



**Economic Growth and Poverty
Reduction in Eastern and Southern
Africa**
A Discussion Paper

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Introduction

This paper discusses the contributions to this panel by Thomson Kalinda and Lineth N. Oyugi on the way in which economic growth has been handled respectively by selected HIPC and non-HIPC countries in the context of their poverty reduction strategies.¹ The purpose is partly to review the treatment of economic growth as a means of poverty reduction and partly to compare HIPC and non-HIPC countries in this regard. The papers by Kalinda and Oyugi emanate from a project on comparative poverty reduction strategies under the auspices of the Southern and Eastern Africa Policy Research Network (SEAPREN).² A book will be published in 2008 by *Mkuki na Nyota* publishers in Dar es Salaam with the findings of that project.

While Kalinda's paper deals with the poverty reduction strategies of HIPC countries, Oyugi's addresses those of non-HIPC countries. Although one might expect these two country categories to differ in their approach, it is also of interest to look at variation within each category.

Economic Growth and Poverty Reduction

It has become a truism that economic growth is a necessary precondition for poverty reduction to be feasible. Moreover, economic growth rates need to be sustained at a consistently high level over a long period of time for a significant dent to be made in the poverty problem. When charting their anti-poverty strategies, most countries have started with economic growth as an overriding goal and have largely succeeded in that endeavour. Annual growth rates in the 6–7 percent bracket have been common in most of the HIPC and non-HIPC countries reviewed. At one extreme Botswana has experienced four decades of high real per capita growth of more than seven per cent on average per year. Indeed, Botswana is often hailed as a resounding success, grounded in good governance, political stability and prudent macro-economic management to graduate into the middle income category. Kenya's economic growth performance has fluctuated widely. But since 2003 it has been on an upward growth path towards seven per cent. Similarly, Namibia's growth has been volatile, though exceeding the four per cent mark in good years.

¹ See Thomson Kalinda, 'Growth and Poverty Focus of the PRSPs in HIPC countries: the Cases of Tanzania, Uganda and Zambia', and Lineth Oyugi, 'Economic Growth and Poverty Reduction in Homegrown Poverty Reduction Strategies: The Case of Non-HIPC Countries', both papers submitted to this panel on Growth and Poverty Reduction Strategies in Eastern and Southern Africa: Comparative Perspectives on HIPC and Non-HIPC Countries.

² See the website www.seapren.org

As far as the HIPC countries are concerned, Tanzania's growth rate has ranged between four and five per cent in the past six years, but on an upward trend towards the seven per cent mark in 2007. Since 2000 Uganda's annual growth rates averaged just above 5.5 per cent, somewhat lower than those of the 1990s which were recorded at 6.5 per cent on average. In recent years Zambia's economic performance has improved, averaging 5.2 per cent between 2002 and 2005.

To achieve such fairly high economic growth rates these countries have all striven to get the macro-economic fundamentals right by reducing budget deficits, managing the exchange rate, controlling the money supply, and keeping the inflation rate at single-digit levels. This macro-economic framework is often referred to as the 'Washington consensus' because it was propounded by the Bretton Woods institutions.

While the HIPC countries were essentially bound by the 'Washington consensus' the non-HIPC countries were not. In theory, therefore, the latter were afforded scope for alternative frameworks, if not in the fundamentals then at least in the less central elements. As it were, however, the macro-economic framework as reflected in the 'Washington consensus' has proved conducive to economic growth when coupled with real sector investments. Furthermore, it appears that the macro-economic frameworks were basically the same in the two groups of countries, thus providing grounds for inferring that the views of the political and economic policy-making elites of the non-HIPC countries had converged with those of the HIPC countries.

Most proponents of economic growth as a priority seem to bank on the 'trickle-down' mechanism to reduce poverty, i.e. that the benefits of economic growth tend to spread throughout society more or less automatically through job creation and rising incomes. Others doubt the effectiveness of the 'trickle-down' mechanism and express concern about the distributional effects of economic growth unless deliberate state interventions are made to ensure a 'fairer' distribution. While not denying that some benefits do accrue to poor people from economic growth, they tend to be meagre and slow in trickling down. Arguments are advanced, therefore, in favour of so-called 'pro-poor growth'.

The discussion about making economic growth pro-poor acknowledges that long-term per capita economic growth is a *necessary* precondition for sustainable poverty reduction.

However, economic growth is not a *sufficient* precondition for poverty reduction. In fact, high rates of economic growth can have differential impacts on income and consumption poverty under different conditions, varying in time and space. Whereas aggregate economic growth over the long term may pull a number of poor people out of poverty through the ‘trickle-down’ effect, more and more attention is drawn to the pattern and distribution of economic growth among social groups, including the poor. It is increasingly acknowledged that the distributional effects of growth are critical to poverty reduction. That is why the adjective ‘pro-poor’ (or sometimes ‘broad-based’) is now almost invariably attached to the ‘growth’ noun in policy debates on poverty reduction. Growth can be defined as being pro-poor if poor households increase their income (or consumption) proportionally more than the non-poor, i.e. the households above the poverty line. Conversely, if growth is negative, the effect is pro-poor (perversely so) if the income or consumption decreases proportionally less for poor households than for the non-poor (Son and Kakwani 2006).

What factors determine the growth patterns – whether they are positive or negative, and whether they are pro-poor or anti-poor? From a pro-poor growth perspective, the key question is whether poor people are able to participate in economic growth processes, or otherwise benefit from them. This may be achieved through direct participation in productive activities, for example through increased real wages, new employment opportunities or increased returns from self-employment. The poor may also benefit indirectly from increased public spending on education, health care, water supplies, etc. or from private or public transfers made possible by increased revenues from growth. There is also a highly significant inverse statistical relationship between inflation and pro-poor growth. In other words, low inflation is associated with pro-poor growth because high inflation is effectively a tax on the poor.

Empirical findings suggest that inequality affects the pro-poor impact of growth. Rising inequality may cancel out poverty reduction gains stemming from growth in fast-growing countries. In other words, economic growth *per se*, although extremely important, does not explain variations in poverty reduction. Initial inequality and changes in inequality over a growth period are also important factors which may restrict the access by the poor to the growth benefits.

It is also relevant to point out as does Oyugi in her paper with reference to Perry et al. (2006) that the causal relationship between economic growth and poverty reduction is not uni-

directional. While growth is not only helping to bring about lower levels of poverty, the reverse may be the case. Poverty may also hamper sustained growth: a 10 per cent drop in poverty, other things being equal, can increase economic growth by one percent. Conversely, a 10 per cent increase in poverty will lower the economic growth rate by one per cent and reduce investment by up to eight per cent of GDP. These effects arise because the poor are in no position to engage in the profitable activities that stimulate investment and growth, and, therefore, a vicious circle is being created in which low economic growth results in high poverty and high poverty, in turn, results in low growth. The challenge is to create a pro-poor virtuous circle in which high economic growth rates lead to reduced poverty and lower poverty levels in turn reinforcing the economic growth process.

Although the specific policies pursued may differ and exogenous factors affecting growth may vary, there appear to be some robust strategic features. A successful sustainable growth strategy needs, as its foundation, macro-economic stability, well-defined property rights, trade openness, a good investment climate, an attractive incentive framework, well-functioning factor markets, and broad access to infrastructure and education. In addition, policies need to be designed to enable the poor to participate in and benefit from growth. Since labour is the most abundant asset of the poor, it is hardly surprising that the most successful experiences with poverty reduction have occurred where policy has supported the creation of attractive jobs that are accessible to poor households. Given the concentration of poor households in agriculture, making agricultural activities more productive is a key success factor. Improved access to markets and technology, strengthened property rights, and better methods of risk management each have a role to play. A complementary measure is to enable the rural poor to engage in productive off-farm activities and to take advantage of urban employment.

Overall, three pillars seem essential in facilitating private initiative and investment among the non-poor and poor alike: (i) good macro-economic and structural economic policies, (ii) political stability, and (iii) public investment in physical and human capital (Thorbecke and Mwabu 2006). More specifically, four key elements may be singled out for inclusion in a pro-poor growth strategy: (1) discontinuation of discriminatory policies against rural and agricultural development because most African populations still live in the countryside and derive an income from agriculture, notwithstanding rapid urbanisation; (2) investment in human capital, i.e. education, health, including nutrition, water supplies and sanitation, in order to contribute directly to human welfare and a productive workforce; (3) making markets

and public infrastructure accessible for the poor; (4) facilitating the creation of job opportunities for the unskilled poor and investing in enhancing the skills of the unemployed.

Analyses of economic growth processes have produced considerable knowledge about the interface between growth and poverty reduction. Recent theoretical strides based on empirical findings and insights have provided good analyses and *ex post* explanations of the growth–poverty reduction nexus, i.e. why different growth trajectories are more or less poverty reducing. The challenge, however, is to use those theoretical insights to design prescriptive *ex ante* policies that can facilitate economic growth *and* at the same time contribute to poverty reduction in a major way (Gore 2007).

This challenge is formidable because it is not confined to the sphere of analysts and policy-makers. Not only is the task complex in itself, but its challenging nature also arises because poverty reducing policies which entail empowerment of the poor may clash with entrenched power structures and forces whose material interests are threatened. Even if a disinterested poverty reduction policy package were available in a sound technical sense, its adoption and implementation would most likely be resisted by entrenched political and economic elites whose interest are at variance with those of the poor.

Sector emphases

Notwithstanding broad agreement that sustained high rates of economic growth are a prerequisite for making significant progress in poverty reduction, there has been less agreement on the relative emphasis put on economic growth as opposed to expenditure in the social sectors. The latter address the immediate concerns of poor people, whereas endeavours to reinvigorate the economy have a longer gestation period. On the other hand, it has been argued that while social sector spending will no doubt alleviate poverty in the short term, it is unlikely to be sustainable over time without a concomitant upturn in the economy to buttress public expenditure through increased revenue generation. In the absence of economic growth and increased revenue, any country would remain dependent on foreign aid for the implementation of anti-poverty programmes. Social sector spending also runs the risk of creating dependency on handouts and of diverting attention from measures to enable the poor to become self-reliant and fend for themselves.

It is warranted to ask whether the PRS documents of the HIPC and non-HIPC countries have in fact embraced pro-poor growth policies. Yes, they have to some extent but not enough and to varying degrees. Not all strategies are explicit in this regard but implicitly they contain a range of pro-poor growth elements. For example, the heavy emphasis on agricultural growth in all countries is a clear indication that the plight of smallholders is at the centre of attention, assuming that a large share of agricultural investment accrues to smallholders rather than to large-scale farmers. If concomitant investments are made in infrastructure to facilitate access to markets, e.g. rural access roads, agricultural growth is likely to receive an added boost. Most PRSs also talk about job generation, although it is rarely specified how it is to be achieved. Complementary investment in social sectors such as education, health and water supply also serves to buttress pro-poor growth processes, albeit in a longer-term perspective. That said, none of the PRS documents specifies in any detail policy packages that are designed to promote pro-poor growth. It is rather assumed that pro-poor effects will ensue if the various interventions are implemented.

Poverty reduction strategies are by nature comprehensive in scope and coverage, cutting across the full gamut of sectors and spanning many levels of intervention. It is helpful, therefore, to investigate whether certain sectors receive special emphasis and how these sectoral emphases are justified in terms of the expected poverty reduction impact. In the economic growth domain, rejuvenating agriculture presents itself as a sensible priority in all documents with a palpable pro-poor slant. The same applies to infrastructure, especially the type that facilitates agricultural growth, and to labour-intensive tourism that creates new jobs. Capital-intensive mining, on the other hand, will probably not generate pro-poor growth in the short run, even though it could generate revenue to be applied to social spending, as the case of Botswana illustrates. However, the pro-poor growth potential of the productive sectors is often juxtaposed with that of the social sectors. A PRS with a 'welfarist' orientation would be inclined to stress social sectors such as education, health, water supply and sanitation.

Certain sectoral priorities are discernible in all the PRS documents reviewed. Although economic growth has been underscored as a pre-requisite for poverty reduction in any poverty reduction strategy, it is evident that the social sectors have received much attention. The reason is probably twofold. First, expenditure in the social sectors (education, health, water supply and sanitation) is usually pro-poor and produces direct and immediate benefits for the poor segments of the population. Second, the political need to produce tangible results tends

to tempt politicians into social spending which is easily visible and popular among the voters, i.e. there is a populist aspect to such expenditures. Thus, by being held accountable to the voters the political establishment at the same time addresses the challenge of growth distribution.

The relative emphasis on growth and the real sectors of the economy versus the social sectors seems to tilt somewhat in favour of the former in Botswana, Kenya, and Zambia. In other words, it does not follow the distinction between HIPC and non-HIPC strategies. The poverty reduction strategy in Botswana has three pillars, one being stimulation of economic growth in an environment of macro-economic stability through economic diversification, job creation, income generation, economic empowerment and entrepreneurship. In Kenya, rapid economic growth has been given prominence as the principal means of alleviating poverty and creating employment. The Zambian PRSP emphasised economic growth but its operationalisation was based on a growth promotion analysis that paid scant attention to how policies and investment priorities would create a pro-poor distribution of growth. Livelihood strategies were absent in the PRSP. It was largely assumed that no additional intervention was needed beyond investment in farming, infrastructure and education. Lacking a pro-poor analysis, the informal economy was largely ignored as an important source of new jobs and income for the poor. As a result, the distributional effects of growth were less noticeable than expected. Above all, it did nothing to even out the differential levels of poverty between regions.

Notwithstanding the proclaimed priority of productive sectors, in implementing their poverty reduction strategies all countries – whether HIPC or non-HIPC – have made heavy investments in the social sectors and most indicators for reporting progress were developed for the social sectors that could generate immediate benefits for the poor. It may be argued that investment in the productive sectors (agriculture, infrastructure, etc.) is the means whereas the social sector interventions produce the tangible ends of poverty reduction efforts, even though the picture is not as unambiguous in reality. Although the emphasis on economic sectors differs slightly by country, agriculture features in both HIPC and non-HIPC countries as a priority sector in predominantly agrarian economies. After all, an overwhelming majority of the population derive their income from agricultural pursuits, even if the contribution of agriculture to overall GDP may compare unfavourably with other sectors. Concomitantly, infrastructure was an item high on the priority list, especially roads.

The emphasis on education, health, water supply and sanitation was notable in all countries reviewed, notwithstanding their HIPC or non-HIPC status. These basic social services are fundamental to the functioning of all households, whether rural or urban. Apart from the justification for allocating major resources to these social sectors, there are secondary effects that, in turn, feed into the productive system and serve to reinforce it in the longer term. Investment in education equips the population with skills and capabilities that can be put to productive use if the economy is able to absorb this labour into productive activities. Similarly, investment in health is not only an end in itself; it is also a means to creating a healthy labour force which, in turn, could provide an input into further growth. In the same vein, water and sanitation are critical in at least two ways. First, the drudgery and time spent on fetching water is reduced so as to free labour for other purposes. Second, clean drinking water and good sanitation contribute to reducing health hazards and preventing disease in order to keep the population healthy.

Are PRSs with pro-poor growth and ‘welfarist’ emphases, respectively, contradictory in nature? Not necessarily. Owing to political pressures the social sectors are often given some prominence. As long as public budgets are sustainable by collected revenues stemming from high growth rates and a broad revenue base, investment in the social sectors may in fact be reinforcing the growth processes and underpinning the legitimacy of the PRS in question. It may even be justified to use aid money to finance social sector spending in an interim period as a bridging operation. The problem that might arise and exacerbate the underlying tension between growth and ‘welfarist’ emphases to the point of creating contradiction is threefold. First, public revenues may be insufficient to sustain social sector spending over a long time. Second, social sector expenditure may unintentionally create dependency among the poorest on handouts and subsidies. Third, the magnitude of social expenditure may be too large compared to investment in directly productive activities and thus undermine long-term sustainable growth, whether pro-poor or not.

Continuing Neglect of Agriculture

There seems to be a discrepancy between policy declarations and actual implementation with respect to the place of agriculture in combating poverty. Both papers by Kalinda and Oyugi bemoan the fact that the agricultural sector has been neglected, despite its professed priority. This applies to HIPC and non-HIPC countries alike. As a result, agricultural sector growth has

been lagging behind most other sectors of the economy. In turn, this fact undermines the positive impact agricultural growth potentially could have had on poverty reduction.

The growth of Tanzania's agricultural sector has been lower than those of other sectors such as mining, manufacturing and trade. Rural poverty shows no sign of abating and has remained above 35 per cent from the early 1990s until 2000. If poverty levels are to be brought down appreciably the agricultural growth rates must be increased significantly. If this does not happen it is likely that the rural-urban poverty gap will widen. Similar to Tanzania's, the growth rate of Uganda's agricultural sector has been considerably lower than overall economic growth in the country. The pattern is roughly the same in Zambia. Whereas economic growth has accelerated in general, but unlike most sectors agricultural growth has been lagging with wide fluctuations and a low average growth rate of only 2.6 per cent.

Economic growth in Botswana is driven mainly by the mining sector. The economy has undergone a structural transformation from relying primarily on subsistence agriculture at independence in 1966 when agriculture accounted for 40 per cent of GDP, to a GDP structure in which the mining share soared from virtually nil to about 45 per cent in 2004/05. Botswana's agricultural sector is currently very small in GDP terms, but it nevertheless provides a livelihood for a considerable number of people. It can be argued, therefore, that investment in agricultural production makes sense from a poverty reduction perspective, even in this country. The mining sector provides the revenue base to do so.

The agricultural sector is also small in Namibia, accounting for 5–6 per cent of GDP, but still provides a livelihood for many poor people. Mining, manufacturing and services are much larger and provide the revenue base for supporting agriculture with a view to reducing poverty. Some investment has been made in non-traditional horticultural produce such as grapes and in the dairy industry.

Unlike Botswana and Namibia, the economy of Kenya is heavily dependent on rainfed agriculture which accounts for nearly one-quarter of GDP and provide a livelihood for two-thirds of the population. If a larger share of investment were made in the agricultural sector the potential for poverty reduction would be considerable. But agricultural growth has been lagging behind, and at best been fluctuating owing to the vagaries of weather.

The consistently lower agricultural growth rates across the board is partly due to adverse weather conditions beyond the control of the government, but also to policies that inadequately promote the agricultural sector, i.e. inadequate infrastructure and poor market access. Thus, there have been many missed opportunities for poverty reduction by neglecting agriculture. The *World Development Report 2008: Agriculture for Development* puts it aptly: ‘Cross-country estimates show that GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture’ (World Bank 2007:6). That insight suggests that policies favouring agricultural growth would be most conducive to poverty reduction. It is puzzling, therefore, that the agricultural sector continues to be neglected across countries with predominantly agrarian economies. The only plausible explanation lies in the political economy of these countries: vested interests prefer investment to go elsewhere.

The technological level of African smallholder agriculture is epitomised in the image of a woman bent under a scorching sun, weeding an arid field of sorghum with a hoe, and with a child strapped to her back. For small-scale agriculture to make strides towards poverty reduction and contribute more to total GDP technological advances are necessary to boost the productivity of both land and labour, i.e. more efficient implements, better seeds, environment-friendly fertilisers and pesticides, and irrigation where feasible.

Coupled with investment in infrastructure, principally rural access roads, access to markets could be vastly improved. Forward linkages to agro-processing industries could likewise be forged and help to provide a base for industrial development. Some countries have managed to break into international markets for agricultural produce through conscious marketing strategies for horticultural and floricultural exports and infrastructure to buttress them, beyond the traditional tropical beverages such as tea and coffee. But the potential is far from being fully exploited at domestic and international markets alike.

Social Assistance

Social safety nets to assist the extremely poor, the destitute and particularly vulnerable groups were adopted in non-HIPC countries such as Botswana and Namibia. In Namibia, labour-intensive public works were seen as the main safety net, complemented by the strengthening of the existing grant-based transfer programmes. In Botswana, a number of social safety nets

have been in operation, including social allowance and assistance programmes involving support in cash and kind, as well as the Destitutes Policy as revised in 2002.

Apart from social safety nets for the extremely poor, social security systems in a broader sense has rarely been considered a part of poverty reduction strategies. Though not delving into this larger endeavour, there is a case for raising for debate one element of social protection: cash transfers to the poor and the ultra-poor. Unconditional cash transfers have been attracting support in recent years in response to chronic poverty, food insecurity, HIV and AIDS (Save the Children UK, HelpAge International and Institute of Development Studies 2005). This form of social assistance is particularly pertinent in countries without the wherewithal to maintain comprehensive social security systems, and where the coping capacities of households and communities are severely constrained. Some cash transfer schemes have been piloted in the Eastern and Southern African sub-regions, often with support from international donors and NGOs.

Short of designing comprehensive social security systems, there is a case for introducing cash transfer schemes as an element in poverty reduction strategies to cater for the most vulnerable of the poor, funded from domestic public sources. Since cash transfer schemes are relatively new phenomena knowledge is still lacking about their effectiveness. Cost-benefit analyses and impact assessments need to be made, and the intra-household distribution effects require monitoring. The main argument advanced in favour of cash transfers as distinct from food aid or other in-kind transfers is the scope of choice they give the recipients. The cash received can be used for many purposes ranging from purchase of food, other consumables, clothing, seeds, education and health. The main argument against cash transfers is that they might create resentment and dependency. Another reservation concerns implementation which requires a fairly reliable administrative and management capacity and political commitment; these might be lacking. More research is needed about these aspects of cash transfer schemes.

Conclusion

The review and comparison of poverty reduction strategies in HIPC and non-HIPC countries has revealed that there are more commonalities than differences with regard to the role of economic growth in the context of poverty reduction strategies. Regardless of their status as HIPC or non-HIPC countries they have by and large embraced the so-called 'Washington consensus' as far as the macro-economic fundamentals are concerned. It seems that the non-

HIPC countries that elaborated strategies of their own volition have adopted perspectives very similar to those in the HIPC category. It can be argued, therefore, that a convergence is discernible between HIPC and non-HIPC countries in terms of their macro-economic frameworks as a basis for their respective PRS documents. It might even be justified to argue that an epistemic community has emerged internationally and in the Eastern and Southern African sub-regions with regard to the economic fundamentals that need to be put in place for poverty reduction to be feasible.

It also appears that this macro-economic framework has been conducive to economic growth and that the six countries assessed have achieved fairly high rates of general economic growth. However, these high growth rates have not ‘trickled down’ to the poor to the extent expected. The distribution of the benefits of economic growth continues to be a serious challenge. If the agricultural sector from which millions of poor derive their livelihood had been accorded the effective priority it is rhetorically given in policy documents, the agricultural growth rate would probably not have been trailing that of most other sectors. The persistent neglect of agriculture represents a case of missed opportunities and is arguably the main reason why poverty levels remain high.

Notwithstanding their emphasis on economic growth as a precondition for poverty reduction, all countries – whether HIPC or non-HIPC – have made massive investments in the social sectors. While this ‘welfarist’ inclination is partly driven by political considerations of a populist brand, it responds directly to the needs of the poor. Social spending also makes economic sense and will reinforce efforts to promote growth in the longer term because an educated and healthy workforce is a key factor to achieving further growth. Perhaps with the exception of Botswana, where a significant proportion of its small population has been receiving transfers from the state for a long time, the expenditures on the social sectors appear not to be uncomfortably burdensome as long as economic growth rates are maintained at a high level. However, there will always be tension between different expenditure priorities.

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