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# **Globalization, Institutions, Asset Endowments and Poverty Reduction Outcomes in Africa within the Context of the Financial Crisis: Establishing a Transmission Mechanisms**

By

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## **Abstract**

*This paper sets to establish a transmission mechanism linking globalization, institutional setups, asset endowments and poverty reduction outcomes in Africa within the context of the current financial crisis. Identifying different sub channel circuits as well as the complex and indirect linkage observed between globalization and poverty, we note diver's impact of the various factors on welfare enhancement and poverty reduction. Establishing a framework that teases out these channels, policy wise we identify that: government should: consolidate macro and micro institutions that act as safe nets to forces of globalization during crisis periods, consolidate and enhance asset accumulation of the poor and rural population during the crisis period, strengthen fragile industries, empower human capital, etc in view of reducing poverty and consolidating development during crisis situations.*

**JEL Classification: F42, F43**

**Keyword:** Globalization, institutional setup, asset endowment, Poverty Reduction

## **Introduction**

Globalization currently features in most development oriented discussions. In this debate, while advocates are unrelenting in prescribing increases in exchange and fluidity of goods and services, capital and technology as solutions to problems faced by poor and less developed countries, detractors are painting a gloomy picture on the welfare of the underprivileged if the forces of globalization are not halted. The current financial crisis since 2007 perceived as the consequence of uncontrolled and rampant movement of capital and speculation, and its spill over effects to the economic sphere has re-introduced to the lime light the debate of globalization as a means of ushering out poor and underdeveloped countries from poverty. Advocates of liberalized capitalism still argue that, though unchecked globalization may yield negative consequences, enhanced globalizing trends have permitted the opening up of boundaries for the flow of information, capital, skill and resources; thus still remaining the best economic system. They further opine that due to globalization (exchange of goods and services) he economies of countries like India and China have benefited from globalization, translated by a rise in middle class families and a shift in hundred of millions of households worldwide from abject to relative poverty. Other proponents of globalization do not attribute

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the financial crisis to globalization but to poor and reckless international financial management systems and institutions in charge of regulating this sector.

Despite these arguments, it's clearly observed that this crisis have set most countries getting into protectionism via divers manners. This set back to the "élan" of globalization is welcomed by most opponents of globalization who attribute the financial crisis to negative aspects of these trends such as: deregulation of the markets, more capital rights and uncontrolled inclusive movement of people and capital. This rush towards protectionism despite being decried, have come to show the limits of globalization. In spite of the increase in globalization trends observed since the early 1980s, the World Bank 2008 Report revealed that about 1.4 billion people still live in crushing poverty. Opponents question whether there has really been any relief as per the poorest of the poor due to globalization. Additionally, increased unemployment observed because of the collapse of key sectors via the concept of restructuration and destructuration of key sectors as per structural adjustment programs, and molded within the forces of globalization might have increased the number of poor people.

These policy debates surrounding globalization has not only set most countries seeking ways and means of harnessing, augmenting, attracting and accumulating physical and human capital, technological progress, new technologies, better restructure their export/import activities, etc, but has also been enshrined in policy menu of many international organizations: the World Bank, the International Monetary Fund, the World Trade Organization, the United Nations, the African Union, etc. These organizations seek for ways of promoting the positive impacts of globalization, as well as rendering the effects just and humane.

Baye et al, (2001) observed that, the importance hitherto ascribed to foreign aid or indigenous human and physical capital accumulation as prerequisites for growth and development has recently been waning because of the forces of globalization. They further note that, it is now possible to create a conducive and viable environment which should attract physical and human capital to foster growth and development in a given country. These incentives structures can be ensured by setting-up an enabling environment that mitigate the adverse effects of globalization, while augmenting the positive effects. Globalization can therefore impose serious obstacles or either creates an appropriate environment for economic progress; the trickle-down effects of globalization can also have positive influences on the welfare of rural communities and the local population (Baye et al, 2002). Growth and development entails an achievement of macroeconomic stability in divers issues; low inflation, sustainable budget deficits, appropriate and stable real exchange rates, etc (Rodik, 1996).

Defining globalization in our present day context is difficult and hard to capture. Globalization can be summarized as an embodiment of increase import penetration, export sales, competition in goods and services, foreign direct investment and exchange rate fluctuation prompted by international capital movement (Bhanumurthy and Mitra, 2006). While Rama (2003) perceives globalization as the process through which the domestic factors of production<sup>5</sup> of a given country interact and integrate in the world economy, Bordo et al, (2003) view globalization as an integration of countries in the commodity, labor and capital markets.

However, Dunning (1993) goes further by arguing that globalization is a process which enables the widening of the extent and form of cross-border between the actions of

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<sup>5</sup> These factors of production are identified principally as labour and capital. Labour here includes not only the traditional labour aspects like skill, but also entrepreneurial abilities.

globalization entities which may be private, public institution or government, located in one country and those related or independent entities located in the other countries. Abena et al, (2004) posit that in addition to globalization processes, the level and extent to which these forces open up an economy, will depend on its level of infrastructural development and the nature of its institutions.

Despite the difficulty of precisely defining globalization, its effects are far reaching. Nissanke and Thorbecke (2004) point out that, the globalization process is one of the most critical developments affecting the evolution of national economies. They emphasize that, the contemporary phase of globalization may be viewed to a certain extent as an outcome emerging from the global consolidation and diffusion of economic policy paradigms<sup>6</sup>, which portrays benefits and positive features of the liberalized policy regime. They highlight the view that, the opportunities that new countries have gained by integrating the world economy such as growth and development are evident. They however, question the extent to which these advantages actually impact on the poor.

Characterising and capturing indicators that portray the effects<sup>7</sup> of globalization are vast and diverse. Issues such as: trade volumes, capital flows, trade policies, tariff and non-tariff barriers, the rate of absorption of new technologies, legal structures integrating international norms, etc, all reflect the degree of global insertion of a given country. In this vein, globalization is often viewed as the increasing depth of economic interaction among countries, reflected in (1) an increasing share of imports and exports in GDP, (2) an increasing share of foreign capital in domestic investment, (3) increase financial integration among countries and; (4) greater harmonization of domestic laws and standards with well established norms.

A point worth noting is that, integration is not always synonymous to economic development. In order to render this relationship positive, it is important to put in place strategic integration policies which permit a better insertion of the economy into the global economic system. The notion of integration and economic development clearly ties with the convergence theory. This theory promotes the vision that, policies which show a greater degree of openness and greater integration in developing countries will push these countries to experience a convergence in performance and economic development towards developed countries. This movement is mainly due to a continuous shift in comparative advantages among nations and regions (Krugman and Venables, 1995).

This theory, however, has been questioned by Sach and Warner (1995) who observe that despite development seen in both the developed and developing countries, the degree of convergence still remains a call for concern. They highlight other aspects such as; geographical settings which cause developing countries to remain under developed. Dowrick and DeLong (2001) also show that, openness does not necessarily lead to convergence and that many poor countries that undertook efforts to open their economy in the 1980s have not experienced an adequate increase in both income levels and structural development.

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<sup>6</sup> These paradigms including trade, financial liberalization, privatization, legal and other regulatory systems, which are seen as vital the integration into the globalizing world economy.

<sup>7</sup> These effects may be either quantitative or qualitative. Quantitative aspects because statistics can actually be gathered on issue such as: trade volume, capital inflow and amount of new technologies imported in a country. Qualitative effects are usually difficult to get data, say on, on policies enacted and in such cases we mostly use proxies.

Globalization, however, is not void of critics. A sharply divided argument<sup>8</sup> on the benefits of developing countries from integrating the world economy is currently in vogue. Anti-globalization activists argue that, globalization has ‘left out’ most developing countries, with these countries not being able to reap the benefits from actively participating in the world’s economy. They advocate that, too much globalization has been detrimental to the poor. Sen<sup>9</sup> (2002) points out that, recently the concerns of the so call anti-globalization protesters stem from their concern over the issue that, in addition to continuous deprivation suffered by developing countries and the rising trends in disparities in the standards of living between the developed and developing countries they have witnessed in the current period of globalization, globalization should not be considered as a remedy for poverty reduction.

Poverty being an issue of global concern, precisely halving poverty by 2015, and currently constituting the most serious MDG objective necessitates a critical analysis going beyond mere accounting procedures. An overview of the topography of the global poverty reveals that since the 1980s, the poverty rate has been trending significantly downward in all regions of the world except in sub-Saharan Africa (SSA), where halving poverty by 2015 seems unlikely to be achieved. The World Bank (2006) report notes that within the period 1990 to 2000, the proportion of the population living on less than US \$1 per day, marginally rose from 45 to 46 percent points. In this vein the World Bank (2007) report revealed that over the last quarter century, the headcount poverty rate barely budged in SSA, from its value of 42 per cent in 1981 to 41 per cent most recently in 2004. Fosu (2008) observed that poverty reduction in SSA is likely to constitute a particularly important challenge as compared to other regions of the world.

Recently, Sachs et al, (2004) have argued that there are three types of poverty traps in Africa: the savings trap; the demographic trap, and the low capital-threshold trap. Thus, Africa seems to suffer from many deep-seated structural problems that propagate poverty. Revisiting Epo (2006), we note that some of the characteristic of poverty are (1) it is more evident in rural areas than in urban areas; (2) its reverts specific demographic characteristics; (3) it constitutes inadequate assets and income; (4) the sources of income for the poor are variable and uncertain (job and saving instability) and; (5) spending income is most alone on food. Understanding these characteristics permit us to have a better understanding of who are poor, how poor are they, and why are they poor. It’s generally agreed that many developing countries are now addressing concern for the poor in addition to pursuing growth objectives as enshrined in their Poverty Reduction Strategy Papers (PRSP). This development approach is based on the incorporation of a social dimension to the objectives of the Structural Adjustment Programs (Baye, 2006). Nowadays, both governments and donor organisations agree that for these adjustments to be effective in view of fostering development the poor must be consulted with a view to increasing their wellbeing.

In recent decades, Africa has been the world’s worst performing region in terms of poverty reduction (Ravallion and Chen, 2000). Between 1987 and 1998 poverty incidence stagnated at 46%, while the number of poor people increased<sup>10</sup> from 217 million to 290 million (Bigsten and Shimeless, 2003). Per capita income in Sub-Sahara Africa (SSA) retreated by 20%

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<sup>8</sup> Ravallion (2003) notes that a difference in argument is based on how poverty is calculated. He further observes that, while proponents of globalization use absolute poverty to measure effects of globalization on the poor, the opponents of globalization rather use relative poverty to measure the effects of globalization on the poor. This he note is same for measuring the impact of globalization on inequality”. Ravallion (2003), “The debate of globalization on poverty and inequality: why measurement matters. *International Affairs*, 79, 4 (2003), 739-755).

<sup>9</sup> Amartya Sen. “Globalisation, inequality and global protest”. *World Development* 45:2, 2002, pp. 11-16.

<sup>10</sup> There is however a debate as to which poverty measure is used and how best it is to actually translate the poverty situation in Africa based on either the incidence of poverty or the absolute number of poor.

between the peak of 1974 and the bottom of 1994 (World Bank, 2002). The 1990s however witnessed some recovery in terms of improved macroeconomic management, growth and poverty reduction for selected countries in SSA (Christiaensen et al, 2002), with a modest 4% increase of SSA per capita between 1994 and 2000. Despite this modest growth questions clouds the extend to which African economies generally can achieve the goals of poverty reduction, sustainable growth, equitable redistribution of the fruits of growth (inequality), enhance asset building and accumulation and improve human development as outlined in the Poverty Reduction Strategy Paper (PRSP) and MDGs (ECA, 1999; ECLAC, 2002).

Tackling poverty within a globalization frame especially during this crisis period is still at an embryonic stage, and the quest for grass root welfare has highlighted debates about the elements that should be at the center of any reasonable poverty reduction strategies, particularly in view of enacting a sustainable development process within both the crisis period and in an increasing globalize economy. We identify issues such as: (1) what behavioural patterns that influence welfare should be established; (2) should strategies that target poverty reduction within the crisis period have a growth bias or instead mainly concentrate on empowering the poor to benefit from growth and; (3) which clear-cut transmission mechanisms can be identified to significantly reduce poverty. These questions point to the worrisome situation why most economic strategies in less developed countries which consisted of putting poverty issues at the center of development programs have failed to produce the expected outcomes, and might even worsen within this crisis period. Sen (1997) insinuates that for poverty programs to succeed, concerting with the extreme poor to put in place sustainable strategies where these groups actually play a more active role is crucial.

A careful reading of the objectives highlighted by NEPAD literature three main areas of efficient institutions is portrayed. These include; political governance; economic governance and management and; corporate governance. These aspects showcase NEPADs vision of improving the institutional structure of most African countries will enhance overall poverty reduction (TSARRM, 2003). Thus, the creation of safety nets by institutions to capture shock effects which may influence the situation of the poorer populations is crucial to break away from the vicious poverty cycle. In an attempt to establish a linkage between globalization, institutional setup, asset endowment strategies and poverty reduction within the context of the financial crisis, we set as main objective of this paper teasing out transmission mechanisms that relate globalization to poverty reduction within a crisis context. Specifically, we (1) identify the various sub linkages and (2) suggest potential policy implication. In what follows section I attempts to explicate the various concepts and section II teases out the various linkages.

## **Section I: Defining the various concepts**

### **A) Globalization**

Globalisation is currently viewed as processes where countries remove, diminish or eradicate their once existing barriers which might have been tariff or non-tariff barriers. This implies that former protectionist policies once put in place by these countries are now being eroded away as globalisation proceeds. Cline (2004) observes that empirical evidence tend to weigh more on the side of those who argue that more open trade policies lead to better growth, enhanced development and an increase in welfare. This observation is similar to results obtained by Harrison and Tang (2005), who note that developing countries have been actively

putting in place reforms, policies and programs that are rendering them more globalised. These incentives brought about by globalization can provide immense opportunities for small, open economies of less developed countries to accelerate its development process. These opportunities centre on access to world financial, commodity, labour and technological markets that enhance potential for exploiting comparative advantages and opportunity for greater capacity utilization. Also according to Prasad et al, (2004), both developed and developing countries have become increasingly open to capital flows, measured either using policy instruments such as capital control or ex-post capital flows<sup>11</sup>. Access to capital inflows should enable countries to smooth consumption shocks, augment their human and physical capital stock, and reduce output or consumption volatility.

Globalization in this light needs to be distinguished from internationalization because the latter is just one aspect of the former. Internationalization implies integration into the world system perceived as transaction between states, reflected in the flow of trade, investment and capital. Though globalization goes beyond, it is important to note that internationalization encompasses most of the traits highlighted when observing aspects influencing globalization (Wendo, 2006).

All across the world, trade reforms put in place by countries incorporate certain specificities peculiar to each country. Though these trade reforms are geared towards opening the economies of these countries by increasing exportation, importation investment and the rate of diffusion of new technologies, care should be taken to incorporate comparative advantages when rectifying these policies. Trade reforms in developing countries should be pro-poor by giving more weight to sectors producing goods made of unskilled labour or in the agricultural sector Bhagwati and Srinivasan (2002). This is because poor and developing countries have comparative advantage in these areas. The above argument seemingly ignores a crucial point, which is the ability to transform goods by an active industrial or manufacturing sector, hence bringing a value added advantage to the finished goods sold. This in turn would further augment the capacity of these sectors in the economies thus creating riches. Unfortunately, this is not the case since most developing and poor countries do not have an adequate manufacturing sector.

Another major handicap to the degree of openness in the domain of trade and FDI is the excessive nature of state intervention and regulation of the economic sectors. This aspect is further highlighted by Freund and Bolaky (2005) as they show that trade reforms actually lead to income loss in highly regulated economies. Relying only on good trade reforms is not sufficient for developing countries to enjoy the fruits of globalisation. Exports of developing countries need access to markets of the developed countries markets. Also the export goods (mostly raw materials) should be bought at adequate prices. Subsidies by developed countries such as the USA and the EU to their farmers should be eradicated so as to enable a free and fare open market system.

Caution should be taken by policy makers when tackling globalisation issues. Thus, developmental strategy developed by authorities can help counteract the negative effects of immutable forces of globalization. This view point to that globalization cannot be substituted for domestic development strategy because it is not sufficient for government to assume an active role in liberalizing trade and capital movements in a globalized context to fast track

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<sup>11</sup> Ex-post capital flow may be conceived as the effects of capital injected into the economy and observed after a given period of time. These effects are evaluated, and based on these evaluations; conclusions are drawn on the benefits or not of capital injected into the economy.

development (Sanchez, 2003). Rather, government needs to pursue both active liberalization and active domestic policies.

Rounding up this subsection, opening up the economy in terms of inflows of capital, enhance exports, new technology absorption, incentive trade policies etc entails a better integration into the world's economy. Openness enhances and maximises factor endowment<sup>12</sup> in most countries, as well as increasing the utilisation of economic resources<sup>13</sup> or input employed in the process of production. Yet, it is crucial to note that the above mentioned aspects per se are not sufficient to allow a country benefit from opening its borders, care and efforts should be implemented, as well as tailored strategies so as to better coordinate how fast and efficient a country may open up to the world.

## **B) Poverty**

Poverty reduction is crucial to man's wellbeing as a whole and a powerful indicator of man's capability of satisfying basic needs useful for his evolution and development. This notion is currently en vogue in all development policies with the United Nations<sup>14</sup> taking the lead to preach on poverty reduction. The issue of halving poverty by the year 2015 has set all nations figuring on ways of moving households out of the poverty trap. In view of this, our understanding of the concept of poverty has improved and deepened considerably over the last three decades following the contributions of Sen since the early seventies.

Poverty has to be understood conceptually, before it can be measured. Conceptually, poverty may be viewed either under a monetary approach or a multidimensional phenomenon. Under the monetary approach, poverty is perceived as the inability of an individual or household to command sufficient resources to satisfy basic needs (Ravallion, 1994). These basic needs include food, clothing, shelter, health care and other non-food necessities of life (Fields 1997a and b) which vary from one environment to the other. To the above definition can be highlighted as indicators of poverty that is absolute, based on the ability to have adequate revenue to survive on the one hand and on the other hand an indicator that is relative viewing poverty under two aspects (Ali 1997); (1) considering the average real income of the poorest group as the poverty line<sup>15</sup> and; (2) raising poverty lines in proportion to an increase in the average income of the poorest group of the population. According to Ray (1998), the poverty line is a critical threshold which represents a minimum level of acceptable economic participation in a given society at a given point in time.

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<sup>12</sup> Factor endowments are the original shares of input needed to produce other commodities. The availability of these factors help set the prices for, and determines supply of commodities produced for domestic and international markets.

<sup>13</sup> These are inputs that are employed in the process of production. They include labour, entrepreneurship, land and capital.

<sup>14</sup> Refer: United Nations Development Program (1997). Human Development Report. Oxford University Press. Oxford and New York.

<sup>15</sup> A poverty line can be defined as the monetary cost of a reference level of welfare to a group of persons, at a given place and time, that separates the poor from non-poor and relevant inter-group comparisons. Moreover, poverty lines are important because they help to focus attention at governments, the donor community and civil society on living conditions for the poor (Baye, 2005). Also, a review of literature highlights the issue that a lot of attention has been paid to developing poverty measures that are capable of capturing changes in welfare distribution below the poverty line and treating the poverty line itself as given. Nowadays was of constructing and deriving poverty lines are now established with issues on how these lines greatly influence policy indications.



In addition to the two afore mentioned approaches, a third definition of poverty can be seen, viewing poverty as a multidimensional phenomenon. This means to the monetary concept, we append access to public provided by the state or local communities. The World Bank (2000) Report on poverty and development adopts this concept of poverty viewing it as a multidimensional phenomenon arising from interactions between primary assets and institutions. Thus deficiency in access, levels and returns to private and public assets brings about poverty, these include aspects such as Life expectancy, literacy, provision of public goods and even freedom and security which all show the quality of life. As expressed by Kanbur (2008), much progress has been made in measuring and analyzing poverty in terms of income. However, effort has to be made in order to measure and study the other dimensions of poverty which account for diverse aspects of human life, such as education, health, sanitation, and access to services and infrastructure.

### **C) Institutions**

As remarked by Basu (2004), the society is comprised of individuals, who are regulated by institution. Institutions are not only part of the human society but in essence depend on the specificity of the region or environment in which they are located. Institutions may be analyzed based on different notions; the transaction cost set up by new institutional economies, the game theory equilibrium perspective or on evolutionary theory that is based on learning processes and competition (Aoki, 2001; Nelson and Winter, 2002 and; Sindzingre, 2003, 2005).

Douglas North (1990, 1991), defines institutions as constraints<sup>16</sup> that shape political, economic and social interactions consisting of informal and formal regulations. Sindzingre (2005) enumerates the informal regulations or self enforcing constraints as; sanctions, taboos, customs, traditions, norms, etc and the formal regulations as constitutions, laws and property rights summarily speaking, institutions may be viewed as mechanisms that reduce transaction costs, instruments that allow stable participation of all spheres of the society, strengthens every one rights, creates incentives, channel resources, act as a flexible response to uncertainty etc.

Institutions viewed as above can be seen as a set of socio economic and political rules which are put in place under historical condition on which the society is built, function and upon which individuals or groups of individuals cannot violate in the short and medium term. Institutions contribute in defining socio-historical<sup>17</sup> conditions in which markets and non market mechanisms function. It is evident that economic relations are deeply structured by the institutional framework of the environment in which they are found. Sindzingre (2004), divides institutions according to a series of dichotomies, state and non state, market and non market and formal and informal sectors. She, however, observes that these dichotomies are weakened by many problems of definition, logical consistencies and conceptual overlapping. In order to have an adequate view of the institutional mechanism, it is important in distinguishing between its form and content. Institutions are made up of a set of rules that shape various levels of human knowledge and activity, and are simultaneously constituted of

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<sup>16</sup> The concept of constraint in North definition has been extended by Glaeser et al, (2004) to include constitutions and electorate rules as good examples of institutions but that, good policies chosen by dictators who have free hands are not. More over, they note that another essential aspect of institutions is that the constraints “need to be reasonably permanent or durable”.

<sup>17</sup>Socio- historical conditions simply cumulative experience from past historical data plus lessons learnt from past mistakes, which influences how institutions think.

form and content. While forms are constituted of names, organisations and structure; contents are made up of functions and meanings which evolve over time.

Institutions can be divided into macro and micro institutions. Macro institutions also known as national institutions are intimately linked to the state, national borders, sovereignty and the democratic polity. The macro institutions are made up of domestic policies, public institutions (legal, parliamentary and executive), credibility and ability to negotiate and represent the population in international organisations. The state represents the highest level of commitment for the welfare of its citizens; early development economists saw the rule of the state as fundamental in reallocating resources in an efficient manner when market sources fail to do so. Though certain countries in East Asia like South Korea, China etc have reached high level of development with the help of proactive interventionist governments, Sub-Saharan African countries have rather been plight by rent-seeking elites; predatory regimes etc. that have distorted policies which should have helped in development drives and effectively combating the financial crisis. In this vein, Robinson (1996) points out that it may be in the interest of certain predatory rulers to block economic development when they feel their powers are threatened.

At the micro institutional levels, we identify aspects such as norms, traditional settings, village level institutions, non-governmental organisations (NGOs) etc. which will go at a local level to shape interpersonal relationships that impacts on households, dictate exchange at local and rural levels, protect households against environmental degradation, etc. This setting is important when analysing institutional impacts on poverty because aggregate institutional policies may be harnessed or distorted by these micro institutions, as well filtered impacts of openness by national institutions may be distorted or nullified by micro institutions. This aspect is highlighted by Christiansen et al, (2003) who argue that in rural areas links to markets, education and access to land are key endowments which may be regulated by social norms or micro institutions. For instance, the allocation to education or land according to age, gender or status, might be dictated by village or rural institutions.

Azariadis (2004) observes that signals emitted from macro institutions may be wrongly perceived by micro institutions, building traps that separate the poor from policies or canals that can trigger on increase in welfare by a process of wealth accumulation. Rendering the flow of information from macro to micro level must be efficient.<sup>18</sup> This is crucial because unchecked links may lead to a dysfunctioning of the whole institutional setup, causing chaos and disorder which will be detrimental to welfare enhancement. Concluding this sub-section, we note that, actually capturing the extent and role of institutions remains quite difficult. This is mainly to the composite and complex nature of institutions which encloses not only infrastructure but also norms and behaviour.

## **D) Asset Endowment**

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<sup>18</sup>According to a UNECA (2005) report, out of the ten priorities adopted on good governance, nine were conventional in nature. However, out of these reports, the element of linking macro and micro institutions was highlighted via an incorporation of the constitution of traditional modes of governance in effectively protecting the local populations. This reports notes that given “the enduring vital role of traditional modes of authority in many areas of the continent, particularly in communities, it is important to constantly find ways to increase their efficacy in the market setting. Traditional system can complement the resources of government in providing such services as health, education and infrastructure”.

The added value of asset based approaches, in terms of developing analytical frameworks as well as operational approaches with the aim of understanding and improving welfare is vital. Recently, the measurement of assets has become the subject of considerable research and new techniques have been developed to aggregate ownership of different assets into a single variable (Cater and May 2001, Filmer and Pritchett, 2001, Moser, 1998), complementing standard measures of our understanding on the complexity of the processes underlying poverty reduction (Moser and Felton, 2006).

Generally an asset<sup>19</sup> is identified as a stock of financial human, natural or social resource that can be acquired, developed, improved and transferred across or within generations, generating flows or consumption as well as additional stock enhancement all geared toward development (Ford, 2004). In current development debates, the concept of asset endowment has evolved to include both tangible and intangible assets, with the principal assets being the physical, natural, financial, human and social assets (Moser, 2006a). Also, asset literature has expanded to incorporate a vast array of avenues. Some of these are; issues on prioritization and triage in policy interventions (Carter, 2006); incorporating additional assets (Ferguson, 2006); the importance of different generations of asset accumulation policies (Moser, 2006b); the gendered nature of asset accumulation (Ramirez, 2006) and; the role of different institutions in asset accumulation (Moser 2006a).

Going through these assets we remark that Moser 1998; Bebbington 1999; Carney 1998; Portes 1998 and; Putnam 1993; etc all distinguish various aspects which constitute the aforementioned assets. As for the physical asset we distinguish; the stock of plants, equipment, infrastructure and other productive resources owned by individuals, the business sector or the country itself. Financial assets<sup>20</sup> on their part are comprised of the financial resources available to people (saving, supplies of credit, etc) which interact at the macro and micro levels. Looking at the Human assets we can highlight, investment in education, health and the nutrition of individuals. Here, labour is linked to investment in human capital; health status determines people capacity to work and; skill and education determine the returns from their labour.

Reviewing social asset we note intangible asset like rules, norms, obligations, reciprocity and trust embedded in social relations, social structures and society's institutional arrangements that enable its members to achieve their individual and community objectives. These are embedded at the micro institutional level as well as rules and regulations governing formalized institutions in the markets, political system, and civil society. Finally for physical asset we remark the stock of environmentally provided assets such as soil, atmosphere, forest, minerals, water and wetlands (Moser, 2006a).

In addition to the aforementioned five assets which are already grounded in empirically measured research as highlighted by Grootert et al, (2001), more diverse types of asset categories are now identified. Amongst others we note psychological asset (Alsop et al, 2004); political asset increasingly associated with human rights (Ferguson et al, 2006);

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<sup>19</sup> The term has evolved over time, adopted for different purposes. Thus according to the shorter Oxford English dictionary, asset were originally defined as "sufficient estate or effects" (1531) and extended to "all the property a person has that may be liable for his or their debt" (1675)

<sup>20</sup>The financial / productive capital asset index may comprise three components; labour security, which measures the extent to which an individual has security in the use of their labour potential as an asset; transfer/rental income which are non-earned monetary resources and productive durables which are durable goods with an income generating capacity.

aspirational assets (Appadurai, 2004) and productive asset (Moser and Felton 2006) Scott (2006) and Moser (2006b) remark that these examples illustrate the growing importance of thinking outside pre-established ways and moving beyond well established asset literature. Nissanke (2004) regrouped assets into two principal groups. He distinguishes between primary assets and secondary assets. Concerning primary assets he enumerates natural, physical, human and financial assets. As for secondary assets he notes the formal and informal institutions, principally captured by supply and accessibility to public goods. He goes further to segment assets into private and public assets which encloses all forms of assets.

A lot of researchers are currently trying to build both asset index conceptual frameworks as analytical and diagnostic tools as well as asset accumulation policies to operationalise approaches which they deem efficient. This entails putting in place associated strategies which will help build capabilities, and also how to act to enhance inter and intra-generation access to assets (Bebbington, 1999). This goes in line with Sen's (1997) remark that, assets are identified as basic agents' power to act, to reproduce, challenge or change rules that govern the control, use and transform resources. These transformation processes are determined by individual as well as collective agencies, and also context specific approaches which have adequate sequencing and prioritization. Longitudinal analysis of changing poverty levels based on income alone provides one measure of well being, and shows movement between poverty levels. A more comprehensive understanding of household asset accumulation complements income data in aiding to identify why some households are more mobile than others and how some households successfully pull themselves out of poverty while others fail.

Concluding this sub-section, we observe that, the conceptualization and operationalisation of asset endowment strategies, with the aim of asset accumulation policies geared towards inter and intra-generation acquisition of assets as well as transnational or cross boar flow of acquired asset entail an appropriate policies tailored with the goal of fostering development and enhancing welfare, this through an increase in the supply of public and private goods. Having attempted to explain each concept, in section II, we establish the various links between the key concepts and tease out policy enactment as conclusion.

## **Section II: Establishing the various Linkages**

### **A) Globalization and Institution**

Effects of transformations brought about by globalization must be checked and filtered out by institutions in order to positively affect the poor. Institution play a crucial role in determining whether the benefits of globalisation are captured and channelled positively and evenly towards the poor, disfavoured groups or localities, and whether the negative shocks associated with globalisation are filtered out through safety net and other checks (Nassanke, 2005). Sindzingre (2005) and Nissanke and Thorbeck (2005) note that, the impact of globalisation on the poor intermediated by domestic political and economic structures, as well as by institutions such as social polarisation, oligarchic structures and predatory retimes that may bias, confiscate or nullify globalisation gains for particular groups of the poor or excluded localities. They equally note that the positive effects of globalisation on growth and poverty reduction can be found when institutional conditions are characterised by elements such as, political participation, social cohesion and management of social conflict arising directly from globalisation effects (Sindzingre, 2003). Sindzingre (2005) argue that, efficiency of institution

stem from three aspects: (1) effective relations of the elements that constitute these institutions; (2) relationship between components and; (3) relationship between the different institutions. Thus, the efficiency of institutions in filtering impact from openness and how good they channel these positive effects towards the poor to cope with this new frame work is based on how good the institutions relate amongst themselves.

In linking globalization to institution this paper attempts to develop the relationship how national or micro institutions filter the impact of globalisation either by intensifying or hindering the advantages of globalisation towards the poor. This unidirectional relationship is adopted because most SSA countries have national institutions which do not carry significant weight to impact globalisation either by reshaping the international market or putting in place norms that can influence international of capital, export etc.

National or macro institutions relate with openness through diverse means. These institutions have different tools to filter the various impacts of openness. Some of these tools include policies, laws, programs, etc. Looking at policies such as; slashing trade barriers, reducing bureaucracy, building the capacity of state agents, upgrading rules governing poverty rights, tidying up the investment climate, etc. which are all outcome of institutions, help boost the competitive nature of the industrial sectors. These policies, which help increase the degree of openness direct impacts from globalisation such as; increase in foreign direct investment towards key sectors that are peculiar to low income earners such as the agricultural sectors in most developing countries. Also, policies directed towards regularising the informal sectors in most developing countries may be adversely affected if national institutions do not intervene in protecting the poor masses who earn a living from these activities. Regularising the informal sector will permit accountability and transparency on capital channelled these sectors, hence creating an impetus for growth and development.

Going through credibility of institution as a safety net to the impacts of openness, we note that a credible national institution attracts foreign investment. Enhancing credibility entices foreign investors invest in these countries without fear of losing their investments (Lall 2002). It also reassures investors that the government will be just and equitable in settling disputes concerning property rights. Finally, credibility entails a competent and adequate system of information flow within and between the various institutions. The above notions fall in line with arguments highlighted by Fenandez and Rodrik (1991), notably, that promises which are not credible in situations of uncertainties are characterised by low investments and a preference for a static situation. This view is further supported by promoters of the new institutional economics who advocate credibility of both institutions and governments, as primordial for economic growth, better redistribution and sustainable development.

The ability public institutions to negotiate and ratify treaties and agreements, which comes as a process of an increased degree of trade openness, aids, investments, accords etc. influence growth and enhance redistribution policies, which have as goal poverty reduction and asset endowments. The public institution enacts legislations that affect all the players in both the economic and non-economic sectors. For these legislations to be effective, they must help unlock predicaments of the poor in the society, as well as increase the standards of living of the population.

Micro institutions constitutes: social norms, village institutions, customs etc. Social norms play a crucial role in channelling the impact of growth and redistribution towards the grassroots population. Norms dictate how fruits obtained from growth and better income redistribution is shared amongst the local population. If these norms are not pro-poor or if

they act against the interest of the poor, the poorer masses will not benefit from the impact of enhanced growth engendered by greater openness. Village institutions and customs also dictate how the fruits of openness in terms of growth filtered through competent national institutions impact the asset holdings of rural dwellers. The structure of the village institution is important when it comes to organising how these benefits or shocks from enhanced globalization trickle-down to the poor, shaping different borrowing, land occupation and local commerce frameworks.

To close up this subsection, it can be observed that the relationship between globalisation and institutions has a wide range of impacts and dissemination levels. In the same light, institutions may completely change how the fruits of growth and enhance redistribution are shared to the poor. In pursuing liberalisation-cum-openness policies government is urged to actively craft domestic development policies that enforce the building of strong and serious institutions.

## **B) Globalization and Asset Endowment Strategies**

In a globalizing world where frontiers are shrinking, trans-boarder trade increasing and inter relational tendencies between countries increasing, the role and measure of these trends on asset enhancement, management and protection of asset endowment are paramount. This implies that questions on how asset investment portfolios are influenced by globalization trends needs to be tackled. Moreover, liberalization and globalization in Africa have brought about substantial changes in the relative prices in both the good market and factor markets; the effects of these markets on the level of and returns to primary assets naturally affect the local populations.

There exist different formats on how globalization can positively or negatively affect asset accumulation by the local populations. Mahajan (2006) argues that in a globalize world, financial asset is becoming central to other forms of assets as each in turn becomes financialised. In addition, natural asset connected with land in many rural areas is no longer communally owned but tradable with forest privatized and sold in the name of globalization. He goes further noting that, even air has become financialised with carbon credit and pollution rights which can be traded. As for social capital, financialisation views include the purchase of access to clubs/net works and memberships in circles that once required kinship. Lastly concerning human and physical assets which may be private or public assets the cost related to privatization and access is being redefined in a globalizing world.

Another aspect linking globalization and asset endowment is the fact that nowadays given the new globalization data, local authorities and government are now aware of the shocks which are produced as a consequent of globalizing forces, and how they will influence asset accumulation and asset operationalisation. These authorities now dictate new asset transformative methodologies (Mathie and Cunningham 2003) which protect the poor against negative forces of globalization, and allowing for positive impact which augment asset accumulation like access to information, ecologically friendly industries, etc. that lead to an amelioration of the asset network of these localities.

Globalization trends impose norms that integrate gender, age and social class in local areas, reshaping inter personal relationships, and rendering them more democratically available to the vulnerable and excluded groups of the society notably women and children. These norms which dictate the harmonization and equitable redistribution of the various assets (primary) as

well as routes for dynamising the economy via an adequate public assets net work (infrastructure, machinery, etc) brought about by humane globalizing forces that preach humanitarian values will likely increase asset accumulation and enhancement. Other risk incurred by asset endowments are: global warming and natural disasters; corruption; falling states and post-conflict contexts; accelerated urbanization etc.

Concluding this subsection we note that, though it is not evident to establish a clear link between globalization and asset endowment however if positive globalization trends are channeled toward asset accumulation policies that increase household assets, it will increase development and reduce poverty in the local areas. However, these impact are rarely linear because globalization influence growth (Dollar and Kraay, 2002) and inequality (Cornia, 2004) which then affects how asset is increased or shared amongst households.

### **C) Institution and Asset Endowment**

Institutions dictate, direct and impact on how assets are distributed, protected and developed within and between households. The link between institution and asset enhancement merits more attention, for responding to numerous unanswered questions regarding the role of different institutions in asset accumulation will aid researchers and policy makers efficiently curtail the impacts of the financial crisis and globalization of local development. For instance, questions such as; what guiding principle should micro institution (NGO's etc) adopt as they attempt to either create or reinforce asset accumulation programs to reduce poverty?; to what extent should government, national institutions provide for an adequate environment aimed at /for asset accumulation?; how can government authorities put in place social protection and livelihood policies that prevent negative shocks on household asset accumulation and management?; how can globalization affecting operational asset accumulation strategies within a crisis context be tackled to enhance welfare?, etc all indicate the importance of disentangling the relationship between institutions and asset endowment.

The asset accumulation potentials of household depends on the interrelationship between their original investment portfolio, the broader opportunity structure in terms of the internal life-cycle and the external politico-economic context, as well as the wider institutional environment (Moser and Felton, 2006). Also, other aspects of assets endowment like social protection via productive safety nets and protection for the vulnerable will be extremely difficult to consolidate without well established institutions. Thus, these productive safety nets may provide a policy solution in the fight against poverty (Barret and Carter, 2006) as well as other institutions that buffer health shocks such as sickness and diseases (human asset) which are powerful forces for maintaining people in poverty ( Krishna, 2006).

In building a viable asset-institution nexus, various channels on how efficient institutions and enhance corporate management increase asset endowment or protect already existing asset investment portfolio's can be identified. Transforming asset held by individuals and households to generate income are based on factors such as government policy, political institutions and non governmental organizations should be context specific and incorporate local realities. Additionally, a range of asset enhancement strategies underpinned by an array of institutions include: strengthening social justice via preventive and punitive interventions, empowering local communities to acquire and upgrade both private and public assets, identifying appropriate institutional structures for strengthening financial assets in households and developing city-level employment strategies to ensure that the gains in human capital are not eroded (Brokings Institute, 2006).

At micro institutional levels, we identify: (a) village setups facilitate access to financial assets and credit facilities which impact positive in creating conducive property rights, and aid the poor feel secure to borrow and invest in local business ventures; (b) local authorities develop schemes that improve skills of the unskilled workers observed amongst the poor via capacity building seminars, forums and workshops will give them an opportunity to take part in the formal sector of the economy; and (3) cleaner and efficient energy utilization methods which adopted in local production process, under the directive secured utilization of primary assets, enable local industries to make profit. These profits may be reinvested causing growth and development which will positively affect the poor.

Concluding this sub-section we remark that, the key role of the institutional framework at macro and micro level influences human, physical, natural, financial and social asset in diverse ways. In this view, developing countries that suffer from weak and inefficient institutions must ameliorate their functioning so that strategies which protect and consolidate household assets should be re-enforced so that the poor participate efficiently breaking away from cycle of poverty.

#### **D) Institution and Poverty Reduction**

The World Development Report (2002b) which focused on “building institutions for Markets” established aspects like enforcing property rights, enhancing the flow of information and increasing or decreasing competition as functions of market supporting institutions. However, facets of weak institutions like tangled laws, corruption, bottle necks in administration procedures hinder development and hurt the poor. Poverty is an outcome of economic, social and political process as well as how they interact; require institutions to mediate through a range of activities. For instance, while formal rules define property rights in the judicial sense, how these rights affect assets and resources, as well as income derived from them, depends largely on the socioeconomic and political implementation context, including informal and societal conventions (Nissanke, 2005).

Poverty can be regarded as a lack of rights (social, economic, cultural, political and civil). Thus, how the formal and informal institution interacting together, may affect and determine poverty outcome and its characteristics. Rights are similar to Sen’s concept of entitlement because they entail enforceable claims on delivery of goods, good governance, services or protection by the authorities. Examining how power is shared and managed allows for a better understanding of the nature and degree of political pressure the poor can exert over established authority (structural power, capillary power and other informal power relations), shaping the degree and context of political engagement or level of good governance.

Institutions dictate patterns of incentive / governance structures, regulate the market and non-market structure, and provide social coverage, health facilities and infrastructure which help foster development. These acquirements however may be adversely affected by corrupt practices (Bowles et al, 2004); unequal access to institutions (Bowles, 2004); unequal participation in the economic and social advancement due to inefficient institution (Engerman and Sokoloff, 2004) and unequal participation of the poor in the political activity in their countries so as to leverage the balance of decision making in their favour.

Likewise, decentralisation schemes which diffuse power and decision making to the grass root populations reduces poverty, enabling local communities to exert pressure on both the formal and informal institution (Gaiha, 2001). Peculiar to SSA, Azafar et al, (2004) observe that, in African countries such as Uganda and Burkina Faso, decentralisation patterns which



emancipate local populations has helped reduce the poverty situation in these areas. These arguments tie down with the conclusion obtained by Foster and Rosenzweig (2001) that local democracy and accountability in rural areas have positive effects on poverty reduction.

Solely establishing that institutions alone will reduce poverty is rather flattery and difficult to comprehend because of the multi-dimensional aspect of poverty. In view of this, Ali (2005) notes that while from an empirical point of view, the improvement of the institutional framework is statistically significant in reducing poverty, their explanatory power is however, weak. Similarly, Kaufman et al, (1999) used the standard measurement in a causal econometric model to see the effect of governance on development outcome with the aim of reducing poverty indicated per capita GDP, infant mortality rate and adult literacy rate. From their investigations, it is highlighted that there is a large pay off in terms of per capita income to improvement in governance, with effects that cause a fall in the level of poverty.

Concluding this sub-section we remark that though the institutional framework dictates processes and policies which shape the socioeconomic and political movements in a given area, it is crucial that these policies remedy problems of poverty and hardship which affect the poorer masses of the society. Thus, creating pro-poor institutions in view of enhancing welfare should be a priority by all the actors (local and international) so as to foster development and increase the standard of living of the populations.

### **E) Poverty and Asset Endowment**

Asset endowment, policies, and accumulations strategies are currently being integrated in defining poverty as well as elaborating new poverty reduction strategies. Income has long been the favored unit of welfare analysis because of its cardinal variable that is directly comparable among observations making it easy to interpret and use in quantitative analysis by the 1990. This was often superseded by consumption-based increase (Ravallion, 1992). Incorporating asset analysis and their accumulation is intended to complement such measures, by extending our understanding of the complexity of the processes underlying poverty reduction.

These trends have been heavily influenced by the works of Sen (1981) on famine and entitlement, asset and capacities, as well as Chambers (1992; 1994) and others on risk and vulnerability, pushing analysts to focus on the concept of asset portfolio, investment management and security as checks or safety nets in view of better understanding poverty. Poverty results from deficiency in levels of and returns on primary assets translated by economic, social and political processes and their interactions, which are influenced by globalization. Thus an ad-equation between efficient asset utilization policies and programs geared toward poverty reduction should be encouraged. Conceptual asset approaches to poverty diagnosis and analysis are not new, but however have not been widely recognized. They currently represent an important shift in the pattern of poverty analysis as well as focus in the historical development of poverty research methodology and associated policy. This new pattern of thinking differs with the early traditional 1960's and 1970's approach of poverty which emphasized income deficiency.

The added value in linking poverty to asset endowment is that, while standard poverty measures provide static backward looking measures, asset-based approaches of analysis poverty provides a dynamic framework that identifies asset building thresholds, and measures movement in and out of poverty. This systematic approach identifies the links between different assets, and their transformative potential through effective risk management. As

such, it seeks to identify how to strengthen opportunities and dilute constraints appended to asset endowment and how this can enhance well being. Moreover, in focusing on the way in which the poor themselves construct their asset portfolios, it recognizes the importance of individuals and collective agency and links between asset accumulation and its impact on increasing the living standards of the local populations (Moser, 2006a).

Carter (2006) notes that there exist operational works associated with analyzing asset endowment that identify poverty traps and productive safety nets. Since asset endowment is not static but varies with time, a distinction should be made between short term and long term policies or first and second generation policies. The first generation policies provide social and economic infrastructure essential for possessing durable goods as illustrated in current pro-poor policies which include water, roads, electricity, health, education and microfinance, etc. The second generation asset accumulation policies design ways and measures that strengthen accumulated assets to ensure their further consolidation so as to prevent asset erosion, this consolidating the walk out of poverty.

Linking these two generational policies is crucial because when the strategies do not materialize into asset accumulation causing a retreat toward the expected development, or increase in human capital do not result into job opportunities; the aspiration of the poor will be mitigated. Some examples include: in Africa and Asia, slum dwellers in urban areas do not have sufficient revenue despite the minute savings over a long period of time. These drawbacks to financial asset endowment is not sufficient for these poor people to afford market prices when purchasing goods. E.g. for formally constructed homes (Satterthwaite, 2006) which causes a further increase in poverty levels because of the exclusion faced by these slum dwellers. Another example is an inadequate access to human capital in terms of health by household heads, which is translated by a negative effect on the other members such as children and women. This deterioration in human capital issues relating to ill-health, and health related expenses are assets that cause households to descend into poverty (Krishna, 2006).

The Development Report (2000) extended the concept of poverty beyond income and consumption plus education and health, to include assets endowments like risk and vulnerability, as well as voicelessness and powerlessness. Poor households affected by poverty are susceptible to a wide range of risk, some of which are idiosyncratic like illness, while other are common, such as natural disasters. In view of this for poverty to reduce government should enable poor household adopt production plans or employment strategies to reduce their adopt production plans employment strategies to reduce their exposure to these risk, even if this entails lower average income. In addition, poor households may also try to smooth consumption by creating buffer stocks, avoid withdrawing children from school and developing credit and insurance arrangements, as well as create social networks that will help provide informal insurance. Still there are limits to the usefulness on networks that do not extend outside the local community, making the poor more vulnerable to natural disasters and economic shocks because geographical confined networks provide little protection against this type of shocks. To avoid these shortcomings government needs to intervene with targeted measures, which permit the poor enhance the assets with a view of reducing poverty. Concluding this sub section, we remark that asset endowment has diverse facets, with each of these facets aiming at a better understanding of poverty and developing more appropriate long-term poverty reduction solutions, as highlighted in Moser (2006a).

## **F) Globalization and Poverty**

An intense debate currently surrounds the impact of globalization on poverty in all milieus of the academic and political influence (Kanbur and Lustig, 2000). Evaluating whether an increase in the level of integration of the national economy to the global economy plays an important role in reducing poverty and inequality is far from being resolved (World Bank, 2002). Deaton (2004) observes that, economic development is increasingly being viewed as poverty reduction than persistent economic growth. Given the multidimensional aspect of both globalization and poverty, we note that establishing a linear relationship between these two aspects is not evident. Moreover, appending the financial crisis, its links to globalization and on poverty reduction entails adequate analysis. In this light comparative studies by Winter et al, (2004); Golberg and Pavenik (2004); Ravallion (2004b); Nissanke and Thobacke (2004); Sindzingre (2005); Agenor (2004); Reimer (2002); etc all acknowledge that there can only be indirect evidence regarding the linkage between globalization and poverty. In this view, Nissanke and Thobacke (2004) conclude that globalization could affect poverty both indirectly through “growth effects” and directly through other channels, such as change in relative prices of factors and products; differential cross border factor mobility; the nature of worldwide flow of information and global disinflation.

Agenor (2004) distinguishes two types of globalization effects on poverty. They are the output effect and the relative wage effect. The former which may be J-shaped implies that at the initial stage greater trade liberalization may lead to a fall in output of the import competing sectors resulting to an increase in poverty and later on, with the expansion of the exportable sector, aggregate output will gradually increase and contribute to poverty reduction. Concerning the later effects initially the impact of globalization may cause wage differentialisation between skilled and unskilled labour, worsening the poverty situation. This will attract investment in human capital and an increase in the supply of skilled labour over time, which narrows the wage difference across skilled categories, reducing poverty as indicated by a U-shape relation between globalization and poverty. However, the difficulty of establishing such a relationship is highlighted by Liang (2006), who notes that squaring the index of globalization produces a particular form of the non linearity, which may produce less convincing and less robust conclusions.

In this context, portraying the link between globalization and poverty will imply tracing circuits which are not linear. In this sub-section, we develop a transmission mechanism that traces how impacts of enhanced openness are filtered by institutions and channeled either through growth or inequality reduction conduits. Thereon they are captured by micro institutions which direct these flows towards asset endowment or accumulation in view of enhancing welfare and diminishing poverty within the current crisis context.

It is evident that globalization impacts on the growth performance of a country (Dollar and Kraay, 2002). This impact is established either through foreign direct investment (Borenstein et al, 1998); trade (Edwards, 1998) or Finance/capital account (Bosworth and Collins, 2000). Regarding links between globalization and inequality do exist (Culpeper, 2002). Globalization trends if not checked may be hazardous to the people found at the lower end of the distribution curve (Ravallion, 2004a, Cornia 2004). In addition to the two afore mentioned variables (growth and inequality), globalizing trends affect how asset enhancement or accumulation strategies are carried out (Mahajan, 2006). This is because evolving in a globalize world implies the shrinking in space and time that affect almost every thing. The bombardment of these trends due to openness requires that institutions establish safety barriers need to protect the poor, especially during crisis situations.

During crisis periods in a globalized arena, institutions usually introduce processes of cumulative causation and multiple equilibria that generally reflect outcomes of major characteristics such as their level of development, quality, etc and how they support particular market structures particularly in developing countries (Rodrick et al, 2002, Glaser et al, 2004). Additionally, they play a key role in general and particularly during crisis period, dictating how income or the fruits of growth are redistributed amongst the different groups of the population (Kimenyi, 2005, Milanovic, 2003a and b, Foster and Rosenzweig, 2001). These are done through policies that affect both the market and the non-market sector. Similarly institutions are one of the key elements in enacting pro-poor growth programs that are good for poverty (Kraay, 2004, Lopez 2004) as well as pro-poor inequality policies that may either address poverty issues directly through progressive redistribution schemes or indirectly by increasing opportunities of the marginalized (Ibrahim and Gray 2005).

Pro-poor growth and inequality policies that help the poor get out of the poverty cycle through an increase in asset accumulation strategies during hard times are important in causing development (Barret et al, 2004, Nimpuno Parente, 2006, Braham et al, 2003, Marijke and Ruben, 2005). Asset enhancement strategies which either put in place asset conceptual frameworks or asset operationalisation frameworks range from social protection policies to accumulation programs going through asset based assessments as well as asset building and community development (Moser, 2006a). Despite these predefined circuits linking growth to inequality, these relationships are not independent (Kuznet, 1955, Tribble, 1999). This is because an inappropriate relationship may yield poor economic growth which is detrimental to economic development (Thoebecke and Charcumilind, 2004, Bruno et al, 1998).

Macro or national institutions filter or act as a safety net when it comes to checking globalizing trends and channel these tendencies through growth and redistribution circuits. The local populations are close to the micro institutional milieu of any given country, highlighted in its culture, norms, and village institutions which dictate how local society evolves (Christiansen et al 2003). Thus, effects from the growth and inequality circuit are taken into account by micro institutions through local village repartition of income and growth dynamism effects. These effects do not act directly on poverty because of the multidimensional aspect of poverty, and interact with private and public assets owned by the populations. Thereon, the acquired assets either positively or negatively affects grass root poverty. Concluding this sub-section we observe that tracing the indirect impact of globalization on poverty via a secession of a various intermediate routes must be carefully combined to perceived the follow up of the different transmission mechanisms. Thus caution should be taken to include all the different aspect of each sub-channel as well as linkages between the variables considered in trying to map out circuit that do reflect this scenario.

## **General Conclusion**

This paper attempts to establish a transmission mechanism that identifies the linkage between globalization, institution, asset endowment and poverty reduction outcomes within a crisis context. Specifically, we (1) discuss these key concepts and (2) establish their sub-channel linkages. Though a series of policy recommendation can be identified, the following stand out: The current financial crises have rekindled fears linked to the fragile state of economies of developing countries within the framework of globalization. The rush towards decried protectionism by developed countries has indicated how fundamental is the institutional framework in protecting fragile industries that face serious threat during crisis within a globalization framework. Macro and micro institutions of developing countries need to

develop strategies that may temporally protect small and fragile industries, as well as local farmers hardest hit by this crisis situation.

Asset endowment and management portfolios within a globalized economy requires that governments of developing countries enact adequate investment-cum-consolidation programmes that protect fragile asset setups, rendering robust key endowments that build up human, natural, socio-cultural, economic and political activities geared at enhancing welfare. The current financial crisis exerts serious treats on how households acquire assets and manners in which these are transformed to income. Governments via efficient institutional setups in less developed countries need to develop processes that protect asset endowment of rural households and those hardest hit by poverty.

Institutions curtailed within globalization forces need to re-invent themselves to adequately combat poverty. The interplay of globalization, enhanced openness and cultural mutations experienced by developing economies need adequate macro and micro institutional safety nets in order to protect fragile rural populations. These safety nets should target fragile groups such as women and children, who are particular exposed to abuses and exploitations by unscrupulous individuals.

Institutions, during crisis period require that operational works associated with analyzing asset endowment that identify poverty traps and productive safety nets be fine-tuned in view of consolidating both short term and long term policies. Social and economic infrastructure essential for possessing durable goods as illustrated in current pro-poor policies must be consolidated in their development strategies. Likewise, adequate networking between different asset types in a globalized context need to be consolidated by institutions, preventing asset erosion which increases during crisis situations.

Concluding, the way out of poverty is by understanding linkages between globalization and poverty during crisis situations. Specifically, understanding transmission mechanisms by governments should be increased via adequate research and debate as per policy makers and researchers. This is important because teasing out these relationships will constitute value added in dealing with future situations akin to limitation of globalization.

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