

**GROWTH, POVERTY REDUCTION AND EQUITY: AN EMERGING
PARADIGM**

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TO PROMOTE PRO-POOR SUSTAINED ECONOMIC GROWTH INCLUDING
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I. Introduction

Mr. Moderator, Contributors, distinguished delegates Ladies and Gentlemen, the first generation of Poverty Reduction Strategy Papers (PRSPs) focused on “reducing poverty.” Each country PRSP began by providing a contextual definition of Poverty and designed projects and programs aimed at reducing the level of poverty in their respective countries. An underlying assumption characteristic of each of the PRSPs was that there was a very high correlation between income (consumption) poverty and social (non-money metric) measures of poverty. Consequently, most of the recommended interventions were related to the provision of basic social services such as:

- Access to quality and affordable health care;
- Access to quality education;
- Access to potable drinking water;
- Access to good nutrition; and
- Improvement in delivering the above services to the poor (good governance).

II. Poverty Reduction Programs and Projects

The above stated assumption underlying the PRSPs led to the design of programs and projects in the relevant social services sectors. For instance, in the health sector, programs included the provision of health facilities in rural communities, provision of exemptions from payment of hospital bills by the poorer segment of society, increasing the number of health care providers in the rural communities and in Ghana the replacement of the "obnoxious pay as you go system" with a more humane "national health insurance system." In the education sector, projects included building school blocks; providing free tuition at the primary level (capitation grant); provision of meals to children at the basic level (School Feeding Program) and other efforts aimed at encouraging teachers stay in rural communities. In the water sector, projects included the construction of boreholes and provision of small water systems in the rural communities. All these were facilitated by increased decentralization of services and training of service providers both within and outside government bureaucracy.

III. Outcome of First Generation PRSP Interventions

In some countries such as in Ghana appreciable improvements in the social services delivery have been recorded and levels of poverty have declined some. However, the rates of reduction in poverty levels have not been commensurate, in most cases, with the expenditures made in these social services and indeed the expectations of the populace have not been appreciably met. These unmet expectations call in to question the assumption of high correlation between social poverty indicators and money measures of poverty. The argument is that, at least in the short run, provision of social services does not by itself translate into increased and sustainable income for the poor. It is further argued that extreme focus on reducing poverty had led to a redistribution of national income without necessarily increasing the quantum of national income. The result is that while the poor may have been made better off with such redistribution efforts, the other segment of the society may have been made worse-off. It is unclear whether the gains to the poor even exceeds the losses to the non-poor and whether the net impact of the interventions was positive on the society at large. Therefore the first generation PRSP as a development option has not been as efficient as expected. Under the first generation of

PRSPs, the economies of the countries were not growing fast enough to ensure that while the poor were made better off, the non-poor were not made worse-off. The lingering doubts about the efficiency of the first generation PRSPs as a development paradigm calls for an alternative option which could be more efficient either in “pareto-efficiency” terms or better.

IV. The Emerging Paradigm: Growth, Poverty Reduction and Equity

In response to the genuine concerns about the first generation PRSPs is the emergence of a new paradigm of development which is purported to be more efficient: Growth, Poverty Reduction and Equity.

This new paradigm underlies most of the second generation country PRSPs. In Ghana this forms the basis of our “Growth and Poverty Reduction Strategy (GPRSII) 2006 - 2009.”

While GPRSI focused on poverty reduction, GPRSII emphasizes economic growth while ensuring equity in the distribution of the wealth so created in the form of access to social services and productive capacity by the poor. It can be argued that the gains to the poor arising out of redistribution of income a la the first generation of PRSPs are good in and of themselves and these gains could exceed the losses to the non-poor and that complete reliance on poverty reduction could be “Kaldor-Hicks efficient”, however that position leaves the likelihood of the efficiency of policy choice to mere speculation. Nonetheless, refocusing on growth while ensuring equity through redistribution, permits at the minimum the achievement of “pareto-efficiency” since addition to national income can be shared between the poor and the non-poor so that the poor gains and the non-poor does not necessarily lose out. It is obvious that the opportunity for the poor and non-poor gaining exists within the context of the emerging paradigm – indeed a “win-win efficiency” exists in the new and emerging paradigm.

In Ghana this “win-win efficiency” goal underpins, as stated earlier, the Growth and Poverty Reduction Strategy (GPRSII). This strategy prescribes a stronger role for the private sector to lead the charge for accelerated growth. The government’s role is to facilitate the process by removing all obstacles to rapid economic growth, including ensuring stability in macro-economic environment. The anticipated increased growth will provide the government with a larger fiscal space to maintain increased access of social services to the poor.

Specifically, the removal of constraints to growth includes increased investment in infrastructure. First, we have been increasing expenditure for the construction of road and rail infrastructure to facilitate movement of goods and services within the country, especially access to markets by farmers in the rural communities whose crops get rotten because of poor roads to get them to markets in the urban centres and between neighboring countries to enhance trade. Second, we have been increasing investment in water resources and the energy sector to ensure that businesses have quality and affordable electricity and water to make our local firms more productive and competitive and to create more jobs for the unemployed youth. Third, is to invest in communication technology to facilitate information sharing to help reduce transaction costs and speed up business operations. The fourth, is to increase access to capital by the private sector to generate more growth and also generate more employments by ensuring sound fiscal and monetary policy that will not crowd out the private sector, provide them with a more predictable business environment for doing business. The ensuing private sector growth we believe have and will continue to lead to higher levels of employment and increase income to the farmers who are mainly women and poor. But more importantly, sustained growth will permit a sustainable redistribution of income that will not be resented by the non-poor because they also win. Finally, cognizant of the difficulty of the poor in accessing credit, conscious efforts are being made to provide the poor access to capital through the strengthening of existing micro-credit institutions as well as establishing new ones with Government’s support. While this contributes to the overall growth of the economy, it allows the incomes of the poor to increase directly.

V. Conclusion

It is clear that poverty reduction strategy as envisaged in the first generation of PRSPs have helped in reducing poverty levels in countries that adopted them. In Ghana Poverty levels have reduced from about 40% in 2000 to about 26.5% in 2006. However, it is becoming clearer and clearer that poverty can be reduced even much faster if countries shift from extreme reliance on poverty reduction programs and projects to focus on growth while keeping a close tab on poverty-related programs and projects. The increased growth will permit a redistribution effort that is acceptable to all. This emerging paradigm will provide a win-win efficiency development option.