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Pro-poor growth: what is it?

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There is a growing consensus among development practitioners and thinkers that growth alone is not enough to reduce poverty. The centre of the discussion is now on pro-poor growth, which takes us well beyond the trickle down theories of a few decades ago. However, as important as this shift in development thinking is, there is still much to be done in defining what pro-poor growth is, how we assess and measure it and, more importantly, how we translate this knowledge into effective policy making.

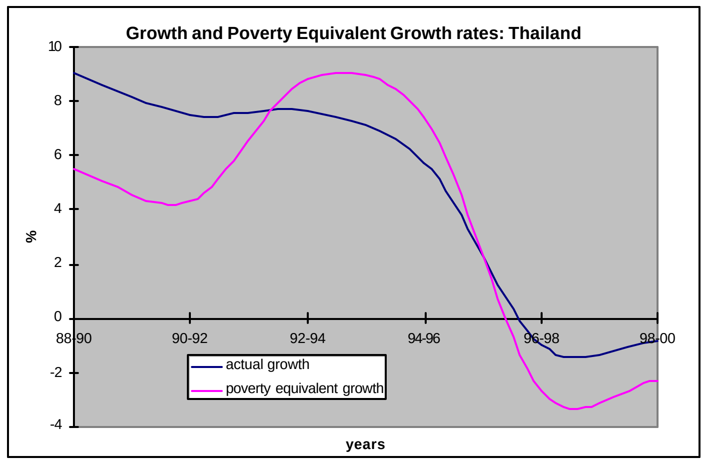
A recent IPC working paper by Kakwani, Khandker and Son (KKS) provides clues to increase our understanding of the meaning of pro-poor growth. Growth usually will allow for some poverty reduction. From time to time, however, growth may also be accompanied by an increase in poverty. Recession, on the other hand, normally tends to aggravate poverty, although there is always room for shielding the poor during downturns.

Ravallion (2004) defines pro-poor growth as any increase in GDP that reduces poverty. Such a definition is too broad: it implies that most real world instances of growth are pro-poor, even if poverty decreases only slightly and income distribution worsens during a period of strong growth. A more appropriate definition has growth as pro-poor if in addition to reducing poverty, it also decreases inequality. Despite being an improvement, this definition still does not reflect well what should be understood as 'pro-poor growth' and falls short of providing straightforward answers to various plausible combinations of growth, poverty reduction and inequality changes.

In their paper, KKS propose a simple and sensible definition, according to which growth is pro-poor, relatively speaking, if it benefits the poor proportionally more than the non-poor. Their methodology helps to overcome the ambiguities of most former approaches and is flexible and general enough to remain valid, whatever poverty measure is used.

The KKS methodology can readily be applied to household surveys designed to measure income and poverty. The procedure implies estimating a growth rate that gives more weight to the incomes of the poor; the weights depend on the poverty measure being used. This hypothetical rate is called the "poverty equivalent growth rate (PEGR)". If PEGR is larger than the actual growth rate, which occurs when the incomes of the poor grow more than the average income, then growth is pro-poor; if PEGR is equal or less than the actual growth rate, growth is said not to be pro-poor.

To illustrate the explanatory power of the PEGR, let's consider one of the three cases discussed in KKS's paper. Thailand's economy grew at a rate of 7.5% from 1988 to 1996, it then entered into a crisis that reduced GDP by an average of 1% between 1996 and 2000. During the growth years, poverty decreased from 33% to 11% and increased to 16% during the recession years.



According to Ravallion's definition, Thailand was on a pro-poor path throughout the growing years 1990-1996. But the PEGR methodology proposed by KKS tells a different story. In the graph plotting a smooth path of both actual growth rates and poverty equivalent growth rates, one can see that growth was actually pro-poor only during the latter part of the booming years, between 1992 and 1996, when the equivalent growth rates were larger than actual growth rates. The graph also makes apparent that the recession that followed was particularly anti-poor, since the equivalent growth rate was lower than the actual one.

KKS's methodology thus appears to allow for a much richer interpretation of how growth affects poverty. It should be welcomed as an important contribution to both theoretical and empirical analysis, and as a tool to better inform policy making.

Reference:

Kakwani, Khamdker and Son, "Pro-poor growth: concepts and measurements with country case studies", IPC Working Paper 1, August 2004. [EDIT]

Ravallion, M (2004), "Pro-poor Growth: A Primer", Development Research Group, The World Bank, Washington, D. C.

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