitable, and evenly distributed throughout the economy, requires markets where access is unrestricted, information flows freely and competition is encouraged.

The cost of gender inequalities in market access

Women are a significant entrepreneurial force whose contributions to local, national and global economies are far reaching. Women produce and consume, manage businesses and households, earn income, hire labour, borrow and save, and provide a range of services for businesses and workers. Women represent an increasing proportion of the world's waged labour force and their activity rates are rising. In Africa, Asia and Latin America, they are over one third of the officially enumerated workforce (WISTAT, 2000). Women-run businesses can be found in emerging sectors such as the production and marketing of consumer goods, commercial banking, financial services, insurance, information services, communications and transport. As owners of small and medium-sized enterprises (SMEs), women furnish local, national and multinational companies with ideas, technology, supplies, components and business services (Jalbert, 2000). These activities are likely to prove fundamental as developing economies transition from primarily agricultural to industrial production and become more urbanised. Furthermore, as economies liberalise and open their borders, women-owned and operated SMEs are engaging in international trade – enhancing the prominence and visibility of women entrepreneurs globally.

Even as women enter markets and engage in production, however, they may face different constraints and opportunities than their male counterparts. Social and cultural

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proscriptions assign productive and reproductive roles to men and women that can limit their access to markets and restrict their occupational and sectoral mobility. Throughout many countries and regions, the gender division of labour within the household underpins fundamental differences in the rights and responsibilities of men and women. In many rural societies, for example, women are responsible for household provisioning: food crop production, gathering fuel and hauling water, and caring for children and the aged. In return, men are expected to meet certain cash requirements of the household. This division of labour affects women's ability to participate in paid employment and access education and training and influences their choice of productive activities.

Although there are variations across countries, social norms strongly influence men's and women's work and working environments. Some tasks and jobs are considered more appropriate for men or women and overt or covert screening filters out applicants who defy these norms. These gender norms frequently underpin sex-segmented labour markets and activities. Highly sex-segmented labour markets typically confine women workers to low-wage low-productivity employment and can limit the responsiveness of labour markets to new demands for higher skilled workers. Sluggish or unresponsive labour markets can impede adjustment, distort human capital investment and inhibit a firm's ability to switch into new activities and compete in a dynamic and globalising market.

Sex-segregated labour markets precipitate a number of efficiency losses that can provide a drag on growth and compound income inequality. A chief inefficiency is that sex-segregated labour markets lead to welfare losses (reducing total output) arising from the misallocation of the labour force: competent female workers are excluded from some of the more productive activities. Sex-segregated labour markets are associated with higher gender wage inequality (Cartmill, 1999; Tzannatos, 1999), which distorts investment in human capital, prioritising male income earners and undercapitalising women earners. Finally, substantial evidence suggests occupational segregation is associated with less security in employment for women and fewer prospects for promotion, as well as lower wages (Cartmill, 1999; Elson, 1999). These outcomes are likely to compound the inter-generational transmission of poverty, particularly for girls and women.

Highly sex-segmented labour markets and production may also compound or accentuate macroeconomic imbalances. For example, gender-based wage differences can create a competitive advantage for some semi-industrialised countries, providing a stimulus to growth – particularly in countries that have invested in assembly production with substantial, flexible, low-wage work in traded goods. Strategies based on gender-wage and gender-production inequalities can also result in a slow but steady deterioration in the terms of trade as a whole *vis-à-vis* industrialised countries, particularly if economic activities are concentrated in low value-added production where competition in the value chain exerts downward pressure on wages and labour costs (Cagatay, 2001). As the terms of trade decline the cost of importing capital and retooling or diversifying production rises. Declining terms of trade also mean declining reserves and can lead some economies to require balance-of-payments support or even default on debt service.

The role for policy and programmes

Development occurs within an institutional and economic environment that is similarly shaped by customs, social norms and implicit and explicit codes of conduct (World Bank, 2001). Yet social and cultural norms are not immutable: throughout history there is evidence that they are in flux. Policy and programmes can provide impetus for change – promoting greater equity and efficiency. For example, improving economic institutions, so that productivity rather than gender, race, caste or age becomes the primary criterion for employment and compensation, can contribute to overcoming barriers that exclude entry and participation. Facilitating the free flow of market information, so that it is not controlled by powerful elites, can undermine monopolies and broaden access and participation. Creating markets for child-care and ensuring household access to energy and water has the potential to reduce the domestic workload for women and girls. Facilitating access to labour markets for women can increase the returns to investing in women's human capital. Removing systematic barriers to market access for excluded groups can facilitate broad-based growth and is more likely to reduce poverty than strategies that focus on narrow market niches and existing elites, preserving privileges and potentially accentuating existing inequalities.

What do we know so far and what do we still need to know?

Clearly, women workers and entrepreneurs are not an undifferentiated mass. Age, literacy, education, rural or urban location, ethnicity, language, health and physical well-being also influence market access. Differentiating those factors that make some women entrepreneurs and workers more vulnerable, or less able to take advantage of new and existing opportunities to expand and upgrade their activities, will prove essential for the appropriate design and delivery of policy, programmes and projects. Documenting and analysing the impact of gender barriers to market access on the economy will provide critical information about the costs of gender inequality and the trade-offs implied.

Labour markets

Women and men often work in distinct activities that offer different rewards and career opportunities even though they have similar education and labour market skills. In many economies, women work in jobs characterised by low wages, high job insecurity, low levels of unionisation and poor working conditions. For example, women tend to cluster in informal employment[1] (Carr, Chen and Tate, 2000). There is also evidence, given the size, scale and location of women's small and micro-enterprises, that when they contract workers they do so informally. Consequently, women workers may face more insecure employment with fewer benefits and lower wages than their male counterparts (Charmes, 1998; Benería, 2003). Unequal access to labour markets and highly sex-segregated occupations generate a host of inefficiencies that compound gender-wage inequalities, depress investment in women's human capital and can distort market signals.

Financial markets

The design and delivery of financial services greatly affects access – particularly for the poor. Financial intermediaries often require traditional forms of collateral (land, housing, machinery), for which women frequently lack title. Complicated application procedures and documentation requirements can prevent women with lower education and few skills from applying. Minimum loan sizes and inflexible repayment schedules, stipulations that may be required for efficient credit disbursement, often preclude women applicants seeking smaller loans for activities that yield income over longer or more infrequent intervals. Similarly, sectoral priorities may favour male economic activities over those of women. The lack of knowledge about women's economic activities, and documentation that can substantiate their profitability, reduce women's access to credit and insurance products. Additionally, mobility constraints that limit women's ability to travel can restrict their access to financial institutions that are not in their community or neighbourhood. Finally, where women concentrate in informal economic activities, or enter and exit the labour market more frequently to bear and care for children, they are less likely to acquire pension rights or have access to financial instruments for retirement, death and burial.

A dynamic financial sector is critical for sustaining long-run growth and ensuring poverty reduction. The financial sector contributes to growth by facilitating capital accumulation and investment and accelerating the rate of technological progress (DFID, 2004a; b). An efficient financial sector mobilises savings for investment, encourages inflows of foreign capital (including FDI, portfolio investment, bonds, and remittances) and optimises the allocation of capital between competing uses, ensuring that capital flows to the most productive activities. Where women may be disproportionately excluded from participating in financial markets and women's economic activities are underserved, market signals fail and capital bypasses potentially dynamic sectors and productive opportunities.

Goods markets

Women and the poor may face differential access to goods markets. Markets for goods and inputs, like most markets, are frequently regulated. Trading is typically not anarchic and conventions and rules regulate participation and sales. A variety of factors may impede access to goods markets or increase the cost of entry. For example, distance from the market may limit an individual's ability to sell or purchase in that market. Women may disproportionately face mobility constraints that limit their ability to travel or sell in markets at some distance from their households and communities. The lack of permission or certification to trade in certain markets will prevent market entry: small farmers and women are typically confined to domestic markets because they do not have the required certification to trade produce internationally. The volumes traded in some markets may be too large for small producers or buyers – effectively precluding their access to large, centralised, domestic and international markets. Information may not be readily available about the type of goods sold or the prices at which they are sold – or may flow to select groups. Finally, collusive activity on the part of buyers or sellers may squeeze out competitors and prevent outsiders from gaining access to certain goods markets. These types of collusive and restrictive practices may disproportionately affect women and small producers.

Gender-related barriers to goods markets affect both earnings and efficiency. The costs of unequal access have implications for producers as well as households. Pro-poor growth strategies that fail to take account of how gender affects access to and outcomes in goods markets are likely to compound existing inequalities, reduce producer and consumer surplus and limit the potential to maximise value added and deepen forward and backward linkages.

Service markets

Access to service markets may also be affected by gender. Service markets describe the delivery, purchase or hiring-in of activities that can enhance or transform production processes. Access to training and workforce development can upgrade skills, raise productivity and improve earnings and wages. Small business development services and information and communications technologies can provide targeted assistance to expand existing activities, penetrate new markets and improve efficiency. Extension services can increase output, diversify and improve production, reduce risk and raise the quality and price of the goods traded. Although some of these services are traded, others may be provided by governments or intermediaries, as partially or fully subsidised programmes, to fulfil distributional or efficiency goals.

Women may face particular barriers accessing service markets. For example, women's agricultural activities in Africa are frequently oriented towards subsistence production and domestic markets. They produce lower-value products, on smaller tracts of land, with less access to capital, labour and chemical inputs. Lack of funds and social prohibitions on engaging with male extension workers preclude many women farmers from accessing or hiring extension services that can transform their production, reducing their ability to benefit from liberalisation or respond to price signals by shifting into tradables. Similarly, because of their household and reproductive responsibilities, women workers may be less able to participate in and benefit from workforce development initiatives.

Where women face restricted access to service markets, their production is likely to be concentrated in lower-value, lower-return activities. The inefficiencies that this imposes upon women's businesses can also be a drag on growth, fostering uneven and unequal development.

Micro-meso-macro linkages

While much is known about gender-specific exclusions and inequalities in market access, there remains a need for policy and programmatic research on the impact of these barriers to market access on local, national and regional growth patterns. These types of analyses should focus on the micro, meso and macro linkages as well as on the implications of inequalities in market access for the intergenerational transmission of poverty.

Gender inequalities in market access limit longer-term growth. Understanding how women access markets as producers and wage labourers is likely to prove critical for fostering pro-poor and inclusive economic growth. Analysing where women are in the global value chain, and documenting the resources they use and transform, will provide information about how to strengthen local economies and maximise forward and backward linkages. Reducing women's barriers to market access, improving their position within the value chain and enhancing their productivity is likely to benefit local, national and regional economies as well as households.

What controversies exist?

Entitlements and capabilities approaches[2]

An entitlements approach focuses on increasing women's access to resources and inputs that enable women to enter markets, raise their productivity or scale up their existing activities. Micro-credit is an example of an entitlement project that allows women to enter markets, purchase capital to raise their productivity or scale-up their existing activities. Capabilities projects provide resources and services that increase women's ability to deploy their existing resources or enter new markets. Capabilities projects typically focus on enhancing women's voice or agency and improving their bargaining power or skills. Training and workforce development projects provide a useful example of a capabilities approach that enhances women's existing skills, raising their productivity as workers and producers and enabling them to enter new labour markets and earn higher wages or overcome under- and unemployment. Donors are unclear about the type of intervention and approach to use, or the appropriate mix and sequence of approaches in different contexts.

Level of intervention

Disproportionate attention may be being paid to women at the micro-level at the expense of meso- and macro-levels of intervention. Some projects and programmes respond to concerns that gender-based exclusions are more visible at the micro-level and that acting on the policy and programmatic environment to enhance women's productivity and efficiency as micro-entrepreneurs can overcome initial barriers to market access. However, micro-level activities are frequently being promoted in increasingly saturated markets where the potential to scale-up is limited.

Gender integration

Many donors develop women-focused programmes as separate components of other activities or as a programme in its entirety. Fewer programmes emerge from a process of gender integration where a systematic gender analysis of inequalities in access to resources and power motivates interventions and activities. Controversies about when to target women exclusively or whether to pursue a gender approach appear to emerge from a lack of knowledge about how to undertake a gender analysis of market barriers. Similar controversies exist about whether to target mixed organisations and institutions, enhancing women's role and agency within these, or whether to invest in parallel organisational structures that are exclusively for women.

What are the policy implications and recommendations?

The failure to focus on women's market access reduces the effectiveness of policies to promote pro-poor growth. Sex-segmented labour markets contribute to gender-wage inequality, depress investment in human capital and prevent women from entering higher productivity occupations. Market failures coupled with high transactions costs in the financial sector reduce the flow of capital to women's economic activities, contributing to underinvestment and limiting productivity and growth. Barriers to entry in goods markets frequently confine women to spot markets where monopsonists exert undue influence over prices – reducing producer surplus, depressing incomes and inhibiting further investment in women's economic activities. Service markets that bypass women curtail their ability to scale-up existing activities or augment productivity. The combined effect of these gender-based exclusions can limit local and regional growth and may contribute to macroeconomic imbalances. Growth is more likely to spur poverty reduction where inequality is low. The removal of gender-barriers to market access and gender-based exclusions will reduce inequality more effectively and can prompt more sustained poverty reduction.

Promote an enabling environment. Policies designed to remove or ameliorate structural barriers to women's participation in markets can be particularly powerful. For instance, policies that enable women to own, buy, sell and inherit land – individually or with joint title – can increase women's access to financial markets by providing collateral. These same policies can make women's contributions in agriculture more visible, permitting them to scale-up existing production by accessing extension services that may previously have been directed at male farmers. Similarly, pro-poor policies that enhance the provisioning of household water and energy have the potential to alleviate women's time-burdens in the household enabling them to access markets and engage in remunerated productive activities.

Recommended best practices

Apply gender analysis tools to develop programmes and interventions. Gender analysis focuses not just on women, but on the social relations between men and women. Applying gender analysis tools allows practitioners to uncover the inequalities in power that underlie gender-differentiated outcomes in markets, identify points of intervention, as well as strategies to engage potential beneficiaries.[3]

Undertake gender-disaggregated value chain analyses. These identify opportunities to strengthen women's participation in markets. The analysis should focus on forward and backward linkages to maximise multiplier effects in global value chains where women cluster as workers and producers. Analysing the global value chain and the rents generated provides opportunities to target assistance and inputs. The analysis may also provide policy makers with information to create incentives to reduce the number of intermediaries, increase the bargaining power of producers and ensure access-appropriate processing technology, storage and transport facilities to enable resource-poor producers to capture more of the value added in the global value chain.

Improve micro-meso-macro linkages. Focusing on larger-scale economic activities, such as medium-sized enterprises that are owned or run by women, and supporting the development of more robust, complex markets with extensive forward and backward business linkages has the potential to improve women's access to markets along the value chain. Linking smaller suppliers and buyers can minimise predatory pricing and monopsony impacts and overcome concerns about volume and production reliability that larger entrepreneurs have regarding small entrepreneurs.

Minimise risk and vulnerability. The character of production and labour markets is in flux. Households pursue creative strategies to preserve livelihoods and respond to exogenous shocks such as illness, death, environmental disaster and crop failure. Some interventions and support to increase market access may need to be short-run and agile: emergency food-for-work programmes; retraining for retrenched workers; and the provision of transport and storage as nascent markets develop and deepen. Other programmes may need to create and encourage the expansion of financial instruments and social insurance to mitigate risk, insure inventories and provide access to pensions and social security.

Support entitlement as well as capabilities programmes. Successful projects and programmes pay attention both to inputs and to the individual or group ability to deploy these inputs. Many successful interventions address both entitlements and capabilities within a single project. Programmes and projects that improve women's bargaining power with monopsonists, provide information and communications technologies that enable women producers to sell in higher value markets or purchase critical inputs can raise productivity and incomes. Programmes that facilitate access to child-care can enable women to enter markets or receive training and engage in workforce development initiatives.

Promote clustering and networking. Groups of women producers may be able to access services collectively that they might not be able to purchase as individual entrepreneurs. This is particularly true in the informal economy. Clusters and networks of women can facilitate their access to resources and achieve economies of scale. Additionally, groups of entrepreneurs requiring the same service are usually in a better negotiating position with potential suppliers or can bargain more effectively with buyers than they could alone.

Expand access to credit and financial services. Micro-finance remains a powerful tool to provide financial resources to the under-served and compensate for the absence of financial markets. Micro-credit can also provide an essential platform for graduating women's businesses and women's production to formal sector financial services. Offering products that include risk, inventory, health, life and funeral insurance has proven to be particularly important for poor women. Working on policy, institutional or social changes that address structural impediments to women's access to financial services can improve their ability to access markets. Among such projects are those that improve women's inheritance rights and their access to collateral resources such as land and other productive assets.

Address informality. Women cluster in informal markets and face particular barriers to formalising production. Efforts to reduce administrative and regulatory barriers, promote tax reform that can lift burdens on smaller enterprises, and generalise access to social security, pensions and health benefits can greatly affect the terms and conditions of women's employment and enhance their security in the informal economy.[4] Additionally, lessons can be learned from the experience of the Self Employed Women's Association and Bangladesh Rural Advancement Committee[5] about organising women in the informal economy and facilitating their access to productive resources as well as critical services such as health, housing and child-care.

Notes

1. See for example: Women in Informal Employment: Globalizing and Organizing (WIEGO), *www.wiego.org/*.
2. This draws on Sen's entitlements and capabilities analysis of poverty and material deprivation (Sen, 1999).
3. See for examples tools developed by UNIDO (Business Development Services: *www.unido.org/*), and ILO, DFID and CIDA (Canadian International Development Agency) (Trade capacity and small enterprises: *www.siyanda.org*).
4. See for example Gamser, M. and D. Welch (2005) "Formalising the Informal Sector: Barriers and Possible Solutions", Development Alternatives Inc., and Bannock Consulting, Ltd., June 2005.
5. See for example *www.sewa.org/* and *www.brac.net/*.

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Foreword

Promoting pro-poor growth – enabling a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth – will be critical in achieving a sustainable trajectory out of poverty and meeting the Millennium Development Goals, especially the target of halving the proportion of people living on less than one dollar a day. Developing and sharing good practice in advancing this agenda has been the focus of the Development Assistance Committee (DAC) through its Network on Poverty Reduction (POVNET) since 2003.

The DAC Guidelines on Poverty Reduction, published in 2001, show that poverty has multiple and interlinked causes and dimensions: economic, human, political, socio-cultural, protective/security. The work of POVNET since then has given priority to addressing strategies and policies in areas that contribute to pro-poor economic growth, with particular attention to private sector development, agriculture and infrastructure. POVNET has sought to build consensus on the key underpinnings of pro-poor growth and to explore recent thinking on risk and vulnerability and ex ante poverty impact assessment.

This compendium summarises the conclusions and recommendations coming out of POVNET's work on growth and poverty reduction. The key messages are as follows:

- Rapid and sustained poverty reduction requires pro-poor growth, as described above.
- Policies to tackle the multiple dimensions of poverty, including the cross-cutting dimensions of gender and environment, are mutually reinforcing and should go hand-in-hand.
- Empowering the poor is essential for bringing about the policies and investments needed to promote pro-poor growth and address the multiple dimensions of poverty.

For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient. This compendium provides specific guidance to donors on how to make their support to pro-poor growth more effective in the areas of private sector development, agriculture and infrastructure.

Richard Manning
DAC Chair

James T. Smith
POVNET Chair

In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the ***Development Assistance Committee****, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

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Acronyms

ACP	Africa, Caribbean and Pacific countries
ADB	Asian Development Bank
AdI*	*Aguas del Illimani*
AFD*	French Development Agency – *Agence Française de Développement*
AKFED	Aga Khan Fund for Economic Development
AU	Africa Union
BDS	Business development service
BLT	Build-lease-transfer
BMZ*	German Ministry for Economic Co-operation and Development *Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung*
BOT	Build-operate-transfer
BOOT	Build-own-operate-transfer
CAADP	Comprehensive African Agriculture Development Programme
CARICOM	Carribbean Community
CEDAW	Convention of the Elimination of All Forms of Discrimination against Women
CEPA*	*Comision Ejecutiva Portuaria Autonoma*
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
COMESA	Common Market for Eastern and Southern Africa
CSO	Civil society organisation
CUTS	Consumer Unity and Trust Society
DAC	Development Assistance Committee
DCI	Development Cooperation Ireland
DFI	Development financial institution
DTF	Devolution Trust Fund
DFID	UK Department for International Development
EPA	Economic Partnership Agreement
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GIC	Growth incidence curve
GTZ*	German Agency for Technical Co-operation *Deutsche Gesellschaft für Technische Zusammenarbeit GmbH*
ICN	International Competition Network
ICT	Information and communication technology
IDA	International Development Association
IFAD	International Fund for Agricultural Development

IFC	International Finance Corporation
IGE	Intergovernmental Group of Experts on Competition Law and Policy
IICA	Inter-American Institute for Cooperation on Agriculture
IMF	International Monetary Fund
IT	Information Technology
IWRM	Integrated water resource management
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KfW*	German Bank for Development – *Kreditanstalt für Wiederaufbau*
MDG	Millennium Development Goal
MERCOSUR*	*Mercado Común del Sur*
MFI	Microfinance institution
MTEF	Medium-term expenditure framework
SME	Medium, small-sized enterprise
MSME	Micro, small and medium-sized enterprise
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental organisation
NORAD*	Norwegian Agency for Development Co-operation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PIA	Poverty Impact Assessment
PIDG	Private Infrastructure Development Group
PIP	Public investment programme
POVNET	DAC Network on Poverty Reduction
PPD	Public-private dialogue
PPP	Public private-sector partnership
PRS	Poverty reduction strategy
PRSP	Poverty reduction strategy paper
PSD	Private Sector Development
PSIA	Poverty and Social Impact Analysis
PSO	Private sector organisation
RADEEF*	*Régie Autonome de Distribution et d'Électricité de Fès*
REDI	Recent Economic Developments in Infrastructure
Seco*	Swiss State Secretariat for Economic Affairs
Sida*	Swedish International Development Cooperation Agency
SME	Small and medium-sized enterprises
SWAp	Sector-wide approach
TAF	Local Capacity Building Technical Assistance Facility
UEMOA*	West African Economic and Monetary Union *Union Économique et Monétaire Ouest Africaine*
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WTO	World Trade Organization
WFP	World Food Programme

* Denotes acronym in original language.

ISBN 978-92-64-02477-9
Promoting Pro-poor Growth
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Pro-poor Growth: Policy Statement

The 2001 DAC Guidelines on *Poverty Reduction* show that poverty has multiple and interlinked causes and dimensions: economic, human, political, socio-cultural, protective/ security. This policy statement focuses on one dimension of that bigger picture – reducing economic poverty through pro-poor growth. In doing so, it looks at the relationship between the economic and other dimensions of poverty and how policies for pro-poor growth and other policy areas need to interact so that, collectively, they can make major and sustainable inroads into poverty reduction.

Three key messages from this work are that:

- Rapid and sustained poverty reduction requires pro-poor growth, *i.e.* a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth. Policies therefore need to promote both the pace of economic growth and its pattern, *i.e.* the extent to which the poor participate in growth as both agents and beneficiaries, as these are interlinked and both are critical for long-term growth and sustained poverty reduction.
- Policies to tackle the multiple dimensions of poverty, including the cross-cutting dimensions of gender and environment, are mutually reinforcing and should go hand-in-hand. Progress in one dimension will be accelerated by progress in others. In tackling poverty, perceptions of policy dichotomies have been misplaced. Policy trade-offs do exist but can be better managed.
- Empowering the poor is essential for bringing about the policies and investments needed to promote pro-poor growth and address the multiple dimensions of poverty. To achieve this, the state and its policy making processes need to be open, transparent and accountable to the interests of the poor. Policies and resources need to help expand the economic activities of the poor.

When implementing the policy guidance on how donors can support and facilitate pro-poor growth, they must bear in mind that the poor are not a homogenous group, that country contexts vary considerably, and that policy implementation must be based on a sound understanding of who the poor are and how they earn their livelihoods. Promoting pro-poor growth requires policy choices to be guided by assessments of their expected impact on the income and assets of the poor.

Rapid and sustained poverty reduction requires pro-poor growth, i.e. a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth.

i) **Both the pace and the pattern of growth are critical for long-term and sustainable poverty reduction.** Economic growth is an essential requirement and, frequently, the major contributing factor in reducing economic poverty. For growth to be rapid and sustained, it should be broad-based across sectors and regions and inclusive of the large part of the workforce that poor women and men make up. Pattern and pace are thus interlinked and need to be addressed together. Policies for sustaining growth such as those aiming at macroeconomic stability, institutional quality, democratic and effective governance and a favourable investment climate should promote the engagement of the poor in economic growth by increasing their incentives, opportunities and capabilities for employment and entrepreneurship.

ii) **A pro-poor pattern of growth makes growth more effective in reducing poverty.** Developing countries with similar rates of economic growth have experienced quite different levels of economic poverty reduction, due to initial conditions and whether growth occurs in areas and sectors where the poor live and are economically active. Policies need to create the conditions and remove the obstacles to the participation of the poor in the growth process, *e.g.* by increasing access to land, labour and capital markets and by investing in basic social services, social protection and infrastructure. As the poor often depend heavily on natural resources for their livelihoods, policies to promote environmental sustainability should also be integral to promoting pro-poor growth.

iii) **Inequality matters.** Inequality of assets and opportunity hinders the ability of poor people to participate in and contribute to growth. High and rising levels of income inequality lower the poverty reduction impact of a given rate of growth and can reduce the political stability and social cohesion needed for sustainable growth. Gender is a particularly important dimension of inequality. Women face particular barriers concerning assets, access and participation in the growth process, with serious implications for the ability of growth to be pro-poor. The growth experience shows that rising inequality is not an inevitable consequence of the growth process, as long as there is a mix of policies that addresses both growth and distributional objectives, strengthens empowerment and deals with gender and other biases (*e.g.* race, caste, disability, religion).

iv) **The vulnerability of the poor to risk and the lack of social protection reduce the pace of growth and the extent to which it is pro-poor.** The poor often avoid higher risk opportunities with potentially higher payoffs because of their vulnerability. In addition, the journey out of poverty is not one way and many return to it because man-made and natural shocks erode the very assets that the poor need to escape poverty. Policies that tackle risk and vulnerability, through prevention, mitigation and coping strategies, improve both the pattern and pace of growth and can be a cost effective investment in pro-poor growth.

v) **Policies need to tackle the causes of market failure and improve market access.** Well functioning markets are important for pro-poor growth. Market failure hurts the poor disproportionately and the poor may be disadvantaged by the terms on which they participate in markets. Programmes are needed to ensure that markets that matter for their livelihoods work better for the poor. Such programmes need to be carefully designed to avoid replacing market failure with government failure. Policies to tackle market failure should be accompanied by measures aimed at increasing economic capabilities of the poor.

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In tackling poverty, perceptions of policy dichotomies have been misplaced. Policy trade-offs do exist but can be better managed.

i) **Policies to tackle the multiple dimensions of poverty should go hand-in-hand**. Poverty is multidimensional. Pro-poor growth will be strengthened by progress on the non-economic dimensions of poverty. More effective policies require a better understanding of these interdependencies. Perceptions of dichotomies (*e.g.* economic *versus* social policies) can be misplaced. The pace and pattern of growth have multiple determinants and consequences and each dimension nourishes (or holds back) the other. Progress on the income poverty Millennium Development Goal (MDG) facilitates progress on other MDGs and *vice versa*.

ii) **Policy trade-offs still exist, but can be better managed.** Policies which promote only one dimension of poverty reduction while undermining others should be avoided. Whenever possible, policies need to be complementary rather than compensatory. Sequencing of policies and investments can help manage trade-offs. Policy choices should be based on understanding the binding constraints through analysis of the growth, poverty and inequality experience and the results of poverty impact assessments. The ability of institutions to handle trade-offs is important for achieving pro-poor outcomes.

For pro-poor growth policies to emerge, the poor need to be informed and empowered to participate in a policy-making process that is accountable to their interests.

i) **The poor need to participate in and influence the policy reform process that goes with poverty reduction strategies (PRSs).** Approaches are needed to increase the voice and influence of poor women and men in order that policy making is evidence-based, rather than determined by narrow vested interests.

ii) **A well-functioning state is important for responding to the interests of the poor**. Effective pro-poor growth strategies need policy and institutional change for which the state, in all its dimensions, is made more accountable to the interests of the poor. The state needs to provide the opportunity for structured public-private dialogue at various levels, including with civil society and private sector actors who are frequently marginalised. The state needs to provide the required incentives, enabling environments and policy and planning frameworks to be more accountable to the voices of the poor.

iii) **Pro-poor reform is likely to require changes to the current political settlement among the diverse interests of different segments of society.** This entails a better understanding of the political economy, power relations and drivers of change, and supporting formal, transparent decision making, strengthening the demand for pro-poor change and building capacity of the state to respond to demand.

For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient.

i) **Donors should focus on supporting in-country policy processes.** Policies for pro-poor growth can only be achieved through country-level processes that are inclusive of the poor and based on country-level analyses. Donors should support the emergence and development of processes that are formal, transparent and take account of the interests of the poor, and conduct their policy dialogue through them. Donors should support measures to empower the poor in these policy processes and build the country-level capacity to undertake analyses, including poverty impact assessments.

ii) **Donor support needs to be flexible and responsive to country situations**. The type of support provided needs to take account of the level of development, the policy environment and the extent to which there is a well-functioning state. Donors need to adapt their approach to fragile and failed states and more research is required to inform this process.

iii) **A pro-poor lens on areas important for pro-poor growth, such as private sector development, agriculture, infrastructure and risk and vulnerability, requires a rethinking of donor agendas.** The importance of these areas for the pace and pattern of growth has been underestimated. New approaches to strengthen the contributions of private sector development, agriculture and infrastructure have been developed by the DAC. Work on risk and vulnerability/social protection/human security is ongoing.

iv) **Donors need to enhance their organisational capacities to effectively support country-led, pro-poor growth.** Donors need to provide appropriate support and incentives to field staff, build multi-donor and multidisciplinary teams at the field level, and empower them to negotiate, co-ordinate and implement programmes. Recent progress to establish such teams in several partner countries should be replicated.

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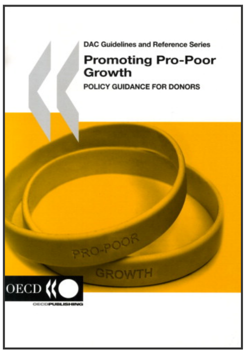
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