SARPN Southern African Regional Poverty Network

Poverty Eradication and Linking Micro Level Impacts to Macroeconomic Policies and Frameworks

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Poverty and its causes

One of the greatest challenges facing many least developed countries (LDCs) especially in the Sub-Saharan Africa (SSA) is the worsening scourge of poverty with its attendant effects of unemployment, malnutrition, illiteracy, homelessness, destitution, HIV/AIDS, etc. The causes of poverty in the SSA are many, complex and multi-dimensional in nature. They involve, among many others, gender inequality, economic, political and social exclusion, certain aspects of culture, inappropriate government policies, lack of access to affordable credit, lack of access to markets, poor terms of trade, external factors, etc.

Therefore any intervention measures designed to respond to the challenges above should be judged by their ability to positively make a significant dent on poverty at a micro level (lower levels of society such as the household or individual levels). There should be a clear linkage between macro level policies (e.g., public expenditures) and micro level impacts (e.g., a corresponding improvement in household status) in terms of reducing poverty or at least providing an environment for poverty reduction. Such a policy should be able to facilitate the delivery of basic needs to ordinary citizens and these include access to affordable food, health, education, shelter, water and sanitation, public information, among many others. No one should be alienated from these basic and fundamental human rights on account of one's poor economic status.

Fighting Poverty under Neo-Liberal Frameworks

In trying to deal with these challenges the international community has in recent years tried a number of policy options. For instance, in 1999 the World Bank and the International Monetary Fund (IMF) launched the concept of the poverty reduction strategy papers (PRSPs) clearly linked to the debt relief under the enhanced heavily indebted poor countries' (HIPC) initiative. The PRSP, which contains economic, social and structural policies for reducing poverty, is an elaborate policy framework linked to other broader frameworks such as the IMF's financing instrument--the poverty reduction and growth facility (PRGF). The PRSP is also linked to the World Bank's lending window called the poverty reduction support credit (PRSC). These two financing instruments largely provide the macroeconomic frameworks for tackling poverty in the poor countries. They contain clear fiscal, monetary, social and economic policies and targets which a country should adhere to.

The PRGF is particularly anchored on the promotion of sound macroeconomic policies. But the question is: what is the appropriate macroeconomic framework that can facilitate significant reduction of poverty? To the IMF this means budgetary austerity, low inflation targets, market deregulation, downsizing, commercialisation and privatisation of state-owned enterprises (SOEs). Simply put, these policies constitute the doctrine of neo-liberalism.

In the 1980s and 1990s, African countries as a direct challenge to some of the IMF and World Bank programmes developed alternative policies such as the Lagos Plan of Action for Economic Recovery of Africa (LPA 1980-2000), African Alternative Framework to Structural Adjustment Programmes and Social Transformations (AAF-SAPs, 1986), Africa's Priority Programmes for Economic Recovery (APPER, 1990-1991), among many others. Therefore, the problem in Africa is not the lack of home-grown policies but lack of resources and political will to sustainably implement the plans to the letter.

To the Fund and the Bank, a stable macroeconomic environment is commonly seen as being conducive to long-term growth and subsequently development. Thus macroeconomic policies have been heralded as the main ingredients to economic success and poverty reduction.

While a favourable and stable macroeconomic environment is essential for development, it is also true to say that macroeconomic policies (e.g., levels of taxation and government spending) have direct implications at the micro level in terms of what individuals and small businesses can save for investments. Similarly, activities at the micro and intermediate levels (e.g., small-scale farming and entrepreneurial activities) have implications at the macro level in terms of domestic trade that can be generated.

However, we find a conflict in the current frameworks e.g., governments may want to expand credit facilities or increase loanable funds to the small-scale enterprises (SMEs) and small-scale farmers but they may be constrained to do so by the rather contractionary fiscal and monetary policies at

Poverty

Government spending

Water privatisation

the macro level. This policy inconsistency has serious implications on poverty reduction as many times governments cannot match their public promises/pronouncements and the actual practice. The result is political rhetoric! There is also a trade-off between the genuine need to increase public spending and hence meet the demands of the people at the micro level and meeting the donor demands within the context of tight policy frameworks at the macro level.

Putting Square Pegs in Round Holes!

Therefore national efforts and strategies to eradicate poverty should be seen in the light of these challenges. As stated before, national governments in collusion with their international financiers craft a number of policies in order to pursue structural and macroeconomic reforms within the broad frameworks of economic, trade and financial liberalisation. These reforms, which in recent years have been extended to the labour, product and capital markets, can not be expected to provide an effective environment for poverty reduction because of their straight-jacket approach to issues. There is therefore urgent need to allow for policy flexibility that takes into account the unique features of different economies.

Some emerging economic and social evidence from a number of countries calls for a review of some of these policies. For example, the World Development Movement, in its 2004 Research Report, *Dirt aid, dirty water*, states that the United Kingdom Government is using taxpayers' money in a push to privatise water and sanitation in some of the world's poorest countries. Evidence from these countries indicates that such privatisation is failing the poor and is geared to serving the interests of multinational corporations.

These findings are also consistent with another report of 2001 by Moses Tekere, *Trade Liberalisation under Structural Economic Adjustment: Impact on Social Welfare in Zimbabwe*, where he noted that trade liberalisation in many countries was followed by misery, increased hardships, and deterioration of human development, destruction of poor people's livelihoods, environmental degradation, high rates of inequalities and marginalisation of poor countries and their communities. This *Policy Brief* is not saying that liberalisation is bad per se but the way it is carried out matters a lot.

Broken Bridges Need to be Mended

Clearly these experiences show that there is a disconnect between the intentions of macro policies at a higher level and their impacts on the communities at a micro level. The debate now is: should services (e.g. access to health and education) deemed vital to the well being of people especially the poor be market determined? This *Policy Brief* argues that the privatisation of public utilities such as water and electricity and commercial services especially in the energy and transport sectors, which hitherto have been in government hands should be done cautiously to avoid economic and social casualties.

Given these realities, national governments should pay attention to the links and synergies between macroeconomic policies and their micro impacts as they prepare their poverty reduction strategies. The views and concerns of the poor ought to be incorporated in the policy frameworks. If this is done and done now it will go a long way in enhancing the credibility of public policy in the amelioration or eradication of poverty both at the micro (household) and macro (national) levels.

Political Will: Essential Ingredient to Poverty Eradication

This *Policy Brief* wishes to echo the powerful words of Kofi Annan who noted in 2005: *"Five years into the Millennium, we have it in our power to pass to our children a brighter inheritance than that bequeathed to any previous generations. We can halve global poverty and halt the spread of major known diseases in the next 10 years. We can reduce the prevalence of violent conflict and terrorism. We can increase respect for human dignity in every land. And we can forge a set of updated international institutions to help humanity achieve these noble goals. If we act boldly and if we act together—we can make people everywhere more secure, more prosperous and better able to enjoy their fundamental human rights"*.

In order to come to such a desirable outcome there is need to cultivate political will at the highest level of decision-making processes. World leaders especially in the developed countries should move away from '*promises made*' to '*promises kept*' in terms of delivering global aid for fighting poverty. The current average aid levels at 0.25 percent (0.45 percent below the projected target of 0.7 percent) of the gross national income (GNI) are worrying to say the least.

On the part of aid recipient countries, they should aim at promoting good governance by eliminating all aspects of corruption and other forms of financial impropriety. Aid is only as good as the ability of a developing country to use it effectively within a given framework. Therefore the onus is on developing countries to design robust public policies and frameworks that are able to deliver on meeting the internationally agreed upon development goals – the millennium development goals (MDGs).

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