Nexus between Working Poor and Economic Growth in Some Selected ECOWAS Countries: A Theoretical Exposition

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Abstract

This paper discusses the link between working poor and income growth in some selected ECOWAS states. Unlike similar studies that focus on pro-poor growth in an economy, this study highlights the basic issues in wealth creation by drawing attention to the fact that poverty can impact the growth of the economy. Relying on some of the principles developed by Kimenyi (2006), the study concludes that policies should be effectively targeted in order to identify the capabilities of the poor with the view of enhancing them to contribute to the growth process in an economy. In this sense, this study advocates the need for the informal sector to be formalized while micro finance institutions should be made to be more viable in order to increase their total credit to the working poor. Finally, for these policies to be affective government must ensure a workable partnership between poverty reduction and the growth of the economy.

Keyword: Economic Growth, Working Poor, ECOWAS States

I. Introduction

It has been observed by researchers and policy makers that weak institutions, slow growth rate and high level of poverty are the issues that characterize developing countries. All these issues translate into low levels of human development (Kimenyi, 2006). Equally of concern to policy makers in developing countries *is* the need to enhance the quality of life of the poor segment of the society. On the basis of this, many researchers and policy makers have been interested in how growth can trickle down to the poor segment of the society. Hence, literatures abound on pro-poor growth in developing and developed countries. In particular, policy makers are interested in growth that will lead to a fall in any poverty measure of interest (Kraay, 2004, Kimeny, 2006). The basis for this argument is that once growth is achieved, poverty will be reduced.

Empirical evidence shows that even if growth is achieved, poverty rate is still pervasive in developing countries (Kakwani, 1993; Gallup et al, 1998; Deaton, 2003). The reason for this trend could be that most policies are concentrated on growth with little attention on poverty reduction. This paper, therefore, attempts to examine how the working poor impact on economic growth in some selected ECOWAS States. In this case, instead of growth impacting on poverty, poverty could impact on growth. The relevant question, therefore, is "can the poor contribute to income growth of a country? This question and some other issues will be addressed in this study.

Kimenyi (2006) came up with a general theory of reform and pro-poor growth. This study drew a lot of inspiration from his study especially as it relates to well-being and capabilities functioning. According to Kimenyi (2006), functioning refers to the type of life people are able to achieve while capabilities refer to the capacity and freedom to achieve the choosing life. Kimenyi, (2006), therefore see pro-poor growth to be growth that expands the opportunities and capabilities of the poor to participate effectively in economic activities.

Hence, the empowerment of the working poor could be a viable way of achieving accelerated growth in developing countries. The working poor could be defined as those individuals whose income level falls below the subsistence level. They are found in the public sector, private employed labour, petty trade, and disguised employment. They work day and night, yet their contributions to income growth are minimal. They act as an obstacle to the growth and development of any country. This study holds the view that any policy that could increase their contributions to income growth could lead to the reduction of their level of poverty.

In an attempt to examine the relationship between working poor and economic growth, this study relies on existing literatures on poverty and growth. It is basically a content analysis of some empirical results, but some reforms to the data generated will be improved upon to draw attention to the study.

It could be observed that ECOWAS countries have the same economic and social features, which makes them to be easily combined in this study. Although, there are Franco-phone and Anglo-phone countries in West Africa, but these countries have similar historical setting while the trend of poverty in these countries is identical and it has almost similar causes and consequences.

II. Link between Poverty and Economic Growth

In most empirical literatures the issue of growth and poverty has always be centred on pro-poor growth, i.e., growth that enhances poverty reduction. For example, the works of Kimenyi (2006), Kraay (2005), Ken (2002), Page (2005) and Islam (2004) have all been concerned with growth that is favourable to the poor. In particular, Kimenyi (2006) analyzed the relationship between economic reform, growth and poverty and came to the conclusion that economic reforms is the creation of wealth, the asset base of the poor is minimal and that market reform which helps to promote growth do not take into consideration the disadvantages of the poor in competing in an economy. Market should therefore, take into consideration what the poor have in abundance i.e. labour power. This calls for significant changes in the institutions of governance if growth is to be pro-poor. Kraay (2004) asserted that most of the variations or changes in in the level of poverty could be attributed to growth in average income and suggested that policies and institutions that promote broad-based growth should be central to pro-poor growth agenda.

Ravalion and Chan (2001) asserted that for growth to be pro-poor and appropriate, measurement must be use to determine how growth translate to poverty reduction. In this sense, the use of growth rate as mean of consumption and income has the drawback that is inconsistent with one or more standard axioms of measuring the level of poverty. Using the growth indices curve or watt index, they were able to describe how gains from growth were distributed. Kimenyi (2005) gave ten principles that need to be considered in order for growth policies to transform the poor in the society. There is the need to understand the poor, their activities, capabilities and the constraints that impede their participation in markets.

Some researchers such as Demirguc-Wunt (2007), Kimenyi (2006), Johnson (2005) and Easterly (2001) asserted that the fastest means of reducing poverty in developing countries is to create productive assets through gainful employment that involves income generating activities in the agricultural and micro business sectors. Investment in human capital through capacity building and physical infrastructure are all vital for any poverty reduction strategy. In term of finance, Demurgue-Kunt (2007) asserted that financial systems help to mobilize and pool savings together for investment projects. But the poor segments of the society do not have the needed savings or collateral to borrow loan from financial institutions. These factors actually constraints the poor in assessing loan for investment. Otero (1999) and Bran and Wellar (2004) believed that financial development could contribute to poverty alleviation directly by easing credit constraints on the poor and indirectly by fostering economic growth that benefits the poor.

Charke et al (2003) in their cross-country comparison deduced that income inequality or relative poverty could be reduced through financial sector development, which should be extended to include strategies for bringing on board the informal sector. Wai (1992), observed that informal financial arrangement are those parts of the overall financial system that fall outside the regulated sector while Eschenbach (2004) believed that the emergence of the informal sector is a direct response to financial repression and regulation in some developing economy. Aryoety (1995) and Wissanwe (1991) estimated on the basis of available data and concluded that 60 to 65 percent of the credit needs of the poor are handled through the informal sector of the financial system. The formal sector tends to ignore the poor because of their relative small size of individual transactions, which may not be cost effective.

A major component of the informal sector is the micro finance, that is, financial sub sector that is gear towards meeting the needs of the poor. Otero (1999) asserted that policy makers in developing country are yet to bring to bear the role of micro finance sub sector on poverty reduction; this is because micro finance has not been duly recognized as an anti- poverty strategy. By its integration, micro finance institution can expand the reach of financial intermediation to population that was hitherto not covered by conventional banks and non-bank financial institutions.

Mordurh (1999) and Barr (2004), described micro finance as not only comprising of micro credit programmes, but also a full range of financial products that poor households need to protect themselves against economic risks- through access to credit, savings, insurance and income generating loans. Another argument in favour of micro finance was presented by Hume and Mosley (1996), when they argued that finance is a crucial factor in the economic development of any nation. They further argued that the primary process by which financial services are envisaged as reducing poverty is by provision of income generating loans to the poor in the society and that capital investment by the poor is one of the vital instruments that can be used to determine growth and raise the income of a country.

Some researchers such as, Levine (2002) Islam (2004) and Kimenyi (2006) maintain that financial development without appropriate focus on governance and institutions will not enhance growth and development. Government regulation, supervision of financial sector as well as broader measures of transparency and honesty in the wrong direction can contribute to financial crisis that could harm the poor the most. All these measures couple with a weak legal institution that do not protect and enforce creditors and investors rights will also inhibit financial development.

III. Concept and Measurement of Working Poor and Growth

With the current focus on Millennium Development Goals (MDGs), there are more emphases on poverty reduction. Poverty is a generic concept, that is, it is a broader concept which is more profound in its manifestation and consequences. It is, therefore, more appropriate to understand the poverty of interest before any measurement can be done. The poverty of interest in this study is the working poor, that is, those individuals who are working and yet they are poor. According to Townseed (2001), the unemployed does not only lack income but also self-respect. This concept also applies to the working poor, because in spite of the fact that they work, they still lack income. In this sense, the basic need or the subsistence measure of poverty becomes relevant. There are other measures of poverty in a country; but they might not be relevant in relating poverty to income level.

The subsistence or poverty line identifies some basic needs of a man and the minimum amount of money required to produce the goods and services to satisfy the needs. The subsistence or poverty line is normally used to draw a demarcation between the poor and non-poor people. People whose income falls below the poverty line or subsistence line are regarded as poor. In this case, their income is not sufficient to procure the necessary goods and services to satisfy their basic needs. The basic variable or measurement in this conceptualization is the income level, which the individual requires to meet some needs, which are defined by the society. This approach is most of the time regarded as the absolute poverty approach. It is a situation where the income of the person or a household is insufficient to secure the minimum basic needs required for physiological survival (Maslow, 1970). The variables of measurement in this case are level of consumption, income, savings, and access to housing, health, education, food and clothing.

It would have been proper to use a causal-relationship to test the interaction between working poor and income growth in a country, which shows how poverty impact on growth. Since secondary data are not readily available, it is impossible to estimate this interaction in this study. Although, Kraay (2001) use correlation and regression to estimate the relationship between poverty and income growth, we are unable generate data to establish such relationship in this study. This study only highlights those policies or factors that can enhance the capabilities and assets base of the poor and how these assets can improve the ability of the poor to contribute to growth.

IV. Policies, Poverty and Growth

The ultimate objective of poverty reduction is to increase the asset base of the poor and develop their capabilities to contribute to the growth process (Sen ,1987) .Thus, poverty policies are seen as those measures that expand the opportunities and capabilities of the poor so that they can participate more effectively in economic activities.

Such policies must necessary stimulate economic growth. Kimenyi (2006), identified the asset base of the poor to include unskilled labour supply and that many economic reforms have impacted on skill labour as against unskilled labour. For any policies to impact on the working poor, it must be able to stimulate those labor-absorbing activities and create an opportunity for labour to get education. In ECOWAS states the level of educational attainment has been very low see table 1 in the appendix). In particular, the average student enrolment in primary and post primary is about 30% of the entire population. A policy that is pro-labour must concentrate on increasing the educational attainment of the poor. Although, some researchers such as Adeloye (2008) have advocated a specialized educational programme that will boast the participation of the poor in agricultural production, since most of the poor are in the rural areas. In order to increase their contributions to agricultural production, they must be taught how to increase their farm yield.

Iguodala (2008) observed that policies that are market stimulating do not impact on the poor segments of the society. This is because most market are formal, especially the financial market. It is usually difficult for the poor to have access to credit in the formal financial sector. As a result of this, they mainly rely on the informal financial sector for credit. Interest rate in the informal sector is usually higher than those of the formal sector. Although, quiet recently there has been slight improvement in micro credit to the poor in Nigeria but the anticipated impact have been minimal (see Asemota, 2009). Relying on data in table 2 in the appendix as generated by Asemota (2009) for Nigeria and Chana, the level of credit issued by micro finance institutions to the ratio of poor in the entire population is small. For instance, it was 20% and 15% in 2007 in Nigeria and Ghana respectively

The need to develop micro finance institutions in order to cater for the financial needs of poor has been emphasized by researchers such as Asemota (2009),Iguogala (2008) , Ledgewood (2002) and Women's World Banking (1996). They asserted that there are about 500 million economically active poor people in the world operating micro enterprises and that micro finance activities involve providing assistance to people in the following ways:

(a) Small loan for working capital
(b) Collateral substitute, like cooperative societies or groups to assess loan or guarantee compulsory savings.
(c) Access to repeated loan based on repayment performance.
(d) Streamlined loans disbursement and monitory.
(e) Providing training on marketing skills, healthcare awareness training.

The Assessment of the capabilities of the poor towards the growth of the economy calls for the good governance (Levine, 2002). He emphasized the need for policies that will make it possible for the poor to fully participate in decision-making process. In this respect, the poor should be able to make those in power accountable. This involves institutional reforms that would increase the poor peoples' ability to contribute to the growth process. In ECOWAS region most government institutions do not function properly. In fact, this is a general characteristic of the developing countries. Weak institutions that are unable to function effectively characterize developing countries. Ackerman (2000) observed that poor functioning of the government is the basis for corruption in most developing countries. Resources that would have been channeled into productive ventures are looted by those in power.

Policies that would favour asset accumulation by the poor have been emphasized by researchers such as kimenyi (1998) and Asemota (2009). They opined that growth will be self-sustaining if it results in accumulation of asset by the poor. In ECOWAS counties, the most important asset to the poor is land but because of imperfect market regulation, inadequate savings and lack of access to credit the poor cannot accumulate asset. Table 3 in the appendix shows the income level of individuals in some selected ECOWAS countries. It shows that the average income per population is below 30 percent. This fact is collaborated by World Bank (2001) that posited that most people in developing countries live on less than one US dollar per day. With such low income, it is practically difficult for the poor to accumulation assets.

V. Conclusion

This paper examines the relationship between the working poor and growth of the economy. Although, it is basically a content analysis, but there are some useful conclusions derivable from this study.

(a) Policy is most effective if it is appropriately targeted. The issue of pro-poor growth should be addressed from another angle, that is, how policies will target the poor to contribute to the growth process. Addressing the functioning and capabilities of the poor could do this.
(b) Micro-finance credit should be made available to the poor to enable them make useful contribution to the growth process in the country. In this aspect, the informal sector should be formalized so that established financial institutions could regulate their activities.
(c) The need to improve governance is also emphasized in this study. Government should be able to identity the capabilities of the poor with the view to increasing their contributions to the growth process in the country.

In the light of above, the issue of wealth creation and distribution is both the concern of the rich and the poor. To this direction, policy makers should be able to identify the capacities of individuals in the society with the intention of formulating policies to enhance these capacities and consequently utilize them appropriately for growth of the economy.

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Appendix

Table 1: Primary and Post Primary School Enrolment in Some ECOWAS States.

Countries	1971-1980	1981-1990	1991-2000	2001-2009
Nigeria	10,731.06	14.766.04	15.861.07	22,099.599
Sierra- Leone	7,613.86	4,853.95	6.773.09	8,113.15
Chana	6.053.13	8.313.19	9.115.10	11,120.75
Gambia	3.101.76	4,815.01	6.051.19	8.011.03
Togo	2,111.81	3.131.01	5.133.87	7.337.95
Senegal	6.111.73	8.959.11	10.110.31	12.448.87
Cote de Voire	6.137.04	7.991.53	10.101.81	12.548.09

Source: Universal Basic Education and Asemota, (2009)

Table 2: Micro Finance Credit to the Poor in Nigeria and Ghana in 2008/2009.

Categories of Recipient	Nigeria	Ghana
Small scale enterprise	200,135.56	90,345.61
Peasant formers	178,145.07	87,456.91
Civil servant	201,345.10	100,561.98
Traders	301,013.86	150,481.17

Source: Asemota (2009)

Table 3: Percentage Income Poverty per Headcount

Countries	Head count ratio	Head count ratio
Nigeria	36.31	78.30
Chana	33.49	51.48
Togo	23.81	41.37
Gambia	31.53	40.21
Senegal	37.94	4.56

Source: National Bureau of Statistics and Asemota (2009)