

# Research

Recognizing that the magnitude and quality of economic growth will have an important bearing on achieving the Millennium Development Goals, PEGNet's research agenda is focusing on selected topical and methodological research areas. These are expected to have a strong leverage as regards sustainable poverty reduction and/or to provide a significant contribution towards evaluating and monitoring progress in poverty reduction, with the overriding objective of identifying 'pathways out of poverty' in the developing world.

- The Rural Sector: Key to Poverty Reduction
- Resource-Based Development and Poverty Reduction
- Feasible Options for Redistribution

In addition to these three topical issues, PEGNet intends to deal with overarching methodological questions regarding the measurement and the empirical analysis of pro-poor growth.

- Extending the Measurement of Pro-poor Growth
- Assessing the Poverty Impact of Policies

## **The Rural Sector: Key to Poverty Reduction**

Rural development and agricultural growth is arguably most critical for achieving pro-poor growth in Sub-Saharan Africa. In order to better understand how rural growth (not only in agriculture) translates into poverty reduction and which policies are most effective in the rural context, we need a better understanding of the rural income generation process and its dynamics. Rural households are typically engaged in a number of different activities including food or livestock production for own-consumption or markets, cash-crop production, self-employment in non-agricultural activities, and/or wage-employment. These different activities interact and may be at the root of vicious or virtuous circles that are typically present in rural areas. More specifically, interesting research questions include the following:

- What is the role and which are the prospects of cash-crop production and/or modern agricultural activities (e.g. export-oriented horticulture) to achieve pro-poor growth in rural areas?
- What is the relative impact of price factors (e.g. tariffs) vs. non-price factors (e.g. the lack of infrastructure) on household income and which policy priorities can be derived?

## **Resource-Based Development and Poverty Reduction**

Beside agriculture, most African countries heavily rely on mineral resources as source of foreign exchange. In the past, natural-resource wealth has tended to be a curse rather than a blessing for most African countries. Beside Dutch-Disease effects (de-industrialization and de-agriculturalization), resource-based growth is often associated with a very unequal distribution of income and, consequently, little poverty reduction. Linkages between the resource sector and the rest of the economy tend to be limited and the political process becomes dominated by struggles over the control of natural resource rents and their appropriation by powerful groups, to which the poor do not belong. Many poor developing countries are rich in natural resources and using these resources wisely may be an important pathway out of poverty. The following research questions arise:

- How does the inflow of resource rents impact the domestic economy, especially its sectoral composition and the poor? Can these structural effects be attenuated and what is the role for resource funds? Can governments mitigate the macroeconomic instabilities associated with resource dependence? Is there a role for revenue stabilization funds to avoid Dutch-Disease effects?
- What is the impact of resource rents on the political economy, in particular with regard to the representation of the interests of the poor?

## **Feasible Options for Redistribution**

The high levels of inequality characterising most resource-rich African countries may act as a brake on growth and poverty reduction. Given the stability of income distribution over time within countries, it remains unclear what feasible policy options exist to sustainably reduce inequality. Among the issues to consider are

- the role of asset redistribution,
- ways to significantly affect the income distribution via human capital accumulation,
- the potential role of the tax system,
- the potential role of the transfer system (including particularly demand-side transfers but also public works programs, etc.),
- the political economy of tax and transfer systems, including particularly the reasons for the failure and/or capture of many well-intentioned redistributive programs.

In addition to these three topical issues, PEGNet intends to deal with overarching methodological questions regarding the measurement and the empirical analysis of pro-poor growth.

## **Extending the Measurement of Pro-poor Growth**

Currently, pro-poor growth analysis focuses on income poverty only. There has been some work extending the analysis to non-income dimensions. This would also allow a closer analysis of the interactions between changes in income and non-income dimensions of poverty. In this way, the apparent puzzle of progress in non-income poverty (despite little progress in income poverty, which has been observed in many countries) could be explored more thoroughly. A related issue is that pro-poor growth measurement currently ignores the issue of mobility. Extending the analysis to mobility could be particularly beneficial for identifying winners and losers of specific policy reforms. Among the issues to consider are:

- Developing and extending tools for the measurement of pro-poor growth in income and
- Analysing the linkage between poverty reduction and improvements in non-income poverty
- Extending the tools for the measurement of pro-poor growth to include mobility and use such tools to assess the impact of policies on specific groups of the population.

## **Assessing the Poverty Impact of Policies**

Research in the area of pro-poor growth has at least two important implications for the research methods used. First, they should be able to take into account the distributional impact of policy reform or economic shocks. Second, they should - given that "Pro-Poor Growth" is first of all a political objective - allow to compare and to evaluate policies ex post and/or ex ante. In the last decade much progress has been made in micro-macro modelling, micro-econometrics, inequality and poverty measurement and data matching. From a methodological point of view, the objective of the network is to apply and extend these methods. The following issues are of particular importance:

- The use of repeated cross-sections and panel household surveys to carefully trace the poverty over time for specific groups and cohorts and assess the impact of policies on these trends.
- Use of micro-macro models (e.g. computable general equilibrium model connected with a household survey based household income generation model) to link changes in macro-economic variables and parameters induced by shocks and policy reforms to changes in household income.