THE IMPORTANCE OF POVERTY REDUCTION FOR ECONOMIC DEVELOPMENT AND MAINTENANCE IN SEE REGION

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Abstract: Pareto was right about the principle of distribution of wealth, and it is a global issue - poverty occurs in both developing countries and developed countries. The Human Development Reports has found that over 80% of all global wealth is owned by the top 20% of the population. When a person lives in poverty, the limbic system is constantly sending fear and stress messages to the prefrontal cortex, which overloads its ability for solving problems, setting goals, and completing tasks in the most efficient ways. This has direct impact on the economy as well as on the entire society. With this paper, we aim to address the problem of poverty, crime and economic development in the SEE countries. Hence, we will point out the major economic problems in the SEE region. Additionally, we will offer solutions for poverty reduction by using trainings for institutional development through lifelong learning programs.
Key words: poverty reduction, capacity building, lifelong learning, SEE countries

Introduction

We live in a century with the greatest opportunities for development, greatest flow of information and we are connected more than ever. Still, globally 10, 9% of the world live in extreme poverty with less than 2 $ a day (World Bank, 2018) which is a slow but significant progress compared to 36% in 1990. However, awareness is at a very low level in the vast majority of population for what is behind all the numbers. As Mark Brown have said in 1995 World Championship of Public Speaking “Don’t look for the numbers, look for the stories behind the numbers.” In a world with nearly endless resources and wealth, this is shameful and unacceptable. Some will argue that this is a fault of the new technology, some others will blame capitalism, consumerism or various other reason, but the truth is that more importantly than finding the guilt and searching the right diagnosis, is moving towards discovering the cure and finding out how to prevent this unfair distribution of wealth of happening in the future.

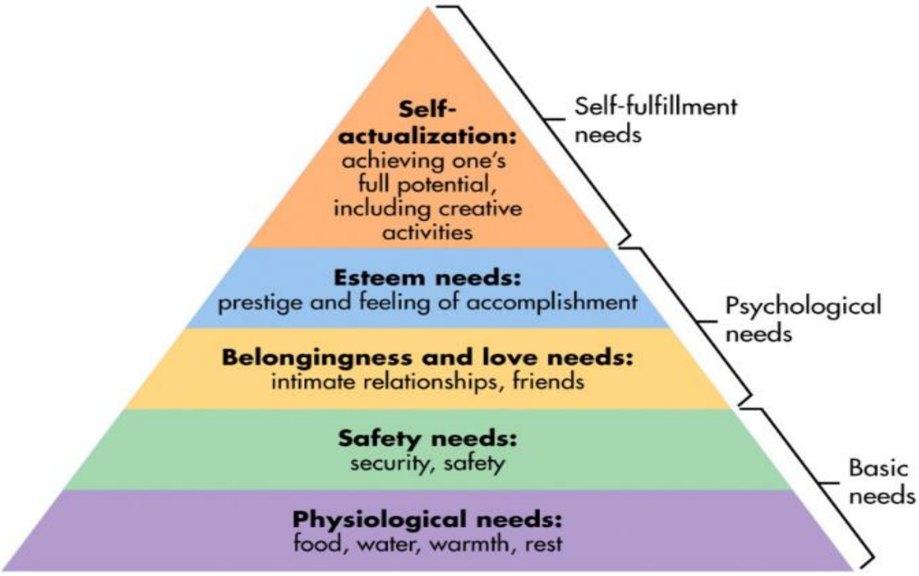
There is no country that can confront these threats alone, so for international cooperation and action on these issues will be crucial to preventing and mitigating their impacts. As International Labor Organization (ILO, 2018) would claim, “Poverty anywhere is a danger to prosperity everywhere”. Therefore, through the introduction of Poverty Reduction Strategy processes at the country level in the countries supported by the World Bank and IMF, a major area of ILO action has been to design to empower the governments and social partners to integrate better employment goals and targets into these overarching national frameworks in low-income countries.

This can be reached and should be primer goal for every country. Methods can vary, but through the development of comprehensive tools, capacity-building initiatives, life-long learning programs, social entrepreneurship promote a better integration of employment strategies and decent work goals in the new generations.

How Poverty Affects Human Behavior

Poverty occurs in both developing countries and developed countries. While poverty is much more widespread in developing countries, both types of countries should undertake poverty reduction strategic measures. First, we have to understand seriousness of the issue in order to react more proactively and profoundly, and we should start from understanding the basics. In the figure below is presented Maslow’s hierarchy of needs pyramid, most recognized and valuable illustration and theory for basic human needs and motivation forces in human behavior till the present moment (Maslow, 1954).

Figure 1. Maslow’s Hierarchy of Needs Pyramid



Source: Maslow, 1954.

If we go systematically in revealing the connection of this pyramid with economic growth, we have to consider first the meaning of the hierarchy of needs. It means that one cannot satisfy a higher need when lower needs are still unsatisfied. One cannot reach its full potential, be the best version of itself, to be productive, creative and effective when the basic human needs are out of reach. Also, living in poverty can coincide with numerous social problems — childhood neglect, violence and malnutrition, depression. In addition, there are studies being conducted with representatives – children from low-income families that show exactly how poverty may potentially affect the developing brain and the cognitive abilities. Here are five ways according Hineline (2017) that research is currently showing how poverty affects the brain:

1. Brain scans of children who grow up in poverty reveal that, overall; their brains develop less cognitive resonance in the frontal and parietal lobe. Serving as the control center for the brain, the frontal lobe manages accessory cognitive functions like planning, focusing, problem-solving, organizing and controlling impulses. The parietal lobe is responsible for processing sensory information.
2. Brains influenced by poverty show a significant decline in cognitive abilities related to memory, reading and language.

3. Brains of children in the lowest income brackets (families who make less than $25,000 annually) have had 8 to 10% less grey matter in these critical regions than children from higher income bracket families.
4. Developing brains exposed to severe poverty also show smaller hippocampi (the portion of the brain that is central to stress response, memory and learning). Parental caregiving is an important factor in the hippocampal development and childhood wellbeing. Combined with poverty, stressful life experiences result in a lower volume of hippocampi.
5. A smaller amygdala is also characteristic of growing brains that have been exposed to poverty. Responsible for emotional processing and social information, a smaller amygdala can result in childhood depression, and mood and behavioral problems.

In addition to this, at grown up persons poverty creates barriers to developing this sense of control over one's own life. Which means people who live in poverty have the burden of ever-present stress. They are constantly struggling to make ends meet and often bracing themselves against class bias that adds extra strain or even trauma to their daily lives. Those are serious indicators showing that poverty reduction strategies have to be on the priority list of measures, both in developing and developed countries. Therefore, creating greater opportunities for people to become healthier, happier and live longer is an imperative for building one modern, healthy and sustainable system.

Strategies for Poverty Reduction and Economic Development

Many studies has shown that economic growth is the most powerful instrument for reducing poverty and improving the quality of life in developing countries. However, even more importantly is the poverty reduction as a condition for strong and sustainable economic growth with fair distribution of wealth. A successful strategy of poverty reduction must have at its core measures to promote rapid and sustained economic growth. The challenge for policy is to combine growth promoting policies with policies that allow the poor to participate fully in the opportunities unleashed and so contribute to that growth. This includes policies to make labor markets work better, remove gender inequalities and increase financial inclusion.

Another thing that should to be considered is that future growth will need to be based on an increasingly globalized world that offers new opportunities but also new challenges. New technologies and artificial intelligence offer improved performances and without any doubt, they will replace a huge number of work force. New science offers better prospects across both productive and service sectors. In addition, future growth will also need to be environmentally sustainable.

Basically, the link between economic growth and human development operates through two channels. First, there is the 'macro' link whereby growth increases a country's tax base and therefore makes it possible for the government to spend more on the key public services of health and education. The second channel between growth and human development is a 'micro' link, whereby growth raises the incomes of poor people and thereby increases their ability to pay for activities and goods that improve their health and education. Therefore, it is more than obvious that the global poverty emergency cannot be solved by one organization or even a coalition of governments on their own: we now need the concerted efforts of private, public and third sectors working together - a new public-private alliance founded on promoting trade and growth. An OECD report (2017) on economic growth suggests eight essential conditions for strong growth:

1. *Physical capital* - Growth requires investment in physical capital – the plants, machinery, raw materials, etc. that are central to production – and investment at all scales requires financial capital. Every country that has achieved sustainable growth has managed a significant increase in the levels of both domestic and foreign investment as a percentage of GDP. Significant technology is usually embodied in capital goods such as plants and machinery that help to support a country's move up the technological ladder. Restricted or expensive access to finance is a brake on such investment, particularly for small and medium-sized enterprises and for the informal sector. A well-functioning financial sector enhances economic growth through ensuring that capital is not left idle, that it is directed to where it is most beneficial, and that risks are borne efficiently.
2. *Human capital* - Investment in education and skills can be as important as investment in machinery and plants in delivering growth. Investment in this 'human capital' is especially appealing as it directly leads to improved human development as well as helping to drive growth. The costs of this investment are both direct (for example, the cost of school equipment and books) and indirect (the opportunity costs of the wages lost from remaining in education). Amelioration of these, together with raising the return on education (the wages for skilled workers) is likely to increase educational investment. A wide range of labor skills are needed to catalyze and sustain economic growth, including education at all levels from primary schools through to universities, and including technical and vocational training as well as 'learning by doing'.
3. *The rule of law* - The business environment needs to have safeguards that ensure that the returns of investment will be collected by investors. Political instability, corruption and crime can all threaten potential returns, make investment unattractive, and thus damage the prospects for growth. The cost of crime and the cost of security as a percentage of sales are particularly high in low-income regions. The investment climate in low-income countries identify the costs of legal enforcement of contracts and compliance with regulation as having the biggest negative impact on business profitability. Strengthening the capacity of relevant public institutions for protecting property rights can often therefore be important.
4. *Competitive markets* - Competition typically ensures that consumers are able to obtain more goods at lower prices than under a monopoly. Judicious use of regulation will help foster a competitive environment. While certain industries (such as utilities) do not readily lend themselves to competition due to the vast cost savings they possess if they are large, this does not apply in most cases. Governments need to ensure that they do not themselves reduce open and fair competition, either wittingly or unwittingly. This may happen as a result of pandering to entrenched vested interests, or it may come from institutional hurdles such as expensive and time-consuming procedures to regulate business. It is vital to ensure that businesses are able to enter and exit markets with relative ease, and that there are opportunities for business innovation. It is by this route that firms and industries can increase their productivity, which in turn drives long-term growth.
5. *Macroeconomic stability* - Investors make decisions based on the rate of return they expect to receive and the riskiness of the investment project: the higher the risk, the higher the required rate of return. A stable macroeconomic environment is crucial to reducing the risks associated with investment. This applies as much to human capital as it does to physical capital: people are less likely to want to bear the costs of education when there is a greater risk that they will be unemployed on completion. A

stable macroeconomic environment includes monetary policy that delivers low and stable inflation, effective management of government tax and spending to deliver public services; and an exchange rate regime that is not excessively distorted or volatile.

6. *Infrastructure* - Investors need good access to knowledge, to inputs of capital, labor and raw materials, and to markets. This requires transport infrastructure, as well as the provision of a regular supply of electricity and other utilities. In addition to transport infrastructure, communication infrastructure is crucial in disseminating information about prices and markets across a wide area. In this respect, the spread of mobile communications has been revolutionary. In recent years, limited banking services have even become available using mobile telephones in many parts of the developing world.
7. *Openness to trade and investment* – English poet John Donne would say: "No man is an island entire of itself; every man is a piece of the continent, a part of the main". Therefore, no country has grown on a sustained basis in recent times without successfully integrating into global markets. There are two facets to this: integration into goods markets and integration into input markets, notably integration into financial capital. Openness of a country's goods markets enables growth, facilitating technology transfer, increasing competition and benefiting consumers.
8. *Increased agricultural productivity* - Low-income countries typically have large agricultural sectors. Productivity increases in agriculture often serve as the catalyst for growth, as well as having strong effects on reducing poverty due to the high numbers of people involved in these sectors. Adapting or developing technologies and improving agricultural markets for seed, fertilizer and agricultural outputs will help this process. A key challenge is to make agriculture more worthwhile by raising its profitability through technological innovation. This will be critical if poor regions are to embark on a successful 'green revolution' to raise agricultural productivity and release labor for more diversified, higher productivity activities such as manufacturing.

Those findings suggest that an economic growth strategy should be based on a rigorous economic analysis of country circumstances and opportunities. This involves assessment of the main constraints on growth and identification of market and government failures; analysis of the costs and benefits of actions that relax these constraints; and assessment of risks of the proposed policy program. The analysis will yield a prioritized sequence of actions (policy and institutional reforms and expenditures). Formulation of such strategies involves high quality analytical work based on detailed knowledge of and research into the economy. This will involve government, the private sector, local researchers and support from external researchers.

In addition, understanding how social entrepreneurship's frame their narratives about societal issues, more light can be shed on their role in tackling societal challenges. Social enterprises are economic actors that have a social mission and may contribute for more proper distribution of wealth. This makes their approach towards tackling societal challenges differ from traditional social activists. For example, poverty is a complex societal challenge that can be addressed in various ways. Focusing the solution more on economic factors (i.e. job creation) than on political factors (i.e. political participation) or vice versa can significantly change the impact of development efforts.

Strategies for Poverty Reduction and Economic Development in SEE Region

Southeastern Europe (SEE) is a geographical region of Europe, consisting primarily of the coterminous Balkan Peninsula. There are conflicting definitions as to where exactly Southeastern Europe begins or ends or how it relates to other regions of the continent. Sovereign states that are most frequently included in the region are, in alphabetical order: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Kosovo, Macedonia, Montenegro, Romania, Serbia and Slovenia. This region is characterized not only from its geographical position but also from the similar political, economic, historical and cultural considerations.

The area has been undergoing a fundamental change in economic and production patterns following the 1990 changes. While some regions, especially the capital cities, are adapting well to the new challenges, others are trying to re-orientate themselves. Significant for this area are regional disparities in terms of economic power, innovation, competitiveness and accessibility between urban areas and rural areas. World Bank report about SEE countries (2018) shows that the gap between wealth distributions continue to grow compared to its slow economic growth. Those countries must operate within a complicated global environment. Political, institutional, and policy uncertainty in advanced economies, still low commodity prices, and exceptionally low interest rates dampen global growth expectations. Resilient economic growth and labor market reforms continue to support private sector job creation. However, despite recent improvements, employment is still below pre-crisis levels in all the countries. Near-term growth prospects are positive, but the risks highlight the importance of structural reforms for successful rebalancing from domestic to external sources of growth.

The recommendations from European Commission for undeveloped Artic regions (2018) can have positive impact if implemented in the SEE region. The main priorities for investment identified in the report are:

- to extend and improve digital infrastructure;
- to develop internal and external transport connections;
- to invest in education and skills;
- to support local business development, including into renewable energy production, bio-economy, sustainable use of natural resources and sustainable tourism;
- to support research into climate change, its mitigation and adaptation to it and into sustainable development opportunities.

In addition, at the same time applicable and necessary for SEE countries is the highlights of this report for the need to improve existing support programmes by reducing the complexity of administrative procedures and increasing access to information. The most straightforward approach for improvement would be leading by example and transferring the knowledge of the countries that are more successful in the region. Example for success in its economic, political and technological development in the SEE region is Slovenia. Therefore, the success story of Slovenia and positive practices from other developed countries can be consider through the prism of the following aspects:

- *There is no one right answer; there is no one size fits all solution*. There are no best-practice policies that will always yield the same positive result. To sustain growth requires key criteria to be met, but there is no unique combination of policies and institutions for fulfilling them. That is the main purpose of the work of CEF (Centre for Excellence in Finance) – Ljubljana (CEF, 2018) which is on the list of official development assistance eligible international organizations of Organization for Economic Cooperation and Development (OECD). CEF is international organization with the mission to support capacity development for finance officials in South East Europe through learning. They work with constituency to support the public financial management, tax policy and administration, and central banking reform efforts. They do this through innovative, participatory, and practical learning solutions. The CEF serves as a knowledge hub for the region, where they combine topical expertise and in-depth knowledge of countries in the region with a good comprehension of how reforms take place.

- *Institutions matter*. The institutional context is perhaps the single most important factor in determining whether a given policy will be appropriate or not. Institutions may be crudely seen as the framework in which markets operate: the basis of the rule of law and enforcement of property rights. Institutions are often deeply rooted and are difficult to change, though unlike some other contextual factors (such as climate and location), change is possible. And institutions from all the public sector from public education, through healthcare to financial and private business sector have to take an equal part in the building the economic climate which will be sustainable on a long term and will create more opportunities for all. Because incentives for investment in physical and human capital, the scope for technology transfer and a whole host of other key conditions for growth depend on the institutional setting.
- *Timing is everything*. Too often, research has focused simply on what is needed. The question of when it is needed has seldom been investigated, which has led to disastrous outcomes. Two separate factors are crucial: the sequencing of policies and the speed at which they are introduced. For instance, In Eastern Europe, market-based reforms were introduced as ‘shock therapy’: quickly and simultaneously. Institutional reforms were left incomplete even as large parts of the state-run economy were privatized and deregulated. This contributed to the collapse in output in many of these countries in the early 1990s. In Macedonia, sequencing of policies, especially of the applying institutional setting is still an issue. Most of the policies are set up when it is too late for them or too early for such changes. Also, there is bad maintenance and sustainability policies for a longer term, especially of the human capital. Most of the employees who are contentiously send on educations, seminars to improve their skills, are being replaced when a new government take the position. Which means in every four years there is restructuring and making new investment in the knowledge gained by previous employees in the public institutions.
- *Focus is crucial*. Reform efforts need to be selective and focus on the ‘binding constraints’ on economic growth. Governments must avoid the temptation to implement only the uncontroversial 15 policies and instead focus attention where it is needed. This makes it vital to avoid the formulaic approach of the Washington consensus, to recognize the individual characteristics of a country and to undertake more rigorous economic analysis. For instance, community ownership should become a normal and realistic option for communities to acquire land and assets, according to recommendations on community ownership in Macedonia. This practice should be planned and proactive rather than reactive. It needs to demonstrate a clear vision for how community ownership can become a mainstream way to deliver development and regeneration in urban and rural communities, that it is not an end in itself but a means to delivering wider outcomes. Also, it should embed community land and asset

ownership into local place planning, ensuring support for community ownership transfers is provided across the whole country, as well as, considering longer-term sources of financial support for both capital costs and post-acquisition development.

Having this points as priority, improving the macroeconomic climate, the core challenge will be for countries to develop strategies that prioritize micro-level reforms, build institutions and enable investment. Policy-makers need to identify those actions that have the highest impact and which can be implemented and sustained.

Conclusion

Moving out of poverty is not a short process of following a simple roadmap. It has become a lengthy, complex navigational challenge requiring individuals to rely on strong executive function skills, clearly set goals and actions on institutional level in order to effectively manage life's competing demands and optimize their decisions over many years. Many research studies conducted with children from lower income families have proved that poverty can seriously damage the brain. The areas of the brain affected by adverse experiences of social bias, persistent poverty, and trauma remain plastic well into adulthood but, through improvement of the quality of life, better education and proper coaching, this situation could be improved. Therefore, putting growth and opportunity at the heart of the development dialogue in the SEE countries is of a key importance. Sharing the good practices through learning events that are tailor-made, structured and collaborative, with future monitoring and evaluation, and strong time frame, will build society where poverty and gap on wealth is on lower level. Challenges are many, creating new reforms and turning them into action is not an easy, but at the same time, it is not impossible task.

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