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Pro-poor growth

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Foreword

In 2009 the Government of Sweden will decide on a policy on growth issues within development co-operation. The policy shall adopt a holistic approach to growth issues within both bilateral and multilateral development co-operation and provide overall direction and guidance for the Swedish input on these issues.

Sida [Swedish International Development Cooperation Agency] was instructed by the Government to prepare documentation for this growth policy in May 2008, and the final version of this material was submitted on 26th of September 2008. This report is a popularised version of the documentary material which includes inter alia:

- An analysis of the role of economic growth in fighting poverty
- An examination of the driving forces behind economic growth on the basis of international experience and research
- An analysis of a number of special challenges for low-income countries
- A discussion of the experiences of Swedish development co-operation
- Summarising conclusions that have a bearing on the formulation and focus of the Swedish development co-operation.

Elina Scheja, Mikael Söderbäck, Per Ronnås, Lisa Román, Åsa Bjällås, and Marja Ruohomäki participated in Sida's project group that prepared the documentary material with the assistance of other Sida colleagues and external contacts. The policy documentation is based on a review of current international research and literature as well as assessments that document Sida's experiences within the area of economic growth. This review illuminates both general aspects of economic growth and specific subsidiary areas that are detailed in the Swedish Government's description of the assignment. Sida benefitted also from the work that was undertaken by The Commission on Growth and Development and, together with the Swedish Ministry of Foreign Affairs, arranged a conference on the Commission's final report in May 2008. A draft of this documentary material has been commented on by subject experts within Sida as well as by a range of researchers active within the area of economic growth.

Through publishing a popular version of this bakground material for the Government policy we hope to be able to support the work on economic growth as well as to promote discussion on the challenges of creating and maintaining growth that benefits the poor.

Mia Horn af Rantzien
Deputy Director General
Director of Policy
Sida

1. Introduction

Economic growth is a prerequisite for increased welfare. Yet, economic development and material welfare, from a historical perspective, can hardly be regarded as a natural state of affairs. It is only in the last 150 years that, initially a few but subsequently more and more countries and peoples have succeeded in struggling out of poverty through high and sustained economic growth. Until just fifty years ago, this development was limited to a small group of countries in Western Europe and North America, above all. The last twenty-five years has dramatically changed this picture. An exceptionally rapid economic development in large parts of Asia has led to a large proportion of the population of the earth succeeding in lifting itself out of poverty within a short period. In the last decade, several of the very poorest countries in Africa have joined the group of fast-growing economies.

Fast and long-lasting growth is, however, not a miracle but is a result of a successful, more or less country-specific combination of growth-promoting factors that may be analysed and reproduced[1]. The experience of how growth is created has supported the global commitment to eliminate poverty. A subsidiary goal is the target, by the year 2015, to have halved the number of persons forced to live in extreme material need. In order to achieve this goal a rapid increase in national incomes is required. If this undertaking is achieved then this will constitute the attainment of possibly the greatest and most significant milestone in human history.

This positive economic trend at a global level has, nevertheless, had a negative side. The distribution of its fruits has been very uneven. During a long period this was manifest primarily in increasing income inequalities between countries. In recent time, it is possible to see worryingly fast-increasing income inequalities within many developing countries. This applies, not least, to the majority of the highly populated and fast-growing countries in Asia[2]. At the same time as the world has become ever richer, the differences between rich and poor have become greater[3]. In part, this is a natural consequence of growth in high-risk countries where only a few persons and companies are willing to make potentially profitable but, at the same time, risky investments.

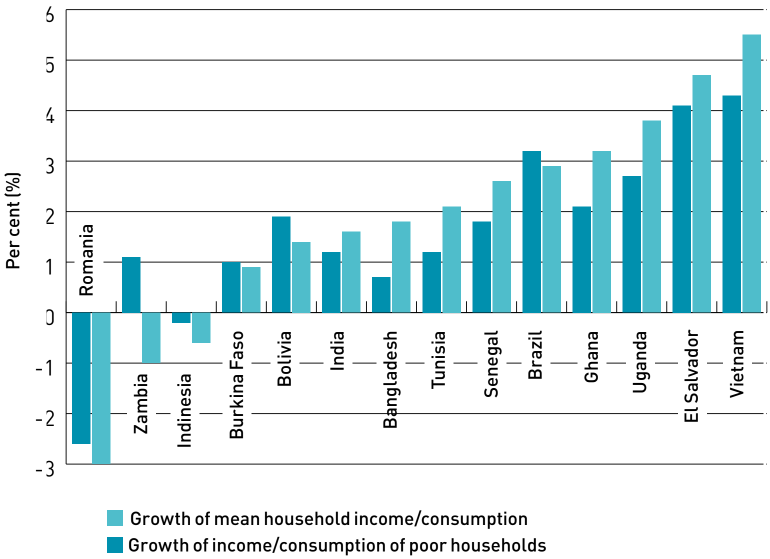
However, in a more globalised world too large income differentials are not only a concern for the poor but are a concern and responsibility for all, both from a moral viewpoint and also on account of the global tensions that increased inequality creates[4, 5]. Another threat is the increasingly acute climatic and environmental effects of economic growth. Researchers maintain that radical changes in energy and transportation systems are required in order to guarantee that future economic development is climatically and environmentally sustainable[6].

Box 1: How can one measure growth?
An increase in the gross domestic product (GDP) is easily the most common and well-established measure of economic growth. The GDP measurement has an unbeatable capacity to provide an aggregated quantitative picture of the myriad of economic activities that comprise a country's economy. As with all indicators, however, it also has its limitations. Its limitation to the production of goods and services means that the GDP measurement does not include services for own consumption or reproductive work, despite this being necessary for the viability of the economic development. This limitation means that the contribution of women to economic development is underrated. Neither does GDP include a mass of goods and services that are produced by ecosystems nor the deduction of costs for consumption of finite natural resources. A methodological work has been initiated to compensate for, above all, the latter shortcomings through the calculation of so-called green GDP. Despite methodological shortcomings, this alternative constitutes an important complement to the standard GDP measurement.

1.1 Growth, distribution and poverty reduction

Economic growth is a prerequisite for the reduction of poverty, but growth in itself has no intrinsic value. Its value lies in the scope that it creates for enhanced welfare, security and economic freedom for the individuals concerned. Starting from the goal of eliminating poverty it is the capacity of growth to reduce material poverty on a lasting basis that must stand in focus. Experience shows that the effectiveness with which a certain level of growth achieves a reduction of poverty in its different forms varies sharply between countries and over time.

Figure 1: How does growth benefit the poor? Experience from early 1990´s to early 2000´s.



Source: AFD – BMZ – GTZ – KfW – DFID – The World Bank, (2005) "Pro-Poor Growth in the 1990s: Lessons and Insights from 14 Countries", The World Bank.

High and economically sound growth is a precondition for eliminating poverty, but is not sufficient by itself. The qualitative aspects of growth from a distributive, social justice and sustainability perspective have increasingly come into focus subsequently as the insight has emerged that it is insufficient to rely on growth of itself benefitting the poor, sooner or later, so long as it is sufficiently high[7]. The argument that a relatively high level of economic inequality is a precondition for high growth at an initial development stage has been rejected on both empirical and theoretical grounds. Countries such as Japan and Taiwan have demonstrated that it is possible to combine economically sound and exceptionally fast economic growth with relatively small income differences. Extremely large income differences, on the other hand, risk creating a breeding ground for social and political unrest, which undermines in its turn the basis for continuing growth.

In many growing economies the smaller and weaker players are frequently pushed aside when growth processes that are dominated by stronger actors get going. In order for economic growth to lead to reduced poverty, people who live in poverty must have the possibility themselves, fully and on equal terms, of contributing towards economic development and to profit from the fruits of its results. For this reason, people who live in poverty must be offered better access to the factors of production and any obstacles to their prospects of exploiting these resources must be removed[8].

1.2 Growth and environment

All economic activity demands access to the factors of production. Traditionally, three factors are defined, namely labour, physical capital and land. Knowledge and natural capital may be regarded as additional factors. In order to enable sustainable growth to be achieved, in practice a combination of the accumulation of physical capital, a qualitative development of human capital through investments primarily in education and good health, as well as a more efficient utilisation of all the factors of production are required.

Functioning ecosystems and ecosystem services[i], such as pure air and clean water, are production factors that are not visible explicitly in production decisions, despite the fact that together with a sustainable development of natural resources they constitute necessary prerequisites for long-term economic development and the reduction of poverty. Whereas economic growth has facilitated environmental improvements such as increased access to sanitation, clean water and better quality air in cities, growth may also counteract an environmentally sustainable development. This applies, for example, to production and transportation methods that lead to increasing emissions of greenhouse gases and/or other pollutants in the air, earth and water. Emissions, like the unsustainable exploitation of natural resources, may engender irreversible effects on the environment such as e.g. the extermination of species or eco-systems that cannot be restored.

Against the background of what is, in many respects, an environment under pressure and, not least, looming climate change, it becomes especially important that in the work of bringing about poverty-reducing growth, there is also a guarantee of environmentally sustainable growth. The process of growth should, therefore, take into account the environmental effects of the economy's full scope, the impact on the environment of different technologies in production and consumption, as well as the division of different goods and services in production. Certain production (e.g. environ-

i Ecosystem services are defined as the the vital goods and services the ecosystem produces for people. For example clean water, food and pure air are important ecosystem services.

mental technology) contributes to sustainable development, whereas other production contributes to short-term economic growth but counteracts it in the longer term. It is a generally established fact that economic growth is an important prerequisite for tackling many environmental problems. At the same time, a functioning environment is a precondition for sustainable growth and poverty reduction.

1.3 Growth and change

Structural changes in both the economy and society as a whole are an important driving force behind continued economic development. Changes take place in several dimensions. Parallel with the economic development there takes place technological change. Traditional production methods are replaced by more technology- and knowledge-intensive ones. Increased access to better qualified personnel, a high level of openness in the economy and well-functioning flows of information are necessary for technological change to function as a driving force in the economic development.

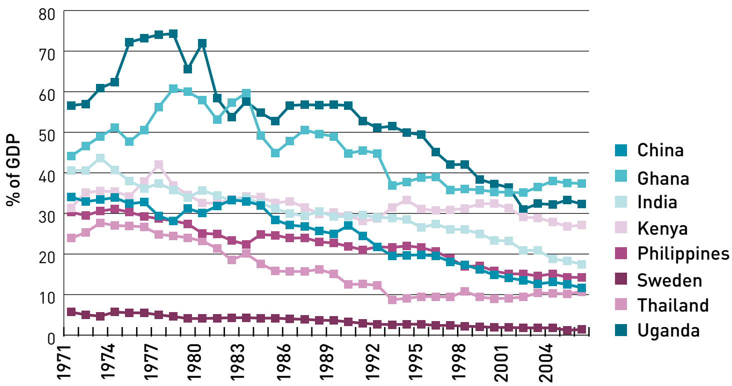
The structural change also takes other forms. Part of the rules of the game is that unprofitable companies are driven from the market and thereby give place to others with better preconditions in a continuous process of change. At a more strategic level this is reflected in the fact that individual branches of industry and commerce can stagnate, decline in importance and wholly disappear, while other, sometimes new, branches grow up and take on the role of engines in the wider economy. At issue here are processes that, to a certain extent, can be controlled but hardly prevented and that may appear as threatening but that are full of possibilities. Above all, these processes are a fundamental dimension of, and driving force in, the economic development.

The structural changes that are associated with the economic development risk not only creating winners but also losers. At an early development stage most can gain from economic development even if it particularly favours a certain group. This is the case, for example, if the growth generates increased income and thereby creates opportunities for all. Later in the development process, however, the success of one can have a negative effect on others. People already living in poverty are frequently especially exposed, since they frequently work in low-productivity and stagnating sectors and lack sufficient resources to exploit the possibilities that are created by structural changes.

A policy for economic development should, therefore, promote occupational, geographical and social mobility, with a special focus on people who live in poverty or who are exposed in some other way. Equally important is to invest in education and training of high quality and relevance and to create a basic system of social and economic security. Access to jointly owned natural resources contributes to enhance economic security for people who live in poverty.

75 per cent of the people who live in poverty live in the countryside[9] and have agriculture as their principal source of income[10]. This is according to the international poverty measurement of about one dollar a day[ii]. Experiences from fast-growing countries, not least in Asia, show that a development of agriculture is almost always the first step towards increased economic growth and a diversification of the economy[11]. In the Asian growth economies a relatively evenly distributed and secure access to land in combination with e.g. ambitious and early investments in education are examples of measures that, on a broad front, have intensified agriculture within the framework of the 'green revolution'. This rapidly led to security of food supply and significant income increases[iii] amongst the rural population[12].

Figure 2: The share of agricultural production in GDP in different countries



Source: World Resources Institute 2007.

ii The so-called 'one dollar a day' measurement has been created to facilitate international comparisons between poverty in different countries and in order to obtain an aggregate measurement of regional and global poverty. This measure, however, does not take into account price differences between for example city and countryside, something that occurs on the other hand in most national poverty measurements. The one dollar a day measurement has also been criticised as it underestimates the number of people living in extreme poverty, especially in recent times when food prices have fluctuated considerably.

iii At an early development stage, when employment opportunities within other sectors outside agriculture have still not been developed, increased land productivity is more essential for growth and poverty reduction than increased labour productivity. Further on in the growth process and the structural conversion the reverse state of affairs applies however.

These investments led, in their turn, to sharply increased domestic demand for non-agricultural goods and services, which together with a gradual opening of the economy and sharp investments in exports created a foundation for a more varied economic structure and a powerful demand-led economic development. When increasing numbers of people left agriculture to the benefit of the non-agrarian sectors then the basis was created for a sustainable growth path. This does not mean that the agricultural sector was abandoned but thanks to increased productivity within agriculture and the diversified economy the growth process become both more rapid and more long-lasting. In those countries where the majority of the population, at an early stage, had the possibility of participating in the development this led to a sharp reduction in income poverty.[13] Even though the prerequisites for a similar development vary, the experiences from Asia offer important insights and lessons.

Concurrently with the structural conversion from agriculture to non-agrarian livelihoods, urbanisation occurs as a natural part of the growth process. The number of people in the world who live in cities in 2008, for the first time, is estimated to exceed the number of people living in the countryside and the major part of the population growth over the next two decades is expected to occur in cities in developing countries[14]. The greatest challenge is thus to handle the rapid urbanisation rather than to attempt to prevent it. In low-income countries this means, however, for many individuals costly changes that have negative consequences for growth. Since the development in the countryside and the cities are mutually dependent, part of a growth strategy is to enhance productivity in the countryside so that urbanisation becomes a conscious choice rather than a last way out. Likewise, the cities should be provided with the conditions to generate productive employment.[15]

2. Preconditions for pro-poor growth

All growth is a result of individuals' economic activities, either individually or collectively, having the purpose of earning one's living and creating material welfare. A policy that aims to reduce income poverty should, therefore, place poor people's role as economic actors and productive employment possibilities in focus[16]. Whether people succeed in participating in the development through procuring and making use of their resources is primarily a question of the quality of the institutions, i.e. the formal and informal rules, that influence the distribution of resources as well as how the markets operate in the economy.[17] The education, experiences and opportunities of individuals vary in different countries and at different development stages. This, in its turn, has a bearing on how the institutional framework should be designed so as to meet the demands and wishes of the economic players in the best way.

As a result of economic research, a partially new view of the political and institutional conditions for economic growth has emerged in recent years. Both macro analysis, which attempts to explain differences in growth between countries and regions with macro factors such as demographics and trading patterns, and micro analysis, where the effects of different social programmes or other interventions at the micro level are investigated, have come to emphasize that growth-promoting policies must be assessed on the basis of each country's and region's specific circumstances.[18] There is, however, a relatively broad consensus concerning the basic conditions required for a favourable growth climate. Macro economic stability and adequate infrastructure are two such examples. At the same time, the importance of the political leadership is now underlined and the role that the different institutions in society play in the formulation and implementation of growth strategies.

2.1 The resources of an individual actor

In order for people who live in poverty to be able to play a more significant role in the development of the economy their resource base must be strengthened. Access to formal education and occupational training of high quality are therefore of fundamental importance together with good health, and protection against diseases[19]. Investments, above all in the education of women, have been shown to be an effective way of increasing the growth rate and promoting the reduction of poverty. The possibility of individuals to save safely and access to credit are other important aspects of the building up of the resource base, as are secure ownership and user rights to land and property and, in the countryside where individuals are directly dependent on natural resources, access to land. Investments in all these respects are to be considered as a *first cornerstone* of economic development that leads to economic growth and thereby also freedom from poverty.

People who live in poverty must also be offered the possibility of exploiting their resources effectively and on equal terms. Discrimination in all its forms is not only morally objectionable. Unequal conditions also have a detrimental effect on both the level and durability of growth as well as on its capacity to reduce poverty. Through eliminating factors that prevent access to the labour market and reducing discrimination and the disregard of basic rights in the labour market the preconditions for poverty-focused economic growth are enhanced. In the majority of developing countries, self-employment[iv] is a more important source of income than wage labour amongst people living in poverty. The *second cornerstone* of a policy for economic development should therefore comprise measures to promote a business climate offering both small and weak as well as large economic players equivalent and favourable opportunities and rights to act on the market.[20]

The *third cornerstone* relates to reducing the vulnerability of poor people. All economic activity demands a certain measure of risk taking. People who live in poverty are vulnerable, which frequently limits their possibilities of taking calculated risks aimed at achieving higher income and welfare. The lack of financial margins frequently forces poor people to focus on risk minimisation at the cost of income maximisation. Basic economic security is important for

iv Self-employment is defined as small-scale business operations within agriculture as well as self-employment in other sectors such as shoe repair, pottery, baking and selling foods, repairing cycles and other income-generating activities.

people in venturing to exploit the possibilities that are offered to climb out of poverty.

The role of women as economic players deserves special attention for several reasons. Women frequently have limited possibilities to build up their economic resource base and to exploit it effectively. A disproportionately large responsibility for reproductive work and household chores means that women frequently have more limited time to engage themselves in economic activities than men do. Opportunities for women to participate in economic development on equivalent terms are also limited by discrimination in the labour market and by formal and informal obstacles in acting as independent economic actors.

At the same time, experience shows that women's access to education and productive employment outside the home and to sexual and reproductive health is of decisive significance for the following generation's prerequisites for a life free of poverty[21]. All in all, there are clear signs that increased gender equality has positive effects on economic growth[22]. An active gender equality policy may thus be seen as an important component in strategies for growth and reduced poverty.

2.2 Enterprise as an engine of growth

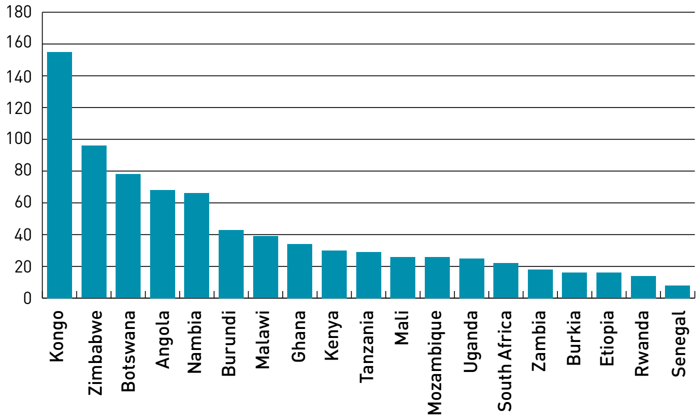
Even though the basis for rapid and long-lasting growth starts from the individual the major part of all economic activities does not take place on an individual basis but in collective form. These economic associations may take a multiplicity of forms and be of widely differing sizes; from private individuals to large, at times, multinational companies. Opportunities for the division of labour and other economies of scale in production are one reason for economic activity being organised on a joint basis. Another important reason is the possibilities it offers of reducing transaction costs through these, to an increasing extent, being incorporated in the company. Together, actors in the private sector from agriculture to industry and the services sector comprise the engine of growth[23, 24]. A growing private sector is also a prerequisite for increased tax revenues that can be used for a fairer distribution of income among different groups, investments in infrastructure, health and education as well as for other public activities that contribute to the reduction in poverty[25].

Properly functioning markets are required in order for the private sector to be able to fulfil its role as an engine of growth in the economy. This applies both to the capital and labour markets as well as markets for the sale of production. Experience shows that a market economy with free competition, where relative prices are able to function as the main mechanism for allocation and utilisation of resources, is the only economic system that can create the preconditions for long-term economic growth through a flexible and effective utilisation of scarce resources[26]. For most eco-system services, however, the market fails in signalling the right social price and it thereby offers misleading information on the scarcity of resources. Thus, government action is required to correct this failure.

Markets may take different forms and operate more or less well[27]. In countries with a low level of development the markets are frequently poorly developed. A small number of actors make the markets too thin and fragmented to be able to support growth in production. This problem is particularly serious in the countryside in poorer regions. Thin markets are due to too high transaction costs[28] which, in their turn, may be caused by high transport costs owing to geographical factors as well as poor infrastructure. Additional complicating factors may be: under-developed systems for diffusing market information, complicated regulations for starting and running business operations, corruption, business monopolies as well as high risks in entering agreements with unknown parties.

Poorly functioning markets are frequently unfavourable to smaller actors and in this case women and young people in particular[29]. This leads to a vicious circle where the markets remain thin and fragmented which results in slower growth, fewer jobs and a weaker link between growth and the reduction of poverty[30]. Moreover, the corporate investments that crucial for growth are often impeded by the country's investment climate[31]. Worryingly enough, every year, between a third and a half of all companies in African countries refrain from investing in their business operations owing to the poor investment climate[32]. Inputs that reduce the transaction costs and enhance the business climate therefore have great potential to increase the economic return and thereby contribute to faster growth[33]. The government has an important role to play in order to avoid market failures but the involvement of the state must be weighed against the risk of government failures.

Figure 3: How many days does it take to start a business in Africa?



Source: IFC & The World Bank (2008) "Doing Business 2009", The World Bank.

The labour market and the informal economy

For the majority of people who live in poverty everyday life is already characterised by hard work. Therefore, in order to reduce poverty and increase growth additional employment as such is not required but rather work opportunities with higher productivity and return as well as improved working conditions. Labour markets in low-income countries tend to be sharply segmented and offer limited prospect of advancing from jobs with low productivity, frequently in the informal economy, to jobs with higher productivity. Jobs in the informal economy are often associated with poor working conditions, instability and high risks and seldom generate sufficient income to maintain tolerable living conditions. More productive employment with better working conditions and a better functioning labour market for all have recently been highlighted within international forums as playing a decisive role in the reduction of poverty and stimulating growth.[34]

In the majority of developing countries the informal economy is growing faster than the formal one. In Africa, the major part of agrarian employment and as much as 78 per cent of non-agrarian employment is estimated to be informal, and the levels for South Asia and Latin America are almost as high[35]. This is not a temporary phenomenon. On the contrary, the informal economy appears to be an unavoidable part of today's economic development processes[36]. The informal economy can have great potential when it is a question of creating income-generating work in the short term[37]. Companies in the informal economy, however, find it harder to fully profit from the growth potential in the economy since transaction costs for an informal company tend to rise exponentially with the company's growth. The informal economy thus grows through the number of informal companies increasing rather than through growth in existing companies. A challenge is, thus, to find a combination of rules and institutions that ensure that there is an incentive for increasing the number of jobs in the formal economy and improving the possibilities for informal companies to enter the formal economy[38]

Table 1: Weight of the informal economy in different regions.

		North Africa	Sub-Saharan Africa	Latin America	Asia
Informal employment as part of non-agricultural sector	Total	48%	72%	51%	65%
	Women	43%	84%	58%	65%
	Men	49%	63%	48%	65%
Informal sector as part of GDP	Total	27%	41%	29%	31%

Sorce: ILO (2002) "Women and men in the informal economy – A Statistical Picture", ILO, Geneva.

The formal and informal economies are frequently closely interconnected. Formal companies commonly have informal suppliers and employment conditions[39]. Many entrepreneurs work in a borderland between the informal and formal labour market and tend to follow regulations when the benefit exceeds the costs. Integration into the formal economy in itself does not contribute to business development in the short term, but in the longer term more companies in the formal economy contribute to jobs with higher pay and better working conditions, a higher level of investment owing to increased confidence amongst investors as well as a broader tax base.[40] Labour market institutions can play an important role in the maintenance of reasonable working conditions in the formal labour market and act as representatives for employees and employers in the dialogue between them.

Studies have shown that increased productive employment (in particular in the formal economy) is strongly linked to GDP growth per capita but also to improved human capital[41]. The fact that the number of informally employed is increasing in low-income countries is far from due only to the shortage of competent labour, but to a larger extent to sagging demand for formal labour[42]. The demand side has a decisive importance when it comes to increasing the number of jobs and improving employment conditions. This in its turn is due to the business climate and the preconditions for the private sector to grow and generate jobs.

Infrastructure

Access to a functioning infrastructure in the form of transport and communication systems as well as systems for energy and water supply cut production and transaction costs in the economy and contribute to improving the functioning of the market. Infrastructure is required to link together markets within one country, and to link the country's markets to the international market. There is today strong empirical support that good access to different types of infrastructure is not only a prerequisite for a high general level of growth, but also contributes to growth patterns that benefit poor people and backward regions[43].

Tabel 2: Access to infrastructure varies widely between the richest and the poorest (% of the population with access to infrastructure services)

	Electricity		Water		Telephone	
	Poorest 20% of the population	Richest 20% of the population	Poorest 20% of the population	Richest 20% of the population	Poorest 20% of the population	Richest 20% of the population
Low-income countries	10	69	41	79	3	25
Lower middle-income countries	80	99	65	87	21	66
Higher middle-income countries	81	100	77	95	32	73

Source: Estache, A. & Fay, A. (2007) "Current Debates on Infrastructure Policy", Policy Research Working Paper No. 4410, The World Bank.

The gap between the existing infrastructure in poor countries and the infrastructure that would be needed to achieve high growth levels is, in many countries, very large. The cutbacks in public resources connected with structural adjustment programmes in combination with excessive expectations of increased private investments in infrastructure led, during the 1990's, to a sharp decline in both public sector investments as well as aid for infrastructure [44]. There is, at present, a broad consensus that governments and donors need to increase investment in new as well as maintenance of old infrastructure. Current research, however, warns that the infrastructure sector is especially corruption-sensitive which means that investments in infrastructure risk being ineffective if they are not combined with active fighting of corruption[45]. Bearing in mind that infrastructure has significant direct and indirect environmental consequences it is urgent that these effects are taken into consideration in the planning of infrastructure investments.

Saving and investments

Investments in infrastructure in a broad sense, in human capital in the form of health and education as well as in research and technical development which increase productivity create necessary preconditions for durable growth. Experience shows that countries need to invest at least 25 per cent or more of their GDP in order to be able to support rapid and sustainable economic growth[46, 47]. How large a share of the GDP should be invested in each country depends e.g. on the pace of the population growth. Government investments in infrastructure can take place in partnership with private investors and contribute to a positive spiral of new investments and development. Education- and health-related outlays and other investments in human capital have an intrinsic value for the individual's quality of life at the same time as they constitute a necessity for growth. The return on investments in human capital are often very high but are also dependent on other supplementary investments e.g. in infrastructure [48].

Investments are financed by savings that may be from the state or come from private companies or households. State savings are revenues that may be over when current expenses are paid, and may thus also be negative in the case where the government finances its expenditure with loans. Even where loans from abroad may cover the financing requirement in the short term, the loans always mean a risk of future instability. Many developing countries are already today debt-burdened and international co-operation, mainly in the form of the HIPC initiative[49], is ongoing with the aim of lowering the debt burden to a level that facilitates future development. Other voluntary currency flows from abroad such as aid and remittances may help in compensating for a low level of domestic saving, but it does not replace the necessity of balancing investments and savings in the longer term.

Companies may finance their investments with the help of private savings from domestic households or through foreign direct investments. Household savings depend inter alia on their incomes and the dependency ratio in the family. Access to suitable savings instruments play a role here, as well as the need to compensate for shortcomings in the social security system. The propensity to save is also culturally conditioned. Experience, however, shows that also households that live in very meagre circumstances frequently have a high propensity to save. Whether these savings are channelled in a way effective for growth depends on how well the financial market functions[50]. Inefficiency of financial intermeditation hinders growth since the already limited amount of capital can then not be used optimally.

In many developing countries most people living in poverty lack access to financial services[51]. During the 21st century Grameen Bank and other similar initiatives have demonstrated how access to micro credits can improve the situation for millions of people, especially women. Despite this, micro credits are a fairly marginal phenomenon in many countries. Many more individuals participate in different types of co-operative savings schemes at the same time as formal banks are now investing in reaching out with financial services to poor customer groups. Current empirical research on the development of financial systems shows that these systems have especial importance for the smaller and medium-sized companies[52] including informal small business actors, e.g. in the agricultural sector.

Financial reforms that reduce the barriers and increase access to formal financial services contribute to creating preconditions for increased growth and, at the same time, have positive effects on income distribution. This underlines the fact that broad investments in financial development which offer companies and individuals increased access to financial services may be at least as important for fighting poverty as micro credits for the poorest.

Macroeconomic stability

Private actors take decisions on investments based on the expected profit, alternative cost of capital and the risk that the project implies. Macroeconomic stability decreases future risks and favours productive investments[53]. Reduced insecurity is of special importance for small businesses that frequently lack access to information and financial services that could facilitate adjustment to unexpected changes in economic policy[54].

Awareness of the fact that macro economic stability has great importance has increased sharply in recent years. The Asian crisis during the 1990's provided a clear example of how poorly functioning financial systems could undermine previous economic advances. In Indonesia, for example, where people during a long period of high economic growth had been lifted out of poverty, it was seen how at the end of the 1990's there was a sharp increase in the number of people who were living in poverty.

There is a relatively broad consensus on the general principles that are part of a favourable and stable macroeconomic policy. Price stability (low inflation), a steady and competitive exchange rate[55], a properly functioning central bank that stabilises markets with its monetary policy, a reasonable level of national debt, public sector consumption that is sustainable in the long term and effective use of national resources are important keystones of a growth process. Despite extensive criticism against the 'Washington Consensus', the conclusion is not that the demand for macroeconomic stability should be irrelevant. On the other hand, there is today a better understanding of the need for supplementary measures in other areas of policy with the aim of promoting growth in different countries and in different situations[56].

Box 2: Washington Consensus
John Williamson coined the expression 'Washington Consensus' in 1989 when he referred to the reform paradigm that international organisations recommended as a key to better economic growth. The policy areas that were included in the Washington Consensus were budget discipline; tax reform, liberalisation of interest rates, market-set exchange rates, general market liberalisation, liberalisation of foreign currency flows, privatisation, deregulation, as well as guaranteed property rights. This concept has subsequently been discussed widely in different forums and nowadays there is recognition of both the strength of macroeconomic stability and the weaknesses in solely focusing on part of the wider reform agenda at the cost of its other fundamental components.

2.3 State creates preconditions for growth

Long-term sustainable growth that benefits the poor demands an active and effective public sector. Growth is created primarily when economic actors, individuals and companies, invest and produce, guided by price signals and market forces. Decisive for the scope and focus of this activity is how ownership rights function, how contracts are enforced and how information is mediated etc, or in other words how society's institutions function as a whole.[57] The state has an important role in the development of these institutions as well as in the building up of human capital. It is also the task of central government to run an economic policy that is strategic and growth promoting, e.g. through maintaining price stability and responsible public finances.[58]

The state has a fundamental responsibility for creating and maintaining the rules and regulations that facilitate effective market exchanges. For many post-conflict countries the protection of their citizens from violence and threats so they are enabled to take risks and involve themselves in making a living is of the upmost relevance. In more functioning societies the central government's oversight of the market economy's actors, through e.g. company registers, is another such regulatory function. Typical for many developing countries is that control bodies of this type are poorly developed and that people have insufficient knowledge about them and/or confidence in them. It is thus important that inputs for developing such public services take into account the de facto control systems that exist in a particular country.[59]

Box 3: State has a special responsibility in situations where markets do not have the preconditions to operate

A market economy with free competition, in which relative prices function as main mechanism for the distribution of resources, is the only economic system that leads to effective utilisation of scarce resources. There are, however, situations when the market fails in signalling the right social price and thereby provides misleading information on the scarcity of the resources. In that case the action of public authorities is required to correct the failure.

Such a situation constitutes so-called public goods which are characterised by the fact that their utilisation cannot be limited in a natural way to the person who created or owns the good and that a person's utilisation of the good or service does not significantly affect the possibility of other persons to profit from the same. Examples of public goods in this sense are peace and security.

The markets also fail in the handling of externalities. Externalities arise when an economic activity has direct, positive or negative consequences on the surrounding environment. The existence of externalities means that the social utility of a certain economic activity differs from the private economic one. The most striking example here is industrial production that pollutes the environment.

The state also has a role in situations where markets do not have the prerequisites to properly function. The production of goods that wholly or partly have the character of public goods[v], e.g. infrastructure, basic education, the health system or research financing, does not always take place to the desired extent at the initiative of private actors. The state has an important role in financing

v Public goods are characterised by the fact that their utilisation cannot be limited in a natural way to the person who created or owns the public good and that a person's utilisation of the good or service does not significantly affect the possibility of other persons to profit from the same.

public goods, but many of today's developing countries are weak states that find it hard to manage this role. Nor are goods and services with negative externalities[vi] always produced for the community on an optimal scale by the market. Production that pollutes the environment has negative consequences for the economy which exceeds the private economic cost of production which thus gives rise to government regulations. The capacity of the state to establish and maintain such regulation is, however, limited in less developed countries.

An additional role for the state is to guarantee that the economic development has an acceptable outcome in terms of distribution of resources. This takes place partly through public investments that benefit the whole population and that are financed by taxation, and partly through the establishment of social security systems. Characteristic for developing countries is the low capacity of the public financing and thus inadequate effectiveness also in this role.[60]

Quality of the institutions

The stated growth policy relating e.g. to employment, finance markets and education system is important, but the impact of the policy is determined by how well these reforms can be implemented and absorbed in the society. This depends in its turn on the quality of the institutions, i.e. how well regulations and norms in the society promote growth.[61] A functioning administration and a non-corrupt legal system are important prerequisites for the laws and political decisions taken by the country's parliament and government being implemented in a responsible way with openness, participation and effectiveness. In many of today's developing countries the state is weak or it lacks legitimacy amongst the citizens as a consequence of ineffectiveness and lack of respect for the principles of a constitutional state.

The quality of the institutions is developed through a social dialogue between all actors, private and public, individuals and organisations. The institutional development thereby depends also on society's combined capacity to handle processes of change. This demands, in its turn, a capacity by society to handle both externally and internally developed knowledge and, not least, the capacity to debate and assess this knowledge.[62] A major problem in many deve-

vi Externalities arise when an economic activity has direct, positive or negative consequences on the surrounding environment. The existence of externalities means that the social utility of a certain economic activity differs from the private economic one.

loping countries is capacity deficiencies, both in existing systems and amongst individuals. This e.g. concerns the fact that organisations and systems that promote growth are lacking or are poorly designed, e.g. inadequate health systems and absence of land registration services.

Reforms of these systems are impeded, however, by the lack of people with the right competence. This is due partly to underfinancing, particularly of the public sector, which makes it difficult to employ the right people to improve the systems, partly due to the education systems being insufficient so there are not the people to employ. Capacity problem make many institutions and systems inefficient. The resources that are available are used to maintain ineffective and illegitimate regulatory systems, the only result of which is frequently notorious clientalism and increasing corruption. Systems need to be reformed so that they give rise to incentives that promote social development.[63]

Political leadership and debate

The development of institutions is to a high extent path dependent. Not seldom economic, political and social power relationships as well as traditional norms comprise the principles shaping institutions and determine how they function in a country. But political changes, central government interventions and external events can change the preconditions.[64] Reforms of the public sector in order to promote institutional development imply demands for clear political leadership[65] and increased public resources.

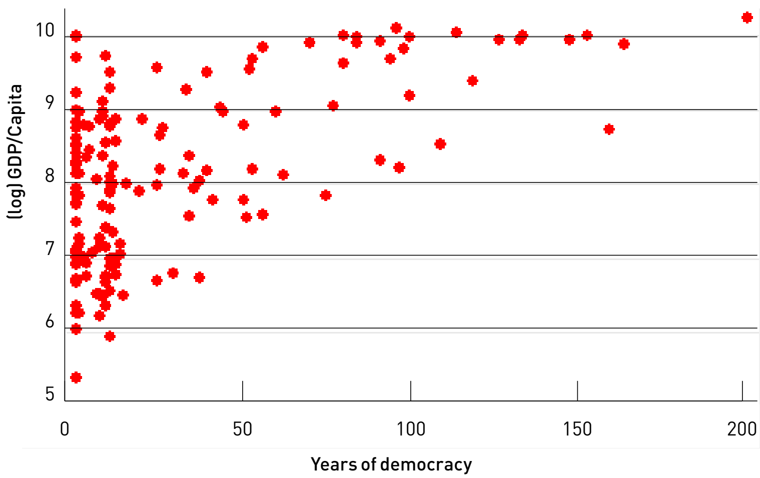
Leadership in its turn is a product of the quality of the institutions. To a high degree politics is about setting alternatives against one another and making reasonable adjustments. This requires that the political process permits open scrutiny and debate concerning the choice that is made, identifying alternatives and being open to change decisions made.

Both the political and technical dimension of planned reforms are therefore important, as well as the fact that ownership of the reforms is to be found in the political leadership of the country concerned – within the government and parliament. To contribute to strengthening parliament's role in decision-making and oversight of growth-related reforms may be an important component in creating preconditions for implementation of reforms.

Democracy

The question whether democracy promotes growth or whether growth promotes democracy is complex and at present there is no unambiguous answer on the connections between them. What may be said is that long democratic experience most frequently coincides with economic prosperity.[66] There are also examples of authoritarian regimes that either have a high income level or a high growth. On the other hand there are few examples of really poor countries with a long democratic history.[67] Many countries within the development cooperation consequently have a weak democratic tradition or continue to be authoritarian regimes. The question is then whether a changeover to democratic governance risks costing these countries in terms of economic development. Experience seems to say the opposite: overall a changeover to democracy means increased growth in poor countries also.[68]

Figure 4: Income and democratic experience in 2000



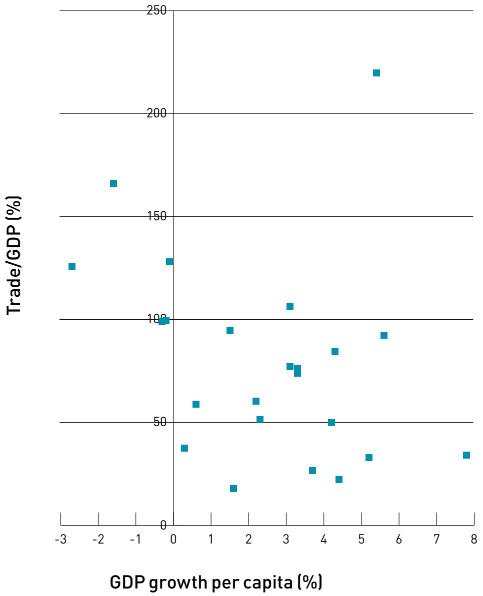
Source: Persson, Torsten and Guido Tabellini (2008), "Democratic capital: The nexus of political and economic change", Working Paper, July.

The preconditions for democratic development and its connection with the economic development vary from one country to another. A deeper understanding of the dynamic between economic and political change may be achieved with a more multidimensional view of democracy than the formal democracy measurement i.e. that which relates to the existence of free elections. One way is to define a ‘democratic capital’, i.e. a democratic culture in the local community and nationally as well as expectations of continued consolidation of democracy (or the opposite: expectations of political turbulence). The democratic capital is also affected by other countries’ democratic experiences, especially neighbouring countries. The greater the democratic capital the greater the growth, since democracy thereby also becomes more stable.[69] Democratic culture within the country for the individual relates to knowledge about the democratic rights he or she possesses but also values such as trust, respect for others, tolerance and equality[70]. The civil society here has a decisive role as well as the encounter between the individual and public bodies.

2.4 Global economic integration

Growth does not occur in a vacuum. On the contrary, openness to international exchange in its different forms is an important factor in order to achieve increased growth and reduced poverty[71, 72]. In today’s society autocracy is no realistic alternative, but trade liberalisation does not automatically lead to growth either. Access to larger markets outside the country’s borders, both regionally and globally, may give rise to efficiency gains from increased competition and economies of scale, reduced distortions, increased product range through the import of better and cheaper input goods, as well as the introduction of new technology[73]. Moreover, trade liberalisation frequently brings with it more long-term dynamic effects such as increased productivity and improved institutions and market mechanisms. Empirical results show the positive effects of trade liberalisation on growth at the aggregate level, but there are large differences between countries. Historically, nations that have been open to trade have grown faster than closed ones[74], but it is hard to distinguish the effects of openness to trade from other reforms that are frequently introduced at the same time[75].

Figure 5: Openness to trade and growth



Source: Dollar, D. & Kraay, A. (2004) 'Trade, Growth and Poverty', The Economic Journal, Vol. 114, F22-F49. Page F32, the figures are for 1995.

Factors that influence whether openness actually results in increased growth are, above all, a country's human capital, its trading structure and the possibility of capital accumulation. Influence is also exerted by the quality of the domestic markets, the infrastructure and the institutions[76]. Research shows that the import of input goods of high quality has had great importance for increased growth in poor countries[77]. Even if all trade barriers fundamentally slow down growth, tariff protection of industries that produce consumer goods does not seem to be as damaging for growth as trade barriers that protect against the import of input goods and capital goods[78]. It may also be more important through e.g. simplified trade procedures to rectify national hindrances which contribute to high costs for trade in developing countries, compared with solely focusing on enhanced market entry in the form of lower customs tariffs[79, 80]. The chronological order in which different interventions in connection with liberalisation are implemented is of great significance in how growth-promoting the results are[81, 82].

The gains from trade liberalisation depend on how fast and to what extent resources are redistributed to the production sectors where a nation has comparative advantages[83]. Even if openness to trade in general creates preconditions for increased growth certain groups may be losers[84]. The effect of trade on poverty in the short term depends on which sector is expanding as a consequence of trade reforms, within which sector poor individuals are employed and how their production and consumption is affected by changes in prices, employment and markets[85, 86].

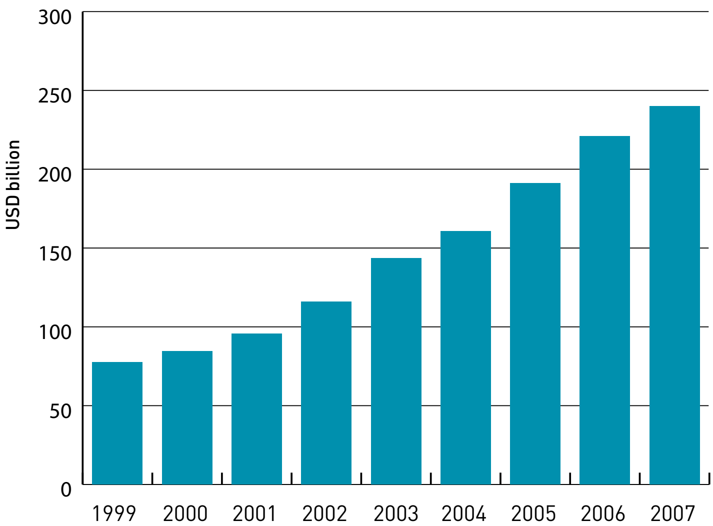
Trade liberalisation leads to realignments in the economy which demand structural adjustment. Trade liberalisation both creates and destroys opportunities for employment within all sectors that are liberalised. In order to guarantee that growth processes connected with trade liberalisation also favour the poor there is frequently a need for complementary, country-specific reforms that enable the poor to harvest the fruits from structural change[87, 88]. Examples are measures that increase the assets of the poor, build up infrastructure and institutions, investments in human resources and employment opportunities for deprived social groups, increased access to credits, reforms of property rights, and strenghening social safety nets[89, 90].

Since increased international trade may be a strong contributory factor to a country's growth and its possibilities for poverty reduction one should always consider the possibility of including trade-related inputs in growth-promoting strategies. More direct measures may contribute to building negotiating capacity and support initiatives for simplified trade procedures. The trade-related investments could also promote supply-side capacity, trade-related infrastructure, trade development and facilitate structural adjustment.

Besides trade in goods and services, the migration of labour has also become a growing part of globalisation: 3 per cent of the world's population are deemed to be migrants[91]. From a household perspective migration may be seen as an investment in the future[92]. The household may decide that a family member take employment abroad in the hope of higher income, part of which is sent back to the family in the home country in the form of remittances[93]. These remittances comprise an increasingly far-reaching part of the international currency flows. The volume of remittances today is more than twice as large as all international aid when added up[94]. Remittances are also an important source of income for many poor families, as well as a potential source of increased saving and productive investments. In Moldova, for example, remittances already account for over a billion US dollars or a third of national income[95].

Migration can also benefit the homeland's economy through the migrants acquiring new knowledge and contacts during the time they are abroad and contributing to the host country's growth. If the migrants then return to their home country, their new knowledge can enhance the prospects of economic development at home. Where, on the other hand, migration becomes a permanent phenomenon owing to a continued weak economic development in the home country, the outflow of human capital may damage the home country's development prospects, especially in those cases where the highly educated are overrepresented amongst the migrants.

Figure 6: Remittances sent to the developing countries 1999-2007



Source: The World Bank (2008), "Global Development Finance 2008: The Role of International Banking", The World Bank, p.35.
* estimation

International currency flows, of which the remittances are a part, play an ever more important role in the international exchange. Foreign direct investments are a growing source of capital also in countries at a low stage of development, especially in states rich in natural resources[96]. The volume of foreign direct investments in developing countries has risen sharply from USD 10 billion in 1980 to USD 390 billion in 2007[97]. Foreign investments frequently mean that new knowledge flows into the country, which further promotes growth[98]. Foreign investors are, however, sensitive to changes in the country's investment climate, which may create instability in the economy. This underlines the importance of a stable economic policy and a growth-promoting business climate. The national institutions also have an important role in contributing to foreign capital being utilised in a way that does not harm the environment and that favours the domestic economic actors.

Even if most nations must accept the conditions of the global economy as given, these are not, in fact, carved in stone. Global co-operation is a necessity in order, in a better way than at present, to manage global challenges such as international migration, control of greenhouse gases and the regulations for international trade and capital flows. To develop the global, institutional architecture so that it balances the common global interests with the special needs and preconditions of poor countries is a major challenge for the international community.

3. Special challenges and opportunities for low-income countries

The fundamental building blocks required to achieve economic growth in different countries are broadly the same even if institutions may take different forms depending on the context. At the same time there is a series of challenges and opportunities that have special significance for the low-income countries.

3.1 Late starters

The global experiences of how growth is created and maintained over a longer period are based on countries that achieved their successes under different conditions than those that apply today. To copy is easier than to newly create[99], which made it possible for the so-called Asian tigers to base their growth on technology imports and imitation. When an advanced technology already exists the less developed countries do not need to go through the same development phases as previous pioneers but can directly adapt themselves to the level that has already been developed in other parts of the world[100]. The Asian economies are now gradually moving away from imitation of low-tech solutions towards their own development of new technology. With this process under way, labour-intensive industrial production based on imitation becomes a potential opportunity for those countries that are only now starting their industrialisation.

The conditions for industrialisation and competitiveness in the world economy which the African nations now face do not resemble, however, the conditions that prevailed during the 1960's, 70's and 80's, with the extremely low labour cost that then prevailed in the countries in East and South-East Asia. Changes in the global market have led to a situation where protectionism which favoured early industrialised countries no longer is a realistic alternative, and the competitiveness which is required to compete with e.g. China and India on global markets may force poorer countries into painful adjustment. This does not, however, necessarily need to be unfavourable to later developing countries. As China and India focus on faster development in their export sectors, e.g. within hardware products, car components and clothes, they will challenge certain middle-income countries which currently compete with the same products. At the same time, these super economies will demand more consumer goods from less developed countries and thereby create a growing market for exports[101].

The adjustment to the global changes means special challenges for poor countries in Africa. Despite the fact that the growth rate on the continent has recovered from previously low levels, the growth rate in many countries is still not sufficiently high to achieve the goal of halved poverty by 2015. Rising raw material prices on the world market have, in the short term, had a positive effect on Africa's growth, but many nations are still dependent on just a few export articles. The low level of diversification makes them very vulnerable for changes in the world market prices. How well these countries succeed in administering the profits from increased raw material prices and adapting the economy when the prices fall, is dependent on the quality of its national institutions[102]. Without increased investments in improving the investment climate and increasing the level of diversification in the economy it will become hard to maintain a high growth rate.

3.2 Demographics in low-income countries

The majority of countries in Sub-Saharan Africa, like certain of the poorest countries in Asia, have only in recent years initiated the stage in the demographic transition characterised by declining fertility and number of births and a reduced rate of population growth. This means that the rate of increase of the labour force will continue to be very high during a further couple of decades.

The number of dependents of the occupationally active population may thus, in most cases, be expected to decline gradually and become increasingly favourable during the next few decades. In the case that the economies manage to generate productive employment opportunities for the fast growing working population this demographic stage offers an exceptional opportunity for increased per capita growth and reduced poverty. With increased per capita incomes as a consequence of the ever-increasing proportion of the occupationally active in the population, the prospects for saving and investments also increase. This in its turn creates the possibility of higher economic growth. Within the public sector the gradually reduced baby booms imply the possibility of investing more in each individual child's education and health.

Experiences from East and South-East Asia, above all, shows that the combined effect of declining dependency ratio and high economic growth may become very powerful in terms of reduced poverty[103]. Such a development requires, however, a policy that enables the economy to absorb a rapid increase of the labour force with maintained or enhanced labour productivity. It also shows how important it is to co-ordinate the economic policy with inputs within sexual and reproductive health and a policy that aims to promote women's situation in society more generally. The HIV pandemic has, nevertheless, in recent years and above all in Southern and East Africa had a sharply negative impact on the working capacity of individuals. This risks undermining the positive effects of the demographic development as the epidemic hits disproportionately hard against the younger occupationally active population [104].

Whereas the working population in the developing countries is expected to increase by around one billion up to 2025 it will stagnate wholly or even decline in the OECD countries[105]. At the same time, the rate of increase of the working population in more highly populated countries in Asia, not least China, will decline in future. The geographically lopsided increase in the working population at a global level creates both possibilities and challenges for those countries that will continue to have a sharp expansion in the working population. Their global competitiveness within labour-intensive trades and industries, not least the service sectors, may be expected to increase on condition that they manage to offer the generation growing up adequate educational opportunities. This will, with all probability, lead to continued migration to the cities as well as increased migration of labour over national frontiers.[106].

3.3 Strategic role of Agriculture

Agriculture is a decisive part of the development of trade and industry in most developing countries. In addition to its strategic importance, it has also other characteristics that separate the sector from other. Agriculture is strongly dependent on regional and local preconditions in respect of climate, access to water and soil as well as the eco system's way of working. Unlike other industries, technology within agriculture cannot be simply transferred between geographical zones. For instance, research into new agricultural seeds must occur on site in its natural growth areas which demands local or regional research capacity. Women are principal actors in agriculture, in particular in Africa. The seasonal character of agriculture means that the effects of the HIV/AIDS epidemic frequently hit particularly hard against this sector.

Production growth in agriculture has significant effects on income poverty for the large group of women and men who are directly dependent on this sector. An important prerequisite, however, is that ownership and other tenure rights are regulated in a manner that does not exclude those people who live in poverty.

Work on the land does not only include agriculture but also forestry, aquaculture and fishing. Within forestry in particular, in numerous countries a growing application of locally based tenure rights has been shown to favour both enhanced economic utilisation as well as a long-term preservation of resources[107]. Forests fulfil an important function both through earnings from timber and other forestry products. The planting of trees has a great economic potential, but represents significant environmental and climatic challenges. Bearing in mind the significance of the forests for adjustment to and prevention of climate change there is a requirement for a carefully adjusted balance between the economic and environmental goals. Fishing is distinguished from other sectors through its potential, in many quarters, already being over-exploited. Here the challenge, in the first place, lies in offering poor people a rightful part of the production and ensuring that the marine resources are administered in a sustainable manner.

World trade, in particular in agricultural products, is not competition-neutral. Producers from developing countries are disadvantaged by trade barriers and in particular by the subsidy policies of the OECD countries, which have led to artificially low world market prices for food and other agricultural products. The latter has made it possible for developing countries to import foodstuffs at prices that are below the local production costs, which has undermined the preconditions for building up a local production. After decades of declining world market prices, food prices in recent years have rapidly turned upwards. There is ample evidence for continued high price levels owing to structural changes in supply and demand[108], even if prices in the longer term are possibly somewhat lower than at present. Now, when demand is increasing, it takes time to convert the local production and to exploit the export potential. African agriculture's long-term production preconditions in combination with its current, extremely low yields points to the existence of a great potential for increased production. In order for this potential to be fully exploited, also in the longer term, there is a requirement that the production occurs in an environmentally sustainable manner.

Food partly comprises perishable commodities, which to a large extent are produced and consumed locally. Only a lesser proportion of agricultural production is traded across national frontiers. The dependence on rapid sale in a local market may partly be nullified through expensive and technically sophisticated conservation and transport systems, but such will take a long time to develop for poor people in developing countries. The access to very cheap, externally produced staples (primarily grain) has created new consumption patterns, primarily in the big cities of the developing world, that have counteracted a diversified, locally based food production.

In order for the increased world market prices to provide an incentive for investments and increased production they must be allowed to have an effect on the local producer prices. They then offer an incentive for governments and households to make necessary investments in e.g. infrastructure in the countryside, development of suitable cultivation methods and agricultural seeds. Within agriculture lead times are frequently long before an investment results in increased production, e.g. within plant breeding.

Through investing in developing agriculture in the medium term food security can be secured and a foundation laid for poverty-reducing growth. Examples of prioritised measures within agriculture are (i) agricultural research with special focus on climatically adapted plant breeding, (ii) organised agricultural advice to diffuse local adapted research results, (iii) investment in agriculture's market integration including the building up of phytosanitary and plant genetic control functions, (iv) an active involvement concerning natural resource rights with special emphasis on land, water and fishing as well as (v) support for work on natural resource issues within agricultural interest organisations and other sections of the civil society.

3.4 Climate change

The development of the industrialised countries has been possible inter alia thanks to the good access to cheap, fossil-based energy sources. The fast increasing utilisation of oil has led to an ever larger emission of greenhouse gases that currently threatens to change the global climate. Despite increased awareness of the climate-changing effects of the greenhouse gases the emissions continue – also from the industrialised countries – to increase and constitute a very serious threat to long-term economic development and poverty reduction[109, 110].

Despite the developing countries having contributed least to climate changes, they will be hit hardest by the effects of climate change. Increasing temperatures have the greatest effects in already hot areas and changed precipitation patterns are of most significance where water is already a scarce resource. Agriculture and food supply will be affected first, and since many of the poor in the developing countries are directly dependent on renewable natural resources for their daily survival, they will be directly affected when temperatures rise and the climate changes. For the developing countries the only possible way is to attempt to adapt to the new conditions which will demand major changes in e.g. agriculture. The adjustment will probably also lead to movements of people in connection with altered cultivation conditions and rising sea levels which may call for major resources. The gradually increasing global insight into the negative effects of climate change may, in the long term, be expected to have significant influence on production, consumption and trading patterns.

In this context, a new international agreement that binds industrial countries and the fast growing developing countries to emission-reduction targets is a decisive precondition. An agreement with emission commitments entails explicit pricing of carbon dioxide emissions and also implies a series of undertakings concerning increased financing of adjustments and emission reduction, capacity development, technology development and technology diffusion and, moreover, stipulates the rules for how emission-reducing projects in the developing countries[111] shall be carried out. In connection with this, the private sector also will be involved e.g. through incentives being given to private actors in the market to launch environmental technology and invest in emission-reduction projects.

Thus, many interactive measures are required in order to prevent climate change, but in present circumstances the responsibility lies, above all, with the industrially developed countries to cut back their emissions. In addition, a sharply increased financing is required, in particular of adjustment measures in the developing countries which also includes capacity-building investments at various levels. A clear conclusion from researchers is that the earlier that one invests in measures that prevent climate change, the more cost-effective are the measures. [112]

3.5 Intensified struggle over finite resources

Economic growth is to large extent based on the exploitation of nature and its assets: land, water, plants and animals, minerals and energy. During the development of the economies of the industrialised countries these assets have been taken as given and regarded as largely unlimited. The possibilities of disposing of waste and residual products through discharging them into nature have, until recently, been regarded as limitless. With a sharply increasing global population, and above all with an ever greater extraction of resources in order to maintain the rising standard of living, the situation has nevertheless started to change. The first signals were more or less local environmental disasters: poisoning of watercourses, leaking refuse tips, over-exploitation of previously renewable resources such as depletion of fish stocks and desertification. The latest challenge is climate change that is caused by mankind's constantly increasing utilisation of resources.

The global utilisation of resources, since the start of the 1980's, has exceeded the bio capacity of the earth, i.e. the earth's combined ecological production. At the beginning of the 21st century the capacity was exceeded by over 25 per cent, and the increase is continuing[113]. This means that the production uses up the capital of the earth's resources, but also that the earth's capacity to continue to re-form its resources to the same extent as previously has begun to be undermined owing to climate changes and lost eco systems.

This entails that continued economic growth will need to take place under other conditions in future. To an ever greater extent, developing countries must base their growth strategies on other energy solutions than fossil energy which the industrialised countries have used for their development. At the same time, inequalities concerning the utilisation of resources are increasing and the industrialised countries already today use the major part of the available resources. A large share of the cultivable land, about 40 per cent of the total land surface, is utilised for agricultural production. The possibility of further increasing the agricultural area is limited, so that an increased food production must largely take place through intensification of the production on existing lands. Of the land that is used for agricultural production, however, already about 20 per cent has damage that reduces the production capacity[114]. Seventy per cent of the water utilisation is used within agriculture[115], at the same time as the demand for water is increasing all the time and competition for water for different purposes is intesifying. Increased awareness of the scarcity of eco system services forces future growth strategies to adapt to a more sustainable way of taking account of the finite resources.

3.6 Effects of war and conflicts

Paradoxically, those countries that are in greatest need of rapid growth find it most difficult to achieve this goal. The reason may be found e.g. in the socially destructive interaction between poverty and conflict. Unequal distribution of resources between groups and between women and men[116] as well as the lack of possibilities of earning a living contribute to an increased risk of violent conflict at the same time as conflicts worsen poverty and undermine pro-poor growth[117].

Economic growth is nearly always affected negatively by violent conflicts and agriculture is normally hit particularly hard by civil war in the countries where agriculture comprises the primary source of household income. Conflicts force people to leave their land and, in other cases, women remain as sole bread-winners without formal rights to land and other property. Conflicts undermine formal economic institutions and confidence in the market as well as lead to the collapse of transport systems. This results in shrinking markets and a shift from export orientation and market economy to self-sufficiency and informal economic activity.[118]

Conflicts are also costly in terms of long-term growth potential: after a decade of peace those countries that had suffered from civil war have frequently failed to recover to the development level that prevailed before the conflict[119]. During conflicts the private investment declines dramatically, partly owing to budgetary limitations, partly owing to insecurity, which damages growth for a long time in future. Even if a state's revenues frequently persist during a conflict the expenditure for military purposes increases, which causes the state's supply of health care and education to deteriorate. This leads to human suffering and harms the quality of the labour force.[120] The economic damage also spills over on to neighbouring countries. In a typical civil war half of the economic costs are borne by neighbouring countries.[121]

Factors that make a country inclined to end up in conflict are nearly always primarily of an economic nature.[122] For example, the existence of valuable natural resources may increase the risk of conflict, in any case if the resources are not managed in a sustainable, just and transparent manner. Natural resources may be both a reason for and an instrument in the financing of a conflict. Thus initiatives that during the conflict in progress limit rebel groups' access to the natural resources may be effective in peace building.

Rapid growth, on the other hand, has been shown to reduce the risk of conflict [123]. Regional trade integration is an example of a measure that prevents conflicts and promotes growth. Where a conflict nevertheless occurs it is especially important that the economic policy is subsequently adjusted to rapidly lessen the effects of the conflict and to create the foundation stones for a sustainable growth. For example, employment-creating inputs such as labour-intensive road construction are important since such projects generate both a meaningful existence and confidence in the future for both young people and demobilised soldiers as well as the rest of the population. The role of women in increasing the economic growth in a country after a conflict is of great importance given that women, during a conflict, have often become important players in the informal market structures and in agriculture. Employment-creating measures should be so designed that they facilitate for both women and men to either continue with their existing employment or to find new employment opportunities. Short-term inputs should be combined with long-term measures that build a base for sustainable growth.

3.7 Information and communication technologies (ICT)

In recent years telecoms have been developed at a fast rate in most poor countries. In 1996 only 2 per cent of households in Africa had access to the telephone. Ten years later this figure had risen to

25 per cent, i.e. every fourth household had access to mobile telephony[124]. Even if we have limited knowledge about the effects of today's rapid development, there are already concrete examples of how this creates new preconditions for economic development that benefits the poor. One example is the development of technology for 'mobile banking' that contributes to a rapid increase in the number of people who have access to financial services.

Telecoms constitute only one dimension of information and communication technology (ICT). Within other areas the development in poor countries has proceeded significantly more slowly. Just 1 per cent of households in the countryside in Africa had access to the Internet in 2006.[125] There are, however, reasons to assume that the development of ICT will accelerate generally and that ICT will become an increasingly central tool in governments and within public authorities and companies. Not least in Africa there is an enormous unexploited potential for increasing the effectiveness of ICT and developing new applications. One such lies in reaching new groups of people, including women, children and young people, and bringing about valuable, new applications with technology. The Internet's significance for access to information and in obtaining knowledge will probably increase rapidly in the low-income countries which may improve the individual's opportunities for participating in the economy and enhance the quality of the institutions. ICT may also contribute to a more sustainable economic growth through reducing the need for physical transport.

4. Role of development cooperation

Swedish foreign aid is based on the basic principle that people who live in poverty must be seen as actors in growth processes and that reduced poverty is achieved when poor women and men participate in, contribute to and can benefit from economic growth[126]. The role of aid is to contribute towards creating the preconditions for such growth processes.

4.1 Effects of development cooperation on economic growth

Since the mid-1990's economic research has taken great effort to empirically attempt to survey the aggregate effects of foreign aid at a national level. Most studies point to the fact that aid has positive effects on growth, but it has, nevertheless, been shown to be difficult with the help of econometric studies to achieve full consensus on the impact of aid on the economic growth[127, 128, 129]. This should not really come as any surprise given the multiplicity of statistical challenges in this type of study, including the fact that the global aid flows have many different political purposes (including homeland security).

In order to increase knowledge about and maximise the effects of foreign aid on growth it is necessary to examine the causal chain through which the development collaboration creates institutional and other preconditions that, in their turn, have effects in the form of increased growth and reduced poverty in the partner countries. A concrete example may be obtained from Sida's support of administrative reforms in Vietnam.

Box 4: Administrative reform as an instrument for promoting growth
In 1999 Sida initiated a support for development of a simplified model for land right certification in Quang Tri-province. The project was expanded to cover four additional provinces and in 2003 Vietnam's government decided that the model would be applied in all of Vietnam. A current assessment[1] shows that the model has been successful which e.g. is illustrated by the fact that the time for allocation of urban certificates declined from 91 to 23 days. A parallel research report[2] on Vietnam's land reform maintains that the legalisation of the land right certificates have played a key role in Vietnam's successful strategy for growth and poverty reduction. The research results confirm that poor people react positively to market incentives and point, at the same time, to the importance of strong central and local authorities as well as a genuine political will to fight poverty.

1 McCarthy A. – Duc Hao D. – Fallows D. – Van Dinh N. (2007), "Replicating the Model of Land Administration under the One Stop Shop (OSS) Mechanism in Five Provinces in the Central Region of Quang Tri Public Administration Reform (PAR) Project", Sida Evaluation 07/46.

2 Ravallion, M. & van de Walle, D. (2008) "Land in Transition: Reform and Poverty in Rural Vietnam", Palgrave Macmillan and World Bank.

Several interesting models for analysis of development projects and policy changes have been developed in recent years, e.g. The World Bank's tool for "Poverty and Social Impact Analysis (PSIA)" and the OECD/DAC's simplified model for "Poverty Impact Analysis (PIA)". Through using these models it is possible to clarify and strengthen the causal chain and the mechanisms through which development agencies contribute to creating employment, income and in other ways enhancing the life conditions of poor people. In recent years interest has grown strongly in randomised experiments for evaluating the effects of inputs at the micro level[130]. This type of study may play an important role in increasing knowledge on the effects of aid as well as the development of new political instruments that improve poor people's chances of participating in growth processes. This has led to an international working group having recommended extensive investments in this type of assessment[131].

In recent years certain development researchers have pointed to the potentially negative effects of development collaboration where economic growth is concerned. For instance, it has been pointed out that high volumes of aid, in the same way as e.g. high earnings from mineral extraction, risk leading to currency appreciation with negative effects on the export industry and employment (Dutch disease). In addition, it is asserted that long-term development cooperation may have negative incentive effects on the partner country's institutions[132]. An extensive literature and debate has been developed concerning aid dependence and more generally on the effectiveness of the development cooperation[133].

The international community and the developing country governments try, in different ways, to reduce the risk of negative effects from the aid and to increase the effectiveness of the development cooperation. The aim of the Paris Declaration on Aid Effectiveness which occurred in 2005[134] is to increase the partner countries' ownership of the development process and to contribute to aid harmonisation, support for the partner country's procedures as well as an active control of performance. Within the framework of the implementation of the Paris Declaration extensive inputs are being carried out to strengthen the partner countries' systems for public financial management which may also be expected to contribute to reducing the risks of negative macroeconomic effects of large capital inflows.

4.2 Growth strategies and development cooperation

The issue is then how the development cooperation, in the most effective possible way, can contribute to the design and implementation of growth strategies in the partner countries. Analyses of experiences from the economic reforms of the 1990's have pointed to the risks of basing growth strategies on a series of universal recepies that are copied from one country to another[135, 136]. A new approach has emerged that states that growth strategies should be selective and focus on a few critical factors that constitute obstacles to economic growth. Every nation needs to be able to seek its own ways of achieving political support for growth reforms.

Which factors in a given situation should be prioritised depends on the context and what is prioritised must take account of the dynamics in the current development process. Not seldom, poor countries and regions find themselves in what may be described as 'poverty traps' in which different economic, political, social and environmental factors interact. Not least in such situations there is a requirement for integrated and holistic approaches where different types of inputs interact in a flexible way.

Sida's experiences demonstrate that increased interaction is required between different areas of knowledge within development cooperation[137]. This applies not only between sectors that traditionally are regarded as 'economic sectors' (e.g. private sector development, trade, the financial sector development, infrastructure and agriculture). A holistic working method also requires taking into account potential synergies between economic growth and social development, public administration and the media in the work with growth strategies. For example, the good health of the workforce is an important growth prerequisite, at the same time as economic growth increases the state's resources for e.g. the building up of functioning health systems. Finally, there is an important interplay between public and private actors to enable that market mechanisms are utilised optimally.

Against this background, it is important that partner countries and donors have proper analytical tools at their disposal in order to identify the most binding constraints to growth. The development cooperation may assist partner countries to strengthen their capacity to implement such analyses. Sida has developed the so-called IEA-model[138] ("Integrated Economic Analysis") which seeks to integrate the analysis of employment, macroeconomics and investment climate in order to more easily be able to identify the obstacles that are most conclusive for poverty reduction in a given situation.

Power structures in the local political and social environment frequently prevent the implementation of urgent economic reforms. An aid organisation which becomes involved in complex reform processes must have the capacity to combine analyses of economic, political, social and environmental consequences. Sida's work in developing power analyses[139] has special relevance for the work on reforms of economic institutions. Lessons from these analyses assist in offering a holistic picture of the binding constraints that impede sustainable development and reform processes in developing countries.

Obstacles to economic growth are to be found at different levels in the economic system: from the global level where the international trade policy and financial regulations are negotiated to the micro level in poor countries where companies and individuals in many cases are excluded from economic exchange on reasonable conditions. The development cooperation must find flexible forms in order to help the partner countries to identify and attack obstacles to growth at different system levels.

Sida's experiences show that an important success factor lies in creating links between knowledge that is generated on inputs at different system levels[140]. For example, lessons from work on the micro level and collaboration with actors outside the public sector can offer valuable contributions for the policy dialogue at the national sector or macro level as well as in international forums. Correspondingly, there is a tangible requirement in the planning of inputs at the micro level to take account of weaknesses in national plans and institutions. The history of development cooperation offers countless examples of inputs that have become ineffective owing to impeding factors in the national investment climate.

To create organisational models that facilitate the exchange of knowledge between interventions at different system levels is an important challenge for all aid organisations. It should also be noted that this does not only concern the exchange of knowledge within one and the same organisation, but also collaboration across organisational borders, e.g. between Sida, Swedfund and private organisations that are involved in growth-related aid. Different types of professional networks may play an important role in such a knowledge exchange. A concrete example in this context is the Swedish micro finance network.

The Swedish policy for global development (PGD) underlines the importance of coherance between different areas of Swedish politics so that Sweden, in a more effective way, shall be able to contribute to reducing the economic marginalisation of poor countries[141]. Not least, attention is called to the importance for Sweden, within the framework of the EU's trade policy, to take account of the interests of poor countries. Furthermore, PGD highlights the importance of the interplay between commercial policy and aid policy. Through support to interaction between actors, aid may contribute to create long-term self-bearing relationships between economic actors in Sweden and the partner countries.

4.3 Experiences of different approaches

An increasing share of the bilateral aid is carried out in the form of general budget support (GBS) closely linked to the national Poverty Reduction Strategies (PRS). The first generation of these strategies was seen in the first place as an instrument for support for debt alleviation and increased inputs within the social sectors. The strategies contained general goals for increased growth, but frequently lacked concrete plans for getting growth processes going[142]. In many of the strategies of recent years growth issues are given sharply increased attention, e.g. through including programmes for enhancing the investment climate and preparing better indicators of development within this area. This means that the traditional dialogue on macroeconomic issues is broadened to also include a dialogue on ongoing growth reforms[143].

A significant part of the development collaboration is presently focused on specific sectors or policy areas. The models that have been developed for this type of aid in line with the Paris Declaration are, in the first place, adapted to sectoral programme support within the public sector. Through such inputs extensive public investments are facilitated e.g. for the building up of national health and education systems. Even if the national poverty strategies frequently define goals for these investments in other terms than economic growth, there is no doubt that these investments also contribute to create preconditions for growth and reduced income poverty. It is thus urgent that growth aspects are paid attention to in the planning and implementation of public social investments, e.g. in respect of the scope and focus of public inputs for occupational training.

Sida's experience shows that inputs that aim to develop market institutions frequently imply special challenges in relation to the Paris Declaration. It is, for example, not uncommon that these programmes presuppose a far-reaching participation by actors outside the public sector. The experiences from applying sectoral programme inputs within these areas are still relatively limited, however ongoing support for improving the business climate in Tanzania[144] and for agricultural reforms in Mozambique[145, 146] show that it is possible to apply fundamental principles in the Paris Declaration also in these types of programme. At the same time, it is evident that support for reforms of market institutions is time-consuming and knowledge-intensive. Donors must have good understanding of an institutional perspective combined with patience and endurance[147, 148].

A direct collaboration between organisations with similar mandate may contribute to necessary capacity development of public authorities. Sida has a long and mainly positive experience of this model. Examples of areas where such models are applied is the statistical area[149], tax administration, land surveying as well as research collaboration; i.e. areas with significant direct or indirect relevance for economic growth. A concrete example is the collaboration developed between the Bank of Sweden and central banks in several partner countries. One of the knowledge areas in demand has been that of financial crisis management where the Swedish experiences from 1992 banking crisis still has international relevance. A follow-up of the co-operation with Vietnam and Sri Lanka has shown that this form of collaboration has been appreciated[150].

There exists a far-reaching unified vision that investments in a satisfactory business climate in the form of effective policy, regulations, institutions and infrastructure must be a cornerstone in the support for private sector development. More open to debate, however, are whether the aid should involve itself in the development of specific markets or in direct collaboration with individual companies or groups of companies. The OECD-DAC[151] has, like the World Bank,[152] warned about the risks that such approaches may entail. Sida's experiences confirm the risks that direct support to private companies may signify[153, 154]. At the same time, Sida's experiences show that there are situations when investments in a better business climate need to be supplemented with inputs at the meso- and micro levels, starting from analyses of the way of how the relevant markets function. A concrete example of a successful input is support to the development of ecological agricultural export in East Africa[155]. In the case of this type of input, collaboration should be sought, in the first place, with competition-neutral actors such as trade organisations.

Inputs that aim to promote economic development in geographically adjoining areas (e.g. districts, provinces or cities) frequently seek to integrate measures within different sectors in order to satisfy the specific problems and needs that are identified by relevant target groups in selected areas. Negative experiences from the investments of the 1970's and 80's in so-called integrated rural development have led to a development of partly new approaches. Sida's experiences from inputs in backward districts in the countryside in e.g. Zambia[156] have been positive, even if there exists remaining challenges in respect of cost-effectiveness and reproducibility.

Besides the bilateral co-operation, that so far has been the central focus for the experience report in this section, Sida has far-reaching collaboration with global and regional institutions. This collaboration contributes to improving the preconditions for the implementation of the growth strategies of partner countries e.g. through support for policy development, capacity development and analytical work within trade policy and the labour market area. One relevant example is support for the co-operation between Lund University and the Southern Africa Management Institute ESAMI, in the building up of a regional trade policy training centre, "The Trade Policy Centre in Africa (TRAPCA)". TRAPCA is adjudged to be able to play an important role in strengthening the capacity of African countries to run international trade negotiations[157].

5. Conclusions

The survey of the driving forces of growth and its role in the reduction of poverty as well as the role of development cooperation in contributing to building up the recipient country's own systems for managing its own development presented above leads to the following conclusions.

1. The development cooperation should be based on an integrated and holistic approach where a growth perspective is applied to all collaboration sectors

In order that economic growth shall function as an effective instrument for poverty reduction, a growth-oriented development cooperation shall promote increased productivity and employment opportunities whereby *poor people may participate in, contribute to and benefit from growth*. The priorities and implementation of the development cooperation should therefore be characterised by an *individual perspective* where people who live in poverty are seen as economic actors.

The development cooperation contributes to such a development in several ways. More direct inputs for a *better investment climate, macro economic stability as well as regulations* contribute to creating preconditions for market development, enterprise, investments and commerce. The development of *functioning market institutions* must build on a constructive interplay between the state, the civil society and the private sector. Support for reforms of such institutions is an important but knowledge-intensive form for development collaboration which demands flexibility, patience and long-term perspectives.

Other fundamental prerequisites for rapid and enduring growth processes are inputs that guarantee peace and stability in growth economies as well as satisfactory infrastructure that supports growth, both in the countryside and the cities. Examples of more direct measures that are described in more detail in previous chapters are investments in (i) infrastructural development which supports local production, market integration and commerce with special account taken of the corruption risks within the infrastructure area, (ii) expansion of the local financial aimed at offering a significantly larger number of companies and households access to relevant financial services and (iii) development of institutional infrastructure for a better investment climate and negotiating capacity within the trade area.

As important as creating productive employment opportunities, is the fact that the economic actors have the possibility of exploiting the opportunities that are created. This demands far-reaching investments to *strengthen the human resource base* in terms of e.g. education and health. Support for strengthening the rights of poor people and the removal of discrimination are also important preconditions for poor people's active participation in growth processes. Investments in occupational training as well as research and innovation systems may contribute to strengthening the links between the development of the human capital and economic growth.

Women are frequently a discriminated and underutilised resource for economic growth. Increased *gender equality* is not only a question of rights but also a factor that contributes to economic growth. The development cooperation should contribute to women being given the opportunity of participating in growth processes on equivalent terms as men as well as striving to ensure that an active gender equality policy is observed as an important component of the partner countries' growth strategies.

2. The development cooperation should seek to identify and remove obstacles to the development of markets and enterprise

Experience shows that growth strategies cannot be copied from one context to another and scarce resources should be directed to those sectors that, in a most effective way, contribute to poverty-reducing growth in a given context. Functioning strategies must therefore be based on *situation-specific analyses* which show which factors in a particular country and particular context comprise the most significant obstacles to growth.

The sequence by which different inputs are introduced in a growth process is of central importance. Sweden, in co-operation with other donors, can support the partner countries in the development of methods and capacity for growth analyses as a base for pro-poor growth policies. Examples of key aspects to which attention shall be paid in these analyses are the effects of the partner country's *demographic development*, anticipated impact of and possibilities for adapting to *climate change* as well as how the partner country's possibilities for taking advantage of *international trade* can be further developed.

Special attention should be devoted to markets that have direct relevance for *poor people's employment and incomes*. Bearing in mind that a very large proportion of the poor are economically active within farming and in the informal economy, investments in increased productivity in these areas play a central role in poverty reduction. Examples of concrete measures are investments in (i) agricultural research and extension services as well as an active involvement in respect of natural resource rights and natural resource issues in close collaboration with the civil society, and (ii) development of regulations and institutions that create incentives to increase the number of employment opportunities in the formal economy and, at the same time, enhance the prospects of informal enterprises to enter the formal economy.

Obstacles to the involvement of poor people in growth processes are to be found at *all levels in the economic system*; from the global terms of trade to local administrative regulations. The development cooperation must find flexible working forms to help the partner countries to remove growth obstacles at all these levels. An important success factor lies in creating links between knowledge that is generated at different system levels. The development cooperation also needs to develop models for *collaboration with different types of actors* depending on system level and other preconditions. Established models for collaboration with central government actors need to be adapted to the challenges that arise when actors in the civil society and the private sector are also involved.

Through *increased coherence* between the development cooperation and other policy areas Sweden is able to contribute more effectively to reduce the economic marginalisation of the partner countries. Intensified exchange of knowledge and increased collaboration between Swedish operations with different mandates and purposes enhance the prospects for a unified approach.

3. The development cooperation should facilitate the adjustment to structural changes, threats and opportunities

The world, at present, is facing a situation of increasing environmental problems and resource limitations which will also influence the development opportunities of developing countries. The development cooperation should therefore seek to ensure that *environmental sustainability* permeates development inputs and the growth strategies of partner countries.

Economic growth and development imply, in most cases, more or less radical *structural changes*. These processes can create winners and losers both in the countryside and in the cities. The development co-operation should support the structural change, increase the possibility of exposed groups to profit from the new opportunities and reduce their vulnerability when this is not possible. Investments in increased productivity in agriculture, in the rural and urban informal economy as well as in increased mobility improve the preconditions for sustainable growth process and poverty reduction.

In today's globalised world economy *dynamic changes* are taking place that affect even the poorest countries at an ever faster rate. Climate changes, regional conflicts, financial crisis, the struggle for and the price of finite natural resources, urbanisation and migration as well as the knowledge potential within the information and communication area are examples of factors that may rapidly change the preconditions for growth and poverty reduction. An essential task for the development cooperation should be to assist partner countries to develop knowledge, competence and readiness to handle familiar (and unfamiliar) threats and opportunities. The development cooperation should also contribute to strengthen the interest of poor countries in the development of the global institutions that are required to manage global challenges.

Many developing countries, in particular in Africa, will find it hard to meet the millennium goal of halving income poverty by the year 2015. According to the UN's current review, substantially increased attention and enhanced support are required to strengthen the productive capacity and infrastructure of the countries concerned[158].

This Sida report at hand has presented a number of conclusions and offered concrete proposals as to how the Swedish development cooperation could sharpen the focus on economic growth and strengthen the support for a growth that contributes to the reduction of poverty in the developing countries.

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Sida works according to directives of the Swedish Parliament and Government to reduce poverty in the world, a task that requires cooperation and persistence. Through development cooperation, Sweden assists countries in Africa, Asia, Europe and Latin America. Each country is responsible for its own development. Sida provides resources and develops knowledge, skills and expertise. This increases the world's prosperity.

Pro-poor growth

Pro-poor growth is a prerequisite for increased welfare and a base for poverty reduction. Sida is actively promoting pro-poor growth in partner countries. In 2009 the Government of Sweden will decide on a policy on growth issues within development co-operation. The policy shall adopt a holistic approach to growth issues and provide overall direction and guidance. This report is a popularised version of Sida's input to the Government's policy process, which includes inter alia: (i) An analysis of the role of economic growth in fighting poverty, (ii) An examination of the driving forces behind economic growth based on international experience and research, (iii) An analysis of a number of special challenges for low-income countries, (iv) A discussion of the experiences of Swedish development co-operation, and (v) Summarising conclusions that have a bearing on the formulation and focus of the Swedish development co-operation.

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