

*Inclusive and sustainable economic development forms a basis for poverty reduction in terms of material resources, but it has also important links to other dimensions of poverty. Sida's conceptual framework<sup>1</sup> for multidimensional poverty recognises four dimensions of poverty, namely (i) resources, (ii) opportunities and choice, (iii) power and voice, and (iv) human security. The purpose of this brief is to highlight the main links between economic development and poverty in these four dimensions and how to integrate economic analysis into the multidimensional poverty analysis (MDPA).*

## ENDING POVERTY IN ALL ITS FORMS

Extreme poverty has seen an unprecedented decline during the past decades: from close to one third of world's population not being able to meet their daily needs in 2000, the extreme poverty has been more than halved to less than ten percent today. Yet, people who remain in poverty are often trapped in a complex intersection of multiple deprivations.



The Agenda 2030 pledges to end extreme poverty<sup>2</sup> and half poverty in all its forms (according to national definitions) by year 2030. Aligned with the international agenda, Sida acknowledges that poverty manifests itself in different dimensions and each of these dimensions have intrinsic and instrumental value. To lift the remaining population out of extreme material poverty (i.e. to end poverty by 2030), and to alleviate poverty in other dimensions, we need to understand the linkages between the different dimensions of deprivation as faced by people living in poverty (see box).

The aim of this brief is to give guidance on how economic development relates to multidimensional poverty by highlighting the links between economic development and the dimensions of poverty. Sida takes the poor people's perspective and the rights perspective as its starting point, and economic development is no exception. Ensuring that all people can participate in the economy on equal footing is at the centre of Sida's work on inclusive economic development, and will serve as the starting point also for this brief.

The brief is intended to be used in project assessments to guide the relevance evaluation of an intervention in the area of economic development. The brief can also be helpful when digging deeper into the economic issues in a country analysis, or in policy dialogue on the links between economic development and poverty eradication.

<sup>1</sup> Sida (2017) *Dimensions of Poverty – Sida's conceptual framework*.

<sup>2</sup> Defined as people living on less than \$1.90 PPP per day.

## THE FOUR DIMENSIONS OF POVERTY:

Being poor in terms of **resources** means not having access to or power over resources that can be used to sustain a decent living standard and improve one's life. Resources can be both material and nonmaterial – e.g. a decent income, capital, being educated or trained, professional skills, being healthy.

Being poor in terms of **opportunities and choice** concerns what possibility you have to develop and/ or use your resources so as to move out of poverty. Access to e.g. social services, to infrastructure, to capital, to land, or to natural resources affects the opportunities and choices.

Being poor through lack of **power and voice** relates to the ability of people to articulate their concerns, needs and rights in an informed way, and to take part in decision-making that relate to these concerns. Power is a relational concept that allows us to better understand socio-cultural hierarchies and relations of which gender is one, others include age, caste, class, religion, ethnicity and sexual identity. Reinforcing forms of discrimination based on such socio-cultural relations may increase an individual's poverty in this sense.

Being poor in terms of **human security** implies that violence and insecurity are constraints to different groups' and individuals' possibilities to exercise their human rights and to find paths out of poverty.

## RESOURCES – ENDING EXTREME POVERTY AND BUILDING CAPABILITIES

### Resources

Increase in economic resources is a necessary precondition for ending poverty. Without economic growth in low-income countries, the overall resources will be too scarce to cover the basic needs of the households, finance necessary investments in infrastructure, education, and health, and cover other needs that are required to address poverty in its different dimensions.

Looking at it in another way, economic growth is the increase in income people get from their work. To raise people out of poverty, their incomes need to increase permanently and

sustainably, which often means that they need to increase the value of their production either by working more or working more efficiently. Ensuring that people living in poverty can earn a decent living is – de facto – equivalent to increasing economic growth in a country. Yet, economic growth as such is not enough, but the growth pattern will need to be economically, socially, and environmentally sustainable, and the growth process needs to be inclusive.

Not everyone is able to participate in economic activities, and yet everyone has the right to decent living conditions and a life free from poverty. Thus, inclusive and socially sustainable economic development necessitates that production is based on fair working conditions, and that the benefits from economic growth are shared in a socially acceptable manner. Redistribution can take place in form of social protection (insurance and cash transfers), pensions, and scholarship schemes that redistribute resources within the society. Also, economic development in other countries that benefit migrant-sending households in the home country in forms of remittances can play a role in alleviating resource poverty.


Also, economic development and diversification can change the way material poverty affects poor households. Increased competition at a well-functioning market can improve access and variety as well as reduce the price of goods and services – including education and health services – consumed by people living in poverty, and thus increase living standards even with unchanged income levels.

Moving beyond income, Sida's definition of resources is broader than monetary income as it includes also assets, such as a house, a cow, or a radio. These assets can be used for economic production as complements to labour in agriculture and self-employment. They can also be seen as a long-term accumulation of income and saving that at times of distress can be transformed into cash. Being able to earn an income that covers the daily needs, and allows for saving in financial or material assets is directly linked to the

resources dimension. Access to insurance and safety nets is a way to increase resilience, protect assets, and prevent households from falling into resource poverty at times of crisis.

Furthermore, Sida's resource dimension covers also immaterial assets, such as education, health, and social capital. These assets can be used to generate more income through work, but higher income provides also opportunities for getting better education and health care, and a higher social status. As countries develop, universal primary education is about to be achieved in most countries, but children's possibility to enter secondary education depend largely on parents' income. Even though formal school fees have been removed in many countries, informal payments in form of school uniforms, books, and kick-backs are still putting a heavy burden on the household's economy. Out-of-pocket health expenditure are also pushing households into poverty when savings are unable to cover unexpected costs of health care for a family member. Access to financial services, such as insurance and savings schemes can help to alleviate the economic burden of disease.

## OPPORTUNITIES AND CHOICE – PEOPLE AS ECONOMIC ACTORS




The essence of opportunities and choice when it comes to economic development boils down to access to employment and productive resources. The main asset that people living in poverty have is their labour. This means that access to productive employment opportunities become the main route out of poverty and the link between the economic actors and overall economic growth. Yet, previous studies have underlined that many people living in poverty do not have the opportunity to use their resources productively to earn income and escape poverty due to lack of productive employment opportunities. These opportunities do not need to be in the form of wage employment, but self-employment serve oftentimes as the most plausible alternative for microentrepreneurs. In addition to own labour, self-employment requires often access to credit and business

development services, land and other natural resources (such as water), and/or some productive assets like savings or tools that can go a long way to increase productivity and economic opportunity.

The main difference between resources (what you have) and opportunities (what you can do) is your ability to make use of the existing resources, build up your resource-base, and generate sustainable sources of income. Having economic opportunities and choice necessitates that the economy (mainly private sector) is dynamic enough to create demand for labour, and that also people living in poverty are employable and have access to the employment opportunities. For instance, in many Eastern European countries a skilled labour force is struggling to find jobs in an economic landscape where the supply of labour surpasses the demand, and thus even highly-skilled workers can live in income poverty unless they can make use of their skills at the labour market. On the other hand, a household that is moderately well-off in income-terms thanks to remittances or government transfers may still be vulnerable to falling into poverty in case the remittance inflows cease unless they have economic opportunities to earn own income. Furthermore, access to jobs is not enough; economic opportunity and choice are also dependent on one's ability to build their resources base. Households who are living in poverty and have no access to education, health care facilities or basic infrastructure face harder time lifting themselves out of poverty due to lack of opportunities to build skills and resources needed at the labour market.

## POWER AND VOICE – ECONOMIC RIGHTS AND LACK OF DISCRIMINATION



The starting point for power and voice dimension when it comes to economic development is everyone's right to act and make decisions as economic actors. This includes having access to and power over important productive resources and decision-making processes, ability to start and own a business, and to freely choose to participate in work and getting fair pay without any form of

discrimination. These basic economic rights are protected in the Universal Declaration of Human Rights<sup>3</sup> that stipulates equal right to work, free choice of employment, equal pay without discrimination, protection against unacceptable forms of employment, freedom to own property, and right to join trade unions.

Having a voice includes individual rights at a work place and as an entrepreneur, but also the right for collective bargaining through social dialogue at the workplace in order to protect and improve working conditions for all workers. Also at the societal level, social dialogue between private sector actors and the public-sector institutions is an important forum where also the smaller entrepreneurs and businesses have the right to make their voice heard, and participate in decision making over the rules and regulations that govern private companies. At the national level, active civil society and private sector engagement is important for ensuring that the regulation is non-discriminatory and enabling for all actors (e.g. by doing a gender analysis of the consequences of a proposed trade reform).

Despite good intentions of the UN declaration, economic rights are not a reality for all people. Considering the existing barriers for women's economic empowerment it becomes clear that eliminating structural discrimination against women in accessing decent jobs and economic opportunities needs to be part of alleviating poverty in power and voice dimension. Discrimination can take place in the private sphere in households where women are not allowed to look for work outside of the households or may not participate in decision-making over household assets or harvest. Also, the public domain is prone for discrimination in form of discriminatory laws (e.g. for heritage or starting a business), unequal pay, or

segregated labour markets (by law, custom, or gender norms). In many countries, the large difference in economic outcomes between women and men are no longer due to education or skills, but to women facing undue difficulties when exercising their rights as economic actors. Discrimination is not only related to sex, but can also be due to age, class, caste, gender identity and gender expressions, sexual orientation, disability, ethnicity, and religion or other beliefs.

Furthermore, protection against unacceptable forms of work and access to social security is still an area with vast development potential. Especially migrant workers are particularly vulnerable for being exploited, but also child labour or hazardous working conditions where people do not have power over decisions that have fundamental importance to their lives are forms of poverty in terms of power and voice.

## HUMAN SECURITY - ECONOMIC DEVELOPMENT IN FRAGILE COUNTRIES



Physical, psychological and sexual violence, or threat of such violence, does not only violate basic human rights and integrity, it also severely limits the economic opportunities available. Conflict and insecurity decrease one's willingness to invest and take financial risks even if the expected pay-out would be high. Violence can prohibit people from coming to markets or harvesting on their farms, and thus the potential gains from trade and cash-cropping are foregone. Fragile context can also imply higher cost of doing business, as firms will have to pay for security and higher insurance premiums for their normal operations. Widespread conflict commonly leads to lack of respect for rule of law in general, which deteriorates the business

and supplemented, if necessary, by other means of social protection.

(4) Everyone has the right to form and to join trade unions for the protection of his interests

Article 17: (1) Everyone has the right to own property alone as well as in association with others.

(2) No one shall be arbitrarily deprived of his property.

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<sup>3</sup> Universal Declaration of Human Rights, Article 23:

(1) Everyone has the right to work, to free choice of employment, to just and favorable conditions of work and to protection against unemployment.

(2) Everyone, without any discrimination, has the right to equal pay for equal work.

(3) Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity,

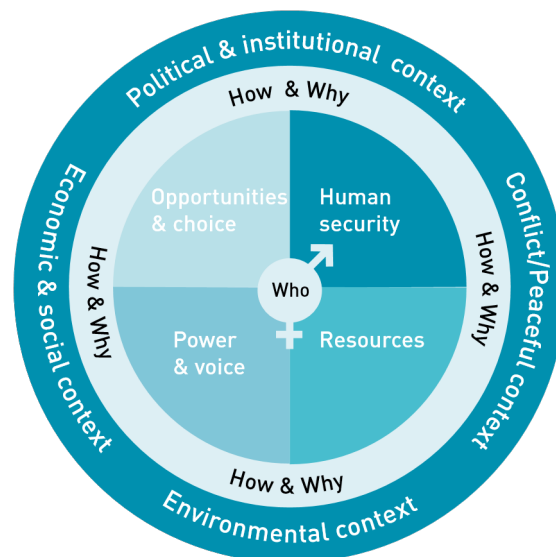
climate even further. In outright situations of war, assets may be destroyed and the economic power is often intertwined with military power.

On the other hand, economic opportunities (or the lack thereof) can influence the conflict dynamics in a country. Absence of economic opportunities, unbalanced development, or sudden changes in the economic policy can trigger violence. For instance, the unrest during the Arab Spring was partially triggered by increase in food prices after a change in trade policy. On a positive note, economic development can prevent violent conflict or provide a route to peaceful coexistence. In some cases, absence of inclusive economic development is one of the root causes of conflict, while mutually beneficial economic relations have been found to be a stabilising factor. Also, productive employment opportunities provide a dignified and peaceful way to earn a living, which increases the opportunity cost of being recruited as a combatant and can make the mobilisation of violent groups more difficult.

Economic inequality can be a trigger for, but does not necessarily lead to conflict. If differences in income are considered justified (earned) or isolated incidents, even higher levels of inequality can be tolerated. However, so-called horizontal inequalities where large differences exist between groups (e.g. ethnic groups or geographic locations) can lead to tensions, especially if both economic and political power are concentrated in the hands of one group at the expense of another.

## ANALYSING ECONOMIC DEVELOPMENT IN DIFFERENT CONTEXTS

Sida's model for multidimensional poverty analysis (MDPA) helps us to understand **who** is poor (target group), **how** the poverty is experienced in the above-mentioned four dimensions, and **why** this situation has come about.



Economic analysis is one of the underlying pillars of a comprehensive multidimensional poverty analysis. To answer the question of **who** is poor, the poverty analysis through an economic lens takes its starting point from people as economic actors. Economic development is created by people who produce, trade, and interact with each other to create economic value. These economic actors consist of women and men at all income levels, sectors, and countries who contribute to the economy through their work, and benefit from the fruits of economic development through income, profit, own production, or redistribution. Recognising that all people, including the ones living in poverty, are economic agents who strive to lift themselves and their families out of poverty helps to focus the analysis on identifying the target groups of people who are resource poor, and poor in one or several other dimensions.

**How** economic development influences the different dimensions of poverty has been discussed in the previous section. Moving further from a descriptive study to an analysis of root causes of poverty, one needs to analyse the development context to understand **why** some people are poor. The economic dynamics in relation to the context analysis will be further explored in the following section.

### Economic and Social context

Analysing the prevailing economic and social context helps us to understand the structure of

the economy, the nature of the business environment, functioning of the labour market, and the educational system that provide the institutional framework in which the economic actors operate. Analysing (i) the structure of growth, (ii) who is able to participate and benefit from it, and (iii) who is being left behind, is a way to sharpen the poverty focus of the analysis. Also, looking at the broader macroeconomic context provides insights into the overall economic environment, a sense of the overall room to manoeuvre, and potential risks and vulnerabilities in the economy. Understanding the economic incentive structure in each context will also help to unravel power structures, political decisions, and development dynamics in a country.

Analysing an economic context requires paying attention to the dynamic factors that form economic development. Growth is inherently based on continuous change where innovation and improved production mechanisms increase productivity and add value to the production of goods and services. Currently, many of Sida's partner countries are expected to undergo a significant restructuring of their economy that will shift the production from agriculture to service and manufacturing sectors, while at the same time this structural transformation is finding new forms in terms of new technology and automation. The pathway to economic development through industrialisation, as has been the case in the past, is unlikely to be repeated in the same form in the future, and thus analysing the current dynamics and existing preconditions for change in a country is important to understand how economic development can be promoted and made inclusive. Increasing trade flows and developing global value chains provide new opportunities to benefit from globalisation, but they also require adaptability as they change the demand for skills and goods at the market. Understanding where the job opportunities are today and where they could be tomorrow is part of the economic context analysis.

Furthermore, major shifts in development trends that are not economic *per se* can still

have a fundamental impact on the economic context in which the economic actors operate. For instance, changes in demographic trends can create a window of opportunity for rapid poverty alleviation if employment opportunities are available for the growing labour force; migration patterns can balance the supply and demand of labour between countries if regular migration corridors are available; and digitalisation can provide new market opportunities for land-locked countries and remote producers, but it can also create a digital divide that isolates the ones that are not connected.

### Political and Institutional Context

The analysis of the political and institutional context is intimately linked to the previously described analysis of the economic and social context. While growth is created primarily by economic actors directed by market forces, formal and informal institutions provide preconditions for growth in terms of a regulatory framework and building of human capital. An effective state should be able to create enabling business and investment climate with a level playing field, enforce the rule of law, and maintain economic stability through growth oriented economic policy that ensures price stability and responsible public financial management. Well-regulated financial institutions and secure property rights are essential for economic efficiency. Providing basic infrastructure and ensuring effective systems for delivering health and education is also part of creating an enabling environment for growth.

Public institutions have also a specific responsibility to step in when the markets are unable to generate desirable welfare outcomes, for instance when economic production causes substantial negative externalities and occurs at the expense of environmental sustainability. The state has also a role in redistributing the benefits of growth through public basic social protection systems to those who may not be able to contribute to the production. Whether or not these institutions are in place, is a subject of

analysis in an MDPA. In addition to the formal institutions and laws, the development context is also influenced by the political system and customary law that forms the *de facto* business environment, regulates redistribution, and oversees anti-discrimination rules (if they exist). Tolerance for corruption varies between countries and affects the way business is conducted – whether kick-backs are expected in order to win a procurement, get a business licence, or as a way to avoid tax inspection. Informal payments can change the economic rational of an investment decision as the incentives of the decision-maker differs from those of the beneficiaries.

### Environmental Context

The environmental context is of crucial importance especially for economies based on agriculture. The environmental resources, their use and distribution form a basis for economic activities in many of Sida's partner countries. The pressure that economic production and transport along the global value chains poses on the environment, and the risks that climate change and environmental hazards place on economic actors are an important part of the environmental context analysis. Furthermore, urbanisation that enables economic agglomeration effects and more effective production comes also with a potential to use economies of scale to promote environmentally friendly production mechanisms. If these opportunities are not utilised, economic growth in cities can lead to negative environmental externalities that worsen the living standards of people living in urban areas.

### Conflict Context

Finally, conflict context and the political economy related to it inform our understanding of the rules of the game and the risks that economic actors are subject to. Threat of violence can severely limit the economic actors' possibilities to produce, sell or harvest. In some instances, so-called war economies take over where the economy is mobilised to produce and allocate resources to sustain

violence. In such case, breaking the vicious cycle becomes more difficult as the war lords have economic incentives to sustain the conflict. Analysing the political economy and the economic incentive structure of different change agents is part of understanding the development context for economically, socially, and environmentally sustainable development.

The ultimate aim of the context analysis is to understand the framework and preconditions in which the economic actors operate in order to identify sustainable pathways out of poverty and alleviate poverty in all its forms everywhere.

## EPILOGUE: TOOLS FOR INTEGRATING ECONOMIC ANALYSIS INTO THE MULTIDIMENSIONAL POVERTY ANALYSIS

Economic analysis constitutes an integral part of the multidimensional poverty analysis that aims to identify constraints for people living in poverty and their path out of poverty.

[Sida's approach paper on Inclusive and Sustainable Economic Development](#) presents the principles underlying Sida's view on inclusive and sustainable economic development for further policy dialogue.

Some supplementary methodological guidance for analysing inclusive sustainable economic development is presented below.

- [Sida's toolbox for poverty analysis](#) provides practical advice for multidimensional poverty analysis, including economic analysis.
- [Sida's Development Data Portal](#) provides easy access to indicators that are relevant for analysing the economic context in a country
- [Sida's Toolkit for Market Systems Development \(MSD\)](#) provides practical tools for analysing actors and market systems at a meso-level that complements the country level analysis
- The World Bank's [Systematic Country Diagnostics \(SCD\)](#) aim to identify main challenges and opportunities for poverty reduction and shared prosperity in a sustainable manner. Completed SCDs can be found [here](#).

- ILO's [Employment Diagnostic Analysis \(EDA\)](#) is a tool for context-specific analysis stating that productive employment is the main link between economic growth and poverty reduction. It aims to analyse the shortage of productive employment and the limitations, challenges and opportunities to increase productive employment through sustainable and inclusive job-rich growth.
- ILO's technical guideline [Decent Work Country Diagnostics \(DWCD\)](#) is intended to provide a short and concise inclusive narrative of the growth, productive employment and decent work situation and trends of a given country.

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