The Poverty Trap and Public Financial Management: Re-Orienting Public Management in Africa

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Abstract

Africa's quest for social and economic development has been tortuous and tumultuous. It has been characterized by missed opportunities, false starts, bungled planning and the downright plunder of nations' wealth by gluttonous leaders. The plight of the bulk of the populace has continued to deteriorate daily. Poverty and backwardness continue to stare at Africa boldly. This paper represents a response to several independent evaluations in recent years that have argued that development practitioners and policy makers dealing with public sector reforms in developing countries and, indeed, anyone with a concern for effective public governance could benefit from a synthesis of newer perspectives on public sector reforms. This paper argues that to overcome poverty trap in Africa, there is a need for a well-functioning public sector that delivers quality public services consistent with citizen preferences. The paper concludes that poverty has weighty consequences on the poor, the family and on the society. Once poverty is not broken, it breeds vicious poverty at higher level. Social menace correlated with poverty calls for unreserved reasonableness to seek all practical means to reduce poverty. Poverty causes lack of regard for constituted authority.

Introduction

Over the past decades, Africa's preoccupation with development has had very marginal success. The past failures and depressing prospects have provoked a great amount of concern. Although, poverty is of the global problem that has plagued nations like Africa with seemly no workable solution in sight. It is instructive to note that attempts at reducing poverty and deprivation seem to have defiled domestic and international development programs. Undisputedly, Africans suffer in the midst of plenty despite numerous poverty eradication programs gulping billions of dollars. Africa has sadly remained static. Today, in most African countries poverty has remained stubbornly high for decades with its characteristic features. Records reveal that millions of people in Africa today live in poverty (Nwachukwu, 2006). Poverty has assumed such dimension that it has suddenly become conditional for African nations to prepare and of course foster what is now called Poverty Reduction Strategy Paper (PRSP) to earn any form of attention from the world financial

institutions (Nnamani, 2006). Not only is Africa the poorest region in the world, but it was also the only major developing region with negative growth in per capita income.

Poverty is a social problem in which a country is faced with cultural, social, political, economic and environmental deprivations. In other words, it is a state of involuntary deprivation to which a person, household, community or nation can be subjected. In recent times, scholars have pointed out that there are reinforcing vicious circles that keep families, regions and countries poor and unable to contribute to national growth (Okoye and Onyukwu, 2007). In developing countries, poverty level has been on the increase. As Nnamani (2006) puts it, poverty in Africa has reached an alarming level and has been rising steadily not exponentially.

In many African countries, the practice of public financial management is an obstacle to achievement of poverty reduction objectives. Fragmented budgets and an exclusive focus on inputs are among the factors that have undermined the ability of budget systems to discipline policy making and to facilitate performance feedback that would improve outcomes. There have been several attempts to understand and reduce poverty in Africa. Concerns have often centered on poverty alleviation policies, the appropriate strategies that should be adopted for poverty alleviation and the targeting mechanisms in this regard. However, there has been little attention paid towards effective management of public funds for poverty alleviation. This paper suggests that poverty alleviation programs can be judged to be successful if they promote sustainable livelihoods. If the public sector plays a pivotal role in ensuring the delivery of services for poverty alleviation as emphasized, then it follows that the success of antipoverty efforts are greatly dependent on the prevailing public financial management system. For sustainable livelihoods and poverty alleviation to be effective, public funds must be judiciously managed.

Conceptual Framework

Poverty: Poverty is not new but at each mention, it stirs a lot of misgiving. This is because it has a very devastating influence on its victims. Poverty is a multidimensional phenomena influenced by a wide range of factors, these include poor people lack of access to income earning and productive activities and to essential social services (Kankwenda, 2003). It reduces the social and psychological prestige of its victims. Poverty is a condition of being poor. This could be evidenced even amidst plenty because there could be reeking poverty as a result of lack of knowledge to translate potentiality into practical creative benefits to actuate well being. In other words, if there is a poverty of something, it therefore means that there is a lack of it or the quality of it is extremely low (Anger, 2010). According to Shaffer (2001) the concept of poverty has undergone four changes over the past decade. First, there has been a shift from a physiological model of deprivation to a social model of deprivation. The social model is about incorporating issues of political and economic rights and social justice into the anti-poverty programmatic framework. Second, there has been renewed emphasis placed on the concept of vulnerability and its relationship to poverty. Third, the concept of inequality and its relationship to poverty has re-emerged as a central concern. Fourth, the idea that poverty should be conceptualized as the violation of basic human rights has been painstakingly argued by United Nations system agencies.

Poverty according to Aluko (1995) can be described as a lack of command over basic consumption needs. There is an inadequate level of consumption such as rise to insufficient food, clothing and shelter. He notes that the conventional notion depicts poverty as a condition in which people are below a specific minimum income level and are unable to provide or satisfy the basic necessities of life needed for an acceptable standard of living. The explanation, however, failed to provide the graphic picture of those who are poor, how to

change their conditions and what to do. Development Assistance Committee (DAC) (2001) reports that poverty encompasses different dimensions of deprivation that relate to human capabilities, including consumption and food security, health, education, rights, voice, security, dignity, and decent work. Rocha (1998) avers that the ample variety of poverty situation worldwide has led to an equally large number of essays in terms of definition, measurement, and policies. However, at the heart of the debate about defining poverty, stands the question of whether poverty is largely about material needs or whether it is about a much broader set of needs that permit well-being (Hulme & Mosley, 1996).

In its most basic form, poverty connotes a condition of low income and failure to satisfy basic needs. Based on this definition adopted in the 1970s, the global poverty problem is still staggering with more than 1.1 billion people in the world living on less than one dollar per day (UNDP, 2004). Poverty, in its most general sense, is the lack of basic necessities such as food, shelter, medical care and security, which are thought necessary based on shared values of human dignity (Bradshaw, 2006).

Poverty Trap: The idea of poverty traps has captured the imagination of development economists and policymakers alike for many years. Arguing the relevance of the concept of the poverty trap is not trivial. Indeed, some studies underscore the growth of some commodity-exporting countries. Others emphasize that traps may be created by factors other than commodities. Other studies refute the existence of traps and analyze the impact of commodity price fluctuations through different concepts: the demand for commodities, and therefore prices, follow cycles (linked to importing countries' income and product cycles, for example), as industrial and emerging countries need certain commodities as inputs for their industries; these cycles are complicated by transmission effects across products and markets (including financial markets), but they can be investigated without the concept of the poverty trap; in commodity-dependent low-income countries, growth closely follows the fluctuations of commodity prices, resulting in growth accelerations or collapses that are not 'traps' (Sindzingre, 2010).

Poverty trap according to Sindzingre (2007) is a self-perpetuating condition where an economy, caught in a vicious cycle, suffers from persistent underdevelopment. It occurs when agents fail to coordinate their actions to achieve the optimal allocation of resources. Put differently, poverty trap is an outcome of the crossing of different theoretical currents and is related to several other concepts: among others, irreversibility, feedback processes, lock-in devices, multiple equilibrium, threshold effects, non-linearity and non-convexity, and increasing returns. Poverty traps is defined as self-reinforcing mechanism that cause poverty to persist (Azariadis, 2005). This term is usually used to characterize the development of countries - worst performers in the Sub-Saharan Africa and South Asia, which together account for some 70% of the 1.2 billion people living on less than $1 per day (Azariadis, 2005).

Public Financial Management: Public financial management refers to the procedures, established by law or regulation, for management of public monies through the budget process, which includes formulation, execution, reporting, and analysis (Potter and Diamond, 1999). One of the most important objectives of a public financial management system is management of the budget, and should include management of revenue as well as expenditure. What is important for public financial management is that different jurisdictions sustain very different polices towards the role of government, the functions and services on which governments spend money and the overall level of public spending.

Public financial management is a vast field of endeavor which encompasses the whole processes of formulating and implementing decisions made on government services,

expenditures, taxes, public debt and other revenue. Public financial management is all about government's management and control of its income and expenditure. This presupposes that the management and control involves governments' budget usually prepared annually or through developmental plans for a specified period depending on the government's needs. Thus public financial management deals with judicious use of funds and also ensures accountability and financial control (Abata and Adejuwon, 2012). Public sector financial management is crucial to a country's economic development. Issues such as extravagance, wastage, embezzlement, and corrupt practices will affect the development of a country. As taxpayers, who are the providers of funds, citizens expect their Government to provide value-for-money services to them. Public officials and their offices are therefore accountable for the efficient and effective management of funds provided by these taxpayers to achieve the intended outcomes of the specified activities (Patton, 1992).

Effective Public Financial Management as a Panacea to Poverty Trap in Africa

In the last decade, there has been a growing interest in the quality of public sector financial management in Africa. Public financial management is absolutely critical to improving the quality of public service outcomes. It affects how funding is used to address national and local priorities, the availability of resources for investment and the cost-effectiveness of public services. A strong universal trend is moving towards demanding more performance and accountability from the public sector. In answer to social and economic pressures, Governments around the world have initiated sets of public finance reforms, adopting different scopes and approaches.

In Africa, weak revenue bases and limits on borrowing capacity make it difficult for governments to fund their activities. There are two main kinds of fiscal weaknesses that lead to systematically worse budget outcomes than legislated budgets. First, economic growth and revenue projections, including grants, are generally prepared optimistically so that higher budget spending can be accommodated. None of the African countries, except Uganda and to some extent, Tanzania, have a hard legal constraint on outcomes such as the budget deficit or debt limit. Thus, while the overall projections of growth and revenues generally determine the aggregate expenditure envelope, the outcome may lead to systematically worse deficits than budgeted because of the tendency to overestimate revenues (Prakash and Cabezon, 2008). Alesina and Perotti (1996) examine how the budget process affects fiscal deficits and borrowing. They divide budget rules and regulations into three kinds: procedural rules; rules on transparency; and numerical targets such as balanced budget laws. They focus on numerical targets and argue that such targets encourage creative accounting, and are not optimal and flexible from an economic point of view.

A well functioning public financial management system is a prerequisite for the sustainable implementation of governments' policies aimed at promoting economic growth and social development. Sound public financial management policies and practices provide responses to the challenges of greater economic openness and the resultant globalization of public goods, equity in development, fair access to public service and poverty reduction. In addition, effective public financial management is important for decision making. Accurate financial information is often used as the mechanism to support decisions and ensure effective resource allocations. Good financial management is responsible for not only protecting, developing, using resources, pushing and maintaining economic growth and increasing income, but also managing effectively and efficiently all national resources.

Eradicating poverty and ensuring sustainable development should form the raison d'etre of public administration. The biggest challenge facing Africa's public administration leadership and governance in general concerns the eradication of poverty at community level. Improving public financial management is important to enable countries to reach their

developmental goals. However, the impact of public financial management on poverty ultimately depends on the quality and pro-poor focus of government objectives and policies themselves. In particular this is critical to the reduction of poverty.

The Influence of New Public Management on African Public Financial Management

Due to environmental changes, new developments in the public sector emerged inter alia the introduction of the term New Public Management (NPM). The NPM represents the culmination of a revolution in public management that emerged in the 1980s. Rather than focusing on controlling bureaucracies and delivering services, public managers are now responding to the desires of ordinary citizens and politicians to be "the entrepreneurs of a new, leaner, and increasingly privatized government" (Denhardt and Denhardt, 2000). As such, the NPM is clearly linked to the notion of trust in economic rationalism through the creation of public value for public money. The NPM movement is driven to maximize productive and allocative efficiencies that are hampered by public agencies that are unresponsive to the demands of citizens and led by bureaucrats with the power and incentives to expand their administrative empires. In addition, the NPM makes a rigid formal separation between policy-making and service delivery (Self, 1993; Kelly, 1998).

NPM challenges the classical administrative considerations about the structure and function of public services. The Wilsonian dichotomy between politics and administration, the Weberian ideal type bureaucracy and the Taylorian idea of one best way, have been supplanted by the goals of financial efficiency and effective service delivery (Fox & Miller, 1995). Generally speaking, this trend could be described as a transformation from public bureaucracy to one model of administration that is business like, but is not like a business (Gray, 1999). New Public Management highlights the adoption of a business outlook and this is manifested by a set of techniques and methods related to performance evaluation and measurement and by a set of values such as productivity, competitiveness and quality. Business logic is dominant and underlines the core values of administrative culture (efficiency, effectiveness and economy) without replacing the traditional values of legality, impartiality and equality (Bishop, 2000).

NPM introduced not just a different way of managing public services, but also the need for different financial management tools and techniques.. Introduced initially in response to widespread public criticism of the public service, the overall ethos of the reforms is greater public sector efficiency and, as Manning (2001) explains, has two key tenets: allowing managers to manage and making managers accountable. The demand for new public management, therefore, aims not only to improve administrative output technically, but also to develop public relations techniques based on communication skills, simplified administrative formalities and procedures, cooperation in public affairs, safeguarding the public interest, developing partnership practices, transparency, fighting corruption, promoting a code of ethics, citizen participation in public affairs and consultation.

The NPM is related to the notion of re-engineering the public sector or the reinventing of government. Re-engineering is a management philosophy that seeks to revamp the process through which public organizations operate in order to increase efficiency, effectiveness, and competitive ability. It calls for changes in the structure of public organizations, their culture, management systems, and other aspects in support of the new initiative. In addition, it encompasses client-oriented, mission-driven, quality-enhanced, and exercise-participatory management, using resources in new ways to heighten efficiency and effectiveness (Barzelay, 1992; Osborne and Gaebler, 1992; Halachmi, 1995).

Perhaps the most influential factor has been the economic/fiscal crises that the African states have had to endure since the mid-1970s. Many of the countries have now started to grow economically again. However, for the majority, poverty and economic stagnation still

loom large and there is still ongoing concern about balance of payments problems, the heavy burden of debt, the size of public expenditure relative to the declining sources of public revenue, and the increasing cost of delivering public services. These concerns about economic and fiscal matters have led, in turn, to NPM reforms encompassing an assault on the active role played by the state in managing the economy and in the direct provision of services (Hope, 2001a).

Since the early 1980s, significant efforts have been made in Africa toward the reform and transformation of public sector management. Those efforts have been driven primarily by the fact that state bureaucracies in Africa underperform; are invariably too large and corrupt; and lack a sense of responsibility and accountability (Hope, 1997, 2001b; Hope and Chikulo, 1999). As noted by Goldsmith (1999), all societies need a capable public management structure to keep order, collect revenue, and carry out programs. The Africa region, for the most part, lacks these public management endowments.

Reforming the civil service in Africa through NPM-style strategies is, ultimately, intended to make the civil service accountable, transparent, and responsive to the public in the delivery of public goods and services. The lessons of experience of civil service reform in developing countries, including those in Africa, suggests some mixed results with the application of strategies from the NPM menu (Manning, 2000). However, this ought not to have been surprising to anyone familiar with the African scene where there are varying levels of capacity and institutional frameworks for implementing development policy. Indeed, the application of NPM-style reforms is intended to rectify some of these deficiencies and improve civil service performance. Undoubtedly, many countries in Africa have benefited tremendously from civil service reform based on NPM-style activities (Hope, 2001).

The financial management measures associated with the introduction of the NPM model is often referred to as New Public Financial Management (NPFM), a term that can also not be explained by a single definition or application. Indeed Olson *et al* (1998) describe it more as a reforming spirit aimed at increasing financial awareness in public sector decision-making and therefore an integral part of the broader public service reforms. Guthrie *et al* (2005) identify five key dimensions to NPFM as; changes to financial reporting systems (cash to accrual); devolution of budgets; market based costing and pricing systems; a performance measurement approach; and performance based (internal and external) auditing. New Public Management and financial management are therefore in harmony as the improvement of administration techniques and the safeguarding of public interest are common grounds.

Conclusion and Policy Implications

Poverty may still remain a feature of African countries' economic profile for a long time to come unless significant efforts are made by the various governments to focus on development strategies that are pro-poor. This paper investigated the relationship between poverty trap and public sector financial management, with special reference to Africa. The global statistics indicated that a significant relationship existed between poverty and public sector financial management of the countries under study with the management of Inflation, Government revenue and Government expenditure causing the greatest worry for both Nigeria and Ghana. In other words, these governments have consistently failed in the management of Inflation, Government expenditure and Government revenue. Perhaps, no problem receives greater global attention today like poverty. In Nigeria poverty with its associated multiple deprivations appears to be the greatest degrader of the economy amongst other contemporary socio-economic problems. Interestingly, the incidence and severity of

poverty in Nigeria are among the most challenging in the world, with serious economic and social consequences (Anger, 2010).

It is recommended that the governments of Africa should pay more attention to the management of inflation, management of government revenue and government expenditure. These three variables seem to constitute the three most causal factors of persistent underdevelopment. The national leadership needs to buttress the public expenditure control drive by cutting down on foreign travel costs. This should be buttressed by cutting the number of government ministries. This could be done by merging several ministries identified in the text. Such high profile expenditure restraint will go a long way in reinforcing a culture of zero tolerance to excess expenditures.

Overcoming the poverty trap in Africa requires raising the economy's capital stock in infrastructure, human capital, and public administration to escape the low-growth equilibrium and create dynamic forces for self-sustaining economic growth. This requires a "big push" of basic investments in key infrastructure (roads, electricity, water and sanitation, accessible land for affordable housing, environmental management). Improved transport infrastructure and services will strengthen economic linkages between rural and urban areas, where the markets for farmers' products and inputs lie. Improved road transport will allow farmers to deliver crops quicker to markets. It will also have an important positive impact on reducing the time burdens of women and girls who today spend much of their day walking to obtain water and other essential for survival. Improving infrastructure for water supply, sanitation, transport, and energy services is critical for improving the lives of slum dwellers. Investment in improved sanitation will improve the quality of life and reduce the high burden of diseases in informal settlements caused by widespread open defecation.

Investment in human capital (nutrition, disease control, and education), and public administration will also be needed to create the much needed synergies between physical capital and human capital. Scaling up interventions and coverage will require that infrastructure investments are made in conjunction with the expansion of service delivery. Escaping the poverty trap will require that investments are made not only for construction, but also for operation and maintenance. However, maximizing the growth-enhancing and poverty-reducing impact of public investment in Africa would require significant improvements in policies and governance. Government must ensure commitment in the areas of fund allocation for provision of social services that are beneficial to the poor; fostering efficient macro-economic and sectoral policies and the provision of an enabling environment to facilitate private sector economic framework.

The public financial management system must be integrated into the total governance framework if it is to contribute as part of an organic whole to enhancing a country's development prospects. There are examples around the world of failures to achieve this integration, which show that it can result in wasted expenditures at best and dysfunctional management systems at worst. The financial management in the public sector can be improved by the development of an integral accrual accounting system to enable the preparation of accrual-based budgets, financial statements and performance reports to meet the needs of the various stakeholders. The objective of a financial management system in the public sector should be to support management in their deployment of limited resources with the purpose of ensuring economy and efficiency in the delivery outputs (that is, services and/or goods produced by entities in terms of quantity, quality, cost and time), which are required to achieve desired outcomes (effectiveness) that will serve the needs of the community.

Also, the government should recognize and encourage non-governmental organizations (NGOs) to be actively involved in a wide variety of activities to help provide development opportunities for grassroots communities considering the disproportionately

high incidence of endemic poverty in the rural communities. Such encouragement of the NGOS should be closely accompanied by governments increased investment in human capital, a requirement necessary to equip the poor with education/training in order to enable them share in such grassroots opportunities (Anger, 2010). Effective Public Financial Management (PFM) systems are required to maximize the efficient use of resources, create the highest level of transparency and accountability in government finances and to ensure long-term economic success.

What is expected of the public service in Africa is that it stabilization or reduction of the wage bill, reorganization of ministries, administrative decentralization, strengthening of economic planning instruments, improvement of systems for the control of expenditures, fiscal management reforms, management of foreign debt, personnel training, etc. From this study, it is clear that there is a significant relationship existing between poverty trap in Africa and public sector financial management. We can also conclude here that the persistent underdevelopment of the economies of sub-Saharan Africa can be explained by public sector financial management failure.

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