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Pro-poor policy
An overview

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Executive Summary

This paper was commissioned by the Livelihoods for Equity desk (L4E) within SDC's Social Development Division.[1] Its aim is to contribute to internal SDC discussions about policy engagement. The L4E team hope that such a debate will result in a sharpening of both policy and practice within SDC and their local implementation partners to enable lessons from projects and programmes to feed more strongly into pro-poor policy debates. These debates might be with others in the international community, with local or international civil society or with local or national governments.

This paper does not attempt to act as a 'how-to guide' for pro-poor policy engagement. It is planned that such 'guidance notes' will be produced during 2007. Instead, the paper provides an introductory overview to the topic and raises some important issues about the nature of pro-poor policy. It also provides an overview of selected pro-poor policies and highlights some of the challenges in policy formation and implementation.

Pro-poor policies can be defined as those policies that aim to improve the assets and capabilities of poor people. They include policy interventions that directly target poor people or focus on poverty reduction in general. Some pro-poor policies specifically target the poor. They may be designed with their needs, preferences and capabilities in mind, or may be targeted either by socio-economic or demographic group or geographically. Alternatively, they may aim to improve the terms on which poor people engage in society, politics or the economy. Other policies are not specifically targeted but are assumed to have pro-poor outcomes. These policies are seen as necessary, in order to change the broader policy framework that drives or maintains poverty. Such policies might include rural development programmes, national legislation on gender equality, institutional reforms and good macro-economic management.

In order to understand which policies are important in improving the well-being of poor individuals and households in a particular context, we need to understand who the poor are, where they are, what makes them poor (poverty drivers), what keeps them in poverty (poverty maintainers) and what are the key 'exit routes' from poverty (poverty interrupters).

Drivers of poverty are associated with shocks like ill-health, injury, environmental shocks, violence, breakdown of law and order and market or economic collapse. Capability deprivation, translating into low levels of human, social and political capital, is a key maintainer that traps people in long-term poverty. Moreover, factors in the socio-economic environment (bad governance, economic growth, geography, capability deprivation and social exclusion) can act as barriers that prevent the poor from accumulating or accessing assets and pursuing the opportunities, necessary to escape poverty.

Understanding poverty as a dynamic process with differential causes, and differential levels of severity and duration is helpful for the identification of appropriate policies and interventions. This is necessary if policies and interventions are to prevent declines into seasonal, transitory and long-duration or chronic poverty and to reduce the severity of the poverty experience and to help individuals and households to exit poverty.

While the transitory poor may need assistance to manage a current, perhaps unexpected, but not long-term downturn, the chronically poor require policies to respond to more engrained, often structural factors that are keeping them poor. The paper attempts to identify which policies are likely to be most helpful with the assistance of a stylised framework. The framework incorporates both targeted and untargeted policies spread across the areas of economic growth, human development, security and rights and empowerment. This suggests that a composite set of pro-poor policies are likely to be more effective than those that focus on only one of the four policy areas (economic growth; human development; security; rights, culture and empowerment) and fail to address the other areas.

Economic stagnation is a serious challenge in many low-income developing countries. Poverty reduction is harder to achieve in economies where economic growth is slow or absent, as policies must rely heavily on redistribution. However, growth can have a widely differing impact on poverty depending on the country, the structure of the economy and time period. A 1% increase in *average* per capita incomes may reduce income poverty by as much as 4% or by less than 1%. Partly for this reason, this paper gives detailed consideration to the issue of *pro-poor* growth. It identifies the key transmission mechanisms and outlines a number of policy areas necessary to enable pro-poor growth (ranging from fiscal policy and the regulatory framework to industrial and labour policy).

The paper shows that broad-based agricultural growth can be strongly pro-poor. This is because in most developing countries poor people are disproportionately concentrated in rural areas. They are less able to diversify into non-agricultural activities than people in non-poor households and as a result agricultural policies are crucial, with increased agricultural productivity contributing not only to economic growth and enhanced incomes for poor people, but also to their improved nutrition and food security. Areas where policy change might enable pro-poor change in the agricultural sector include:

- improving market access and lowering transaction costs
- strengthening property rights for land
- creating an incentive framework that benefits all farmers
- expanding the technology available to smallholder producers
- helping poorer and smaller producers deal with risk.

[1] This commission falls under the 'backstopping mandate' being delivered by ODI jointly with Intercooperation.

In addition, in many low-income developing countries the agricultural sector has strong backwards and forwards linkages into the rest of the economy. When agriculture does well, so does the rest of the economy and when it does poorly, the economy faces recession.

The paper then proceeds to discuss human capital development. Human capital is the combination of skills, knowledge and health and is viewed as *the* crucial asset for poor people, because of their reliance on their own labour in the formulation of livelihoods. Building effective human capital requires that people have effective access to basic services (education, health, water and sanitation and social services). Yet in many developing countries, the public sector is understaffed and underpaid, the quality of basic services is poor and poor people often face barriers when attempting to access any of these services. This poor delivery and accessibility can be partially explained by the institutional environment and inadequate financial resources. This section of the paper discusses these challenges and some of the attempts that have been made to overcome them.

The paper then discusses security, taken to be security from risk and social protection, in some detail. Social protection is defined as all interventions from public, private and voluntary organisations and social networks, to support communities, households and individuals in their efforts to respond to deprivation and to prevent, manage, and overcome a defined set of risks and vulnerability which are deemed socially unacceptable in a given polity or society. Some social protection measures seek to go beyond the prevention of destitution to *promote* both livelihoods and welfare.

This topic is given prominence because of the exposure that poor households have to a range of shocks and risks – related to illness and death, natural disasters, violence, state failure and economic collapse – and the impact that these shocks and risks can have in pushing households and individuals into severe and sometimes long-term poverty.

The paper then presents a short section on the human rights approach to development. This goes beyond the notion of poor people having needs, to a recognition that everyone has rights and entitlements. A human rights approach to development identifies the way in which poverty infringes on some of these basic rights and addresses the multidimensional nature of poverty by focusing on social exclusion, marginalisation, vulnerability, lack of opportunities and access to services. This approach is assumed to provide poor people with leverage and empower them to identify the duty holders (whose obligation it is to deliver that right), which might be an institution, a state or an international community, and hold them to account.

Empowerment approaches and anti-discrimination approaches are then briefly reviewed. Empowerment can be described as any process that helps people gain control over their own lives and increases their capacity to act on issues that they define as important. Thinking about empowerment at the grassroots level has often been associated with local people's demands for a greater voice in national and local government structures and services. Linked to these demands are an increased sense of agency and self-esteem. More recently there has been recognition that an explicit consideration of social and political context is required, as this recognises the need to address structural inequalities affecting entire social groups rather than focusing only on individual characteristics. There is therefore a strong potential link between empowerment approaches and social movements seeking pro-poor policy change.

Anti-discrimination policies are also arguably important for poverty reduction. Discrimination can be taken to be when people are excluded from markets or institutions or where they are paid less, or have to pay more for goods and services without justification. Discrimination can result in social, political and economic exclusion and poverty. It can affect people in all aspects of their life and result in them experiencing exclusion or poor treatment when attempting to access education and health services. It may limit their livelihood options when seeking work or attempting to establish and run a business. Discrimination may also limit their access to credit and damage their ability to buy or inherit land and other assets. Lastly, discrimination may block certain individuals from leadership roles. Anti-discrimination legislation and policies have the potential to provide an important complement to social, economic, political, legal and gender empowerment.

The final section of the paper provides an extended discussion of the role of governance issues and institutions in pro-poor policy formation and implementation. This section outlines the governance and political economy issues which might hamper pro-poor policy formation, discusses whether there are particular types of regime which are more or less likely to be pro-poor, considers mechanisms for improving accountability through devolution, participation and engagement with civil society, briefly discusses the role of the international community in supporting locally-owned poverty reduction policies, and briefly presents an overview of the *'drivers of change'* approach.

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1. Introduction

This paper was commissioned by the Livelihoods for Equity desk (L4E) within SDC's Social Development Division.[2] Its aim is to contribute to internal SDC discussions about policy engagement and contribute to a sharpening of both policy and practice within SDC and their local implementation partners, so that lessons from SDC projects and programmes feed more strongly into policy debates which support the development of pro-poor policies. These debates might be with others in the international community, with local or international civil society or with local or national governments.

Effective pro-poor policy engagement is difficult to achieve and requires that the actor has access to high-quality poverty analysis, understands both national policy processes and more specifically the political economy of poverty-related change. This paper does not attempt to act as a 'how-to guide' for pro-poor policy engagement. Instead, it provides an introductory overview to the topic and raises some important issues about the nature of pro-poor policy. It also provides an overview of selected pro-poor policies and highlights some of the challenges in policy formation and implementation.

The paper explores which policies are important for bolstering the human capital of poor people; what can be done to protect the inheritance and ownership rights of the poorest; what is important for securing their access to and control of (sustainable) natural resources; how access by poor people to financial services markets can be improved; and how their positive engagement with social networks and political decision-making can be enhanced.

The paper then goes on to explore issues connected with labour markets and livelihoods; individual and household responses to risk, shocks and vulnerability; and a range of macro or contextual issues around the pro-poorness (or otherwise) of macro- economic management.

The paper is structured as follows. The remainder of Chapter 1 examines definitions and concepts surrounding pro-poor policies and poverty. Chapter 2 identifies the types of policy mix that are likely to be effective in addressing poverty and presents a conceptual framework for analysing poverty dynamics and related pro-poor policies. The chapter also provides an overview of selected pro-poor policies and is structured around the four themes of the framework: (1) pro-poor economic growth and agriculture; (2) human development; (3) security; and (4) rights and empowerment. Each section presents a brief overview of current debates in the international literature and identifies some focal policy areas. Chapter 3 focuses on governance issues and institutions and their impact on pro-poor policies. It explores the challenges in pro-poor policy formation and discusses some of the key barriers to effective pro-poor policy implementation.

[2] This commission falls under the 'backstopping mandate' being delivered by ODI jointly with Intercooperation.

Figure 1: Pro-poor policies – an overview

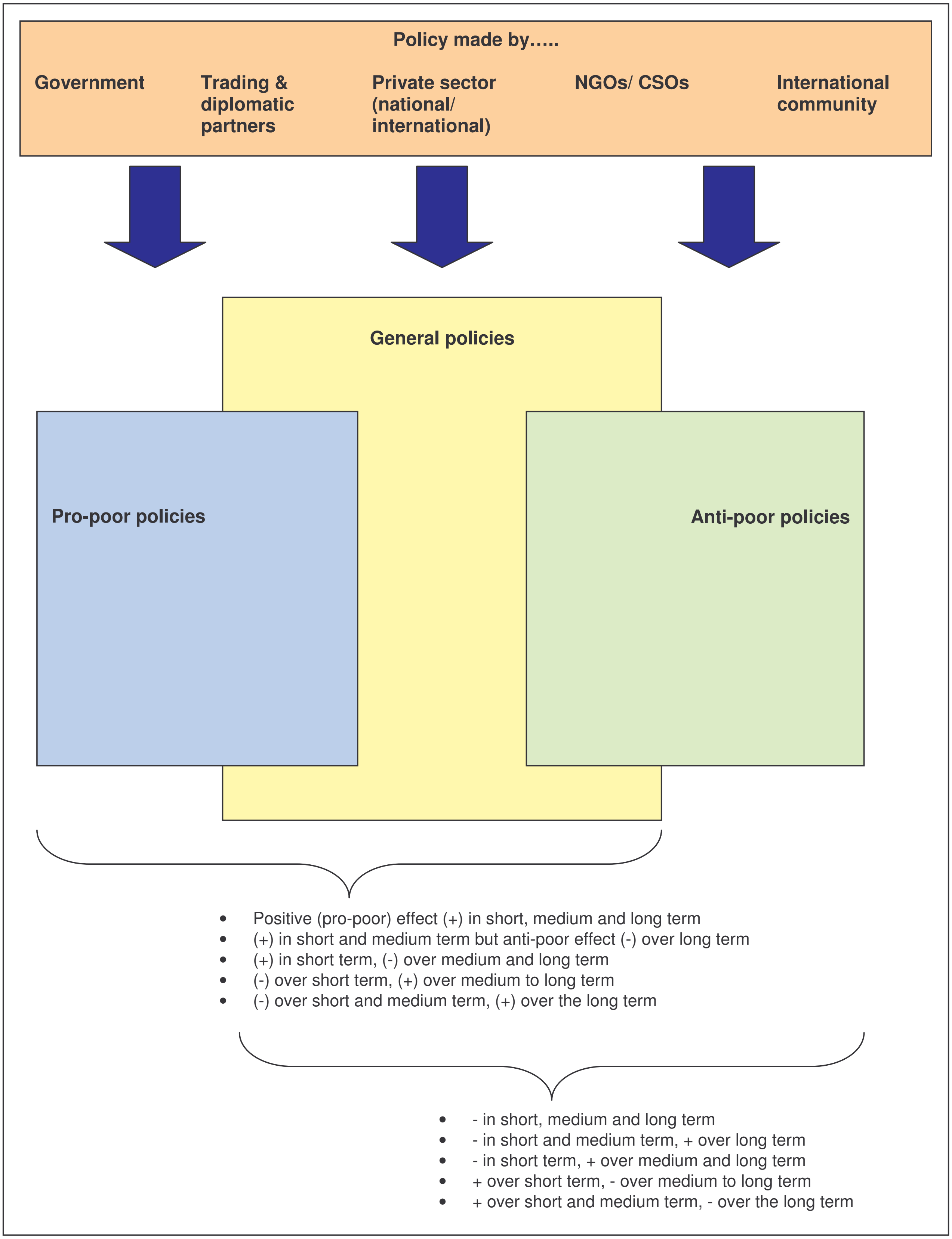

Figure 2: Examples of pro-poor policy

Targeted interventions	General policies
• Safety nets, conditional cash transfers • Microfinance, micro insurance • Anti-discrimination policies • Social investment funds • Exemption schemes for utility services • Targeted subsidies, e.g. lifeline tariffs for water and electricity, food subsidies • In-kind programmes, e.g. public works schemes • Scholarships	• Good macro-economic management • Progressive fiscal reform • Agricultural policy (supportive of the 'small' farmer) • Rural development policies in support of off-farm diversification • Creating an enabling environment for investment and the private sector (for broadly-based and pro-poor growth) • Provision of basic social services • Infrastructure policies • Institutional changes (to increase transparency and accountability) • Universal primary education & healthcare – free at the point of delivery

Pro-poor policies: concepts and definitions

Pro-poor policies can be defined as those policies that aim to improve the assets and capabilities of poor people (Curran & de Renzio, 2006). They include policy interventions that directly target poor people or focus on poverty reduction in general (Figure 2). Some pro-poor policies specifically target the poor. They may be designed with their needs, preferences and capabilities in mind, for example by working to build the assets or broaden the opportunities of chronically poor people. Alternatively, they may be targeted either by socio-economic or demographic group or geographically. Such policies might include targeted social protection, pro-poor land rights legislation, quota policies to counteract discrimination and increase access to free health care for poor people. Lastly, they may aim to improve the terms by which poor people engage in society, politics or the economy (e.g. through enhanced labour rights, anti-discrimination campaigns, information and assistance to secure rights).

Other policies are not specifically targeted but are assumed to have pro-poor outcomes. These policies are seen as necessary to change the broader policy framework that drives or maintains poverty. Such policies might include rural development programmes, national legislation on gender equality, institutional reforms and good macro-economic management.

Box 1: Challenging questions – the focus & sequencing of pro-poor policies

- Can policies only be considered to be pro-poor when they directly benefit the poor or should we also include in this categorisation policies that benefit everyone, but generate greater benefits for poor people?
- Are directly targeted policies likely to generate greater benefits than general policies which, for instance, stimulate economic growth?
- Should the pro-poorness of a government be judged by its policy agenda or by the actual outcomes of its policies?
- Is it better to improve the welfare of people living in poverty now or to defer such improvements, but work to create the policy framework and the environment necessary for stable and more widely felt improvements over the longer term (see Figure 1).

Furthermore, pro-poor policies are adopted and implemented (or not) by actors and institutions. The management of such a complex set of policies requires institutions and governance structures that are capable and willing to devise, operationalise and implement such policies. Therefore, an analysis of pro-poor policies needs to look at institutions and government structures and the way in which they impact on pro-poor policy agendas and outcomes.

Poverty concepts

In order to understand which policies are important in improving the well-being of poor individuals and households in a particular context, we need to understand who the poor are, where they are, what makes them poor (poverty drivers), what keeps them in poverty (poverty maintainers) and what are the key 'exit routes' from poverty (poverty interrupters).

Drivers of poverty are associated with shocks like ill-health, injury, environmental shocks, violence, the breakdown of law and order and market or economic collapse. Capability deprivation, translating into low levels of human, social and political capital, is a key maintainer that traps people in long-term poverty (Bird & Shinyekwa, 2003). Moreover, factors in the socio-economic environment (bad governance, economic growth, geography, capability deprivation and social exclusion) can act as barriers that prevent the chronically poor from accumulating or accessing assets and pursuing the opportunities necessary to escape poverty (Chronic Poverty Report, 2004).

Understanding poverty as a dynamic process with differential causes and differential levels of severity and duration is helpful for the identification of appropriate policies and interventions. This is necessary if policies and interventions are to prevent declines into seasonal, transitory and long-duration chronic poverty, to reduce the severity of the poverty experience and to help individuals and households to exit poverty.

2. Identifying the appropriate policies

While the transitory poor may need assistance to manage a current, perhaps unexpected, but not long-term downturn, the chronically poor require policies to respond to more engrained, often structural factors that are keeping them poor. It is helpful to identify those policies that are most likely to have a pro-poor outcome, though there is no blueprint for poverty reduction and each country needs to identify the mix of policies which are best suited to its context (Curran & de Renzio, 2006).

The Chronic Poverty Research Centre (CPRC, 2004: 51) suggests that the policy "toolbox" to assist *both* the poor and the chronically poor is likely to include:

- Pro-poor, broad-based growth
- Peace building and conflict prevention
- HIV/AIDS prevention (especially in India, China and the CIS) and greater access to retroviral treatment (in Africa)
- Slowing down global warming
- Strengthening national and international governance
- Making trade fair (especially removing the protectionism of rich countries, particularly around agricultural products)
- Effectively managing national indebtedness (through debt relief and fiscal prudence)
- Improving the effectiveness of basic service delivery in the public and non-profit sectors
- Making markets work for all

A review of global experience indicates that policies and interventions to specifically tackle chronic poverty must:

- Prioritise livelihood security
  Emphasise preventing and mitigating shocks and insecurities. Do not just provide recovery assistance but also create policies/programmes which give chronically poor people the assets, livelihood security and political voice that enables them to make the most of opportunities and lobby government effectively.
- Ensure chronically poor people can take up opportunities
  Promote broadly-based growth and redistribute both material and human assets (using both dynamic and static approaches)[3] to ensure that chronically poor people can take up the opportunities created by growth.
- Take empowerment seriously
  Policies need to address discrimination.
- Recognise obligations to provide resources
  Resources need to be transferred from rich to poor between and within nations. For this to happen in a sustained and predictable way social solidarity must be built across households, communities and nations.

Having reviewed poverty analyses from a number of developing and transitional economies and examined the range of policy options the Chronic Poverty Research Centre (CPRC)[4] has developed a stylised framework that incorporates both targeted and untargeted policies spread across the areas of economic growth, human development, security and rights and empowerment.

The framework distinguishes policies that prevent a descent into poverty from those that address the factors that maintain chronic poverty, from those assisting people to escape chronic poverty (see Table 1, below). Despite its explicit focus on chronic poverty, the framework also provides a useful insight for identifying the types of policy mix that are likely to be effective in addressing transitory poverty. It suggests that a composite set of pro-poor policies are likely to be more effective than those that focus on only one of the four policy areas (economic growth; human development; security; rights, culture and empowerment) and fail to address the other areas.

The framework reflects some of the policies of the OECD/DAC Poverty Guideline that are focused on the following areas:

- Pro-poor economic growth
- Empowerment, rights and pro-poor governance
- Basic social services for human development
- Human security: reducing vulnerability and managing shocks.

[3] Dynamic approaches to redistribution include using progressive tax policies to fund the improved delivery of preventative and curative health care and education and training services. Static approaches to redistribution include the sequestration of assets prior to redistribution (e.g. land reform).

[4] The Chronic Poverty Research Centre (www.chronicpoverty.org) is an international partnership of universities, research institutes and NGOs. It was established in 2000 with initial funding from the United Kingdom's Department for International Development (DFID) and undertakes research and policy engagement.

The remainder of the paper will therefore focus on the core policy areas proposed by the CPRC framework and the OECD/DAC guidelines and explore pro-poor policies around the areas of: (a) Growth, (b) Human Development, (c) Empowerment and Rights, (d) Security.

Table 1: Poverty dynamics: an overview

Policy area	Growth	Human Development	Security	Rights and Empowerment	Governance and Institutions
Preventing descent	◦ Access to insurance and credit	◦ Access to health care ◦ Skills development and adult literacy ◦ Food security	◦ Competitive financial markets, especially for consumption credit and savings[5]	◦ Conflict management, especially to avoid loss of assets	◦ Political stability
Addressing maintainers	◦ Create an enabling environment for broad-based growth ◦ Use growth for redistributive policies ◦ Increasing the returns to the very small assets held by the very poor	◦ Social policies ◦ Access to social services and infrastructure ◦ Nutrition	◦ Conditional cash transfers ◦ Employment schemes	◦ Rights-based approach to development ◦ Anti-discrimination policies ◦ Empower women	◦ Institutional capacity building ◦ Power sharing and downwards accountability ◦ Anti-corruption policies ◦ Pro-poor budgeting
Facilitating escape	◦ Promote labour-intensive growth ◦ Increase access to markets ◦ Support income diversification ◦ Access to productive infrastructure, e.g. roads, irrigation ◦ Increase agricultural productivity	◦ Education beyond primary level ◦ Key groups who miss out (e.g. adolescents; children of polygamous marriages…)	◦ Social protection measures	◦ Developing social capital – inclusion or separate development strategies	◦ Creating an enabling environment for pro-poor growth

Source: Adapted from Krishna, 2003; Bird and Shinyekwa, 2003; Bird et al., 2004; Mehta and Shepherd, 2006.

[5] It is possible that competitive credit markets would not have much to offer the chronic poor, given the exclusion of the poorest from well organised micro-finance schemes.

2.1. Pro-poor economic growth

Economic stagnation is a serious challenge in many low-income developing countries. Poverty reduction is harder to achieve in economies where economic growth is slow or absent, as policies must rely heavily on redistribution. It is difficult to build a political consensus for static redistribution (e.g. land reform) and even where this has been achieved, it is technically difficult to design approaches which are sustainable, affordable and do not create market distortions. Dynamic redistribution, which builds the assets of poor people through, for example, improving their access to health and education services, tends to be more acceptable to political elites. It is widely adopted as a core approach to poverty reduction in developing countries, but tends to be slow in reducing inequality and poverty levels. This means that growth is now firmly on the development agenda as both governments and donors struggle to identify the mix and sequencing of policies that will trigger economic growth.

In the following section we provide a brief overview of what we know about the nature of pro-poor growth, the transmission mechanisms that enable poor households and individuals to benefit from growth and the policies which enable pro-poor growth.

2.1.1. What makes growth pro-poor?

Evidence from across countries and time periods shows that economic growth is essential for widespread and long-lasting poverty reduction. It is often the main factor in reducing income poverty. A review of the experience of 14 countries during the 1990s found that income poverty only fell when there was growth, and in general higher rates of growth were associated with larger falls in income poverty (AFD et al., 2005 in OECD, 2006).

However, growth can have a widely differing impact on poverty depending on the country, the structure of the economy and time period. A 1% increase in *average* per capita incomes may reduce income poverty by as much as 4% or by less than 1% (Ravallion, 2004, in OECD, 2006: 17). Findings from the same 14-country study mentioned above have shown that poverty reduction is stronger where the policies are in place for poor people to participate in growth (World Bank, 2005: 3).

In order for the growth to be pro-poor, the OECD and World Bank suggest:

- Broad access to infrastructure and education
- Flexibility in achieving macro-economic stability, which recognises
  - Location of country in the economic cycle (expanding, contracting)
  - Returns to social investments
- Taking account of the likely effect on the poor of reductions in public spending
- An equitable world trading system would support pro-poor growth
- Environmental sustainability is important for sustained pro-poor growth, particularly in Africa where environments are often fragile, but can only be achieved where there are sound regulatory frameworks and good governance
- Over-reliance on natural resources may undermine pro-poor growth
- Policies need to ensure that the poor are not marginalised from the growth process
- Agricultural performance is critical for a pro-poor pattern of growth

The 2001 DAC *Guidelines on Poverty Reduction* state that the pace and pattern of growth are important for effective reduction of economic poverty because of their impact on the sustainability, composition and equity of that growth (OECD, 2006: 15).

Growth may be triggered by a range of factors, including improved governance, the discovery of natural resources, higher than average agricultural productivity, increased commodity prices, and an improved investment climate. However, short-run spells of economic growth are not sufficient to create the opportunities that poor people need to exit poverty. Therefore, appropriate policies and institutions must be put in place to encourage investment and improve the productivity of capital and labour across the whole economy.

Country-specific knowledge is necessary if a growth process is to be promoted which will be broad-based, inclusive, sustainable and pro-poor. This should include analysis of poverty (who is poor; what drives, maintains and interrupts poverty in this context) and growth processes. Most aid-dependent countries already have poverty data, however the type of analysis necessary to understand whether the structure of the economy is likely to result in pro-poor growth is rarely undertaken. Box 2 identifies some of the questions that can assist this type of analysis.

Box 2: Questions for developing the evidence base for pro-poor growth policies

Answers to the following questions will help provide evidence and analysis to contribute to country-specific policy formulation to enable pro-poor growth:

- Which sectors and sub-sectors are growing most rapidly in the economy and which – given an improved policy or enabling environment – would have significant growth potential?
- Which sectors and sub-sectors have pro-poorest potential? What growth potential do they have? What (sensible) public policy might support them?
- To what extent are the growing sectors evenly spread throughout the country, or are they concentrated in particular cities or regions?
- Are there multipliers or spillover effects and backwards and forward linkages which connect growth sectors to both small-holder agriculture and micro-enterprises, and link domestic production, processing and manufacturing to globally-linked international businesses?
- Who is benefiting from growth (geographic location, income group, livelihood group, gender, ethno-linguistic group)?
- What factors block equity of opportunity for the poor (and poorest) (e.g. barriers to entry including discrimination, exclusion and low capabilities)?
- Is the growth likely to be sustained or is it short-lived? (deeply-rooted in national economy, building local skills base, with considerable positive multipliers and secure markets or transnational corporations selling into highly-competitive markets attracted to locate in country – for possibly a short time only – by relaxed environmental regulations and low wage rates)
- How can growth processes be encouraged which generate employment opportunities for unskilled, semi-skilled and rural workers (both women and men)? This will require an understanding of the domestic and regional labour market rather than 'simply' enabling business.

In order to achieve growth that benefits the poor, it is important to understand the transmission mechanisms through which policy interventions contribute to poverty reduction. See Box 3, below.

Box 3: Transmission mechanisms

(1) Labour intensity

Growth is more likely to benefit the poor if the growing sector(s) are labour intensive and generate both jobs and livelihood opportunities for poor people.

The nature of the labour market equally matters (mobility; health and education level of workers; distortions and rigidities in labour market e.g. as a result of discrimination or heavy regulation). It will also depend on the level of employment generated through up and downstream linkages (e.g. supply companies, packers and shippers) and through multipliers and second and third round effects (e.g. increased demand for agricultural produce stimulating both agricultural production and agro-processing).

(2) Increased returns on investment

Increased returns on investment can have a substantial impact on the poor (both direct, as a result of returns on their investments and indirect as employment is created and goods and services are more widely available). However, the poor, and in particular the poorest, are less likely to save in formal financial institutions so their investments will be personal investments in human capital and in agricultural and non-agricultural micro-enterprise.

Poor people are often highly exposed to risk. Their vulnerability is intensified by their low asset base. Individuals and households will respond to shocks (poor health, loss of job, death of a family member, wedding costs) through employing a range of coping strategies, yet the options available to them will depend on their asset portfolio (including social capital and patrons), their capabilities, agency (freedom to act) and opportunities in their environment. The absence of risk mitigation (assets, savings, insurance) will detrimentally affect investment behaviour. Social protection can play a role in building assets and savings, enabling individuals and households to develop 'buffers' against destitution which enable at least a proportion of recipients to both invest and make more risky and entrepreneurial decisions.

(3) Differential growth rates (sector, locality, enclave)

The increased profitability of enterprises may vary widely, depending on the sector that it is in, the quality of the local economic environment (e.g. level of corruption, local tax and regulatory framework, crime rate, poverty incidence and severity in neighbourhood) and on the degree of market integration and/ or monopolistic and uncompetitive tendencies in that sector. The direct benefits of increased enterprise profits may be narrowly distributed where a sector experiencing growth functions as an enclave, has a strong geographical focus or employs only expatriate workers or small numbers of very highly-skilled nationals.

(4) Improved market functioning

Growth may stimulate market functioning, improving the availability of goods and services in the domestic market. This is likely to reduce the variability in availability (by season and location) and increase the range of goods. It is anticipated that improved market functioning would also lower prices. However, these benefits might be counteracted by inflation, if macro-economic management is poor.

(5) Increased government revenue, spent in a pro-poor way

Growth increases the tax base. If the government's administration of revenue collection is efficient it is likely that the tax take would increase. Whether this is pro-poor or not would depend on the 'progressiveness' of the tax regime and whether the government has a good record on delivering public services (which the poor have access to), generating a pro-poor enabling environment (e.g. appropriate infrastructure, telecoms and utilities) and delivering effective poverty reduction interventions

(6) Improved institutional performance

Growth may influence institutions in unanticipated ways. For example, the increased inequality which accompanies narrowly-focused growth may undermine democratic accountability. The populist politics which responds to inequality in some environments (e.g. Bolivia) can have profound impacts on institutions and norms. Growth can also drive improved (downward) accountability as citizens become more vocal and hold decision-makers and service providers to account.

2.1.2. Industrial policy

Many developing countries have a strongly bimodal economy with a large number of small survival or micro-enterprises and a small number of large and internationally-linked enterprises. Industrial policy rarely focuses adequately on its potential for poverty reduction. For example, there is a need to understand how best to link micro-enterprise with multi-national corporations to the benefit of both, and how to stimulate the growth of employment opportunities in the formal sector. In addition, more analysis is necessary which provides policy makers with a good understanding of which sectors and sub-sectors have the greatest employment growth potential.

2.1.3. Labour market policy

Labour market regulations constitute a form of social protection. The level of labour market regulation needs to balance workers' and employers' needs, and the final outcome needs to reflect the condition of the country's labour market and level of development (World Bank, 2005: 9).

Labour market regulations can create attractive formal employment for poor workers, helping to expand their non-agricultural earnings. This is particularly the case in countries experiencing rapid economic growth. However, regulations designed to protect the interests of poor workers can make labour markets restrictive and limit access by poor workers (World Bank, 2005: 9). The World Bank has found that Indian states with "pro-worker" legislation recorded lower growth rates and less efficiency in reducing poverty than those without such legislation. During the 1990s in Bolivia and Romania, "pro-worker" regulations encouraged by unions and the economic elite kept employment in the formal labour market low. During recession in Romania, workers sought employment in the agricultural sector, mainly because the formal labour market was so inflexible (ibid).

However, labour market regulations are only one of a set of factors that affect the investment climate and the willingness of a firm to formalise. Other critical constraints include policy uncertainty, fiscal burdens, cost of finance, corruption and the quality of courts. Loosening labour market regulations in some regions, particularly Africa, may have little impact on labour markets, especially if employment is mainly in agriculture (World Bank, 2005: 9).

Box 4: Labour markets – some key issues

In most developing countries labour market policies focus on the formal sector although it employs only a small minority of economically active adults, with most found in agriculture and the informal sector. Are there examples of governments which have a clear and effective labour market policy which embraces both the informal and the agricultural sectors?

A limited number of countries have attempted to introduce a minimum wage. Do we know what impact it has had on growth and on poverty reduction?

Despite the fact that child labour is illegal in a number of countries it is a necessary element of the livelihood and survival strategies of many poor households. What policies have been introduced which remove the worse aspects of child labour (e.g. child sex work) by providing children and their households with real options and by increasing the (rapid) returns to adult labour and to the (longer term returns on) investment made in educating children.

Long and short term (within nation) migration is a necessary part of the livelihoods of poor people in many parts of the world. Governments in a number of countries have seen migration as a problem and have done their best to limit migration rather than facilitating movements. Policy innovations in parts of India have begun to change this. Are there lessons that can be learned for other developing countries?

2.1.4. Enabling environment

It is difficult to construct an effective role for the state in supporting economic growth, but many believe that the state should avoid direct involvement through state-run enterprises, and instead focus on ensuring that the country has well designed and maintained infrastructure and communications, that the labour force is healthy, educated and contains the right skills mix, and that public policy supports the development of productive manufacturing and service sectors. This requires governments to support the development of effective market institutions, robust contract law and an efficient and competitive financial services sector. Governments should also act to control corruption and rent-seeking, introduce effective anti-corruption legislation, an appropriate regulatory framework and a predictable and progressive system of taxation. Bearing these factors in mind, policy makers face a challenge in designing a mix of policies which will support foreign direct investment and national investor confidence. An even greater set of challenges is introduced by the need to ensure that the investment and resulting economic growth is pro-poor (or even pro-poorest).

Although priorities and emphasis will shift from country to country, similar issues are important across quite widely differing contexts. We highlight below the policy areas likely to be fundamental in any effective pro-poor growth programme.

Enterprise regulation

The private sector does need regulation. For example, enterprises need to maintain a safe working environment for their staff, should sell safe products and pay whatever licence fees are required to be in business. However, in some developing countries regulation can be multi-layered, obstructive and regressive. Regulations are often implemented in an arbitrary and capricious manner. This is more likely where there are high levels of rent seeking and where the predatory behaviour of public officials goes unchecked. Poor entrepreneurs are more vulnerable than the non-poor as they are less able to bribe their way out of a situation. This highlights the need for careful reform of regulations around corporate governance, production, processing and both domestic and international trade.

Taxation policy

Societies depend on taxation and public spending to invest in education, health and infrastructure, to fund the public sector and redistributive policies. Where economic growth is narrowly focused, taxation coupled with public expenditure can ensure that the benefits of this growth are widely spread. In post-transitional Chile, for example, a coalition between business and the government agreed to temporarily raise personal, corporate income taxes and VAT and to earmark all of the new revenue for social spending (Bräutigam, 2004).

Tax policies need to be carefully designed to have a pro-poor effect. Ideally taxes should be progressive rather than regressive. In other words, the greater burden of the tax take should fall on the rich rather than the poor. The tax system should be broad based, with a reliance on VAT, so that taxes on capital and marginal tax rates on income can be kept to a minimum. This avoids burdening investment and effort.

Infrastructure

Inadequate infrastructure can limit livelihood options and distort the transmission of market signals. Inadequate roads, public markets, irrigation, ports, rail, telecoms and ICTs[6] can make it costly or impossible for people to access goods and services (including health and education) and increase people's isolation. The reduction of isolation and inaccessibility are fundamental

[6] Information and Communication Technologies.

for poverty reduction but infrastructure projects rarely focus on poor people's needs. Infrastructure may be located in such a way that it is difficult for the poor to access it, or it may be of a type that the poor are less likely to use directly. Accessibility depends not only on infrastructure but also on mobility (access to affordable transport) and proximity. Rural transport schemes, for example, will only increase mobility if they take into account travel patterns and needs, and the means of transport used by the poor. Schools, health centres or markets will only be used if they are within a "reachable" distance. This is culturally determined and may mean a four hour one-way journey in one setting or a ten minute journey in another. Therefore, infrastructure planning needs to consider available and affordable transport options to increase mobility and improve proximity by investing in local health centres or water schemes.

Financial services and insurance

Many developing countries are characterised by poorly-performing financial services and insurance markets. Women, youths, rural dwellers, owners of agricultural enterprises and poor people tend to experience very real difficulties in accessing the financial services necessary to invest in enterprises and nurture their growth. This means that these people are unable to make a whole range of potentially productive investments – in the education of their children and in the development of small-scale businesses and farms for instance. Savings and insurance markets tend to be similarly underdeveloped.

Direct government involvement in financial services markets has tended to be associated with high administrative costs and poor fund management (including the identification of recipients and the recovery of loans). However, there is much that governments can do to support the development and more effective regulation of competitive financial services markets which extend into rural areas and to poor savers and borrowers.

Financial sector reform

In many developing countries, the financial sector is weak and in need of substantial reform. Reforms seek to enhance the performance efficiency of the banking system as a whole. A cornerstone of such reforms tends to be to build the independence of the Central Bank, freeing it from political interference and deepening its role in banking supervision. Introducing competition and freeing up interest rates are crucial if savings are to be stimulated and access to credit broadened. Other important elements tend to include the need to make the capitalisation requirements of banks and non-bank financial institutions more stringent to protect against unsafe levels of lending and to develop credit-rating systems to reduce arrears and defaults while controlling transactions costs.

Insurance

Poor people are commonly the most exposed to risk and the least able to cope, but their inability to afford regular insurance premiums leads to their exclusion from formal insurance schemes. Instead, they tend to rely on their extended social network, although traditional safety nets do not necessarily perform well in protecting the poorest and most excluded, particularly where there is a widespread decline in well-being. An attempt to respond to this exclusion has led to the development of micro-insurance schemes to complement non-contributory social protection mechanisms.

Micro-insurance provides tailor-made insurance 'products' to poor and disadvantaged people in order to protect against a variety of risks, including those related to health. It typically involves low premiums and modest benefits and can be delivered by either public or private insurance companies (Ahuja, 2006). Insurance companies have found that collaborating closely with civil society organisations helps them to overcome the information asymmetries and transaction costs of providing insurance to low-income groups and to provide them with information about the risks to insure against, what benefits to provide, the premiums to charge and how best to approach the settlement of claims (ibid.).

Box 5: Micro insurance

Most micro-health insurance excludes common health risks such as pregnancy, but tend to cover hospitalisation and a limited number of 'critical illnesses'.

The Yeshasvini scheme was introduced in 2002 and by 2005 was providing micro-health insurance to 3.5 million people (members of state cooperatives in Karnataka, Southern India and their spouse and children). The scheme provides for free hospitalisation for surgical procedures up to a cost of US$4,444 per member per annum. The membership premium was US$2.70 per adult per year in 2005 and US$1.30 for children under 18.

The Universal Health Insurance Scheme (also in India) was introduced in 2003 and provides micro-health insurance to individuals below the official poverty line. Members gain hospitalisation expenses of up to US$667 per family, and compensation for loss of wages in the case of illness or personal accident in return for an annual premium of between US$8 and US$16. In 2004-05 government subsidies were increased to encourage households below the poverty line to join.

Source: Ahuja, 2006.

Financial services

The thresholds for opening savings accounts are often high and depositors commonly receive negative real interest rates. Both create a disincentive to save. Capital for reinvestment is limited and the coverage and outreach of banks is compromised by their inability or unwillingness to design financial products suitable for the poor. In addition, the administrative red tape, collateral requirements and 'rent seeking' for loan applications effectively excludes the less wealthy applicants.

Banks do not want to lend to clients they believe are incapable of saving; who provide them with insufficient information as they do not have banking or business records; and who want to save or borrow small sums. These problems increase the cost faced by the bank of screening the application for a loan transaction which, due to its size, will make very little profit, if any. In addition, there is an enforcement problem where clients cannot offer physical asset-based collateral, where the courts are too weak to repossess goods or order evictions and where insurance markets do not function well (Hulme and Mosely, 1996: 1).

These problems have resulted in patchy coverage with remote rural areas and poor neighbourhoods and individuals being offered a limited service. The gaps in provision have resulted in the emergence of a set of informal sector financial services. These include self-help schemes, which tend to be adapted to local conditions and are therefore appropriate for the local economy and society, but which have their own inclusionary and exclusionary mechanisms which may leave the poorest unserved.

This limited people's ability to accumulate cash savings or to borrow to invest, and to manage lumpy expenditures and contingencies. In response, microfinance emerged in the 1970s. Microfinance institutions adapted the methods of informal sector self-help groups (such as ROSCAs – Rotational Savings and Credit Associations) and became widely replicated and adapted following the apparent success of the Grameen Bank and BRAC in Bangladesh.

2.2. Agriculture and rural development

Moving onto agriculture and rural development. In most developing countries, poor people are disproportionately concentrated in rural areas and are less able to diversify into non-agricultural activities. Agricultural policies are therefore crucial to poverty reduction. Increased agricultural productivity may contribute not only to economic growth and incomes for poor people, but also to enhancing nutrition and food security.

Broad-based agricultural growth has the potential to increase the incomes of poor farm households, as well as landless labourers who depend on agricultural employment. Agricultural growth can also have a strong effect on food prices. The poor usually spend a high share of their income on staple foods, and therefore benefit from a productivity-induced decline in the real prices of staple foods. Given the widespread food insecurity in many rural households, particularly in sub-Saharan countries, productivity growth in food staples is of critical importance for poverty reduction (Byerlee et al., 2005). Growth in agricultural productivity may stimulate both backwards and forwards linkages into the non-farm rural economy, leading to economic growth and poverty reduction (Timmer, 2005). According to the World Bank, agricultural growth in some countries could be identified as the source of between 40% and 70% of poverty reduction (World Bank, 2005: 38). However, findings from case studies in Zimbabwe and Malawi (Dorward et al., 2004) suggest that only appropriate and high-yielding technologies, combined with improved access to markets and extension services will enable the increases in productivity necessary for pro-poor growth. Furthermore, increased productivity will have to be supported by growth in the rural non-farm economy and longer-term tradeable non-agricultural growth drivers for sustained poverty reduction.

In some of the poorest areas, factors like low population densities and lack of irrigation limit the potential for production increases necessary for agricultural growth. It has been suggested that in these areas, investing in skills development to enable migration may be a more reliable route to poverty reduction (World Bank, 2005: 5). However, migration is not an option for everyone and adverse consequences of rural-urban migration are well documented (Gordon & Craig, 2001).

Dorward et al. (2004) argue that even where large-scale productivity increases cannot be achieved, agriculture still has an important role to play in supporting people's livelihoods, promoting food security and incomes. Although the policies and investment required for supporting rural livelihoods are less ambitious than growth promotion policies, significant investment is still needed in appropriate technologies, in coordinated services for small farmers and in promoting an enabling economic and political environment for poor farmers. These policies, investments and institutional changes have to be balanced against the risk of livelihood failure, and the fiscal and human costs of the poorest rural communities to becoming increasingly dependent on welfare support and emergency relief.

Box 6: Policies and the agricultural earnings of poor households

The World Bank has identified five policy interventions that were important in helping to raise the agricultural earnings of poor households:

- improving market access and lowering transaction costs
- strengthening property rights for land
- creating an incentive framework that benefits all farmers
- expanding the technology available to smallholder producers
- helping poorer and smaller producers deal with risk.

Taking Bangladesh and Uganda as examples, we see that in Bangladesh liberalising imports of agricultural inputs and machinery improved access to low-cost irrigation. This, along with more spending on flood protection infrastructure and safety net programs, led many poorer farmers to adopt Green Revolution technology, raising their productivity and incomes.

In Uganda, poorer farmers benefited from rising coffee prices in the mid-1990s. But since the late 1990s, agricultural earnings have stagnated, particularly for poor farmers, and rural poverty reduction has slowed significantly. Rural incomes have been negatively affected by thin input markets (despite liberalisation), inadequate access to microfinance and agricultural extension advice, and unclear land markets and use rights (which reduce incentives for smallholder farmers to invest).

Source: World Bank, 2005: 4-5

Improving market access and lowering transaction costs

In low-income African countries, high transaction costs and low market access have been identified to be amongst the most important constraints on expanding agricultural earnings, especially for small farmers and those in remote areas. Improving market access and lowering transaction costs are therefore seen as very important if the agricultural earnings of smaller and poor farmers are to increase.[7]

Policies must increase access not only to output markets but also to the input markets and credit services necessary for the purchase of inputs. This will require a shift in public resources towards rural areas and the development of institutional capacities (Dorward et al., 2004).

Strengthening property rights for land

Land is a crucial asset from which individuals and households build their livelihoods. Land ownership, registration and inheritance policies are in a state of flux in many developing countries with tenure systems changing from traditional or customary approaches to individualised private approaches. There are winners and losers from such changes, with the women and the poorest commonly losing their access and ownership rights.

The World Bank (2005: 5) found that clear tenure and transparent land markets were important to poorer farmers in the African countries included in the 14-country study. Weak land market institutions, the absence of transparency in local land management decisions and the difficulties experienced by migrants in accessing land constrained investments in land, particularly by poor farmers.

In African countries, the lack of secure tenure and legally recognised ownership rights affected poor women, particularly in terms of inheritance. The World Bank (2005: 5) suggests that improving the security of land tenure for poorer farmers in Africa requires developing formal systems that strengthen *and complement* customary land practices, rather than replacing them.

Creating an incentive framework that benefits all farmers

There is agreement that public investment and market policies are needed to kick-start the development of improved grain and input markets. These interventions can stimulate pro-poor growth, provided that they are efficiently and effectively managed, and backed up by significant and long term, but flexible and targeted, investments (Byerlee et al., 2005, Dorward et al., 2004).

Expanding the technology available to smallholder producers

Expanding the technology available to poor farmers has played an important role in increasing agricultural earnings in Asia. Access to technological innovations has contributed to increased agricultural productivity and demand for agricultural labour. However, in many countries in sub-Saharan Africa, there has been a lack

[7] The 14-country study reviewing the impact of economic growth during the 1990s on the poor (World Bank, 2005). Also referred to above.

of appropriate high-yielding/reduced-risk/reduced-labour varieties, and inadequate investments in water harvesting and micro-irrigation.

Much of Africa's crop production still takes place under rain-fed conditions. Agricultural extension services have tended to perform poorly, delivering inappropriately adjusted advice to resource-poor farmers – who are commonly also labour constrained and have weak linkages to poorly performing and fragmented markets. Advice to women farmers, income-poor farmers and minority groups has tended to be particularly poor. Fiscal constraints have combined with poor advice from donors, resulting in the rapid privatisation of agricultural research and extension services in many low-income countries. This has sharpened exclusion from service provision as services have commonly only been provided to those who can pay on the point of delivery. Advice has tended, therefore, to focus increasingly on commercial crops grown by farmers producing a marketable surplus, with access to savings or seasonal credit (to pay for services) and with a belief that the lack of agronomic technical information is their binding constraint.

Helping poorer and smaller producers deal with risk

Reducing the risks faced by poorer producers or by helping them to deal with those risks reduces risk-averse behaviour and increases the likelihood of investment and livelihood diversification. Such investments may include those using higher yielding agricultural techniques or with non-farm diversification which might enhance income, reduce poverty and – potentially – stimulate both employment and economic growth.

Approaches to reduce risk might include irrigation, flood defence, market information, microfinance to help households to build an asset base, and improved post-harvest storage or micro-insurance interventions which help households mitigate the negative events they experience and include a wide range of social protection measures.

2.2.1. Rural non-farm activities

Although agriculture remains the backbone of the rural economy, the share of income from non-farm activities is increasing (Haggblade et al., 2005). Research in rural Africa and South Asia shows that non-farm activities and transfers account for between 40-60% of rural household income (Ellis and Freeman, 2004).

Diversification into non-farm activities can help poorer households to reduce their dependency on a single income source, spreading risk and potentially contributing to poverty reduction. Non-farm activities range from household-based manufacturing and processing of natural resources to large-scale agro-processing activities.

Resource-rich households (savings, land, labour, entrepreneurial skills etc.) may develop high-return enterprises. However, poorer households may well face barriers to entry that result in their concentration amongst drudgery-intense, low-return enterprises. This may limit the role that diversification can play in supporting improvements in food security, income, savings and asset accumulation by the poor. As a result, policies and interventions that reduce the barriers to entry faced by poor households are important, if poor people are to be able to diversify and both benefit from and contribute to local economic growth processes.

2.3. Human development

Human capital, which can be categorised as the combination of skills, knowledge and health, is possibly poor people's most important asset, because they tend to rely so strongly on their own labour to underpin their livelihood activities. Their skills, knowledge and health are essential if they are to take advantage of the opportunities created by growth.

Building effective human capital requires that people have effective access to basic services (education, health, water and sanitation and social services). Yet in many developing countries, the public sector is understaffed and underpaid, the quality of basic services is poor and poor people often face barriers when attempting to access these services. This poor delivery and accessibility can be partially explained by the institutional environment and inadequate financial resources.

Access may be influenced by physical and economic factors and by discrimination. Poor people might be excluded for financial reasons. Market-led solutions to service provision (including payment at the point of delivery) may well exclude the poorest and, although there is now a widespread consensus that primary education and basic health care should be free at the point of delivery, debate remains as to whether cost sharing for domestic water supply and sanitation services is appropriate (Marcus et al., 2004).

Fiscal constraints in many low-income developing countries means that governments either have to improve domestic-resource mobilisation through progressive taxation (see Section 2.1.4), borrow (potentially unsustainably), increase their dependence on donor funds, or introduce cost-recovery from service users. Where cost-recovery is adopted, instruments like social investment funds, scholarships, lifeline tariffs for water, and waivers and exemptions for key services can all help to make services affordable for the poor (see also Section 2.3.1).

Pro-poor service delivery can be strengthened by:

- *Government commitment to basic services.* In Kenya and Uganda, government policy to provide free primary education has substantially increased enrolment rates (Oxfam & Water Aid, 2006).
- *Civil society and private companies have an important contribution to make* – but cannot and should not be regarded as providing a substitute to public service provision (ibid.).

- *Civil service reform is necessary.* Building appropriate human resources and meritocratic recruitment and promotion processes and paying public servants adequately must happen if the civil service 'culture' is to improve, allowing the drive to improved quality of service provision.
- *The removal of user fees is not enough.* Informal charges by 'gate-keepers' also need to be substantially reduced – even where they cannot be eradicated.
- *Civil society involvement in monitoring delivery at the local level can support improvements in both quality and access by the poor.*

2.3.1. Health[8]

Health shocks are known to be a profound driver of poverty. Sudden or prolonged ill-health often results in a downward spiral of asset loss and impoverishment. The relationship between ill-health and poverty is complex and works in both directions. Ill-health can cause poverty and poverty can contribute to poor health (Grant, 2005).

When the economically-active adults in a household are unwell – either seriously or chronically – the whole household is likely to suffer. Dependency ratios increase, their labour contributions to productive, reproductive and community maintenance tasks are missing. Their carers may lose their leisure-time as well as the time that whey would otherwise allocate to other tasks. Resources used to access medical care and pay for drugs can draw down on very limited household resources resulting in the sale of vital household and productive assets or debt.

Lost earnings and increased expenditure may trigger a range of coping strategies, which may have adverse short- and long-term implications for different household members. For example, children might be withdrawn from school to contribute to the household income, resulting in the loss of human assets and contributing to the intergenerational transmission of poverty (Grant, 2005).

Chronic and terminal illnesses impose considerable distress on families. As a result, some households disintegrate as social and economic units. Communities or extended families experiencing high levels of chronic morbidity and early mortality, for example as the result of HIV/AIDS, may experience particular pressures due to the intensity of the demands for nursing care, informal transfers to cover health costs and the need to foster large numbers of orphans. In countries badly affected by HIV/AIDS, elderly parents nurse their sick and dying children and subsequently take on responsibility for raising their grandchildren. These 'gap-generation' households are often among the poorest (WHO/World Bank, 2002).

Poor people are disproportionately affected by a number of conditions. These include communicable diseases (TB, HIV/AIDS), childhood illnesses (measles, polio), and reproductive health problems (ibid). Many more have their lives marred by preventable diseases (diarrhoea, malaria) and impairments.[9] These poor and very poor people are precisely the group most likely to experience extreme difficulty accessing appropriate care. They face the direct formal and informal costs of accessing treatment and the costs involved in reaching health facilities.

Maternal and under-five mortality are sensitive indicators of both poverty and the quality of health care. Health outcomes result from much more than the availability (and accessibility) of affordable and good quality health care. Other factors are known to have an important effect on both morbidity and mortality and are shown in Figure 3, below.

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[8] SDC's bilateral development programme does not have a major emphasis on health interventions or health policy. This paper therefore does not emphasise the debates surrounding the provision of preventive and curative health services for all, or discuss many of the factors presented in Figure 2 above.

[9] Physical, mental and sensory impairments may disable people and damage their well-being. For many, impairment and disability are synonymous.

Figure 3: Non-health care factors affecting morbidity & mortality

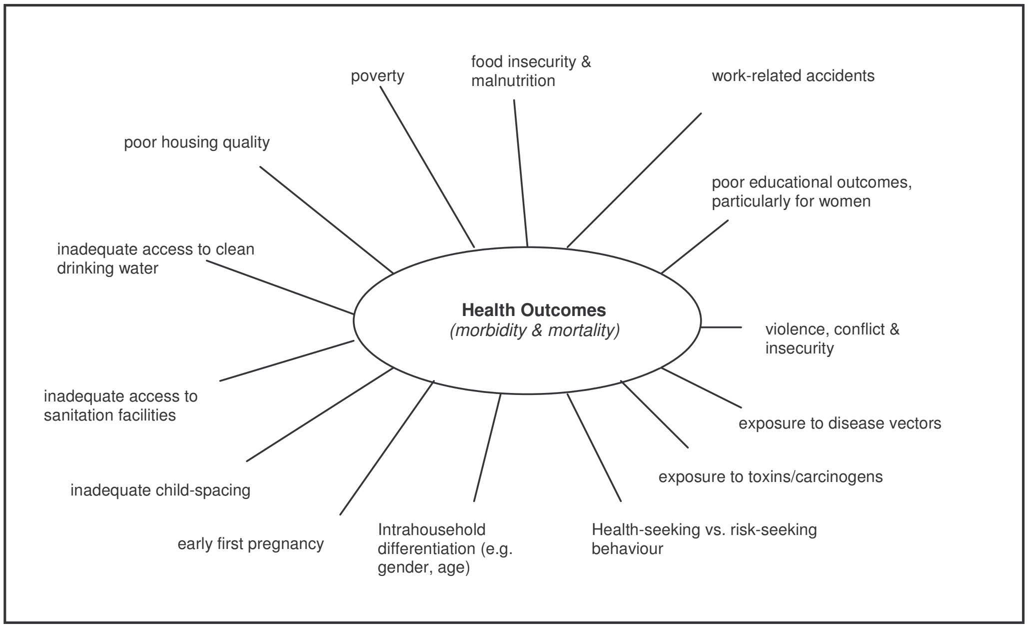


Figure 3 illustrates that health outcomes are the result of a wide range of factors and that any successful policy or intervention will have to focus on the multifaceted aspects of ill-health. Interventions are required that focus on the living and working conditions of the poor alongside health care (Grant, 2005). Improved access to basic services such as sanitation and water, better housing, improved education of girls and women, and a reallocation of resources to peripheral areas and to basic health care are all examples of a multidimensional approach to health (WHO/World Bank, 2002).

2.3.2. Education and skills

The low educational attainment of economically-active adults in a household tends to be positively correlated with that household's poverty. Having an educated mother makes it more likely that a child will be immunised, attend school and be brought to a clinic when unwell. Education provides individuals with a wider range of livelihood choices and with higher returns to their labour. It gives them greater political voice and leverage.

The importance of education as a building block for economic growth and poverty reduction strategies, and the emphasis given to education by the general public, has resulted in the governments of many developing countries turning their backs on 'cost sharing' with the introduction of free universal primary education. However, there are costs attached to even 'free' education. School uniforms, books and other equipment often need to be bought and if a child is in school, he or she cannot be working or helping around the home, farm or enterprise. Where livelihood options are limited, education quality is poor or where there is discrimination in the labour market based on gender, ethnicity or religion, enrolment rates may remain low and drop-out rates high. Furthermore, research indicates that at least 10 years of education may be necessary if individuals are to be protected from poverty. In other words, making free secondary education available may be an important pro-poor policy.

However, some argue that being educated with a conventional syllabus may be unhelpful for some of the poorest. Instead, what is needed is basic literacy and numeracy followed by a carefully-selected set of technical or professional skills (e.g. horticulture, skills for agricultural value addition, crafts, metal-working, construction, book-keeping, small business management). A danger of this approach is that it might result in poor children being denied a conventional education and actually intensify their exclusion and the poverty they experience over their life course. A further danger is that technical colleges do not necessary build skills that are geared towards the needs of the local labour market or for graduates to establish their own successful micro-enterprise.

Adult literacy

Illiteracy is a major barrier to poverty reduction. Being illiterate and innumerate puts people at a disadvantage in accessing information, dealing with officialdom and transacting in the market place. It may limit status and political voice and can reduce the benefit that individuals can gain from pro-poor interventions. People with an education have access to better jobs, their enterprises are likely to be more profitable and they gain from a wide range of social benefits. For example, educated parents are more likely to educate their own children. Educated women gain negotiating power in the household, they are also more likely to delay marriage, have their first child later and have better nourished children.

Nearly 900 million adults have missed out on an education. Expanded primary enrolment and retention will only slowly reduce the proportion of uneducated adults in a number of African countries, so the focus on primary education needs to be supplemented with renewed attention to basic adult education (Lauglo, 2001).

A World Bank study reviewed 18 programmes which provided training in livelihood skills and basic education for illiterate and semi-literate youths and adults. It found that such training enhanced confidence and social resources of participants, which in turn helped them to take initiatives to improve their livelihoods. Their improved literacy and numeracy helped them in market transactions and so supported entrepreneurship, and their new vocational skills encouraged more productive agricultural or livestock practices (Oxenham et al., 2002). Lauglo (2001) suggests that adult education also supports gender and social empowerment.

Despite these positive outcomes, support for adult basic education over the last two decades has been modest. Adult literacy programmes typically receive only 1% of national education budgets, signalling a very low level of commitment. UNESCO suggests that donors and governments must increase this level of funding if the goals outlined in international agreements are to be reached (ID21, 2006). This low level of funding suggests that adult literacy is not high up on the list of priorities for spending allocations either within governments or donor organisations. This is partly because adult literacy programmes have historically been poorly designed and implemented. During the 1960s-1980s only a minority of eligible participants enrolled in adult literacy programmes. Of those, about 50% dropped out and of those who stayed on, about 50% passed literacy tests, however approximately 50% of those who passed were estimated to have dropped back into illiteracy (Lauglo, 2001; Abadzi, 2003b). These findings led to a sharp reduction in funding, but without investments in adult education, literacy rates will remain poor. Findings from Senegal suggest that programmes designed in a participatory manner and implemented by a partnership between NGOs, governments and donors can be highly effective, signalling that a new generation of programmes has emerged.

Technical and vocational education and training (TVET)

People need flexible and relevant skills that help them to get better paid jobs or run their own business. Technical and vocational education and training (TVET) programmes can prepare participants for work in locally-relevant, sustainable occupations. Governments increasingly view skills development as an important factor in enhancing productivity, stimulating economic competitiveness and reducing poverty. However, governments struggle to provide universal primary education and effective secondary or post-secondary education, and in much of sub-Saharan Africa AIDS is rapidly deskilling the population.

This challenge is not being met by the current TVET sector. There is a mismatch between training opportunities on offer and the skills on demand in local labour markets. TVET has mostly focused on skills development for the formal sector, while most of the poor gain their livelihoods in the informal sector. Barriers to entry for the poor include a lack of education, high fees and opportunity costs. In addition, weak institutional capacity and high costs have often prevented successful implementation of TVET strategies (Grierson 1997).

In order to make TVET more pro-poor and effective, several challenges need to be met: Training has to be demand-riven and tailored to the specific local labour market. Enterprise-based training offers training in the context of real business practice and tends to respond more effectively to the needs of the local labour market (ibid). Enterprise-based training in its broadest sense can encompass the transfer of skills between family members or traditional apprenticeship practices in informal businesses, an approach frequently used in sub-Saharan Africa. Training facilities can work with these traditional skills development mechanisms and combine them with some form of institutional training (Grunwald et al., 2004). Also, enterprise-based training is less costly than institutional-based training.

Poor people need to have flexible and transferable skills. TVET programmes need to respond to this. An example is where curriculum is developed with the informal economy. Employment opportunities are identified in the local informal sector and skills transferred through mentorships are encouraged, where an experienced entrepreneur is persuaded to provide informal advice and support to a market entrant.

Financing poses a major challenge to TVET, however. The diversification of funding through the introduction of fees or earmarked taxation has been suggested but, as yet, there is no clear consensus on the way forward.

2.3.3. Social policy

Social policy is often taken to mean the combination of health and education policy. It is actually broader and can, in addition, include social welfare, nutrition, water and sanitation, fertility control and policies targeted at the mentally ill, people with mental, physical or sensory impairments, and people with substance dependency (alcohol, narcotics).

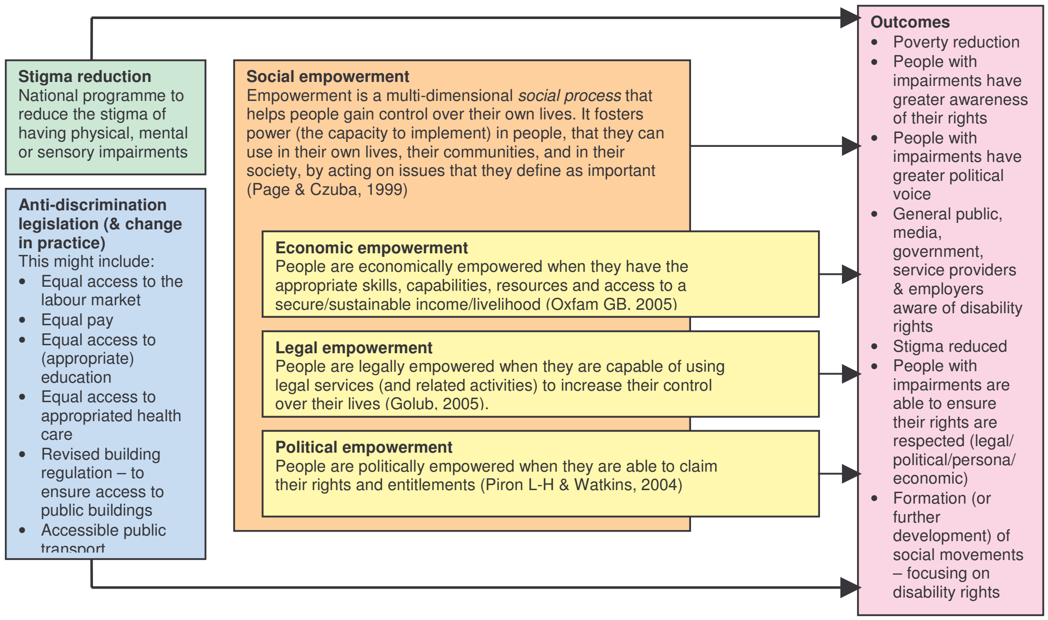
Taking two examples, domestic violence and the resultant fragmentation of households and alcohol dependence, it is clear that ‘social issues’ can be important drivers of poverty. Households that were not otherwise poor can become poor as a result and children in such households may end up chronically poor.

Addressing some of these issues is often seen as being outside the remit of development agencies and too complex and costly to be the priority of pro-poor government policies and programmes. However, the benefits and multiplier effects of dealing with issues such as alcohol dependence can be considerable.

Unfortunately the costs of not doing so are commonly disproportionately met by individuals and households.

This paper is unable to devote the space to explore social policy in great depth. However, the diagram below (Figure 4) illustrates some of the possible links between policies to support the rights of people with physical, sensory and mental impairments (also known as disabilities) and one of SDC's core areas, *empowerment*.

Figure 4: Links between impairment and empowerment



2.3.4. Food security and nutrition policy

Pre-natal and child malnutrition can lead to permanent mental and physical impairments. For example, both iodine deficiency and iron deficiency (and anaemia) in young children can lead to permanent reductions in cognitive function. Vitamin A deficiency can lead to blindness. In 2000, over 150 million pre-school children were estimated to be underweight and over 200 million children to be stunted. Even at current rates of improvement, by 2020 about one billion children will be growing up mentally impaired.

This suggests that pro-poor policy needs to address food insecurity and under-five, maternal and adolescent nutrition. A useful review of the policy challenges surrounding food security has been developed by the Forum for Food Security in Southern Africa.[10] A CHIP policy brief (Harper, 2004) provides a useful overview of nutrition and child health.[11]

2.3.5. Public utilities

Utility provision (electricity, drinking water, sanitation, garbage collection) in developing countries is commonly provided by a nationalised industry or a monopoly provider. Provision rarely extends to rural areas or to the areas of towns in which poor people live, with serious consequences for their health and well-being. Access to water and sanitation is now tracked under the Millennium Development Goals, increasing the attention of donors and others to underperformance.

Below we focus on the policy issues surrounding the delivery of water and sanitation services, particularly to poor people.

Water and sanitation

About a billion people in developing countries lack good access to safe drinking water and about two billion lack access to improved sanitation facilities. Others have access, but service quality is poor, for example receiving running water for only a few hours a day. Progress in generating improvements, particularly in low-income developing countries, is slow.

This may be partially explained by the weak representation of this issue in policy formation processes, the sector's limited implementation capacity

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[10] FFSSA (2004) Achieving Food Security in Southern Africa: Policy Issues and Options. Synthesis Paper. The Forum for Food Security in Southern Africa. London: ODI. http://www.odi.org.uk/Food-Security-Forum/docs/FFSSA_synthesis_consultation.pdf
Readers may also be interested in country-specific papers which can be found via the FFSSA home page http://www.odi.org.uk/Food-Security-Forum/Index.html

[11] CHIP – the Child Poverty and Research and Policy Centre. CHIP Briefing No. 7. Child ill-health and mortality: how can we prevent the preventable? http://www.childhoodpoverty.org/index.php?action=publicationdetails&id=105

(ODI, 2006)[12] and under-funding. An estimated annual expenditure of US$30 billion is needed if the Millennium Development Goals (MDGs) of halving the proportion of people without access to safe water or sanitation are to be met by 2015. This is a significant increase from the current figure of US$14 billion (Water Aid, 2006b). However, the money also needs to be spent more efficiently by improving the targeting of expenditure, ensuring that technology is appropriate and increasing transparency, to reduce opportunities for corruption (Water Aid, 2006b).

As a consequence, many poor people rely on unsafe, expensive and inconvenient water supplies. In rural areas, women and children from poor households often have to walk long distances to collect water while in urban areas poor people often depend on expensive water vendors (World Bank, 2006). Improved water supplies can deliver significant improvements in the quality of poor people's lives and release time for more productive activities. However, water providers in low-income developing countries are often on the verge of bankruptcy and are rarely able to extend services into poor neighbourhoods or to provide piped water services in rural areas. Poor management, poor procurement practices and low labour productivity in the sector tends to mean that the cost of service provision is higher than it should be.

The World Bank (2006) suggests that in many situations, privatisation will be necessary if delivery is to be improved. However, private-sector participation in the provision of water and sanitation services in developing countries is contentious. Some multilateral aid agencies strongly encourage the privatisation of state-owned water (Water Aid, 2006a). Others fear that privatisation will result in multinational companies taking over water and sanitation services in low-income developing countries, resulting in increased exclusion of poor people from key services.

This has stimulated a debate as to whether multinational water operators are likely to provide the right sort of affordable services to poor people, and it has been suggested that to encourage them to do so will require both subsidy and regulation. However, unsophisticated application of subsidies can distort markets and lead to an unsustainable use of water. Targeted subsidies are seen as an instrument to make services affordable to the poor and promote the sustainable use of water resources. South Africa has adopted an innovative scheme by providing the first 6,000 litres of supplied water per month for free (Oxfam/Water Aid, 2006).

2.4. Security[13]

Poor households face a range of shocks and risks, related to illness and death, natural disasters, violence, state failure and economic collapse (CPRC, 2004). Understanding the nature of the shock is important in order for external agents to help affected households deal with its consequences. The effect of idiosyncratic shocks, for example the illness of a family member, can be insured against within a community, to a certain degree. However, covariant shocks (those experienced by many or all members of a community) such as harvest failure following a drought, are difficult to insure against, as so many are negatively affected at the same time. As a result the risk cannot be shared (Dercon, 2005).

The ability to respond to shocks is determined by the degree of vulnerability of a household. "(L)ivelihoods are vulnerable, when they are unable to cope with and to respond to exposure to risks, stresses and shocks" (Ireland et al., 2004: 29). Risk-related vulnerability, for example the risk of facing a shock and the inability of coping with it, is thus a major driver of poverty (Dercon, 2005).

Social protection

Social protection (SP) is defined as all interventions from public, private and voluntary organisations and social networks to support communities, households and individuals in their efforts to respond to deprivation and to prevent, manage and overcome a defined set of risks and vulnerability which are deemed socially unacceptable in a given polity or society. Some social protection measures seek to go beyond the prevention of destitution to *promote* both livelihoods and welfare. So, some include all social policy, all 'social' services interventions (for instance health, education, water supply) and all 'community-driven development' (e.g. World Bank-supported Social Funds) as forms of social protection as they contribute to the prevention of risk. However, a tighter definition of social protection tends to include only "welfare-type payments", such as pensions.

Focusing for the time being on the tighter definition, social protection measures may be delivered in cash or kind. They can be unconditional payments or can have conditions attached, and they may be universal or targeted. Universal measures benefit all members of a society (for example a statutory minimum wage), while targeted measures select recipients, for example by geographic area or by identifying a specific social characteristic (age – resulting in programmes to deliver child benefits or old age pensions, or impairment – resulting in disability pensions). Tight targeting theoretically enables society to transfer resources to the identified beneficiary group while excluding people from other groups. However, effective targeting is resource hungry, commonly either excludes too many of the

[12] ODI's Water Policy Programme, "Pro-poor service delivery", downloaded 16.05.06. http://www.odi.org.uk/wpp/research_areas/Propoor_service_delivery.html

[13] This sector relies heavily on a background paper produced by Rachel Slater, ODI.

target group (e.g. the poor) or includes too many of the non-target group (e.g. the rich), requires highly effective administrative systems (particularly since the target group is likely to be both fluid and mobile), can distort the behaviour of the excluded group (as they attempt to meet requirements for payments) and undermines political acceptance of the programme.

There are a number of questions that Southern governments need to consider when designing or delivering social protection measures (see Box 7).

Box 7: Social protection – issues for programme design

- **Who should be protected:** the destitute, the declining poor or the coping poor, tomorrow's poor, or anyone at a vulnerable point in their life-cycle?
- **What sort of risks should be mitigated:** disasters, economic shocks, economic and social change, conflict?
- **Who is responsible for protection:** only the state, also the non-profit sector, civil society generally, or even the immediate non-poor?
- **Should social protection be a safety net or a springboard?** The choice is between using SP to keep the most vulnerable at an acceptable level during shocks (livelihood protection), to enhance the capacity of the vulnerable to help themselves out of poverty (livelihood promotion), or to address the root causes of vulnerability, such as unequal access to livelihood resources.
- **Should the poorest countries aim at maximising coverage** – a universalist (European) approach, or is the residualist (North American) model the only sustainable answer?
- **How can SP be delivered despite severe implementation constraints** – often intensified by a decision to ration SP to particular groups?
- **Should international SP measures be considered**, in response to the new vulnerabilities generated by globalisation?

Source: DFID/ODI, 2003.

The decisions made in response to these questions will depend on how a country's political elite view the development process, and what they judge to be the causes of poverty and vulnerability and the routes by which people move out of poverty. Decisions will also depend on the political priorities of key decision-makers and the economic and social history of the country, and will be strongly influenced by the resources and capacities available to implement particular policy decisions (DFID/ODI, 2003).

Few governments of low-income developing countries have a strong commitment to 'universal' social protection. This is partly due to 'fiscal tightness' and partly the result of a widespread belief that SP can generate dependency and 'crowd out' production-focused investment. Many are also confident that traditional safety nets are effective but that they are undermined by formal SP. Contrary evidence suggests that social protection can help support economic growth (Devereux, 2002) and that traditional safety nets do not protect many of the most vulnerable people or the most marginalised groups and function poorly other than in times of plenty (Bird & Shepherd, 2003). However, views about the negative effects of SP tend to be strongly held and accompanied by a belief that economic growth will result in widespread poverty reduction (see Section 2.1 for more on pro-poor growth). As a result, governments have tended to focus on policies to support economic growth, with *targeted* SP measures, often in response to particular shocks (ibid).

Some lessons on programme design:

- The efficiency of resource transfer (the cost-benefit ratio) can be estimated, but the likelihood of 'leakage' is not always assessed. For example, in India pensions deliver small sums to individuals and have a better record than housing schemes, where larger amounts are involved and therefore there is increased temptation for corruption.
- Costs of providing SP can be balanced by benefits such as the creation of physical assets (through public works schemes) or enhancements to other assets – social, natural or financial.
- Targeting raises costs, but in Latin America it has been found to add only 8%.
- Forms of SP payment:
    - Men involved in employment schemes tend to prefer cash, while women tend to prefer food or inputs (although this can depend on the season).
    - Food aid may distort local markets and cash payments may be preferred by recipients, but may trigger localised inflation

- Setting benefits at low levels (or requiring a high-time cost to apply or collect the benefit) helps ensure that the poor self-select: the non-poor will not make the effort. This also avoids driving up wages for casual labour.
- The risk of inappropriate SP measures can be minimised through participatory planning.

Social protection policies in developing countries

In Latin America, social protection is now delivered largely in the form of conditional cash transfers, in addition to some policies to regulate labour markets. In Africa, there is increasing interest amongst governments to design and deliver cash transfers.

The delivery of social protection in the form of in-kind transfers, particularly in agriculture, has returned to the top of the agenda and, in transitional economies (e.g. the former Soviet Union), discussions tend to focus on how to dismantle expensive and regressive subsidies. This can extend to debates about how to dismantle existing SP provision, particularly where state-owned industries are being privatised. In South Asia, a wide range of SP measures have been adopted, including safety nets to mitigate impacts of economic reform (e.g. Indonesia) and in India, the need to reform the Public Distribution System is the focus of much debate.[14]

Conditional cash transfers have become popular recently. These can be targeted or non-targeted grants tied to particular activities, for example the registration and continued attendance of recipients' children at school, use of health facilities and so on. The box below gives an example of a well-known Mexican conditional cash transfer scheme, the *Progresa* programme (now called *Oportunidades*), which has been found to improve education and health outcomes.

Box 8: Progresa – an example of a conditional cash grant for education

Progresa is a large targeted programme run by the Mexican government to provide extremely poor rural mothers with conditional grants tied to the education of their children. In 1999 it covered 2.6 million households spread over 31 Mexican states. The transfer was worth an average of 20% of household expenditure. Administrative costs for the programme were low at only 8.9%. The removal of targeting and conditions would reduce administrative costs to 6.2% or 6.6% respectively. Removing both would bring administrative costs down to only 3.9%.

Impact assessments have found that the programme effectively reduces drop-out rates and facilitates progression through the grades, particularly during the transition from primary to secondary school where it increases the enrolment of girls by 20% and boys by 10%. A simulation of the longer-term effects of the programme indicate that if children were to participate in the programme between ages 6 to 14, they would experience an increase of 0.66 years in average educational attainment and there would be an increase of 19% in the number of children attending 'junior secondary school'. *Progresa* was also found to have increased children's food security (food intake was up and stunting down) and improved preventative health care. As a result, children in *Progresa* areas were found to be less susceptible to disease. Visits to health clinics had increased in *Progresa* areas, including by pregnant women in the first trimester, resulting in improved maternal and neo-natal health.

Sources: Behrman, et al. (2001); Schultz (2001); Skoufias & McClafferty (2001).

[14] For more see ADB (2006) http://www.adb.org/Documents/Policies/Social_Protection/social201.asp

Over the last decade, there has been a shift away from in-kind transfers to cash payments and a recognition that SP needs to be accompanied by complementary programming in order to protect and promote livelihoods. Many in the donor community are increasingly aware of a need to address chronic poverty, broadening from a previous focus on emergencies.

A wider range of SP instruments have been piloted, which have begun to move beyond social transfers to social insurance and labour regulation. This has led policy making and programming for social protection to move beyond its early and rather narrow focus on mitigating the negative impacts of structural adjustment programmes through Social Investment Funds towards addressing long-term structural poverty.[15]

However, the cost of delivering SP blocks the majority of low-income developing countries designing and implementing large-scale programmes, despite the fact that they are the countries that need them most. Their governments tend to be concerned about becoming dependent on international donors for a politically-sensitive and long-term recurrent budget line.

2.5. Rights, empowerment and antidiscrimination policies

This section moves on to discuss rights, empowerment and anti-discrimination policies.

Rights and empowerment approaches may be mutually supportive in practice but they remain analytically distinct. A human rights approach has a universally-accepted set of standards and this presents operational distinctions from empowerment. Fox, (2005) stresses the differences between empowerment (as capacities) and rights (as institutionally-recognised opportunities): rights may be recognised institutionally but power imbalances may mean that actors are not able to actually claim them (Luttrell, 2006).

2.5.1. What does the Human Rights approach have to offer poverty reduction-focused policy formation and implementation?

The human rights approach to development goes beyond the notion of civil and political rights to encompass economic, social and cultural rights. This concept sees the manifestations of poverty as a denial of human rights. It addresses the multidimensional nature of poverty by focusing on social exclusion, marginalisation, vulnerability, lack of opportunities and access to services (OHCHR, 2004).

Under a human rights-based approach, the rationale of poverty reduction is not based on the assumption that the poor have needs, but the recognition that they have rights and entitlements, in particular the right to freedom from poverty (ibid). It is assumed that making poverty a public, moral and political issue can enable the poor to gain leverage (Mosse, 2004). A human rights-based approach seeks to empower the poor by granting them rights and entitlements that give rise to legal obligations on others (OCHCR, 2004). Rights can be claimed against a duty holder as an institution, a state or an international community and these have the obligation to assist the right-holder in securing the right (Moser & Norton, 2001).

So, a human rights-based approach to development is twofold: on one hand it focuses on the capacities of the duty-holder to meet their obligations, and on the other hand it seeks to strengthen the capacities of the right-holder to claim their rights (OCHCR, 2004). The former includes strengthening institutions to be inclusive, participatory and accountable and promoting policies which ensure that obligations to protect human rights are fulfilled by duty-holders, whereas the latter aims at enabling people to claim their rights through participation in decision making (DFID, 2000).

A rights-based approach can assist poverty reduction in several ways. First, it makes access to basic services, such as education and health, a legal right. Evidence from Uganda shows that the recognition of a right – in this case the right to education – can result in increased access (MacKay & Vizard, 2006). Also, entitlements in the form of legal rights offer a more authoritative basis for advocacy and for claims on resources. Transparency and access to information, however, are crucial for the ability of the poor to claim their rights (DFID, 2000).

Second, rights and freedoms can enhance economic performance. In his influential work on human rights, Sen highlighted the instrumental role of fundamental freedoms and human rights in promoting development and pro-poor growth (Vizard, 2005). Cross-country evidence shows that countries with less inequality are more likely to have sustained growth than countries with a high level of inequality. In countries without the protection of civil and political rights and non-discrimination, different groups are frequently excluded and marginalised from the benefits of growth (McKay & Vizard, 2006). It is also believed that a state which protects human rights is in a better position to give public responses to economic and social shocks.

However, rights and entitlements will only make a difference to poverty if they can be legally enforced. In many developing countries, legal systems are slow and overstressed and the fulfilment of many rights can be a strain on scarce public resources (Mackinnon, 2006). It is undoubtedly easier to release an arbitrarily detained person than to create the institutional infrastructure

[15] See ADB for review of different agencies activities: http://www.adb.org/Documents/Policies/Social_Protection/social205.asp

required to secure the right to health or education (Tomasevski, 2006). In recognition of resource constraints that poor countries face, international law allows for *progressive realisation* of some rights over a period of time as long as the State takes concrete steps in the direction of the realisation of human rights – although core obligations including, for instance, non-discriminatory practices, must always be respected (Ljungmann, 2004).

Another problem is that poor people are often not able to use legal systems to pursue their claims (DFID, 2000) and a strong emphasis on rights may result in a greater skewing of resources to meet the rights of the richer and more articulate citizens rather than the poor and excluded. As a result, pursuing a rights-based approach to development requires a clear prioritisation that will support the poorest, and advocacy from an active civil society to help the poor claim their rights (Moser & Norton, 2001).

Monitoring government performance on the delivery of rights to poor people requires transparent information. This then needs to be followed by being able to identify and sanction duty-bearers who are failing to deliver. In practice, ensuring this accountability can be difficult (OCHR, 2004) and a system that focuses on legal interpretations may fail in such a context.

International donors or NGOs pursuing a rights-based approach are primarily accountable to their taxpayers rather than the poor they claim to represent, weakening the ability of poor people to hold them to account.

In conclusion, rights-based approaches have the potential to empower the poor, but nominal rights granted by institutions are insufficient without capacities to exercise their rights (Fox, 2004).

2.5.2. Empowerment[16]

Empowerment can be described as any process that helps people gain control over their own lives and increases their capacity to act on issues that they define as important. Understanding power is central to gaining analytical clarity over what can be a vaguely defined area in development thinking.

Rowland's categorisation of power stresses the difference between power over (ability to influence and coerce) and power with (power from collective action), and power within (individual consciousness) and power to (organise and change existing hierarchies) (Rowlands, 1997).

Different interpretations of power have significant implications for the operationalisation of empowerment. Empowerment interventions based on a view of power as 'power over' emphasises the need for women to participate in existing economic and political structures of society and does not require a structural change in power relations. A focus on 'power to' might lead to an emphasis on access to decision making whereas an emphasis on 'power within' might lead to a focus around building self-esteem.

Empowerment interventions will also differ according to whether empowerment is seen as instrumental or a process of social transformation. Such differences might result in the following three having greater or lesser emphasis:

1. *Participation:* empowerment as the more active participation of previously excluded groups in the design, management and evaluation of livelihood activities and policies.
2. *Organisational capacity building:* empowerment as increased individual and organisational capacity to take some form of action.
3. *Economic enhancement:* empowerment through economic improvement and increasing access to economic resources.

Thinking about empowerment at the grassroots level has often been associated with local people's demands for a greater voice in national and local government structures and services. Linked to these demands are an increased sense of agency and self-esteem. More recently, there has been recognition that an explicit consideration of social and political context is required as this recognises the need to address structural inequalities affecting entire social groups rather than focusing only on individual characteristics.

A challenge for both civil society and international donor organisations supporting empowerment processes is how to assess when empowerment has been achieved and how to correctly attribute the drivers of enhanced power. So, for example, increased incomes, enhanced livelihoods or group formation do not necessarily result in empowerment unless hierarchies and power structures are altered. Another challenge is whether the association between empowerment and development outcomes can be *proven*.

Monitoring empowerment needs to measure shifts in power relations (Pradhan, 2003). However, the indicators that are most commonly used in assessing empowerment programmes (education, income and labour participation) are incapable of identifying such shifts in power. Some therefore suggest that a qualitative approach to assessment might be preferable, abandoning the use of tangible indicators (Waddington, 2001; Oxaal & Baden, 1997).

2.5.3. Anti-discrimination policy

Discrimination means different things to different people, but it can be taken to mean when people are excluded from markets or institutions or where they receive a lower return (for their labour or for their products), or pay a higher price for goods and services without these things being justified by objective criteria (ability, productivity, quality) (Anderson & Bird, 2006).

[16] This section draws heavily on 'Empowerment discussion paper: summary', prepared for SDC's Livelihood for Equity desk by Cecilia Luttrell 2006.

Whether discrimination is the result of ignorance or prejudice it can result in social, political and economic exclusion and poverty. Discrimination can affect people in all aspects of their life. It can result in them experiencing exclusion or poor treatment when attempting to access education and health services. It may limit their livelihood options when seeking work or attempting to establish and run a business. Discrimination may also limit their access to credit and damage their ability to buy or inherit land and other assets. Lastly, discrimination may block certain individuals from leadership roles.

People are at risk of discrimination if they have an 'ascribed status',[17] experience oppressive labour relations,[18] are viewed as an 'outsider',[19] experience impairment or disability or certain forms of ill-health, especially HIV/AIDS. Other forms of social difference are also important[20] and household composition can single people out for discrimination.[21]

Anti-discrimination legislation and policies include equal opportunities legislation, affirmative action or 'positive discrimination', and public awareness campaigns. They have the potential to provide an important complement to social, economic, political, legal and gender empowerment. In this section we present a brief overview of cross-country experience of anti-discrimination policies and their likely impact on poverty.

[17] identified by their minority/low-status race, ethnicity, religion, caste.
[18] bonded, migrant or stigmatised labour.
[19] migrant labourers, refugees and internally-displaced people, people without citizenship documents.
[20] e.g. gender, age.
[21] e.g. being from a child-headed household.

Table 2: Selected anti-discrimination policies

Who	Where	When	What
Women	South Africa	since 1994	Aims to increase the number of women in the South African parliament by a quota system – 30% of candidates on the ANC election list must be women. Women MPs increased from 24%-29% in five years (1994-1999).
Indigenous people	Uganda	since 1995	Providing education to (nomadic pastoralist) Karamajong children who were previously excluded from education. Still quite small scale.
Low caste groups	India	since 1990	Policy to reserve (quota) jobs for people from 'other backward castes'. Benefits predominantly secured by wealthy people from 'other backward castes'.
Women, low caste groups, ethnic minorities	India	since 1955	Protection offered by the Civil Rights Act to women and people from low caste groups and ethnic minorities. Discrimination in the workplace is still widespread.
Disabled people, women	Uganda	since 1996	Places are reserved for disabled people and women at all tiers of government (village and local government through to parliament). May have increased political voice or presence without true representation. Both women and disabled people have been criticised for having been co-opted by other interests.

Source: Adapted from Braunholtz, 2006.

Discrimination policies are just that, policies, and depend on state capacity, widespread attitudinal change (including the reform of discriminatory institutions) and effective legal processes if they are to be effective. This highlights the importance of having public campaigns to change attitudes and empowerment programmes to increase both people's awareness of their rights and their political and legal confidence to demand that they are delivered.

3. Governance, institutions and pro-poor policies

3.1. Barriers to pro-poor policy formulation[22]

There are three key points during the policy process at which policy may fail the poor: agenda setting, policy formation and implementation.

1. *Agenda setting:* an issue which is important to the poor may never get on the policy agenda. This is particularly true of the chronically poor, marginalised and vulnerable, who tend to have low visibility or low priority or represent issues that are 'outside the box'.
2. *Policy formation:* Once an issue is on the policy agenda that does not automatically mean that an appropriate policy is formed.
3. *Implementation:* Once policies are formed there are barriers to legitimisation, constituency building and implementation.

[22] This section draws heavily on the Working paper 'Fracture Points in Social Policies for Chronic Poverty Reduction' produced by Bird and Pratt (2004).

There are numerous barriers that prevent adequate representation of the interests of the chronically poor in national policy debates.

A failure of issues that are of importance to poor people to get onto national policy agendas may be because problems are not be seen to be sufficiently severe or large scale, and policy makers do not feel they can justify allocating time or budget to the issue. This can be because the issues are poorly understood or because other constituencies and interest groups are more effective or more powerful and therefore more able to dominate the attention of policy makers. It may also be that international or national policy narratives are such that there is low demand for information on these issues, and so little research has been undertaken or it has been poorly disseminated.

Problems might be fully understood and the scale and severity of the problem recognised, but policy makers may still be reluctant to respond. This may be because they make inaccurate assumptions about the distribution of benefits from growth and the effectiveness of traditional safety nets. The political processes surrounding policy agenda setting and policy making appear to be strongly influenced by the dominant poverty and development discourses in many instances and national discourses are significantly influenced in developing countries by the international development community. This world view results in an expectation that growth will result in significant and sustained poverty reduction with any remaining poverty being largely residual. The dominance of this way of thinking does not encourage a focus on investment or policy agendas 'outside the box'.

Dominant poverty and development narratives may interact with, and support, elite perceptions. These elite perceptions commonly reinforce categorisations of the poor as deserving and undeserving. These categorisations are used to justify the limited attention and low budgetary allocations given to particular issues and groups.

Another key reason for an issue failing to gain attention is due to national political realities. The electoral arithmetic may not add up. In other words, there might not be enough people facing the problem in key constituencies. Alternatively, the country may face a democratic deficit (i.e. democratic processes are not strong). Issues which are complex and expensive to solve are unattractive to politicians, who tend to want to appear decisive and effective over the short term.

The political economy in many developing countries is such that the need to deliver improved outcomes for marginalised and vulnerable groups is rarely seen to justify either increased political attention or the devotion of increased resources to those groups. Alternative justifications for greater political and budgetary focus lie in identifying the instrumental benefits of improving their well-being (for example by showing that such changes would increase the likelihood of achieving the Millennium Development Goals (MDGs) or support enhanced productivity and economic growth).

3.2. Do regime types matter for poverty reduction policies?

Democratic structures of governance are widely viewed as being best suited to address poverty and inequality. However, evidence suggests that representative democracies have not necessarily a better record in poverty reduction (Moore & Putzel, 1999).

In many developing countries, a failure to eradiate poverty, weak institutions and an undeveloped civil society have caused people to question democracy and have led to a surge of populist governments (Noriega, 2005). These are conceived of by some as being more responsive to the needs of the poor and excluded. Evidence from India shows that populist regimes that rely on charismatic leadership may become relatively well-institutionalised and can indeed deliver pro-poor policies and programmes (Harriss, 2000). Often, however, such regimes pursue populist measures which prioritise short-term changes at the expense of longer-term stability, growth and well-being. As long as democracy is regarded as exclusionary and unresponsive, the poor and excluded will continue to be attracted to populist governments.

According to some, it is not so much the regime type that matters as long as the state is developmental in nature. A developmental state is conceptualised as a strong state with a political leadership with the vision, political will, policy instruments, institutions and capacity to pursue the medium- to long-term national "project" of development.

Many argue that the characteristics of the developmental state are largely absent in many low-income developing countries, and in particular in much of sub-Saharan Africa. Donors may have a role in strengthening the developmental characteristics of such states by improving institutional capacity which will make them more effective (Fritz & Menocal, 2006).

3.3. The role of neo-patrimonialism and clientelism in distorting policy formulation

Neo-patrimonial states are characterised by a personalised, rather than a bureaucratic, state service. The relation between the state and its citizens is based on clientelism; in other words the exchange of favours, gifts and transfers. The international literature on the neo-patrimonial state and on clientelism seems to suggest that elites in many countries benefit from interacting with subordinates and others in society through patron-client relationships. These reinforce the power that they have. Their subordinates (their staff, the electorate) *may* benefit, if they 'play the game'. So, the elites benefit and the non-elites benefit little, but fear that they may benefit less from an alternative system. This stands in the way of reform, including reforms that might improve governance, reduce inequality and introduce social protection and better access to improved health and education services.

3.4. Mechanisms of power sharing and downwards accountability

Power sharing and downwards accountability have been advocated as means to overcome clientilism and make democratic institutions more responsive.

The devolution of power and resources to the local level can contribute to making government institutions more transparent and accountable and address regional inequalities. Increasing democratisation and decentralisation of governments in developing countries has not automatically resulted in better outcomes for the poor (Manor, 2003), but decentralisation can have a positive outcome for the poor, provided that some conditions are met.

First, there must be a genuine devolution of powers to the local level, in order to allow local stakeholders to become fully involved in the local development process (Asante & Ayee, 2004). Second, in order to implement poverty reduction policies that meet local needs, local governments also need to have sufficient funding and a degree of discretion over resources. Lastly, the responsiveness of both national and local governments to the needs of the poor critically depends on effective accountability. Participatory approaches can contribute to improved accountability.

Direct democracy can engage citizens in policy making beyond periodic elections. An example of this in Brazil has involved ordinary citizens in helping to formulate their government budget (Bräutigam, 2004). Often poor people are unable to engage directly in decision-making or organise themselves to pressure policy makers and although NGOs or civil society organisations can play an important role in advocating on their behalf, as we have shown above, such organisations may, in fact, speak largely on behalf of urban middle-class interests or become co-opted by policy elites.

While direct participation or 'mobilisation from above' are important instruments to strengthen the voice of the poor, the promotion of responsiveness and accountability needs to take place within existing political systems. If these elements of participation are regarded as an alternative to the established democratic processes, they risk by-passing, and therefore weakening, elected government institutions (Moore & Putzel, 1999; Brautigam, 2004).

Box 9: Defining civil society

Civil society organisations function in between the household, the private sector and the state. Civil society is a very broad umbrella term covering a range of benign and less benign organisations and institutional forms: non-governmental organisations, faith-based institutions, professional associations, trade unions, research institutes and think tanks, caste-based organisations/institutions, the mafia and other criminal gangs. Civil society is commonly used synonymously with non-governmental organisations, leaving out the media, trade unions and the less benign aspects of (un)civil society.

3.5. International actors and poverty reduction policies

Many governments do not have the autonomy that they would like. Highly-indebted nations and those with a high proportion of their national budget coming from aid can find that direct and indirect conditionality is strongly influential. Multinational and transnational corporations can be extraordinarily powerful and can either ignore national policies or can help to direct multilateral policies in a way that undermines them. This may be particularly important in countries that trade internationally or that have large mineral stocks and extractive industries.

Donor policies and poverty reduction strategies

Poverty reduction strategy papers (PRSPs) have become the cornerstone of development assistance in terms of both grants and loans (Booth & Piron, 2004). They attempt to link debt-relief initiatives to poverty reduction by targeting the funds that are released as a result of debt-relief to poverty-alleviation strategies (Christiansen & Hovland, 2003).

This concept supposes an important shift away from past development approaches: poverty reduction has become the overarching goal that needs to be taken into account in all economic decision-making. The principal behind the PRS approach is that they should not be imposed by external experts, but should be drafted in the countries themselves in order to enhance country ownership. Participation by civil society, citizens and different layers of government is seen as contributing to both "ownership" of the final strategy and increasing the likelihood that implementation will be successful. Despite this rhetoric, donors remain actively involved in the design of the strategy and as a result many regard PRSPs as simply a new form of conditionality.

Five years after their introduction, evidence of the effectiveness of PRSs in achieving poverty reduction appears mixed. They have put poverty reduction more firmly on government agendas (Driscoll & Evans, 2004). Most PRSs combine legal, policy and institutional reforms with a changed focus on resources, in some cases starting to redress historic under-funding patterns and bring expenditure levels closer to international minimum standards for basic services. In general, policy commitments are reflected in "action matrices" and budgets. However, the budgets presented in PRSPs tend to be notional, and real budgets frequently fall short of those initially outlined (Grant & Marcus, 2006). Operational links between PRS, budgets and outcomes remain weak in many countries (Driscoll & Evans, 2004).

The participatory processes connected with PRS formulation have opened up new spaces for civil society. However, civil society involvement is mostly limited to consultation rather than a real involvement in decision-making (Oxfam, 2004). A challenge remains to expand civil society consultation so that governments can be held to account by the poor (Driscoll & Evans 2004). There is also a need to involve sector-line ministries and sub-national levels of government more directly into the PRSP process.

The fact that large amounts of external finance continue to bypass the national PRS and the budget process will not contribute to strengthening the position of these countries (ibid). Reforms of donor practice are also necessary if the quality of aid is to be improved and if donors are to meet the commitments that they have signed up to in the Paris Declaration.

Multinational and transnational companies and poverty reduction

Multinational and transnational corporations have considerable influence in national and international markets. This influence and their actions, both directly (e.g. through foreign direct investment, technical transfer, employment generation, market penetration, generation of tax revenue) and indirectly (e.g. through lobbying) can have a significant effect.

Where markets have been opened to competition, previously protected domestic firms may fail to survive, with a cost to jobs. This can lead to market consolidation and, in the absence of effective regulation, such companies may engage in business practices which contribute to environmental degradation, human rights violations and corruption. Despite the adoption of the OECD *Convention Against Bribery* in 1999, corporate contributions to political campaigns, 'influence peddling' and bribery are still widespread practice (Moran, 2006; Hellmann et al., 2002).

The absence of effective regulation by Southern governments and inadequate self-regulation has led to the development of a movement pushing for greater corporate social responsibility (CSR) and a wider debate about the role that multinationals can play in poverty reduction (Ite, 2005). Northern consumers have become strongly aware of their power in influencing corporate policy, both by their purchasing decisions and through their involvement in share-owners' meetings. Corporations have, in turn, recognised the need to manage and protect brand image, market share and profit.

The ways in which socially responsible corporations can contribute to poverty reduction have been identified as supporting pro-poor growth and:

- assisting in skills and knowledge development by providing on-the-job training and support for formal education and vocational training institutions
- avoiding 'enclave' behaviour by developing strong backwards and forward linkages with local small- and medium-sized companies and thus supporting technical and skills transfer
- supporting the sustainable delivery of basic services
- funding local development projects (directly, in addition to support through full payment of taxes, fees and levies)

(adapted from the Commission on the Private Sector & Development, 2004; DFID 2003).

However, corporate social responsibility can also have a detrimental effect on the poor. Well-intentioned prescriptive codes of conduct, such as the push to abolish child-labour, without simultaneously taking action to increase family incomes can lead to even more exploitative practices (DFID, 2003). In any case, CSR should not replace government functions. While multinational corporations can assist poverty reduction, it is ultimately the government that needs to establish effective institutional, fiscal and regulatory frameworks and redistributive policies (ibid).

Supporting pro-poor reforms – the 'Drivers of Change' approach

The development community increasingly recognises that effective programmes must be grounded in an understanding of the economic, social and political factors that either drive or block change within a country. It was hoped that greater contextual understanding would help actors in the international community predict which policy reforms might succeed and which are likely to be implemented in a half-hearted manner. This, in turn, helped individuals to identify which pro-poor reforms might be supported with optimism in terms of short- to medium-term results, while identifying the best approach to supporting longer-trend pro-poor changes. The need for such analysis contributed to the development of the 'Drivers of Change' (DoC) approach.

DoC analysis examines the local situation, and the historical, underlying and longer-term factors that affect the political will and institutional capacity for reform. The analysis includes an examination of the incentives and capacity for change that are likely to benefit the poor.

Successful DoC analysis has highlighted the importance of understanding not only a country's current political economy, unpacking 'a lack of political will' to support and implement pro-poor policies, but the historical antecedents of the country's political institutions, norms and practices. Where analysis identifies barriers to pro-poor change, an alternative may be the development of indirect or enabling interventions within the context of the longer-term support programme (10 to 15 years) encouraged by the DoC approach. An additional facet of the DoC is that it encourages serious reflection by donors on their role as political actors, and encourages the international community to understand how aid affects country-level incentives.

Box 10: The 'Drivers of Change' approach

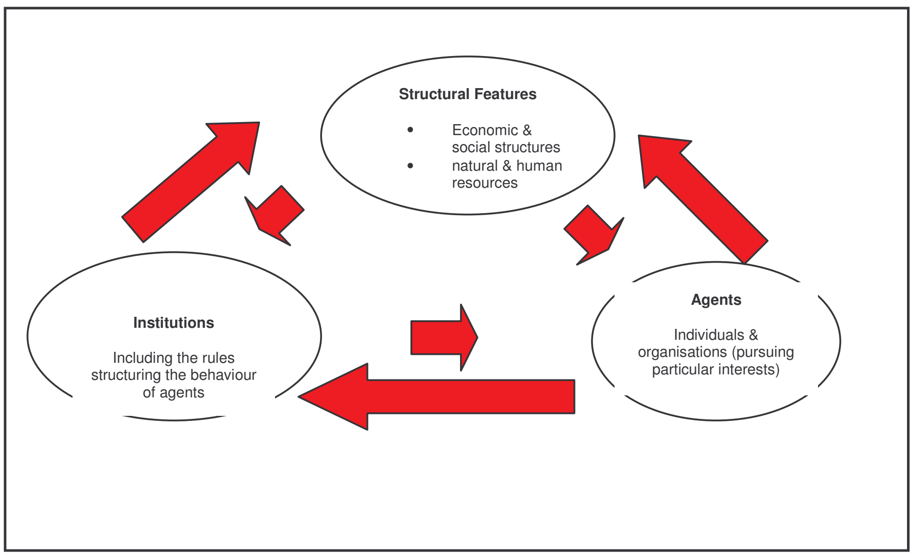
- **Basic country analysis** including social, political, economic and institutional factors affecting the dynamics and possibilities for change
- **Medium-term dynamics of change** including incentives and capacities of agents operating within particular institutional domains (i.e. policy processes)
- **Role of external forces** including donor actions, aid modalities and influence strategies on these processes
- **Link between change and poverty reduction** including how expected changes will affect poverty, on what time-scale, and the implications
- **Operational implications for DFID** including how to translate understanding into strategies and actions in the Country Assistance Plan
- **How DFID works** including organisational incentives for staff to retain, refresh and use the understanding developed through Drivers of Change work.

Source: DFID, 2003.

What is a 'driver' of change?

A 'driver' of change has the potential to bring about pro-poor change. It is not just a reforming individual, but processes of interaction between structural features, institutions and agents centred on relationships of power, inequality and conflict (DFID, 2003).

Figure 5: Drivers of Change – the interaction between structural features, institutions and agents[23]



[23] The conceptual ideas outlined here were developed by Oxford Policy Management, which led several early Drivers of Change studies for DFID. See "Drivers of Change: Reflections on Experience to Date", Oxford Policy Management, Oxford, June 2003.

Box 11: Kenya

Recent studies have shown that Kenya's growth performance has been hampered by the distorted institutions and neo-patrimonialism. These problems are now deeply rooted and will be difficult to overcome, despite changes in the country's leadership.

Ng'ethe et al. (2004) conclude that the poor performance of institutions in Kenya is a fundamental cause of the country's poor economic performance and they suggest that growth is unlikely to take off without institutional reform. The Kenyan political elite have captured public institutions and resources to serve their private interests. Power is heavily concentrated, highly personalised and is maintained through a complex web of patron-client relations based on interpersonal, kinship and ethnic ties. Kenya's main institutions with influence over the prospects for pro-poor political, social and economic change lack the capacity to carry out their mandated tasks or are used for the predatory purposes of powerful interest groups and there is little sense of public accountability in government, and the rights of citizens to demand better performance from their leaders (Klopp, 2000; Ng'ethe et al., 2004).

Although Kenya is by no means the only country to suffer from such predatory behaviour in other countries, governance failures and high levels of corruption appear able to coexist (at least for a time) with moderate or even successful economic performance. So what is striking in Kenya, is the extent to which the abuse of power over public institutions has proved to be incompatible with, and has directly and indirectly undermined, economic growth and poverty reduction.

These problems are deeply rooted. Kenya's first two presidents presided over a "neo-patrimonial" state and informal networks permeated public institutions and quite often subverted formal rules and decisions. Key institutions like political parties, the judiciary, the electoral system and the legislature became virtually inoperable as presidential appointees at the lower ends of the patron-client hierarchies decided on the distribution of spoils. Most patron client networks have a strong ethnic element in their composition and structure but the poor are always at the bottom of the patron-client networks. They have little 'voice' and are dependent on their patrons who might or might not be pro-poor (Klopp, 2000; Ng'ethe et al., 2004).

The current NARC regime is reported to be struggling to undo the patrimonial system, in order to replace it with solid and predictable formal institutions. However, some analysts suggest that political reform is a highly problematic process with powerful actors attempting to maintain patrimonial control by resisting change, for example, through identifying alternative sources of "patronage resources" (e.g. through land grabs, see below). Whether reform is successful or not remains to be seen as the current regime, like the previous two regimes, appears to lack a strong pro-poor ideology (Ng'ethe et al., 2004).

International experience shows that where governance is weak and the 'rules of the game' unpredictable, redistribution may occur through an almost anarchic process by which different groups and individuals in society attempt to increase their income and asset holdings by 'grabbing' from others. There is evidence that groups and individuals in Kenya do attempt to enrich themselves at the expense of others in this way. A selection of mechanisms are presented briefly below (see Drimie, 2002; Bird, 2005; and Klopp, 2000 for greater detail).

3.6. Challenges to the pro-poorness of policy implementation[24]

Once a policy has been designed, even if it is pro-poor in orientation, there are numerous factors that may prevent its implementation from being pro-poor.

Many countries have fabulous policies on paper, but a range of factors prevent their implementation. This disjuncture between *policy as written* and *policy as implemented* can result from a lack of policy legitimisation, which occurs because the policy is politically contested and/or opposed by powerful vested interests. Their intervention may prevent the policy from going any further.

In other words, the citizens or electorate, elites and civil servants may not be convinced that the policy is responding to a real problem, that the problem is caused by 'x' and that 'y' is a possible solution, or that the problem is of an adequate *scale* and *intensity* that it requires new policy and new resources. The failure to gain legitimacy for the new policy may also be the result of vibrant national debate and strongly supported oppositional politics.

Alternatively, the government may have put limited effort into communicating the need for the policy, the policy options and why this particular policy has been selected. However, legitimisation may fail because some types of people have been excluded from processes of legitimisation (limited effort and resources may have

[24] This section draws heavily on ODI Working paper 242 'Fracture Points in Social Policies for Chronic Poverty Reduction' produced by Bird, K. and Pratt, N. (2004)

been put into identifying and engaging with these people, their opinion may not be sought, they may not be seen as being important) and policy makers may try to convince some groups but not others (e.g. not "street-level bureaucrats"). Convincing the general public may be difficult, particularly where policy makers are separated by education, culture or lifestyle from the general public and/or street-level bureaucrats, as is often the case in low-income developing countries.

Another step needs to be completed if a policy is to be implemented; that being constituency building. In other words, the intended beneficiaries of the new policy need to recognise that the policy is aimed at them and need to accept that it is an adequate response to their needs. However, the building of a constituency might be hampered by weak downward accountability. Alternatively, potential beneficiaries may be excluded from constituency-building processes or beneficiaries may feel disempowered. They may see the new policy as inevitable, and that they are unable to influence the way that the policy is implemented. Some beneficiaries may not be identified and others may exclude themselves. This may be because policy makers have communicated the new policy using pejorative and stigmatising language or it may be because individuals do not perceive themselves as sharing common characteristics or common interests with members of the intended beneficiary group.

The next stumbling block comes where there has been an insufficient budgetary allocation for the implementation of the policy in question. This may result from inadequate legitimisation or because there is insufficient technical information to illustrate how additional spending could generate positive outcomes – leaving budget makers unconvinced that efficiency, effectiveness *or* equity goals can be met through such allocations.

Further barriers to effective implementation occur as a result of weak administrative structures, the distortion of policy by street-level bureaucrats (e.g. through behaviour that is discriminatory or seeks to protect vested interests by maintaining the *status quo*), and inadequate human resources and institutional failures, including the impacts of corruption, clientelism and neo-patrimonialism.

This section explores what affects the pro-poorness of policy implementation and how these barriers can be overcome.

3.6.1. Weak institutional capacity

Even the best-designed pro-poor policies can be undermined by low institutional capacity. The implementation of pro-poor policies depends on effectively combining financial resources, human resources and supplies. This requires a system that mobilises and allocates resources, processes information and acts upon it and effectively regulates and monitors the delivery of services (Lewis, 2006). However, institutions in many developing countries rarely possess these attributes.

Graham (Graham & Naim, 1998, in Graham, 2002) distinguishes between three different types of institutional malfunction:

- *Resource-related.* This occurs when there is a mismatch between demand and available funding. As a result, the quality and equity of policies may be eroded and the benefits accrue mostly to those with sufficient influence and power. Inadequate financial resources combined with poor management of these resources are a major constraint for the delivery of pro-poor policies.

- *Politically-driven.* Policies are captured by special interests of politically-influential groups and recruitment, appointments and remuneration are heavily influenced by political patronage and corruption is widespread.

- *Organisational.* Characterised by high volatility, leading to a fluctuation of institutional priorities and a lack of clarity. The objectives of pro-poor policies are often too broad, vague and overambitious, meaning that they cannot be reached with the given time and resources. The implementation of pro-poor policies is ineffective due to a lack of coordination between the responsible ministries. Furthermore, there is a lack of effective monitoring mechanisms in place.

    - Institutional reforms are seen as a way to create a system that effectively manages the complex process of operationalising and implementing pro-poor policies (Curran & de Renzio, 2006).

3.6.2. Public spending and budgets

A policy may have been formed and accepted by key stakeholders but unless the money is made available to implement it, nothing will happen. This makes national budgetary processes crucial. In many developing countries, there is a substantial discrepancy between the publicly-announced annual national budget and the figures disbursed to line ministries and implementing agents. This discrepancy is rarely even across different sectors and the decisions of who gets what resources and when can become highly political. Due to limited voice, the interests of the poor are likely to be ignored or downplayed.

There is increasing awareness that the budget process needs to be sensitive to the needs of the poor (Khan, 2006). According to the World Bank, the most important domain for state action in building assets of poor people is the budget (World Bank in Rajaram, 2002)

Pro-poor budgeting is a way of incorporating the interests and the voices of the poor in the budget process (Cagatay et al., 2000). It is "deliberately biased in favour of the poor" so that the poor benefit proportionally more than the wealthier (Mir, 2006). The operationalisation of a pro-poor budget requires the identification of the poor and their needs, based on reliable statistics and research. It is also crucial to identify the kind of public policies that are likely to have a pro-poor impact (Rajaram, 2002).

However, a pro-poor budget alone does not guarantee that resources are actually implemented. Without accountability, there is little incentive to make the budget realistic and the leakage of funds means that allocated resources often do not reach the intended beneficiaries (Norton & Nelson, 2002).

Several policies can assist governments to increase the effectiveness of pro-poor spending (Foster et al., 2002):

- *Controlling corruption.* Apart from government-led anti-corruption measures, the involvement of civil society, business and government officials can be an effective instrument to monitor the probity of budgets.
- *Adequate remuneration* and performance-oriented salaries.
- *Evidence-based planning and performance.* Politicians and decision-makers need to review how effectively government's expenditure meets the needs of the poor.
- *Strengthening accountability and transparency.* Accountability to beneficiaries is not only important to ensure that the release of public expenditure follows the budget, but also that the money is spent effectively.
- *Independent monitoring of policy outcomes.*
- *Participation of the poor* or their representatives in budget formulation and implementation. Participatory budgeting initiatives involve the citizen directly in the budget process. However, the capacity of civil society in monitoring budgets is often limited, and as a consequence a number of research-based advocacy initiatives on behalf of the poor are emerging. They usually include research-based budget analysis, which is used by civil society organisations for pro-poor budget advocacy campaigns (Norton & Nelson, 2002).

3.6.3. Corruption

Corruption can be defined as the use of public office for private gain (Gray & Kaufmann, 1998).

Recent studies demonstrate that corruption not only affects economic efficiency but also increases income inequality and poverty. Corruption harms the poor in many ways. At the macroeconomic level it has implications for the level and efficiency of private investment and public spending, affecting economic growth and development. Biased taxed systems favour the rich, social programmes tend to be poorly targeted, wealthy groups lobby the government for policies which perpetuate asset inequality, and corrupt public officials divert resources that may have been invested in social services for the poor (Gupta et al., 1998).

At the micro-level it affects the poor in their daily lives when dealing with corrupt public institutions. Payments to corrupt officials cut into an already tight budget and put basic services beyond the reach of those who cannot afford to pay bribes (Hardjono and Teggemann, 2003). The daily experience of having to bribe, results in a person feeling voiceless and powerless (Narayan, 2000).

In order to tackle corruption effectively, it is necessary to understand the structural drivers of corruption. Low civil service salaries, weak downwards accountability and the absence of the rule of law are all important drivers of corruption (Gray & Kaufmann, 1998). According to Khan (2006), one of the central causes of corruption is the challenge faced by developing countries to maintain political stability in the contexts of limited budgets. Fiscal constraints limit the redistribution possible through the budget and lead to off-budget transfers within patron-client networks.

Accountability, transparency and participation have been advocated as anti-corruption strategies. Transparency in the management of public finances can help to tackle corruption. Accountability mechanisms are necessary to hold public officials to account and participation can allow civil society to scrutinise public spending (Hardjono & Teggemann, 2003). However, Khan (2006) cautions that in a context of severe financial constraints, transparency and accountability reforms on their own are not likely to solve the problem of corruption.

3.6.4. Elite capture, "leakage" and the re-focusing of programmes away from the poor to the non-poor

Even where pro poor policies are in place, there is a danger that resources might be captured by powerful or influential actors. Such 'leakages' may occur at the household, regional or sectoral level or through class capture. Power inequalities in or between families, mean that more powerful families or male household members can misappropriate targeted assistance.

At the regional level, there is often a bias in favour of well-developed or politically-influential areas. Equally important are the ways in which class can capture the benefits of potentially pro-poor policies. Powerful sectoral interests might also lead to the re-focusing of redistributional programmes, when government faces the dilemma between allocating tight resources to key productive sectors or to social programmes (Johnson, & Start, 2001).

Although pro-poor policies are often likely to meet resistance by these groups, it is argued that elites can be persuaded to support them if they see such changes as being in their interests, for example, if a link is identified between poverty and crime, social unrest or poor economic performance; by describing poverty as having implications for the country's reputation; or by demonstrating the political gain to be made from pro-poor measures.

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