Evaluationg the Private Sector and Governments' Role in Poverty Alleviation in Africa

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***Abstract*— Poverty alleviation is one of the Africa's most important challenges, and it is proposed the private sector has an important role to play in creating the economic growth, employment and purchasing options needed for significant poverty reduction. Poverty is highly correlated with many negative measurable aspects of standards of living and therefore reducing poverty can have a positive impact on the lives of millions of people around Africa. There is much to learn about poverty reduction through examining examples in Sub-Saharan Africa, as it is the region of the world which has both the most people currently living in poverty and has had the most success in reducing poverty.**

Keywords—Micro finance, micro credit, poverty alleviation, Africa.

I. Poverty Alleviation In Africa

The World Social Summit identified poverty alleviation as an ethical, social, political and economic imperative of mankind and called on governments to address the root causes of poverty, provide for basic needs for all and ensure that the poor have access to productive resources, including credit, education and training.

System of systems is a collection of task-oriented or dedicated systems that pool their resources and capabilities together to create a new, more complex system which offers more functionality and performance than simply the sum of the constituent systems.

Poverty alleviation is one of the Africa's most important challenges, and it is proposed the private sector has an important role to play in creating the economic growth, employment and purchasing options needed for significant poverty reduction. Poverty is highly correlated with many negative measurable aspects of standards of living and therefore reducing poverty can have a positive impact on the lives of millions of people around Africa. There is much to learn about poverty reduction through examining examples in Sub-Saharan Africa, as it is the region of the world which has both the most people currently living in poverty and has had the most success in reducing poverty.

Economic transformation is increasingly believed to be the mechanism to make trade work for poverty reduction and development in Africa.

But while transformation is indeed necessary for trade to contribute to poverty reduction, the nature of transformation also matters. In particular, strengthening the contribution of trade to poverty reduction in Africa requires inclusive structural transformation, which is transformation that enhances participation of vulnerable groups in the trade and development process.

And for this to happen, governments have to address economic, political and cultural issues that foster social exclusion, remove input market imperfections that prevent vulnerable groups from exploiting market opportunities, and adopt a more gradual approach to liberalization to ensure that the reforms do not have a disproportionate negative impact on the poor.

II. Poverty Alleviation Technologies

A. *The Private sector through banking institutions that provide Micro credit and Microfinance*

Microcredit also known as micro finance is the extension of very small loans (microloans) to low-income individuals or groups who typically lack collateral, steady employment, or a verifiable credit history. It is designed to support entrepreneurship and alleviate poverty.

B. *Government intervention through poverty alluviation initiatives*

Governments have a very big role to play as regards poverty alleviation.

III. Application Of The Technologies

A. *Micro credit and Microfinance*

Savings are a prerequisite for credit which is utilized to start or improve tiny entrepreneurial activity from raising a goat to selling street foods to marketing fish. All programs require frequent attendance at group meetings which function both to break down caste, ethnic, and kin barriers and provide mechanisms for wide-scale organizing.

The United Nations (UN) has paid close attention to and recognized the important role of microfinance in the socio-economic advancement of communities. This has included the declaration of the year 2005 as the year of microfinance, conducting studies and producing publications on the subject, and strengthening activities of its specialized fund for small-scale investment (UNCDF). More recently, the UN Secretary General has designated a Special Advocate for Inclusive Finance, to champion the microfinance agenda..

B. *Presidential Initiative on poverty alleviation; A case study done in Uganda.*

One of the things that the President of Uganda has been fighting endlessly is poverty. This is why he set up the Presidential Initiative on Poverty and Hunger. The Poverty Alleviation Department (PAD) in State House was established in 2000 as a clearing house for pledges made by President Yoweri Museveni. In 2003, the department was mandated to develop wealth creation models. The department has so far designed more than 12 initiatives aimed at increasing productivity and value addition.

A model parish is an innovation evolved by the President to demonstrate how systematically a high concentration of projects in a model parish can be used to tackle poverty and speed up rural transformation.

PAD works in tandem with other government anti-poverty initiatives. The programme aims at enhancing or supplementing the five pillars of the Poverty Alleviation Programme (PAP) and the Prosperity For All programme, especially the element that calls for the creation of Savings and Credit Cooperative Societies (SACCOS).

The five pillars of PAP include, Income Generation, Food Security, Home Improvement, Value Addition and Marketing, and Savings and Credit.

IV. Benefits From The Technologies

A. Micro credit and Microfinances

Most current poverty alleviation programs in the private sector (i.e. micro finance and microcredit programs) focus on savings, credit for microenterprise, and the organizing home-based workers through NGOs. In combination these programs assist the poor women and men to accumulate assets and expand ties within the community which in turn encourages investments in human capital and creates social capital. The impact is more dramatic for women than men in those traditional societies where women and men are segregated socially, where women's mobility is severely limited, and where women's work is largely unremunerated.

Profits from microenterprise and the savings programs have allowed women to purchase more durable assets such as a house or agricultural land. Many urban NGOs support programs by which the poor obtain housing through sweat-equity and credit. Women as the primary family caretakers need the security of shelter. Most laws or customary practices in developing countries still privilege male ownership of house and land (see *Land Rights and Gender*). Registration for these assets remains an obstacle though laws and traditions are changing, often under pressure from NGOs (Tinker and Summerfield 1999). The surplus of widows from war and AIDS has recently convinced both Uganda and Rwanda to allow women to inherit land. Globally, the rise of women-headed households and absentee partners, now exacerbated in post conflict regions, and their critical need for shelter has prompted the Gender Unit of the United Nations Centre for Human Settlements to mount a campaign for security of house tenure for women (UNCHS 1999).

Microfinance Institutions tends to offer some training to its clients, more especially on entrepreneurs' skills, this is basically to impart knowledge to enable their clients to utilize the loans efficiently so as to be able to expand their businesses and be able to pay back their loans. Microfinance sector required innovative ideas beyond traditional financial system. Social intermediation increase human capability and group based lending schemes reduce processing cost and decrease financial risk in relation to providing credit to poor.

Programs to provide income and housing to women empower them and enhance their household bargaining position (see Family Bargaining). The social capital gained through membership in organizations enhances women's community presence and provides them with a voice in elections. Such power addresses gender inequalities and provides ways for women to rise out of poverty.

Credit can be used as working capital so that clients' efforts become more productive; for example, clients can buy rice or grains in bulk at wholesale prices and resell it at retail prices or buy a refrigerator to keep produce fresh. As clients become more productive, their income increases and they are able to accumulate savings for other investments and emergencies. Savings serve as reserves for important household expenditures (such as school fees and funeral costs), and as insurance against sudden crises (such as illness, natural disaster, or theft) that can otherwise result in destitution for people already living at the poverty line. In many cases lowincome people want to save, and have been saving in a variety of traditional ways, ranging from kinship networks to Revolving Savings and Credit Associations (ROSCAs), but lack appropriate saving facilities that offer a combination of security of funds, liquidity, positive real return, and convenience. MFIs can build upon Africa's traditional savings ethic to enhance outreach and quality of services. It is important to keep in mind that for any financial service to have a lasting impact on poverty eradication, it must be flexible and innovative to adapt to their needs of its clients.

Microfinance initiatives can play an effective role in addressing material poverty, the physical deprivation of goods, services, and the income to attain them. MFIs can help people become more economically secure. This, in turn, has a multiplier effect on people's standard of living, enhancing basic household welfare, such as food security, nutrition, shelter, sanitation, health and education services. MFIs can help prevent and extricate people from debt. Oftentimes, they liberate low-income households from moneylenders with outrageous interest rates that often reach 100% annually. Savings and credit services help people start or improve their own small businesses, providing income generation and employment for themselves and their families.

Microfinance initiatives offer more than just material benefits; they can also address issues associated with "non-material" poverty, which includes social and psychological effects that prevent people from realizing their potential. Microfinance initiatives individually and collectively empower people. A steady income, a savings account, training, and the discipline to honor loan repayments usually raise the self-esteem and status of clients, in societies where they are often treated as second-class citizens. MFIs often utilize microfinance groups to provide training in financial management, legal rights, business management, as well as other support services. Principles of collective organization and solidarity empowered people to bargain for higher wages, better work conditions, health services, child-care, and common forms of insurance to protect their lives and livelihoods.

MFI participants, especially women, are often empowered to speak out more, assume leadership roles, and address issues beyond their workplace, such as domestic violence. For many women, the group is the first opportunity to meet formally with other women to discuss problems and develop joint action. The groups serve as a channel of information. For example, members may tell each other about counseling services that have been established for women victims of violence and drug and alcohol addicts. Many women participants experience a change in their household and community status. Some experience an increase in financial responsibilities when their husbands noticed that they are involved in lucrative activities.

Private enterprises and the voluntary transactions they engage in encourage respect and dignity and help change the image of the poor. 'If we stop thinking of the poor as victims or a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up' (Prahalad, 2005). The private sector is the best source of a job, or better yet choices of jobs, business opportunities and products one can voluntary choose to purchase in hopes of improving one's life. With opportunities, the poor can make their own choices on how to earn a living and what type of lifestyle to lead. In a vibrant market economy, companies have to compete for employees, business partners and customers, and to retain any individual, wealthy or poor, as a customer, business partner or employee in an environment where choices are available requires treating the individual with respect and dignity.

B. Poverty Alleviation Programme (PAP)

Poverty Alleviation Programme (PAD) has recorded tremendous success. For example, there are more than 19 model parishes being run under the PAD programme. These include Ruharo model parish in Bushenyi, Kasokwe Model Parish in Kaliro, Lwabenge in Masaka, Kikoni in Ntungamo, Busiita in Sironko, Kyanamukaka in Masaka, Sheme in Bushenyi, Bwera in Kamwenge, Petta in Tororo, Nakyesanja in Mpigi, Rwenganju in Kabarole, Mbulamuti in Kamuli, Mwanyagiri in Mukono, Rwentondo in Rukungiri, Kisozi in Mpigi, Mangho in Mbale, Mucuumi in Kitgum, Syanyonga in Busia and Buwemba in Masaka.

To become a model parish, farmers were given better yielding seeds and other farm implements for their farms. For example, by July 2009, 12,400 banana suckers had been given out to farmers. Ideally, since an acre takes around 400 suckers, these were able to cover over 26 acres. A farmer can harvest at least 100 bunches from an acre per month.

In addition, Lwabenge also received 22 in calf heifers that were given to 22 households. There were also two bulls in the parish, purposely to cater for the calves. These cows produce at least 10 to 14 liters per day. The residents had also formed SACCOS and were ably marketing their produce.

In Ntungamo district, Kikoni was selected as the model parish. As of July 2009, the parish had received banana suckers, goats, cows, hives for apiary and many other income enhancing implements. A total of 2,589 pullets and 249 cocks had been distributed. Chicken beneficiaries were given between 50-200 chicken depending on capacity. The bananas have drastically improved food security in the parish. As a multiplier effect from earnings from the farms, the houses in most of the model parishes are cleaner. Each of them has a toilet that is equally clean. The use of improved stoves to improve on usage of wood was also practiced.

In Mangho parish in Mbale district, as of July 2009, the parish had received 20 heifers and each of them was producing an average 12 liters of milk per day. Local chicken given to various families was also doing well, while the bananas had also produced and one of the benefiting farmers was already earning sh500,000 from the bananas per month. Overall, the idea of model villages is changing lives across the country.

V. CHALLENGES

A. Challenges facing mico finance and micro credit institutions

However, microfinance in Africa still faces challenges, which conceal the strengths and opportunities at the various levels. These challenges have inhibited its capacity to unleash its potential to better contribute to the fight against poverty. At the micro level, African MFIs have structural weaknesses at several levels: governance, portfolio management, internal control, human resources, and financial sustainability. At the meso level, microfinance support services are rare and of unequal quality. Also, although the Consultative Group to Assist the Poor / Microfinance Information Exchange Market (CGAP/MIX) compiles information on financial performance, the data is still limited, reflecting reporting gaps. At the macro level, the supervisory and coordinating bodies have limited resources, while more effort is needed to strengthen the legal framework. This is especially so for many low-income African countries, where the legal system is too overstretched and is not sufficiently reliable to help develop the financial sector further. These weaknesses call for governments and external development partners to play a leading role in consolidating the development gains achieved so far and in guaranteeing the sustainability of microfinance in African countries. This should involve facilitating and consolidating partnerships between the government and other domestic stakeholders.

Challenges facing micro finance institutions are discussed below;

Despite the disproportionate concentration of poverty in rural areas, microfinance tended to gravitate away from rural borrowers. Some 70 percent of the population in Sub-Saharan Africa lives in rural areas, where financial services are scarce. Delivering microcredits and savings mechanisms can be particularly challenging in areas of low population density, where the distance between clients is great, transportation networks are often poor, and low-income levels tend to translate into impracticably small financial transactions. In contrast, in densely populated areas of Asia and Latin America, providing credit has been the driving force of microfinance because opportunities to invest in income-generating activities are many. But rural Africans have been left out, both because they have been hard to reach and because their bottom-rung economic status makes savings – often a hedge against starvation itself – a higher priority than credit.

In place of the poor getting the benefit of Microfinance, rich clients get access to these institutions at a much lower rate of interest. Its main target is to help the poorest of the poor, to eradicate poverty. But these institutions prove to get poor into more trouble and worsen their conditions.

Another key element to notice as regards the challenges of microfinance in Africa is an enterprise's legal status. A key concern for MFIs is to know their clients. It is all the more difficult as these clients are most of the time informal businesses: personal and business expenses are mixed and therefore difficult to track; assets property is unclear and cannot support collateral lending. As they access microfinance services and grow their business, these clients could choose to formalize – but it is rarely the case. Some entrepreneurs choose to stay small; they started their activity only to generate cash and are satisfied once they can cover their family expenses. But others have more ambitious growth objectives – and still remain informal. Administrative bottlenecks and slowness largely explain this aversion, along with taxation. Government's role is to provide an adequate legal framework for small businesses as they are considered one of economic growth's driving factors. Encouraging enterprises to go formal would certainly impact the provision of financial services to the poor. Banks and other financial service providers would gain confidence and would be ready to take more risks.

It is observed that poor use these microcredits to pay their debts and not use it for their business or raise their standard of living. This happens because the borrowers are self- employed and work in a sector which gives them small income, which makes repayment of debts impossible or very hard. This has led poor into a trap and often end up in committing suicide.

One of the key bottlenecks in Africa is the shortage of strong institutions and managers. Capacity building and knowledge management are essential for this fundamental constraint. Donors can support these areas through different initiatives: financing local training centres, granting scholarships for studies abroad, organising local knowledge sharing events and strengthening local intermediaries. These initiatives won't only improve the microfinance sector in Africa but also help the managers and leaders of tomorrow to have all the skills they need to make Africa strong and great.

Microfinance companies who generally focus on saving rather than credit end up helping only small proportions of poor.

Last challenge is to develop the whole financial infrastructure. Smart use of technology could play a major role in strengthening it and help MFIs in many areas such as credit risk management, distribution channels (internet banking, ATMs), and even funding (transparent information, rating agencies). In several countries around the world, financial service providers are piloting the use of new technological approaches to bring financial services to people who have been difficult to reach up to now. These technological approaches exist in Africa and are used, but in numbers too small to have a real impact on the costs and efficiency of financial services for poor Africans. For example, Africa's payments systems are the least developed globally. Cash dominates, and inter-bank domestic transactions can take up to 45 days in Ethiopia, for instance.

B. *Challenges facing Government poverty alluviation initiatives*

Another example of a selected model parish is Ruhaaro in Bushenyi. Ruharo, was among the very first model parishes, since it started in 2004. When a team of researchers from the Office of the President visited the parish in 2009, they realized that some of the programmes were not going according to plan. The team observed that some of the inputs were not doing well. For example, they noticed that although some of the families catered for the bananas, others did not do so, hence leading to poor productivity. They also discovered that compared to some of the cattle in other model parishes, those in Ruharo were not producing as much milk.

In the Busoga region, one of the selected model parishes is Mbulamuti in Kamuli district. Like the other model parishes, most of the population here is mainly engaged in agriculture produce. When a team of researchers from the President's Office visited the area on a fact-finding tour, they realized that many of the residents had not yet adapted to the idea. The team was informed that out of the 1,000 households in the parish, only 24 had benefited from the programme. But the encouraging news was that most of those who had benefited were doing well.

Conclusion

Poverty alleviation should not become a political issue driven by political ideology, the issue is too important. Both the left and the right have at times pushed for protectionism or other misguided policies which have limited the poor from having opportunities to improve their lives. Poverty alleviation should be an issue individuals from all political backgrounds can work together to achieve. Policies and ideas that have proven to be successful should be followed, regardless of their conformity to any particular political ideology.

Our findings confirm that various approaches to poverty alleviation are rather complementary and need to be implemented simultaneously for a comprehensive poverty alleviation drive. However, in relative terms, factors like good governance within community organisations and supporting institutions, high-quality community organisations based micro-financing, and enhancement of capabilities coupled with social security assurance seem to work better than a market-based approach.

Therefore, in order to address multi-dimensional poverty an integrated and multi-dimensional poverty alleviation approach is needed.

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