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ECONOMIC DEVELOPMENT IN AFRICA

FROM ADJUSTMENT TO POVERTY REDUCTION WHAT IS NEW?

OVERVIEW

Executive Summary

Previous reports by the UNCTAD secretariat on economic development in Africa have examined in some detail the steps that need to be taken in the trading system and in international development finance cooperation to create the requisite external conditions for sustained and rapid growth in SSA. This year's report (UNCTAD/GDS/AFRICA/2), of which the present document is an overview, focuses on the policy content of the poverty reduction programmes. It assesses briefly the extent to which greater participation in and country ownership of programmes are secured and policy aspirations of the poor are met, followed by a review of approaches now adopted in various areas of economic policy and institutional reform. The concluding section summarizes the main findings of the report and discusses the extent to which the new approach constitutes an improvement over the former structural adjustment policies and holds out promise of a better outcome.

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OVERVIEW

1. In recent years the international community has shown increasing concern with poverty in the developing world. At the Social Summit in Copenhagen, the issue was placed at the top of the agenda and more recently the Millennium Summit set a target to halve poverty by the year 2015. While the United Nations, including UNCTAD, had for many years drawn the attention of the international community to the need to address the plight of the poorest and the least developed countries, the active advocacy role played by civil society has been a major factor in bringing the question of poverty and its linkages with the globalization process into sharper focus. Starting in 1999, poverty reduction has become the prime objective of programmes and operations of international financial institutions (IFIs) in low-income countries. This appears to mark a departure from their earlier emphasis on correcting macroeconomic imbalances and market distortions through stabilization and structural adjustment programmes. Poverty reduction strategy papers (PRSPs) are the main documents defining the strategies to be pursued and are prepared by national authorities in developing countries with broad-based participation of civil society organizations, stakeholders in enterprises and the poor. The Enhanced Structural Adjustment Facility (ESAF) of IMF has been replaced by the Poverty Reduction and Growth Facility (PRGF), and the PRSPs have become an integral component of the Heavily Indebted Poor Country (HIPC) initiative and a precondition for access to the Poverty Reduction Support Credit (PRSC) introduced by the World Bank in 2001. As a result, bilateral grants, concessionary loans and debt relief have all become inexorably linked to poverty reduction policies and strategies.

2. This new policy orientation has undoubtedly had its origin in the dissatisfaction with the progress made in resolving the deep-seated problems facing developing countries despite almost two decades of policy reforms. The World Bank estimates that by 1998 a fourth of the population of the developing world, i.e. 1.2 billion people, were living below the poverty line, namely below US$1 per day in 1993 purchasing power parity terms. Excluding China, the number has risen from 880 million in 1987 to 986 million in 1998. The corresponding figures for sub-Saharan Africa (SSA) are 217 million and 291 million, respectively, averaging around 46 per cent of the total population over the period.[1] A more recent study by the UNCTAD secretariat, using the World Bank's definition but a different methodology (bringing together household survey and national accounts data), estimates that the proportion of the population living on less than US$1 a day in the least developed countries of Africa has increased continuously since 1965B1969, rising from an average of 55.8 per cent in those years to 64.9 per cent in 1995B1999.[2]

3. Although alleviating poverty must involve economic and social policies on a number of fronts, attaining rapid and broad-based growth is at the heart of the challenge. Over the

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[1] See World Development Report 2000/2001: Attacking Poverty, World Bank, 2001, New York, Oxford University Press. The precise poverty threshold, as defined by the World Bank, is US$1.08 per day per person, derived from taking the median of the 10 lowest poverty lines among a group of poor countries.

[2] UNCTAD, *The Least Developed Countries Report 2002*, tables 19 and 20. United Nations publication, sales no. E.02.II.D.13, New York and Geneva.

past two decades, growth in income in SSA has barely kept pace with population growth. After attaining a moderate increase in per capita income during the 1970s, growth in the region remained below 2.5 per cent per annum in both the 1980s (2.1 per cent) and the 1990s (2.4 per cent). Despite a recovery after the mid-1990s, per capita income in SSA at the turn of the millennium was 10 per cent below the level reached 20 years earlier. Furthermore, the recovery has proved to be short-lived, and longer-term growth projections are well below the levels required to meet poverty alleviation targets.[3]

4. Slow and erratic growth in SSA has also been accompanied by regressive changes in income distribution. On the one hand, the poorest segments of the population have experienced steeper declines in their per capita incomes than the economy as a whole: the decline in average per capita income for the poorest 20 per cent of the SSA population is estimated to have been twice that of the population as a whole between 1980 and 1995.[4] On the other hand, in some countries there has been a process of "equalizing downwards" across much of the personal income distribution as real wages have fallen and the rural-urban gap, measured in terms of the ratio of wage earners' incomes to incomes of farmers on small holdings, has disappeared, pushing a large number of urban workers below the poverty line. As discussed in some detail in previous reports of the UNCTAD secretariat, adjustment policies, including trade and financial liberalization, privatization and retrenchment of the public sector, have played a significant role in the hollowing out of the middle class that has become a prominent feature of income distribution in many developing countries.[5]

5. While both sluggish growth and deterioration in income distribution have contributed to rising poverty in Africa, the solution cannot lie solely or even primarily in redistributional policies. That is so not only because of the well-known political and social difficulties involved in redistribution without growth, but also because it would be very difficult to make much dent in poverty through redistribution when the average level of income is so very low. Growth, by definition, is more effective in those countries where generalized poverty prevails, i.e. where the average income is very low and the majority of the population is below the poverty line.[6] It is precisely for this reason that the new policy orientation towards poverty alleviation can succeed only if it leads to rapid and sustained growth and job creation.

6. A careful examination of the principal components of this approach suggests that it builds on conventional stabilization and structural adjustment policies by adding two new elements:

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[3] See UNCTAD, *Economic Development in Africa: Performance, Prospects and Policy Issues*, tables 1 and 2 (UNCTAD/GDS/AFRICA/1). United Nations, New York and Geneva. According to IMF data, the mean annual growth rate for SSA was 4.2 per cent during 1995B1997, but declined to 3 per cent (slightly above population growth) during 1998B2001 (IMF, *World Economic Outlook. Recessions and Recoveries,* Statistical Appendix, table 5, Washington, DC, April, 2002).
[4] UNCTAD, *Economic Development in Africa: Performance, Prospects and Policy Issues*, op. cit., p. 53.
[5] UNCTAD, *Trade and Development Report, 1997*, Part Two, chaps. III and IV. United Nations publication, sales no. E.97.II.D.8, New York and Geneva.
[6] For an empirical elaboration of this argument, see Dagdeviren H, van der Hoeven R and Weeks J. Redistribution matters: Growth for poverty reduction. *ILO Employment Paper,* 2001/10. Geneva, ILO.

- While economic growth is considered essential for poverty reduction, it is also recognized that growth may not automatically trickle down to the poor. Thus, the current approach emphasizes policies that facilitate the access of the poor to human, physical and financial assets to improve their earning capacity.[7] In this respect particular attention is paid to public provision of education and health services.

- While macroeconomic stability and structural reforms continue to be considered to hold the key to sustained and rapid growth, it is also recognized that stabilization and structural adjustment policies may exert a temporary adverse impact on the poor. Thus, it is advocated that such policies should be accompanied by safety nets and targeted spending programmes to mitigate their possible adverse consequences for poverty.

7. Consequently, the current approach emphasizes improvements in the allocation of resources both over the short- and long-term to areas which can have a direct impact on the well-being of the poor. However, any such reallocation can only be sustained under conditions of rapid growth, otherwise it can give rise to serious inter-temporal trade-offs in so far as spending designed to have an immediate impact on poverty diverts scarce resources from investment and slows capital accumulation.

8. While it is generally agreed that poverty reduction strategies cannot succeed if they are not accompanied by policies to sustain rapid growth and improve income distribution, it is precisely the content and nature of those policies that are at the heart of the debate. Accordingly, it is essential that the new emphasis on poverty alleviation be founded on a careful and frank independent assessment of the effects of macroeconomic and structural adjustment policies on growth, distribution and poverty. Such an examination is all the more necessary in view of the fact that Africa has seen the most intense and recurrent application of structural adjustment programmes over the past two decades without making much progress in either poverty alleviation or development.[8]

9. The failure of structural adjustment programmes to overcome the major structural and institutional impediments to the accumulation and structural change needed to initiate rapid and sustained growth is partly due to slippages in policy implementation. However, there have also been problems in policy design. In fact, as discussed in some detail in previous UNCTAD reports, the link between adjustment and performance is weak: of the 15 countries identified as core adjusters by the World Bank in 1993, only three were subsequently classified by IMF as strong performers. Further, the rapid growth among some of the strong

[7] World Bank, *World Development Report 2000/2001: Attacking Poverty*, op. cit., p. 34. Returns on these assets and their volatility are also referred to, but are rarely treated within the policy paradigm.

[8] Estimates by the UNCTAD secretariat for 20 LDCs, including 17 from Africa, on the impact of SAF/ESAF programmes on poverty show that, comparing the three years before and after the adoption of the programmes, the overall incidence of poverty rose by nearly one percentage point (UNCTAD, *The Least Developed Countries Report 2002*, op. cit., table 40).

performers can largely be explained by some special circumstances that were of a one-off nature and unrelated to structural adjustment policies.[9]

10. The emphasis on participation and ownership in the current approach should help improve policy design and reduce slippages in implementation. However, attention should be paid to the fact that the IFIs continue to exert a major influence on policy design through conditionality, rather than playing a primarily supportive role. Countries appear to have greater autonomy in designing social safety nets and targeted spending programmes than in formulating their own development strategies. The emphasis on ownership and participation might thus be perceived as having the objective of mobilizing greater popular and political support for the conventional adjustment and stabilization policies, rather than of giving recipient countries greater autonomy in designing their stabilization policies and development strategies. This factor underlines the recent call by HIPC Ministers for a more dramatic streamlining of conditionality and greater room for the countries to define alternative paths to poverty reduction, with more emphasis placed on growth.

11. A close examination of the macroeconomic and structural adjustment policy contents of PRSPs shows that there is no fundamental departure from the kind of policy advice espoused under what has come to be known as the “Washington Consensus”. Current policy advice continues to contain all the main elements of the first generation of economic reforms, designed to “get prices right”. The second generation of reforms now advocated, rather than revising and improving the economic policy framework so far pursued, adds new elements, emphasizing the importance of “getting institutions right” or simply “good governance”. While there is almost universal agreement on the importance of institutions and good governance in economic, social and political development, improvements on these fronts occur only slowly. Consequently, it would be counterproductive to pursue policies independently of the existing state and proposed sequencing of institution building. Furthermore, good institutions cannot always eliminate or make up for shortcomings in economic policy or prevent market failures.

12. The current approach emphasizing poverty reduction thus appears to continue to be based on the premise that liberalization and rapid and close integration into the global economy hold the key to fast and sustained growth. Although it is recognized that growth may not automatically benefit the poor, it is not clear how policies emphasizing the primacy of the market mechanism in such areas as trade, finance and agriculture can be reconciled with the improved access of the poor to productive assets. Again, while it is recognized that stabilization and adjustment measures may have temporary adverse effects on the poor, so far little attention has been given to social impact analysis. Thus, success in sustained reduction in poverty depends, *inter alia*, on a careful reassessment of the impact of stabilization policies and structural reforms on economic growth and incomes and well-being of the poor, and on reorienting them as needed.

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[9] UNCTAD, *Trade and Development Report, 1998*, Part Two, chap. I, sect. D and table 34. United Nations publication, sales no. E.98.II.D.6, New York and Geneva.

13. Domestic policies, central as they are, are not the only factors that determine the capacity to generate resources needed for rapid accumulation and the eradication of poverty. These also depend on external constraints and support. Given their structural weaknesses, the small size of their domestic markets and dependence on imports for capacity utilization and accumulation, the extent to which poor countries can generate the required resources depends very much on how far they can translate their unexploited natural resources and surplus labour into export earnings, imports and investment. However, as amply documented in previous UNCTAD reports, such countries continue to face significant trade barriers in their more affluent trading partners, notably the industrial countries, in the two sectors which can make the greatest contribution in these respects, i.e. agriculture and labour-intensive manufactures.[10] In this respect, some recent initiatives, including the EBA (Everything but Arms) initiative of the European Union and the African Growth and Opportunity Act (AGOA) of the United States, are significant steps in the right direction. Nevertheless, continued protectionism in agriculture constitutes perhaps the most important external impediment to resource mobilization in many developing countries in Africa, where this sector could provide considerable "vent for surplus" needed to generate resources for creating jobs in industry.[11]

14. The picture is much the same for international development finance cooperation. It has long been recognized that income levels in poor countries, notably in SSA, are too low to generate the domestic resources needed for a rapid pace of growth, and that this resource gap should be filled by official financing since private capital is unlikely to be attracted to such countries except when they are endowed with rich minerals. Two years ago, the UNCTAD secretariat estimated that a net capital inflow of at least an additional US$10 billion per annum would need to be maintained for a decade or so in order to lift SSA onto a faster growth path. It was argued that a combination of a doubling of official capital inflows with policies designed to raise the efficiency of investment and the propensity to save could set off an accelerated growth path that would reduce, in a decade or so, both the resource gap of the region and its dependence on aid.[12] Subsequent estimates made by the World Bank, the Economic Commission for Africa (ECA) and others confirmed that a doubling of aid was indeed necessary to help initiate development in countries and sectors that do not attract private investment, and that cannot afford to borrow extensively from commercial sources. New pledges have since been made in the context of the United Nations Conference on Financing for Development held in Monterrey, Mexico, and more recently in the context of the G-8 Africa Action Plan. While they will go some way towards filling the external financing gaps of the poorest countries, the sums involved do not add up to the additional financing needed.

15. Removal of the debt overhang of the poorest countries through debt relief can be an important component of international financial cooperation in this regard. In SSA, the burden

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[10] UNCTAD, *Economic Development in Africa: Performance, Prospects and Policy Issues*, op. cit., sect. C.3(d).
[11] UNCTAD, *Trade and Development Report, 1998*, op. cit., Part Two, chap. II.
[12] UNCTAD, *Capital Flows and Growth in Africa*, sect. E (UNCTAD/GDS/MDPB/7). United Nations, New York and Geneva.

of official debt has constituted about 3 per cent of the combined GDP of the countries of the region in recent years, equivalent to just over 40 per cent of the additional external financing needed. Under the HIPC initiative, only a portion of this debt is eligible for relief and only for some of the indebted countries. Furthermore, despite its accelerated pace of implementation, progress under the HIPC has been slow: by mid-2002, some six years after the launching of the initiative, of the 33 African countries included in the list of 42 HIPCs, only four (Burkina Faso, Mozambique, Uganda and United Republic of Tanzania) had reached the completion point. As discussed in some detail in previous reports prepared by the United Nations, including UNCTAD, a fresh and bolder approach is needed to remove the debt overhang of the world's poorest countries. It should include both a rapid implementation of the existing initiative and a fundamental review involving an independent reassessment of debt sustainability not only for the existing HIPCs, but also for a broader spectrum of countries in need of special measures to overcome their official debt problems; it should also include a moratorium on debt-service payments, with no additional consequent interest obligations.[13]

16. To sum up, progress in international efforts to alleviate poverty will depend as much on international development cooperation in resolving the problems associated with protectionism, aid and debt as on the improvement of domestic policies, institutions and governance in developing countries. It is largely because these issues have not been properly addressed that the international community is back where it was more than two decades ago in terms of the challenges it faces in development and poverty eradication. Remarks made in 1979 on the "meagre results achieved since the first United Nations Conference on Trade and Development" by Raúl Prebisch, the first Secretary-General of UNCTAD, have a decidedly contemporary ring:

> Another idea has now appeared which fires the enthusiasm of some Northern economists, that of eradicating poverty – a phenomenon which, apparently, they have just discovered. Who could refuse to fight against poverty? ... But, is this possible outside the context of development and an enlightened international cooperation policy?
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> Poverty, we are told, is mainly rooted in agriculture, and the productivity of that sector must be increased. Quite so. However, increased productivity produces redundancy in the labour force and the surplus labour must be employed in industry and other activities. The expansion of industry requires exports and this is one of the major external obstacles which, far from having been eliminated, is becoming worse. And the greatest of the internal obstacles is capital accumulation (both physical capital and the capital of human skills) which requires a vast effort on the part of developing countries themselves in addition to international financial cooperation.[14]

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[13] UNCTAD, *Economic Development in Africa: Performance, Prospects and Policy Issues*, op. cit., sect. C.2. See also Recent developments in the debt situation of developing countries (A/55/422), New York, United Nations, 26 September 2000 and The external debt and debt-servicing problems of developing countries, including those resulting from global financial instability (A/56/262), New York, United Nations, 2 August 2001.

[14] Prebisch R, Aspects of international economic cooperation. *Trade and Development: An UNCTAD Review*, 1, pp. 1–2, Spring 1979.