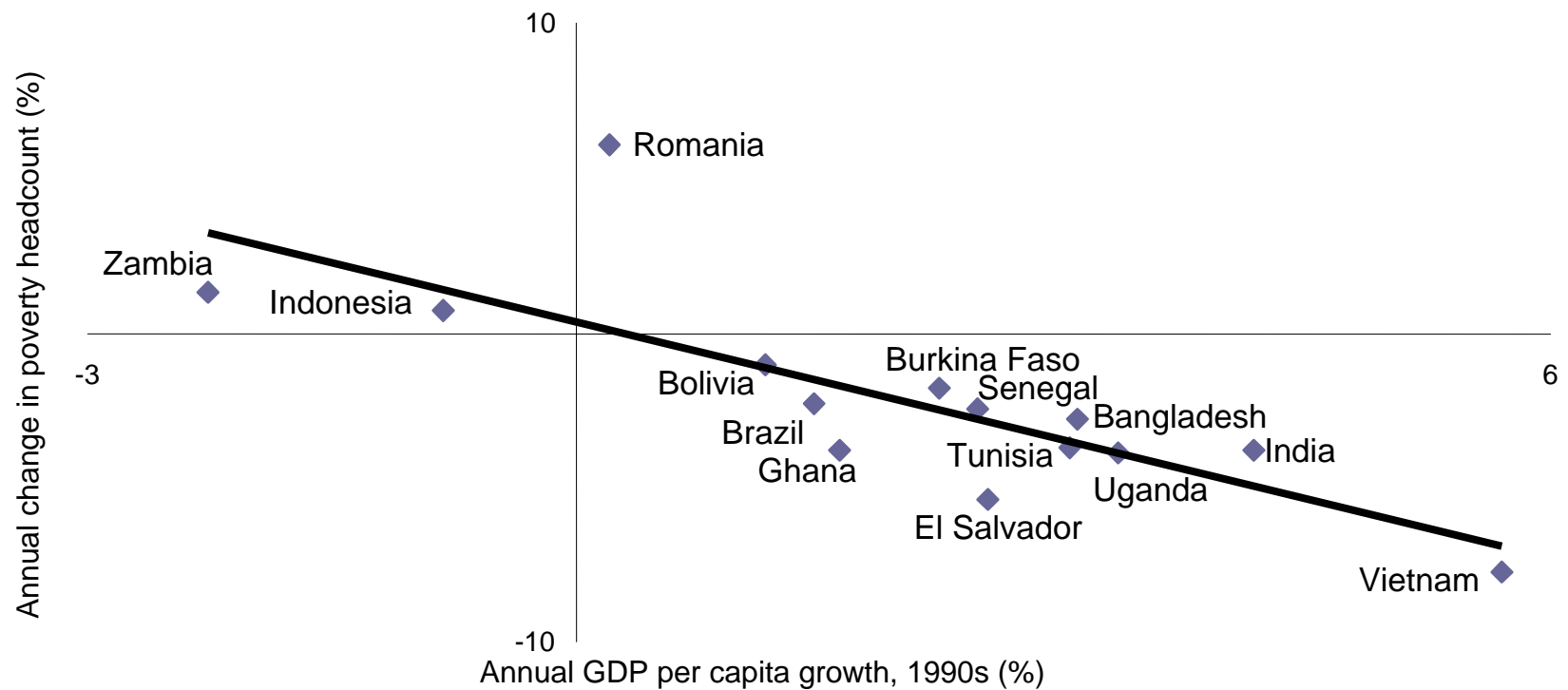

Shared Growth for Poverty Reduction

Louise Cord

Sector Manager
Poverty Reduction Group
World Bank
October 2007

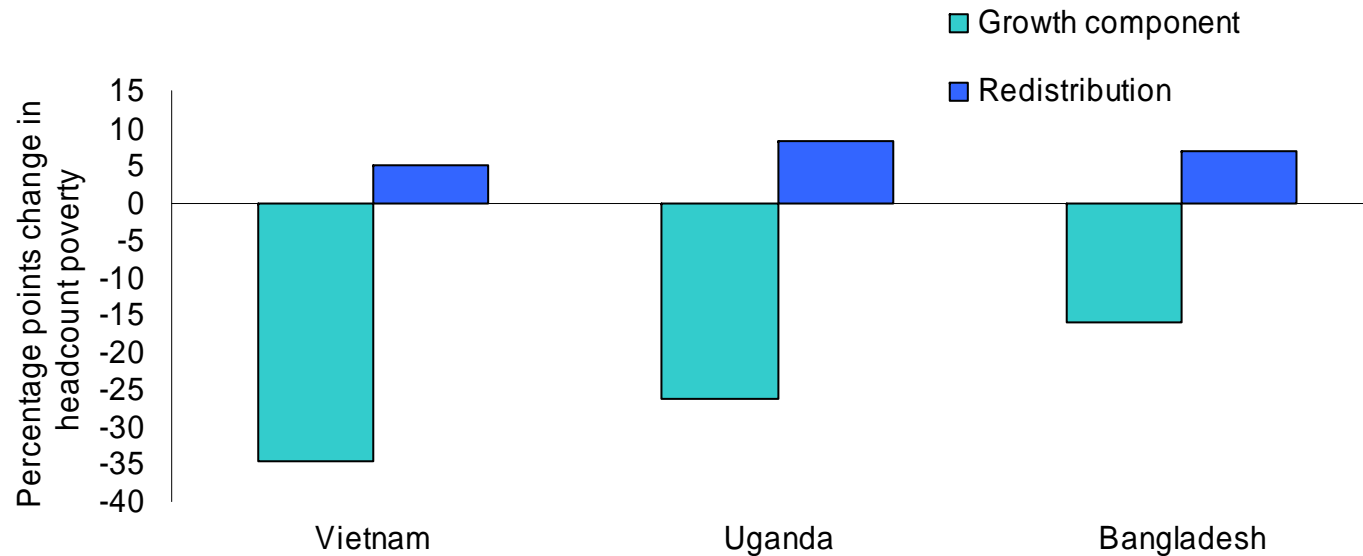
The Growth, Inequality and Poverty Triangle: Growth is vital for poverty reduction



Source: Pro Poor Growth in the 1990s. Country Case studies

The Growth, Inequality and Poverty Triangle: But inequality also matters....

Growth and inequality components of poverty reduction



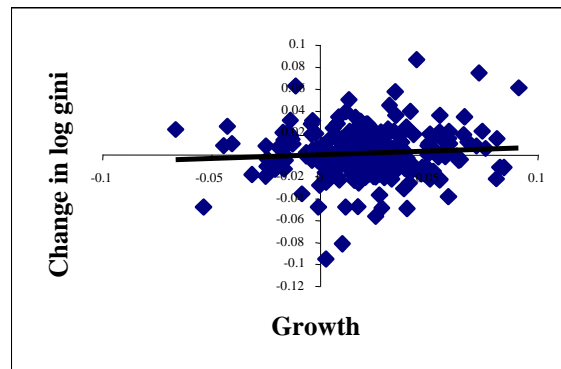
Source: Pro Poor Growth in the 1990s. Data from country case studies.

The Growth, Inequality and Poverty Triangle: Are growth and inequality related?

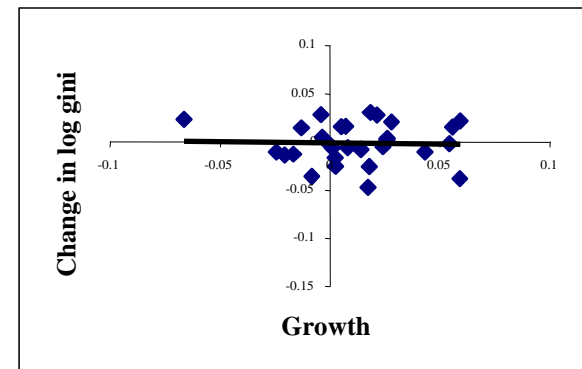
- There is no clear relationship between inequality and growth in 1970-80s
- Emerging evidence suggests positive correlation in 1990s

Vietnam

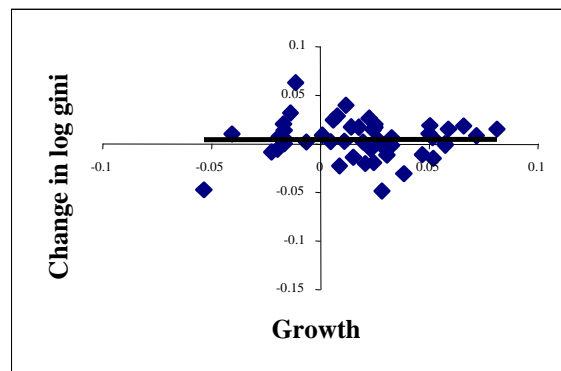
a. 1970s-1990s



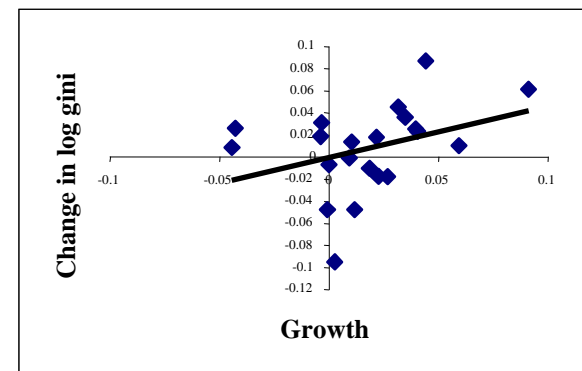
b. 1970s



c. 1980s



d. 1990s



Source: Lopez, H. 2006. Growth and Inequality: Are the 1990s any different?

The growth, inequality and poverty triangle: the initial distribution of income matters

1995-2005	East Asia	South Asia	Africa	Latin America
Initial inequality	Low	Low	Moderate	High
P/c Growth Rates	Very High	High	Moderate	Low
Poverty Headcount	Large decline	Some decline	Small decline	Same
Inequality	Increased	Small increase	Increased	Small increase

The impact of changes on growth and inequality on poverty can offset each other.

- Vietnam – rising inequality reduced the overall fall in poverty by about 3 percentage points.
- Uganda – if inequality had not increased between 1992-2002, the poverty rate would have been 8 percentage points lower.
- Bangladesh – rising inequality meant that poverty fell by only 9 percentage points, instead of 16 if growth had been distribution-neutral between 1992-2000.

Accelerating Poverty Reduction through Growth:

Three strategy options

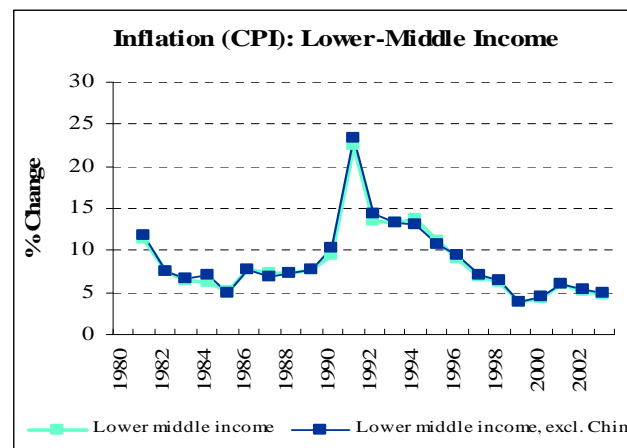
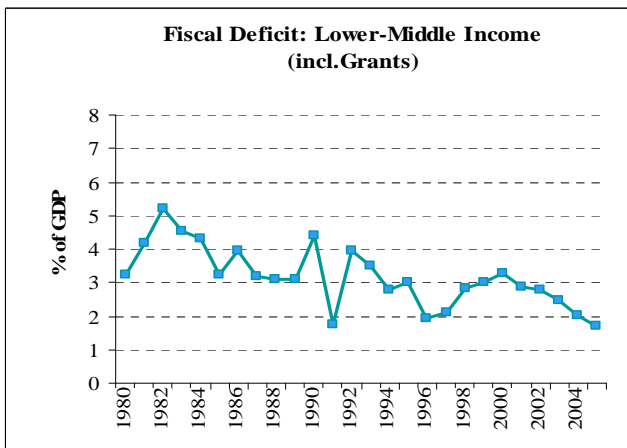
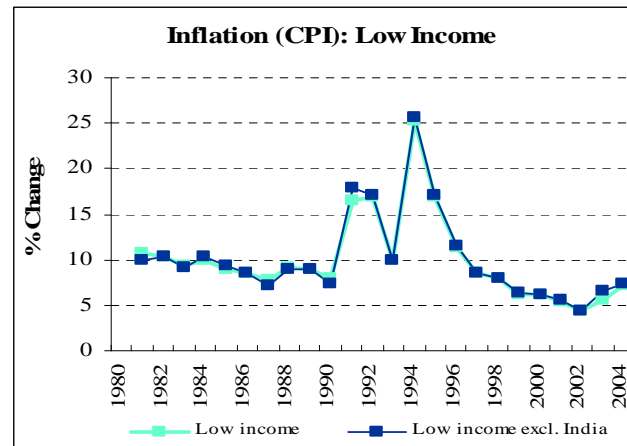
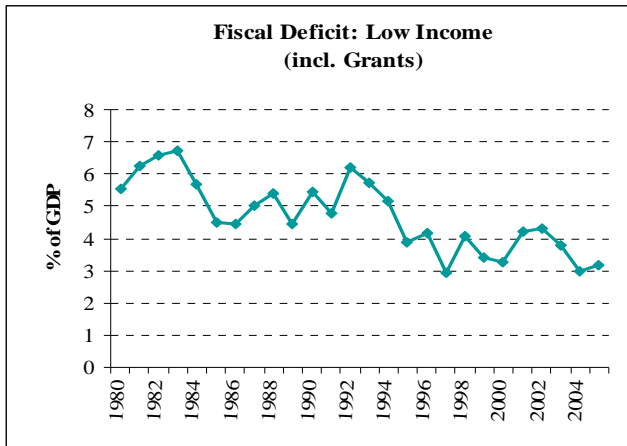
1. Optimize both growth and distribution
 - Ideal but not really feasible
2. Optimize growth then redistribute
 - Getting growth right still challenge
 - Political economy concerns
3. Shared growth
 - Promote equality of opportunities for a virtuous circle of growth and poverty reduction

Accelerating Poverty Reduction through Growth: **Fundamentals for promoting shared growth**

- Stable macro and fiscal policies
- Conducive structural policies
 - Investment climate
 - Financial markets
- Investments to enhance productive capacity and mobility of the poor
 - Education, health services, infrastructure, productive assets
- Political economy and good governance
 - Commitment to poverty reduction

Stable Macro Policies:

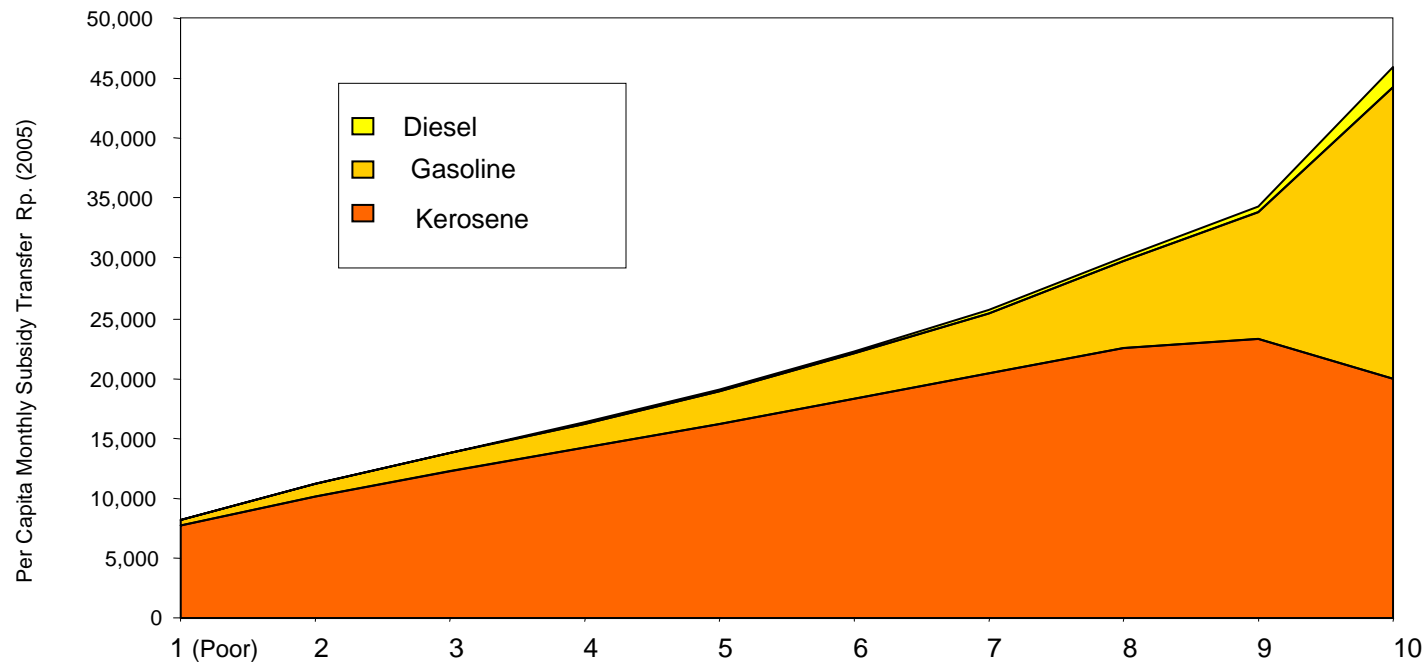
Macro improved...micro and structural policies still a challenge



Structural Policies:

Distributional impact analysis of reforms can help mitigate negative impacts to the poor

Indonesian Fuel Subsidy Reforms

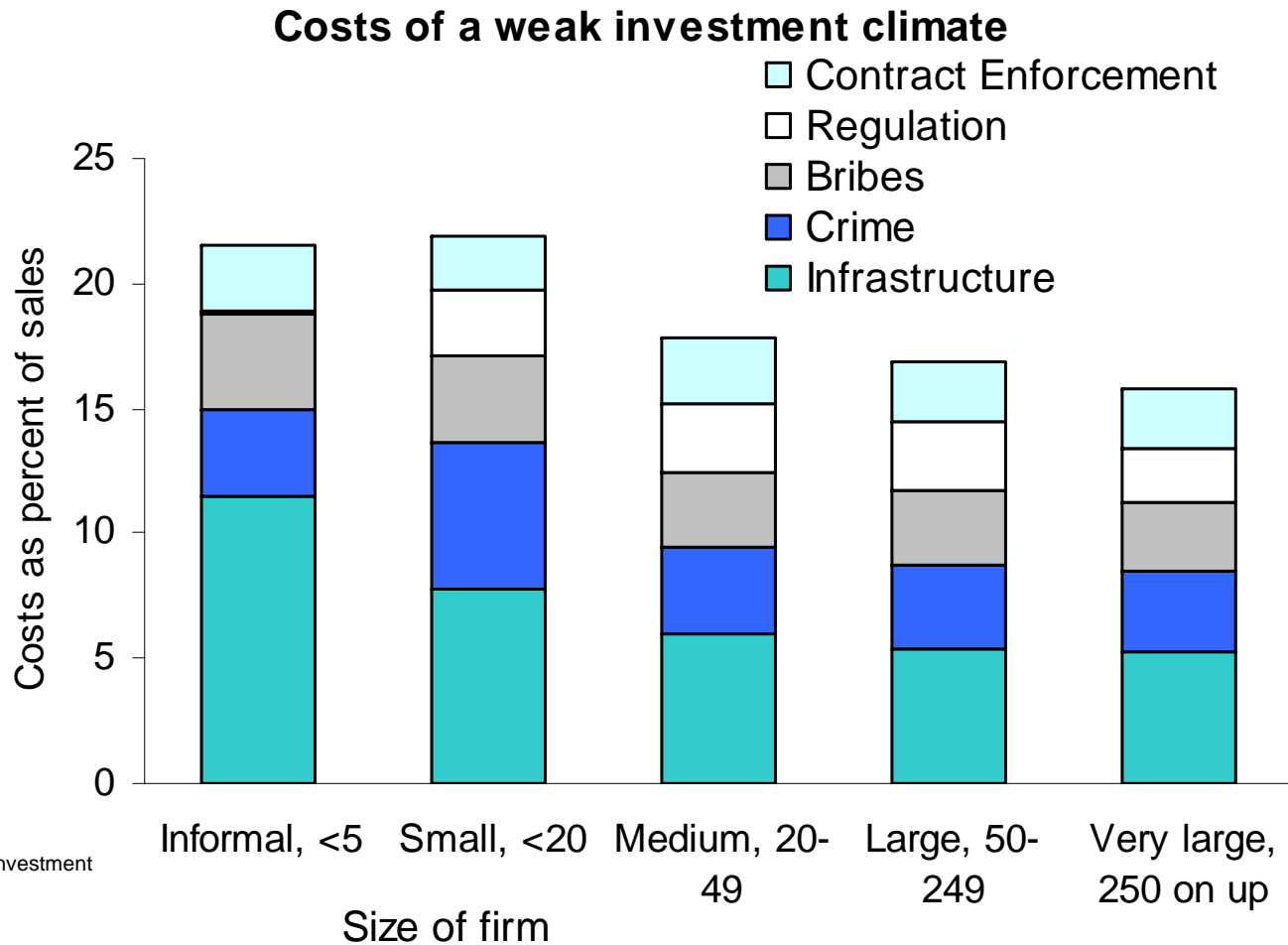


Source: Ministry of Finance and WB Staff Calculations

Source: SUSENAS 2004

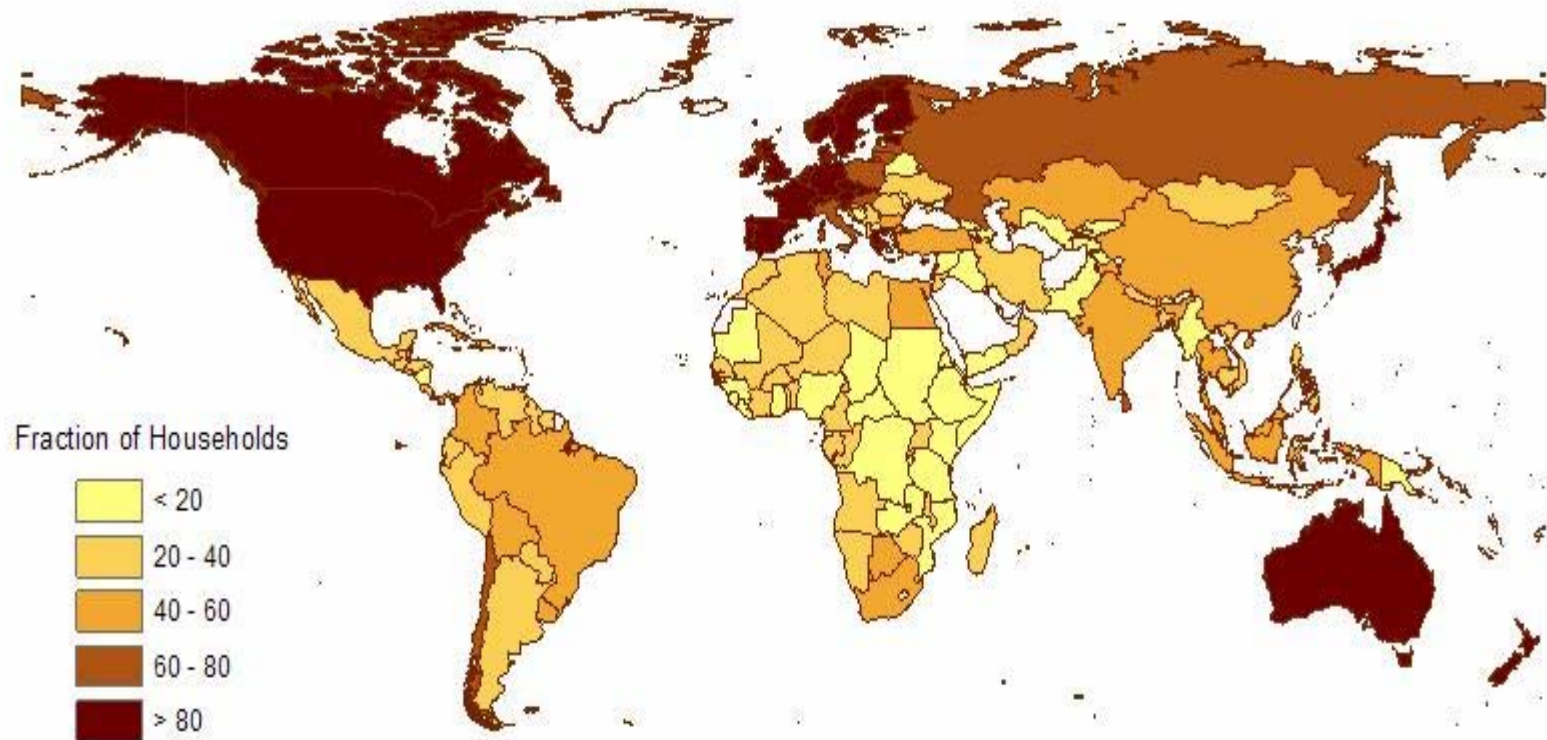
Structural Policies:

Weak investment climate hits small firms harder



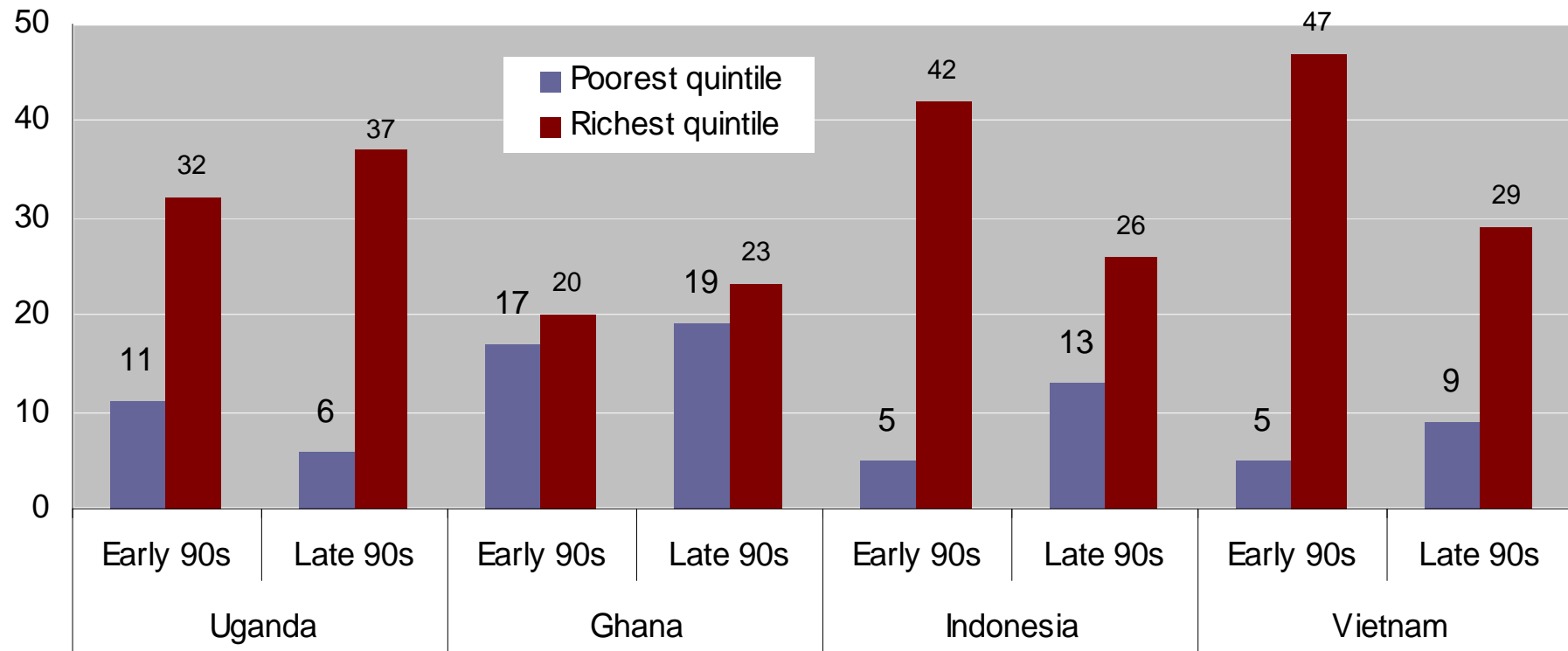
Structural Policies:

Financial inclusion of the poor...still a challenge



Investments for Enhanced Productivity and Mobility: Secondary education

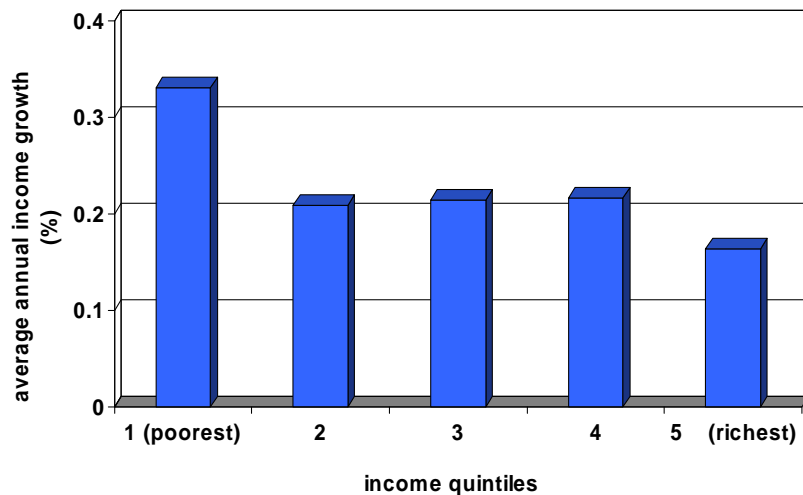
Change in benefit incidence for secondary education, 1990s



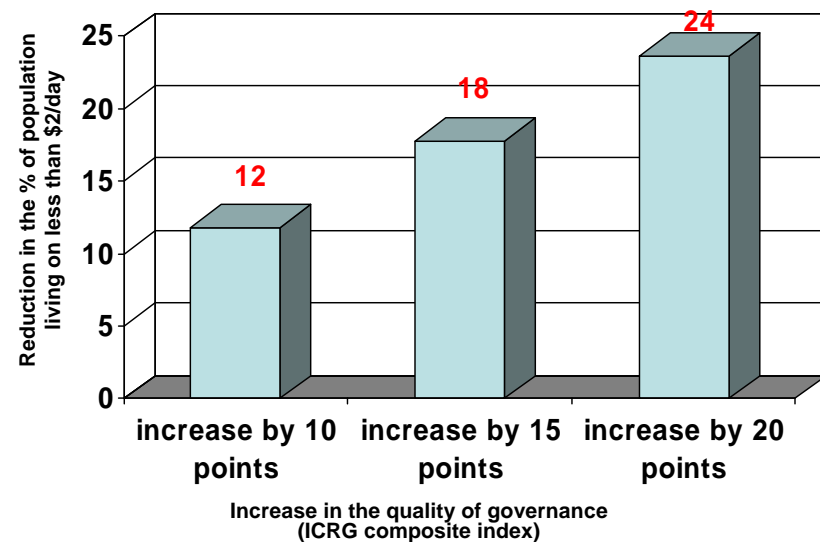
Source: For Uganda, Mpuga and Canagarajah 2004; for Ghana, Canagarajah and Ye 2001; for Indonesia, World Bank 1993 and Lanjouw, Pradhan, Saadah, Sayed and Sparrow 2001; for Vietnam, World Bank 2000.

Political Economy and Good Governance: Good governance benefits are pro-poor

**Benefit incidence of better governance
(1 point increase in ICRG index)**



**Poverty reduction
and good governance**



Source: Steve Knack, "Social Capital, Growth and Poverty," in *The Role of Social Capital in Development* (Cambridge, UK: Cambridge University Press: 2002).

Achieving Shared Growth:

What is the World Bank doing for shared growth?

- Growth and Development Commission
- Shared Growth Diagnostics Facility and knowledge program (shared growth toolkit, labor markets)
- Fiscal Space for Development
- Gender is smart economics
- Migration and Development