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Promoting Pro-poor Growth
Policy Guidance for Donors
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PART II

Chapter 8

Promoting the Supply-side Response: Technical and Financial Assistance for Pro-poor Growth

Why is the supply-side response important for pro-poor growth?

The economic reform programmes introduced in many developing countries during the 1980's stressed the need for a propitious enabling environment for the private sector. Initially there were high expectations that a package of macroeconomic reforms ("getting the prices right") would give quick dividends in terms of economic growth. There has been growing disappointment with the growth record in many developing countries. During the 1990's only 18 out of 117 countries with populations of more than half a million people were able to sustain growth rates exceeding those of industrialised countries.[1] Today, there is widespread awareness that much more comprehensive investment climate reforms are required and that such reforms are time consuming and challenging exercises.

Economic research has shown that as well as the level of economic growth, the pattern of growth is crucial for achieving pro-poor growth and reducing poverty in accordance with the Millennium Development Goals (MDGs).[2] There is a concern that the pattern of growth is not sufficiently pro-poor in a number of developing countries, which means that growth does not contribute as fully as it could to poverty reduction. An important reason is that the results of economic reforms have been weak, especially in markets and economic sectors in which a majority of poor people are active. This calls for greater focus on those markets that are important for the poor in their roles as entrepreneurs, employees or consumers.

Traditionally, donors have attempted to strengthen the enabling environment for the private sector by providing support to economic institutions and infrastructure. In parallel, considerable support has been provided directly to individual firms or groups of firms. Such support has included technical support *e.g.* business development services (BDS), often provided through public organisations or through donor projects. This support has frequently been supply-side oriented and has often included subsidies provided directly to individual firms. Financial support has also been provided for banks in the form of credit lines earmarked for specific types of company, in many cases with subsidies to reduce the cost of borrowing.

The rationale for direct support at the firm level has been described as follows:[3]

- Direct support may be necessary to overcome **market imperfections and/or market failures**.
- Such support may help **improve the response to reforms** in the policy environment.
- Support to business champions and leaders may **create demonstration effects** for other firms and thereby stimulate the supply-side response.

Over the last decade, the shortcomings of subsidised and targeted support to individual firms or groups of firms have been widely recognised.[4] Important lessons have been learnt and many donors are now reviewing their practices in order to make their support for private sector development more strategic.

The market-based approach that is now emerging can be seen as a reaction not only to the shortcomings of direct support to the private sector, but also as a realisation that efforts to improve the general investment climate are not sufficient. This approach puts the focus on the supply response, especially in markets of importance for poor men and women. It aims to identify obstacles to the development of specific sub-markets and to improve the institutional environment of those markets that benefit poor people – directly and indirectly – with special attention to small and medium-sized enterprises.

Lack of access to various kinds of services has been shown to be a critical constraint on the development of enterprises. Improving firms' access to business development services is one of the core instruments for promoting income and employment generation for poor people. The same applies to financial services where a deepening of markets for such services is an important element in many programmes aimed at stimulating pro-poor growth. Access to other productive resources, such as land and technical knowledge, can also be critical constraints.

What do we know so far and what do we still need to know?

Commenting on selective interventions at the firm level as a complement to broad-based investment climate reforms, the "World Development Report 2005" states that "in theory, selective interventions can yield positive social outcomes. In practice, cases of unambiguous success are rare, and there are many examples of costly failures, even in developed countries with abundant technical expertise and well-established checks on rent-seeking".

A general problem with interventions at the firm level is that they do not address the fundamental causes of market failure, but instead provide support to reduce the symptoms *e.g.* lack of access to credit. They can even deepen market distortions by preventing services from becoming available at cost price. Another main criticism is that by providing assistance only to selected firms ("picking winners") donors distort the competitive environment and retard market development in specific industrial sectors. Firms benefiting from such support schemes often resist their removal.

Today, there is a well established consensus among donors that whenever assistance is provided at the firm level, the leverage effect of such interventions on the business environment, and on relevant markets, must be carefully considered.

BDS was one of the first areas in which the new market-based approach to private sector development was broadly applied. In 2000, the donor community agreed on guiding principles for BDS interventions[5] which may be summarised as follows:

i) Look at the target groups (entrepreneurs, farmers, etc.) as clients and not as beneficiaries (**demand orientation**).

ii) Develop transactional relations with clients instead of a charity relation (**cost recovery**).

iii) Supply BDS *via* **providers** that are themselves **business-oriented and market-led**; they may be individuals, private enterprises, non-governmental organisations (NGOs), chambers of commerce, business associations, parastatal bodies or government agencies.

iv) Strengthen the **capacity and competence of service providers** to compete successfully in a market for BDS (no continued subsidies and clear points of exit for donor-funded interventions).

v) **Stimulate the market** for BDS, *e.g.* through initial subsidies to clients (*e.g.* vouchers, matching grants or cost-sharing) for purchasing BDS on the market.

vi) **Donors should act either as facilitators or supporters** of national/local BDS-facilitators, rather than providing services directly by themselves to the target groups.

There is today a growing amount of experience from implementing this market-based BDS approach, some of which can be summarised as follows:

i) A high proportion of BDS donor programmes claim to address (explicitly) the poor, but empirical evidence is lacking; in general, market-based BDS for micro-enterprises, small farmers etc. still seems to be poorly developed.

ii) BDS market development for poorer target groups has increasingly been based on market-led approaches; furthermore, there is a growing awareness of the importance of separating or "unbundling" business and welfare-oriented services (including from NGOs and public service providers).

iii) Donor interventions aimed at BDS market development are increasingly directed towards agricultural sub-sectors and transformation of agricultural products in rural areas, where BDS markets are particularly weak.

iv) BDS market development is increasingly part of broader programme approaches, *e.g.* development of value chains and local and regional economic development (LRED) or cluster promotion. However, empirical evidence on the pro-poor impact of such integrated approaches is still lacking.

What are the controversial issues?

While there is now a consensus among donors on the need to move towards more market-oriented approaches, opinions differ regarding how this should be dealt with in practice. For example, although there is common recognition that market-based approaches have limitations, there are different views regarding the appropriate criteria for diagnosing such situations and the steps that should be taken when markets fail.

Against the background of contributing to the MDGs, donors may be tempted to strive for short-term achievements and, as a consequence, neglect the principles of the market-based approach. Considerable resources may be spent on highly subsidised or even free services and goods (*e.g.* fertilisers, tools or infrastructure) in order to achieve some measurable results in direct poverty alleviation. This type of intervention may threaten attempts by other donors to promote systemic and structural change including broad market outreach, sustainability and efficiency, which can only be achieved in the medium or long term.

For the extreme poor and particularly for vulnerable groups, *e.g.* persons living with HIV/AIDS and handicapped people, the livelihood services approach has proved to provide a successful mix of group delivery mechanisms, subsidies, income generation activities and social mobilisation. Key challenges for donors in this context are developing appropriate exit or graduation strategies and striking the right balance between providing "charity" and supporting more business-like and sustainable approaches.

A core element in the market-based approach is that the providers of financial as well as technical support to enterprises should themselves be business-oriented and market-led. Although there is common agreement that any support to such providers should be market-oriented, opinions vary regarding the design of such support. The debate on the use of intermediaries for provision of financial services is one example.

Policy implications for donors

The emerging approach for support to private sector development is based on the concept of systemic change; altering the incentives within markets to deliver pro-poor outcomes rather than providing direct support to enterprises.

The following key criteria and guiding questions may be applied by donors in connection with assessment of proposals that involve support to individual or groups of firms:

i) Define the **rationale** for intervention: The focus should be on the sources of problems, not on the symptoms. What is the market failure that justifies a direct type of intervention? Is the proposed intervention the most appropriate response to the problem? Are there any risks that the intervention in itself may cause market distortions or retard the development of markets?

ii) **Level playing field:** All firms should have an equal opportunity to access support instruments. This promotes competition and creates better chances for cost efficiency in the use of such support.

iii) **Avoid or minimise subsidies to firms and intermediaries:** The subsidy component of credit and technical assistance provision should be as close to market terms as possible. This will ensure that the assistance reaches the firms that see a real value addition from the assistance provided. Instruments that minimise the required financial inputs, *e.g.* guarantee schemes that share risks with commercial banks and provide them with incentives to lend to small and medium enterprises, may be useful in the appropriate context.

iv) **Provide subsidies to end users:** In situations where there is clear rationale for the public sector to provide subsidies, *e.g.* for social or infrastructure services, subsidies should preferably be provided in a transparent way to end users, rather than being channelled through providers of goods and services. Applied in this way, subsidies strengthen the demand for services and stimulate competition and market development.

v) **Apply principles of "output-based aid":** To support the delivery of basic services, explicit performance-based subsidies may be justified to complement or replace user-fees. Affordability issues for particular groups of users, positive externalities or the infeasibility of imposing direct user fees are examples of the types of concerns that could motivate the use of public funds to support the delivery of basic services. The principles for output-based aid have been defined by "the Global Partnership on Output-Based Aid" (*www.gpoba.org*).

vi) **Clear exit strategies:** A predefined exit strategy should always be prepared in connection with support to firms.

There may be situations when market development approaches are not applicable. Particularly in post-conflict situations or after natural or man-made disasters, in the short term, direct firm-level assistance seems to be the most appropriate way to re-establish affected enterprises. The fundamental challenge is on the one hand to identify the right point of exit and, on the other, to find the right starting point for a gradual shift to a market-based approach that aims to rebuild the supporting institutional environment for the private sector. There is often a need to differentiate and sequence donor support depending upon the type of firm and the stage of development.

Direct assistance at the firm level may provide valuable learning and insights into actual business problems and policy obstacles that can play an important role in advocacy for reform by donors and private business associations.

In the provision of technical and financial support at firm level, donors have often co-operated with a number of different stakeholders. For this and other reasons, donor support has often been scattered and duplication is common. The market approach requires concerted efforts to align donor support with national strategies and to strengthen aid co-ordination mechanisms.

Donors should review the way they internally organise themselves to support private sector development. There may be possibilities to promote synergies and cross-breed experience between different types of instruments. For example, the "transaction experience" among people who are involved in support at firm level may be very useful for colleagues specialised in the development of the enabling environment. Likewise, experience of analysing market institutions may provide valuable inputs for preparation of firm-level support. At the country level, it is often important to combine and co-ordinate interventions at different system levels; *e.g.* support to macroeconomic reforms with support at the meso (market) and/or micro (firm) level.

Impact monitoring should be an integral part of donor programmes aimed at market-based development of technical and financial assistance. Relevant information should be gathered regularly. Emphasis should be placed on learning rather than on proving. Amongst other measures, monitoring information should be used to keep the programme "on track", and if necessary for adjustments. The monitoring system should include indicators which allow for measuring the impact of market development on the productivity of firms and on income and employment generation, with special focus on poor women and men.

Recommended best practices

It is not possible in a brief paper to provide more detailed recommendations on best practice within a large knowledge area. However, there is a wealth of sources that provide guidance and best practice on various aspects of firm-level assistance. Recommendations on some titles for further reading are given at the end of the chapter.

The following are some concrete examples of practices to be encouraged in the field of BDS:

i) **BDS market assessments** should take into account the livelihood systems and the views of the targeted poor, including socio-economic, cultural, gender and other relevant aspects, by making use of participatory instruments.

ii) This also applies to **value-chain analysis**, which should look into the links in the value chain and sub-sectors with a potential for value addition, thereby resulting in higher incomes and employment for marginalised populations.

iii) Special attention should be given to services of particular relevance to the poor such as: *i)* commercially oriented **input suppliers** to small-scale farmers; *ii)* **market access distribution systems**; *iii)* **embedded services** for rural micro-entrepreneurs and small farmers; and *iv)* **buyer or supplier credit schemes** linking producers to alternative financing mechanisms.

iv) **BDS in rural areas:** Poverty is particularly widespread in rural areas. At the same time, there are clear constraints regarding the absorptive capacity of urban agglomerations. Therefore, it is extremely important to make BDS markets work for the poor in rural areas. The various approaches such as the sector approach in agro-business and food-processing, value-chain development or the promotion of local and rural economic development offer ample scope for creating improved income and employment opportunities. Interventions in favour of these inter-firm relations are usually geared to the development of a competitive edge for the whole cluster, sector, industry or region, and less to individual enterprises. This may bring about the systemic change that is so greatly required.

v) **Possibilities of public-private partnership (PPP):** In developing value chains as well as in local and regional development, public and private partners could join forces to provide commercial and sustainable business services in the scope of business linkages. Depending on the partners, these can also result in the provision of cost-effective, high-quality, embedded services, such as market access or extension services.

Notes

1. World Bank (2005), *Economic Growth in the 1990s: Learning from a Decade of Reform*, Washington DC, *www1.worldbank.org/prem/lessons1990s/index.htm*.
2. Operationalising Pro-Poor Growth Reseach Program (2005), *Pro-Poor Growth in the 1990s – Lessons and Insights from 14 Countries*, Washington DC.
3. See Snoddgrass, D. and J. P. Winkler, (2004).
4. For a review of international experience with selective interventions at the firm level, see Chapter 8 of World Bank (2004), *World Development Report 2005: A Better Investment Climate for Everyone,* Washington DC.
5. The Committee of Donor Agencies for Small Enterprise Development (2000), *BDS for small enterprises. Guidelines for Donor Intervention*, often referred to as the "blue book".

Further reading

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Foreword

Promoting pro-poor growth – enabling a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth – will be critical in achieving a sustainable trajectory out of poverty and meeting the Millennium Development Goals, especially the target of halving the proportion of people living on less than one dollar a day. Developing and sharing good practice in advancing this agenda has been the focus of the Development Assistance Committee (DAC) through its Network on Poverty Reduction (POVNET) since 2003.

The DAC Guidelines on Poverty Reduction, *published in 2001, show that poverty has multiple and interlinked causes and dimensions: economic, human, political, socio-cultural, protective/security. The work of POVNET since then has given priority to addressing strategies and policies in areas that contribute to pro-poor economic growth, with particular attention to private sector development, agriculture and infrastructure. POVNET has sought to build consensus on the key underpinnings of pro-poor growth and to explore recent thinking on risk and vulnerability and ex ante poverty impact assessment.*

This compendium summarises the conclusions and recommendations coming out of POVNET's work on growth and poverty reduction. The key messages are as follows:

- *Rapid and sustained poverty reduction requires pro-poor growth, as described above.*
- *Policies to tackle the multiple dimensions of poverty, including the cross-cutting dimensions of gender and environment, are mutually reinforcing and should go hand-in-hand.*
- *Empowering the poor is essential for bringing about the policies and investments needed to promote pro-poor growth and address the multiple dimensions of poverty.*

For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient. This compendium provides specific guidance to donors on how to make their support to pro-poor growth more effective in the areas of private sector development, agriculture and infrastructure.

Richard Manning
DAC Chair

James T. Smith
POVNET Chair

In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the ***Development Assistance Committee****, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

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Acronyms

ACP	Africa, Caribbean and Pacific countries
ADB	Asian Development Bank
AdI*	*Aguas del Illimani*
AFD*	French Development Agency – *Agence Française de Développement*
AKFED	Aga Khan Fund for Economic Development
AU	Africa Union
BDS	Business development service
BLT	Build-lease-transfer
BMZ*	German Ministry for Economic Co-operation and Development *Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung*
BOT	Build-operate-transfer
BOOT	Build-own-operate-transfer
CAADP	Comprehensive African Agriculture Development Programme
CARICOM	Carribbean Community
CEDAW	Convention of the Elimination of All Forms of Discrimination against Women
CEPA*	*Comision Ejecutiva Portuaria Autonoma*
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
COMESA	Common Market for Eastern and Southern Africa
CSO	Civil society organisation
CUTS	Consumer Unity and Trust Society
DAC	Development Assistance Committee
DCI	Development Cooperation Ireland
DFI	Development financial institution
DTF	Devolution Trust Fund
DFID	UK Department for International Development
EPA	Economic Partnership Agreement
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GIC	Growth incidence curve
GTZ*	German Agency for Technical Co-operation *Deutsche Gesellschaft für Technische Zusammenarbeit GmbH*
ICN	International Competition Network
ICT	Information and communication technology
IDA	International Development Association
IFAD	International Fund for Agricultural Development

IFC	International Finance Corporation
IGE	Intergovernmental Group of Experts on Competition Law and Policy
IICA	Inter-American Institute for Cooperation on Agriculture
IMF	International Monetary Fund
IT	Information Technology
IWRM	Integrated water resource management
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KfW*	German Bank for Development – *Kreditanstalt für Wiederaufbau*
MDG	Millennium Development Goal
MERCOSUR*	*Mercado Común del Sur*
MFI	Microfinance institution
MTEF	Medium-term expenditure framework
SME	Medium, small-sized enterprise
MSME	Micro, small and medium-sized enterprise
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental organisation
NORAD*	Norwegian Agency for Development Co-operation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PIA	Poverty Impact Assessment
PIDG	Private Infrastructure Development Group
PIP	Public investment programme
POVNET	DAC Network on Poverty Reduction
PPD	Public-private dialogue
PPP	Public private-sector partnership
PRS	Poverty reduction strategy
PRSP	Poverty reduction strategy paper
PSD	Private Sector Development
PSIA	Poverty and Social Impact Analysis
PSO	Private sector organisation
RADEEF*	*Régie Autonome de Distribution et d'Électricité de Fès*
REDI	Recent Economic Developments in Infrastructure
Seco*	Swiss State Secretariat for Economic Affairs
Sida*	Swedish International Development Cooperation Agency
SME	Small and medium-sized enterprises
SWAp	Sector-wide approach
TAF	Local Capacity Building Technical Assistance Facility
UEMOA*	West African Economic and Monetary Union *Union Économique et Monétaire Ouest Africaine*
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WTO	World Trade Organization
WFP	World Food Programme

* Denotes acronym in original language.

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Pro-poor Growth: Policy Statement

The 2001 DAC Guidelines on *Poverty Reduction* show that poverty has multiple and interlinked causes and dimensions: economic, human, political, socio-cultural, protective/security. This policy statement focuses on one dimension of that bigger picture – reducing economic poverty through pro-poor growth. In doing so, it looks at the relationship between the economic and other dimensions of poverty and how policies for pro-poor growth and other policy areas need to interact so that, collectively, they can make major and sustainable inroads into poverty reduction.

Three key messages from this work are that:

- Rapid and sustained poverty reduction requires pro-poor growth, *i.e.* a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth. Policies therefore need to promote both the pace of economic growth and its pattern, *i.e.* the extent to which the poor participate in growth as both agents and beneficiaries, as these are interlinked and both are critical for long-term growth and sustained poverty reduction.
- Policies to tackle the multiple dimensions of poverty, including the cross-cutting dimensions of gender and environment, are mutually reinforcing and should go hand-in-hand. Progress in one dimension will be accelerated by progress in others. In tackling poverty, perceptions of policy dichotomies have been misplaced. Policy trade-offs do exist but can be better managed.
- Empowering the poor is essential for bringing about the policies and investments needed to promote pro-poor growth and address the multiple dimensions of poverty. To achieve this, the state and its policy making processes need to be open, transparent and accountable to the interests of the poor. Policies and resources need to help expand the economic activities of the poor.

When implementing the policy guidance on how donors can support and facilitate pro-poor growth, they must bear in mind that the poor are not a homogenous 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. Promoting pro-poor growth requires policy choices to be guided by assessments of their expected impact on the income and assets of the poor.

Rapid and sustained poverty reduction requires pro-poor growth, i.e. a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth.

i) **Both the pace and the pattern of growth are critical for long-term and sustainable poverty reduction.** Economic growth is an essential requirement and, frequently, the major contributing factor in reducing economic poverty. For growth to be rapid and

sustained, it should be broad-based across sectors and regions and inclusive of the large part of the workforce that poor women and men make up. Pattern and pace are thus interlinked and need to be addressed together. Policies for sustaining growth such as those aiming at macroeconomic stability, institutional quality, democratic and effective governance and a favourable investment climate should promote the engagement of the poor in economic growth by increasing their incentives, opportunities and capabilities for employment and entrepreneurship.

ii) **A pro-poor pattern of growth makes growth more effective in reducing poverty.** Developing countries with similar rates of economic growth have experienced quite different levels of economic poverty reduction, due to initial conditions and whether growth occurs in areas and sectors where the poor live and are economically active. Policies need to create the conditions and remove the obstacles to the participation of the poor in the growth process, *e.g.* by increasing access to land, labour and capital markets and by investing in basic social services, social protection and infrastructure. As the poor often depend heavily on natural resources for their livelihoods, policies to promote environmental sustainability should also be integral to promoting pro-poor growth.

iii) **Inequality matters.** Inequality of assets and opportunity hinders the ability of poor people to participate in and contribute to growth. High and rising levels of income inequality lower the poverty reduction impact of a given rate of growth and can reduce the political stability and social cohesion needed for sustainable growth. Gender is a particularly important dimension of inequality. Women face particular barriers concerning assets, access and participation in the growth process, with serious implications for the ability of growth to be pro-poor. The growth experience shows that rising inequality is not an inevitable consequence of the growth process, as long as there is a mix of policies that addresses both growth and distributional objectives, strengthens empowerment and deals with gender and other biases (*e.g.* race, caste, disability, religion).

iv) **The vulnerability of the poor to risk and the lack of social protection reduce the pace of growth and the extent to which it is pro-poor.** The poor often avoid higher risk opportunities with potentially higher payoffs because of their vulnerability. In addition, the journey out of poverty is not one way and many return to it because man-made and natural shocks erode the very assets that the poor need to escape poverty. Policies that tackle risk and vulnerability, through prevention, mitigation and coping strategies, improve both the pattern and pace of growth and can be a cost effective investment in pro-poor growth.

v) **Policies need to tackle the causes of market failure and improve market access.** Well functioning markets are important for pro-poor growth. Market failure hurts the poor disproportionately and the poor may be disadvantaged by the terms on which they participate in markets. Programmes are needed to ensure that markets that matter for their livelihoods work better for the poor. Such programmes need to be carefully designed to avoid replacing market failure with government failure. Policies to tackle market failure should be accompanied by measures aimed at increasing economic capabilities of the poor.

In tackling poverty, perceptions of policy dichotomies have been misplaced. Policy trade-offs do exist but can be better managed.

i) **Policies to tackle the multiple dimensions of poverty should go hand-in-hand**. Poverty is multidimensional. Pro-poor growth will be strengthened by progress on the non-economic dimensions of poverty. More effective policies require a better understanding of these interdependencies. Perceptions of dichotomies (*e.g.* economic *versus* social policies) can be misplaced. The pace and pattern of growth have multiple determinants and consequences and each dimension nourishes (or holds back) the other. Progress on the income poverty Millennium Development Goal (MDG) facilitates progress on other MDGs and *vice versa*.

ii) **Policy trade-offs still exist, but can be better managed.** Policies which promote only one dimension of poverty reduction while undermining others should be avoided. Whenever possible, policies need to be complementary rather than compensatory. Sequencing of policies and investments can help manage trade-offs. Policy choices should be based on understanding the binding constraints through analysis of the growth, poverty and inequality experience and the results of poverty impact assessments. The ability of institutions to handle trade-offs is important for achieving pro-poor outcomes.

For pro-poor growth policies to emerge, the poor need to be informed and empowered to participate in a policy-making process that is accountable to their interests.

i) **The poor need to participate in and influence the policy reform process that goes with poverty reduction strategies (PRSs).** Approaches are needed to increase the voice and influence of poor women and men in order that policy making is evidence-based, rather than determined by narrow vested interests.

ii) **A well-functioning state is important for responding to the interests of the poor**. Effective pro-poor growth strategies need policy and institutional change for which the state, in all its dimensions, is made more accountable to the interests of the poor. The state needs to provide the opportunity for structured public-private dialogue at various levels, including with civil society and private sector actors who are frequently marginalised. The state needs to provide the required incentives, enabling environments and policy and planning frameworks to be more accountable to the voices of the poor.

iii) **Pro-poor reform is likely to require changes to the current political settlement among the diverse interests of different segments of society.** This entails a better understanding of the political economy, power relations and drivers of change, and supporting formal, transparent decision making, strengthening the demand for pro-poor change and building capacity of the state to respond to demand.

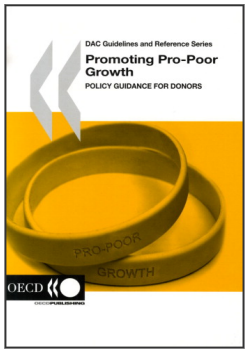
For donors, the pro-poor growth agenda is not business as usual and more of the same will not be sufficient.

i) **Donors should focus on supporting in-country policy processes.** Policies for pro-poor growth can only be achieved through country-level processes that are inclusive of the poor and based on country-level analyses. Donors should support the emergence and development of processes that are formal, transparent and take account of the interests of the poor, and conduct their policy dialogue through them. Donors should support measures to empower the poor in these policy processes and build the country-level capacity to undertake analyses, including poverty impact assessments.

ii) **Donor support needs to be flexible and responsive to country situations**. The type of support provided needs to take account of the level of development, the policy environment and the extent to which there is a well-functioning state. Donors need to adapt their approach to fragile and failed states and more research is required to inform this process.

iii) **A pro-poor lens on areas important for pro-poor growth, such as private sector development, agriculture, infrastructure and risk and vulnerability, requires a rethinking of donor agendas.** The importance of these areas for the pace and pattern of growth has been underestimated. New approaches to strengthen the contributions of private sector development, agriculture and infrastructure have been developed by the DAC. Work on risk and vulnerability/social protection/human security is ongoing.

iv) **Donors need to enhance their organisational capacities to effectively support country-led, pro-poor growth.** Donors need to provide appropriate support and incentives to field staff, build multi-donor and multidisciplinary teams at the field level, and empower them to negotiate, co-ordinate and implement programmes. Recent progress to establish such teams in several partner countries should be replicated.



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