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Brief No 7 – The OECD/DAC Poverty and Pro-poor Growth Framework

Eva Ludi, April 2008

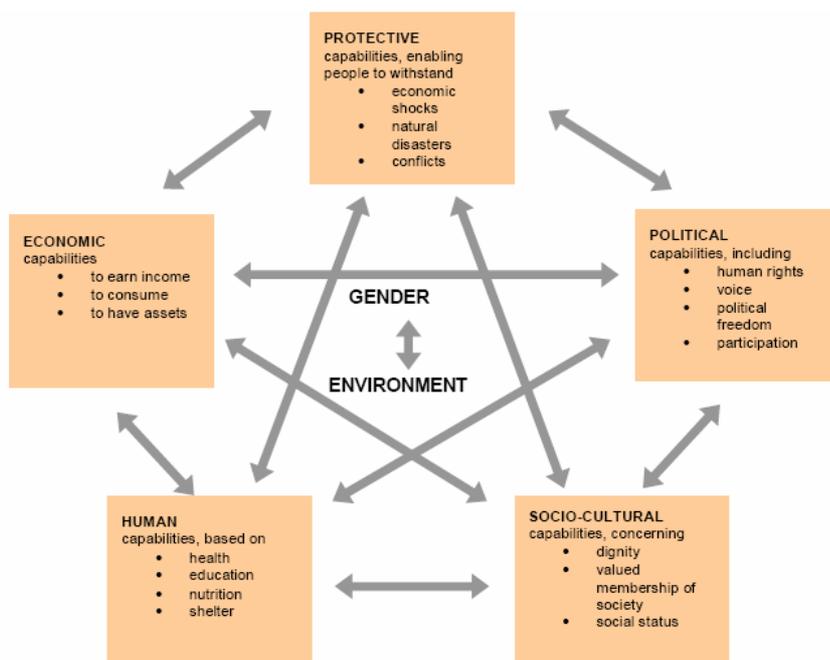
1. Introduction

Brief No 1 presents different poverty definitions. It shows that there is no single 'correct' definition of poverty but many alternative ways of understanding this complex phenomenon. Poverty is multidimensional, encompassing all important human requirements.

The idea that poverty is multidimensional was first presented by Townsend (1979) and further developed by Chambers (1983). In recent years, multidimensional poverty definitions have been promoted by the Development Assistance Committee (DAC) of the OECD in its guidelines for poverty reduction (OECD, 2001), and its approach is now widely accepted. SDC's guiding principles to fighting poverty embody the DAC guidelines. This is of little surprise, as SDC was involved in the development of the guidelines through its active participation in the DAC Network on Poverty Reduction (POVNET, www.oecd.org/dac/poverty).

The DAC recognises that poverty is defined in various ways but suggests that poverty definitions should be context-specific and should encompass the key deprivations faced by poor women and men and identify the ways in which they are incapacitated (see Figure 1). The DAC has adopted the capabilities approach to poverty, building on work by Amartya Sen (Sen, 1985; 1999) and Martha Nussbaum (Nussbaum, 2000; Nussbaum and Sen, 1993). The DAC suggests that poverty outcomes are affected by individual and household capabilities and that these capabilities are interrelated. However, the DAC emphasises that distinguishing between capabilities is important both for analysis and in order to design effective policies and interventions.

Figure 1: Core dimensions of poverty and wellbeing and their interactions



(Source: NADEL, 2007, based on OECD, 2001)

The DAC outlines the following capabilities (OECD, 2001):

- **Economic capabilities** mean the ability to earn an income, to consume and to have assets. These are key to food security, material wellbeing and social status, and are often identified as priorities by poor people, along with secure access to land, implements and animals, forests and fishing waters, credit and decent employment.
- **Human capabilities** are based on health, education, nutrition, clean water and shelter. Disease and illiteracy are barriers to productive work, and thus to economic capabilities for poverty reduction. Reading and writing facilitate communication, which is crucial in social and political participation. Education, especially for girls, is considered an important factor in defeating poverty and some of its major causal factors, for example illness.
- **Political capabilities** include human rights, a voice and some influence over public policies and political priorities. Deprivation of political freedoms or human rights can be a major driver of poverty. This includes arbitrary, unjust and even violent action by public authorities. The politically weak have neither the voice in policy reforms nor secure access to resources required to rise out of poverty.
- **Socio-cultural capabilities** concern the ability to participate as a valued member of a community. They refer to social status, dignity and other cultural conditions for belonging to a society. Participatory poverty assessments indicate that geographic and social isolation is a major dimension of poverty for people in many societies; other dimensions are seen as contributing factors.
- **Protective capabilities** enable people to withstand economic and external shocks. Thus, they are important for preventing poverty. Insecurity and vulnerability are strongly related to poverty with strong links to all other dimensions (see Brief No. 3). Poor people indicate that hunger and food insecurity are core concerns along with risks of illness, crime, war and destitution. Many people are transitorily poor as a result of seasonal variations and external shocks – natural disasters, economic crises and violent conflicts. We need to understand poverty as a dynamic phenomenon, with some people moving into poverty, some people exiting poverty and some people remaining trapped in long-term, chronic and even intergenerationally transmitted poverty (see www.chronicpoverty.org).

Analysing poverty and designing effective policies and interventions requires considering the interdependencies between the individual poverty dimensions (see Figure 1). For example, households may earn an insufficient income because of a downturn in the economy or because they have to care for ill or disabled family members. Or they lose the few assets they have because of a natural disaster, and this increases their vulnerability even further. A lack of political freedom, voice, human rights and participation may increase the risk of conflicts, which in turn might negatively affect human capabilities,

household assets or the provision of social services. Social exclusion can lead to limited human capabilities, such as low levels of formal education, which in turn has negative impacts on the ability to earn a decent income.

The two dimensions of gender equity and environmental sustainability cut across all dimensions of poverty. Poverty is not gender-neutral. In some cultures, socio-cultural norms can involve deep-rooted prejudices and discrimination against women. Processes causing poverty affect men and women in different ways and to different degrees.

Poor people are particularly vulnerable to the effects of environmental degradation, in both rural and urban areas. Conversely, this can also result from poverty when people are driven by their poverty to use resources in an unsustainable way. Sustainable development and poverty reduction require maintaining the integrity of natural ecosystems and preserving their life-supporting functions. Critical factors linking environment and poverty include institutional failures limiting the effectiveness of coping mechanisms, security of access to natural resources on which many poor households depend, environmental stress and natural disasters, including those related to climate change, which affect poor people disproportionately, and environmental health risks that particularly affect poor women and children. It is important to keep in mind, however, that the poverty–environment nexus is location-specific: geographical, historical, socioeconomic, cultural and institutional factors may all play important roles in determining the relative importance of poverty and environment links in different contexts.

2. Policy conclusions

Taking the multidimensional definition of poverty as its starting point, the DAC has developed a set of policy recommendations that it suggests should be part of any strategy for the effective and sustainable reduction of poverty (OECD, 2006). These include:

- Policies that promote pro-poor growth, i.e. that shape the pace and pattern of growth that enhances the ability of poor people to participate in, contribute to and benefit from growth.
- Policies that tackle the multiple dimensions of poverty, especially those that contribute to improved human capabilities (e.g. education, health, nutrition, water and shelter).
- Policies that empower poor people (see Brief No. 10) and improve political and socio-cultural capabilities.

Activities to support pro-poor growth need to take into account that the poor is not a homogeneous group, that country contexts vary considerably, and that policy implementation must be based on a sound understanding of who the poor are and how they earn their livelihoods.

The right pace and pattern of economic growth is critical for long-term and sustainable poverty reduction, but is not

sufficient. It is essential that growth is broad-based across sectors and regions and is inclusive. Growth is especially important in those sectors where the majority of poor people earn their income. Policies are necessary that create opportunities and remove obstacles to the participation of poor people in the growth process by (i) increasing access to land, labour, productive assets and capital markets, (ii) investing in basic social services, (iii) promoting infrastructure development, and (iv) developing appropriate social protection measures, which may prevent poor people from selling productive assets and can reduce vulnerability to seasonal stress or shocks.

Often, poor people cannot participate in economic growth in a way that benefits them because they lack access to markets, because markets are absent or because they are adversely incorporated into markets. Policies to tackle market failures, improve market access and ensure that markets work for the poor, are thus essential. Poor people often avoid activities with higher returns because they are risky. Reducing risk and vulnerability can be a cost-effective investment by governments to support pro-poor growth. The participation of poor people in the growth process will also be strengthened by investments to improve human development. Improving the education status of poor people, for example, enables them to engage in better paid jobs. There is, however, no blueprint for poverty reduction and each country needs to identify the right policy mix which is best suited to its context (Curran and de Renzio, 2006).

2.1. Pro-poor policymaking

Pro-poor growth needs actors that are capable and willing to devise, operationalise and implement pro-poor policies. Also, supportive institutions and governance structures must be in place. There are three key stages in the policy process at which policy may fail the poor (see Bird, 2008 for an in-depth discussion of pro-poor policy processes): during the agenda-setting stage (an issue which is important to the poor never gets on the policy agenda), during policy formation (even if the issue is recognised, this does not automatically mean that an appropriate policy is formed) and during policy implementation (even if a policy is formulated, there are barriers to legitimisation, constituency building and implementation). A number of barriers prevent the interests of poor people being represented in national policy debates. Their problems may not seem to be sufficiently severe and policymakers may feel they cannot justify allocating time and budget to the issue. This can be because other constituencies and interest groups are more vocal or because the problem is poorly understood. Even if a problem is fully understood and the severity fully recognised, policymakers might still be reluctant to respond (Bird, 2008).

It is not sufficient to support governance and institutional reforms that empower poor people and increase their voice (Kimenyi, 2007); pro-poor policy reforms need a developmental state. A developmental state is a strong state with a political leadership with the vision, political will, policy instruments, institutions and capacity to pursue medium- and long-term development and able to respond to demand for pro-poor policy reform (Bird, 2008).

Interventions aiming at achieving pro-poor growth are not distributionally neutral but will result in winners and losers. Distributional impacts of policies and projects need to be identified already in the early planning stage. The OECD has developed a framework for *ex-ante* poverty impact assessment (PIA), aimed at assessing intended and unintended consequences of interventions and impacts on the poor. The OECD *Ex-ante* PIA framework links interventions to changes induced via transmission channels. These changes are triggered by inputs provided through the intervention and lead to short-term and easily determined immediate outputs. These outputs, in turn, lead to intermediate outcomes and final impacts, which are normally longer term and more difficult to predict and attribute (OECD, 2007). Brief No. 15 presents different approaches to assess impacts of interventions, including poverty and social impact assessment (PSIA).

2.2. How donors can support pro-poor growth

There is an important role for donors to play in supporting country pro-poor policy processes. They should support measures empowering poor people in the policy process, support partner country governments to develop formal and transparent processes that take account of the needs and interests of poor people, and build capacity at multiple levels. Donors should focus their efforts on sectors that are important to poor people.

Given the fact that the majority of the world's poor live in rural areas, despite rapid urbanisation in developing countries, poverty reduction depends to a large extent on reducing rural poverty. Agriculture has the potential to create jobs, to increase returns to the assets of the poor, and to reduce food prices. Recent evidence suggests that increases in agricultural productivity are closely related to poverty reduction (Hazell et al, 2006). Other areas where increased government and donor attention is needed are private sector development, measures to improve the structure and functioning of the labour market, and infrastructure development:

- The private sector can contribute to poverty reduction through employment and productivity and influencing prices for inputs and outputs. Increasing productivity allows both increases in earnings (through both self-employed and wage-employed labour) and in production. Increased productivity can be achieved by improving poor people's ability to take advantage of market opportunities, through enhanced capabilities (e.g. building stronger human capital and therefore productivity) and greater agency. Whether or not the private sector contributes to poverty reduction depends on how poor people are incorporated into the formal economy and social relations are shaped. *Adverse incorporation* can mean, for example, that poor people earn a salary that is insufficient to cover basic living costs or that they are exposed to disadvantageous labour conditions. Policy responses to address these include measures to regulate the private sector, to improve labour conditions or to strengthen formal and informal institutions.
- Employment is a key link between economic growth and income poverty reduction. One of many reasons people remain poor is that they are excluded from,

or adversely incorporated into, labour markets. For growth to reduce poverty efficiently means enhancing employment, both in quantity and quality, and returns to labour by (i) strengthening the productive resources and capacity of poor people, (ii) creating opportunities for all to make full use of productive resources, and (iii) creating incentives and mechanisms to formalise employment opportunities, including the promotion of a regulatory environment not biased against but inclusive of informal businesses and informal workers.

- Whether or not poor people can access markets and services and identify and grasp opportunities depends, in part, on the availability and quality of infrastructure. Infrastructure contributes not only to the pace and pattern of economic growth and income, but to non-income dimensions of poverty too as, for example, it is often essential for accessing social services (OECD, 2006).
- Enabling poor people to take up opportunities requires access to basic services such as education, health, water and sanitation and social assistance. To enable poor people to access these services, barriers need to be reduced and the quality of services improved so that they are capable of assisting people and responding to their needs.
- Donor support might also be needed to help governments develop social protection schemes, which contribute to reduce risks and vulnerability and so facilitate the engagement of poor people in more productive enterprises. They can contribute to reducing the dangers of an outflow of capital from productive activities to meet domestic stress and shocks. Often, social protection schemes try to achieve the twin goals of mitigating current poverty by providing income supplements and of preventing future poverty by creating incentives to invest in human development and productive enterprises.

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3. Conclusions

Policies, programmes and projects aimed at poverty reduction need to address the multidimensional nature of poverty. There is increasing evidence that attention has to be focused on the productive sectors and on developing an enabling environment for pro-poor growth. Donor agendas and approaches need to reflect this.

Activities intended for contributing to pro-poor growth must be firmly embedded in national poverty reduction strategies, based on a detailed diagnosis of poverty, disaggregated along social, spatial and sectoral lines. Donors should focus on assisting partner countries to develop and implement nationally owned poverty reduction strategies suited to the local context – a requirement which is in line with the Paris Declaration on Aid Effectiveness (OECD, 2005) (see Brief No 9).

Summarising, the pro-poor growth agenda requires donors to support partner countries in adapting their policies and institutions. Donors must collaboratively identify likely entry points for pro-poor advice to key decision makers or, in other words, make sure that 'the right messages get to the right people at the right moment' (de Renzio, 2005). The implications of this are that donors recognise the specific country context and are able to identify the binding political, social and economic factors that either drive or block change in a country. This implies that donors:

- Have a good understanding of the political economy of (pro-poor) policy processes, power relations and drivers of change;
- Reorient agendas and approaches to sectors that have a major impact on pro-poor growth;
- Can draw the lessons from *ex-ante* PIAs; and
- Provide support that is long term, predictable, flexible and responsive to country situations.

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