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From Adjustment to Poverty Reduction: What is New?

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A. Overview: Issues at stake

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 The Enhanced Structural Adjustment Facility (ESAF) of IMF has been replaced by the Poverty Reduction and Growth Facility (PRGF), and the PRSPs have become an integral component of the Heavily Indebted Poor Country (HIPC) initiative and a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

This new policy orientation has undoubtedly had its origin in the dissatisfaction with the progress made in resolving the deep-seated problems facing developing countries despite almost two decades of policy reforms. The World Bank estimates that by 1998 a fourth of the population of the developing world, i.e. 1.2 billion people, were living below the poverty line, namely below US$1 per day in 1993 purchasing power parity terms. Excluding China, the number has risen from 880 million in 1987 to 986 million in 1998. The corresponding figures for sub-Saharan Africa (SSA) are 217 million and 291 million, respectively, averaging around 46 per cent of the total population over the period (World Bank, 2001, pp. 17 and 23).[1] A more recent study by the UNCTAD secretariat, using the World Bank's definition but a different methodology (bringing together household survey and national accounts data), estimates that the proportion of the population living on less than US$1 a day in the least developed countries of Africa has increased continuously since 1965–1969, rising from an average of 55.8 per cent in those years to 64.9 per cent in 1995–1999 (UNCTAD, 2002, tables 19 and 20).

Although alleviating poverty must involve economic and social policies on a number of fronts, attaining rapid and broad-based growth is at the heart of the challenge. Over the past two decades, growth in income in SSA has barely kept pace with population growth. After attaining a moderate increase in per capita income during the 1970s, growth in the region remained below 2.5 per cent per annum in both the 1980s (2.1 per cent) and the 1990s (2.4 per cent). Despite a recovery after the mid-1990s, per capita income in SSA at the turn of the millennium was 10 per cent below the level reached 20 years earlier. Furthermore, the recovery has proved to be short-lived, and longer-term growth projections are well below the levels required to meet poverty alleviation targets (UNCTAD, 2001a, tables 1 and 2).[2]

Slow and erratic growth in SSA has also been accompanied by regressive changes in income distribution. On the one hand, the poorest segments of the population have experienced steeper declines in their per capita incomes than the economy as a whole: the decline in average per capita income for the poorest 20 per cent of the SSA population is estimated to have been twice that of the population as a whole between 1980 and 1995 (UNCTAD, 2001a, p. 53). On the other hand, in some countries there has been a process of "equalizing downwards" across much of the personal income distribution as real wages have fallen and the rural-urban gap, measured in terms of the ratio of wage earners' incomes to incomes of farmers on small holdings, has disappeared, pushing a large number of urban workers below the poverty line. As discussed in some detail in previous reports of the UNCTAD secretariat, adjustment policies, including trade and financial liberalization, privatization and retrenchment of the public sector, have played a significant role in the hollowing out of the middle class that has become a prominent feature of income distribution in many developing countries (UNCTAD, 1997, Part Two, chaps. III and IV).

While both sluggish growth and deterioration in income distribution have contributed to rising poverty in Africa, the solution cannot lie solely or even primarily in redistributional policies. That is so not only because of the well-known political and social difficulties involved in redistribution without growth, but also because it would be very difficult to make much dent in poverty through redistribution when the average level of income is so very low. Growth, by definition, is more effective in those countries where generalized poverty prevails, i.e. where the average income is very low and the majority of the population is below the poverty line.[3] It is precisely for this reason that the new policy orientation towards poverty alleviation can succeed only if it leads to rapid and sustained growth and job creation.

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

- While economic growth is considered essential for poverty reduction, it is also recognized that growth may not automatically trickle down to the poor. Thus, the current approach emphasizes policies that facilitate the access of the poor to human, physical and financial assets to improve their earning capacity.[4] In this respect particular attention is paid to public provision of education and health services.

- While macroeconomic stability and structural reforms continue to be considered to hold the key to sustained and rapid growth, it is also recognized that stabilization and structural adjustment policies may exert a temporary adverse impact on the