



CAPSA Flash

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Short Article

Screening Pro-Poor Policies with a Growth-Equity Matrix

Pro-poor growth is today the paradigm that is expected to lead to poverty reduction. It consists in a combination of robust, broad-based growth and improved access to social services (OECD, 2001). In the 1990s the world experienced an average growth of 2.6 per cent per capita which although considered to be a reasonable rate of growth, the number of the world's poor remained the same. According to some World Bank studies, the growth of mean income plays an important role in overall poverty reduction but it only explains half of the growth income of the poor. Thus, even if there is a relation between growth and poverty, it is at best partial (Dollar and Kraay, 2000; Ravallion, 2000). The 'pro-poor' dimension now systematically emphasized by all international agencies clearly witnesses that even for those who believe in growth as a key factor for poverty reduction, it does not work systematically that way. Inequalities are also considered as a major issue both within countries (OECD, 2001) and between countries (World Bank, 2007).

Thus, in designing and implementing policies that simultaneously favour the creation of wealth and poverty reduction, two dimensions must be addressed: growth and equity. As pointed out by Ravallion (2004) "the task of making growth more pro-poor (meaning more poverty reducing) entails some combination of higher growth and a more pro-poor distribution of the gains from growth".

This is where the concept of 'equity' fits, helping to take into consideration this redistribution dimension. Equity defined here as "the state, quality, or ideal of being just, impartial, and fair" relates to the way the gains of growth are redistributed towards the poor in the society.

The combination of growth and equity within a matrix provides a useful analytical framework to assess to what extent a particular policy has the characteristic and potential for generating the desired pro-poor growth. The matrix below shows how such an analytical framework can be created. It was used in a study of smallholder contribution to growth and equity in Indonesia (Bourgeois, 2002). It crosses three levels of growth and equity, resulting in a nine-cell table that provides a typology of policies. Each cell indicates the nature of a policy according to its contribution to growth and equity.

The policies located in the three cells at the lower left part of the table form a set of redistributive-type of policies aiming at preserving or enhancing the welfare of the poor under less favourable growth conditions. They lead to situations where the social dimension is at the forefront through social protection, social

reform, or social security. Land reform, safety nets and social programmes belong to these policy types. In the three cells that are diagonally opposite to them, policies tend to support growth without considering fair redistribution towards the poor. They lead to further discrimination against the poor either by rising inequality, marginalization or polarization. Many policies promoting agricultural productivity based on technologies that poor farmers cannot afford or on market mechanisms that exclude subsistence farmers fall into these categories.

The three cells on the diagonal line that goes from the lower right to the upper left cell represent three contrasted states, ranging from full recession (the worst case of lower growth and lower equity) and stagnation (no change in growth and equity) to pro-poor growth, the desirable case of growth and poverty reduction.

		Equity		
		Higher	No change	Lower
Growth	Increase	Pro-poor growth +++	Rising Inequality +-	Polarization --
	No Change	Social Welfare ++	Stagnation +-	Marginalization --
	Decrease	Social Reform +-	Social Safety --	Full Recession ---

Note: + indicates a positive effect on poverty reduction
 - indicates a negative effect
 +- indicates that the effect is unclear

Pro-poor growth appears here as only one case in a growth-equity two-dimensional space. While it is understandable that it represents the most desirable situation where increased redistribution is made acceptable by increased benefits for all, the matrix shows also that pro-poor policies are not always necessarily linked with a higher and simultaneous growth and equity.

Actually, a policy is never implemented in isolation. It is part of a more general strategy and policy coherence is a key issue. Coherence, which relates to the simultaneity of policy design, implementation and interaction, has two dimensions: co-ordination and consistency (OECD, 2001). While co-ordination relates more to the important process of designing policies, consistency is about ensuring that individual policies are not internally contradictory, and identifying those that are incompatible with the attainment of a given objective, such as poverty reduction. Assessing policy consistency is a challenge and a growth-equity matrix such as the one presented above has potential as a tool. It may provide not only a useful framework for designing and monitoring pro-poor policies, it can be used to ensure overall policy coherence as well. ■

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(References available upon request)

Flash **BREAKING**

Bangladesh Rural Businesses and Farmers Hit by Lack of Finance

Small businesses and farmers in rural Bangladesh are being held back by a lack of access to finance, a study examining the role of Bangladesh's commercial- and state-owned banks and microfinance institutions claims. While state banks can waive principal and interest in times of natural calamities, they are currently constrained by 'weak financial performance'. Private commercial banks do not serve rural areas due to their limited branch networks and because their products and procedures are not suitable for small transactions. Microfinance institutions are not making up the shortfall, as agriculture and rural small businesses are traditionally not microcredit clients.

The Daily Star, 2007. Rural Businesses, Farmers Hit by Lack of Finance, <http://www.thedailystar.net/> (8 May 2007).

Anti-hunger Task Force Set in the Philippines

The 5.4 per cent GDP growth last year in the Philippines has not trickled down to the country's millions of poor Filipinos. The Government announced a new anti-hunger task force after a survey found that 3.4 million households had recently suffered starvation. It will include officials responsible for ensuring timely disbursement of funds for the implementation of the government's food programme. The task force will work with religious organizations to expand the reach of this programme beyond the slums of Manila to the impoverished countryside.

Philippine News, 2007. Philippines Creates Anti-Hunger Task Force, <http://www.philippinenews.com/> (11 April 2007).

K1 billion National Agriculture Development Plan for PNG

Papua New Guinea (PNG) has launched the National Agriculture Development Plan under which K1 billion will be spent over the next ten years. With the investment, the government anticipates export earnings from agriculture to rise, and rural citizens of PNG taking active part to work towards food security and improved standards of living. Prime Minister Sir Michael Somare said for the first time since independence, PNG is creating a platform for the government and the private sector to venture into strategic partnerships with landowners and other stakeholders to utilize the land, resources, and technology available in the country. Under the plan, each of the 89 districts will be allocated K200,000 annually. K45 million will go to the National Development Bank (NDB), from which it will be further distributed.

Post Courier, 2007. Government's Blueprint for Agriculture, <http://www.postcourier.com.pg/> (30 April 2007).

100 Million Chinese Farmers to Benefit from Free Land Fertilization

China has earmarked 900 million yuan (US\$ 116.9 million) for an efficient arable land fertilization programme this year. In 2005, China invested 200 million yuan (US\$ 25.8 million) in a pilot project. The programme will use less chemical fertilizer, reduce cost of agricultural production and help increase grain output. It will cover 33.3 million hectares of farmland, and at least 100 million farmers will benefit from it. In 2006, the programme operated on a trial basis in 17.3 million hectares of farmland in 600 counties. Wheat output increased by more than 400,000 tons in 93 wheat producing counties, and rice production rose 1.6 million tons in central China's Hubei Province.

People's Daily Online, 2007. 100 Million Chinese Farmers to Benefit from Free Land Fertilization, <http://english.peopledaily.com.cn/> (6 May 2007).

Developing Rural Economy in Aceh

Before the tsunami, 1.2 million people (28 per cent of the population in Aceh) were living below the poverty line and since the tsunami, an additional 325,000 people have become vulnerable to poverty. With declining oil and gas revenues and limited prospects for quickly establishing an industrial base, more than 70 per cent of the population depend on natural resource based livelihoods, mainly farming and fishing. Meanwhile, current estimates show only 20 per cent of agricultural potential is being achieved. Under the reconstruction programme for Aceh and Nias lead by the Agency for the Rehabilitation and Reconstruction (BRR), only about 2 per cent of the domestically financed 2006 budget was allocated to agriculture. The Sustainable Economic Development Strategy for Aceh needs support and facilitation by both the local government and the private sector. Remaining Tsunami reconstruction funds available with BRR and their donor partners should be used to implement this livelihoods strategy. Some progress has been made in restoring livelihoods, about 50,000 hectares of farming land and 6,800 hectares or 25 per cent of damaged fish ponds and damaged fisheries infrastructure have been rehabilitated and brought back into production. The basic principle is that livelihoods clusters increase product volumes and the quality required by the markets and will generate funds to pay for support services such as micro-finance and connections centres. Sub-district connection centres encourage rural producers to work together through local product associations and facilitate those families not able to participate in livelihoods clusters to develop alternative livelihoods. This integrated grassroots livelihoods strategy benefits local poor families and empowers communities to reduce poverty. ■

Based on Beresford, R, 2007. Developing Rural Economy in Aceh. The Jakarta Post, <http://www.thejakartapost.com/> (24 April 2007).

Bioenergy Could Drive Rural Development

Top international experts met in Rome to consider the environmental and food security impact of the rapidly-expanding bioenergy industry and agreed that governments could use bioenergy as a positive force for rural development. While there is legitimate concern among some groups that bioenergy could compromise food security and cause environmental damage, it can also be an important tool for the government in improving the well-being of rural people. Bioenergy holds out enormous opportunities for farmers, especially in the developing world. In food security terms, bioenergy only makes sense if we know where the food-insecure populations are located and what they need to improve their livelihoods. Bioenergy crops that compete with land and water for food production should not be grown in areas facing food security challenges. Environmentally, we must make sure that both large- and small-scale producers of bioenergy fully take into account both the negative and positive impacts. There is a key role for governments to play in setting performance standards. International organizations such as FAO can also have a major role in providing a neutral forum and policy support. FAO's International Bioenergy Platform should promptly draw up a series of guidelines for Governments and potential investors. If managed well, bioenergy could promote something akin to an agricultural 'renaissance' in some developing countries where biofuels can be produced profitably. ■

Based on FAO, 2007. Bioenergy Could Drive Rural Development - Experts Weigh Bio-Power Impact, <http://www.fao.org/newsroom/en/news/> (23 April 2007).

Agrarian Reform after Thirty-four Years

The Philippine's agriculture sector is now in a state of distress. What has become of its agricultural products and farm industries? Was not the Comprehensive Agrarian Reform Program (CARP) - the Republic Act 6657 - meant to increase agricultural productivity? The country's agrarian reform programme is now 34 years old. It started during the Marcos years in 1972 and was passed in the administration of Corazon Aquino. Consequently the landowners were only allowed to hold 5 hectares and their children were only permitted to have only 3 hectares each. The government has spent no less than P120 billion for the implementation of the programme, and distributed 6.578 million hectares to 4.05 million farmer beneficiaries. The purpose of the law was to increase productivity, reduce poverty and encourage landowners to invest in industries in the rural areas. However, after 34 years of implementation, the program has failed on all counts. Social and economic conditions in rural areas have not improved in the last ten years. Farmer beneficiaries were given lands but were not given support services and credit or crop loans to make these lands productive. In addition, landowners could not invest in agricultural industries as rice mills, dryers, refineries, sugar mills, trucks, tractors and farm implements due to the low price and bad payment system of land. The Philippine's agricultural growth rate has been one of the lowest in Asia and the rice yield is the lowest in Asia. The country is the largest single importer of Viet Nam's rice export. This means that the country's agricultural products cannot compete in the agricultural trade balance. The CAR-Programme will end in 2008 and will be extended to another ten years. However before the programme is extended, a study involving all stakeholders on the programme's shortcomings and reform solutions must be conducted. ■

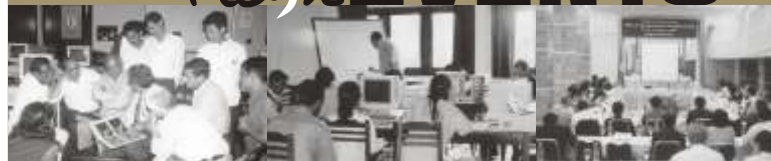
Based on Jimeno, Rita Linda V., 2007. Agrarian Reform after 34 years. Manila Standard Today, <http://www.manilastandardtoday.com/> (30 April 2007).

Fear for the Fate of Rural India

In media reports India is shining, but the crisis of its farmers has the potential to derail its exceptional economic growth. Agriculture's growth lags behind the 4 per cent needed to push overall growth into double digits. The government's challenge is to promote growth but also provide relief to small-scale farmers. The threats to agriculture are numerous. The water crisis is worsening. Global warming threatens the monsoon rains and the Himalayan glaciers that are both so essential to life. The vast majority of farmers exploit land holdings smaller than 5 acres. Many are hopelessly indebted. Arable land is shrinking. Agricultural production cannot meet demand. Rising food prices fuel inflation, causing 850 million people to struggle with less than \$2 per day. The government proposed to increase allocations for irrigation and groundwater recharge, farm credit, rural education, farm-extension services, roads and power, and periods of guaranteed employment to impoverished rural households. Sadly, this expansion of farm credit and investment in irrigation cannot save most of the families whose farming operations are too small to qualify for bank loans; large-scale government irrigation schemes won't reach them. Yet, micro-credit opportunities as well as low-cost micro-irrigation systems could make a critical difference. Designed for small plots of land and expandable with investment increments, these systems not only can save crops, they can save farmers' lives. The best strategy remains one where farmers' needs dictate innovative solutions from the bottom up and where social entrepreneurship can flourish along. ■

Based on Kamdar, Mira, 2007. The Fear of Rural Failure. Outlook India, <http://www.outlookindia.com/> (20 April 2007).

Flash EVENTS



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Beijing, China

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International Conference on Integrating Conservation in Upland Agriculture in SEA

24 - 26 October 2007

Chiang Mai, Thailand

Contact:

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Website: www.worldagroforestrycentre.org/

3rd International Conference on Agriculture Education and Environment

4 - 7 November 2007

Carabao Center, Science City of Muñoz,

Nueva Ecija, Philippines

Deadline for abstract: 30 June 2007

Deadline for early registration: 30 August 2007

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Business, Environment, International Competitiveness and Sustainable Development of the Asia Pacific Economies

3 - 4 December 2007

Selangor, Malaysia

Deadline for abstract: 15 June 2007

Deadline for early registration: 1 October 2007

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Book Review

India's Pattern of Development: What Happened, What Follows?

Kochhar, Kalpana et al., IMF Working Paper Series; WP/06/22, International Monetary Fund, Washington, D.C., USA, 2006.

India's rapid development over the past decades has raised considerable interest in it as a model for developing and transforming economies as well as a major competitor of the developed world in many industries. In many respects, however, India today stands at a crossroads because it followed such an idiosyncratic pattern of development.

In the introduction, the authors mention that India's emergence as a world class service hub has created jobless growth. Manufacturing has also failed to absorb surplus labour from agriculture and prospects for employment growth through skills-based development are limited. Also, there is uneven distribution of opportunities across states. This is due to the policies India followed after independence in 1947. It placed emphasis on tertiary education, creation of capital goods production capability through public-sector involvement, regulatory penalties and constraints on large private enterprise, and rigid labour laws.

Part two sets the scene of India's development strategy from 1947 to 1980. The government pursued policies to achieve two main objectives, namely to avoid dependence on imports and excessive external influence on domestic affairs. These policies included the creation of domestic heavy industries, through a combination of heavy public sector involvement and controlled private sector involvement; the encouragement of labour-intensive manufacture; significant protection of labour in large firms; and spending on higher education at the expense of primary education.

Part three guides the reader through policy changes since the 1980s. The authors refer to the reforms in general as being 'pro-business' in the 1980s and 'pro-market' in the 1990s. They discuss a wide range of reforms including import liberalization, extension of export incentives, relaxation of industrial licensing requirements, and deregulation of administered prices of key intermediate inputs. Also discussed is the abolition of industrial licensing, narrowing of the scope of public sector monopolies, elimination of import licensing and a progressive reduction of non-tariff barriers. Finally, liberalization of the financial sector and investment and trade in services such as telecommunications is discussed.

Part four shows that a number of fast and slow moving states witnessed a decline in the share of labour-intensive industries. Either the fast-growing states have seen a stagnation or decline in their share of manufacturing, or where they has been an increase, it has occurred in capital-and skill-intensive industries. The reason cited is that while most states continue to become more diversified,

the richer states have started to behave like rich countries in starting to specialize in manufacturing and services.

Part five looks at the post-1980 performance and evaluates the effects of the reforms. The authors point out that during the periods of controls and import substitution, important cumulative capabilities were being built that sparked the IT boom. They argue the key capability were institutions: democracy, rule of law, free press, universities, technocratic bureaucracy, the pool of skilled human capital, and state level diversification. As the states have diversified, they created different patterns of capability that played a key role in economic performance. Furthermore, greater decentralization meant greater decision making at the level of states, including on matters of economic policy, thereby affecting states' abilities to attract private sector investment. Consequently divergences in growth rates between states increased.

The final part describes the dilemma facing India. Both fast and slow growing states with less educated populations skipped the traditional pattern of specialization in labour-intensive industries to specialization in skill-intensive industries. This is mainly evident in the interest in skill-based development in fast-growing states. Labour-intensive development is no longer profitable. The real limiting factor is insufficient tertiary education in specific areas to provide the necessary pool of skilled workers essential to the growth of laggard states. India needs policy changes to accommodate this social problem as people move not just in search of jobs but also in search of acquiring the human capital to become employable.

The authors offer some solutions. Laggard states should create the climate for skill-based development. Also, prosperous states should follow the European precedent where prosperous Western Europe offered incentives for laggard European countries to reform. However the nature of incentives is not given enough attention; more detailed information is required to have well-informed discussions. Notwithstanding the above, the paper is a major resource for anyone wishing to obtain a very coherent, logically argued, and thorough understanding of the era of reform (1947-2000). Indeed, it is truly a compendium on the subject, offering astute observation, keen analysis, and plenty of relevant statistics. The presentation is well stated, well organized, and well presented, a model of clarity. ■

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