

Preliminary Policy Recommendations



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INTRODUCTION

This preliminary list of pro-poor policies, reforms, and activities includes many that will appear in the poverty-reduction guidance manual to be written in the third phase of this research project. We categorize the policies, reforms, and activities presented here by broad policy areas. Some recommendations overlap. Nonetheless, in pursuit of brevity, we do not attempt to elaborate on or clarify these relationships.

Most recommendations are relevant only under certain circumstances. Again, in the interest of brevity, we do not attempt to link the likely benefit of any policy to specific country types. We will discuss these issues in the forthcoming guidance manual (Deliverable #14).

POLICY RECOMMENDATIONS

Agricultural and Food Policies

Many agricultural policies have the potential to be pro-poor because, in most low-income countries with high poverty rates, the majority of poor families live in rural areas and work directly or indirectly in the agricultural sector.

Recommended Pro-Poor Agricultural and Food Policies

1. Promote technical improvements in the production of staple foods. These advances will lead to lower costs for producers and lower prices for consumers. This will clearly benefit lower-income consumers (including those who also are producers) and, under some conditions, lower-income producers whose income comes from sale of these foods.
2. Improve the capacity of people living in rural areas through the expansion and improvement of primary education and primary health care in rural areas and through child well-being programs.
3. Implement rural micro-finance initiatives whose operating costs are unsubsidized (although some subsidies can be used to cover start-up costs and some overhead).

Additional Agricultural and Food Policies that Are Effective and Pro-Poor, but Only in Special Circumstances

1. Targeted food subsidies (for example, assistance to rural schools or health clinics).
2. Land-titling to improve the efficiency of land rental and ownership markets.

3. Subsidies to encourage use of fertilizers and thereby stimulate learning about new technologies by farmers. These subsidies help offset credit market failure and farmer risk aversion.

Agriculture and Food Policies that Should Not Be Pursued

1. Subsidized agricultural credit, especially for commodities or inputs. Such credit systems have proven unsuccessful because they typically misallocate credit, do not cover operational costs, suffer from corruption, and often do not reach the poor or those most in need of credit.
2. Economy-wide food subsidies (except in the very short run to gain stability). These subsidies tend to be expensive and to distort prices. That is, they lead to excessive and socially unproductive uses of food in response to the low prices.

Health Policies

The poor suffer well below average health in most countries and have considerably lower life expectancy than the wealthy. Some policies, however, can lead to significant health improvements at low costs. There is accordingly much scope for pro-poor policies and activities in the health sector.

A recent and especially serious health challenge in many countries is HIV/AIDS. More than most health problems, HIV/AIDS has a negative impact on economic growth. Further, its economic impacts are greatest on the poorest segments of society. Policy makers must keep in mind that in a highly affected HIV/AIDS environment, with many child-headed or adolescent-headed households, education-only programming is inadequate to ensuring that the next generation of the poor will be able to participate in economic growth. Policies and programs should be designed and implemented accordingly.

Recommended Pro-Poor Health Policies

1. Develop a strong basic healthcare system based on a combination of prevention and low-cost treatment. Usually, governments must make special effort to extend such a system to rural areas.
2. Incorporate information on health in the primary school curriculum. Governments can mitigate some health problems simply by improving public understanding of their causes.
3. Encourage national leadership to publicly acknowledge and destigmatize HIV/AIDS. Open communication about HIV/AIDS, led by national leaders, is essential to slow the spread of HIV/AIDS and to provide services to the poor affected by the disease. These

improvements, in turn, will mitigate the impact of HIV/AIDS on the poor, on economic growth, and on the relative economic position of the poor.

4. Focus pro-poor economic growth policies and programs in high-prevalence HIV/AIDS areas. These policies and programs should target younger populations (including adolescents) to accomplish three outcomes: (1) immediate basic survival of adolescent-headed households; (2) reduction of young people's need to engage in high-risk activities; and (3) provision of skills and access to resources for young people to use to become increasingly productive.

Education Policies

Education and income levels in developing countries are strongly correlated. There is widespread evidence that raising the education and skills of the poor leads to an increase in their incomes. Although most pro-poor education policies are directed at the poor as a group, in some other cases the benefits may come indirectly, as outlined below.

It is important that education policy makers not reduce educational policy to schooling policy (there are often tendencies to do so because of the formal and long-established nature of schooling and the strong lobbies for schooling within countries and internationally). Some other forms of learning are of particular relevance to the poor, including pre-school education, adult education, some formal training programs, and informal training/learning through work and other experience.

It is also important that policy makers recognize that there is not a one-size-fits-all intervention, such as more textbooks or teacher training, that will improve education or even some component such as basic schooling, everywhere, either for the poor or more generally. Conditions vary too much across countries, within countries, and across types of educational institutions. Specific improvements elsewhere based on best practices may suggest narrowly defined changes that should be considered but not blindly emulated.

Recommended Pro-Poor Education Policies

1. Redistribute public subsidies for education away from most forms of tertiary schooling toward pre-school and basic schooling. There is inadequate evidence to support tertiary education subsidies in developing countries. In most countries, the resulting improvement in education for the poor would also contribute to faster economic growth.
2. Improve the quality of and access to education received by the poor. Evidence suggests that such policies are likely to have strong positive effects for the poor. There would be substantial gains where, for example, the quality of pre-school programs and schools used by the poor increased to the quality levels of pre-school programs and schools used by the rest of society.

3. Provide scholarships for basic education for the poor (for example, pre-school programs, primary and perhaps secondary schooling, and basic training). These scholarships increase the amount of such education and contribute to faster economic growth. Such programs help offset the fact that capital and insurance markets are likely to be particularly imperfect for human resource investments involving the poorer households.
4. Decentralize many educational decisions to the local level. Such action tends to improve the system of incentives surrounding the supply of education and thus elicits better educational quality for given resources through mechanisms that increase the influence of actual and potential clients.
5. Promote investments related to education that are undertaken early in the life cycle, including investments in better health and nutrition from conception onwards. This includes, for example, better health and nutrition for women prior to conception, particularly for poorer segments of most populations. The returns to such investments appear to be relatively high.
6. Promote investments in school-age children that improve their health and nutritional status. Evidence suggests that this policy provides a high return to society and pro-poor benefits. Policies that improve health and nutrition and out-of-school education for children from poor families also often reduce poverty and foster growth.
7. Create a level playing field for different potential and actual providers of educational services as a way of improving incentives for better education. When policies are directed toward only one type of provider (such as public providers), pressures for improving the efficiency and effectiveness of the provision of educational services are lessened.
8. Require that suppliers of educational services provide and publicize information about the value added of those services. Too often, the focus is on indicators of the educational level of students and graduates; this is misleading because of variations in their initial education when starting at an institution. This requirement calls for care to ensure that the information provision process does not distort incentives in some negative way and probably implies a need for ongoing evaluation of the indicators used and their effects by an independent body.
9. Invest in better information and better analysis on which to base educational policy decisions. Such investment has a high return and deserves priority attention. The resources used for data collection and evaluation of even the best-evaluated programs are a small percentage of overall program costs or of what might be expected to be saved with improvements in programs. Requirements for better evaluation include financial resources and sufficient will and/or incentives to ensure that critical steps in the evaluation are implemented in a timely fashion. This includes collecting baseline data prior to program implementation despite pressures to proceed with programs and using approaches that emulate good experiments (at least as programs are being phased in).

Micro, Small, and Medium-sized Enterprise Policies

Micro-Enterprise Policies

Raising the incomes of (non-agricultural) micro-enterprise workers is likely to be pro-poor because many of these workers are impoverished. Micro-enterprises are very small, usually family owned, establishments of a few workers. In most countries, this sector employs the majority of the working poor. Micro-entrepreneurs and the people who work with and for them are, broadly speaking, the non-agricultural equivalent of small-scale farmers and low-skilled farm workers.

Recommended Pro-Poor Micro-Enterprise Policies

1. Invest in sustainable micro-credit programs. These are programs with repayment rates of at least 85-90 percent and lending rates that exceed interest costs. Such programs help the poor by minimizing their vulnerability to, and ability to withstand, economic shocks.
2. Promote programs that link micro-finance to productive economic opportunities (for example, supplier credit in agriculture). This approach can promote economic growth and stability. These programs should link micro-finance to existing programs rather than implement them as lead or stand-alone programs.
3. License and regulate deposit-mobilizing micro-finance programs to guarantee the safety of deposits of the poor.

Small and Medium-sized Enterprise (SME) Policies

Small and medium-sized enterprises in developing countries employ between 5 and 100 workers. On average, SMEs use more advanced technology than micro-enterprises but less than large firms. Accordingly, SMEs use less labor per unit of capital than micro-enterprises and more than larger firms, and SMEs generate an intermediate level of labor productivity and wages. SME policies are important to the poor because jobs created by SMEs typically require low-skilled workers and provide wages above the poverty line.

Recommended Pro-Poor SME Policies

1. Promote assistance and temporary incentive systems to encourage commercial banks to improve services to SME borrowers.
2. Create business service centers to help build relationships between SMEs and firms that provide services to them.

3. Facilitate and subsidize domestic business fairs and the participation of SME entrepreneurs in international business fairs.
4. Support business associations that have or give promise of developing SME support services.
5. Facilitate development of business relations between large firms and SMEs.
6. Provide training services, both at national and at local levels, oriented to the needs of SMEs.
7. Promote the development of entrepreneurial skills through short courses and selective subsidized consulting services.

SME Policies to Avoid

1. Rigid employee dismissal rules and minimum wage laws that push labor costs to SME employers above labor's opportunity cost.
2. Highly subsidized interest rates that lead to the misallocation of resources and corruption.

Employment Creation Policies

Many effective pro-poor policy options indirectly create jobs (usually low-skilled ones) for poor people and/or increase productivity of existing jobs through technological change. Other policies, however, directly impact the demand for labor. For such employment creation programs to be pro-poor, mechanisms must be developed to ensure that the poor are in fact hired for the newly created jobs.

Recommended Pro-Poor Employment Creation Policies

1. Promote growth strategies led by sectors that intensively use unskilled labor, such as agriculture, labor-intensive manufactures, and construction.
2. Develop flexible and self-targeting labor-intensive public works programs. It is important that these programs place considerable emphasis on constructing useful infrastructure. Such programs should have the flexibility to expand and contract according to the level of social needs and to self-target the poor through use of low wages.

Employment Creation Policies to Avoid

1. Subsidies to machinery goods that encourage the substitution of machinery for labor, especially in labor-abundant countries.

Macroeconomic and Trade Policies

Although their effects are indirect, macroeconomic and trade policies are usually among the most important factors that determine how quickly a country might reduce poverty.

Recommended Pro-Poor Macroeconomic and Trade Policies

1. Manage exchange rates to enable the export of agricultural and manufactured goods that require intensive unskilled labor.
2. Promote effective drawback schemes, export processing zones, bonded warehouses, and other interventions to offset the cost-raising effects of tariffs and quantitative restrictions on labor-intensive exports that use significant imported inputs.
3. Develop appropriate safety net programs to offset the poverty-increasing effects of economic instability as a result of exogenous shocks from the international economy.

SUMMARY

The best poverty-reducing policies, especially those with lasting effects, raise the earned income of the poor and contribute to overall economic growth. This paper has presented a few of the most promising pro-poor economic growth policies and activities. Our basis for selection includes applicability across a range of developing countries, implementation experience, and empirical evidence of success. As noted at the outset, these policies are not suitable for all environments and must often be tailored to meet local requirements. Furthermore, even the best policies can fail when implemented ineffectively.

The policies and programs listed in this document reflect our current selection criteria and country typologies (see Deliverables #4 and #5, respectively). These tools will be refined and used with forthcoming sector and issues papers and country case studies in an analysis of pro-poor policy and program options. This will facilitate a greater understanding of the relationships between optimal pro-poor policies and programs and various types of countries (that is, operating environments). The final output will be a comprehensive list of recommended policies, activities, and reforms suitable for support of pro-poor economic growth. This output, supported by explanations and illustrations, will be presented in the Pro-poor Economic Growth and Poverty Reducing Policies, Reforms, and Activities Guidance Manual.

The goal of the USAID-funded Pro-Poor Economic Growth Research Studies and Guidance Manual Activity is to identify and disseminate policies, reforms, and activities that USAID decision makers can incorporate into their programs and that they can recommend to countries wishing to pursue strongly pro-poor, poverty-reducing, economic growth objectives.

The findings, interpretations, and conclusions expressed in this paper are entirely those of the author. They do not necessarily represent the views of USAID.



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