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Key Components of Pro-Poor Growth Strategies

Report

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I. Introduction

The number of people living in absolute poverty in Africa is projected to increase from 380 million in 1998 to 451 million in 2015. Reversing this trend will require accelerating the rate of economic growth. Many countries have recognized this and continue to pursue sound macroeconomic policies consistent with high rates of growth. However, there is increasing recognition that high rates of growth alone will not be sufficient for rapid quality growth that enables the poor to actively participate in and significantly benefit from economic activities. Pro-poor growth is predicated on policies that are deliberately biased in favor of the poor so that the poor benefit disproportionately. It also involves the removal of institutional and policy induced biases against the poor.

This expert meeting jointly organized by ESPD/ECA and the Economic Policy Research Centre (EPRC), brought together senior policymakers, researchers, experts, and academics to examine these issues. The meeting provided a forum for a deeper understanding of the scope and nature of policies conducive for pro-poor growth. The proceedings will appear as a monograph in ECA's Policy Research Series.

II. Proceedings of the meeting

Session 1: Uganda – Setting the Stage

Chair: Vincent Karega, Rwanda

Presentation by:
Patrick Asea, ECA

“Uganda: A tale of Two Economies”

John Okidi, EPRC

“Growth and Poverty in Uganda, 1999-2000: Panel Data Evidence” (by Klaus Deininger and John Okidi)

Discussant

Martin Brownbridge

This session set the stage for the meeting by reviewing Uganda's performance in poverty reduction and economic growth. Two background documents were presented. The first one entitled “Uganda: A Tale of Two Economies” (by

Patrick Asea, ECA), discussed the Ugandan economy's good economic performance, with solid growth rates averaging 6.5% over the past 10 years. According to the presenter, the solid growth has been accompanied by substantial poverty reduction – lifting more than 4 million people from poverty (22% of the population) in a decade. Nonetheless, one Ugandan in three still lives below the poverty line. More disturbing, the national poverty numbers mask vast regional disparities, with the central and western areas of the country growing more rapidly than the northern and eastern, and the high and increasing levels of poverty in the northern region of grave concern. The analysis went on to identify the major contributing elements economic, social as well as institutional that have impeded solid growth rates not being converted into poverty reduction.

The second paper on “Growth and Poverty Reduction in Uganda, 1999-2000.(by John Okidi, EPRC), explored factors underlying growth and poverty reduction in Africa, as well as the magnitude of future challenges. Policy variables such as prices for agricultural exports, access to public goods such as health care, electricity, and infrastructure, as well as initial endowments of physical and human capital were found important.

As a discussant of this session, Martin Brownbridge Ministry of Finance, Planning and Economic Development, Uganda, re-emphasized the main points raised in both papers. In particular, he pointed to the very comprehensive and objective analysis of the achievements of the Uganda economy provided in the paper on “*Uganda: A tale of Two Economies*”, which also identified where progress has been lacking. On the other side, the paper on “*Growth and Poverty in Uganda, 1999-2000: Panel Data Evidence*” provided valuable insights into the specific factors which determine income and expenditure growth, and the incidence of poverty, at the household level. The discussant went on focusing on the following main policy challenges facing Uganda in the medium term:

(i) Sustaining pro-poor growth

According to the discussant, Uganda has proved over the last 10 years that robust economic growth can be achieved in a manner, which is more or less distribution neutral and that this does reduce poverty, with the exception of the North, which, unfortunately faces problems of civil strife, which transcend issues of economic policy. The key economic policy challenge for Uganda, in his view, is maintain high real economic growth rates, and preferably to accelerate growth to at least 7% per annum, while at the same time preventing future growth becoming less pro-poor.

He went on stating that the analysis of both papers suggest that key requirements for sustaining pro-poor economic growth would be raising the rate of private investment, modernizing agriculture, enhancing human capital formation, especially through investments in basic health and education, and strengthening the

physical infrastructure in sectors which complement private investment. In his view, the first presenter (Patrick Asea) correctly asserted that further impetus to economic growth requires more difficult structural and governance reforms, to improve the efficiency of production and boost private investment.

(ii) Agricultural modernization

The discussant further agrees with the first presenter (Patrick Asea) that lifting the GDP growth rate would require agricultural modernization and that this would also reduce poverty, as the majority of the poor earn their living through agriculture. The second presenter (Okidi) also pointed to the importance of agricultural output prices as determinants of income and poverty. This, in the discussant's view, is a crucial point, because raising agricultural output will not boost farm incomes unless the market for agricultural produce is also expanded: indeed the opposite may occur because basic food is price inelastic.

The discussant further stressed the need to open up international export markets for African agricultural products and to cut the huge subsidies paid to farmers in the industrialized countries, which give them an unfair advantage over farmers in poor countries. This, in his view, should be a priority for the international community. Opening up the regional market for agricultural trade could also help to boost income-earning opportunities for farmers in Uganda. Expanding the regional trade in farm products could also help to stabilize farmers' incomes, and help to shield the latter from sharp price falls when local harvests are good, as was the case last year in Uganda. According to the discussant, regional free trade in agricultural products should be one of the most important benefits of regional economic integration for Uganda.

(iii) Utility reform

The discussant quoted the first presenter (Patrick Asea) as pointing out that improved utilities, in terms of higher quality of, and better access to, utility services such as electric power and transport were essential for reducing the cost to the private sector of doing business. However, in the discussant's view, improving utilities should not just be a question of more investment, it should equally be important to improve the management of utilities, by involving private sector management. The transformation of the telecommunications industry, after it was opened up to private investment and the state owned Telephone Company was privatized, showed what could be achieved by the private sector. He referred to Uganda's recent lease of the electricity generating company to private investors and to its intention to do the same with the electricity distribution company. In his view, the Ugandan Government also needs to attract private sector investment into the railways on a regional basis, which is vital for the transport of exports and imports.

(iv) Fiscal policy and private investment

Quoting further the first presenter (Patrick Asea) as pointing out that Uganda's fiscal deficit has widened sharply since the late 1990s because of rapidly rising Government spending funded mainly by more donor aid, the discussant pointed to the need for Government's policy to scale back the fiscal deficit over the medium term, because its size presents problems for macroeconomic management. He went on stating that in the current fiscal year, the fiscal deficit before grants has been projected to fall back by just under two percentage points of GDP, to just over 11% of GDP. In his view, the question of how large a fiscal deficit is optimal, even when that deficit is mainly funded by donor aid, is one which has relevance beyond Uganda because many donors are promising to increase aid to low income countries with good economic policies, in order to finance an expansion of government spending on social services, to meet the Millennium Development Goals, which implies that fiscal deficits in aid recipient countries could rise. Therefore it would be worth reflecting briefly on Uganda's experience of widening fiscal deficits.

The discussant further argued that even if it is entirely funded by donor aid, a large fiscal deficit involves costs for the economy. Because most government spending comprises spending on non-traded goods and services, an expansion of government spending will appreciate the real exchange rate, which in turn can erode price incentives for exporters. In his view, the clearest manifestation of this in Uganda is the very sharp rise in the unit costs of public construction, which have risen much faster than other components of expenditure in the economy. This has also dragged up construction costs for the private sector, thereby increasing the cost of private investment.

The discussant continued stressing the fact that fiscal deficit also has monetary consequences, because government expenditures are predominantly incurred in domestic currency, whereas the deficit is financed in the currencies of the donor countries. Therefore, if it is to maintain control over the money supply, the Central Bank faces the problem of sterilizing the money created by the fiscal deficit, which may be difficult in economies with very shallow financial markets. Emphasis had been made on the Ugandan case, with the large volume of Government securities, sold by the Central Bank to sterilize the fiscal deficit, meaning that Government competes with the private sector for the scarce resources in the financial system. Private sector credit growth stagnated between 1999/2000 and 2001/02 as Government securities displaced private sector credit in the asset portfolios of commercial banks. Conversely, in the current fiscal year, the reduction of the fiscal deficit has allowed private sector credit to rebound.

According to the discussant, the message from Uganda's experience is that too large a fiscal deficit, even if it is funded by donor aid, risks crowding out the

private sector from both real and financial markets, as well as eroding incentives for exporters, and hence could undermine the goal of private sector led economic growth.

The discussant went on deploring the fact that Government budget is also facing the danger of becoming overextended in terms of taking on too many new activities and spreading its scarce resources too thinly. It clearly appeared that there is too much public construction, resulting in a steep rise in the costs of public construction. New projects threaten to divert resources away from more critical recurrent expenditures in core areas of the budget, such as maintenance expenditures. In the discussant's view, donors are partly responsible for this, because they want to see their funds used on new projects, rather than ensuring that existing programmes and projects are adequately funded.

The discussant went on re-stating the first presenter's point that Uganda's external debt sustainability indicators had been deteriorated since the country was granted enhanced HIPC debt relief. This, in his view, could be partly attributable to the fall in export prices, and therefore export earnings, which has been the denominator in the debt sustainability ratio, but it could also be attributable to Uganda continuing to contract too much new debt, even though that debt is on highly concessional terms. According to the discussant, there is no wide recognition that the debt sustainability threshold used in the Enhanced HIPC Initiative, which is that the NPV of external debt should not exceed 150% of exports, imposes tight constraints on the volume of new borrowing which can be contracted, especially if the level of exports to GDP is low, as is the case in Uganda. Basically, given feasible growth rates for Uganda's exports, the maximum level of new concessional debt, which Uganda should contract each year, to avoid its debt/export ratio from worsening, is about \$300 million. This fiscal year, Uganda has contracted closer to \$500 million. The Ugandan Government therefore need to be much more selective in contracting new loans if it is to avoid a return to an unsustainable debt burden in the future.

(v) The problems of security and development in the North

There was recognition that both presenters highlighted the fact the North of Uganda has not shared in the economic progress made by the rest of the country, with poverty rates having fallen very little in that region. In the discussant's view, the short-term priority in Northern Uganda should be to restore peace and security, without which any effective long-term development efforts would not be possible.

Long term development and poverty reduction in the North will require concerted efforts both to promote economic recovery in the region and improve public services. It was clearly stated that when peace and security would be

restored, the prospects for agricultural growth in much of the region would be promising, and the region should be able to support a range of economically viable cash crops. Northern Uganda would also require better primary health care services and improvements in female education, not least to reduce very high fertility rates, which have been the highest in the country.

In the discussion that followed, participants wondered why when the Gini coefficient has been stable, there has been increase in spatial inequalities? What would have been the results if growth was not there, and if the analysis was undertaken at the district level? A major point raised by the meeting was that results would have been worse if growth weren't there and if the analysis was undertaken at the district level. The meeting also wondered how to address the spatial device so that marginalized regions such as the North get more money? The need to use poverty sensitive distribution of resources was strongly supported. Specific issues raised during the discussion related to what type of poverty sensitive distribution of resources could be applied? What mechanisms of resource allocation? Whether poverty head count or poverty index is used for allocation? What definition of the poor was adopted: one dollar per day or national definition concepts?

Some participants emphasized the need for capacity to absorb additional spending. It was further argued that growth in Uganda has been due to spending into social sectors. The money first goes to improving welfare. The issue was if the government should start re-directing it to the real sector? It was however pointed out that scaling up fiscal transfers would not lead to scaling up disparities. There might be need to adjust to account for higher inequalities. The poverty reduction action plan could help in moving towards that direction.

Participants further argued what lessons to learn about policy for pro-poor growth, and how to make sure that poverty benefit the poor. What can be pro-poor growth in Africa and what can be the side effects? How to tackle them? A strategy, according to some, would consist in modernizing agriculture. More resources are needed in that regard. The meeting further wondered how to boost asset-based households to pre-liberalization levels? And what assets should be targeted; land, technology?

Some participants have encouraged the use of micro levels data as one innovation to explain growth and income distribution issues. Looking at regional distribution, one can find that some regions are more pro-poor than others. Simulations need to qualify because there are secondary effects, and the chain of effects may not affect poor.

Participants also pointed to the need to provide details of desegregation by gender, which should be taken care of in the current revision of the PEAP.

Session 2: Measuring pro-poor growth

Chair: Dr John Okidi, Executive Director, EPRC

Presentation by

Prof. Alemayehu Geda, University of London

“Growth, Poverty and Inequality in Ethiopia: Which way for Pro-poor Growth” (by Alemayehu Geda, Abebe Shimeles, and John Weeks)
and
Abebe Shimeles, ECA

“Poverty Equivalent Growth Rate: With Applications to Korean and Thailand” (A paper by Prof. Nanak Kakwani, Shahidur Khandker and Hyun H. Son., World Bank, Washington D.C.)

Measuring the extent of pro-poor growth across countries is critical for determining appropriate policies and evaluating their impact of economic development. In this session, two background papers have been presented. The first one on “Growth, Poverty and Inequality in Ethiopia: Which Way for Pro-poor Growth” (by Alemayehu Geda, Abebe Shimeles, and John Weeks), examined the pattern of poverty, growth and inequality in Ethiopia. The analysis showed that growth, to a large extent depends on structural factors such as initial conditions, vagaries of nature, external shocks and peace and stability both in Ethiopia and in the African region. The second paper on “Poverty Equivalent Growth Rate: With Applications to Korean and Thailand” (by Prof. Nanak Kakwani et al.) introduced a new measure of how well countries are doing in delivering pro-poor growth –the Poverty Equivalent Growth Rate (PEGR)(with applications to the growth experience of Korea and Thailand). It is shown that the proportional reduction in poverty is a monotonically increasing function of the PEGR. It is argued therefore, that to achieve a rapid reduction in poverty, the PEGR should be maximized rather than the growth rate itself.

During the following discussion, the participants re-stated the fact that growth is a necessary condition but it is not sufficient, because it is very precarious in most African countries. Participants argued as to whether safety nets could be considered. Could it be better if growth itself could give the safety nets instead of preparing safety nets for poor people? Institutions might be important, as well as addressing structural factors impeding African countries’ economic development. Participants further debated the need to link growth and inequality, with implications for pro-poor growth strategies in African countries. Therefore, the need for a detailed research on income distribution had been strongly supported. For Ethiopia in particular, the optimal path would be to link distribution and growth

policy, bearing in mind the importance of enhancing labor productivity and avoiding civil conflicts for sustainable growth.

Participants went on further arguing on the significance of pro-poor growth, and to what extent growth could be considered pro-poor. Some wondered if the issue was about bringing the chronically poor into the scheme or just the middle class. For others, pro-poor growth is a debatable concept: in Korea for instance, 6 out of 9 growth episodes were pro-poor. The same patterns had been observed in Thailand. Africa has a different story because of initial inequality and low growth rates. In addition to this, distinction need to be made for Africa, because of the volatility of growth and its vulnerability, which need to be related to inequality. The need for separating growth volatility and inequality was also raised. These two research agenda should however be tied together. The issue of distribution as it relates to growth has also been debated. The participants strongly supported the idea to go for distribution growth because it is much more powerful than distribution neutral. The main issue was whether this could be achieved, and if there were any evidence from anywhere in the world where this had been achieved. Should the channel of distribution be through redistribution of assets or through reliance on fiscal and monetary policies? Whatever distributional channel chosen by policy makers, the most important issue is to design policies that are biased towards the poor, but also to focus where the poor is. Government institutions had been found as the best institutions for redistribution. Other participants supported the idea for personal initiatives of the poor to exit marginalization and benefit from growth.

There was also a lengthy debate between the trickle down effects as opposed to the pro-poor growth effects of the Poverty Equivalent Growth Rate (PEGR). Some participants found the simulations and the concepts of non pro-poor- and pro-poor without policy change a bit confusing, since the PEGR distribution is not bias in favour of the poor, but seems to have a trickle down effect. According to others, the PEDG changes the distribution at the margin and as such, it is pro-poor. The PEGR focuses on intervening factors rather than policy regime change; and its policy messages are not clear yet.

Session 3: What works in Reducing Gender Inequality?

Chair: Getachew Adem, Head Economic Policy and Planning Department, Addis Ababa

Presentation by

Alfred Latigo, ECA, “*A Gender Aware Microeconomic Model*”
and

Mr. Sudarshan Canagarajah, World Bank “*Gender and Growth in Africa: A Review of Evidence and Issues*”

Discussant:

Barbara Barungi, Regional Poverty Expert, UNDP, South Africa

Poverty deepens gender disparities and hinders sustainable development. Dealing with inequalities between girls and boys in access to schooling or adequate health care and inequalities of women in access to productive resources such as land and credit is critical for a country’s ability to grow sustainably, to govern effectively and to reduce poverty. In this session, two background papers were introduced. The first one entitled “A Gender Aware Microeconomic Model” (by Alfred Latigo, ECA), focused on women’s non-market work (NMW) as a key area of policy intervention to improve the situation of women in the non-market economy. The paper reviewed the types of policies and strategies required to promote gender equality and foster more effective development including development of country-specific gender aware macroeconomic models. The second paper on “Gender and Growth in Africa: A Review of Evidence and Issues” (by Sudarshan Canagarajah, World Bank) addressed the relationship between gender inequality and economic growth in Africa, as a contribution to promoting pro-poor growth.

Barbara Barungi, Regional Poverty Expert, UNDP, South Africa, was discussant of this session. She initiated the discussion by investigating the intermediate steps for countries to take into account women’s non-market work. She went on arguing about the way women’s non-market work could be accounted for in national accounts for example. Even though she supported the use of time allocation studies, she was skeptical about efficiency of such studies in terms of time and resources. An alternative would be to use labor statistics. She further wondered how budget could be engendered. For instance; to what extent the MTEF could be used to assess gender budgeting and planning? This, in her view, might be a quite heavy exercise. She strongly supported the idea of going sectoral instead of building new models.

The discussant referred to the Zambian experience in time allocation studies, as having informed the country’s pro-poor growth strategies. She wondered how often do countries need to do this exercise, and what would be the impediments, and the incidence on public spending. In the discussant’s view, the ECA might need to build on this towards having a gender aware macro-economic model. The Commission should also build strategic partnership with UNDP (PSIA) as well as internal divisional partnership. She also wondered whether RAM/SAM X Models were being used by the Commission. Should the alternative be spreadsheet-based tools or a mixture of policies?

Another issue was how to engender fiscal policy and what would be the impact on public expenditure policies. The discussant further wondered how VAT could be engendered and what would be the implication in terms of monitoring and evaluation. In her view, most countries have set-up monitoring and evaluation schemes, but many of them have capacity problems. Therefore, how to get more holistic monitoring and evaluation schemes?

In the discussions that followed, participants debated on women's contribution to the economy as reflected by the Gender Intensity production. According to some, women's contribution should have a subset of what should be female-headed households. There were queries as how come that women, who are dominating the service sector, were being reported as contributing only little. It was argued that, instead of having separate production function for men and women, what about joint production function of male and female.

Participants went on arguing that, from an economic point of view, the gender-aware macroeconomic model is not convincing. A better approach would consist in having a simple growth model, and improving on the Solow residual. Another possibility would be to critically assess the role of each model and their relevance to gender. Some believed that creating a gender macro-model is rather ambitious. In the first place, many policymakers do not understand gender. Therefore, the starting point would consist in raising awareness of policy makers. The next step would be to identify the real problems, existing inequalities, and the implications at cultural, social, and economic levels. Policy will then follow, in all sectors, supported by political will. It was further argued that African countries were still trying to integrate all pieces to attain sustainable development; bringing new issues such as gender may create some fatigue.

Many participants questioned women's non-market work not being accounted for. For some, the assumption that national account does not take into account non-market output is questionable. Indeed, the system of national account includes non-paid activities. For instance, agricultural production is valued, even subsistent production. The main problem remained that of data limitations. It was further argued that criteria of what should be included in national accounts exist, using production boundary. According to that criteria non-market work falls in the production boundary (care work, community work, collection of water, and collection of fuels). All countries should value these activities to include them in the national accounts. Given the magnitude of contribution of women to GDP, failing to include their non paid work in national accounts would result in the potential contribution of women not being completely captured through investment, education, health, etc.

There was however recognition of the fact that women form the bulk of labor force in productive sector agriculture; and most of that work is not completely captured because of data limitations. It would therefore be useful to deeply

investigate their share in output market (including non-market). This should be born in mind in current revision of PRSPs in various countries. Participants also encouraged a more proactive dialogue between Ministries of Finance and Gender for a better integration of gender and development issues. A good case is that of Uganda, where in the process of PRSP revision, the Ministry of Finance has been leading in engendering PRSP.

Some participants argued that gender issues should be better addressed by looking into power relations within the households, which is outside the preview of Governments. It would also be important to explore the implication to savings. This could be one dynamic by which growth will generate. It would also be interesting to show how intra-households patterns change. Another issue was that of empowering household to increase savings. These, was it argued, are missed opportunities that need to be seized.

Reacting to participants' queries and concerns, the first presenter (A. Latigo, ECA) indicated that, because planning instrument should be engendered, tools must be developed. So, in his view, a guide would be one practical step towards that. He went on arguing that gender aware macroeconomic models were for the purpose of impact policies. He also indicated that there was need to go for time use studies. With regard to engendering national budgets, the presenter indicated that ECA is not going into that through MTEF because it does not have the required capacity. He further recognized that CGE models have been widely used. The main issue in his view is not to re-invent the wheel, but integrate gender issues in these models, to see the impact in reducing poverty.

The second presenter (Sudarshan Canagarajah, The World Bank) also reacted to participants' queries, indicating that issues of the link between gender and growth as presented in his paper were just very preliminary ideas. He recognized that more efforts were needed, as has been articulated in the paper. In his view, by using cross-sectional regression, and introducing gender indicators into a growth equation, one could see the impact in terms of investment, population growth rate, and overall growth rate? For instance, addressing gender inequality on education could lead to better growth, as women would get the opportunity to raise their productivity. The presenter referred to the Asian experience of women being more human capital and cheap labor, and being used to advance growth process. In his view, both in East and South East Asia, growth was generated by the demographic shift. Had African women had more time to do other productive activities, than they could be in a better situation to generate more growth. In particular, any increase in the participation and income of female-headed-households, result in those households getting more chance to come out of poverty. In a sense, women are larger contributors to agriculture. Therefore, how much women contribute in the market place would depend on their agricultural activities. So, if agricultural productivity increases, there is great potential to increase agricultural growth rate, overall growth rate and reduce poverty. In the presenter's view, women should concentrate in areas where they

could have greater returns to investment. However, most of women's income is non monetary; therefore, there is need to do more growth accounting. But this is not the best way in his view. A major issue is that of women's access to school, but more important is keeping them in school. Therefore, improving primary access is not enough.

He further argued that joint women/men production activities might be possible but in many contexts, women's activities do not interest men. And it happens that women's exclusive activities might create greater opportunities for growth. He however recognized the need to address critical issues such as change in control over assets from men to women, before raising more money for women. This is of major importance in the African context where assets (including money) are mostly under men's control.

Session 4: Strengthening human capabilities for poverty reduction – Health and education

Chair: Martin Brownbridge, Ministry of Finance,
Planning and Economic Development,
Kampala, Uganda

Presentation by

Aissatou Gueye and Adrian Gauci, ECA
Pro-poor Educational Policies and the Demand for Labor

and

Maite Lopez Iruzun, ECA "*Financing Pro-poor Health Policies*", ECA

Discussant:

Terry McKinley, UNDP Regional Coordinator, New York

This session focused on methods to finance health interventions and improve the quality of educational demand as key components of any pro-poor growth strategy. Aissatou Gueye and Adrian Gauci introduced the first paper on "Pro-poor Educational Policies and Labour Demand". The paper discussed how education policies influence the growth process as well as poverty reduction in various countries. However, in the African context, there is a mismatch between educational policy programs and required labor skills, putting in question the ability of such programs to adequately influence growth and poverty reduction.

The second paper on “Financing Pro-poor Health Policies” was introduced by Maite Lopez Iruzun, ECA. The paper discussed various health financing and fund raising mechanisms for the poor.

Terry McKinley, UNDP Regional Coordinator, New York, was discussant of this session. He started the discussion on pro-poor educational policies by explaining how growth could translate into poverty through employment (referring to current work by UNDP and ILO), preferably employment intensive growth. He however argued that more labor or employment intensive does not mean that poor people might benefit. This raises the issue of limit of employability of poor people. In his view, the paper could expand on this issue, while at the same time investigating the character of growth that would lead to broader employment.

He further emphasized that rates of returns in low-income countries were high at the primary level and tertiary, but the problem was at the secondary levels. For African agricultural-based economies, characterized by narrow sources of growth, it does make sense that any strategy for pro-poor growth in education targets access to primary education for All. However, there is need to go further to look at the issue once we move beyond primary level. What could be required in terms of skills? This should also be investigated in the demand side of the paper on education.

In his view, looking at the rates of return at the secondary level might be very important, because this is the level where Africa might have been left behind.

The discussant went on further indicating that the paper went too far in saying that investment at primary crowds out investment at secondary and tertiary education. This, in his view could rather be problem of sequencing. He also questioned the claim by the paper that most primary school student going to secondary because they do not find job.

Industrial policy need to be developed more.

With regard to pro-poor health financing, the discussant found the basic framework of the paper sound. He however indicated that more focus was need on issues relating to proportional allocation, taking into account the health needs of the population, and large demand side problem, which remained the issue central to the health system in many African countries. In his view, among the various financing mechanisms, the public tax base should be given more attention because it is more pro-poor. He indicated that the whole question of incredibility in donor support was progressive, major concern has been that of consistency.

In the discussion that followed, participants were of the view that the analysis should go further to provide categorization of countries based on their level of development, when addressing pro-poor educational policies. The meeting also emphasized the need for the study to explore the argumentation that post pri-

mary education might have higher rates of returns, based on recent micro-level data and studies (Botswana, Zambia and Kenya).

Various views were also expressed on the need for health financing schemes to be proportional to the health needs of the population. Issues such as government accountability, public health systems deficiency, remoteness of location of public health facilities to poor populations, cost effectiveness as it relates to health care systems, remoteness, and labor mobility, were also raised. Participants also emphasized the need for the study to go further in analyzing pro-poor health strategies, supported by data, because this would be the only way to see its pro-poor impact.

Session 5: The macroeconomics of poverty reduction

Chair: Rosetti Nabbumba, Policy Analyst, Ministry of Finance, Planning and Economic Development, Uganda

Presentation by:

Terry McKinley, UNDP, Regional Coordinator, New York, *The Macroeconomics of Poverty Reduction, Initial Findings of the UNDP Asia-Pacific Regional Programme – How Relevant to Africa?*

and

Abebe Shimeles, ECA *The Prospects for Pro-poor Growth in Africa*

Discussant: Martin Brownbridge, Ministry of Finance, Planning and Economic Development, Uganda

This session examined the macroeconomics of poverty reduction. Two background papers were put for discussion. The first one on “The Macroeconomics of Poverty Reduction, by Terry McKinley, Regional Coordinator, New York, presents the initial findings of the UNDP Asia-Pacific Regional Programme, and explores its relevance to Africa. The paper examined both the poverty impact of standard economic policies (fiscal, monetary and exchange rate) as well as adjustment policies in Asia, and lessons to be learned for Africa. The second paper

on “The Prospects for Pro-poor Growth in Africa” presents empirical evidence informing practical policy options for faster growth and poverty reduction.

As a discussant of this session, Martin Brownbridge Ministry of Finance, Planning and Economic Development, Uganda, agreed that, in designing strategies for pro-poor growth, one should aim for a pattern of economic growth that directs resources disproportionately to the sectors where the poor work and a pattern of growth which makes use of the assets of the poor, such as unskilled labour. In many countries such a strategy will entail a strong focus on agricultural and rural development. He however indicated to be less convinced that it is necessary to incorporate a strategy for employment generation, because most of the poor in Africa are self employed – they are small farmers. In his view, helping them to raise their incomes through, for example, support to small farmers, is more important than an employment strategy, which given the structure of Africa’s economies will not help a substantial share of the poor. He went on discussing the following points as raised by the first presenter:

(i) Fiscal and monetary policy

The discussant disagreed that a more expansionary fiscal policy, incorporating higher public investment and wider fiscal deficits, would be an optimal policy in most countries (although he didn’t rule out higher public spending funded from stronger domestic revenue mobilization). He stressed the difficulty for the public sector in most African countries to raise its command over real resources through higher domestic borrowing without at the same time squeezing the resources available to the private sector. In general private sector investment will have higher returns than public investment, so squeezing the private sector to fund higher public investment will lower the economy’s growth rate.

The argument made in the paper, for both more expansionary fiscal policies and looser monetary policies is that boosting aggregate demand will generate increases in real resources because there is unutilized capacity in the economy. In the discussant view, if there is unutilized capacity in the economy, and this must be questionable – Sudarshan Canagarajah made the point during his presentation that Labour is a constraint, not an abundant resource - this is not because of insufficient aggregate demand. In most African countries nominal aggregate demand has been rising quite strongly for many years – in Uganda nominal spending has risen by 62% in the last five years – so it is unlikely that resources remain unutilized simply because demand is too low. He further argued that if lack of aggregate demand is a cause of unutilized capacity in an economy, this can only be a temporary phenomenon, caused by prices failing to fall sufficiently to clear the market – it is not something, which can persist for year after year. Therefore, if aggregate demand were to expand quickly, because fiscal and mone-

tary policies were too loose, the impact would simply be higher inflation, without any increase in real output.

He further stated that there is certainly a case for examining the composition of public spending and shifting budgetary allocations towards expenditures which best support pro-poor growth, but this is not an argument for expanding public spending.

The discussant went on disagreeing that African countries should adopt higher targets for their inflation rates. In his view, there is no evidence that most of these countries are suffering from deflation caused by lack of demand. Although there have been periods when prices have fallen, this has usually been caused by the volatility of food crop prices, as was the case last year in Uganda, and price falls are reversed as soon as harvests revert to normal. Targeting a higher rate of inflation would not generate more real resources for investment in the economy. Although it would be possible to increase nominal public or private sector borrowing, borrowing in real terms would not increase because prices would also be higher. In addition, the higher that inflation becomes the greater is its variance and the more difficult it becomes to hold it within the policy makers' target.

He however agreed with the paper that strengthening domestic revenue mobilization, where this is low, should be a priority. This is the case in Uganda, but it is very difficult in countries with narrow tax bases and inefficient tax administration. In his view, the conventional assumption that taxes should not be raised on income and wealth, provided that rates are not set too high as to give strong incentives for evasion or distort incentives is questionable. Uganda's 30% top tax rate on income is reasonable and in line with prevailing international tax rates.

(ii) Making financial reforms more pro-poor

The discussant further agreed that financial liberalization has done little to improve the access of the poor to credit: a commercially oriented financial system will tend to channel finance to those who already have assets, and not to the poor. However he disagreed that this calls for public intervention. In his view, public intervention to try and direct finance towards favored sectors, such as small farmers, has a very poor record in Africa. It has almost certainly done the poor far more harm than good, because it is ordinary taxpayers who have had to bear the huge cost of the wasted public resources, which could have been put to far better use providing basic public services.

Moreover, once Governments start to direct credit to favored borrowers, it will not be the poor who benefit. Instead it will be private businessmen who are the least successful commercially but the best connected politically who get the credit. Government will not be picking winners, it will be bailing out failures who stand to have their businesses put into receivership because they have defaulted

on commercial loans, or who cannot get loans because they are not creditworthy. The financial system is certainly characterized by market failure, but the key policy question is whether or not government failure is actually much worse. In the discussant's view, Government's role in financial sector should be confined to prudential regulation and leave the allocation of finance to the commercial decisions of private sector financial institutions. This may not provide much direct benefit to the poor, in terms of increased credit, but at least it will avoid wasting public funds.

(iii) Trade liberalization

The discussant went further arguing that trade liberalization should be a pro-poor policy in an economy in which the comparative advantage lies in agriculture and where the majority of the poor earn their living from agriculture. He belied protectionist trade policies to be particularly damaging to African economies because they are so small. In his view, the argument that trade liberalization should be dependent upon supply side policies in the developing countries or the opening up of markets in industrialized countries is questionable. There is a case for policies to boost the supply response of exporters and certainly for opening up markets in industrialized countries, but even in their absence, trade liberalization will still yield welfare benefits. Protecting local industries is highly regressive in Africa. The employment generated by these industries is negligible but protection usually raises the cost of basic consumption goods such as clothing and sugar.

During the following discussions, participants argued that pro-poor growth in East Asian countries was an autonomous process of accumulation. Although agriculture is important, this process laid in industrialization policy, which have generated income. Is it possible to get some concrete lessons from these East Asian countries?

Participants further investigated the level of inflation rate required for pro-poor growth, recognizing the limited capacity for analyzing such link in many African countries. And ECA was called upon to come up with alternatives. Some argued that it is not in every country that inflation rates of 0 to 5%, which is the universal target, could be achieved. For example, in Indonesia, during high growth period, inflation was 17% and the corresponding growth being high. What is the inflation rate that is growth related is not therefore that simple to define.

Many participants found the whole question of financial liberalization as backing up. In their view, a country should reach a certain level of development before opening up. These countries should go back and build up a rural banking system. So there is role for the state. In not generating growth make the African growth rate volatile.

Regarding the issue of industrialization/agriculture policy, it was argued that it is not either or cons situation. In many cases, where there exists a large rural sector, there is need to start with agricultural development, and move to the transition.

Another issue was that of the optimal size of financial Deficit, which depends on how that deficit is used. It was argued that gross domestic saving should be there to back investment.

The second part of the discussion focused on prospects for pro-poor growth in Africa. Participants found that the background paper contained several issues that might be split for more clarity. Concerns were raised about the objective of the paper not coming out strongly. Technical issues on growth incidence curve (population anonymity) were raised. Participants also questioned the evidence on the statement in the paper that “the poor lost less during recession and gained little during growth in Africa”. Other participants wondered if the two-way causality (poverty to growth and growth to poverty) presented in the paper is not a tautology. They found the result that the poor do not loose in case of recession questionable. Indeed, how could we have a decreased economic activities and poor populations not loosing? Where is the conceptual distinction? What is the use of doing this exercise?

Session 6: Tourism – Much overlooked area for pro-poor growth

Chair: Grace Mbabazi Aulo (Mrs), Ministry of Tourism, Trade and Industry

Presentation by:

Vittorio Gerosa,
ECA. Tourism: A Viable Option for Pro-poor Growth in Africa?

Discussant: Helen Lubowa, Director, Uganda Community Tourism Association

This session, which was introduced by Vittorio Gerosa, ECA, explored the potential that tourism has to be an avenue for pro-poor growth, identified obstacles and highlighted strategies for tourism to realize its potential. Helen Lubowa, Director, Uganda Community Tourism Association was discussant of the session.

The paper analyzed the success of the tourism industry, its potential as a foreign exchange earner and how this growth, both current and potential could be made more pro-poor. In this context evidence of tourism within PRSPs has been rather lacking in African countries and the potential of pro-poor tourism not seriously analyzed. There has been some research on pro-poor tourism, but on a case study basis rather than an overall policy approach.

The main issue raised by participants was how to use resources that have been generated from the tourism sector, in such a way that they finance activities that are pro-poor, rather than search for a pro-poor tourism. What mechanisms could be set up to compensate those populations that are affected by tourism activities? What national policy strategies could be worked out for more accurate analysis and information?

Compensation mechanisms are in place in various parts of the world, especially in areas formerly owned by farmers and now redirected as National Park or Reserves for tourism purposes. Although not deprived of problems, such as social tensions and scarce redistribution of costs and benefits, there are successful cases where these mechanisms have been put in place, for instance in southern Africa and in Central America.

With regards to national policy strategies, here the role of governments is crucial. Governments should act as facilitators for the private sector, focusing their efforts on planning, infrastructure development, marketing national destinations, supporting pro-poor forms of tourism, such as community based tourism. The acknowledgements of the potentials of tourism for poverty reduction, for instance including this aspect in national Tourism Master Plans, is still an exception within the continent.

An important point raised by the participants is if community based tourism just produces “coffee beans”, i.e. if its impact on poverty reduction is just very marginal and therefore not relevant at a national level. Community based tourism should be considered as one of the possible forms that tourism development can take, and one of the potential ways to tackle poverty in rural and remote areas, in those deep pockets of poverty that rarely have chances to diversify their economy.

One significant step to take for the future is to better define and quantify the link between tourism and poverty reduction. If there are measures of the economic impact of tourism on aggregates, such as GDP and exports, there are no precise measures on poverty reduction and on the “pro-poorness” of tourism, beyond the evidence provided by various case studies.