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Review

Working poor and economic growth in some selected ECOWAS countries

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This paper discusses the interaction 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 highlighted the basic issue in wealth creation by drawing on the issue that poverty can impact on growth of the economy. Relying on some principle developed by Kimenyi (2006) the study concluded that policies should be effectively targeted 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, the need for the inform sector to be formalized has been advocated and that microfinance institutions should be made more viable to increase their total credit to the working poor. Finally for these policies to be affective the government must ensure a workable partnership between poverty and growth in an economy.

Key words: Economic growth, working poor, ECOWAS states.

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 characterized 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 increase the quality of life among the poor segment of the society. On the basis of this, many researchers or policy maker 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 maker are interested in growth that will lead to a fall in any poverty measure of interests (Kraay, 2004; Kimeny, 2006). The basis line of argument is that once growth is achieved poverty will 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 relevance question therefore is; “can the poor contribute to income growth of a country? This and some other issues or questions will be answered 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 related to well-being functioning 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 from economic acti-vities. Actually, empowerment of the working poor could be a serious ways 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 public sector, private employed labour, petty trading, and disguised employ-ment. They work day and night, yet their contribution to income growth is minimal. They really serve as an obstacle to growth and development of any country. It is the belief in this study that any policy that could increase their contribution to income growth could reduce their level of poverty.

In an attempt to examine the relationship between working poor and economic growth in this paper the researcher relies on existing literatures on poverty and growth. It is largely based on empirical literatures conducted by many researchers. It is basically a content analysis of some empirical results. Though some reform to the data generated will be improved upon to draw focus on the study.

It could be observed that ECOWAS countries have the same economic and social condition, which makes them to be easily combined in this study. Specifically we have the Franco-phone and Anglo-phone countries in West Africa. They have similar historical setting. Poverty in these countries are identical and having almost similar causes and consequences.

INTERACTION BETWEEN POVERTY AND ECONOMIC GROWTH

In most empirical literatures the issue of growth and poverty have always be centered on pro-poor growth, that is, 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 good for the poor. In particular, Kimenyi (2006) analyzed the relationship between economic reform, growth and poverty came to the conclusion that economic reforms is the creation of wealth and that the poor asset base is minimal and that market reform that 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, that is, labour power. The researcher therefore recommended significant changes in institutions of governance if growth is to be pro-poor. Kraay (2004) asserted that most of the variation in changes in poverty could be attributed to growth in average income and suggested that policies and institution that promotes 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 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 we need to know in order for growth policies to transform the poor in the society. There was the need to understand the poor, their activities, capabilities and constraints that impede their participation in markets.

Some researchers like Demirguc-Wunt (2007), Kimenyi (2006), Johnson (2005), Easterly (2001) asserted that the fastest means of reducing poverty in developing countries is to create productive asset through gainful employment that involve income generating activities in the agricultural, micro business sector. 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 saving together for investment project. But the poor segments do not have the needed savings or collateral to borrow loan from financial institutions. These factors actually constraints the poor in assess to loan for investment. Otero (1999), Bran and Wellar (2004) believed that financial development could contribute to poverty alleviation directly by easing credit constraints on the poor and indirectly fostering economic growth that benefits the poor.

Charke et al. (2003) in their cross-country comparison deduce 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 arrangements are those parts of the overall financial system that fall outside the regulated sector. Eschenbach (2004) believe 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 that on the basis of available data, 60 to 65% of the credits to the 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 relatively small size of individual transaction, which may not be cost effective. A major component of the informal sector is the micro finance financial sub sector that is gear toward 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 been recognized as an anti-poverty strategy. By this integration microfinance institution can expand the reach of financial intermediation to population that was not covered by conventional banks and non-bank financial institutions.

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

Some researcher like Levine (2002), Islam (2004) and Kimenyi (2006) maintain that financial development without appropriate focus on governance and institution

Table 1. Primary and post primary school enrolment in some ECOWAS states.

Country	1971 - 1980	1981 - 1990	1991 - 2000	2001 - 2009
Nigeria	10,731,06	14,766,04	15,861,07	22,099,599
Sierea Loane	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
Ganbia	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
Coted Neorre	6,137,04	7,991,53	10,101,81	12,548,09

Source: Universal Basic Education; Asemota (2009).

will not enhance growth for 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 weak legal institutions that do not protect and en-force creditors and investor rights will also inhibit financial development.

MEANING AND MEASUREMENT OF WORKING POOR AND GROWTH

With the current focus on millennium development goal, there are more emphases on poverty reduction in a country. Poverty is a generic concept that is, to say, that it is a broader concept which is more profound in its manifestation and consequences. It is therefore more appropriate to understand poverty of interest before any measurement can be done. The poverty of interest in this study is the working poor. Those individuals who are working and yet there are poor. According to Townseed (2001) the unemployed does not only lack income but self-respect. This concept can still apply to the working poor, 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; they might not be relevant in relating poverty to income level.

The subsistence or poverty line identifies some basic needs of 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, the income is not sufficient to procure the necessary goods and service to satisfy his basic needs. The basic variable or measurement in this conceptualization is the income level, which the individual need 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, food and clothing.

It would be proper to use a causal-relationship to test the interaction between working poor and income growth in a country. This will show how poverty impact on growth. Since secondary data is not easily available this interaction is not possible to estimate in this study. Although Kraay (2001) use correlates and regression to estimate the relationships between poverty and income growth, we could not generate data to establish such relationships. In this study, we highlight those policies or factors that can increase the capabilities for assets base of the poor and how these assets can increase the ability of the poor to contribute to growth.

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 is seen as those measure that will 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 access base of the poor to include unskilled labour supply and that many economy 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 educa-tional attainment has be very (Table 1). In particular, the average enrolment of students in primary and post pri-mary has been 30% of the entire population. A policy that is pro-labour must concentrate on increasing the educa-tional attainment of the poor. Although some researchers such as Adeloye (2008) has advocated a specialized educational programme that will boast the poor participation in

Table 2. Microfinance credit to the poor in Nigeria and Ghana in 2008/2009.

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

Table 3. Percentage income poverty per headcount.

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

Sources: National Bureau of Statistics and Asemota (2009).

agricultural production, since most of the poor are in the rural areas. In order to increase their contribution to agricultural production, they must be taught on how to increase 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 this informal sector is usually higher than those of the formal sector. Although quiet recently, there has been the growth of micro credit to the poor but the anticipated impact have been minimal (Asemota, 2009). Relying on data in Table 2 generated by Asemota (2009) for Nigeria and Ghana, the level of credit by microfinance institution to the ratio of poor to the entire population has been small. For instance, the total in the year 2007 to the poor has been 20% in Nigeria and 15% in Chana.

The need to develop the microfinance institution to cater for the poor has been emphasized by researchers such as Asemota (2009), Iguogala (2008) and Ledgewood (2002) (Women's World Banking, 1996). They asserted that there are 500 million economically active poor people in the world operating micro enterprise and that microfinance activities involve providing assistant to these people in the following activities:

(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 health care awareness training.

Accessing the capabilities of the poor towards growth of the economy calls for good governance (Levine, 2002). He calls 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 increase the poor ability to contribute to the growth process. In ECOWAS region most government institution do not function properly, infact this a general characteristics characteristic of a developing countries. Weak institutions that are unable to function effectively characterize developing countries. Ackerman (2000) observed that poor functioning of government are the basis for corruption in most developing countries. Resources that would have been channel into productive venture are looted away by those in power.

Policy that would favour asset accumulation by the poor has been emphasized by researcher such as Kimeny (1998) and Asemota (2009). The assertion that growth will be self sustaining if it results in accumulation of asset by the poor. In ECOWAS counties, the most im-portant asset to the poor is land but because of imperfect market regulation, inadequate saving and lack of access to credit, the poor cannot accumulate this asset. From Table 3, the income level of individual, in some selected ECOWAS country shows that the average income per population is below 30%. This fact is collaborated by World Bank (2001) that asserted that most people in developing countries live on less than one US dollars a day. With such low income, it is practically difficult for the poor to accumulation assets.

Conclusion

We examined in this paper the relationship between working poor and growth of the economy. Although, it is basically a content analysis, there are useful conclusion derived from the study.

(a) Policy is not 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) Microfinance 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 institution could regulate their activities.

(c) The need to improve governance is emphasized in this study. Government should be able to identify the capabilities of the poor with the need to increase their contribution to the growth process in the country.

In the light of the preceding survey, 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 cater for these capacities and consequently utilize appropriately for growth of the economy.

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