Briefing note

Pathways to sustained poverty reduction

Balancing growth from above and below

Andrew Shepherd and Vidya Diwakar

July 2019

Key messages

- Most people escape extreme poverty through 'growth from below' (GfB) – that is, through small investments by households in micro-enterprises, smallholder agriculture, the rural non-farm economy, and through the urban informal sector.
- Fewer people escape through 'growth from above' (GfA) – which results from larger, more formal investments, for example in labour-intensive manufacturing. Those who do accomplish this through GfA work mainly in industries such as garment manufacturing, where employment is accessible to poor, often migrant women and men.
- Governments and their development partners largely support GfA, though there are some governments and donors that do much better in supporting GfB.
- Social and economic policy measures to tighten labour markets assist both GfA and GfB to reduce poverty, but more strategic efforts and attention are needed to balance GfA and GfB to facilitate sustained escapes from poverty.

Growth: the mainstream narrative

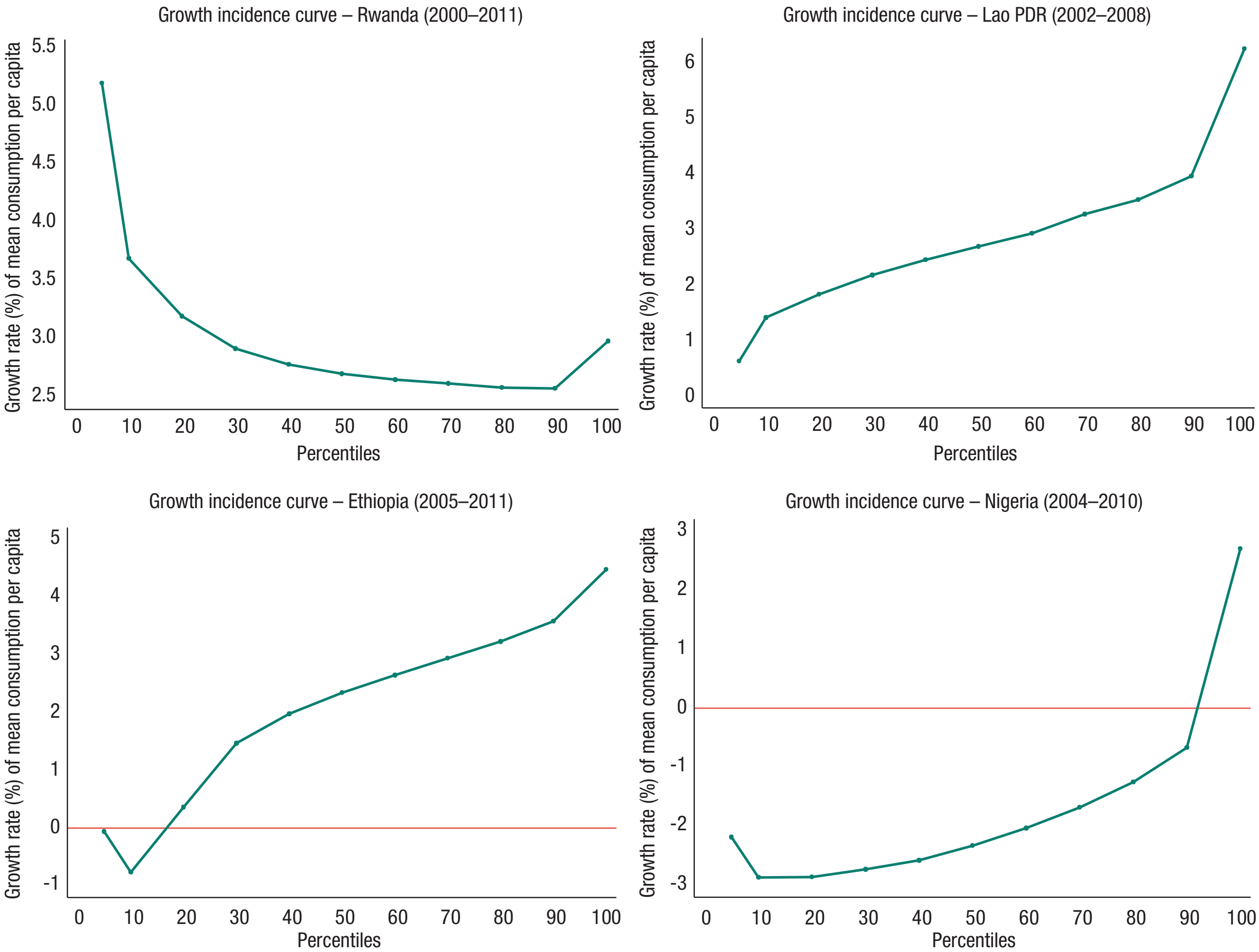
Growth is necessary for poverty reduction. 'Growth from below' (GfB) is how most people escape and sustain escapes from poverty. This growth stems from small investments by households in micro-enterprises, smallholder agriculture, the rural non-farm economy, the urban informal sector, housing, human capital and through migration and remittances. GfB is measured directly in household surveys and qualitative research.

Fewer people escape poverty through 'growth from above' (GfA), which requires larger, more formal investments in sectors such as labour-intensive manufacturing. Those who do accomplish this work mainly in industries such as garment manufacturing, where employment is accessible to poor, often migrant women and men.

The rate and quality of growth matter for poverty reduction, and they depend on various factors. We know from growth incidence curves that growth can be pro-poor, pro-poorest or anti-poor over certain periods. Figure 1 shows high levels of benefit from growth for the poorest in Rwanda (2000–2011) compared to others; low but still positive relative benefits in Lao PDR (2002–2008); barely positive results in Ethiopia (2005–2011); and then highly negative results for the poor and everyone except the top decile in Nigeria (2004–2010).

High growth typically reduces poverty faster than low growth, but sometimes it has little impact on poverty, at least for a period. At times, the poverty-reducing effect can stop (e.g. Rwanda in recent years) or go in reverse (e.g. Uganda recently). Volatile growth does not reduce poverty fast.

Figure 1 Pro-poorest and anti-poorest growth



Source: Authors' analysis based on PovcalNet scraped dataset from Dykstra et al. (2014)

Growth is classically linked to poverty reduction through economic transformation – that is, people moving from less to more productive activities within sectors, and from less to more productive sectors. This usually means moving from agriculture to non-agriculture (especially to manufacturing and services), but also from rural to urban areas. Higher productivity jobs may not be easily accessible to poor people, however, who may lack the skills or networks required for certain roles.

The scope for growth to reduce poverty will then depend on spill overs and indirect effects through demand for goods and services produced in other sectors, and through taxation and redistribution of income. In this case, and where the informal sector is large, what happens here will substantially determine poverty-reduction outcomes.

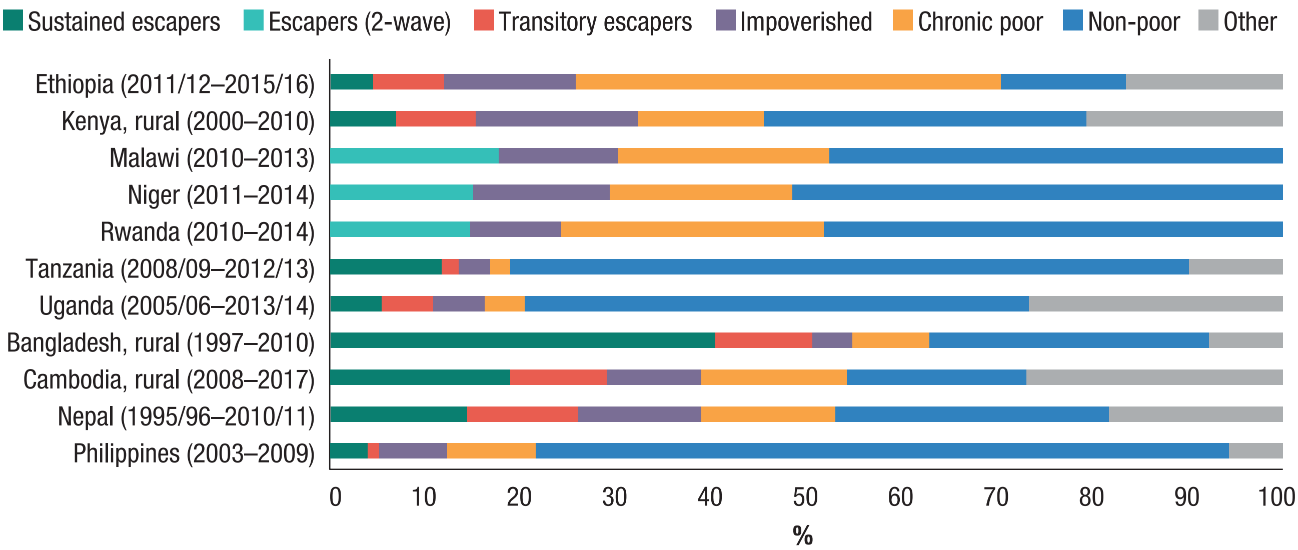
Development policy could promote growth more strongly than it does, particularly in terms of appropriate macro-economic policy to support the aggregate demand which will encourage investment. Crises often disrupt the macro-economic stability necessary for poverty reduction and investment, so preparation to prevent and mitigate economic and other crises is also vital.

Findings from studies of sustained escapes from poverty

This briefing note summarises the findings of the forthcoming *Chronic poverty report on growth* from the Chronic Poverty Advisory Network (CPAN) (Shepherd et al., 2019).

Studying the movement of households into and out of extreme poverty[1] reveals important nuances to the mainstream growth and poverty-reduction narrative presented above. Growth could be expected to generate sustained escapes from poverty, provided that: (a) people do not fall back into poverty over the period studied, and (b) having escaped poverty, people continue to be upwardly mobile. What we find through analysis of 11 countries in sub-Saharan Africa and South and Southeast Asia[2] is that temporary (or transitory) escapes are often numerous, as are cases of impoverishment (Figure 2). Sustained escapers are those households who were poor in

Figure 2 Escapes, sustained and temporary escapes from extreme poverty (over multiple household survey years, national poverty lines)

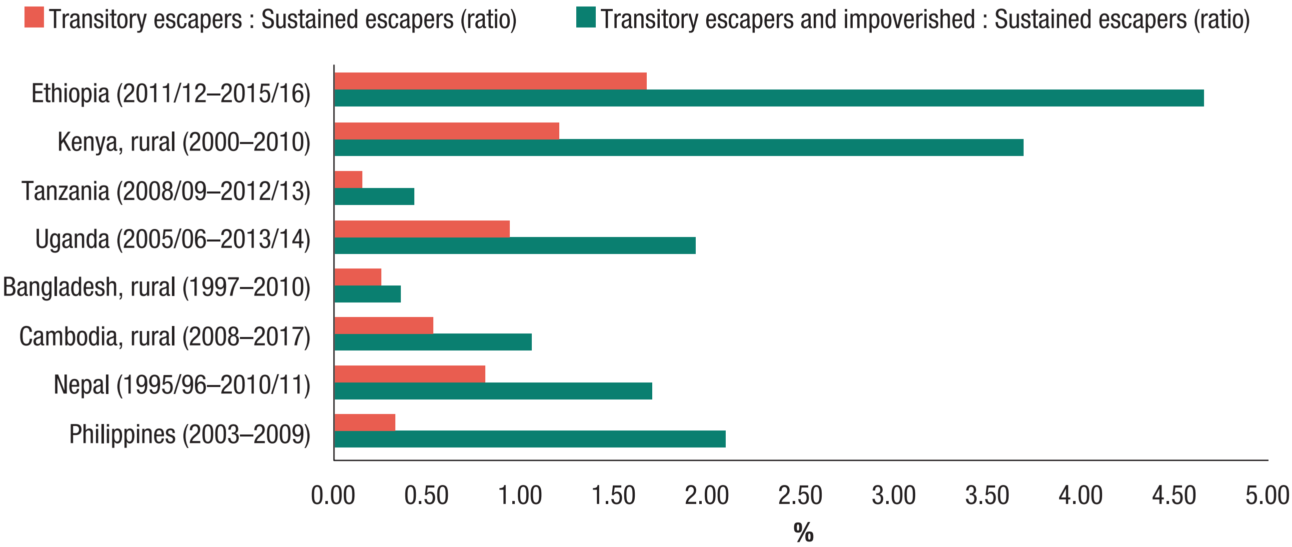


Note: Niger, Malawi and Rwanda have only two survey waves, and so examine a one-time escape from poverty instead of a sustained/temporary escape from poverty. The national poverty lines in Figure 2 are especially low in the Tanzania and Uganda cases, explaining the large proportion of non-poor in all waves of the surveys used.
Source: Diwakar and Shepherd (2018)

1 Defined by national poverty lines, but also the global $1.90-a-day measure.

2 See www.chronicpovertynetwork.org/poverty-dynamics

Figure 3 Ratios between sustained and temporary escapes



Source: Diwakar and Shepherd (2018)

the first survey and then stayed out of poverty in two subsequent surveys; temporary escapers fell back into poverty; the impoverished became poor having been non-poor in the first survey; the chronic poor were poor in all surveys; and the non-poor stayed out of poverty.[3]

Figure 3 shows the ratios between temporary and sustained escapes, and between the negative trajectories (temporary escape and impoverishment) and sustained escapes. Where the ratios of transitory escapes and/or impoverishment to sustained escapes are greater than one, poverty reduction will be restrained at best.

Households escape and remain out of poverty typically through GfB. Even where there is GfA (i.e. through labour-intensive manufacturing which is more accessible to poor people than other types of GfA such as extractives or services), most sustained escapes out of poverty are still generated through GfB for most of the population. This is the case in Cambodia and notably in Bangladesh, where four million garment workers represent only 2.5% of the population and whose earnings may be enough to keep roughly 10% of the population out of poverty.[4] Even in the most successful Asian economies such as China or Viet Nam, the proportion of the labour force employed in formal manufacturing has left plenty of people having to make their way through GfB.

Growth from above to promote poverty reduction

Getting a formal-sector job is widely seen as the most reliable and sustained way out of poverty. However, such jobs are hard to come by in many situations. There are three potential routes to improving the growth–poverty relationship through GfA:

1) Promoting labour-intensive manufacturing

The East and Southeast Asian industrialisation successes have promoted two ideas: firstly, that smallholder agriculture should not be neglected in the process of industrialisation and increasing productivity; and, secondly, that industrial policy can promote firms or industries where a country has a comparative advantage or can build a competitive advantage, and can match capabilities with opportunities. The results can be impressive, as long as financial support to firms is linked to productivity-related performance targets that are strictly monitored. For example,

3 There are also other households who do not fall into the categories mentioned in Figure 2, such as the transient poor, or those who only recently escaped.

4 Authors' calculation.

wage growth was responsible for half the poverty reduction in Viet Nam during 2014–2016 (World Bank, 2018).

In-country migration enables labour-intensive manufacturing to reduce poverty: 85% of workers in the Bangladesh garments sector in Dhaka and Chittagong were migrants in the 2000s (Shonchoy, 2017); in a separate study in 2011, Cambodian women who migrated to Phnom Penh did so primarily to work as garment workers (32.2%), often with low levels of education – less than 8% had completed secondary education (Treleaven and Kheam, 2013). The motivation of migrants is usually to escape poverty themselves and for their families; however, there can be negative effects, including loss of freedom, sexual harassment and violence in the workplace, for example.[5]

Efforts to promote jobs-rich GfA by governments need to be informed by an understanding of which industries, services or firms can be supported to create more and better-quality jobs, and how to make it happen through a combination of general and targeted (industry-specific) measures (MacMillan et al., 2017).

2) Redistributing the returns from natural resource-based development

Many countries, especially (but not only) in Africa, rely on natural resource-based or extractive industries for both exports and tax revenue which drive growth. This is a much less promising route to poverty reduction than labour-intensive manufacturing, as it is extremely vulnerable to macro-economic destabilisation. Further, countries often suffer from weak institutions which can result in corruption, inflation and – in extreme contexts – civil wars, none of which are good for poverty reduction.

Natural resource-rich growth is associated with countries making moderate but not strong progress on poverty and not investing adequate public expenditure in health and education (Shepherd et al., 2018). There are exceptions, however. In Mongolia, for example, a sovereign wealth fund helped the country move into the United Nations Development Programme's (UNDP's) high human development category, though low commodity prices threatened this progress from 2016 (Engel et al., 2014; Asian Development Bank, 2017). With this range of experiences, it is government effectiveness – especially in taxing and redistributing income – that may have a stronger influence on whether mineral dependence can translate into broader growth and poverty reduction.

3) Nurturing beneficial formal–informal links

GfB remains critical if GfA is not generating jobs that are directly accessible to the poor (and even where it is). Strong formal–informal links can improve the productivity and performance of informal firms, but research evidence is urgently needed on this important issue. Sub-contracting and outworking or homeworking are two mechanisms to strengthen such links: the former is illustrated by Japan's economic history, and the latter is evident in many economies but needs recognition, representation, rights and redistribution to challenge the injustices in homeworking (Delaney et al., 2018).

Research in West African capital cities showed that *small* informal enterprises had relatively few backwards or forwards linkages to the formal sector in terms of production, while the *bigger* informal enterprises had more backwards linkages – they performed better if they bought their supplies from formal firms (Multi-donor Trust Fund, 2014). In India, 'modern' informal enterprises benefited from forward linkages to GfA; 'traditional' informal enterprises did not, with modern ones being distinguished by greater capital intensity (Pieters et al., 2010).

In terms of consumption, the research showed there were strong formal–informal links with regards to final demand and trading intermediaries in all directions, except that goods produced in the informal sector were typically traded informally. This means that a thriving formal sector benefits the informal sector through demand for its products and services (Multi-donor Trust Fund, 2014).

5 Sticking with Bangladesh as an example, see Ali et al. (2016) and Shonchoy (2017).

Growth from below to promote sustained escapes from poverty

Promoting GfB to contribute to sustained escapes from poverty is about state support and private-sector investment in smallholder agriculture and related sectors – transport, trade, information and financial services. It is also about removing the constraints on, and positively supporting, the growth of productivity in the urban informal sector and the rural non-farm economy. It requires building poor individuals' and households' assets and human capital, supporting the economic empowerment of poor women, and facilitating or removing any blocks to migration.

Investing in smallholder agriculture: All 11 countries studied include farming, livestock, fishing and forests in the portfolios of people escaping poverty. The CPAN research shows that, as land holdings shrink in size, it has been challenging to achieve the necessary productivity increases, and emphasis has grown on making markets and value chains work for the poor. Increased prevalence of climate extremes has also placed a premium on achieving resilient farming systems.

Supporting the informal sector: Removing the constraints faced by the informal sector is about being very selective in terms of the regulations and taxes which impinge on small, informal firms and can reduce growth and investment. Informal urban and rural enterprises need positive support. This is especially rare for the rural non-farm economy: a study of six countries' achievements in pro-poor growth found only one (Viet Nam) with strong policy frameworks for this economy. Support takes the form of business development services combined with financial inclusion; extension of infrastructure, especially electricity; as well as skills development (Shepherd et al., 2017).

Building assets of the poor: While land is a shrinking asset for most, mobiles and access to electricity are growing for the poorest people, and non-farm business assets may be too. Accumulating land and livestock remains central to stories of sustained escapes from poverty: systems that allow straightforward land renting (in and out) can be helpful here. Supporting poor people to accumulate livestock and develop their livestock enterprises has rightly been a growing focus of rural development programming, with much scope for further growth, though some challenges remain in the development of sustainable systems.

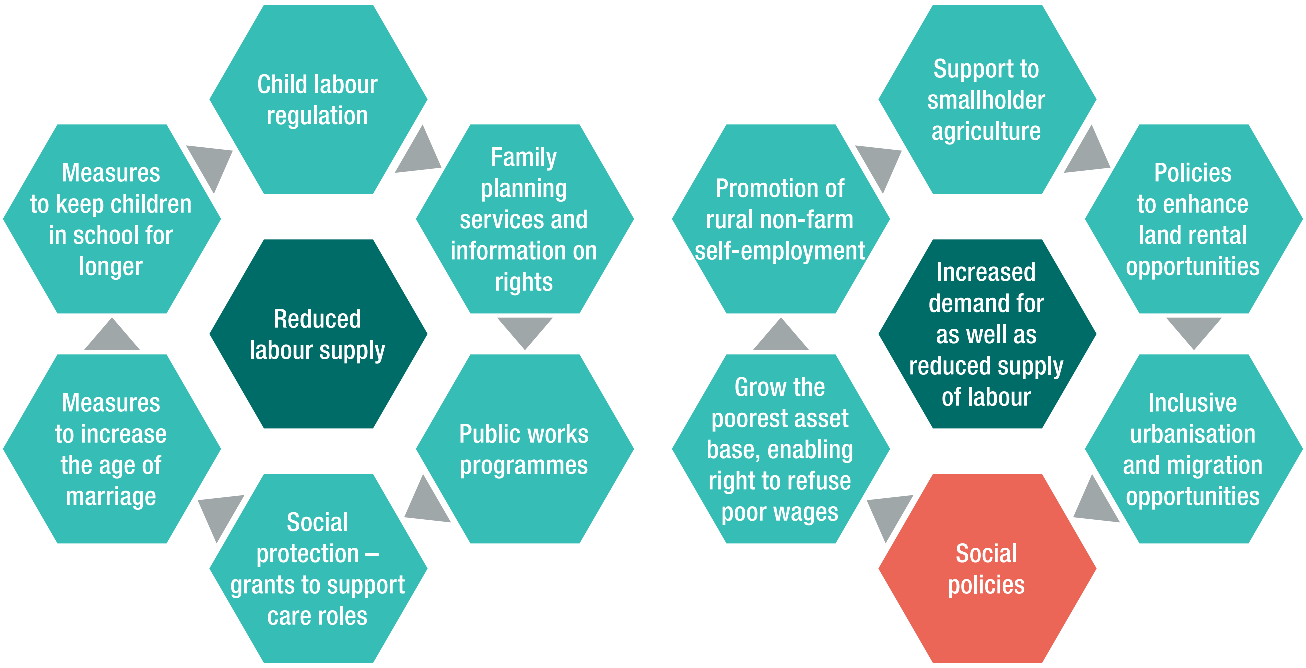
The empowerment of the poorest women: Women can be empowered over the long term by equalising rights to land and other property, but this is a contested measure in many contexts. A raft of other more feasible measures is needed in the meantime, for instance through financial inclusion and creating a financial services 'ladder' from savings and credit societies, and through micro-finance and co-operatives to banks. This can be integrated with business development, and a combination of grants, training and mentoring will be needed to reach the poorest women and men (Mariotti and Shepherd, 2015).

Supporting migration to reduce poverty: Migration is a potentially powerful route out of poverty – migrants escape poverty themselves and also remit money to families who may be enabled to escape poverty as well. Facilitating migration and protecting migrants is an issue which some governments have addressed in the context of international migration (for example, in Cambodia), but almost never with respect to within-country migration. Removing barriers is part of this, including barriers to residence (China is finally experimenting), and barriers to accessing services and rights (between states in India, for example). Additionally, the kinds of measures to protect migrants internationally are also needed nationally – against exploitative recruitment, sexual harassment, low or irregular wages, poor health and safety conditions, and poor housing.

Tightening wage labour markets

Tightening wage labour markets represents a major potential macro-policy route to poverty reduction through both GfB and GfA. Minimum wages can play a role in poverty reduction, as demonstrated in Cambodia. However, this can be difficult to implement, especially in low-income countries, and wage increases need to be accompanied by productivity increases to avoid a reduction in the demand for labour. Tightening the supply and demand for wage labour through economic policies

Figure 4 Social and economic measures to tighten the wage labour market



Source: Shepherd et al. (2019)

together with a range of social policies can support the achievement of minimum wages, and can also offer an alternative where minimum wages are unthinkable (see Figure 4). The left-hand panel in Figure 4 represents social measures, and the right-hand panel economic measures, both of which tighten wage labour markets and result in higher wages in the shorter or longer term.

Government action

Many developing-country governments could strategise more about how growth can best reduce poverty, and they could strive to achieve a balance between promoting GfA and GfB.

Table 1 analyses the quality of government policies across a range of issues related to achieving pro-poor growth.[6] There is great variation among government efforts towards pro-poor growth to date. Scores vary from 1 to 5 out of a possible 6.5 or 7.[7]

Generally, countries making better progress on poverty reduction have higher pro-poor growth policy scores, though there are exceptions (e.g. Bangladesh). Upper-middle-income countries tend to do better than others, while fragile and conflict-affected states have lower policy scores. Nine countries have mid-range scores of 3 to 4 – some of which have made weak progress on poverty (e.g. Malawi) while others have performed better (e.g. Ethiopia). This suggests that the quality of economic policies is of course only one factor that determines poverty outcomes.

6 This is based on a dataset and index compiled by CPAN and validated by in-country experts for 23 high-poverty countries so far for the year 2015, as a policy baseline for tracking progress towards the Sustainable Development Goals (SDGs).

7 As measured by the existence and implementation of: employment guarantee/public works programmes; promotion of the informal sector; agricultural market freedom; access to irrigation; land tenure policies which promote security of property rights and so possibilities of renting in/out; recognition of customary land rights; insurance against economic risks (e.g. agricultural risks); devolution of tax and policy-making; quality of infrastructure; and access to financial services.

Table 1 Pro-poor growth policy scores for 23 countries (2015)

	Country name	PEPPI (G) score (out of maximum 7)
Upper middle-income countries	Brazil	4
	China	4.5/6.5
	South Africa	5/6.5
Lower-middle-income countries	Bangladesh	2.5/6
	India	4
	Indonesia	3.5
	Kenya	5
	Nigeria	2.5/6.5
	Pakistan	2.5/6.5
Low-income countries	Burkina Faso	3.5/6.5
	Democratic Republic of Congo	4/6.5
	Ethiopia	3.5/6.5
	Haiti	1/6.5
	Malawi	4/6.5
	Mozambique	3.5/6.5
	Niger	3.5/6
Low-income, severely conflict-affected poor country	Zimbabwe	2/6

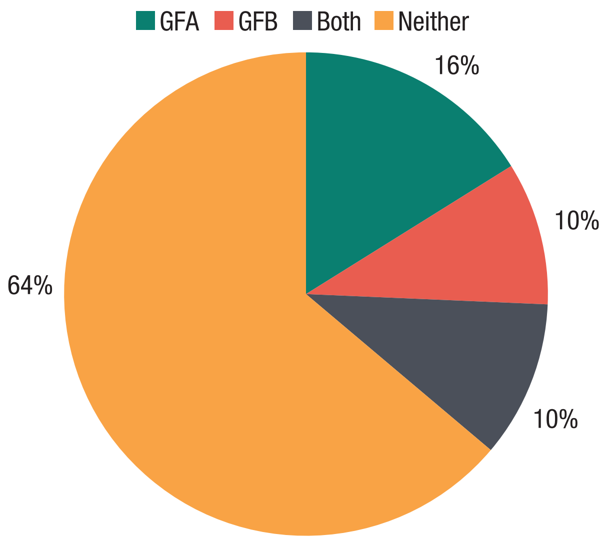
Note: PEPPI is the Poverty Eradication Policy Preparedness Index – see www.chronicpovertynetwork.org/blog/2017/7/31/the-poverty-eradication-preparedness-index-peppi-lets-leave-no-one-behind?rq=peppi
Source: CPAN analysis (see footnote 6)

Donor action

There is also considerable variation among donors in terms of support for GfA and GfB to date, as can be seen from Figures 5–7. These figures are based on cumulative aid statistics from the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD DAC) for 2015–2017, and categorise aid in support of economic development into: 1) aid that primarily supported GfA, 2) aid that primarily supported GfB, and 3) aid that supported both.

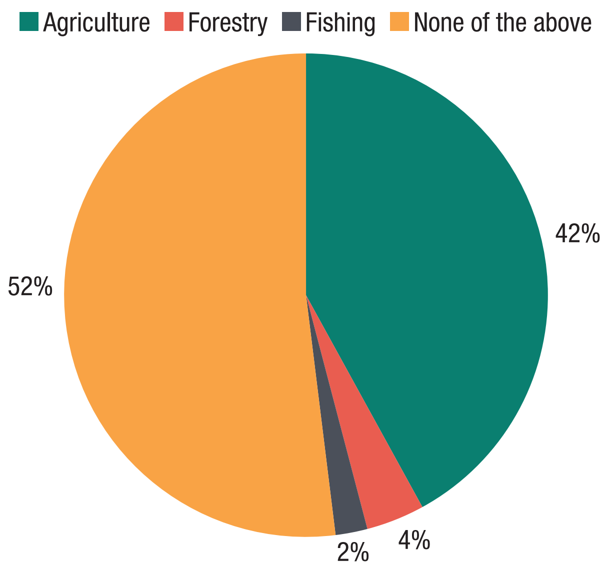
Donors should think strategically about the balance between aid in support of GfA and GfB, and the expected impacts of both on growth and poverty when designing their support for economic development.

Figure 5 OECD donor support to GfA and GfB (2015–2017)



Source: Shepherd et al. (2019)

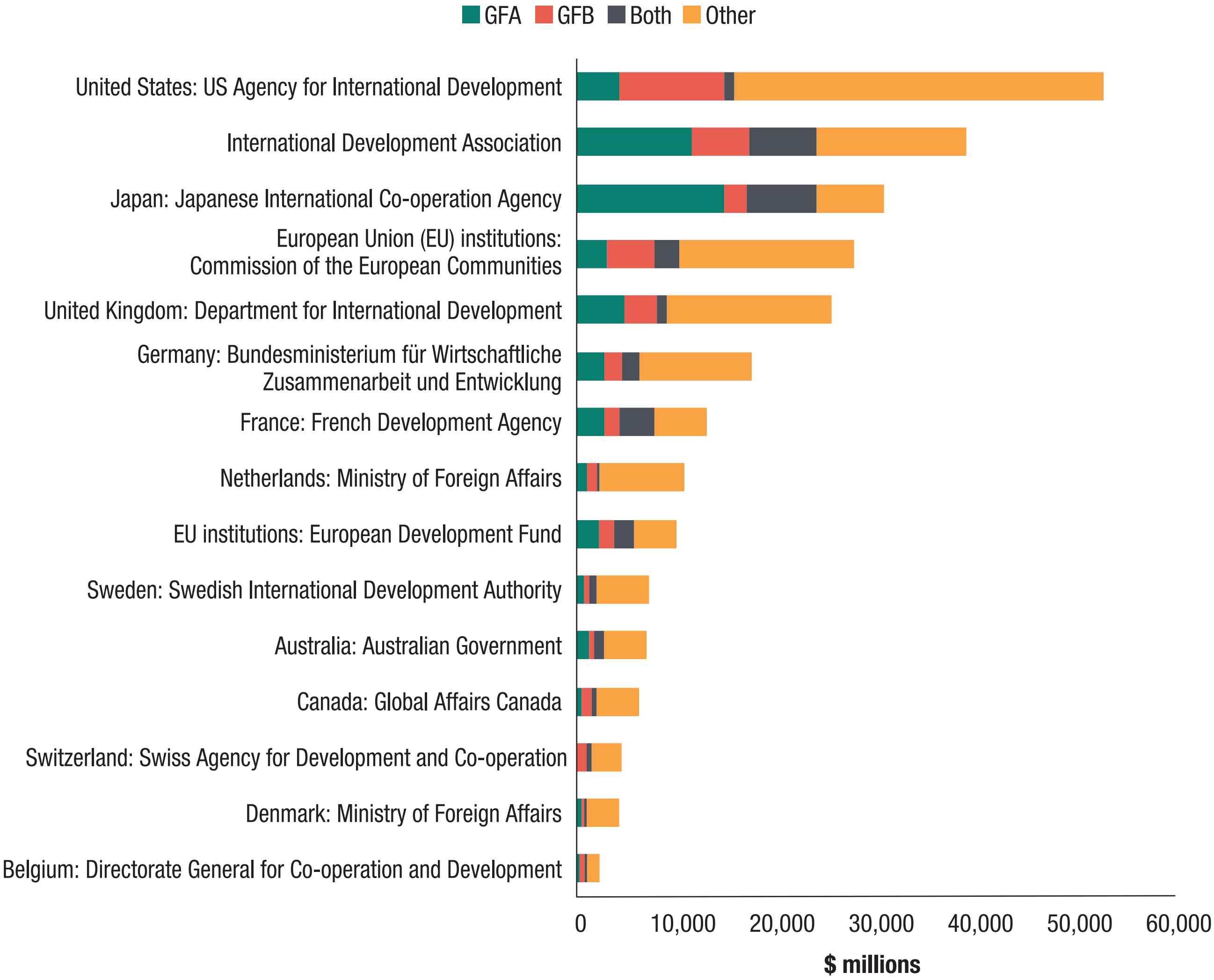
Figure 6 OECD donor support to GfB by sector (2015–2017)



Source: Shepherd et al. (2019)

Regionally, most official development assistance (ODA) went to sub-Saharan Africa, where GfB exceeded GfA. In terms of support to industry, little went to labour-intensive garments and leather; instead, most went to small and medium-sized enterprise (SME) development, some of which could be labour intensive. Much multilateral aid to SMEs takes the form of financial loans and investment-climate work, however this has been barely evaluated.

Figure 7 Support to GfA and GfB from different donors ($ millions, gross disbursement)



Source: Shepherd et al. (2019)

Conclusions and next steps

The varied pro-poor growth policy scores in Table 1 suggest there is scope for a greater balance between promoting GfA and GfB by governments in many countries. Some donors could also usefully improve their efforts on GfB.

This balance can be achieved through promoting not only labour-intensive manufacturing and tightening wage labour markets, but also through empowering poor women, supporting asset development and productivity in smallholder agriculture, freeing the potentials of the rural non-farm economy and the urban informal sector, and supporting migration and remittance. This could create a positive enabling environment for these sectors of the economy.

Achieving the right balance between GfA and GfB is something which the United Nations (UN) custodians of SDG 8 – to 'promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all' – the International Labour Organization (ILO) and the United Nations Conference on Trade and Development (UNCTAD) could emphasise in their discussions at relevant UN meetings and with member states.

The ILO, in particular, needs to balance its support for long-term formalisation of employment with promotion of the informal economies that facilitate sustained escapes from poverty.

References

Ali, R.N., Begum, F., Salehin M.M. and Farid K.S. (2016) 'Livelihood pattern of rural women garment workers at Dhaka city' *Journal of Bangladesh Agricultural University* 6(2) (www.researchgate.net/publication/250212593_Livelihood_pattern_of_rural_women_garment_workers_at_Dhaka_city)

Asian Development Bank (2017) *Inclusive and sustainable growth assessment, Mongolia 2017–2020*. Manila: ADB (www.adb.org/sites/default/files/linked-documents/cps-mon-2017-2020-ld-01.pdf)

Delaney, A., Burchielli, R., Marshall, M. and Tate, J. (2018) *Homeworking women: a gender justice perspective*. London: Routledge

Diwakar, V. and Shepherd, A. (2018) *Sustaining escapes from poverty*. Working Paper 539. London: Overseas Development Institute (www.odi.org/publications/11214-sustaining-escapes-poverty)

Dykstra, S.; Dykstra, B. and Sandefur, J. (2014) 'We just ran twenty-three million queries of the World Bank's web site'. Cambridge MA: Harvard Dataverse, V10 (https://doi.org/10.7910/DVN/25492)

Engel, J. and Prizzon, A. with Amgaabazar, G. (2014) *From decline to recovery: post-primary education in Mongolia*. ODI Research reports and studies, July. London: Overseas Development Institute (www.odi.org/publications/8559-decline-recovery-post-primary-education-mongolia)

Mariotti, C. and Shepherd, A. (2015) *Getting to zero: tackling extreme poverty through private sector development – policy guide*. London: Chronic Poverty Network (www.chronicpovertynetwork.org/resources/2015/5/14/getting-to-zero-tackling-extreme-poverty-through-private-sector-development-policy-guide)

McMillan, M., Page, J., Booth, D. and te Welde, D. (2017) *Supporting economic transformation: an approach paper*. London: Overseas Development Institute (https://set.odi.org/wp-content/uploads/2017/03/SET-approach-paper-WEB_FINAL_MARCH.pdf)

Multi-donor Trust Fund for Job Creation (2014) 'How do the informal and formal sectors interact?'. Research Highlights, Number 6, April. Washington DC: World Bank

Pieters, J., Moreno-Monroy, A. and Erumban, A. (2010) *Formal-informal linkages and informal sector dynamics: evidence from India*. Paper prepared for the 31st General Conference of the International Association for Research in Income and Wealth, St. Gallen, Switzerland, 22-28 August (www.iariw.org/papers/2010/poster2Pieters.pdf)

Shepherd, A., Mariotti, C. and Rodriguez-Takeuchi, L. (2017) *What policy lessons can be learnt from cases of pro-poorest growth?*. London: Chronic Poverty Network (www.chronicpovertynetwork.org/resources/2016/7/25/what-policy-lessons-can-be-learnt-from-cases-of-pro-poorest-growth)

Shepherd, A., Samman, E., Faure, R. and Gavas, M. (2018) *Trends in poverty and inequality and further clustering of developing countries*. Brussels: European Commission (www.chronicpovertynetwork.org/resources/2019/1/2/trends-in-poverty-and-inequality-and-further-clustering-of-developing-countries)

Shepherd, A., Bird, K., Dacorta, L., Diwakar, V., Dubey, A., Gelb, S. … and Shaffer, P. (2019) *Chronic poverty report on growth*. London: Chronic Poverty Advisory Network.

Shonchoy, A. (2017) 'Barriers to labour migration in Bangladesh's garment sector'. Blog. London: International Growth Centre (www.theigc.org/blog/barriers-labour-migration-bangladeshs-garment-sector/)

Treleaven, E. and Kheam, T. (2013) *A CRUMP series report: women and migration in Cambodia*. Phnom Penh, Cambodia: UNFPA and National Institute of Statistics (www.mop.gov.kh/DocumentKH/Women%20&%20Migration%20in-Cambodia.pdf)

World Bank (2018) *Climbing the ladder: poverty reduction and shared prosperity in Vietnam*. Washington, DC: World Bank (http://documents.worldbank.org/curated/en/206981522843253122/pdf/124916-WP-PULIC-P161323-VietnamPovertyUpdateReportENG.pdf).

Acknowledgements

This briefing paper is based on a longer research report, the *Chronic poverty report on growth*, which will be published in mid-to-late 2019.

Thanks to Stephen Gelb, Dirk Willem te Velde and Simon Gill for comments on an earlier version of this briefing paper.

Evidence.
Ideas.
Change.

ODI
203 Blackfriars Road
London SE1 8NJ

+44 (0)20 7922 0300
info@odi.org

odi.org
odi.org/facebook
odi.org/twitter