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From Adjustment to Poverty Reduction: What is New?

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From Adjustment to Poverty Reduction: What is New?

A. Overview: Issues at stake

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 The Enhanced Structural Adjustment Facility (ESAF) of IMF has been replaced by the Poverty Reduction and Growth Facility (PRGF), and the PRSPs have become an integral component of the Heavily Indebted Poor Country (HIPC) initiative and a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.

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 (World Bank, 2001, pp. 17 and 23).[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 1965–1969, rising from an average of 55.8 per cent in those years to 64.9 per cent in 1995–1999 (UNCTAD, 2002, tables 19 and 20).

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 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 (UNCTAD, 2001a, tables 1 and 2).[2]

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 (UNCTAD, 2001a, p. 53). 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 (UNCTAD, 1997, Part Two, chaps. III and IV).

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.[3] 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.

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:

- 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.[4] 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.

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.

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.[5]

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 performers can largely be explained by some special circumstances that were of a one-off nature and unrelated to structural adjustment policies (UNCTAD, 1998, Part Two, chap. I, sect. D and table 34).

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.

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.

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.

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 (UNCTAD, 2001a, sect. C.3(d)). 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 (UNCTAD, 1998, Part Two, chap. II).

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 (UNCTAD, 2000a, sect. E). 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.

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 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 (UNCTAD, 2001a, sect. C.2; United Nations, 2000 and 2001a).

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?
>
> 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. (Prebisch, 1979, pp. 1–2)

As noted above, previous reports by the UNCTAD secretariat 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 report focuses on the policy content of the poverty reduction programmes. The next section assesses briefly the extent to which greater participation in and country ownership of programmes are secured and policy aspirations of the poor are met. This is 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.

B. The new elements of poverty reduction programmes

1. Country ownership and participation

An important novelty in the post-1999 approach to poverty alleviation is the preparation of PRSPs by recipient countries as a prerequisite for reduction of their debt and for concessionary loans and grants. Broad-based participation by civil society organizations, stakeholders and the poor is also required. The new framework also defines the role and involvement of the staff of the two Bretton Woods institutions in various stages of the design and implementation of poverty reduction programmes: (i) a broad framework has been designed for the thematic coverage of the PRSPs, but the staff are not expected to play more than a supportive role in the preparation of the papers; (ii) a "joint staff assessment" (JSA) by the World Bank and IMF of, first, the "Interim Poverty Reduction Strategy Papers" (I-PRSPs) and, ultimately, the final versions of the PRSPs is required before they are endorsed by the Boards of the two institutions as the basis of the relevant aid package. In this process, the JSA is designed to ensure that the resulting PRSPs are compatible with the requirements of the governing bodies of the relevant institutions and will, therefore, be endorsed.[6]

The thematic framework contains macroeconomic and structural policy elements and also covers policy areas such as health and education that are expected to have a direct bearing on poverty. As discussed in the subsequent sections, a review of African

PRSPs as well as their JSAs suggests that their elements of policy are strikingly similar to those pursued under macroeconomic stabilization and structural adjustment programmes implemented in the region over the past two decades.[7] This is true even for papers that are known to have been prepared primarily by national governments before the arrangements described above came into force, as in Mozambique and Uganda. The risk has been pointed out that expectations of what would be acceptable by bilateral donors and IFIs may influence significantly the way PRSPs are prepared. These concerns have been summarized in a joint IMF/World Bank review of the PRSP experience:

> Some ... NGOs argue that PRSPs incorporate structural adjustment policies that ... have consistently failed, ... [and] this reflects the pressures on governments to conform to the policy expectations of the Bank and Fund ... Governments write into the PRSPs what they already know the donors want to hear ... [and] this will be the case as long as the Bank and the Fund must endorse the strategy as a condition for concessional assistance. (IMF/World Bank, 2002, notes 13 and 16)

A second source of concern, this time noted by the IMF Board and HIPC Ministers and Coordinators, is that in the search for participation of civil society, the PRSP process might escape parliamentary scrutiny.[8] This substitution of conventional institutions of representative democracy by ad hoc mechanisms involving some segments of civil society could, paradoxically, undermine the fledgling institutions of representative democracy taking root in African societies. The substitution may give rise to further problems in view of concerns raised by the dependence of certain civil society groups on donors. It has, for instance, been argued that "that section of civil society which has actively engaged with the dominant national development project ... is invariably amongst the most well-funded, is almost completely donor-dependent ... Parliament may therefore offer more leverage for exerting autonomy than civil society precisely because it is not dependent on foreign donors."

(Hearn, 2001, pp. 44, 51–52). In a field study conducted by the Overseas Development Institute (ODI), similar observations are made on such civil society organizations, including their search for contracts with development agencies and their dependence on external donor funds (ODI, 2001, chap. 2, p. 14; and chap. 7, p. 2).[9]

2. Policy aspirations of the poor

The PRSP framework requires that the poor should be among the participants in the preparation of the papers and there are references to such participation in those of African countries. An assessment of the nature and effects of such participation should answer at least three questions: What do the poor in Africa expect from policy-makers to alleviate their situation? Are their aspirations truly reflected in the PRSPs? And, finally, can their policy aspirations really contribute to the formulation of effective poverty reduction policies?

With respect to the first question, extensive field research carried out by the World Bank in 1999 on the perceptions, expectations and experiences of the poor, covering 24 developing countries (including eight in Africa), provides significant information on the policy aspirations of the African poor.[10] A comparison of the policy implications of African perceptions with the poverty reduction measures incorporated in PRSPs provides answers to the second question. Table 1 gives a summary of policy aspirations of the African poor and compares them with policy recommendations of the PRSPs in a number of areas. A more detailed presentation is given in the following sections, in relation to specific policy issues.

These comparisons suggest that there are inconsistencies between the demands of the poor and policy components of PRSPs. In some instances their demands go far beyond what is proposed in

Table 1

VOICES OF THE POOR AND PRSPs

Sphere	*Policy aspirations of the African poor*	*Policy recipes of typical PRSPs*
Education	All school expenses must be lowered	Reduce or eliminate primary school fees, apply user fees at higher levels
Health	Curative treatment should be free and drug prices affordable	Free preventive health care; user fees in curative health, except for specified diseases
Agriculture	Distribute land, reduce land rents, subsidize basic inputs and credits; no privatization of common land; no dismantling of government-run coops	Develop land markets; promote micro-credit schemes; and eliminate marketing boards, subsidies and taxes on agriculture
Labour market	Provide employment; eliminate measures that increase unemployment	Reduce rigidities in labour markets
Macro policies	Expansionary macro policies: "when wages decline, crop prices fall"	Fiscal and monetary prudence
Distribution	High sensitivity to class polarization	Careful avoidance of distributional trade-offs
Private sector	No massive privatizations; anti-big business; favour local moneylenders; cheap credit to the poor	Private-sector-led development; micro-credit; privatization; eliminate financial repression to encourage saving
Corruption	Eliminate nepotism and corruption in health care, employment, justice and security services	Should constitute part of the broader governance agenda, with special emphasis on high-level corruption vis-à-vis business

Source: Narayan et al. (2000) and various PRSPs and I-PRSPs.

PRSPs. For instance, while the poor welcome the elimination of fees at primary schools or the introduction of free inoculations for their children, they would like to see free provision of health services and education at all levels. Again, while they support the emphasis on the elimination of corruption, they are concerned much more with petty corruption involving police, doctors or teachers than with other forms of corruption, such as may occur on a particularly large scale among domestic and foreign businessmen and politicians in respect of government procurement. But there is also a large area where the aspirations of the African poor directly conflict with the policy approach incorporated in the PSRPs. Positions on agriculture, labour markets, macro-policies, income distribution and the private sector, as summarized in table 1 (and detailed in the following sections), are to a large degree incompatible. In these areas, policy preferences of IFIs and/or national governments rather than expectations and aspirations of the poor appear to have prevailed.

This is hardly surprising since there are limits to what the policy aspirations of the poor can contribute directly to the formulation of an effective poverty reduction strategy. In general, the lower the income level of individuals, the shorter the time horizon. Furthermore, the concept of opportunity cost is alien not only to the African poor, but also to ordinary people in many advanced countries. Lack of knowledge and information on broader policy trade-offs often constitutes a serious handicap to consistent decision-making. In advanced industrial countries, the political process based on democratic representation is expected to translate the aspirations of ordinary people into consistent and coherent policy decisions, also helped by a close collaboration between experts and politicians. This should also be the basis on which wider participation in the preparation of poverty reduction strategies should be sought in Africa; the aspirations of the poor should be translated into the actual formulation of economic policies through a viable system of representative democracy which preserved economic policy-making within the political domain, rather than delegating it ad hoc to non-representative elements, both internal and external. It is important to avoid a situation in which the current pattern of stakeholder participation in African PRSPs serves as a substitute for the democratic and parliamentary process.

3. Conditionality and poverty reduction

An important issue in the current approach to poverty reduction is how to reconcile country ownership and participation with conditionality attached to aid and debt reduction. While the original rationale for conditionality, namely to protect the financial integrity of the Bretton Woods institutions and, in particular, to preserve the revolving character of Fund resources, still remains valid and incontrovertible, a reconciliation between ownership and conditionality has been made particularly difficult by the intensification of the conditions attached to multilateral lending over the past two decades.[11] Consequently, it is unlikely that reconciliation will be possible without a considerable roll-back of conditionality.

Until the early 1980s, IMF conditionality, which had been incorporated in its Articles of Agreement only in 1969, had focused on core monetary and fiscal macroeconomic issues. World Bank conditionality had a similarly narrow focus, concentrating on sector-specific, micro and financial issues. As the operations of these institutions in developing countries expanded and industrial countries ceased to borrow from the Fund, conditionality became tighter, gradually encompassing a large number of areas which were within the purview not only of other international organizations but also of national economic and social development strategies, including actions related to restructuring and privatization of public enterprises, deregulation of markets, trade regimes, pricing and marketing policy, public sector management, public safety nets, the agricultural sector, the energy sector, the financial sector and more recently issues of political and economic governance.

This ratcheting of conditionality is well documented. According to one study (Kapur and Webb, 2000), IFI conditionality, loosely defined, in 13 sub-Saharan countries over 1999–2000 amounted on average to 114 for each country, of which 82 were governance-related. At the same time, with the rise in the number of structural conditions in the 1980s and 1990s, the degree of compliance with programmes declined. Another study (Mussa and Savastano, 2000) found that if disbursement of 75 per cent or more of the loans was taken as a measure of compliance with Fund policy conditionality, less than half of Fund-supported programmes met the test during 1973–1997. The decline was particularly dramatic in the 1990s: during 1993–1997 only 27.6 per cent of the 141 arrangements could be considered in compliance.

There is now a general recognition that conditionalities imposed by IFIs have gone beyond their proper areas of competence. The Meltzer Report (International Financial Institutions Advisory Commission, 2000, p. 7) argued that "detailed conditionality (often including dozens of conditions) ... has burdened IMF programmes in recent years and made such programmes unwieldy, highly conflictive, time-consuming to negotiate and often ineffectual". Similar views have been expressed in the Council of Foreign Relations Task Force Report (CFRTF, 1999, p. 15): "Both the Fund and the Bank have tried to do too much in recent years, and they have lost sight of their respective strengths. They both need to return to basics".

The International Monetary and Financial Committee (IMFC, formerly the Interim Committee), recognizing the need to streamline IMF conditionality, has urged "the Executive Board to take forward its review of all aspects of policy conditionality associated with Fund financing in order to ensure that, while not weakening that conditionality, it focuses on the most essential issues" (IMF, 2000a, para. 11). For his part, the Fund's new Managing Director, Horst Köhler, has likewise concluded that:

> To strengthen its efficiency and legitimacy, the Fund needs to refocus. The Fund's focus must clearly be to promote macroeconomic stability as an essential condition for sustained growth. To pursue this objective, the Fund has to concentrate on fostering sound monetary, fiscal and exchange rate policies, along with their institutional underpinning and closely related structural reforms. ... I trust that ownership is promoted when the Fund's conditionality focuses in content and timing predominantly on what is crucial for the achievement of macroeconomic stability and growth. Less can be more if it helps to break the ground for sustained process of adjustment and growth. (Köhler H, 2000)

Despite these concerns about excessive and intrusive conditionality and the emphasis placed on country ownership in poverty alleviation programmes, a close review of the PRSPs reveals that increased effort is needed to streamline conditionality. This can also be seen in the guidelines for Joint Staff Assessment of PRSPs which set forth a division of labour between IMF and the World Bank with respect to the assessment of country papers: monetary, fiscal and exchange rate policies fall within the Fund's competence, while issues directly related to poverty, including government spending on social sectors, social reforms and governance, fall within that of the Bank. An overlapping area involving both institutions incorporates structural reforms, private sector growth, trade and financial sector policies, tax and customs policies and administration, transparency, management of government spending and the budget (IMF/World Bank, n.d., note 5).

Slow progress in streamlining conditionality was one of the "strong concerns" expressed by HIPC Ministers in their declaration at the 6th HIPC Ministerial Meeting, held in London on 5 March

2002. While recognizing efforts being made by the Bretton Woods institutions to streamline conditionality under the PRGF and PRSC, Ministers called for a more dramatic streamlining:

> The IMF should select 4–5 conditions that are essential to a pro-poor macro framework, and the World Bank a similar number of structural conditions that have a demonstrable direct positive impact on poverty reduction ... Both institutions should verify closely that there is no "conditionality fungibility" among their programmes, that other donors do not impose additional conditions, and that they avoid micro-conditions ... (Debt Relief International, 2002, p. 4)

There are uncertainties as to the evolution of the process of streamlining conditionality imposed in the context of poverty alleviation programmes and the space to be left to recipient countries in the formulation of their PRSPs and development strategies. The analysis that follows suggests that poverty reduction programmes are still based on the premise that liberalization and openness hold the key to rapid and sustained growth which, in turn, holds the key to poverty reduction. Thus, the autonomy of countries in designing their own growth and development strategies is circumscribed by the same considerations that dominated the structural adjustment programmes over the past two decades. However, recipient countries can be expected to have more autonomy and participation in designing short-term safety nets to protect the poor against temporary costs of orthodox stabilization programmes and structural reforms. Similarly, they may have greater influence than in the past in putting in place mechanisms and institutions to ensure that growth trickles down to the poor over the longer term.

C. Stabilization, adjustment and poverty

As noted above, the effectiveness of the new approach to poverty alleviation depends, *inter alia*, on the nature and effects of macroeconomic, structural and sectoral policies pursued to that end. It is thus important to determine the extent to which such policies differ from those pursued in the past decade or so in the context of the stabilization and adjustment programmes supported by the Bretton Woods institutions. This section compares the policy approach of the interim and final poverty reduction strategy papers of the SSA countries and the related joint IMF/World Bank staff assessments with policy prescriptions that were pursued in the earlier macroeconomic stabilization and structural adjustment programmes. Attention is paid not only to traditional domains of stabilization and adjustment but also to policy areas, such as health and education, which have come to be emphasized in the new orientation as having a direct impact on poverty alleviation.

1. Macroeconomic and adjustment policies and poverty

The case for incorporating conventional macroeconomic policy measures in PRSPs, as set out in an IMF *PRSP Sourcebook* (Ames et al., 2001), is straightforward: macroeconomic stability is essential for sustained growth, without which poverty cannot be reduced. It is recognized that there may be some temporary trade-offs in the short run; attaining macroeconomic stability may require some temporary sacrifice of growth, possibly to the cost of the poor. Similarly, measures to attain stability may lead to regressive changes in income distribution in the short term, with attendant consequences for poverty. Such transitory effects should best be dealt with through appropriate compensatory measures, rather than by giving up macroeconomic stability and taking a short-term view in policy-making. The same reasoning is pursued with respect to the impact of structural adjustment measures, since these are often seen as essential ingredients of sustained macroeconomic stability. In those cases where a trade-off is evident between short-term costs and longer-term benefits of macroeconomic policies and structural reforms, it is recommended that PRSPs and the World Bank/IMF staffs undertake a poverty and social impact analysis (PSIA) (IMF/World Bank, 2001, paras.41–45; see also IMF, 2001a). However, to keep it manageable, it is recommended that such analysis "be restricted to substantial macroeconomic adjustments (e.g. big tax increase, subsidy reform, or exchange rate realignment) or major structural reforms (e.g. civil service downsizing or price liberalization)" (IMF, 2000b, para. 23).

However, as yet, no significant work on poverty and social impact analysis appears to have been undertaken and the need for progress in this respect has been noted by the IMF Board:

> Directors stressed the need for development partners, including the Bank and the Fund, to assist countries in undertaking more systematic PSIA of major policy choices, and acknowledged that progress in this area will be gradual and dependent upon available resources ... Directors considered that, at a minimum, PRGF documents should provide a qualitative description of the likely impact of major macroeconomic and structural measures on the poor.[12]

In other words, country PRSPs have so far covered a broad spectrum of macroeconomic policies and structural reforms without assessing their likely impact on poverty. The areas of policy, as listed in the IMF *Sourcebook* noted above, cover all aspects of fiscal, monetary and exchange rate policies, financial market reforms (including the opening up of the capital account), trade liberalization, privatization, private-sector development and agricultural and labour markets. A proper assessment of the implications of such a broad development policy agenda for poverty requires a much greater effort than simply identifying the temporary impact of macroeconomic stabilization policies. However, as noted by HIPC Ministers at their recent meeting, "analysis of the links between macroeconomic and structural policies and poverty reduction remains among the weakest areas of most PRSPs" (Debt Relief International, 2002, p. 3).

(a) Stability and growth

In the IMF *Sourcebook*, macroeconomic stability is defined in terms of "current-account and fiscal balances consistent with low and declining debt levels, inflation in the low single digits and rising per capita GDP", whereas instability is understood to imply "large current-account deficits financed by short-term borrowing, high and rising levels of public debt, double-digit inflation rates and stagnant or declining GDP" (Ames et al., 2001, box 2). It is notable that this concept of macroeconomic stability refers to both growth rates and prices. The crucial issue in this respect is the trade-off between inflation and growth, and the degree of price instability that could be tolerated without undermining the longer-term expansion of the economy. Equally important is the extent to which stabilization policies should differ according to the source of macroeconomic instability, i.e. whether it is due to domestic imbalances between supply and demand or to external trade and financial shocks beyond the country's control.

Starting with the latter issue, the mainstream policy advice in responding to external shocks is to tighten macroeconomic policy if the shock is not just a temporary one: "Successful adjustment to a permanent unfavourable shock that worsens the balance of payments will often require a sustained tightening of the fiscal stance" (ibid., p. 9). By corollary, a temporary shock to the balance of payments would need to be absorbed by external financing rather than through retrenchment in economic activity. Such a distinction, however, is not very helpful for African countries which face secular declines in their terms of trade as well as sharp short-term fluctuations. A positive adjustment to a downward trend in terms of trade requires diversification of the production structure, which in turn necessitates considerable investment and hence external financing. In other words, adjustment to permanent shocks requires a combination of domestic policy efforts and external financing. However, as already noted, the development financing currently available for such purposes is highly inadequate. Indeed, the international community has constantly distanced itself from any notion of compensatory financing that could provide the basis of a positive adjustment to persistent terms-of-trade shocks. Moreover, the IFIs have been much less willing to finance temporary current account imbalances in poorer developing countries than to meet the demands of creditors in emerging market crises through financial bail-out operations. Increasingly, developing countries are called upon to make greater domestic efforts in responding to external shocks, regardless of their nature and effects, rather than being provided with the financing needed for adjustment without sacrificing growth. Greater domestic policy effort, even of the right kind, often fails to make up for the paucity of external financing. As a result, growth has been weak and erratic and poverty has increased.

Regarding the balance between growth and price stability, prudent, non-inflationary budgetary policies and monetary restraint constitute the main macroeconomic elements of guidelines on poverty-reducing strategies, the strategy papers and their JSAs.[13] However, with few exceptions, inflation does not appear to be a major problem in the region. Among the 27 countries in SSA with

PRSPs and I-PRSPs, only four (Ghana, Malawi, Mozambique and Zambia) had a two-digit level of inflation in 2000, averaging slightly above 20 per cent per annum. The average for the other countries was around 3.5 per cent, and the price level actually fell in five countries (Burkina Faso, Cape Verde, Côte d'Ivoire, Mali and Sierra Leone). Nevertheless, even in countries with inflation rates of 3–5 per cent (e.g. Mauritania, Niger and Uganda), disinflation continues to be emphasized in the policy advice contained in PRSPs, on the grounds that inflation generates regressive changes in income distribution (Ames et al., 2001, pp. 4–5).

Indeed, there appears to be an almost universal commitment in PRSPs to tight monetary policies. Given that SSA has been a region in the developing world that has rarely experienced hyperinflation, and since it is probable that below certain thresholds disinflation may also curb output growth, the possible negative long-term effects on growth of such a stance have not been fully considered. It is significant that the African poor, when they express themselves on matters related to macroeconomic policies, do not consider inflation as a major issue affecting their welfare. The stability they aspire to is stability in employment (see section C.4 below) and "constant and regular sources of income" (I-PRSP of Malawi). The rural poor in Ethiopia and Nigeria stress that contractionary macroeconomic policies resulting in lower employment and declining wage bills in the public sector affect their own livelihoods adversely by the ripple effects of declining effective demand (Narayan et al., 2000, pp. 21 and 150). Such views from the African poor are not reflected in the corresponding country strategy papers. Nor do HIPC Ministers appear to endorse the stance taken with respect to inflation and growth in the PRSPs in as much as they urge the Bretton Woods institutions to:

> Accelerate efforts to design more flexible growth-oriented macroeconomic frameworks. Encourage 'post-stabilization countries ... to think more closely about ways to increase growth

> and employment rather than further reducing inflation, about the supply-side (as well as demand-side) causes of inflation, and about defining sustainability of the budget deficit as including grants and debt relief. This will allow HIPCs to define alternative paths to poverty reduction, focusing more on growth and anti-poverty spending, and to maximize the mobilization of concessional funding for poverty reduction spending'. (Debt Relief International, 2002, p. 4)

(b) Public spending and taxes

The role of the budget is particularly important in poverty reduction strategies supported by the Bretton Woods institutions. An important objective is to channel the resources made available through various poverty reduction programmes and the reduction of official debt to priority areas in public spending, primarily to basic education, health and infrastructure, particularly in rural areas. However, it is essential that the external resources be additional to expenditures already earmarked for the same sectors, if there is to be a major shift in the pattern of public expenditure in favour of social development. Established guidelines strongly recommend that discretionary non-priority spending be reduced. While targeted spending for poverty reduction calls for a distinction between priority and non-priority sectors, if it is taken too far there is the risk that a parallel and separate poverty reduction budgetary process emerges, such as Uganda's Poverty Action Fund (PAF), which may escape routine parliamentary scrutiny and give rise to legal and constitutional problems.[14]

The decision as to which categories of discretionary spending should be cut is left primarily to recipient governments. Subsidies to the non-poor and to state-owned enterprises and, to a lesser extent, military spending are among possible targets for spending cuts (World Bank, 2001, p. 82). More importantly, "expenditure tied to capital spending should also be reviewed with a critical eye" (Ames et al., 2001, p. 14). While there may be a need to rationalize public investment in some countries, the emphasis placed on achieving quick results by redirecting public expenditures to social sectors may necessitate large cuts in the overall volume of public investment, with attendant consequences for sustaining poverty reduction programmes over the longer term.

Where there are trade-offs between public spending in priority and non-priority areas, they should be closely scrutinized from the point of view of their overall impact on growth. Under African conditions, high and rising levels of public investment, particularly in infrastructure, are essential for moving into a sustained growth process (UNCTAD, 1999a). There may also be other areas of growth-enhancing public spending where, because it is only indirectly linked to poverty objectives, the expenditure risks being reduced in relative or absolute terms. Thus, it is necessary to assess public spending in terms of its overall impact on growth as well as its direct impact on poverty.

The trade-off between capital investment and current social spending can be aggravated when non-discretionary spending, such as interest payments on domestic and external debt, continues to absorb large and even increasing proportions of the budget, while government revenues cannot be raised sufficiently rapidly because of sluggish growth. It has been noted that "six heavily indebted countries in Africa spend more than a third of their national budgets on debt service and less than a tenth on basic social services" (World Bank, 2001, p. 82). There is consequently considerable room to raise current spending on poverty reduction programmes by accelerating and increasing debt reduction without sacrificing investment and growth. On the domestic side, high interest rates resulting from tight monetary policies constitute a serious impediment to poverty reduction programmes by raising interest payments on government debt at the expense of social spending, as well as by distorting income distribution. This problem may be aggravated by capital account liberalization, which often necessitates maintaining high interest rates on domestic assets in order to attract foreign financial capital or prevent capital flight.

While poverty reduction strategies appear to have considerable flexibility on the fiscal side and the IMF *PRSP Sourcebook* refrains from setting a "rigid, pre-determined limit on what would be an appropriate fiscal deficit" (Ames et al., 2001, p. 14), it is essential to attain a reasonably rapid growth in public revenues in order to increase social spending and avoid further debt accumulation. In this respect, tax policies are of particular importance. In general, the recommendation is to avoid raising taxes on corporate and personal incomes because of their adverse effects on investment and capital flows (World Bank, 1997, p. 48) and to keep taxes low, with a minimum number of exemptions. Lowering trade taxes are also part and parcel of trade liberalization. The only remaining options for increasing public revenues are introducing a broad-based consumption tax, usually in the form of VAT, and improving tax administration and broadening the tax base (Ames et al., 2001, box 4; IMF, 2000b, p. 3). However, as also recently noted by the World Bank, indirect taxes tend to augment poverty because they are generally regressive (World Bank, 2001, p. 70).

African PRSPs and their JSAs have generally followed these guidelines, with a view to increasing public spending in primary education, health care and rural infrastructure and cutting down on non-priority areas. In some countries (Lesotho, Mozambique and Niger) this shift appears to have been accompanied by declines in the share of total public spending in GDP, suggesting that spending in priority areas has been raised by less than the cuts in non-priority areas. Such an outcome contrasts with concerns that increased poverty spending could be associated with rising overall public expenditure and budget deficits because insufficient cuts have been made in non-priority areas. The revenue packages in PRSPs follow the recommendations mentioned above. In general, the papers do not address the trade-offs involved in allocating resources between current social spending and investment outlays, their growth impact, or the distributional and poverty impact of tax measures.

(c) Reforming the financial system

Liberalization and deregulation of domestic financial markets is an important component of poverty reduction strategies. The Poverty Reduction Strategy Papers incorporate commitments on deregulation of financial markets, market-based determination of interest rates, introduction of treasury bill auctions and a secondary market of government debt instruments as indirect tools of monetary policy, introduction and diversification of new financial instruments, deregulating entry into the banking sector and creation of a stock exchange. There are also calls for effective regulation and supervision of the banking system and an occasional commitment to central bank independence.[15]

The elimination of financial repression and a move to market-based interest rates and credit allocation are considered pro-poor policies, not only because they improve resource allocation, but also because the removal of such asset market distortions provides the poor "access to safer assets, ... incentives to save, and access to credit markets".[16] This reasoning, which considers poor households as actual and potential savers or investors, rests on shaky grounds under African conditions, where roughly half of the population struggles to survive on US$1 a day. It is not confirmed by the experience regarding the impact of liberalization of domestic financial markets on the access of the poor to financial resources. Indeed, as argued in an earlier UNCTAD study on Africa, while reform of public credit institutions may have been necessary to stop them serving rich farmers and to enhance the access of poor peasants to finance, the dismantling of public credit institutions in agriculture has often resulted in reduced access of poor farmers to finance (UNCTAD, 1998, Part Two, chap. III).

Liberalization of financial sectors in Africa started as a reaction to excessive government intervention in the banking systems. Early reforms consisted of lifting interest rates above inflation, eliminating credit allocations to privileged groups and reducing the financing of public sector deficits via the banking system. But the current wave of liberalization has gone much beyond these beneficial measures. It has not followed proper sequencing with either policy actions in other areas (such as achieving price stability or establishing a sustainable fiscal position before liberalizing interest rates) or with institution building (such as putting in place institutions needed for an effective oversight of the financial system before liberalization).

The shift from central bank financing to direct financing through issuance of treasury bills and government bonds, their marketing via auctions to the banking system and the move towards market-determined interest rates are all features which have injected new elements of instability into African economies. Rather than securing greater fiscal discipline, they have resulted in increased accumulation of domestic debt, with consequences for income distribution no less serious than inflationary financing.[17] Indeed, the shift to financing public deficits by government debt papers on market terms under conditions of very thin financial markets has led to very high and volatile real interest rates. Rapid accumulation of domestic debt at high real interest rates has often resulted in excessive debt burdens on the budget, leading to Ponzi financing, whereby interest on existing debt could only be met by new borrowing, thereby threatening to set off an unsustainable process of indebtedness. High interest rates have also placed heavy burdens on the private sector and contributed to the stagnation of private investment. Public investment has equally been hit by interest rate payments from the budget. The redistribution of income from the productive segments of the society in favour of the rentier elements has also tended to undermine the incentives to invest within the economy.[18] In short, in the light of this experience, it is difficult to share the optimism of PRSPs regarding the positive impact of financial liberalization on growth, distribution and poverty in Africa.

(d) Foreign exchange regimes and the capital account

Recent years have witnessed the increasing elimination of exchange controls and the opening up of the capital account in Africa. While an explicit commitment to the liberalization of capital accounts is the exception in country papers, broad commitments to "economic openness", "open financial systems", "liberalized foreign exchange markets" and "market-determined exchange rates" are quite common in PRSPs.[19] The policy recommendation emphasizes the need for prudential regulation and supervision of the banking system, but ignores that there may be a need for close scrutiny and control of capital flows.

Opening of the capital account is endorsed as a pro-poor policy in the IMF *PRSP Sourcebook*: "Relaxing these [foreign exchange] controls ... could give the poor access to safer assets, such as foreign currency, that could protect them from devaluations ... Capital controls that drive a wedge between domestic and world interest rates make it possible to extract an inflation tax which especially hurts the poor" (Ames et al., 2001, p. 22). The position of the World Bank is more nuanced, but it adheres to the principle of an open capital account: "Maintaining liberal ... capital market ... regimes is also essential for growth ... Foreign capital inflows can also be seriously destabilizing; ... but also impose discipline on policy makers ... Good policies [i.e. responsible monetary and fiscal policies] are needed to cope with the risks of capital flight" (World Bank, 1997, pp. 48–49). The risks are considered worth taking, especially for Africa: “Africa ... cannot afford to reimpose sweeping capital account restrictions and so miss out on tapping global capital markets to finance future investment” (World Bank, 2000a, p. 220).

Efforts in the region to integrate into the global financial system and to attract private flows through a rapid liberalization of the capital account have resulted in greater volatility, with attendant consequences for exchange rate instability and misalignments. Some countries have experienced considerable financial instability and payments difficulties which have received little attention from the international community largely because they have not posed a serious threat to the stability of the international financial system, in contrast to the recent bouts of financial crisis in emerging markets in Latin America and East Asia; the damage has been confined to the economies concerned (Kasakende et al., 1997; see also UNCTAD, 2000a).

The self-defence envisaged against a rapid exit of capital is to build up large stocks of international reserves. Hence, it is recommended that in preparing PRSPs “the authorities need to take into account ... the need to maintain an adequate level of international reserves” (IMF, 2001b, p. 2) since in this way “a country can weather a temporary shock without having to reduce essential pro-poor spending” (Ames et al., 2001, p. 10). Indeed, international reserves emerge as one of the widely-used targets of poverty reduction strategies in Africa. Reserve levels to cover imports of goods and services for at least six months is the most frequent threshold, although there are cases of lower targets (4–5 months).[20] These levels are above the traditional norms of 3–4 months. However, they are consistent with the overall trend in developing countries to resort to reserve accumulation as a safeguard against discontinuation or reversal of capital inflows (UNCTAD, 1999b, pp. 108–111). Such accumulation has absorbed an increasing proportion of capital inflows into developing countries; in a sample of 16 African countries, the average (unweighted) increase in reserves rose from 9 per cent of net capital inflows during the 1980s to 26 per cent during the 1990s (UNCTAD, 2000a, table 3).

Holding reserves involves opportunity costs, since it ties up purchasing power that could be used for the import of goods needed to increase output and investment. The costs are nowhere higher than in Africa, where the balance of payments constitutes the single most important constraint on capital accumulation and growth. While income can be earned on reserves by investing them in international markets, the return on such liquid assets is too small to compensate for the output foregone. This problem is aggravated by increased net outflows of capital by residents. Research by the UNCTAD secretariat has shown that for 16 selected African countries taken together, capital outflows have absorbed a greater proportion of capital inflows in recent years: for each dollar of new inflow there was a net outflow of some 9 cents in the 1980s, but this figure went up to more than 23 cents in the 1990s (ibid., sect. C).

Equally important is the implication of the opening of the capital account for exchange rate stability and alignment. The standard policy advice to developing countries seeking to expand and diversify their exports is to maintain a competitive and stable exchange rate. In addition, appreciations are often seen as anti-poor, on the assumption that the poor in developing countries earn their incomes from tradable goods, whereas they consume mainly non-tradable goods (Ames et al., 2001, sect. 4). However, such recommendations are difficult to reconcile with the advice to maintain open capital accounts as well as market-based exchange rates. Indeed, after liberalization of the capital account, African currencies have tended to appreciate in real terms and suffer from increased volatility. The World Bank has occasionally cautioned against "speculative and short-term capital inflows, mainly driven by high interest rates ... the outcome [of which] has been increased real exchange rate instability" and recommended Chilean-style disincentives against "short-term and speculative capital flows ... in the context of an essentially open capital account" (World Bank, 2000a, p. 220), but even such market-friendly regulatory measures are barely reflected in African PRSPs and JSAs.

Recent experience has shown that the boom-bust cycles associated with rapid entry and exit of capital under open capital account regimes tend to deepen poverty not only by undermining investment and growth, but also by leading to regressive income distribution.[21] Surges in capital inflows often lead to a deviation of key macroeconomic aggregates such as savings, investment, fiscal and external balances, exchange rates, employment and wages from their longer-term, sustainable levels. The rapid exit of capital and financial crises, on the other hand, tend to lead to overshooting in the opposite direction. The recovery process, which restores aggregate income to pre-crisis levels, generally results in a different configuration of key macroeconomic variables from those previously prevailing, often resulting in large shifts in income distribution and heightened poverty, which can be corrected only after many years of growth. In other words, there is a significant asymmetry in the impact of growth and crises on poverty in developing countries: the poverty-alleviating impact of a given rate of growth is significantly weaker than the poverty-worsening impact of a comparable decline in GDP (World Bank, 2000b, p. 54). Reduced incomes and employment in organized and informal labour markets are the main social conduit of the adverse impact of financial crises on poverty and equality.[22]

As argued in a previous UNCTAD report, in order to achieve greater stability and faster growth in Africa "capital account regimes would need to be reassessed with a view to introducing effective control over short-term, destabilizing capital flows. Regulation and management of capital movements are also needed in order to ensure that a large proportion of capital inflows are allocated to real resource transfers rather than being diverted to ... capital outflows and build-up of reserves as a safeguard against speculative attacks" (UNCTAD, 2001a, p. 52). However, the poverty reduction strategies in Africa continue to adhere to the principle of open capital accounts even though its contribution to economic stability, growth and development has become highly doubtful in recent years particularly in the absence of appropriate institutions to cope with international capital flows.

(e) Trade reform

As in other areas, trade policy advice in poverty reduction programmes sticks to the conventional view that maintaining liberal trade regimes is beneficial to the poor not only because it is essential for growth but also because it improves income distribution. It is thus recommended that "import tariffs should have a low average rate and a limited dispersion of rates to reduce arbitrary and excessive rates of protection ... Non-tariff barriers should be avoided altogether" (Ames et al., 2001, box 4). There is, at times, emphasis on the need for export diversification, to be attained primarily by removing disincentives to export: "Eliminate further anti-export bias ... Sequence further cuts in import tariffs and broaden the fiscal revenue base away from trade taxes" (World Bank, 2000a, p. 223).

African PRSPs have generally followed this advice. Some of them (e.g. Burkina Faso) envisage import liberalization as a means of combatting monopolistic market structures, reducing factor costs and enhancing competitiveness. Others merely contain a commitment to open, liberal trade regimes, full and rapid integration into the world economy, lower tariffs, or non-recourse to discriminatory protection.[23] There are only two instances where the policies advocated diverge from the conventional wisdom: while "promot[ion] of efficient import substitution ... [so as] to reduce the external imbalance" is advocated in the PRSP for Mozambique, the use of "case-by-case, selective intervention, limited in time" in favour of manufacturing firms rather than "protection [through] high tariffs, quantitative restrictions and price controls" is the preferred policy option for Rwanda.[24] However, how these policies are to be implemented is not elaborated. On the other hand commitment to export promotion and diversification is a theme common to all papers, although there is little indication of how it is to be achieved.

In assessing the consequences of import liberalization for poverty, a distinction can be made between its direct impact on employment and labour incomes in industry, which is often the sector most affected, and its effects on growth through the balance of payments, industrial production and capital accumulation. Although a number of studies have concluded that trade liberalization in developing countries does not adversely affect employment, these findings have been criticized on both methodological and empirical grounds.[25] The vague definition of openness and the failure to distinguish episodes of export promotion from those of import liberalization have resulted in misrepresentation of trade regimes, and made it difficult to make cross-country comparisons and interpret the findings. Moreover, the failure to present an explicit counterfactual analysis, along with biases in country selection, has raised doubts about the validity of these studies. Indeed, the more recent evidence from liberalization episodes in sub-Saharan Africa as well as Latin America suggests that they have often been accompanied by an increase in unemployment.[26]

Although there were certainly other factors operating in labour markets during such episodes of trade liberalization, including those linked to macroeconomic adjustment and labour market reforms, the idea that unemployment could increase if tariff and non-tariff barriers are lowered and consumers switch from non-traded goods to imports is hardly contentious (Buffie, 2001, p. 190). Furthermore, growing wage inequality has characterized most episodes of rapid trade liberalization in developing countries in Africa and Latin America. In one study of changes in earnings of three different skill groups of labour in 10 Latin American countries in recent years, all except one of the countries were found to have experienced widening gaps between skilled and unskilled workers. With few exceptions, real earnings of unskilled workers fell during the periods covered, with declines exceeding 20 per cent in many cases.[27] Increased wage dispersion in manufacturing during the recent period of globalization has also been reported by the ILO for a sample of 30 countries in Africa, Asia and Latin America, which compares average real wages in 1975–1979 with those in 1987–1991 (ILO, 1996, table 5.9 and related text). It was found that in about two thirds of all the countries real average wages had fallen, and that the fall was correlated with a rise in wage dispersion. The economies in which wage dispersion diminished include the first-tier East Asian NIEs, where it was accompanied by significant increases in labour productivity.

In general, evidence suggests that the effect of trade liberalization on wages, income distribution and poverty differs among countries, depending on the domestic and international conditions under which it is implemented. Herein lies the main difference between trade liberalization in the first-tier East Asian NIEs and other developing countries, including those in SSA. In the former, liberalization followed the successful implementation of industrial and trade policies; protection and support were removed in large part because they were no longer needed. In the latter, on the contrary, liberalization has largely been triggered by the failure to establish efficient, competitive industries in labour- and/or skill-intensive sectors. Accordingly, the impact of increased competition brought about by trade liberalization on income distribution and poverty has been crucially different.

Many African PRSPs and JSAs advocate increased competitiveness in international markets as a means to reduce poverty and emphasize the role of productivity growth in attaining this objective. However, often they also argue in favour of reducing wage costs through wage cuts. For instance, the paper of Burkina Faso refers to lowering unit labour costs by adjusting the minimum wage and reducing the welfare costs borne by the formal sector; that of Djibouti refers to the need to reduce factor costs that are high in comparison to its competitors through a more flexible labour market, and that of Mozambique refers to the elimination of those aspects of labour legislation which increase labour costs and reduce labour market flexibility. Clearly, reliance on productivity growth to raise competitiveness will require substantial investment in industry and labour skills in order to upgrade technology and know-how, without which pressures would be built up for wage cuts or one-off productivity gains through labour shedding, thereby pushing the burden onto labour.

However, increased foreign competition brought about by rapid import liberalization cannot always be met by industrial downsizing, labour shedding and wage cuts. It can also lead to the wholesale closure of industries, with an even greater impact on jobs, pay and poverty. This has certainly been the experience in SSA where international competitiveness could not be improved despite substantial cuts in manufacturing real wages, as liberalization took place before a successful export drive (UNCTAD, 2001a, table 10 and related text). A significant indicator of the drift into de-industrialization in SSA is the elasticity of industrial value added with respect to GDP growth, which declined from 1.10 and 1.03 during the 1960s and 1970s to 0.65 in the 1990s (ibid., p. 7). While there was certainly a need for rationalization and liberalization of the trade regime, it is also clear that rapid and blanket trade liberalization was not the panacea for the distortions of the preceding era. As also pointed out by the United Nations High-level Panel on Financing for Development, past mistakes in trade and industrial policies cannot justify going to the other extreme and denying limited, time-bound protection for certain industries so as to provide an opportunity of actively nurturing the development of an industrial sector (United Nations, 2001b, p. 17).

An equally important consequence of rapid import liberalization is the tightening of the balance of payments constraint on accumulation and growth. As examined in some detail in an earlier UNCTAD report (UNCTAD, 1999b, chap. IV), in most countries following this route the 1990s saw a widening of trade deficits associated with any given growth rate. In SSA, growth fell while the trade deficit as proportion of GDP rose compared to the 1970s. While adverse terms of trade was an important factor in the deterioration of the trade balance in Africa, increased imports, which far outstripped the rise in exports, also contributed. Given the secular decline in aid as a proportion of GDP of the recipient countries in SSA and their continued debt overhang, the burden of the tightening of the payments constraint fell on domestic activity, growth and development.

Clearly, the long-term solution lies in improving the productive capacity of the region and resolving the deep-seated imbalances and distortions in the international trading system in areas of export interest to African countries. There is now a consensus among the major international institutions that the cost of protectionism in industrial countries for Africa tends to be very high and that market access for African products needs to be improved. However, the trade policy advice to the African countries needs to be based on a realistic assessment of what can be achieved in this respect. Many of the increased balance of payments difficulties in developing countries today, including those in SSA, have their origin in the failure to pay adequate attention to forces of protectionism in industrial countries in designing trade policies in structural adjustment programmes.

(f) Agricultural policies

Much of the policy advice on agriculture in SSA in the past decade is based on the diagnosis that "African farmers have faced the world's heaviest rates of agricultural taxation ... explicitly through producer price fixing, export taxes and taxes on agricultural inputs. They were also taxed implicitly through overvalued exchange rates and through high levels of industrial protection ... [These policies] contributed to sub-Saharan Africa's alarming decline in ... agricultural growth".[28] The policies recommended included exchange rate corrections, withdrawal of governments from agricultural markets, the dismantling of marketing boards and deregulation of markets for agricultural inputs and outputs.

These policies have indeed been pursued in SSA since the mid-1980s, and at an accelerated pace during the 1990s. Agricultural markets in the majority of the countries in the region are now liberalized. An earlier study by the UNCTAD secretariat drew attention to the risks involved in such a rapid liberalization without putting in place the institutions needed (UNCTAD, 1998, Part Two, chap. III). Indeed, many of the expectations remain unfulfilled, and a reassessment of these policies appears to be taking place, in recognition of the fact that liberalization has not succeeded in reducing transaction costs and bringing about improvements in the functioning of input and product markets. Farmers have suffered not only from declining output prices but also from rising input prices for food crops and the elimination of fertilizer subsidies (World Bank, 2000b, pp. 184–189). As noted in a more recent World Bank report, in some countries, such as Zambia, agricultural credit and marketing by the private sector turned out to be uneven and unpredictable, and once market forces had eliminated the implicit subsidies to remote and small farmers, many farmers were left worse off. In Cameroon maintenance of rural roads undertaken earlier by the marketing boards collapsed after the reforms. Financial liberalization and tight monetary policies generally resulted in declining levels of rural credits. Such observations have led the World Bank to conclude that "market-friendly reforms have also sometimes hurt the rural poor ... Agricultural market liberalization without the institutional framework ... could have serious consequences for poor people".[29] However, the final verdict is still that, on balance, "market-oriented reforms ... reduced anti-agriculture bias and generally increased agricultural growth" (World Bank, 2001, p. 67) and despite the problems confronted, in Africa "reforms need to be further consolidated" by encouraging private firms to enter output and input markets and by strengthening property rights (World Bank, 2000a, pp. 184 and 196–197).

The treatment of agricultural policies in PRSPs is generally in conformity with conventional policy recommendations: disengagement of public agencies from agricultural markets and liberalization of both forward and backward markets is a general commitment (Benin, Burkina Faso, Cameroon, Ethiopia, Malawi and Mozambique).[30] These reforms are to be realized through supporting private agents at all levels (Benin and Burkina Faso). There are explicit references to liberalization of markets for cotton (Benin, Burkina Faso and Cameroon), coffee and cocoa (Cameroon and Ghana).[31] There is some commitment to reforming land tenure systems so as to secure individual property rights (Cameroon, Guinea, Madagascar and Rwanda), which in some cases is considered to be part of a process of inviting large investors into large-scale farming in agriculture (Madagascar, Malawi and Sierra Leone). The concern that such reforms could undermine traditional, communal property regimes and transform land into a commodity is a common theme. The joint staff assessments have in some cases, such as Ethiopia and Mozambique, drawn attention to the failure to emphasize the necessity of "legislation on agricultural land (including rights to use land as collateral)" or "to consider uncertainties over land rights".

These policy approaches do not always find support among the African poor. Research of the World Bank (Narayan et al., 2000) suggests that the aspiration of the African poor is not the development of private property rights per se, but rather land reform. There are frequent references by poor African peasants on the hardships they suffer on account of the emphasis placed on market mechanisms with respect to land and its ownership, and especially the high prices or rents they are obliged to pay. As Nigerian peasants observe, "all our problems derive from lack of land. If we have enough land we will be able to produce enough to feed our households ... and train our children ... We used to be good farmers. Now, only those who can afford the money ... [can] rent land to farm". A group of poor men and women in Ethiopia also complain: "Our farmland is continuously decreasing as a result of concessions given to poultry farms by private investors".[32]

Evidence from field research and earlier analysis by the UNCTAD secretariat show that the traditional institutions in African agriculture, including the much criticized public institutions, have performed many tasks with favourable outcomes for the poor, despite secular declines of output as well as violent short-term fluctuations in international prices of agricultural commodities. It is unlikely that markets can provide, even when they are reasonably efficient, reliable buffers against such shocks; the end result is likely to be increased income instability and rising levels of rural poverty. African farmers need much greater investment in the sector, and the emphasis put on higher public expenditure on rural infrastructure in recent PRSPs and ODA packages is to be welcomed. But official policies need to go further and seek to create the conditions needed for higher levels of investment and input use by farmers themselves. The provision of a stable market environment, predictable output prices and input supplies at affordable costs, the easing of financial constraints on small-scale farming and significant improvements in the physical and technical environment are the necessary components of such a reorientation, and all of them call for active engagement of the public sector.

2. Education and health

Primary education and health care are the backbone of the new focus in PRSPs. The emphasis is motivated not only by moral considerations but also by the drive to improve efficiency and income distribution and hence to reduce poverty through accumulation of human capital. Clearly, better education and health on their own cannot achieve much on these scores; jobs with adequate pay need to be created.

In PRSPs attention is focused mainly on primary education. A common objective is to provide universal primary education (education for all), which necessitates considerable increases in investment and current spending. In many countries education strategy includes abolishing or reducing school fees and providing exemption to targeted groups, as well as free school books for all or targeted groups. By contrast, secondary and tertiary education are generally considered as private goods, to be financed, at least in part, by user-fees; hence, for higher levels of education many PRSPs refer to "partial cost-recovery", "cost-sharing", "parents' participation in financing", "students bearing more of the costs", "removing subsidies" and "cofinancing".[33]

Field research by the World Bank indicates that the African poor make no distinction between primary and higher levels of education and complain about their inability to pay schooling expenses for their children at all levels.[34] Despite the desire for universal education as a vehicle for poverty alleviation, the African poor do not consider education as a means of achieving higher income and upward mobility. Asked to identify the factors allowing people to escape from poverty, nearly 70 per cent of African respondents indicated "self-employment and business", whereas less than 5 per cent mentioned "education" (Narayan et al., 2000, pp. 56–57). In other words, if asked about the relationship between poverty and education, the typical answer of a poor African is likely to be "I am uneducated because I am poor", rather than "I am poor because I am uneducated", again confirming that education does not alleviate poverty if there are no new employment opportunities.

Raising public expenditure in order to expand primary (essentially preventive) health care is also a common feature of PRSPs. In the orthodox approach, curative health care, particularly hospital inpatient treatment, is considered as virtually a pure private good and hence user-fees are advocated for its financing, sometimes to be complemented by a combination of social and private insurance schemes: "Most curative health care is a (nearly) pure private good – if government does not foot the bill, all but the poorest will find ways to pay for care themselves" (World Bank, 1997, p. 53). In the PRSPs and JSAs, free medical treatment is restricted to a few specified diseases, and private health care is encouraged, to be financed through "cost recovery" or "pre-payment schemes" (Burkina Faso, Malawi, Mauritania, Niger, Rwanda, Uganda and United Republic of Tanzania).

However, this approach is strongly rejected by the African poor. In this respect, the World Bank field research concludes that "preventive medicine is important, but it is curative medicine that the poor emphasize" and "participants in Africa feel that health care is becoming less accessible, less affordable and worse" (Narayan et al., 2000, p. 87). These general observations are supported again and again by bitter references to the exorbitant costs of drugs and the inability of the poor to afford health treatment. Indeed, it is ill health, much more than lack of education, which is viewed as the predominant factor undermining employment prospects, higher income and welfare.[35] The results of this field research are supported by empirical findings in poor countries in Africa and elsewhere, which confirm that demand for both health care and education is highly elastic; user-fees consequently often constitute an important impediment to access to such services.[36]

The emphasis in PRSPs on free education and health predominantly at the primary level, while leaving higher levels of education and health care to be provided mainly by market mechanisms, appears to be based, at least in part, on a specific interpretation of the empirical data, namely that high-income groups are the primary beneficiaries of greater public expenditures on secondary or tertiary education or curative health care and that consequently free provision of such services may worsen income distribution. That is, however, hardly likely, since the final outcome regarding income distribution, including income imputed from such services, depends on the initial distribution of disposable (pecuniary) income (i.e. income as defined in most household income and expenditure surveys) before public expenditures are allocated to various income brackets. If the share of lower income groups from imputed public expenditure is higher than their share in disposable income, the net outcome can be less inequality even when their benefit in per capita terms is lower than that accruing to higher income groups.

It should be recognized that, since public spending is subject to tight budget constraints, there can be trade-offs between spending on primary and on higher levels of education and health care, since in high-income groups often benefit more from spending at the higher levels and a reallocation of resources from primary to higher levels could lead to regressive changes in income distribution. Again, the tax system may be highly regressive, so that raising taxes in order to finance increased public spending on education and health may lead to regressive changes in the overall distribution of income, including the imputed incomes. These considerations, however, raise broader issues regarding the impact of overall fiscal policies on social welfare and poverty.

Tables 2–4 combine World Bank imputations of public expenditure on education and on health to various income groups in a number of countries in SSA with data on income distribution. On the assumption that public expenditure in these two sectors amounts to 10 per cent of total disposable income, the changes in the shares of each income group in total income (including the imputed income from public expenditure on education and health) are given in tables 2 and 3. This exercise shows that the net distributional impact of the public expenditure on all levels of education and health in almost all the countries (with the exception of public spending on hospitals in Guinea) is progressive. It is true that, taken in isolation, public expenditure on both education and health is moderately regressive, i.e. shares of income groups (and consequently per capita benefits) in these services rise together with income. However, since income distribution before imputation of the benefits is even more regressive, the public expenditure reduces income inequality.

From available evidence it can be estimated that in SSA households living below the poverty line generally comprise the two lowest quintiles.[37] After imputation of total public spending on education to income groups, the share of the two lowest quintiles increases in all countries by between 0.4 (Guinea) and 2.9 (South Africa) percentage points and the average increase in the seven countries is 1.4 percentage points. The major losers are those in the highest (i.e. the richest) quintile, whose income share declines in the range of 0.7 percentage points, for the United Republic of Tanzania to 3.9 points for South Africa (an average decline of 1.8 percentage points for the seven countries). Broadly speaking, the same conclusion holds after imputation of public spending on health: the share of the poorest two quintiles rises by 0.6, 1.1 and 2.7 percentage points in Ghana, Kenya and South Africa, respectively. Once again the major losers are the richest quintiles.

The imputations in tables 2 and 3 are based on total public expenditure on education and health, since separate data on primary and higher levels are generally not available, at least for education. With respect to health, there are, however, some data that distinguish between primary health care and hospital (outpatient and inpatient) treatment. Table 4, which makes use of such

Table 2

PUBLIC SPENDING ON EDUCATION IN SSA IMPUTED TO INCOME QUINTILES

(Percentage)

	First (poorest)	*Second*	*Third*	*Fourth*	*Fifth (richest)*
Côte d'Ivoire					
Education expenditure	14.0	17.0	17.0	17.0	35.0
Pre-imputation income	7.1	11.2	15.6	21.9	44.3
Post-imputation income	7.7	11.7	15.7	21.5	43.4
Ghana					
Education expenditure	16.0	21.0	21.0	21.0	21.0
Pre-imputation income	8.4	12.2	15.8	21.9	41.7
Post-imputation income	9.1	13.0	16.3	21.8	39.8
Guinea					
Education expenditure [a]	9.0	13.0	21.0	30.0	27.0
Pre-imputation income	6.4	10.4	14.8	21.2	47.2
Post-imputation income	6.6	10.6	15.4	22.0	45.4
Kenya					
Education expenditure	17.0	20.0	21.0	22.0	21.0
Pre-imputation income	5.0	9.7	14.2	20.9	50.2
Post-imputation income	6.1	10.6	14.8	21.0	47.5

/...

Table 2 (concluded)

PUBLIC SPENDING ON EDUCATION IN SSA IMPUTED TO INCOME QUINTILES

(Percentage)

	First (poorest)	*Second*	*Third*	*Fourth*	*Fifth (richest)*
Madagascar					
Education expenditure	8.0	15.0	14.0	21.0	41.0
Pre-imputation income	5.1	9.4	13.3	20.1	52.1
Post-imputation income	5.4	9.9	13.4	20.2	51.1
South Africa					
Education expenditure	21.0	19.0	17.0	20.0	23.0
Pre-imputation income	2.9	5.5	9.2	17.7	64.8
Post-imputation income	4.6	6.7	9.9	17.9	60.9
United Republic of Tanzania					
Education expenditure	13.0	16.0	16.0	16.0	38.0
Pre-imputation income	6.8	11.0	15.1	21.6	45.5
Post-imputation income	7.4	11.5	15.2	21.1	44.8

Note: Percentages in the rows on "education expenditure" are from World Bank (2001), table 5.1; percentages under income or consumption shares for the same countries are from the same source (table 5 of *Selected World Development Indicators*). Post-imputation income is the redistributed income share after public spending on education (assumed to equal 10 per cent of total income) for each quintile is added to the disposable income of the same quintile.

a Excluding spending on tertiary education.

Table 3

PUBLIC SPENDING ON HEALTH IN SSA IMPUTED TO INCOME QUINTILES

(Percentage)

	First (poorest)	*Second*	*Third*	*Fourth*	*Fifth (richest)*
Ghana					
Health expenditure	12.0	15.0	19.0	21.0	33.0
Pre-imputation income	8.4	12.2	15.8	21.9	41.7
Post-imputation income	8.7	12.5	16.1	21.8	40.9
Kenya					
Health expenditure	14.0	17.0	22.0	22.0	24.0
Pre-imputation income	5.0	9.7	14.2	20.9	50.2
Post-imputation income	5.8	10.3	15.1	21.0	47.8
South Africa					
Health expenditure [a]	16.0	22.0	22.0	22.0	17.0
Pre-imputation income	2.9	5.5	9.2	17.7	64.8
Post-imputation income	4.1	7.0	10.4	18.1	60.4

***Note**:* Percentages under "health expenditure" are from the source used in table 2 (table 5.2); for the other rows see also table 2. (Total health spending is assumed to equal 10 per cent of total pre-imputation income.)

a The original data gives the total share for quintiles 2–4 as 66 per cent, without distinguishing the three quintiles. It is assumed that the ratios are divided equally between the three.

Table 4

PUBLIC SPENDING ON DIFFERENT LEVELS OF HEALTH SERVICES IN SSA IMPUTED TO THE POOREST AND RICHEST INCOME QUINTILES

(Percentage)

	Income		*Primary care*		*Hospital outpatients*		*Hospital inpatients*	
Country	*Poorest quintile*	*Richest quintile*	*Poorest quintile*	*Richest quintile*	*Poorest quintile*	*Richest quintile*	*Poorest quintile*	*Richest quintile*
Côte d'Ivoire	7.1	44.3	14.0	22.0	8.0[a]	39.0[a]	..	..
Ghana	8.4	41.7	10.0	31.0	13.0	35.0	11.0	32.0
Guinea	6.4	47.2	10.0	36.0	1.0[a]	55.0[a]	..	..
Kenya	5.0	50.2	22.0	14.0	13.0[a]	26.0[a]	..	..
Madagascar	5.1	52.1	10.0	29.0	14.0[a]	30.0[a]	..	..
U. Rep. of Tanzania	6.4	48.4	18.0	21.0	11.0	37.0	20.0	36.0
South Africa	2.9	64.8	18.0	10.0	15.0[a]	17.0[a]	..	..

Source: *Income*: the World Bank source cited in table 2; *primary and hospital care*: World Bank (2000a), table 3.6.
a Including hospital inpatient treatment.

data, shows that generalization on the regressive character of free provision of curative (particularly hospital) health care is not justified. In some countries (e.g. Ghana and Madagascar) per capita benefits accruing to the poorest income groups from hospital care are larger than those from primary care. It is true that in all countries the richest income group benefits more in per capita terms from hospital-based treatment than the poorest quintile. However, the imputed share of the rich from public spending on hospitals is, in all cases except Guinea, substantially less than their share in total disposable income. Similarly, the imputed share of the poorest quintile is substantially higher than their share in total disposable income, with the difference ranging from 0.9 percentage points in Côte d'Ivoire to 13.6 percentage points in the United Republic of Tanzania. Hence, in the majority of countries public spending on all levels of curative health care is progressive and generates favourable outcomes for the poor in terms of income distribution.

The foregoing analysis does not lend support to the view that "public spending on health and education is not progressive, but frequently regressive" (World Bank, 2001, p. 80; see also World Bank, 2000a, pp. 96 and 115). As noted above, this view appears to be based on the observation that per capita benefits increase with higher income levels, but this is no different from saying that taxes on consumption are progressive because the rich pay more taxes in per capita terms. Thus, the concentration of public spending on primary education and health care and the adoption of a market-based approach through across-the board user-fees at higher levels may be counter-productive in terms of poverty alleviation. Perhaps the best way to deal with the problem is to study the feasibility of introducing a system of differentiated subsidies and user-fees and to ensure that the tax system is sufficiently progressive to ensure that the rich pay more for the provision of such services, from which both they and the poor benefit.

3. Institutional reform, governance and corruption

It is increasingly being recognized that both policies and institutions play a key role in economic development. While structural adjustment programmes initially focused on “getting prices right” through liberalization, deregulation and privatization, more recently the question of appropriate institutions, epitomized under the rubric of “governance” or “good governance”, has come to play a central role in the official policy advice to developing countries. A recent World Bank study on Africa defined governance as “the institutional capability of public organizations to provide the public and other goods demanded by a country’s citizens or their representatives in an effective, transparent, impartial, and accountable manner” (World Bank, 2000a, p. 48). African PRSPs refer to a number of areas for reform, including: anti-corruption measures; improved, more participatory and accountable public administration; transparency in the preparation and monitoring of budgetary expenditures; legal reforms aiming at securing property rights and strengthening institutions that affect private sector activity; reforming procurement systems: rule of law; human rights; or briefly the “architecture of the State”. Commitment to such reforms is made on much the same lines in most African papers, but there is more variation on the specifics of how to fight corruption.[38]

Implementation of such an all-encompassing and ambitious agenda, pursued through loan and debt-relief conditionalities would require far-reaching changes in African systems of government, including major constitutional changes. In this connection, it should be stressed that, in the context of their recent initiative on a New Partnership for Africa’s Development (NEPAD), African governments have clearly recognized the weaknesses in their public institutions and the need for better governance as well as the changes that need to be brought about. They have, in this context, established a peer review mechanism in order to encourage compliance.

However, from a review of the PRSP experience carried out by IMF and the World Bank, there appear to be considerable qualms about conditioning development cooperation on such changes:

> One message which emerged clearly from the regional PRSP forum in Dakar from many African governments is that the PRSP process should not involve "political conditionalities" and that the donor community are ill-equipped to make judgements in this domain. (IMF/World Bank, 2002, para 19)

While there is broad consensus on the importance of many of the institutions referred to under good governance in economic, social and political development, in assessing whether institutional weaknesses constitute a major impediment to rapid development in Africa, it is important to keep in mind a number of considerations. First, institutions emerge through long and, at times, painful historical processes and many that are now regarded as prerequisites of successful economic development were the outcomes, rather than the causes, of economic development in today's advanced countries. Second, many developing countries today have a more solid institutional basis than had today's advanced countries when they were at similar levels of development. Finally, there is considerable institutional diversity even among industrial countries today. Imposing a common institutional standard on all countries, with widely varying conditions, is likely to be counterproductive. Indeed, many of the institutions of the advanced countries may conflict with social and cultural norms in developing countries. Experience shows that attempts to superimpose such institutions on existing economic, social and political structures in developing countries may not only fail, but may also put considerable strains on their financial and human resources.[39]

Exaggerating these difficulties could, of course, easily become an excuse to defend the institutional status quo in developing countries, but nothing said in the previous paragraph can be construed to imply that developing countries should not aspire to draw on the experience of today's advanced economies in establishing or strengthening institutions that can help foster development. Just as they have benefited immensely from technological advances in developed countries in areas such as medicine and industry to further human welfare, without themselves having the capacity to innovate, they can equally learn and benefit from the institutional know-how and experience of the very same countries. Nevertheless, it is important to bear in mind that the level of economic development sets limits to what can be usefully replicated in this respect.

The governance agenda of the Bretton Woods institutions places considerable emphasis on anti-corruption measures. It is understandable why donors consider corruption as a crucial issue since, *inter alia*, it affects the effective and appropriate utilization of aid resources provided to poor countries. The existence of a large state apparatus with substantial powers to generate and distribute rents is considered to provide humus to corruption. Thus, reducing the size and influence of the government by privatization, deregulation and liberalization is seen as essential for the elimination of rent-seeking activities and corruption. Accordingly, structural adjustment policies have placed considerable emphasis on measures to reduce the size of and resources allocated to the civil service in Africa.[40] However, and contrary to expectations, in spite of such measures, corruption has remained unabated, even showing a tendency to rise and penetrate various aspects of economic and social life. Consequently, there has been an attempt to switch from less government to a better quality (i.e. more effective) government, in which public servants are sufficiently well paid to avoid the temptation of corruption and constitute a merit-based bureaucracy for development (World Bank, 1997, chap. 5). It has been recognized that "efforts at civil service reform ... negotiated with the World Bank and IMF ... have focused on reducing the wage bill rather than on improving quality ... [T]here has been little progress ... in reversing the decline in public service institutions" (World Bank, 2000a, p. 74). However, the new focus on better quality government is not yet fully reflected in national poverty reduction programmes. In Africa many PRSPs emphasize further downsizing of the civil service: thus, there will be "continue[d] efforts to reduce the wage bill" in Lesotho and "mandatory retirements, voluntary departures and accelerated demobilizations" in Djibouti, while "48,606 public servants ... will be retrenched over the next two financial years" in Kenya.[41]

Special legislation and administrative measures against corruption within the civil service are common features of African PRSPs, including special agencies to fight corruption in some countries.[42] Ghana is unique in referring to corrupt practices outside the public domain, calling for a "fight against corruption, money laundering and other white collar crimes" (I-PRSP, Ghana, p. 23) and inviting active collaboration of civil society organizations with the newly-established Serious Fraud Office. On the other hand, the role of domestic and international business groups in corrupting the state apparatus is almost totally disregarded, with the possible exception of Mozambique, which points to the need to "strengthen ... supervision/inspection capacities in the granting of concessions ... for large-scale exploitation of natural resources ... [and] to minimize the risk of corruption ... [in] international business deals." (PRSP, Mozambique, pp. 74–75).

Major incidences of economic corruption related to granting government contracts and privatization of public enterprises do not appear to be a serious source of concern for the African poor. World Bank field research indicates that the poor focus primarily on irregularities in their daily contacts with public administration, including the police, the judiciary and the agencies responsible for social services, such as health, employment and social assistance, and are particularly concerned with maltreatment at the hands of government officials or nepotism.[43]

While it is to be welcomed that African policy makers and their development partners agree on the necessity of fighting corruption, the current approach captures only one aspect of the problem and neglects the role of certain business practices, especially attempts by private individuals or groups to influence the actions of bureaucrats or politicians so as to attain economic gains. This point has been made in a recent research paper for the Group of Twenty-Four:

> When it comes to the specific targeting of GRC [governance-related conditionality], the IFIs have focused on *public* offices and institutions rather than on society at large. For instance, corruption has been defined as "the abuse of public power for private gain", where, for the [World] Bank, *public power* is being interpreted as *public office* rather than the arbitrary exercise of power by any actor, public or private, but in the public *domain*. Thus, even though the Bank is increasingly consulting and enrolling non-state actors in borrower nations to help design and implement Bank programmes, GRC is restricted to the State. But, like the tango, it takes two to effect a bribe. More generally, the quality of governance reflects societal values, institutions and behaviour. When bureaucracies fail, it is not because they are manned by individuals more evil or corrupt than the average citizen. To succeed, new rules and institutions for government institutions – the usual target of GRC – must survive in an alien culture.
>
> A case in point are private audit firms. The accountancy profession, which should be part of the solution to poor governance, is in fact very often part of the problem. (Kapur and Webb, 2000, p. 12)[44]

In addressing this issue, it should be noted that in much of the developing world private capital formation and the emergence and evolution of a domestic entrepreneurial class have often depended on their close relationship with the State. Risks in this area are openly recognized in a recent study by the World Bank on transition economies, which has cautioned reformers against "state capture ... [by] firms and powerful individuals ... influenc[ing] the formation of new laws and regulations to their own advantage, ... manipulating the judicial, executive and legislative branches of government to obtain special privileges and monopoly rights" (World Bank, 2001, p. 65). Africa has been no exception in this respect. As observed in a 1996 report on corruption in the United Republic of Tanzania by Justice Joseph Warioba, "growth in corruption in the 1990s was accentuated by the close relationship between government and political leaders, on the one hand, and businessmen who engage in corruption, on the other".[45]

It is true that trade and financial liberalization have reduced or eliminated rent-seeking activities in the allocation of import quotas, foreign exchange and credits which had pervaded interventionist policy regimes. However, new avenues of rent-seeking have been opened up, sometimes leading to even larger-scale corruption, as amply documented in the literature on corruption under liberal regimes.[46] Ironically, the increased emphasis on private sector development has often been seen as a legitimation of state capture.[47] Cuts in public employment and salaries have often weakened the integrity of the civil service and its resistance to corrupt practices (Szeftel, 1998; Theobald, 1999, p. 498; Harrison, 1999). Privatization of public enterprises has offered new and large opportunities for rent-seeking and corruption, which have often aggravated their adverse impact on the poor.[48] Financial liberalization has often been accompanied by transferring decision-making to newly established, autonomous institutions (including reorganized central banks) led by politically unaccountable technocrats in potentially rent-generating activities. As one observer has argued: "Donor strategies [in Africa] were marked by a search for the appropriate high-level technocratic client, by efforts to buffer such clients from political pressures ... [They] sought to shift from one narrow focus of decision-making, i.e. top politicians to another, i.e. top technocrats" (Gordon, 1996, pp. 1528–1529). All this suggests that when problems of governance are traceable to flaws in the overall social fabric, there are no quick fixes by shifting power and responsibility from one section of society to another. Such a move could even be counterproductive, and is often a poor substitute for strengthening the state apparatus.

D. Conclusions

The recent focus of the Bretton Woods institutions on poverty alleviation in their adjustment programmes in poor countries has received considerable support from the international community. The importance attached to country ownership and civil society participation, and the attention given to the voices of the poor, have all been met with enthusiasm as important steps in improving the design and implementation of policies needed to accelerate development and reduce poverty. This report has attempted to identify the main features of this new strategy in comparison with the approach hitherto pursued under structural adjustment programmes. Such an assessment is essential in order to determine the viability of the new approach as well as the conditions required for its success.

The analysis in previous sections suggests that this new focus on poverty and social problems does not replace the development strategies implemented under structural adjustment programmes but complements them; the underlying premise of the latter remains liberalization, greater openness and rapid and close integration into the world economy as the key to growth. While economic growth is considered *sine non qua non* and the most significant factor that contributes to poverty alleviation, it is also recognized that growth may not automatically trickle down to the poor. Thus, there is a need for certain mechanisms and institutions, notably access to health and education, to ensure that the poor really do benefit. Nevertheless, over the longer term distributional considerations would be secondary to the primary objective of sustaining rapid growth, which is expected, under the recommended structural reforms, to play a central role in the eradication of poverty.

The focus on poverty alleviation also recognizes that in the short term there may be a need for effective anti-poverty action in order to compensate for possible direct adverse effects of stabilization and adjustment policies on the poor. Consequently, macroeconomic stabilization programmes aimed at addressing monetary instability and fiscal and payments imbalances should be accompanied by social safety nets and targeted social spending in order to protect the poor against the adverse effects of a possible slowdown or contraction in economic activity and encouraging declines in employment and incomes. The same goes for structural adjustment reforms when the measures adopted harm the poor in the short term. Again, most of the safety nets and targeted spending programmes are expected to be temporary, designed to mitigate the costs generated in the transition towards a liberal and open economy and rapid and sustained growth.

The emphasis on ownership and participation appears to aim at granting considerable autonomy to countries in the design of safety nets and targeted anti-poverty spending programmes. However, freedom of action of recipient governments in the determination of the nature and content of macroeconomic stabilization and structural adjustment programmes, or more generally of their development strategies, continues to be severely constrained by conditionalities attached to multilateral lending and debt relief. In fact, new governance-related conditionalities have been added to those traditionally considered as pertaining to the core competences of the Bretton Woods institutions.

A major concern raised in this report is that while the current approach rightly emphasizes the central role of rapid and sustained growth in poverty alleviation, it continues to endorse the very stabilization policies and structural reforms that have barely succeeded in bringing about growth and reducing poverty in Africa over the past two decades. It therefore stands to reason that the new emphasis on poverty alleviation should be founded on a careful and frank independent assessment of the effects of those policies and reforms on economic growth and income distribution.

Another concern relates to the direct impact of stabilization and adjustment on poverty. Although the new approach recognizes that these policies may have unfavourable consequences for the poor, a close examination of the guidelines for poverty strategies and of the content of the various PRSPs shows that little attention has so far been given to social impact analysis, although such analysis is necessary to determine the kind of measures needed subsequently. In fact, it is not always clear what kind of action is contemplated to mitigate such adverse effects.

A third source of concern is the approach adopted in anti-poverty policies in two key areas, namely education and health. As in structural reforms, here too undue emphasis is placed on market mechanisms. There is a tendency to adhere, to the maximum extent possible, to market principles in the provision of education and health care, relying on across-the-board user-fees except for primary education and basic health services. That the rich may benefit more than the poor from such services does not provide a rationale for introducing across-the-board user-fees but calls for more ingenious schemes which differentiate between the poor and the rich in their access to these services.

Even if considerable improvements can be made in policies and governance in the recipient countries, the success of the new approach depends crucially on removing the balance of payments and resource constraints on capital accumulation and growth in poor countries. Increased aid, debt relief and greater market access all have their part to play in this respect. Thus, increasing the probability of success of the strategy to reduce poverty in Africa, as in other poor regions, as reaffirmed in the Millennium Summit, calls for a reconsideration of the respective responsibilities of national authorities and the international community in providing the conditions needed. In the last resort, greater domestic policy effort, even of the right kind, and good governance cannot make up for inadequate external financing and the adverse effects of protectionism in industrial countries.

Notes

1 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 According to IMF data, the mean annual growth rate for SSA was 4.2 per cent during 1995–1997, but declined to 3 per cent (slightly above population growth) during 1998–2001 (IMF, 2002a, Statistical Appendix, table 5).

3 For an empirical elaboration of this argument, see Dagdeviren et al. (2001).

4 World Bank (2001), p. 34. Returns on these assets and their volatility are also referred to, but are rarely treated within the policy paradigm.

5 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, 2002, table 40).

6 See IMF (2001b). By mid-April 2002, 27 countries in sub-Saharan Africa (Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Côte d'Ivoire, Djibouti, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Uganda, United Republic of Tanzania and Zambia) had prepared PRSPs or I-PRSPs and submitted them for assessment and endorsement.

7 Similar observations on African PRSPs have also been made by teams from the Overseas Development Institute (ODI) in the United Kingdom, in terms such as "just a new name for structural adjustment" or "[relying] on the same principles as structural adjustment" (ODI, 2001, chap. 1, p. 20; and chap. 6, p. 24).

8 At the IMF Executive Board Meeting of 8 March 2002 "Directors ... noted ... that ... in PRSP countries ... the role of Parliaments in the prepa-

ration, approval, and monitoring of country strategies has generally been limited" (IMF, 2002b). HIPC Ministers and PRSP coordinators also noted that the PRSP process "has often bypassed existing parliamentary structures" (UNCTAD, 2002, p. 173).

9 These considerations are reported to have been shared by the former United States Treasury Secretary, Larry Summers: "I am deeply troubled by the distance that the Bank has gone in democratic countries toward engagement with groups other than governments in designing projects ... [T]here is a real possibility ... of significantly weakening democratically elected governments". Cited in EURODAD (2001), p. 5.

10 Narayan et al. (2000). The eight African countries were Egypt, Ethiopia, Ghana, Malawi, Nigeria, Somalia, Uganda and Zambia.

11 For the original rationale of conditionality and its evolution, see Kapur and Webb (2000) and Buira (2002).

12 IMF (2002b), p. 4. For an earlier criticism along the same lines, see OXFAM International (2000).

13 This is routinely stated in the IMF/World Bank Guidelines for Joint Assessment of a Poverty Reduction Strategy Paper (pp. 4–5) and in IMF (2001b), as well as all I-PRSPs, PRSPs and their JSAs.

14 Although Uganda's PAF is formally considered to be integrated into the overall budget, it appears to have a separate management structure in which donors and NGOs play roles which do not conform to traditional budgetary patterns; see World Bank (2001), box 11.8; Cheru (2001), pp. 16–20; and Hearn (2001), p. 50, where "civil society" is reported to be involved in the management of PAF.

15 See I-PRSPs and PRSPs for Cape Verde, Central African Republic, Chad, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Madagascar, Mali, Mauritania, Mozambique, Rwanda and Sierra Leone.

16 Ames et al. (2001), p. 22. For some qualifications, see World Bank (2001), pp. 74–76.

17 For a discussion of the impact of financial liberalization on income distribution, see UNCTAD (1997), Part Two, chap. IV.

18 For an earlier analysis of African experience on financial liberalization, see UNCTAD (1998), Part Two, chap. V, sect. B.1(a).

19 For instance: "Free movement of capital ... and regulation made more flexible [to that end] ... to be envisaged" (I-PRSP (Madagascar), p. 30). For general commitments, see PRSPs, I-PRSPs and JSAs for Djibouti, Guinea, Kenya, Mozambique, Sierra Leone and Uganda.

20 See PRSPs and I-PRSPs for Cape Verde, p. 22, Ghana, p. 9, Guinea, p. 30, Kenya, p. 8, Mauritania, p. 20, Rwanda, p. 18 and Uganda, p. 18.
21 For discussion of the evidence, see UNCTAD (2000b), chap. IV; and UNCTAD (2001b).
22 This view is shared in almost all recent World Bank publications on the East Asian crisis. See also Diwan (2001).
23 See PRSPs and I-PRSPs for Cape Verde, Cameroon, Ghana, Guinea-Bissau, Mozambique, Senegal, Sierra Leone and Uganda. Some tariff reductions are due to the adaptation of common tariff rates of regional groups.
24 See PRSP (Mozambique), p. 76, and I-PRSP (Rwanda), p. 20. The Kenyan paper advocates reduced tariff rates for inputs into the manufacturing sector – a measure of discriminatory effective protection, which is usually anathema to free traders (I-PRSP (Kenya), pp. 7–8).
25 The most prominent of these studies is Papageorgiou et al. (1990); see also Matusz and Tarr (1999). For critical reviews, see Greenaway (1993); and Buffie (2001).
26 For discussions of these findings, see Amadeo (1997); Ravenna (1994); Rama (1994); and Buffie (2001).
27 UNCTAD (1997), Part Two, chap. IV, sect. B.1. For further evidence from Latin America, see ECLAC (1997), p. 60. Additional evidence is presented in Robbins (1996), Pissarides (1997) and Wood (1997).
28 World Bank (1994), p. 76. For earlier contributions along the same lines, see World Bank (1982) and World Bank (1986).
29 World Bank (2001), pp. 68–69. On the impact of these reforms on poverty in the United Republic of Tanzania, see Social Watch (2002), p. 162.
30 However, the Malawian I-PRSP (p. 19) also admits that "cushioning the effects of market liberalization on poor households" is becoming a policy priority.
31 It is, however, reported that despite heavy pressure from the Bretton Woods institutions, resistance from cotton farmers appears to have delayed the privatization of marketing of cotton in Mali (ODI, 2001, chap. 6, p. 6).
32 Op. cit., pp. 42 and 136. For similar concerns over high land prices in Nigeria, Malawi, Egypt and Ethiopia, see pp. 22, 42 and 136. See also Social Watch (2002), which emphasizes (p. 22) "landlessness among the poor as one of the most challenging challenges in Kenya".
33 Examples are: Ethiopia (I-PRSP), p. 20; Lesotho (I-PRSP), p. 28; Malawi (I-PRSP), p. 16; Mozambique (PRSP), pp. 42–48; Rwanda (I-PRSP), p. 32–33 and United Republic of Tanzania (PRSP), pp. 22–23.

34 See Narayan et al. (2000), pp. 22, 24, 59 and 209, in respect of Egypt, Ethiopia, Nigeria and other (unidentified) countries. In the words of Egyptian parents, “we deprive ourselves from food, we tear from our flesh so that we can find money to pay for children’s education” (ibid., p. 209).

35 On the responses of the poor on health policy issues, see Narayan et al. (2000): pp. 21, 87–89 and 93 for Malawi; pp. 22 and 24 for Nigeria; pp. 51, 82 and 90 for Egypt; p. 89 for Zambia; p. 91 for Ethiopia; and pp. 32, 87 and 221 for all over Africa.

36 Following the introduction of user-fees for health services in Zimbabwe, it is reported that demand for X-rays for TB screening, laboratory tests, hospital births in rural areas and in-patient registration in clinics declined by 40, 28, 33 and 64 per cent, respectively (Eprecht, 1997, pp. 343–344). The World Bank also recognizes this point: “User-fees have deterred primary school enrolment and health care centres; [but] fees ... generate revenue and increase allocative efficiency” (World Bank, 2000a, p. 122). It has also been reported that during 1990–1994, when a structural adjustment programme was being implemented in Rwanda, higher user-fees for health and education services aggravated poverty and contributed to rising social tensions (Storey, 2001, p. 375). Kenya’s I-PRSP also attributes recent deterioration in educational indicators to “the high cost of education worsened by the burden of cost-sharing” (p. 17). For recent accounts of the adverse consequences of the introduction of user-fees in medical care in SSA, see also Social Watch (2002), pp. 122 and 162.

37 The World Bank estimates that the share of population living on less than US$1 a day in SSA was 46.3 per cent in 1998. The share of population living below the national poverty line in five countries in table 2 for which data are available averages 46.9 (World Bank, 2001, tables 1.1 and 4).

38 See the PRSPs and I-PRSPs for: Benin, p. 8; Burkina Faso, p. 32; Cape Verde, pp. 23–24; Central African Republic, p. 18; Côte d’Ivoire, p. 52; Ghana, p. 8; Mauritania, pp. 41–43; Niger, pp. 92–93; Sierra Leone, p. 36; and Uganda, p. 15. Additionally, there is strong emphasis on civil society in the I-PRSP for Ghana, pp. 23–24, and on specific post-conflict measures in the I-PRSP for Rwanda, pp. 13–14. That for Mozambique departs from the standard framework in analysing the issue (pp. 70–75). Guinea-Bissau makes a commitment for the preparation of a “National Good Governance Plan”, whereas the I-PRSP for Cameroon

already has a "Priority Strategy and Action Plan for Improving Governance and Combating Corruption" (essentially on standard lines), reproduced as an annex to the main text (pp. 47–57).

39 For an elaboration of these and other related issues, see Chang (2002), chap. 3.

40 For recommendations along these lines, see World Bank (1994), pp. 45–48, 99–100 and 120–125.

41 See I-PRSPs for: Lesotho, p. 24; Djibouti, p. 10; Kenya, p. 29; and Sierra Leone, p. 36. The Kenyan paper, however, recommends higher "real incomes within an affordable wage bill ... [for] public servants ... [and] appointment and promotion ... according to merit".

42 See PRSPs/I-PRSPs for: Benin, p. 8; Burkina Faso, p. 32; Cameroon, pp. 51 and 55; Central African Republic, p. 10; Kenya, pp. 8–9; and Sierra Leone, p. 36.

43 See statements from the poor in Nigeria, Zambia, Egypt and Malawi in Narayan et al. (2000), pp. 26, 53, 90, 121, 180 and 226.

44 For an alternative approach to corruption, see Williams (1999), pp. 503–513.

45 Cited in Szeftel (1998), p. 237.

46 On assessments of African and other developing country experiences with corruption under neo-liberal policy regimes, see Boratav (1993); Harrison (1999); Harriss-White (1996), pp. 31–39; Kong (1996), pp. 48–55; Moore (1999); Moran (1999); Morris (1999); Robertson-Snape (1999); Szeftel (1998); and Wedeman (1997).

47 According to the *PRSP Sourcebook* of IMF "private sector development stands at the centre of any poverty reduction strategy" (Ames et al., 2001, p. 17). This is fully reflected in most African PRSPs: see Burkina Faso, p. 30; Cape Verde, p. 13; Cameroon, p. 19; Côte d'Ivoire, p. 49; Guinea-Bissau, p. 16; Ghana, p. 20; Madagascar, p. 25; Malawi, p. 20; and Mozambique, p. 81. Commitment to support the private sector, the 'business class', 'business organizations', 'business climate' is mentioned in the papers for Burkina Faso, Cape Verde, Côte d'Ivoire, Ghana, Guinea-Bissau, Kenya, Lesotho, Mali, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Uganda and United Republic of Tanzania.

48 The World Bank's field research on the Voices of the Poor observers that "in many parts of the world poor people speak about the negative impact of massive privatization" (Narayan et al., 2000, p. 15). Most African PRSPs incorporate commitments for privatization of public enterprises and banks, as well as state withdrawal from commercial and

productive activities, including, in some cases from telecommunications, ports, airports, water and energy (Benin, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Djibouti, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Niger, Rwanda, Sierra Leone and United Republic of Tanzania).

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