Panel Discussion on Public Expenditure and The Poor in Africa

Introductory Remarks by
K. Y. Amoako, Executive Secretary, ECA
7 May 1996
Addis Ababa

The strategy that has proved effective in improving economic and social well-being consists of three elements: labour-demanding growth, investments in education and health and safety nets for poor and vulnerable groups. Increasingly, a fourth element -- good governance -- is being added, because governments directly control a significant share of national resources and shape the policy environment for private economic agents and civil society. In the interest of economic and social progress, the use of public resources must emphasize efficiency and equity. Beyond that, the most important attributes of good governance are accountability, transparency, and participation. Participation, for example, increases stakeholders' ownership of policies and projects -- which contributes to their willingness to share costs and maintain the assets created. Such involvement in turn raises the quality and sustainability of development programmes and helps to build local capacity.

Without development, there can be no lasting human security; but without peace and security, genuine human development will remain an elusive goal. Even in the absence of armed conflict, many of the poorest are prey to harassment and physical intimidation. Women are particularly vulnerable in this respect.

Governments can contribute most to economic and social progress by focusing on the things that they do best. Sustained improvement in living standard through growth, human capital development, and safety nets requires a strong partnership between governments and the private sector. Governments need to provide goods and services -- law and order, national security, and an environment conducive to business and the smooth functioning of civil society -- that only the state can provide. And even where activities fall in the domain of private economic agents, governments sometimes must correct market failures, but without creating vast and costly administrative and bureaucratic structures.

From Africa to Latin America, Asia, and the former communist countries, there is now a better appreciation of the role of the private sector in development and a greater readiness of all but a handful of countries to embark on market-oriented economic reforms. The core policies are prudent fiscal and monetary management, realistic exchange rates, open trade and investment regimes, and competitive markets in goods, capital and labour.

There also are areas where neither the government nor the private sector can carry the entire responsibility. In such areas -- health, education, infrastructure and agricultural research and extension -- a judicious blend of government and private effort is needed. Finally, for social reasons, governments need to protect the weak and vulnerable members of society and provide safety nets for the poor.

Few dispute that governments have an important role to play in reducing poverty. And few fail to recognize that effective governments -- with a strong capacity to formulate and implement coherent public policies and projects -- can make a real difference in improving living standards. Public spending in developing countries typically amounts to 20 to 30 per cent of GDP.

Public expenditures accounted for more than 30 per cent of GNP for Africa as a whole in 1993: ranging between 19 per cent for Cameroon and 47 per cent for Egypt. The efficient management of these resources is critical to growth, to human capital formation, and to the welfare of the poor. That management in turn requires a cadre of professionals who can formulate and implement government policies, but they are in short supply in many developing countries, especially in most countries of Sub-Saharan Africa. This is part of the reason why public administration is often weak, as manifested in ineffective tax collection, poorly managed public expenditure, abandoned public health measures, poor law enforcement, and haphazard justice. Because poorly functioning bureaucracies give conflicting signals to the private sector, they also damage long-term investment. Building institutional capacity thus needs to figure prominently in any strategy to reduce poverty.

Public expenditures offer significant opportunities for promoting growth and the equitable distribution of its fruits. Investments in basic social services -- primary education, primary health care, safe drinking water, sanitation, nutrition, and family planning -- yield high payoffs for individuals as well as for society. Investments in rural infrastructure and new agricultural technologies are essential for raising the productivity of farmers.

In other words, public expenditures are, therefore, essential for human and physical capital formation and for providing income support for the poor. In recognition of this, the signatories to the Social Summit in Copenhagen committed themselves to "increase significantly and/or utilize more efficiently the resources allocated for social development".

But governments are not channelling enough resources to these areas. A major part of the reason is excessive military spending in all but a handful of countries. Consider Sub-Saharan Africa. Its spending rose from less than 1 per cent of GNP in 1960 to more than 3 per cent in 1990 -- this, in countries that could not provide adequate immunization coverage for children or universal primary education. Indeed, military expenditure as a percentage of the combined education and health expenditures increased from 27 to 43 during 1980 and the early 1990s, respectively, for Africa as a whole. In contrast, it declined for both the developing and the industrial countries during the same comparable period.

But just as many African countries should move away from unproductive expenditures, so too, donor governments have a responsibility to avoid funding low-priority projects and programmes (including military equipment). The message from the Social Summit, supported by 117 heads of States and Government, is that these policies, by both recipients and donors, must change if more widespread poverty reduction is to become a reality in Africa.

The broad reviews of government expenditure are needed to help governments restructure and make tough choices about the allocation and reallocation of their public expenditures. In the long term, the reform of public spending promises greater benefits for the poor. The objectives of reform are:

To increase social spending while maintaining fiscal prudence;

To redirect the increased social spending toward services that benefit the poor, especially basic education and essential health services;

To increase allocations for feeder roads, agricultural research and extension, and rural and peri-urban water supply.

In many countries, restructuring public expending in this way means reducing military expenditure, withdrawing subsidies to state enterprises, and stopping prestige project -- hard choices, but necessary to control the deficit and keep inflation low.

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