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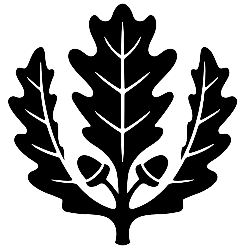

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Economic Rights, Human Development Effort and Institutions

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Abstract

This paper focuses on the link between economic rights and institutions. Simple analysis of data is used to demonstrate countries' human development effort in advancing economics rights of the citizens. A country's human development effort is evaluated on the basis of the well-being of the poorest members of the society. An analysis of data reveals that there is a wide variation in countries' pro-poor stance. While it is accepted that positive rights are pro-poor, this paper argues that so too are negative economic rights and in fact the two are complements rather than substitutes. Classifying countries into human development income deficit and human development effort deficit, it is demonstrated that a large number of countries could achieve higher welfare levels for the poor if they improved on bother positive and negative economic rights. The paper attempts to explain variations in the observed commitment to economic rights by focusing on pro-poor institutions. The basic thesis advanced in the paper is that pro-poor policies are more likely to be implemented and sustained in those institutions where power is sufficiently diffused such that even the poor have leverage over policy outcomes. The paper focuses on how institutions impact on power diffusion and therefore the adoption of pro-poor growth and policies. The failure of countries to adopt pro-poor growth and policies is attributed to institutional failures manifested in concentration of power. The policy recommendations emanating from the analysis focus on institutional reforms to enhance power diffusion. These policies include enlarging the political space through democratization, strengthening institutions and capacity to fight corruption and improve transparency, and bringing the government closer to the people through appropriate design and implementation of decentralization schemes. Some recent examples of improvements in economic rights following power diffusion are provided.

Journal of Economic Literature Classification: O15, I30, I31

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1. Introduction

Economists are not "big" on human rights. This is particularly true for "positive rights" which require prescribing actions by governments and even more so in regard to economic rights broadly interpreted to mean positive actions to enhance quality of life through redistribution or other collective actions. Economists, particularly those of the classical liberalism tradition consider such "social justice" rights as inconsistent to economic growth and thus should not be part of a country's constitution. To the extent that economists advocate for "economic rights", this is basically in regard to the rights to engage in productive activities with minimal interference or negative economic rights—commonly refereed to as economic freedom. To the extent that governments should prescribe policy, such should focus on pre-conditions for markets to function efficiently else government should not direct the actions of market participants. According to economists, economic freedom associates with economic growth and wealth accumulation benefiting all members of the society. In fact, ample empirical evidence exists that shows that economic freedom is a primary determinant of economic growth and development (Berggren 2003). Because of there is strong link between economic growth and poverty reduction, economists tend to argue that positive economic rights should not be prioritized if conditions for economic freedom exist. In fact, positive rights are considered counterproductive to the extent that they may involve infringement on economic freedom.

There is no doubt that economic growth is necessary for the improvement of the well-being of all members of the society. Sustained reductions in the levels of poverty require consistent high and sustained rates of economic growth and wealth creation. But economic growth is not synonymous with poverty reduction—higher levels of national incomes do not necessarily translate into lower poverty or overall improvement in well-being

of the poor. Evidence shows that episodes of economic growth are not always associated with poverty reduction. As such, the relationship between economic growth and poverty can be weak. In fact, there are cases whereby economic growth has been associated with increased poverty. Thus, economic growth, and therefore increases in national income, does not necessarily imply that the well-being of the poor improves substantially. It is for this reason that policy makers should be concerned not just about instituting policies for economic growth, but rather policies to achieve pro-poor growth. Recent concern on meeting the Millennium Development Goals (MDGs) has brought to the fore the importance of focusing on pro-poor growth and policies.

There is extensive literature on growth—especially on the determinants of economic growth. The predominant literature focuses on getting the prices right and creating a conducive environment for business—achieving macroeconomic stability, freeing the market of impediments so that market forces direct economic activity, etc. These policies generally involve improvements in measures of economic freedom and have been part of the primary policy menu prescribed to developing countries by international development institutions and donor countries. Policies such as liberalization and structural adjustments are all meant to align prices with the expectation that such reforms would lead to increased market activity, economic growth and overall development. However, developing-country experiences with such adjustment policies in regard to the well-being of the poor, and in fact to sustained economic growth, has been disappointing. To a large extent, market reforms as instituted in the 1970s and 1980s tended to result in increased poverty. While in many cases those reforms did in fact result in economic growth, the gains from growth did not trickle down sufficiently enough to reduce poverty and instead resulted in increased inequality. Even more of concern are cases whereby market reforms did not result in sustained

economic growth and instead the outcome was slow growth and increased poverty.[1] There is no question that market reforms are necessary to achieve economic growth and that economic growth is necessary for poverty reduction. However, economic growth is itself not sufficient for poverty reduction.

This paper focuses on institutions and governance aspects of "economic rights," broadly defined.[2] We focus not just on growth but pro-poor growth and policies. In the section that follows, we briefly explore some of the links between economic growth and poverty reduction. The section focuses specifically on the link between growth, inequality and poverty reduction. A number of simulations of the impact of economic growth and inequality on poverty reduction are presented. In addition, the section focuses on the relationship between economic growth and measures of human development. The analysis shows that economic growth is important but not sufficient for many countries to achieve the Millennium Development Goals. It is demonstrated that overall human development requires both economic growth and reduction in inequalities. Using simple analysis of data, we show that there are countries that have income levels necessary to achieve the human development targets but are not meeting these targets. Thus, these countries could do more in terms of positive economic rights. We refer these countries as being characterized by *human development effort deficit*. On the other hand, many countries have low incomes and thus not able to meet development targets. We refer these countries as having a *human development income deficit*. It is argued that both income and effort deficits are the result of low emphasis on both negative and positive economic rights. Section III focuses on institutions and economic rights. The basic argument is that to improve the absolute quality of life, there is

[1] Some explanations for the perverse outcomes include poor design and implementation and also the fact that policies just benefited some few sectors and hurt others.

[2] Although the paper is fairly general, it has a biased emphasis on African countries primarily because of their low human development record.

need for pro-poor policies and such policies are directly related to power relations in society. It is argued that pro-poor policies are implemented in societies where power is sufficiently diffused such that members of the society have significant leverage over the type of policies that are enacted. Leverage permits citizens to hold leaders to account and also necessitates that different interests bargain with each other in the process of policy formulation. In essence, power diffusion results in a society where groups bargain with each other on matters of policy. Simply, in a society where power is diffused, policy outcomes are the result of compromise. The section provides some empirical evidence on the relationship between human development effort and institutions. Some recent cases where power diffusion has been associated with improvements in economic rights are discussed. Section IV concludes with some suggestions for institutional reforms to facilitate power diffusion and consequently improvements in economic rights.

2.0. Economic Growth, Poverty Reduction and Overall Human Development

2.1 Importance of Growth for Poverty Reduction

We define pro-poor growth as economic expansion that associates with reductions in relevant measures of poverty. More specifically, pro-poor growth is growth that associates with a high elasticity of the poverty rate to economic growth (Ravallion 2001).[3] A more precise definition is one by Klasen (2001) who considers pro-poor growth to mean that the poor benefit disproportionately from economic growth.[4] This essentially means that income growth by the poorest group exceeds the average growth rate. To a large extent, economic growth does in fact translate to reductions in poverty. But the same growth can result in

[3] Growth elasticity of poverty ξ is computed as follows: $\xi=(\Delta H/\Delta U^* U/H)$ where H is the headcount index and U is the mean income.

[4] This is consistent to White and Anderson (2001) who define pro-poor growth as follows: (1) The poor's share of incremental income exceeds their current share, (2) the poor's share of incremental income exceeds their share of population; and (3) the poor's share of incremental income exceeds some international norm.

different levels of poverty reduction in different countries. The sensitivity of poverty to growth varies across institutions and with the policies adopted to generate the growth. Cross-country evidence reveals that there are large variations in poverty reduction from the same growth rate. In other words, growth is more pro-poor in some countries than in others.[5]

Clearly, a first priority in the war against poverty is achievement of economic growth. While the sensitivity of poverty reduction to economic growth may be low, evidence shows that growth is necessary for poverty reduction. To demonstrate the importance of growth to poverty reduction, we start by analyzing simple simulations based on coefficients obtained by Ravallion (2001). Ravallion investigates the relationship between growth and poverty and inequality using data from household surveys. The data are for 47 developing countries for two successive surveys allowing measures in changes in poverty and income distribution. Ravallion finds growth elasticity of poverty equal to 2.5—meaning that a 1% increase in the mean income results in a reduction of the proportion of the population living below $1 day by an average of 2.5%.[6] We use this growth elasticity of poverty reduction to stimulate expected poverty reduction in a few African countries—Kenya, Nigeria, South Africa, Uganda and Zimbabwe.[7] We first assume that the growth rates achieved in 2001 are maintained for the period up to the year 2015. We then simulate how poverty rates would change if the countries doubled the rates of growth over the same period. The results of the simulations are shown on Table 1.

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[5] Actually, as shown in Pasha and Palanivel (2004), different growth episodes in the same country can have different impacts on poverty reduction. That is, some episodes of growth can be more pro-poor than others.

[6] Simply, change in poverty is given by $P = P_t - \gamma(g)$, where P= the poverty rate, γ is the growth elasticity of poverty reduction and g is the growth rate.

[7] These countries are selected purely for illustrative purposes. The countries are in a way representative of countries in Sub-Saharan Africa in terms of their income levels, inequality and growth experiences over the last few years. Furthermore, the structure of the countries in terms of share of agricultural, minerals and industrial output are representative of many other African countries.

The growth elasticity of poverty reduction is assumed to be the same for all countries and constant over time.[8] It is evident that, given the assumed growth elasticity of poverty reduction, poverty would fall consistently in all the countries. However, for the low growth rate countries (Kenya and Zimbabwe), poverty reduction would be relatively low. If Kenya's rate of economic growth remained at 1.5%, the poverty rate would be 32% in 2015 having dropped from 56% in 2001. In Zimbabwe on the other hand, if the growth rate were to remain at 0.1%, then the poverty rate would be 67% in 2015, marginally dropping from the initial level of 70% in 2001. On the other hand, a high growth country like Uganda would have the poverty rate fall from 35% to 4.41% over the same period. The data also shows the impact of doubling economic growth on poverty reduction. For example, Kenya's poverty rate would fall from 56% in 2001 to 18% in 2015 if an annual growth rate of 3% were to be achieved and sustained throughout the period. Simply, for Kenya to half its current poverty rate by 2015 from its 2001 levels, a much higher growth rate than has been realized over the last few years would be necessary. For Zimbabwe, achievement of the millennium development goals is almost out of reach unless there were to be a major change in economic performance. Uganda on the other hand seems well destined to meet its poverty reduction goals if it maintained the high rates of economic growth experienced over the last few years. The main point of this discussion and analysis is that growth is important for poverty reduction. As such, when we are concerned about absolute well-being of the population, an emphasis on economic growth is crucial.

2.2. The Role of Inequality on Pro-Poor Growth

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[8] It is conceivable that the growth elasticity to poverty reduction decreases as poverty declines. When poverty is very high, increases in growth absorbs the easily employable poor who may have skills, etc. This suggests that high responsiveness of growth to poverty reduction. However, even with growth remaining poor may be increasingly more difficult to exploit the labor market meaning that the growth elasticity to poverty reduction declines. For a similar argument, see, Kimenyi and Mbaku (1995).

The above discussion assumes that the growth elasticity of poverty reduction is independent of the state of income distribution. However, this is not exactly correct. Evidence shows that a country's ability to reduce poverty is impacted by inequality in the distribution of income. It has been demonstrated that a high level of inequality can stifle prospects for pro-poor growth. Ravallion has suggested the use of distribution-corrected rate of economic growth on average income to investigate the impact of inequality on poverty reduction. The idea is that the initial level of inequality does impact on the responsiveness of poverty to economic growth. Borrowing coefficients obtained by Ravallion, we simulate the expected changes in poverty for Kenya, Nigeria, South Africa, Uganda and Zimbabwe using the distribution corrected rate of economic growth.[9] In Table 2, we compare the poverty expected in 2015 when inequality is not taken into account (as in previous case) and when adjustments are made for the prevailing inequality. The results show that high levels of inequality reduce the responsiveness of poverty reduction to economic growth. In all cases, inequality adjusted poverty rates are higher implying that inequality in the distribution of income reduces the responsiveness of poverty reduction to growth. Note that the higher the inequality, the lower the reduction in poverty for a given rate of economic growth.[10]

To demonstrate the importance of inequality on poverty reduction, we investigate how poverty rates would change if we assumed that inequality were half of their 2001 levels. In the case of Zimbabwe, we also assume a higher growth rate of 3% and also a reduction in inequality.[11] The results are shown in Table 3. The results show the impact of growth on

[9] The distribution-corrected rate of growth in average income is given by $(1\text{-}Gini)\ \Delta lnY_{t})$. Where Gini is the measure of inequality and Y is the income.

[10] A common argument against focusing on reducing inequalities relies on the Kuznets hypothesis. Kuzents (1955)observed that, at very low levels of income, there was a positive relationship between inequality and economic growth. Thus reducing inequality would inhibit growth. Recent evidence shows that the Kuznets hypothesis does not hold and actually reducing inequality is conducive to growth.

[11] Zimbabwe has had extremely low rates of economic growth over the last few years. This is primarily because of political uncertainty and we do not expect such policies to be sustained for long due to political pressure

poverty reduction when inequality is lower. The results show that poverty in Zimbabwe would fall dramatically if both high rates of growth and reduction in inequality were achieved simultaneously. In essence, the main story is that growth is good for poverty reduction. However, the effect of growth on poverty reduction is neutralized by high inequality. In other words, growth is a powerful vehicle to lower poverty but only when associated with decreases in inequality.[12]

2.3. Complementarity of Positive and Negative Economic Rights in Raising Absolute Quality of Life

Economic growth results in increased levels of income over time. If in fact growth is key to improving the quality of life, then it would be expected that higher levels of income would associate with higher levels of human development. By and large, there seems to be universal acceptance that most developing countries can only achieve the MDGs through accelerated economic growth. Thus, it is assumed that increasing national incomes will be the primary way to achieve the MDGs. We suggest that the link between income and achievement of MDGs is not straight forward. In other words, increases in national income does not guarantee achievement of MDGs. In fact, we suggest that hedging increases in income to achieve MDGs is likely to be futile. Instead, we argue that institutional reforms that allow for "pro-poor" growth is the key to achieving MDGs.

We utilize the measures of human development prepared by the United Nations. For our purposes, we focus on the overall measure of human development—the Human Development Index (HDI) and also key components of human development including adult literacy, life expectancy, primary and secondary school enrollment, infant mortality and per

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both within and from international community. We therefore assume that the country will change course and attain growth rates comparable to previous record.

[12] This is equivalent to growth with equity—signifying the fact that there is economic growth but at the same time reduction in inequality.

capita income. The simple exercise is to compare how these measures relate to the per capita income. Table 4 provides the descriptive statistics of the measures of human development.

Our interest is to investigate how these measures of human development vary with income. We estimate ordinary least squares regression of the measures of human development against the log per capita income. The results of the estimation are shown in Table 5.[13] In all cases, higher levels of income associate with improvements in the measures of human development and the relevant coefficients are large. This suggests that a policy for raising incomes is definitely important to achieving the MDGs. But nevertheless, the results also tells us that there is much more than merely raising income levels to achieve human development. First, the adjusted coefficient of determination tells us that income alone explains only between 61 and 88 percent of the variations in the measures of human development. In addition, the intercepts (constants) of the regression are fairly large.

To expound on the importance of pro-poor growth, we examine the relationship between income and human development by plotting the various measures of human development against per capital income. This is shown in Figures 1-4. The plots show that there is a clear positive relationship between per capital income and measures of human development. As such, the idea that growth is necessary to achieve positive gains in human development is fairy obvious and thus supporting the claim that growth (meaning rising incomes) is good for the poor.[14] But that is only part of the story.

Looking at Figure 1, we note that only very few countries with a per capita income of $2,400[15] or less have a HDI equal or above the mean (0.698).[16] Most of the countries in

[13] We have excluded HDI because the computation of the index incorporates income.
[14] Data are for year 2002 as reported in the Human Development Report (2004).
[15] The income data are expressed in terms of purchasing power parity (PPP).

this income range have HDI values that are below the mean. In fact, a number of countries that have per capita incomes between $2,400 and $7,000 have HDI values that are just about equal or below the mean. It is only after a per capita income of about $7,000 do we observe almost all countries scoring above the mean HDI.[17] [18] Suppose we were to target the achievement of the mean HDI by low-income countries. One way to think about this is to consider a HDI of 0.69 as the minimum acceptable quality of life. If income were the primary determinant of HDI, then countries with less than a per capita income of $2,400 would not be able to achieve the desired level of human development. Taking a per capita income of $2,400 as the minimum or threshold income necessary to achieve the target level of Human Development, we can then think of human development *income deficit* as the difference between the threshold income ($2,400) and a country's actual per capita income. Figure 5 helps elaborate on the concept of human development income deficit as used in this paper. The straight line represents the mean HDI= 0.69. The line intersects the HDI line at approximately an income of $2,400. We refer to countries with incomes below this threshold income as having a *human development income deficit*—measured by the distance between $2,400 and the country's income. The relevant question then is if we were to rely on economic growth, how long would it take for poor countries to achieve the minimum acceptable quality of life (HDI=0.69)?

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[16] These are Vietnam with a per capita income of $ 2,300 and HDI of 0.691; Georgia with a per capita income of $2,260 and HDI 0.739; Uzbekistan with a per capita income of $ 1,670 and HDI of 0.709 and Tajikistan with a per capita income of $ 1,620 and HDI 0.701. Moldova is also very close with an income of $ 1,470 and HDI equal to 0.69.

[17] Note that some countries with per capita incomes above $7,000 have HDI values that are lower than the mean. These include: South Africa, Gabon, Namibia, Swaziland, Egypt, Morocco and India. Honduras and Nicaragua have HDI values that are just slightly below the mean.

[18] In fact, looking at all the measures of human development, this trend holds true. This means that to achieve the school enrollment goals and reduce infant mortality, the poor countries will have to at least double their incomes on average. Actually, for some measures of human development, higher incomes are necessary.

Table 6 lists a number of African countries and their per capita incomes in 2002.[19] If we assume that the countries must have at least $2,400 to meet the human development goals, then we can compute the time it would take for the countries to achieve the human development threshold income. For illustration purposes, we assume rates of growth of — 1.5%, 3% and 4.5%.[20] The data presented in the table reveals the painful truth about Africa's prospects for improving the well-being of her people. It is apparent that majority of African countries are unlikely to meet the Millennium Development Goals unless they were to sustain much higher rates of economic growth than has been the case in the recent past. Even if we assumed a high growth rate of 4.5%, many of the countries would still take over two decades to achieve the mean HDI.[21] Given the past record of poor growth, one cannot be optimistic about these countries' ability to achieve high growth rates than in the past unless there are major changes.

It is important to note that while there seems to be a clear income threshold below which most countries do not achieve the mean HDI, there are also cases for which countries have significantly higher incomes and yet their HDI and other measures of human development fall much below the mean. These countries score low HDI but have incomes that are above the average threshold income. In essence, these are countries that otherwise have been able to adopt pro-growth policies but are not achieving the human development targets. We could consider these countries as failing in putting sufficient effort to achieve human development. In other words, the countries are characterized by human development

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[19] We have selected all countries in Sub-Saharan Africa whose per capita incomes fell below the threshold income in 2002.

[20] The idea is to compute the value of n given $Y_n = Y_t(1+g)^n$ where Y_n is the minimum income to meet the human development goals, n is the number of years necessary to achieve Y_n, Y_t is the current income and g is the annual income growth rate.

[21] Note that we are only looking at achieving a HDI=0.69. If all countries improve on the levels of human development, then the mean HDI would naturally increase and this would mean much longer time for countries starting poor to achieve the new mean. In other words, a mean HDI is a moving target and for our analysis we are therefore focusing on the value of 0.69 as an absolute value of HDI.

"*effort deficit*". The point to emphasize is that there appears to be a minimum threshold income that is necessary to achieve at least the mean level of human development. However, there are many countries where high levels of income have not yielded the levels of human development that would be expected for those levels of income.

Merely looking at the HDI value in relation to the per capita income may not reveal the entire story about the concept of human development effort deficit. Even though countries may be having an income deficit by our definition, it is possible that they are also characterized by human development effort deficit. This would be the case where a country could achieve higher scores of the measures of human development even with the low incomes. We have in fact noticed that there are some countries that actually have higher HDI scores though their incomes are lower than what we have considered as the threshold income. Thus, some poor countries could be characterized by both *income deficit* and *effort deficit*. Likewise, just because countries have high incomes and values of HDI that are above the mean does not necessary imply that they do not have a human development effort deficit. Simply, it is possible that these countries could achieve higher levels of human development if they put more effort. We can therefore classify countries into categories based on human development income and effort deficits. As will be apparent in the next section, the categorization is important in linking institutions and economic rights.

We conduct simple analysis in order identify the categories to which different countries fall under. We estimate a simple regression of HDI against the log per capita income. However, we note that because HDI includes an income component, adjustments are necessary as to avoid biases. In practice, HDI is an aggregation of one third of each of three components—life expectancy index, education index, and income index in equal weights. We therefore subtract one-third of income index from the HDI to obtain an adjusted

income-free HDI and then regress the log of adjusted HDI against log income.[22] We then look at the predicted values and residuals of the regression.[23] Positive residuals mean that the country's HDI score is higher than predicted value.[24] In other words, the country is doing better in terms of human development than expected given its level of income. On the other hand, negative residuals imply that the country is doing less in terms of human development than expected given its level of income. That is, negative residuals imply *human development deficit*. Of course the magnitudes of the residuals suggest relative levels of effort. We then rank the countries based on the magnitude of the residuals. Our rankings based on the residuals gives as the Human Development Effort rankings. Table 7 shows the effort rankings compared to the HDI rankings.

We also regress the HDI rankings against the per capita index and again obtain the predicted values and the residuals and rank the countries based on the magnitude of the residuals. The income index captures a country's ranking in terms of income while the human development index ranking captures the country's ranking in terms of human development indicators. Since income is an important determinant of human development, we expect a negative relationship between the human development index ranking and the income index.[25] The rankings again show the performance of the countries in terms of human development effort. If the residuals are negative, then it means that the country is doing better than expected given its income ranking. That is, its predicted human developing

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[22] The results of the regression are:
Log Adjusted HDI = -0.625 + 0.218 Log Per capita income
(-23.14)*** + (16.48)*** Adj. R-Squared= 0.611, t-statistics in parenthesis.

[23] Cingranelli and Richards (2004) present a similar but more comprehensive analysis focusing primarily on measuring governments respect for human rights using the Physical Quality of Life Index (PQLI). While there are some similarities in the results, their analysis focuses mainly on measurement issues while the present paper emphasizes institutional dimensions of economic rights.

[24] Note predicted values are in natural logs hence the negative values.

[25] The results of the estimation are as follows:
HDIRANK= 255.60 – 255.72 INCOME INDEX,
(53.48)*** (-36.318)*** t-statistics in parenthesis; Adjusted R-Squared= 0.885

ranking is lower (suggesting better human development) than actual ranking. On the other hand, positive residual shows that the country is doing worse than expected, hence a human development deficit. Table 8 shows the country rankings in terms of human development effort based on the predicted values of HDI ranking.

Both Tables 7 and 8 show that, some countries are achieving much better human development outcomes than others when we control for income.[26] For example, Table 7 shows that Tajikistan has the highest human development effort as shown by the difference between the adjusted HDI and the predicted adjusted HDI. In essence, this country is doing very well given its income. On the other hand, virtually all countries in Sub-Saharan Africa are ranked lowest in terms of effort. The effort deficit characteristic of these countries implies that they could achieve better human development outcomes given their resources if they were to put more effort.[27] There are also a number of developed countries that are performing poorly in terms of human development effort.[28] Although there are some

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[26] A cautionary remark is in order at this juncture. This analysis looks at what levels of human development can possibly be achieved given a country's income. Our human development effort variable is based on deviations from what is achievable given the level of income. There is a major assumption that countries are placing maximum effort in terms of generating income—which may not necessarily be the case. Thus care is required in interpreting the derived effort variable. In short, a country that have low incomes because the constrain economic freedom may core a reasonably high HDI score but could even do better if they were to improve on negative economic rights.

[27] Based on our analysis and the rankings reported in Tables 7 and 8, some of the worst African performers in terms of human development effort include some of the countries with reasonably good record of economic performance and also strong institutions such as Botswana and South Africa. Both of these countries score much lower in terms of human development outcomes than would be expected considering their levels of income. In the case of South Africa, the deviation between actual and expected human development outcomes could be a result of the previous history. But the deviation could also be explained by other factors. One possible factor explaining the outcomes in these countries could be the impact of the HIV/AIDS pandemic. More detailed analysis is required to explain the apparent poor performance of these countries in terms of human development effort.

[28] For example, the United States of America ranks number eight in terms of HDI but it is ranked number 147 (table 7) and 134 (Table 8) in terms of human development effort. This would suggest that U.S. could do better in improving the well-being of her people given the resources. For this study, we do not consider countries whose HDI is above the mean as effort deficit though they could achieve higher scores of human development. The reason for this is that as HDI approaches the maximum, it becomes increasingly difficult to make improvements because there are aspects of human development that are beyond the control by standard policy instruments. Likewise, additional effort can be counter-productive after some level as is the case in regard to the undesirable effects of welfare in advanced countries (see for example Kimenyi 1995 on US

noticeable differences in rankings based on the two approaches, there is a fair degree of consistency. It is important to note that both approaches result in low human development effort rankings for most of the Sub-Saharan African countries. Thus, not only are these countries facing an *income deficit*, they also are characterized by human development *effort deficit*.[29]

The foregoing discussion suggests that failure to raise the absolute quality of life is the result of weak emphasis on economic rights—both negative and positive. The human development income deficit is to a large extent the outcome of low levels of economic freedom—primarily negative rights. On the other hand, human development effort deficit is due to low emphasis on positive economic rights. A country cannot raise the absolute quality of life for all citizens without providing conditions that are conducive to economic growth and wealth accumulation. Likewise, quality of life for the poorest members of society may remain low if there are no concrete efforts to provide social protection. Thus, as far as absolute quality of life is concerned, both positive and negative economic rights are complementary rather than substitutes.[30]

3.0. Institutions and Economic Rights

3.1.. Theoretical Underpinnings of Pro-Poor Institutions—the Power Diffusion principle

So far the discussion has focused on the importance of economic growth to poverty reduction and overall human development. One basic conclusion is that economic growth is

welfare policy and outcomes). Thus, although we have ranked all countries, our definition of human development effort deficit applies to those with HDI scores below the mean.

[29] Given the fact that many countries are characterized by human development effort deficit, the results provided in Table 6 concerning the time necessary for different countries to achieve the millennium development goals should be interpreted with care. Our assumption is that a certain level of income is necessary to achieve the MDGs. However, it is conceivable that the countries can achieve the income level but may not place sufficient emphasis to achieve the MDGs.

[30] See Blume and Voight (2004) for related analysis.

necessary for poverty reduction and overall human development. To the extent that negative economic rights have impact on economic growth, they are pro-poor. Thus a focus on economic freedom as advocated by classical liberals is not inconsistent with advancement of human rights generally. But as we have established in the previous section, economic growth is not sufficient for overall human development. There are many cases where countries have high incomes but this has not translated into significant reductions in poverty or general improvements in well-being. Thus, significant poverty reduction requires growth that distributes benefits to the poor and enlarges their opportunity set.

As noted earlier, poverty reduction requires the implementation of policies for economic growth. Economic growth implies the creation of value from a given set of resources. Standard key ingredients for growth include increases in investment, advances in technology, and improvements in the quality of the labor force through investments in human capital. At the core of achieving and sustaining economic growth is getting the fundamentals right—macroeconomic stability—inflation, interest rates, openness to trade and reducing the cost of doing business—infrastructure, incentives, etc. Simply, creation of value requires some key fundamentals for market actors to enter into gainful transactions. Thus, as a starting point, for countries to achieve economic growth, they must at least have the fundamentals in place. This suggests paying attention to the elements of economic freedom.

Good policies for economic growth may not necessarily result in pro-poor growth. As noted previously, some of the policies implemented by a host of developing countries have not always resulted in pro-poor growth. However, it is has been widely demonstrated that macroeconomic stability is necessary for economic growth. For example, high inflation and large budget deficits undermine economic growth and hurt the poor disproportionately.

Likewise, an undervalued exchange rate policy reduces the volume of exports thereby worsening the balance of payment position which hurts the poor. More specific pro-poor growth policies include government spending on human capital investments, policies that target achieving equity in terms of asset ownership, gender and regions, etc. Klasen (2001) provides a good summary of pro-poor growth policies (see Table 9).[31]

While good policies are central to the achievement of economic growth, it is now well established that such growth requires some core quality institutions. Economic growth arises from the interactions of good policies and good institutions. North (1990) for example elaborates on the role of institutions in providing the right economic incentives for capital accumulation. Good policies alone are not sufficient to yield sustained growth and likewise good institutions cannot result in growth unless backed by good policies. In essence, growth is the result of the interaction between policies and institutions. There is however feedback from policies to institutions and institutions to policies. In other words institutions and policies are to an extent interdependent, with good policies reinforcing institutions and vice versa. Empirical literature has demonstrated a positive and significant relationship between the quality of institutions and economic growth (de Haan and Siermann 1995; Rodrik 1998; Nkurunziza and Bates 2003). In fact, evidence shows that some of the resource rich countries perform dismally in terms of economic growth because of institutional weaknesses. As matter of fact, many scholars now consider institutions to be more important to economic growth than natural resource endowments (North 1990; Keefer 2004; Olson 1993, 1997; Kimenyi and Mbaku 1999; Kaufmann, Kraay and Zoido-Lobaton 1999). Probably the most important institutional factors include improving governance, protection of property rights and upholding the rule of law. These institutional features are important for growth

[31] For the purposes of this paper, we do not go into detailed analysis of the merits of the pro-poor policies but rather focus on institutions that result in the enactment of pro-poor growth policies. Se also Timmer (2004).

generally. Our focus is more specifically on the institutions that are necessary for the adoption of pro-poor growth policies. In other words, what type of institutions are necessary for the adoption of pro-poor growth policies?[32]

Based on the previous discussion, there are two key problems related to poverty reduction. The first has to do with the low growth and low incomes essentially resulting in what we have referred to as human development "income deficit". This income shortfall means that a country does not have the means to deal with poverty. The second problem concerns human development "effort deficit". This is the case where a country has the necessary resources but policies are not geared to improving the well-being of the poor. We argue that both of these problems are directly related to institutions, and specifically the degree of leverage that the poor have in society. Pro-poor policies require that those in the bottom of the income distribution scale be in a position to effectively exert leverage on the leadership. We argue that public policy outcomes represent the interplay between various interests in the society and only those groups that are able to exert leverage are favored by the policies. This is consistent with the interest-group theory of government (Stigler 1971 and Peltzman 1976). Pro-poor institutions are therefore those whereby the poor have power to influence policy outcomes in their favor. Such emerges when the poor are able to constrain the actions of the leaders and also bargain with other groups in society.

As a basic starting point in our exploration of pro-poor institutions, we view policy makers and bureaucrats as primarily interested in maximizing their own welfare.[33] Absent constraints, those in positions of power will seek to institute policies that best serve their

[32] A number of studies have focused on links between human rights and institutions. See for example Blume and Voight (2004) and Howard and Donnely (1996).

[33] Viewing individuals as utility maximizers both in the public and private spheres is a primary tenet of the theory of public choice. The theory deviates from the traditional analysis of public policy by rejecting bifurcation of human behavior (see Buchanan and Tullock, 1962).

interests. In essence, without institutional constraints, leaders will more often than not act in a predatory manner.[34] Put in another way, the behavior of leaders largely depends on the principal-agent relationships in a society. These relationships are largely dependent on the institutional arrangements and the power distribution in society. Thus adoption of good policies is not the result of "good" people but primarily because of "good" institutional constraints that limit the predatory nature of leaders. But of course this may not fully explain the two outcomes observed—"human development income deficit" and the "human development effort deficit". We suggest that these outcomes represent institutional failures. Specifically, both outcomes are related to inefficient "banditary."

Leaders can be considered as bandits who extract rents from producers for their own benefit. A distinction is made between roving banditary and stationary banditary. Roving bandits are those that move from place to place stealing output from producers. This was the case in China during the 1920s where bandits moved from village to village ravaging the villagers, killing them and stealing their outputs.[35] For roving bandits, the future output is of no concern since they move on to other villages after destroying the productive assets in one village. Under a roving banditary regime, there is no incentive to encourage higher outputs nor do the bandits invest in key productive activities such as infrastructure. That is, they do not invest in productive public goods. Roving bandits face few constraints and seek no consensus from the population from whom they extract from. One could view such bandits as having a very short planning horizon and their interest is therefore to extract as much as they can and then move on. Societies subjected to the rule of roving banditary are likely to

[34] It is important that institutional constraints on the behavior of leaders and members of society come from many sources. For example, at one level, such constraints could be through a formal constitution that limits the actions of leaders. However, constraints could also be more informal ranging form customs to actions based on reciprocity and trust.
[35] This analysis follows Olson (1997).

be characterized by low growth, limited investment in productivity-enhancing infrastructure and generally low human development. Under a roving baditary regime, power is wholly concentrated with the band of bandits.

On the other hand, stationary bandits are those bandits that actually settle in a particular area but still extract rents from the population. There is a major difference however between roving and stationary bandits—the stationary bandits do have an interest in the level of output and in fact the future productivity of the community. This is because the welfare of the bandits is directly related to the output of the community. As such, stationary bandits, while not democratic as such, have an interest in promoting production—economic growth so to say. Stationary bandits therefore limit their extractive activities so as not to adversely affect levels of output. Likewise, the stationary banditary regime invests in productive activities such as infrastructure, thereby resulting in economic growth. Notice that, because the bandits are basically interested in maximizing what they can extract, they would have no incentive to share the extractable output with the poor. In other words, under a stationary banditary regime, there is no incentive to focus on improvement of the poor generally. However, the bandits would be keen on supporting producers and providing necessary protection. Thus, stationary bandits are captured by a few interest groups that benefit from the regime and also constrain the regime from transferring benefits to other members of the society.

The alternative to banditary regimes is establishment of institutions through participatory governance or by consent. In such institutions, the leaders (bandits) can only establish rule over the polity by seeking consensus involving widespread participation by the members of the relevant society. This implies that decision making powers are not held by the bandits and a few interest groups alone but are widely diffused in the society. In such

consensual societies, economic growth and the well-being of all the citizens is directly related to the survival of the regime. While the leadership in such as society is necessarily influenced more by some interest groups than others, the well-being of all groups is important and must be addressed by such regimes. Because power is sufficiently diffused in the society to different groups (businesses, non-profit organizations, labor unions, producer groups, poor and wealthy, etc), both economic growth that improves the well-being of all members of the society and also pro-poor growth that specifically improves the well being of the poor disproportionately are part of the leadership's utility function.[36]

Table 10, which is an extension of Figure 5 and also Tables 7 and 8, attempts to provide a schema for analyzing human development and institutions by categorizing countries based on the income and level of human development. The middle line represents the mean HDI and vertical line Y* is the threshold human development income. Box A represents countries with low incomes but high HDI. Based on the actual data of human development indicators, only a few countries are in this category.[37] Box B represents human development income deficit countries. These low income countries can be considered as similar to "Roving Bandit" regimes. However, one set of these countries is also characterized by human development effort deficit while others are not. This means that there are differences in the nature of institutions within the roving banditary category.[38] Box D on the other hand represents Human Development effort deficit countries. These are countries that are able to generate incomes but are not pro-poor. We argue that these countries are similar

[36] The fact that power is sufficiently diffused implies that none of the groups including the leaders has a monopoly in determining outcomes. As such, policy outcomes require compromise through a process of bargaining.

[37] Many countries in this category are primarily part of the old Soviet block. Thus, how we interpret the results and consequential policy recommendations should take cognizance of the history of these states. Nevertheless, as evidence from Table 7 shows, there are many good performers that do not have history of socialism.

[38] This should not be surprising as countries have different histories. Furthermore, there is ample evidence showing that dictators are not created equal—some are more responsive to human development goals than others.

to “stationary bandits” regimes. These are countries where leadership is captured by some producer and business interests. Box C represents countries whose incomes are above the threshold level and also have human development index above the mean--this is the case of consensual governments with sufficient power diffusion. It is important to note that some of the developing countries fall in this category. Examples of countries falling under each of the categories are shown in Table 10.

The complementarily of positive and negative rights in raising absolute quality of life is apparent. We have noted that only very few countries with low incomes have HDI values above the mean and these countries have a unique socialist history. For countries in Box B, regardless of their human development effort, the absolute quality of life is low because of low incomes. These countries are probably putting too much emphasis on redistribution (positive rights) and less on production (economic freedom). On the other hand, countries in Box C have an emphasis on economic freedom and low effort on positive economic rights.[39]

3.2. Historical and other Evidence of the Power-Diffusion Principle

Historically, the emergence of institutions with centralized leadership often start with a high concentration of power amongst a few individuals who comprise of a ruling class. In many cases, this ruling class has been royal families or a group of families that monopolize power. In other cases, power has been concentrated amongst landed class and military juntas or even with religious leadership. For so long as power is concentrated with a few individuals, public policy outcomes can be expected to favor the group that holds the power. Furthermore, the group that holds power has no interest in enlarging its membership since

[39] Even those who advocate for free markets with minimal intervention agree that economic growth requires public involvement in human capital (education, health, nutrition, etc.). Thus sustaining high rates of economic growth is unlikely to be sustained in countries that do not invest heavily in human capital. Countries in Box D are unlikely sustain growth unless they focus more on human capital—meaning emphasis on positive rights.

that would dilute the benefits to each member. In terms of economic growth, it does not matter which group has the power: for so long as power is concentrated, the ruling coalition has no interest in broad pro-growth policies that would benefit all members of the society and therefore largely act as roving bandits. Absent means by which other groups can share in the power, those outside the ruling coalition continuously seek ways to replace the ruling coalition and establish themselves as rulers and in turn monopolize power. Such change in the ruling coalition is not through bargaining but rather through use of violence. It is the uncertainty associated with roving banditary regimes that translates into the short-run planning horizon which is not consistent to economic growth.[40] Economic growth is further undermined by the fact that such regimes have necessarily to invest substantial resources to prevent the formation of strong groups that could otherwise dislodge the regime. At the same time, the regime does not invest in productive public goods whose returns are realized long into the future. This explains the low-income high-concentration of power characteristic of countries in Box B.

For many other countries, rulers form coalitions with powerful interest groups. These interest groups could be involved in agriculture, extraction of minerals or industrial production but the groups have an interest in supporting the regime in return for protection. On the other hand, the ruling class benefits by selling protection in return for revenue. In essence, such countries do in fact achieve growth and accumulation of wealth but there are no forces to redistribute wealth. In fact, the compact between rulers and producer interest groups is precisely based on implicit or explicit agreement that involves limiting redistribution. This may involve protection of land ownership, unfavorable labor laws, and

[40] For a systematic analysis of behavior of rulers in roving bandits regimes, see, Brough and Kimenyi, 1986. This is also consistent to the findings by Alesina and Perotti (1996) who find that political instability, by creating uncertainty in the political economy environment, reduces investment. See also Dutt and Mitra (2004).

the erection of barriers to entry that makes it difficult for other producers to compete with incumbents. It has been demonstrated that powerful interest groups can be harmful to growth by for example blocking adoption of new technologies. For example, dominant industry groups can block the introduction of new technology by other firms. If the incumbent firms have captured the rulers, then it is conceivable that entrants will be blocked from entering and thus hindering growth.[41] But rulers only adopt such policies if the increased competition in the market associates with loss of power. Acemoglu and Robinson (2000) propose a what they call the 'political loser hypothesis' and argue that it is those whose political power, not economic rents, are eroded that block technological progress. A lot of the countries in Box D (human development effort deficit) are in this category. Good examples include South Africa where the state protected members of a producer group but limited the distribution of resources to other groups[42] and the oil rich Arab countries where power remains concentrated with a royal families.

The basic argument advanced in this paper is that pro-poor growth policies requires power diffusion in society. Institutions where power is sufficiently diffused are characterized by a "balance of power" amongst the various interest groups (Powelson 1994). This means that each of the groups in society has some degree of 'veto power' over public policy outcomes. For groups to be able to influence policy outcomes, they must have leverage—that is they must be able to block adoption of policies. While individual groups may not necessarily be able to block all policies which do not benefit them, it is acknowledged that it is necessary to bargain with the groups in exchange of supporting other policies. Such

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[41] See for example Parente and Prescott (1999), "Monopoly Rights: A Barrier to Riches," Krusell and Rios-Rull (1996), "Vested Interests in a Positive Theory of Stagnation an Growth."

[42] While there is now more power diffusion in South Africa, the effects of the Apartheid regime remains strong and little change has taken place in terms of economic benefits reaching the poor. While many pro-poor growth policies have been implemented, it will take time to undo the results of the past particularly when the target is growth with redistribution.

bargaining eliminates outcomes that completely ignore the welfare of some groups. In essence, power diffusion results in a situation where policies are the outcome of compromise.

Looking again at Table 10, we note that countries in Box B could make a transition either to Box D or Box C. A transition from B to D would mean that the countries achieve growth but policies so adopted are not pro-poor. Of course this would be a better transition rather than remaining in B but nevertheless such a transition would primarily benefit only some groups. Countries in Box D can also move to C implying focus on pro-poor policies. As demonstrated above, pro-poor growth policies only emerge when power is diffused.

Lessons from history show that power diffusion takes place over long periods of time but involves increasingly the empowerment of groups formerly excluded from decision making in the society. Even for today's advanced nations, power was initially concentrated but eventually diffused even to the peasants who were able to organize and demand better work conditions and wages. Through exerting leverage, those in power slowly but surely were forced to extend the franchise. Powelson for example writes in the case of Northwestern Europe:

> From the ninth to the nineteenth century, power in Europe not only became more diffuse but also changed its character. At first, it belonged to individuals as a property right. Power positions were inherited, bought and sold, or granted by the monarch. They were based on military force, religion, and wealth. Toward the end of the period, power belonged more to organizations—such as senate, business corporation, or labor union, than to individuals. It was grounded on institutions supported by a balance of tensions among groups…(page. 43-44).

A significant factor in the power diffusion process is democratization—which typically starts with the extension of voting rights and meaningful participation in the political process. By and large, diffusion of power occurs when groups outside the ruling coalition are well organised and form alliances that pose a threat to the ruling coalition. In

analysis of the case of Western Europe, Acemoglu and Robinson (1999) demonstrate that the ruling coalition extended the franchise to avoid social unrest and revolution and that these political reforms also culminated in what we may all pro-poor policies:

> Britain, for example, was transformed from an 'oligarchy' run by an elite to a democracy. The franchise was extended in 1832, then again in 1867 and 1884, transferring voting rights to portions of the society with no previous political representation. The decades after the political reforms witnessed radical social reforms, increased taxation, and extension of education to masses (p.1).[43]

This story is consistent with what happened in many of today's developed countries. In all cases, diffusion of power involved the emergence of many interest groups which formed vertical and horizontal alliances hence increasing their leverage.[44] Important to note is that power diffusion was accompanied with not just growth, but growth with redistribution.

For today's poor countries, power diffusion is the primary strategy for achieving pro-poor growth. Evidence from a number of countries has shown that as different groups have become more organized and exerted pressure on the rulers, they have been able to force diffusion of power and consequently adoption of pro-poor growth policies. But power diffusion is not evidenced by mere participation in voting process but rather by the formation of common-interest groups that have capacity to negotiate with others and collectively, these groups exert sufficient leverage (or provide credible threat to a regime). Pernia observes:

[43] See also Acemoglu and Robinson (2002).

[44] The case of the United States in relationship to the well-being of blacks is particularly informative. Before the extension of voting rights, the well-being of blacks was not taken seriously by the leadership. Because the blacks did not have power to influence outcomes, there was limited focus on key development aspects such as education and health or even the working conditions. This of course changed dramatically as blacks became more organized and were able to exert leverage during the 1950s and 1960s culminating in the civil rights legislation and subsequent transfer and other programs that benefited them substantially. It is also important to note that blacks did not achieve such leverage on their own alone but by forming alliances with other groups.

> Governments are prone to lobbying by special interest groups. The political feasibility of poverty reduction depends on the distribution of benefits from anti-poverty interventions, which in turn hinges on the prevailing configuration of pressure groups, such as industrialists, landlords, labor unions, peasant movements, consumer associations, and women's groups. The potential for poverty reduction is better where there are strong coalitions of the poor that can pressure governments to act in their favor. Salient examples include the successful land reforms in the Republic of Korea and Taipei, China, on the one hand; and the slow, largely ineffective agrarian reforms in Pakistan and the Philippines, on the other……By contrast, coalitions of the rural poor and civil society organizations have in recent years managed to bring poverty to the top of the government's agenda in Thailand (p.2-3).

Thus, evidence from history and also contemporary cases confirm the importance of power diffusion on the adoption of pro-poor policies. At the core of the emergence of institutions where power is diffused is the formation of well-organized interest groups. A primary prerequisite for formation of groups is of course a political environment that is democratic and allows for freedom of association. To a large extent, the evolution of common interest groups in Africa and other countries has been stunted by the autocratic regimes. We can therefore explain the over-representation of human development deficit African countries in Box B in Table 10—which we have called roving bandit regimes—as the result of suppression of political rights. Historical evidence shows that power diffusion was actually occurring albeit slowly long before colonialism, but this process was interrupted and distorted by colonial rule. Colonial rule and the post-colonial regimes that followed had the effect of concentrating power. Recent democratization efforts have also been associated with the emergence of numerous interest groups and civil society organizations and we can predict that these groups will act to force power diffusion, a process that is already evident. Note that power diffusion only occurs where many groups form, each with some substantial bargaining power, and thus prevents the domination by one or a few groups that can otherwise capture the political power.

Power diffusion therefore associates with quality institutions that are consistent to the adoption of pro-growth policies generally and also pro-poor policies specifically. But the emergence of well-organized interest groups depends on particular societies. Of key importance is the extent of trust amongst members of a group. Trust is necessary for people to form strong cohesive groups that are capable of advancing a common purpose. But even more important is that different groups must trust and cooperate in order to form horizontal and vertical alliances that are necessary to impart leverage on those who may seek to monopolize power. Trust is one key component of social capital that influences power diffusion. Ethnic divisions are considered a key factor that reduce trust in Africa and thereby undermine the formation of effective civil society groups.

3.3. Institutions That Facilitate Power Diffusion-Evidence

At least since the late 1990s, there has been concerted emphasis on pro-poor growth. Noteworthy is the almost complete reversal from the exclusive focus on "trickle down" policies that characterized policy prescription during the 1980s and 1990s. There are many studies that have evaluated pro-poor growth policies and their impacts in various countries. One general conclusion from these studies is that creating conducive environment for economic growth is pivotal to raising the welfare of the poor. Nevertheless, the studies do affirm the fact that economic growth alone without deliberate policies that improve the capabilities of the poor cannot improve the well being of the poor. In other words, the studies support the general thrust of this paper that economic growth alone is not sufficient to significantly lower poverty. In addition, the studies show that reduction in inequalities is key to achievement of pro-poor growth.

There is also an increasing body of empirical literature on the link between institutions and economic growth and poverty reduction. The emerging consensus is that reforms that improve the institutions of governance, reduce corruption and increase transparency and enhance the participation of the poor, generally translate in improved economic performance and with the poor benefiting from the growth substantially. For example,

> An improvement in governance—such as an improvement in the rule of law from the low level in Russia to the high level in Czech Republic, or a reduction in corruption from the high level in Indonesia to that in the Republic of Korea-leads to a two-to-four fold improvement in per capita incomes and in infant mortality rates, and about a 20 percent improvement in adult literacy. These results are not just simple correlations between better governance and better development outcomes. Rather, the causality is from governance to these selected measures of development.[45]

We now turn to investigating some of the key institutional features that relate to power diffusion and therefore pro-poor growth. The foregoing discussion has highlighted the main aspects of institution in relation to pro-poor growth which is diffusion of decision making powers to all members of the society including the poor. This essentially implies the empowerment of the people and is reflected in terms of their scope of participation in all aspects of life—social, economic and political. There are a number of indicators of institutional quality and which are good proxies for empowerment and power diffusion in general. These institutional features include democratization, prevalence of corruption, freedom of press and political stability. These measures of quality of institutions capture the degree to which societies are open in terms of participation in decision making and the ability of citizens to hold leaders to account. Thus, high levels of corruption suggest that there are weak mechanisms to control the predatory activities of leaders. On the other hand,

[45] Global Solidarity, p.2, Box 3.1. See also Rodrik 1998, 1999; Mauro, 1995, 1998.

high levels of democratization and press freedom imply that the citizens are able to participate in policy making and have freedom to express their opinions. As noted previously, political instability implies situations where barriers to political competition exist often resulting in violence which undermines growth. In addition, the degree of inequality in society is an important institutional variable measuring the concentration of economic power.[46] This can be considered as a proxy of the marginalization of low-income population.

We investigate the relevance of these institutional measures in explaining the well being of the poor. It has already been demonstrated that income is a primary determinant of the well being of the members of a society and in fact is key to poverty reduction. But we have also argued that institutions do matter in far as the well being of the poor is concerned. It has been emphasized that both *income deficit* and human development *effort deficit* are the result of institution weaknesses. To investigate the role of institutions in explaining a country's pro-poor stance, we start by estimating the relationship between the value of the adjusted human development index and the per capita income as was done previously and obtain the predicted values of the adjusted human development index *PAHDI*. We then regress *PAHDI* against institutional variables. Simply, using predicted values of AHDI removes the variations due to income and thus we are able to determine the independent effects of institutional variables. We estimate regression equations of the following general form:

PAHDI = f (DEMOCRACY RANK, CORRUPTION RANK, PRESS FREEDOM RANK, POLITICAL INSTABILITY INDEX, INEQUALITY INDEX)

[46] Inequality can be the result of institutions—which would suggest that the gini index is highly correlated to institutional measures—hence possible biases. However, this does not appear to be a serious problem in the estimation. Inclusion of the gini index does not impact on other institutional variables in terms of sign ad significance.

Increasing values of the rank of democracy, corruption, press freedom, imply that the countries are less democratic, more corrupt and have less freedom of the press. Likewise, higher values of the political instability index imply more instability while the larger the value of the inequality index the higher the inequality. If our theoretical analysis has empirical validity, then we expect a negative relationship between the measures of the quality of institutions and the predicted AHDI. Simply, countries that are less democratic, more corrupt, limit the freedom of expression, are characterized by political instability and have high levels of inequality in the distribution of income can be expected to have lower values of predicted HDI suggesting that they are less pro-poor. The regression results are shown in Table 11. In all cases, the results are as hypothesized with all the institutional variables having the expected signs.[47] In addition the variables are significant to at least 10 percent level of confidence. These results are consistent to those of other researchers who have investigated the impact of institutions on economic growth and poverty reduction.

These results suggest some obvious institutional reforms for the achievement of pro-poor growth. First, of course is the establishment of more open political markets—that is introduction of political competition. Increased democracy as we have seen is at the core of the power diffusion process. Increased democracy can be expected to also reduce political instability and associated violence and civil wars. Second, fighting corruption is pivotal in power diffusion and requires there to be clear mechanisms through which the citizens can hold the leaders to account. Thus, democratization should not just mean opening markets for political competition and extending people's freedoms but should also be associated with institutional reforms that constrain those in power. This calls for adoption of constitutional rules that limit the powers of rulers and also strengthens the judiciary and other organs

[47] Democracy and press freedom are highly correlated and we have therefore not included both variables in the same specifications.

charged with fighting corruption. Finally, our results suggest that inequality in the distribution of income is itself a barrier to the adoption of pro-poor policies.[48] The policy prescription must therefore involve institutional arrangements that increase the participation of the poor in all aspects of life. In particular, policies that directly target benefits to the poor such as public expenditures on education, primary health care and rural infrastructure expand the opportunity set available to the poor and empower them economically. One area that can advance the position of the poor in Africa is in land reform---including ownership and user rights. Such reforms can be expected to empower the poor generally and specifically rural women who face various forms of marginalization. Appropriate land reforms initiatives can also be expected to provide incentives for improved productivity. Likewise, access to finance is important in reducing inequalities and empowering the poor. All these policies improve the capabilities of the poor and directly facilitate power diffusion and pro-poor growth.

There are specific institutional arrangements that facilitate power diffusion. A most important institution is decentralization. In fact the rapid development of Western Europe and in particular the advent of the industrial revolution seems to have been possible because of competition amongst jurisdictions, which was not the case in other countries such as China and India. Before the advent of the industrial revolution, the technical preconditions had certainly appeared excellent for an industrial revolution in Tang and Sung dynasty China between 7th and 12th centuries. Likewise, India had the artisans and thinkers who had skills and knowledge far superior to that of the Europeans. However, industrial revolution

[48] It is acknowledged that inequality in the distribution of income is itself an outcome of the absence of pro-poor policies. We argue that inequality further perpetuates anti-poor policies as the poor are marginalized and are not able to influence policies.

occurred in Europe primarily because competition amongst jurisdictions that resulted in diffusion of power:

> European and Asian rulers had probably been equally arbitrary and opportunistic, with little interest in the material welfare of their ordinary subjects. Unlike the large Asian empires, however, the European fiefdoms were small and open. Enterprises, bankers, merchants and artisans were thus able to "vote with their feet", if they felt poorly treated in a particular jurisdiction. [49]

The effect was competition by the rulers through establishment of the rule of law—protection or property rights, autonomy to make contracts, and the protection of religious and civil liberties. In essence, jurisdictional competition helped in the diffusion of power, facilitating economic growth and improvement of the well-being of all the people. Similar power diffusion forces were not apparent in China and India and so arbitrary rule was sustained for centuries.

Decentralization is an effective institutional reform for accelerating the diffusion of power and facilitating the adoption of pro-poor growth policies. As an organizing principle, decentralization brings the government closer to the people and empowers the polity so that they are able to hold those in positions of leadership accountable. Bringing the government closer to the people essentially implies that they participate more in the design of policies and programs through exercising voice. Local governments are in turn more likely to be responsive and therefore design public policies that are in line with local preferences (Kimenyi and Meagher 2004; Ferro, Rosenblatt and Stern 2002). This is particularly important for large and diverse nations as is the case for many African countries. In essence, decentralization results in power diffusion and thus provides even poor people with leverage. Today, many developing countries have embarked on decentralization which has led to the

[49] Economic Growth and Institutions, pg. 13.

evolution of institutions that constrain political power and empower the citizens.[50] Such decentralized institutions can be expected to be more pro-poor (Gaiha 2001).

While evidence is mixed, there is ample evidence that shows that well designed decentralization schemes are pro-poor. This has been the case for several African countries such as Uganda and Burkina Faso (Birungi at al. 2000, Donnelly, et. Al 2001). The evidence shows that by empowering the local population, decentralization results in increased participation and improves public service delivery to the poor.[51]

3.4. Recent Cases of Power Diffusion and Impact on Economic Rights

During the last two decades, power diffusion has accelerated in many developing countries. This has involved a shift away from autocratic rule to semi-autocracy and even consensual governments. While in fact the changes in the quality of life occur over long periods and thus lag institutional changes, there are some good examples of advancement of economic rights as a result of power diffusion. Although a great deal of focus has been on positive rights, many of these countries have actually made advances in negative economic rights. A number of countries have gone beyond legislating economic rights and have included such rights in their constitutions.

Kenya represents an interesting case of the impact of power diffusion on economic rights. Since independence in 1963, Kenya has been characterized by large inequalities and high concentration of power on the executive and a few members of a ruling coalition. Democratization efforts culminated in the election of a democratic coalition government in December 2002. By January 2003, the new government announced and actually

[50] For recent case studies of decentralization in developing and transitional economies, see Kimenyi and Meagher, 2004.

[51] Studies on decentralization in a number of West African countries show that decentralization has not yielded the results expected primarily because of poor design. See Korzun and Meager (2004).

implemented a policy of free and compulsory primary education among other measures to provide access to development goods to the majority of the population who had hitherto been marginalized. The country's proposed constitution that has been formulated through broad consultations includes various provisions on positive economic rights such as the right to social security, primary education, basic health care, etc.[52]

Uganda is another case study where dramatic changes in advancing economic rights have taken place. While the current regime is not fully democratic, it represents major improvements in power diffusion from previous regimes. The government of Uganda has undertaken major steps in social provision particularly in areas of education and health. Through decentralization initiatives, the government has been able to improve on human development. Most significant has been adoption of pro-growth and pro-poor policies that have resulted in significant reductions in poverty.

South Africa is yet another good case of power diffusion. As noted previously, South Africa is a high income country but one with a poor record of human development. The Apartheid regime focused on interests of whites but repressed blacks' economic rights—both positive and negative. Since the end of the apartheid era, major advances have been made in areas of redistributive justice particularly in the provision of education, basic health and housing. While the quality of life for most black South Africans remains relatively low, there is clear evidence of advances associated with power diffusion. In addition, the post apartheid constitution provides for specific rights in pertaining to positive economic rights (Sacks ( ); Porter 1995).

[52] The proposed constitution is not adopted as yet and is scheduled for a referendum on November 21, 2005.

The advancement in economic rights following power diffusion as discussed above is consistent to our previous analysis that suggested that such diffusion of power result in compromise amongst members of society. As noted by Pieterse and Van Donk (2004):

> The realisation of socio-economic rights is an inherently political process, which needs to involve rights-holders (directly, or through associations and organisations representing their interests) in determining the desired outcomes, objectives, strategies and acceptable trade-offs so that they are enabled to take control of their own destinies. This inevitably implies a political process of negotiation, disagreement, conflict, occasionally consensus, and, at a minimum, forms of mutual accommodation (p.3).

Increasingly, countries are including social and economic rights in their constitutions. This appears to be a direct approach to advancing the rights (Napier 2003; Porter 1995). However, this is issue is hotly debated to the extent that many such rights are considered unenforceable (Harvey 2004; Sunstein 2003). The American constitution for example does not deal with social and economic rights. On the other hand, many scholars consider inclusion of such rights in the constitution as paramount:

> Ultimately, a constitution which excludes social and economic rights betrays its own principles. It fails to safeguard the rights of disadvantaged groups and undermines the integrity of the democratic process. As the Indian Supreme Court said on one occasion, social and economic rights, and civil and political rights are like "two wheels of a chariot". Vulnerable minorities are no less in need of protection in the social and economic sphere than in the civil and political realm. An incomplete set of rights, a chariot missing a wheel, cannot help but veer off course. Now, more than ever, we need participatory democracies which hear the voices of their most disadvantaged citizens and address the injustice of social and economic deprivation as issues of fundamental human rights (Porter, 1995, pp. 4).

What is apparent is that recent constitutional reforms in developing countries have tended to include social and economic rights. This is true for the African countries that have recently experienced diffusion of power. Thus while they may not have made many other

institutional reforms, these countries have opted for a more direct route to achieve economic rights.

4.0. Conclusion: Institutional Reforms and Areas of Research

This paper has highlighted the strong link between institutions and pro-poor growth. It has been demonstrated that, while growth is generally good for all members of the society, it is not sufficient for poverty reduction. It has also been demonstrated that poverty responds to growth but the responsiveness does vary with the inequality. In addition, it has been shown that while increasing incomes is necessary for the overall improvement of human well-being, there are cases when high incomes associate with low human development implying that benefits of growth do not filter down to the poor as would be expected. The basic argument advanced in the paper is that institutions that support pro-poor growth are those where power is sufficiently diffused in society and where balance of power is maintained through bargaining and compromise amongst interest groups. This then requires democratic societies where many interest groups play a role in the design and implementation of policies. A particular innovation of this paper is the introduction of "human development *income deficit*" and "human development *effort deficit*" concepts to categorize countries. This categorization helps us understand some of the constraints to pro-poor growth and also the transitions that the countries are likely to make depending on their institutional features. The paper links institutions to human development effort deficit and confirms the importance of institutions in determining countries' propensity to take pro-poor stance. The paper also highlights the complementarity between positive and negative economic rights.

The emerging policy recommendations relate to institutional reforms to accelerate power diffusion including democratization and improvement in transparency. Likewise, well-designed decentralization schemes are key to accelerating the power diffusion process and

consequently adoption of pro-poor policies. While it is acknowledged that appropriate reforms should depend on a country's unique circumstances, a primary message of the paper is that pro-poor reforms must entail diffusion of power even to the poorest members of society such that they participate meaningfully in determining policy outcomes including exercising leverage over the leadership.

A recurring theme in the paper is that large inequalities in the distribution of income are not only anti-poor in general but are also anti-growth. In fact, it has been argued that, unless African countries focus on direct approaches to lower inequalities, achievement of the millennium development goals will remain a mirage. Thus, key to achievement of pro-poor growth is a focus on targeting public expenditure on the poor in areas that directly increase their capabilities such as in education, health, land rights and rural infrastructure. These pro-poor expenditures can be expected to pay handsome dividends in terms of economic growth. However, we note that the adoption of such policies require that the poor be able to influence outcomes in their favor—thus emphasizing the necessity of reforms that accelerate power diffusion.

This paper is largely exploratory and more research is required so as to offer concrete reform proposals. More rigorous empirical investigation of the role of African institutions in power diffusion and pro-poor growth is necessary. In particular, there is need to focus on various institutional factors that seem to hinder power diffusion within the African context. A more careful analysis of human development effort deficit in relation to institutional arrangements can help unearth the most important institutional determinants of pro-poor growth and policies. More research is also necessary in evaluating the design of decentralization in Africa. While in theory decentralization is expected to be pro-poor, there are many case where such results have not been realized because of poor design.

The country rankings based on human development effort reveal a rather disturbing trend where many African countries are ranked lowest. Thus, the countries are characterized by the double tragedy of human development *income deficit* and also human development *effort deficit*. More research is necessary to determine the primary sources of the anti-poor stance and the institutional reforms that can yield some quick but durable gains. The concentration of countries in Southern Africa amongst those that have incomes above the threshold level but are characterized by human development effort deficit is also of concern. It has been alluded to that this could be due to the high prevalence of HIV/Aids in this region. This requires further analysis.

As a final remark, it is observed that there has been a tendency for countries to approach the issue of economic rights by including provisions in their constitutions. It is not clear the extent to which such economic rights have aided in advancing economic rights and in particular whether in fact that is the most practical way to of advancing such rights. Some more analysis of constitutional provisions for economic rights in developing countries and the degree to which they are enforced could shed some light on the viability and effectiveness of including economic rights provisions in constitutions.

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Table 1: Economic Growth and Poverty Reduction

Country	Poverty Rate 2001	Growth (low)	Growth (high)	Poverty 2015 Low growth	Poverty 2015 High growth
Kenya	56	1.5	3.0	32.79	18.80
Nigeria	60	3.0	6.0	20.14	6.16
South Africa	50	3.0	6.0	16.78	5.13
Uganda	35	5.5	11.0	4.41	0.38
Zimbabwe	70	0.1	3	67.42	23.5

Table 2: Distribution Adjusted Poverty Reduction

Country	Poverty Rate 2001	Growth rate	Gini	Poverty 2015 Unadjusted for inequality	Poverty 2015 Adjusted for inequality
Kenya	56	1.5	44.9	32.79	39.40
Nigeria	60	3.0	50.6	20.14	31.74
South Africa	50	3.0	59.3	16.78	29.65
Uganda	35	5.5	37.5	4.41	7.62
Zimbabwe	70	0.1	50.1	67.58	68.54

Table 3: Distribution Adjusted Poverty Reduction (assuming inequality was half its 2001 levels)

Country	Poverty Rate 2001	Growth rate	Gini (lower inequality)	Poverty 2015 Higher inequality	Poverty 2015 Lower inequality
Kenya	56	1.5	22.45	39.40	34.04
Nigeria	60	3.0	25.3	31.74	22.73
South Africa	50	3.0	29.6	29.65	19.99
Uganda	35	5.5	18.7	7.62	4.65
Zimbabwe	70	0.1, 3	25.05	68.54	26.31

Table 4: Measures of Human Development

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Human Development Index	175	0.27	.95	0.69	0.18
Adult Literacy rate	174	13	100	81.14	20.59
Life Expectancy	175	32.7	81.5	65.43	12.57
Primary and secondary school enrollment	174	19	114	69.33	19.65
Infant Mortality	174	3	165	42.47	39.01
Per capital income (PPP)	173	560	36600	8768.01	9081.47

Table 5: Regressions Results of measures of Human Development against log per capita income (PPP)

Dependent Variable		Adult Literacy rate	Life Expectancy	Primary and Secondary School Enrollment	Infant mortality
Constant		-23.72 (-2.66)***	-8.36 (-1.81)*	-50.67 (-7.39)***	288.36 (282.74)***
Log per capita income		12.33 (11.90)***	8.67 (16.17)***	14.07 (17.64)***	-28.93 (-19.57)***
Adjusted R-Square		0.451	0.602	0.645	0.691

t-statistics are in parentheses below the coefficients. Asterisks (***) denote significance at the 1% level.

Figure 1: Relationship Between HDI and Per Capita Income (PPP)

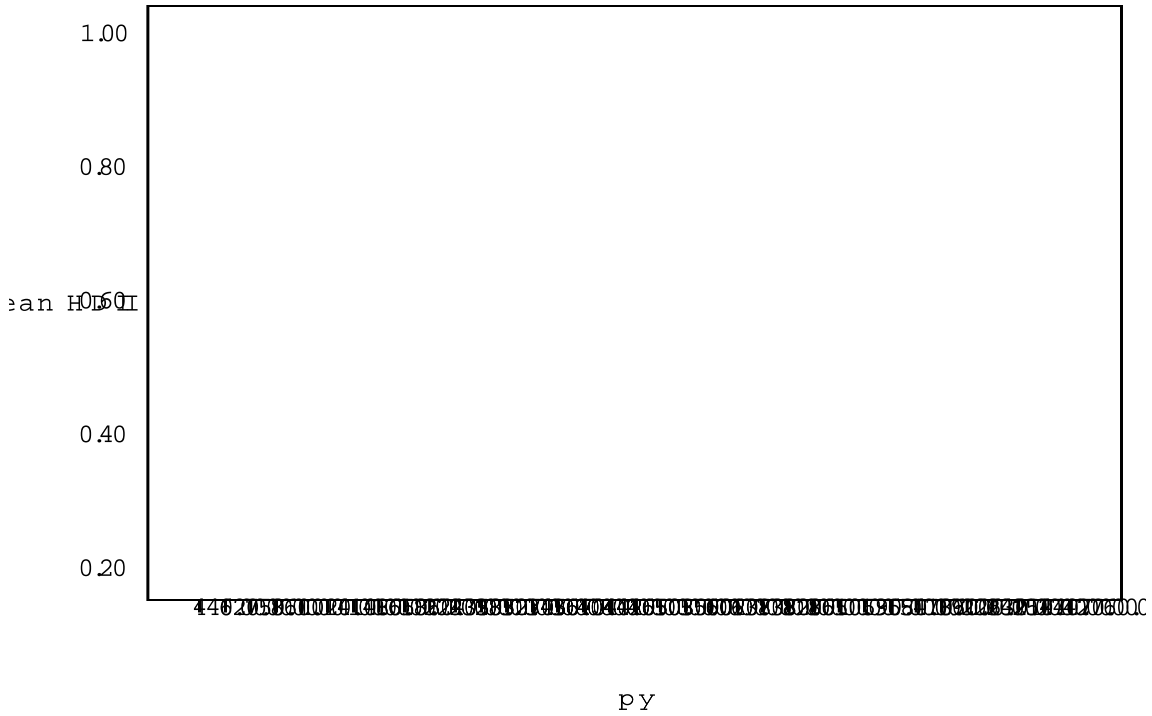

Figure 2: Relationship between Primary school Enrollment and Per Capita income (PPP)

Figure 3 :Relationship Between Infant Mortality and Per Capita Income (PPP)

Figure 4 : Relationship Between Combined Primary and Secondary School Enrollment and per Capita income

(PPP)

Figure 5: Human Development Deficit Income

Table 6: Time Necessary for Countries to Meet the Human Development Deficit Income (Assuming no change in the distribution of income)

Country	Per capita Income 2002	Number of Years to attain $2400 assuming annual growth rate of 1.5%	Years to attain $2400 assuming annual growth rate of 3%	Years to attain $2400 assuming annual growth rate of 4.5%
Ghana	2130	8	4	2.7
Angola	2130	8	4	2.7
Djibouti	1990	12.5	6.3	4.2
Sudan	1820	18.5	9.3	6.2
Gambia	1690	23.5	11.8	7.9
Senegal	1580	28	14.1	9.4
Cote d'ivore	1520	30.6	15.4	10.3
Togo	1480	32.4	16.3	10.9
Uganda	1390	36.6	18.4	12.4
Rwanda	1270	42.7	21.5	14.4
Central Africa Rep	1170	48.2	24.3	16.3
Burkina Faso	1100	52.3	26.3	17.7
Benin	1070	54.2	27.9	18.3
Mozambique	1050	55.5	27.9	18.7
Kenya	1020	57.4	28.9	19.4
Chad	1020	57.4	28.3	19.4
Congo	980	60.1	30.3	20.3
Mali	980	60.1	30.3	20.3
Eriteria	890	66	33.5	22.5
Nigeria	860	68.9	34.7	23.3
Zambia	840	70.5	35.5	23.8
Niger	840	70.5	35.5	23.8
Ethiopia	780	75	38	25.5
Madagascar	740	79.0	39.8	26.7
Guinea-Bissau	710	81	41.2	27.6
Congo Demo. Rep.	650	87.7	44.1	29.6
Burundi	630	89.9	45.2	30.3
Malawi	580	95.3	48	32.2
Sierra Leone	520	102.7	51.7	34.7

Table 7: Human Development Effort (pro-poor) Country Rankings
(based on Adjusted HDI = f(log PY)[53]

Country	PY	HDI	AHDI	LAHDI	PRED	RES	EFFORT
Tajikistan	980	0.671	0.54	-0.61	-1.12610	0.51791	1.00
Uzbekistan	1,670	0.709	0.55	-0.59	-1.01007	0.41646	2.00
Kyrgyzstan	1,620	0.701	0.55	-0.60	-1.01668	0.41460	3.00
Moldova	1,470	0.681	0.53	-0.63	-1.03784	0.40484	4.00
Georgia	2,260	0.739	0.57	-0.57	-0.94421	0.37445	5.00
Sao Tomé	1,317	0.645	0.50	-0.69	-1.06176	0.37194	6.00
Mongolia	1,710	0.668	0.51	-0.67	-1.00491	0.33418	7.00
Armenia	3,120	0.754	0.56	-0.57	-0.87401	0.30130	8.00
Viet Nam	2,300	0.691	0.52	-0.66	-0.94039	0.28196	9.00
Azerbaijan	3,210	0.746	0.55	-0.59	-0.86781	0.27481	10.00
Solomon Is	1,590	0.624	0.47	-0.75	-1.02075	0.26715	11.00
Myanmar	1,027	0.551	0.42	-0.87	-1.11591	0.25078	12.00
Jamaica	3,980	0.764	0.56	-0.58	-0.82101	0.24238	13.00
Bolivia	2,460	0.681	0.50	-0.68	-0.92575	0.24123	14.00
							15.00
Cuba	5,259	0.809	0.59	-0.53	-0.76035	0.23102	16.00
Sri Lanka	3,570	0.740	0.54	-0.62	-0.84468	0.22849	17.00
Ecuador	3,580	0.735	0.54	-0.63	-0.84407	0.21858	18.00
Albania	4,830	0.781	0.56	-0.57	-0.77887	0.20676	19.00
Philippines	4,170	0.753	0.55	-0.60	-0.81086	0.20633	20.00
Nicaragua	2,470	0.667	0.49	-0.72	-0.92486	0.20537	21.00
Honduras	2,600	0.672	0.49	-0.71	-0.91370	0.20442	22.00
Lebanon	4,360	0.758	0.55	-0.60	-0.80116	0.19968	23.00
Jordan	4,220	0.750	0.54	-0.61	-0.80826	0.19823	24.00
Ukraine	4,870	0.777	0.56	-0.58	-0.77707	0.19785	25.00
Turkmenistan	4,300	0.752	0.54	-0.61	-0.80417	0.19168	26.00
Belarus	5,520	0.790	0.57	-0.57	-0.74980	0.18182	27.00
Saint Lucia	5,300	0.777	0.56	-0.59	-0.75866	0.17347	28.00
Indonesia	3,230	0.692	0.50	-0.70	-0.86646	0.17065	29.00
Paraguay	4,610	0.751	0.54	-0.62	-0.78902	0.16850	30.00
Syria	3,620	0.710	0.51	-0.67	-0.84165	0.16830	31.00
Venezuela	5,380	0.778	0.55	-0.59	-0.75539	0.16601	32.00
Madagascar	740	0.469	0.36	-1.02	-1.18725	0.16282	33.00
China	4,580	0.745	0.53	-0.63	-0.79044	0.15870	34.00
Maldives	4,798	0.752	0.54	-0.62	-0.78032	0.15545	35.00
Panama	6,170	0.791	0.56	-0.58	-0.72557	0.14753	36.00
Peru	5,010	0.752	0.54	-0.62	-0.77091	0.14604	37.00
Uruguay	7,830	0.833	0.59	-0.53	-0.67370	0.14550	38.00
Bosnia	5,970	0.781	0.55	-0.59	-0.73274	0.14275	39.00
Samoa	5,600	0.769	0.55	-0.61	-0.74667	0.14092	40.00
Yemen	870	0.482	0.36	-1.02	-1.15202	0.13591	41.00
Macedonia	6,470	0.793	0.56	-0.58	-0.71523	0.13482	42.00
Guyana	4,260	0.719	0.51	-0.68	-0.80621	0.13090	43.00
Fiji	5,440	0.758	0.53	-0.63	-0.75298	0.12687	44.00

[53] Some countries in the larger sample were not ranked because of missing variables—hence the blanks which should be ignored in this and next Table.

Congo	980	0.494	0.37	-1.00	-1.12610	0.12462	45.00
Kazakhstan	5,870	0.766	0.54	-0.62	-0.73642	0.11900	46.00
Bulgaria	7,130	0.796	0.56	-0.58	-0.69409	0.11308	47.00
Saint V and G	5,460	0.751	0.53	-0.64	-0.75218	0.11289	48.00
Costa Rica	8,840	0.834	0.58	-0.54	-0.64729	0.10943	49.00
Colombia	6,370	0.773	0.54	-0.61	-0.71862	0.10798	50.00
Suriname	6,590	0.780	0.55	-0.60	-0.71123	0.10732	51.00
Tonga	6,850	0.787	0.55	-0.60	-0.70281	0.10558	52.00
Romania	6,560	0.778	0.54	-0.61	-0.71222	0.10464	53.00
Nigeria	860	0.466	0.35	-1.06	-1.15454	0.09322	54.00
Dominica	5,640	0.743	0.52	-0.65	-0.74512	0.09055	55.00
Libya	7,570	0.794	0.55	-0.59	-0.68105	0.09046	56.00
Kenya	1,020	0.488	0.36	-1.03	-1.11739	0.09017	57.00
El Salvador	4,890	0.720	0.50	-0.69	-0.77618	0.08968	58.00
Chile	9,820	0.839	0.58	-0.54	-0.62440	0.08369	59.00
Latvia	9,210	0.823	0.57	-0.56	-0.63836	0.08149	60.00
Poland	10,560	0.850	0.59	-0.53	-0.60858	0.08095	61.00
Argentina	10,880	0.853	0.59	-0.52	-0.60209	0.07952	62.00
Cape Verde	5,000	0.717	0.50	-0.69	-0.77134	0.07886	63.00
Lithuania	10,320	0.842	0.59	-0.54	-0.61359	0.07802	64.00
Tanzania	580	0.407	0.31	-1.17	-1.24029	0.07018	65.00
Turkey	6,390	0.751	0.52	-0.65	-0.71794	0.06594	66.00
Thailand	7,010	0.768	0.53	-0.63	-0.69778	0.06542	67.00
Russian	8,230	0.795	0.55	-0.60	-0.66285	0.06198	68.00
Croatia	10,240	0.830	0.57	-0.56	-0.61528	0.05899	69.00
Cambodia	2,060	0.568	0.40	-0.91	-0.96438	0.05141	70.00
Mexico	8,970	0.802	0.55	-0.59	-0.64411	0.04990	71.00
Belize	6,080	0.737	0.51	-0.68	-0.72877	0.04952	72.00
Brazil	7,770	0.775	0.53	-0.63	-0.67537	0.04363	73.00
Estonia	12,260	0.853	0.59	-0.53	-0.57609	0.04222	74.00
Ghana	2,130	0.568	0.40	-0.92	-0.95710	0.03580	75.00
Tunisia	6,760	0.745	0.51	-0.67	-0.70569	0.03560	76.00
Egypt	3,810	0.653	0.45	-0.80	-0.83051	0.03126	77.00
Trinidad & T	9,430	0.801	0.55	-0.60	-0.63322	0.03113	78.00
Barbados	15,290	0.888	0.61	-0.50	-0.52801	0.03043	79.00
Malaysia	9,120	0.793	0.54	-0.61	-0.64050	0.02985	80.00
Lao	1,720	0.534	0.38	-0.97	-1.00364	0.02902	81.00
Dominican	6,640	0.738	0.50	-0.68	-0.70959	0.02573	82.00
Nepal	1,370	0.504	0.36	-1.03	-1.05317	0.02409	83.00
Saint $N	12,420	0.844	0.58	-0.55	-0.57327	0.02393	84.00
Comoros	1,690	0.530	0.37	-0.99	-1.00747	0.02219	85.00
India	2,670	0.595	0.41	-0.89	-0.90791	0.02037	86.00
Iran	6,690	0.732	0.50	-0.70	-0.70795	0.01214	87.00
Slovakia	12,840	0.842	0.57	-0.56	-0.56603	0.00741	88.00
Malawi	580	0.388	0.29	-1.23	-1.24029	0.00700	89.00
Grenada	7,280	0.745	0.51	-0.68	-0.68955	0.00636	90.00
Eritrea	890	0.439	0.32	-1.14	-1.14707	0.00451	91.00
Hungary	13,400	0.848	0.57	-0.55	-0.55673	0.00277	92.00
Algeria	5,760	0.704	0.48	-0.74	-0.74054	0.00100	93.00
Guatemala	4,080	0.649	0.44	-0.82	-0.81561	-0.00009	94.00
Korea	16,950	0.888	0.60	-0.51	-0.50557	-0.00303	95.00
Greece	18,720	0.902	0.61	-0.49	-0.48395	-0.00707	96.00

Czech	15,780	0.868	0.59	-0.53	-0.52114	-0.00989	97.00
Portugal	18,280	0.897	0.61	-0.50	-0.48913	-0.01010	98.00
Uganda	1,390	0.493	0.35	-1.06	-1.05002	-0.01034	99.00
Israel	19,530	0.908	0.61	-0.49	-0.47473	-0.01195	100.00
Antigua&B	10,920	0.800	0.54	-0.62	-0.60129	-0.01490	101.00
							102.00
Slovenia	18,540	0.895	0.61	-0.50	-0.48605	-0.01647	103.00
New Zealand	21,740	0.926	0.63	-0.47	-0.45139	-0.01701	104.00
Spain	21,460	0.922	0.62	-0.47	-0.45421	-0.02060	105.00
Bhutan	1,969	0.536	0.37	-1.00	-0.97421	-0.02184	106.00
Togo	1,480	0.495	0.35	-1.06	-1.03636	-0.02785	107.00
Malta	17,640	0.875	0.59	-0.53	-0.49689	-0.03358	108.00
							109.00
Cyprus	18,360	0.883	0.59	-0.52	-0.48818	-0.03438	110.00
Bangladesh	1,700	0.509	0.35	-1.04	-1.00619	-0.03699	111.00
Sweden	26,050	0.946	0.64	-0.45	-0.41202	-0.04054	112.00
Mauritius	10,810	0.785	0.53	-0.64	-0.60349	-0.04087	113.00
Morocco	3,810	0.620	0.42	-0.88	-0.83051	-0.04496	114.00
PapuaNg	2,270	0.542	0.37	-1.00	-0.94324	-0.05462	115.00
UK	26,150	0.936	0.63	-0.47	-0.41118	-0.05722	116.00
Finland	26,190	0.935	0.63	-0.47	-0.41085	-0.05915	117.00
Japan	26,940	0.938	0.63	-0.47	-0.40471	-0.06051	118.00
Australia	28,260	0.946	0.63	-0.46	-0.39429	-0.06352	119.00
Belgium	27,570	0.942	0.63	-0.46	-0.39967	-0.06448	120.00
Vanuatu	2,890	0.570	0.38	-0.96	-0.89068	-0.06817	121.00
France	26,920	0.932	0.62	-0.47	-0.40487	-0.06995	122.00
Sudan	1,820	0.505	0.35	-1.06	-0.99134	-0.07287	123.00
Kuwait	16,240	0.838	0.55	-0.59	-0.51489	-0.07450	124.00
Brunei	19,210	0.867	0.57	-0.56	-0.47833	-0.07738	125.00
Netherlands	29,100	0.942	0.63	-0.47	-0.38792	-0.08156	126.00
Canada	29,480	0.943	0.63	-0.47	-0.38509	-0.08278	127.00
Bahrain	17,170	0.843	0.56	-0.59	-0.50277	-0.08362	128.00
Seychelles	18,232	0.853	0.56	-0.57	-0.48970	-0.08478	129.00
Italy	26,430	0.920	0.61	-0.49	-0.40887	-0.08543	130.00
Iceland	29,750	0.941	0.62	-0.47	-0.38311	-0.08796	131.00
Germany	27,100	0.925	0.61	-0.49	-0.40342	-0.08815	132.00
Singapore	24,040	0.902	0.60	-0.52	-0.42950	-0.08913	133.00
Austria	29,220	0.934	0.62	-0.48	-0.38702	-0.09533	134.00
Switzerland	30,010	0.936	0.62	-0.48	-0.38121	-0.09790	135.00
Denmark	30,940	0.932	0.61	-0.49	-0.37457	-0.11645	136.00
Hong Kong	26,910	0.903	0.59	-0.52	-0.40495	-0.11761	137.00
Pakistan	1,940	0.497	0.33	-1.10	-0.97744	-0.12017	138.00
Cameroon	2,000	0.501	0.33	-1.10	-0.97081	-0.12481	139.00
CongoD	650	0.365	0.26	-1.34	-1.21548	-0.12520	140.00
Saudi Arabia	12,650	0.768	0.50	-0.70	-0.56927	-0.12788	141.00
Norway	36,600	0.956	0.63	-0.47	-0.33800	-0.13041	142.00
Bahamas	17,280	0.815	0.53	-0.64	-0.50137	-0.13665	143.00
Benin	1,070	0.421	0.29	-1.25	-1.10698	-0.13898	144.00
Oman	13,340	0.770	0.50	-0.70	-0.55771	-0.14213	145.00
Qatar	19,844	0.833	0.54	-0.62	-0.47126	-0.14555	146.00
USA	35,750	0.939	0.61	-0.49	-0.34311	-0.14737	147.00
Zambia	840	0.389	0.27	-1.31	-1.15966	-0.15338	148.00

Haiti	1,610	0.463	0.31	-1.17	-1.01803	-0.15423	149.00
Ireland	36,360	0.936	0.61	-0.50	-0.33943	-0.15596	150.00
Rwanda	1,270	0.431	0.29	-1.23	-1.06967	-0.16476	151.00
Gabon	6,590	0.648	0.41	-0.88	-0.71123	-0.16905	152.00
UArabE	22,420	0.824	0.52	-0.65	-0.44469	-0.20158	153.00
Gambia	1,690	0.452	0.30	-1.22	-1.00747	-0.21218	154.00
Lesotho	2,420	0.493	0.32	-1.15	-0.92931	-0.22164	155.00
Burundi	630	0.339	0.24	-1.45	-1.22229	-0.22305	156.00
Zimbabwe	2,400	0.491	0.31	-1.16	-0.93112	-0.22618	157.00
							158.00
Ethiopia	780	0.359	0.25	-1.40	-1.17579	-0.22799	159.00
Guinea-Bissau	710	0.350	0.24	-1.43	-1.19626	-0.23085	160.00
Senegal	1,580	0.437	0.28	-1.26	-1.02213	-0.23783	161.00
Namibia	6,210	0.607	0.38	-0.98	-0.72416	-0.25135	162.00
Chad	1,020	0.379	0.25	-1.39	-1.11739	-0.27291	163.00
South Africa	10,070	0.666	0.41	-0.89	-0.61893	-0.27430	164.00
Djibouti	1,990	0.454	0.29	-1.25	-0.97190	-0.27521	165.00
Mauritania	2,220	0.465	0.29	-1.23	-0.94809	-0.28405	166.00
Côte d'Ivoire	1,520	0.399	0.25	-1.39	-1.03055	-0.35975	167.00
Mozambique	1,050	0.354	0.22	-1.50	-1.11108	-0.38503	168.00
Swaziland	4,550	0.519	0.31	-1.19	-0.79187	-0.39339	169.00
Botswana	8,170	0.589	0.35	-1.06	-0.66445	-0.39783	170.00
Guinea	2,100	0.425	0.26	-1.37	-0.96019	-0.40630	171.00
Cafrican R	1,170	0.361	0.22	-1.49	-1.08753	-0.40710	172.00
Sierra Leone	520	0.273	0.18	-1.72	-1.26406	-0.45259	173.00
Mali	930	0.326	0.20	-1.60	-1.13750	-0.45869	174.00
Niger	800	0.292	0.18	-1.74	-1.17028	-0.57078	175.00
Angola	2,130	0.381	0.21	-1.56	-0.95710	-0.59880	176.00
Burkina Faso	1,100	0.302	0.17	-1.78	-1.10096	-0.67887	177.00

Table 8: Human Development Effort (pro-poor) Country Rankings
(based on HDI Rank = f(Income Index)

Country	income Index	HDI Rank	Predicted Rank	Residuals	Effort Rank
Tajikistan	0.38	116.00	158.43130	-42.43130	1.00
Cuba	0.66	52.00	86.82781	-34.82781	2.00
Uzbekistan	0.47	107.00	135.41589	-28.41589	3.00
Kyrgyzstan	0.46	110.00	137.97316	-27.97316	4.00
Armenia	0.57	82.00	109.84322	-27.84322	5.00
Moldova, Rep. of	0.45	113.00	140.53043	-27.53043	6.00
Georgia	0.52	97.00	122.62956	-25.62956	7.00
Albania	0.65	65.00	89.38508	-24.38508	8.00
Myanmar	0.39	132.00	155.87403	-23.87403	9.00
Uruguay	0.73	46.00	68.92694	-22.92694	10.00
Sao Tomé and Principe	0.43	123.00	145.64496	-22.64496	11.00
Belarus	0.67	62.00	84.27055	-22.27055	12.00
Argentina	0.78	34.00	56.14060	-22.14060	13.00
Madagascar	0.33	150.00	171.21764	-21.21764	14.00
Jamaica	0.61	79.00	99.61415	-20.61415	16.00
Tanzania, U. Rep. of	0.29	162.00	181.44670	-19.44670	17.00
Ukraine	0.65	70.00	89.38508	-19.38508	18.00
Poland	0.78	37.00	56.14060	-19.14060	19.00
Costa Rica	0.75	45.00	63.81241	-18.81241	20.00
Mongolia	0.47	117.00	135.41589	-18.41589	21.00
Panama	0.69	61.00	79.15601	-18.15601	22.00
Bulgaria	0.71	56.00	74.04148	-18.04148	23.00
Lithuania	0.77	41.00	58.69787	-17.69787	24.00
Macedonia, TFYR	0.70	60.00	76.59874	-16.59874	25.00
Malawi	0.29	165.00	181.44670	-16.44670	26.00
Azerbaijan	0.58	91.00	107.28595	-16.28595	27.00
Venezuela	0.67	68.00	84.27055	-16.27055	28.00
Saint Lucia	0.66	71.00	86.82781	-15.82781	29.00
Sweden	0.93	2.00	17.78159	-15.78159	30.00
Bosnia and Herzegovina	0.68	66.00	81.71328	-15.71328	31.00
Chile	0.77	43.00	58.69787	-15.69787	32.00
Estonia	0.80	36.00	51.02607	-15.02607	33.00
Yemen	0.36	149.00	163.54583	-14.54583	34.00
Lebanon	0.63	80.00	94.49961	-14.49961	35.00
Congo	0.38	144.00	158.43130	-14.43130	36.00
Philippines	0.62	83.00	97.05688	-14.05688	37.00
Solomon Islands	0.46	124.00	137.97316	-13.97316	38.00
Latvia	0.75	50.00	63.81241	-13.81241	39.00
Libyan Arab Jamahiriya	0.72	58.00	71.48421	-13.48421	40.00

Nigeria	0.36	151.00	163.54583	-12.54583	41.00
Australia	0.94	3.00	15.22433	-12.22433	42.00
Saint Kitts and Nevis	0.80	39.00	51.02607	-12.02607	43.00
Barbados	0.84	29.00	40.79700	-11.79700	44.00
Tonga	0.71	63.00	74.04148	-11.04148	45.00
Mexico	0.75	53.00	63.81241	-10.81241	46.00
Croatia	0.77	48.00	58.69787	-10.69787	47.00
Viet Nam	0.52	112.00	122.62956	-10.62956	48.00
Suriname	0.70	67.00	76.59874	-9.59874	49.00
Russian Federation	0.74	57.00	66.36967	-9.36967	50.00
Samoa (Western)	0.67	75.00	84.27055	-9.27055	51.00
Belgium	0.94	6.00	15.22433	-9.22433	52.00
Greece	0.87	24.00	33.12520	-9.12520	53.00
Czech Republic	0.84	32.00	40.79700	-8.79700	54.00
Japan	0.93	9.00	17.78159	-8.78159	55.00
Canada	0.95	4.00	12.66706	-8.66706	56.00
Israel	0.88	22.00	30.56793	-8.56793	57.00
Turkmenistan	0.63	86.00	94.49961	-8.49961	58.00
Congo, Dem. Rep. of the	0.31	168.00	176.33217	-8.33217	59.00
Hungary	0.82	38.00	45.91154	-7.91154	60.00
Kenya	0.39	148.00	155.87403	-7.87403	61.00
Korea, Rep. of	0.86	28.00	35.68247	-7.68247	62.00
Netherlands	0.95	5.00	12.66706	-7.66706	63.00
Romania	0.70	69.00	76.59874	-7.59874	64.00
Eritrea	0.36	156.00	163.54583	-7.54583	65.00
New Zealand	0.90	18.00	25.45340	-7.45340	66.00
Trinidad and Tobago	0.76	54.00	61.25514	-7.25514	67.00
Portugal	0.87	26.00	33.12520	-7.12520	68.00
Jordan	0.62	90.00	97.05688	-7.05688	69.00
Sierra Leone	0.28	177.00	184.00397	-7.00397	70.00
Slovakia	0.81	42.00	48.46880	-6.46880	71.00
Sri Lanka	0.60	96.00	102.17142	-6.17142	72.00
Colombia	0.69	73.00	79.15601	-6.15601	73.00
Slovenia	0.87	27.00	33.12520	-6.12520	74.00
Bolivia	0.53	114.00	120.07229	-6.07229	75.00
United Kingdom	0.93	12.00	17.78159	-5.78159	76.00
Iceland	0.95	7.00	12.66706	-5.66706	77.00
Spain	0.90	20.00	25.45340	-5.45340	78.00
Maldives	0.65	84.00	89.38508	-5.38508	79.00
Malaysia	0.75	59.00	63.81241	-4.81241	80.00
Finland	0.93	13.00	17.78159	-4.78159	81.00
Malta	0.86	31.00	35.68247	-4.68247	82.00
Peru	0.65	85.00	89.38508	-4.38508	83.00
Kazakhstan	0.68	78.00	81.71328	-3.71328	84.00
Burundi	0.31	173.00	176.33217	-3.33217	85.00
Fiji	0.67	81.00	84.27055	-3.27055	86.00
Cyprus	0.87	30.00	33.12520	-3.12520	87.00
Nepal	0.44	140.00	143.08769	-3.08769	88.00

Paraguay	0.64	89.00	91.94235	-2.94235	89.00
Honduras	0.54	115.00	117.51502	-2.51502	90.00
Ecuador	0.60	100.00	102.17142	-2.17142	91.00
France	0.93	16.00	17.78159	-1.78159	92.00
Switzerland	0.95	11.00	12.66706	-1.66706	93.00
Norway	0.99	1.00	2.43799	-1.43799	94.00
Antigua and Barbuda	0.78	55.00	56.14060	-1.14060	95.00
Lao People's Dem. Rep.	0.47	135.00	135.41589	-0.41589	96.00
Zambia	0.36	164.00	163.54583	0.45417	97.00
Nicaragua	0.54	118.00	117.51502	0.48498	98.00
Comoros	0.47	136.00	135.41589	0.58411	99.00
Guinea-Bissau	0.33	172.00	171.21764	0.78236	100.00
Austria	0.95	14.00	12.66706	1.33294	101.00
Ethiopia	0.34	170.00	168.66037	1.33963	103.00
Seychelles	0.87	35.00	33.12520	1.87480	104.00
Thailand	0.71	76.00	74.04148	1.95852	105.00
China	0.64	94.00	91.94235	2.05765	106.00
Cambodia	0.50	130.00	127.74409	2.25591	107.00
Brunei Darussalam	0.88	33.00	30.56793	2.43207	108.00
Togo	0.45	143.00	140.53043	2.46957	110.00
Bangladesh	0.47	138.00	135.41589	2.58411	111.00
Saint Vincent and the Grenadines	0.67	87.00	84.27055	2.72945	112.00
Uganda	0.44	146.00	143.08769	2.91231	113.00
United States	0.98	8.00	4.99526	3.00474	114.00
Brazil	0.73	72.00	68.92694	3.07306	115.00
Italy	0.93	21.00	17.78159	3.21841	116.00
Indonesia	0.58	111.00	107.28595	3.71405	117.00
Germany	0.94	19.00	15.22433	3.77567	118.00
Syrian Arab Republic	0.60	106.00	102.17142	3.82858	119.00
Bahrain	0.86	40.00	35.68247	4.31753	120.00
Singapore	0.92	25.00	20.33886	4.66114	121.00
Ireland	0.98	10.00	4.99526	5.00474	122.00
Hong Kong, China (SAR)	0.93	23.00	17.78159	5.21841	123.00
Kuwait	0.85	44.00	38.23973	5.76027	124.00
Ghana	0.51	131.00	125.18682	5.81318	125.00
Sudan	0.48	139.00	132.85863	6.14137	126.00
Bhutan	0.50	134.00	127.74409	6.25591	127.00
Denmark	0.96	17.00	10.10979	6.89021	128.00
Benin	0.40	161.00	153.31676	7.68324	129.00
Mauritius	0.78	64.00	56.14060	7.85940	130.00
Turkey	0.69	88.00	79.15601	8.84399	131.00
Guyana	0.63	104.00	94.49961	9.50039	132.00
Niger	0.35	176.00	166.10310	9.89690	133.00
Papua New Guinea	0.52	133.00	122.62956	10.37044	134.00
Dominica	0.67	95.00	84.27055	10.72945	135.00
Rwanda	0.42	159.00	148.20223	10.79777	136.00

Chad	0.39	167.00	155.87403	11.12597	137.00
Pakistan	0.49	142.00	130.30136	11.69864	138.00
India	0.55	127.00	114.95775	12.04225	139.00
Mali	0.37	174.00	160.98857	13.01143	140.00
Cameroon	0.50	141.00	127.74409	13.25591	141.00
El Salvador	0.65	103.00	89.38508	13.61492	142.00
Haiti	0.46	153.00	137.97316	15.02684	143.00
Mozambique	0.39	171.00	155.87403	15.12597	144.00
Bahamas	0.86	51.00	35.68247	15.31753	145.00
Tunisia	0.70	92.00	76.59874	15.40126	146.00
Cape Verde	0.65	105.00	89.38508	15.61492	147.00
Qatar	0.88	47.00	30.56793	16.43207	148.00
Vanuatu	0.56	129.00	112.40049	16.59951	149.00
Central African Republic	0.41	169.00	150.75950	18.24050	150.00
Senegal	0.46	157.00	137.97316	19.02684	151.00
Gambia	0.47	155.00	135.41589	19.58411	152.00
Belize	0.69	99.00	79.15601	19.84399	153.00
Egypt	0.61	120.00	99.61415	20.38585	154.00
Dominican Republic	0.70	98.00	76.59874	21.40126	155.00
Grenada	0.72	93.00	71.48421	21.51579	156.00
Burkina Faso	0.40	175.00	153.31676	21.68324	157.00
Côte d'Ivoire	0.45	163.00	140.53043	22.46957	159.00
United Arab Emirates	0.90	49.00	25.45340	23.54660	160.00
Guatemala	0.62	121.00	97.05688	23.94312	161.00
Iran, Islamic Rep. of	0.70	101.00	76.59874	24.40126	162.00
Lesotho	0.53	145.00	120.07229	24.92771	163.00
Morocco	0.61	125.00	99.61415	25.38585	164.00
Djibouti	0.50	154.00	127.74409	26.25591	165.00
Algeria	0.68	108.00	81.71328	26.28672	166.00
Zimbabwe	0.53	147.00	120.07229	26.92771	167.00
Oman	0.82	74.00	45.91154	28.08846	168.00
Saudi Arabia	0.81	77.00	48.46880	28.53120	169.00
Mauritania	0.52	152.00	122.62956	29.37044	170.00
Guinea	0.51	160.00	125.18682	34.81318	171.00
Angola	0.51	166.00	125.18682	40.81318	172.00
Swaziland	0.64	137.00	91.94235	45.05765	173.00
Gabon	0.70	122.00	76.59874	45.40126	174.00
Namibia	0.69	126.00	79.15601	46.84399	175.00
Botswana	0.73	128.00	68.92694	59.07306	176.00
South Africa	0.77	119.00	58.69787	60.30213	177.00

Table 9: Policies to Promote Pro-Poor Growth: Research Findings, Consensus Policies, and Remaining Debates[54]

Policy Issue	Research Finding	Agreed Policy Implication	Areas of Debate
Macroeconomic Stability (see also individual areas of macro policy)	Macroeconomic stability critical necessary (though not sufficient) condition for pro poor growth; poor hurt particularly by high inflation and high macro volatility.	Monetary and exchange rate policy should aim for low inflation and competitive exchange rates; fiscal policy should aim for low budget deficits;	Role of exchange rate policy to fight inflation; pace and extent of stabilization during crises.
Monetary and Exchange Rate Policy	Overvalued exchange rates and high black market premia hurt economic growth and tend to be anti-poor.	A competitive and possibly undervalued exchange rate a critical ingredient to ensure macro stability; government intervention necessary to manage capital inflows:	Fixed or floating rates? Role of capital controls manage inflows and outflows during crises?
Fiscal Stance	Large budget deficits hurt growth and are unsustainable. Rapid expenditure cuts can often undermine delivery and quality of critical services health and education) and hurt the poor.	Governments should aim for moderate budget deficits through broadening of the tax base and, if necessary, a refocusing of expenditures (esp. cuts in subsidies to stateowned enterprises and unproductive sectors). During crises not feasible or desirable to cut expenditures fast.	Mix of tax increases, tax broadening, and expenditure cuts?
Privatization	Loss-making state-owned enterprises undermine fiscal stability, with negative implications for the poor. Some privatizations have been captured by local elites and have not led to better services for poor.	Reform of loss making state-owned enterprises and parastatal critical. Privatization processes must be transparent and competitive.	How to ensure expansion of services for the poor? Use of cross-subsidies for vital services?
Financial Sector	Severe financial repression hurts savings and promotes capital flight. Poorly sequenced financial sector reforms can be counter-productive and destabilizing.	Capital account and financial sector reform should be phased slowly, be implemented only if macro stability has been achieved, and be accompanied by tight regulation, competition policies, and policies to improve access of the poor.	State allocation of credit to priority sectors? State involvement in credit for the poor? Policies to mobilize domestic savings?
Trade Policy	Anti-export bias hurts growth and the poor; import liberalization can be anti-poor and not sufficient to generate supply response. Diversification essential for long-term growth.	Focus on removal of anti-export bias (competitive exchange rate, duty draw-back schemes, etc); provision of infrastructure to assist exports, esp. for export diversification.	More activist state intervention to boost non-traditional exports (e.g. export subsidies, subsidized credit for exporters)?

[54] This Table is extracted from Klasen (2001).

Agriculture	Raising agricultural productivity critical for pro poor growth. Removal of price distortions necessary but not sufficient in the presence of other market failures. Protection and subsidies in North hurt poor in South.	Renewed emphasis on agricultural research and extension, rural infrastructure, and competitive marketing and input supplies. Open access to OECD markets and removal of OECD subsidies critical.	How to stimulate non-traditional agricultural exports? Role of subsidies to promote new seeds and fertilizer use?
Industrial Policy	Removal of distortions necessary but not sufficient for vibrant industrial sector, esp. small and medium enterprises.	Focus on providing infrastructure and services to industrial sector.	Activist industrial policy? State credit or subsidies? Cluster initiatives?
Human Capital	Lack of human capital of the poor hurts growth and poverty reduction. Education and health services have suffered greatly under economic crises and SAPs. Credit constraints and high costs for health significant deterrent for the poor.	Increased investment in education and health, particularly basic education and primary health care; greater focus on quality; reallocation of public spending to the poor, lowering costs of primary health care and education through greater subsidies and use subsidized community insurance.	How to finance expansion of primary education health care (esp. in Africa)? Phasing out of all user fees for primary health care and education?
Asset Inequality	Asset inequality (in particular land) reduces economic growth and poverty impact of growth.	On land inequality: Removal of subsidies to large landowner, land taxes to increase land for sale; land redistribution necessary. Other asset inequalities: microcredit and subsidies for infrastructure extensions for the poor (e.g. electricity hook-ups)	On land inequality: Market- and subsidy-based la reform versus quick one-off (partly) confiscatory land reform. Other asset inequalities: role of land and inheritance taxes to reduce asset inequality?
Income Inequality	High income inequality associated with higher poverty and lower poverty impact of growth; high initial income inequality may reduce subsequent grow	Safety nets, social funds, and some targeted cash and in-kind transfers to the poor.	Increasing progressivity of tax system (e.g. luxury VAT and import duties, greater reliance on personal income tax for formal sector employed)? Scaling up of redistributive transfer programs (e.g. Progresa)?
Gender Inequality	Gender inequality reduced growth and makes growth less pro poor.	More supply of education for girls plus targeted subsidies	How to fund expansion of female education?

		to boost enrollments; removal of restrictions on female control of other assets; political empowerment of women.	Role of affirmative action policies in labor market?
Regional Inequality	Regional inequality can sharply reduce impact of growth on poverty; possibility of regional poverty traps.	Targeting of state transfer programs and safety nets on regions with high poverty concentration; Focus on improving infrastructure; Regional inequality to be considered in programs of decentralization and fiscal equalization	How to promote economic growth in backward Regions? The role of regionally targeted Industrial policy? Role of incentives to move industries or people?
Population Policy	High fertility among the poor a constraint to pro poo growth. Inequality reduction often a result of fertility decline among the poor.	Emphasis on female education and employment as well as access to reproductive health services.	Role of family planning policies? How to alter incentives for large families among the poor?
Security	Physical and social security essential for pro poor growth	Safety nets and greater physical security essential measures promote pro poor growth	Public and private roles in safety net, e.g. credit and insurance provision? How extensive? How funded?

Policy Issue	Research Finding	Agreed Policy Implication	Areas of Debate
Governance	Poor governance, corruption, political instability and civil strife a major deterrent to investment, growth, and poverty reduction. Poor suffer more under poor governance.	Reducing incentives and possibilities for corruption by simplifying rules and regulations that invite rent-seeking behavior; merit-based pay and recruitment; increase public accountability through greater transparency, better institution oversight of governments (parliaments, independent boards) and decentralization. Donor support for conflict prevention resolution, and post-conflict reconstruction critical.	Role of privatization to improve governance? How to improve governance when public sector is contracting? Role of the state where state capacity is weak? Reliance on parliaments or extra-parliamentary means for public oversight? How to ensure decentralization that

			reduces incentives and possibilities for corruption?
Private Secto	Indigenous private sector critical for employment growth and dynamic economy.	State assistance with capacity-building, finance (esp. microfinance), dialogue between state and domestic private sector.	Role of national vs. Multinational companies?
Political Economy of Reform	Domestic political economy crucial for success. Pro-poor coalitions necessary to implement package	Dialogue to replace donor conditionality. Empowerment poor and local analytical and research capacity critical for implementation.	Role of financial aid and conditionality under som circumstances? Empowerment from outside possible/desirable?
Donor Policies	Donors can assist with pro poor growth when advice is focused on poorest countries and with highest poverty impact of policies.	Aid should be focused on poorest countries that promote pro poor growth, should flow through budget and be accounted for using national processes, and observe country leadership.	What to do in poor countries with poor policies? Interactions between donors and civil society? How to ensure accountability of resources?

Table 10: Human Development Effort and Institutions

<table>
<tr>
<td>A
Low-income (below the threshold income) / high human development countries

Uzebekistan
Kyrgyzstan
Georgia
Vietnam

Mean HDI</td>
<td>C
Moderate to High income (above the threshold income)/ high human development

Developed: Norway, Sweden, United Kingdom, United States, Japan, Canada, Iceland, Ireland

Developing/ Transitional: Armenia, Azerbajan, Costa Rica, Cuba, Jamaicca, Sri Lanka, Fiji, Albania

Mean HDI</td>
</tr>
<tr>
<td>B
Human development “Income deficit” Countries

Effort deficit: Angola, Burkina Faso, Niger, Mali

Not Effort Deficit: Tajikistan, Mongolia, Romania, Moldova, Solomon Islands</td>
<td>D
Human development “Effort Deficit” countries (above threshold income but low HDI)

South Africa
Swaziland
Botswana
Namibia
Namibia
Gabon
Zimbabwe</td>
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Y*
Per Capita Income (PPP)

Table 11: Regression Results for the Determinants of Human Development Effort (Pro-Poor Policies) (N= 138)

Dependent Var/ Independent Var.	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Constant	-0.509 (-15.66)***	-0.431 (-15.27)***	-0.530 (-15.49))***	-0.668 (-22.17)***	-0.466 (-5.41)***	-0.252 (-4.46)***	-0.406 (13.94)***	-0.279 (-4.64)***	-0.282 (-4.68)***
Democracy Rank	-0.646 (-9.90)***					-0.001 (-2.55)**	-0.001 (-2.17)*	-0.001 (-2.00)*	
Corruption Rank		-0.005 (-13.67)**				-0.004 (-6.05)***	-0.004 (-5.60)***	-0.004 (-5.77)***	-0.004 (-7.17)***
Press Freedom Rank			-0.004 (-8.67)***						-0.001 (-1.79)*
Instability index				-0.054 (-5.37)***			-0.017 (-1.93)*	-0.016 (-1.84)*	-0.017 (-1.88)*
Inequality Index					-0.008 (3.69)***	-0.004 (-3.17)***		-0.003 (-2.10)*	-0.003 (-1.95)*
Adjusted R-Squared	0.413	0.592	0.350	0.189	0.092	0.674	0.664	.701	0.698