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Asia's experience strongly suggests that rapid and sustained economic growth leads to significant poverty reduction. This seems consistent with the analysis of global cross-national data showing that the incomes of the poor move proportionately one-for-one with overall average incomes (Dollar and Kraay 2001). From a policy standpoint, an implication might be that poverty reduction requires nothing more than simply promoting rapid growth.

However, because Asia is so vast and diverse, its success story does not apply equally to all countries, nor can the results of cross-national regressions be taken at face value. The relationship between growth and poverty is highly country-specific, as exemplified by the analyses of subnational data for individual countries (Pernia 2001). These indicate that the poor typically gain less than proportionately from increases in overall average incomes, and that other factors (initial conditions and institutions) matter to poverty reduction besides their impact on growth itself. In India, literacy, higher initial rural-to-urban income levels, and other state-specific attributes, by influencing distribution, contribute importantly to poverty reduction (Ravallion and Datt 2002). In Indonesia, infrastructure, human capital investment, agricultural terms of trade, and access to technology directly benefit the poor by redressing inequality (Balisacan, Pernia, and Asra 2003). Similar results obtain for the Philippines, Thailand, and Viet Nam.

This brief argues that *pro-poor growth* is a critical element in a poverty reduction strategy as it factors in the distributional dimension. The note defines pro-poor growth, proposes an index to measure and monitor the "pro-poorness" of growth, discusses the required policies and institutions, and concludes. Although poverty is widely recognized as multidimensional, this note deals solely with the income dimension. This simplified approach is justified considering the intimate long-run correlation between income and other socioeconomic indicators of well-being.

What is Pro-poor Growth?

Pro-poor growth has been defined variously. Some refer to it as growth that results in significant poverty reduction, thereby benefiting the poor and improving their access to opportunities (e.g., UN 2000, World Bank 2000, OECD 2001). But it is not clear how significant a reduction in poverty must be and how progress in achieving pro-poor growth is to be monitored. Others equate pro-poor growth with high elasticity of poverty with respect to growth (e.g., Ravallion and Datt 2002), but this still begs the questions of measuring and monitoring. Ravallion and Chen (2003) also introduce the concept of "mean growth rate of the poor", which seems analytically ambiguous.

Pro-poor growth is the type of growth that enables the poor to actively participate in economic activity and benefit proportionally more than the nonpoor from overall income increase.[1] This signals a clear departure from the *trickle-down development* notion of the 1950s and 1960s that meant a gradual top-down flow from the rich to the poor. Klasen (2001, 2) similarly defines "pro-poor growth to mean that the poor benefit disproportionately from economic growth."

Key to the definition of pro-poor growth is the joint consideration of growth and its distribution. It should be stressed that, while both *ex ante* and *ex post* distribution are pivotal to poverty reduction as such, pro-poor growth is essentially about *ex post* distribution, i.e., distribution of the increment to the pie, not of the existing pie.[2] Moreover, pro-poor growth is primarily about the distribution of growth between, not within, lower and upper income groups. Pro-poor growth merely requires that the proportional income growth of the poor exceed the overall average income growth.

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[1] This definition is broadly consistent with the provision in ADB's (1999, 6) poverty reduction strategy, which says that "growth is pro-poor when it is labor absorbing and accompanied by policies and programs that mitigate inequalities and facilitate income and employment generation for the poor, particularly women and other traditionally excluded groups."

[2] The importance of *ex ante* distribution bears pointing out. In a country with a highly skewed distribution the same rate of growth will result in lesser poverty reduction, given that the poor are starting from a lower base such that their absolute income gains will be smaller, than in a country with a less skewed distribution. Moreover, some argue that lesser initial inequality leads to higher growth, though others are of the contrary view (see Quibria 2002).

Measuring Pro-poor Growth[3]

A change in poverty associated with economic growth can be broken down into a *pure growth effect* and an *inequality effect*. The extent to which poverty can be reduced (or increased with contraction)—referred to as *poverty elasticity*—hinges on both these effects. The pure growth effect is negative because positive growth reduces poverty, with inequality remaining constant. The inequality effect can be either negative or positive depending on whether growth is accompanied by improving or worsening inequality.

The degree of pro-poor growth can be measured by an index, which is simply the ratio of the total change in poverty (the poverty elasticity) to the pure growth effect. The pro-poor growth index (PGI) can be interpreted as the *poverty-reducing efficiency of growth*. PGI is greater than one if the inequality effect is negative, meaning that growth results in lesser inequality and the poor benefit proportionally more than the nonpoor. PGI in this case is *strictly* pro-poor and, for a given growth rate, poverty falls fastest. A PGI of one implies that inequality remains constant and all income groups gain equiproportionately from growth. Finally, a negative PGI is antipoor as growth leads to an increase in poverty.

Table 1 provides empirical examples. It shows that during the pre-crisis 1990s, economic growth was, strictly speaking, pro-poor only in Korea with a PGI greater than one (column 7). Indeed, poverty reduction was exceptionally swift in Korea owing to an enviable combination of rapid per capita GDP growth and reduced inequality. GDP growth rates were relatively rapid in the other countries as well but their poverty impacts were somewhat muted by rising inequality (column 6). Put differently, poverty would have fallen even faster had inequality improved or at least stayed constant.

Thus, growth in these countries was *strictly* less than pro-poor, ranging from Lao PDR (PGI closer to zero) to Viet Nam (PGI closer to one). The results suggest that *strictly* pro-poor growth is not so easy to achieve but is an ideal that should be aimed for in a poverty reduction strategy. PGI can be used to monitor progress toward this goal.

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[3] This section draws on Kakwani and Pernia (2000).

Table 1
Poverty Reduction, Growth and Inequality Effects, and Pro-poor Growth Index, Selected Asian Countries

Countries	Headcount Ratio[a] Years	Headcount Ratio[a] Annual Change (%)	Poverty Elasticity[b] (%)	Growth Effect [c] (%)	Inequality Effect [d] (%)	Pro-poor Growth Index [e]
(1)	(2)	(3)	(4)	(5)	(6)	(7)=(4)/(5)
Korea, Republic of	1994-95	-23.4	-3.1	-2.7	-0.4	1.14
Lao PDR	1992/93-1997/98	-3.1	-0.7	-3.2	2.6	0.21
Philippines	1994-97	-7.3	-2.5	-3.7	1.2	0.67
Thailand	1994-96	-15.0	-3.1	-4.9	1.8	0.64
Viet Nam	1992/93-1997/98	-7.7	-1.0	-1.1	0.1	0.87

[a] Proportion of population below national poverty line (synonymous with poverty incidence).
[b] Percent change in headcount ratio with respect to percent change in real GDP per capita.
[c] Impact of growth with income distribution constant.
[d] As measured by the Lorenz curve.
[e] Extent of poverty reduction (poverty elasticity) explained by the pure growth effect.
Note: Calculations for *poverty gap ratio* and *severity of poverty* (not shown) show a similar pattern across countries though the numerical values are different.

What Policies Promote Pro-poor Growth?

Given that pro-poor growth is a function of growth and its distribution, the question boils down to: What factors foster efficient and equitable growth? The efficiency–equity tradeoff has been vastly exaggerated and, indeed, there are theoretical and empirical bases to indicate that equity-promoting policies can be growth-enhancing.

A development strategy that makes efficient use of labor—the poor's principal asset—and makes appropriate investments in education and health is good for both growth and distribution. Sound macroeconomic management that emphasizes fiscal prudence and good tax administration leads to sustainable public debt, and facilitates physical and social investments that benefit the poor besides ensuring long-term growth. Economic openness, underpinned by a realistic exchange rate and complemented by appropriate domestic policies, promotes exports and foreign direct investment, creates employment, lowers prices of consumer goods, and facilitates the adoption of advanced technology to move up the global value chains. Private sector development, stimulated by a favorable investment climate, generates jobs, raises productivity, and reduces the strain on the public sector, thus allowing it to concentrate on the provision of public goods and services. Efficient financial intermediation lowers the cost of capital, eases access to credit, and spurs investment and employment growth. Labor market deregulation allows for labor mobility and efficient use of production factors, contributing to output growth.

Pro-poor growth also entails the removal of institutional and policy-induced biases against the poor as well as the adoption of direct pro-poor policies. Discrimination on grounds of gender, ethnicity, and religion hurts the poor more than the rich; the same is true of artificial barriers to entry into certain trades and professions, or into the formal sector in general. Big-city-oriented industrial location policies and public infrastructure spending for urban areas tend to be biased against smaller towns and rural areas. Similarly, there are micro policies that work against the poor, such as monopoly enjoyed by some firms that result in high prices, subsidized public utilities (e.g., low water fees) and state universities (low student fees) that benefit primarily the nonpoor, and housing policy (rent control) that limits housing supply. Removal of these biases is likely to enhance market efficiency besides promoting equity.

Pro-poor policies include, among others, adequate public spending for basic education, health and family planning services, easier access to microcredit, promotion of small and medium enterprises, and infrastructure investments in bypassed rural areas. Human and physical capital investments for the poor will improve their productivity and contribution to the economy. Further, improved economic freedom and governance, including provision of property rights to the poor, will contribute to growth and poverty reduction.

Conclusion

Pro-poor growth requires that the mean incomes of the poor rise faster than overall average incomes. Is this critical to poverty reduction? The answer is “yes”, if the objective is rapid and sustained poverty reduction, which should be inherent in any poverty reduction strategy. A poverty reduction strategy that aims for less would not be worthy of its name and basically tantamount to a trickle-down development strategy. The pro-poor growth element in a poverty reduction strategy seems even more crucial in an era of lower growth rates. Given the inevitable shocks due to globalization, the “miracle” growth rates earlier enjoyed by the East Asian economies are not likely to be replicated in the other Asian developing countries anytime soon.

Pro-poor growth calls for policies that promote efficient and equitable growth, i.e., increased market-based activity that ensures access to all participants, especially the poor. Achieving pro-poor growth, therefore, entails institutional and policy reforms that not only expand economic opportunities but also empower the poor to gainfully participate in and measurably benefit from them. Strong public–private partnerships are needed to accelerate both the expansion of opportunities and the empowerment of the poor. Multilateral development banks can assist in speeding up institutional and policy reforms and in catalyzing public–private partnerships.

This brief has proposed a simple method of measuring and monitoring progress in achieving pro-poor growth at the national or subnational levels. From a policy or operational standpoint, the method suggests that in the design of a growth strategy or programmatic approach, a minimum objective should be to maximize the pro-poor growth index by minimizing any regressive distributional consequences.

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