The Role of Economic Policies in Poverty Reduction

Practice Note

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1. Introduction

This practice note addresses pro-poor economic policies, including macroeconomic policies, restructuring and redistribution. It charts out the general direction for UNDP assistance to programme countries to achieve the greatest impact on poverty by combining sustainable growth and greater equity.

Its starting point is the need to forge consistency between the macroeconomic framework and the national poverty reduction strategy. This is usually interpreted as a ‘one-way’ consistency, in which the anti-poverty strategy has to adjust to a fixed and rigid macroeconomic framework. However, both should be jointly determined to serve the overriding objective of poverty reduction.

UNDP’s assistance in this area implies constructive engagement with the Bretton Woods institutions on the pro-poor growth aspects of Poverty Reduction Strategy Papers (PRSPs). The value of national poverty reduction strategies is that they can explicitly gear public policies to focusing resources on the poor. But their impact will be limited unless they can influence general economic policies and budget allocations to be more pro-poor.

While this note focuses on growth and equity, it recognises that both are means to promote human development. UNDP’s comparative advantage is in contributing to national efforts to integrate a poverty reduction strategy within a general human development strategy. This perspective places poverty reduction as the central objective of a development strategy that seeks to achieve human development that is secure, sustainable, equitable and empowering.

Such a development strategy encompasses a broad array of policies—such as promoting food security, eliminating preventable diseases or ensuring basic education for all—many of which can operate independently of growth-inducing policies. Public policies can affect both how increases in private and public flows of income are generated and how that income is allocated.

Here we focus on how growth is generated and whether this process is equitable. This means concentrating on the economic opportunities of the poor—namely, their access to assets, resources and jobs that enable them to secure a decent material standard of living and thereby significantly widen their options for human development.

2. Combining Growth and Equity

How can we know when economic policies are pro-poor? A good barometer is whether developing countries are on track to halve extreme income poverty by 2015. This is the primary poverty target of the Millennium Development Goals and is heavily influenced by economic policies. Other goals related to dimensions of human poverty—such as reducing under-five mortality and malnutrition, improving maternal health or increasing primary school enrolment—are more directly influenced by public measures that are much broader than economic policies.

If developing countries are to reach the target of halving extreme income poverty, rapid and environmentally sustainable growth is certainly essential—more rapid, in fact, than over the last three decades. Such growth will be good for the poor. However, if growth is more equitable—so that the incomes of the poor grow faster than average—countries have a much better chance of reaching the target. In many countries, high inequality has been an obstacle to sustained growth—by depriving a substantial proportion of the population of access to economic opportunities. Hence, a strategy of equity-led growth will be needed in many countries if they are to meet the challenge of halving poverty between 1990 and 2015.

Such a strategy implies that growth needs to be rapid enough to significantly improve the ‘absolute’ condition of the poor and equitable enough to improve their ‘relative’ position—preferably by achieving greater equity at the start of the growth process (such as through land reform or universalizing basic education) or by decreasing inequality over time (such as through pushing up wages by generating widespread employment among low-skilled workers).

The relative importance of growth and equity will vary by country. Countries with high inequality are unlikely to halve extreme income poverty by 2015. Without improvements in the distribution of income, they would have to grow, on average, almost twice as fast as low-inequality countries to reach the global target. This is an unlikely prospect, especially since high inequality inhibits growth.

Based on past trends in growth and inequality, only some countries in East Asia will reach the global poverty target. By contrast, sub-Saharan Africa will make virtually no progress, and the Arab States, South Asia and Latin America and the Caribbean will fall well short. However, if growth of these regions is both faster (i.e., 4% per year per capita rather than the past average of 3%) and more equitable (improving the relative position of the poor), they will have a much better chance of reaching the global target. The recent global slowdown in growth heightens the need for a more equitable pattern of growth.

There is no question: most countries need to grow faster. But most also need to set the reduction or containment of inequality as a policy objective—as a part of stimulating sustainable growth as well as maximizing its impact on poverty. In countries with high inequality achieving greater equity can have a larger impact on poverty than increasing growth. In Thailand, for example, a reduction of inequality by 1% would have the same effect as an additional growth rate of about 4%. In the Republic of Korea, with lower inequality, a 1% reduction in inequality would be equivalent to an additional growth rate of 1.2%. Thus, in Thailand an equity-driven strategy would have a far greater poverty pay-off than in Korea.

Inequality takes many forms. In many contexts, gender inequality has a major impact on poverty. This can occur through various mechanisms, such as segregating women into low-paying jobs, paying them lower incomes for comparable jobs, depriving them of access to basic productive assets, such as land, or concentrating them in unpaid labour and household care-services. In other contexts, ethnic inequality can pose a severe impediment to progress against poverty—even when growth accelerates. In South Africa, for example, policymakers are still struggling to overcome the legacy of apartheid. In many countries, deep-rooted ethnic inequalities are the source of instability, conflict and pervasive poverty.

Also, the poor are never a homogeneous group: they differ markedly by such factors as gender, age, ethnicity, race or location. Thus, to be effective against poverty, economic policies need to help break down the barriers of exclusion and discrimination that prevent various social groups from taking part in economic opportunities. Equity-sensitive economic policies can contribute a great deal to achieving this objective. In many cases, directly redistributive measures will also have to play a complementary role. The objective is an equitable distribution of economic opportunities, which ensures everyone the material means to sustain a universally acceptable level of basic human development.

3. Examples of Pro-Poor Growth

Is pro-poor growth possible? In numerous countries, this has been the case during certain periods. However, in many others, the opposite has occurred, i.e., achieving respectable rates of growth without a significant reduction in poverty because inequality was high or rising.

In general, for growth to immediately reduce poverty, it should have a pattern that directs resources disproportionately to the sectors in which the poor work (such as small-scale agriculture), the areas in which they live (such as remote regions) or the factors of production that they possess (such as unskilled labour).

There are various ways of achieving this kind of broad redistribution of resources. In some cases, redistributing land and boosting agricultural productivity will be the best approach. In other cases, the best solution will be to pull large numbers of the poor into industrial employment and improve their skills and wages.

More indirect routes can also be important. Raising productivity in sectors—such as food, low-cost housing and public transport—that produce goods and services consumed by the poor can make a big difference. Also, the often-neglected policy of accelerating the demographic transition to smaller families can have a decisive on increasing income per capita among the poor because of their larger families.

Some of the best-known country examples of pro-poor growth are based on agricultural development—provided that it is environmentally sustainable. Since the rural poor still significantly out-number the urban poor in many developing countries, broad-based rural development is essential to poverty reduction. A classic example of success is China in the early 1980s (Box 1).

Box 1: Pro-Poor Growth in China

China's agriculture-led development strategy in the early 1980s sparked a historically unprecedented reduction in poverty. Economic reforms immediately sparked agricultural growth. The resulting rural prosperity directly propelled the dramatic growth of non-farm enterprises, which boosted employment and earnings.

Unlike many other countries, China gave favourable treatment to farmers—dividing the land equitably, raising producer prices and allowing farmers to benefit directly from harder work. Farmers also benefited from earlier state investment in rural infrastructure, basic health and primary education. All of these factors contributed to an upsurge of pro-poor growth soon after the economic reforms were introduced (and before China had a national anti-poverty programme). Early in its transition, Vietnam followed a similar pattern of development, with similarly positive results.

When China shifted gears in the late 1980s to a development strategy oriented to exports and foreign direct investment (mostly based in the richer coastal regions), growth became notably less pro-poor: as inequality rose sharply, poverty reduction slowed.

In contrast to China, other countries in Asia have not been able to translate rapid growth into steep poverty reduction, due, in part, to high inequality. For example, although Pakistan experienced a high rate of growth in the 1960s, poverty continued to increase—mainly because of rising inequality in the distribution of landholdings. In Nepal, poverty continued to rise from the late 1970s until the early 1990s despite steady growth because incomes were increasingly concentrated in non-agricultural and urban-based activities.

A key component for reducing poverty is raising the productivity of the poor. In many countries, increasing the productivity of small farms, for example, can help transform agriculture from a passive labour sponge into a dynamic engine of rural transformation and development. To achieve greater equity, public investment in physical and social infrastructure, access to land, the use of technology to boost yields as well as building basic human capabilities are priorities. But it will also often be necessary to break down barriers of discrimination and systems of exploitation—especially those directed against women and racial or ethnic minorities.

A similar approach is needed in industry. Trying to increase employment for the poor by favouring low-productivity labour-intensive work is unlikely, by itself, to be successful. Raising the skill level of low-income workers and upgrading the technology that they use is a better long-term solution. This will raise wages as well as employment.

Not every developing country has a large agricultural sector. In some countries, urban poverty is more widespread, or severe, than rural poverty. Can patterns of growth in the non-agricultural sector be pro-poor? Yes, but they mainly rely on drawing large numbers of poor workers into industrial sectors that are initially labour-intensive. This is part of the success of the 'East Asian' model of development, most notable first in Japan, the Republic of Korea and Taiwan (China) and later in Malaysia. Indonesia and Thailand were also successful to some degree with this strategy. The city-states of Hong Kong (China) and Singapore, which lacked any rural sector, followed a similar pattern of development.

In these countries, exports ended up being the locomotive of growth. In some cases, natural resource-based exports made a big contribution (such as in Malaysia) but in all cases manufactured exports played a key role. As labour productivity increased and manufacturing became more internationally competitive, wages eventually increased—setting in motion a virtuous circle of rising employment and productivity. But this process was initiated and guided by public policies.

When wages rose, enterprises—with state encouragement—invested more in capital and technology, thereby boosting labour productivity and further pulling up wages. State investment in basic health and primary education also contributed to rising productivity and wages by enhancing the 'human capital' of workers. Under these circumstances, there was no trade-off between equity and efficiency.

Can developing countries reduce poverty without the high rates of growth that characterized the East Asian experience? Yes, but the political conditions for a redistributive strategy need to be favourable. The Indian State of Kerala is an illustration of this approach. More populous than many countries of the world, Kerala has had an impressive record of poverty reduction despite having, until recently, a relatively slow rate of growth. From 1974 to 1994, for example, it reduced the proportion of its population that was income poor from 60% to 25%.

Remittances from workers abroad were part of the explanation. But the chief factors were Kerala's financing of the development of basic human capabilities, especially education, promotion of access to productive assets, such as land, and creation of a favourable socio-political environment. Public action was decisive—by removing social constraints on the poor and giving them a political voice. The empowerment of women played a central role in this transformation. As a result, Kerala had the highest female literacy rate in India.

4. UNDP's Experience

While UNDP has substantial experience in highlighting the social costs of macroeconomic policies and economic restructuring, it has limited experience in providing policy advice to governments on modifying such economic measures. Thus, developing a global programme on equity-driven growth represents a relatively new area of work for the organization.

In 1996-97, the Bureau for Development Policy organized a Knowledge Network for Poverty Reduction, a global grouping of economists that produced 38 country case studies of the relationship between growth and poverty reduction. One of the network's major findings was that neither moderate nor high growth was a guarantee of poverty reduction. It found that the pattern of growth, particularly growth in the sectors where the poor are concentrated, was critical for success. Also needed, it found, was an enabling environment to generate employment and earnings for the poor, increase their access to productive assets and natural resources and—particularly for the self-employed—expand their access to credit and business support services. A third critical condition was building up the poor's human capabilities through provision of basic social services. All of these conditions are contingent on pro-active public action.

The Regional Bureau for Latin America and the Caribbean conducted a similar study of 15 countries, building a network of policy advisers on macroeconomics, income distribution and poverty. In Bolivia this network has supported the Government's Unit for the Analysis of the Economic Programme in producing the region's first PRSP, based on UNDP-supported inputs on the relationship between macroeconomic policies and poverty and the effects of liberalization on income distribution and poverty. Similar support has been given to Nicaragua.

In countries in transition, UNDP has supported, along with the ILO, several landmark publications on economic policies and poverty reduction that have influenced government policymaking, including *Poverty and the Transition to a Market Economy in Mongolia* in 1994 and *Social Policy and Economic Transformation in Uzbekistan* in 1995. In 2001, UNDP backed an important follow-up report, *A Strategy for Poverty Reduction in Mongolia*, which provides specific recommendations on promoting economic policies that are more likely to foster rapid reductions in poverty (Box 2).

In giving support to countries formulating PRSPs, several UNDP Country Offices have helped provide relevant policy advice on economic policies. These include Benin, Cambodia, Georgia, Ghana, Kyrgyzstan, Lao PDR, Lesotho and Viet Nam. In Benin, for example, UNDP supported a study of alternative macroeconomic models and their implications for poverty. In Lao PDR, UNDP helped prepare papers on macroeconomics and poverty for the November 2000 Roundtable Table meeting, which were used as valuable inputs into the PRSP.

Box 2: Mongolia—Tracking the Impact of Economic Policies on Poverty

Prompted by Mongolia's need to produce a Poverty Reduction Strategy Paper, the UNDP-supported report, *A Strategy for Poverty Reduction in Mongolia*, examines how best to integrate equity and poverty reduction issues into the country's overall macroeconomic framework and development strategy. The report argues that macroeconomic and sectoral policies have had more impact on increasing poverty than projects targeted to specific groups have had on reducing it.

The report recommended that a Poverty Advisory Unit be set up in the Ministry of Finance and Economy to monitor the impact of economic policies and budget allocations on the poor and provide advice on how to modify policies in light of the findings. This involves building up government expertise in poverty analysis and pro-poor public finance and macroeconomic policies. Without such a unit to help track the impact of economic policies on poverty, it is difficult to implement an effective national poverty reduction strategy and make

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In Ghana, UNDP has supported the Integrated Social Development Centre to build an innovative computer-based dynamic economic model to assess the distributive effects of economic policy, including the relationship between income distribution and access to social services. In Cambodia, UNDP has commissioned a study of the linkages between macroeconomic policies and poverty, including promoting policy options and alternative participatory mechanisms, in order to help the preparation and implementation of the PRSP. The starting-point of the study is the assumption that considerable scope exists to make the pattern of growth more pro-poor but that economic policies need to be linked to the broader political economy or power relations in society that are the sources of inequality.

Resolving these issues of political economy are critical to the success of pro-poor economic policies. Stimulating national debates on economic policies and supporting popular forces that advocate more pro-poor approaches are essential to identifying and implementing the best policy options.

5. UNDP's Approach

These country experiences underscore the importance of UNDP's policy advice in developing economic strategies that foster both growth and greater equity. But what are the major policy areas that need to be addressed? What kind of policy advice can UNDP offer in these areas?

UNDP's approach is to help countries identify the most promising sources of growth and target inequality, both as an impediment to growth and as an obstacle to converting growth into progress against poverty. The recent evidence that inequality inhibits economic growth invalidates the conventional argument that a policy of redistribution will merely lead to sharing poverty, not wealth. Equity is good for the poor because it is good for growth as well as for ensuring that its benefits are widely shared among the population

From this perspective, UNDP encourages the examination of macroeconomic policies, economic restructuring and redistributive economic policies. (http://www.asiapropoor.net/)

5.1 Macroeconomic Policies

Macroeconomic policies are usually identified with short-term policies primarily concerned with stabilizing the economy—as indicated by the usual emphasis on macroeconomic stabilization as a prerequisite for growth. However, the old 'Washington Consensus' interpretation of stabilization—fixated on fiscal austerity and a rigid definition of price stability—has led to policy packages that have run counter, at times, to generating long-term growth and human development. The tragedy is that many countries implementing such packages have never been able to 'graduate' from stabilization. (http://www.networkideas.org/

In order to present programme countries with viable policy options, UNDP supports research on stabilization policies that take a more flexible view of inflation and fiscal deficits (as well as current account imbalances), and that give more emphasis to promoting output stability and sustainable growth through stimulating investment. One of the key issues is not whether there is macroeconomic imbalance per se but whether it is sustainable. It supports access to policy advice that presents a menu of feasible options and alternative analyses. Some policy advisers formerly identified with the 'Washington Consensus' are now advocating more flexible approaches to stabilization. They recognize that while macroeconomic instability usually harms the poor, macroeconomic stability does not necessarily benefit them. Much depends on how stability is achieved—at what cost and for whom.

In promoting economic policy choices, UNDP is actively seeking links with progressive networks and centres of excellence, such as the Initiative for Policy Dialogue, which is a decentralized grouping of researchers and policy advisers that works with civil society organizations in developing countries to spark public discussion and debate on policy options. For the same purpose, UNDP supports the formation of South-South networks among development economists, such as the International Institute for Development Economic Analysis (IDEAS), which seeks to advance heterodox approaches to economic development.

The long-term objective is to help build research and policymaking capacity in developing countries for independent, nationally owned economic policies, which are less encumbered by the conditionalities often associated with accepting external advice, grants or loans. Within countries, UNDP also seeks to foster greater economic transparency and popular influence over economic policymaking.

Many development economists now recognize the value of offering governments economic policy options. One option, previously neglected, involves giving greater emphasis to fiscal expansion through increasing public investment that can stimulate growth. While such fiscal expansion can generate government deficits, there is no longer a consensus that these are necessarily inflationary. Also, as long as inflation is kept within a moderate range, it does not necessarily dampen growth or directly harm the poor. Moreover, growth stimulated by fiscal expansion can help generate the fiscal revenue needed to reduce budget deficits.

While advocating for greater flexibility on stabilization policies, UNDP supports forms of public investment that can provide a more long-term, durable basis for human development and poverty reduction. This implies assistance to forms of capital accumulation and technological innovation that can deliver lasting gains to the poor.

Combating HIV/AIDS—through preventive action, access to testing, counselling and treatment, and the rehabilitation of basic health infrastructures—is one example. Another is harnessing information and communication technologies to directly enhance economic opportunities for the poor. A third example is supporting greater investment in sustainable energy, which can free many people in developing countries from reliance on traditional fuels, which traps them in poverty, ruins their health, worsens gender inequality and degrades the environment. These efforts are part of broader initiatives to promote global public goods.

A focus on lasting gains will help shift emphasis in national poverty reduction strategies from short-term targeted interventions to fostering longer-term action that alters the underlying structure of people's access to resources and technology. In the case of information and communication technologies, for instance, UNDP attempts to place efforts to span the 'digital divide' within the larger context of efforts to bridge 'the development divide', the complex network of constraints, obstacles and structures of exclusion that maintain widespread poverty and injustice in many developing countries. The most successful efforts to incorporate modern technologies such as ICT into national economies have occurred, for example, in countries that have effectively regulated the private sector and provided essential public services such as education.

5.2 Restructuring Policies

In the 1980s and 1990s, policies of economic restructuring recommended diminishing the state's role as an agent of development and quickly integrating countries into the global economy. This involved a standard set of measures, such as privatisation and de-regulation, financial liberalization, trade liberalization and full capital-account convertibility.

This policy agenda's general impact on poverty has been disappointing. Far-reaching reforms in Latin America and Eastern and Central Europe have generated few successes, either in stimulating growth or improving equity. In East Asia, the lack of regulation of the banking sector contributed to destabilizing the region in 1997-98, after large inflows of speculative capital had helped fuel a boom. UNDP advocates for bringing human development imperatives to bear to evaluate policies of economic restructuring. An important role, for example, is to highlight the distributional consequences of economic restructuring, which are seldom at the centre of policy discussions.

UNDP supports policy-oriented research on three forms of economic restructuring: trade liberalization, financial liberalization, and privatisation and de-regulation. Currently, in conjunction with partners such as UNCTAD and private foundations, UNDP is analysing the linkages between trade liberalization and human development and identifying the policy implications. The research shows that developing countries must engage with the world economy on their own terms—relying first on a domestic investment strategy to initiate a growth process instead of prematurely opting for greater openness to the global economy.

Another major area of concern, especially in light of the East Asia financial crisis, is the need to regulate the domestic capital market. Effective financial intermediation—which links savings to investment—is critical to spur growth. But left unregulated, financial institutions are prone to instability. The key concern for UNDP is to help restructure the capital market in order to enhance the access to financial services—such as credit, savings and insurance—by small and medium enterprises, poor households and poor women in particular. This involves, in part, drawing out the lessons of the many microfinance programmes that UNCDF supports and helping reform national policy and legal frameworks to support more equitable access to a broad range of financial services, such as savings and insurance as well as microcredit.

Privatisation is an area in which UNDP has not played a major role but which raises significant issues of economic governance. The experience of the Russian Federation is a well-known illustration of how privatisation of public assets can contribute to an inequitable concentration of economic power. UNDP will support research on policy options that can help programme countries combine greater efficiency in the deployment of productive assets with an equitable distribution of the benefits.

5.3 Redistributive Polcies

Inequality has been rising throughout developing and industrial countries in the 1990s. A UNDP-supported study by the World Institute for Development Economics Research documents that inequality has risen in two-thirds of the countries for which reliable data are available. A more recent World Bank study also shows that world inequality (across as well as within countries) has been on the rise.

The reasons for rising inequality are still being debated. Skill-based technological change seems to explain part of the phenomenon within countries. Trade liberalisation is a likely contributor as well. The weakening of labour unions and labour legislation, such as on minimum wages, has also contributed to widening disparities, particularly in middle-income developing countries.

Part of the problem is to accurately identify the sources of rising inequality. This is a research agenda of major importance. In partnership with policy-oriented research institutions in developing and industrial countries, UNDP will continue to address this research question. This inevitably involves focusing on the barriers of exclusion and discrimination that bar many social groups from the economic mainstream. This is a policy area in which UNDP seeks to develop a comparative advantage, partly by championing the cause of equity in economic policies.

One way of tackling inequality is to alter the allocation of public resources through changing expenditures and taxes. Although obviously important, the allocation of resources to a separate national poverty reduction strategy is only part of the solution. The overall allocation of resources should be made more ‘pro-poor’. This involves making the budget process more transparent—especially highlighting the tax exemptions and hidden subsidies that the rich enjoy, at the expense of the poor.

The ultimate goal (which depends on the balance of political forces in a country) is to achieve a condition in which the share of the budget going to poor households begins to exceed their share of the population (such as a 25% share of the budget if the poor are 20% of the population).

Explicit sectoral policies can be used to channel more resources to enhance the productivity of the poor. Such policies, by directly favouring some sectors over others (such as the labour-intensive export sector), can have a more pronounced effect than macroeconomic policies. In many developing countries, most of the people live in rural areas, and thus re-allocating resources to small-scale agriculture can have a significant impact on poverty.

In alliance with other UN institutions, UNDP advocates for greater emphasis on agricultural development to spur pro-poor growth. However, UNDP’s comparative advantage is in areas such as providing sustainable energy or combating desertification, or in the governance dimensions of rural development, such as decentralization, land reform or access to common property resources (such as pasture, forests or water resources held in common by a community).

Budget re-allocations are not sufficient to have a substantial impact on poverty when the distribution of productive assets is highly unequal. In these circumstances, directly redistributive policies—such as land reform or the large-scale construction of low-income housing—are essential initiatives. In many cases, redistribution of assets (including increasing the opportunities of the poor to create assets) is more compatible, paradoxically, with stimulating growth than redistribution of income because the former creates less distortion in economic incentives. The real issue is how to effectively carry out such reforms, both economically and politically.

UNDP seeks to play a major advocacy role internationally for greater equity and fairness, especially in countries where the gains from growth are not likely to filter down to the poor because of their lack of access to basic resources. Land and housing are usually the most important productive assets for the poor (along with the “human capital” developed by education), while access to vital resources such as energy and water is also often critical. Equitable access to such assets and resources has major consequences for gender equality. The burden of the lack of such access often falls disproportionately on poor women, who have few ownership rights to land and are responsible for the burden of collecting wood or water.

High inequality can impede the economic performance of a country by obstructing the formation of governance structures that enhance productivity. Where this is the case, inequality is likely to be the result of a distribution of property rights that is inefficient as well as inequitable. If so, there may be a plausible set of alternative distributions that are both more equitable and more efficient—i.e., which foster competition on the basis of a more ‘level playing field’.

What needs to be addressed is the structure of economic governance, namely, the rules of ownership and control of assets, the set of incentives for using them productively and the forms of competition that govern economic transactions. Equitable opportunities depend on this fundamental enabling environment rather than continuous government intervention. Such issues of economic governance represent an important area in which UNDP can provide pro-poor policy advice.

6. UNDP Signature Services

This practice notes identifies UNDP’s approach to supporting pro-poor economic policies. This approach implies fostering policy-oriented research on the poverty consequences of growth and inequality; building national capacity for providing practical policy options for pro-poor macroeconomic policies, economic restructuring and budgeting; designing monitoring systems to assess the poverty impact of economic policies; and instituting means to enhance popular participation in economic policymaking. The key for UNDP is to use practical entry points that build on its comparative advantage in advocating for equity, human development and democratic governance.

These services are linked primarily to the third service line of UNDP’s Thematic Trust Fund for Poverty Reduction. The following areas will receive increased attention in the future:

- Building on such initiatives as National Human Development Reports and poverty reports, develop national policy-oriented research capacity, both in government and outside it, to analyse trends and causes of inequality and the effect of inequality on growth and poverty reduction.
- Build national capacity in government, research institutes and civil society organizations to identify and implement the redistributive policies that are most effective in promoting equity-driven growth, and specifically the pro-poor growth objective of national poverty reduction strategies.
- Building on the 20/20 Initiative and gender-sensitive budgeting, provide advice and support in re-allocating public resources to benefit the poor, particularly poor women; set up mechanisms that enable communities to evaluate the delivery of public services and benefits; and enable parliaments, local authorities and civil society organizations to actively participate in the decision-making process on the national budget.

- Link poverty monitoring and evaluation with economic policymaking by enhancing institutional capacity for policy impact assessment within the ministry or body responsible for the national poverty reduction strategy, within Parliament and within civil society organizations. A system of household surveys, rapid monitoring surveys and participatory assessments can help evaluate the impact of the pro-poor growth component of national poverty reduction strategies.

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