



Determinants of Pro-Poor Growth: With Applications to Zambia

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Based on:

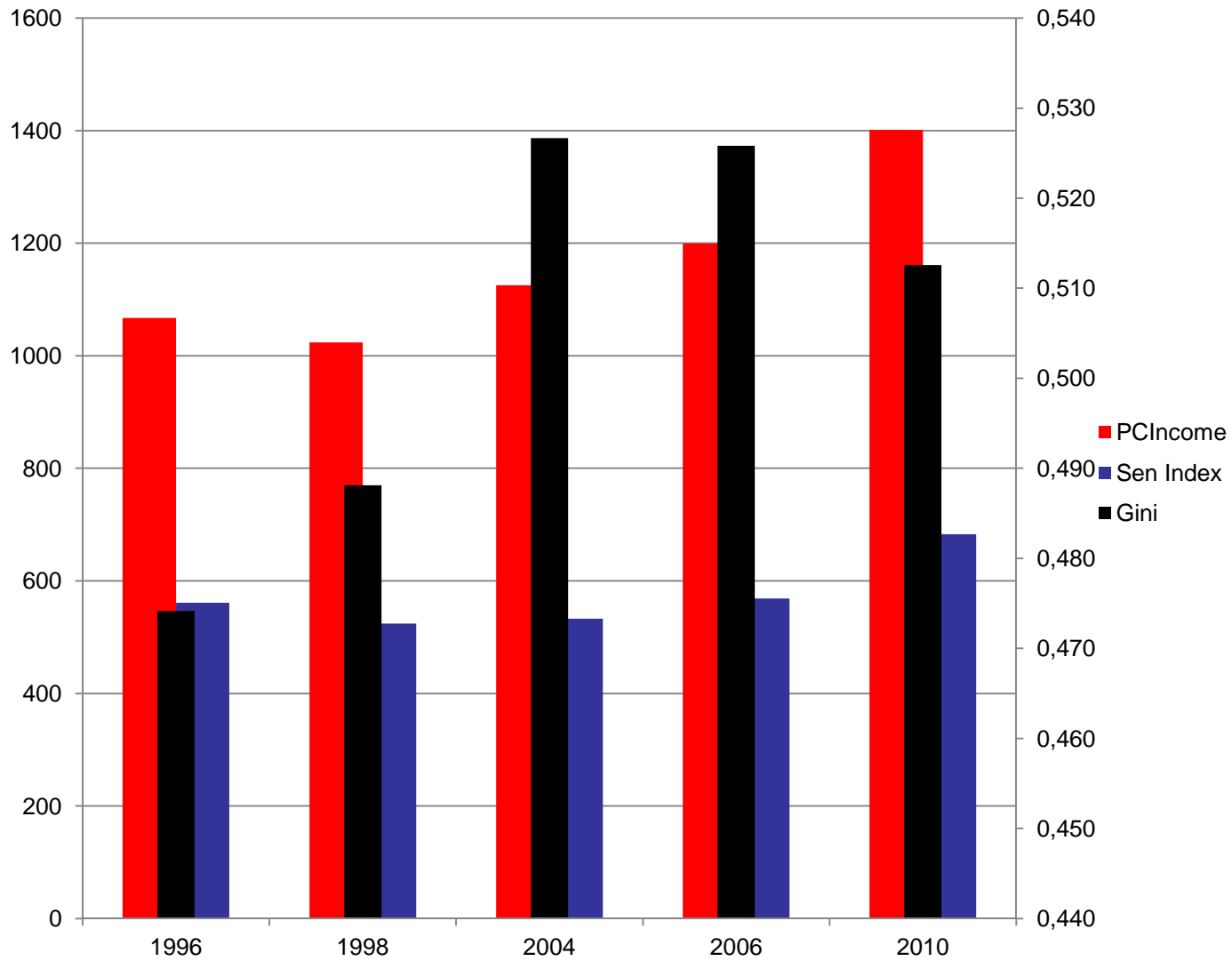
Grimm, Klasen, McKay: Determinants of Pro Poor Growth
European Report on Development: Promoting Social Protection in
Sub Saharan Africa

Gaddis, Klasen, Priebe: Support for CSO on Poverty Trends in
Zambia

Motivation

- Poverty reduction remains central challenge in developing countries (including Zambia);
- In Zambia:
 - After decades of stagnation, a return to positive per capita growth since mid 1990s;
 - But distributional pattern of growth highly uneven: sharply rising inequality, esp. Between 1998 and 2004;
 - As a result slow pace of poverty reduction;
 - 2006-2010: No further poverty reduction (even slight increase?) despite high growth:
 - Stagnant per capita expenditures;
 - Rising Food prices and high initial inequality;
- Growth that promotes more poverty reduction needed!

Zambia: GDP/Capita, Gini, and Sen Index, 1996-2010 (constant 2005 PPP\$)



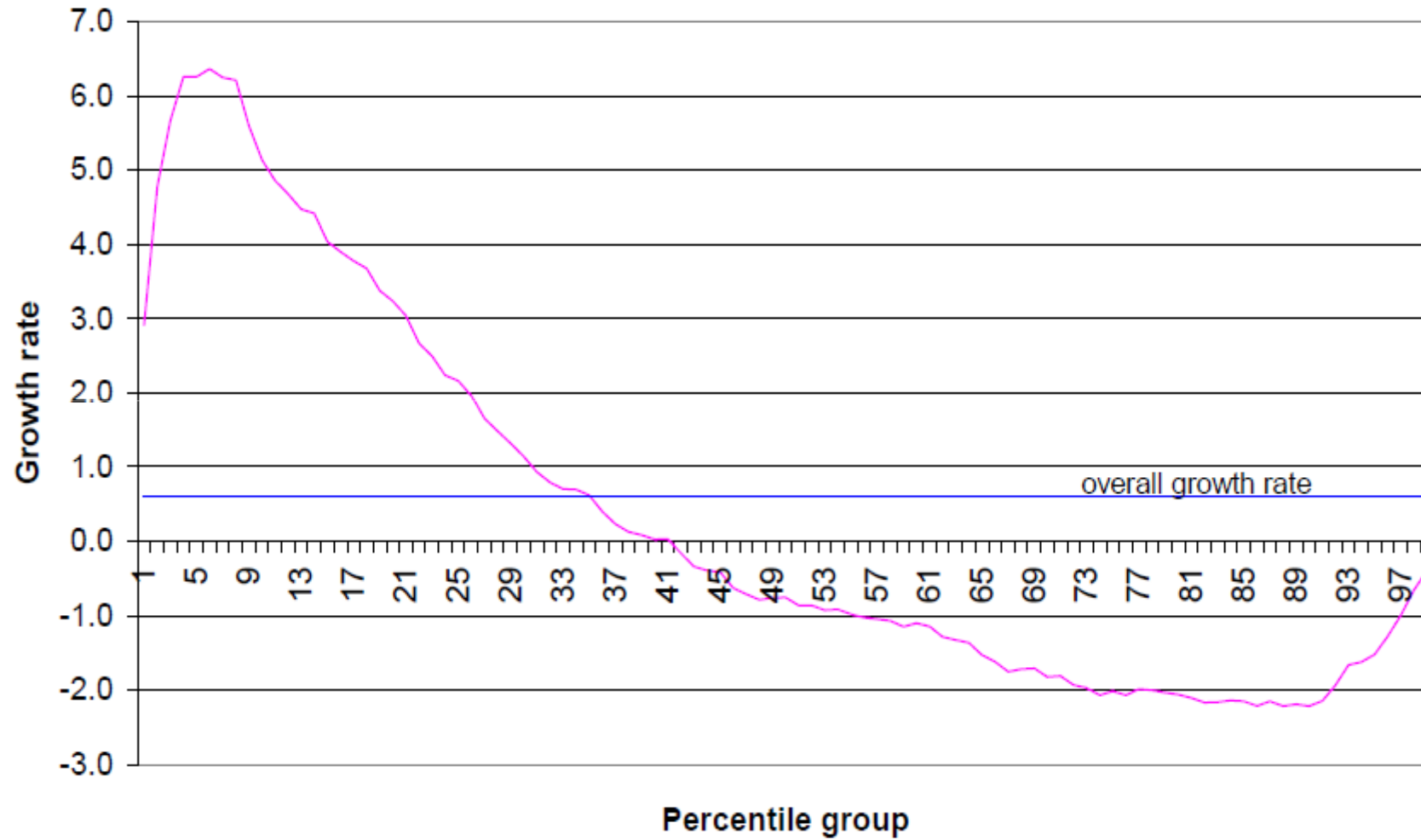
Zambia: Income Poverty Trends 1996-2006

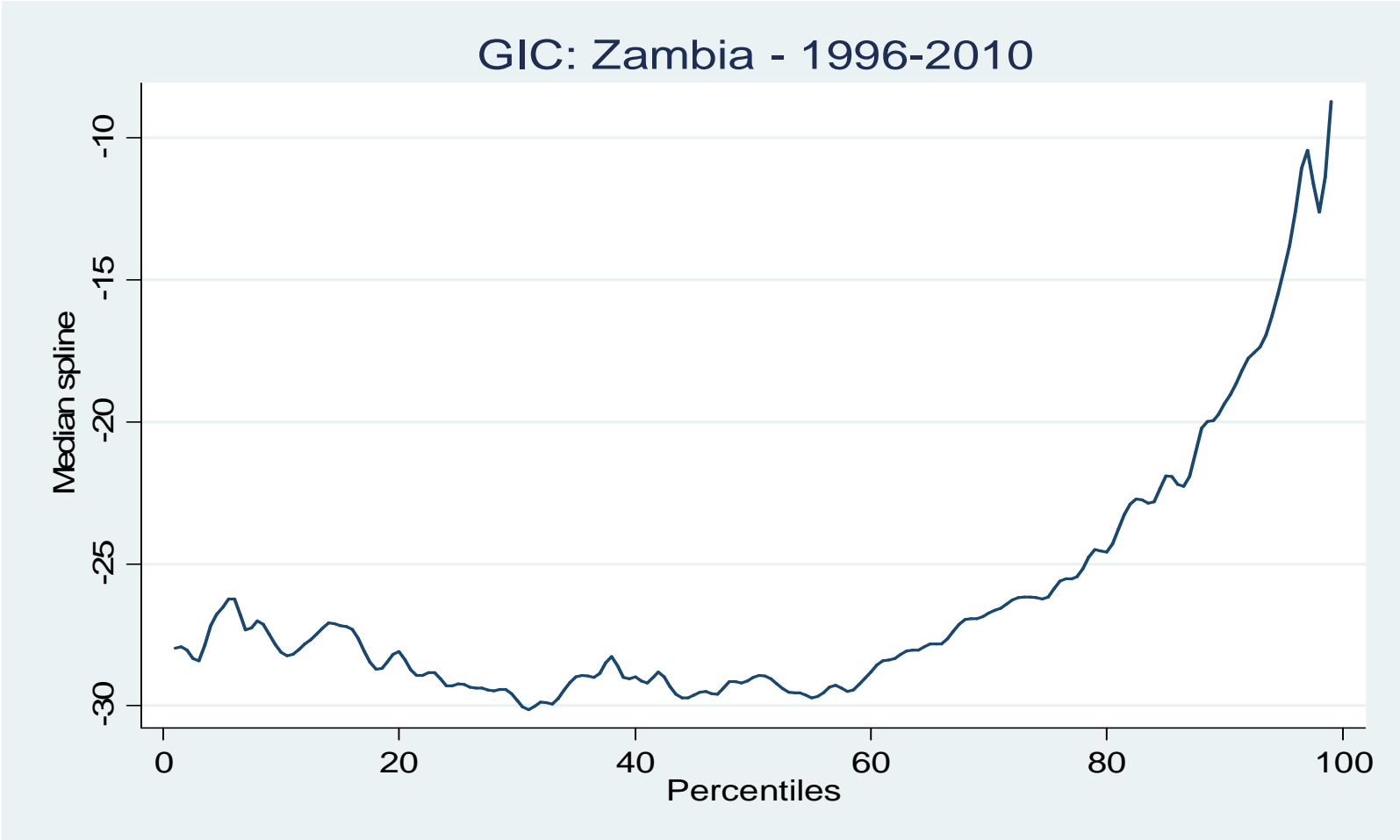
	1996	1998	2004	2006
New poverty estimates				
Zambia	68	67	58	59
Rural	84	83	77	77
Urban	40	40	29	27

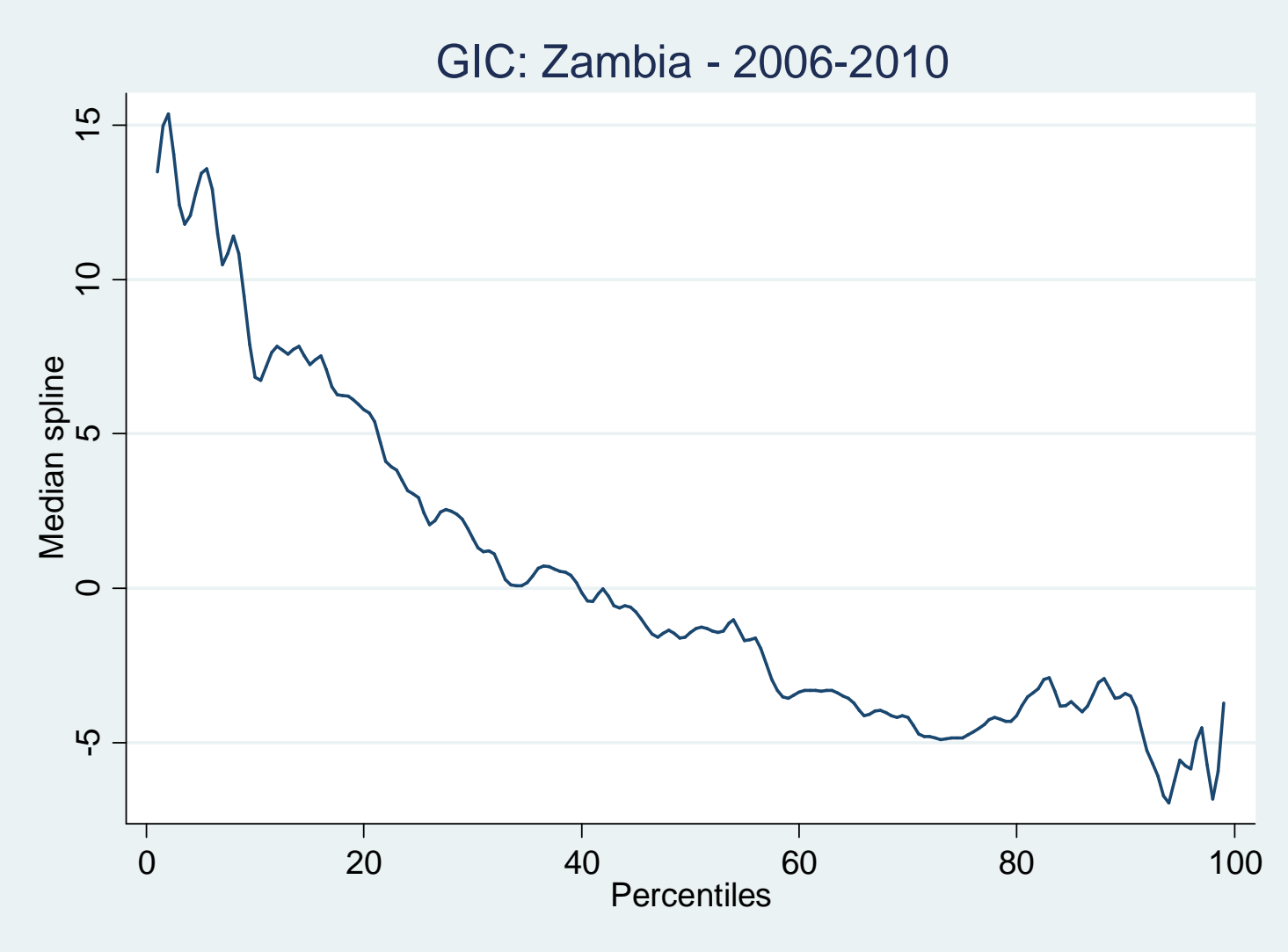
Definition of Pro-Poor Growth

- Debate in the literature;
- Most plausible: Relative definition:
 - Growth that is proportionately larger for poor than non-poor (higher growth rates of poor than average, implies falling relative inequality);
 - Triple benefit of falling inequality for poverty reduction: lowers poverty directly, increases poverty impact of growth, and may promote overall growth!
- Can be seen in so-called Growth Incidence Curve which plots income growth per percentiles of the income distribution;

Zambia 1991-98







How to promote PPG?

- **Direct Approach:**
 - Growth in sectors and regions where poor are, using the factors of production they possess (in Zambia: agriculture, remote rural areas, labor and land);
- **Indirect approach:**
 - Redistribute gains from growth via tax-benefit system and investments in assets and markets favoring the poor;
 - Recent experiences from Latin America

Zambia: Direct Approach

- Opportunity: Capitalize on rising global food prices by investing in agriculture;
- Preconditions:
 - Stable macroeconomic environment (low inflation, low budget deficits, low macro volatility);
 - Competitive (undervalued) exchange rate: management of capital inflows (including aid);
- Investments in rural infrastructure, export infrastructure, agricultural extension, new seed varieties;
 - Experiment and evaluate!
 - Consider gender effects.

Indirect Approach

- Opportunity:
 - High commodity prices;
 - „70 million jobs from China“;
- Preconditions:
 - Macro stability
 - Competitive (undervalued) exchange rates (actively fight Dutch disease problems);
 - Transparency and accountability in management of natural resources;

Policies (indirect approach)

- **Commodity sector:**
 - Improve export infrastructure;
 - Transparency in management of sector;
 - Increase taxation of commodity producers (windfall earnings taxes); if need be, renegotiate contracts;
- **Industrial sector:**
 - Invite FDI in potentially competitive sectors (textiles, light manufacturing);
 - Improve export infrastructure;
 - Consider special support (cluster initiatives, cheaper credit, export subsidies, etc.);

Tax-Benefit System

- **Broaden tax base:**
 - Tax take around 15% of GDP;
 - Commodity taxes could be higher;
 - Value added taxes;
 - Luxury taxes, excise taxes (fuel, tobacco, alcohol);
 - Independent tax administration;
- **Benefit system:**
 - Pro-poor investments in health and education;
 - Quantity and quality (experiment and evaluate)
 - Rural infrastructure

Social Protection

- Opportunity to broaden social protection to reduce vulnerability and chronic poverty;
- Important element in reduction of inequality in Latin America;
- Zambia has a broad array of social protection programs (many donor-supported); opportunity to consolidate and selectively scale up national system;
- ERD: recommendation to introduce (lightly means-tested) non-contributory old age social pension as program that is politically and administratively feasible, positive gender effects, fiscally sustainable, with few disincentive effects;

Governance Issues

- Improved governance critical for pro-poor growth:
 - Poor often suffer under poor governance (inequality in access to state, judiciary, elite capture of rents);
 - Improved governance an important part of empowerment of the poor;
 - Also needed for technocratic elements of PPG:
 - Mobilization of resources;
 - Implementation of sectoral policies (agriculture, infrastructure, industrial policy);

Governance

- Elements of improved governance:
 - Transparency in taxes and public expenditures (EITI, public expenditure tracking system, independent public accounting officers);
 - Independent and adequately resourced judiciary:
 - Subsidize access of poor to it;
 - Transparency, accountability, and efficiency in public sector management (merit-based recruitment and promotion, adequate pay);
 - Public service shielded from political influence;

Conclusions

- Pro-Poor Growth central to poverty reduction;
- Opportunities exist to enhance pro-poor growth directly and indirectly;
- Menu of policy options available;
- Domestic leadership critical to implement a policy agenda for pro-poor growth in Zambia.