Chapter 2 highlighted the failure of Poverty Reduction Strategies (PRSs) to give adequate attention to the chronically poor when formulating policies to tackle poverty. This is especially so when it comes to economic growth. Many PRSs lack an adequate conception of what it means to be chronically poor – often ill, often uneducated, with few (if any) productive assets. They are therefore largely bereft of ideas on how to effectively connect chronically poor people to the growth process, and what to do for the chronically poor who are left out.

Accordingly, this chapter discusses what economic growth means for chronic poverty, and highlights processes connecting growth to poverty. The chapter highlights important policy levers in relation to agriculture, urbanisation and social protection. In doing so, it touches upon two chronic poverty traps – poor work opportunities, and spatial disadvantage – and has a direct bearing on two policy areas to tackle chronic poverty – building individual and collective assets, and strategic urbanisation and migration. The chapter also outlines the broad growth context, within which all five policy areas to tackle chronic poverty are located.

Generating revenue is discussed in Chapter 6.

A. Introduction

Economic growth arises from many activities, both big and small. When Tanzanian women grow more food to feed their families they add to the economy’s gross domestic product (GDP) and growth rate, as do Bangladesh’s micro-entrepreneurs when they achieve higher output. Their value-added should count alongside the output of large factories, plantations, mines and oil wells – the large and very visible producers of the ‘modern’ economy. Nevertheless, the growth generated by small farmers and micro-entrepreneurs is often underestimated (in part because it is more difficult to measure than the output of big producers). In addition, a great deal of essential human activity is not recorded as GDP; for example, the time that Tanzanian women spend on childcare, as well as caring for their families, especially the sick. Growth that is achieved by destroying rather than husbanding natural capital, such as soils, water, forests and biodiversity, raises GDP only temporarily – it is ultimately unsustainable, and lowers rather than raises national income. So, current ways of measuring economic growth do give an important indication of development, but are very far from telling the whole story.

The link between eradicating chronic poverty and higher growth is direct, if the chronically poor are among farmers achieving higher output (resulting from the successful adoption of a new seed technology, for example) or among micro-entrepreneurs selling new products and services (resulting from investments financed from micro-loans, perhaps).

The link is less direct, but still clear, when the chronically poor exchange their labour for wages, by working for smallholders, large farmers and manufacturers (both large and small). In all of these cases, the chronically poor are participating in the process of economic growth, sharing in society’s increasing value-added, either as producers themselves or as employees – frequently switching between or integrating farm-based, non-farm and labouring activities.

The third, and often ignored, relationship between growth and poverty is the fiscal link, where growth raises the revenue base and therefore the potential for pro-poor public spending. We examine this in Chapter 6.

Our evidence on how the chronically poor relate to growth is fragmentary. But what we do know indicates limited participation. The chronically poor are often found in the regions with the least agricultural potential and furthest from the best national markets, being ill-served by transport and communications infrastructure. This effectively locks them out of national growth processes (and globalisation’s benefits). In the worst cases, people are too sick or physically impaired to labour, or old and infirm after a lifetime of backbreaking work. The healthy work hard, but without much education their opportunities are limited. Work may enable survival, but the work itself can be demeaning and dangerous. Modern slavery takes many forms, including bonded labour and the trafficking of women and children into prostitution. And children are too often found in work when they should be in school, thereby not only perpetuating chronic poverty across the generations, but also reducing society’s stock of human capital (and therefore growth itself).

B. Poor people and the growth process

The healthy work hard, but without much education their opportunities are limited. Work may enable survival, but the work itself can be demeaning and dangerous. Modern slavery takes many forms, including bonded labour and the trafficking of women and children into prostitution. And children are too often found in work when they should be in school, thereby not only perpetuating chronic poverty across the generations, but also reducing society’s stock of human capital (and therefore growth itself). Less dramatically, many chronically poor people depend on work which is insecure, low paid, unhealthy and unsafe, and have little scope to improve their situation.
Economic growth and chronic poverty

Box 30: Poor working conditions

Poor working conditions have blighted the lives of Vuyiswa, Angel and Bakyt. For Vuyiswa, working under the apartheid regime in Cape Town limited her employment rights and prospects. In the 1980s Vuyiswa needed to straddle urban Cape Town and the rural Eastern Cape, but with no security of employment, her trips back to her rural home led to her dismissal on more than one occasion. Moreover, when working for another household, she lost her job when she broke her leg, as she was unable to service the needs of her employers. Angel had a similar experience of domestic work in the Midlands, Zimbabwe. As a young migrant to town, she was lucky and found work as a ‘house girl’ for a middle class family. But after a year she had to leave, as her ‘madam’ was not paying her. Having nowhere to go, she moved to an informal settlement, built a shack, and re-started her life. But, as her life story shows, living and working in the informal sector did not improve Angel’s life.

Eleven-year-old Bakyt, and his two brothers, work in a private coal mine, earning income to support their family. The brothers work in extremely small mine shafts, lugging sacks of coal out on their backs. Working in the mine is dangerous: the shafts have no supports and could collapse at any time. Due to their poor diet, hard work and poverty, the brothers and their sister are frequently sick. But working for 12 hours in the mine puts food on the table, which allows them and their disabled mother and grandmother to survive.

The example of Maymana and Mofizul illustrates the difference better working conditions can make. Due to their extreme poverty, and Maymana’s inability to find work (due to her age, ill health and deafness) Mofizul entered the labour market when he was only 12. But due to his lack of education and physical impairment (a hunched back), his wages were extremely low. As he grew older, his wage rate increased from one-sixth to one-half of the adult male rate (although such work was often sporadic). More recently, Mofizul has been working in a brickfield and has started earning the full male adult rate. From this, Mofizul has set aside a significant portion of his earnings, and has invested these savings in the house he and Maymana share.

C. Disaggregation matters for policy

Globalisation is changing national (and local) prospects for growth. While many commentators in the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO) assume globalisation to be largely benign, nobody can predict with any certainty what the exact economic effects will be, for either the poor or for what is now called the ‘anxious middle’. Moreover, much of the discussion of globalisation, growth and poverty is bedevilled by an assumption that the poor are a broad homogenous mass, and that if growth can only be achieved, the poor will be sucked into the process by some means or other – as if poor people have equal assets, mobility and talents. There is significant differentiation among the poor, as indicated above, and this matters greatly for policy. A farm household that is just below the poverty line, but which can sell some surplus output, can be rapidly lifted out of poverty by a new policy (a market reform, perhaps), a new public investment (in infrastructure, for example) or a new technology that generates higher output and raises returns on their investments (in their land and human capital, especially). Asia over the last 40 years – first South East Asia, South Korea and Taiwan, and then China – illustrates what can be achieved under conditions of rapid economic growth, when the right policies, infrastructure and technologies are put in place. Still, not all poor people benefit equally from growth and some do not benefit at all.

The chronically poor often experience food deficits, with little prospect of raising output in response to new opportunities, and illness may prevent them from participating effectively in a growing labour market. In a growing economy the chronically poor may well fall behind the poor in general. In the worst cases, their situation may deteriorate – if, for instance, they have insecure tenure, they may lose their land to the more powerful as its commercial value rises with economic growth. This may indeed be a strategy of local wealthy elites, forcing the chronically poor into a labour market which they (the elite) control – an example of being adversely incorporated into the growth process, rather than benefiting from it.

This differentiation among the poor also matters for how we think about the large-scale processes now at work in the global economy, and their implications for poverty and growth. International trade has immense potential to lift people out of poverty, especially in very small countries, many of them African, where the size of the internal market limits growth through import-substitution (part of the success of the large economies of China and India). The presently stalled WTO Doha round has been sold as a big leap forward for the world’s
poor, and it may well be – if it is ever implemented.  But the benefits of improved systems of global trade can exclude the chronically poor when they are not linked to the new trade-led growth process. For example, if the chronically poor live in regions where possibilities for export crop farming are very limited (as many do), they will not benefit greatly if rich countries ever reduce their farm subsidies. Some of the able-bodied chronically poor may find work on farms that can respond to the new export opportunities. But among the many chronically poor families who depend on purchased food – the landless, smallholders who do not produce enough staple food to cover household needs, and the urban poor – further increases in global food prices that follow subsidy removal could reduce their already low food consumption levels (see Box 31).

**Box 31: Food prices, growth and chronic poverty**

Since 2003 global food prices for major staple crops have been on the increase. Since 2006 these price rises have escalated rapidly, fuelled in part by oil price rises (Figure 3). This is mainly a result of growth and consequent changing consumption patterns (more meat, vegetables, oil and fish) in China and other fast-growing and urbanising developing countries, as well as changes in OECD demand and policies on biofuels. Most analyses have concluded that prices will continue to rise in the medium term, even if not at the same pace, as the causes are structural.

Governments and international organisations are both keeping a close watch over food price inflation. It can be politically dangerous, especially for authoritarian states. The urban poor may resort to street protests if price increases are too great. Rural discontent can be a big worry for countries with large spatial inequalities (in China, for example, where many rural people have not shared in the globalisation-driven economic boom). Food riots have already taken place in Haiti, Indonesia and Pakistan, and an illegal strike in Egypt. Some governments are stepping up price controls: China, Russia and Thailand have all capped basic food staples. Malaysia is planning to stockpile basic foods, Venezuela is threatening to expropriate food companies that hoard. And China, India, Egypt and Vietnam have all restricted rice exports to boost domestic supply.

We have been here before: the 1970s saw the widespread adoption of price controls (which then create black markets and reduce producer incentives, thereby exacerbating shortages) and large government subsidies to contain the consumer price of food (fiscally ruinous unless you have generous oil revenues). Governments often swear that these measures are temporary, but they are politically very difficult to remove once in place.

Eventually food output should rise to dampen some of the price rise (although this effect could be muted by growing demand for biofuels). The chronically poor have very few means to cope with even small price increases. So even if production does rise eventually, the chronically poor could still suffer badly from rising food costs. Measures such as social protection and targeted nutrition interventions can help. Broad consumer food subsidies often benefit the rich more than the poor, since the rich consume more food.

Sources: based on Wiggins and Levy (2008), IFPRI (2007)
Global agricultural trade liberalisation therefore cuts two ways as far as the chronically poor are concerned. Simulations concluding that implementation of the (unlikely) scenario of full agriculture and manufacturing liberalisation will lift 95 million people out of poverty must therefore be questioned. Likewise, rapid global growth is associated with rising energy demand (especially in Asia), higher oil prices (increasing demand for biofuels), and changing patterns of food consumption, resulting in rising global food prices, after years of relative decline (see Box 31).

Enough has been said to convince the reader that differentiation among the poor matters. This is why econometric (cross-country) studies that find large benefits from growth for the poor must be approached with caution. One of the most popular studies finds that poverty declines by 1% for every percentage point of growth. It is not that growth cannot have sizeable benefits for the poor, it is that such studies do not give us the detail of how poverty is linked to growth. It is perfectly possible for poverty in general to fall with growth, while chronic poverty rises, for the reasons discussed. Finally, cross-country regressions cannot capture the adverse incorporation that sometimes characterises the relationship of poor people to economic growth. For these reasons, many NGOs working with the chronically poor rightly distrust grandiose statements about what growth can do for ‘the poor’. At the very least, social protection must be put in place for chronically poor people, to help them cope with globalisation’s downside.

### D. Transformative growth

Economic growth itself is marked by sectoral shifts in the composition of output and in the location of economic activity – a decline in the relative GDP share of agriculture and an increase in the shares of manufacturing and services (known as transformative growth). This is not to say that agriculture becomes unimportant; agriculture’s share of output will eventually fall as growth accelerates, but this relative decline need not imply a fall in agriculture’s absolute level of output. It may just mean that agriculture grows, but at a slower pace than manufacturing and services. This distinction is important for the chronically poor, since they are likely to be the last to exit agriculture for new opportunities elsewhere. Resource-rich Nigeria experienced growth in the 1970s. Smallholder agriculture contracted sharply as Nigeria’s oil economy boomed (imposing ‘Dutch Disease’ effects), leaving the poor vulnerable to the subsequent (and inevitable) macroeconomic downturn. In contrast, and also during the 1970s, Indonesia’s agriculture continued to grow (with staple food prices declining in real terms as productivity rose, to the benefit of food-deficit poor households), in the context of strong growth in the oil sector and manufacturing. With the macroeconomic effects of oil wealth well-managed, revenues were reinvested back into rural areas.

Sub-Saharan Africa is now seeing growth (above 5% annually since 2005), in comparison with the stagnation and decline of the recent past. Some of this is occurring within the smallholder sector, and is therefore beneficial to Africa’s chronically poor. But long-standing constraints, including institutional problems and a high incidence of landlocked countries with inadequate infrastructure, hold back the region’s progress in achieving structural change, and high world demand for sub-Saharan Africa’s minerals is the main driver of growth. Investments in processing will add much needed value to the mineral sector (through the pro-poor public spending that can be funded by the increased revenue generated by growth – see Chapter 6). West Africa’s energy-rich countries have an advantage in creating energy-intensive manufacturing sectors (using natural gas as fuel, much of which is presently burnt) and thus have the possibility of achieving the structural change that characterises transformative growth. In contrast to Africa, much of Asia is already undergoing transformative growth, involving fast structural change – including the creation of entirely new activities that push economies up the value chain (India’s export of IT services, for example).

Whether growth generates large-scale structural change has major implications for poverty. Take, for example, the cases of Ethiopia and Vietnam, two countries investigated in a series of studies for this report. Growth has been sustained in both over the last decade, but Vietnam has experienced transformative growth – involving the creation of new export-manufacturing activities – whereas Ethiopia has not: agriculture’s share of output is much the same as it was ten
years ago. This shows up in the poverty outcomes. Evidence from an Ethiopian rural panel survey (from 1994 to 2004) indicates improving consumption levels (although with high variance due to climatic factors) and a fall in poverty: 27% of households exited poverty and only 13% entered poverty, giving an exit-to-entry ratio of 2.1:1. However, most people remain dependent on the vagaries of an agricultural livelihood, with little non-farm employment available (and high rates of urban under-employment).

In contrast, the rural panel in Vietnam shows that 14.4% of households exited poverty and only 5.8% entered poverty, giving an exit-to-entry ratio of 2.5:1 within a much shorter timeframe (2002-04). Despite the clear benefits of transformative growth in Vietnam, poverty remains stubbornly high in the North West Central Highlands, which has a high concentration of Vietnam’s ethnic minorities, who suffer from social discrimination (see Chapter 5).

Therefore, the first policy issue, where possible, is to put in place an effective development strategy that leads to transformative growth, maximising opportunities for the poor to escape through improved livelihoods. Historically, this has been through the construction of a developmental state.

Developmental states
Developmental states are usually conceptualised in terms of their ‘embedded autonomy’ vis-à-vis economic and social forces, the presence of a developmental political elite and a powerful, insulated economic bureaucracy. However, a less tangible but equally critical characteristic of developmental states concerns the particular types of relationships or ‘growth coalitions’ that exist between the state and the representative interests of business and labour, particularly emergent capitalists and industrialists. It is these relationships that enable developmental strategies to emerge and gain legitimacy, and through which a sense of common purpose around national development strategies can be built. Recent research by the Research Consortium on Institutions for Pro-Poor Growth shows that state–business relations in particular are central to promoting growth. They help to reduce market and coordination failures, ensure a more appropriate allocation of resources, and increase state credibility among capitalists. They also enable the state to guide and (where required) discipline capital in line with broader developmental goals. The importance of such relations to the forms of growth required to reduce chronic poverty are illustrated in Box 32. Promoting developmental states is no easy thing, particularly if we understand developmental states in terms of productive sets of relations that ebb and flow over time. Institutions, and the relations that underpin their workings and impacts, cannot be easily manufactured, particularly from the ‘outside’.

Box 32: Getting on – the relational basis of developmental states

The successful developmental states of East and South East Asia (most of which are full or partial Consistent Improvers) were characterised by productive synergies between political and economic elites. State–market alliances operated with great success in terms of industrial policy and financial market governance, whereby concerted efforts by the state enabled it to harness the energy and productivity of capital. Social forces, usually in the form of unions, were later brought into such coalitions as in South Korea. This in turn mirrored the experiences of countries such as Sweden and Japan, where the ruling parties forged a formidable and corporatist coalition with both business and labour. Importantly, the re-ordering of these relationships in South East Asia in the 1980s and 1990s had devastating impacts. Financial market liberalisation allowed private interests to gain the upper hand in public policy processes via the central bankers charged with protecting the national interest.

Among Chronically Deprived Countries, a more common story concerns the absence of such relations. Zambia, where living standards are now lower than they were in 1975, is illustrative. Here, economic policy reforms in the 1990s undermined the potential for ‘corporatist’ type relations between state, capital and labour to emerge. Instead, the resulting high levels of unemployment, declining incomes and economic uncertainties all weakened the associational base for agriculture, business and labour alike, thus depriving key sectors of a basis on which to forge relationships with the state. This significantly weakened the structural linkages between these forces and the state and foreclosed any potential for a developmental state to (re-)emerge.

Sources: See Endnotes
In this respect, it is not sufficient to stress the importance of ‘getting the institutions’ right, or of building state capacity. Institutions are critical, but the institutional patterns associated with developmental state success are too varied for us to generalise. In any case, the ‘pro-poorness’ of state institutions and policies is determined as much by the relationships that exist between state and market actors, and the political processes that link them, as by the institutions themselves. Building state capacity is clearly a pressing imperative, but the governance agenda that many donors adopt has a narrow strategy (predominantly focusing on corruption and its reduction). While this is certainly desirable, it is not sufficient for stimulating growth, and donors have seldom focused on the capacities that states have historically required to promote transformative growth strategies (see Box 33).

Some steps towards enabling and building progressive state-business relations can be easily identified. Umbrella associations for private sector interests, which can draw together capitalist forces and provide a point of engagement for government, can, and should, be encouraged. The inclusion of labour and civil society actors in such engagements offers an important mechanism for controlling the potentially damaging forms of collusive behaviour that can emerge within state-business relations. (As the Asia crisis of the late 1990s revealed, there is a fine line between developmental statism and crony capitalism.) And as growth builds the power of private capital, it is essential to build state capacities to check the rent-seeking behaviour of capital and impose market discipline and competition. Finally, more should be done to include the interests of business and labour within key processes, such as Poverty Reduction Strategy (PRS) processes (see Chapter 2) and the budget. One example comes from Uganda, which in the late 1990s institutionalised two working groups at the apex of the budgetary process – the Private Sector Working Group and the Poverty Eradication Working Group – who vetted all proposals coming up from sector working groups. This type of institutional innovation offers a practical way of incorporating interest groups into key political processes.

Achieving poverty reduction through promoting transformative growth is more complex than often allowed for. As we have seen, the influence of growth on chronic poverty is ambivalent, and this is especially the case with transformative growth. Poverty exits are greatest when the chronically poor participate in the new patterns of transformative growth – directly or indirectly – and when growth allows for greater revenue from taxation to invest in poverty eradication (see Chapter 6). However, transformative growth does not necessarily provide increased opportunities (directly or indirectly) for the chronically poor. Measures are required to maximise inclusion in growth processes, and provide protection for those that are excluded. There is also no doubt that transformative growth can make things worse for the chronically poor – through increasing inequality, restructuring labour markets, or forced displacement. But this is not to say that countries should not aim for transformative growth. When shifts in the sectoral composition of an economy harm the chronically poor, social protection policies that mitigate the adverse effects of growth on the chronically poor are vital (see Chapter 3).

**E. Growth and strategic choices**

Making the best use of a country’s comparative advantages in international trade must be at the centre of an industrial policy. This is the case even in countries where larger populations offer more prospects for growth led by domestic demand. International trade is associated with foreign direct investment and technology transfer, when governments provide the right institutional environment. Whatever the mix of market mechanisms and state controls that are used...
to achieve this – and these vary greatly across countries – it is imperative to build an effective system of public finance to fund investments in high-return infrastructure, human capital and developmental institutions. These are all factors that improve a country’s chance of successfully integrating in the global economy. This is the case whether a country opts for a market-led developmental model (which still requires a high level of public goods provision) or goes for an active industrial policy (which requires generating revenue to finance the necessary mix of fiscal incentives for investment, institution-building etc.).

Industrial policy itself receives mixed reviews. Those of a neoliberal persuasion are strongly against it, while structuralists point to success in East and South East Asia. Certainly, there are examples of badly thought-out projects, that yielded little or nothing for development and squandered public money. In some cases, public money was transferred into the pockets of those powerful enough to bend industrial policy towards their own private gain – part of the sad story of how Nigeria dissipated its oil wealth in its first three decades of independence. The billions lost in this way could instead have funded large-scale human capital investment to sever the inter-generational transmission of poverty. This is illustrated by the CPRC analysis of Demographic and Health Surveys (DHS) data from both Nigeria and Kenya – both examples of countries where excessive private gain has limited the provision of basic public services (see Box 34).

Equally, industrial policy has registered some spectacular successes, not least when it has moved countries rapidly up the global value chain – notably in Singapore, South Korea, Malaysia and Taiwan – contributing thereby to rapid employment growth and poverty reduction (including the elimination of spatial poverty traps). The country that has achieved the most in lifting people out of poverty over the last decade is China, with its unique blend of state capitalism (an inspiration to Vietnam’s own success in chronic poverty reduction, as discussed earlier). The World Bank, which distrusts industrial policy (not least due to experiences such as Nigeria’s), nevertheless implicitly practices a version of it. The Bank provides billions to fund infrastructure, which implies that it has a view on the sectors that will yield the highest returns on the investment. In summary, industrial policy per se is neither good nor bad – rather, there are good and bad industrial policies, whereby individual policies are a good fit for the politics, institutions and state-capabilities of some countries, but a bad fit for others.

To look more closely at policy we now move into a more detailed discussion of agriculture and poverty, strategic urbanisation and then urban poverty. Policy in mineral-rich economies is reserved for the discussion of fiscal policy in Chapter 6.

Box 34: Evidence from Nigeria and Kenya

Demographic and Health Surveys (DHS) data

DHS data from Nigeria and Kenya show how the poorest quintile still lacks access to basic child immunisation services and to safe water – very straightforward public services that are vital for interrupting the intergenerational transmission of poverty. Moreover, between 1990 and 2003 in Nigeria, and 1998 and 2003 in Kenya, there has been no appreciable improvement in access to safe water, and the proportion of the poorest quintile whose children are not fully immunised has worsened.

Source: CPRC DHS analysis, see Annex H
Making agriculture work for the chronically poor: infrastructure, education, information

Spatial inequalities abound that have been created by differences in regional endowments of natural capital, location and infrastructure. Moreover, globalisation is exacerbating the trend towards greater spatial inequality. These problems are particularly acute when regions are poorly incorporated into the political economy and processes of state formation. Most rural communities themselves are also characterised by large inequalities that determine the spread of growth’s benefits. However, agriculture can be a strong motor for reducing chronic poverty, and plenty can be done to make agriculture work for the chronically poor. CPRC research on rural poverty dynamics in Vietnam, Uganda, India, Nicaragua and Ethiopia highlighted three pillars that can contribute to creating paths out of rural poverty.

The first pillar is infrastructure. The evidence suggests that infrastructure defines the terms on which the chronically poor access markets. Transport infrastructure gives households greater opportunities to gain from specialisation in production (by opening larger markets to them), increases the numbers of traders in local markets (thereby diluting the power of local monopolies and monopsonies), improves food security (by easing the timely transfer of grains from surplus to deficit regions), and reduces the travel costs of those seeking work outside their immediate locality.

These effects notwithstanding, we need to know much more about infrastructure’s implications for the chronically poor. While these appear to be mainly positive, there may be a downside (for example, through increased exposure to import competition), and the scale of the benefits is largely unknown. Harder evidence is important in framing investment choices – especially now that infrastructure investment has risen again to the top of the World Bank’s priorities (China also emphasises infrastructure in its growing aid to sub-Saharan Africa and Latin America). It is critical to making decisions about allocating public money to infrastructure compared with spending it on basic social services and cash transfers – instruments of great importance to chronic poverty reduction, and ones for which we have more evidence (largely positive) than for infrastructure.

Addressing the politics of spatial inequality – whereby some chronically poor regions such as Northern Ghana, Northern Uganda and the ex-homelands of South Africa often still act as labour reserves for ‘productive’ sectors of the economy – is a larger challenge still. Although infrastructural development is part of the solution, more political action is also required. The genuine decentralisation of consultation, power and resources within a strong regional planning policy may play a useful role – although the broader task is to re-draw a more inclusive social compact between the centre and such peripheral areas (see Chapter 6).

The two further pillars for making agriculture work for the chronically poor are education and information. Education can be important in creating ways out of rural poverty through:

- increasing productivity within agriculture (the activity in which the majority of the chronically poor will continue to be engaged);
- enabling households to access non-agricultural activities – a likely avenue for exiting poverty; and
- facilitating successful migration to urban areas, which can be an escape route from poverty (those with higher educational levels move sooner, and have greater success in attaining reasonable employment).

The level of education required to enable people to move out of poverty varies between and within countries. For example, in the Vietnam hills, lower levels of education are required than on

Box 35: How infrastructure helps reduce poverty in rural Uganda

The village where Moses and Gladys live – Kalangaalo, Mubende district, Uganda – shows how connectivity and infrastructure provide numerous benefits to rural households. Kalangaalo contains over 1,500 people from numerous ethnic groups who have settled in the area. Most households rely on farming: potatoes, beans, maize, sweet potatoes, bananas and tomatoes are major crops (coffee is not any more, due to disease and low prices). Over 90% of the households also keep livestock, especially pigs, chickens and cattle. Recent improvements in road and physical infrastructure have been central to improving the livelihoods of villagers. Kalangaalo lies adjacent to two feeder roads which, prior to 1998, were in very poor condition. The district council regraded both in 1998, making them passable in both wet and dry seasons. Sub-county local government now maintains these vital arteries, along with the local council, which mobilises villagers to conduct repairs. Improved roads have increased farm-gate prices for both crops and livestock (due to greater competition), and have provided easier access to district markets. Horticulture has expanded rapidly – a needed replacement for declining coffee yields. Moreover, the non-farm rural economy (for example, brickmaking, vending, beer brewing and tailoring) has expanded, due to increased demand for goods and services associated with improved on-farm incomes. Young men now engage in boda boda (motorcycle taxis) to link the village with urban centres, and the weekly market is thriving. Kalangaalo has also benefited from new schools, health clinics and new boreholes. Whilst Moses and Gladys do not appear to have benefited from this dynamic rural economy (as they own no livestock, few utensils, and few clothes), such infrastructure investment should, in time, benefit many of their nine children.

Source: LADDER (2001), Bird and Shinyekwa (2005)
Chapter 4

Box 36: Climate change and poverty reduction in sub-Saharan Africa

While the specifics of climate change impact are unclear and contested, two general trends in sub-Saharan Africa can be discerned. First, that episodes of heavy rainfall and drought are likely to become more frequent and severe, and that precise prediction of these events will remain difficult. Second, in the longer term, rises in temperature are expected to have negative impacts on crop yield and on areas of cultivable land. In general, nearly all future scenarios indicate that Africa is expected to be the worst hit world region. In the longer term, some models predict up to a 9% decrease in potential agricultural land by the 2080s and reductions in yields of up to 10% and 18% for cereals and maize, respectively, by 2050. However, the increased frequency and severity of hot spells and heavy rains is likely to have an impact on agricultural growth patterns in Africa much sooner. The recent Intergovernmental Panel on Climate Change report predicts such changes as ‘very likely’, with over 90% probability of occurrence. What implications do these changes have for agriculture-led poverty alleviation policies in sub-Saharan Africa? Current approaches highlight the critical role of agricultural productivity in stimulating agricultural growth and poverty reduction. This approach broadly adheres to the dominant ‘small-farm-first’ orthodoxy in rural development, which argues that labour-intensive, smallholder-led increases in yields can address both growth and equity goals at once: directly (through income increases), and indirectly (through increased employment and demand for goods and services). Small farms are generally owned and operated by the poor, often use locally-hired labour, and distribute income within nearby locales, creating multiplier effects throughout the local economy. Here we highlight two ways in which climate change might challenge this current policy approach: focusing on the ‘trigger’ for agricultural growth processes; and generating a dynamic, non-farm rural economy.

‘Trigger’ for agricultural growth may be jeopardised: First, climate change raises a question about the source of agricultural growth. Here, the relationship between land and labour productivity is crucial. For countries in the early stages of the rural growth process, both land and labour productivity must rise, but land productivity must rise faster than labour productivity – to absorb surplus labour, create employment, and stimulate demand for non-farm goods and services. In light of the projected decreases in agricultural land availability, and increases in low potential land, this ‘trigger’ for the rural growth process is arguably less likely to occur in the context of climate change.

Unpredictable agriculture means growth multipliers may not work: Second, climate change may reduce the likelihood of ‘multipliers’ stemming from agricultural-led growth. Increases in farm-based income are closely linked with increases in non-farm income, e.g. from vending, petty trading, provision of everyday services. This is especially pronounced in broad-based smallholder-led agricultural growth – local labour is hired, income is spent locally. However, a dynamic, non-farm rural economy requires consistent and stable increases in agricultural incomes – diversification into non-farm activities will only occur significantly when demand for goods and services at the end of agricultural cycles is regular and constant. As we have seen, the only certainty regarding climate change is increased variability: what is the likelihood of sustaining non-farm rural growth where agricultural incomes are increasingly unpredictable?

These arguments suggest that there might be a limited window of opportunity to ‘trigger’ the rural growth processes necessary if current strategies for agricultural growth and poverty reduction in sub-Saharan Africa are to succeed. If climate change impacts are greater and sooner than previous models have suggested, it may be only two or three decades before this becomes much harder: a clear reason to redouble efforts at stimulating smallholder-driven rural growth processes and poverty reduction immediately.

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These arguments suggest that there might be a limited window of opportunity to ‘trigger’ the rural growth processes necessary if current strategies for agricultural growth and poverty reduction in sub-Saharan Africa are to succeed. If climate change impacts are greater and sooner than previous models have suggested, it may be only two or three decades before this becomes much harder: a clear reason to redouble efforts at stimulating smallholder-driven rural growth processes and poverty reduction immediately.

Source: Prowse and Braunholtz-Speight (2007)
to undermine the viability of some rural livelihoods, increasing environmental stress through increased variability in temperature and rainfall. In addition to the chronically poor lacking assets and capacity to respond to the increased frequency and intensity of shocks, climate change poses some difficult questions for current agriculture-led strategies for poverty reduction (see Box 36).

**Strategic urbanisation and reducing spatial inequalities**

A thriving urban centre often facilitates poverty exits in both the urban centre itself, and in nearby rural areas. Urbanisation has a positive impact through numerous channels:

- labour markets and wage levels;
- migration opportunities (via the escape these can provide from adverse socio-economic relationships at home, and the remittances they can generate for those left behind);
- demand from urban centres for goods and services produced in the hinterland, especially for higher value agricultural produce;
- improved access to public services, which build human capital; and
- changes in norms and values.

Many of these effects have an impact on urban residents, migrants and commuters, and the many rural people affected by the ripple effects of a city. Urbanisation is a broad socio-spatial transformation, which often takes place rapidly, alongside some form of industrialisation. It is a critical engine (as well as a consequence) of economic growth, which breaks down urban–rural boundaries and shakes up social structures, and can loosen the bonds of patronage (or at least create less persistent forms of patronage). Over time, urbanisation tends to improve poor women’s access to resources and politics, and provides opportunities to include the poor in social movements and formal politics.

Urbanisation creates the possibility of agglomeration economies, and better developed financial and other business services. It therefore provides important opportunities for investments and growth in neighbouring rural areas. Urban centres can bring substantial benefits to adjacent rural regions (see Box 37).

Regional development can promote a pattern of dispersed urbanisation, giving the widest access to urban centres, and promoting balanced regional development. A good example comes from Vietnam. Purposefully targeted regional development policies in the provinces around Hanoi, DaNang and Ho Chi Minh City have encouraged the development of urban growth poles. These areas now account for 96% of foreign direct investment (FDI), 80% of Vietnam’s exports and 67% of state income.29 The extent to which such urban poles can be achieved clearly depends on the planning legacy of countries. In China and Vietnam, urban growth policies have relied on restrictions on rights of residence, on the informal sector, or on the provision of services.

There is an important role to be played by small and intermediate urban centres. This is especially the case if agricultural and other products generate high returns – rural inhabitants then have enough income to purchase goods and services locally, and local traders have the capacity to respond to demand. Such a role is less likely when foreign and national competition prevents enterprise development.30

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**Box 37: Has urbanisation reduced rural poverty in India?**

India has particularly rich district-level data on population change, economic growth and poverty. Background work for this report assessed whether, and to what extent, urban growth in India’s districts between 1983 and 1997 had any effects on rural poverty in those districts. The study measured the effect of urban growth on the incidence of rural poverty and severe poverty.28 Preliminary results suggest that urban population growth has a very significant effect on reducing rural poverty. A 20% increase in urban population in a district is associated with a reduction in the incidence of poverty in rural areas of one-third. This effect is still highly significant after controlling for economic growth, the urban poverty rate in the district and other significant variables such as change in climatic conditions. The results are equally strong when using the poverty gap as the measure of poverty – indicating that urban population growth has positive effects also for the very poor in rural areas. Importantly, the results still hold when the largest cities are excluded.

Source: Cali and Menon (2008)
Urban development has typically been viewed by policymakers through a myopic lens – focusing within city boundaries, and not on the economy and society as a whole. Instead, an aggressive national urban policymaking approach could plan infrastructure, in order to:

- link poor regions with economic potential more effectively to urbanising regions;
- systematically encourage the urbanisation of poor regions, where growth is limited; and
- enact policies so that urban labour markets do not discriminate against disadvantaged categories of people.

None of this is to say that urbanisation does not have a downside. Cities can be the site of exclusion, of ‘unsustainable livelihoods’, and of oppressive criminal, semi-criminal and negative patronage relationships. And, as explained in Chapter 1, urban poverty is a growing challenge in many developing countries. Our comparison of DHS data suggests that the deprivation of the poorest inhabitants of cities in Bangladesh, Kenya and Nigeria is worsening in recent years (Box 38).

Overall, urbanisation offers considerable potential to include and equalise gender relationships, and enhance agency and economic choice, but it is no panacea. It requires regulation and management, with these objectives in mind.

In summary, there are many challenges in ensuring participation by the chronically poor in growth. Securing their property rights, building their assets, allowing them to access markets and information on fair terms, and investing in their human capital are all imperative – but also expensive. This is where the revenue dimension of growth – the third link between growth and poverty – becomes vital. Growth itself generates a rising tax base that can fund pro-poor action (such as our five policy areas), but only if the necessary tax institutions are built (see Chapter 6). However, much of our discussion about growth and the chronically poor relates to good policy environments, and not to Chronically Deprived Countries (CDCs). So, how is the link between growth and reducing chronic poverty different in CDCs? Part of the answer to this question was discussed in Chapter 3: social assistance can form part of an alternative engine of growth, as long as concomitant investments are made in infrastructure (where the rural poor can benefit from public works schemes) and through increasing and diversifying the provision of financial services.

Urban cooperatives and membership-based organisations of the poor – such as federations, savings groups and grassroots organisations – offer a means to increase political voice, access government services, and claim political entitlements – especially for women. Such groups may form into social movements which can mobilise around key issues, such as housing (see Box 39).

Wider measures also include pursuing labour-intensive growth paths, relaxing informal sector regulation, and facilitating access to financial services. Urban development has typically been viewed by policymakers through a myopic lens – focusing within city boundaries, and not on the economy and society as a whole. Instead, an aggressive national urban policymaking approach could plan infrastructure, in order to:

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However, managed urbanisation can minimise the downsides and promote the upsides, for both migrants and existing urbanites. Good ‘urban governance’ – through public investments in basic public services, and providing a legislative framework for security of housing tenure – can provide migrants with some security and opportunity to prosper. Land and housing are key assets in the urban economy, just as living in poor quality housing in unofficial or illegal settlements contributes both to ill health and insecurity. Wider measures also include pursuing labour-intensive growth paths, relaxing informal sector regulation, and facilitating access to financial services.

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Offer a magic elixir for growth. In the history of development value tourism, or in sectors with low transport costs, mountainous terrains may find economic growth in high-value tourism, or in sectors with low transport costs. Those with sectors or tourism, that is at least until rising living standards provide more domestic market opportunities. Those with mountainous terrains may find economic growth in high-value tourism, or in sectors with low transport costs. None of this is easy, and this report does not pretend to offer a magic elixir for growth. In the history of development ideas there have been too many attempts to push one approach to growth, leading to cycles in fashion. Rather, we insist that in framing development policy, great weight must be given to the needs of the poor and any development policy must pass the test of poverty reduction. Thus, it is not enough to offer the general hope that a particular industrial policy will yield poverty reduction by raising growth. Instead the linkages must be firm and the timescale reasonable. Otherwise, the funds committed to the necessary investments to support growth would be better spent on primary and secondary education, basic healthcare, and safe water and sanitation – areas where we know that there are high payoffs for human development, and at least some return to growth.

We do, however, see much promise in linking social protection more effectively to growth by changing the character (and depth) of the market environment in which each country’s industrial-policy strategy is framed. As this report noted earlier, social protection is yielding more and more examples of success, and the challenge of scaling-up is at last being met. By definition, a market is a social institution in which ‘money talks’ – cash transfers to the chronically poor provide them with a market voice. Indeed, that cash may create a market where none existed before – by making it profitable for entrepreneurs to invest in the production and supply of goods and services for which there was previously no effective demand. Cash transfers raise the level of aggregate demand, and they change the sectoral composition of demand towards the basic goods and services required by poor people.

Whether investment will follow depends on the underlying conditions for investment – the wider enabling environment.
Each dollar will, if not saved, be spent on either internationally traded goods (imports of foreign manufactures, or locally manufactured goods that are otherwise exported), or locally produced goods and services (non-tradables). A rural villager who receives a cash transfer and spends the money on improving her house might therefore buy imported corrugated iron (a tradable) to replace the thatch roof, and bricks produced by a neighbour (non-tradables) to replace the dried mud-walls. This growing market provides new entrepreneurial opportunities – which price mechanisms will signal – and scope for industrial policy. Using the example above, industrial policy might consist of public subsidy to finance programmes for investments in housing, publicly funded research and development in new construction technologies for poor people, and private–public partnerships in providing large-scale infrastructure, such as water and sanitation, using locally manufactured materials.

The macroeconomics must be handled carefully, not least the fiscal effect and the real exchange-rate effect (see Chapter 3). If social protection is financed domestically, then in raising public expenditure it potentially increases the fiscal deficit. This would result in some crowding out of private investment – as real interest rates rise to finance a higher level of public debt, unless (as emphasised later in this report) more domestic revenue is mobilised. This dampens the net growth effect of social protection, although it should still be positive, as the associated rise in demand should stimulate investment, and some social assistance will be saved and invested by recipients. The main concern here is that governments without much in the way of revenues will find it difficult to ramp up social protection to levels where it has a strong poverty reduction effect and a strong growth impact. External aid relieves this budgetary constraint – and allows a bigger and faster scaling-up of social protection – but aid itself has a real exchange-rate effect, potentially depressing exports and growth. Thus, aid-financed investment in infrastructure to support export sectors (to offset the exchange-rate effect on export profitability) must go alongside aid-financed social protection. In summary, the macroeconomic issues are tricky, but not insurmountable.

In these ways, industrial policy can be built around the needs of the poor, particularly the chronically poor, and each specific policy stands a better chance of meeting the poverty reduction test. The macroeconomics of linking industrial policy to social protection in this way requires that investment be made in the economy’s supply-side – especially in micro- and small-scale enterprise, which provides the kind of non-tradable goods and services that are often in demand by poor people, once their purchasing power begins to rise. For example, cash transfers linked to sending children to school will have obvious effects on school construction and educational materials, thereby stimulating domestic manufacture and provision in these areas.

G. Conclusion

While some argue that growth must be the main element in tackling poverty, there are strong limits on the extent to which economic growth alone can tackle chronic poverty. There is limited, if any, engagement in growth by the chronically poor, because of the multiple deprivations and adverse socioeconomic relationships they experience. The rapid transformative growth experiences of East and South East Asia are built around processes of structural economic and social change which bring considerable challenges and disadvantages to the poor. But such growth can potentially generate the long-term employment opportunities and revenues with which to meet the needs of chronically poor people. This can compensate for their low participation in growth, and offset some of the negative effects of growth. Where the opportunities for transformative growth are limited, growth in the sectors where the poor are most represented (such as agriculture) can be supported by classic productive public investments in infrastructure, education and information. An emphasis on dispersed and strategic urbanisation can spread the benefits of towns and cities. In addition to acting as a motor for economic growth, urban centres can loosen bonds of patronage, bring opportunities for women’s lives, and provide opportunities for the inclusion of the poor in social movements.

The limited ability of growth alone to reduce chronic poverty reflects the fact that the chronically poor are not full participants in social life, and therefore not fully citizens of the societies in which they live. Their economic life is marginal to the formal economy as a whole, which in turn diminishes their voice in political spheres. The social change generated by growth-inspired structural changes often stimulates new political spaces for articulating that voice – through the formation of trade unions to organise the emerging working class, for example. And some of that voice can be mobilised and utilised to gain a fairer distribution of the revenues associated with extractive industries, where they exist, which are major beneficiaries of the rising world demand for minerals as globalisation proceeds apace. This political voice can lay the ground for improving the incorporation of the chronically poor in the economy, through asset investment (and redistribution), greater accountability in the public finances, and through the regulation of market economies in the public interest.39

It is in this sense that the reduction of social inequality is part and parcel of eradicating chronic poverty. Much of the discussion to date of the relationship between inequality and growth focuses on the role of high inequality (in income and assets) in limiting the gains from growth for the poor. This discussion certainly highlights a central problem. But this approach has a drawback: inequality is seen in a highly
instrumental way, as a kind of ‘fact’ that exists outside of social life, and one that is amenable to highly technocratic solutions – once the right set of policy levers is found. Challenging inequality clearly creates intrinsic benefits: for example, it increases the inclusiveness of society, and the realisation of civil and political rights.40

It is in this context that the relationship between globalisation and poverty reduction through growth must be viewed. By freeing the movement of capital, and by reducing barriers to trade (but not, by and large, barriers to the movement of people), globalisation offers the prospect of strengthening the market power of capital. This is evident in the rise, in most countries over the last decade, of both wealth and income inequality. Some aspects of globalisation may enhance growth strategies that are supportive of more broad-based growth and social change. This is the case if, for example, private international capital becomes more readily available for investing in key export sectors that have strong multiplier effects on poverty reduction. States likely to prosper are those that think through these linkages, and that pursue supportive policies and create supportive institutions, while also exploiting the additional revenue-raising opportunities that such capital generation offers. Within that supportive framework there will be potential for representatives of the poor to make their voice heard. By these means, the power of private capital can be harnessed to create positive social change, while simultaneously tempering its tendency to assert its market power by overturning regulation and progressive taxation. We therefore end on a note of caution: progressive social change is not a one-way street – globalisation has large and often unpredictable effects, and progress towards chronic poverty reduction can therefore be all too easily reversed.

Notes
2. See papers in Arun and Hulme (forthcoming) for discussions of the ways in which microfinance does (and does not) help the chronically poor.
4. The world’s wealthy have certainly done very well from economic liberalisation, especially freer capital flows, over the last 20 years.
5. One downside of today’s South Asian growth story is the destruction of housing and livelihoods resulting from large-scale commercial construction in urban areas such as Mumbai.
8. ‘Dutch disease’ refers to the phenomenon whereby an influx of foreign exchange – based on the discovery of a natural resource such as oil, for example – causes the collapse of other sectors in the economy, such as manufacturing, due to changes in investment patterns and a decline in international competitiveness.
9. The USAID study countries were chosen to reflect different growth contexts (high growth, low growth/high inequality, low inequality mixes), with the analysis exploring the relationship between growth and chronic poverty using panel data (when available). The countries are: Ethiopia, India, Malawi, Nicaragua, Uganda, Vietnam and Zimbabwe. See Annex A for details.
10. See Dercon et al. (2006)
11. Thang et al. (2007)
17. Rakner (2003); Rakner et al. (2002)
18. Haggard (2004); Underhill and Zhang (2005); White (1998)
19. Examples include the Joint Economic Council of Mauritius and South Africa’s National Economic Development and Labour Council (which includes government, business, labour and community representatives).
23. On the first point see Manor (1999).
24. It is important, though, not to overestimate the value of rural–urban migration. Most migration remains rural-rural, but different levels and forms of education may be required to foster poverty exits based on rural-rural migration. For example, Mosley (2004) found that educated rural casual labourers in Bolivia and Uganda were more likely to be able to bargain for better wages.
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25. Fischer et al. (2002); Parry et al. (2004)
26. Intergovernmental Panel on Climate Change (2007)
27. Thang et al. (2007)
29. They also account for 59% of the growth of the service sector and 88.5% of domestic investment (Le Dang Doanh 2004, in Klump and Borschab, 2004: 32). Moreover, Thang et al. report that most of the urban poor also escaped poverty between 1993 and 2004, as much of Vietnam’s transformative growth was centred around the development of urban manufacturing for the export market and accompanying expansion in the urban service economy.

30. Especially important is an enabling policy environment, including equitable land distribution, good infrastructure, a functioning financial sector, limited involvement of parastatals in markets, and regulations restricting monopolistic and oligopolistic practices. Satterthwaite and Tacoli (2003).

31. CPRC (2004): 30-31; Patel, d’Cruz and Burra (2002): 160-161
32. Grant (2006)
33. See Chen et al. (2006); Bolnick et al. (2006); Jack (2006); UNFPA (2007).
34. See, for example, the speech on these issues made by Lindiwe Sisule, the new South African Minister for Housing, in May 2006 (Sisulu 2006).
35. Mitlin (2006); Patel, d’Cruz and Burra (2002)
37. Patel, d’Cruz and Burra (2002): 171
38. The needs of the chronically poor being unmet, their demand being entirely ‘notional’ in the language of Keynesian macroeconomics.
39. However, recent research into the effects of social movement engagement with extractive industries indicates that although this may alter the geographies of where exploitation takes place, many such protests fail to cohere or have an impact (Bebbington et al. 2008).
40. Maxwell (2001)