

African Development Report 2015

Growth, Poverty and Inequality Nexus:
Overcoming Barriers to Sustainable Development

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Overcoming Barriers to Sustainable Development

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Foreword



Dr. Adesina, Akinwumi Ayodeji
President, African Development Bank Group

The year 2015 marked the conclusion of the Millennium Development Goals (MDGs) and the adoption of a new global development agenda. This is an opportune moment for African countries to reflect on their development record, to assess what has worked well and where we can do better on eradicating poverty.

The 2015 Edition of the African Development Report (ADR) is an important contribution to that reflection. It examines the nexus between growth, poverty and inequality, drawing on decades of experience across the continent. It explores the complex interplay of factors that have inhibited the transmission of Africa's recent strong growth performance into poverty reduction.

It shows that growth has been concentrated in sectors that make little impact on the incomes and welfare of the

poor. The sectors with the greatest potential to transform the structure of African economies – namely, agriculture and industry – have not attracted the levels of investment they need. Inequality along geographical, social and gender lines has prevented many Africans from enjoying the benefits of growth. Finally, extreme dependency on commodity exports, high fertility rates, and social and political fragilities all pose significant challenges for poverty reduction.

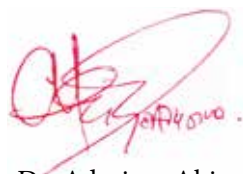
I firmly believe that development is about delivering real improvements in living conditions right across society. This analysis shows that widespread inequality is limiting both growth and poverty reduction across Africa. These income disparities have remained persistently high over decades, leaving Africa one of the world's most unequal regions. Income inequality is also mirrored in unequal access to resources and opportunities between rural and urban residents, and between women and men.

Women's participation in economic, political and social development is being held back by unequal access to resources and opportunities and unacceptable levels of interpersonal violence. This causes both direct harm to women and their children, and wider costs to African economies. Africa owes its women and girls a better deal. We need targeted interventions to raise women's economic status and to deter aggression.

Another group of Africans that has remained widely excluded from recent economic progress is young people. The lack of gainful employment for young Africans is one of the most critical policy challenges of our time. It needs to be addressed through measures that stimulate labour markets, while encouraging long-term declines in fertility.

It is clear from this analysis that Africa's structural transformation remains at an early stage. It also appears to be following a different pathway from that seen in other parts of the developing world, particularly Asia. While labour is moving out of agriculture and rural areas, it is not, for the most part, going into manufacturing. Instead, urban migrants are being absorbed into informal activities that offer little prospect of advancement. If Africa is to industrialise, it has to improve its production capabilities as well as the productivity of its human and physical capital. This requires significant investment in infrastructure, especially in energy, to fuel economic activity, and in agricultural technology to support agriculture-based industrialisation.

For our part, the African Development Bank Group has defined a number of operational priorities that will guide our efforts in the coming years. In particular, I have set the Bank five key objectives – “The High Five” – defined as: (i) Feeding Africa through improved agriculture and agro-industrial development; (ii) Powering and lighting African economies; (iii) Promoting regional integration and trade; (iv) Industrialising Africa through strong support to the private sector; and, (v) Improving the quality of life of Africans, especially the poor, women and young people. To achieve lasting change for Africans, we need to achieve profound transformation of Africa's economy and unlock the potential of its citizens. This report helps tell us how to achieve that.



Dr. Adesina, Akinwumi Ayodeji
President,
African Development Bank Group.

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List of abbreviations

AEO	African Economic Outlook	HIV/AIDS	Human immunodeficiency virus infection and acquired immune deficiency syndrome
AfDB	African Development Bank	ICT	Information and Communications Technology
AIDI	Africa Infrastructure Index	ILO	International Labour Organisation
AUC	African Union Commission	ILO KILM	ILO Key Indicators of the Labour Market dataset
ALMP	Active Labour Market Policies	IMF	International Monetary Fund
CAADP	Comprehensive Africa Agricultural Development Program	IWDA	International Women's Development Agency
CAP	Common African Position	LAC	Latin America and the Caribbean
CAR	Central African Republic	LDP	Local Development Plan
CO2	Carbon dioxide	LIC	Low Income Countries
COSATU	Congress of South African Trade Unions	LMIC	Low and Middle-Income Countries
CPIA	Country Policy and Institutional Assessment	MCA	Multiple Correspondence Analysis
CSO	Civil Society Organisations	MDBs	Multilateral Development Banks
DHS	Demographic and Health Surveys	MDG	Millennium Development Goals
DRC	Democratic Republic of Congo	MENA	Middle East and North Africa
DW	Developing World	MGDS	Malawi Growth and Development Strategy
EAP	East Asia and the Pacific	MIC	Middle Income Countries
EASSy	East African Cable Submarine System	NA	National Accounts
ECA	Economic Commission for Africa	NDP	National Development Plan
ECI	Economic Complexity Index	NEET	Not in Employment, Education or Training
EECA	Eastern Europe and Central Asia	NEPAD	New Partnership for Africa's Development
EIU	Economic Intelligence Unit	NGO	Non-Governmental Organisation
ETI	Employment Tax Incentive	NIC	National Intelligence Council
EY	Ernst & Young	ODI	Overseas Development Institute
FAO	Food and Agricultural Organisation	OECD	Organisation for Economic Co-operation and Development
FAPA	Fund for African Private Sector Assistance	OPEC	Organization of the Petroleum Exporting Countries
FDI	Foreign Direct Investment	ORTS	Transition Support Department of the AfDB
FGT	Foster-Greer-Thorbecke	PAGE	Programme for Accelerated Growth and Employment
G20 YEA	G20 Young Entrepreneurial Alliance	PAU	Pan African University
GDP	Gross Domestic Product	PIDA	Programme for Infrastructure Development for Africa
GEM	Global Entrepreneurship Monitor	PovcalNet	World Bank's online tool for poverty data
GNI	Gross National Income	PPP	Purchasing Power Parity
GSGDA	Ghana Shared Growth and Development Agenda	PRGSP	Poverty Reduction and Growth Strategy Paper
GTP	Growth and Transformation Plan	PRSP	Poverty Reduction Strategy Paper

PSNP	Productive Safety Net Program	TYS	Ten Year Strategy of the AfDB
REC	Regional Economic Communities	UN	United Nations
RIPoS	Regional Integration Policy and Strategy 2014-2023	UNCTAD	United Nations Conference on Trade and Development
RMC	Regional Member Country	UNDP	United Nations Development Program
RWSSI	Rural Water Supply and Sanitation Initiative	UNESCO	United Nations, Scientific and Cultural Organization
R&D	Research and Development	UNICEF	United Nations International Children's Emergency Fund
SA	South Asia	US	United States
SDG	Sustainable Development Goals	USAID	United States Agency for International Development
SME	Small and Medium-Sized Enterprises	WDI	World Development Indicators
SPL	Social Protection and Labour	WHO	World Health Organization
SSA	Sub-Saharan Africa		
TFP	Total Factor Productivity		
TSF	Transition Support Facility		
TVET	Technical Vocational Education and Training		



Overview



Overview

I. Africa has enjoyed a period of unprecedented growth

In the four decades preceding the new millennium, economic growth in sub-Saharan Africa (SSA) was largely stagnant. In real terms, GDP per capita for the region was just 7 percent higher in 2000 than it had been in 1960. The stylized fact of ‘chronic growth failure’ (Collier and Gunning, 1999) was the defining feature of most African economies.

From the early years of this century, this picture began to change. Africa’s growth performance underwent a dramatic improvement, with per capita annual GDP growth surging from close to zero to almost 3 percent over a 15-year period. ‘African Renaissance’ became the headline touted around the world. A number of factors contributed to this growth acceleration: A spike in commodity prices; FDI inflows; improvements in the quality of governance and institutions; debt relief and higher aid inflows; more favourable conditions for agriculture; and, the growing weight of Africa’s middle class.

Yet despite this impressive growth performance, the continent still faces two important growth-related challenges. First, previous experience suggests that we must be cautious in concluding that the current growth path is either sustainable, or sufficient to make real inroads into poverty. The second concern is the wide disparity between observed growth rates and the scale of poverty reduction across the continent. In most countries, economic growth has not translated into commensurate levels of poverty reduction. Understanding the factors that inhibit the transmission of growth into poverty reduction is key to achieving sustainable and inclusive development.

II. Poverty has declined in Africa, but remains high

The statistics show African poverty is on a declining trend over the past fifteen years. Since 1993, African countries have succeeded in lowering the incidence, spread and severity of poverty in, not just a few, but the majority of countries. Resource-poor African countries consistently outperformed resource-rich ones. Alongside reductions in income poverty, this period witnessed substantial improvements in social outcomes such as health and education.

But, compared to other developing regions such as South and East Asia, Africa’s progress on poverty reduction has been consistently disappointing. In fact, when compared to a typical Asian country, growth in Africa’s GDP per capita generates only half the reduction in poverty.

Of course, the quality of data underlying poverty estimates in Africa makes the analysis more challenging. Poverty data from African countries is limited both as to quality and timeliness. There is broad consensus that the rate of poverty in Africa has declined over the past 15 years. However, the rate of poverty reduction remains a point of contention, as is the precise current level of poverty in Africa. Researchers arrive at different conclusions depending on their data sources and methodologies.

Two schools of thought emerge from this debate. The pessimistic view, espoused by the World Bank and many mainstream development economists, is that African poverty has been declining slowly. Their analysis is based on household surveys. Projections from this data cast doubt over the likelihood that Africa met its MDG target of halving its 1990 poverty level by September 2015. A more optimistic view emerges from combining GDP

data from national accounts and distribution data from household surveys to compute mean incomes. Using this method, researchers such as Pinkovskiy and Sala-i-Martin conclude that poverty has been declining faster than commonly thought. Their projections suggest that most African countries have, in fact, achieved their MDG poverty target. It is sometimes argued that the two approaches produce different results because household surveys yield much lower mean incomes that grow more slowly than GDP per capita for most African nations. In sum, while we can make rough estimates as to the direction of progress from year to year, we cannot precisely calculate poverty rates and how they are changing.

For the purpose of this study, we have combined income-based poverty with asset-based poverty, using data from Demographic and Health Surveys for 37 African

countries in multiple waves for each country, covering the life history of some 750,000 households. The findings suggest that the percentage of households deprived of basic assets, such as those living in thatched-roofed and mud-floor houses, and lacking access to clean water, electricity, radio/television or other assets, declined from about 42% in the 1990s to 25% in 2005. This rapid decline in asset poverty is consistent with Pinkovskiy and Sala-i-Martin's (2012; 2013) account, except that the pace remained unchanged between 2005 and 2010. On the other hand, the long-term relationship between per capita GDP growth and asset poverty reflected the pattern in the World Bank data set, where asset poverty declines by around 0.92 percentage points for every 1 percentage point increase in per capita GDP.



With African countries committed to ending extreme poverty in the next decade, generating high quality poverty data that is consistent across countries is a high priority. This entails building up the capacity and resources of national statistical institutions across the continent.

III. High inequality undermined the efficacy of growth in reducing poverty

After Latin America, Africa is the most unequal region in the world. This is not a recent trend but has persisted over time and across countries, despite differences in levels of development and resource endowments. Inequality is one of the key factors inhibiting the transmission of economic growth into poverty reduction. It is therefore imperative to understand its patterns and drivers. The

data available suggests that inequality within countries is driven substantially by spatial (geographic) factors, which make up close to 40% of the total variation. High levels of both tertiary education and remittances appear to have inequality-reducing effects between countries, while the degree of market distortion, low initial levels of development and being an oil exporter are all correlated with higher inequality. In addition, declining agricultural activity, lack of growth in manufacturing and an expanding service sector all tend to hurt low-skilled workers, leading to worsening inequality – a situation that is currently observed across the continent.

The pace of Africa's industrialisation has not been fast enough to bring about large-scale economic transformation. African economies continue to be the least diversified in the world. Labour-intensive manufacturing has not taken off in most of Africa, except in a few North African economies like Tunisia and Morocco. The share of the African labour force in manufacturing has declined. Diversification out of agriculture has thus been mainly into services and the informal sector. As a result, structural transformation has not emerged as a driver of great equality. Genuine economic transformation – and therefore an expansion of better paying jobs – would require higher rates of investment and faster economic growth.

In Africa, the pattern and structure of growth is as important as the speed of growth, if not more so. The poverty impact of growth depends on the initial income distribution and its pattern of change. High inequality reduces the elasticity of poverty reduction with regard to economic growth. Real progress on poverty reduction therefore requires, in addition to sustained growth, more equal societies and more diversified economies that generate more employment.

Globalisation and national development strategies also affect the structure of growth, the level of inequality and the incidence of poverty across Africa. Understanding the interrelationship between globalisation, growth and inequality, and how they impact on poverty, is key to formulating effective poverty reduction policies.



IV. Gender inequality: A double break on poverty reduction

Gender disparities in income, access to health and educational attainment are pervasive across the continent. Women farmers are eight times less likely to independently own their own agricultural land. According to a survey of experts, women with secondary education are 37% less likely to be employed in the formal, non-agricultural sectors. In most countries, girls are less likely to be sent to school, irrespective of their ability, and their schooling is more likely to be disrupted. Even when girls achieve equal levels of education with their male counterparts, they have less chance of getting salaried jobs and are likely to be paid less.

Nearly 36 percent of African women report being victims of violence, mostly inflicted on them by their intimate partners, and the true prevalence of violence against women is likely to be grossly under-reported. As well as the direct impact on women and children, violence against women has wider social and economic consequences, including on infant and child nutritional and health outcomes. It is likely that African countries could reduce violence against women through measures that address gender inequality in education and employment.

V. Youth unemployment: An immediate concern for Africa's development

Africa will continue to account for a significant and rising share of the global youth population, rising from a fifth in 2012 to as high as a third by 2050. Current trends suggest that much of the youth bulge will be concentrated in West, Central and East Africa. It leaves Africa with the challenge of providing jobs to 29 million labour market entrants every year, which is close to 6 percent of the current workforce.

For Africa to benefit from a demographic dividend, as Asian countries did in earlier years, there is an urgent need to equip young Africans with the skills they need to be productive members of the workforce. But while educational attainment has been improving, the demand from Africa's private sector has not kept up. Achieving the

demographic dividend also requires a reduction in fertility rates. So far, however, improvements in health care and education have not resulted in significant declines in fertility in most of Africa. This points to two challenges in the continent's drive for sustained growth and poverty reduction. There is the short to medium-term challenge of ensuring that youth can be integrated productively into the economy, and the longer-term challenge of transitioning to lower fertility levels.

Of course, there are significant variations in demographic patterns and pathways across African countries. Across the board, young people make up the bulk of the labour force and bear most of the unemployment burden. However, the heterogeneous nature of African demographics, as implied in their dissimilar structures and trends, calls for policies that are context specific, in order to achieve youth employment outcomes that are both timely and sustainable. For instance, in middle-income countries, the problem of chronic youth unemployment calls for labour market reforms to narrow the mismatch between the demand and supply of labour. Some studies have shown that, in these countries, millions of jobs remained vacant even as unemployment soars among the young. Skills gaps are often considered to be the main reason for persistent youth unemployment, calling for serious education reforms in consultation with employers. In contrast, youth unemployment rates in low-income African countries are substantially lower, but with a significant proportion of employment being in agriculture and the informal, urban sector, both of which are characterised by low and variable incomes, leaving millions of workers trapped in poverty. Here, the policy challenges include facilitating structural change to enhance productivity within each sector and allowing greater mobility of labour across sectors.

VI. Structural transformation, agriculture and Africa's development

The pattern of structural change in Africa is very different from the one that has produced high growth in Asia, and before that, in the European industrialisers. Labour is moving out of agriculture and rural areas, but formal

manufacturing industries are not the main beneficiary. Urban migrants are being absorbed largely into services that are not particularly productive. A more promising strategy would be to scale up agricultural production. This would help it not only to attain food security, but also to generate surpluses that could be traded on international markets. Land and human inputs are not scarce across the continent. Improved agricultural productivity could therefore be achieved through improved policies and investment in physical capital.

It is likely that growth in the agriculture sector offers the best pay-off in terms of poverty reduction. With the agricultural sector employing two-thirds of the continent's workforce, concentrating investment in this sector has considerable potential for sustaining growth and reducing poverty. But this requires a genuine transformation in the sector, including a shift towards more local processing of agricultural produce, to capture greater value, and a shift towards new agricultural practices and technologies, in order to drive up productivity.

This suggests that agricultural policy should focus on achieving transformation through agro-based industrialisation, rather than simply addressing poverty and food security. Adding value to Africa's primary exports may earn the continent a competitive margin in international markets. In addition, the volume of Africa's food imports suggest the potential for much higher intra-Africa trade in processed agricultural goods.

VII. Eliminating extreme poverty: Progress to date and Future Priorities

Africa has joined the rest of the international community in adopting a new set of Sustainable Development Goals. This includes a commitment to lowering poverty to 3%, by 2030. Based on historical records, current conditions and plausible assumptions about the future, this report assesses the feasibility of achieving this target. By maintaining annual growth of 2%, the continent could potentially lift about 172 million more people out of poverty by 2030. This would reduce extreme poverty substantially, but not to the desired 3%. Eliminating

extreme poverty over the next 10-15 years, would require Africa to at least double average per capita consumption from what it is today. At the same time, most countries would require less than 5% of their national income to lift poor people out of poverty.

Countries in fragile situations are expected to make the least progress in eliminating extreme poverty. In fact, the current trends suggest a need for radical new policy interventions, to ensure that this group of countries is not left behind.

In cases of extreme poverty, where the benefits of growth are less likely to occur to the poor, government programmes such as social safety nets can be helpful. However, designing such programmes is not easy, and poor targeting could be inefficient. Using existing social infrastructure, such as traditional and religious institutions, could be an effective way not only to reach the poor but also to lower the cost of delivering social safety nets.

Africa's progress towards the 2030 target will depend on four important factors. First, it will require maintaining the current growth momentum, if not increasing it. This growth, if accompanied by appropriate redistribution, is Africa's best lever for poverty reduction. Growth sustainability will, in turn, depend on the availability of capital to supplement the growing quantity and quality of labour. However, it is important to note that, with commodity prices trending downwards, sustaining current growth will be a significant challenge, especially for countries that are disproportionately dependent on revenues from commodity exports.

Second, the continent needs to address inequality at various levels, including income, gender and rural-urban disparities. These disparities pose a significant challenge both to its growth prospects and the extent to which growth translates into poverty reduction. Reducing income inequality will require greater diversification of economies into sectors that create meaningful employment for the masses, while adopting some deliberate redistribution measures. Rural-urban disparities can be narrowed through decentralisation policies that ensure

better life chances for rural residents. Addressing gender inequality has the potential to simultaneously boost growth and lower poverty levels. Conversely, if it is not addressed, violence against women will represent a continuing brake on Africa's development.

Third, achieving inclusive growth requires addressing the demographic challenges facing the continent. High fertility rates and rising underemployment among youth are likely to undermine future growth prospects, and could limit, if not reverse, the current achievements in poverty reduction. The challenge for Africa is to complete the transition toward low fertility levels.

Finally, success will depend on the quality of national development strategies and how they interact with global economic conditions. Domestic politics will inevitably play a major role. Policy measures to diversify sources of

economic growth, especially for resource-rich countries, will be important in order to protect national economies from external shocks. Encouragingly, Africa's increasing diversification in trading partners is already making the continent more resilient.

VIII. The way forward to achieving sustainable development in Africa

With many of the Millennium Development Goals remaining unfinished business in Africa, the SDGs are a good fit with Africa's priorities for the next 15 years. African countries will need to ensure that the SDGs are fully integrated into national development strategies, ensuring a more focused approach to addressing development challenges.





The recent growth in Africa has not taken place in all sectors of the economy. Most of the value addition has come from the service sector, with the contribution of agriculture and manufacturing sectors either remaining the same, or, experiencing contractions. Given that not much of the recent growth is attributable to agriculture, the majority of people who work in this sector have remained poor. For this reason, special attention should be given to the development of this sector. The future of growth and its impact on poverty reduction in Africa hinges on what happens to structural transformation. Transformative policies that increase investment in agriculture to raise productivity and add value have higher chances of sustaining broad-based growth and lowering poverty. Diversification will also prevent the natural resource curse and reduce vulnerability to external shocks, especially commodity price shocks.

Africa's recent growth performance did not adequately address issues of inequality and exclusion, especially for women and youth. On gender inequality, despite progress over the past fifteen years particularly regarding gender parity in primary school enrolment, many outstanding

challenges remain, including increasing women's participation in decision-making and reducing maternal mortality. Yet, women still constitute the majority of Africa's poor. Above all, they are victims of domestic violence, with average prevalence of about 37% across the continent, and close to 50% in some countries. To achieve growth that is gender inclusive, policies will have to address domestic violence to pave the way for gender equality. Youth unemployment should also be addressed to enable Africa to benefit from the demographic dividend. African youth are considered to have only benefited in a limited way from recent economic growth. Many of them lack either the relevant training or access capital and thus have not achieved meaningful employment. The "Arab Spring" demonstrated that youth unemployment might be a "ticking time bomb" if the transition from school continues to lead to unemployment. In addition, because of the high prevalence of informality in Africa, a further challenge will be to find an effective way to harness the potential of youth entrepreneurs.

To embark on a new development trajectory of structural transformation will require huge investment in human

and physical capital. Africa's vast investment gaps, especially in infrastructure, can no longer wait for a private-sector response. The cost of delaying infrastructural development is huge for many countries, constraining growth and poverty reduction. In addition to providing a conducive environment for private sector participation, African countries must now explore new financing options, with new partners, especially in priority areas such as transportation, agriculture and energy.

Continuing 'business as usual' will mean that poverty will remain a challenge for Africa. The continent may still face poverty ratios in excess of 5 percent: Way higher than the SDG target of zero poverty by 2030. Africa needs to grow at an average rate of 5% per capita annually for

the next 10-15 years. Complementing this growth with smart distribution policies is the continent's ideal strategy against poverty. Conflict and fragility carry high costs and impede poverty reduction. The vicious circle between fragility and armed conflict reinforces extreme poverty. Fragile situations thus warrant special attention from policymakers and development partners alike.

IX. The African Development Bank Group's priorities and support to Africa's sustainable development agenda

Achieving inclusive and increasingly green growth are the two core objectives of the African Development Bank Group's Ten Year Strategy (2013-2022). The Strategy aims



for a quality of growth that is: “...sustained and not isolated, but shared, for all African citizens and countries, not just for some.” Accordingly, in the years ahead, the role of the Bank in Regional Member Countries (RMCs) will be refocused on diversifying growth sources for sustainability, and enhancing broader participation of the poor and marginalised groups. To do this more effectively, and within a more cost efficient use of resources, the Bank has streamlined its TYS by identifying five key priority areas, called the “High-Five”.

Increased focus on agriculture is warranted because the pay-off in terms of poverty reduction is highest when growth takes place in the agricultural sector rather than when it takes place in other sectors of the economy. The agricultural sector employs 2/3 of the continent’s workforce and is directly linked to any strategy that seeks to address extreme poverty and hunger. Concentrating investment in this sector, therefore, has great potential for sustaining growth while at the same time contributing to lowering poverty and inequality.

Addressing power issues, especially through the provision of renewable energy supplies, can facilitate economic growth, improve health outcomes and lower poverty, with minimal damage to the environment. A sustainable development agenda requires Africa to achieve the goal of universal access to energy (SDG 7). In this regard, lighting-up and powering Africa will be a priority for the Bank over the next decade. In September 2015, the Bank launched a ‘New Deal for Energy in Africa’ to solve Africa’s huge energy gap and to fast-track universal access to energy, by 2025. This New Deal will be the Bank’s main tool to light up and power Africa over the next decade.

Regional integration that enables the flow of goods and services from producer to consumer markets is vital for sustainable growth and poverty reduction. Africa can benefit from synergetic outcomes by investing in integration at national and international levels. In accordance with the TYS, the Bank’s integration-priority seeks to create a larger African market that will enhance both intra-Africa trade and trade between Africa and the rest of the world. Accordingly, the Bank continues to

champion the identification, diagnosis and implementation of investment projects with this synergetic effect.

Africa’s industrialisation requires a major shift both in strategy and investment in order to sustain current growth rates and generate quality jobs and prosperity for the population. To do so, investment in infrastructure is crucial to improve agricultural productivity and to lead the way for the development of a vibrant manufacturing sector. The role of the Bank in achieving a balance between state and private sector involvement takes into consideration the urgent need to address investment shortfalls, but also to ensure that this is achieved within sustainable means. Agro-based industrialisation will be promoted which will help countries to add value to their production and diversify away from commodity specialisation. By promoting agro-industrialisation, the Bank envisions addressing food insecurity while building a sustainable foundation for future growth and poverty reduction through many inter-linkages between agriculture and other sectors of the economy.

To improve the quality of life of Africans, the continent needs a quality of growth that is inclusive and sustainable. However, findings in this report show that Africa still has high incidence of poverty, and the projections suggest that under business as usual, SSA may not eradicate extreme poverty by 2030. Various dimensions of inequality continue to limit progress in reducing poverty. Notwithstanding these challenges, Africa could make a meaningful turnaround by investing in sectors that are more closely linked to the livelihoods of the poor and by ensuring sound policies with effective delivery mechanisms. Addressing extreme poverty is a vital constituent of each of the High-Five priority areas identified by the Bank. In fact, eliminating extreme poverty is a necessary condition for success in Priority-5, “Improving the quality of life of Africans”.



CHAPTER 1

Africa's recent growth has been widespread and persistent

Key messages

- Over the past 15 years, **Africa has grown much faster** than many other regions of the world. Factors that contributed to this growth resurgence include internal factors (improvement in the quality of governance and institutions, improved macroeconomic policies and performance, more favourable conditions for agriculture, the emergence of an African middle class, more stable political conditions), and, external factors (a spike in commodity prices, FDI inflows).
- Recent **growth experience in Africa has been widespread**, and not limited to countries with natural resource or geographical advantages. An increased share of natural resource rents is associated with increasing per capita GNI for mineral exporting countries, but the association is converse for some oil-rich countries.
- Major **constraints to Africa's future growth include sustaining these growth rates and enabling transformation**. Despite the growth resurgence of the last 15 years, sustaining growth without adequate upgrading of production technology, infrastructure, human capital and business climate remains a major challenge. More importantly, structural transformation has yet to take place: The agricultural sector is losing more and more workforce, not to the labour-intensive manufacturing sector, but to the low value adding services sectors (trade), or to the informal sector.



1.0 Introduction

After a decade and a half of economic growth, occurring not just in a few, but in the majority of African countries, time has come to evaluate the sources of such growth, its sustainability and the extent to which it has fuelled poverty reduction and wellbeing across the continent. This chapter provides an update on Africa's growth experience,

contrasting the continent's sustained growth over the past 15 years to previous episodes of weaker growth. The chapter then highlights key determinants of the recent growth in the context of fundamental structural economic change. The chapter concludes with discussions on the sustainability of recent growth episodes.



1.1 Africa's growth performance

In the four decades preceding the new millennium, economic growth in Sub-Saharan Africa (SSA) as a whole was stagnant. GDP per capita in real terms for the entire region was only 7 percent higher in 2000 than it had been in 1960. Except for some positive outliers, such as Botswana which enjoyed high and steady growth throughout much

of the pre-2000 period, and a few other countries that went through some temporary growth spells in the 1970s and 1980s, most of the region was mired in poverty. The lack (or slow pace) and narrow base of economic growth combined with extremely high population growth rates resulted in massive deprivation for the majority of African households, most of which were rural. The incidence of poverty kept rising with the headcount ratio (the proportion of the population below the \$1.25 a day poverty line) climbing from 53 percent of the population in 1980 to 59 percent in 1999, according to the World Bank.¹

The growth performance of the African continent saw significant improvement from the 1990s, with per capita GDP annual growth soaring from essentially zero in the 40 years preceding the new millennium, to almost 3 percent in the last fifteen years. Table 1.1 shows the annual growth rates of per capita GDP at constant 2005 US dollars for 37 SSA countries during four periods from 1980 to 2012. Out of this sample of 37 countries for which comparable data are available, 32 countries reported higher (or less negative) growth rates in the first decade of this century than in the preceding one.²



1 The generally low quality of African statistics has been characterised by Shanta Devarajan, the former Chief Economist for the African region at the World Bank, as "Africa's Statistical Tragedy". The tragedy is that while there is a strong presumption that the trends reported are real, we cannot vouch for their accuracy.

2 For more detail see Shimeles and Thorbecke (2015)

Table 1.1 Annual growth rates of per capita GDP for selected Sub-Saharan African countries*

Country Name	1980-1990	1990-2000	2000-2010	2010-2012
Angola (earliest data: 1985)	0.57%	-2.00%	10.38%	2.12%
Benin	0.22%	1.20%	0.72%	1.62%
Botswana	10.25%	3.75%	3.63%	4.05%
Burkina Faso	0.94%	2.74%	3.33%	4.13%
Burundi	1.38%	-3.12%	0.03%	0.79%
Cameroon	0.26%	-1.32%	0.68%	1.80%
Central African Republic	-1.35%	-1.01%	-0.73%	1.58%
Chad	2.61%	-1.02%	7.23%	0.23%
Congo, Dem. Rep.	-1.76%	-5.82%	2.21%	4.20%
Congo, Rep.	2.07%	-1.22%	1.97%	0.89%
Côte d'Ivoire	-2.67%	-0.57%	-0.54%	-0.11%
Ethiopia (earliest data: 1981)	-0.90%	-0.45%	6.95%	5.27%
Gabon	-0.82%	-0.89%	-0.41%	4.11%
Ghana	-0.86%	1.84%	3.69%	9.36%
Guinea-Bissau	3.07%	-1.64%	0.26%	-0.35%
Guinea (earliest data: 1986)	0.79%	0.10%	0.41%	1.29%
Kenya	0.34%	-0.98%	1.48%	1.70%
Lesotho	1.88%	2.53%	3.75%	2.80%
Liberia	-7.20%	-0.58%	4.55%	7.28%
Madagascar	-2.02%	-1.29%	-0.37%	-0.35%
Malawi	-1.79%	1.70%	1.66%	0.17%
Mali	-1.02%	1.53%	3.11%	-2.21%
Mauritania	-1.07%	-0.06%	2.21%	3.16%
Mozambique	-0.92%	2.62%	6.15%	4.81%
Namibia	-1.91%	1.25%	3.59%	3.51%
Niger	-2.56%	-1.58%	-0.84%	2.69%
Nigeria	-1.43%	0.23%	4.33%	4.10%
Rwanda	-1.29%	-1.07%	6.72%	5.27%
Senegal	-0.43%	0.32%	1.34%	0.20%
Sierra Leone	-1.41%	-2.46%	3.41%	8.77%
South Africa	-0.90%	-0.42%	2.45%	1.81%
Sudan	-0.52%	3.13%	3.63%	3.28%
Swaziland	6.95%	0.85%	1.17%	-2.12%
Tanzania (earliest data: 1988)	2.16%	0.12%	4.84%	3.54%
Togo	-2.02%	-0.33%	-0.45%	2.54%
Uganda (earliest data: 1982)	-0.11%	3.58%	4.64%	1.56%
Zambia	-1.73%	-1.70%	3.20%	3.83%
Africa^a	-0.19%	0.22%	3.16%	1.95%
Sub Saharan Africa	-0.77%	-0.26%	3.21%	2.35%
SSA excluding South Africa	-1.08%	-0.16%	3.91%	2.94%

*The table reports average annual growth rates of per capita GDP (at constant 2005 US dollars) during four periods: 1980-1990, 1990-2000, 2000-2010, and 2010-2012. GDP data is from World Bank Indicators
^a Excluding Libya

1.2 Determinants of economic growth in Africa

African economies have been growing for more than a decade. A set of interrelated factors appears to have contributed to the current acceleration of the pace of growth and also, to a limited extent, to a more inclusive pattern of growth³. Some of these factors are exogenous, in the sense that they are largely outside the control of individual states. Other factors are endogenous, at least partially, and influenced by the development strategies adopted by African governments. Because of the difficulty of establishing clear-cut causality between these factors and the present growth acceleration or its level of inclusiveness, a number of researchers refer to these factors as correlates of growth (see, for example, McMillan and Harttgen, 2014).⁴

Starting with relatively exogenous shocks, the *spike in commodity prices* during the 2000s along with the big jump in foreign direct investment were clearly significant contributors to the acceleration of the pace of growth. Commodity price indices faced by many African countries doubled or even tripled between 2000 and 2010 (See Figures 1.1 and 1.2). High and rising export prices turned the terms of trade favourably for many resource-rich African countries and helped fuel economic growth. This commodity boom, in turn, was influenced by an enormous flow of foreign investment. The boom has not endured, recently, the index of primary commodity prices has fallen significantly.

Since 2000, the global Foreign Direct Investment (FDI) stock in sub-Saharan Africa has increased dramatically, from a base of \$34 billion to \$246 billion by 2012. This

3 Martinez and Mlachila (2013) find that the quality of growth in SSA over the past 15 years has unambiguously improved, although progress in social indicators has been uneven.

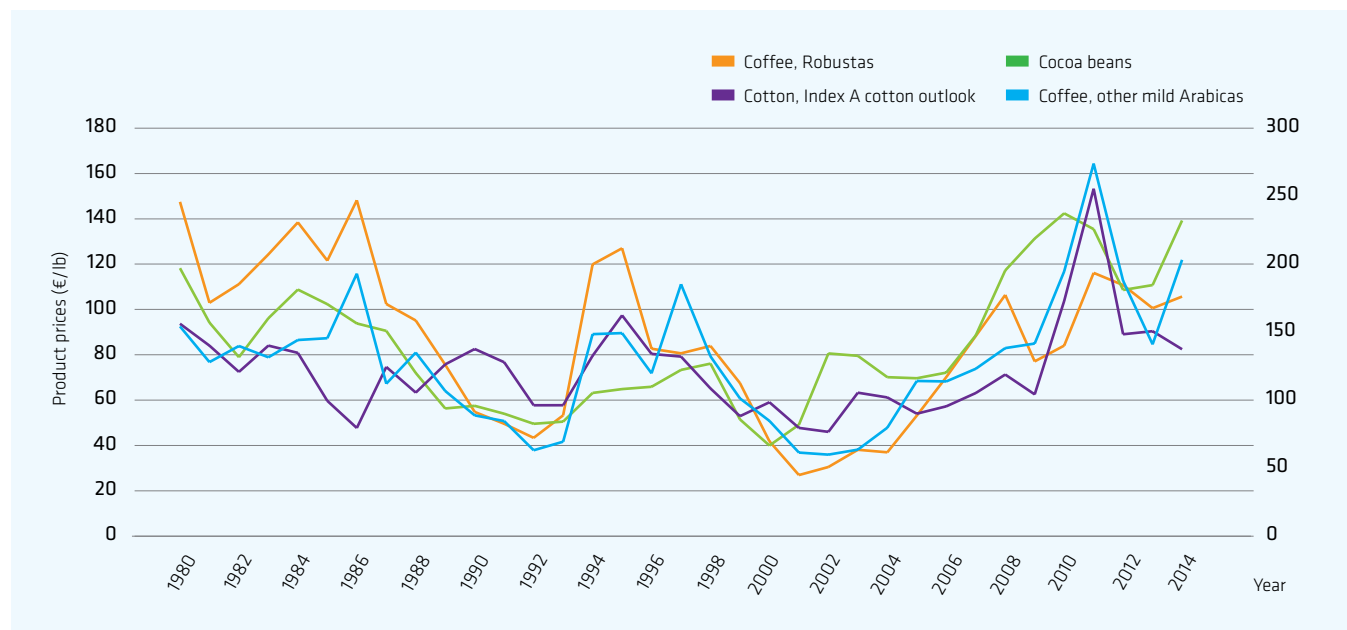
4 This source contains an excellent analysis of many such correlates. The term correlate connotes association rather than causality *per se*.

seven-fold increase in investment was predominantly directed to resource-rich countries. South Africa with its precious metals and minerals and Nigeria with its oil reserves received the majority of FDI (Brookings, 2014). Such investment, while fuelling the pace of growth, can exacerbate inequality, as it tends to be directed to highly capital-intensive projects creating few jobs. Yet, if part of the royalties accruing to governments from such types of investment are used to promote human development through productive social protection schemes benefitting the poor and unskilled, then FDI can be consistent with inclusive growth. In addition, the Heavily Indebted Poor Countries (HIPC) initiative launched in 1996 provided substantial debt relief to 30 African countries, which helped free up resources for more social spending.

Trade with the rest of the world has become an increasingly important determinant of growth. Between 1960 and 1974 the share of imports and exports in GDP were not increasing, rather they were decreasing, albeit slightly. Most economies were showing high GDP growth during this period; so the domestic economy was growing faster than foreign trade. The striking feature of the return to GDP growth in the 1990s is that it is accompanied by an even higher growth in the tradable sectors, with the continent significantly expanding trade partners around the world (see Box: 1.1).

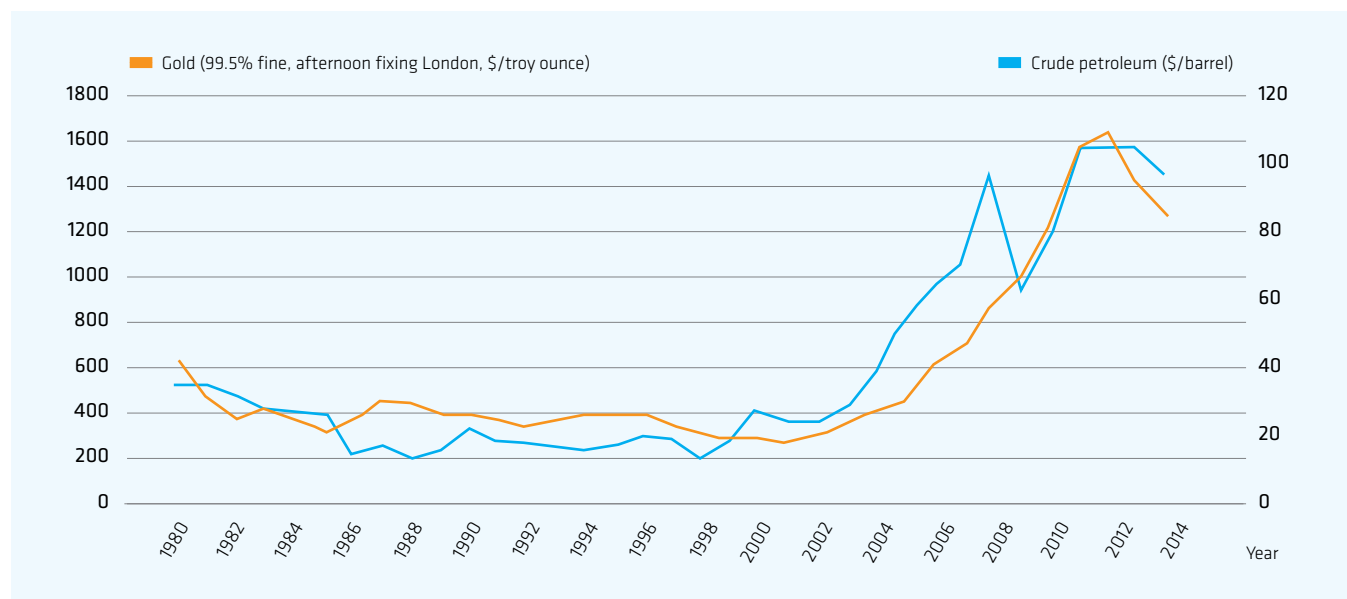
The next set of contributing factors to be discussed tends to be more under the direct control of African governments. The most significant one is *improvement in the quality of governance*. McMillan and Harttgen (2014) compute an indicator reflecting the average polity score for SSA based on the “Polity IV Project” and the World Bank’s World Development Indicators for different sub-samples of African countries. The population-weighted average Polity

Figure 1.1 Trends in the prices of selected agricultural commodities



Source: Author's calculations using data from UNCTAD (2014)

Figure 1.2 Trends in the prices of gold and crude oil



Source: Author's calculations using data from UNCTAD (2014)

II score reveals clearly that from 1990 onwards, African regimes became more democratic and less autocratic.

Directly related to the quality of governance is the changing concern for, and *more policies directed towards agriculture*. After decades of taxing and exploiting the agricultural sector, many African governments have embraced policies and institutions to raise agricultural productivity, particularly on small farms that still constitute the predominant form of cultivation. A good example of this new commitment is the pan-African Comprehensive African Agriculture Development Program that recommends, among other things, that African countries allocate at least ten percent of their national budget to agriculture and mandate a six percent annual growth rate of output.⁵

Still another relatively endogenous factor associated with the current growth spell is the *emergence of an African middle class*. According to Ncube and Lufumpa (2014), the size of the middle class has grown from around 66 million

in 1980 to 137 million in 2010⁶. This recent analysis of the emerging African middle class concludes that “this new middle class has strong positive potential for the region. It has the capacity to increase domestic consumption; contribute to private sector growth and entrepreneurialism; boost demand for better governance and public services; improve gender equality; and raise standards of living, allowing many people to exit from poverty” (Ncube and Lufumpa, 2014, p.1). Historically, there has been a close interrelationship between the rise of a middle class and improved governance and the appearance of democratic institutions. While many obstacles still need to be overcome before a strong and sustainable middle class dominates the social fabric in Africa, a continuation of this trend is essential to the building of inclusive institutions. It must be noted however, that Africa’s high inequality is an obstacle to further growth of the middle class.

We now consider the basic determinants of economic growth, namely, labour, capital and technology. Growth arises when factors such as labour, capital and technology of production are available at a cost which gives the

5 However, seven years after the launch of the CAADP initiative, only 9 out of 44 countries for which data was available had met the 10% expenditure target for agriculture (NEPAD 2013).

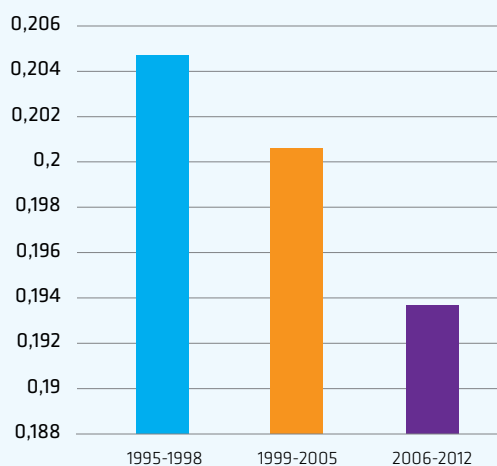
6 The middle class is defined as including individuals whose income per day ranges from \$4 to \$20.

Box 1.1 Trade openness and resilience of African economies

In 1990 the share of trade in total GDP for Sub-Saharan Africa was still at the levels seen in the 1960s. Between 1990 and 2010 real total GDP for Sub-Saharan Africa doubled. Meanwhile, trade increased its share in total GDP from 50 to 75 percent. This implies around 6 percent per annum growth in trade, compared to a GDP growth of about 3 percent per annum. In sum, the growth experienced in the most recent period is, to a large extent, based on external trade. *Ceteris paribus*, African economies were therefore more vulnerable to external shocks at the beginning of the 2010s than they were at the beginning of the 1970s.

When the financial crisis hit in 2009, against the odds, growth has been sustained according to available statistics (African Development Bank, 2011). This is clearly not because African economies are less reliant on foreign trade, but rather because their trade is more geographically diversified. Demand from Asia is, for many economies, outstripping demand from traditional trading partners in the West (Alden 2007, Brautigam 2009, Cheru and Obi 2010). Using the Herfindahl-Hirschman Market Concentration Index, figure 1.3 illustrates how Africa has reduced its dependency on a limited number of traditional trade partners over time. The resulting improved resilience also reflects increased strength in growing domestic markets.

Figure 1.3 Concentration of Trade Partners



Source: Authors, data for the graph was obtained from World Bank

producer a comparative advantage in local or international markets. The following section reviews some of the basic constraints to labour, human capital, capital investment, technological change, and how Africa's economic transformation (implied by inter-sectoral shifts among these inputs) is associated with growth outcomes.

1.2.1 Africa's human capital has improved, but has not become cheaper

It has been widely noted and accepted that, due to physical constraints, Africa has been a high cost location (Collier and Gunning, 1999). Both geography and the disease environment negatively affect the labour force (Bloom and Sachs, 1998). Historically, Africa has been characterised by a low supply of labour, and production has been constrained by the unavailability of wage-labour or availability of labour at a relatively high cost (Austin, 2008). It has been noted that the relatively high costs of labour is one of the main reasons that African economies fell behind in the 1970s and 1980s (Collier, 2007). When many Asian economies were profiting on employing low wage labour to supply manufactured goods for the world market, African economies were uncompetitive (Arrighi, 2002). In the past, wages have been too high for labour-intensive industrialisation to be an option for Sub-Saharan economies (Austin, 2011). Africa's total population has multiplied almost 4 times, according to World Bank statistics, from about 280 million to more than 1 billion between 1960 and 2011. This increase has mainly attracted attention because of the challenges it raises for urban planning and other social issues in African countries. There will also be opportunities arising from this population growth. African economies may be able to enjoy economies of scale in terms of their own domestic market, and a supply of labour that will make them competitive in international markets.

Low wages is not enough alone: The productivity of the labour force crucially depends more broadly on human capital and the business environment. A neglected issue in African economic development, despite slow or even negative growth, human capital

kept improving in the post-colonial period (Sender, 1999). Life-expectancy and literacy all increased very rapidly in the 1960s and 1970s. This continued improvement was seen despite structural adjustment programmes enforcing social expenditure cuts in the 1980s and 1990s. The Millennium Development Goal (MDG) agenda adopted since 2000 ensured a renewed improvement in human capital investment. Although the surge in education spending in the previous five decades did not yield large macroeconomic returns (Pritchett, 2001), this finding may be due to growth failing for other reasons, and does not give a clear story on the direct relationship between education and growth (Jerven, 2011b). Quality and years of schooling have not improved as much as enrolments, which may have weakened the link between education and growth outcomes.

1.2.2 Accumulation of physical capital and technology

Outdated technology and high transport costs have been important constraints on African growth in the past. African economies have been constrained by small domestic markets, high transport costs within those markets and being distant from major centres of economic activity. Furthermore, with low population densities, fixed infrastructural investments such as a telephone landlines, roads and railways have had lower economic returns in Sub-Saharan Africa than elsewhere (Jerven, 2011c). Increasingly the importance of distance and geography to economic growth is being recognised, and particularly the cumulative processes deriving from increasing returns to scale (Venables, 2008). North Africa has benefited from being located close to European markets, but as of yet, South Africa or Nigeria are not big enough markets to create economies of agglomeration.

Africa's savings remained relatively low over the past decades, picking up in the new Millennium, around the same time that the recent growth upsurge started in the continent (Figure 1.4). Despite the improved savings performance, the gap between SSA and other

developing regions, such as East Asia and Pacific and the Middle East and North Africa, has widened over the period. The role of savings in the continent's recent growth has not been rigorously studied, but it may have played a vital role in growth. Apart from domestic savings, Africa's diaspora savings were estimated at \$40 billion in 2010 in the form of remittances, which, if properly captured, can stimulate economic progress in the continent (AfDB, 2013)⁷. Recent developments of diaspora bonds in many countries is a good step towards harnessing these remittances for growth. Governments, however, must put extra effort in ensuring an investment climate that will facilitate and sustain this source of financial flows.

As a non-frontier continent for technological innovation, Africa stands to benefit from accessing advanced technologies at low cost while it builds capacity to handle part-production of some of the technologies. Recent advances in mobile phone technology and the internet have brought immense benefits to the continent, including ease of financial access by the poor through mobile money transfer technologies. Overall, physical capital accumulation, proxy by savings as a share of GNI, has increased in Africa during the

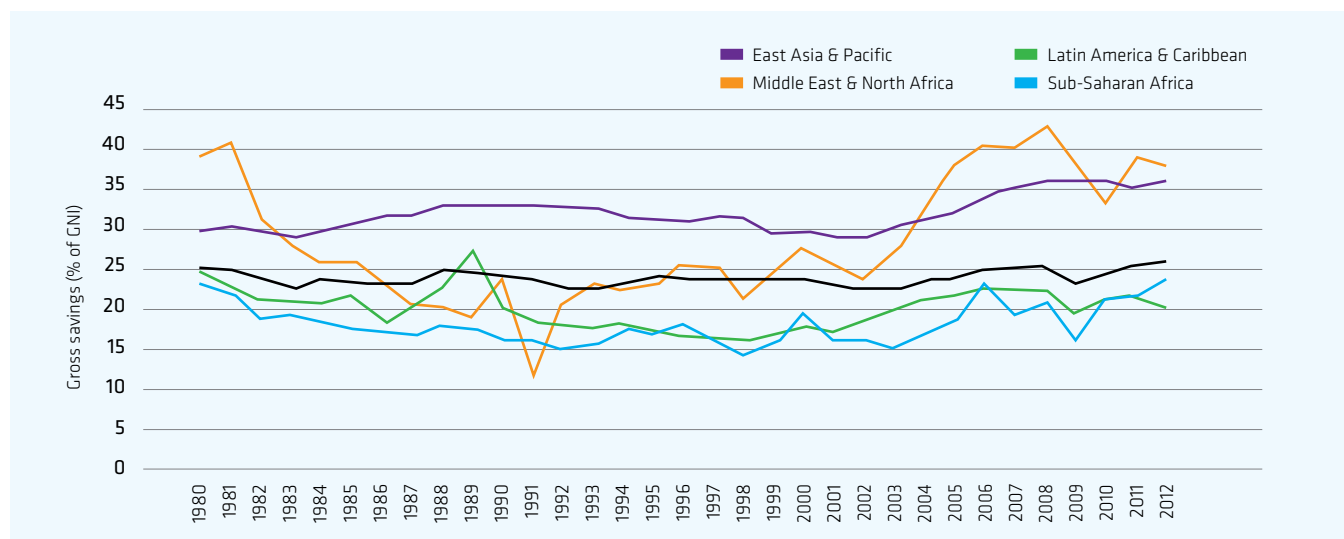
growth period. This rising savings ratio cannot be attributed to a slow growth of GNI (the denominator), since both savings volume and GNI were increasing during the same period. However, as noted above, faster growth in labour supply, both through new entrants to the labour market and inter-sectorial shifts, have not been accompanied by equivalent expansion of physical capital. Specifically, the industrial sector did not expand at the rate of labour expansion, resulting in the continent's low capital per worker ratio.

1.2.2.1 Infrastructure development

The link between infrastructure development, growth and poverty reduction is unambiguous. Infrastructure development can promote inclusive growth by: (i) Generating jobs; (ii) Reducing production and transport costs; (iii) Expanding production capacity; and, by (iv) Connecting markets within and between countries. Infrastructure facilitates inclusive growth through economic exchange and trade, which allows specialisation and tapping into economies of scale. As Winters (2014) underscores, besides net aggregate gains, both gains and losses will occur at an individual level, since people differ in their ability to seize new opportunities. Calderon and Serven (2004) and Jones

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Figure 1.4 Ratio of gross national savings to GNI, by region



Source: Data from World Development Indicators, 2015.

(2006)⁸ noted that infrastructure investment is critical for accelerating growth, reducing inequality and alleviating poverty. In addition, for growth to be sustainable, it must be grounded on well-developed infrastructure that continues to make existing investments more efficient while at the same time, through cost efficiency, attracting new investments.

According to the World Economic Forum's Global Competitiveness Index 2012–2013, Africa is the least competitive region in the world. The continent has made significant progress in improving human capital but has lagged behind the rest of the world in physical capital investments. In the past decade, Africa has grown substantially but the poverty reducing effect of growth has been limited. For the continent to sustain recent growth experiences, and to ensure better outcomes for the poor, it must become more competitive. This requires complementing the increasing quality and quantity of Africa's labour force with physical capital investment. Particularly, attaining inclusive growth requires infrastructure investment that directly affects the wellbeing of the poor while contributing to overall growth. There are very few infrastructure investments that do not meet this requirement. Generally, growth that is accompanied by an expansion in infrastructure for the poor and the rich alike is more likely to achieve better outcomes for the poor, either directly or through redistributive means⁹. On the other hand, infrastructure investment in sectors that are capital intensive or employ only a limited number of the poor may only influence poverty through more indirect means. For example, road and agriculture-related infrastructure are more likely to influence the livelihoods of the poor than expansion in oil processing plants. Africa needs infrastructure in order to make more significant progress in poverty reduction, and to sustain growth.

8 The recent (November 2014) statement of the MDBs and IMF posits: 'Infrastructure is key to tackling poverty and promoting inclusive growth. Infrastructure helps improve access to basic services, especially for poor people, links producers to markets and connects countries to the opportunities in the global economy. ...No country has developed without access to well-functioning infrastructure.'

9 It is important to note that infrastructure can contribute to poverty reduction even in the absence of economic growth. The availability of social amenities such as electricity, clean water, sanitation and means of communication improves the wellbeing of people in non-income dimensions.

Research evidence has indicated that if Africa is to sustainably reduce its poverty rates, it has to maintain a growth rate in excess of 5 percent per annum in the medium to long term, and this will require maintaining an investment to GDP ratio of about 25 percent (UNCTAD, 2014; ECA, 1999). In the past, however, the average investment to GDP ratio in Africa has only been 18 percent, thus providing part-justification as to why the continent has not been able to grow at the desired rate (UNCTAD, 2014). Investment in infrastructure is therefore a prerequisite for economic growth. It fuels economic wellbeing directly and also by serving as the basis for further investment. Countries with high initial infrastructural investment are more likely to sustain growth over a long period of time.

In the past two decades, while the lack of infrastructure has undermined Africa's capability to grow and reduce its poverty level, development approaches have focused on the MDGs to address poverty and its manifestations, mostly at the micro level. It has become clearer that addressing poverty, gender inequality, health and educational deficiencies requires a comprehensive approach that responds to these needs of the poor at the micro level, while addressing meso and macro infrastructural needs, including access to water and sanitation, good road networks, energy and means of communication. The multiplicity of deprivations calls for policies that target synergies across interventions. Successes in addressing extreme poverty necessitate providing: good access through roads and communication technologies - to help the poor reach markets, schools and health facilities; access to energy - to improve basic social services including health and education, and to support entrepreneurship among the poor; and, water and sanitation - to achieve better health among the poor. Clearly, the omission of a goal on infrastructure was a key shortcoming of the MDGs, especially as they apply to Africa. Thus, a key development focus of the 2015 Sustainable Development Goals (SDGs) is building resilient infrastructure that will stimulate and uphold inclusive and sustainable industrialisation. This more comprehensive approach to tackling poverty may be more fruitful than the narrower approach adopted by the MDGs.

Underscoring the importance of infrastructure investment, in 2010, a joint initiative by key institutions including the African Union Commission (AUC), New Partnership for Africa's Development (NEPAD), and the African Development Bank formulated the Program for Infrastructure Development in Africa (PIDA) with the objective of identifying and prioritising Africa's key infrastructure needs to support development and poverty reduction. PIDA classified Africa's priority infrastructure investment areas into four: energy, transportation, water and sanitation, and, information and communication technology sectors. PIDA's Priority Action Plan (PAP) for the period 2011 to 2040 estimated Africa's annual infrastructure deficit to be \$360 billion, spread among the four identified priority sectors with a significant proportion of the deficit (60%) accounted for by the energy sector. There are wide disparities between North African and sub-Saharan countries, and also among countries within sub-Saharan Africa. The Africa Infrastructure Index (AIDI) of the AfDB shows that all the northern African countries are among the top 10 performers in the 2010 ranking. These 10 best performing countries exhibit significant disparities with the rest of the countries: While

the top performers had scores ranging from 33 to 100, the bottom ten only scored between 2 and 10. The highest scoring countries include the Seychelles, South Africa, Egypt, Libya, Mauritius, Tunisia, Morocco, Algeria, Cape Verde and Botswana, while the lowest scoring countries include Somalia, Niger, Ethiopia, Chad and Madagascar.

Experience has shown that the development of crucial infrastructure cannot be left entirely to the market, especially in countries where the capacity of private players is limited. The belief that markets can solve investment gaps does not hold for many infrastructure investment gaps. The state therefore has a role in complementing private sector initiatives to bridge the financing gap in infrastructure. The state is better able to address infrastructure gaps for which the associated private economic payoff is small relative to the associated social benefits. In particular, provision of mobility and health infrastructure often requires government intervention as such interventions must be timely.

Both the pace and level of infrastructure development in Africa is barely comparable to other regions of the world. Africa has, for example, the lowest per capita internet



usage and its progress in this sphere has been rather slow (Figure 1.5). In particular, Table 1.2 shows that in 2010, while access to electricity as a percentage of the population has been in the range of 95-100% for the rest of the world, only 43% of the population has access to electricity in Africa. This despite progress in the last decade (5 percentage points increase over its previous ten-year value).

Similarly, for every 100 square kilometres of land area, Africa has only 13 kilometres of road. This is relatively low when compared to other regions (Figure 1.6). A similar measure for the closest comparable performing region, Latin America and the Caribbean, is 18 kilometres. Other regions generally exhibit denser road networks, for example, East Asia & Pacific, Europe and Central Asia and

North America each have 46, 104, 67 kilometres of paved roads per 100 square kilometres of land area.

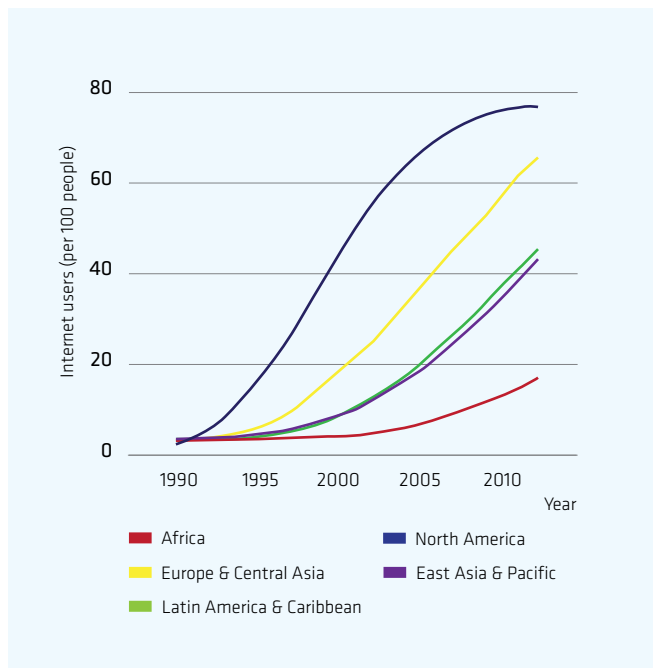
In most countries, providing improved sanitation has remained a challenge. As in Figure 1.7, more than 50% of

Table 1.2 Electricity access (% population)

Region	1990	2000	2010
Africa	35	38	43
East Asia & Pacific	88	92	95
Europe & Central Asia	99	100	100
Latin America & Caribbean	88	92	95
North America	100	100	100

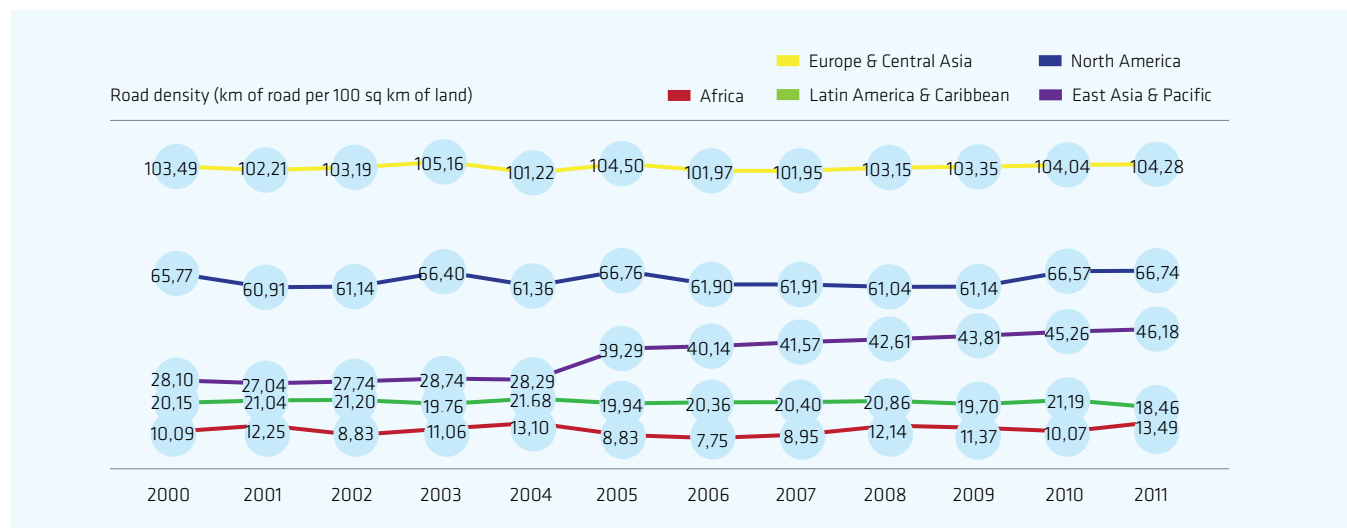
Source: Authors' computation using World Development Indicators

Figure 1.5 Trends in internet use, by regions of the world



Source: Authors' computation using World Development Indicators

Figure 1.6 Kilometres of road per 100 square kilometres of land, by region



Source: Authors' computation using World Development Indicators

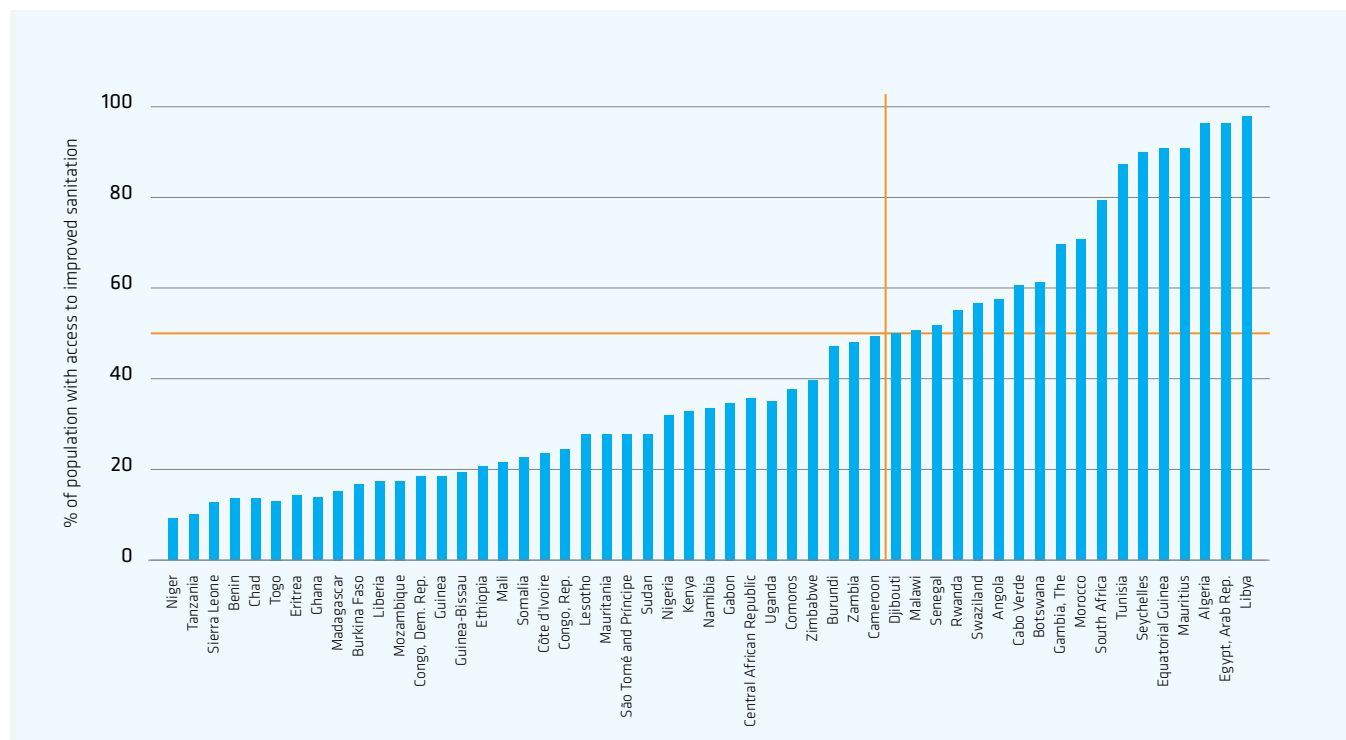
citizens are without access to improved sanitation in more than half the 54 African countries. This has direct implications for health and general wellbeing. The exceptions to this pattern are mostly countries in northern Africa plus some few countries where sanitation management is likely to be less challenging.

In the same way, the number of internet users is still low across the continent (Figure 1.8). This is due to factors ranging from policies that restrict internet access to the lack of appropriate infrastructure that lowers cost including user charges.

Exploring the association between infrastructure development and economic prosperity, we look at whether countries with better infrastructure tend to produce more sophisticated and diverse products using the Economic Complexity Index (ECI) as defined by Hausmann et al. (2011). According to these authors, the complexity of an economy is the amount of productive knowledge or

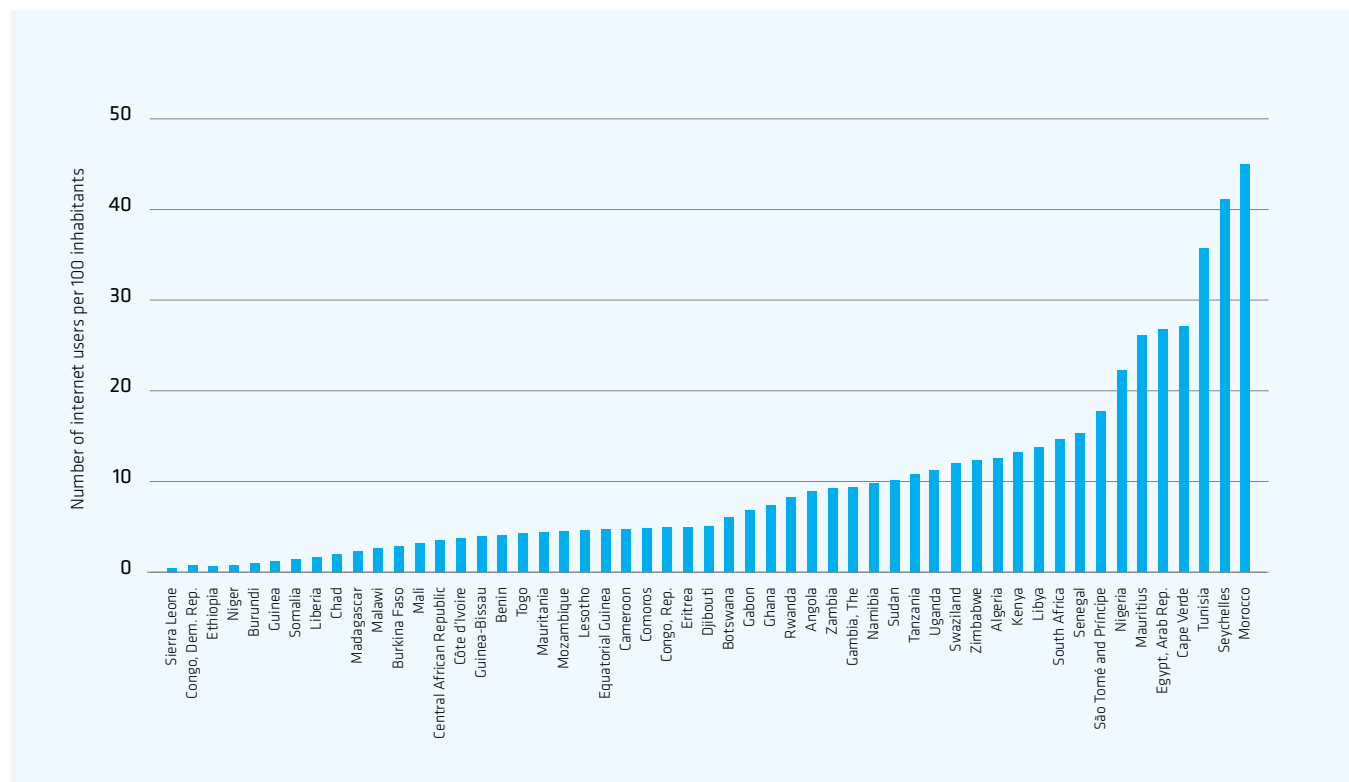
capabilities contained in the society. Capabilities could be tangible or intangible and include human capital, physical capital (for instance infrastructure such as road, bridges, highways, energy, ICT), institutions, the legal system, etc. Countries that have more capabilities tend to produce more complex or sophisticated goods. Hausmann et al. (2011) found a strong positive correlation between the economic complexity index and economic growth. Based on their approach, Yameogo et al (2014) computed the ECI for African countries for which data were available. Using these data, we show in Figure 1.9 that the economic complexity index tends to be higher for countries with better infrastructure. The degree of sophistication and the extent of export diversification as implied by the ECI are highly correlated with the level of infrastructure development in a country. Therefore, investment in infrastructure matters for a country's exports not only in quantity but in quality.

Figure 1.7 Percentage of population with access to improved sanitation



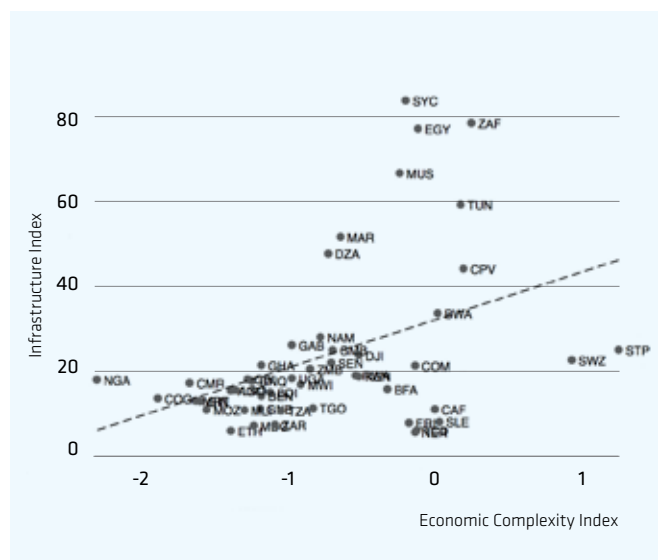
Source: AfDB (2013)

Figure 1.8 Number of internet users per 100 inhabitants



Source: AfDB 2013 (Africa Infrastructure development Index), authors' computation

Figure 1.9 Economic complexity index and infrastructure development, 2012



Source: Yameogo et al (2014)



1.2.2.2 Changes in the agricultural sector

The most important sector for African economies in terms of employment remains agriculture. Despite its low productivity, agriculture remains the continent's largest employment sector with about 57% of Africa's total labour force, and the main source of income for 90% of Africa's rural population (Kanu et al, 2014). However, the share of the labour force in agriculture is falling more rapidly than in the past and workers leaving agriculture appear

to be moving into the service sectors.¹⁰ The fact that only a very small proportion of workers are absorbed by the labour-intensive manufacturing sector remains a source of concern. Rodrik (2014) points out that workers leaving agriculture are typically absorbed in services and informal activities rather than formal manufacturing industries and surmises that, if Africa is able to continue to achieve high

¹⁰ Based on a sample of 14 SSA countries for which at least two observations were available covering the period from around 2000 to around 2010, Shimeles and Thorbecke (2014) found that in only one country was the structural transformation flawed.



growth rates, it will do so “pursuing a growth model that is different from earlier miracles based on industrialisation” (Rodrik, 2014, p. 15).

It is relevant to note that the relatively large labour productivity gaps between sectors, with labour productivity in agriculture much lower than in other sectors, disappear when productivity is expressed on a per hour basis (McCullough, 2015). The much lower number of labour hours worked in agriculture reflects an employment gap and the high seasonality of agricultural production. One of the implications of this finding is that for the structural transformation to work more smoothly, the demand for productive labour in non-agricultural sectors has to grow faster than at present. Workers in agriculture have an excess of potential labour that could be absorbed productively in other sectors even though productivity per person/

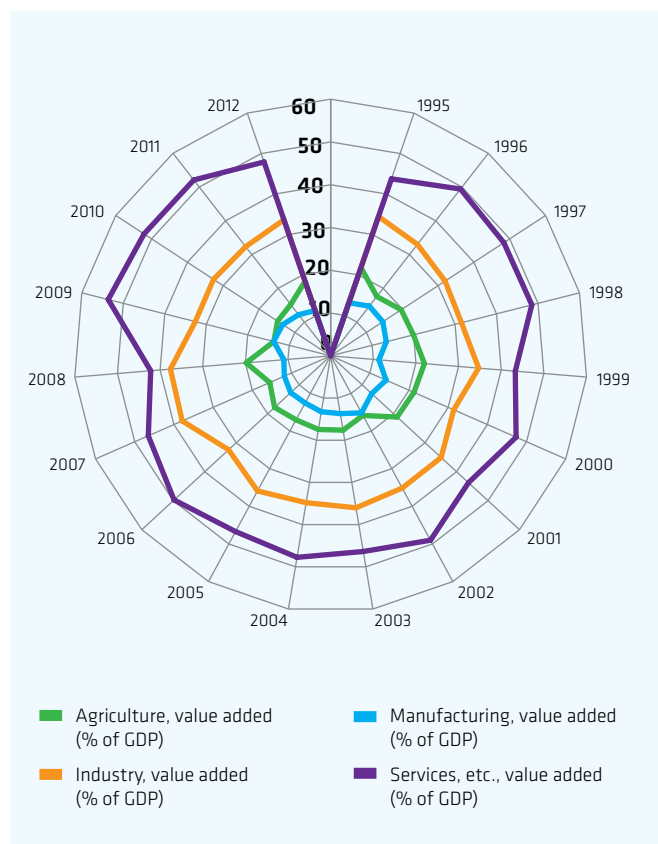
hour is not significantly higher outside of agriculture. This is evidence of the type of disguised unemployment inherent to the dual economy models of the past.

1.2.2.3 Changes in the manufacturing sector

With the exception of Mauritius, Sub-Saharan African economies have not had major success in exporting manufactures (Teal, 1999), nor has manufacturing been a major driver of economic growth (Rodrik, 2014). There are many plausible reasons for the low levels of manufacturing activity on the continent. Teal (1999) suggests four major reasons why most African economies are not successful exporters of manufactures. The first is low levels of skills and relative abundance of natural resources, which ensure that exporting manufactures is unprofitable (Wood and Berge, 1997). The second, is that African governments have created a bad policy environment for manufacturing, particularly for exports (Collier and Gunning, 1999). A third view sees the problem as the failure of policy to promote technological capabilities (Lall et al., 1994). Finally, one school of thought emphasises the role of economies of scale and importance of location (Krugman, 1995).

Does manufacturing growth drive the current economic growth? MacMillan and Harttgen (2014) use data from Demographic and Health Surveys (DHS) with a sample including 31 African countries with surveys from 1989. The DHS data show that the share of the labour force in agriculture increased by around 2 percentage points between 1990 and 1999, and fell by a little under 10 percentage points from 2000 onward. However, this decline is not mirrored in an increase in manufacturing or industry, but an expansion in service sectors. A similar pattern is visible from national accounts data on share in GDP, particularly after national accounts were rebased (Jerven and Duncan, 2012). Figure 1.10 shows that, since 2008, value added as a percentage of GDP has been declining for agriculture and manufacturing sectors. The share of service sectors in aggregate value added grew sharply between 2008 and 2009 and has remained high since then.

Figure 1.10 Value added by sector (% of GDP)



Source: Authors, based on data from World Development Indicators 2015

1.3 Natural resources have generated wealth in many African countries

1.3.1 Africa's natural resource endowments

All African countries are endowed with some form of natural resources: renewable and non-renewable. Recently, more than forty-five (45) out of the 54 African countries have been reported as possessing proven or probable oil and/or gas reserves. African countries have natural resource endowments of varying value and profitability. Some have high value resources such as fossil fuels (oil, natural gas, coal), or minerals (diamond, gold, uranium...), while others have resources that provide low foreign exchange earnings (especially renewable resources). Understanding Africa's recent growth experience requires assessing the amount of growth that is attributable to natural resource exploitation.

In Africa, the exploitation of natural resources provides significant foreign reserves to many countries. Table 1.3, below, shows the average contribution of natural resources to GDP by region in Africa¹¹. The Central African region is the richest region on the continent in terms of natural resource endowments. On average, about 47% of countries' GDP is composed of natural resource rents, of which oil rents are the major source. In North Africa, resource rents represent 30% of the

region's GDP. East Africa is the least endowed region in terms of natural resource wealth. In West Africa, many countries are agricultural producers and the region has the highest share of arable land compared to other regions in the continent.

In some countries - Congo Rep., Libya, Angola, and Gabon - natural resource rents contribute to more than 50% of GDP, with oil rents constituting the major share of resource rents. Countries such as Chad, Nigeria, Algeria, Mauritania, DRC, and Zambia have more than 20% of their GDP coming from natural resource rents. In addition to the resource rents, Table 1.3 also indicates that countries have significant agricultural potential with available arable and agricultural land¹². On average, about 10% and 37% of land areas are arable and agricultural land respectively in Sub-Saharan Africa, while these shares are 6% and 25% respectively in North Africa. These resources

¹² Arable land includes land defined by the FAO as land under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow. Land abandoned as a result of shifting cultivation is excluded. Agricultural land refers to the share of land area that is arable, under permanent crops, and under permanent pastures. Land under permanent crops is land cultivated with crops that occupy the land for long periods and need not be replanted after each harvest, such as cocoa, coffee, and rubber. This category includes land under flowering shrubs, fruit trees, nut trees, and vines, but excludes land under trees grown for wood or timber. Permanent pasture is land used for five or more years for forage, including natural and cultivated crops.

¹¹ A more detailed table in the Annex includes information for all African countries.

Table 1.3 Share of natural resource rents in GDP, by region

Region	Total natural resource rents (% GDP)	Oil rents (% GDP)	Natural gas rents (% GDP)	Mineral rents (% GDP)	Forest rents (% GDP)	Coal rents (% GDP)	Arable land (% of land area)	Agriculture value added (% GDP)	Agricultural land (% of land area)
Central Africa	46.76	42.13	0.383	0.27	2.88	0.01	2.761	12.61	7.93
East Africa	2.92	15.02	0.65	0.14	0.969	0.02	7.77	12.18	8.13
North Africa	30.48	23.35	5.61	2.55	0.11	0	7.321	7.92	30.03
Southern Africa	7.80	10.39	0.618	2.68	0.64	1.73	10.82	5.75	52.13
West Africa	7.49	13.29	1.75	1.55	1.92	0	19.35	24.03	44.95

Source: Authors' computation using WDI data

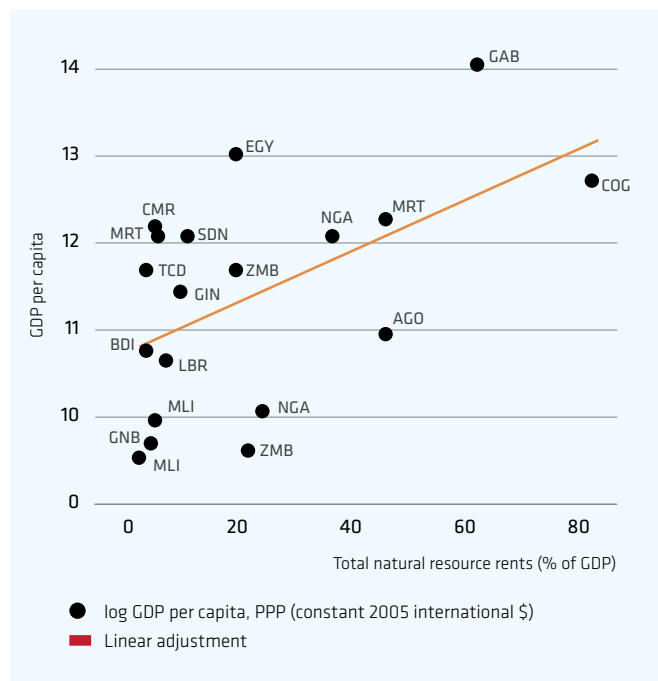
can be exploited to increase agricultural production in most African countries. Water resources are also relatively abundant in the continent (see African Development Report 2007 and 2012 for detailed discussion).

1.3.2 How did resource rents and GDP evolve over recent decades?

Did increasing resource rents drive GDP growth? To answer to this question, we look at the evolution of GDP per capita and natural resource rents¹³ at the continental level. As shown in figure 1.11, total rents and GDP per capita are positively related. Limiting the sample to only resource rich countries, the relationship between resources and GDP becomes relatively stronger. This is not proof, however, of a causal relationship between resource rents and growth.

13 We define a resource rich country as a country with an average share of total natural resource rents higher or equal to 10% of GDP. For that, we used the average share of resource rents from 2000 to 2013, period, for which data is available for almost all African countries. A country can be rich in fossil fuel resources or mineral resources, or forest resources. The remaining countries are defined as resource-poor countries. Appendix 1.1 gives the list of each category of country.

Figure 1.11 Relationship between total natural resource rents and GDP per capita, resource rich countries



Source: Authors, based on data from World Development Indicators.
Note: Period considered is between 2000 and 2012 and only resource rich countries are included.

A possible commodity price effect of natural resource rents can be assessed by comparing resource rents in a decade of stable commodity prices with those during a commodity price boom. In the period between 1990 and 2000, commodity prices have generally remained stable. However, the period 2000 until 2011 is described as a commodity super-cycle (IMF, 2015). Price booms such as those of 2008 may be associated with economic prosperity among commodity exporters. Correlation between total natural resource rents and GDP per capita for these two periods show a positive but insignificant coefficient (0.15) in the pre-2000 period while the results for the post-2000 period are positive and statistically significant (0.5). Though this analysis is based on a limited sample, the evidence shows that in a decade of lower commodity prices, GDP per capita is weaker. Overall, it shows that the general level of prices in the commodity market influences growth outcomes, and this effect seems particularly strong among countries that are heavily dependent on oil resources.

1.3.3 Oil price shocks and growth prospects

Apart from domestic factors, growth and its sustainability depend on a country's exposure to external factors. Natural resource exports have been a vital source of growth in many African countries. Oil rents alone constitute about 47 percent of GDP of Central African economies, 30 percent of GDP of North African countries and 8 percent of GDP in West and Southern African economies. The Democratic Republic of Congo, Libya, Angola, Gabon, Chad and Nigeria all earn oil rents in excess of 10 percent of their respective GDP. Growth prospects of these countries depend on what happens to the price of oil in the international market. While positive oil price shocks can generate surpluses for these countries, losses associated with negative shocks of equivalent scale generally tend to outweigh the benefits from any temporary increases in oil prices. Another downside of these endowments is that they may reduce the incentive to invest in other productive sectors of the economy. In this way, resource dependent countries often have less diversified productive sectors making them more vulnerable to global shocks that drive down resource prices.



Figure 1.12 Evolution of commodity price indices (US\$) Jan. 1992 - Aug. 2015



Source: Authors, using data from the IMF (2015)

From March 2014, prices per barrel of crude oil started a downward trend, falling by 12% to March 2015 (Figure 1.12). This trend is driven by a combination of factors, with supply factors being the most influential. In the wake of increased production coming from non-members of the Organization of Petroleum Exporting Countries (OPEC) such as the USA, production levels in OPEC member countries did not adjust to this increased supply, leading to a downward pressure on prices. The prolonged decline in this year's oil prices plus the expected partial recovery means, *ceteris paribus*, future growth may be hampered. This is expected to impact the prospects of less diversified oil exporting countries more, such as Angola or Equatorial Guinea.

The recent downturn in oil prices has significantly eroded the growth potential of a number of oil revenue dependent economies in Africa. Projected growth of the continent for 2015 (3.7 percent) and 2016 (4.4 percent) have been revised downwards by 0.6 percentage points relative to March 2015 (AfDB, 2015). Expected real GDP growth in oil exporting economies, such as Nigeria and Angola, has been revised downwards from 6.3 and 4.5 percent in 2014 to 5.0 and 3.8 percent in 2015 respectively, due mainly to losses in oil revenues (AfDB et al., 2015). It is important to note that such shocks present an opportunity for policymakers to explore strategies for diversification of the economies into other sources of growth such as in the agriculture and manufacturing sectors.

For a number of oil importing countries, the shocks are expected to positively affect growth through improvements in their balance of trade. Current trends provide an opportunity for these countries to reallocate savings made

from low oil prices to important social expenditures. It is expected that the positive effect will feed into growth through higher infrastructure investment and increased consumption spending. Their potential benefits are, however, expected to be partly offset by lower prices for non-oil commodity exports. In particular, for countries with export commodities that are positively correlated with oil prices, the outcome may not be wholly favourable even if they are net importers of oil products. Gold prices have seen a significant drop over the same period that oil prices were trending downwards. For countries such as South Africa and Ghana, this outcome may have limited their potential gains from the declining global oil prices. Similarly, for the Democratic Republic of Congo and Zambia, copper prices have resumed a downward trend since May 2015 after an initial increase in the price for this commodity between January and April 2015 (Figure 1.12).

At the household level, two factors explain why the effect of lower oil prices may not fully transmit to consumers in oil-importing African countries. First, given that a number of African countries still maintain energy subsidies, most of the windfall gains from lower oil prices are expected to occur to governments. Second, the pass-through of reduced oil prices to end-users is expected to be low because growth filtration to the poor is generally limited.

1.4 Conclusion

The current growth spell has led to a wave of optimism suggesting that an “African Renaissance” or “African Miracle” is underway. While it is too early to come up with any definitive judgment, it appears that Africa has embarked on a new and different growth and development pattern, which appears to be somewhat more resilient than in the past.

The current growth spell has, so far, lasted for almost two decades, and has shown resilience even during the global financial crisis of 2007-2008. Is Africa’s recent growth sustainable? What are some of the most crucial measures that African countries need to take in order to sustain or improve the current growth performance?

Firstly, it should be noted that some of the exogenous factors such as the decline in commodity prices, could negatively affect the balance of payments for resource-rich countries. Furthermore, as Africa becomes more integrated in the world economy, it will become more vulnerable to future negative shocks generated by the forces of globalisation. On the other hand, the future of foreign direct investment into Africa appears bright given the continued high demand for natural resources worldwide. Yet, there remains the risk of myopic contracts between African governments or entrepreneurs and foreign corporations, focusing on short-term gains and royalties at the expense of long-term gains. To achieve the growth impact, it is essential that part of the benefits of foreign direct investment be channelled into projects contributing to economic development.

Secondly, sustainability of the present growth trends depends crucially on continuation of the more favourable endogenous factors discussed earlier. The quality of governance needs to keep on improving. As Acemoglu

and Robinson (2012, p.82) put it: “...*inclusive economic institutions are forged on foundations laid by inclusive political institutions, which makes power broadly distributed in society.*” *More inclusive political institutions can reduce significantly the occurrence of civil conflicts. In many of the least developed SSA countries, where small-scale subsistence agriculture is still the main source of income for the majority of the population, the agricultural sector has to be nurtured and made more productive. Workers released out of agriculture (potential migrants) must be given the skills needed to prepare them for more productive jobs in other sectors. The emerging middle class will need to be supported by better schools that provide students entering the labour force with the type of education and skills conforming better to the needs of employers. Educated (youth) unemployment is not only a tragic waste of human resources but is also a source of social and political conflict as proven by the Arab Spring which began in Tunisia in late 2010.*

Overall, the sustained growth of the past 15 years has been fuelled both by better use of the continent’s resources and by improvement of its institutions, combined with favourable external influences. The pace of growth has been highest in the service sectors, with manufacturing and agricultural sectors in most countries experiencing either a constant or declining contribution to GDP. This outcome is also mirrored in the employment shares of these sectors. The continued dependence on natural resource exports and the slow pace of economic diversification and structural change present risks for the future of growth on the continent.

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Appendix

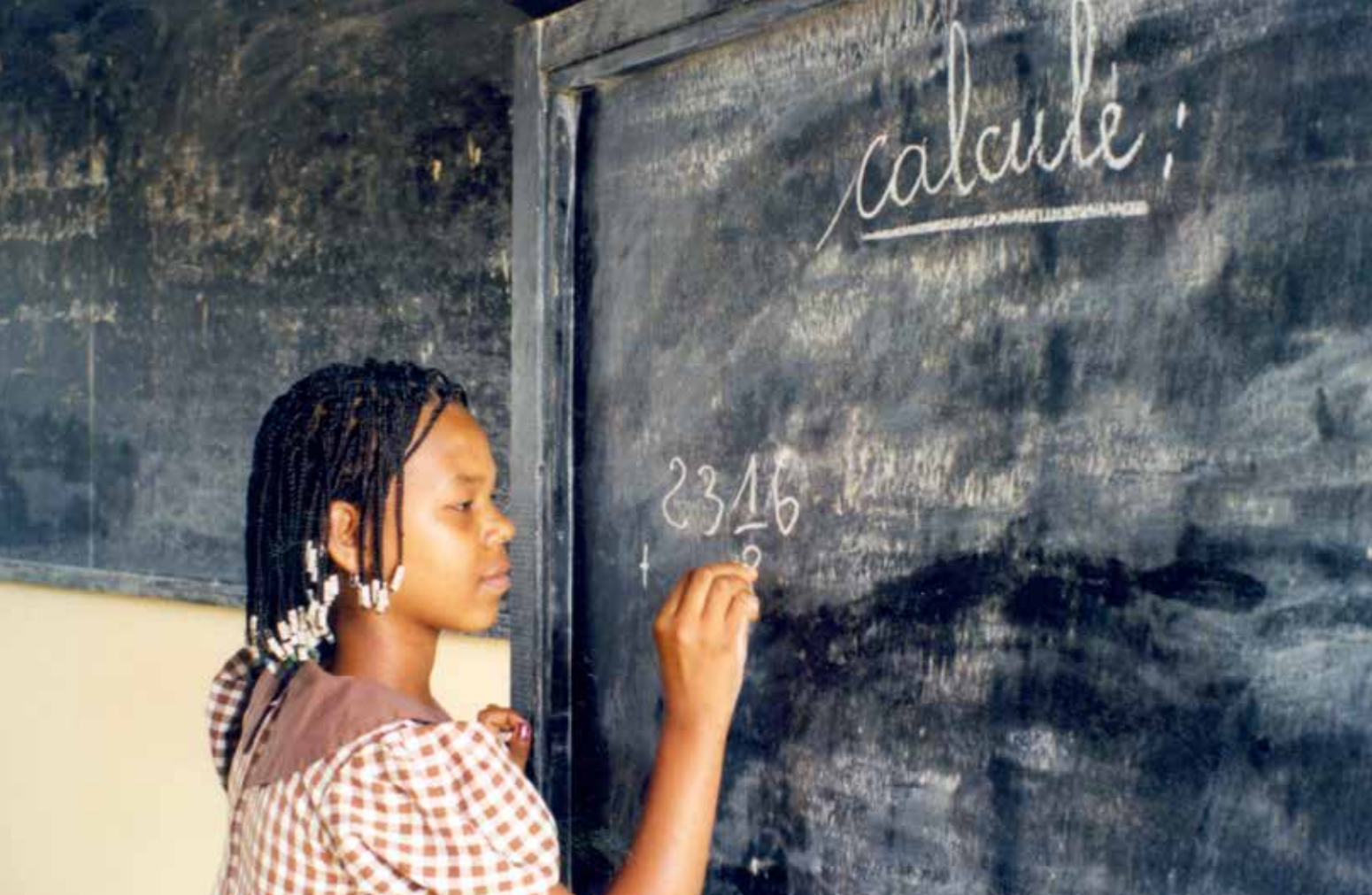
Appendix 1.1 List of African countries classified according to their resource endowment

Oil rich countries	Mineral rich countries	Forest rich countries	Natural gas rich countries	Other resource rich countries	Resource poor countries		
Algeria	Mauritania	Burundi	Algeria	Burkina Faso	Benin	Madagascar	South Africa
Angola	Zambia	Central African Republic		Cameroon	Botswana	Malawi	Swaziland
Chad	Congo Dem. Rep.*	Congo, Dem. Rep.		Egypt, Arab Rep.	Cabo Verde	Mauritius	Tanzania
Congo, Rep.	Guinea*	Ethiopia		Ghana	Comoros	Morocco	Togo
Equatorial Guinea+		Guinea		Mali	Côte d'Ivoire	Namibia	Tunisia
Gabon		Guinea-Bissau		Mozambique	Djibouti	Rwanda	Zimbabwe
Libya		Liberia		Niger	Eritrea	São Tomé and Príncipe	
Nigeria		Sierra Leone			Gambia, The	Senegal	
South Sudan+		Uganda			Kenya	Seychelles	
Sudan					Lesotho	Somalia	

Source: Authors, based on data from World Development Indicators

Note: *The 10-year mean is less than 10% of GDP but recent years' rent are in excess of 10% of GDP

+ Data coverage is less than 10 years.



CHAPTER 2

Poverty has declined in Africa, but remains high



Key messages

- **Poverty increased in Africa until about 1993, and fell thereafter.** However, despite progress in poverty reduction, the gap between Africa and other developing countries has been widening during this period. The gap appears to be wider for measures of poverty severity and depth than for 'headcount' or poverty incidence.
- Besides income poverty reduction, **higher growth is associated with improved social outcomes**, well-being and advancements in human development as illustrated by increased youth literacy rates and declining child mortality. However, the positive impact of growth on social indicators and poverty is **not automatic**, as evidenced by stagnating completion rates for primary education in resource-rich African countries and the slow pace of poverty reduction in many countries.
- Africa's resource-rich and **resource-poor countries fared differently** in reducing income poverty. While resource-poor countries achieved a reduction in poverty of 16 percentage points between 1995 and 2000, resource-rich countries posted only 7 percentage points reduction. Resource-rich countries tend to spend less on healthcare and education compared to resource-poor countries. The gap between resource-rich and resource-poor countries has widened. Many countries still have poverty rates close to 50% of the population, and these countries will need the greatest level of attention in the coming years.
- Yet **different data could lead to different conclusions depending on whether mean per capita income/consumption is derived from survey data or from national accounts.** With household survey data, poverty has declined only slowly, despite the recent high growth Africa has experienced. However, national accounts data suggests that poverty has declined steadily no matter the country's initial conditions. Asset-based assessment of poverty on the other hand, suggests there was a more rapid decline in the earlier decade (1990-2000) compared to the last decade.



2.0 Introduction

There has been increasing recognition of the importance of poverty reduction as a development objective in the economic literature and in policy circles. Indeed, poverty eradication was enshrined as the first Millennium Development Goal, and also tops the Sustainable Development Goals (SDG) list that guides the post-2015 development agenda. The developing world as a whole has experienced a substantial reduction in poverty since the 1980s, at an annual average rate of about 1 percentage point (Chen and Ravallion, 2008). The progress has not been uniform across and within regions, however. While most Asian countries have experienced tremendous poverty reduction, the progress in Africa, particularly sub-Saharan Africa (SSA),

has been slow. Poverty incidence, spread and depth have remained at high levels (Chen and Ravallion, 2007, 2008; Thorbecke, 2013a; World Bank, 2014).

This chapter discusses historical poverty trends, comparing Africa with other regions of the world. It then provides a detailed discussion on progress in reducing poverty at country and regional (within Africa) levels. The chapter also profiles the extent of Africa's residual poverty, and the dynamics inherent in households' transition into and out of poverty. Finally, there is discussion on an alternative measure of African poverty which challenges the traditional approaches in the literature.



2.1 Historical trends of poverty in Africa benchmarked with other developing regions

Historical trends of poverty in Africa can be analysed using the \$1.25 per-day poverty line and the three Foster-Greer-Thorbecke (FGT) measures of poverty, these are: ‘poverty headcount’, ‘poverty gap’, and, ‘squared poverty gap’. The three measures assess poverty incidence, gap, and severity, respectively (see Box: 2.1 for definitions of these poverty measurements).

Evidence on progress in reducing extreme poverty since the late 1990s is presented (\$1.25 per-day poverty line), which seems most relevant for African countries at present. The results are shown for the three FGT poverty measures in Figures 2.1a, 2.1b and 2.1c, respectively. Figure 2.1a presents data on the Africa region comparatively with the other global regions.¹⁴ On a comparative basis, the African region does not seem to have done as well (even in the more recent period) as the developing world (DW)

14 These regional data are considered to be more accurate than aggregating the available country data into regional aggregates, as various adjustments were required to render the estimates relatively representative (Chen and Ravallion, 2008).

Box 2.1 FGT measures of poverty

Foster-Greer-Thorbecke (1984) suggested three relevant measurements of poverty:

The headcount index (P0) measures the proportion of the population that is poor. It is popular because it is easy to understand and measure, but it does not indicate how poor the poor are. The poverty gap index (P1) (also known as poverty depth or intensity) measures the extent to which individuals fall below the poverty line (poverty gaps) as a proportion of the poverty line. The sum of these poverty gaps gives the minimum cost of eliminating poverty, if transfers were perfectly targeted. The measure does not reflect changes in inequality among the poor. The squared poverty gap index, also known as the poverty severity index (P2), averages the squares of the poverty gaps relative to the poverty line. It allows different weights to be put on the income (or expenditure) level of the poorest.

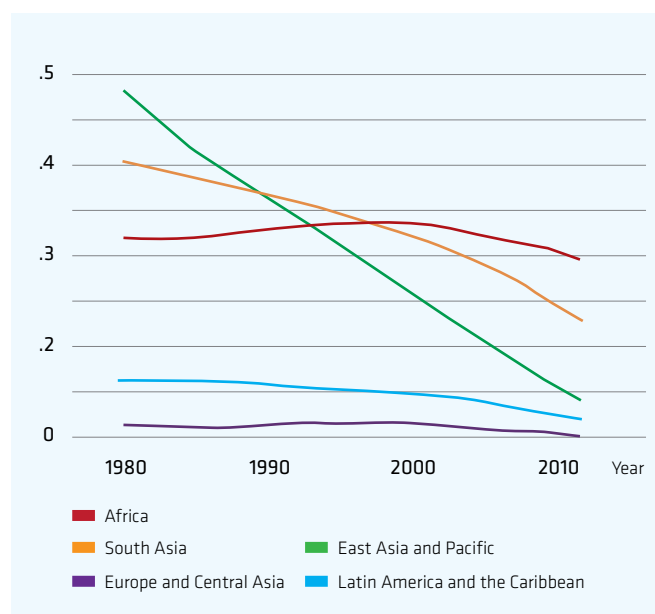
Source: <http://siteresources.worldbank.org/>

more generally. The gaps with South Asia (SA) and East Asia and the Pacific (EAP) have been widening, as they have with the developing world as a whole.

Furthermore, the SSA gap with the rest of the world is wider for the poverty gap than for the headcount ratio (poverty incidence), and for the squared poverty gap than for the poverty gap.¹⁵ Thus, it appears that *relative* to the other FGT measures, the headcount actually understates Africa’s gap on poverty *comparatively* with the rest of the world (see Chen and Ravallion, 2008).

15 The use of per capita income for poverty analysis is likely to overstate poverty in Africa relative to other regions. Adjusting for larger household sizes and increased share of children (by using equivalence scales), the differential in poverty between Africa and other regions would narrow.

Figure 2.1a Poverty trends (\$1.25), Africa vs. other regions: Headcount (Incidence)



Source: Data from World Bank, 2014

The results are similar when a higher poverty line, at the \$2.00 per day level, is used:

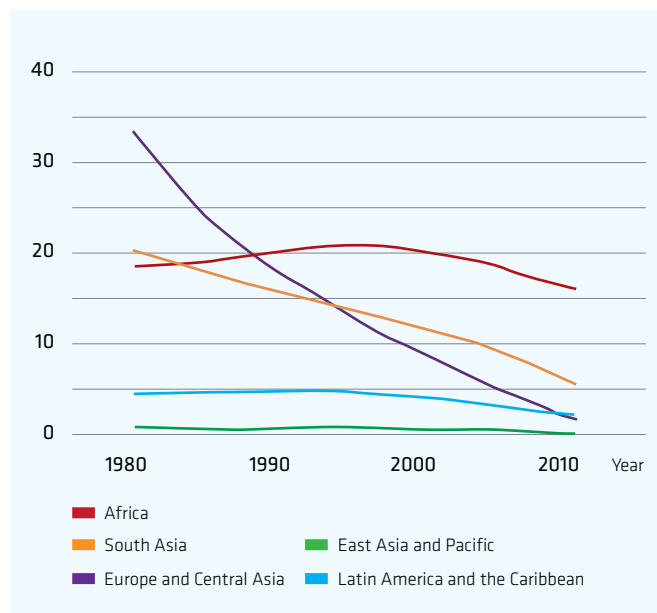
- Poverty increased for Africa until about 1993 and fell thereafter, and this outcome holds for all three measures of poverty;
- The gap with the DW has been widening during the period of African progress on poverty reduction;
- The gap appears to be wider for the ‘poverty gap’ measure than for the ‘headcount’, and for the ‘squared poverty gap’ than for the ‘poverty gap’. However, it must also be noted that the gap with the DW seems smaller for the higher poverty line than for the lower one. Indeed, until recently (since about the late 1990s), SA’s \$2.00-level poverty rate was above that of SSA’s.

In the FGT measures of poverty presented above, the incidence, gap and severity of poverty are averaged over the population to get regional measures of the respective indices. For example, the poverty gap index tells us about the size of the normalised poverty gap multiplied by the poverty incidence rate. In effect, population dynamics, the incidence of poverty and the depth of poverty all play a

role in the poverty gap index. These multiple varying components of the index make policy-relevant interpretation difficult. For this reason, we attempt to explore a single part of the poverty gap index: The mean income shortfall that is not adjusted by the incidence ratio (normalised poverty gap). Arithmetically, the normalised poverty gap is a ratio of the poverty gap index and the poverty incidence rate. This measure gives us the magnitude of mean income-shortfall of the poor as ratio of the poverty line¹⁶. Figure 2.1d plots a ratio of the poverty gap and poverty incidence indices to see how various regions perform. Given a similar poverty line across regions, variation in the ratio is largely dependent on the magnitude of income shortfalls of the poor. The ratio is thus higher for regions with a larger poverty gap relative to the uniform poverty line of \$1.25 per day, than for those where the majority of the poor are clustered around the poverty line.

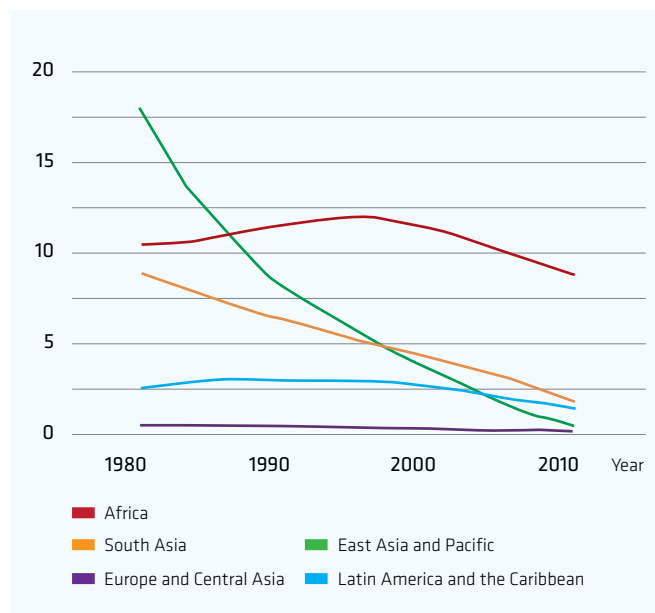
¹⁶ Dividing the poverty gap index by the poverty incidence index gives the normalised poverty gap ($\frac{P_2}{P_0} = \left(\frac{z - y_i}{z} \right)$); where z and y_i are the poverty line and mean income of the poor respectively.

Figure 2.1b Poverty trends (\$1.25), Africa vs. other regions: Poverty gap



Source: Data from World Bank, 2014

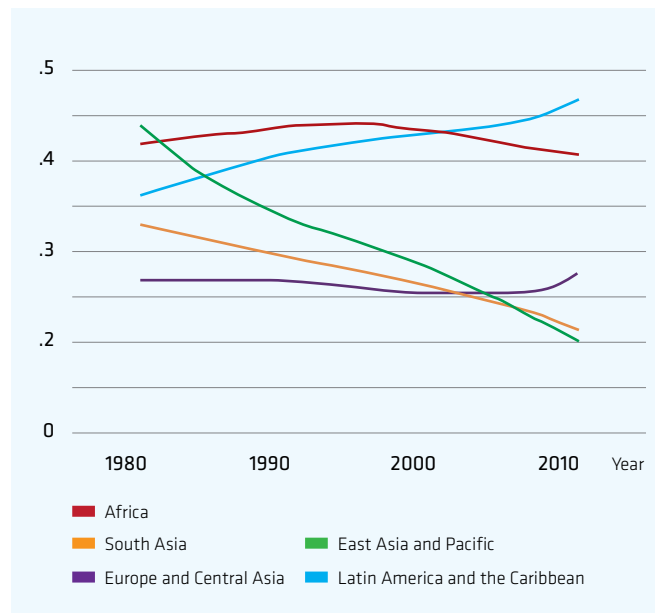
Figure 2.1c Poverty trends (\$1.25), Africa vs. other regions: Squared poverty gap



Source: Data from World Bank, 2014

Notably, both poverty gap and incidence indices are relatively higher in Africa than other regions. However, a plot of the ratio of poverty gap to the poverty line is relatively lower in Africa than in Latin America and the Caribbean. In more recent years (between 1996 and 2011), Africa's progress in reducing the poverty gap index of the poor, by 5.5 percentage points compared to Latin America's 2.4 percentage point progress, has contributed to the widening gap between the two regions. This means in recent periods of Africa's economic growth, progress in addressing extreme income deprivation may not be as impressive as the progress made by South Asia, East Asia and the Pacific, and Europe and Central Asia. Nevertheless, Africa's progress may be comparable to progress made by Latin America, a region that has been more unequal than Africa in the recent years. What is hard to tell, however, is whether policies should focus on addressing the incidence of poverty (strategy that targets all the poor equally) or the extent of deprivation (strategy targeting the poverty gap). Some regions may have a higher incidence of poverty, but a lower poverty gap and vice versa. Indeed, the main shortcoming of the simple normalised poverty gap presented here is that it does not take into account the number of poor relative to a region's population.

Figure 2.1d Poverty Trends (\$1.25), Africa vs. other regions: Ratio of poverty gap to poverty headcount



Source: Data from World Bank, 2014



2.2 Progress in poverty reduction at the regional and country level

With respect to sub-regional poverty progress, North Africa put in the best performance on headcount poverty, followed by Southern Africa, West Africa, Central Africa and then East Africa¹⁷. On the poverty gap, the ranking is: Southern Africa, West Africa, North Africa, Central Africa, and East Africa. On the squared poverty gap, it is: Southern Africa, West Africa, Central Africa, East Africa, and North Africa. Thus, the regional progress on poverty appears to depend on the FGT measure used, though

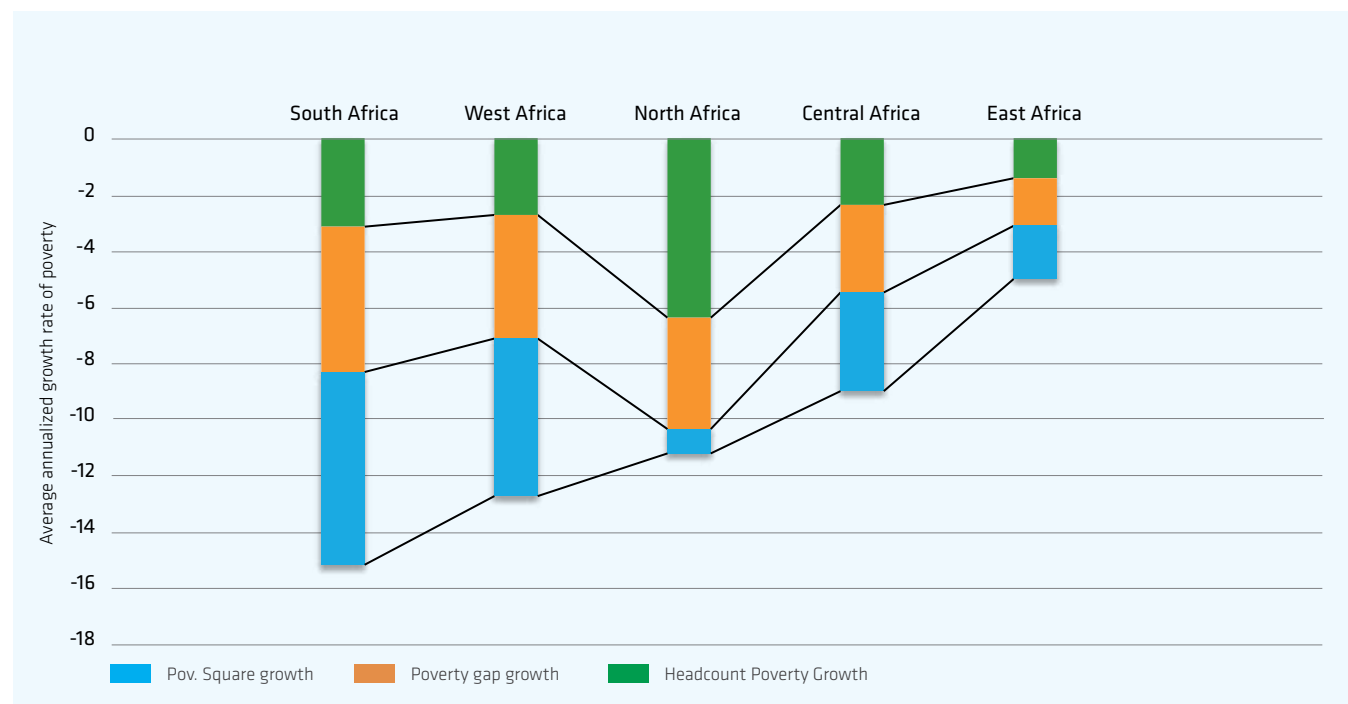
Southern Africa and West Africa seem to outperform the rest generally.

It is at the country level that progress on poverty reduction is much more meaningful. Hence, we present, in Figure 2.3a, 2.3b, and 2.3c, annualised changes in the three measures (poverty incidence, depth, and severity) of poverty since the late 1990s, by country¹⁸. According to these results, over 70 percent of African countries experienced

17 Because sub-regional samples are small, we rely on the means rather than the medians. Note, however, that no statistical differences are implied in the present sub-regional discussion.

18 The late 1990s were chosen as the starting point, since the present trend in per capita GDP growth for SSA as a whole seems to have started from then (see Fosu, 2013a, Figure 2, p.1087).

Figure 2.2 Annualised growth rates of three poverty measures, by sub-region



Notes: A growth rate is computed as the logarithmic difference of the latest-year and the beginning-year values, and is annualised by dividing by the number of intervening years, x 100 percent
Source: computed using data from World Bank, 2014.

reductions in poverty over the period. Furthermore, with very few exceptions, all the three FGT poverty measures moved in the same direction¹⁹. On average, these measures - incidence, spread, and severity – declined, by annualised rates of 3 percent, 4 percent, and at least 4 percent, respectively. Thus, the other poverty measures have fallen faster than the poverty incidence, suggesting that on aggregate analysing the incidence of poverty might not overstate the progress on the other measures²⁰. Nonetheless, where the incidence of poverty has increased, the remaining two poverty measures tended to increase even faster (in

Benin, CAR, Côte d’Ivoire, Kenya, Lesotho, Madagascar, Mauritania, São Tomé and Príncipe, and Zambia).

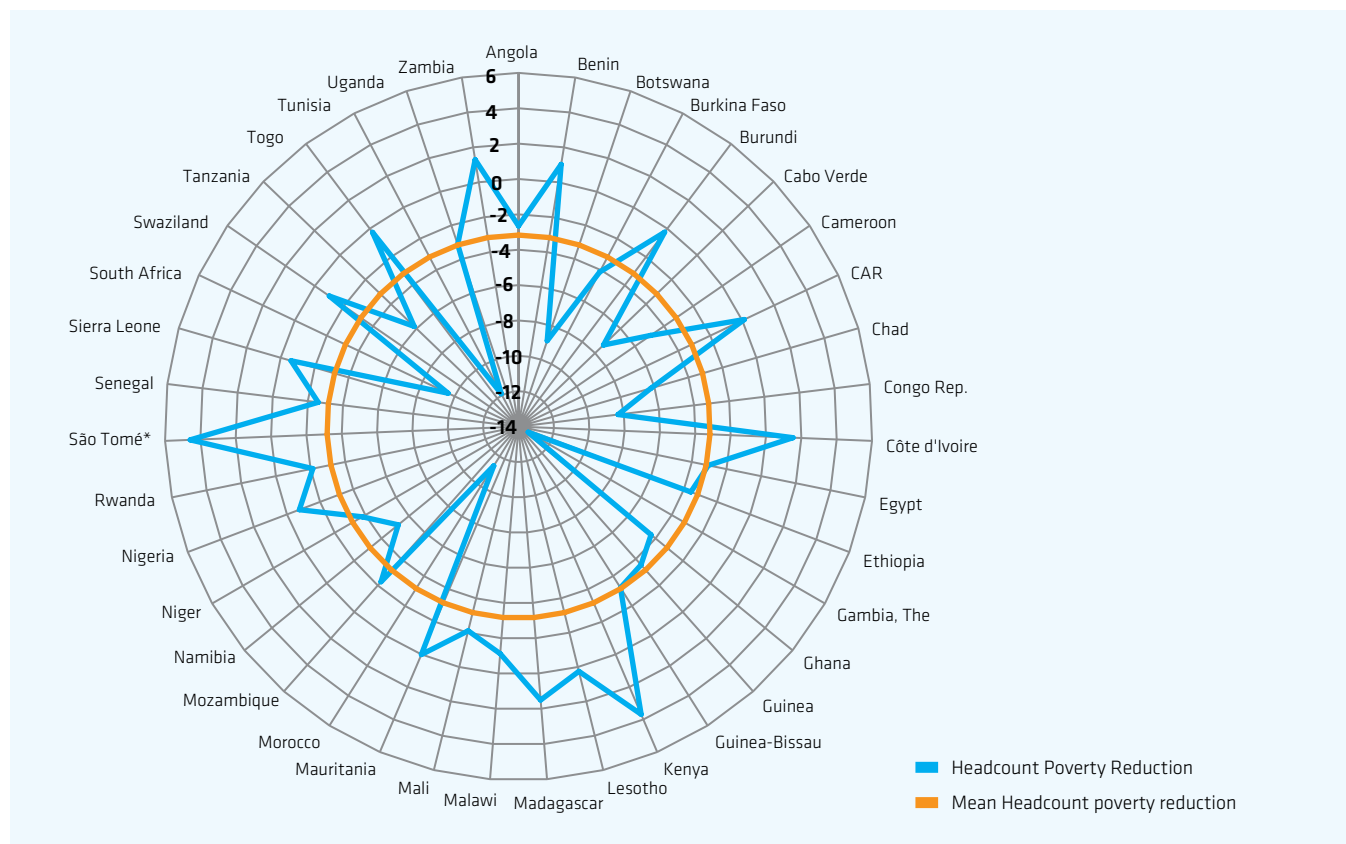
In general, progress on poverty reduction over the period was quite consistent across all three measures. The African countries that made the most progress in all three measures of poverty reduction are Botswana, Cape Verde, Congo Republic, Gambia, and South Africa. While Côte d’Ivoire, Kenya, Madagascar, São Tomé and Príncipe and Zambia performed the worst across the measures (see Figures 2.3a, 2.3b, and 2.3c)²¹.

19 The exceptions are Egypt, Mauritania, Swaziland, and Togo. Egypt, Swaziland and Togo all experienced reductions in poverty incidence but increases in the poverty gap and squared poverty gap. In the case of Mauritania, there was a negligible increase in poverty incidence and slight decreases in the other two poverty measures.

20 This evidence, coupled with the above observation that the SSA-DW gap has been increasing faster for the other FGT poverty measures, suggests that the widening gap is the result of the DW reducing poverty even faster on these measures, rather than the result of the inability of African countries to make significant progress.

21 Note that the latest data on the Gambia and Guinea-Bissau - 2003 and 2002 respectively, are quite old compared to more recent data from the rest of the countries in the sample.

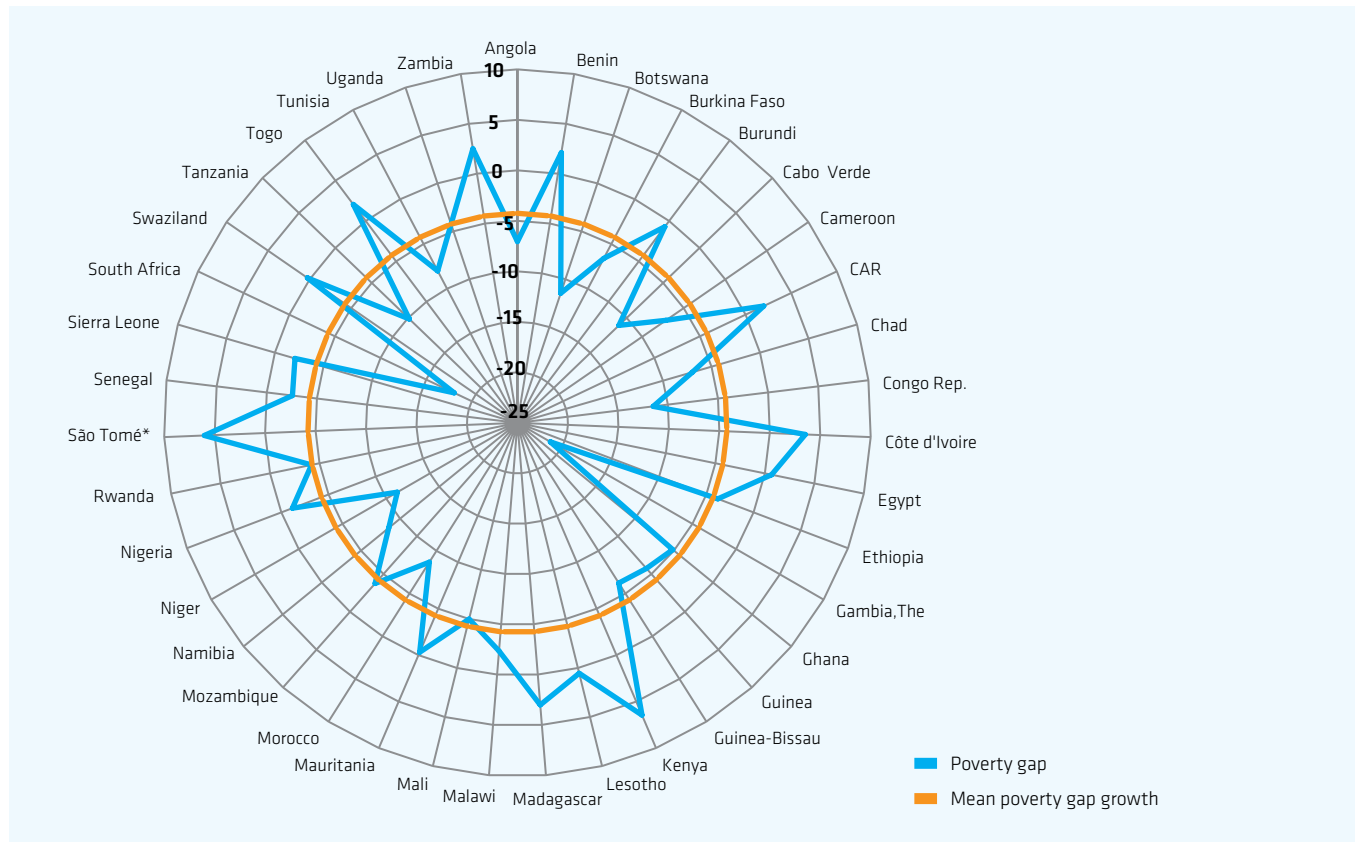
Figure 2.3a Progress in reducing headcount poverty, by country



Notes: A growth rate is computed as the logarithmic difference of the latest-year and the beginning-year values, and is annualised by dividing by the number of intervening years, multiplied by 100 percent Source: computed using data from World Bank, 2014.



Figure 2.3b Progress in addressing the poverty gap



Notes: A growth rate is computed as the logarithmic difference of the latest-year and the beginning-year values, and is annualized by dividing by the number of intervening years, multiplied by 100 percent Source: computed using data from World Bank, 2014.

Besides income poverty reduction, higher growth and the associated increased income can be associated with improved social outcomes, well-being and advancements in human development, as illustrated by, for example, increasing youth literacy rates and declining child mortality (Figures 2.4a and 2.4b). Societal well-being is also enhanced through greater access to electricity and - for advanced African economies - by reduced CO2 emissions relative to income (Figures 2.4c and 2.4d). However, the positive impact of growth on social indicators is not automatic, as evidenced by stagnating completion rates for primary education in resource-rich African countries (Figure 2.4f)²².

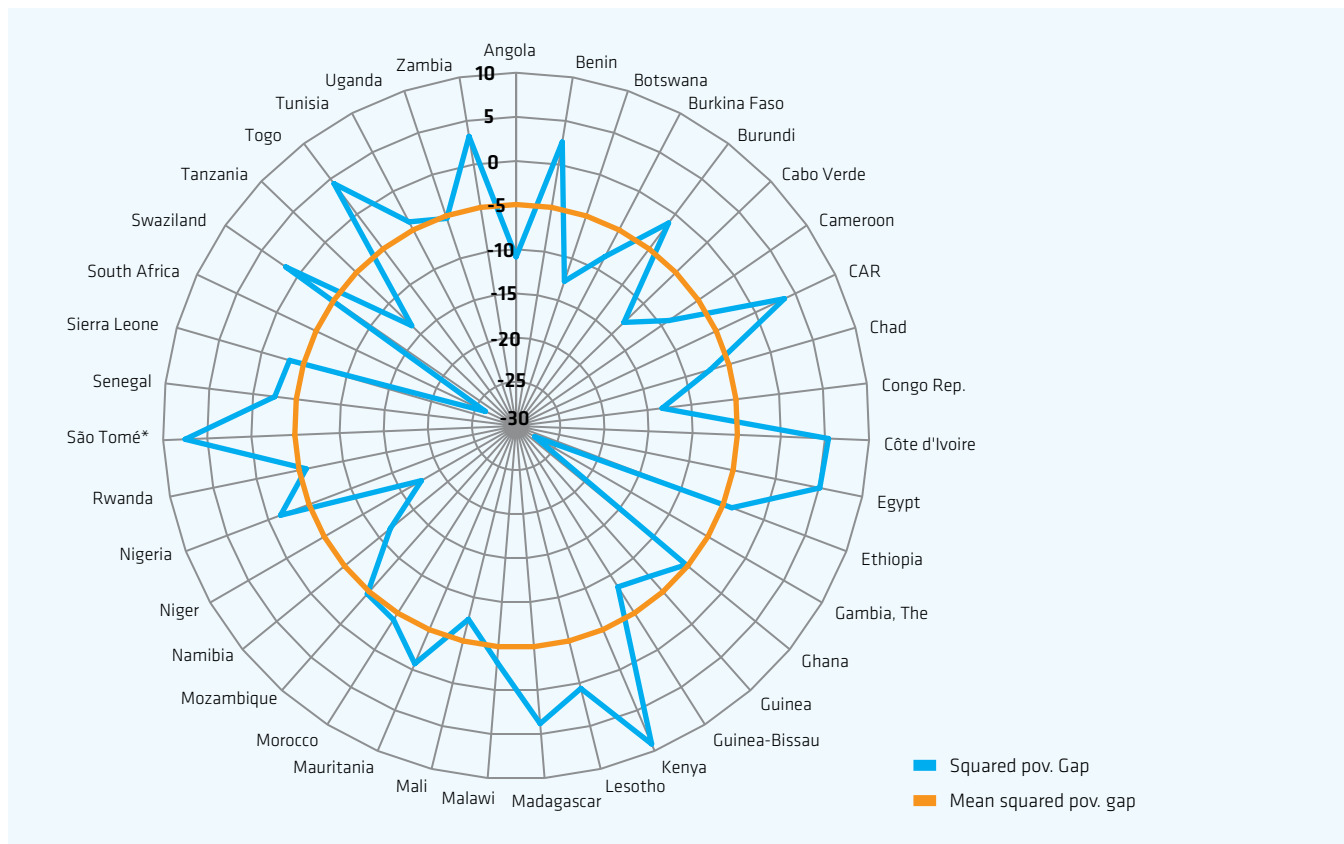
22 A country is defined as resource-rich if, between 1980-2010, more than 5 percent of its GDP on average has been derived from oil and non-oil minerals (excluding forests). The resource-rich countries in SSA are: Angola, Botswana, Cameroon, Chad, the Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Guinea, Liberia, Mali, Namibia, Nigeria, Sierra Leone, Sudan, and Zambia.

2.2.1 Does natural resource wealth reduce poverty in Africa?

As noted above, resource-rich and resource-poor SSA countries have fared differently in reducing income poverty and improving social outcomes. While resource-poor countries reduced income poverty by 16 percentage points between 1995 and 2000, resource-rich countries posted a reduction of only seven percentage-points (World Bank, 2013). More broadly, as mentioned above, achieving greater human development from growth remains a key challenge for resource-rich African countries (Figure 2.5 above).²³

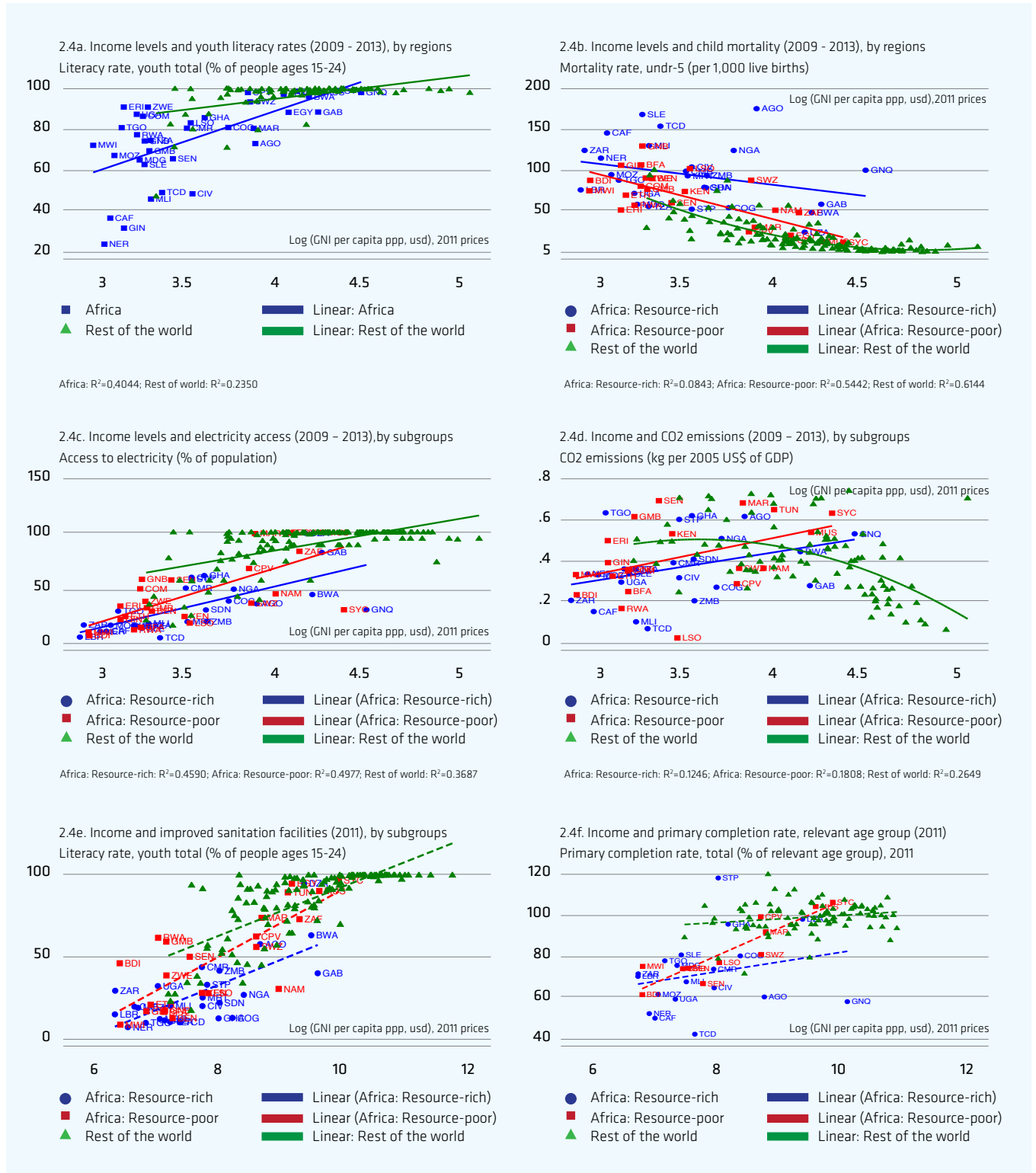
23 The multidimensional index of poverty developed by Alkire and Santos (2010) reveals discrepancies between monetary and multi-factor poverty. For example, in Ethiopia, 'only' about 30 percent of the population lived in extreme poverty in 2010 according to PovcalNet data (below), but the country is one of the poorest in Africa when the multidimensional approach to poverty is applied.

Figure 2.3c Progress in reducing poverty severity



Notes: A growth rate is computed as the logarithmic difference of the latest-year and the beginning-year values, and is annualized by dividing by the number of intervening years, multiplied by 100 percent Source: computed using data from World Bank, 2014.

Figure 2.4 Non-income measures of poverty and well-being in African countries



Source: Authors' calculations based on the World Bank WDI database, 2014. Child mortality rate is measured as under-5 deaths per 1,000 live births. Note: the number of African countries in some of the figures is limited due to data availability.

Natural resources are the “major” source of assets for the poor. These resources are, essentially, renewable resources that do not require transformation before final consumption. They are critical for the subsistence of the poor and a significant source of income and employment for many households. Natural resources help the poor to fight poverty and also protect the better-off from falling into poverty (OECD, 2009).

Poor people, especially those living in rural areas, are highly dependent on “common property” natural resources, especially renewable resources that have low profitability. However, the impacts on the poor of high profitability resources, such as fossil fuels or mineral deposits, are inconclusive. Fossil fuels or mineral resources could be either a blessing or a curse for resource-rich countries, especially in developing regions (Van der Ploeg, 2011).

There is empirical evidence that natural resources benefit poverty reduction efforts. In the literature, for instance, Loayza et al. (2013) found that natural resource exploitation, especially mining, reduces poverty, increases average household income, reduces the number of households without basic necessities, and reduces the illiteracy rate. Other empirical findings supporting this view of “resource

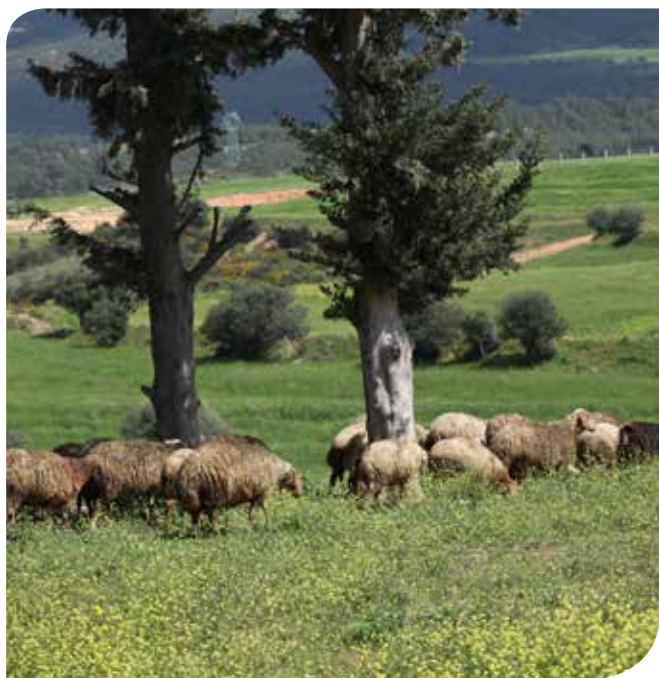
blessing” include Jodha (1986), Reddy and Chakravarty (1999), Cavendish (1999), Fisher (2004), Lopez-Feldman et al. (2007), Fonta (2011), Ormonde (2011) and Ncube, Anyanwu and Hausken (2014). In sum, there is empirical evidence showing that if well managed, resource rents can generate a development dividend and reduce poverty (Van der Ploeg, 2011, Ormonde, 2011).

In other cases, it has been observed that natural resources have limited, if any, contribution to poverty reduction. Anyanwu (2013), shows that a country’s dependence on mineral rents is robustly associated with worsened conditions for the poor. In other words, a higher share of mineral rents in GDP leads to significantly higher levels of poverty in African countries. Ormonde (2011) found that in Nigeria and Zambia, mineral and fossil fuel resource rents tended to favour an elite minority, and as a result, the living conditions of the poor have not improved. The negative impact on poverty reduction operates through mechanisms such as negligent human capital development, appreciation of the real exchange rate, deindustrialisation, and so on.

These effects are often reinforced by weak institutions, which tend to be less functional in fragile situations. There is evidence that governance indicators are markedly weak in fossil fuel rich countries in Africa. These include government effectiveness, voice and accountability, political instability and violence, lack of rule of law, regulatory quality, and control of corruption (AfDB, 2009).

2.2.1.1 Evolution of natural resource rents and poverty

How do natural resource revenues impact poverty and inequality in Africa? Figure 2.5a shows that poverty headcount for African natural resource-rich countries has always been higher compared to resource-poor countries. From the mid-1990s until recently, poverty headcount figures have declined for both groups of countries, but the rates have stayed higher in resource rich countries, and the gap between the two groups has even widened during that period. Figure 2.5b confirms that poverty rates have been higher in oil-rich countries than oil-poor countries. Countries rich in arable lands (Figure 2.5d) are also lagging behind with



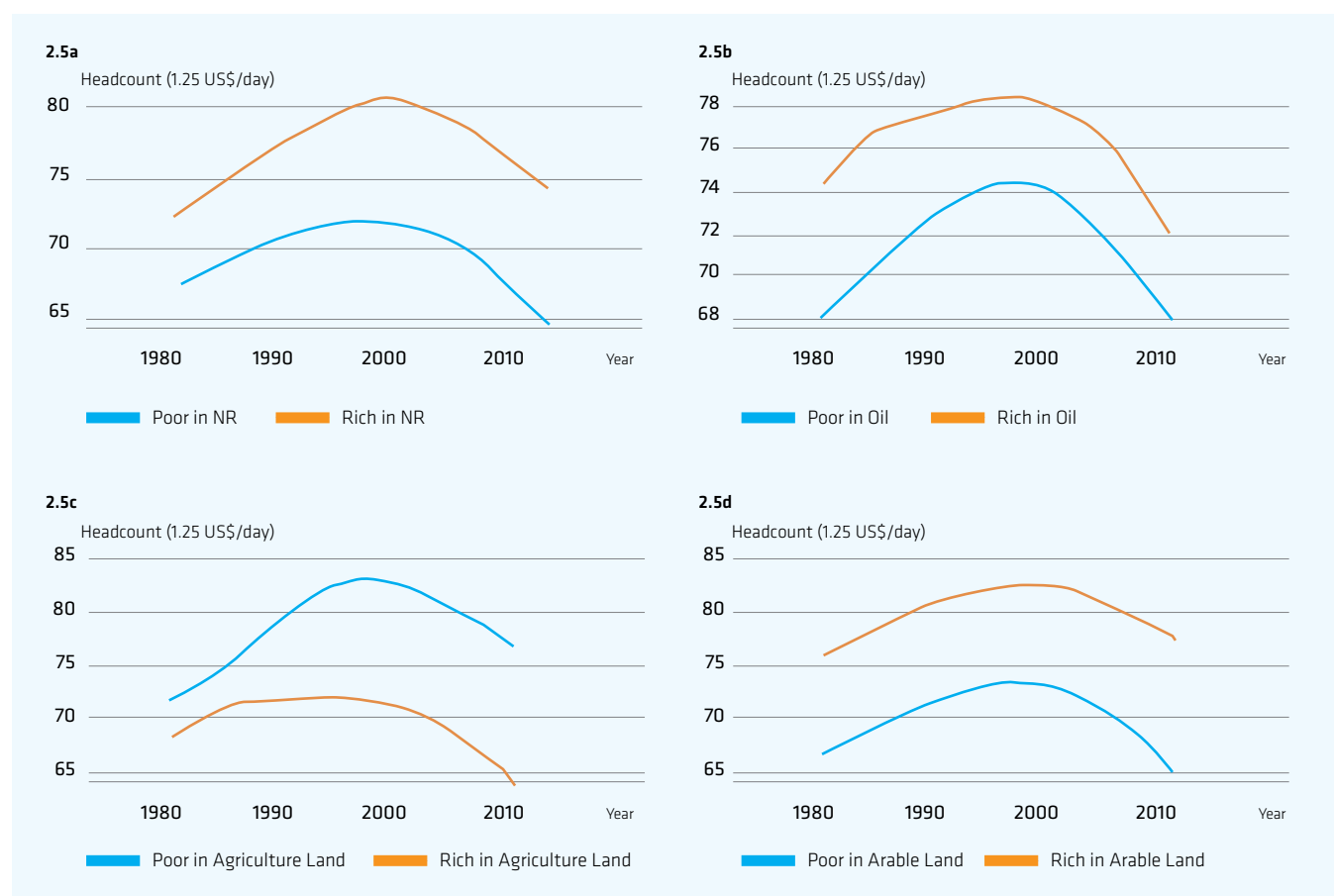
higher poverty rates compared to those with relatively less arable land. On the opposite side, countries that are rich in agricultural land (Figure 2.5c) seem to perform much better with relatively lower poverty incidence over time and the gap with the land poor group has widened over time.

In view of these facts, we conducted an empirical investigation to assess the association between natural resource rents and poverty using data from Africa and other developing countries. For each type of resource (oil, natural gas, mineral resources, forest resources, agricultural resources, etc.) we assessed the resource-rent impact on poverty.

We evaluate the impact of natural resource rents on headcount poverty, poverty depth (poverty gap) and on the severity of poverty (poverty gap square) respectively. The

results are also heterogeneous. First, we do not find an association between oil rents or mineral rents and poverty in developing countries. Dependence on natural gas and forest rents has a statistically significant impact on poverty. Looking at the specific case of natural gas rents, the evidence suggest that a 1 percent increase in natural gas rents is associated with 1.8 percentage points poverty reduction for the whole sample. Poverty is less sensitive to resource rents in Africa, with relatively lower poverty-reducing effect. In terms of poverty depth, gas rents are associated with a decrease in resource shortfalls among the poor. An interesting result is also found for forest rents. Indeed, for the sample of developing countries, a 1 percent increase in forest rents is associated with an increase in poverty by 4.5 percentage points. However, in Africa, the same 1 percent increase in forest rents would increase poverty by

Figure 2.5 Trends in natural resource rents and poverty headcount data



Source: Author's computation

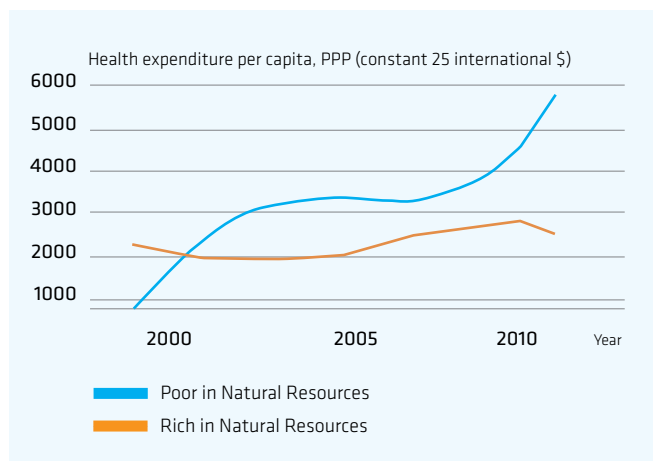
a magnitude greater than 10 percentage points. Similarly, mineral and oil rents are associated with increases in both the incidence and depth of poverty.

In chapter 1 of this report, we show the positive association between GDP growth and natural resource rents. The negative relationship between resource rents and poverty suggests that the benefits of growth, or at least natural resource driven growth, have not been particularly beneficial to Africa's poor.

2.2.1.2 Natural resources and social outcomes in Africa

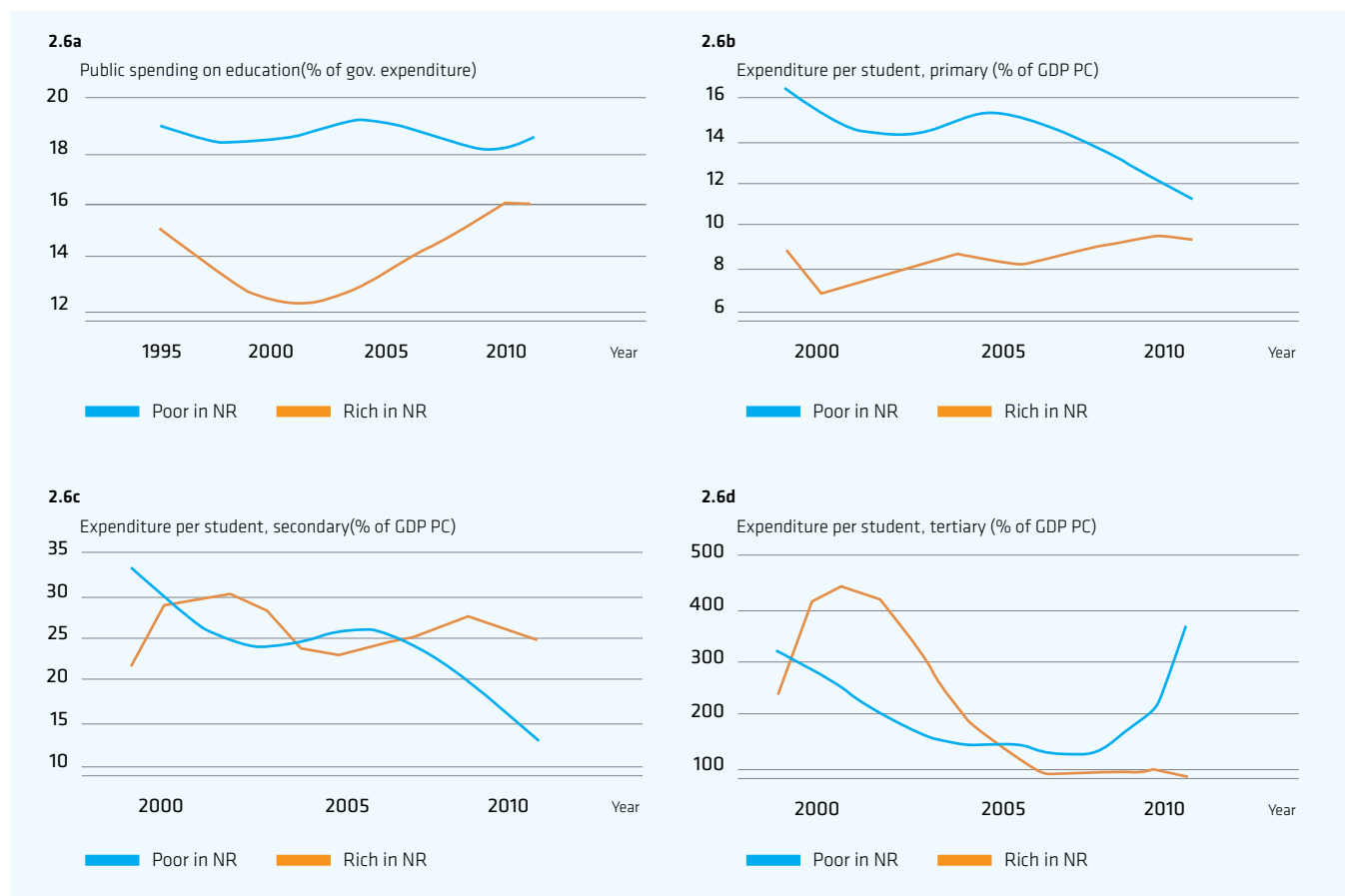
How have public expenditures in education and health-care evolved in resource-rich countries compared to

Figure 2.7 Trends in government expenditures on healthcare per capita, by resource wealth



Source: Author's computations Note: NR means natural resources

Figure 2.6 Trends in government expenditure on education, by resource wealth



Source: Author's computations
Note: NR means natural resources

resource-poor countries over recent decades? Figures 2.6a to 2.6d show that resource rich countries have spent a relatively lower share of per capita GDP on education, compared to resource-poor countries. Resource-rich countries have, however, increased the GDP share spent on public education since 2000.

More specifically, the share of expenditure on primary education has also been lower in resource-rich countries, and the gap has reduced during the last decade.

Regarding public spending on secondary school education, resource-rich countries have been doing much better since 2006-2007, but the contribution has declined during recent years. The share of public spending on tertiary education in resource-rich countries has declined since 2000, while efforts have been made in resource-poor countries to increase this share over the last few years.

Resource-rich countries spend less on healthcare per capita (i.e. in absolute terms) compared with resource-poor



countries. Figure 2.7 shows that healthcare expenditure per capita in resource-rich countries has been lower than in resource-poor countries since 2000. The expenditure per capita in resource-rich countries started to decline after 2010. The gap between resource-rich and resource-poor countries has therefore widened since 2010, with resource-poor countries exponentially increasing their expenditure as opposed to resource-rich countries. Natural resource rents do not seem to contribute, therefore, to improving investment in healthcare.

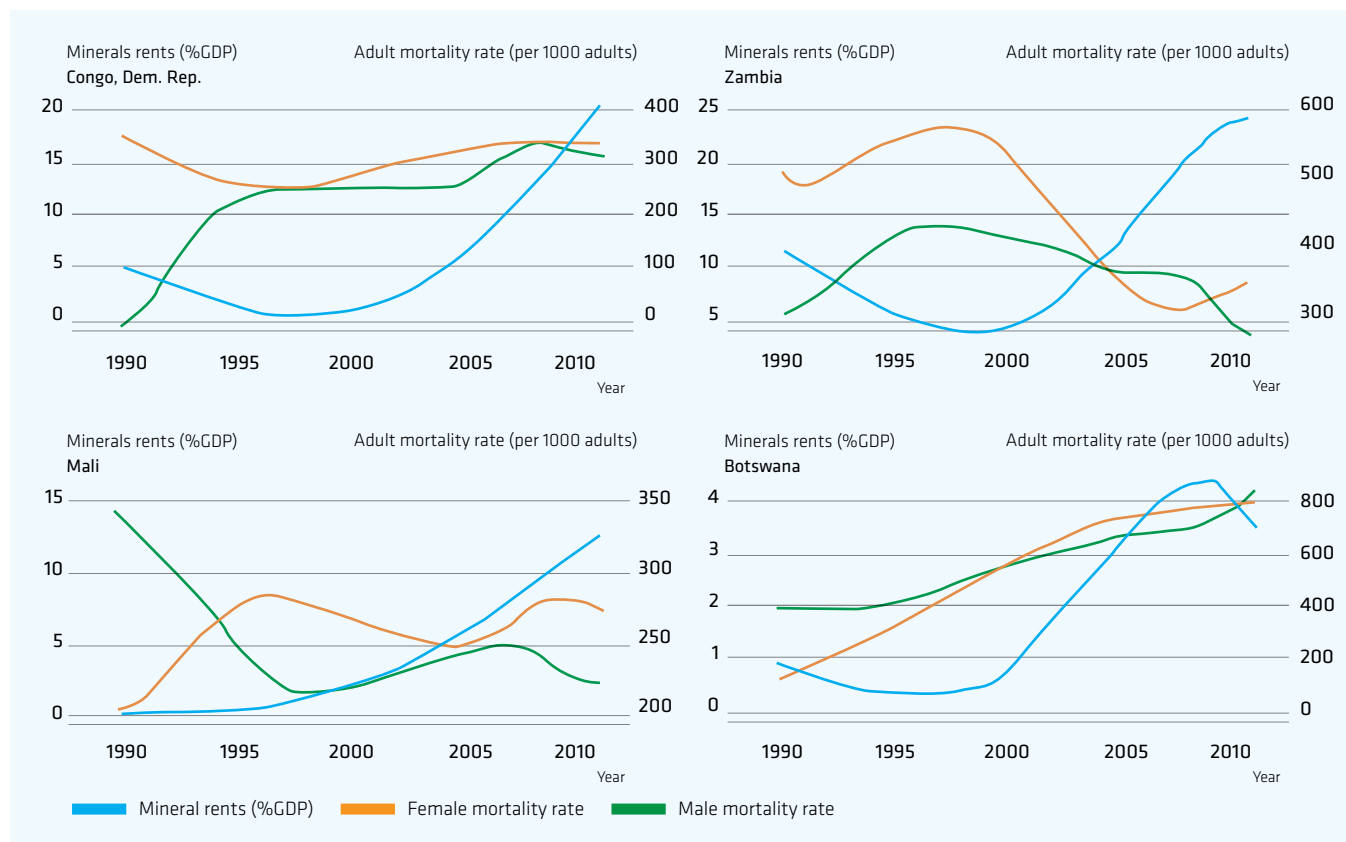
At the country level, Botswana has kept increasing public expenditures on education as well as healthcare as the share of mineral rents increases. On the contrary, education spending as a share of GDP stalled, despite increasing resource rents, for DRC and Zambia since the 1990s. In the same vein, oil-rich countries such as Nigeria, have

witnessed a decrease in all mortality rates (maternal as well as infant mortality). But, in Algeria, maternal mortality has increased steadily as the share of oil rents increased. Congo Rep. did not register a significant change in any of these health indicators.

For mineral-rich countries, such as DRC, Mali or Botswana, Figure 2.8 shows that an increase in mineral rents is accompanied by increasing female and male mortality rates. In Zambia, however, a decline in male and female mortality rates occurred from 2000 to 2006/2007, with female mortality worsening in subsequent years.

24 The trends in mortality in Zambia and Botswana may have been heavily affected by the AIDS pandemic and its impact in the late 90s and early 2000s.

Figure 2.8 Trends in mineral rents and mortality²⁴



Source: Author's computation

2.3 Current poverty priorities

Given the progress so far (discussed above), what are the residual levels of poverty that require policy attention? Figure 2.9 provides data on poverty levels by country using the latest year for which data are available. Higher bars denote larger residual poverty levels and imply the need for greater policy attention. These data suggest that the countries requiring the greatest level of attention for poverty-reduction purposes on all the three FGT measures are: Madagascar, Zambia, Burundi, Malawi and CAR. In contrast, countries requiring the least relative attention on all the three measures are: Botswana, Cape Verde, Egypt, Morocco, Namibia, South Africa, and Tunisia. Indeed, there appears to be a negative correlation between progress on poverty so far and the residual level of poverty, which should be expected if countries started from proportionately similar

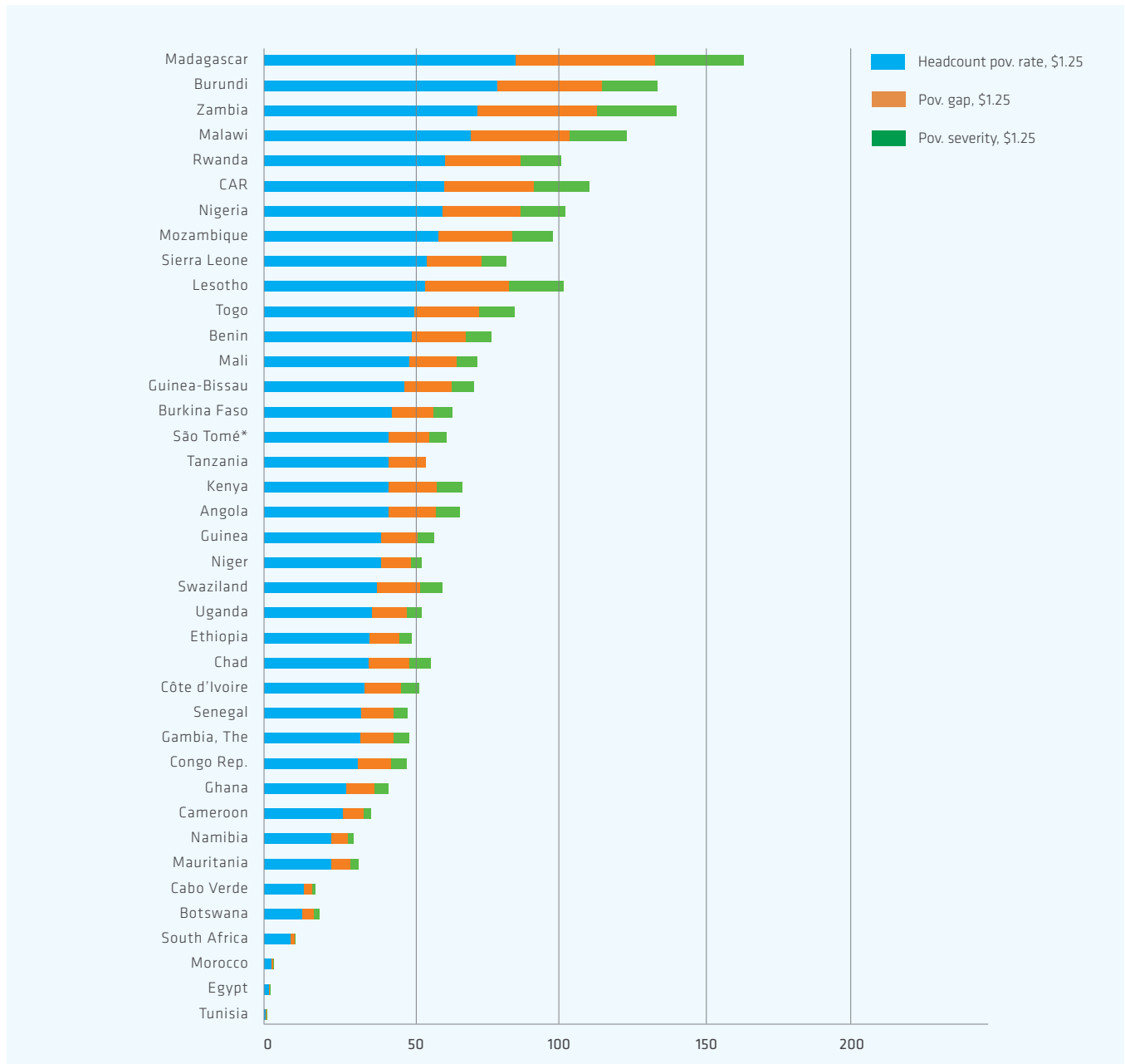
levels of initial poverty. Indeed, the computed correlation coefficients are 0.65 (5.22), 0.51 (3.65), and 0.43 (2.88), for the poverty headcount, poverty gap, and squared poverty gap, respectively²⁵.

In terms of sub-regional differences, the highest residual poverty is recorded by East Africa and Central Africa (virtually equally), followed by Southern Africa, West Africa and then North Africa, which is substantially lower than the rest. The same result holds for the poverty gap and squared poverty gap (severity of poverty).

²⁵ The values in parentheses are t ratios, thus all the correlation coefficients are statistically significant.



Figure 2.9 Current state of poverty incidence, gap and severity, by country



Notes: A growth rate is computed as the logarithmic difference of the latest-year and the beginning-year values, and is annualised by dividing by the number of intervening years, x 100 percent (Source: Computed using data from World Bank, 2014).

2.4 Household vulnerability to poverty: A closer look

At any given time, people may be poor either because they have always been poor, or because they have suffered a negative shock that has temporally pushed them below the poverty line. The definition of vulnerability to poverty has been discussed broadly in the literature. Some authors define it as the probability of a household (poor or non-poor) staying or falling under the poverty line in the future, conditional on the household's initial income or consumption (Dercon et al, 2000; Bourguignon et al, 2004). From this definition, a household's poverty status is classified into either temporary poverty or chronic poverty. On the other hand, Kamanou and Morduch (2002) define vulnerability as variability of income or consumption. For these authors, households, or a group of households, can be seen as vulnerable to poverty if the standard deviation of past income or consumption is high.

Here we assess poverty dynamics using datasets from four different countries in Africa: Ethiopia, Sierra Leone, Ghana and Rwanda. Only Ethiopia has panel data available. For the remaining three countries, we generated pseudo-panel datasets using independent cross-section datasets to assess changes in poverty status²⁶. Our analysis has been restricted to households where the head of the household is aged between 25-55. In addition, two measures of poverty mobility are used: (i) poverty mobility as the conditional probability of escaping poverty or falling into poverty, and (ii) the absolute poverty mobility, which is the percentage of households which falls out of, or into, poverty between the two rounds of surveys. Results show that the key factors that influence households' transition into or out of poverty include education and demography.

²⁶ The problem with this method is that it is likely to underestimate poverty transition since much of the variation is lost due to averaging.

2.4.1 Urbanisation matters in poverty dynamics

Does urbanisation matter in poverty dynamics? As shown in Table 2.1, for all three countries (data from Ethiopia are only for rural households), poverty is low in urban areas compared with rural areas. In Sierra Leone, poverty headcount declined from 44% in 2003 to 27% in 2011 in urban areas; in rural areas, it decreased from 64% to only 62%. In Ghana, in urban areas, poverty incidence has significantly declined from 24% in 1999 to only 8% in 2005; while in rural areas, it has increased from 36% to 39% during the same period. In Rwanda, from 2000 to 2010, urban poverty declined from 50% to 20% while rural poverty slightly declined from 53% to 48% during the same period. Thus, for all three countries, more people escape poverty in urban areas than in



rural areas. In addition, results show that less people fall into poverty when they live in urban areas than do when they live in rural areas – this is true for the sub-group of people considered in each survey (25–55 years old). Therefore, urbanisation does matter for poverty reduction.

2.4.2 Education matters in poverty dynamics

Table 2.2 shows that households headed by people with no education are more likely to transit from non-poor to poverty status. But when the head of the household receives some education (primary, secondary, or tertiary) his/her risk of becoming poor diminishes as his/her level of education and educational attainment increases. For instance, in Ghana, only 5% and 1% of households, with

secondary and tertiary levels of education respectively, fell into poverty. 37% of households with no education fell into poverty. On the other hand, poor households who increased their level of education also increase their chance to escape poverty. In Rwanda for example, 81% and 98% of poor households, with secondary and tertiary levels of education respectively, were able to move out of poverty between 2000 and 2010. In sum, greater education for the head of the household provides greater chance to escape from poverty. For non-poor households, more education means less chance to fall into poverty. Therefore, education is an important factor in both reducing poverty and in preventing households from falling into poverty in the first place.

Table 2.1 Poverty transition in urban and rural areas

	Residence	Headcount* year 2	Headcount* year 1	Into Poverty	Out of Poverty	NP==>P	P==>NP
Sierra Leone (2003 2011)	Urban	27%	44%	12%	28%	21%	64%
	Rural	62%	64%	20%	23%	57%	35%
Ghana (1999-2005)	Urban	8%	24%	5%	21%	7%	86%
	Rural	39%	36%	22%	18%	34%	52%
Rwanda (2000 2010)	Urban	20%	50%	8%	37%	16%	75%
	Rural	48%	53%	23%	28%	49%	52%

Source: Author's computation using household consumption/income survey.

Note: Poverty headcount is the percentage of the population living below the poverty line. NP for Non-Poor and P for Poor.

Table 2.2 Poverty transition by education level of the head of the household

Country	Round 1	Round 2	Non-Poor → Poor				Poor → Non-Poor			
			No Education	Primary	Secondary	Higher	No Education	Primary	Secondary	Higher
Rwanda	2000	2010	57%	47%	19%	2%	42%	52%	81%	98%
Ethiopia	1999	2004	40%	32%			52%	65%		
Ghana	1999	2005	37%	15%	5%	1%	52%	81%	93%	98%
Sierra Leone	2003	2011	51%	42%	26%	18%	38%	51%	63%	70%

Source: Author's computation using household consumption/income survey data

2.4.3 Household dependency ratios matter for poverty dynamics

The household dependency ratio is defined as the ratio of the number of dependents (people aged under 15 and over 65) to the number of independent people in the household (people aged between 15 and 65). From Table 2.3, we can see that households with a small dependency ratio (between 0-1), have a lower risk of falling into poverty and are also more likely to escape from poverty. For instance,

in Rwanda, between 2000 and 2010, 25% of households with a small dependency ratio fell into poverty while this rate is 43% for households with a high dependency ratio (above 1). In Ghana, households with high dependency ratios are twice as likely to fall into poverty as households with a small dependency ratio. Further, 79% of low dependency households have more chance to move out of poverty compared to 65% of households with high dependency ratios.

Table 2.3 Poverty mobility by dependency ratio

Country	Round 1	Round 2	Non-Poor → Poor		Poor → Non-Poor	
			Low	High	Low	High
Rwanda	2000	2010	25%	43%	60%	41%
Ethiopia	1999	2004	34%	44%	56%	53%
Ghana	1999	2005	13%	25%	79%	65%

Note: Low dependency if ratio ≤ 1 and high dependency if ratio > 1. NP is Non-poor and P is Poor.
Source: Author's computation using household consumption/income survey.



2.5 Whose number counts? Alternative views on African poverty

The assessment of the poverty-reducing effect of growth and the extent to which this link is weakened by inequality depends critically on how both growth and poverty are measured. Ideally, one must first and foremost, get the statistics right before making such assessments. In this section, we offer alternative views on the extent of growth and poverty across Africa based on different sources of data and methods currently employed by researchers.

2.5.1 African poverty, based on household survey data

In recent years, controversy has intensified over the methods of computing and analysing global poverty and over the exact interpretation of statistics derived from various computational methods. The increased attention to this challenge came when the MDGs were being developed: A set of development targets whose very first goal was to lift half the world's poor out of poverty by 2015 (Anand, Segal and Stiglitz, 2009). Pursuing this goal requires consistent and comparable (if not accurate) data on both the level and rate of change of poverty. Measuring poverty in Africa is particularly hampered by limited data, poor comparability of data across countries and over time and its inherent low quality. Data on poverty and its rate of change is often obtained from surveys, and from GDP statistics in national accounts. Survey-based data normally constitute nationally representative income or expenditure information gathered from the household level. These surveys are conducted by national statistical offices or by private agencies under the supervision of government or international agencies (World Bank, 2014).

The mainstream analysis of poverty and growth uses data sourced from the World Bank, which in turn uses

household survey data to compute poverty statistics. This method of estimating the incidence of poverty often relies, by necessity, on assumptions, interpolations and extrapolations as most African countries only run income and expenditure surveys periodically. To enable comparability of poverty statistics, data on different countries are required, over the same time period. In the absence of full survey data, GDP series from national accounts are used to complement existing survey data by interpolating and extrapolating the missing data points. In addition, a poverty line expressed in constant US dollars requires two types of transformation to account for purchasing power parity differences and the appropriate US price deflator, respectively.

Based on statistics using the survey-based method, projections suggest that Africa is not going to meet the MDG target of halving its 1990 poverty level by end 2015. Evidence shows that SSA has only been able to reduce the share of the population living in extreme poverty from 56% in 1990 to 48% in 2010 (UNDP, 2014). In contrast, the developing world as a whole, was able to lower this proportion from 36% in 1990 to 22% in 2010. The accuracy of these projections and their underlying base scenarios as true reflections of the level and rate of change of African poverty is the subject of conceptual and methodological debate. One of the key contentions is whether survey-based data or national accounts would be the better measure of poverty in the developing world.

An alternative approach is to use national surveys and poverty lines based on food-energy intake (the cost of a typical diet providing the recommended calories) plus some allowance for non-food basic needs. If at least two nationally representative and comparable surveys are available for a given country, then this methodology has the advantage

that it is directly anchored on survey information and does not require the above mentioned transformations.

2.5.2 African poverty, based on GDP from national accounts data

A contrasting approach to that of the survey-based approach is the one proposed by Pinkovskiy and Sala-i-Martin (2014b). According to these authors, the sustained African growth of the last 15 years has engendered a steady decline in poverty that puts Africa on track to meet the first MDG by 2018. This optimistic view of African poverty is based on a measure that uses national accounts derived GDP per capita, instead of household surveys. On this basis, Pinkovskiy et al. (2014b) find that African poverty is falling rapidly. During the last decade, mean consumption has increased and overall inequality has declined. The study relies on two strong assumptions: It attributes the entire difference between GDP and household consumption to the current consumption of households, and assumes that its distribution is the same as in the surveys. These assumptions are very unlikely to hold, and they potentially give an overly optimistic picture (Ravallion, 2014).

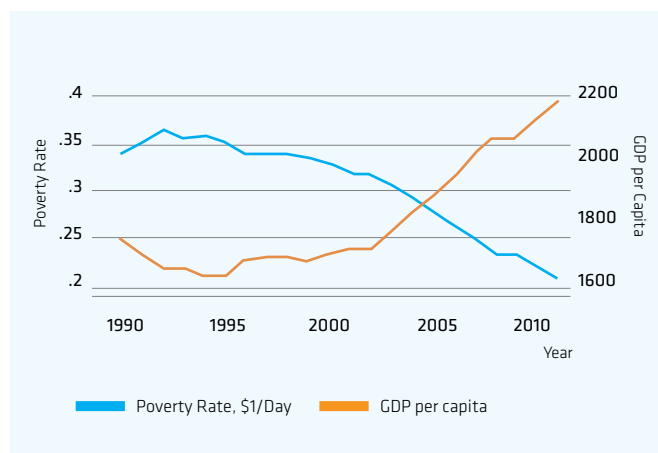
Figure 2.10 presents Pinkovskiy et al.'s (2014) main result. Using the \$1-a-day definition of poverty adopted by the MDGs, African poverty (for countries with two or more

household surveys) declined strikingly, from around 34% in 1990 to under 21% in 2011. African poverty seems to co-move with GDP almost perfectly.

Additionally, as seen in Figure 2.11, the findings note that poverty reduction in Africa has been extremely general. It has not been driven by any single country, nor has it been driven exclusively by countries that have relatively favourable geography or history.

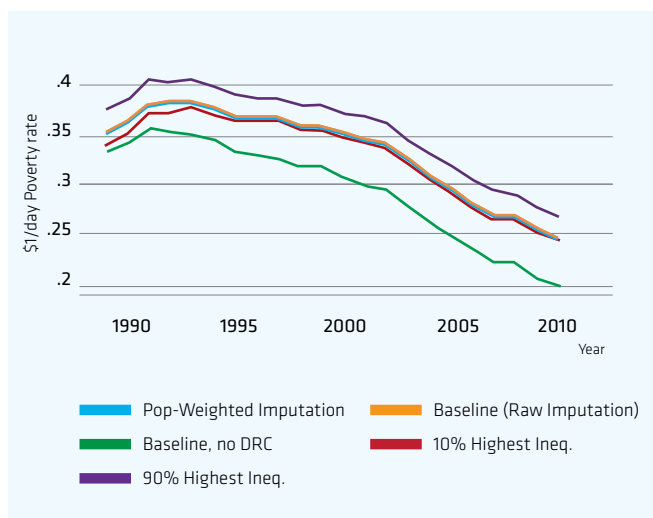
In summary, the view from these authors, based largely on GDP per capita derived from national accounts, is in stark contrast to views based on survey data. They find that African poverty has fallen substantially since its peak in 1992: From 36.5% to 21%. Since 1995, Africa has embarked on a sustained reduction of its poverty rate, in excess of that estimated by the World Bank. It is believed that if the trend of the late 1990s and 2000s continued into the 2010s, Africa will achieve the goal of halving its 1990 poverty rate this year, or within a few years, very close to schedule for the MDGs. At the heart of the matter is that survey means are lower than mean consumption in national accounts, sometimes by up to 30-50%. Ultimately, the methodological debate lies on whether the national accounts data can provide a more accurate measure of mean household welfare than survey data; and on whether the assumptions made about

Figure 2.10 \$1/day poverty and growth in SSA (countries with two or more surveys), 1990-2011



Source: Pinkovskiy and Sala-i-Martin (2014)

Figure 2.11 Falling poverty (all Africa): Imputation



Source: Pinkovskiy and Sala-i-Martin (2014)

past trends of poverty (income and consumption mean) are realistic. The discrepancy may be that consumption measured by household surveys, which is used to measure poverty, grows less rapidly than consumption measured by national accounts. One explanation for this could be that growth in the national accounts contains large and rapidly growing items that are not consumed by the poor and therefore not included in surveys (Deaton, 2005).

2.5.3 Assessing African poverty using asset-based measures

While the pattern of extreme poverty in Africa over the last three decades indicates steady progress, the evidence also suggests that close to 350 - 400 million people still live below US1.25 dollars a day. This is a staggering statistics for a continent which continues to experience rapid population growth and rising expectations from its youth. Other measures of standards of living provide some comfort – such as ownership of key household assets, where Africa has made significant progress.

Demographic and Health Surveys (DHS) are commonly used data sources for ownership of household assets, offering consistent and comparable data for many African countries. They provide an opportunity to evaluate poverty across many countries using asset rather than consumption measures. For example, Young (2012) used DHS data to generate a new estimate of per capita consumption growth: He found that, on average, per capita consumption grew at around 3.5% to 3.7% per annum, which is up from the often quoted 2.5% based on national

accounts data. During the same period, Ncube and Shimeles (2015) noted that the size of the African middle class has increased in 21 out of 25 countries, based on multiple DHS surveys.

Shimeles (2014) uses a multidimensional measure of asset-based poverty characterising households on the basis of their access to nine household amenities and utilities. These include: type of housing (corrugated roof-top and floor); clean water; electricity and toilet; and, ownership of household durables such as radio and television. The poverty threshold is based on having none of these assets. Households with any one of these amenities are classified non-asset poor. Shimeles presented poverty estimates for African countries in blocks of four distinct periods (1990-1994; 1995-1999; 2000-2004; and 2005-2011) (see Table 2.4). Using this asset poverty measure, the trend in poverty reduction corroborates both national accounts and survey based estimates of poverty, depending on the specific reference period. Poverty and its rate of change in Africa have not been constant over the past two decades. Asset poverty trends over the whole period (pre-1995 to 2005-2011) give close results to Pinkovskiy and Sala-i-Martin's (2014a, 2014b) estimates. A significant drop in poverty is experienced mostly between 1990 and 1995 and the pace of poverty reduction stalled, or continued to decline but very slowly, after 1995 still echoing the pattern in the survey-based estimates of poverty.

The long-term relationship between asset poverty and per capita GDP is close to what one would find from the World Bank data (elasticity of -0.92). Figure 2.12 provides

Table 2.4 Multidimensional asset poverty for selected African countries

Period	Number of countries	Population coverage (%)	Asset poverty (%) (Median, un-weighted)	Asset poverty (%) (Median, weighted)	Asset poverty (%) (mean, un-weighted)	Asset poverty (%) (Mean, weighted)
1990-1994	16	42.5	36.5	41.3	38.7 (15.7)	40.6(14.0)
1995-1999	22	47.9	27.1	24.4	27.7(17.9)	21.0(18.2)
2000-2004	18	56.4	26.1	19.1	28.4(20.4)	25.8(27.2)
2004-2011	24	63.5	25.8	26.3	26.1(15.4)	27.8(20.4)

Source: Shimeles (2014) based on 82 country-year matched demographic and health survey waves.

a simple correlation between asset poverty and the log of per capita GDP from Penn World Tables. The elasticity implied by this is approximately -0.94, meaning a unit increase in GDP per capita is associated with a decline in asset poverty of about 1%. This result also resonates with other measures of the growth elasticity of poverty in Africa (UNECA, 1999; Dollar and Kraay, 2002). The corresponding elasticity implied by the poverty trend found by Pinkovskiy and Sala-i-Martin (2014a; 2014b) is about -1.3. This is higher than most estimates. The Shimeles (2014) asset based measure of poverty crosses between the two and tends to indicate that recent stalling of asset poverty decline may have to do with rising inequality and lower investment in basic social services.

Finally, evidence from the asset measure of poverty does not speak to whether survey or GDP data is a better basis for estimating poverty. Rather, it provides a perspective on the heterogeneous nature of change in poverty over time and how the use of more readily available household information (non-monetary) can enhance the way we capture the level and rate of change in households' welfare. In terms of policy implications, although income policies are necessary to maintain minimum standards of living, they are considered to be an alleviative measure of poverty, whereas asset-based welfare is considered to be a preventive measure of poverty. Paxton (2002) noted that asset-based approaches could allow people to escape poverty or prevent it before it happens.

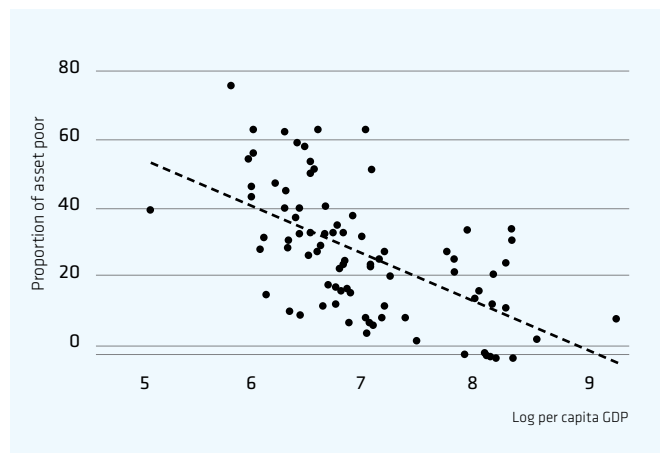


2.5.4 Consensus: Poverty has declined, but data needs to be improved

Compared to its past performance in poverty reduction, Africa has progressed in lowering poverty rates more recently. However, the debate on the extent of the decline remains inconclusive. Different approaches to computing poverty and its rate of decline have led to two main deductions: (i) the approach based on household survey data concluded that Africa's poverty has slowly declined over the past decade; (ii) while the approach based on national accounts data (GDP) concluded that poverty has dramatically declined over the same period. An alternative perspective using asset-based poverty measurement suggests a rate of decline that is slightly higher than the survey-based, but much less than the GDP-based figures.

Although different approaches arrive at differing conclusions on the rate at which poverty has fallen in Africa, they agree that poverty has declined on the continent. Relative to periods prior to 2000, the majority of African countries enjoyed larger scale poverty reduction with substantial improvements in non-income measures of poverty such as assets, education, health and other living conditions. Notwithstanding these gains, addressing extreme poverty remains a key challenge for Africa's development.

Figure 2.12 Multidimensional asset-based poverty and per capita GDP for selected countries in Africa



Source: Shimeles (2014)

When this progress is contrasted with what has been achieved in other developing regions, Africa's progress is relatively meagre. Evaluating the continent's progress relative to residual levels of poverty corroborates the view that fighting poverty will continue to be Africa's main development objective in the years ahead.

From the above discussion, it appears that data on poverty, especially from African countries, is extremely limited. Measures of the state of poverty in Africa and the associated progress in reducing it are primarily based on extrapolated data. The statistics reported here, and in other scholarly publications, are effectively based on intelligent guesswork using the limited available data. Although these estimates provide us a rough idea on the direction of progress, none of us really knows exactly who suffers from poverty, where they are or indeed, how many Africans are poor.

We end this chapter with discussion of alternative measures of African poverty that are not fully in agreement with the main methods used in this report, nor in many scholarly publications. On that note, we caution that Africa's poverty statistics are informative on the direction of progress but not on the exact number of the poor and the rate at which their number has declined. Addressing this problem is itself a major development challenge for the continent. Determining Africa's progress in poverty reduction does not only require having poverty statistics for two distinct periods, but also a correct measure of poverty in both periods. Relying on weak data has implications for effective planning and allocation of national resources. Therefore, Africa and the international development community should invest in statistical capacity building. Indeed, a better understanding of the poor, where they live and their exact numbers will be a significant step towards addressing poverty on the continent.

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CHAPTER 3

High inequality undermined the efficacy of growth in reducing poverty

Key messages

- **The transformation of growth to poverty reduction is nonlinear, with inequality playing an important role.** A combination of high initial inequality since colonial times and more recent patterns of structural change have made Africa one of the most unequal continents in the world. This matters because the poverty reducing impact of growth depends on initial income distribution and its pattern of change, which is also influenced by globalisation and national development strategies.
- Countries' ability to translate growth into poverty reduction depends on differences in the magnitude of growth itself and the sectoral composition of that growth. **Declining agricultural activity and productivity, a non-expanding manufacturing sector, and a large informal sector hinder growth and its impact on poverty reduction.** The current pattern of structural change, which tends to shift labour from agriculture to low-paying informal service sectors, has not helped in lowering Africa's inequality.
- The evolution of inequality depends on both changes in the pattern of demand for labour and changes in the structure of labour supply, particularly with regard to education characteristics. **The equalizing effect of education has been curtailed by limited availability of physical capital** to complement Africa's increasing and improving quality labour force. Major barriers to reducing inequality seem to stem largely from poor governance and fragmentation along ethnic and linguistic lines. Inclusive institutions are required.
- **An inclusive structure of growth, anchored on employment and resulting in more equal distribution of opportunities and income,** would not only reduce poverty but would also set the stage for accelerating future growth. Pro-poor growth and pro-growth poverty reduction interventions should be used together to achieve this. Priorities to target include: Job creation, preferably in the formal sector, to absorb rural migrants productively; Infrastructure development in rural areas to increase farmers' access to markets; Interventions that improve agricultural productivity for the poor; and, Measures and institutions that contribute to reducing inequality, such as the adoption of inclusive social protection and labour schemes. If well designed, social protection can redistribute the gains from growth and also contribute to improving growth.



3.0 Introduction

Historically, at least until recently, the impact of GDP growth on poverty reduction has been significantly weaker in Africa than in other developing regions. The contrast with much of Asia is striking, as discussed in the previous chapter. Substantively, two factors drive this difference²⁷. First, growth generated by labour-intensive sectors such as agriculture or manufacturing is more poverty reducing than growth from mineral sectors. Within Africa, poverty reduction due to growth was thus slower in resource-rich countries, as demonstrated in chapter 2. Second, besides resource-dependence, high initial income inequality hampers the poverty-reducing effect of growth in SSA. In this regard, Africa inherited a dual economic structure and high levels of inequality from colonial times. Inequality has remained high since independence. The extent to which growth reduces extreme poverty depends on redistributive policies and access to services that enable the poor to benefit from growth. Once resource-dependence and inequality are controlled for, the gap narrows between growth elasticities of poverty globally and in Africa (World Bank, 2013).

How did inequality evolve in Africa over the last fifteen years? The pattern of African structural change led to a shift in labour out of agriculture. However, since the movers have been absorbed for the most part into low-paying jobs, mainly in the informal sector, this transformation has not led to significantly lower poverty nor inequality. In Africa, the informal sector accounts for about 40% of the continent's economy, more than in any other region of the world, except Latin America (AfDB, 2011b). Most people who depend on informal activities live in poor conditions. In sum, because of both

high initial income inequality and the African pattern of structural change, many Africans have not benefited from recent economic growth. That is to say that the growth achieved in the last 15 years was not accompanied by an equivalent scale of poverty reduction. In other words, growth in Africa has not been inclusive and poverty remains a huge challenge for the coming decades, as discussed in the previous chapter. Poverty leads to social and political exclusion and poor people are constantly hampered by lack of resources (land, finance, housing, education, and knowledge) and lack of access to markets (AfDB, 2011c).

Therefore, the key challenge for Africa is to accelerate inclusive economic growth to achieve sustainable poverty reduction. The poverty impact of such growth will depend on the initial income distribution and its pattern of change. For policymakers wanting to speed up poverty reduction (or those concerned with inequality) it is therefore important to understand, among other things, how income distribution is determined and how it changes over time.

Having looked at the magnitude and trends of Africa's recent growth experiences in chapter one, and the progress and state of poverty in chapter two, this chapter features inequality and how it impedes the translation of growth into poverty reduction. The chapter outlines factors that trigger and sustain income inequality, and looks at the inter-relationship between poverty, growth and inequality in the context of global and national intervening factors. Finally, it provides Africa specific conceptual discussion on the relative merits of addressing poverty through either pro-poor growth strategies or pro-growth poverty reduction strategies.

²⁷ Another reason is purely arithmetic: Since SSA's poverty levels are higher and incomes lower than those in other regions, the same sized absolute changes in poverty and incomes translate into smaller and larger relative changes, respectively.

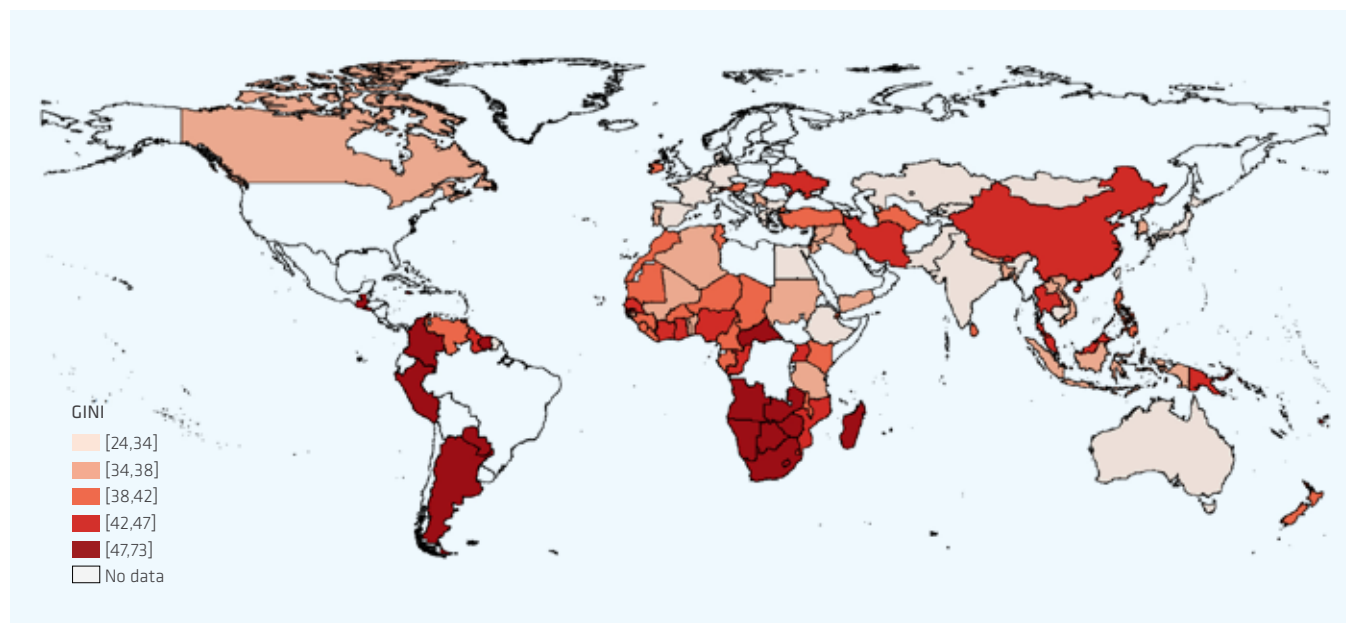
3.1 Africa's high inequality

The distribution of income in any society is the final outcome of the workings of the full economic process, which means that there are many factors and relationships that matter. We know that the actual income distribution at a given point in time is the result of long historical processes and that distribution generally changes slowly. The current level of inequality in Africa is, to a large degree, the result of historical events. Africa is the second most unequal continent, after Latin America (Figure 3.1)²⁸.

Despite high real GDP growth since the mid-2000s, large income inequalities persist between Africa and other regions of the world. Specifically, examining trends in GDP per capita in PPP terms reveals that the gap between SSA's income per capita and that of major advanced economies narrowed only marginally between 1995 and 2015. While SSA's GDP per capita was about 6 percent of GDP per capita for advanced economies in 1995, it was still only 8 percent in 2015. In contrast, developing Asia narrowed the gap with advanced economies by increasing this ratio from 8 to 21 percent during the same period. To further narrow these income gaps, SSA will need to maintain or even accelerate growth in the coming decades.

28 There are some that argue that it is the most unequal as Latin America measures inequality using incomes, and Africa typically uses consumption. Incomes are always more unequally distributed and thus the comparison can be biased.

Figure 3.1 Gini-coefficients within Africa and worldwide

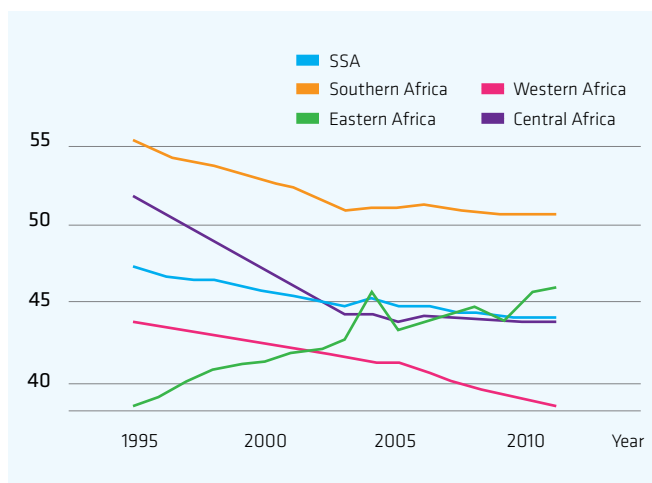


Source: AfDB, based on data collected from the World Income Distribution Database, 2014

Within Africa, inequality both within and across-country have been important, with the latter predominating until 2010. One way to gauge Africa's cross-country inequality is to compare GDP per capita (PPP adjusted) for a 'typical' (median) SSA country relative to GDP per capita of the entire region. The decline in this ratio points to widening inequality, as was the case prior to the global financial crises (2009 and 2010), with a subsequent partial reversal (Figure 3.2).

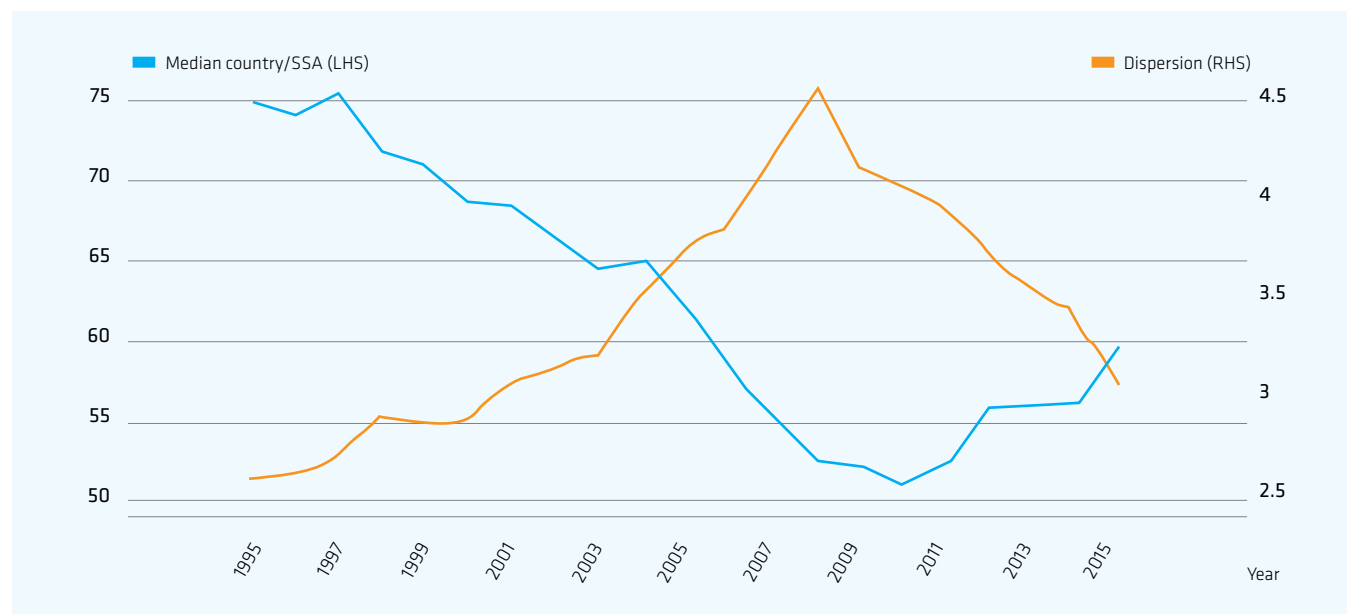
Further, evolution of Gini-coefficients point to high but relatively stable inequality for Africa as a whole, with varied patterns among sub-regions (Figure 3.3). Inequality remains the highest in middle income countries in Southern Africa, most of which are also caught in the 'middle income trap'. Rising inequality in East Africa, which contains some of the world's fastest growing economies, is of great concern and requires policymakers' attention. For example, notwithstanding robust economic growth of 6 – 7 percent a year, poverty in Tanzania declined by only 2.2 percentage points during the entire 1996 – 2010 period, well below the 1.7 percentage point average annual reduction experienced by Rwanda (World Bank, 2013).

Figure 3.3 Inequality among SSA regions, (Gini-coefficients, %) 1995 - 2010



Source: Authors' calculations based on the AfDB AEO database.

Figure 3.2 Inequality among countries in SSA, 1995 - 2015



Note: Median income of SSA countries relative to GDP per capita of SSA is in percent. Dispersion is computed as standard deviation over median.
Source: Authors' calculations based on the AfDB AEO database.

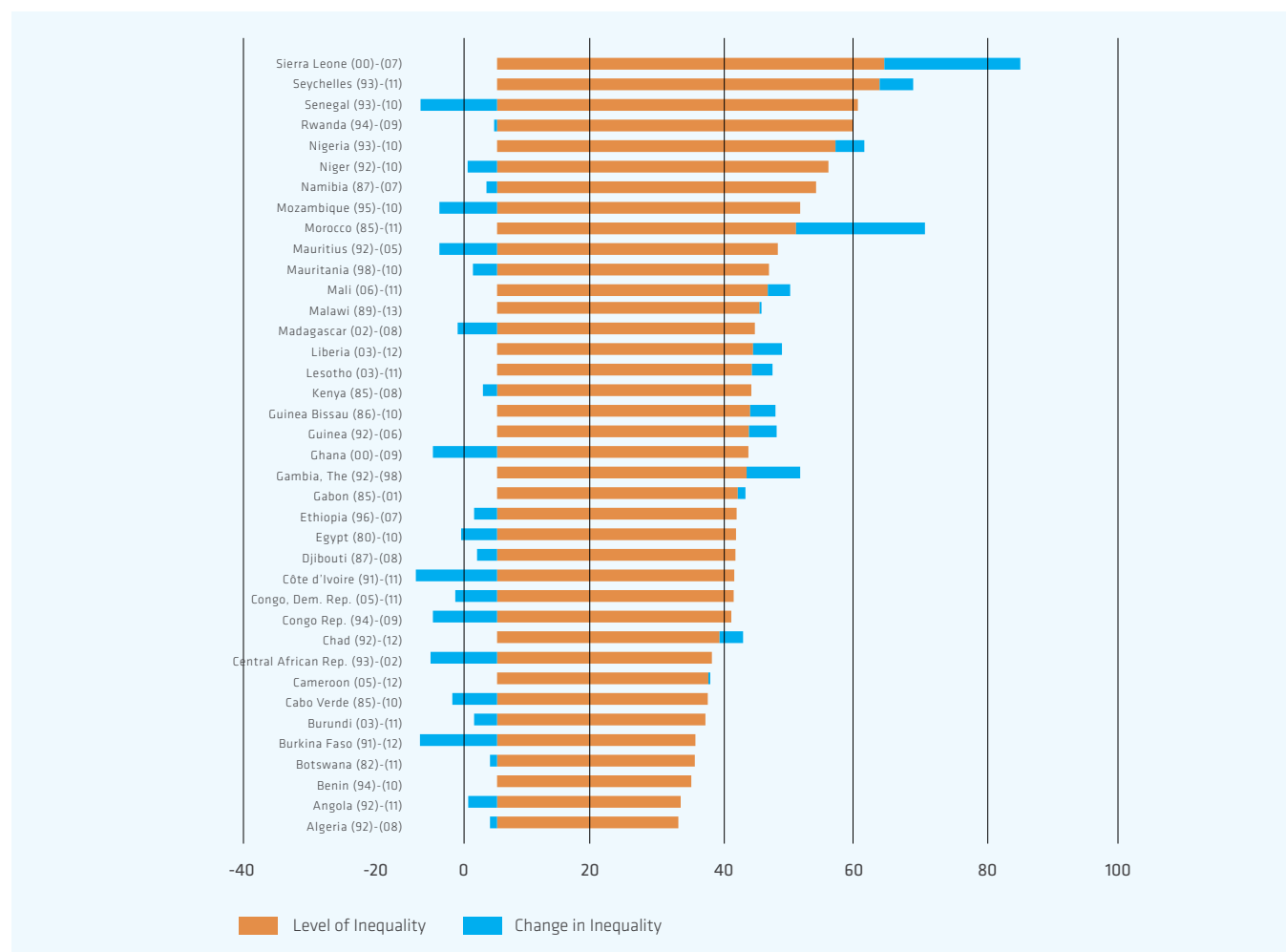
3.1.1 Heterogeneous progress in income equalization

Overall, poverty has started to decline in Africa, but this has been driven primarily by growth, while inequality has remained high by international standards. Figure 3.4 shows World Bank estimates of inequality (Gini-coefficients) available for African countries. There are ten countries in this sample with end-year Gini-coefficients above 50. Most of these highly unequal countries are located in Southern Africa and rely on natural resource extraction. The same figure shows progress in reducing inequality:

The difference between the first period and the latest available measure of inequality. There were 14 countries with increases in inequality and 25 with reductions. Over the very long-run there was thus some tendency towards equalization.

Finally, it is important to note that estimates of income inequality in Africa are typically based on household surveys. It is a concern that these surveys often lack coverage, particularly of the richest individuals or households, which means that the level of inequality tends to be underestimated.

Figure 3.4 Inequality level and change in Africa, by country



Source: World Development Indicators, March 2015. Years of observation are in parenthesis.

3.2 Inequality of opportunities

One may also look at inequality from different perspectives. From an efficiency point of view, it is inequality of opportunities that matters most, rather than outcomes. A key policy goal would then be to strive for greater equality of opportunity, i.e. equal rewards for equal effort, irrespective of circumstances. This should lead to a more efficient allocation of resources and thus be efficiency enhancing. It would also improve the sense of fairness and thereby contribute to social cohesion. Hassine (2015) looks at the evolution of inequality in Egypt between 1988 and 2006. She finds that the share of earnings inequality that was due to inequality of opportunities fell from 22% to 15%. The level of inequality of opportunities remained stable, but its relative contribution shrank because of the rise in total inequality in Egypt.

One could also argue that intergenerational income mobility is a sign of a flexible and non-discriminatory economy that utilises the talent of the population effectively. In this regard, Lambert, Ravallion, and Van de

Walle (2014) analyse intergenerational income mobility in the case of Senegal, and find that it is quite large. They find that inheritance of land or housing contributes little to overall inequality, while non-land inheritance, schooling and parental characteristics play a much more important role. Mobility is strongly related to movement out of agriculture into non-farm activities.

Finally, spatial inequality is important in Africa because countries are often poorly integrated, meaning that inequalities between regions as well as between urban and rural areas are pronounced. Sahn and Stifel (2003) consider a group of African countries and find that urban – rural gaps in living standards are high and show no tendency of declining. It is noteworthy, however, that when they decompose total national inequality in health and education, they find that the within region inequality contributes much more to overall inequality than the between regions part.



3.3 What triggers and sustains Africa's inequality?

3.3.1 Asset accumulation and technological progress

The distribution of income is strongly related to asset abundance and the distribution of asset ownership. Using data from World Development Indicators (2015), between 2000 and 2013, there was a varied pattern of asset accumulation across African countries. There has been a considerable increase in arable land (20%), but since the labour force grew at up to 2.9% per year, the land-labour ratio still declined from 0.27 to 0.24 hectares per capita²⁹. So there is increasing pressure on the land in Africa, which has implications for rural-urban migration. The share of the SSA population living in rural areas fell from 69% in 2000 to 63% in 2013.

For the labour that is shifting out of agriculture to be absorbed into good jobs, rapid capital accumulation is required. Between 2000 and 2012 the gross savings rate in SSA (the basis for African capital formation) increased from 18% to 19% of GDP. Globalisation of the financial markets has led to a large increase in private investment in emerging economies, but for Africa there has been much more limited progress. There are indications that returns to investment in Africa are quite high, however investment capital is not flowing to Africa in very large quantities. This suggests that there are other factors restricting investment – such as risk. Investors are also cautious with regard to investment in Africa because financial markets are small and suffer from poor liquidity. Still, there was a net inflow of fixed direct investment over this period corresponding to 2.4% of SSA's GDP that complements domestic investment financing.

Bigsten and Durevall (2006) constructed a capital stock series for Kenya over the period 1960-2000. They found that capital growth was not keeping up with the growth of the labour force during the last two decades of the 20th century. In a recent paper, Bigsten et al. (2014) extended this series on the basis of recent investment rates and found that the capital stock in Kenya increased by about 2.2 percent per year. This was still not even enough to keep the capital-labour ratio constant. From 2000 to 2012 capital formation in SSA increased by as much 9.3% per year, which meant that gross capital formation increased from 16% to 21% of GDP. This pattern is similar to that observed in Kenya, so it is reasonable to assume that the capital stock of Sub-Saharan Africa increased at a rate of 2%-2.5% per year. It thus seems as if the capital stock did not quite manage to grow at the rate required to keep the capital-labour ratio constant, although there was a decent rate of increase of investment. This means that we cannot expect to see any clear movement of the structure of production in a more capital-intensive direction.

The fundamental component determining growth other than the growth of factors of production is technical progress. While domestic investment in R&D matters, for African economies the bulk of new techniques still come from abroad. Ndulu and O'Connell (2008, p. 18) did a growth decomposition for a subset of countries in SSA for the period 1960-2000. GDP per labourer increased by 0.61% per year (less than post-2000), which was made up of the increase in capital per worker (0.36%) and increased education per worker (0.25%). They failed to find any contribution from Total Factor Productivity (TFP) growth. This meant that growth was due to factor accumulation, while productivity stagnated.

²⁹ The land pressure increased similarly in the MENA region including North-Africa.

Labour productivity has grown by about 1.8% per year over the last few years (2009-2012). Given the stagnation of the capital-labour ratio we may presume that TFP growth and human capital accumulation did contribute to increases in incomes, but it is unclear how far this has affected income distribution.

3.3.2 Inequality in human capital development and labour markets

The structure of the labour market, which allocates labour, is very important for inequality outcomes. Since we have concluded that the capital-to-labour ratio has been stagnant, we may presume that many people have been pushed out of agriculture without being absorbed by capital intensive jobs. Relatively few jobs have been created in the formal private sector, which under a “normal” structural transformation would absorb a lot of the skilled labour into well-paid jobs. Instead many of the newcomers to the labour market end up in activities with low incomes. They may of course also end up in unemployment, but this is hard to define and measure in Sub-Saharan Africa. The WDI data on unemployment says that it remained constant, at around 7% for men and 9% for women between 1990 and 2013. It is probably true that relatively few people are openly unemployed in the sense of the ILO³⁰, but there are many people underemployed or engaged in low productivity, informal sector activities. Although the level of education in Africa has increased a lot, the effects in terms of formal employment and growth have been a disappointment. The problem lies in the lack of expansion in demand for skilled labour due to the failure to create either sufficiently high growth or a pattern of growth demanding labour. Other developing countries, which have been successful in achieving equalizing growth, have seen unskilled labour typically being absorbed in large numbers by manufacturing.

The informal sector’s role in absorbing many people who leave agriculture or the new entrants into the labour market means that there is less impact on inequality than if those people had been absorbed into modern sector jobs. For example, Bargain and Kwenda (2014) find that in South Africa, informal workers earn much less than formal workers, but a large part of the gap is due to lower skills. The informal sector therefore increases wage dispersion. The results suggest that policies for increased equity could consist of labour market regulations and the expansion of education.

The evolution of labour income distribution is also driven by the pattern of education expansion. In countries where there used to be a lack of higher skills leading to large wage gaps, the expansion of secondary and tertiary education has contributed to keeping that in check (e.g. in Kenya, Bigsten et al., 2014). Educational policy is therefore potentially a very important component of income distribution policy.



30 For ILO data, *unemployed* comprises all persons of working age who were: a) without work during the reference period, i.e. were not in paid employment or self-employment; b) currently available for work, i.e. were available for paid employment or self-employment during the reference period; and c) seeking work, i.e. had taken specific steps in a specified recent period to seek paid employment or self-employment.

Overall, changes in labour market outcomes are very important for the evolution of income distribution. They depend on both the changes in the pattern of labour demand and the changes in the structure of labour supply, particularly with regard to education characteristics. Education levels have increased dramatically in Africa, but the equalizing effect of education has been curtailed by the slow increase in labour demand.

3.3.3 Structural change with limited income equalization

Structural transformation of production implies reallocation of labour across sectors and migration from rural to urban areas. When labour moves from low-productivity to high-productivity sectors, overall productivity increases and thus contributes to economic growth. The gap between agriculture and non-agriculture in labour productivity in SSA is enormous at 7.8:1 (Gollin, 2012). The gaps in productivity are larger in SSA than in other regions of the world. There has been little convergence between the sectors, and this has strong implications for inequality.

Most African countries have 2/3 or more of their labour force in agriculture. Ideally, for both growth and distributional reasons, labour would shift from low-productivity

activities (mainly smallholder agriculture) to high-productivity activities. Unfortunately this does not seem to be the general picture in Africa. Table 3.1 shows that the share of output from agriculture has declined somewhat in SSA, but the share from industry has declined even more, by 6 percentage points. To generate demand for labour Africa needs a change in the structure of production towards labour intensive manufacturing. Instead we see its manufacturing's sectoral share decline from 13% to 10% between 2000 and 2012. These trends are also reflected in North Africa, except that the industrial sector in this region has not contracted during the period.

McMillan et al. (2014) find that, at least during 1990–2005, structural change in African economies was, on average, actually growth-reducing for their sample countries. Thus, labour, on average, moved from high- to low-productivity activities. This seems to confirm that much of the labour that leaves agriculture ends up in activities with even lower levels of productivity, mainly in the informal sector. Still, they find that the picture looks somewhat better from 2000 onwards, with structural change contributing positively to overall growth. They also find that this improvement coincided with an expansion of the manufacturing sector in over half of the countries in their sample. They note that these positive effects of structural change on growth do not

Box 3.1 Inequality in the South African labour market

Bargain and Kwenda (2014) estimated the formal-informal sector wage gap in South Africa and look at the distributional consequences. They find that informal workers earn much less than formal workers, but a large part of the gap is due to lower skills. The estimated gap of 62% in South Africa is reduced to 19% when controlling for observable skills and fixed effects. They find that the informal wage penalty is highest in the lower part of the conditional wage distribution but tends towards zero in the upper part. The informal sector therefore increases wage dispersion.

South Africa has among the highest levels of inequality in Africa, which makes it an interesting case from an inequality point of view. The labour market plays a dominant role in determining inequality in South Africa. Reducing unemployment is a key dimension of an inequality reducing policy in South Africa, which has much less informal employment than other African countries. Post-apartheid growth in South Africa has been rather sluggish, and inequality in contrast has increased from already high levels. Total expenditure Gini increased from 0.54 in 1993 to 0.71 in 2008 (Finn, Leibbrandt, Oosthuizen, 2014).

Leibbrandt et al. (2012) describe changes in inequality in South Africa over the post-apartheid period, using income data from 1993 and 2008. The share of incomes going to the top decile increased. Social grants have become much more important as sources of income in the lower deciles, but overall it is the labour market which is the main driver of aggregate inequality. Inequality within each racial group has increased, while the contribution of between-race inequality has decreased. Both aggregate and within-group inequality are responding to rising unemployment and rising earnings inequality. Van der Berg (2014) shows that inequality within racial groups has increased in South Africa, while inequality between them has declined.

appear in countries with a relatively large share of natural resources in exports, since the enclaves of production are unable to absorb large amounts of labour. In countries with competitive exchange rates and labour market flexibility, structural change made a positive growth contribution and shifted labour to more productive sectors.

We can conclude that the industrialisation taking place in Africa has not been fast enough to bring about a large-scale economic transformation. African economies are the least diversified in the world. Labour-intensive manufacturing has not taken off in most of Africa, although a few North African economies like Tunisia and Morocco have done better. The share of the African labour force in manufacturing has declined (McMillan and Harttgen, 2014). The diversification out of agriculture has thus been mainly into services, and much of it into the informal sector. This also means that the pattern of structural change has so far not been a strong driver towards lower levels of inequality. In this context, equalization will require raising agricultural productivity.

3.3.4 Diversifying household livelihoods, and rural-urban migration

Structural change can also be analysed at the household level. Smallholders in Africa were originally almost exclusively farmers, but over time they have shifted into production for the market and to non-agricultural activities as well. Hence, the process of structural change in Africa occurs also within households, and many rural households have incomes from different sectors. Households that are able to pick up alternative sources of income have

higher incomes than those that have not been able to do so. Households that do not possess sufficient human and financial resources do not have access to potentially lucrative activities. As noted by Barrett et al. (2005), constraints may force households to choose low-return activities.

Endowments are the key determinants of smallholders' activity choices. To be a full-time farmer you need reasonable access to land. The bigger the labour force of the household, the more land is required. Consequently, the labour/land ratio of the household is one key determinant of its need to move into off-farm activities. The human capital endowment, or education level, of the members of the household is also a key factor determining activity choices. In addition it is easier to diversify out of agriculture if the household has good access to a thriving off-farm sector in the area, which often means being close to an urban market. Access may also vary by region; some areas have more diversified economies. So overall, the main factors behind allocation choices are differences in endowments, in access to markets, and in access to finance. Diversification generally is a positive way to move up the income scale. Diversification is also a result of push factors, particularly distress, where households in a poor situation seek to add to their meagre agricultural incomes (Barrett, 1998).

We have noted above that one important factor determining inequality is the productivity gap between agriculture and industry. This can be reduced by investing more in smallholder agriculture, but Collier and Dercon (2014) caution such an approach. They note that for economic development to succeed in Africa over the next 50 years,

Table 3.1 Structure of production in SSA and North Africa, 2000 and 2012

Sector	SSA		North Africa	
	% of GDP, 2000	% of GDP, 2012	% of GDP, 2000	% of GDP, 2012
Agriculture	17	15	19	15
Industry	34	28	34	35
(Manufacturing)	(13)	(10)	(14)	(14)
Services	49	57	47	50

Source: World Development Indicators 2015

not only will agricultural output have to increase massively, but labour productivity will need to increase a lot as well. This means that the share of labour in agriculture will have to decline very significantly. They also note that labour can shift from smallholdings to large-scale agriculture. In transiting from smallholder agriculture to other sectors of activity, many smallholders move partially and gradually. Many already straddle different sectors, which helps them increase household incomes. This pattern of structural change within the household will remain a very important feature of structural change for a long while to come. So, the best combination is to have productivity improvements in agriculture and accelerated structural change at the same time.

Structural change in Africa can also be considered from a migration and urbanisation perspective. The rate of rural-urban migration is increasing, but it is not very high in Sub-Saharan Africa compared to the rest of the world (De Brauw et al. 2014). Decomposing national inequality figures shows that, while the bulk of the population still remains in rural areas, within-region inequality dominates over that part which is due to the urban-rural gap. Stifel and Woldehanna (2014) find that more than 80% of inequality in Ethiopia is due to within-region inequality, for example. They also find that inequality is considerably higher within urban Ethiopia than in rural areas. This means that although the urban-rural income gap was constant between 1996 and 2007, there was an increase in national inequality due to migration increasing the weight for the, higher-inequality, urban sector. Also,



Stifel, Razafimanantena and Rakotomanana (2014) find that within-region inequality is dominant in the case of Madagascar. However, national inequality declined here due to stagnating incomes for the top 40% of households combined with improvements for the poor in rural areas. So there is often, but not always, a tendency for migration in early stages of development to contribute to an increase in the national Gini-coefficient.

Growth generally tends to be concentrated in small geographical areas (McKay and Perge, 2009). In Africa this is often related to the location of natural resources. The imbalances that emerge are particularly serious in Africa, since it is characterised by high ethno-linguistic fractionalisation. Spatial inequality is often aligned with the ethnic inequalities. High spatial inequality can be bad for growth by creating conflict and tension, it also leads to demands for redistributive measures. However, more dedicated policies designed to address inequality and ethnic favouritism can contribute to growth and poverty reduction (see Box 3.2 for the case of Rwanda).

There are advantages of agglomeration of production such as economies of scale, lower transport and transaction

costs. Forward and backward linkages matter. There may also be negative impacts of agglomeration due to immobile factors of production, land rents and external diseconomies. Successful countries are characterised by greater population density, shorter distances, and fewer divisions. The World Development Report 2009 (World Bank, 2009) concludes that urbanisation and concentration of production is unambiguously good for growth and thus poverty reduction in the long-run. Christiaensen and Todo (2014) find that agglomeration in mega cities is associated with faster growth and higher income inequality, while a shift into rural, non-farm and secondary towns leads to a more inclusive, but slower, growth. Christiaensen, De Weerd, and Todo (2013) find similar results for Tanzania.

Dorosh and Thurlow (2014) discuss the role of public investment in fostering structural change. Typically, public investment aims to lever private investment. They develop models for Ethiopia and Uganda that allow for both migration and agglomeration effects. Their simulations indicate that investment in cities is an important determinant of structural change in the long-run because of agglomeration economies. In the short-term, further investments in agriculture are also needed to enable small towns to open up for diversification out of agriculture.

Box 3.2 Social stratification and inequality in Africa

Africa stands out as a region where ethnic divisions play an important role in how the governance of society works. There is an extensive literature on this aspect and how it relates to policymaking and development. Alesina and Zhuravskaya (2011) find that ethnically and linguistically segregated countries, i.e. countries where these groups live more separately, have lower quality of government. Alesina, Michalopoulos, and Papaioannou (2012) show that ethnic inequality is strongly inversely related to per capita income, and that differences in geographic endowments across ethnic homelands explains much of ethnic inequality. These differences thus have a long history. They also show that individuals from the same ethnic group are worse-off when they reside in districts with a high degree of ethnic inequality.

Rwanda is an interesting country in this context since it has been able to combine rapid growth (about 5% per year) with declining inequality (Gini was 0.52 in 2005 and 0.49 in 2010/11) and reduced poverty (headcount down from 0.58 to 0.45) post genocide (Verporten, 2013). In addition, social indicators (DHS surveys) show major improvements, and urban-rural inequality in social services declined in the post-conflict period.

It therefore seems as if the pattern of structural change ongoing in Africa is such that it contributes relatively little to income equalization. People leave low productivity activities and move into other low-paying activities. A more transformative change of the economy leading to an expansion of better paying jobs would require higher rates of investment and faster economic growth.

3.4 Decomposing Africa's inequality

Paucity of income and consumption data, especially at the household level, in many countries prevents systematic analysis on the underlying determinants of inequality in Africa. Household income and consumption surveys, the source of most income inequality data, are collected infrequently and with irregular time intervals in many cases. This makes contemporaneous comparisons difficult (Deverajan, 2013). This section uses unit record data from Demographic and Health Surveys (DHS) for 44 countries in 102 waves covering the period 1989-2011. The dataset covers over a million households and is used to analyse the drivers of wealth/asset inequality in Africa. 'Within-country' inequality analysis decomposes the Gini-coefficient for assets into spatial and individual/household specific components. Spatial inequality, on average, contributes 35%-40% of overall asset inequality with significant variation across countries. 'Between-country' inequality analysis suggests that, conditional on other important covariates such as initial per capita GDP, size of government, etc., asset or wealth inequality is negatively correlated with the proportion of the labour force with tertiary education, the size of remittances as a share of GDP and price distortions in key asset markets.

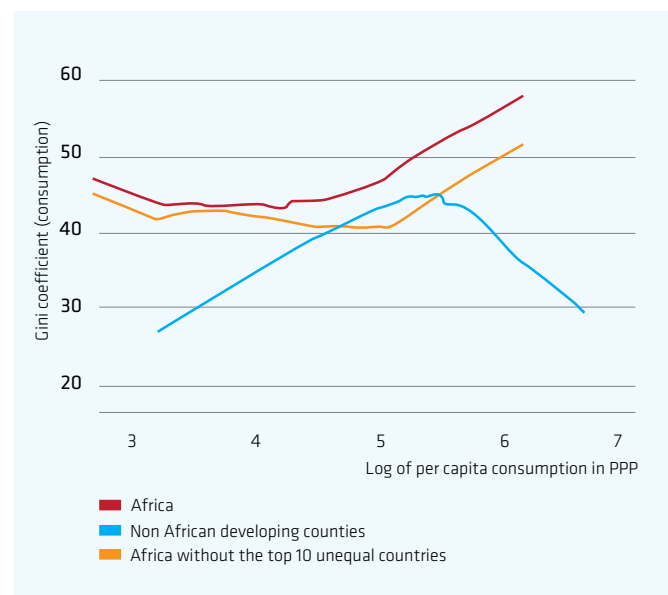
A particularly useful way to better understand issues of inequality in Africa is to think of the role of different processes that shape its pattern over time and across regions, such as structural factors and market forces (e.g. Easterly, 2007). In most African countries, where markets are nascent forces and have not taken deep roots in resource allocation, the role of structural factors tend to be strong. The inequalities induced by market forces have differential impacts on households, on firms, on regions, etc. Therefore, decomposing inequality into that part induced by circumstances beyond the control of the individual (called 'inequality of opportunities') and that within the

bounds of his/her choices (such as level of effort) furthers our understanding of the evolution of inequality. While the empirical distinction between inequality of opportunities and that of effort is challenging due to the data requirements, some estimates have provided interesting insights that help understand the results discussed here.

3.4.1 Income or asset inequality?

How unequal is Africa? First, we revisit income inequality briefly before presenting the asset inequality results from DHS data. Figure 3.5 shows Gini-coefficients based on household surveys as reported in the World Bank's PovcalNet data for the period 1982-2011. The figure compares the aggregate Gini-coefficient for Africa with that for other developing regions (Latin America and Asia).

Figure 3.5 Inequality in Africa & other developing regions, at different levels of development (1980-2011)



Source: Authors' using PovcalNet data.

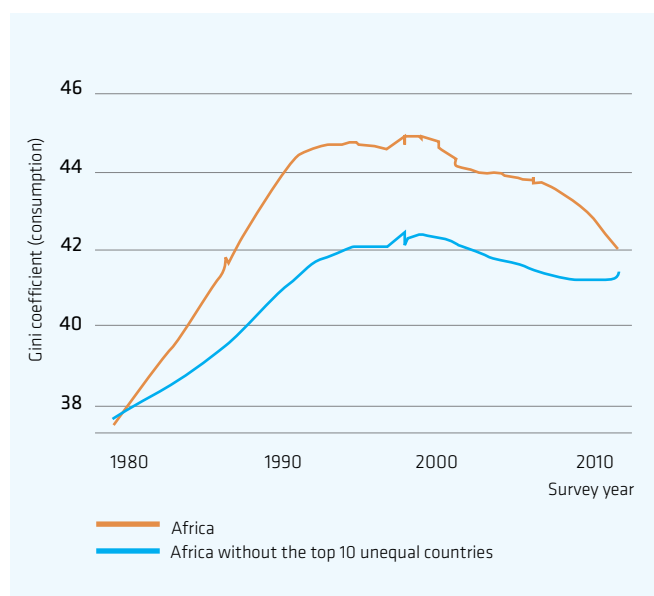
The figure shows that, despite the level of ‘development’ as captured by per capita income, African countries generally tend to exhibit higher inequality than the rest of the developing world. Figure 3.6, below, plots the trend in the Gini-coefficient for African countries which indicated a steady increase in the 1980s and 1990s. It levelled off in the 2000s but the average Gini-coefficient is still in the range of 40% implying that the top 20% own almost 60% of income. Thus, the data begs the question; why is inequality so high in Africa? The next section attempts to tackle this issue.

3.4.2 Asset inequality within countries

Table 3.2, below, reports the asset-based Gini-coefficient for 44 African countries, covering at least 65% of Africa’s population. The key message is that asset-based inequality has been high in Africa: In the range between 40–45%. This significantly high number could imply that the top 1% owns 35 to 40% of household assets and amenities. Asset-based inequality has also been persistently high over two decades, with no sign of declining. This is indeed quite worrisome. An interesting, but not surprising, aspect of asset-based inequality is that the contribution of spatial inequality is quite significant, hovering around 35% in all periods. The contribution of household education, occupation or age (a proxy for experience) explain only around 10% of the overall inequality, the rest is attributed to other factors (unobserved factors).

31 Component of inequality due to household head education level, occupation and age.

Figure 3.6 Income inequality trends in Africa



Source: Authors

The importance of spatial dimensions in explaining inequality varies across countries, ranging from a high of around 61% in places like Madagascar, Angola or Niger to lows around 10% in small countries like Comoros, or in well-developed places like Egypt. The spatial component of asset inequality can be thought of as structural inequality, caused by circumstances beyond the control of individuals (Roemer et al., 2003). Figure 3.7, for instance, suggests that spatial inequality has a strong correlation with governance (using the aggregate Mo-Ibrahim index). It also has a strong correlation with ethnic

Table 3.2 Inequality levels in 44 African countries

Period	Average Gini coefficient for assets	Component due to spatial inequality	Component due to inequality of opportunities ³¹	Component due to other factors
Before 1995	0.42	0.37	0.11	0.52
1996-2000	0.43	0.34	0.13	0.53
2001-2005	0.38	0.32	0.13	0.54
2006-2009	0.40	0.34	0.14	0.51
2010-2013	0.44	0.39	0.13	0.47

Source: Authors.

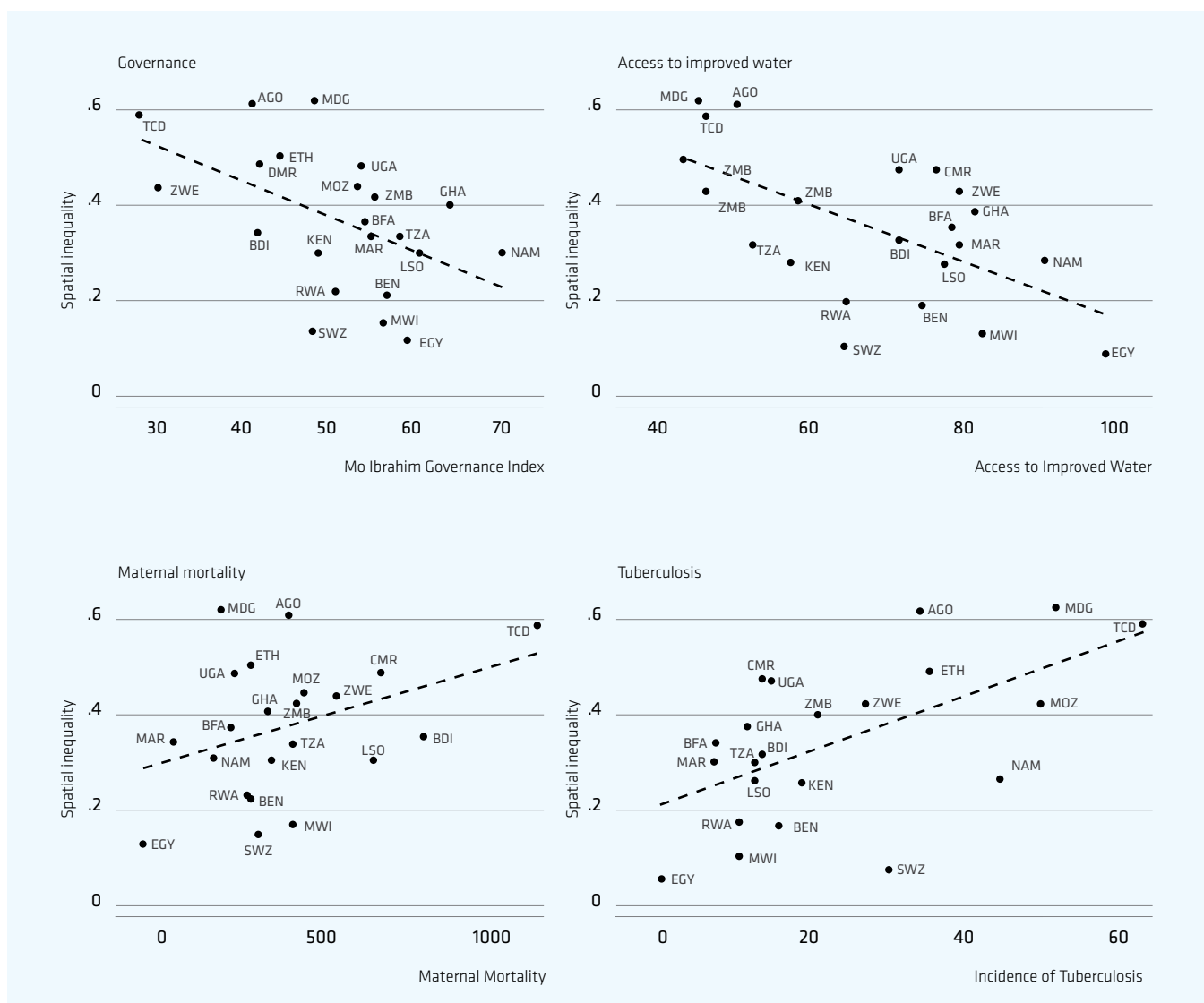
fractionalisation (not reported). However, there is no systematic correlation with per capita GDP. Close to 25% of the variation in spatial inequality is due to economic governance and ethnic fractionalisation. In the former, higher values or better governance was correlated with lower spatial inequality and ethnically diverse or fractionalised countries exhibited higher spatial inequality. This suggests that this part of spatial inequality echoes Easterly's (2007) structural inequality, or the inequality of opportunity discussed in preceding paragraphs. Another

interesting finding is that spatial inequality is highly correlated with incidence of child and maternal mortality as well as with other indicators of human opportunity. This is a useful insight into the seriousness of spatial inequality in affecting living standards independently of income.

3.4.3 Asset inequality between countries

The long-term relationship between inequality and policy relevant factors could be inferred through cross-country

Figure 3.7 Correlates of spatial inequality



Source: Authors

comparisons. Using a regression framework on the pooled data using asset-based inequality from the DHS dataset (and correcting for heteroscedasticity), tertiary education turns out to be an important predictor of lower asset-based inequality. Countries with one standard deviation higher share of households with tertiary education experienced a decline in asset inequality of about 17%. Similarly, remittances appear to be an important part of the story in reducing inequality³².

Altogether, approaching inequality from the perspective of its two main sources (structural and market driven) or breaking it down into inequality of opportunities and individual effort, provides some explanation of Africa's high and persistent inequality levels. Inequality decomposition shows that spatial inequality has a stronger role in driving overall asset inequality in Africa. Spatial inequality itself

32 Given the strong emphasis in previous literature on ethnic fractionalisation as an important driver of inequality, we examined the possibility that ethnicity may be picking up the effects of remittances. Ethnically homogenous societies tend to have stronger networks which facilitates mobility within and outside of a country, thus tends to increase remittances.

is driven mainly by governance conditions and ethnic fractionalisation. Interestingly, the spatial dimension of inequality is not correlated with per capita income. Instead, spatial inequality seems to have an independent effect on infant and maternal mortality, disease burden as well as human opportunity. This interesting finding needs to be further studied. High spatial inequality is a constraint to high standards of living and is essentially unaffected by the average level of development of a country.

When comparing inequality between countries, tertiary education and remittances are important factors that may lower inequality, be it of asset or of income. Of particular importance to income inequality is price distortion which generally captures the relative scarcity of consumption goods in comparison to the world market. In sum, specific and well implemented policies are required to advance inclusive growth in Africa given that the barriers to reducing inequality seem to stem largely from poor governance and fragmentation along ethnic and linguistic lines.



3.5 Translating growth into poverty reduction in a globalised world

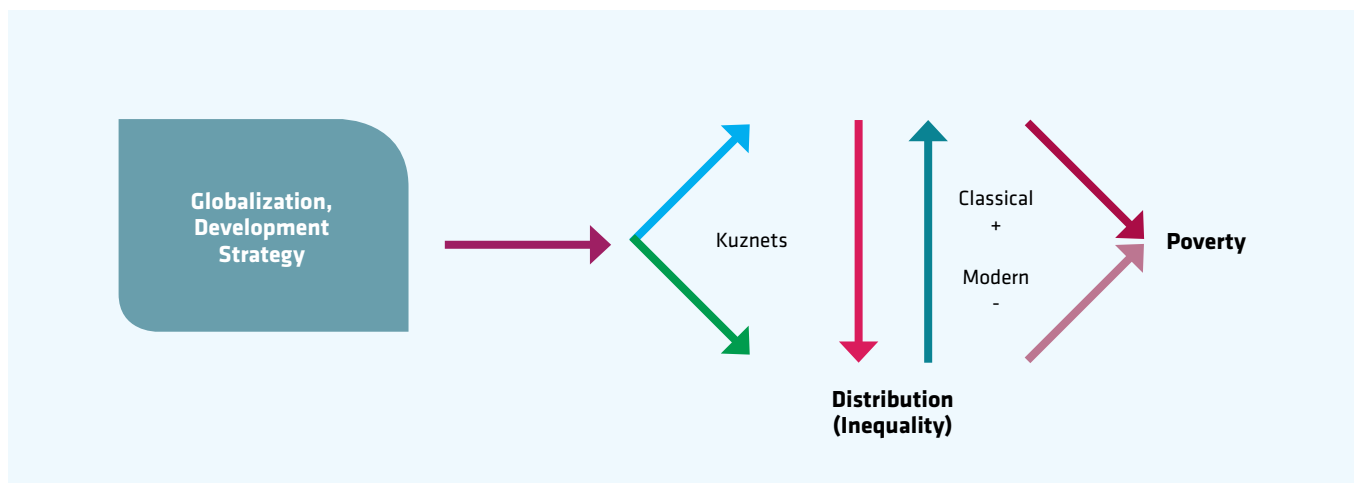
To understand clearly the anatomy of growth and how it impacts poverty reduction, it is essential to analyse the interrelationship between growth, inequality and poverty. The economy of any nation is influenced, *inter alia*, by: (i) The process of globalisation including positive shocks (such as high commodity prices for exports) and negative shocks (such as the global financial crisis of 2007-08); (ii) Other shocks such as climatic changes, and civil conflicts; and, (iii) The national development strategy, which includes the set of policies followed by a specific government and the existing institutions in that same country. The impact of globalisation and other shocks is largely exogenous (outside the control of the nation state), while the national development strategy is, at least partially, endogenous (under the control of the government).

By globalisation, we mean here, greater economic integration within the world economy manifested through increased openness. The major channels, through which

globalisation affects the economy of any given country, are through trade, foreign investment, technology transfer, and labour migration (see Nissanke and Thorbecke, 2010, for a detailed discussion of the various globalisation transmission mechanisms). For example, an increase in Kenya's exports of horticultural products contributes to GDP growth, and because it is labour-intensive, lowers the incidence of poverty through increased employment of unskilled workers. In contrast, foreign direct investment in oil exploration and oil wells in Nigeria, likewise contributes to output but creates few jobs and may lead to greater inequality in the distribution of income. The point is that the various globalisation channels at work influence the structure of growth differently in different settings.

Figure 3.8 illustrates schematically how globalisation and the adopted development strategy jointly affect the structure of growth, the level of inequality and the incidence of poverty in a given country (abstracting from a number

Figure 3.8 Globalisation and development strategy. Interrelationship among growth, inequality, and poverty



Source: Author's drawing.

of feedback loops that are discussed subsequently). The transmission mechanisms are complex and consist of a number of links shown in Figure 3.8. Each of these links has to be looked at carefully. In general, globalisation (e. g. through its impact on trade and foreign direct investment) and the country-specific development policies and institutions will have a positive effect on growth (the upper left arrow in Figure 3.8). They have a more indeterminate effect on income distribution (the lower left arrow). In turn, the growth and distribution channels interact dynamically to produce a growth-inequality-poverty triangular relationship (the right-hand triangle in Figure 3.8).

A key and controversial link in this triangle is that from inequality (income and wealth) to growth. This relationship is characterised by two varying theories. The classical theory argues that income inequality is a pre-condition for growth as the rich have a higher marginal propensity to save than the poor. Hence a more unequal income distribution, for the same level of aggregate income, will generate a larger total flow of savings, leading to more investment and higher growth (Kaldor, 1956). In contrast, the modern New Political Economy of Development makes a strong case that greater income inequality is likely to dampen growth through a variety of channels, such as the diffusion of political and social instability, unproductive rent-seeking activities, and increased insecurity of property rights. A recent empirical study under the auspices of the International Monetary Fund has shown that there are more episodes of sustained rapid growth in societies that are relatively more equal and hence more stable (socially, politically, and financially) (Ostry et al, 2014)³³.

Still another link in the growth-inequality-poverty nexus is from growth to inequality. Kuznets' law suggested that at early stages of development, growth would bring about a worsening of income distribution up to a threshold level of per capita income and then reduce inequality beyond this threshold. This has essentially been rejected on the basis of evidence. There is no clear-cut link between the contemporary growth spell in SSA and a rise in income

inequality (as expected in low income countries if Kuznets' law prevailed). There are about as many cases of countries where income inequality rose over the last decade or so, as there are cases where inequality fell.

The link from growth to poverty (the upper right side of Figure 3.8) captures the extent to which the pattern of growth is inclusive. The more inclusive the growth, the greater the resulting poverty alleviation. As indicated earlier, the structure of growth before 2000 tended to be narrowly based and was often enclave-type growth which has a relatively small effect on poverty. In contrast, there is some evidence that the current structure of growth has become somewhat more inclusive.



33 See also, study by Deininger and Squire (1998).

The final link on Figure 3.8 consists of the influence of the distribution of income on poverty. Again, the more uneven the distribution, the less the poor are likely to reap the benefits of growth. In turn, the observed inequality of income is the direct result of the inequality of opportunities, which is endemic across much of the subcontinent. Poor, uneducated and marginalised households are not playing on a level field. The opportunities available to them are limited in comparison with better-off individuals born into middle or upper class families. The reciprocal relationship between the inequality of opportunities and income inequality can lead to a vicious downward spiral and poverty trap. The economic and political balance of power generated by those inequalities could lead to extractive economic and political institutions that will further reinforce the status quo.

In sum, the transformation of growth to poverty reduction is nonlinear, with inequality playing an important intervening role. High initial inequality can inhibit the effectiveness of growth in reducing poverty (Adams (2004), Bourguignon (2003), Easterly (2001), Epaulard (2003), Kalwij and Verschoor (2007), and, Ravallion (1997)). In addition, Fosu (2008, 2009, 2010a, 2010b) presents and estimates various nonlinear poverty functions explaining the transformation of growth to poverty reduction. Furthermore, Fosu (2011, 2015) emphasises the tendency of lower initial incomes to slow down the translation of income growth and changes in income distribution into impacts on poverty. Recently, Ravallion (2012) argued that the initial level of poverty dominates other initial conditions in determining the path of poverty, particularly by limiting the rate at which growth is transformed into poverty reduction.



3.6 Pro-poor growth and pro-growth poverty reduction strategies

Should Africa target growth that achieves disproportionately large benefits for the poor, or, focus on poverty reduction strategies that maximise growth? The causal chain linking growth to poverty has been thoroughly and critically researched and is today relatively well understood. This research has given rise to a rich literature on pro-poor growth (see Klasen, 2004). The main message from this literature is that an inclusive structure of growth, anchored on employment and resulting in a less unequal distribution of opportunities and income, would not only reduce poverty, but would also set the stage for an acceleration of future growth.

The reverse causal chain, from poverty-reduction to lower inequality and more inclusive growth, has been largely ignored, if not rejected, on the somewhat untested premise that poverty-reducing measures could not also be productive. An early study (Perry et al, 2006) made the case for a pro-growth poverty reduction strategy on the grounds that there are multiple channels through which poverty acts as a major obstacle to growth. Examples of such channels and poverty traps are, that poor people: (i) Have limited access to credit and financial markets which cuts them off from potentially profitable and productive investment opportunities; (ii) Often suffer from ill-health and malnutrition that affects their productivity; and, (iii) Attend low-quality schools that constrain their human capital.

The underlying logic of pro-growth poverty reduction is that, by focusing on poverty directly and reducing it, some major constraints on the behaviour of the poor will be alleviated. Poor households will be better able to keep their children in school, acquire more education and skills, borrow and invest in their farms and informal activities and afford to adopt riskier but more productive technologies

such as high yielding seed varieties in small-scale agriculture. The difference between this type of strategy and the more conventional pro-poor growth strategy is that the trigger, or intervention point, is directly focused on reducing poverty. Policies and institutions - such as social protection schemes helping poor households to acquire human capital, or rural infrastructure projects of the “food for work” variety - can facilitate rural to urban migration. They do so by providing potential migrants with additional skills and by reducing the transaction costs of moving for the poor. Such schemes can engender a virtuous spiral generating a faster and more inclusive growth pattern that, in turn, reduces the inequality of opportunities and income and propels further rounds of poverty alleviation and inclusive growth.

On the other hand, a pro-poor growth strategy would be more directly focused on altering the structure of growth – for example, through a more inclusive pattern of government investment. In some instances it is not possible to draw a clear distinction as to whether a specific measure comes under one or the other strategy. It is perhaps best to consider these two strategies as complementary and mutually re-enforcing.

3.6.1 Social protection programmes as pro-growth poverty reduction strategies

In order to make a convincing case in support of the validity and feasibility of a pro-growth poverty reduction strategy, two key questions need to be affirmatively answered. First, is there evidence that a high incidence of poverty in a given setting presents an obstacle to subsequent growth? Secondly, are there realistic measures and projects that can contribute to growth by reducing poverty?

Ravallion (2012), in an effort to explain why there is no worldwide poverty convergence, used a sample of almost one hundred countries covering the period from 1980 to about 2010. His main finding was that countries with high initial poverty levels grew more slowly subsequently, than countries with lower initial poverty levels. Initial poverty thus limits poverty reduction efforts. The results of this study provide a strong rationale and justification for a pro-growth poverty reduction strategy – particularly in Africa where the incidence of poverty is still very high in spite of the current growth spell.

The second question was whether institutions and programmes directed towards alleviating poverty could also, directly or indirectly, contribute to growth. The term “institution” covers a very wide domain and could be defined as “Any structure or mechanism of social order and cooperation governing the behaviour of a set of individuals within a given human collectivity” Deji (2012). Within the present context of inclusive growth, an institution can be referred to both as an implementing organisation and as a programme (or set of programmes) emanating from a given institution. Institutions and programmes focused on poverty reduction often consist of Social Protection and Labour (SPL) schemes covering such areas as public works, micro-credit, nutrition, and small-farmer livelihoods development³⁴.

Alderman and Yemtsov (2012) analysed and reviewed in detail the productive role of a large number of SPL programmes throughout the developing world: *“Do we know how social protection affects growth? The short answer is: Yes. We conclude that there is a strong theoretical case for productive role of SP, and much is known about exactly how social protection can contribute to economic growth.”* (Alderman and Yemtsov, 2012, p.29). They also argue that: *“...experience has taught that when well designed, social protection can both redistribute the gains from growth and, at the same time, contribute to higher growth.”*

A major World Bank study largely echoed the positive link between appropriate SPL and growth (World Bank, 2012, p.i). Thorbecke (2013) has similar findings. He reviewed a number of effective SPL institutions in the developing world, identified as good candidates for transplanting to the conditions prevailing in SSA (after appropriate modifications). The sample included some schemes already in place in parts of Africa that could be transferred to other settings within the sub-continent. Thus, the second question can be answered in the affirmative: There is evidence of policies and institutions that can both alleviate poverty and contribute to growth.

Even, in the face of high initial poverty, it is possible to achieve poverty convergence through deliberate policy interventions. Based on interregional evidence from Ethiopia and Rwanda, Shimeles and Thorbecke (2015) found that villages and districts starting with higher initial poverty levels tended to reduce poverty faster, and grow faster subsequently. Why? These countries, after emerging from long civil wars and conflicts, appear to have committed themselves to a policy agenda focused on reducing extreme poverty. Public funds and foreign aid might have been allocated so as to benefit the most destitute regions. They also found some evidence that poverty convergence did hold for the African sub-sample of countries as a whole – contrary to Ravallion’s finding of non-convergence for the full sample³⁵. Again, it is conceivable that a combination of policy interventions by SSA governments and foreign aid allocated proportionately to the severity of poverty might explain this apparent convergence in Africa.

34 Fostering agricultural productivity in poor areas (through improved technologies, better infrastructure, and better access to inputs) can also play a role.

35 For a detailed analysis see Shimeles and Thorbecke (2015).

3.7 Conclusion and some policy recommendations

While the reduction in poverty and improvements in human development indicators over the last fifteen years are to be applauded, the pattern of growth in most African countries needs to become more inclusive. Africa is one of the most unequal continents in the world; inequality has remained high since colonial times. Poverty reduction in Africa has mainly been driven by income growth, not by reductions in inequality. Not just income inequality, the inequality of opportunities remains in Africa as a serious constraint on development. Asset inequalities, inequality in human capital development and in the labour market have been analysed in depth in this chapter. All of these different types of inequality remain major challenges for Africa to overcome so as to make growth more inclusive and sustainable in the coming decades. But, how should Africa address these types of inequality, and thus reduce poverty? Below is a set of policy recommendations that could help African countries in their efforts to make growth more inclusive.

To reduce poverty and to achieve a more equal income distribution one must enhance the access of the poor to resources, and improve their productivity. A growth process that generates demand for the resources of the poor is required. Achieving growth that generates more well-paying jobs is vital for Africa. The future of inequality in Africa hinges on what happens to structural transformation. Poverty reduction in Africa requires growth that generates labour demand outside traditional agriculture and the natural resource sector. In Asia, successful poverty reduction was achieved by a rapid increase in the demand for unskilled labour in the manufacturing sector. This change was often preceded by a green revolution in agriculture which increased productivity and incomes in that sector. This both created demand for manufactured products and released resources for the expanding new

sector. African agriculture has not experienced such a breakthrough as yet.

Africa should design and implement an export strategy based on labour-intensive manufacturing. Agricultural and rural development, with encouragement of new technologies, must play a role. Investment in physical infrastructure and human capital are also crucial. There must be efficient institutions that provide the right set of incentives to farmers and entrepreneurs. Social policies to promote health, education, and social capital are required, as well as safety nets to protect the poor.

The development policies pursued in Africa since independence have followed trends in international debate closely. African countries have gone through phases focusing on import-substitution industrialisation, redistribution with growth and basic needs, structural adjustment, poverty reduction, and, finally, increased focus on governance. These shifts in policy have been closely related to perceptions about how inequality and poverty have evolved. In spite of these policy shifts (which were more significant shifts on paper than in reality) overall inequality has not been reduced much.

The character of government is clearly important for determining what kind of income distribution policy can be pursued. If the government is mainly concerned with the welfare of a certain group, the policy will be less geared towards broad-based participation and inclusive development. It may, of course, also be the case that governance capacity to formulate and implement sound policies is lacking. It is clear that the quality of governance is thus a fundamental determinant of development, but it is less clear how countries can achieve it. The key point in Acemoglu et al.'s (2012) analysis is that development

hinges on inclusive institutions, i.e., political and economic institutions that make it possible for broad segments or groups of society to participate in them. Since political institutions are a strong influence on the accompanying economic institutions that generate development, their development is clearly crucial. Acemoglu et al. describe the desired institutional set-up as inclusive governance, i.e. a system of governance that distributes power broadly in society and subjects it to constraints. In this way, political power would rest across a broad coalition or a plurality of groups.

What happens depends on which people or group win in the political process, which, in turn, depends on the distribution of political power. This distribution of power is strongly related to different forms of inequality. This means it is important to understand how inequalities between groups evolve and how inequality (change) is related to governance (change). The question is: How to achieve a virtuous circle of improved governance and

reduced inequality? We would argue that lower inequality would increase the prospect of broader coalitions getting together in collective actions to build inclusive governance. Therefore, it is very important to understand how inequality evolves and what can be done to bring about more equity.

The most effective policy of redistribution would probably relate to assets rather than incomes. But, asset redistribution is hard to do, except under exceptional circumstances – often related to political violence. It is easier to redistribute incomes with the help of taxes and transfers, but these may have detrimental effects on growth incentives. By reducing returns to human and physical capital, income taxation reduces incentives to save and invest. If we assume that it is primarily the rich who have the possibility to save, redistribution away from them in favour of the poor would reduce savings.



Most types of redistribution policy are controversial, and must be supported by influential groups to achieve success. It could be argued that it may be in the interest of the elite to see a strong middle class emerge, which might mean that they may be willing to support a broad push for education, for example. While this could possibly undermine the power of the elite, at the same time, the growth of a middle class would tend to reduce social tension, as well as the risk of future confiscation of assets.

There is an emerging literature about how social safety nets may contribute to growth by helping overcome constraints due to market failures (Alderman and Yemtsov, 2014). It is clear that safety nets (cash transfers and public works directed at the poor) contribute to the reduction of inequality, not least in protecting the consumption of the poor from negative shocks. They can also contribute to growth by supporting investment directly (Ardington et al., 2009; Berhane et al., 2011). Poor households may be forced to trade-off income gains against risk reduction with negative efficiency consequences. They may also have to sell off assets and forego investment opportunities so as to smooth consumption fluctuations. Safety nets can, in such a setting, contribute to growth by smoothing incomes and thereby facilitating investment by farmers and entrepreneurs. In this way, safety nets may be a substitute for functioning insurance markets.

Berhane et al. (2011) find evidence for this contribution to growth. Beneficiaries of Ethiopia's Productive Safety Net Program (PSNP) had fewer distress sales than other farmers, and also had a statistically larger increase of assets over time. In principle, there could be insurance systems for, e.g., crop producers, but these insurance markets are not well developed in Africa. Social safety nets reduce inequality directly and thereby contribute to national cohesion, which is good for growth (World Bank, 2006). They may make it possible to avoid inequality traps, and they can also have an effect on political institutions by reducing the scope for rent seeking. On the other hand, there may also be negative effects on, e.g., labour force participation as a result of the taxation required to fund safety nets. The net effect would therefore be smaller than the gross effect.

The short and longer term perspective need to be considered together. Redistribution from the future to the present and from the currently non-poor to the poor can reduce poverty in the short-term, but consider how it affects future poverty and inequality. There is a risk of policy errors if the policy process focuses too much on short-term poverty-reducing effects. The optimal development path from a poverty reduction perspective would probably best be defined as one that minimises the discounted sum of future poverty which requires different policies than minimising poverty in the short-term. There are many policy options that increase consumption today at the expense of consumption tomorrow. There are also policy options to finance investment in agriculture and infrastructure (e.g., taxation) that generate growth and poverty reduction in the longer term, while they may have negligible or even negative effects on the consumption of the poor today.

Finally, for a typical African country, four crucial pillars should be targeted: i) The creation of new, stable jobs, preferably in the formal sector, to absorb rural migrants productively; ii) Infrastructure development in rural areas to increase farmers' access to local, regional, or international markets; iii) Interventions that improve agricultural productivity for the poor; and, iv) Measures and institutions that contribute to reducing inequality such as the adoption of inclusive social protection and labour schemes. In sum, a combination of pro-poor growth and pro-growth poverty reduction interventions in support of these pillars could trigger a virtuous and lasting spiral of inclusive growth.

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CHAPTER 4

Gender inequality: A double break on poverty reduction

Key messages

- **Gender inequality limits Africa's progress** in tackling poverty in two ways. First, the continent forfeits potential growth that could have come from women who are excluded from the growth process. Second, restricting women's access to human capital enhancing services, such as education and healthcare, limits the extent to which growth can impact on their poverty status. **African women have benefited immensely from 15 years of MDG prioritisation**, and from the global alliance driving their implementation. Gender gaps in education, healthcare and other wellbeing indicators have witnessed significant improvements over this period.
- Despite these achievements, **women still constitute the majority of the continent's poor**, they are more likely to drop out of school than boys, less likely to be employed in the formal sector and the risk of maternal mortality remains high in many countries. Gender inequalities in agriculture are characterised by unequal access to agricultural inputs such as land, fertilizers, and finance. Women who depend on agriculture and do not own land for this purpose are more vulnerable to domestic violence. Women dominate in vulnerable employment, with most of them working in seasonal, petty trading of agricultural products.
- **Up to 50% of women in some countries are victims of domestic violence.** Victims of domestic violence are less likely to be in control of their own reproductive decisions, which also has negative consequences on children. Because the fate of women determines the fate of the continent's next generation, undermining their role in today's development could reduce the continent's future growth prospects.
- **Empowering women through education** (secondary school or beyond) and **employment in the formal sector** limits their vulnerability to violence from their partners. Closing the gender gap in education is, therefore, a powerful strategy in addressing violence against women.



4.0 Introduction

Recently, researchers and policymakers have been concerned with understanding why the continent's high growth rates have had limited impact on poverty reduction. As discussed in a previous chapter, measures of the growth elasticity of poverty suggest that the effect is even lower in countries where inequality is high. However, most of these measures consider inequality along the income dimension. At the same time, there is another type of inequality that deserves attention: That is the inequality between men and women, which continues to be substantial in many African countries.

Achieving equality between men and women has both intrinsic and instrumental significance. Intrinsically, women, like men, have a right to justice in all societies. Instrumentally, achieving gender equality would have

numerous economic and social benefits for women, their children and for society as a whole. Denying 50% of Africa's population from their deserved justice and the opportunity to contribute to economic and social development impacts the continent as a whole. Despite the numerous merits of achieving a gender equal society, men and women are far from being equal in Africa.

This chapter highlights the extent and challenge of gender inequality in Africa, with a focus on gender disparities in education, health, and political and economic participation. The chapter also provides evidence on the extent of violence against women, its consequences and some policy interventions that have proved most effective in lowering the incidence of violence against women.



4.1 Why gender inequality is a major concern in Africa

Apart from physical capital and technology, one of the factors that explains differences in the level of development across countries is the wealth of human capital. The number of people and the accumulated skills they have is a vital determinant of how much progress society can achieve. In most countries, while at least half of the population is female, much less than half of the work force is female. In the same way, a significant fraction of high-ability girls and women do not have the opportunity to attend school or to acquire other forms of skills. Women and girls are less likely to attend school, and if they do, their chances of completing secondary level education are much more limited than for boys. For those that complete secondary education, they do not have equal chances of getting employed, particularly in the formal sector, compared to the chances faced by

men with equivalent levels of education. For those that are working in the agricultural sector, they have limited entitlement to ownership of land and other farming inputs (AfDB, 2015).

In sum, the contribution of women and girls in Africa's development is limited by their low numbers in the labour force. In addition, the selection bias in favour of boys means that, relative to girls, boys with less innate ability are more likely to be educated and employed, resulting in sub-optimal resource allocation between the sexes (Klasen and Lamanna, 2003). However, whether women are educated or not, employed in the formal sector or not, they continue to play a central role in the wellbeing of children. Their lack of resources therefore, poses costs to society as a whole and has implications for future generations.



Understanding the link between economic growth and poverty reduction requires identification of major obstacles that constrain their participation and limit the flow of economic prosperity to the poor. In Africa, an important starting point for such an analysis is an assessment of the gender composition of the poor. Because most poverty assessments are conducted at household level, statistics on gender-disaggregated poverty are hard to come by, especially in Africa. Most of the gender estimates are based on “male-headed” versus “female-headed” households. However, due to the focus on this particular group of households, this method is likely to understate incidence of poverty among women because female headship at household level is not common, especially among the poor in Africa. The rare cases of female headed households are likely to be affluent women with means to financially support a household. Even with this form of disaggregating poverty by gender, evidence shows higher

incidence among women than men. Some evidence suggests that for countries such as Mali, Burkina Faso, Benin and Niger, between 48 and 65 percent of women live in poverty. Similarly, Moghadam (2005) noted that females account for half of the world's population but 70 percent of the poor³⁶.

In our analysis, nearly a million households representative of 33 African countries have been ranked according to household-level wealth at country level. Exploring the gender composition of these households, 52% of those with female majority and 46% of those with male majority

have wealth below the national mean. In all countries, less wealthy households tend to have more concentration of women than men. This is in line with the high incidence of poverty among female-headed households that is commonly observed in African countries. The figure below (Figure 4.1) compares households with three-quarters female membership to those with comparable male composition. Higher female concentration in households is associated with lower asset ownership in almost all the countries. The worst performing country in our sample is Burundi with majority of single-sex concentrated households having wealth below the national mean. The country also has a huge gap in disfavour of households with more female concentration.

36 For an alternative discussion of this, see Klasen (2007).

Figure 4.1 Households below mean wealth, by gender concentration



Source: Authors' computation using DHS data.



Lifting restrictions on women is associated with progress in both income growth and poverty reduction. Studies have shown that countries with relatively high gender gaps and those that have made least progress over time are associated with lower GDP growth per capita (Klasen and Lamanna (2003), King, Klasen, and Porter (2008) and Klasen (2002)). In this set of countries, the poverty-reducing effect of growth is lower than for countries with relatively lower gender gaps.

For the poor to share in the benefits of economic growth, they either have to be economically active in the growth process (earn income through their factors of production) or receive transfers (through redistribution and other public provisioning of goods). Across much of the continent, however, participation of women in economic activities is largely concentrated in agricultural and informal sectors, with low and seasonal earnings that barely cover subsistence needs. On the redistribution side, policies that target

households are unlikely to achieve equal poverty reducing-effects for men and women. Evidence of high prevalence of violence against women in homes is suggestive of their limited bargaining power. Low bargaining power among women, driven mainly by their low asset, income and educational endowments plus adverse social norms, have constrained their ability to move out of poverty.

Gender inequality remains a major barrier to efforts to reduce poverty in Africa. There has, however, been some progress, especially in educational enrolment and access to healthcare. Notwithstanding this, women and girls in Africa are far from enjoying the opportunities and benefits arising from economic prosperity compared to their male counterparts. This calls for prioritisation of gender issues in development and the need to recognise 'equity' as an important prerequisite for success in other development objectives.

4.1.1 Gender inequality in education remains, despite some improvements

Low levels of human capital characterise many countries in Africa. Worse yet, levels of human capital are much lower for women than for men. For instance, literacy rates among African women have historically been lower than those for men. Similarly, women complete fewer years of schooling than men. These unequal outputs have implication on the ability of men and women to tap into the opportunities presented by economic growth. Sweeping policies are required to disproportionately favour women and girls.

There has been most progress in closing gender gaps in education, especially for enrolments. Achieving parity in educational outcomes is an important achievement and lays the foundation for progress in many other dimensions of gender equality. The past 15 years has witnessed substantial investment by African governments and their development partners in the education of girls and boys alike. Figure 4.2 presents literacy rates by gender. The figure shows that there has been an upward trend in literacy rates for both women and men, but, the literacy rate among men has consistently been higher than that for women.

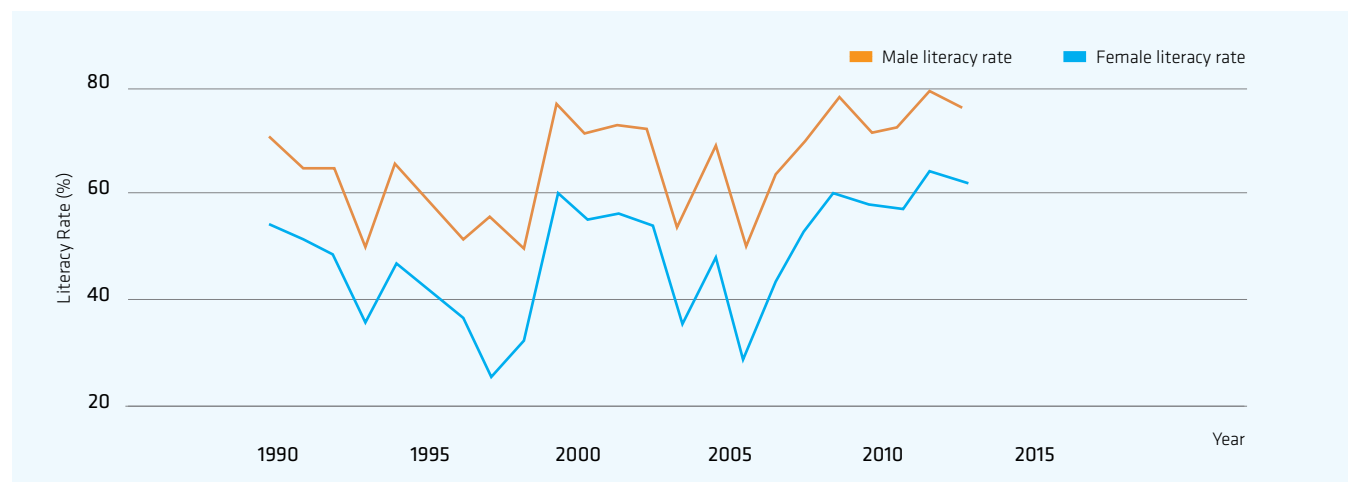
Boys and girls enrolment in school, which is one of the indicators for measuring MDG3, does not translate into equivalent attendance and completion rates in primary, secondary or tertiary education. For example, in the Democratic Republic of Congo, Niger, and Mali, where more than half of girls between ages 15-19 are married, there are fewer numbers of girls enrolled in primary school. UN Women (2014) estimate that in 63 developing countries, girls are more likely to be out of school than boys for both primary and lower secondary education. Furthermore, the

gender gap in school attendance widens in lower secondary education, even for girls living in better-off households.

Figure 4.3 depicts the ratio of female to male enrolment in primary, secondary, and tertiary schools. For each 100 males enrolled in school, less than 100 females were enrolled during the period of analysis³⁷. However, the number

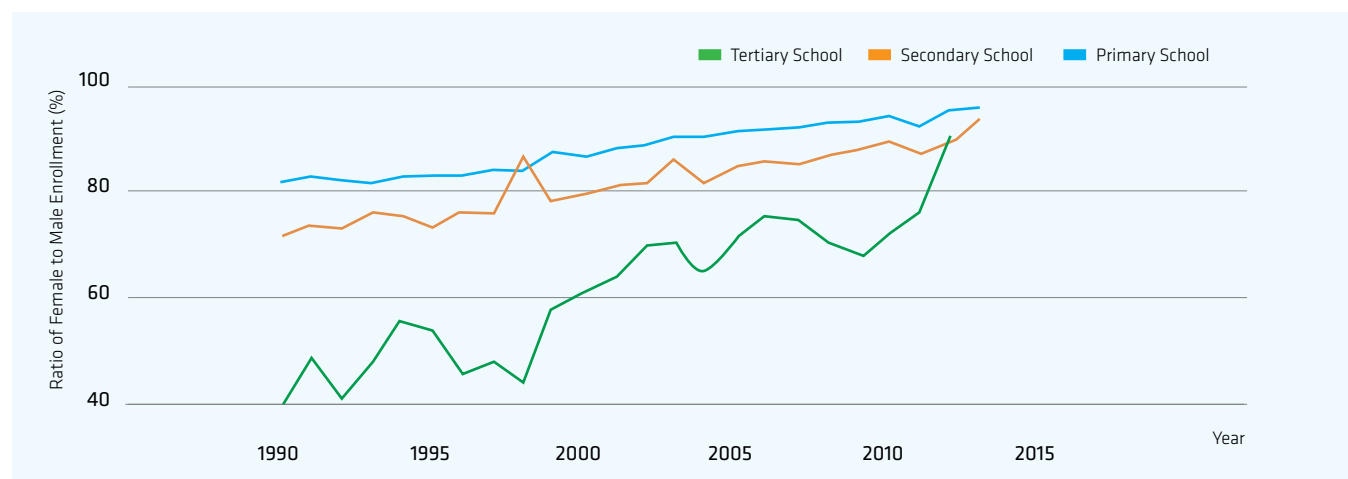
³⁷ In some societies, this is partly due to different views on the right to education for girls.

Figure 4.2 Literacy rate, by gender



Source: Author's computation using data from World Development Indicators (WDI), the World Bank

Figure 4.3 Trends in the ratio of female to male school enrolment rate in Africa, by education cycle



Source: Author's computation using data from World Development Indicators (WDI), the World Bank

of females enrolled for each male enrolled in school has been continuously increasing. This implies that girls are slowly catching up in school enrolment. Interestingly, the catch-up is more pronounced in tertiary schools or college enrolment. For instance, as few as 40 females were enrolled in college for each 100 males enrolled in 1990. In 2013, the number of women enrolled per 100 males has increased to 88, a 120 percent increment from its 1990 level.

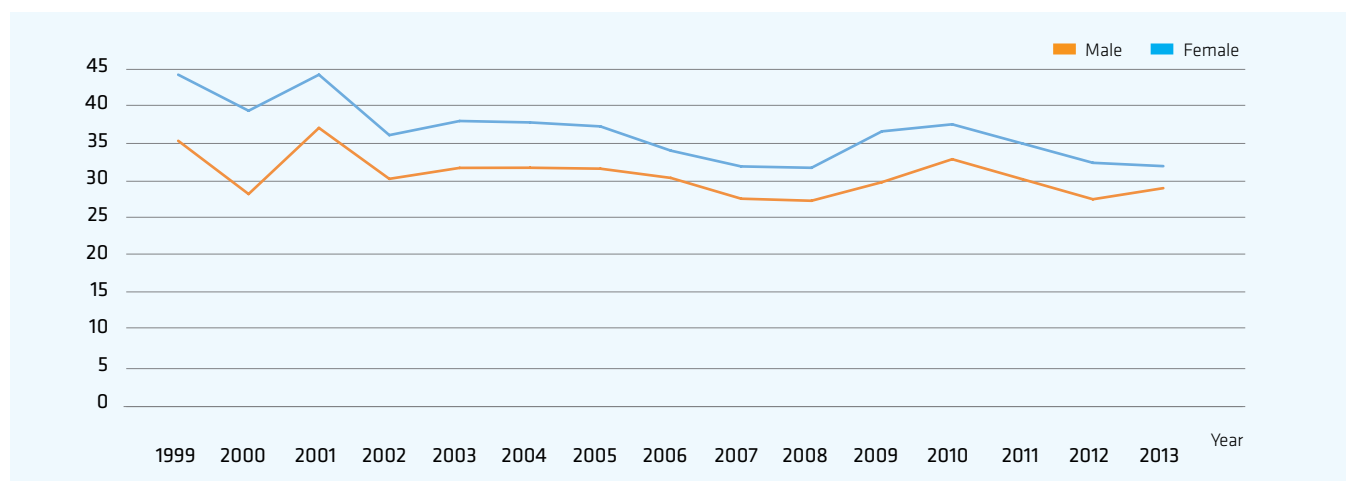
Figure 4.2 and Figure 4.3 highlight that during the period of rapid economic growth, the increase in literacy rates seems to be gender neutral. However, economic growth has resulted in differential improvement in enrolment at all levels of education, in favour of women. Thus, economic growth has helped narrow gender inequality in school enrolment.

These trends suggest a positive outlook for educational outcomes of both boys and girls. It implies that in the coming years, if the continent is able to keep both boys and girls in school and does not discriminate against girls in the labour market, it would witness significant progress in closing gender gaps in educational attainment and in labour-force participation. This is not assured. Despite closing enrolment gaps, gender-gaps in educational attainment (years of education) are still significantly in favour of boys: Girls are much more likely to drop out of school. The graph below (Figure 4.4) shows the percentage of children of lower secondary school age that are out of school. It can

be seen that the gender gap persisted from 1999 to 2013, closing only marginally in the last three years.

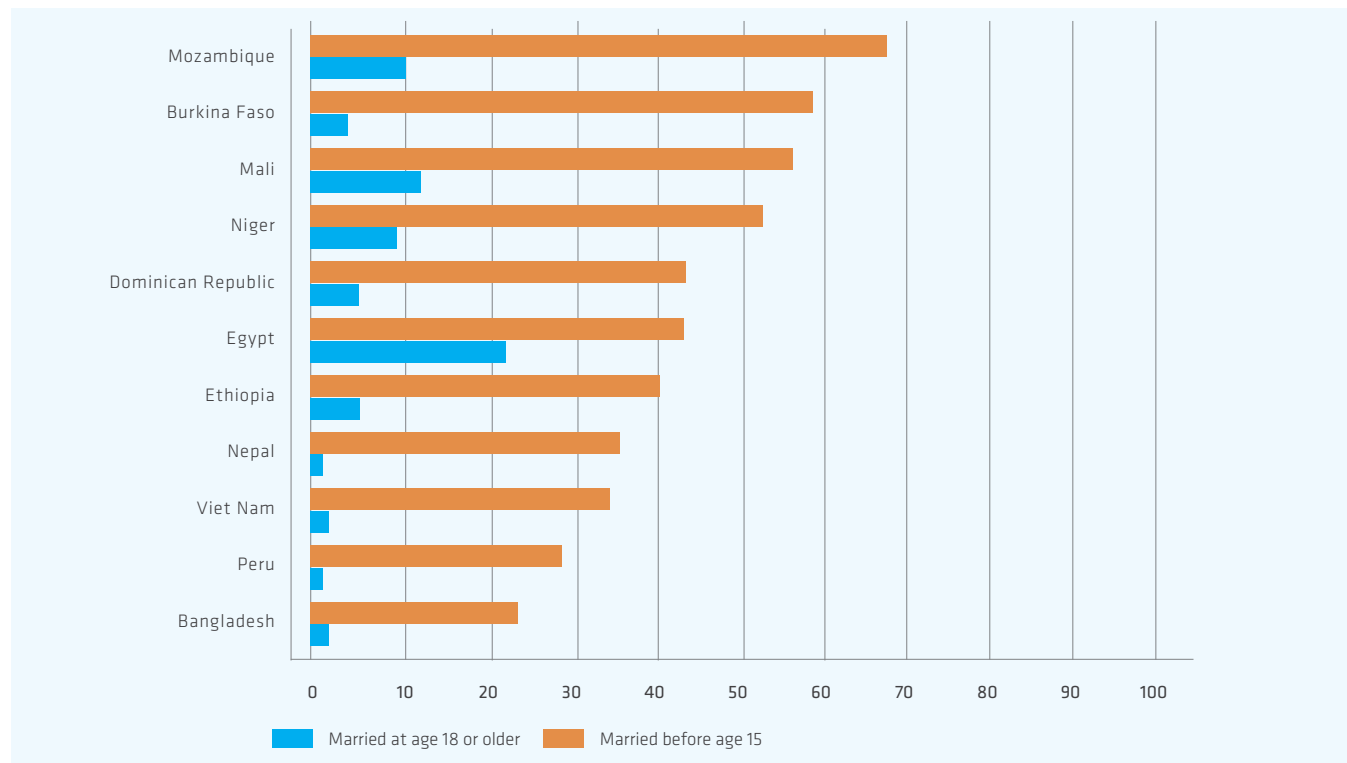
This phenomenon is explained by gender-specific factors that limit attendance and retention rates of girls in education. These include social factors such as taking care of younger siblings and helping with household chores; cultural factors such as boy preference for education, early marriage and violence against girls both in and out of school, which includes sexual violence, discrimination, etc. (Jones et al., 2008). Early marriages are a prevalent practice in several African countries. In a recent UNICEF report on child marriages, seven out of ten countries with the world's highest rate of child marriages are African. Such marriages do not only terminate schooling for young girls, but they add the burden of large numbers of children which has health and economic implications for the women and their children. Figure 4.5 shows the percentage of women aged 20 to 24 who have had three or more children, by age at first marriage. As can be seen, this share is substantial in a number of African countries which seriously constrains the ability of women to contribute to the economy. Moreover, this contributes to very high fertility rates that slow down the demographic transition in Africa. Other reasons for girls being withdrawn from school include helping parents at home or serving as domestic workers. Because little is known about these girls and those that they work for, it is difficult to suggest more direct policies that address this phenomenon.

Figure 4.4 Percentage of children of secondary school going age that are out of school, by gender



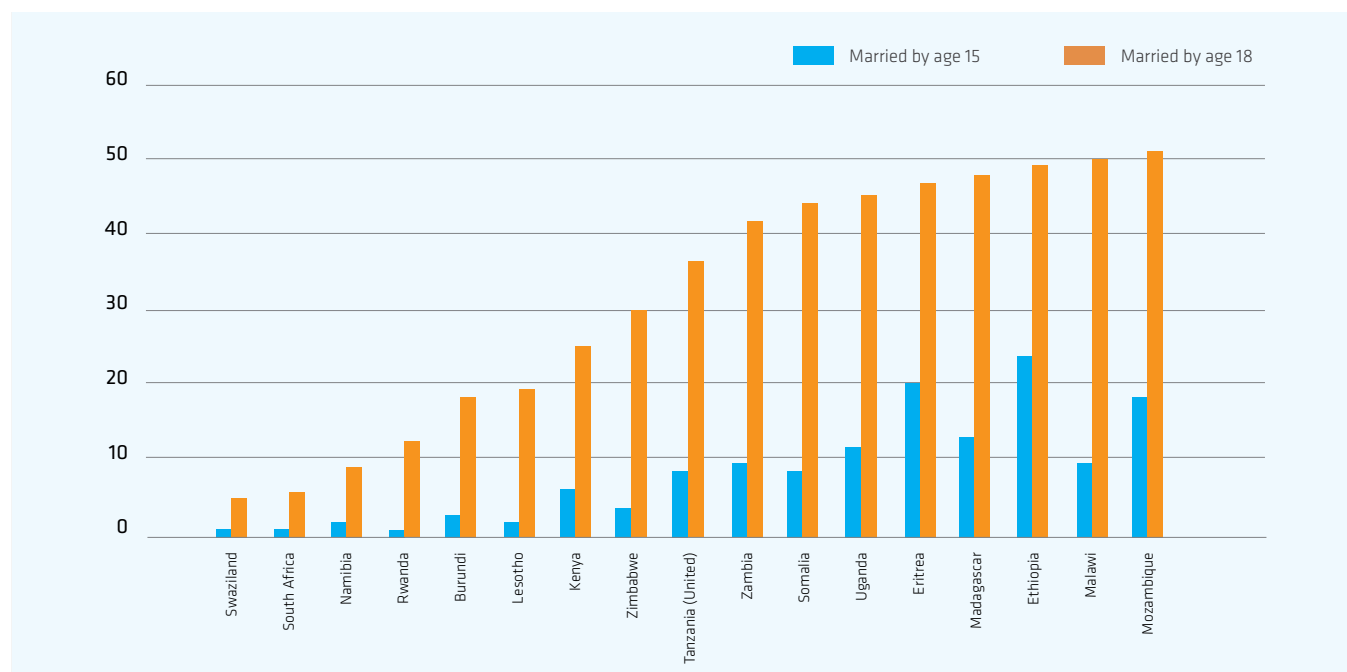
Source: Authors' computation using World Development Indicators

Figure 4.5 Early marriages, and percentage child brides with more than two children



Source: UNICEF, 2014

Figure 4.6 Percentage of women aged 20-24 who were married by age 15 and 18



Source: UNICEF 2014

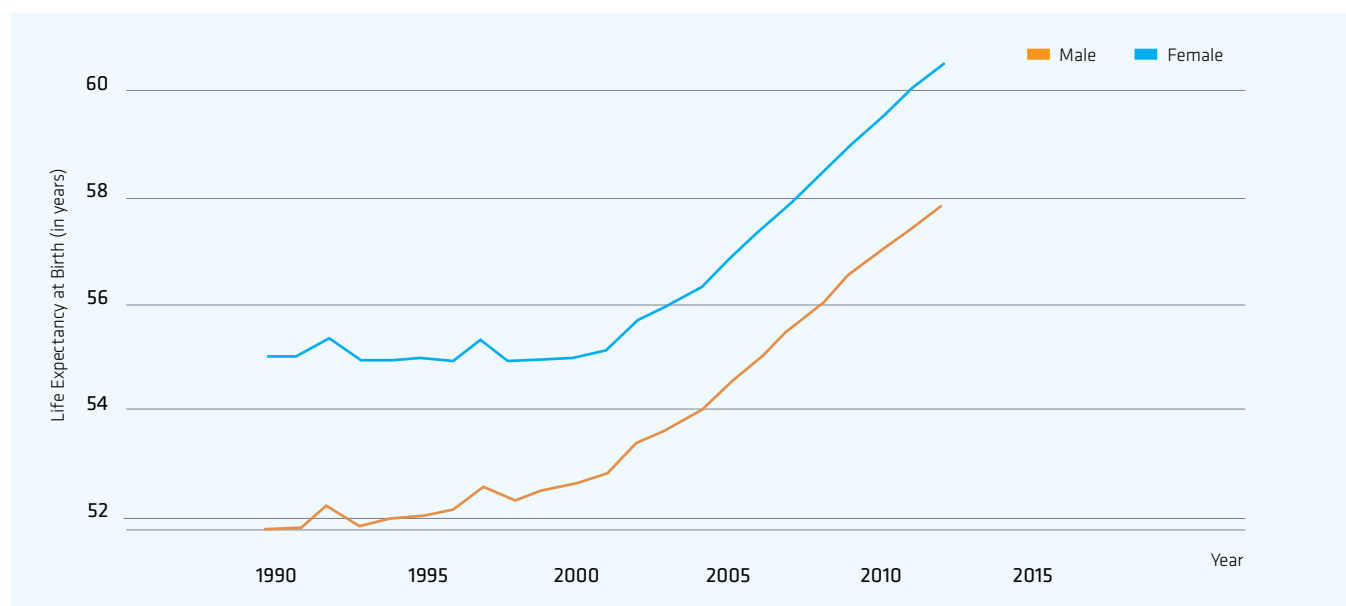
4.1.2 Gender inequality in health remains, despite improvements

As everywhere else in the world, women in Africa have always lived longer than men. However, it is interesting to see whether life-expectancy at birth has increased during the period of Africa's rapid economic growth. Figure 4.7 presents the trend in life-expectancy at birth in Africa, by gender. As expected, women in Africa, on average, live longer than men during the period of analysis. Interestingly, life-expectancies for both genders were more or less constant in the 1990s. Since the turn of the Millennium, however, life-expectancy at birth has increased continuously. The trend in life-expectancy aligns with the trend in economic growth in Africa, suggesting strong positive correlation. Life-expectancy is heavily affected by two things: AIDS mortality (where women in Africa tend to be disadvantaged) and child mortality related to malaria and other infectious diseases. The period after 2000 also witnessed significant decline in HIV infection and child mortality rates. It is important to note that both improvements happened during the 15 years of focused and intense MDG interventions.

The second important measure of women's health is maternal health. Maternal health is an important indicator in assessing both women's health status and the overall accessibility and effectiveness of a country's health service system. One of the most common indicators of maternal health is the maternal mortality ratio. Africa has gone a long way to decrease maternal mortality ratios and this is perhaps one of the strongest achievements of the continent in recent years. Data from the World Bank's WDI reveal that the maternal mortality ratio per 100,000 live births has decreased by 49 percent; from 820 in 1990, to 420 in 2013. Rapid economic growth may have contributed to the observed decline in maternal mortality ratios, but factors such as reductions in fertility, better access to prenatal care and vaccination, and reduction in HIV/AIDS prevalence played a more determining role.

This is an astonishing achievement: Birth related maternal deaths have been consistently high for a long time. However, Africa still accounts for the largest share of global maternal deaths. In 2013, Africa was home to 16 out of the 18 countries with the highest maternal mortality ratios globally (i.e., above 500 deaths per 100,000 live births). The most

Figure 4.7 Life-expectancy at birth, by gender



Source: Author's computation using data from World Development Indicators (WDI), the World Bank

cited causes of maternal mortality are abortions, bleeding after child birth, and infections. Most maternal deaths are preventable, particularly if mothers have access to skilled birth attendants and contraceptives. Since these are less accessible, maternal deaths are higher among women who live in remote rural areas. Higher rates of maternal death are also observed among poor and uneducated women.

4.1.3 Progress on women’s participation in economic and political activities

The relationships between economic growth and women’s empowerment - measured by economic participation – are even more complex. Madagascar and Botswana saw an annual drop of -0.5% and -0.15% respectively, per annum, in the share of women in non-agricultural employment between 2000 and 2013. GDP grew at a rate of 1.61% per annum over the same period (Figure 4.8). Ethiopia, while seeing a significantly higher rate of GDP growth per year at 3.15%, experienced only a

modest increase in the share of women in non-agricultural employment, at 0.08%. How aggregate GDP growth translates into increases in the participation of women in the labour market, outside of the home or subsistence agriculture, remains to be understood. Unpaid care work has been known to be a heavy burden on women in Africa that hinders them from providing their services to the market. Reaching the poor and reducing gender inequality requires direct investment and special measures.

4.1.3.1 Formal non-agricultural employment

Globally, women’s participation in the labour force is far below that of men. In Africa, women with equivalent education are still less likely to be employed in the formal employment market. Based on an expert survey in 37 African countries, men, across all educational levels, tend to have higher chances of employment than women. The employment gap between men and women with secondary education is 37% in favour of

Figure 4.8 Average annualised GDP growth rate and share of women in non-agricultural employment, (2000-2013)



Source: Authors’ computation.

men. African economies could benefit substantially from greater female participation by tapping the large numbers of women, including those of high-ability.

4.1.3.2 Agricultural employment

The majority of Africa's poor reside in rural areas and depend on agriculture as their source of livelihood. While productivity in this sector is largely undermined by its low mechanisation, allocation of resources between men and women in this sector has left the continent with less than desired levels of productivity. Gender disparities in agriculture are mainly characterised by unequal access to agricultural inputs. Pervasive inequality, especially over the ownership of agricultural land, continues to limit women's contribution to household food baskets. Most women do not have access to agricultural inputs, apart from their own labour. Using data from 15 African countries, 41% of women and only 5% of men farmers indicated that they do not independently own land for agricultural purposes.

Similarly, out of 20 African countries, Figure 4.10 shows that only one country, Cape Verde, achieved gender parity in the ownership of agricultural land. Land ownership in Africa is heavily skewed to men: For some countries, men own more than 90 percent of all lands used for agricultural production.

A recent World Bank report (O'Sullivan et al., 2014) on the extent and determinants of gender gaps in agriculture across a selection of African countries (Ethiopia, Malawi, Niger, Nigeria, Tanzania and Uganda), showed large productivity gaps between men and women. The shortfall, when women's productivity is compared to that of men, is as large as 66% in some countries. The low productivity among women farmers is considered to be an outcome of their limited access to agricultural inputs such as land, fertilizer and extension services. Low levels of education and limited access to markets also contributed to the observed low productivity among women farmers.



Figure 4.9 Probability of employment at different educational levels, by gender

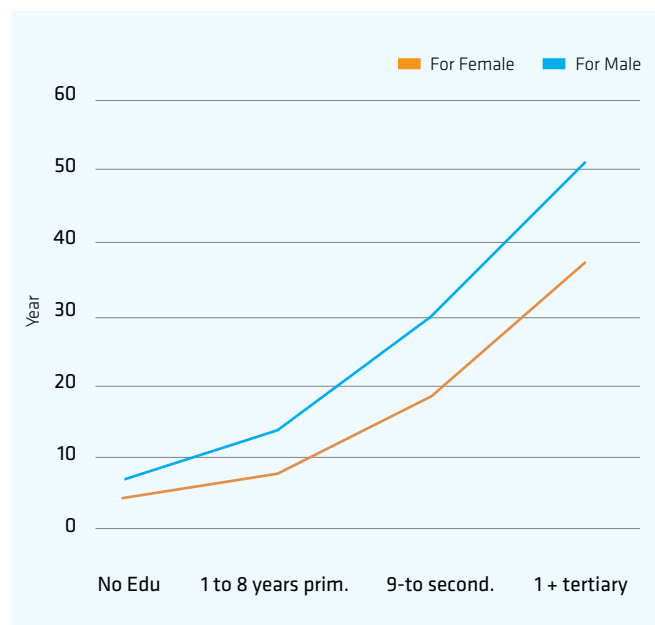
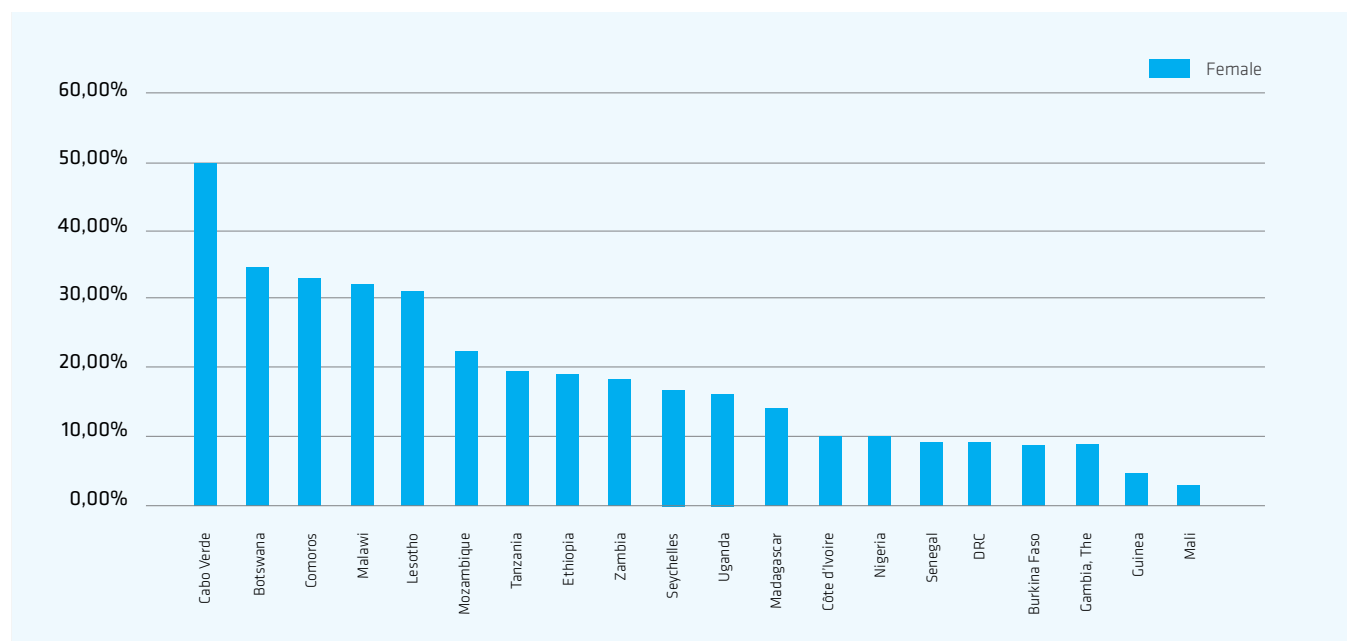
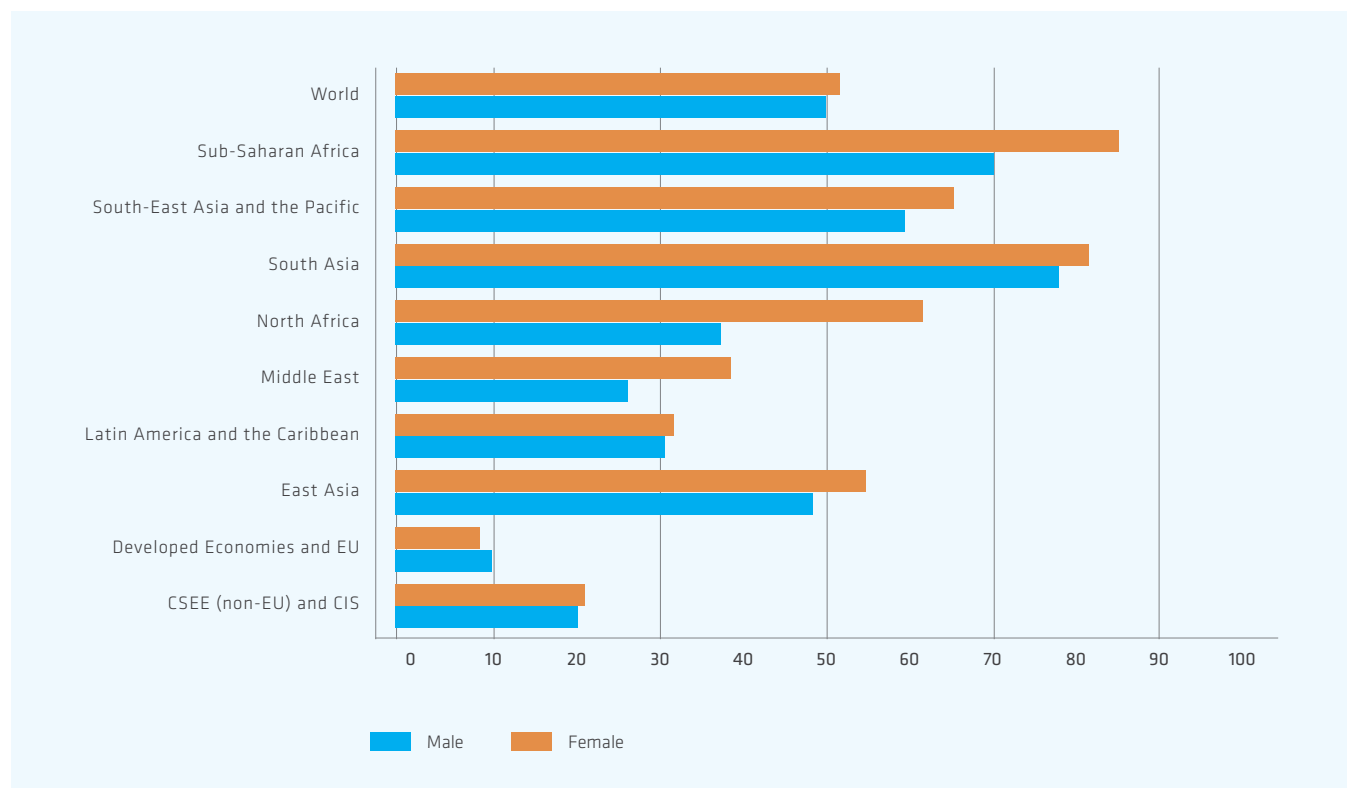


Figure 4.10 Fraction of agricultural land owned by women in various countries



Source: Authors' computation using data from FAO-Gender and Land Rights (2015)³⁸.

Figure 4.11 Share of men and women in vulnerable employment



Source: Authors' computation using World Development Indicators

38 <http://www.fao.org/gender-landrights-database/en/>

Apart from the low productivity faced by women in the agricultural sector, they also dominate in Africa's share of employment that is considered vulnerable. 36 percent of women in sub-Saharan Africa are in non-agricultural wage employment, just 22 percent of North African women are in this category (UN, 2005). Most women that are not working in the agricultural sector are involved in seasonal petty trading that generates limited income and lasts for just a few months each year. The graph below shows that Africa has the highest share of women in vulnerable employment in the world. In a study focused on factors that constraint women entrepreneurs, Brixiová and Kangoye (forthcoming, 2015) find evidence that links women's limited access to capital and their low productivity (see Box: 4.1).

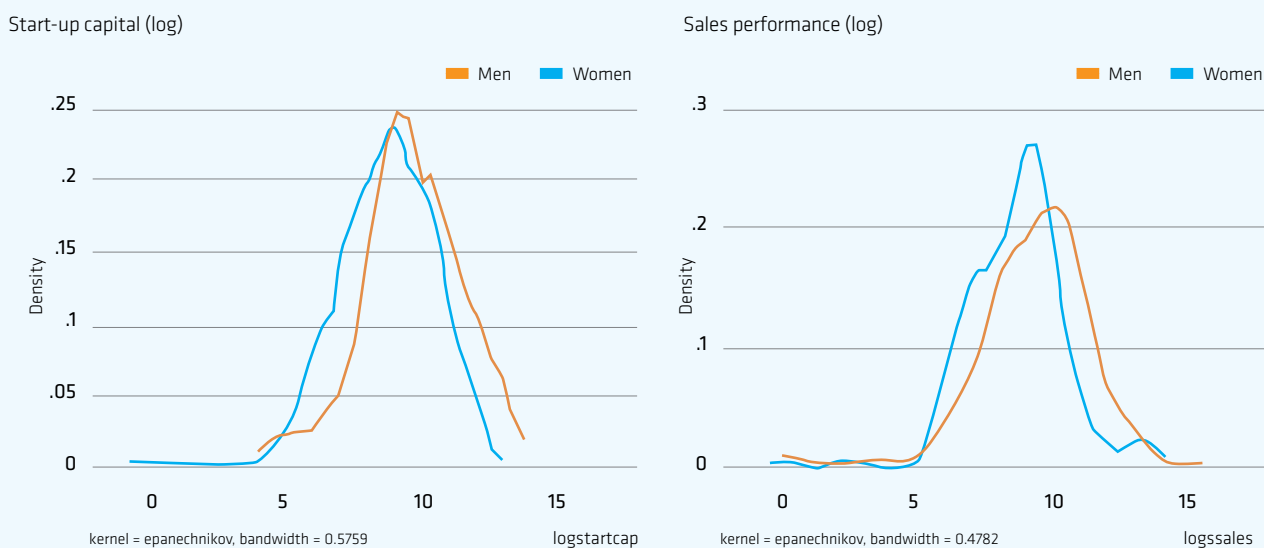
4.1.3.3 Political participation

Women's representation in national parliaments is increasing (UNDP, 2014). In October 2013, 21.8% of parliamentarians in single or lower houses were women as were 19.4% of those in Senate or upper houses, an increase from 12% and 10.1% in January 1997. In Africa, Rwanda ranks 6th, on the Global Gender Gap Report (2014) on political empowerment of women, next to Sweden, but ahead of Denmark. South Africa is 12th while Tanzania, Cape Verde and Senegal occupy positions between 20th to 30th of 142 countries globally. Rwanda, South Africa and Senegal are among the top 10 ranking countries for women in parliament, with Rwanda ranking first and

Box 4.1 Gender and constraints to entrepreneurship: Evidence from Swaziland

Entrepreneurship is an important source of employment. Women involved in informal businesses are often self-employed in small-scale retail. Hallward-Dremier (2011) noted that women operate disproportionately in smaller firms, the informal sector and low value added industries. Often however, limited access to capital constrains their ability to grow and sustain their businesses. Brixiová and Kangoye (forthcoming, 2015) find evidence that women's limited access to capital translates into their relatively low returns. Using data from Swaziland, the authors find that women entrepreneurs have lower start-up capital than men throughout the entire distribution (Figure 1a). They are also less likely to access finance from formal sources than their male counterparts. Their results further show significant performance disparities (in terms of sales levels and growth) between men and women entrepreneurs (Figure 1b).

Kernel density estimates of sales and start-up capital among men and women entrepreneurs



Note: Sales are for a typical month in 2012.
Source: Brixiová and Kangoye (2015)

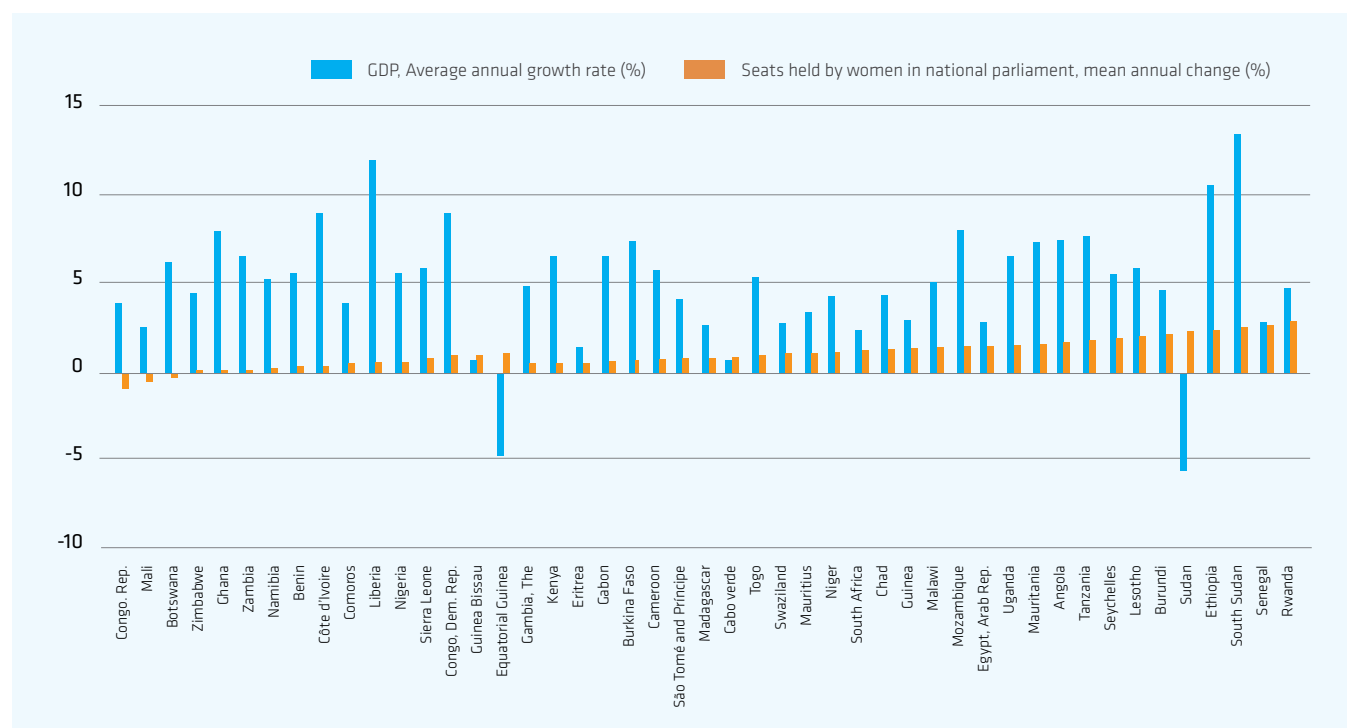
the only country that has more women in parliament than men. Similarly, in a more recent gender inequality ranking (AfDB, 2015), South Africa and Rwanda have been ranked first and second most gender equal countries in Africa. However, despite the pace of progress made over the last 15 years, it is estimated that the proportion of seats held by women in national parliament will take nearly 40 years to reach gender parity (UN Women, 2014).

UN Women (2014) explains slow progress on MDG3 as emanating from failure to address fundamental issues such as violence against women, inequalities in the division of unpaid care work, women's limited access to assets, violations of women and girls' sexual and reproductive health and rights, and, the unequal participation of women in private and public decision-making beyond national parliaments. Progress in economic growth, or the lack of it, has not been widely blamed as a leading

factor determining the slow growth of female representation in parliament. Indeed, Figure 4.12 indicates no systematic relationship between these variables.

Low representation of women may be explained by a combination of unfavourable gender role ideologies, less effective institutional frameworks and limited political will. What is clear, however, is that increased opportunity for women's participation at household and community levels provides them the chance to influence outcomes that affect their wellbeing and the wellbeing of children and society as a whole.

Figure 4.12 Average annual GDP growth rate and annual change in seats held by women in national parliaments (%), 2000-2013



Source: Authors' computation using World Development Indicators

4.2 Domestic violence: So much commitment, little progress

4.2.1 Commitment to stop violence against women

In the midst of increasing global concern over the need to eradicate poverty and attain sustainable development, the UN's fourth World Conference on Women in 1995 gave prominence to violence against women. This, the Beijing, conference recognised gender-based violence as a violation of fundamental human rights and as an obstacle to the achievement of other development objectives. Prior to the Beijing platform for action, the UN General Assembly in the 1993 Declaration on the Elimination of Violence against Women defined such violence as; “...any act of gender-based violence that results in or is likely to result in physical, sexual or psychological harm or suffering to women, including threat of such acts, coercion or arbitrary deprivation of liberty, whether occurring in public or private life.”³⁹ This section attempts to profile the extent of violence against women and its associated consequences for society as a whole. It does not, however, claim to capture the intensity and many indirect consequences for victims (see Box 4.2).

From the late 1990s to date there have been increased attempts amongst African governments, development agencies and private partners towards sensitisation and the push for legal reforms that address domestic violence. These efforts are complemented by an increased number of local advocacy groups around the continent. Alongside pursuits on the legal front, gender empowerment policies that aim at achieving equal outcomes for men and women are being widely pursued across the continent. The link between these empowerment

strategies and domestic violence is that empowering women through education and employment increases their weight in household bargaining, which reduces violence against them. For this reason, concerted efforts at national and international levels continue to enhance women's ability to bargain meaningfully in the household by targeting increases in their participation in education, the labour-market and political arenas.

4.2.2 Africa has high prevalence of domestic violence

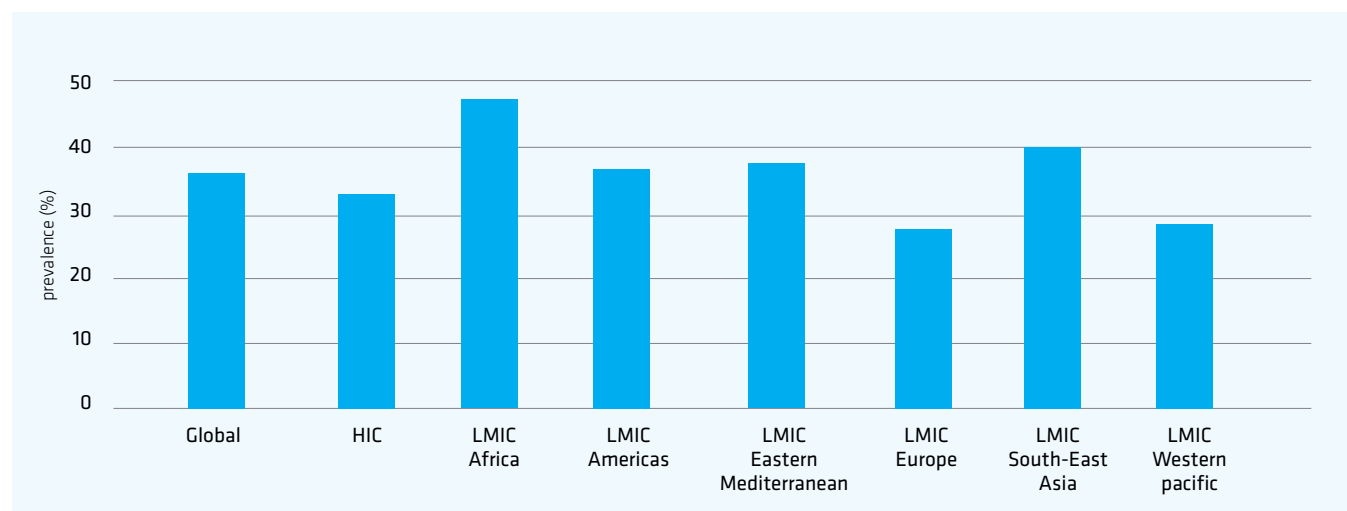
Violence against women in marital union has been on the rise, particularly in Africa. Recent statistics show staggering increases in both spousal and non-spousal violence. At the global level, Figure 4.13 shows that, as of 2010, Low and Middle Income Countries (LMIC) in Africa have the highest prevalence of sexual violence, followed closely by LMICs in South East Asia. According to a recent WHO report (WHO, 2013), over 36% of women in sub-Saharan Africa have experienced physical or sexual violence at the hands of husbands or intimate partners.

Using data from various country level DHS surveys, and applying the DHS sampling weights, Figure 4.14, below, is a measure of violence intensity index for 15 African countries. The index is based on women (aged 15-49) who have responded to at least three out of eight sub-questions on whether she has ever suffered one of a list of forms of violence in the hands of her intimate partner⁴⁰. Using this naïve measure of domestic violence, a violence intensity index is generated. The mean values

39 The focus of this report narrows this definition in two ways: First, instead of assessing violence against all women, it considers intimate partner violence. Second, other forms of violence against women, such as female genital mutilation (practiced in many African countries), is not included in the measure of our violence variable.

40 Women that have experienced violence but responded to less than three of the sub-questions are dropped out of the index.

Figure 4.13 Global partner and non-partner violence (2010) by WHO income region, ages 15-69 (total)



Source: WHO (2013)

Box 4.2 Measurement of domestic violence

One of the biggest challenges in research into domestic violence, especially using self-reported data, is determining whether incidence is under or over estimated. Understanding why people may overstate the number of times they were abused, in itself, provides a clue on the prevalence of violence, if not the intensity. While the count may be misleading if victims overstate the incidence of abuse, the occurrence may not be. The fact that a woman has been violently abused at least once is sufficient to determine the prevalence of violence in a society. Clearly, measuring domestic violence as a discrete variable such as the count of incidents of beating, sexual offence, etc., can in a way be considered an underestimation of its magnitude. This is because many abuses go unreported and because most abuse incidents are continuous rather than discrete events. The prolonged threat, pain and costly options that victims undergo between incidents of discrete measures of violence is mostly not accounted for. To capture the true extent of abuse, this continuous factor needs to be included. Frequency based measures of violence attempt to capture this continuous factor. But this is hard to implement, and even frequency measures do not come close to capturing the true intensity of violence, thus a more simplified measure such as the occurrence of violence, rather than its rate, is sufficient.

In addition, using the frequency of abuse as a measure of the rate of violence may not truly reflect the number of people at risk. For example, calculating the *number of incidents* per 1,000 of the population is less likely to reflect the number of people at risk compared to the prevalence rate of the *number of victims* per 1000 of the population that experience violence. Similarly, because it is hard for anyone to give objective weights to different forms of violence or even to their counts, it is more plausible for one to use prevalence rather than frequency. Another advantage of using prevalence is that it is less susceptible to measurement error given that recalling any incidence of violence may be more accurately captured than recalling the number on incidents.

In reporting on the incidence and severity of domestic violence, we are aware of the tendency that what we see in data will only represent a fraction of cases and the extent it has affected the victims. Given that our focus is on spousal violence we are even more likely to underestimate the menace due to the fact that most victims, especially those that are still in union with aggressors, are unlikely to report occurrence of violence because of fear. For others, the shame associated with interviewers or neighbours getting to know that their husbands beat them can lead to concealing their experience of violence in the household. This is particularly likely with sexual violence. Survey designs are trying to minimise the level of under-reporting by ensuring more privacy and other techniques that increase rapport and allow the interviewer to ask more probing questions. It does seem however, that we are still at an early stage of knowing the actual extent of terror faced by women in the household. In fact, efforts towards liberating them through empowerment should consider strategies that address the fear of reporting violence. Empirical evidence that suggests higher incidence of domestic violence among women that were previously in union, relative to those “currently” in union, is evidence of under-reporting that is particularly attributable to the fear of further aggression. Women that are no longer in union or have previously divorced tend to be more confident to report experiences of domestic violence in their previous conjugal relationships.

Source: Authors

of this index for each country are shown in Figure 4.14. The figure shows significant intensity across countries. Based on the index, DRC, Uganda, Cameroon, Liberia, Zambia and Tanzania have the highest mean intensity. While this index speaks to how intense violence is in these countries, it carries little information on how widespread it is.

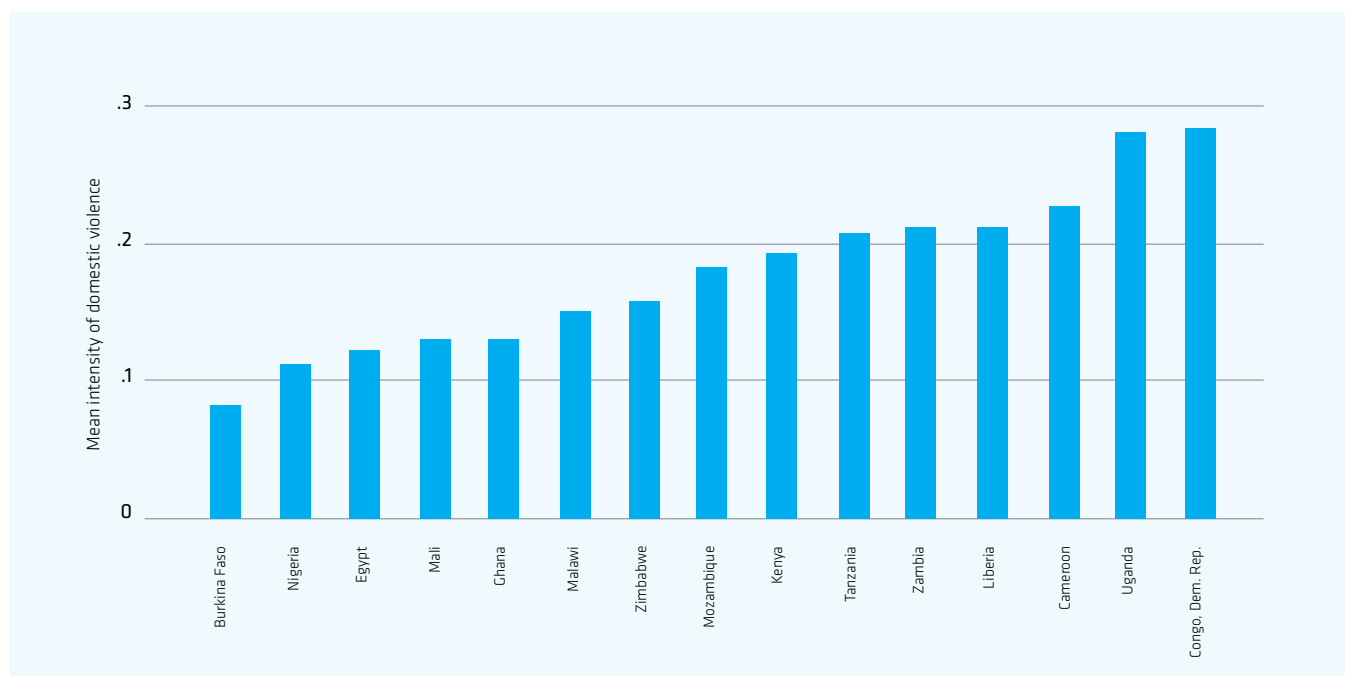
More comprehensive coverage of the incidence of violence would capture the fraction of women that have ever been victims of domestic violence. From our analysis, Figure 4.15 shows that between 15.7% and 57.8% of women are victims of either sexual, emotional and/or physical violence. On average, about 38% of women are victims of intimate partner violence. This average confirms the WHO (2013) figure of 36% incidence in Africa.

Unpacking the violence measure into its separate forms (emotional, physical and sexual), we observe a close correlation among the three forms of violence within countries⁴¹. Figure 4.16 shows the level of each of the three forms of violence for each of the countries in the sample. Except for a few cases, countries that score highly in one form of violence tend to have high prevalence of other forms of violence. Splitting the pooled data from all countries into rural and urban, there does

41 The most available form of data on domestic violence is the binary indicator of whether a woman has ever been a victim or not. The responses to this variable are also grouped into forms of violence, including: Physical (beat, kick, push, throw something at, slap, etc.); Emotional (threaten, humiliate); and, sexual (forced sex, forced to have sex in certain ways). We generate a violence index using Multiple Correspondence Analysis (MCA) that weighs and aggregates components of the three forms of violence.



Figure 4.14 Country ranking in the index of domestic violence intensity



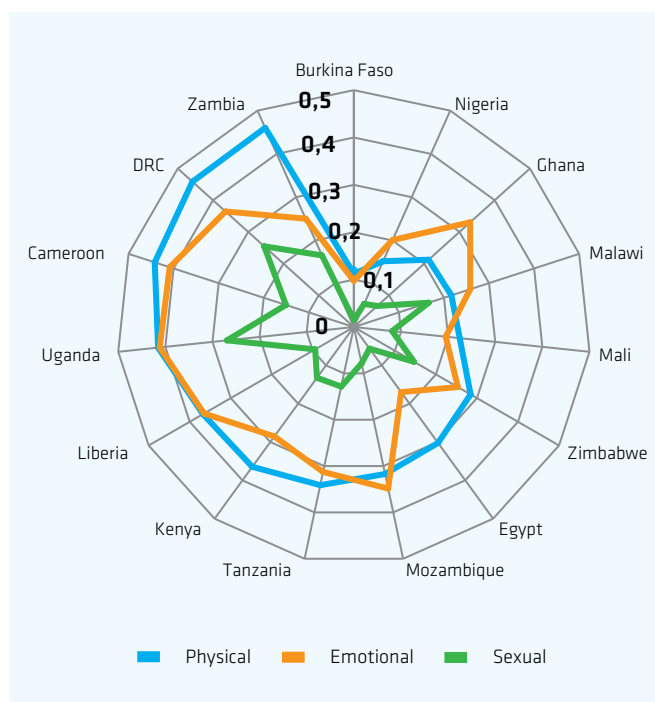
Source: Author's computation using DHS data

not seem to be any significant difference between the incidences of domestic violence across these subgroups. This shows that there are as many cases of domestic violence in urban settlements as there are in rural areas.

4.2.3 Consequences of domestic violence

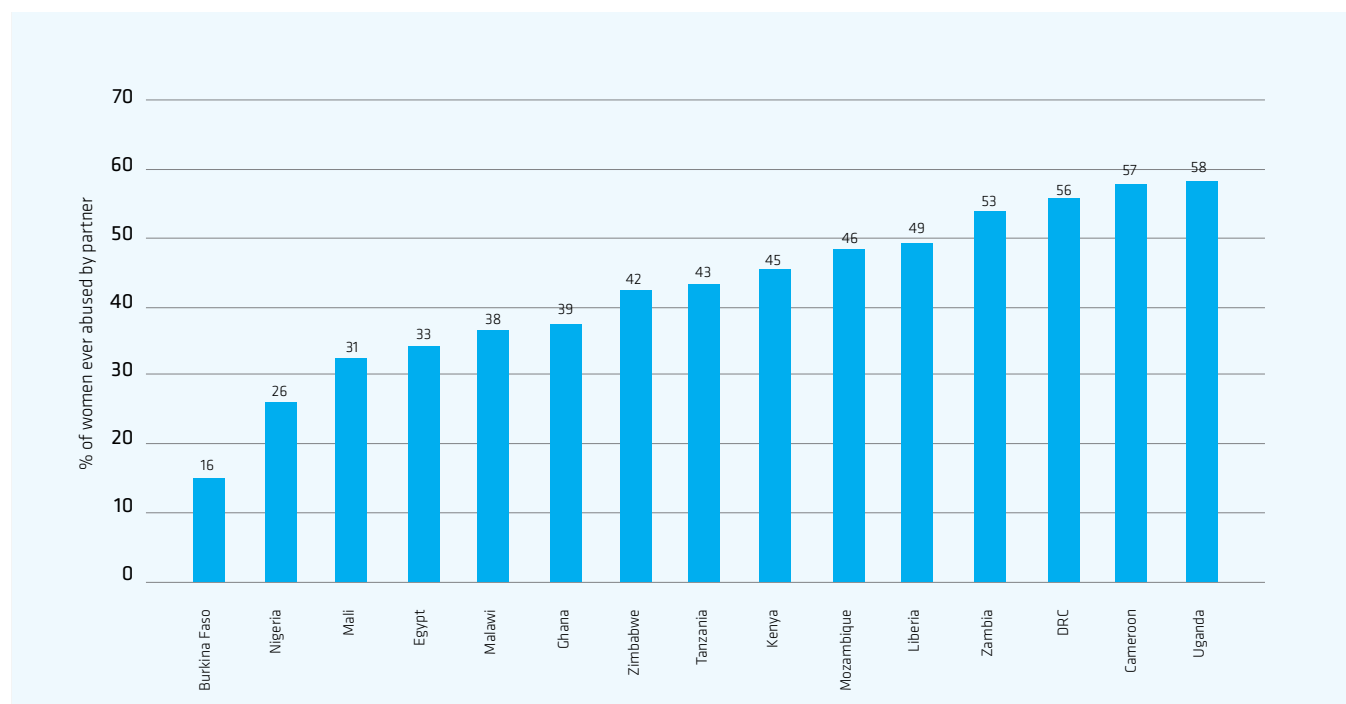
Domestic violence has a number of instrumental effects beyond the intrinsic effect. In this sub-section, we explore the possible consequences of domestic violence on the health and wellbeing of women and children. Klasen (1999) and Lenze and Klasen (2013) note that gender inequality could prevent reduction in child mortality, in fertility, and expansion of education for the next generation. First, we look at the effects of domestic violence on the **likely participation of women** in household expenditure allocation decisions. In measuring consequences, we focus on a measure of a woman's autonomy to make independent decisions on issues that affect her life and those of her children. We refer to this as autonomy within the household. It is composed of her level of participation

Figure 4.16 Within-country correlation between three forms of violence



Source: Author's computation using DHS data

Figure 4.15 Percentage of women who have ever been victims of domestic violence

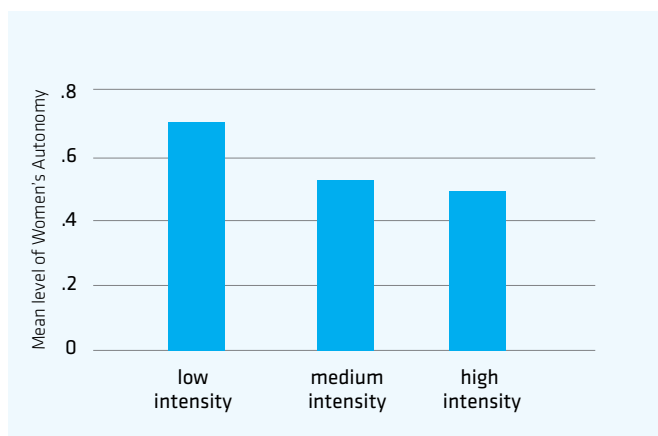


Source: Author's computation using DHS data

in making purchases, cooking, visits, and health-care decisions. The hypothesis is that women who are abused by their partners will be less likely to be consulted as part of household decision-making. We try to draw some implications from this with bearing on women and on children. Secondly, we look at the possible effects on **fertility decisions** measured by the use of contraceptives and actual birth intervals. We claim that women going through terror in the household are less likely to be in control of their own reproductive decisions. If men in those households have higher fertility preferences one should observe contraceptive and fertility outcomes that are less aligned with the woman's preferences. For this purpose, we estimate contraceptive-use and average birth-interval regressions with domestic violence as the key independent variable. Finally, **child outcomes, such as nutrition, mortality and educational outcomes** are evaluated as possible consequences of wife abuse. We use birth records from DHS data for this purpose.

Violence against women is associated with a significant reduction in the level of autonomy they enjoy within the household (Figure 4.17). Results show that women that have reported abuse cases are unlikely to participate in decisions regarding household purchases, decision over what to cook and about health care. They have less freedom to communicate and relate with others. Empowerment variables such as education, and whether a woman has access to an independent source of income plus the

Figure 4.17 Domestic violence and women's autonomy



Source: Authors

education level of the husband all significantly increase a woman's level of autonomy within the household.

Comparing the effects of violence between the full sample and those in post-conflict contexts, violence against women has a much larger effect on the autonomy of women in post-conflict states. However, women's education and employment in post-conflict states does not seem to have any lesser effect on their autonomy compared to those in countries with no recent experience of conflict. Though both male and female education enhance a woman's autonomy within the household, the latter has a larger effect than the former.

The results of the contraceptive-violence relationship suggest that victims of domestic violence (particularly victims of sexual violence) are less likely to independently decide their own reproductive choices. Contraceptive use is significantly lower among this group and they are more restricted in household health care decisions than non-victims of domestic violence. We try to link this finding to child related outcomes such as birth spacing and some anthropometric measures using the weight deviations of children. Specifically, we look at the weight of children under five years measured by units of deviation from the mean weight of children under five in a country⁴². Principally, we are interested in the correlation between the interaction of violence and autonomy and the outcome variable, which is weight deviations. If women make decisions in the household (resource allocation), we expect violence against them to reduce child-related outcomes. On the other hand, if women are extremely limited in household decision-making, we expect violence to have an effect on them but only a limited effect on their children. The findings show that indeed violence against women is associated with adverse child-health outcomes such as low birth spacing between children, lower birth weights and lower infant weights.

42 For all women with children under five, we compute the weight deviation for all their children. The reference weight is the mean weight of children under age five within the same country. This gives us a set of negative, zero and positive weight deviations for children under five. We then use these as the dependent variables and assess their correlates.

Violence against women who have some level of autonomy has negative consequences for children under-five years of age. The effect of violence on child outcomes depends on whether child health and nutritional decisions are presided over by a woman or not. For a woman that does not have any source of earning and limited autonomy, we observed that violence against her tends to have limited impact on child related outcomes compared to violence against a woman that earns or has some decision-making role in the household. Given the centrality of women's role in the household, the consequences of violence against them may have other manifestations that are not explored in this report. This will include longer-term effects on the schooling and health outcomes for children born in violent homes.

4.2.4 Empowering women reduces violence against them

Next, we analyse the extent to which educational attainment and labour-force participation among women helps to avert violence against them. The data we compiled from African countries provides convincing association between the educational attainment of women and their freedom in the household. Women proceeding from primary to secondary education suffer less from violence against them by 20 percent. The reduction is 50 percent when women go beyond secondary education.

4.2.4.1 High education levels reduce the prevalence of domestic violence

Education can affect observed incidence of violence in two possible ways: First, literacy may be associated with increased probability of reporting experiences of violence. This argument is on the basis that educated people are aware of their rights and thus are more likely to report experience of violence in surveys. The second channel through which education and violence may be linked is the empowerment channel. Apart from knowing ones' rights, education increases self-perceived value and opens a range of fall-back opportunities (such as employment) and redress channels in case of divorce. These fall-back options, often referred to as a woman's threat point in

bargaining, are crucial determinants of her welfare in or outside a union. The two effects predict a nonlinear relationship between a woman's level of education and violence against her. For women with no education, lack of knowledge about their rights and the tendency to accept violence as a social norm can lead to under reporting of violence. However, as education levels increase, the empowerment effect would tend to reduce violence against women. In this way, illiteracy may be associated with low levels of violence (under-reporting). As women become more aware of their rights, say at primary education level, reported violence cases are likely to increase. At secondary level and beyond, the awareness effect will ensure more reporting but the empowering effect of higher education is likely to dominate.

Figure 4.18 presents the relationship between violence and educational attainment. Violence decreases with higher



education levels. The figure includes uneducated women – although it suggests that the “no education” reduces the level of violence, we argue the contrary: That the low incidence of reported violence observed in the data is driven by under-reporting of violence among uneducated women. Exposure to further levels of education significantly reduces the incidence of violence.

The transition from no education to primary education is associated with an increase in the probability of reporting violence. With further educational attainment beyond primary level, the confidence to report violence is maintained, if not increased. Therefore, the associated reduction in the reported cases of violence at higher levels of education cannot be attributed to under-reporting, rather, the reduction is an outcome of empowerment achieved through progressive educational attainment.

Figure 4.19 plots the incidence of violence against years of education attained by women and men. The payoff from education sets in when women complete at least primary education. Completing secondary education drives the expected level of violence to zero. While both have a reducing effect on violence, female education seems to have a higher effect than male education. This implies that the domestic violence returns to increasing education are higher for girls’ education than for boys’ education. **Thus, closing the gender gap in education can be a powerful strategy in addressing violence against women.** However, considering

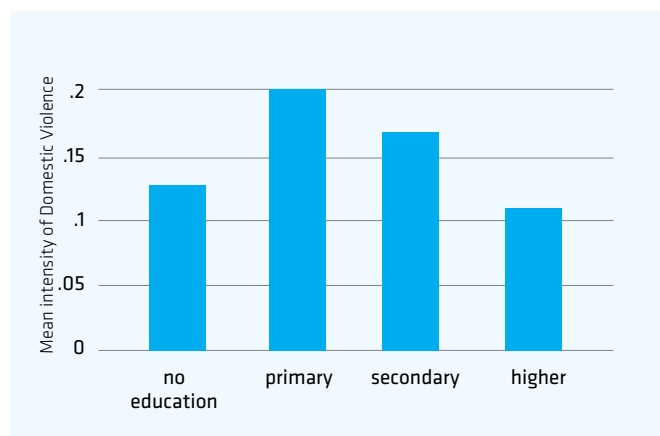
the rigid social institutions that act mostly against women’s empowerment, it may require focused efforts to improve educational attainment for women so that they achieve equal bargaining platforms with their male counterparts.

4.2.4.2 Women with good jobs are less likely to be victims of domestic violence

One of the key determinants of women’s empowerment is whether they have an independent source of income in the household. Employment outside the house may be more empowering compared to employment within the household. This is because male dominance in the allocation of resources can potentially affect women’s decisions on how to allocate within-household resources they generate. Women who are employed in the informal agricultural sector are not less likely to be victims of violence. This evidence suggests that empowerment initiatives that focus on employment creation in the informal agricultural sector may be fruitful, but not as effective as those focused on increasing women’s chances of getting formal employment.

Due to power asymmetries between men and women, intra-household allocation of resources, even if much of the input comes from women, may not achieve better outcomes for them. These asymmetries are compounded by the fact that most African women have limited possibilities in the ownership of productive assets such as land and other agricultural inputs (AfDB, 2015). In most cases, women’s only input, labour, attracts limited returns when combined with land, which is dominantly owned and controlled by men. Therefore, it is not surprising if women’s empowerment, measured by their employment in the agricultural sector, has limited influence in reducing the amount of violence they face. In our sample, only one-tenth of women own land that they can use independently for production, while more than 40% of the men owned land. It is therefore important to consider the place and sectors where women work as this will have considerable importance for their bargaining power within families. Women who depend on agriculture as a means of employment, but who do not actually own land for this purpose, are likely to be vulnerable in many respects.

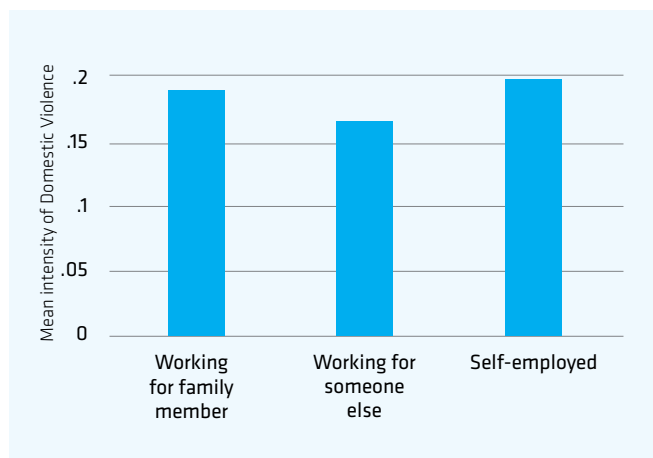
Figure 4.18 Educational attainment and partner abuse



Source: Authors’ computation using DHS data

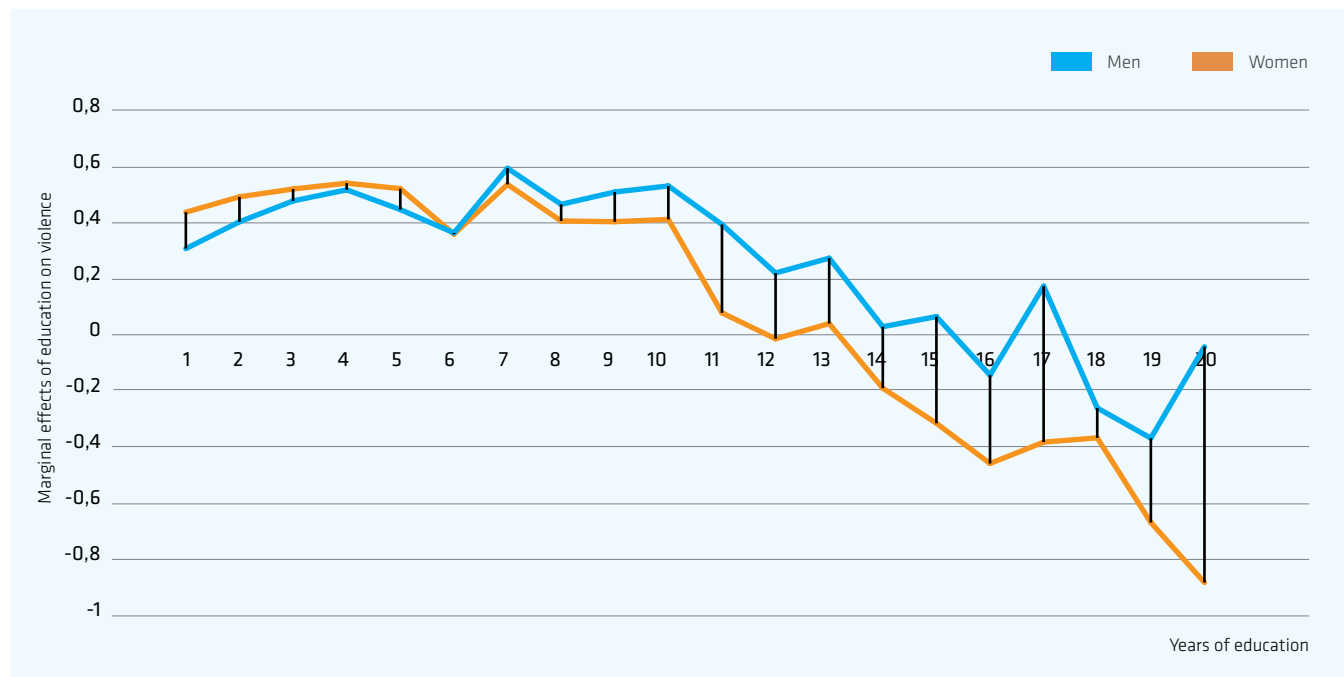
There is a sizable literature demonstrating that female education and employment are important determinants of their bargaining power in the home. Women with limited levels of education (primary education), or who work in the home, are not associated with decreased violence. Women who work for themselves and those that are not employed face similar probabilities of being victims of spousal aggression. In contrast, women working for a third party, through formal employment, are less susceptible to partner abuse.

Figure 4.20 Domestic violence incidence by type of women's employment



Source: Authors' computation using DHS data

Figure 4.19 Violence against women and years of education, by gender



Source: Author's computation using DHS data

4.3 Concluding remarks

In Africa, women are very economically active, but their contribution to the economy is being held back by various constraints. For instance, women still suffer from gender gaps in education, although there has been much progress. Africa's overall progress in access to health-care services has not translated into an equivalent improvement in the health status of women and girls. Maternal mortality in SSA is still a major health issue, with an estimated 510 maternal deaths per 100,000 live births (UN Women, 2014). Despite some improvements, this rate remains higher than the average level of maternal deaths in the developing world 15 years ago. Women are woefully under-represented in the formal economy, both in the public sector, and even more so in the private sector. This is especially the case at higher levels of state and corporate hierarchies. Women lack access to land and suffer unequal access to credit, agricultural inputs, and extension services. This negatively impacts their productivity. Finally, women are held back by the large amount of time they need to invest in doing household chores, such as fetching water and wood.

Yet, Africa has achieved a lot in narrowing gender gaps in several dimensions. Progress over the past 15 years occurred at the same time that the continent registered impressive growth and when governments and their development partners focused resources towards achieving the MDGs.

While this progress is substantive, the remaining gender gaps are still substantive barriers limiting women and girls from fully participating in Africa's development. The main gaps are: Formal sector employment; school completion; health status given maternal mortality rates; and, freedom to make independent choices. Women dominate Africa's share of employment in vulnerable activities, especially

seasonal jobs. Political participation of women is still low in many African countries, but some countries such as South Africa, Rwanda, Namibia, Mauritius and Malawi are doing well. This low female participation results from a combination of unfavourable gender role ideologies, less-effective institutional frameworks and limited political will. Added to these challenges, domestic violence is highly prevalent in Africa, with nearly half of all married women in some countries reporting abuse from their intimate partner.

High prevalence of domestic violence places a large health burden on women and reduces their ability to work or engage in economic activities. Violence has direct consequences for women, but also indirect consequences for children born to those women. The trans-generational effects of intimate partner abuse range from distorted reproductive choices of women to resource allocation distortions that directly affect child-health outcomes. Contraceptive use is lower among victims of domestic violence than non-victims.

Knowledge of the prevalence and intensity of violence against women, and its associated economic and social consequences, is at an early stage. But what we already know speaks volumes. One of the biggest challenges that can potentially undermine Africa's future growth prospects is violence against up to half of the continent's population. The fate of this half determines the fate of 100% of the continent's next generation. Undermining their role in today's development translates into cutting the continent's growth prospects tomorrow. Finally, our analysis has found that education, beyond secondary level, and employment in the formal sector empower women and reduce their vulnerability to violence from their intimate partners. However, women who work in the agricultural sector

but do not own agricultural land are more vulnerable to domestic violence.

Based on these gender findings, efforts should be deployed in many dimensions. Regarding women's health, governments could promote reproductive health and family planning services to reduce health and economic burdens associated with maternity. On the employment side, implementation of affirmative action policies can increase women's participation in the higher echelons of government and the private sector. Regarding access to assets such as land, governments could equalise women's access to land through co-ownership clauses and opening up their ability to inherit and purchase land. Programmes targeting female farmers should also be promoted in order to improve their access to agricultural inputs, new technologies and credit. To free-up women's time, it is

important to improve their access to water and energy in rural areas. Finally, policymakers could increase awareness of domestic violence by providing courses at school to boys and girls on its impacts and by providing health services to the victims.

Finally, in charting the way forward, Africa can build on its achievements by maintaining the momentum it started over the last 15 years. The concerted support of multiple actors, as was the case during the MDG intervention period, could yield more progress while at the same time consolidating existing achievements. The priority of this issue means that the new Sustainable Development Goals have maintained a goal dedicated to addressing gender imbalances. They have also introduced gender specific targets for some of the other goals.



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CHAPTER 5

Africa's youth in the labour market

Key messages

- **Africa will continue to account for a significant fraction of the global youth population.** It is projected that the continent's share of the world's youth population will grow from one-fifth, as it was in 2012, to as high as one-third by the year 2050. Current trends suggest that much of the bulge will be accounted for by countries in West, Central and East Africa.
- **Insufficient youth wage employment is primarily a demand-side problem.** While reductions in fertility rates and relevant skills development are crucial for Africa to benefit from the type of demographic dividend Asia experienced, labour market demand must be a priority to improve employment levels. While skills development seems promising (as indicated by educational achievements), demand for labour quantity and quality has not been responsive enough to date. In addition, improvements in health care and in education have not significantly reduced fertility across most of Africa.
- Youths continue to constitute the majority of the population in all countries, carrying most of the unemployment burden. However, African economies are heterogeneous, with varying demographic paths, economic structures and youth development policies. This means that **youth policies should be context specific** in order to achieve youth employment outcomes that are both timely and sustainable.



5.0 Introduction

In chapter 3 we discussed how Africa's recent growth has not been inclusive. Inequality in human capital formation is one of the major impediments to inclusive growth. Among those who have been left behind, the youth population have been much more affected across various dimensions. Young people experience a diverse set of challenges across socio-economic, geographical, political and cultural divides during their transition from adolescence to adulthood. In today's labour market, the transition from school to work is particularly challenging not only in Africa, but also globally. In Africa, young people are striving to achieve economic independence and to find their identity against the background of weakening family and community structures as well as educational systems that often do not equip them with skills demanded in the labour market. The current generation of youth in Africa is also the largest the continent has ever seen. The growth of Africa's economies has not been successful in absorbing youth into the labour market.

In 2014 the African Union Commission underscored that, at 60% of the continent's 1.03 billion population, those under the age of 35 constitute a valuable resource. If equipped with the right skills and given the right opportunities, this demographic group could help propel Africa onto a higher growth path. At the same time, the risks associated with not fully employing this 'demographic dividend' are significant. In Africa today, the youth are some of the most vulnerable. The majority of the poor (those living on less than \$1.25 a day) are young people aged 15 – 24 (Natama, 2014). With youth unemployment rates two to three times as high as adult rates in Africa's middle income countries (MICs) and a high prevalence of 'working poor' in low income countries (LICs), the importance of generating productive jobs for Africa's

youth cannot be emphasised enough (AfDB et al., 2012; Filmer and Fox, 2014).

Given Africa's diversity, substantial differences exist across various sub-regions and groups. For example, in MICs the formal sector (public and private) accounts for the larger share of employment, while the informal sector dominates in LICs. Differences in youth outcomes persist between young men and women, those in rural and urban areas, and across vocations. The variety of country-specific contexts in Africa is reflected in the wide range of policies being adopted, with varying degrees of success. This chapter provides an overview of the key measures and programmes aimed at youth wage-employment and entrepreneurship.

Key demographic and employment trends on the continent are analysed using the international definition of youth (ages 15 – 24). The chapter goes on to discuss the concept of youth in the African context and underscores challenges and opportunities that the youth encounter as they strive to integrate into the labour market and society as a whole⁴³. It also points to gaps in our understanding highlighting factors that prevent Africa's youth from full participation in the labour market and the economy. Finally, the last section reviews existing and potential labour market policies and programmes targeted at Africa's youth with a view to support employment and entrepreneurship.

43 As in Gumedé et al. (2013) we define the labour market as "...the place where labour services are bought and sold...", which includes self-employment activities in addition to formal/informal wage-employment. Appendix 1 presents the *Rosetta Stone for Labour Markets* which provides a concise framework within which to categorize each labour market status.

5.1 Demographic trends: Africa's 'Demographic Dividend'?

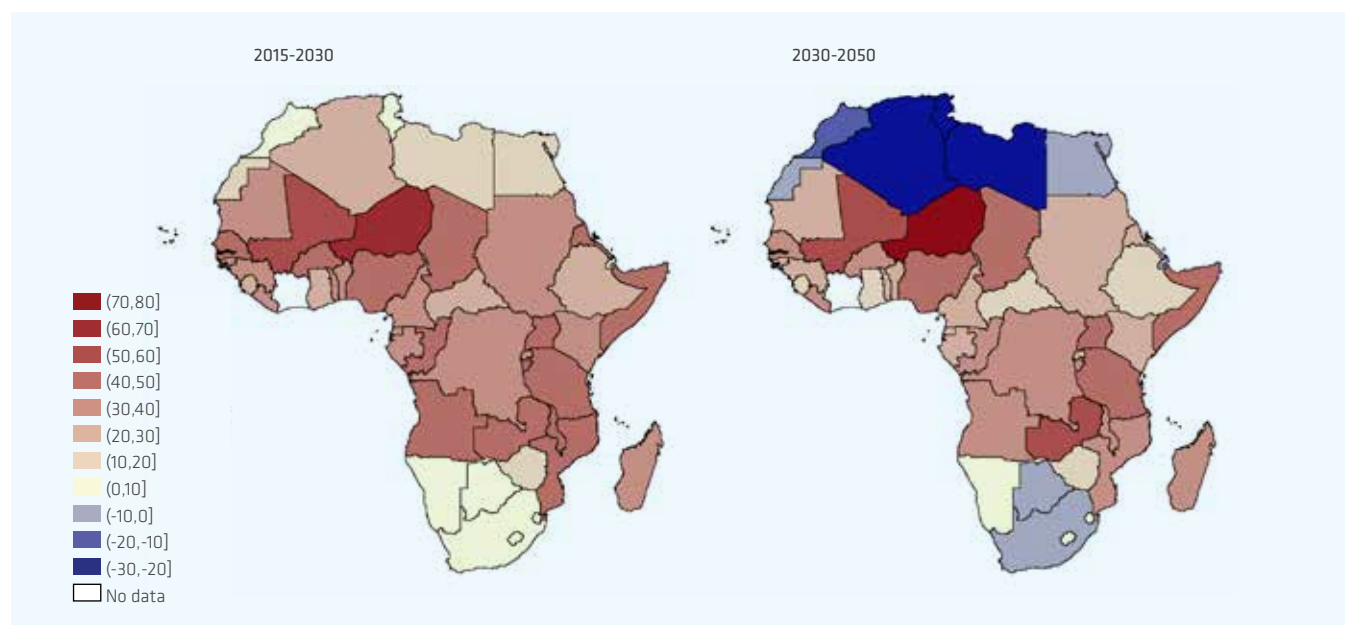
By 2050, one third of the world's youth population will live in Africa: Up from about one fifth in 2012 (Bloom, 2012). However, this growth will be uneven across the African continent (Figure 5.1). In general, Southern and North African countries will be characterised by low or even negative youth population growth over the next 35 years, while West, Central and East African countries will experience large youth population increases. Whether these young people will be able to successfully join the labour market will have ramifications not only for their individual wellbeing but also for the welfare of broader society across the entire African continent.

High levels of African youth 'not in employment, education or training' (NEETs) are often attributed to high youth-to-population or youth-to-labour-force ratios. A

'youth bulge' arises as the delayed impact of a mortality rate falling faster than the fertility rate. This results in a period of above average population growth. After a period of time the fertility rate should also reach a new, lower trend level. At that point the population would have transitioned from a high to a low growth trajectory: A process referred to as a 'demographic transition' (Lam, 2011). These dynamics are usually associated with improvements in child vaccination, which decrease child mortality, and economic development which tends to result in a decline in fertility. Major transmission mechanisms are; improved education; primary health and nutrition outcomes; and, labour market integration for women.

Unlike other developing regions which went through a demographic transition in the 1980s, SSA is still on

Figure 5.1 Percentage change in youth population



Note: The above figure displays the percentage change in the youth population of each African country between 2015 and 2030, and then between 2030 and 2050. In this and subsequent figures, youth is defined as population aged 15 – 24 years.
Source: the UN Population Divisions estimates (2012 Revision).

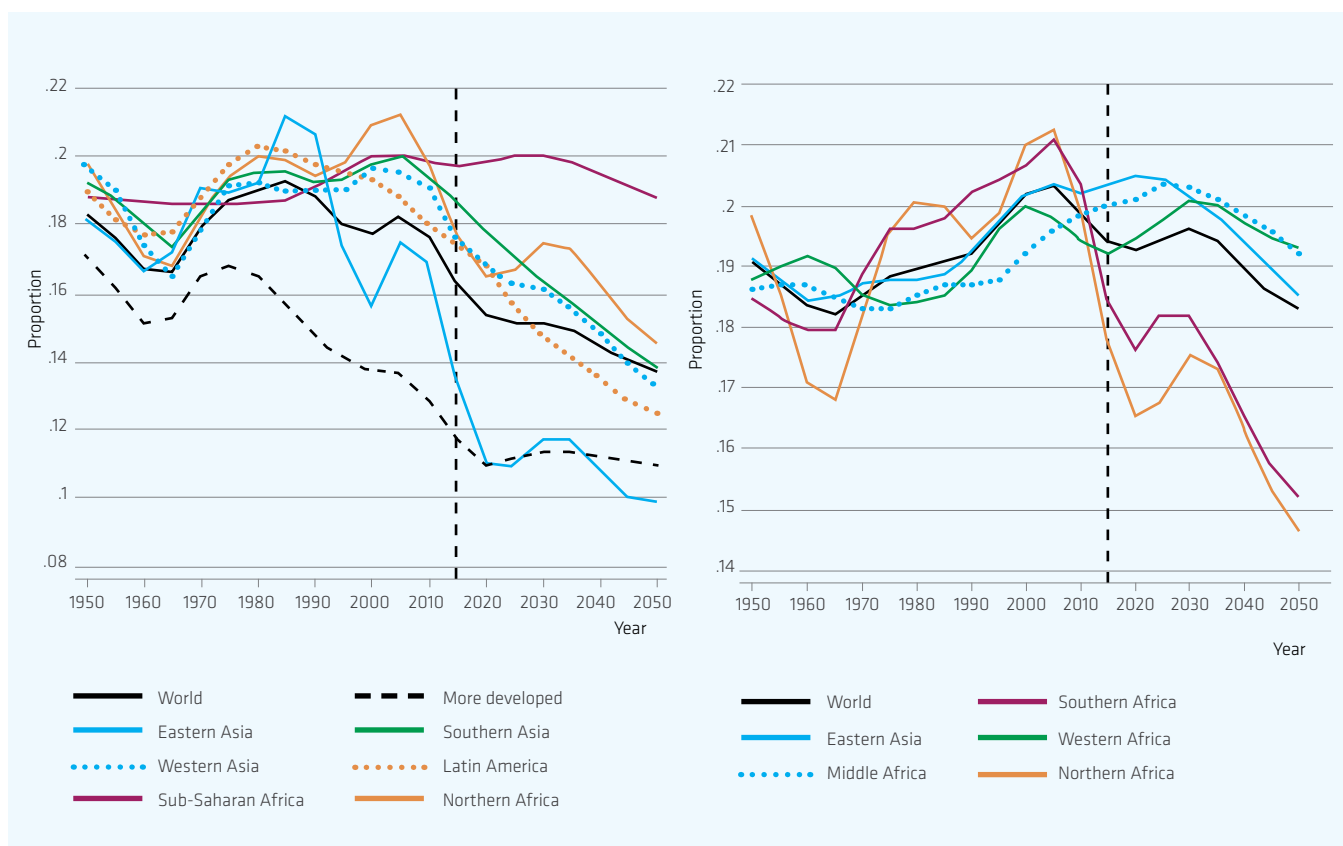
the upward slope of the ‘youth bulge’ (Figure 5.2). The noticeable feature of African demography is that the decline in fertility has stalled in many countries of West, Central and East Africa. This is a major challenge since the demographic dividend will only materialise if fertility starts to fall. UN population estimates predict that SSA’s youth population-share will continue to increase until 2030, at which point about 20% of the population will be between the ages of 15 and 24 (28% between the ages of 15 and 29). However, the increase, and subsequent decrease, will be more gradual than that experienced by North African countries in the early 2000s. SSA will thus have a considerably higher youth-to-population ratio over the next 35 years, which highlights the need to prepare for an increasingly young labour force.

The stark contrast between Southern and North Africa, and the rest of Africa, is evident in the below figure.

West and Central African countries will be the last to undergo the demographic transition and will continue to have high youth shares (around 19%) until 2050. The implications of these trends for youth employment, however, are not so clear.

The youth population-share can have a very distinct time trend from that of the youth labour force share. While the former may determine a country’s position within the ‘demographic transition’ the latter is a clearer indication of the impact on the labour force. While at an aggregate level, all of Africa’s regions have surpassed the peak of the youth labour-force share, considerable regional variation exists (Figure 5.3a). In general, Africa will continue to have a very young labour force. This underscores the need to have a good understanding of how the youth engage with labour markets. Labour market policy will need to address the many challenges

Figure 5.2 Youth population as a share of total population



Source: UN Population Division (2012 Revision).

that will continue to arise as result of these fundamental demographic dynamics.

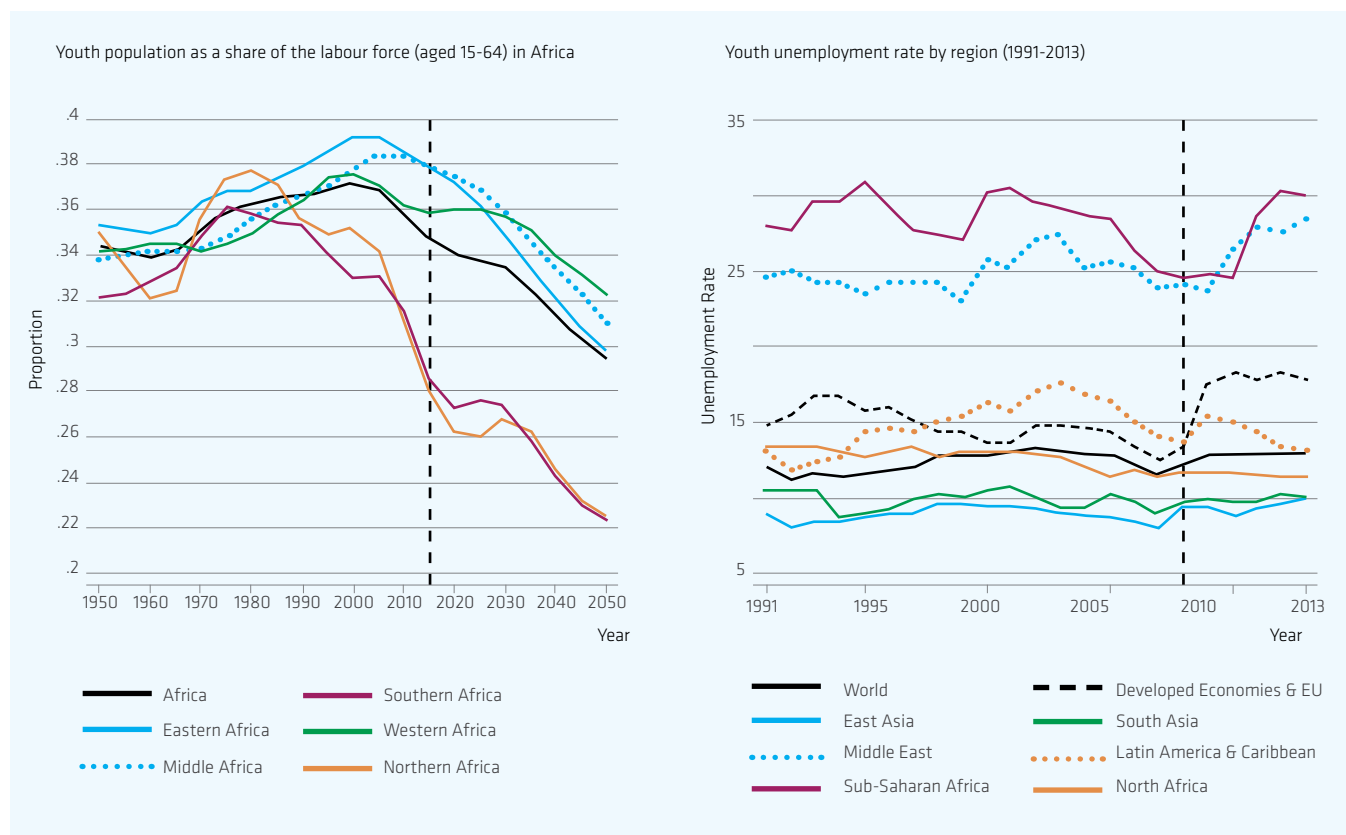
Alongside this demographic transition, many African countries are currently undergoing a period of rapid urbanisation. Again there is variation within the continent, with many of the Southern and North African countries already having an urban majority (over 50% urbanisation) while other countries (especially, Eastern Africa) still have relatively low urbanisation rates, below 30% (UN-Habitat, 2014). UN forecasts suggest that Western, Central and Eastern African countries will experience rapid urbanisation over the next few decades⁴⁴. Freire et al. (2014) argue that many African countries don't fit

the standard model of urbanisation, which is based on the industrialisation of cities. Instead, African countries are urbanising at much lower income levels relative to both East Asia and Latin America, while also experiencing declining levels of manufacturing and low levels of infrastructure investment. Instead of industrialisation, the “pull” factor in Africa has been income from resource extraction which has attracted poorer individuals to cities hoping to find employment in low-level service sectors concentrated around the rich few.

In addition, Africa has a larger number of smaller secondary cities than other regions (less than 500,000 people), despite having comparable average levels of population density with East Asia and Latin America (Freire et al., 2014). These smaller cities are often disconnected and productively inefficient. Freire et al. argue that, unless urbanisation is met with sufficient levels of infrastructure investment (including human capital investment)

44 There is debate as to the accuracy of the UN's urbanisation estimates. Potts (2012) argues that Africa's urbanisation is actually much slower than previously reported by the UN-Habitat's 2008 and 2010 *The State of African Cities* reports. A large problem with any demographic or urbanisation estimate is the quality of data. The UN-Habitat's (2014) report acknowledges that there are major gaps in the Western Africa data series.

Figure 5.3 Youth employment and unemployment

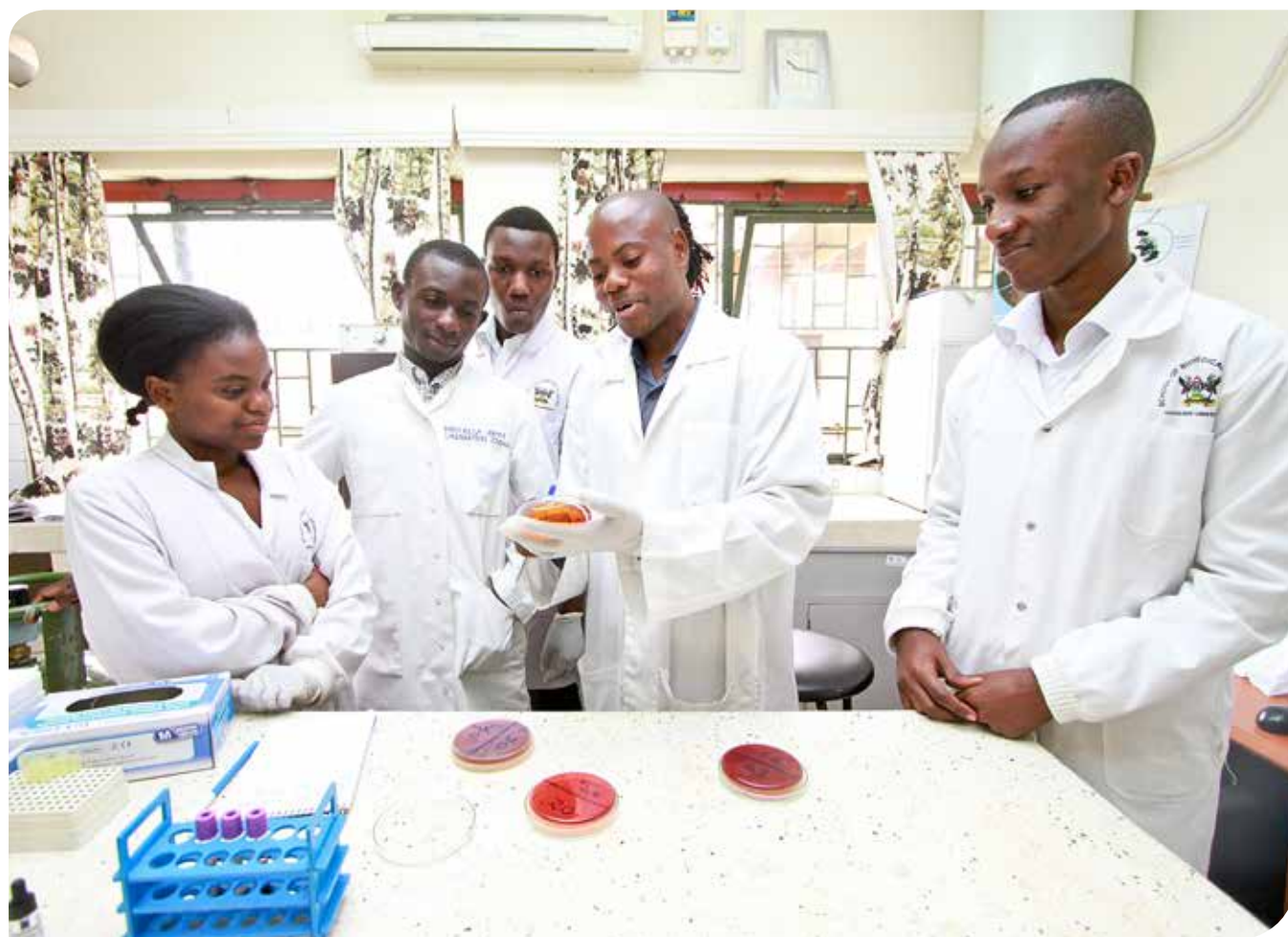


Source: UN Population Division (2012 Revision).

and broad-based employment, the region will not gain from the potential returns to agglomeration, and slums will remain a feature of African cities. This has enormous consequences for the urban youth population, who will face more competition in the future as rural-urban migration and population growth make resources and job opportunities scarcer. However, these trends will also provide opportunities for young entrepreneurs to develop businesses that serve an increasingly urban and connected population in an environment which provides higher returns to scale and agglomeration.

African policymakers need to be at the forefront of youth labour market policy to develop a labour market which can absorb and harness the potential value of this growing youth population. Beside a vibrant private sector and

merit-based public service, utilising the demographic dividend will require suitable skills and institutions. Youth need to be equipped with skills demanded by the economy and institutions should facilitate effective job matching and entrepreneurial uptake within Africa's fast growing economies. This requires sufficient investment in social infrastructure – especially in urban centres where governments will need to ensure expanding work opportunities for an increasingly young, urban population. If Africa's 'demographic dividend' is to be harnessed then both public and private sectors need to work together to ensure that employment growth matches the growth in the working-age population.



5.2 Youth unemployment and employment

Youth unemployment rates in African countries did not rise dramatically during the global financial crisis. However, in some parts of Africa (e.g., Southern Africa) they were already alarmingly high before 2008⁴⁵. North African countries had, on average, the highest youth unemployment rates over this period (Figure 5.3b). Gallup World Poll data shows that in the wake of the financial crisis, jobs in the formal sectors of African economies declined. While employment fell in services (which is the second largest employer of youth in Africa after agriculture), it rose in agriculture and in the informal sector (AfDB et al., 2012). A few countries (e.g., Botswana and Namibia) defied the trend and witnessed growth in employment over this period.

Although substantial variations exist in youth unemployment rates across the continent, the data indicate

45 Figure 5.2 suggests that Southern Africa is one of few regions where youth unemployment rates increased between 2000 and 2013.

clustering of unemployment rates within regions (Figure 5.4)⁴⁶. In particular, the ‘high unemployment’ countries (with youth unemployment rates above 20%) include predominantly Southern and North African countries⁴⁷. In general, Southern African MICs face the challenge of high unemployment among low-skilled workers, who are more likely to work in temporary positions or without contracts. Youth disproportionately occupy low-skill service sector jobs that are more susceptible to market fluctuations and they are less represented in public sector jobs (Brixiova and Kangoye, 2014). North African countries tend to be characterised by ‘educated unemployment’. LICs in West, Central, and East Africa have low official unemployment

46 For example, the official youth unemployment rate in Rwanda is close to zero, while more than a half of South Africa’s young labour force cannot find a job. However, a young person in Rwanda is more likely to suffer from ‘working poverty’. These differences are likely to be driven by differences in informal sector activity and social safety nets.

47 There seems to be some association between youth unemployment rates and different stages of growth and development. Several Southern African MICs are caught in a ‘middle income trap’.



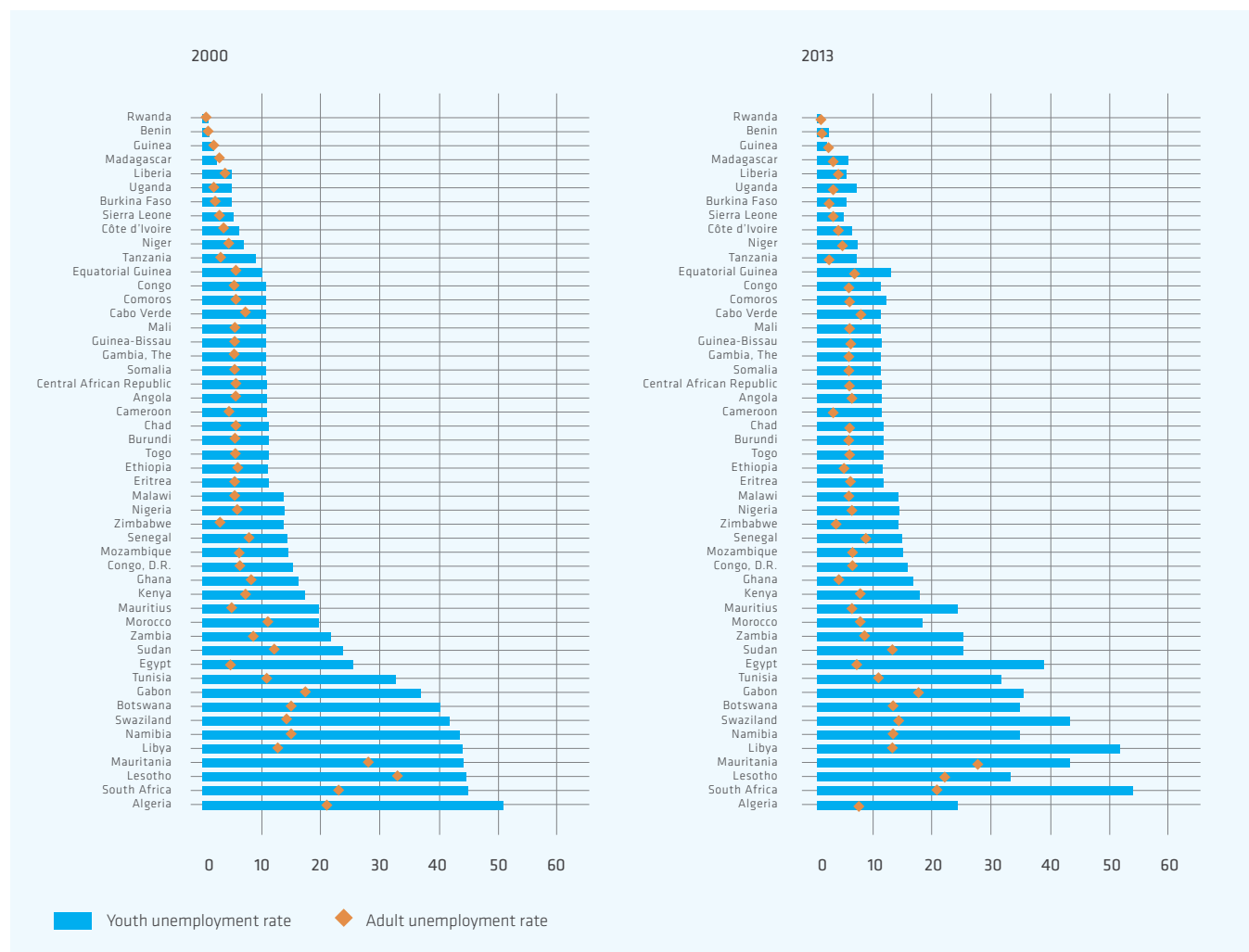
but a high share of youth in the informal sector, in part due to the lack of social safety nets (AfDB et al., 2012).

Countries with high youth unemployment also tend to have high adult unemployment, with the former exceeding the latter (Figure 5.4). This discrepancy is, in part, to be expected because youth do not have the social capital, networks and experience to compete with adults in the labour market. These structural barriers warrant ‘youth-specific’ employment policies. However, growing divergence between youth and adult unemployment (as in South Africa) suggests that job creation is not able to keep up with youth-population growth and the attendant

positive net labour force inflows. Indeed, part of the ‘youth employment problem’ can only be addressed through overall job creation (Page, 2012).

Comparing only unemployment rates hides vast differences in labour force participation across countries (Figure 5.5). A combination of low youth unemployment and low employment (e.g., Benin) suggests that a large share of the young population is not economically active. At the same time, high labour force participation among those aged 15-24 may reflect poor education opportunities and a ‘low-skill’ economy. Note that the above figure suggests that labour force participation

Figure 5.4 Youth unemployment rate, by country (2000 and 2013)



Note: The above figure presents the average unemployment rate facing young people (aged 15 to 24) in 2000 and 2013, by African country. The data is sorted from highest to lowest youth unemployment rate in 2000.
Source: ILO KILM dataset.

is highest among many of Africa's LICs, where urbanisation is lower, and where the informal economy dominates. These conditions are often associated with higher levels of underemployment, the state where people cannot work the number of hours they are willing and able to work. Underemployment is widespread in Africa (UN, 2004). LICs are also characterised by high levels of vulnerable employment: Work based on short term or no contracts (AfDB et al., 2012; Filmer and Fox, 2014). At 77 percent in 2013, Sub-Saharan Africa has the highest levels of vulnerable unemployment in the world (ILO, 2014). This poses special challenges for policymakers as regards how to regulate conditions for workers in the informal sector and the self-employed.

Young people in rural areas are more likely to work in either the informal sector or in vulnerable employment, while youth in urban areas tend to experience higher rates of unemployment. Part of this is explained by the fact that the majority of youth in Africa are employed in agriculture (largely subsistence) and services. While agriculture represents the single largest employer of young people (55% of young Africans work in agriculture in LICs compared to less than 10% in upper-MICs), services account for about a third of jobs in upper middle-income countries (AfDB et al., 2012). In Ethiopia small-holder agriculture employs more than 76% of the labour force, which explains the low incidence of open unemployment in rural areas. For instance, in 2007, the unemployment rate for youth

Figure 5.5 Youth unemployment, employment and participation rates, 2013



Note: The unemployment rate measures the share of the labour force that are unemployed, the employment rate measures the share of the youth population that is employed, and the labour force participation rate measures the share of the youth population that is either employed or unemployed (the labour force). The countries are ordered from lowest to highest unemployment rate. Source: ILO KILM dataset.

in rural areas was only 2.1% while it was 34.0% in urban areas (MOLSA, 2010). However, according to Broussard and Tekleselassie (2012), about 25% of the rural youth and 29% of the urban youth in Ethiopia were reported to be underemployed in 2005. In Togo, the urban youth unemployment rate is four times the rate in rural areas (Elder and Koné, 2014). In some cases, this difference also reflects higher proportions of discouraged workers in rural areas (Brixiová and Kangoye, 2014). Young people in rural areas experience higher rates of poverty and are more likely to be in vulnerable employment (AfDB et al., 2012). Within rural areas, about half of all work is non-agricultural – in services, sales, manufacturing and

construction. This non-agricultural work is more likely to provide full time and wage employment.

In most African countries women – across age groups – experience higher unemployment rates and lower labour force participation than men (Figure 5.6; Elder and Koné, 2014; Stampini and Verdier-Chouchane, 2011). Over 90 percent of all women with jobs work in the informal sector in Benin, Burkina Faso, Burundi, Ethiopia, Madagascar, Mali, Mozambique, Senegal, Sierra Leone, Tanzania and Uganda. In contrast, less than one fifth of the labour force works in the informal sector in Mauritius and South Africa, for example (Gumedé et al, 2013). Among the

Figure 5.6 Youth unemployment rates in Africa, by country and gender



Note: The above figure presents the average unemployment rate facing young people (aged 15 to 24) in 2000 and 2013, by African country. The data is sorted from highest to lowest youth unemployment rate in 2000.

Source: ILO KILM dataset.

youth, gender differences tend to be more pronounced in countries with high levels of youth unemployment. Young women are also more likely to work in the informal sector than young men.

In Sub-Saharan Africa, young people without education are more likely to be unemployed than their better educated peers⁴⁸. Even in North African countries where people with advanced degrees face high unemployment, they are still more likely to eventually get a job than people with less education (AfDB et al., 2012). For example, in Tunisia, the 2007 unemployment rate for university graduates was 40 percent, almost twice the 24 percent rate for non-graduates. However, only 68 percent of non-graduates participate in the labour force, compared to 95 percent of graduates. A higher percentage of graduates in the labour force are employed than non-graduates in the labour force

(Stampini and Verdier-Chouchane, 2011). Further, an ILO survey on transition to work in eight SSA countries found that people with tertiary degrees earn three times the income of people without degrees (Elder and Koné 2014).

The labour market outcomes for youth in Africa vary dramatically, however, some general trends that can be drawn. There appears to be distinct differences between LICs and MICs in Africa. LICs tend to be characterised by low official unemployment, high labour market participation (which tends to suggest lower education outcomes), a larger share of agricultural and informal employment, and higher levels of vulnerable jobs or underemployment. MICs tend to report higher unemployment (often among the educated as well), lower participation and more formal sector employment. In addition, rural-urban, gender and education differences continue to be important determinants of labour markets for youth. It is clear that the policy strategies of African governments will be context specific and may differ between regions.

48 In Swaziland, for example, in 2007, the unemployment rate was 32 percent for people with primary education, but only 2 percent for people with tertiary education (Brixiova and Kangoye, 2014).



5.3 Being young in Africa: Constraints and opportunities

For the purpose of cross-country comparisons, including with advanced economies, section 5.2 used the international definition of youth (ages 15 – 24). More generally, youth refers to the period of transition from childhood to adulthood in an individual's life. Each society, culture or even community may differ in its requirements for adulthood, making a unified age range for youth problematic.

The transition to adulthood takes place at different ages in different contexts (UNECA, 2011). As a way recognising this diversity the 'African Youth Charter' has adopted a broader definition of youth, including ages 15-34 (AU, 2006). This definition, used by a number of African countries, reflects the continent's development realities and challenges unique to youth as a social group⁴⁹. It encompasses the international concept of youth as people aged 15–24, covering the period of adolescence, an important component of the transition into adulthood.

This section explores the more salient features of being young in Africa. It explores characteristics that might intersect with age to shape individual capabilities and opportunities, and hence the path to adulthood. As young Africans become adults, they grapple not only with changing social expectations, but also with biological changes. Being an adolescent is, in particular, associated with a propensity for higher than average 'problematic behaviour' often resulting from peer pressure (e.g., drug and alcohol use), unemployment or delinquency. Such behaviour tends

to diminish in adulthood and forms part of a process of identity formation (Steinberg and Morris, 2001)⁵⁰.

The 'Arab Spring' in North Africa and the Middle East, during the early 2010s, gave attention to the potential politicisation and radicalisation of youth, especially when faced with harsh economic and political conditions (Assaad, 2007; Assaad and Roudi-Fahimi, 2007). The literature on youth unemployment often uses the "ticking time-bomb" metaphor, evoking the idea that youth unemployment might lead to unrest. This framing reflects fears about the potential for violence amongst the youth. For example, Swaziland's youth policy notes that: *'The term 'youth' has generally been used to characterise a segment of the population seen as violent, unruly, undisciplined and underdeveloped'* (Government of Swaziland, 2009). However, additional factors must be present for high unemployment to spark political protests. In North Africa, a sense of social injustice and the need for dignity contributed to the uprisings (UNESCO, 2011).

Studies on the youth transition in developing countries often question the assumptions made by researchers in developed economies. For example, education (grade repetition and completion) may differ in developing economies due to unique gender and racial biases within households and other social institutions (Juárez and Gayet, 2014). Child marriage – a common practice in some developing countries – has implications for female labour force participation, human capital formation and fertility rates. Beliefs and cultural practices, such as those surrounding

49 For example, South Africa and Rwanda define youth as the ages 14 to 35, in Nigeria and Swaziland it is 18 to 35, and in Mauritius it is 14 to 29 (Republic of Rwanda, Ministry of Youth Culture and Sports, 2005; Republic of Mauritius, Ministry of Youth and Sport, 2009). These large age categories may not be helpful for policymakers as they may overlook the different needs of more narrowly defined age groups, such as 15 to 20 or 20 to 25 (Altman, 2007, p.15).

50 Behaviour of adolescents can also be defined in biological terms. The parts of the brain responsible for executive control – such as planning, decision-making and emotional regulation – continue to develop into an individual's twenties. However, the parts of the brain that govern reward processing develop earlier. The timing of these developments may explain riskier behaviour and less self-control amongst young people (Sawyer et al., 2012).

the role of women in the household, form part of the transition into adulthood and make it difficult to find a single definition of 'youth' relevant for both the developing and developed world. In addition, globalisation and the formation of a single 'global culture', or the acceptance of universal norms, can be met with resistance by groups in developing countries. This complicates the search for a single, shared agenda for youth in Africa.

Youth are distinguished by much more than just their age. They are identified by their unique and changing relationship with their family and surrounding economy. Young people have a unique (although limited) set of resources and opportunities available to them, such as their ability to turn to their family during stress and their adaptability to technological change. Youth are also known for their progressive attitude towards technology, which can be a source of comparative advantage. The extent to which this holds across societies depends on access to resources, the distribution of power within the household and cultural norms. Below we discuss some of the characteristics unique to youth.

First, the period of youth is associated with a particular and ***changing relationship with the rest of the household and family***. While an adult is expected to achieve independence from the household within which they were raised, a young individual may be allowed to depend on the family group during uncertain periods. This gives the youth access to a set of resources that might not be available to adults and, in particular, can change how they approach the labour market. Certainly, in a developed context, it is well documented that moving back home with a family can act as a form of insurance against the inability to find work (Card and Lemieux, 2000; Kaplan, 2012; Klasen and Woolard, 2009). In a developing context, families are especially important for young unemployed people looking for work in countries without unemployment benefits (Godfrey, 2003). In an African context, unemployed youth may not move back home, but may still be able to rely on intergenerational household risk-sharing not available to adults. They can also depend on the financial capital of the household to cover search costs and migration. Evidence from South Africa supports this hypothesis

(Posel et al., 2006; Ardington et al., 2007; Ardington et al., 2013), and finds that the presence of a state transfer within a household (in particular, the state pension) can provide a crucial safety net to an unemployed individual (Klasen and Woolard, 2009).

Second, ***youth are often depicted as being more innovative*** and having a more progressive attitude towards new technology, in comparison with adults. These are important characteristics that shape the way in which the youth engage with the economy, especially through entrepreneurial activities. For the youth, new technology – especially information and communication technology (ICT) – creates new markets in which young people may have a comparative advantage over adults (World Bank, 2007). This is important for Africa's youth, which is one of the fastest growing markets for mobile phone technology in the world⁵¹. The relationship that youth have with new technology opens possibilities for their broader relationship with the labour market and the economy.

Third, ***young people face more pressure and unique challenges as they attempt to make the transition into the labour market***. In many cultural contexts, getting a job is an important step in the transition to adulthood (UN, 2004). For this reason, unemployment may be particularly detrimental for the youth: Disadvantaged youth who lack basic education may experience the 'scarring' effects of long-term unemployment (ILO, 2010). This can depress human capital accumulation and impact future earnings (Scarpetta et al., 2010).

Further, ***young people are a heterogeneous group with different opportunities and constraints*** depending on factors such as gender, education, and location. The most salient divisions might differ across countries. Race or ethnicity represents an additional dimension that matters greatly for the experiences of young people. Similarly, physical disability and family income are other dimensions that are not explored here, but will inform and condition the splits between segments of the youth. It is often at the

51 Gabon has among the highest number of mobile telephone subscriptions in the world, at 179.5 per 100 people. Libya, Botswana, South Africa and Egypt also have relatively high rates of subscription (Bilbao-Osorio et al., 2014).

intersection of each of these dimensions – race, gender, education, location, and class - that real differences are observed and experienced, especially as the youth engage with the labour market. The paragraphs below explore some of these factors.

Gender can critically shape the choices available to young people. In most African societies, women work more hours than men because they take care of the household in addition to any other labour market commitments (World Bank, 2007). In some societies, women face pressure to marry early. In others, young women may have to deal with pregnancy outside of marriage. African women experience higher rates of HIV/AIDS, in part, due to gendered social norms (Shisana et al., 2014)⁵².

The rural-urban divide and rural-urban migration also shape a young person's opportunities for jobs, education, training, and professional networking. On average, poverty is significantly higher in rural areas, especially among marginalised smallholders who depend on subsistence farming and a small cash income from crop sales, wage labour or remittances (Faurès and Santini, 2008; Barret et al., 2001.). In the context of rural-urban migration, it is important to consider how policymaking in cities may facilitate youth employment, especially since high youth-to-adult unemployment ratios are predominantly urban phenomena.

Inequality in educational opportunities and attainment represents a further dimension which differentiates young people in Africa. In general, poor countries have seen enrolment rates rise from 50 to 80 percent over the past 20 years. However, assessments of the quality of education suggest that these figures are misleading (Jimenez et al., 2012). Poor education outcomes may, in certain circumstances, reflect high drop-out rates. In some countries, gender differences in dropout rates may reflect pressure on young women to get married, discrimination by teachers and parent preference to educate boys first (Bertrand and Crépon, 2014). Further, the ratio of students in secondary

school to the number of individuals of secondary-school age in Africa is only approximately 20 percent. For tertiary education it is only 8 percent (World Bank, 2007).



52 For example, in South Africa the HIV prevalence rate amongst young women is between two and four times that of young men (Shisana et al., 2014).

5.4 Constraints and opportunities specific to youth

There is a wide range of context-specific factors that may present constraints to, or opportunities for, efforts to establish sustainable livelihoods. They may also affect the effectiveness of policies geared towards youth in the labour market. Such factors include HIV/AIDS, technology (ICT), unmet expectations emanating from democratic constitutions and criminal or terrorist networks.

All young people in Sub-Saharan Africa need to consider the *prevalence of HIV/AIDS* in their community and their potential risk of infection, together with the impact infection would have on their transition into adulthood.

The incidence of the disease is generally highest among young people, especially young women. The disease has negative effects on productivity and human capital formation. For example, studies find that young children with HIV-positive mothers are less likely to attend school than other children and are likely to perform worse in school (Bertrand and Crépon, 2014). Access to antiretroviral treatment can help minimise these effects. For example, while HIV/AIDS lowers productivity, the provision of antiretroviral treatment can improve labour force participation amongst HIV positive individuals (Bertrand and Crépon, 2014). Youth policy must also deal with the



challenges of social stigma attached to diseases (not limited to HIV/AIDS) that may isolate a young person from necessary treatment and threaten their re-integration with their society and local economy.

Advances in ICT create opportunities for employment and employment promotion measures for the youth, who in turn can further drive innovation. Policymakers can harness technology to implement interventions, especially around efforts to break-down information asymmetries so as to connect people with existing vacancies. In the long-run this could improve labour market matching as students will have a better understanding of the returns and job prospects arising from different training and education options. The Groupe Speciale Mobile Association reports that there are 56 'Mobile for Employment' initiatives in developing countries (Nema, 2014). One example is the JobMatch programme in Rwanda, which seeks to connect prospective employers and disadvantaged youth through a matching system using text messages (Dawes et al., 2014).

Many African countries have *democratic constitutions*. This formal commitment to democratic governance may create expectations that governments will act in the interests of the majority. These expectations may provide an important context in which frustrations about joblessness translate into protest. Moreover, it may be important to consider electoral incentives in the analysis of policy design and implementation. Governments may be incentivized to prioritise short-term economic outcomes over long-term goals as a way of appeasing and securing political power; consider the trade-off between public sector employment and infrastructure spending.

In some countries – especially North African countries and Nigeria – concerns with youth unemployment stem, in part, from fears that disillusioned young people may be recruited into *terrorist networks*. A study, based partially on interviews in Northern Nigeria of why young people joined Boko Haram, found that reasons included unemployment and poverty. The study called for the government to support vocational training and enterprise development as measures to help address joblessness amongst the

youth (Onuoha, 2014). Expanding work opportunities, education, and health-care in isolated rural communities is an important step towards offering youth a viable and sustainable alternative to radicalisation.

The challenges that young people face should be seen in the context of broader political and economic constraints and opportunities. Factors such as a commitment to democracy, together with an emphasis on private sector innovation and development, should shape youth employment policies. Global concerns with terrorist networks may drive government incentives to shift resources towards specific groups – and to focus efforts on employment and education. HIV/AIDS has undermined the ability of the youth to participate in the economy, but the recent widespread improvements in treatment have reduced this impact. Finally, ICT advances may offer new avenues for development and provide the basis for innovative ways to promote youth employment. The factors covered here are not exhaustive, but hint at additional challenges and opportunities that young people encounter and that societies could help manage.



5.5 Policies for youth employment in Africa

Young people in Africa face different options in engaging with labour markets. They can choose to look for a wage job in either the formal or informal sector, work in a family enterprise (usually without pay) or they can choose self-employment and entrepreneurship⁵³. In this section we discuss wage employment and entrepreneurship. In particular, we consider the challenges faced by African youth in choosing one of these paths.

5.5.1 Wage employment

Lack of work experience tends to be one of the greatest obstacles facing the youth entering the labour market (in particular, the formal sector labour market) (Levinsohn et al., 2014). As education is often a weaker indicator of productivity, employers tend to prefer individuals who already have a reference from a previous employer who will vouch for their productivity. Indeed, a survey of South African firms found that 61 percent of firms identified referrals as the best mechanism for job matching (Schöer and Rankin, 2011). There is, therefore, greater risk in employing an inexperienced youth over an experienced adult, as well as the additional cost of training a young employee. While firms will have a long-run incentive to recruit and train young employees, an employer may be hesitant to invest in training if they are uncertain about a young person's long-run commitment to their firm.

Furthermore, youth tend to lack the social capital and professional networks needed to find job vacancies. The cost of job search and high levels of unemployment can disincentivise job search efforts. The long-term effect of this is 'scarring' as the human capital that young workers acquire during their schooling, training or prior work

experience rapidly depreciates (Bell and Blanchflower, 2011; Strandh et al., 2014). This can form an unemployment trap, where youth who have been unemployed for a long period of time become somewhat 'unemployable'. It is therefore imperative that youth are able successfully make the transition to the labour market as they end a period of education or training.

Youth unemployment can be explained as a demand-side problem, a matching problem, or a supply-side problem. Moreover, policies will differ depending on the nature of the unemployment problem in any particular country. For example, in Africa's MICs – such as South Africa – the extreme levels of unemployment suggest a surplus in labour supply which needs to be addressed primarily through demand-side policies. In LICs, high levels of vulnerable employment require supply-side policies which focus on improving the human capital of the youth. Policies on youth employment can also be categorised into passive and active policies. Passive policies provide income replacement for people who do not have jobs, while active policies seek to integrate the unemployed back into the labour market (Auer et al, 2008). Even in MICs, where the government offers extensive social welfare transfers such as unemployment insurance and child support grants, unemployed youth tend to be unaffected by passive labour market policies. This is because of their age (not covered by child support grant) and lack of prior employment experience (which makes them ineligible for unemployment insurance).

Active policies include demand-side policies, supply-side policies and mediation policies (see Box 5.1). Policies to increase the demand for labour include: support for entrepreneurs; wage subsidies; direct employment; as well as, more general growth and investment (FDI) policies (Betcherman et al., 2004, 2007). Often, however, these

⁵³ There is also the choice of emigration, but we do not discuss this here. See the World Bank's *Africa Migration Project* (in conjunction with the African Development Bank) for more details on harnessing migration, remittances and diaspora resources in Africa.

policies are undermined by rent-seeking. Their success, therefore, depends on a more comprehensive design and implementation framework that addresses this threat. Supply-side policies include: training; and, education. In countries with more elaborate social safety nets, such as South Africa, they may also include measures that would bring workers closer to the labour market, such as phasing out of unemployment benefits. Policies to address labour market mediation and matching include: counselling; job-search facilitation; subsidies; and, job-readiness programmes. Appendix 2 provides a more detailed framework mapping youth policy.

From the supply-side - the youth perspective - the first step in getting a wage job is securing a sufficient level of education, followed by finding out about job opportunities. In this regard, youth labour market policy overlaps considerably with general education policy as it attempts to ensure that dropout rates decline and young people acquire the skills demanded in the labour market. The quality of education is therefore as important as the quantity. As previously mentioned, South Africa has seen a vast improvement in the levels of school completion (matric graduation) yet many firms do not perceive educational attainment to be a sufficient signal of labour market productivity (Schöer and Rankin, 2011). It is therefore imperative that governments concern themselves with the quality and content of education curricula, as well as ensuring greater levels of enrolment and graduation. Bringing curricula in line with changing labour market requirements and technological advances is essential to the integration of future youth cohorts. However, supply-side policies should also look beyond the mainstream primary and secondary schooling system to ensure that sufficient tertiary and trade-specific training opportunities exist for those young people who are currently looking to enter the labour market.

On the supply-side, youth also face the challenge of finding job openings in, what are often very informal, economies. In Africa, labour exchange offices are mostly missing. This also speaks to the matching problem. A recent survey of young people (ages 15 – 29) by the ILO in eight SSA countries found that the majority of the employed

youth had used a personal connection – either a family member or friend – to secure their job. Fewer than 10 percent of unemployed young people had registered in an employment centre, and only about 15 percent responded to job ads to find work (Elder and Koné, 2014)⁵⁴. The low reliance on employment offices, where they exist, could indicate a lack of trust, inadequate knowledge of formal institutions, or, the dominance of informal sector activity over formal sector. For example, a survey of youth in Egypt found that, less than one in five respondents were aware of projects designed to help people without jobs (Gumede et al., 2013). *Key policy measures in this regard, then, are the development and promotion of labour exchange offices, as well as outreach to young people and firms so as to raise awareness about the purpose of these offices and to encourage their use.*

Job search can be very costly, especially in urban areas where high transport costs and a higher concentration of unemployed youth both increases the cost, and lowers the expected return to searching. Beyond the establishment of formal institutions to connect the youth with job openings, governments should look for ways to lower the cost or to increase the return to job search activity. As previously mentioned, regarding the South African case, passive policies (i.e. social welfare nets) can provide important capital within the household enabling youth to engage in job search. However, more targeted policies might be more appropriate to support the unemployed youth in their search, such as public transport passes for urban job searches. Wage subsidies – paid to the worker – can also increase the return to finding a job; although such policies are easier administered via the firm, in the form of tax incentives.

54 Similarly, the South African 2005 Labour Force Survey revealed that only 10 percent of people in this age group used networks to find a job. Further, the country's widespread unemployment makes it difficult for the youth to get information about job opportunities through networks, especially since the majority of individuals within their networks are unemployed as well (Altman, 2007).

On their path to productive employment, the youth also grapple with mismatch between the skills they possess and those demanded by the labour market. Estimates for South Africa suggest that, in 2002, there were about 90,700 vacancies, or 4 percent of all high skilled jobs. At the same time, people with diplomas experienced 12 percent unemployment and university graduates faced a 5 percent unemployment rate (Altman, 2007). *Measures including reforms to educational systems, with a view to making them more practical, could go a long way in this regard. According to a survey of youth support in 31 countries, most African countries have implemented some form of training and education reform (AfDB et al., 2012). Holistic entrepreneurship programmes, encompassing assistance with start-up costs together with training on financial literacy and other areas, could also be of interest.*

Youth expectations can also be a supply-side obstacle. In North Africa, young people with good levels of education hold out for public sector jobs and are thus more likely to be unemployed than people with lower levels of education (AfDB et al., 2012). In reality, however, public sector jobs are available to a relatively small share of the youth population. *To avoid queuing for public sector jobs, governments could make criteria for employment in the public sector more meritocratic and be clear about the standards required in the civil service.*

Public opinion suggests that, in MICs, many unemployed young people choose not to work because of the low wages they face in the informal sector or low-skill formal sector. They would rather wait for a higher paid job offer. Unfortunately, it is difficult to collect accurate information



on reservation wages and youth expectations. This is an area of research which is largely under explored across Africa. It may also be a feature unique to MICs. In African LICs, informal sector employment and self-employment dominates. However, in countries where tertiary education graduation rates are increasing (such as in Kenya and Ethiopia) one might expect a reservation wage argument to explain a share of the educated youth unemployment. Although, this is a supply-side problem which speaks to a mismatch between skills demanded and those supplied, the appropriate policy response would be a demand-side policy which looks to increase the demand for these surplus skills.

In many African countries, pre-existing market conditions - that is, high unemployment - present the largest obstacle to youth employment. This points to an overall lack of work opportunities (Elder and Koné, 2014; AfDB et al., 2012; Page, 2012)⁵⁵. Youth wage employment is therefore primarily a demand-side problem. These challenges are related to low growth, or to capital-intensive, rather than labour-intensive, growth. High overall unemployment generally signals a lack of work opportunities for all. In this case, the importance of a *stable macroeconomic and political environment as well as measures geared towards improving the business climate* cannot be emphasised enough.

To generate long-run growth, governments should ensure sustained levels of infrastructure development and a pro-business (formal and informal) policy environment. Fixed capital expenditure on both fixed infrastructure as well as social infrastructure (for example, schools and hospitals) addresses both the supply- and the demand-side components of youth unemployment. A World Bank report on the state of Africa's infrastructure found that, while infrastructure spending has been a vital component of Africa's recent growth revival, the levels of infrastructure investment still lag behind other developing regions. Reducing the cost of infrastructure services (especially

transport, energy and ICT services) – some of which is driven by high profits rather than high costs – is key to creating a more business friendly environment (World Bank, 2010b). Fixed capital investment in major infrastructure projects also has the potential to provide substantial employment in Africa. However, achieving cost-effective, efficient and sustainable infrastructure upgrades should be the primary targets of such projects, rather than employment creation. Too heavy an emphasis on the public sector employment potential of such projects could jeopardise the long-run returns on investment.

Beyond targeting long-run private sector growth, stable macroeconomic policy and infrastructure investment; active demand-side youth employment policies are needed. These generally include direct employment programmes (i.e. public works programmes) and employment or on-the-job training incentive schemes (i.e. youth wage subsidies). Direct employment programmes, through public works, have been used in at least 20 African countries (AfDB et al., 2012). These policies are generally seen as a short- to medium-term solution and are often used as part of counter-cyclical fiscal policy. Public works programmes are often designed to help the youth make the initial transition into the labour force, with the hope that the work experience they gain will assist them in securing a job outside of the programme. However, it is essential that such policies have limited life-spans and are seen as short- to medium-term policies.

Finally, it is often existing policies or regulations that hinder efficient labour market activity. Given the risks of employing a young person with limited work experience, restrictive labour regulations, that make it harder to dismiss unproductive employees, may discourage employers from hiring youths in the first place. Employment legislation plays an important role in protecting workers and in ensuring decent standards of work. However, the evidence is mixed with respect to how labour market regulations affect employment outcomes. Still, in some countries, regulations may make it difficult for employers to structure internships or short-term contracts to provide young job market entrants with experience. Companies may prefer informal arrangements if formal contracts are risky, given

⁵⁵ This applies especially to middle income countries in Southern Africa which have found themselves in a 'middle income trap' (i.e. experiencing extensive periods of low growth). Sluggish growth amongst Africa's MICs and commodity market driven growth for many of Africa's LICs, has resulted in high rates of labour market inactivity and/or unemployment across various levels of education.

Box 5.1 Demand-side youth employment policies in South Africa

Policymakers may also try to incentivise the employment of young workers through the subsidisation of leadership programmes, or through tax incentives. Government can subsidise leadership programmes in businesses as a way of reducing the cost of employing younger, less-experienced employees. However, these programmes tend to be run by medium to large firms (especially if the programme is registered and standardised). Larger firms may have fairly inelastic demand for young workers. In such a case, subsidising these programmes would result in a large deadweight loss to society. If a subsidy resulted in an increase in leadership programmes, then it could have a positive net return (Burns et al., 2010). Wages of young employees can also be subsidised directly. These policies tend to take the form of tax incentive schemes that reduce the income tax paid by the firm on young employees. However, by definition, only tax-registered businesses would qualify for such a programme. Such a policy would be, therefore, less effective in many of Africa's LICs, whose economies are largely informal.

Despite its strong economic performance compared to other African MICs, South Africa has one of the highest youth unemployment rates on the continent. In 2011, the youth unemployment rate was more than double the aggregate unemployment rate. Approximately two thirds of the unemployed youth had never had a job (RSA National Treasury, 2011). South Africa's policy response has included a number of demand- and supply-side labour market policies. However, it is arguable that in the context of extreme unemployment (excess supply of labour) the impact of supply-side policies can be limited; thus, South Africa has also invested in demand-side policies. These policies include:

- The Expanded Public Works Programme (EPWP), implemented in 2004 as a short- to medium-term solution, which has provided 1.6 million jobs and is still in place (Ranchhod and Finn, 2014; Meth, 2011);
- Leadership Agreements which provide financial incentives to those firms which offer accredited training programmes for the youth (see Schöer and Rankin, 2011; Burns et al., 2010; RSA National Treasury, 2011); and,
- Most recently, an Employment Tax Incentive (ETI). Below, we provide a brief description of South Africa's ETI as well as a review of Ranchhod and Finn (2014), who investigate the short-term impact of the ETI on youth outcomes.

South Africa's Employment Tax Incentive (ETI)

1. Design and implementation

South Africa's ETI aims to lower the additional costs associated with employing young individuals, both in relation to the risk of employing someone with little or no work experience, and the cost of training them. Indeed, 61% of South African firms find that referrals are the best mechanism for recruiting which, ex ante, reduces the probability of an inexperienced youth finding a job and confirms the need to compensate firms for this risk (Schöer and Rankin, 2011). Firms which pay their young employees (aged 18-29) between R2,000 and R6,000 a month, and which are registered for income tax, qualify for the ETI subsidy. It is, therefore, targeted at lower skilled employees and has built-in disincentives to not replace existing employees. The programme aims to spend R3 billion over 3 years during which it hopes to create 178,000 jobs at R28,000 per job (see Ranchhod and Finn, 2014).

The ETI took effect on the 1st January 2014. Its launch followed an extensive period of debate on the potential positive and negative impacts of the policy by all potential stakeholders. South Africa's largest labour union federation, COSATU, argued that the subsidy would result in labour market 'churning' and the substitution of adult employment with subsidised youth labour (COSATU, 2012). Moreover, they argued that reducing the cost of employing individuals who otherwise would have been unemployed would result in a 'deadweight loss' to the economy – an impact which has been documented by other international experience (see Betcherman et al, 2004). However, in a survey of firms, Schöer and Rankin (2011) found that, under a hypothetical ETI, 62% of firms would favour youth in new hiring, while 77% confirmed that they would not replace existing employees due to the loss of experience and cost of retrenchment.

2. Policy outcomes: Ranchhod and Finn (2014)

Given Schöer and Rankin's (2011) finding that 38% of firms would hire new labour under the ETI, one would expect a significant positive impact of the ETI on youth employment, even in the short-run. The little information there is about the uptake of the wage subsidy suggests that approximately 56,000 firms are registered for the ETI (Ranchhod and Finn, 2014). Ranchhod and Finn (2014) investigate the short-run (6 months after implementation) impact of the ETI using micro-level data from the South African quarterly labour force survey. They find no evidence of a significant increase in youth employment prospects or the rate of employment uptake after the implementation of the ETI in January 2014. Although their study can only capture the immediate short-run impact of the ETI, they give four reasons for the lack of an employment effect:

- The ETI may require more than 6 months to have an impact on employment outcomes, especially if the rules of the policy are unclear to employers;
- Due to the nature of the tax incentive, it does not reach non-income-tax-registered businesses (predominantly SMEs) nor informal sector enterprises, thus restricting the pool of targeted firms to predominantly medium to large firms which may have more inelastic demand for labour;
- The value of the incentive might be too low to have any significant impact on employment decisions;
- Within larger firms, there may be a disconnect between recruiters and recipients of the ETI deduction. In large companies, with multiple branches, the tax deduction may benefit the central business, while employment decisions are made by unaffected local managers.

Ranchhod and Finn (2011) also argue that the ETI's intended outcomes are rather unambitious given the extent of South Africa's youth unemployment problem. Creating 178,000 jobs over 3 years is a very modest improvement for a country with approximately 3.66 million youths. It would, *ceteris paribus*, only improve the unemployment rate by approximately 2.6 percentage points from 51% to 48.4% (authors' calculations). Unfortunately, at this point, the evidence points to no significant improvement in employment outcomes and to a potential deadweight loss, as firms receive tax deductions for hiring youth whom they would have hired anyway.



Source: Authors

young people's lack of employment history (Gumede et al., 2013; AfDB et al., 2012).

Further, some labour market regulations put young people at a direct disadvantage to older workers. Severance payments that are proportional to the length of employment make it cheaper for a firm to fire a young person (e.g. a recent hire) relative to those employed for a longer time in the same company. Similarly, strong labour unions favour insiders and negotiate wages, including the minimum wage, that are too high relative to a young person's market value. Even though the youth are typically more mobile than adults, the lack of affordable housing and public transport make it challenging for the youth to tap into this source of comparative advantage. While such labour market institutions may exist in only a few African middle income countries, the low income countries should take these lessons into account as they are designing their own emergent systems. *Overall, it is important to ensure that labour market regulations give explicit attention to facilitating the youth's engagement with the labour market alongside their more traditional concerns, of protecting those already in employment.*

In summary, as they enter the formal or informal labour market, young people are at a disadvantage due to their lack of experience and knowledge of the labour market. It is essential that, through education and training, the youth are equipped with the skills that are demanded in the labour market, taking into consideration changes in technology and the growth of new industries. Moreover, supply-side policies should be used to improve the uncertain return to job searches, especially in urban centres where costs can be higher, and they should assist in matching young people with job openings. In countries with high youth unemployment, supply-side policies may be less effective. Demand-side policies will be needed to ensure job creation that can match the large youth cohort still entering the labour force across Africa. It is essential that macroeconomic policy is used to create a sustainable, pro-employment economic environment that is supported by expanding infrastructure projects.

Finally, regulation and existing policy can often be a hindrance to more efficient labour market outcomes.

5.5.2 Creating jobs: Youth entrepreneurship

All regions of the world have been experiencing changes in population demographics, technology, and more frequent occurrence of aggregate shocks. These changes have brought about varied responses including, heightened emphasis on entrepreneurship by governments, organisations and the public (Herrington and Kelley, 2012). The interest in entrepreneurship is particularly relevant for Africa, which has a very high share of necessity (or subsistence) entrepreneurs. However, opportunity (productive) entrepreneurship has remained relatively scarce.

For many young people in Africa today, entrepreneurship might be the only viable path to a sustainable livelihood. Moreover, economic policy in many African countries has seen a shift towards supporting entrepreneurs and Small and Medium-Sized Enterprises (SMEs) as a source of both economic growth and employment creation, especially for the youth (Chigunta et al., 2005)⁵⁶. In addition, the opportunities for entrepreneurship in developing countries are far-reaching and central to the economy (Lingelbach et al., 2005).

However, not enough is known about productive entrepreneurship as a source of livelihoods in Africa. For the youth, becoming an entrepreneur may come with a number of challenges, including having acquired the necessary business training to develop a profitable enterprise and securing capital to invest in a new firm. These challenges may also vary by gender and geographical divides. For example, access to capital and training in urban areas is generally better than in rural areas, and, young women may hold other responsibilities within the household that prevent them from securing the training or spending the time necessary on running a business. At the same time, ***the extra challenges provide the basis for intervention in start-up capital, skills, networking and mentoring, to put***

⁵⁶ While entrepreneurship and SMEs are not identical, most entrepreneurial activities in SSA occur in SMEs.

the chances of young entrepreneurs on an equal footing with those of adults..

While views on the importance of these constraints for youth start-ups vary, access to finance for young entrepreneurs is a key factor limiting the development of firms in Africa (see, for example, UNDP Swaziland, 2013). Entrepreneurs often depend on informal forms of borrowing (Bygrave, 2003 in Lingelbach et al, 2005), in part, because banks do not find lending to SMEs profitable and most African capital markets do not function smoothly. Government programmes established to provide start-up funds are often not effective in allocating them in the most efficient manner, and are sometimes even stifled by corruption (Global Entrepreneurship Monitor, GEM, 2012). There is also, in general, a shortage of reasonably priced credit available to those without collateral. ***Developing entrepreneurial ecosystems that would include adequate supply of credit for SMEs at reasonable cost, even for those who do not have traditional collateral, could go a long way towards facilitating high growth entrepreneurship.***

Herrington and Kelley (2012) identify the lack of school based skills and knowledge specific to business development, as well as generally low levels of education as major limitations on the development of entrepreneurs in SSA. For example, Bosma and Harding (2006), using GEM survey data, find that lack of financial literacy and low managerial skills limit young entrepreneurs in South Africa (see also, Kojo Oseifuah, 2010). However, entrepreneurs require more than just business training. They need what Chambers and Conway (1992) describe as 'livelihood capabilities'. Chigunta et al., (2005) refer to these capabilities as 'enterprising life skills' which enable an individual to: Recognise their own potential and capacity; Make healthy risk-aware decisions; Navigate conflict; and, Think strategically. ***Preparing youth with both the 'hard' and 'soft' skills for entrepreneurship is essential to enable sustainable livelihoods.***

While entrepreneurial training and education are the most commonly used non-monetary interventions, international experience with these measures is mixed.

Youth entrepreneurship training programmes can be successful provided that other necessary preconditions are met, including correct targeting and a good time limit. They can target the most vulnerable (e.g., in rural areas, from low-income families) or maximise the number of potential beneficiaries. A review of almost 300 global studies on youth employment interventions highlighted the following policies/projects as effective demand-side interventions (Puerto, 2007):

- Project Baobab, in Kenya, targeted low-income rural youth. About half of those who received the start-up grant were running businesses with good-to-marginal success during 2000 – 2004.
- Jua Kali Voucher Program (Kenya) for SME training and technology projects in the late 1990s and early 2000s. Almost 40,000 vouchers were issued to SMEs. The scheme boosted employment and business activity for participating enterprises, but the subsidies were challenging to phase out.
- Young Micro Entrepreneurs' Qualification Programme, in Peru, focused on business plans and profitability. The programme led to an 8% increase in entrepreneurs' likelihood to operate a business, and an 8% increase in their average income in the short-term.
- A youth promotion project, in Bosnia and Herzegovina, raised the attractiveness of agribusiness entrepreneurship for the youth and reduced pressures for rural-urban migration. The project offered training in selected agricultural fields and fostered the establishment of small farms.

A key policy message from Puerto's (2007) review and other studies, such as the OECD (2012) study of youth with high potential, is that integrated packages of support are more effective than single instruments (see, Box 5.2). The importance of integrated packages of services, rather than isolated measures, is also a key lesson from entrepreneurship programmes in Africa targeting vulnerable people in general (rather than youth focused). Furthermore, programmes involving start-up subsidies need to

have a credible exit strategy. Governments should partner with private actors in carrying out such interventions. In fact, training schemes seem to be more effective when administered by the private sector.

In summary, for many of Africa's young people, entrepreneurship (or self-employment) is the only labour market opportunity they have. An essential component of achieving broad-based economic growth and development in Africa will be harnessing the growth potential

of these youth start-ups. Equipping young people with business skills, both while at school and within the market place, is needed to turn, what are often survivalist enterprises, into growth oriented businesses that have the potential to generate employment opportunities for others. Supporting SMEs with affordable credit facilities as well as ensuring the support of infrastructure investment (again, transport, energy and ICT are key) is key to achieving these goals.

Box 5.2 Avoiding a lost generation: Findings from the G20 countries

The importance of entrepreneurship and SMEs for job creation and economic growth in G20 countries – and elsewhere – cannot be emphasised enough. In G20 countries, SMEs account for two thirds of employment and generate jobs at about twice the rate of their larger counterparts. The global financial crisis has left a legacy of weakened public finances. In the aftermath, policymakers in G20 countries have heightened their interest in entrepreneurship as a source of job generation, support for local communities, and, as an integral part of prosperous societies. Young entrepreneurs (aged 15 – 35), with potential for innovation to spur growth, are of particular interest. Beyond direct economic benefits, young entrepreneurs can serve as role models in their societies and mentor other aspiring entrepreneurs.

The G20 Young Entrepreneurial Alliance (the G20 YEA), a group of NGOs representing over 500,000 entrepreneurs, prioritises the following areas to support high growth entrepreneurs:

- A strong and vibrant research sector;
- The Entrepreneurs' Infrastructure Programme (R&D tax incentives);
- A framework for SME entrance and growth, access to finance and information; and,
- Entrepreneurial skills and capacity, digital know-how.

Jointly with Ernst & Young (EY), the G20 YEA carried out a study to derive effective policies in support of productive youth entrepreneurship. Areas that should be prioritised in a given country or region depend on the main causes of youth unemployment. Specifically, countries are categorised based on the speed of job creation for youth and the quality of these jobs. Four main categories are: (i) Strong economies/strong skill-match (e.g., Australia); (ii) Strong economies/weak skill-match (e.g., China); (iii) Weak economies/strong skill-match (e.g., South Korea); and, (iv) Weak economies/weak skill-match (e.g., Italy). The key policy areas to address in order to support youth entrepreneurship are:

1. Access to finance: Funding should be combined with mentoring and financial literacy training. Other priorities include: Developing venture funding; Facilitating the availability of public funding for start-ups; and, banking funding for expansion capital;
2. Regulations and the tax system: A simpler, SME-friendly environment is needed. In EY's 2013 survey of 1000 entrepreneurs, one third demanded the creation of a single government agency to help new businesses with all regulations and tax filing.
3. Societal attitudes: The public needs to adopt a more positive attitude to start-ups and tolerate failures. The contribution of entrepreneurs as job creators needs to be better recognised.
4. Regional entrepreneurship: Focus on developing a regional entrepreneurship ecosystem and providing funding to regional organisations.

The above measures are also relevant in Africa. Kenya and Nigeria, for example, have already embraced entrepreneurship as a way to generate livelihoods, but are still grappling with access to finance. In other countries, for example in Southern Africa, the youth still views public sector employment as the most desirable, entrepreneurship is a default choice. In all African regions, enabling frameworks for regional entrepreneurship are yet to be developed.

Sources: Ernst & Young (2013) and (2014).

5.6 Conclusion

Africa faces a variety of complex challenges as it attempts to move forward along a sustainable growth path to eradicate poverty and achieve broad-based economic development for all. In chapter 3, we discussed the reasons why growth has not been inclusive: Inequality in human capital development is one of the obstacles that needs to be addressed. This chapter analysed various challenges and opportunities faced by youth in the labour market. Given the projected growth of Africa's youth population, as well as the dynamics of rural-urban migration and intraregional migration, it is essential that governments and regional institutions engage with matters concerning the youth.

In particular, the transition to the labour force is a defining characteristic of the broader transition from childhood into adulthood. Africa's MICs currently face some of the highest youth unemployment rates in the world. Many of its LICs appear to have no unemployment problem, which masks high levels of labour market vulnerability and under-employment. Policy responses should, therefore, be context specific, but should in all instances deal with both the demand- and supply-side aspects of youth unemployment.

This chapter addressed the wage- and self-employment opportunities for youth separately and discussed policy responses accordingly. Firstly, it addressed the challenges faced by young people when searching for wage employment. It highlighted the need for improving education outcomes, both in terms of quantity and quality, as an essential supply-side response. However, it argued that in the context of high unemployment, demand-side policies are equally important. Africa needs to generate more jobs, which requires collaboration between government and private sector to create an employment-creating

macroeconomic environment through adequate infrastructure investment.

However, many of Africa's youth will not have the opportunity to find wage-earning jobs in the formal sector. Instead, they will look for work within the household, within the informal sector, or, they will migrate in search of work. Others will establish their own businesses. Many African countries have high levels of informal sector activity and self-employment. This entrepreneurial dynamism should be harnessed as a potential source of economic growth and employment. Supportive policies that provide business training and support to SMEs will play an important role.

Africa's youth face many challenges. There is potential for social exclusion, and even for social and political unrest, if the transition from school to work is characterised by long periods of unemployment. The costs of this to each country are very high. It is the youth who embody the necessary dynamism to enrich Africa's economies. The youth are characterised by a progressive attitude towards technology and innovation that will advantage them in the labour market, whether in paid work or as entrepreneurs. There is a potential 'demographic dividend' here, but governments need to respond with active labour market policies to ensure that this continent's youth are able to reach at least some of their potential.

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Appendix

Appendix 5.1 Categorising labour force status

The “Rosetta stone for labor markets” classifies labour market status, and is reprinted below, taken from the ‘African Economic Outlook, 2012’ (AfDB et al., 2012). NEET stands for ‘Not in Employment, Education or Training’.

1. Labour Force Status	2. Time Use	3. Employment Status		4. Working?	5. Job Quality	6. Formality
In the labour force	Full-time worker	Wage employed		Employed	Wage employment	Formal
		Self-employed			Vulnerable employment ²	
		Contributing family worker / unpaid worker				
	Part-time worker	Voluntary part-time employed				
		Involuntary = Underemployed				
Out of the labour force	Job seeker	Unemployed	Broad Unemployment	NEET*		
	Inactivity or housework	Discouraged				
		Inactive				
	In education	Student	Student			

Appendix 5.2 A menu of active labour market policies

A mapping of policy regimes might consist of looking at how much governments spend on different kinds of services, the populations targeted for the services and the connection between these policies and other forms of social assistance (Heckman et al, 1999). The framework below comes from the World Bank (World Bank, 2010b).

Constraints		Possible ALMP Interventions	
		Evidence-based interventions	Mixed evidence, theoretically sound
Job-relevant skills constraints	Insufficient basic skills	<ul style="list-style-type: none"> • Information about the value of education 	<ul style="list-style-type: none"> • Second chance programs
	Technical skills mismatch	<ul style="list-style-type: none"> • Training "plus"/comprehensive programs • Information on returns to technical specialties 	<ul style="list-style-type: none"> • On-the-job-training
	Behavioral skills mismatch		<ul style="list-style-type: none"> • Behavioral skills training
	Insufficient entrepreneurial skills		<ul style="list-style-type: none"> • Entrepreneurial training
Lack of labor demand	Slow job-growth economy	<ul style="list-style-type: none"> • Wage or training subsidies 	<ul style="list-style-type: none"> • Public service programs • Labor-intensive public works
	Employer discrimination	<ul style="list-style-type: none"> • Affirmative action programs 	<ul style="list-style-type: none"> • Subsidies to employers who hire target groups • Employee mentoring
Job search constraints	Job matching	<ul style="list-style-type: none"> • Employment services 	<ul style="list-style-type: none"> • Technology-based information sharing
	Signaling Competencies		<ul style="list-style-type: none"> • Skills certification • Training center accreditation
Firm start-up constraints	Lack of access to financial or social capital	<ul style="list-style-type: none"> • Comprehensive entrepreneurship programs 	<ul style="list-style-type: none"> • Microfinance
Social constraints on the supply side	Excluded-group constraints (ethnicity, gender, etc)	<ul style="list-style-type: none"> • Target excluded-group's participation in programs • Non-traditional skills training • Safe training/employment spaces for specific groups 	<ul style="list-style-type: none"> • Adjusted program content/design to account for excluded-group specific needs

Source: World Bank (2010b)



CHAPTER 6

Structural transformation, agriculture and Africa's development



Key messages

- The African pattern of structural change is very different from the classical pattern that produced high growth in Asia, and, before that, for the European industrialisers. **Labour is moving out of agriculture and rural areas, but formal manufacturing industries are not the main beneficiary.** Urban migrants are being absorbed largely into services, that are not particularly productive, and into informal activities.
- **Africa has huge potential not only to attain food security but also to generate surpluses that can be traded in international markets.** Africa has most of the resources necessary to scale-up agricultural production and productivity. Land and human capital inputs are not scarce in the continent. Physical capital and the good policies necessary to complement Africa's natural and human resources could be augmented for improved agricultural development.
- **African countries will need to develop an array of high productivity sectors to complement traditional agriculture.** The policy agenda should focus on agriculture as a source of growth, through agro-based industrialisation, rather than justifying investment in the sector as a means to address poverty and food security. Adding value to many of Africa's primary exports may earn the continent a competitive margin in international markets. In addition, the volume of Africa's food imports are indicative of potential growth in intra-Africa trade in processed agricultural goods.



6.0 Africa's dual economy

Neoclassical growth theory establishes a presumption that poor countries should grow faster than rich countries. After all, they have the advantage of economic backwardness: Low capital-labour ratios should raise the return to investment, *ceteris paribus*. Further, they can rely on global capital markets to supplement domestic savings, so the latter should not act as a constraint. Finally, they have access to global markets so that they can expand output in tradable goods in which they have comparative advantage.

The standard growth theory does not do a very good job of describing growth miracles. A complementary perspective is provided by the tradition of dual-economy models that have long been the staple of development economics. The birth of modern growth economics has overshadowed these models, but it is clear that the heterogeneity in productive structures, which dual-economy models capture, continues to have great relevance to low income economies in Sub-Saharan Africa. A hallmark of developing countries is the wide dispersion in productivity rates across economic activities: Modern versus traditional; formal versus informal; traded versus non-traded; cash crops versus subsistence crops; etc. Productivity levels vary even within individual sectors, as recent studies have documented.

Implicit in dual-economy models was the difference in the dynamic properties of productivity across the modern-traditional divide. Traditional sectors were stagnant, while modern sectors had returns to scale, generated technological spill-overs, and experienced rapid productivity growth. This picture has been refined over time, and we no longer think of traditional sectors – such as agriculture – as being necessarily stagnant. But in one important respect, recent findings reinforce

the dual-economy perspective. Rodrik (2013) finds that, modern, organised manufacturing industries are different: They exhibit unconditional convergence, unlike the rest of the economy. This is rather remarkable. It suggests that modern manufacturing industries converge to the global productivity frontier regardless of geographical disadvantages, lousy institutions, or bad policies. Under better conditions, convergence could be faster of course. But what is striking is the presence of convergence, in at least certain parts of the economy, even in the absence of good fundamentals.

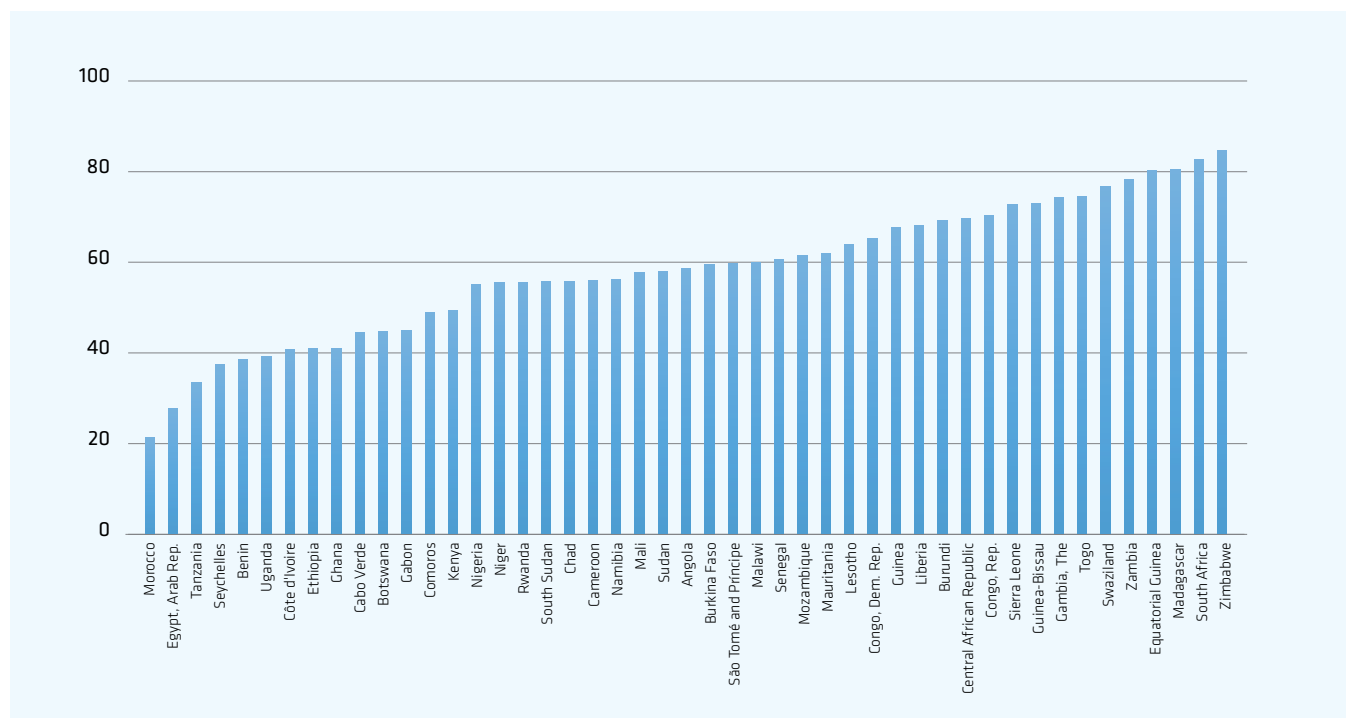
The dual nature of African economies therefore means that the path to sustainable growth depends on the relative sizes of these traditional and modern sectors, and their contribution to overall economic growth. Modern sectors (like manufacturing) exhibit a different growth path from traditional sectors. The former tends to catch up with the rest of the world faster than the latter. The sectors change over time, with resources switching from traditional to modern. Viewing the structure of African economies in this context, the sources of growth can be decomposed into three components: One due to growth in the modern sector; one due to growth in traditional sectors; and, growth due to the reallocation of resources between the sectors, so-called structural transformation. These three sources are influenced by different factors or policy interventions. First, traditional sector growth is likely to be influenced by a set of policies including accumulation of fundamental capabilities such as institutions, and human and physical capital. This sector is dominantly characterised by smallholder agriculture with limited resource capacity. Most countries in Africa have more than 50% of all agricultural employment in the rural economy, with poverty incidence greater than 50% in most countries (Figure 6.1). The magnitude of growth

driven by the modern sector depends on the distance from the global productivity frontier, the convergence parameter, the productivity premium relative to the rest of the economy, and the employment share of this sector. The third influence is the structural change effect. This captures the growth due to the reallocation of resources, in particular labour, from low-productivity sectors to high-productivity sectors.

A modern industrial sector and structural change components of growth decomposition can boost growth significantly, and indeed have played a key role in Asian growth miracles. Their quantitative magnitudes depend crucially on the size of the modern/manufacturing sector

and its rate of expansion – that is to say, the growth impact depends on the pace of industrialisation. Rapid industrialisation produces fast growth to middle-to-upper income status. In the later stages of growth, as industrial convergence runs out of steam, economic progress begins to rely disproportionately on the fundamentals, thus growth slows down. Long-term convergence requires both structural change and good fundamentals. Rapid industrialisation without the accumulation of fundamental capabilities (institutions, human capital) produces spurts of growth that eventually run out of steam. But investment in fundamentals on its own produces moderate growth at best, in the absence of rapid structural change.

Figure 6.1 Rural poverty headcount ratio at national poverty lines (% of rural population)



Source: World Development Indicators, 2015

6.1 Structural change and industrialisation in Africa

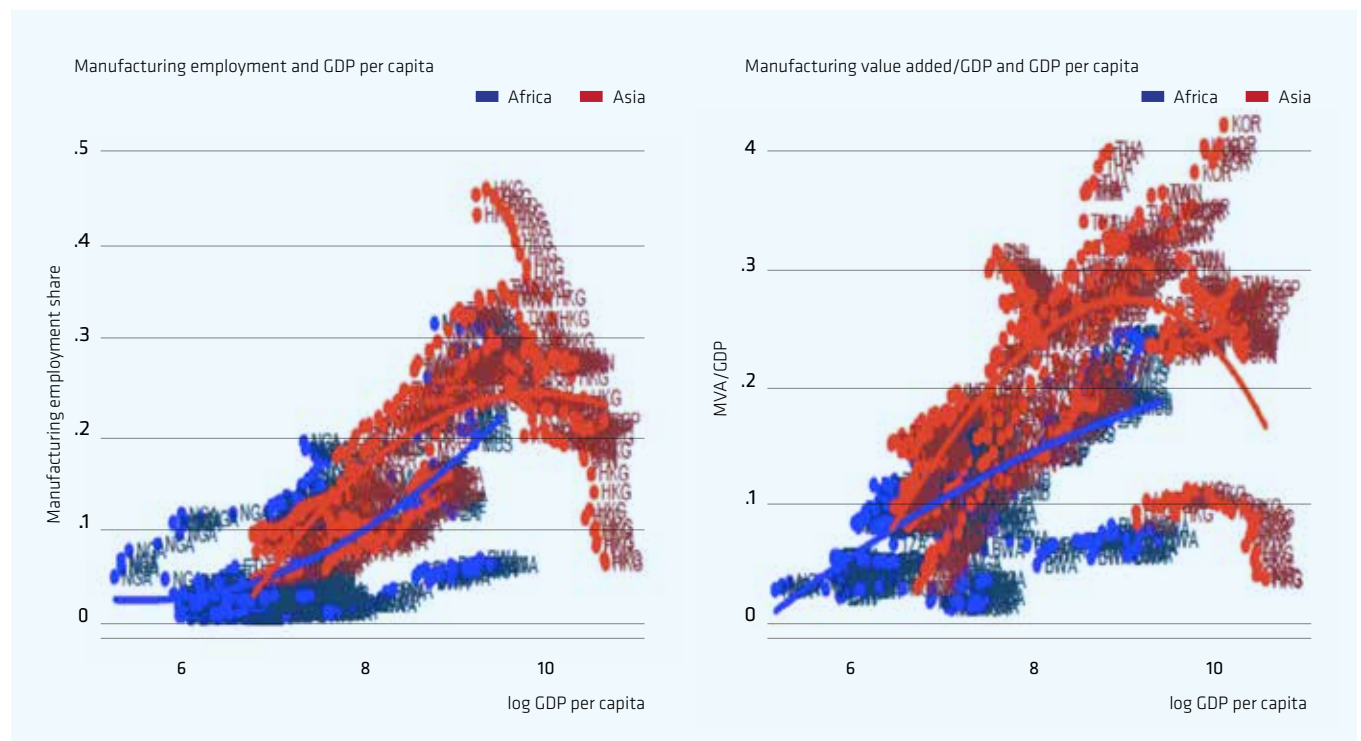
Has Africa achieved structural change? Here the picture is considerably less bright. While farmers have moved out of rural areas and the share of agriculture in employment and value added has dropped significantly since the 1960s, the primary beneficiary of the freed-up labour has been urban services, rather than manufacturing. In fact, industrialisation in Africa has lost ground since the mid-1970s, and not much of a recovery seems to have taken place in recent decades. Manufacturing industries' share of employment stands at well below 8 percent, and their share in GDP is just

around 10 percent, down from almost 15 percent in 1975⁵⁷.

Figure 6.2 provides a visual comparison with Asian countries. African countries are shown in blue, while Asian countries are in red. Not surprisingly, Africa's observations are mostly on the lower left-hand side of the chart, at low

⁵⁷ Based on data from the Groningen Growth and Development Center, covering eleven African countries. But data from other sources (such as the World Bank's World Development Indicators) tell a broadly similar story.

Figure 6.2 African industrialisation is lagging behind, even controlling for incomes



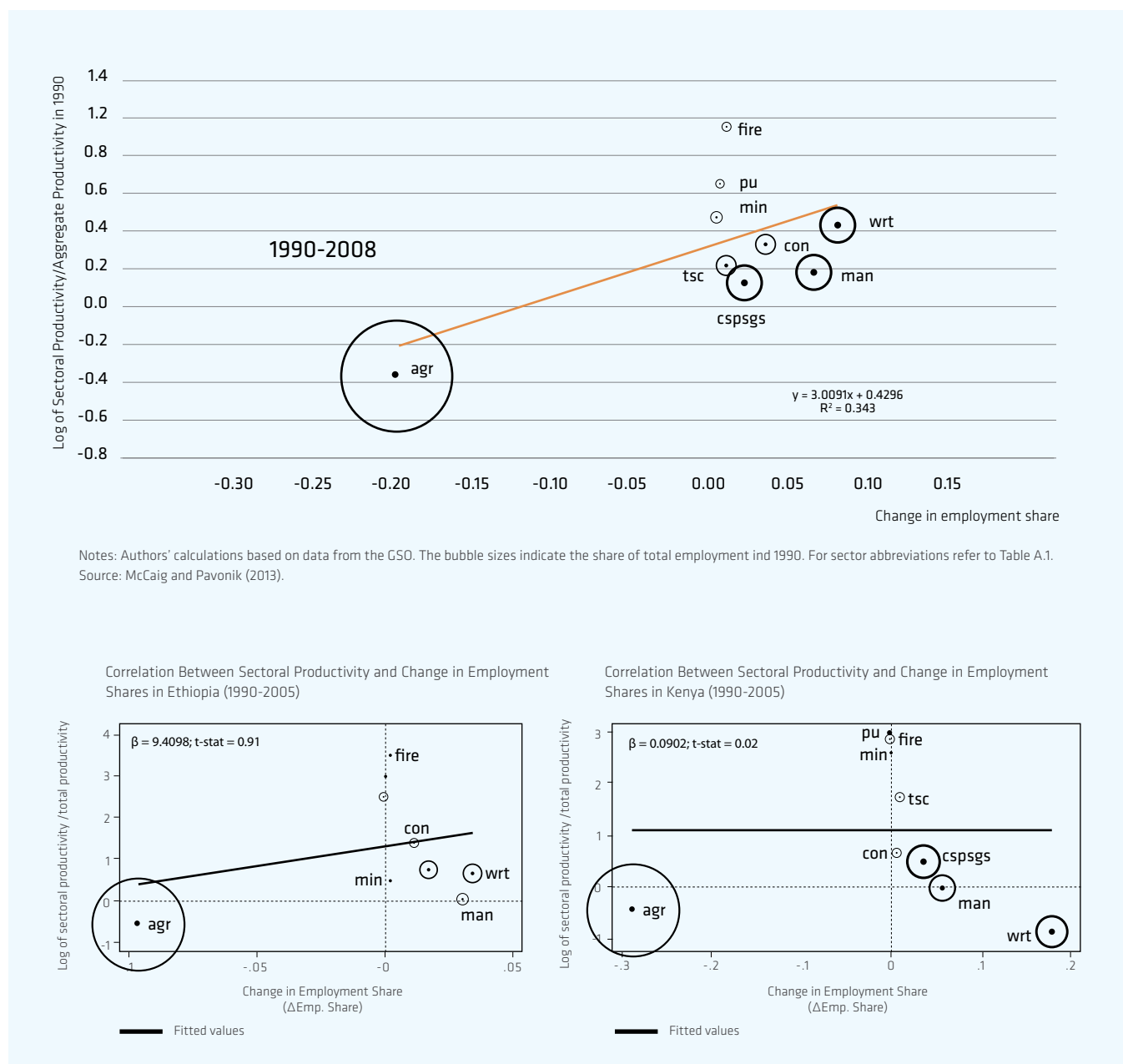
Note: Africa: Botswana, Ethiopia, Ghana, Mauritius, Malawi, Nigeria, Senegal, Tanzania, South Africa, and Zimbabwe. Asia: Hong Kong, Indonesia, India, Japan, Korea, Malaysia, the Philippines, Singapore, Thailand, Taiwan, and Vietnam.

Source: Author, based on data from Groningen Growth and Development Centre

levels of income and industrialisation compared to Asia. But more importantly, and less evidently, the industrialisation-income relationship looks decidedly different in the two regions: African countries are under-industrialised at all levels of income, relative to Asia.

Comparing patterns of structural change for specific countries shows vast differences. Consider Vietnam, Ethiopia and Kenya. Vietnam exhibited the classic, growth-promoting pattern, of structural change. Labour moved away from agriculture into more productive urban occupations.

Figure 6.3 Structural transformation in Vietnam, Ethiopia, and Kenya



Notes: Authors' calculations based on data from the GSO. The bubble sizes indicate the share of total employment in 1990. For sector abbreviations refer to Table A.1. Source: McCaig and Pavonik (2013).

Source: McMillan and Rodrik (2011).

Manufacturing expanded by 8 percent of the labour force over 1990-2008, as have services, which are of high comparative productivity. McCaig and Pavcnik's (2013) work shows that these patterns of structural change account for around half of Vietnam's impressive growth over this period. The pattern in Africa, exemplified by Ethiopia and Kenya in Figure 6.3, is much more mixed. In both cases, there has been outmigration from agriculture, but the consequences have been less salutary. In Ethiopia,

where there has been some growth-promoting structural change, its magnitude is much smaller than in Vietnam. Manufacturing industry, in particular, has expanded much less. In Kenya, meanwhile, structural change has contributed little to growth. That is because the large number of workers leaving agriculture have been absorbed mainly into services where productivity is apparently not much higher than in traditional agriculture.



6.2 Africa's changing economic structures

To generate sustained, rapid growth into the future, Africa has, essentially, four options. The first, is to revive manufacturing and put industrialisation back on track, so as to replicate as much as possible the traditional route to convergence. The second, is to generate agriculture-led growth, based on diversification into non-traditional agricultural products. The third, is to generate rapid growth in productivity in services, where most people will end up in any case. The fourth, is growth based on natural resources, in which many African countries are amply endowed. Let us say a few words about each of these scenarios.

What are the prospects for a *renewed industrialisation* drive in Africa? While the bulk of Chinese investment in Africa has gone to natural resources, there have been some hopeful signs of green field investment in manufacturing across the region, most notably in Ethiopia, Nigeria, Ghana, and Tanzania. Looking at some of these examples, one can perhaps convince oneself that Africa is well poised to take advantage of the rising costs in Asia so as to turn itself into the world's next manufacturing hub. Yet, as we have seen, the aggregate data do not yet show anything like this is actually happening. The share of manufacturing has remained low in most African countries with the exception of a few (see Figure 6.4).

There is almost universal consensus on what holds manufacturing back in Africa. It is the 'poor business climate', a term that is sufficiently broad and all-encompassing that there is room for virtually anything to be included under its rubric. Gelb, Meyer, and Ramachandran (2014), for example, cited costs of power, transport, corruption, regulations, security, contract enforcement, and policy uncertainty among other impediments. There is little doubt that all of these challenges raise the costs of doing business in Africa for an investor interested in starting or expanding manufacturing operations.

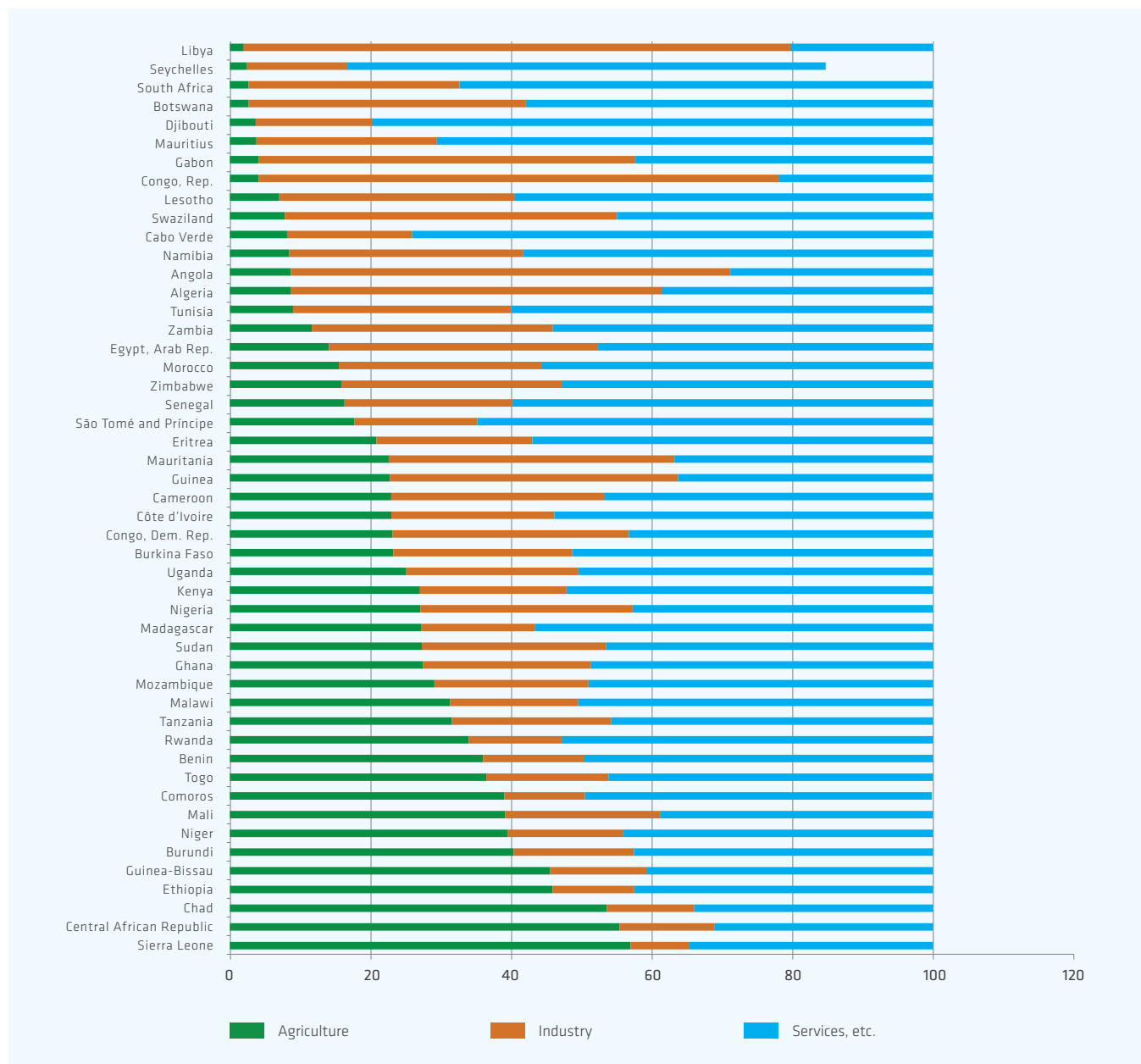
The reasons for this common pattern of premature de-industrialisation are probably a combination of: Global shifts in demand; global competition; and, technological change. Whatever the reason, Africa finds itself in an environment where it is facing much stronger head winds. Countries with a head start in manufacturing developed a large manufacturing base behind protective walls, in Europe and Asia, making it difficult for Africa to carve a space for itself, especially as global demand shifts from manufacturing to services. Having liberalised trade, African countries have to compete today with Asian and other exporters, not only in world markets, but also in their domestic markets. Earlier industrialisers were the product not just of export booms, but also considerable amounts of import substitution. Africa is likely to find both processes very difficult, even under the best of circumstances.

The second scenario of *growth in service productivity* raises the largest number of questions. When being pessimistic about industrialisation to audiences familiar with Africa, invariably a litany of success stories in services are raised – mobile telephony and mobile banking are the most common. These examples seem to lead to a more optimistic prognosis for Africa. However, with few exceptions, services have not acted traditionally as an escalator in the same way as manufacturing has. The essential problem is that those services with the capacity to act as productivity escalators tend to require relatively high skills. The classic case is information technology, which is a modern, tradable service. Many years of education and institution building are required before farm workers can be transformed into programmers, or even call-centre operators. Contrast this with manufacturing, where little more than manual dexterity is required to turn a farmer into a production worker in garments or shoes, raising his/her productivity by a factor of two or three.

So raising productivity in services has typically required steady and broad-based accumulation of human capital capacity, institutions and governance. Unlike in manufacturing, technologies in most services seem less tradable and more context-specific (again with some exceptions, such as mobile phones). Achieving significant productivity gains seems to depend on complementarities across

different policy domains. For example, productivity gains in a narrow segment of retailing can be accomplished relatively easily by allowing foreign entrants, such as Walmart or Carrefour. But achieving productivity gains along the entire retail sector is extremely difficult in view of the heterogeneity of organisational forms and the range of prerequisites across different segments.

Figure 6.4 Value added as % of GDP, 2006-2014, country level



Note: Seychelles collects value added data at basic prices. The denominator (GDP) is calculated using gross value added at factor cost, which is larger than the sum of value added by the three sectors. Source: World Development Indicators 2015

None of this is to say that the past will necessarily look like the future. Perhaps Africa will be the breeding ground for new technologies that will revolutionise services for the masses, and do so in a way that creates high-wage jobs for all. But it is too early to be confident about the likelihood of this scenario.

What about *natural resource based growth*? Once again, the argument against this scenario has to be the paucity of relevant examples in history. Almost all of the countries that have grown rapidly over a period of three decades (say, at 4.5% per annum or more), have done so by industrialising (Rodrik, 2013). In the post-World War II period, there were two such waves of countries, one in the European periphery (Spain, Portugal, Italy, etc.) and one in Asia (Korea, Taiwan, China, etc.). Very few countries could achieve such performance based on natural resources alone, and those that did were typically very small countries with unusual circumstances. Three of these countries were in Sub-Saharan Africa: Botswana, Cape Verde and Equatorial Guinea. What these countries

demonstrate is that it is indeed possible to grow rapidly if you are exceptionally rich in minerals and fuel. But it would be a stretch of the imagination to think that these countries set a relevant or useful example for countries such as Nigeria and Zambia, let alone for Ethiopia and Kenya.

The downsides of natural resource based growth patterns are well known. Resource sectors tend to be highly capital intensive and absorb little labour, creating enclaves within economies. This is one reason why small economies can generally do better with resource windfalls. Resource booms crowd-out other tradables, preventing industries with escalator properties from getting off the ground. Resource rich economies experience substantial volatility in their terms of trade. They also have great difficulty in managing/sharing resource rents. Institutional underdevelopment is often the price paid for resource riches. All these factors help to account for why resource based growth has not paid off for most countries.

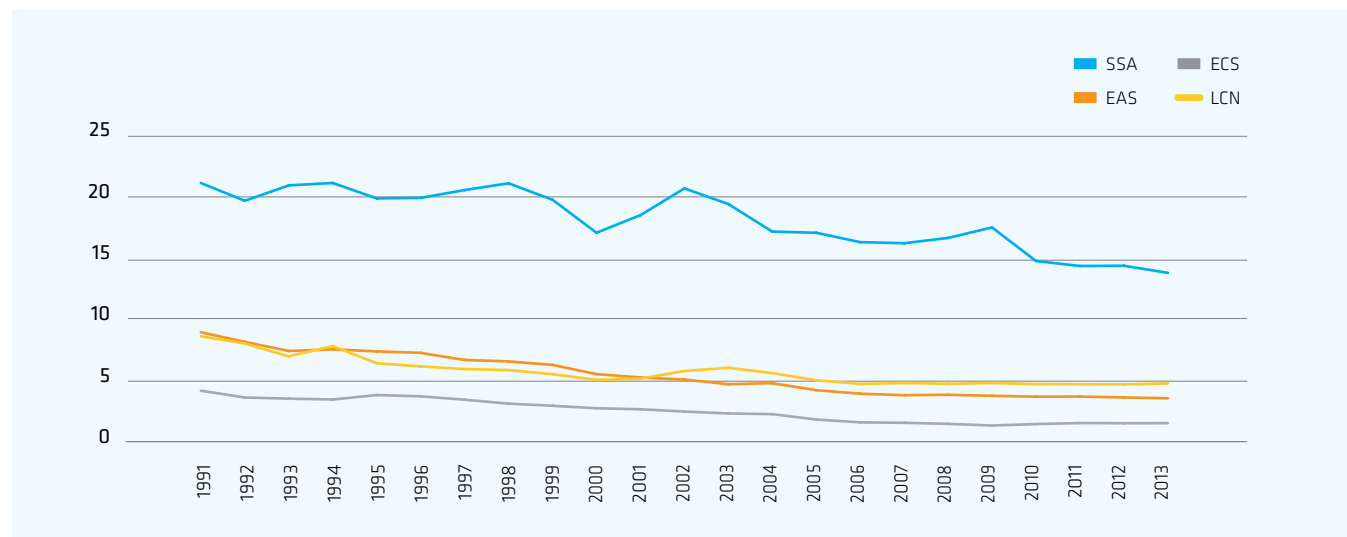


What about the scenario of *agriculture-based growth*? Since so much of Africa's workforce is still in agriculture, does it not make sense to prioritise agricultural development? Without question, there are many unexploited opportunities in African agriculture, whether in perishable non-traditional products such as fruits and vegetables or perishable cash crops such as coffee, cocoa or cashew nut. Relative to other regions of the world, agriculture remains prominent in Africa as it contributes a significant fraction of the total value added in many countries. Across the continent, however, the share has been declining over recent decades: Falling from about 20% of value added in 1990 to slightly less than 15% in 2013 (see Figure 6.5).

Agricultural diversification seems to be hindered by many of the same obstacles as manufacturing. The term 'poor business climate' applies equally well here too (e.g., Golub and Hayat, 2014). In addition, agriculture has special problems that require governments' attention such as; extension, land rights, standard setting and input provision. Once again, the exchange rate can be an important compensatory tool.

The main argument against this scenario is the difficulty in identifying historical examples of countries that have pulled off such a strategy. Agriculture-led growth implies that countries would sell their agricultural surpluses on world markets, and that their export basket would remain heavily biased towards farm products. Yet one of the strongest correlates of economic development is export diversification away from agriculture. It is true that Asian countries, such as China and Vietnam, benefited greatly from an early spurt in agricultural productivity – and this was particularly helpful for poverty reduction. But in all cases, the subsequent and more durable growth boost came from the development of urban industries. Moreover, even if modern, non-traditional agriculture succeeds on a large scale in Africa, it is unlikely that this will reverse the process of outmigration from the countryside. More capital-, and technology-, intensive farming may even accelerate this process. So, one way or another, African countries will need to develop an array of high productivity sectors to complement traditional agriculture.

Figure 6.5 Agriculture value added (% of GDP), by region



Note: SSA= Sub-Saharan Africa, EAS=East Asia & Pacific; ECS=Europe & Central Asia; LCN=Latin America & Caribbean
Source: World Development indicators, 2015.

6.3 Special focus on the agriculture sector

6.3.1 Linking agriculture and poverty

Poverty tends to be more responsive to shifts in the sectoral composition of an economy's growth than it is to increases in mean incomes (Shimeles, 2014). In Africa, close to 85% of poverty originates either in agriculture (54%) or services (31%). The poverty impact of growth depends on what has happened to these sectors (Figure 6.6). The figure reveals a commonly observed concentration of the poor, the intensity of poverty, among those employed in agriculture, relative to those in non-agricultural sectors. It suggests that, as extreme poverty increases, the poverty gap widens between those employed in agriculture and those in non-agricultural sectors.

This sectoral manifestation of poverty has warranted many attempts to understand poverty by focusing on the structural dynamics of African economies. Indeed Monga (2013) noted that one of the defining characteristics for most African economies is the dominance of agriculture in traditional sectors and that the modern sector is largely composed of non-agricultural sectors. He observed that these two economic systems are governed by different sets of technology, incentive structures, risks, access to resources and infrastructure.

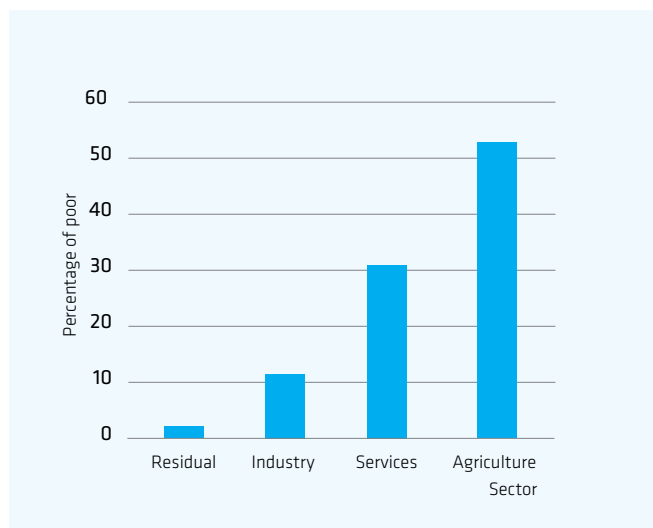
Rodrik (2013) argues that managing the development processes of these dichotomous economic structures requires a blend of neo-classical growth models with a focus on the structural change approach to development. In his framework, countries will grow fast and sustain growth if they focus on getting the fundamentals right, while at the same time contextualising the changing structures of the economies. Focusing on one and neglecting the other would lead to a sub-optimal growth trajectory. In Rodrik's typology, countries that focus and invest less in economic fundamentals (improved governance, macroeconomic

management, openness, rule of law, property rights, better investment climate, etc.), and also less in promoting structural transformation (industrial policy, subsidies of specific sectors, infrastructure and technology investment, rural transformation, etc.) will have no growth at all (Shimeles, 2014). Likewise, addressing the fundamentals and neglecting structural transformation dynamics would yield episodic growth that is not sustainable⁵⁸.

The process of structural transformation is therefore important in assessing progress in poverty reduction. A structural transformation process that shifts growth towards sectors with larger participation of the poor, is likely to have a more significant influence on poverty, especially if the growth rate in this sector is relatively

58 For more on the policy sequences and implementation strategy that echo Rodrik's framework, see Li and Monga (2011), Shimeles (2014).

Figure 6.6 Decomposition of poverty by sector of employment in Africa



Source: Shimeles (2014), based on 26 recent household surveys (2005 and later) for 18 African countries

higher. In Africa, the co-existence of a large traditional and informal sector with a dynamic modern sector will continue to be a challenge to making headway in poverty reduction (Shimeles, 2014).

The agricultural sector in many African countries is characterised by low levels of capital per worker. This makes the sector capital poor and labour rich in most countries. As a consequence, where wages exist, they are often low. Rebalancing the capital to labour ratios can therefore increase productivity and provide decent wages for the rural poor.

Increased productivity will eventually create surplus labour in the agriculture sector. If this is further met by increased investment in non-agricultural sectors, labour exiting agriculture enters the non-agriculture sector, initially as low-cost inputs that serve to attract investment. A successful transformation process ensures that reallocation of labour from agriculture does not create food shortages due to declines in agricultural production. In fact, it requires that the increased agricultural productivity not only provide food for the rural masses, but also for the expanding urban population.

It is important to note that structural transformation does not occur with mere passage of time. It requires proactive intervention to trigger, realise and reap the benefits of the process. Until recently, structural change has not driven African growth other than some increases in productivity in the small, but dynamic, modern sectors (McMillan, 2013). In Asia, for example, increased investment in the rural agricultural sector led to productivity increases, creating excess supply. This pushed labour out of low-wage agriculture into other sectors. Initially, agro-based industries received much of the labour exiting primary agricultural activities. With time, and with the accumulation of human capital, other industrial and service sectors absorbed more of the labour. This surplus labour was the key attraction for investment in Asian economies (Chandrasekhar and Ghosh, 2013). These processes did not happen in isolation. The role of the state in coordinating the process of industrialisation was crucial. In East Asia, systematic government interventions in the form of

trade protection, domestic industrial regulation and tax incentives played a vital role (Amsden, 1989; Wade, 1990).

6.3.2 What can agriculture achieve for Africa?

All sectors of the economy have some positive growth and poverty reduction effect. The question is therefore centred on the relative cost-effectiveness and extent of impact for a unit investment in various sectors of the economy. If Africa is to continue prioritising investment in agriculture, the development strategy should be clear about what it intends to achieve through this investment.

Agriculture-centred development strategies have often been justified by the role the sector plays in enhancing the livelihood of the poor through access to other social amenities, employment and improved food security. The role of agriculture in addressing many shortfalls in the living standard of rural dwellers, and the poor in particular, has attracted unprecedented focus on this sector. Further investment is needed to move the sector from simply providing the food needs of the poor to more market-oriented larger-scale production and improved productivity.

Another justification focuses on the limited capacity of other (non-agricultural) sectors to absorb the excess supply of labour. Agriculture continues to provide employment to the majority of the population, even though concerns of underemployment remain, due partly to the seasonal nature of employment in the sector. A third reason for policy focus on agriculture is to meet the domestic food need of the population. The achievement of this development objective is expected to insulate the continent from global price shocks that often trigger other economic and political pressures.

Though these justifications can be connected to growth and poverty reduction objectives, their focus is primarily on the direct benefits of agriculture for those involved in the sector. If addressing food security and unemployment among the poor who are directly involved in agriculture is outlined as a development objective, then the incentive to expand agricultural production and productivity to

commercial scales will generally be lacking. On the other hand, if the continent wishes to use agriculture both as a source of growth and a tool for effective poverty reduction, then food security and employment of the poor become by-products of these outcomes. Achieving growth and poverty reduction requires understanding how investment in agriculture fuels these outcomes through other, intermediate factors. Africa needs a shift in policy orientation, from one that continues to see agriculture as a tool for addressing the shortcomings of the poor, to one that treats the sector as a means of furthering growth and poverty reduction through its many direct and indirect effects.

6.3.3 Understanding how agriculture achieves welfare for all

Concerns over how to feed the world's increasing population, the 2007-2008 global food price shocks and evidence showing agriculture as the primary source of livelihood for the majority of the poor have caused policymakers to rethink the role of agriculture in development. Yet, analytical approaches to understanding the link between agriculture and national development have led to differing views on the potential of agriculture-centred development strategies. This has generated debate as to which set of

countries should focus on agriculture, and what exactly countries can achieve by prioritising this sector. Should agriculture be considered as an engine of growth, a means of poverty reduction, or, a means of attaining food security? How does growth in the agricultural sector form the basis of growth in non-agricultural sectors?

In the early stages of development, there is close association between development of the agricultural sector and both production and consumption spillovers to non-agricultural sectors. Agricultural productivity growth can yield benefits, such as higher rural incomes and lower food prices in urban areas, which increase savings in rural and urban areas. These savings can be used to finance industrialisation and expansion of the domestic market for non-agricultural goods.

In evaluating the effect of agriculture on poverty, it is important to consider the many channels through which increased agricultural growth may affect the lives of the poor and the non-poor. More investment in agriculture will generate growth in agricultural and non-agricultural sectors, with both effects contributing to poverty reduction. The World Bank (2007) outlines the link between agriculture and development. The report categorised countries into three groups based on the contribution of agriculture to overall economic growth between 1990 and 2005. Countries with a large share of agricultural growth and large agriculture-dependent rural populations are categorised as *agriculture-based countries*. Other categories of countries include *transforming countries* and *urbanising countries*. Transforming countries are those with relatively less contribution of agricultural growth (average of 7%). Countries such as China, India, Indonesia and Morocco appear in this category. Urbanising countries are those with the least direct contribution to total growth coming from agriculture, typically less than 5%. In these countries, poverty is more concentrated in urban areas than in rural areas.

The analysis shows that a sector's contribution to development depends on its contribution to overall economic growth and its role as an instrument of poverty reduction. The effectiveness of a sector's contribution to



poverty reduction also depends on the fraction of the poor employed in that sector. This means an effective development strategy which addresses both growth and inclusion concerns should pay attention to the sectoral distribution of poverty as well as to growth concerns. For countries with the majority of employment being in agriculture, investment in this sector can yield significant growth and poverty reduction. Most African countries are considered to be *agriculture-based*, with agriculture as an important source of both growth and employment. In addition, these countries, relative to countries listed in the other categories, are at an early stage of development: With average GDP per capita of \$395 and over 50% of the population living on less than \$2 per day. These countries have the most potential for gain from investing in agriculture, both in terms of the growth and poverty reduction return.

The relative share of agriculture in overall GDP, or in the growth rate of the economy, is often used to measure its contribution respectively. While this is easily observable from data, it can be much harder to distinguish individual sectoral contributions in the presence of spill-overs between sectors. Failing to account for the spill-overs that arise from the interlinked nature of economic sectors limits our understanding of sector-specific contributions. The role of agriculture in poverty reduction is therefore better evaluated by observing the direct and indirect effects of growth in this sector on the level of poverty.

The direct poverty reducing effect of agricultural growth depends on two factors: The level of participation among the poor in generating growth; and, the share of overall growth attributable to the sector. Christiaensen et al. (2010) distinguish between these two effects of sectoral growth on poverty reduction as “participation” and “share” effects. The level of poverty reduction obtained from growth in the agricultural sector, therefore, depends on the marginal effect of growth on poverty, which is largely determined by how connected the poor are to the sector’s growth process. For a sector like agriculture, where the majority of the poor are concentrated, the growth elasticity of poverty is likely to be higher than for sectors providing

employment or livelihood for a relatively smaller proportion of the poor.

The second direct effect of agricultural growth on poverty reduction is the share effect. The share of overall growth attributable to a sector also influences the role of that sector in poverty reduction, since more growth is likely to benefit more people, especially when inequality is not such a big hurdle to poverty reduction. In effect, this means that the size of agriculture’s share of growth and the responsiveness of poverty to unit growth in agriculture are important in evaluating agricultural investment as an instrument for poverty reduction.

Other channels through which growth in agriculture may be linked to development outcomes are indirect. The indirect effects of agricultural growth include the many ways through which the sector fosters growth in other sectors of the economy (Jonston and Mellor, 1961; Schultz, 1964). The extent of such spill-over effects is much harder to determine, since spill-overs may also occur on agriculture, from growth in non-agricultural sectors. Generally, however, the literature suggests that these reverse effects are smaller (Haggblade, Hazell and Dorosh, 2007).

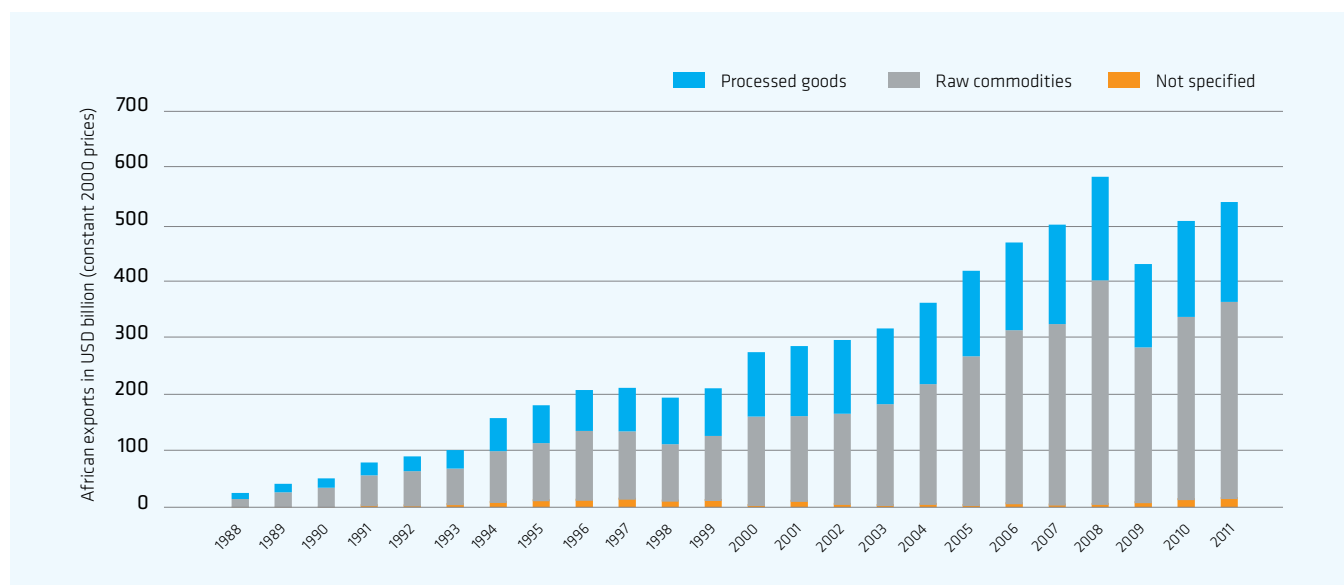
Agricultural growth enhances poverty reduction through other sectors via indirect linkages which can be based on production, consumption or wage linkages (Christiaensen et al. (2010). Agriculture creates forward linkages to agro-processing industries and backwards linkages from input markets. For both types of linkage and sector, agriculture provides the basis for growth and poverty reduction. For example, a manufacturing chain may rely on farmer output to produce its final product. In this way, sustaining agricultural productivity will also sustain employment for workers in the manufacturing firm. This indirect effect can be huge for countries (especially landlocked countries) with limited trade linkages. Typically this includes those with transportation and border restrictions. Therefore, agriculture plays a crucial role in starting and sustaining vibrant agro-based industry at the early stages of development.

Figure 6.7 shows the shares of processed and unprocessed commodity exports over the past three decades. Primary commodity exports have continued to dominate Africa's trade with the rest of the world. Increased output over the years has been accompanied by an increase in the exports of unprocessed primary products, while the share of processed commodity exports has largely remained unchanged over the last decade.

Certainly, if Africa's structural transformation is to be realised, it must be driven by a manufacturing sector that will add value to Africa's primary products before exporting them to international markets. Secondly, agricultural productivity and growth that raises incomes across a wide spectrum of people, can raise demand for locally produced non-traded goods and services (Christiaensen et al., 2010). African economies, with a majority of labour employed in agriculture, can potentially trigger this demand effect by raising productivity and orientating agriculture more commercially. Finally, successful agricultural development leads to food self-sufficiency and drives general food prices down. This outcome contributes to lower real product wages in non-agricultural sectors, making these sectors more attractive for further investment.



Figure 6.7 African exports in USD billion (constant 2000 prices)



Source: African Economic Outlook, 2013

6.4 Transformation and the increasing relevance of agriculture

The economic literature has often used the evolving role of agriculture to explain different stages in a country's development. As observed in advanced countries, it is believed that countries undergo certain structural changes as they transit from one level of development to another. In Africa, one of the observable structural changes is the changing share of agriculture in both GDP and total employment, as discussed in previous sections. This resonates with development thinking that, at the early stages of development, countries tend to have a larger share of their GDP generated from agriculture. As they advance to higher levels of development, the role of agriculture tends to decline. Similarly, the majority of employment is in the agricultural sector during this early stage of development. Due partly to low productivity in agriculture, this early stage of development is characterised by a large disparity between the share of agriculture in GDP and the share of agriculture in employment (World Bank, 2007). As countries transition to higher levels of development, the share of agriculture in both GDP and employment shrinks. Manufacturing and service sectors take prominence as the rural labour force moves into urban areas. Agricultural productivity increases with more science-based innovation. This phenomenon has been observed in Europe, America and in some parts of Asia.

The current declining contribution of agriculture in both output and employment seems to suggest that Africa is following this traditional development path: The role of agriculture is declining and industry and service sectors will become the engines of growth. However, structural transformation in Europe and Asia saw the shift away from agriculture at a time when production and productivity in agriculture had increased due to science-based technologies. This allowed reallocation of labour to non-agricultural sectors with little or no consequences for food

security. In Africa, low agricultural productivity plus an increasing population calls for ongoing improvements in this sector to sustain growth, poverty reduction and food security.

The timing of resource reallocation between sectors of the economy matters for the development outcomes of structural transformation. When resources move from one sector of the economy to another, it should improve development outcomes due to more efficient use of those resources. The current relocation of labour from agriculture to the service sector tends to imply this efficiency outcome, since labour productivity in service sectors exceed that in the agricultural sector. However, in Africa, the reallocation of labour across sectors needs to be understood not only from current efficiency measures but also in the broader development plans of the continent. How much labour can agriculture release? Has African agriculture attained production levels that permit withdrawing labour? Is this labour being replaced by mechanisation? All these concerns loom as policymakers devise strategies to address the huge migration of young people from villages to cities, and as the increasing population puts more pressure on food prices.

In 2011, food imports for Sub-Saharan Africa alone were as large as US\$43.6 billion. Food imports for Sub-Saharan Africa in 2012 were US\$16 billion more than those of India, even though India is much larger in terms of population. In fact, it appears that most of Africa's rural agriculture is subsistence, producing just what is sufficient for home consumption. This seems particularly the case for rural small-holder farmers. For most Sub-Saharan African countries, more than 40% of households depend on their own produce. This means that food production is limited to consumption needs for most households. This

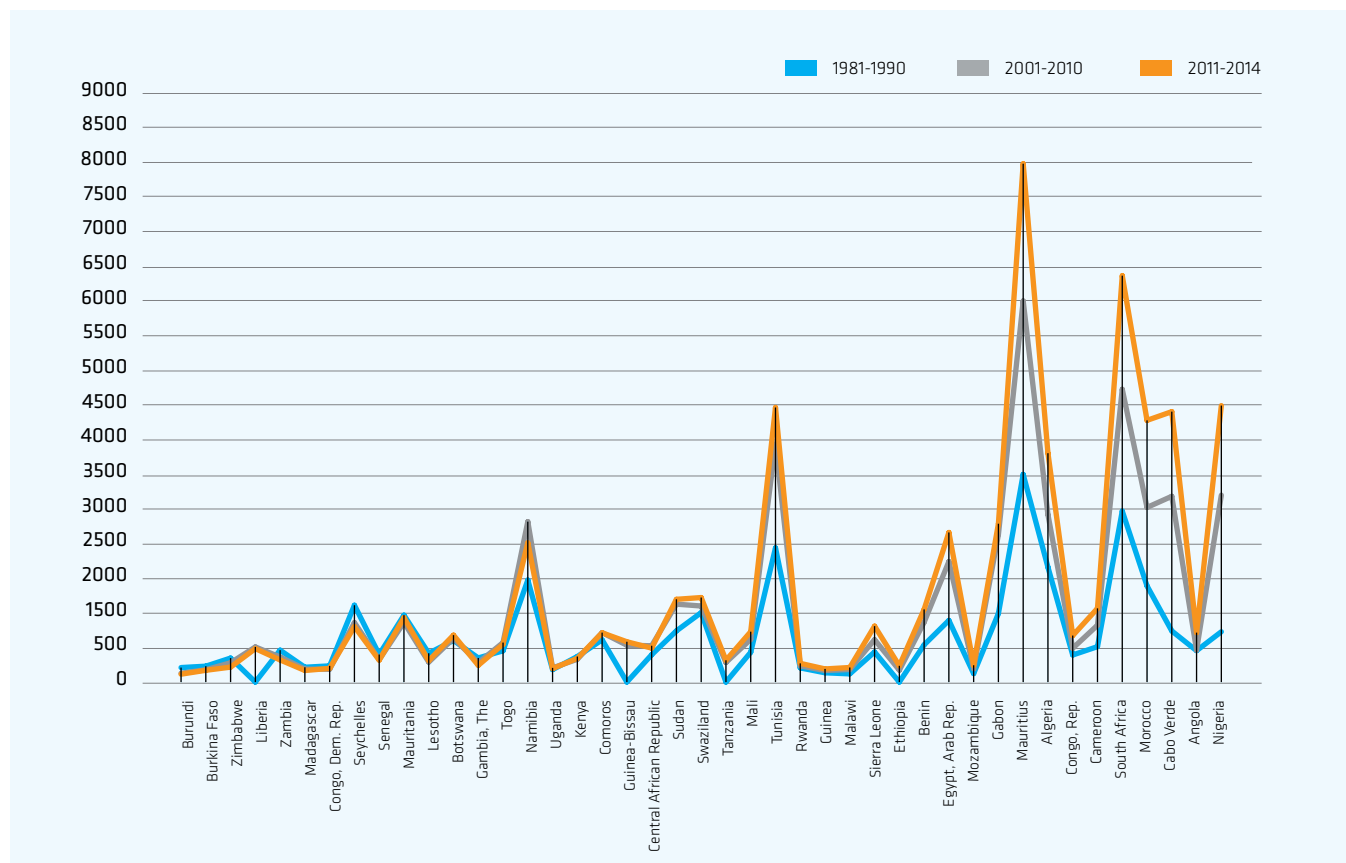
raises concerns about the food security consequences of the movement of labour out of agriculture, especially the young and therefore the most productive labour. Though productivity per worker in the sector has increased in some African countries, it is still far below what holds in other regions of the world.

The overall sequence of labour reallocation (implied by the developmental stage and absorptive capacity of non-agricultural sectors) needs to be considered. How much of the exiting agricultural labour can be accommodated by the service sector? And, what set of skills are expected from these people? remain vital questions. As noted in chapter 3, the labour force exiting agriculture is largely received by the services sectors. Most of it ends up in the informal service sector. This contributes to the gross underemployment statistic currently observed in Africa. Low skilled

labour moving from rural agriculture to informal urban economies often find themselves with jobs that are relatively low-paying compared even to agriculture. In essence, therefore, there are a number of non-pay related factors that underline the nature of structural shifts in African economies. The concentration of social amenities in urban areas, where most of the services-related employment is found has been a major pull factor to labour. Inadequate capitalisation of agriculture in rural areas has been a major push factor away from agriculture.

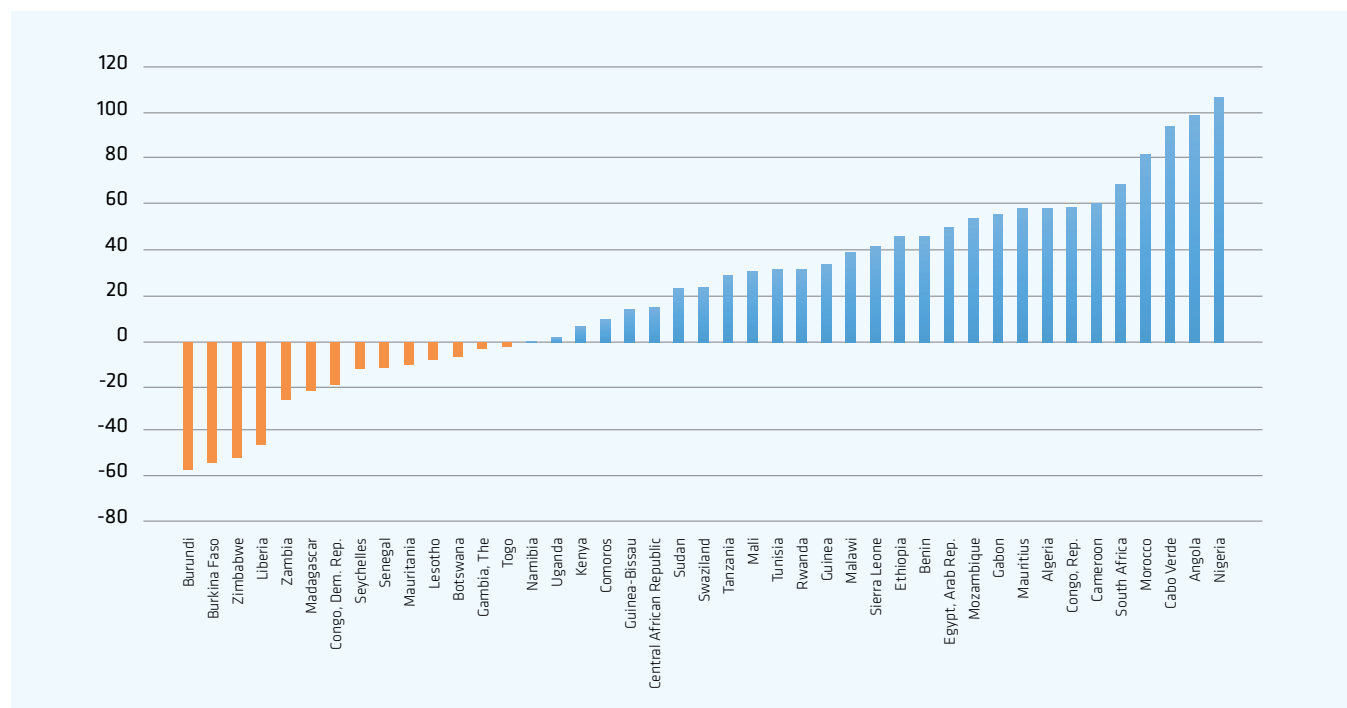
Should Africa's strategy be different in the medium and the long-term? It appears that the increasing role of the service sectors, driven mainly by the tourism, telecommunications and financial services sub-sectors, can be harnessed to fuel medium-term growth. Given that these sectors are the second highest employer of the poor, their potential for

Figure 6.8 Agriculture value added per worker (constant 2005 US\$)



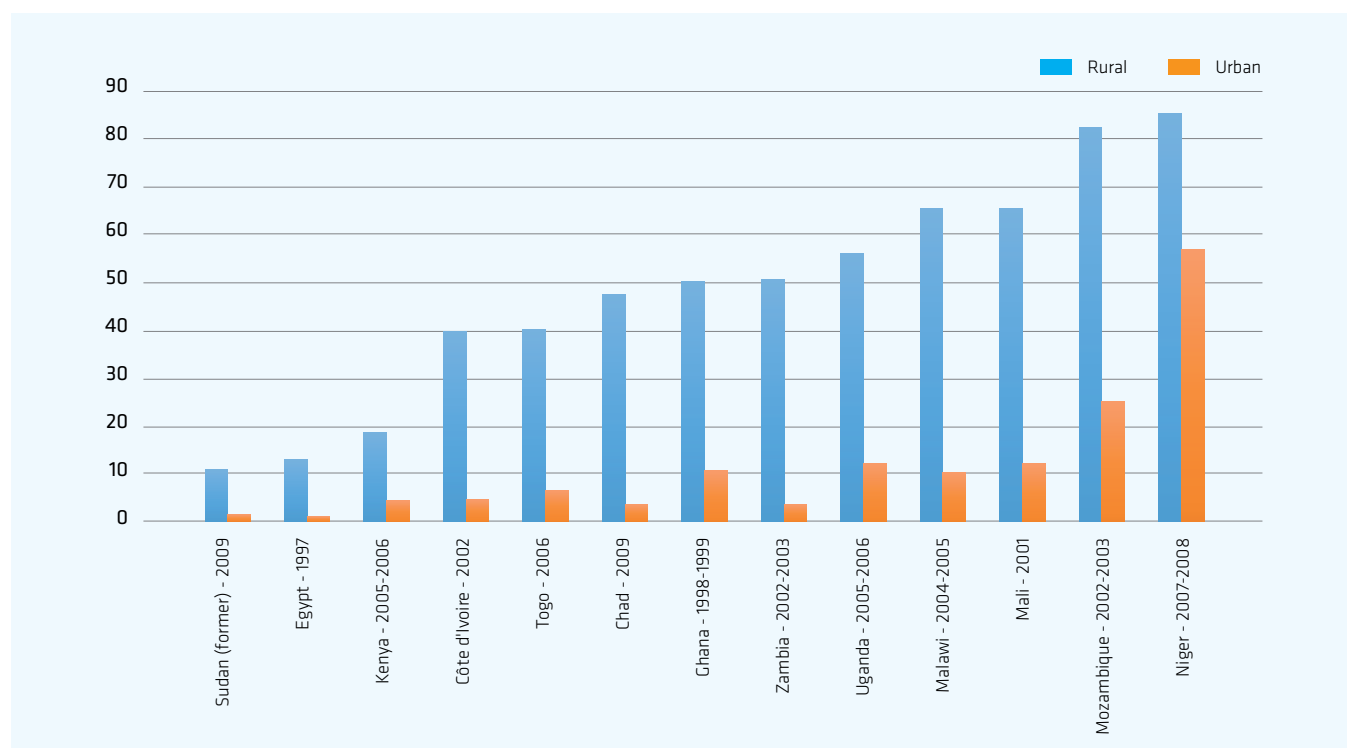
Source: World Development Indicators, 2015

Figure 6.9 Agriculture value added per worker, % change between 1991-2000 mean, and 2011-2014 mean (constant 2005 US\$)



Source: World Development Indicators, 2015

Figure 6.10 Share of own-produced food in total food consumption (in dietary energy)



Source: FAOSTAT, 2015

impacting poverty are not insignificant. In the long-term however, growth sustainability will be underpinned by both what Africa produces and what it trades within the region and with international markets. Sustained demand for the continent's traded goods, especially in international markets, will depend on its competitiveness to produce these goods at lower prices. In turn, this depends on the efficiency with which goods are produced to achieve lower costs. Relying on resources that are naturally and geographically more accessible to Africa may count a lot in its long-term development potential. A commodity based development strategy with a focus of adding value to primary commodity extraction is more likely to have a

long-term pay-off by directly fostering growth in this sector and indirectly boosting other sectors of the economy. Therefore, in the short- to medium-term, Africa should not waste the opportunities presented by fast growing services sectors. In the medium to long-term, Africa should use its natural resources and human capital more efficiently to solidify a foundation that will sustain commodity-based industrialisation. In essence, therefore, whether to “keep” agriculture or to “let it go” will depend on the overall medium- to long-term development strategy of the continent, and how centrally agriculture is expected to feature in the delivery of the continent's development goals.

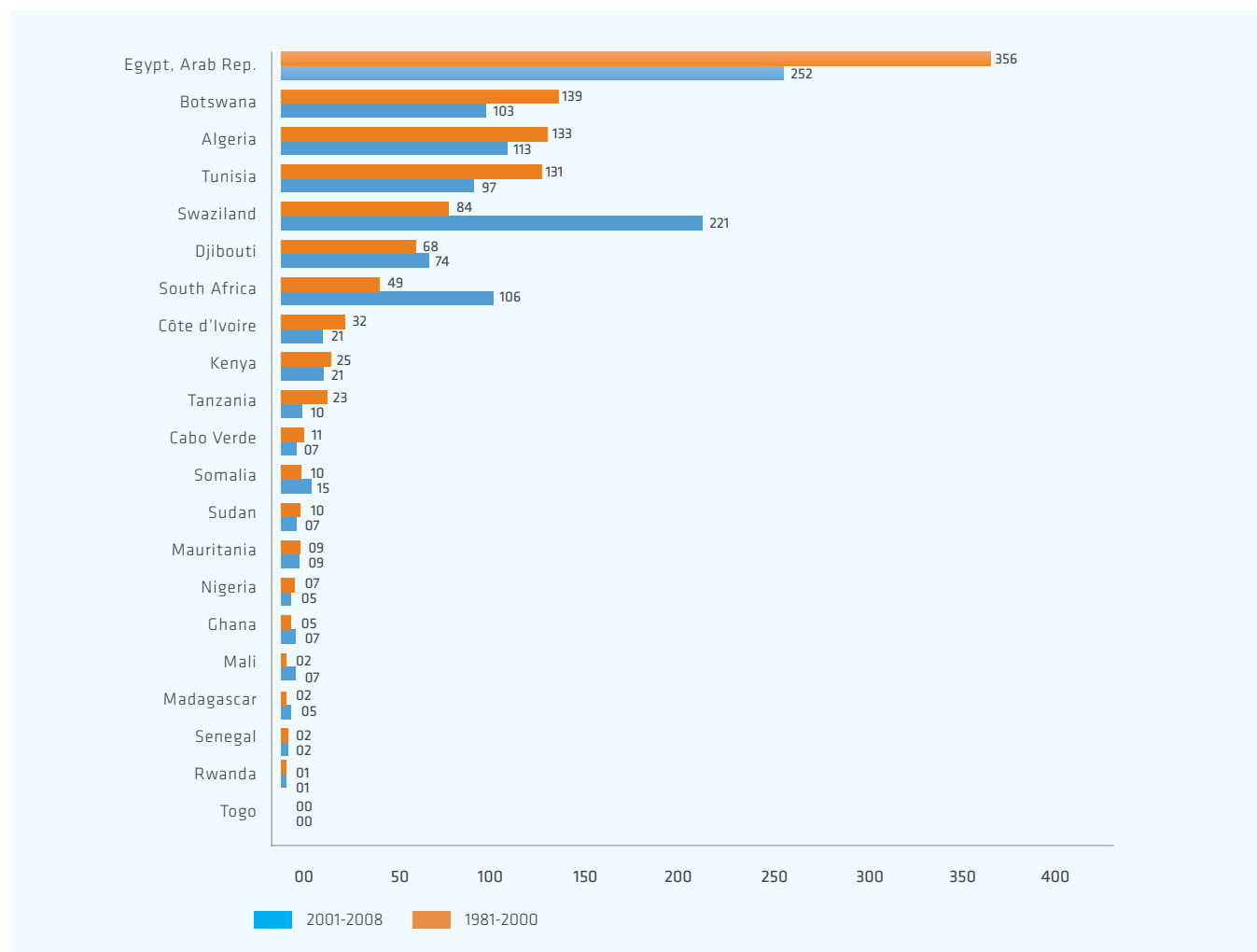


6.5 Making agriculture competitive: Challenges and opportunities

Shifting agriculture from subsistence to commercial orientation requires capitalising on opportunities while laying strategies to address major challenges. The availability of farming inputs, such as land and labour, is one of the opportunities that Africa can explore. Physical capital is

the most deficient input in Africa's agriculture. Data on 21 African countries shows that only a handful of countries have experienced significant increases in agricultural mechanisation (measured by the number of tractors per 100 square kilometres of arable land, see Figure 6.11).

Figure 6.11 Agricultural machinery, tractors per 100 sq. km of arable land



Source: World Development Indicators, 2015

Most countries have kept almost the same level of mechanisation over the past two decades. In fact, 14 of the countries have less than 5 tractors per square kilometre of arable land. The few relatively mechanised countries are mostly in North Africa, with the exception of some Southern African countries. If Africa invests wisely to complement the current human capital input with physical capital investments in the agricultural sector, it could potentially become the most competitive producer of agricultural goods. In addition, if this increased physical investment makes it possible to reduce the export of primary products by expanding the capacity to process and add-value, it could contribute to Africa's competitiveness in international markets for a variety of goods. The World Bank (2009), in assessing agricultural competitiveness in Mozambique, Nigeria and Zambia, noted that despite the low yield per hectare in these countries, unit production costs at farm-level are relatively low when compared to those of Brazil and Thailand.

Apart from farm-level investment gaps, storage and transportation infrastructure plus agricultural subsidy programmes in some potential export markets, have contributed to the low competitiveness of African products in international markets. A lack of adequate storage facilities and the high cost of reaching input and output markets have contributed to the sector's low profitability. In addition, a number of countries still have substantial taxes levied on agricultural exports, an effect compounded by agricultural subsidy programmes in some developed countries. These sets of restrictions have been a major disincentive to private sector entry into agriculture. Africa cannot industrialise under these restrictive conditions. Agriculture-based industrialisation requires cheaper inputs to be able to produce products that will be globally competitive. To achieve this, Africa needs to produce most of the primary inputs locally, using its land and available labour combined with capital, raised either domestically, or, from international sources. For Africa to scale up productivity and attract further entrants to the agricultural sector, governments and the international community must be willing to act on these barriers.

Limited access to international markets does not entirely impair the development of Africa's agricultural sector. Africa is a huge market in itself, with nearly one billion consumers: As noted above, food imports to Sub-Saharan Africa were in excess of US\$40 billion in 2011. Africa's large population and huge level of imports are indicators of within-Africa demand that is backed by purchasing power, presenting an, as yet, untapped potential for intra-Africa trade. The success of trade at subnational, national and regional levels will depend on how well the continent addresses transportation and cross-border trade restrictions.

It is unclear whether the environmental impacts of commercial agriculture in Africa will be significant, due to the absence of reliable data. While Africa should undoubtedly focus on minimising any potential environmental consequences of agricultural commercialisation, it must not lose sight of the impact of the counterfactual premise of not achieving food self-sufficiency. Commercialisation of agriculture will not only improve the incomes of producers, but it is also expected to contribute to the availability and affordability of food, and thus to improve nutrition for the large share of the population that is currently food-poor. A combination of environmentally friendly agricultural practices and sound environmental regulation can minimise any damage while maximising agricultural productivity.

Africa has a lot to do on the policy side. Removal of export taxes and arbitrary export restrictions can be achieved by regional initiative, with greater focus on harmonising standards and regulations. At national levels, countries need to address restrictions that make it difficult to transfer land titles. Land for agricultural production should be made available to those who are able and willing to invest. Traditional allocation of land has limited the access of potential investors. In many countries, as discussed in chapter 4, traditional land rights have also disfavoured women, who continue to play the major role in small-scale agricultural production.

Africa's private sector needs governments not only to provide well designed policies, but to lead their part of the investment needed to scale-up agriculture. Governments

must play their role in shouldering the initial investment in both soft and hard infrastructure provision. Human capital investments, that ensure both a sound knowledge base and the necessary agricultural research and vocational institutions, are important factors for the sustainable commercialisation of agriculture. Secondly, the private sector often finds it difficult to invest in hard infrastructure, such as roads and energy, because of the size of the upfront investment required and the difficulty in recouping costs from user fees. Initial government investment in these areas can significantly lower entry costs and lead to greater competitiveness in the sector.

Finally, there are several reasons why private sector investment is likely to be attracted to Africa's agriculture. The large consumer population, increasing middle-class and growing economies provide a large potential for investment in the agricultural sector. As agricultural productivities between countries equalise, nearness to output markets and input sources will account for differences in sales and profitability between producers. In addition, current trends in regional integration and Africa's improving political and business environment will continue to payoff in terms of investment.



6.6 Implementing an agenda for agriculture

Africa needs clear identification of the objectives for further agricultural development and clarity on how it intends to go about it. This requires broad-based consultation including the participation of all relevant stakeholders such as governments, private sector actors, consumers and the international development community. A critical phase in this process involves obtaining political will and approval as well as the necessary capacity among actors. The Comprehensive Africa Agricultural Development Program (CAADP) promotes agriculture-centred development strategies across Africa. It aims to achieve agriculture-led development to eliminate hunger, reduce poverty and food insecurity, and to enable the expansion of exports. The principal focus of this agenda is growth. It focuses on better management of land and water resources, improved access to markets, ensuring food security and expanding the level of research, technological innovation and adoption in the agricultural sector. All five pillars of CAADP require additional investment from public and private funds to complement existing capacities so as to achieve the overall goals. One of the targets of the agenda is to raise public expenditures in agriculture to at least 10% of GDP. A NEPAD report in 2013, (NEPAD, 2013) shows that seven years after the CAADP was launched, only 9 out of 44 countries, for which data was available, had met the 10% expenditure target for agriculture.

Clear determination of governments to initiate the process by establishing the infrastructure and institutional environment will draw the interest of large private sector actors from both within and outside of Africa. The crucial role of the international community can be a vital complement to government efforts. If Africa can set and prioritise an agricultural agenda in partnership with the international development community, as they have done for the MDGs, this could establish momentum behind

agricultural development that will potentially address many of the continent's development bottlenecks. Clearly, this requires a significant shift in concepts, resources and focus among all participating institutions. In short, it calls for the prioritisation of agriculture. The concern has always been about the opportunity cost of such reallocations. But considering the interlinked nature between agricultural development and many of the continent's other development challenges, the trade-off may be much smaller than one may expect. Prioritising agriculture may yield benefits for education, for health and could address gender inequity concerns through the sector's effect on poverty and improved standards of living for all.

The heterogeneous nature of African economies suggests that a global agricultural agenda may not be sufficiently focused on specific country needs. Growth fundamentals in African economies differ in the same way that factors that limit poverty reduction differ across countries. Resource-dependent economies with significant export revenues require more emphasis on addressing incentive issues to achieve economic development. While diversification into agriculture can significantly contribute to poverty reduction, it addresses an additional vulnerability by insuring resource rich economies from potential volatility arising from global commodity price shocks. In agricultural-based economies, an agenda that focuses on growth, poverty reduction and food security can be promoted by focusing resources on enhancing agricultural productivity and production. This set of countries will need policies and institutions to increase participation and productivity in the sector, so as to maintain and enhance its role as a key source of growth.

With Africa's advances in regional integration, as demonstrated by expanding transport networks and more regional economic and trade collaborations, a successful agricultural agenda will not only meet domestic needs, but will possibly lead to greater specialisation and trade between countries. In this way, the pursuit of African industrialisation, particularly commodity-based industrialisation and agro-industry, can be initiated and sustained by the local forward supply linkages of a vibrant agricultural sector.

An important part of the agricultural agenda is implementation. Two important ingredients, outlined by the World Bank (2007), are managing the political economy of agricultural development, and, strengthening the capacity of implementing institutions. Short-term political incentives have always made it difficult to convince politicians to invest in agricultural strategies with long-term benefits. Buying the commitment of the political system calls for addressing the lack of incentives among politicians to invest in projects with larger long-term net benefits relative to those with only short-term benefits. On the other

hand, if the agricultural investment gap is to be financed from donor funds, a clear-cut plan is needed. This should include a feasible implementation schedule detailing resource requirements, their sources and the period over which those resources will be available.

The international geo-politics of agricultural subsidies is not consistent with commitment to finance large-scale agricultural development in developing countries. Delivering on promises in international development financing is crucial for the effective execution of development plans. On the other hand, the capacity of implementing parties is even more crucial in the agricultural sector. Capacity building needs are broad and can range from human resources (including policy, institutions, and farmers) to other factors such as agricultural input and technologies. Enhancing the capacity of the state in its coordination role is going to be critical in addressing many of the market failures in African economies. This would also enable the state to undertake the difficult task of reforming the agricultural sector to make it more responsive to local and continental market demands.



6.7 Conclusion

The developmental stage of a country determines the set of policies it should adopt to optimise progress in economic and social advancement. At the early stages of development, agriculture is often the main focus. As countries advance, labour shifts from agriculture to other sectors,

such as manufacturing and services. This phenomenon has been observed in other parts of the world, such as Europe and East Asia. The push for Africa's structural transformation is based on the vision that the continent is transitioning from one developmental stage to another and,



that achieving a successful transition requires a structural shift. In chapter 3 we explored how structural components of African economies have been changing over the past decade. As in other regions, labour is shifting away from agriculture to non-agricultural sectors. But, as earlier sections have demonstrated, there are many challenges.

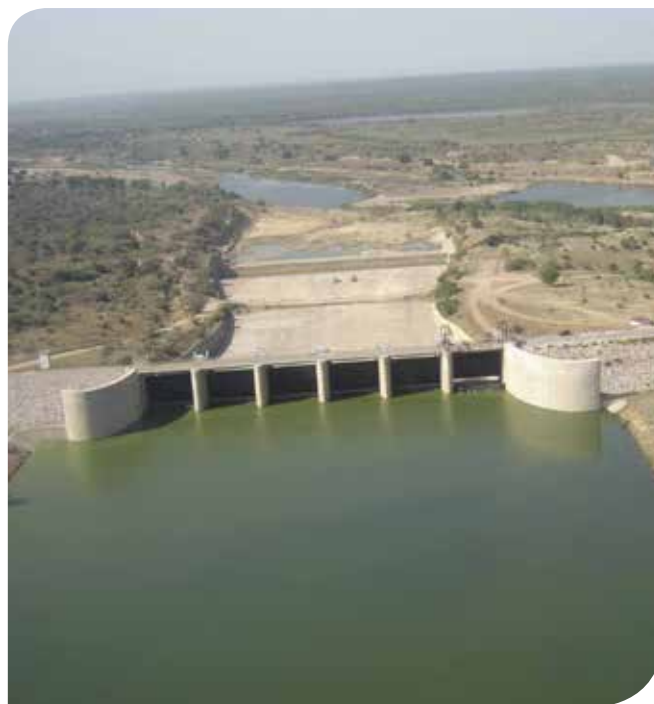
Indeed, two concerns remain. First, the labour that shifts from the agricultural sector is not replaced by increased investment in agriculture, especially in terms of technological investment. We would expect that the decline in agricultural labour input would be matched by increased capital inputs. This would make it possible for the continent to sustain the level of agricultural production, if not, to increase it. Secondly, labour that moves out of agriculture has not been absorbed into manufacturing, but rather into low paid informal services. Both of these characteristics have implications for future growth potential and concomitant poverty reduction. The lack of growth in manufacturing together with the declining role of agriculture does not paint a good picture of the continent's future development path. If Africa is aiming for economic transformation that will be driven by commodity-based industrialisation, improved production and productivity in the agricultural sector should be accompanied by expanding agro-based industrialisation.

Africa faces some sizeable challenges in its path to industrialisation. The abundance of natural resources in several countries meant that these countries could earn large amounts of revenue with little effort on the side of governments. This has generally been a source of disincentive to invest in, and develop, agriculture and agriculture related manufacturing sectors in these countries. Until recently, most mineral resource dependent countries tended to be less diversified.

Another challenge is the timing of structural transformation. The downward trend in agricultural production and its share of the labour force could well have negative implications for food security. In developed countries, the declining role of agriculture was triggered by increased mechanisation that maintained production levels in the sector even as labour moved away from the sector. The

foundation for agro-based industrialisation will be fundamentally undermined if labour that is exiting agriculture is not replaced by a mechanisation level that can increase production levels or, at worst, even manage to keep levels unchanged.

Our view, therefore, is that the type of structural transformation that is most likely to be meaningful for Africa is one that first transforms the agricultural sector into a modern high productive sector and expands agriculture-based manufacturing sectors to add-value to Africa's primary agricultural products. Achieving this requires the commitment of governments, the private sector and the international development community to dedicate resources to agriculture. These resources are most needed to address the infrastructure needs, farm level physical capital requirements and to improve access to markets. We recommend a more coordinated effort among actors in the planning and implementation of Africa's agricultural development agenda. Chapter 8 will return to this issue, by discussing the Bank's support to the agricultural sector.



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CHAPTER 7

Eliminating extreme poverty: progress to date and future priorities

Key messages

- **Africa has made significant progress towards the MDGs**, but this progress masks substantial variation among countries. Aggregating and reporting development outcomes at the level of the continent can be misrepresentative of country-level achievements in just the same way that country-level achievements may not reflect achievements in different parts of the country.
- Under “business as usual”, extreme poverty may not be eradicated in Africa by 2030, but it can be brought down to low levels.
- **To eliminate extreme poverty, African countries will have to achieve growth of 5% per year on average on a per capita basis over the next 10-15 years.** Growth accompanied by appropriate redistribution policies including social protection programmes could accelerate the pace of poverty reduction.



7.0 Introduction

2015, the finishing line for the UN's MDGs, is referred to as a 'year for development', encouraging policymakers to rethink development frameworks for the decade(s) to come. After fifteen years of implementing the MDGs, what efforts have African countries pursued so far? What worked and what are the remaining challenges? Compared to other developing regions around the world, Africa has made relatively limited progress in achieving the MDGs. Nevertheless, Africa has achieved significant gains in some areas, including the following: Improvement primary school enrolment; bridging the gender gap in primary school enrolment; female representation in national parliaments; reducing child and maternal mortality; and, reversing the trend of the spread of HIV/AIDS (UNECA, AU, AfDB, UNDP, 2015). What lessons can be learnt from the implementation of the MDGs, and, what are the remaining challenges for the continent to tackle over coming decades? The first part of this chapter discusses Africa's progress towards, and shortfalls against, the MDGs. In the second part, we discuss the challenges Africa will need to tackle to overcome extreme poverty by 2030.

In the first chapter, we discussed Africa's progress in terms of economic growth. We found that one of the main contributors to progress has been high commodity prices. However, Africa's economies remain undiversified, depending heavily on a few commodities. This makes them very vulnerable to commodity price shocks. In chapter 1, we showed that the recent decline in commodity prices could jeopardise the progress made to date in terms of economic growth. In addition, in other developing regions of the world, growth has been accompanied with the creation of decent jobs, increased productive capacities, and provision of social protection for the most vulnerable groups (UNECA, AU, AfDB, UNDP, 2015). This was not

the case in many African countries, and as a consequence, growth in Africa has not been inclusive and many Africans have been left behind. Chapters 2, 3 and 4 analysed Africa's progress in reducing poverty, inequality, and gender inequality in depth. Evidence has shown that, despite the progress made, extreme poverty and inequality remain important issues in many African countries. The continent remains the poorest and the second most unequal region in the world. Therefore, poverty, especially extreme poverty and inequality, will remain the biggest challenges for many African countries for the coming decades. In this regard, the importance of eradicating poverty by 2030 has been widely recognised. Consensus on its importance has been achieved across international organisations, especially with the recent adoption of the UN Sustainable Development Goals (SDGs).

From the perspective of African policymakers aiming to eradicate extreme poverty, the key issue is how to design and implement policies that will accelerate growth while making it more inclusive and sustainable over time. In the Common African Position (CAP), Africa's Heads of State stressed that the post-2015 development agenda should reflect the continent's development priorities for the next fifteen years, which include (African Union, 2014):

- (i) Structural economic transformation and inclusive growth;
- (ii) Science and technology;
- (iii) People centred development;
- (iv) Environmental sustainability, natural resource management and disaster risk management;
- (v) Peace and security; and,
- (vi) Finance and partnerships.

These goals are reflected in the SDGs, recently adopted by the international community. These goals can be achieved through high growth, but this growth also needs to be of higher quality, namely inclusive and green.

The post-2015 UN agenda aims to ‘*eradicate extreme poverty for all people everywhere by 2030*’ (UN, 2014)⁵⁹. Several studies have noted that bringing extreme poverty below 3 percent of the global population by 2030 will be challenging, but achievable⁶⁰. However, simulations suggest that under the ‘business as usual’ scenario together with assumptions on redistribution from the 10 richest

to the 40 poorest percent of the population, eliminating extreme poverty by 2030 would be out of SSA’s reach. On a more positive note, we argue that if Africa can double per capita consumption by 2025-2030, extreme poverty will be eliminated on the continent.

In the second part of this chapter, we discuss the results of scenario projections to assess by how much poverty and inequality can be reduced in Africa by 2030 at regional and country levels.

59 In this report, extreme poverty means living on less than \$1.25 a day (in 2005, PPP adjusted prices). The headcount is only one measure of poverty, which does not reflect dynamics above or below the line.

60 One scenario where poverty is reduced to such a low level assumes that the progress achieved during 2000-2010 is maintained until 2030 (Ravallion, 2013). However, progress with poverty alleviation is likely to slow down at lower poverty levels where poverty depth often rises (Chandy et al., 2013a; Yoshida et al., 2014).



7.1 Africa's progress towards, and shortfalls against, the MDGs

The MDGs became the foremost global policy instrument for poverty reduction. They span a set of time-bound goals, agreed in 2000 by 172 countries, including all African countries. The MDGs constitute eight goals aimed at addressing hunger, education, gender (in)equality, health (child mortality, maternal health, and communicable diseases), environmental sustainability, and global partnership-building for development (IWDA, 2014). Each of the goals has a number of quantitative and qualitative targets and indicators specific to it. What is Africa's progress in the implementation of the MDGs?

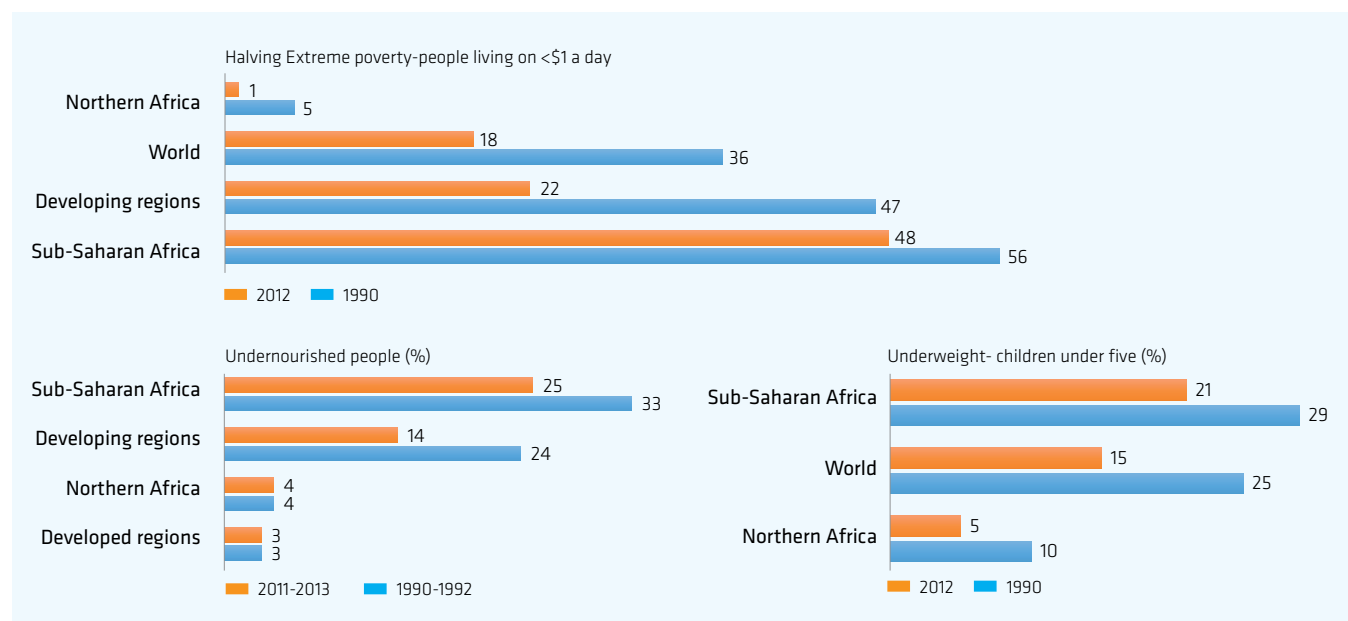
7.1.1 Progress in meeting the MDGs: From MDG 1 to MDG 8

The MDGs have brought profound advancement in the lives of many people around the world. The developing

world today, relative to 1990, has improved in terms of human dignity, equality, equity, and economic wellbeing. In this section, we assess Africa's progress towards the MDGs since 1990.

Has Africa achieved MDG 1 on eradicating extreme poverty and hunger? The world, as a whole, has met the target of halving the number of people living in extreme poverty. The share has dropped from 36% in 1990 to about 18% in 2012. Similarly, the developing world, as a whole, has succeeded in reducing by half the number of poor people, by 2012. In the same period, according to the official figures (as opposed to those of Pinkovskiy and Sala-i-Martin, 2014) **Africa did not reduce poverty by half**. Africa's progress towards this target did not reflect global trends, as it only managed to lower the fraction of

Figure 7.1 Progress towards MDG1



Source: Data extracted from UN (2014)

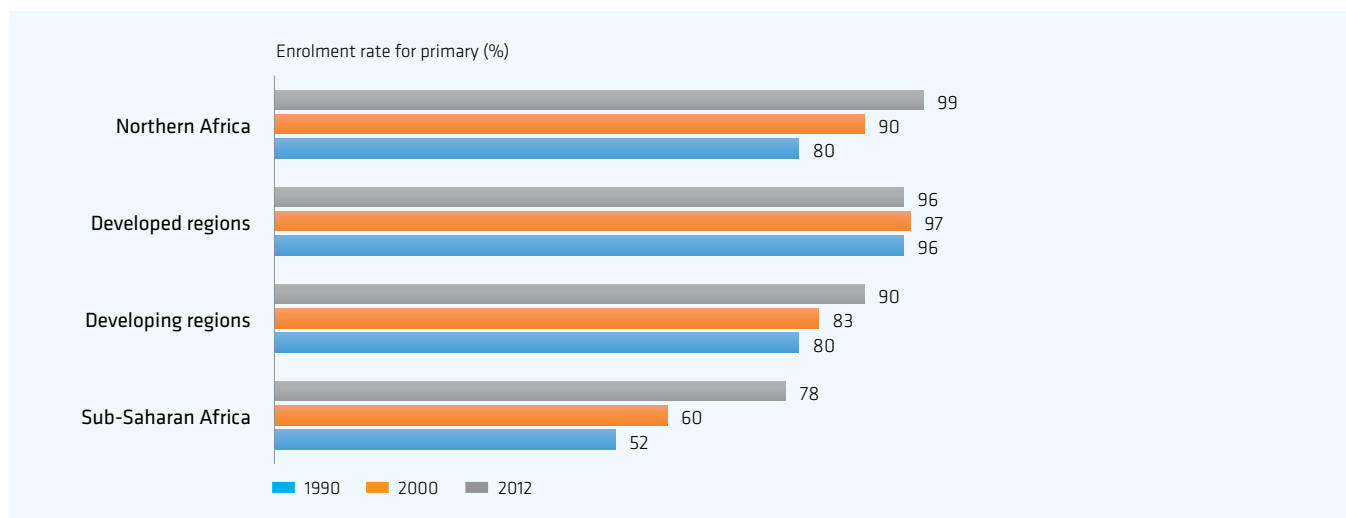
people living on less than \$1 a day from 56.5% to 48.4%. This is a mere 8% reduction (Figure 7.1).

Africa's undernourishment rate is equal to the developing world's rate of 25 years ago. Uneven progress in reducing undernourishment is demonstrated by its high incidence in SSA, relative the rest of the developing world. SSA reduced the fraction of undernourished babies from 35% in 1990 to 25% in 2012: A level equal to the entire developing world's rate in 1990 (Figure 7.1). In the same

way, SSA has lowered the percentage of underweight children by 8 percentage points, less than the global progress achieved of 10 percentage points, and much less than the 20 percentage point progress registered in Southern Asia between 1990 and 2012.

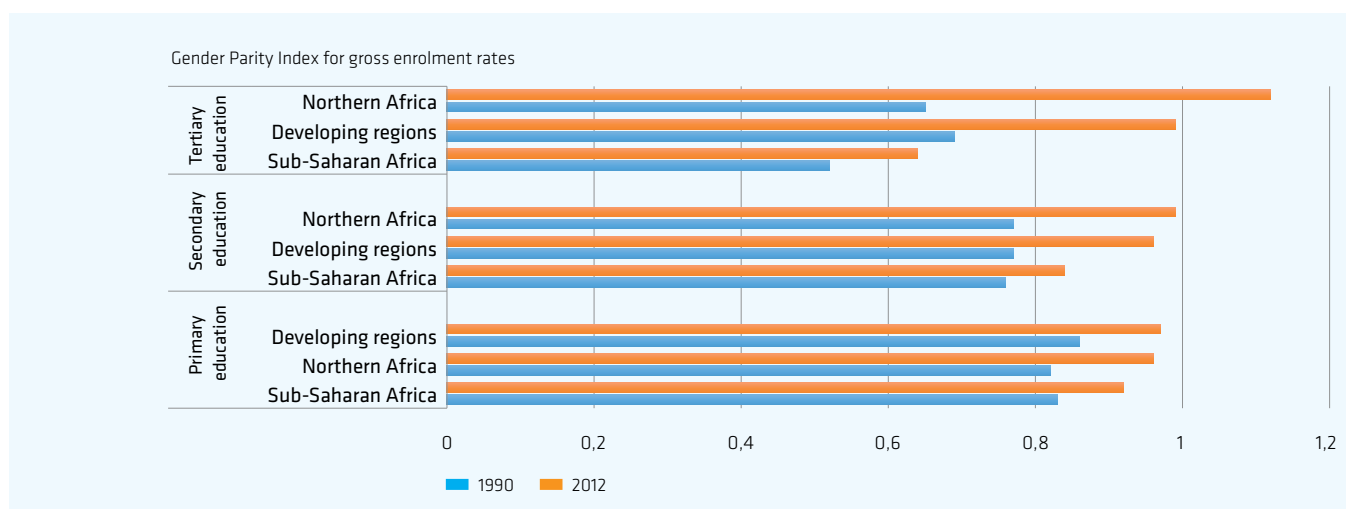
Regarding MDG2 (achieving universal primary education), **primary enrolments have significantly improved in Africa.** Achievements towards this goal have seen the gap between SSA and the rest of the developing world

Figure 7.2 Progress towards MDG2



Source: Data extracted from UN (2014)

Figure 7.3 Progress towards MDG3a



Source: Data extracted from UN (2014)

narrow: From a wide 28-percentage point difference to a lower 12-percentage point difference by 2012 (Figure 7.2). However, SSA still had the lowest enrolment rates by the end of 2012. Northern Africa had already caught up with the developed world, attaining enrolment rates of 99%. A recent MDGs report, UN (2014), found that poverty, gender and location are the most pervasive factors explaining the differences in school attainment at primary level. It shows that the poorest 20% of households are three times more likely to have children out of school, compared to the richest 20% of households. These differences mostly disfavour girls, and children in rural homes. In addition, part of the low progress in primary enrolment is explained by the incidence of conflict. In the conflict affected Nord Kivu province of DRC, for example, it is estimated that nearly 50% of primary school going age children from the poorest households were not attending school in 2010 (UN, 2014).

In terms of gender equality and women's empowerment (MDG 3), **SSA has done almost as well as other regions in achieving gender parity in primary enrolment**, but lags behind all regions of the world in achieving gender parity at secondary and tertiary levels (Figure 7.3). Achievements in women's educational outcomes are also reflected in improvement of the fraction of women in non-agricultural employment in SSA.

In addition, gender representation at political levels has improved to world standards, both in SSA and in Northern Africa. North Africa made more progress between 2000 and 2014, but ended the period with the same level as SSA: With about a quarter of national parliamentary seats held by women (Figure 7.4). In terms of security of employment, both men and women in SSA have lagged behind the rest of the world, with 85 percent and

Figure 7.4 Progress towards MDG3b



Source: Data extracted from UN (2014)

70 percent of employed women and men in vulnerable jobs, respectively. Among the employed in North Africa, about half of women, and one-third of men are in vulnerable employment. Both the regions, of Northern and Sub-Saharan Africa, have disproportionately large shares of women in vulnerable employment.

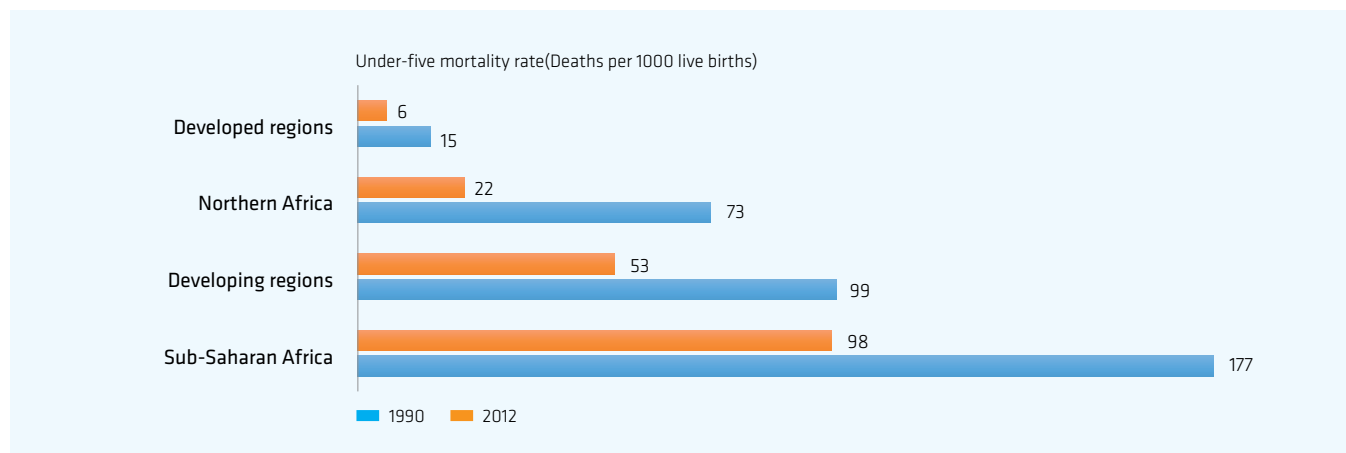
Child mortality rates (MDG4) have significantly reduced in Africa, with SSA and Northern Africa reducing under-five mortality rates from 177 to 98 and from 73 to 22 deaths per 1000 live births, respectively. **Northern Africa met the target of a two-thirds reduction in child mortality by 2012, but SSA did not** (Figure 7.5). It is important to note that, despite progress, SSA's child mortality rates in 2012 were as high as the average for the developing world at the beginning of the MDG period. As of 2012, the sub-continent had the highest under-five mortality rate in the world, which is 16 times higher than the average for the developed world.

At a global level, there has been **progress towards the MDG target for maternal mortality (MDG 5), but is yet to be achieved**. There was a large disparity between the initial rate of maternal deaths in Africa and that for the rest of the world. While the world-wide rate in 1990 was 380 per 100,000 live births, the SSA rate was as high as 990 (Figure 7.6). SSA had a much higher starting point than even the second worst region, Southern Asia, which had a starting

rate of 530 deaths. After 15 years of MDG interventions, SSA's maternal deaths reduced significantly, to 510 deaths per 100,000 live births. Good progress, however, SSA's rate remains much higher than the developing world's 2012 rate of 230 deaths per 100,000 live births. Limited access to health personnel and facilities plus the increased number of adolescents bearing children has contributed to high maternal death numbers in Africa. In SSA, only 53% of deliveries are handled by skilled health personnel, with this proportion significantly lower in rural areas. Similarly, the recent MDG report (UN, 2014) noted that only half of pregnant women aged 15-49 attended antenatal care more than four times in 2012⁶¹. Adolescent childbearing is more common in SSA than anywhere else in the world. In 1990, the average number of births to women aged between 15 and 19 years was as high as 123 per 1000 women. This remained high throughout the period, reducing only marginally to 117 per 1000 women in 2012. Addressing teen pregnancy and its associated consequences on education and on the health of both girls and the children born to them, remains a considerable challenge for SSA. Finally, it is hoped that the increasing prevalence of contraceptive use in SSA combined with greater access to education among girls will help lower maternal mortality, especially among adolescent child-bearers.

61 The WHO has recommended a minimum of four antenatal care visits to ensure the health and well-being of mothers and newborns.

Figure 7.5 Progress towards MDG4

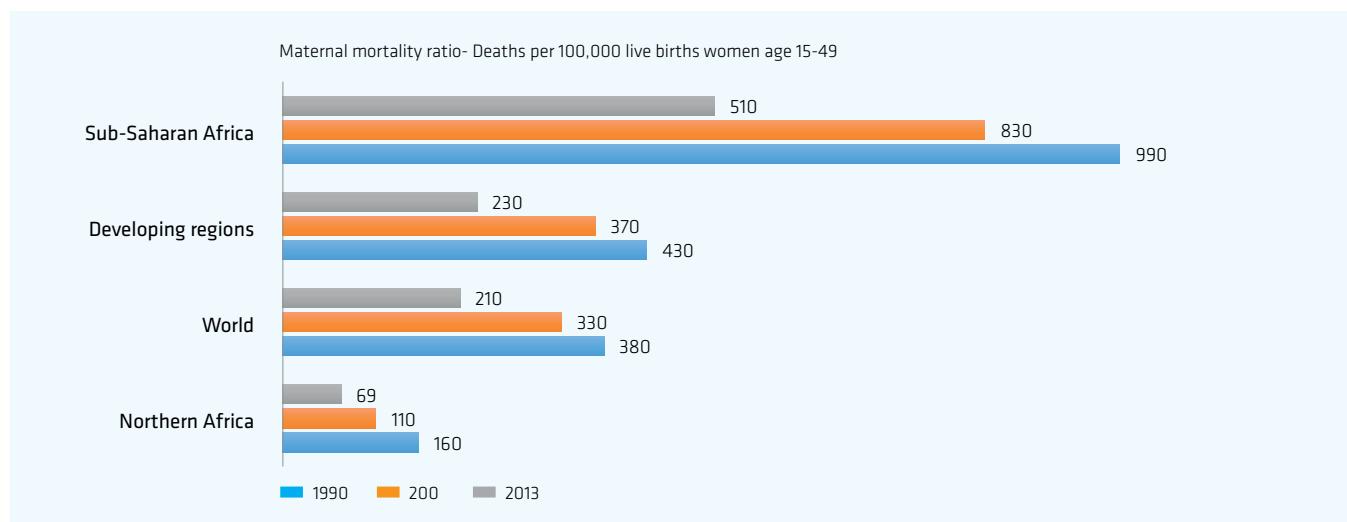


Source: Data extracted from UN (2014)

On MDG 6, HIV infection rates in SSA have significantly reduced from about 2 per 100 people to about 1 per 100 people aged 15-49 (UN, 2014); (Figure 7.7). This reduction has been accompanied by a significant increase in HIV awareness across the continent. At the same time, access to treatment for HIV patients has increased over time. HIV prevalence continues to be higher in southern and central Africa, relative to the rest of the continent.

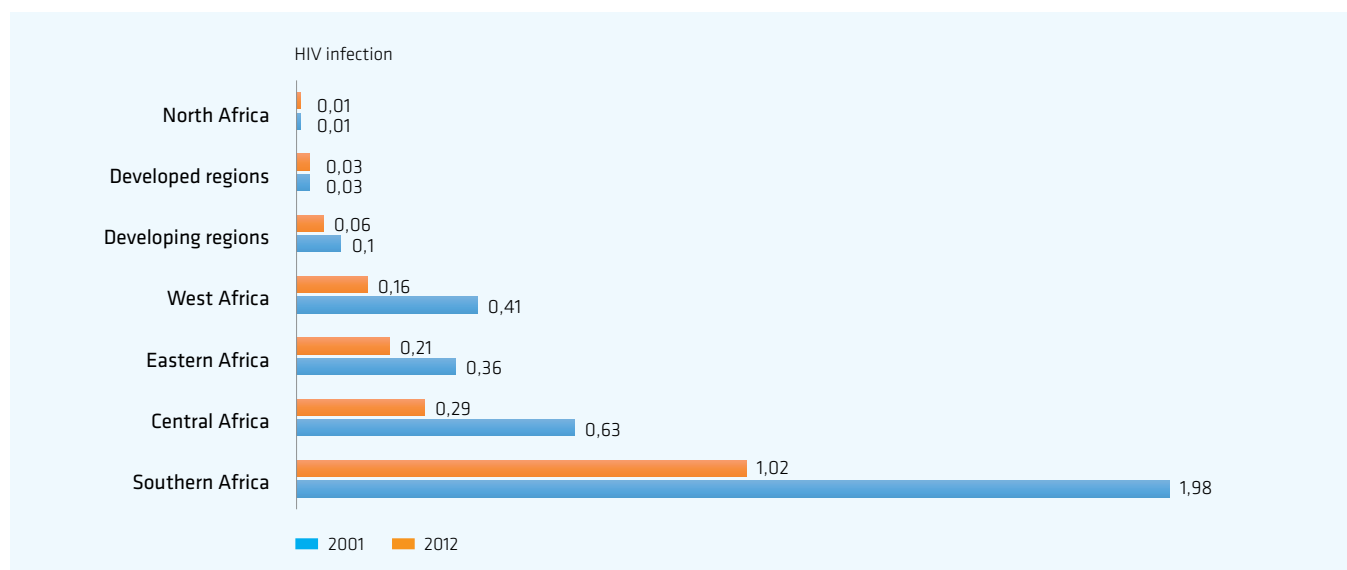
Globally, over 3.4 billion people are at risk of malarial infection. The 2014 MDGs report highlighted, that in 2002 alone, about 207 million cases of malaria occurred around the world. The disease killed about 627,000 that year, of which 80% were children. The report noted that between 2000 and 2012, expansion of malaria interventions contributed to a 42% decline in deaths associated with the disease. An estimated 3.3 million deaths, of which

Figure 7.6 Progress towards MDG5



Source: Data extracted from UN (2014)

Figure 7.7 Progress towards MDG6



Source: Data extracted from UN (2014)

90% are children, from SSA have been averted. While SSA has made significant progress against malaria, it still accounts for the largest proportion of deaths due to this disease worldwide. It is estimated that the DRC and Nigeria account for 40 percent of malaria mortality worldwide.

Though global emissions of carbon dioxide (MDG7) have continued to increase, since the inception of the MDGs (by about 50 percent), **Africa's contribution to this accelerated emission has been small** (Figure 7.8). The continent's share of the associated consequences is not, however, any less than what is faced by leading emitters. Millions of hectares of forest cover are lost every year. Adverse and unpredictable weather conditions have made it more difficult for vast number of farmers who depend on rain-fed agriculture. Generally, the poor, and those whose incomes barely cover subsistence, remain the most vulnerable to adverse climate shocks. They suffer disproportionately from the consequences. In terms of access to improved water and sanitation, Sub-Saharan Africa as a whole has made substantial improvements in this area (from 43 to 64% access). But progress, by 2012, has fallen short of the MDG target. Substantial differences remain between rural and urban areas.

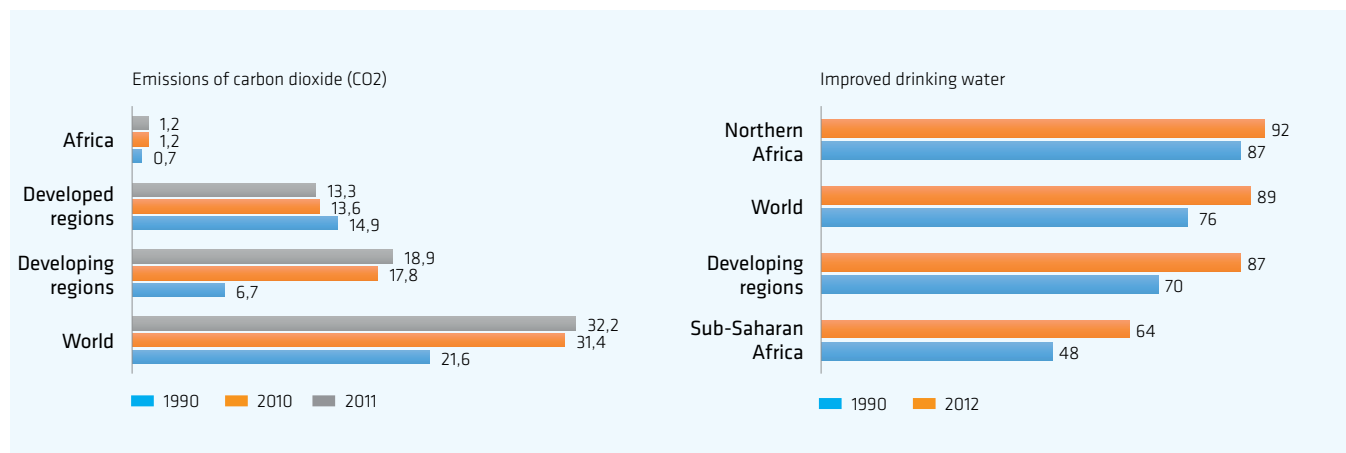
Finally, in Africa, one of the drivers of success towards the MDGs is the global partnership (MDG8) that underlies their design, funding and implementation. This

partnership has yielded returns in terms of commitment from local partners, governments and the international development community. Africa has seen substantial improvements in human dignity, equality and equity, as well as overall economic advancement over the period of the MDGs. Indeed, it has seen greater improvement at this time than in any other period of its development history. Alongside country-specific policies, the MDGs have been particularly successful in enhancing the capacity of disadvantaged groups to participate and gain from the continent's development process. Progress in education, health, gender equality and several other indicators are, therefore, steps towards not only distributing growth outcomes, but also towards enhancing the capacity of disadvantaged groups to participate in the growth process. Yet, there have been some notable disparities in the achievement of the MDGs at the country level and at local levels. These disparities are discussed in the next two sections.

7.1.2 Spatial inequality in MDG performance

Human development is not a global, regional or national construct – it matters most at local, household and individual levels. Average data hides important differences at local levels. Measures and findings can be unpacked to unmask local measures of well-being. To illustrate this, Figure 7.9 shows the extent of disparities in poverty levels between sub-Saharan Africa as a whole and individual

Figure 7.8 Progress towards MDG7



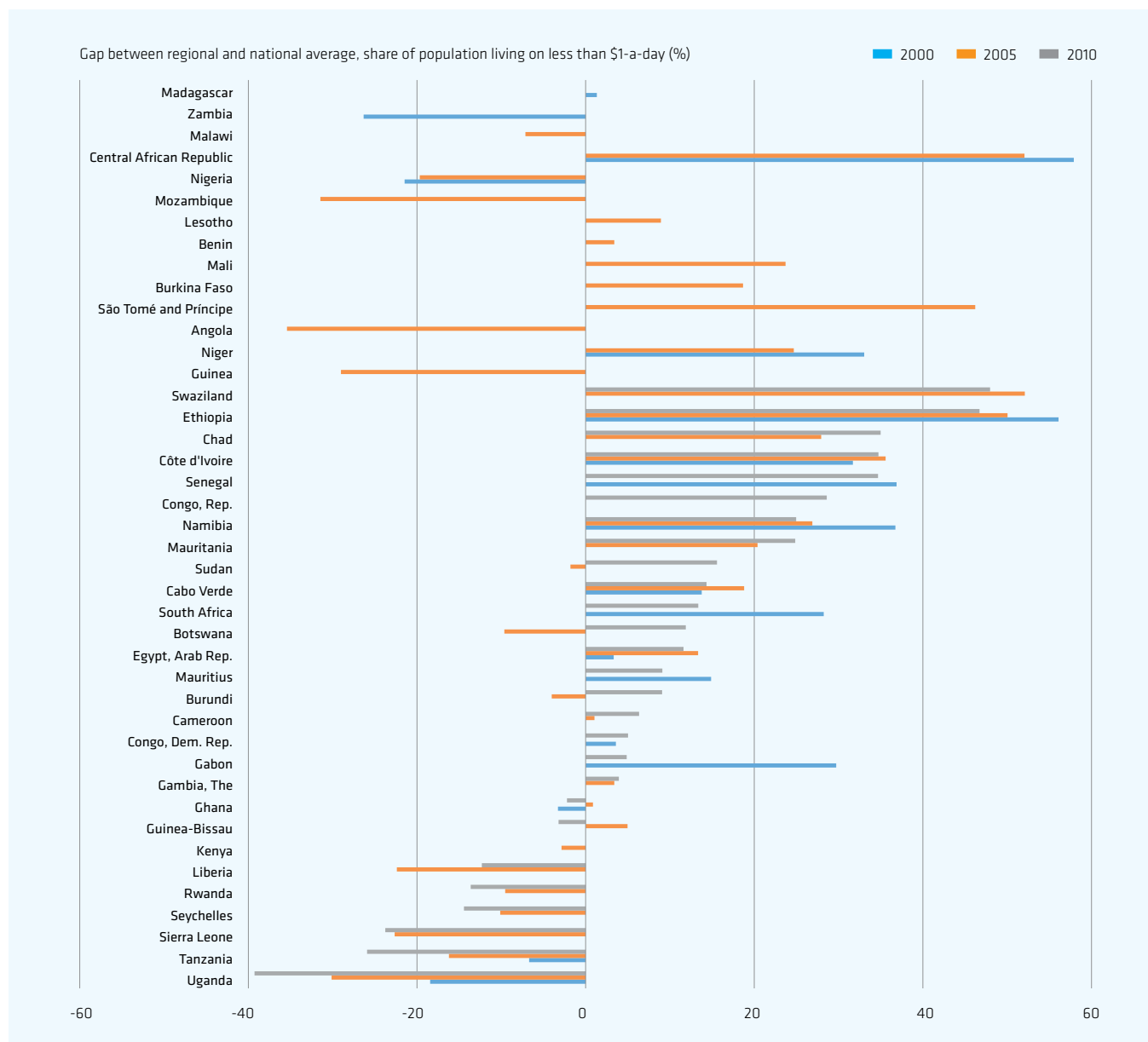
Source: Data extracted from UN (2014)

countries. Negative numbers imply that a country's level of poverty is higher than the regional average, while positive numbers reflect individual countries with poverty levels lower than the regional average.

Among the countries with data available for MDG1 (poverty headcount measure) for 2000, 2005 and 2010, poverty levels in Egypt, South Africa, Mauritania and Senegal

have consistently been lower than the Sub-Saharan African average. Ethiopia saw a large improvement in the gap between its national performance on the \$1-a-day indicator and the Sub-Saharan African regional average, from 2000 to 2005. However, Malawi and Zambia have remained worse than the Sub-Saharan African averages on poverty headcount. Zambia, in particular, has seen a widening gap from the regional average over time.

Figure 7.9 Share of population living on less than \$1-a-day (%): Gap between SSA regional average and national averages



Notes: Regional average poverty level minus country level.

Sources: Calculations based on World Bank's World Development Indicators (2015) online database. Sub-Saharan regional average from the UN MDG Global Report (2014), Statistical Annex

exemplifies a country consistently lagging behind the general trends among its regional neighbours.

This demonstrates that, reporting on MDG progress across Africa using regional averages, although important, masks sub-regional, national and local diversities in outcomes. While progress is being achieved towards some of the MDGs, the pace and extent of this progress matters most at the level of the household and individual well-being.

7.1.3 Localisation of the MDGs

After political proclamation of support and commitment to the MDGs had been secured, the next step was planning their implementation at national levels. Expanding this planning to local levels, thereby “*bringing the goals to the people*”, was considered a big milestone in their implementation. An assessment of the impact of the MDGs at local levels, and on the well-being they secured at household levels, begins with an inquiry into how the goals influenced planning and budgetary allocations.

Localisation of the MDGs is loosely defined as planning and implementing the MDGs at the local level. This includes setting goals and targets that are reflective of the local situation, planning how to achieve such targets and supporting local institutions in achieving them. It also involves ensuring that the links between national policies and frameworks are created and applied at local levels.

Localisation of the MDGs ensures the participation of households and individuals at the local level in the planning and implementation of the MDGs. Entitlements, voice and the power of the poor has taken the centre stage in contemporary writing, as part of the multi-disciplinary approach to poverty reduction (Amis, 2013). Lomazzi, Borisch & Laaser (2014) share a similar viewpoint: That new governance models now call for increased citizen participation, ownership and influence and that there are important interlinkages between sectors. Strong citizen participation and accountability are therefore imperative for MDG policy development and implementation (Lomazzi, Borisch & Laaser, 2014). Since local government



is closer to communities, and because people can hardly differentiate in practice between local government and central government, local government served as an important platform for Civil Society Organisations (CSOs) and the poor to participate directly in the MDG process (Amis, 2013). This environment is therefore conducive for the localisation of MDGs, in which nationally agreed MDGs can be taken to the local level for discussion, approval and action by local communities, local government and other actors of relevance at the local level (UNDP, 2005, p. vi).

7.1.4 Integrating the MDGs into national development plans (NDPs)

The UN Millennium Project was established by the UN's Secretary General to support member states in planning for the MDGs from 2002 to 2006. The Project outlined a set of criteria for the integration of the MDGs and outlined 5 core features of an MDG-based strategy. These are⁶²:

1. **Ambitious:** National targets are at least as ambitious as MDG targets for 2015;
2. **Scope:** The range of sectors identified is broad enough to achieve all the MDGs;
3. **Rigor:** For each sector, the strategy is based on a detailed, bottom-up needs assessment;
4. **Timeline:** The medium-term strategy is nested in a 10-year MDG framework; and,
5. **Financing:** A financing strategy is determined, in line with each country's needs.

Using the above guidelines, we assessed the latest National Development Plans (NDPs) or Poverty Reduction Strategy Paper (PRSPs) as well as MDGs reports⁶³ for eight African countries with comparable data. The assessment

62 See <http://www.unmillenniumproject.org/resources/presentations.htm> accessed 26th March 2015.

63 A detailed examination of the country's latest MDG report and latest NDP/PRSP has been carried out, including a review of previous plans within the MDG implementation timeframe of 2000 to 2015.

criteria are as follows: First, a country is considered to have integrated the MDGs into its NDP/PRSP and Local Development Plan (LDPs) if: It indicates the MDG targets as a minimum, or allocates the required resources, costing etc. Secondly, countries are given scores based on the level of integration (extent to which the NDPs reflect the MDGs). If the NDP includes all 8 of the MDGs, it gets a maximum score of 4. A country scores 3 if it plans for at least 4 MDGs and associated targets; or scores 2 if plans include only two of the MDGs and their associated targets. 1 is scored if only some targets and indicators are mentioned and 0 is scored if there is no integration of the MDGs in the NDP/PRSPs/LDPs.

Of the documentation reviewed from 8 countries⁶⁴, 4 of them included the MDGs in their national development plan, to varying degrees (see, Table 7.1). Botswana and Nigeria are good examples. Nigeria developed a separate strategy to achieve the goals. The strategy was fully costed and showed the links between it and the NDP, including incorporating the needs for, and costs of, achieving the MDGs. Both Botswana and Nigeria scored 3. Ethiopia scored 2, with an emphasis on the social sector MDGs, namely, education and gender. Malawi scored 1. The rest of the NDPs mention only the progress made on the MDGs and the country's ongoing commitment to achieving the goals (scoring 0).

Note that the national development plans of all the 8 case study countries in Table 7.1 cover periods during which the MDGs were being implemented. In fact, all of the NDPs were written between 2009 and 2011, a time when most countries were already immersed into MDG implementation. At that stage, where national development to plans are silent about such a comprehensive development programme as the MDGs, it shows how parallel the two plans are, with one potentially secondary to the other.

In general, most countries prepared periodic MDGs reports, some prepared MDG costing, MDG strategies and MDG acceleration frameworks. These documents

64 The study reviewed the current or most recent NDP rather than all of the plans developed during the entire MDG implementation period. This is because tighter focus on the goals is expected to ensure their achievement closer to the "finish line".

generated enormous amount of information with regards the requirements to achieve the MDGs. However, this information was not systematically integrated into national development plans. The same is also true for localising the MDGs, even though far fewer countries attempted to prepare localised MDG-based reports.

Therefore, when looking at the impact of the MDGs at the household level, we should bear in mind that the MDGs were designed, monitored and reported on as global goals. There was no high level commitment to

localising the goals, beyond the national level. Even where such efforts were made, they only started about 5 years into the implementation of the goals. It can therefore be argued that the goals were not designed for local level implementation, and insufficient support was provided for localisation. Subsequent frameworks should consider including criteria for the integration of the goals at both national and sub-national planning levels, as a requirement that will be measured as part of the progress on the goals.

Understanding how globally pursued goals reflect the national and sub-national development agenda is important both for those who implement national development plans and for those who monitor and produce comparative

65 Countdown strategy 2010-2015: Achieving the MDGs <http://web.ng.undp.org/mdgs/MDG-Count-Down-strategy-report.pdf>

Table 7.1 Rating of MDG inclusion in NDPs, for selected case studies

Country	NDP/PRSP	Rating 0-4	Comment
Botswana	Accelerating achievement of Vision 2016 through NDP 10 2009-2016	3	MDG needs assessment and costing was undertaken and integrated into the NDP10
Ethiopia	Growth and Transformation Plan (GTP) 2010/11-2014/15	2	One of the objectives of the plan (page 7) is to achieve the MDGs in the social sectors; emphasis on the social sector related MDGs
Gambia	Programme for Accelerated Growth and Employment (PAGE) 2012 -2015; Gambia National Development Strategy	0	No mention of the MDGs in the National Development Strategy
Ghana	Medium Term National Development Policy Framework; Ghana Shared Growth and Development Agenda-GSGDA 2010-2013	0	One of the objectives of the plan (page 26) is achieving the MDGs but no other mention of the goals in the document
Malawi	Malawi Growth and Development Strategy II (MGDS II) 2011-2016	1	The plan balances economic, social and environmental components of the economy to reduce poverty and accelerate attainment of the MDGs (Executive Summary)
Nigeria	Nigeria Vision 20: 2020; The 1 st NV20:2020 Medium term implementation plan 2010-2013	3	One of the plan's strategic objectives (page 5) for the social sector is to improve the nation's prospects for achieving the MDGs; country has a separate strategy for achieving the MDGs ⁶⁶ which shows alignment of the goals with the NDP (page 14)
Uganda	National Development Plan 2010/11-2014/15	0	Only a mention of Uganda's progress on health and education MDGs (page 20)
Zambia	Sixth National Development Plan 2011-2015	0	Limited mention of the MDGs, only with regards to progress towards achieving the goals

Source: Authors' compilation

progress reports. Africa is different in many aspects from the rest of the world. Within Africa, countries are heterogeneous in many important respects. While aggregate data are suggestive of how countries perform on average, they do not tell us much about the fate of an average person in a given country, nor about a community whose status is the very objective of the development initiative.

In conclusion, this section analysed how African countries have implemented the MDGs. Africa has made progress on achieving some of the MDGs, but important challenges still remain. What are the lessons learnt from the implementation of the MDGs, and, what are the remaining challenges African economies face in their efforts to reduce extreme poverty, inequality and to make growth more inclusive? The next section tries to answer these questions.

7.1.5 Lessons learnt and remaining challenges in MDG implementation

After fifteen years of implementing the MDGs, several lessons can be drawn from this experience. These lessons could help in guiding the implementation of the SDGs over the next fifteen years. The lessons learnt are categorised as follows: Overarching lessons; Lessons for achieving poverty reduction and inclusive growth; Lessons for social development; and, lessons for environmental sustainability (UNECA, AU, AfDB, and UNDP, 2015).

(a) Overarching lessons and challenges

- Experience has shown that not all countries and regions are able to reach the MDGs, however, all of them have made some progress on at least one, of the eight, goals. Initial conditions matter because they affect the character and pace of a country's progress towards the MDGs.
- Experience has also demonstrated that an effective communication and follow-up strategy is important to ensure the success of the agenda at local, national, regional, and global levels. This follow-up is especially useful for cross-country comparison and peer learning.
- Furthermore, the implementation of the MDGs induces demand for more comprehensive and timely data. The lack of relevant data prevents governments from demonstrating the results they have achieved.
- The implementation of the MDGs has also revealed the need to strengthen both access to, and quality of, service delivery. Poor quality services can be linked to failure, by policymakers, to fully account for high recurrent costs of capital expenditure.
- Another lesson learnt is that sustainability requires adopting an integrated approach. In fact, focusing on the MDG outcomes, such as poverty reduction, without looking at the underlying causes has led, in some cases, to undesirable, unintended, and often, unsustainable consequences. In Africa, for instance, attention has been paid to the progress made in fighting specific diseases, such as HIV, malaria, and tuberculosis, thanks to the access to vertical funds. However, these funds narrowly targeted specific diseases, paying relatively less attention to the overall health systems of countries. This did not help strengthen those systems whose weaknesses have been demonstrated recently, by the explosion of the Ebola virus in some West African countries. A much more integrated approach is needed to strengthen the entire healthcare system.
- MDG implementation has revealed the benefits and efficiency gains that can be achieved by leveraging inter-sectoral synergies. It has also demonstrated the importance of development planning in making things happen.
- The lack of a robust mechanism for implementation was a major weakness of the MDG framework.
- Efforts were focused primarily on financial resource mobilisation, especially ODA. This undermined the economic sustainability of several of the MDGs. Lessons drawn from this experience include: The need to diversify financial resource mobilisation by strengthening cooperation in stemming illicit outflows, returning stolen assets, strengthening domestic capacities through

capacity building, supporting technology, innovation and science, promoting fair trade, trade facilitation, and facilitating good governance.

(b) Lessons learnt and remaining challenges for poverty reduction

- Africa has made remarkable process in reducing poverty since 1990. Countries such as Egypt, Cameroon, the Gambia, Guinea, Senegal and Tunisia have already achieved the target for extreme poverty reduction. However, the entire continent has not yet achieved this goal. Experience has revealed that poverty reduction is underpinned by rapid, sustained, and inclusive growth. Special attention should be given to agricultural development, addressing urban-rural inequality and the implementation of pro-poor programmes such as social protection programmes.
- Experience also revealed that a differentiated approach is necessary to reflect the realities of each country, at different levels of development.
- Moreover, experience has shown that growth need not compromise on equality. Rwanda's experience illustrates how growth can go hand-in-hand with improvements in income distribution.
- The MDG experience also shows that strengthening capacities through social protection helps to reduce poverty and inequality. Some successful examples include: Rwanda, with its multiple social mechanisms such as universal health insurance, free education, social transfers; Mauritius, with its universal social pension; Namibia, with its multidimensional social protection programme; as well as, Malawi, Ethiopia, Ghana, Kenya, Nigeria, Senegal, and the United Republic of Tanzania – all of whom have established safety net programmes to support vulnerable populations. Other countries, such as Benin, Burkina Faso, Mali, and Niger, provided emergency food distribution through cereal banks selling food staples at subsidised prices. Kenya developed an extensive set of hunger safety net programmes, targeting arid and semi-arid areas (APP, 2014 cited in UNECA, et

al. 2015). Despite the successes, more efforts are needed to improve access to funding and ensure fiscal sustainability of these programmes, to expand their coverage, reduce fragmentation, improve targeting, and, above all, to diversify away from donor finance, especially ODA.

- Finally, employment subsidies can help to create jobs. In this regard, Algeria is a successful example. Government fought high unemployment by implementing a rigorous employment policy focused on granting subsidies to firms as incentives to hire the unemployed. They also established a public works programme for unskilled workers. Nigeria is another successful case, with the Nigeria's Youth Empowerment Scheme (administered by Oyo State) which generated jobs for young workers.

(c) Lessons learnt and remaining challenges in education, health, and gender equality

Education

Most African countries are on track to achieve the target of universal primary enrolment. Some countries have demonstrated success through innovative policies. These include:

- Investment in rural education infrastructure (for example, Ethiopia built more classrooms in rural areas);
- Empowerment of rural communities (for example, Togo, where most classrooms in the poorest region are entirely funded by rural households); and,
- Policy reforms in education (for example, Egypt used cash transfers to poor households to increase net primary enrolment rates. Uganda abolished school fees for up to four children per family. Namibia enshrined compulsory education in their constitution. Mauritius imposed penalties on parents who do not send their children to primary school. Seychelles eliminated all forms of educational discrimination, including that against disabled people).

Dropout rates, however, remain a major challenge for many African countries. Drivers of low primary school completion include: Poor health or malnutrition status of pupils; poor household situation (child labour and poverty); School factors such as teacher absenteeism; school location; and, poor educational provision (Sabates et al. 2010). It is important to find strategies to track attendance and enhance the learning experience of pupils to solve this challenge.

Health

The main adversaries of child survival are preventable and treatable. Scaling-up of cost-effective high impact interventions is crucial to reduce preventable child deaths. Countries that have reduced their under-five mortality rate, have prioritised these interventions and have adopted health systems strategies that enhance the coverage and quality of healthcare services. Furthermore, levels of education and income have been found to be important determinants of health. Evidence has shown that child mortality trends are worse for women with no basic education, or those who come from a low socio-economic class. Regarding maternal mortality, several African countries

have made significant progress. Factors that contributed to improvements include: Access to a healthcare system that provides skilled personnel and facilities to handle emergencies and post-partum care, especially in rural areas; and, access to and use of healthcare services focused on childbearing, reduction of financial barriers to healthcare services, and breaking-down cultural barriers.

Gender equality

African countries have achieved considerable progress in women's participation in national parliaments. Policy reforms and affirmative actions help to promote women's political empowerment. Some successful examples of improvement in women's political participation include Uganda, Ethiopia, Mozambique, Rwanda, South Africa, and the United Republic of Tanzania. However, less progress has been secured in increasing women's share of paid, non-agricultural employment. The economic and political empowerment of women is coupled with equal access to education. Therefore, it is important to remove barriers to female education. This is an imperative to women's empowerment in the labour market as well as in social and political arenas. Much more remains to be



done. Women should leverage their representation to advocate for issues that advance female causes further. African countries should go beyond the participatory approach to capacity-building, so as to reach a sustained and inclusive development path. This could be achieved through advocacy and training of women on how they can enhance their leadership role or contribute fully to public debate and policy decisions.

(d) Lessons learnt and remaining challenges related to climate change and environmental sustainability

Global warming and climate change affect the risk profile of Africa. In 2012 alone, an estimated 34 million Africans were affected by climate-related hazards such as drought, floods, or extreme temperatures. According to the United Nations Office for Disaster Risk Reduction (2014), disasters in Africa are evolving in geography, frequency and impact due to global climate change. From 2011 to 2014, the continent registered 147 disasters, which included 19 droughts and 67 floods. These disasters caused an estimated US\$1.3 billion in economic losses. In addition, global climate change triggers decreased water availability, agricultural productivity and production, and land/pasture availability. This will worsen the living conditions of the poor. Over the next few decades, climate change impacts could jeopardise the economic gains the continent has registered recently. This could leave more and more Africans in conditions of extreme poverty.

Africa's population suffers disproportionately from the impacts of global climate change, while the continent contributes least to global pollution. As stated in the MDG report on Africa (UNECA et al., 2015), Africa's progress on environmental sustainability exceeds global performance. The continent has made good progress in limiting carbon dioxide emissions and ozone-depleting substances. Major structural changes and technological progress now make it possible to achieve low carbon emissions and better economic development, with a limited risk on climate. This implies that there is no more choice to make between economic development and tackling climate change. But, as African countries are aspiring to industrialisation, carbon dioxide emissions are likely to increase in the

future. One major constraint to the growth of Africa's industries will be the need to comply with environmental standards and laws, at national and international levels. This implies huge investment in green infrastructure and in cleaner industries than the traditional ones. This is relatively costly for developing countries. To get around this constraint, governments will have to invest in promoting efficient production and the use of renewable energy; as has been done successfully in the Seychelles. They will also need to intensify reforestation efforts, as has been done successfully in Malawi.

In conclusion, over the last fifteen years, Africa, with the assistance of the international community and development partners, deployed substantive effort to fight poverty and inequality through the achievement of the Millennium Development Goals. There are many lessons that can be learned from the implementation of the MDGs. As discussed previously, Africa still faces many remaining challenges in order to meet the MDGs. In comparison with other developing regions, as discussed in previous chapters, Africa lags behind in the achievement of the goals, especially with regards to extreme poverty reduction. Is there any hope that over the next fifteen years, Africa will be able to eradicate extreme poverty and inequality? The next section assesses by how much poverty and inequality can be reduced in Africa, by 2030.

7.2 By how much can poverty and inequality be reduced, by 2030?

The conventional wisdom on Africa may still be too pessimistic: Africa has significantly reduced its poverty rates relative to 1990. Therefore, instead of asking what factors keep Africa poor, we need to ask what factors have allowed it to grow over the past twenty years, and, how much growth and distribution is needed to eliminate poverty. Assuming that the continent will continue to register high growth performance, under what scenario will Africa be able to eliminate extreme poverty by 2030?

7.2.1 Under plausible scenarios, extreme poverty will not be eradicated by 2030

To derive plausible future poverty paths in Africa, we draw on three main information sources, as do Kharas (2010) or Chandy et al. (2013a; 2013b):

- (i) Projected growth in the mean level of real consumption per capita (or income);
- (ii) Redistribution of consumption (or income) between the 10 richest and the 40 poorest percent of population; and,
- (iii) UN population projections.

The modelling framework is simple. It does not incorporate policies directly, instead, it captures their effects through implicit political economy structures that lead to higher growth or redistribution.

The baseline scenario assumes that:

- (i) Consumption per capita will grow as projected in the Economic Intelligence Unit (EIU) database;
- (ii) Distribution of consumption will stay constant, using the distribution in 2010 data from the World Bank's PovcalNet database; and,

- (iii) Population will grow according to the UN's medium scenario.

The dynamics of poverty reduction derived in the baseline are driven by a series of assumptions. Like Ravallion (2013), Edward and Sumner (2014), Chandy et al. (2013a; 2013b) the baseline scenario takes an 'inequality-neutral' approach. Specifically, it assumes that actual income or consumption distribution remains constant at that of the most recent year for which data is available. However, inequality changes over time (Ravallion and Chen, 2012). Hence, the strong assumption of constant distribution is relaxed in the alternative scenarios discussed below. As with other long-run models, the scenarios in this approach are illustrative, they are intended to foster debate rather than to predict the future.

The baseline scenario assumes constant consumption distribution over time (Gini-coefficient of 0.41) and an average real consumption growth rate of 6.5 percent per year, up to 2030. Under this scenario, the poverty rate in SSA would fall from 47.9 percent, in 2010, to 27 percent of the population in 2030. This remains much higher than the three percent target established by the SDGs. Further, the absolute number of people living in extreme poverty would even slightly increase (Figure 7.10 and Table 7.2). The daily consumption of at least another quarter of the population would be between \$1.25 and \$2 a day. This underscores the **vulnerability** of this large group to falling back into poverty under adverse shocks, such as, climate related shocks, economic or political shocks. Countries with rapid population growth will face greater challenges to reduce the absolute numbers of poor people.

Although high, these projections are still more optimistic than other studies on Africa's prospects for poverty reduction. Turner et al. (2014) projected that 24.9 percent of Africa's population, or 397.3 million people, may still live on consumption below \$1.25-a-day by 2030. Their estimates

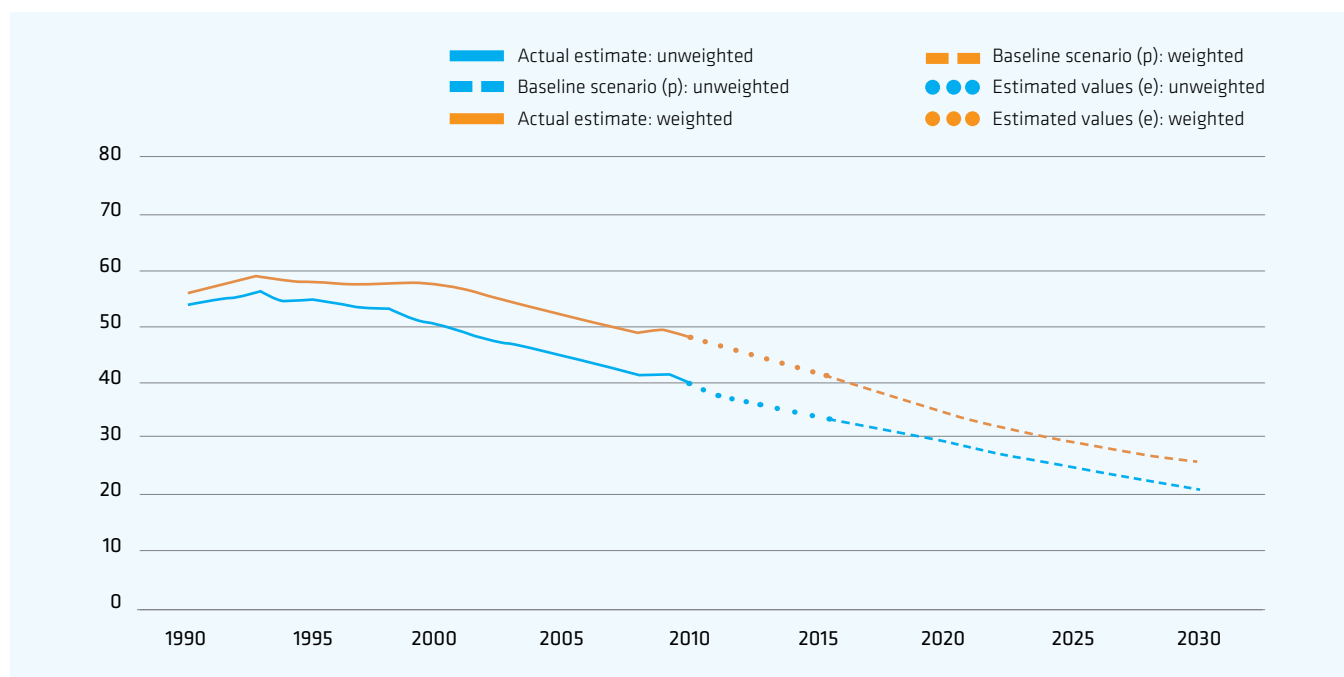
included North Africa, which posts lower rates of poverty than SSA, thus the inclusion of that region should reduce the overall poverty rate. When North Africa is included in our sample, Africa's poverty rate is projected to reach 22.3 percent under the baseline scenario.

Table 7.2 Evolution of poverty in SSA: Baseline scenario, 2010 – 2030

	2010(a)	2015(e)	2020(p)	2030(p)
Percent of population				
1st poverty line (<\$1.25)	47.9	42.7	36.0	27.0
2nd poverty line (\$1.25-\$2)	28.0	28.6	28.0	25.1
Above \$2 a day	24.1	28.8	36.0	47.9
Total	100.0	100.0	100.0	100.0
Millions of poor people				
1st poverty line (<\$1.25)	393	403	393	398
2nd poverty line (\$1.25-\$2)	230	270	306	370
Above \$2 a day	198	272	393	706
Total	820	944	1,091	1,474

Note: In this table, and for the remainder of this section, 'a' stands for actual outcomes, 'e' stands for estimates, and 'p' denotes projections.
Source: Authors' calculations, based on AfDB, EIU, UN and World Bank databases.

Figure 7.10 Poverty rates in SSA: Baseline scenario (% of total population), 1990 – 2030



Source: Authors' calculations, based on AfDB, EIU, UN and World Bank databases.

7.2.2 Alternative scenarios show that poverty will remain a major challenge in 2030

Here, we explore other plausible poverty paths by altering the baseline assumptions about the real growth of consumption (income) per person and its distribution across African countries.

First, we increase the growth of consumption per capita by 2 percentage points a year, while maintaining the consumption distribution assumption of the baseline scenario (SSA results presented in Figure 7.11a).⁶⁶ With higher consumption growth, the SSA poverty rate falls to 16.7 percent of the population by 2030 (245 million people).

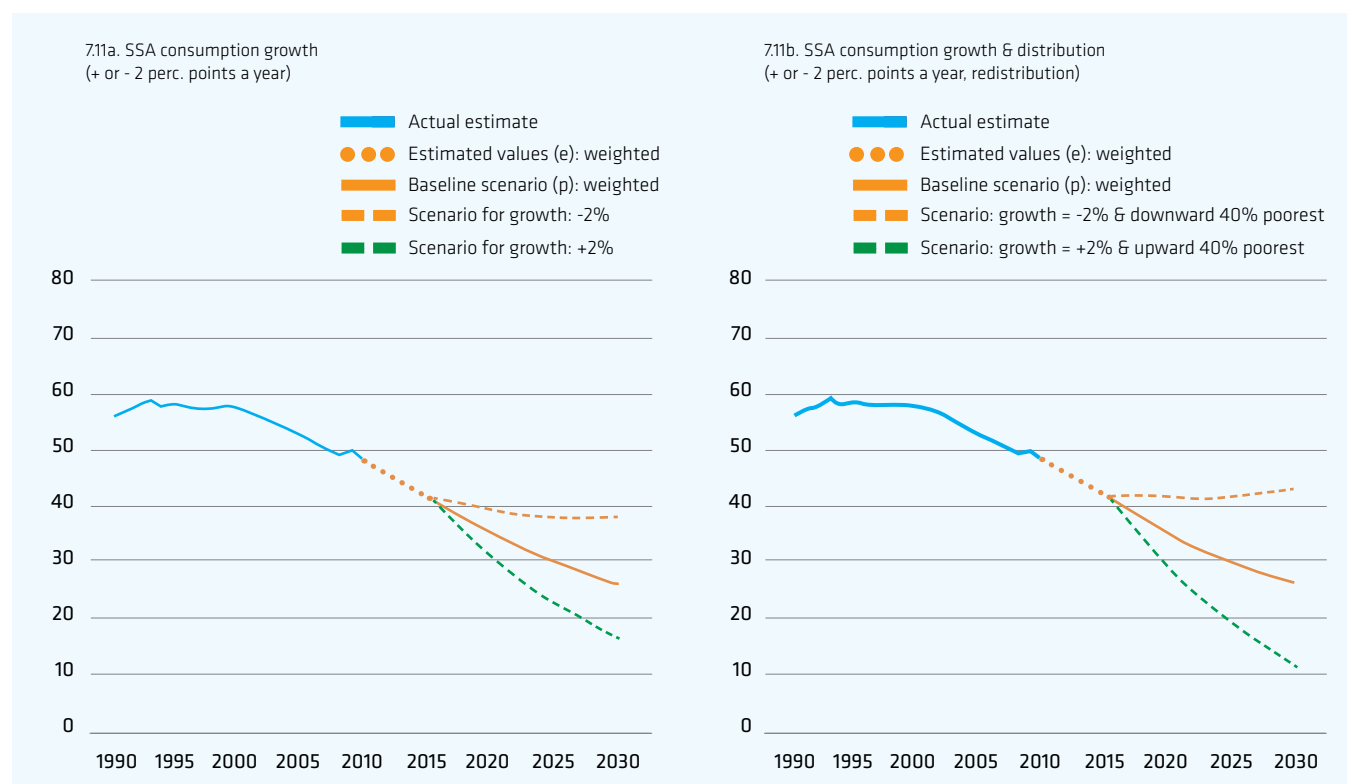
66 This choice reflects past observed growth accelerations in Africa. The projections are based on a steady growth (or decline) of consumption assumption, which implies that they may show a more or less optimistic (or pessimistic) description of future poverty figures. Indeed, durable reductions in poverty rates require maintaining sustained rates of economic growth over time. If the variability of consumption is different from the one assumed, therefore, the projected rates may not reflect actual poverty rates for the period considered.

This represents declines in both the poverty rate and the number of poor. The number of poor would fall by 158 million from 2010 numbers. Such poverty achievements would also be more robust than under the baseline scenario: Almost two thirds of the population would achieve at least middle-income status by 2030⁶⁷. Conversely, should consumption growth decline by 2 percentage points a year, the poverty rate in SSA would rise to 38.5 percent of the population (568 million people) in 2030. Under this scenario, an additional 165 million people would live in extreme poverty in 2030, relative to 2010.

In Africa as a whole, poverty rates are projected to reach 14.7 percent under the high consumption growth scenario, and 32.7 percent under the low consumption growth scenario.

67 Middle class is defined as people living on \$2 - \$20 a day (in 2005 PPP terms), as in AfDB (2011).

Figure 7.11 Poverty rates: Alternative scenarios, 1990 - 2030 (% of SSA population)



Source: Authors' calculations based on AfDB, EIU, UN and World Bank databases.

Next, we consider combined changes in per capita consumption growth and redistribution. In addition to the changes in consumption growth, we consider trade-offs in consumption shares between the poorest 40, and the richest 10, percent of population in each country. Specifically, we assume that there would be a steady shift between the two groups from 2010 to 2030, by 0.4 percentage points every year, reflecting the distribution trends in historical African data⁶⁸.

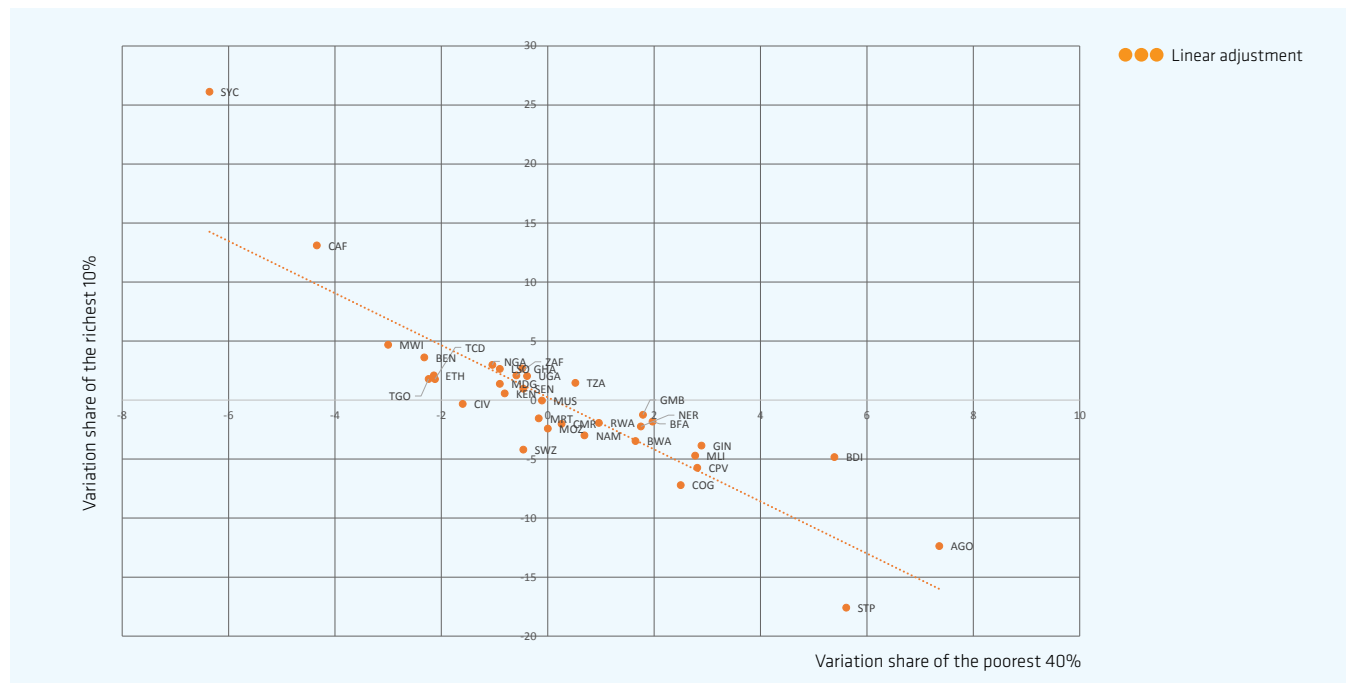
The empirical trade-off in redistribution of consumption is illustrated in Figure 7.12. Specifically, the share of consumption of the poorest 40 percent of the population declined in some of the most unequal middle-income countries in Southern Africa (e.g., Seychelles). In contrast, the share of the poorest 40 percent rose in some low-incomes countries (e.g., Burundi and Mali).

68 We estimate the scale of the long-term distribution trend, observed in historical data on African countries, as: $Share_{it}^{40\% \text{ poorest}} = \theta \cdot Share_{it}^{10\% \text{ richest}} + \varepsilon_{it}$. Thus, a 1 percentage point decrease in the consumption share of the top 10 percent, results in a 0.4 percentage point increase in the share of the bottom 40 percent, and vice versa.

Figure 7.11b shows poverty outcomes for the scenarios with a higher (lower) consumption growth and a steady shift in consumption share towards the bottom 40 percent of the population (from the top 10 percent of the population). Relative to the baseline case, poverty outcomes improve markedly under the ‘best case’ scenario of higher consumption growth and redistribution: The poverty rate in SSA falls to 12.2 percent of the population, by 2030. With only 14 percent of the population living on \$1.25 - \$2 a day, poverty reduction should be more resilient to reversals under this scenario. Under the ‘worst case’ scenario, poverty would rise to 43.6 percent of the population by 2030, adding 240 million poor people to the absolute level.

The above scenarios highlight the uncertainty that surrounds potential poverty paths and likely 2030 poverty outcomes. The uncertainties that could affect poverty outcomes the most could be either climate related shocks (e.g., droughts, floods, extreme temperatures), economic shocks (e.g., falls in commodity prices), or political shocks (e.g., conflict, political instability). Still, even with

Figure 7.12 The trade-off in the consumption shares between the 40% poorest and the 10% richest segments of the population in SSA



Source: Authors' calculations based on AfDB, EIU, UN and World Bank databases.

the wide range of plausible poverty outcomes for Africa, the targeted 3 percent or lower by 2030 is not among them. The challenge of reducing extreme poverty in SSA is further underscored by the asymmetry of results under different scenarios. The number of additional poor under the negative scenarios exceeds the additional number of people escaping poverty under the corresponding upside scenarios.

7.2.2.1. Poverty dynamics by 2030

Reducing poverty will become increasingly challenging over time. After an initial acceleration, until about 2017, progress is projected to slow under all scenarios (Figure 7.13). In the outer years, as the poverty rate declines and the mode moves above the poverty line, lifting people out of poverty will require more resources. Differently put, semi-elasticity of growth tends to decline in SSA with poverty reduction (Table



7.3)⁶⁹. From the perspective of policymakers, who measure their achievements in percentage points of poverty reduction, this measure of dynamics is more useful than elasticity.

69 Growth elasticity refers to the ratio of a percentage change in the poverty rate to a percentage change in income or consumption. Semi-elasticity of growth refers to the ratio of a percentage point change in the poverty rate to a percentage change in income or consumption (i.e. a fall from 8% to 6% is a 2 percentage point fall, but a 25 percent fall).

Table 7.3 SSA semi-elasticity of consumption, 2010 - 2030

Poverty rates (%)	(Mean) growth semi-elasticity of consumption on poverty (%)
45	-0,465
40	-0,454
35	-0,424
30	-0,398
25	-0,368

Note: Calculations were carried out using the 2010 Africa distribution for the baseline scenario, from PovcalNet. Source: Authors' calculations based on AfDB, World Bank, and EIU databases.

7.2.2.2 Going beyond the averages

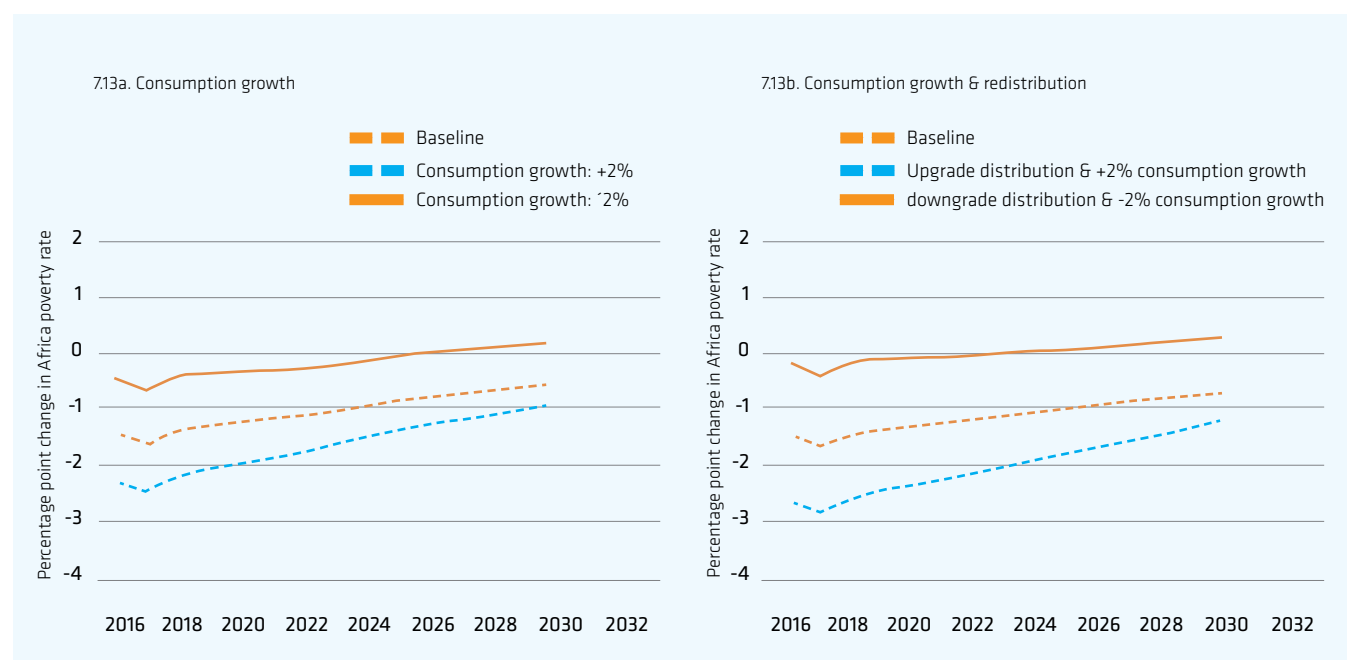
As noted above, aggregate results mask differences among countries and groups. This section examines such differences, focusing on countries with the highest poverty rates and on fragile states.

7.2.2.3 Differences between SSA countries

In 2010 poverty in SSA was disproportionately concentrated in several large countries. It will increasingly be concentrated over time. Specifically, in 2010 the top five contributors accounted for more than half of the sub-continent's poor (Table 7.4a). In the baseline scenario, the poor in Nigeria, the Democratic Republic of Congo (DRC) and Tanzania are still projected to account for almost half of the region's poor in 2030. Further, today's fragile states are projected to maintain high poverty rates in 2030 (Table 7.4b).

Large African countries with high poverty rates, where the bulk of Africa's poor will live, such as Nigeria and the DRC, cannot be overlooked in policymakers' efforts to tackle

Figure 7.13 Poverty rate dynamics: Alternative scenarios, 2012 - 2030 (percentage change)



Source: Authors' calculations based on AfDB, World Bank and EIU databases.

poverty. Further, the impact of growth on poverty reduction varies across countries and within countries over time, depending, among other factors, on income distribution. Further progress will be particularly challenging in fragile countries with substantial poverty prevalence and depth, such as the DRC (Figure 7.14a and Figure 7.14b). These countries will require sustained and inclusive growth for decades to come in order to bring down poverty.

The limited reliability of poverty data in Africa also needs to be underscored. For example, the poverty rate in Ethiopia was estimated to be close to 30 percent in 2010. However, according to the multidimensional poverty index, which takes into account dimensions of the human development index, Ethiopia was among the poorest countries in the world in 2010, alongside Niger and Mali (Alkire and Santos, 2010). This illustrates the need to look beyond simple indicators and aggregates, both at regional and country levels.

The Poverty Reduction and Growth Strategy Paper (PRG-SP) of the DRC was prepared under challenging economic and security conditions, following the conclusion of the National Peace and Reconciliation Agreement in 2002. The analysis revealed the complex and multidimensional nature of poverty in the DRC, including the damaging psychological impacts of conflict on people's well-being (IMF, 2007)⁷⁰. In Nigeria, which also contains a disproportionate share of Africa's poor, poverty is concentrated among the uneducated population, residing in rural areas, and, who tend to be part of larger households. The country's rapid growth has not translated into poverty reduction, in part because of large gaps in access to social services (Anyanwu, 2012).

70 Violent conflict impacts negatively the psychological well-being of people and their ability to manage stress, with the poor being disproportionately impacted. At the time of the PRGSP, 70.9 percent of the poorest quartile of the population experienced nightmares. This is greater than the (still very high) level, 63.4 percent, for the entire population (IMF, 2007).

Table 7.4 Differences in poverty rates in SSA, 2010 and 2030(p): Baseline scenario

Table 7.4a Countries contributing the most to SSA poverty, 2010 and 2030

Country	2010-Share of the poor % of SSA poor	Poverty rate % of total population	Country	2030- Share of the poor % of SSA poor	Poverty rate % of total population
Nigeria	26.2	68.0	Nigeria	20.8	28.3
Congo, Dem., Rep.	12.9	86.3	Congo, DR	20.1	70.7
Tanzania	7.3	67.0	Tanzania	8	36.0
Ethiopia	6.6	31.4	Madagascar	5.9	58.9
Madagascar	4.1	81.3	Mozambique	5.2	47.5
Total	57.1		Total	60.0	

Table 7.4b Countries with highest projected poverty rates in 2030 (baseline)

Country	2010		2030			
	Actual	Baseline	High growth	Low growth	Best case	Worst case
	(percent of population)					
Congo, Dem., Rep.	86.3	70.7	51.9	85.4	44.8	86.2
Madagascar	81.3	58.9	38.7	77.4	29.2	79.1
Chad	44.3	53.9	32.3	75.1	21.7	77.1
Central Afr. Rep.	62.9	51.9	35.1	68.8	27.1	71.3
Liberia	83.2	50.5	26.7	74.8	15.7	76.9
Average	71.6	57.2	36.9	76.3	27.7	76.1

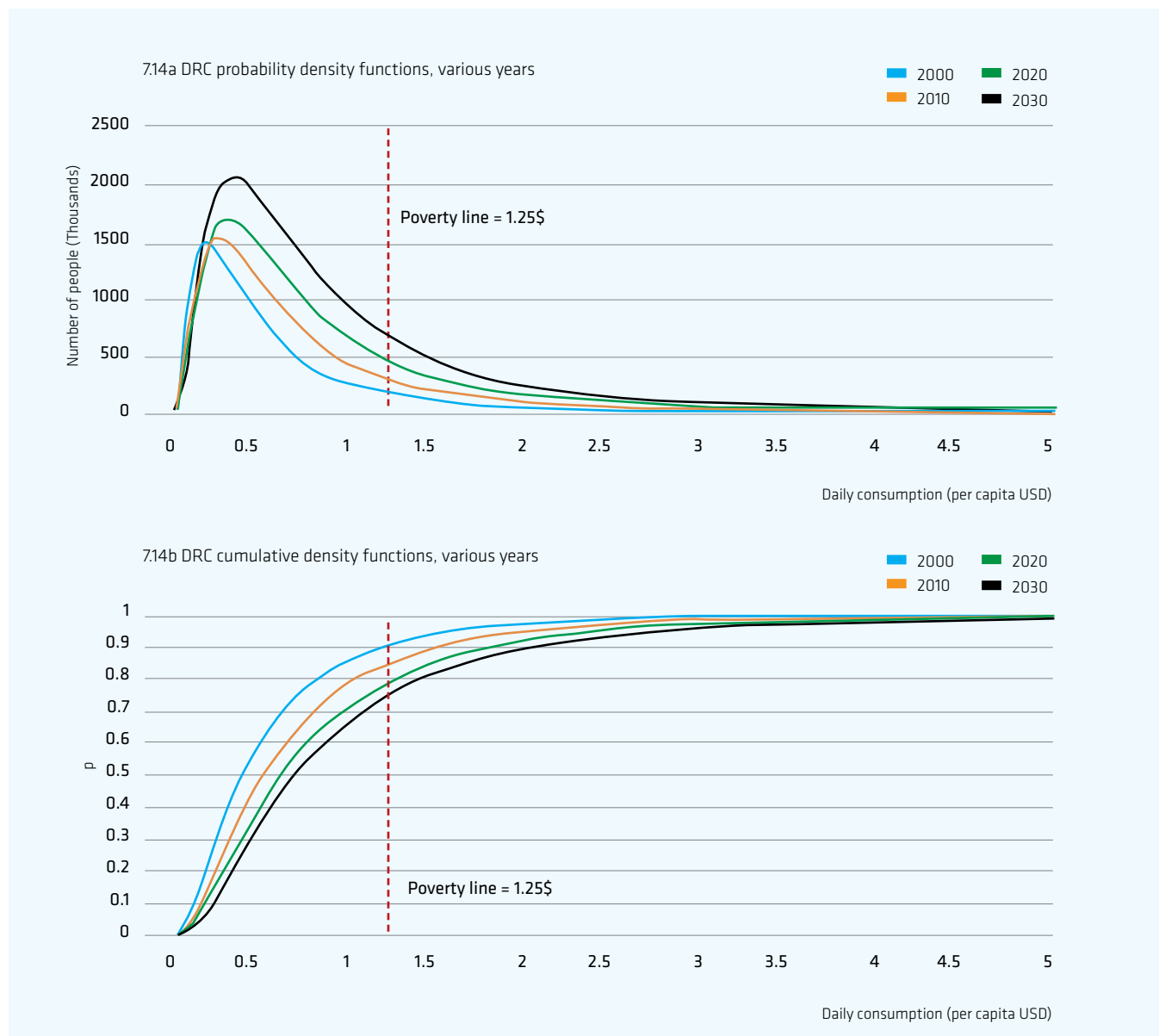
Note: Unweighted averages, based on \$2 a day poverty line
Source: Authors' calculations based on AfDB, World Bank and EIU databases.

7.2.2.4 Differences across Africa's sub-groups - contexts of fragility

To understand the drivers of poverty reduction in Africa, we examine the performance of the main sub-groups: (i) Oil exporters; (ii) Frontier markets; (iii) Fragile contexts; and, (iv) Others.

Classifying SSA countries by oil exporters, frontier markets, fragile contexts and others reveals that poverty rates in today's fragile states are expected to remain well above the rates recorded by other groups up to 2030, pulling up the region's average (Figure 7.15). Starting from a high rate in 2010 (almost 60 percent of the population), countries undergoing contexts of fragility are projected to maintain the highest poverty rates, even to 2030: About

Figure 7.14 Poverty rates in the Democratic Republic of Congo, 2000 - 2030

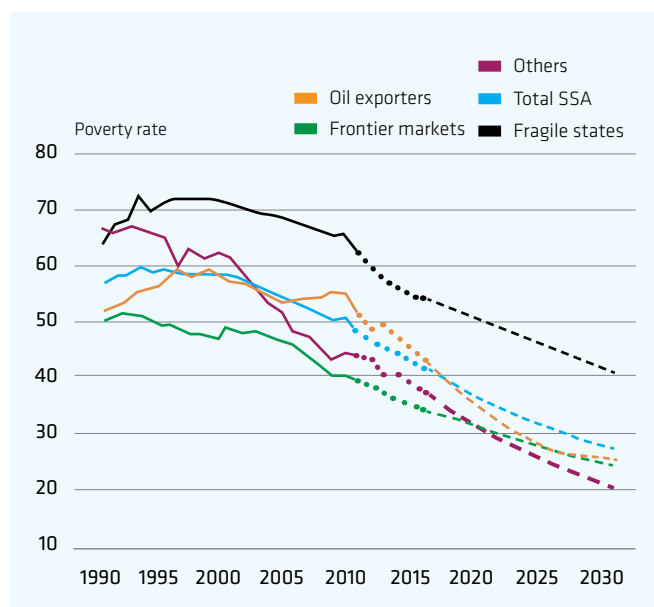


Source: Authors' calculations based on AfDB, UN, World Bank and the EIU databases.

40 percent of the population will remain poor, in contrast to 20 percent in other countries. Even under the scenario of accelerated consumption growth, extreme poverty in countries undergoing contexts of fragility will amount to more than 25 percent of the population (Figure 7.16). The poverty gap (depth) is also projected to stay much higher in these countries than in others: It is expected to be 15 percent of the poverty line in 2030 compared with 7 percent in other countries.

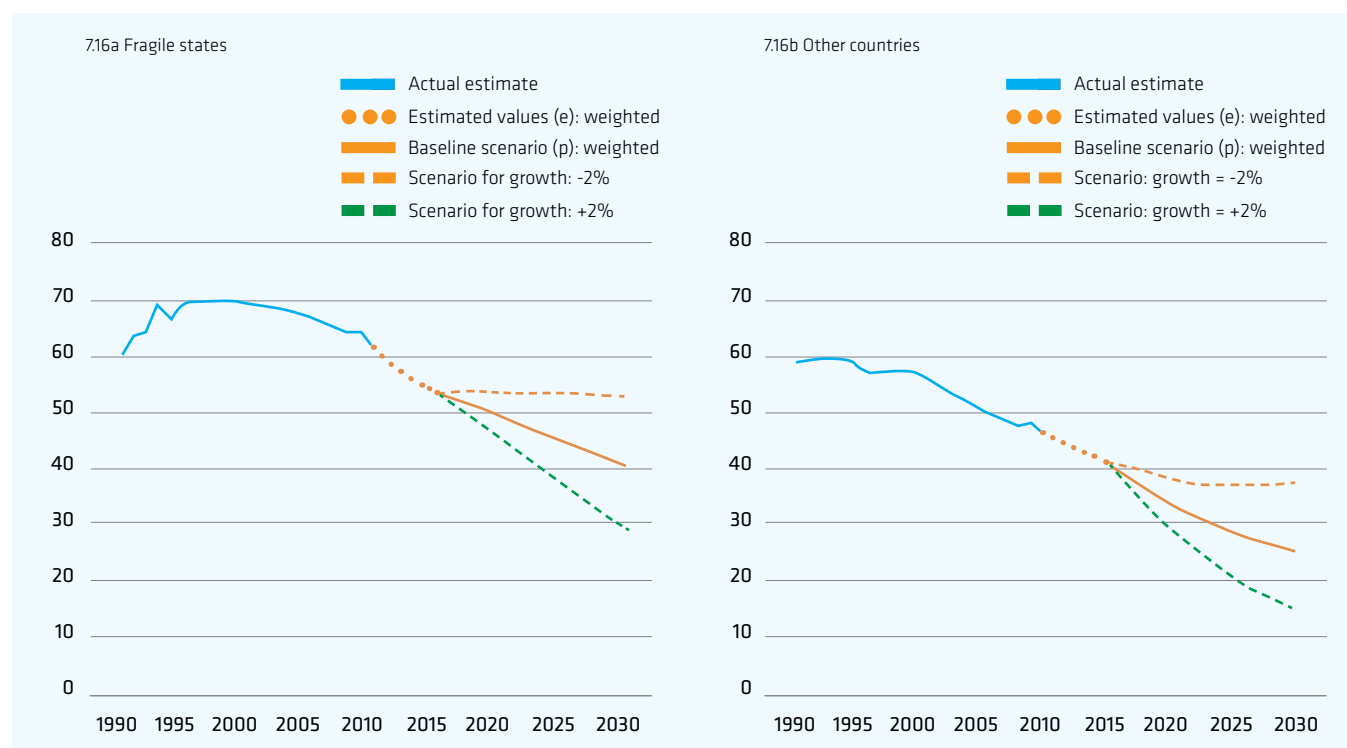
These results are heavily impacted by high rates of poverty in the DRC, which are projected to account for more than a third of the population of fragile states. Nevertheless, countries undergoing contexts of fragility constitute an important focus group for targeted poverty measures in SSA, with fragility defined as a condition of elevated risk of institutional breakdown, societal collapse or violent conflict (AfDB, 2014).

Figure 7.15 Poverty rates by SSA's sub-groups, percent of total population, 1990 - 2030



Note: Projections (dashed line) were carried out under the baseline scenario.
Source: Authors' calculations based on AfDB, UN, World Bank and the EIU databases.

Figure 7.16 Poverty rates: Baseline and different growth rate scenarios, (percentage of relevant population)



Source: Authors' calculations based on AfDB, UN, World Bank and the EIU databases.

7.2.3 Conditions required to eliminate extreme poverty in Africa by 2030

Ending extreme poverty is a moral imperative and arguably one of the most compelling challenges facing the development community. This section adopts an optimistic approach to eliminating poverty in Africa by arguing that ending poverty within 10 or 15 years (2025 or 2030) is difficult, but achievable. We first assess how much is needed to lift poor people out of extreme poverty, and second, at the macro level, we determine the level of growth and inequality reduction required to eradicate extreme poverty in Africa by 2025-2030.

7.2.3.1 Cost of eliminating extreme poverty in Sub-Saharan Africa

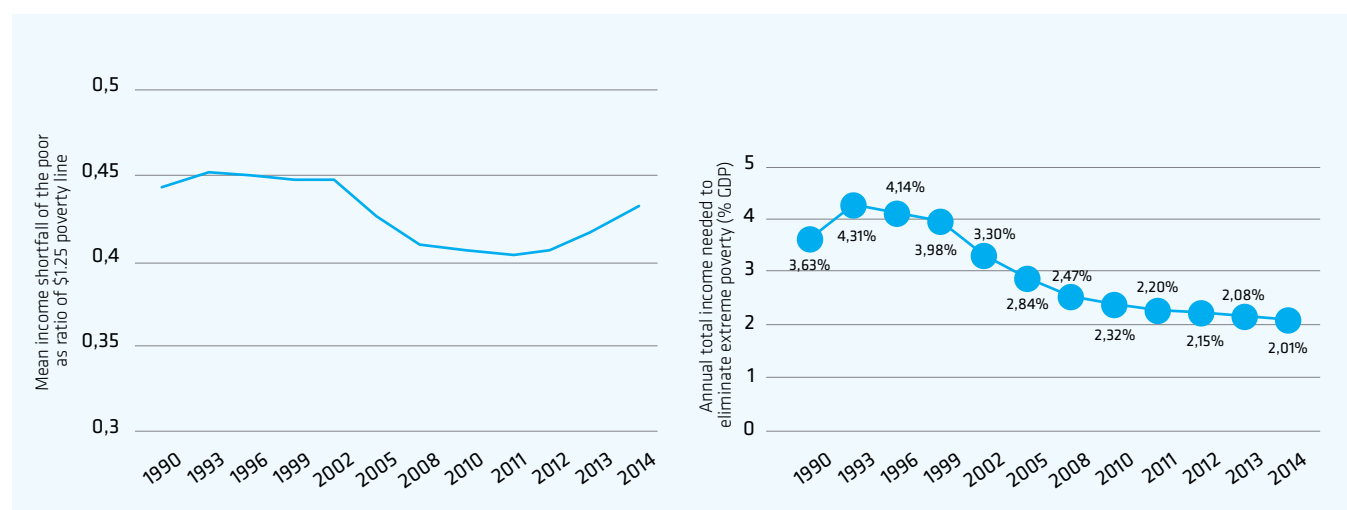
Africa's slow progress towards poverty reduction is not purely due to scarcity of resources. According to the Bank's estimates, the proportion of the continent's resources needed to address poverty is relatively low. The average income deficit (measured as the shortfall from the USD 1.25 poverty line) among Africa's extreme poor was as large as USD 0.42. Relative to the poverty line, the mean income shortfall for the poor has barely changed from 0.44 in 1990 to 0.42 in 2014. Between 1990 and 2014, both

the population and the absolute number of poor people increased dramatically from 508 million and 284 million in 1990 to 979 million and 420 million respectively. The high rate of population growth, especially among poorer households, has in turn slowed the pace of poverty reduction. The double burden, of high poverty incidence and high population growth, poses a challenge to Africa's sustainable development.

In monetary terms, the annual income deficit of the average poor person in Africa decreased from USD 161 in 1990 to USD 155 in 2014. Based on these figures, the amount of resources needed to eliminate extreme poverty for sub-Saharan Africa in 2014 was estimated at USD 65 billion, higher than the 1990 estimate of USD 46 billion. This high resource gap is due to the rise in the number of poor people. It should be noted that the share of annual GDP required to eliminate extreme poverty has declined, from 3.63 percent in 1990, to 2.01 percent 2014. Figure 7.17, below, depicts the estimated mean income shortfall of the poor as a ratio of USD 1.25, and the annual total income needed to bridge the income shortfall of the poor.

Over the years, there has been a significant decline in the share of GDP needed to bridge the income shortfall of the poor (Figure 7.17, right side). However, this decline is not due to a reduction in the number of poor people, nor to a

Figure 7.17 Sub-Saharan Africa's income shortfall and resources required to eliminate extreme poverty



Source: Authors' calculations. Note: Data are based on PovcalNet until 2011. Headcount poverty between 2011 and 2014 is based on AfDB staff estimation. Poverty gap figures for the same period are estimated using the mean growth of the poverty gap, based on the past 9 surveys.

reduction in the extent of extreme poverty: Africa has made only relatively limited progress on these fronts. Instead, it is largely due to the expansion of total economic resources, or GDP, during the intervening period. Thus, whilst economies grew, and potentially expanded the opportunities for poverty reduction, the number of absolute poor still increased at the same time, implying that Africa's poor, especially the extreme poor, have received limited benefits from the decade of high and sustained economic growth. Yet, as of 2014, only two percent of GDP was needed to lift more than 40 percent of the sub-Saharan African population out of extreme poverty.

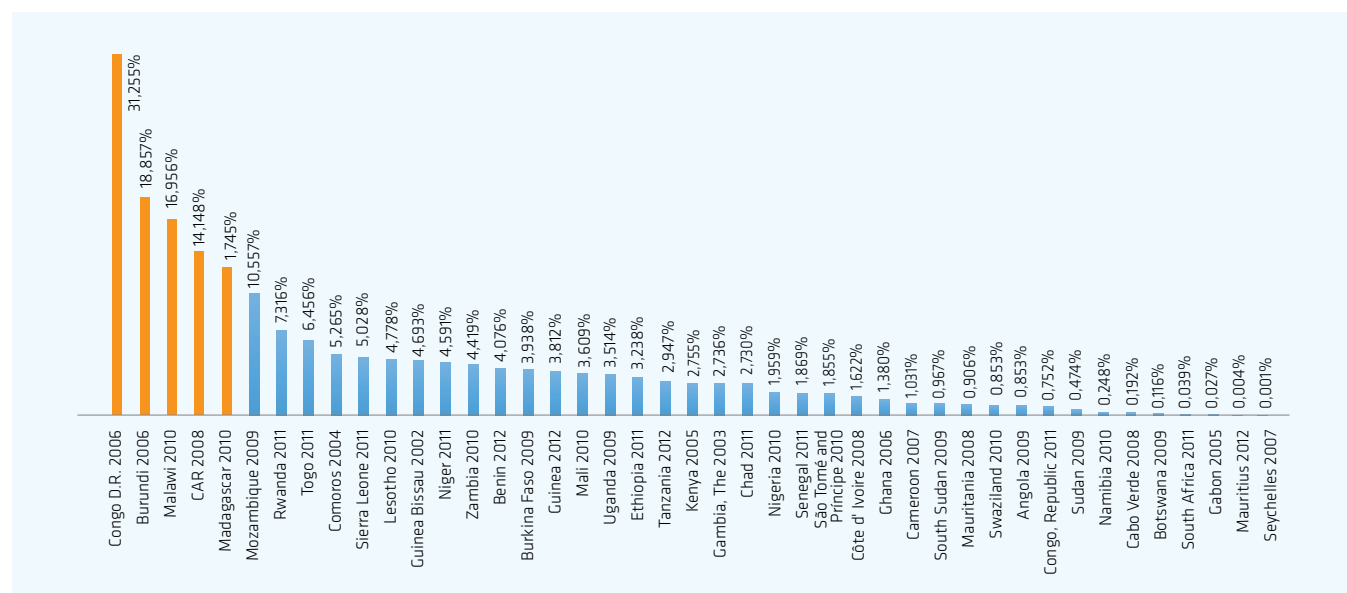
The capacity to eliminate extreme poverty differs across countries. Middle-income countries such as Seychelles, Mauritius, Gabon, South Africa and Botswana need less than 1 percent of their GDP to finance the income deficit required to eliminate poverty. Their low-income counterparts such as the Democratic Republic of Congo, Burundi, Malawi, Central African Republic and Madagascar require more substantial resources, in excess of 12 percent of their GDP (see Figure 7.18).

The estimates presented above suggest that distribution policies can have significant impacts on eliminating poverty in

Africa, especially in sub-Saharan Africa, which has the highest proportion of poor people. Most countries would require less than 5 percent of their national income to eliminate extreme poverty. While such policies could be used to reduce poverty headcount to zero, they do not address the vulnerability, neither among the majority of those who would be lifted out of poverty, nor for those whose incomes were only slightly above the poverty line at the time of intervention. Thus, a more comprehensive poverty reduction programme should target both poverty and vulnerability.

The amount of resources needed to eliminate poverty does not only depend on the number of poor people but also on the extent of deprivation among the poor. Extreme poverty, with a large number of people living on incomes much lower than the poverty line, can be more challenging than a situation where the majority of the poor are clustered just below the poverty line. Evidence shows that, while headcount poverty is high across Africa, extreme poverty cases are more common in highly unequal societies. Many of Africa's poor are clustered near the poverty line, requiring fewer resources to lift them out of poverty. A combination of sustained growth and appropriate redistribution policies could therefore make substantial progress in lowering poverty. This is addressed in the next section.

Figure 7.18 Percentage of GDP needed to keep everyone out of extreme poverty in a given year, by country



Source: Author's calculations. Data used are sourced from PovcalNet, based on the most recent country level survey data for each of the included countries.

7.2.3.2 Growth and redistribution required to eliminate extreme poverty in Sub-Saharan Africa

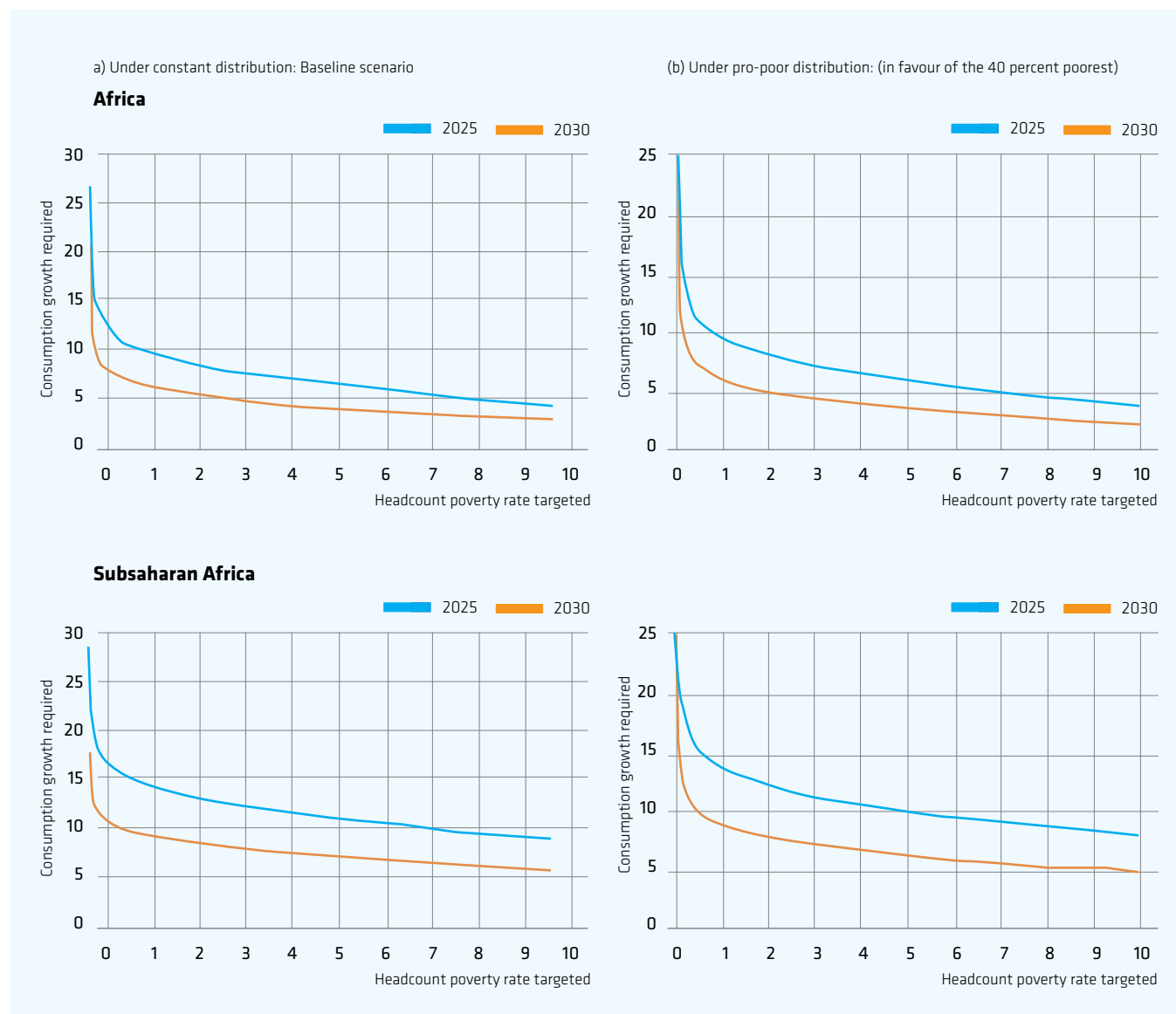
This section presents a simple analysis to determine the level of growth and inequality reduction needed to eliminate extreme poverty (reduce the percentage of the population living on less than \$1.25 a day to less than 3 percent) by 2025 or 2030. In each case, the analysis treats Africa, or SSA, as a unit and makes assumption that macroeconomic

variables affect poverty through consumption growth and distribution dynamics.⁷¹

Figure 7.17a displays a range of per capita consumption growth rates and the corresponding achievements in poverty reduction under a constant distribution of

71 For this reason, projections in this section are not comparable to those in earlier sections of this chapter.

Figure 7.19 Per capita consumption growth required to reach a specific target of headcount poverty rate by 2025/2030: Africa and SSA



Source: Authors' calculations based on the AfDB, World Bank and EIU databases

consumption (i.e. the baseline scenario). The simulations suggest that under these conditions, to achieve the objective of 3 percent poverty rate for Africa in 2025, consumption per capita should grow constantly by 8 percent per year during the next 10 years. Similarly, lowering Africa's headcount poverty to 3 percent by 2030 would require 5.3 percent annual consumption growth. The corresponding required consumption growth rates for SSA are 12.6 percent annual growth to 2025 and 8.2 percent until 2030.

In figure 7.17b, we assume that government implements pro-poor policies that shift the share of the richest 10

percent in favour of the poorest 40 percent of the population. Under this scenario, for Africa and SSA respectively, 6.9 and 11 percent growth of per capita consumption would be needed to achieve the 3 percent poverty rate target in 2025. When the deadline is pushed to 2030, it will require 4.1 and 6.8 percent annual consumption growth per capita.

Based on historical, current and projected growth rates of consumption, the value of per capita consumption associated with different scenarios of consumption growth and distribution can be estimated. How do these different



growth rates translate to changes in per capita consumption? On average, per capita consumption grew at less than 4 percent in Africa and in SSA over the last 10-15 years. Table 7.5 presents projected consumption per capita in US dollars under three scenarios. Under the business as usual scenario, per capita consumption is expected to reach USD 1,390 and USD 977 in 2025, for Africa and SSA respectively. Under a scenario of accelerated consumption growth but no change to current distributional patterns, the projected per capita consumption levels are USD 2,368 and USD 2,457 for Africa and SSA respectively by 2025. Under a third scenario, where accelerated consumption growth is accompanied by pro-poor distribution policies, achieving a 3 percent poverty target would require per capita consumption in Africa and SSA to increase to USD 2,138 and USD 2,130 respectively, by 2025. Interestingly, under a combined accelerated-growth and pro-poor distribution scenario, the continent could eliminate extreme poverty at lower consumption growth rates and consumption per capita levels compared to those under a scenario with no pro-poor distribution policies. In other words, to be able to reverse the “business as usual” trend and eliminate extreme poverty in the next decade, Africa will have to almost double average per capita consumption through higher growth, or a combination of growth and distribution policy levers.

It is therefore evident that tackling poverty through “business as usual” approaches will not achieve the desired results. In particular, the projections show that reaching a 3 percent poverty target would require doubling or even tripling current per capita consumption levels.

7.2.3.3 Policy responses to support extreme poverty elimination

The vital question is, how could African countries double or triple consumption per capita in order to eradicate extreme poverty over the next decade? Interventions, both at micro and macro levels need to be scaled up and to be made more adaptive to the needs of the poor. Economic growth remains a vital instrument for poverty reduction, though the impact of growth on poverty depends on factors such as the sectoral and labour composition of growth and the type of distribution policies. The extent of inclusion and sustainability of this growth is critical to its success in addressing poverty. Apart from economic growth, governments can alter the distribution of national wealth in favour of the less fortunate segments of society. Often, these distribution policies can help reach extremely poor households and address basic needs, such as food, health and shelter.

Table 7.5 Projected consumption per capita (constant 2005 USD) under different scenarios of consumption growth, Africa and SSA

	Africa	SSA
<i>a) Current and projected per capita consumption levels</i>		
2015	1 097	750
2025	1 390	977
2030	1 617	1 138
<i>b) Projected per capita consumption level needed to eliminating extreme poverty</i>		
<i>Optimistic Scenario - accelerated consumption-growth and constant distribution</i>		
2025	2 368	2 457
2030	2 380	2 446
<i>Optimistic Scenario - accelerated consumption-growth and pro-poor distribution</i>		
2025	2 138	2 130
2030	2 004	2 012

Source: Authors' calculations based on the AfDB, World Bank and EIU databases

At the micro level, various channels could be used to increase households' consumption. If governments and the private sector provide better income opportunities, in other words, better job opportunities, this will improve household income sources and allow them to spend more to improve living conditions. As discussed in earlier chapters, many Africans, in particular women and youth, have vulnerable jobs in the agriculture and informal sectors. Apart from the low income earned by people in these sectors, seasonality of their work and vulnerability to adverse shocks requires significant increases to their incomes in order to sustainably keep them out of poverty.

In cases of extreme poverty, where the benefits of growth are less likely to occur to the poor, government programmes such as social safety nets can be helpful. However, targeting such programmes is not easy, and poor targeting is inefficient. Using existing social infrastructure, such as traditional and religious institutions, can improve the effectiveness and lower the cost of delivering social safety nets.

At the macro and meso levels, the future of growth and poverty reduction in many African countries depends on the extent of economic diversification. For governments to reverse the current situation, structural changes need to happen in the agricultural sector as well as the industrial sector. Countries would need to develop agro-industry and manufacturing sectors. Unlike the extractive industries or the service sectors, agriculture, agro-industry, and manufacturing sectors can generate decent jobs for low skilled segments of the population. In addition, investment in agriculture and manufacturing sectors is likely to have higher pay-offs by lowering vulnerability to global price shocks and threats posed by food insecurity. In light of this, structural transformation that increases production and productivity in labour-intensive sectors, such as agriculture and manufacturing, will improve the resilience of economic growth while having a relatively larger impact on the lives of the poor. Such investments extend beyond the scope of government finance. Private sector participation and a wider commitment of the development community are needed to bridge investment gaps and unlock the potential for future growth and poverty reduction.

More specifically to achieve the goal of eliminating extreme poverty by 2025 or 2030, and to support structural transformation that generates decent jobs for the majority of Africans, access to development finance and how these funds are managed will be crucial. Since the 2008 financial crisis, followed by the debt crisis in developed countries, development financing has become a huge constraint for developing countries, especially in Africa. For that reason, African countries have to rethink how they can better mobilise resources, despite the decline in ODA to finance their future development. Domestic resource mobilisation is a major part of the solution because there is untapped potential in many African countries. These resources constitute a sustainable way of development financing. An option for policymakers would be to design and implement policy reforms to formalise the informal sector. Formalising the large informal sector, will not only generate domestic resources, but will also secure the jobs of the poor. Strengthening the tax system, especially tax collection, is also important for African countries so as to increase tax revenues. These revenues could in turn be invested in public service delivery and social transfers. Another important aspect is that countries need to address the issue of illicit financial outflows which remain a major obstacle in mobilising domestic finance on the continent. Finally, African countries could also tap into their diaspora to finance their structural transformation. Remittances have been flowing to the continent, but these resources could be better redirected toward investment in the private sector, support to public infrastructure, or even transfer of science and technology from developed or emerging economies to Africa. All these resources could have a significant impact on the process of structural transformation and wealth creation for many Africans.

Overall, strong policies, aimed at deepening the foundations for better growth, would be necessary. Governments can expedite progress in poverty reduction by enacting reforms that empower marginalised groups to effectively participate and reap the benefits of economic growth through meaningful employment and equal opportunities. Ending poverty is also about making progress in the non-monetary dimensions of welfare, including

education, health, nutrition, and access to essential infrastructure, as well as enhancing voice and participation of all segments of society in economic, social, and political

spheres. From this standpoint, governments should also implement measures that improve these non-monetary drivers of welfare.



7.3 Conclusion

After 15 years of MDG implementation and a decade of economic growth, Africa today enjoys a better standard of living than it had in 1990. Improvements have been achieved in health, education, gender equality and in overall living standards. However, progress has been uneven both across and within countries. While some countries have made good progress, others have been held back by a number of factors including inequality, increased exposure to external shocks due to undiversified economies, conflict, and poor initial conditions. Despite overall progress in achieving the MDGs, and in Africa's economic growth record, more than two-thirds of Africans still live in extreme poverty.



Under 'business as usual', for the next 10-15 years, poverty will remain a challenge for Africa and the continent may still face poverty ratios in excess of 5 percent; way higher than the SDG target of zero poverty by 2030. But this trend can be reversed, and extreme poverty can be eliminated in Africa if adequate actions are taken. For Africa to eradicate extreme poverty in the next 10-15 years, it needs to at least double per capita consumption. To reach such an objective, Africa needs to grow much faster, and over extended periods. Growth could be complemented with social safety net programmes. Protecting vulnerable groups through sound social protection schemes can be a vital tool in building resilience among the poor, and minimising the number of people that fall back into poverty due to shocks, be they natural, economic, social or health shocks.

Conflict and fragility carry high costs and impede poverty reduction. Differently put, the vicious circle between fragility and armed conflict reinforces extreme poverty (AfDB, 2009). Armed conflict has devastating consequences in terms of human lives and economic costs (e.g., destroyed infrastructure, people and capital flight, reduced activities that depend on trust, etc.). Post-conflict countries need to deal with this legacy as well as with weakened institutions and policy frameworks. Fragile situations thus warrant special attention from policymakers and development partners alike, especially since the African continent is most impacted by fragility.

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CHAPTER 8

The way forward to achieving sustainable development in Africa

Key messages

- Achieving development goals remains an unfinished business for African countries. The **SDGs fit accurately with Africa's priorities** for the next fifteen years. The future of growth and its impact on poverty reduction in Africa hinges on what happens to structural transformation. A new development trajectory **of structural transformation is required to ensure improving productivity** as Africa industrialises. This requires huge investment in both human and physical capital. Key priorities would be: Investment in infrastructure, especially energy; and, improvement of labour force productivity, to fit the needs of manufacturing and agro-industries.
- The African Development Bank supports its **Regional Member Countries (RMCs) to achieve structural transformation that will eradicate poverty** on the continent. As a first priority, the Bank focuses on improving Africa's production capabilities through infrastructure development. The Bank recently initiated a New Deal for Energy that will help to power Africa's transformation, and to fast-track universal access to energy, by 2025. The Bank will also focus on integrating and industrialising Africa, by promoting private sector development. The ultimate goal of the Bank is to improve the quality of everyday life for all Africans, by helping them to have equal access to quality jobs, and enough food.



8.0 The need for Africa to adopt a new development trajectory

During the past decade, Africa's economic pulse has quickened, in comparison with previous decades. However, the recent decline in commodity prices could have adverse impacts on this momentum, especially for commodity-dependent countries. In chapter 1, we evaluated the main determinants of this growth performance and highlighted: favourable commodity price developments, from 2002 to mid-2014; more FDI inflows, especially toward resource-rich countries; improvement in the quality of governance; increasing numbers of middle class consumers; plus, more stable political conditions. In many African countries, impressive economic growth has been accompanied by improved poverty reduction and social outcomes. However, compared to the rest of the world, the continent is the only region where the number of poor people has increased during the past fifteen years (chapter 2). In addition, growth's contribution to reducing inequality remains low (chapter 3). The transformation of growth into poverty reduction is partially impeded by persistent inequality. Therefore, the recent economic growth in Africa did not benefit the majority of Africans who still live on less than \$1.25 a day. Following from the lack of inclusive growth on the continent, evidence in chapters 4 and 5, showed that women and youth have been left behind. Similarly, recent growth has not taken place in all sectors of the economy. Most of the value addition has come from the service sector, with the contribution of agriculture and manufacturing sectors either remaining the same, or, experiencing contractions. Given that not much of the recent growth is attributable to agriculture, the majority of people, who work in this sector, have remained poor.

Agricultural mechanisation, research and development, together with more focused and coordinated intervention are necessary to tackle many hurdles that limit productivity in this sector. These include the lack of infrastructure,

seed capital, market access and incentive issues, on the side of policymakers.

More precisely, in chapter 4, we discussed in depth how gender inequality limits Africa's progress in tackling poverty. Gender inequality is not only a pressing moral and social issue, but also a critical economic challenge: Women represent more than half of Africa's population, but contribute only 39% of its GDP. Though, substantial progress has been made over the past fifteen years, especially regarding gender parity in primary school enrolment, increasing women's participation in decision-making, and in reducing maternal mortality are among many outstanding challenges. Women still constitute the majority of Africa's poor. Above all, they are victims of domestic violence, with average prevalence of about 37% in the continent, and close to 50% in some countries.

Chapter 4 highlighted the consequences of domestic violence, which affects women's productivity, as well as their health. The trans-generational effects of intimate partner violence are visible from the distorted reproductive choices of women to resource allocation distortions that directly affect their children. In other words, gender based violence has a fundamental impact on economic growth, which could spread to several generations. Many studies have attempted to quantify the costs of violence against women, focusing largely on the costs of services and economic losses due to lost output. The magnitude of the costs of violence against women is estimated to be between 1-2% of GDP. These values are widely accepted to be under-estimated, given the conservative methodology used and the gross under-reporting of violence (KPMG, 2014). Yet, our analysis showed that empowering women, through better education and equal access to

decent jobs, would reduce gender-based violence and inequality. According to McKinsey Global Institute (2015), the potential gain for SSA in addressing the gender gap by 2025 is an estimated additional 12-27% of GDP. In sum, gender inequality will remain a great challenge for Africa, and the continent would benefit by focusing on the economic opportunities arising from improving parity between women and men.

The analysis in chapter 5 showed that African youth did not benefit from the recent economic growth, since many of them either lack the relevant training or are unable to access capital to improve production. Nevertheless, Africa accounts for a significant fraction of the world's youth (1/5th in 2012). This share is expected to increase to 1/3rd of global youth by 2050. If Africa wants to benefit from the potential demographic dividend over coming decades, it will be crucial to empower its youth with the relevant skills to meet the continent's future job market needs. In today's labour market, the transition from school to work is already challenging: Youth unemployment/underemployment rates are two to three times as high as those of adults. The "Arab Springs" demonstrated that youth unemployment might be a "ticking time bomb" if the transition from school continues to lead to unemployment. Chapter 5 discussed the challenges faced by the youth when searching for wage employment, in both the formal and the informal sectors. It highlighted the need for governments to make the appropriate supply-side responses to improve both the quantity and quality of education and skills training. This will require collaboration between governments and the private sector in order to create an enabling macroeconomic employment environment. In addition, because of the high prevalence of informality in Africa, a further challenge will be to find an effective way to harness the potential of youth entrepreneurs.

In sum, Africa's recent growth performance did not help to address issues of inequality resulting in the exclusion of both women and youth from the benefits of growth. Therefore, inequality and poverty are still Africa's major challenges. These need to be addressed in the next fifteen years, in order to achieve the SDGs. Over 120 million

Africans are out of work, and more than 672 million live in poverty. As a consequence, Sub-Saharan Africa is the region with the highest prevalence of hunger: With one in four people being undernourished; More than 32 million children under-five are underweight; and, about 45% of deaths in children under-five are caused by poor nutrition (FAO, 2015). In addition, out of Africa's 312 million adult women, 115 million are at risk of domestic violence. This disrupts their productive and reproductive roles as well as being a clear violation of their human rights. Therefore, achieving the MDGs remains unfinished business for most African countries. The solution we propose is to adopt a development trajectory that is both more inclusive and sustainable.

As discussed in chapter 7, the continent did not realise real structural transformation, despite high economic growth. Instead, African countries remain major commodity exporters. Many countries have taken advantage of the positive commodity price shocks experienced over recent years. As a consequence, the resultant growth did not create sufficient jobs for the majority of Africans. The benefits of the resource-led boom were concentrated in a few enclave sectors and thus limited to a narrow group in society. Governments were not able to implement income redistribution strategies to benefit the poor and most vulnerable in society. Growth in labour-intensive sectors, such as agriculture and manufacturing, remained low. Instead, these sectors were characterised by low productivity, low wages, employment insecurity, and, above all, by poverty. The majority of people engaged in these sectors did not benefit from the wealth generated during the recent growth surge. In addition, over recent decades, industrialisation in Africa has been penalised by the boom in exports of natural resources. This has exacerbated poverty and inequality. The continent experienced a stagnation, even a decline, in the industrial and manufacturing sectors since the 1970s. Average growth in these sectors was just 3.5% between 1970 and 2012. This is in direct contrast to what happened in emerging economies elsewhere: Industrialisation has played a key role in lifting millions of people out of poverty by providing them with decent and secure jobs.

What should Africa do to rectify its development trajectory and to make economic development more inclusive? A new development trajectory should enable Africa to provide decent jobs, including, in particular, to the majority of the youth and women. It also needs to produce enough food for Africa's population, especially the most vulnerable. To do so, Africa needs to industrialise, but this requires that the continent resolves some of its major deficits first. One priority is to address the infrastructural deficit, especially the energy deficiency. Without energy, nothing else can happen. Energy fuels economic activities, especially production, industrialisation and the delivery of services. The continent will also need to resolve important shortfalls in its labour market, in particular, labour productivity and costs; and, the adequacy of skilled labour for market needs, especially in the industrial and manufacturing sectors. Another important priority for Africa will be to expand domestic market sizes in order to benefit from

potential economies of scale across the continent. This can be achieved by increasing intra-regional trade so that Africans can feed themselves, instead of allocating most of their income to imports from mainly western and emerging markets. Adopting such a development trajectory will lead to a real structural transformation in the continent and, thereby, to improvements in the living conditions of many of Africa's poor people. These are precisely the priorities of the African Development Bank for the next decade.

This chapter proceeds by recalling the major challenges Africa faces in its efforts to achieve inclusive and sustainable development. It then discusses the new SDGs and how they fit with the continent's development priorities. Finally, the chapter ends with discussion on how the African Development Bank is refocusing its strategies to effectively respond to the continent's development challenges.



8.1 Africa still faces major challenges in making growth more inclusive

In this section we discuss major challenges Africa still faces in order to achieve a structural change that will be accompanied by poverty reduction and less exclusion.

8.1.1 Enhancing income growth and income distribution

Africa has made considerable progress in poverty reduction since the mid- 1990s, about the same period

that the region's (per capita GDP) growth has trended upward. This performance is a reversal of the trend over the previous 15 years, when growth was quite anaemic in the region. In general, the upward-trending growth has been translated into significant poverty reduction. However, this has not been the case in all countries. Worsening income distribution has been the major culprit for most countries experiencing deepening poverty levels. Policies that enhance both income growth and income



distribution would be preferable. One way to accomplish this is to improve the complementarity between physical capital and education, especially at the level of basic education. This would entail a focus on vocational training in the last three years of basic education, for example. In addition, social-protection programmes would help to insure against downside risks of economic shocks (Thorbecke, 2013). Policies that limit the excessive power of the executive would also help. Fosu (2013), for instance, finds that stronger constraints on government executives could increase the prevalence of growth-enhancing 'syndrome-free' regimes. Constraints would achieve this through limiting the potentially pernicious effects of ethnicity. Such a policy could also help to lower inequality, which often tends to be adversely correlated with ethnicity.

8.1.2 Addressing domestic violence to pave the way for gender equality

In chapter 4, we discussed in depth, the issue of domestic violence and its consequences on the victims, including women and children. A substantial proportion of African women are victims of domestic violence. However, addressing this issue has remained a substantial challenge for international development partners, governments, and the local population. Inequalities, drawn mainly along gender lines, have resulted in unfavourable outcomes for women, especially those in marital relationships. Such inequalities have been associated with implications reaching beyond women: They also affect outcomes for children and for society as a whole. Concerns remain as to how society can address these imbalances that ultimately lead to violence against women within the walls of their own homes.

Governmental and nongovernmental efforts targeted at addressing abuse against women are diverse, both in terms of their approach and scale. While some approaches are confrontational in nature, such as tracing and prosecuting perpetrators, other approaches have focused on more indirect means. Direct measures of addressing violence, through the use of legal institutions, have had limited impact, especially in environments where reporting violence is socially difficult. This is particularly the case in developing countries, where education and awareness of

civil rights are in short supply among women and the poor. Fears of further aggression or other consequences, such as divorce, have left many women suffering in silence at the hands of their aggressors. It is not surprising, therefore, that the level of violence reported in surveys indicates a higher prevalence of violence than the level reported to the police or other law enforcing agencies.

The indirect approach to addressing violence attempts to address the inequality within the household that leads to violence in the first place. Proponents of this approach claim that realising their value, their rights and their ability to command resources will empower women and increase their bargaining power. This means that women will earn better outcomes from intra-household bargaining. Empowerment strategies can be used to achieve this, such as education or ensuring an independent source of income for women (further discussed in chapter 4). Education enhances women's bargaining power by enabling them to value the roles they play in the development of the household and by opening up opportunities to define their rights and entitlements in society. Knowledge of the set of alternatives available to women is therefore a strong determinant of their weight in the bargaining process.

In addition, educational attainment is associated with better employment outcomes. Having an independent source of income is expected to increase women's bargaining power. Since the outcome of bargaining depends on what each partners' alternatives are, in the absence of consensus, women who are entirely dependent on their partner's earned income, become considerably vulnerable. As a result of these effects, indirect approaches against intimate partner abuse have largely focused on addressing the gender gap in education and employment.

Numerous policy measures work most effectively together to address the root causes of violence at household levels. Addressing the power imbalance between men and women should, for example, be pursued alongside condemnation of social attitudes and beliefs that justify violence against women. A combination of legal tools, that discourage female subordination and punish violence against them, together with approaches

addressing power asymmetries, can further the course of eradicating violence against women. Finally, addressing poverty at household levels could also help to reduce violence against women because lack of wealth contributes to increasing tensions among household members.

8.1.3 Addressing youth unemployment to enable Africa to benefit from the demographic dividend

Africa faces a variety of complex challenges to ensure growth inclusiveness for all segments of society, especially the youth. Given the projected growth of Africa's youth group, it is essential for governments and regional institutions to carve out workable strategies to target these challenges.

Many countries on the continent have been taking active steps towards more youth centred economic policy frameworks. Several countries now have a national youth policy, for example, as a result of the African Youth Charter endorsed by the African Union in 2006 (ILO, 2012). By 2014, 42 countries had signed the Youth Charter and 36 members had ratified it. In many countries, youth policies are the responsibility of a dedicated youth ministry, or, have a minister responsible for youth combined with other portfolios, such as, sport, or, women and children's affairs. Other departments in the government may also implement important initiatives to help young people. In South Africa, for instance, the National Treasury and the Revenue Authorities administer a (recently introduced) youth wage-subsidy, while the Department of Public Works runs an expanded public works programme, which provides direct employment to young people, among others.

Policies to address youth unemployment are shaped by: Technocratic discussions; Political pressures; Local socio-economic realities; and, international best practice. Policymakers often introduce relatively easy to target policies, designed to yield short-term gains in response to pressures to address economic issues facing young people. Moreover, governments may adopt policies to signal their commitment to good governance. Kenya, Uganda

and Tanzania, for example, have opened funds for young entrepreneurs, with the support of the ILO (Elder and Koné, 2014).

The influence of social actors on policies may be explicit, where institutions of social dialogue and consultation exist. The Democratic Republic of the Congo, for example, has a Consultative Group on Youth Employment and a National Youth Council to facilitate engagement with young people (ILO, 2012). However, in general, young people are not sufficiently involved in policy development in Africa (World Bank, 2007). When policymakers do consult the youth collectively, specific groups may shape outcomes. Educated, urban and male youth, for example, might have greater access to policy discussions than other young people, thereby shaping policy outcomes in a way that might not represent the challenges of female and/or rural youth. This might reflect the relative ease of engaging with young people who have strong networks and who are located in urban centres (for example, university students). It is, therefore, important to recognise that when policymakers give space for the 'youth voice' they are aware that selected informants may not represent all young people. There is a definite need to engage with the 'youth voice' in a more representational manner, such as through youth surveys, however, these opportunities are rare and can be expensive.

Poor coordination, among the actors responsible for policies targeting the youth, may undermine their effectiveness. Youth policy may require action on a number of fronts and it could be difficult to align the relevant actors around a common vision and set of priorities. Policies to support young people may rely on different levels of government, such as municipal government, which may face capacity and fiscal constraints in their ability to support national directives on youth. In addition, ministers in charge of youth and related policies are typically political appointees who may have low levels of interest in achieving objectives that extend beyond their term(s). An effective steering committee, that can coordinate policies across departments, may be important for policy coherence and effectiveness. Alternatively, recognising the constraints of a government or uneven capacity across departments,

success might lie in a limited number of agencies developing focused policies on youth employment.

Policies can also be differentiated with respect to their time horizons. Employment problems comprise challenges that policies could address over a relatively short time horizon, such as soft skills training or providing information about existing vacancies to suitable candidates. Other challenges will take a much longer period of time to achieve results, such as improvements to basic education or, most critically, addressing a fundamental shortage of jobs through demand-side policies.

Finally, the efficacy of a policy may depend on its complementarity with other policies. For example, an initiative encouraging the government to contract small enterprises may depend on support for small companies to allow them to compete with more established firms. One of the lessons from past policies is that programmes are more likely to succeed if they link financial and skills training in the same programme (AfDB et al., 2012). An analysis of youth programmes in Nigeria indicates that the government has focused on training but neglected the provision of soft loans (Akanke, 2014).

In sum, many African governments have implemented policies to support young people in the labour market, especially training and support for entrepreneurs, with varying degrees of success. To some extent, the current set of policies does not reflect a shift from the standard international set of youth policy recommendations. Moreover, intergovernmental coordination, direct youth participation and interest groups will, in part, determine the design, and thus the success, of youth policy.

8.1.4 The challenge of fine-tuning Africa's structural transformation

To reduce poverty and to achieve a more equal income distribution, the resources of the poor must be strengthened. But a growth process that generates demand for these resources of the poor is also needed. The future of growth and its impact on poverty reduction in Africa therefore hinges on what happens to structural transformation.

Large employment shares in the agriculture sector help lever the sector's contribution to GDP. Achieving more growth in agriculture will, directly or indirectly, feed into development of the industrial sector. Therefore, developing agriculture pays off both as a direct source of employment and livelihood and as a sector that forms the basis for growth in other sectors of the economy.

In most of Africa, the majority of the poor live in rural areas and earn their livelihood primarily from agriculture. Given this attribute, policies targeted to the agriculture sector tend to have significant impacts on the poor. In terms of the aggregate impact of agricultural growth, it is important to note that while this sector may not easily turn into the leading source of growth in many African economies, its roles in poverty reduction, averting food insecurity, and as a springboard for the development of sound agro-based industries are crucial and often under-estimated. Moreover, in the wake of global commodity price shocks, diversification into agriculture has become more relevant than ever before, especially for oil and gas exporting countries.

8.1.5 Growth that generates labour demand

Poverty reduction in Africa requires growth that generates labour demand outside traditional agriculture and the extractive resources sector. In Asia, successful poverty reduction was achieved by having a rapid increase in the demand for unskilled labour in the manufacturing sector. This change was often preceded by a green revolution in agriculture, which increased productivity and incomes in that sector. This both created demand for manufactured products and released resources for the expanding sector. We have not seen such a breakthrough in Africa's agriculture as yet. An export strategy based on labour-intensive manufacturing, but also agricultural and rural development, with encouragement of new technologies, must play a role. Investment in physical infrastructure and human capital are also crucial. There must be efficient institutions that provide the right set of incentives to farmers and entrepreneurs. Social policies are required to promote health, education, and social capital, as well as to provide safety nets to protect the poor.



It is clear that the quality of governance is a fundamental determinant of development, but it is less clear how countries can achieve it. The key point, as mentioned in Acemoglu et al.'s (2012) analysis, is that development hinges on inclusive institutions (i.e. institutions that make it possible for broad segments, or groups, within society to participate in political and economic decisions). Since political institutions are a strong influence on the economic institutions that generate development, their development is clearly crucial. Acemoglu et al. describe the desired institutional set-up as 'inclusive governance' (i.e. a system of governance that distributes power broadly in society and subjects it to constraints). For inclusive governance, political power should rest with a broad coalition, or a plurality, of groups.

The most effective redistribution policy would probably relate to assets, rather than incomes. But, asset redistribution is hard to do, except under exceptional circumstances - often related to political violence. It is easier to

redistribute incomes with the help of taxes and transfers, but these may have detrimental effects on growth incentives: By reducing the returns to human and physical capital investment, income taxation reduces the incentive to save and invest. If one assumes that it is primarily the rich who have the possibility to save, redistribution away from them in favour of the poor would reduce savings. Most types of redistribution policy are controversial, and to be able to undertake them requires the support of influential groups. It could be argued that it is in the interest of the elite to see a strong middle-class emerge, which might mean that they, for example, would be willing to support a broad push for education. It could also possibly undermine the power of the elite, but at the same time, the growth of a middle-class would tend to reduce social tensions, as well as the risk of future confiscation of assets.

There is an emerging literature concerning how social safety nets contribute to growth by helping to overcome constraints due to market failures (Alderman and Yemtsov, 2014). The availability of social safety nets is intended to protect the consumption of the poor from negative shocks, but at the same time, they may trigger increased investment. It is clear that safety nets (cash transfers and public works directed to the poor) contribute to the reduction of inequality, but they can also contribute to growth. Transfers can help support investment by relaxing credit constraints (see, for example; Ardington, Case, Hosegood, 2009; Berhane et al., 2011). Poor households may be forced to trade-off income gains against risk reduction, with negative efficiency consequences. They also may have to sell off assets and forego investment opportunities so as to smooth consumption fluctuations. Safety nets can, in such a setting, contribute to growth by smoothing incomes. They can thereby make farmers and entrepreneurs more willing to invest, even in risky environments. In this way, safety nets may be a substitute for functioning insurance markets. In principle, specific insurance systems could be developed for particular risks (e.g. for crop producers). But these markets are not well developed in Africa. Berhane et al. (2011) find that beneficiaries of Ethiopia's PSNP had fewer distress sales than other farmers. Beneficiaries also saw a statistically larger increase in assets over time.

Social safety nets can also be seen to reduce inequality and, thereby, to contribute to national cohesion, which is good for growth (World Bank, 2006). They may make it possible to avoid inequality traps, and they can also affect political institutions by reducing the scope for rent-seeking. On the other hand, there may be negative effects on labour force participation, for example, as a result of the taxation required to fund expenditures on social safety nets. The net effect, although likely to be positive, would therefore be smaller than the gross effect.

Focusing too closely on policies with short-term poverty-reducing effects is no panacea: It risks policy errors. The optimal development path, from a poverty reduction perspective, would probably best be defined as one that minimises the discounted sum of future poverty. A policy package that achieves this would be different from one that minimises poverty in the short-term. There are many policies that increase consumption today, at the expense of consumption tomorrow. At the same time, there are policies that will generate growth and poverty reduction over the longer-term. For example, financing investment in infrastructure through taxation. These policies may have negligible, or even negative, effects on the consumption of the poor today. Redistribution from the future to the present, and from the currently non-poor to the poor, can reduce poverty in the short-term, but consider how it affects future poverty and inequality.

8.1.6 Pursuing diversification for effective structural transformation

Despite uncertainty regarding the evidence, it does seem that current economic growth in Africa is at a historical high. The patterns associated with this recent growth period appear to be quite different from those seen in Asia, where growth was fuelled by labour intensive, export-oriented manufactures. It is also different from previous periods of economic growth in Africa, in that it has not been associated with a marked expansion in the activities of the state, and that the external sector has grown rapidly. To the extent that we can be certain about data on structural change in Africa, it appears that manufacturing is

not growing rapidly, that agriculture is in relative decline and that tertiary sectors are expanding.

Future growth will depend on a multitude of factors. However, it is beyond doubt that world markets, local political conditions and the costs of factors of production in the domestic economies will play a large role in determining future growth trajectories. To predict the growth of the world economy is a tall order. Our best guess is that the markets will continue to fluctuate, as they have done in the past. However, this will not mean more of the same for Africa. The way in which African economies are integrated into the world economy has changed. In particular, the rise of Asia has changed and diversified the pattern of geographical dependency for many African economies. This gives us cause to think that Africa's continued external market dependence will not result in such volatile conditions as it has done in the past.

Therefore, it is important for African countries to continue to diversify their export partners, as they have done during the previous decade. But, countries should also move from specialising in the export of raw materials to exporting high value added products. By doing so, resource-rich countries will be able to improve their performance in terms of poverty and inequality reduction. In fact, when natural resources are transformed using low or medium technology manufacturing processes, their contribution to poverty reduction is much higher, compared to raw materials alone.

Enhancing their diversification process will help African countries to avoid falling foul of the 'natural resource curse'. The logic of the natural resource curse thesis disregards diversification in trading patterns, and argues that nations dependent on natural resource exports are fundamentally politically weak. It is argued that natural resource dependence causes the political elite to have no incentive to promote development, when rents are secured through mineral rents (Auty, 2001).

The applicability of this argument to Africa is weakened by several conditions. First of all, there are many African economies that are not rich in mineral revenues, and it is

not evident how the political economy argument would work in the case of agricultural exporters. Moreover, the applicability of the natural resource curse thesis does not apply empirically to all countries, all the time. We know that countries that are rich today, such as Canada and Norway, have grown through the export of raw materials. Finally, there is a lack of empirical evidence within Africa to support the natural resource curse. A study of commodity export prices and African economic growth found no clear support for the resource curse thesis. Instead, it found that African economies do better when commodity prices are high, and that they suffer when prices are low (Deaton, 1999). Thus the ‘paradox of plenty’ does not apply, or, at the very best, it is a misstatement of the problem.

When growth failed in Zambia in the 1970s and 1980s, growth was sustained during the same period in Botswana. This paradox occurred, not because Botswana was more diversified or less dependent on mineral exports, but because the prices of copper plummeted, whereas the prices for diamonds remained stable (Jerven, 2010). There are opportunities, rather than curses, deriving from commodity exports in Africa. How these opportunities are taken depends, to a large extent, on the political and domestic economic conditions.

8.1.7 Policy options for sustainable and inclusive growth at national, regional and global levels

Earlier sections have hinted at the challenges that Africa is likely to encounter in its quest to eliminate extreme poverty and to achieve sustainable and inclusive growth. Based on various quantitative simulations presented in chapter 7, attaining a 3 percent poverty target under current pattern of income distribution would require consumption growth rates in excess of 5 percent per annum until 2030. The goal of reducing poverty to 3 percent of the population by 2030 is more likely when Africa combines accelerated growth with effective income distribution policies. By complementing growth with inequality reduction, Africa can reach this goal at lower growth rates and before 2030.

Several implications follow directly from this analysis. First, efforts to reduce poverty to very low levels in SSA cannot overlook large, low-income countries, such as the Democratic Republic of Congo. However, that does not imply that small, middle-income countries, with high prevalence of poverty, such as Swaziland, should be marginalised. Second, as discussed in chapter 7, poverty in SSA will be increasingly concentrated in countries undergoing fragile situations today, and, in particular, in the Democratic Republic of Congo, which also has high population growth. Policymakers cannot neglect safeguarding stability and peace building in the DRC, nor in other fragile countries with high poverty rates, such as Liberia. The Bank’s Strategy for Addressing Fragility in Africa (2014-2019) (AfDB, 2014a) outlines ways to reduce poverty and to safeguard stability in these countries. Third, factors impacting both Africa and the global economy point to negative pressures on the region’s trend growth. These factors underscore the importance of, and the challenges involved in, trying to raise growth from the current 5 to 7 percent a year. Policymakers will need to take these long-term trends and factors into account when designing poverty-reducing policies.

To effectively tackle poverty, African countries will need to adopt appropriate national and regional policies and capitalise on opportunities in global forums. However, country-specific circumstances vary. Experience shows that it is often a unique combination of traditional and unorthodox policies that has succeeded in other regions. In that regard, SSA countries will also need to find their own paths. The following sub-sections discuss these policy options.

8.2.6.1 National policies

Experience of other regions indicates that maintaining, and even accelerating, growth should remain a priority for the poverty reduction agenda (Dollar et al., 2013). In 2008, the Commission on Growth and Development studied 13 countries that grew at 7 percent a year, or more, for at least 25 years between 1950 and 2006⁷². They highlighted that all 13 countries had a capable, credible, and committed

72 The Commission comprised 19 development leaders and 2 academic economists.

government (Venables, 2008). Further, they emphasised the role of the state in incentivising domestic savings and encouraging domestic resource mobilisation, alongside high investment.

Rodrik (2013) pointed out that two dynamics tend to drive growth: Fundamental capabilities; and, structural transformation. Industrial policy - that is, the prioritisation of high-potential sectors - is instrumental for structural transformation in SSA. Successful countries have shared common policy features, namely: A stable but flexible macroeconomic framework; Incentives for restructuring, diversification and mobility; Investment in physical and human capital as well as skills and technology adoption; and, strong institutions. Country-specific circumstances then determine which 'constraint' is binding, and should, therefore, receive priority.

Macroeconomic policies can help facilitate high, stable and balanced growth. The global financial crisis illustrated the importance of fiscal space and the ability of countries to use it for discretionary counter-cyclical measures to

protect growth. Going forward, Africa needs to accumulate sufficient reserves, during the booms, to cushion the downturns. Resource rich countries, in particular, should adhere to medium-term expenditure frameworks so as to decouple revenue booms from outlays (Brixiova and Ndikumana, 2013). Fiscal policies should be complemented by credible, but flexible, monetary policy frameworks. Flexible inflation targeting frameworks are not unique to SSA, or to emerging markets. In fact, all inflation targeting countries, including the advanced economies with quantitative easing measures, have been targeting inflation while accommodating real shocks (Heintz and Ndikumana, 2011).

Structural reforms are critical for both inclusive and sustainable growth. For example, the lack of efficient infrastructure (both in terms of access and quality) hampers Africa's competitiveness and productivity, its ability to reach development goals, and its participation in the global economy. Infrastructure is also critical for promoting human development through improving the access of citizens to social services and their inclusion



in societies. Estimates suggest that in SSA, real GDP growth could increase, by 1-2 percentage points a year, if the region's infrastructure gap were to be closed (Foster and Briceño-Garmendia, 2010).

Besides infrastructure, what measures can support the shift to more productive activities, i.e. structural transformation? On the supply-side of the labour market, policies could aim at increasing the 'quality of population' (Behrman and Kohler, 2014). This means raising access to, and quality of, education with a view to increasing the share of graduates in technical subjects. This should be complemented by increased availability and quality of health services, to enhance the quality of human capital, productivity and well-being. On the demand-side of the labour market, measures should aim at private sector development together with efficient and effective social protection.

Structural transformation can drive reductions in inequality and poverty. The sources of growth clearly matter for poverty reduction and inclusion effects: New jobs need to be created in productive and employment-intensive sectors. Growth needs to generate productive jobs for large segments of the population, based on lessons from Latin America, and other countries who were successful in reducing poverty. The lessons from China suggest that, to reduce poverty, African countries should focus on raising the productivity of agriculture through market-based incentives and public support. Increased agricultural productivity also facilitates structural transformation, as manufacturing can absorb migrant workers from rural areas.

Brazil has shown that governments can help to reduce poverty through well-designed redistributive programmes and social protection. So far, this approach is missing in most of Africa⁷³. Public services and cash transfers have been the key for Brazil's progress in reducing poverty

and inequality. The 'Bolsa Familia' social protection programme was key (Arnold and Jalles, 2014).

In this era of increased frequency of extreme weather conditions and climate change, SSA countries' prioritisation of their transition to green growth will be critical for reducing economic, social and environmental risks. African priorities in reaching green growth include: Building resilience to climate shocks; Climate-proofing infrastructure; and, efficient management of natural resources, especially water⁷⁴. Green growth would also strengthen agricultural productivity and food security in the region (AfDB, 2013).

8.1.7.2 Regional policies

Regional integration has gained momentum recently in several regional economic communities (RECs), as evidenced by increased intra-regional trade and flows of foreign direct investment, as well as announcements aiming to formalise relations. Successful regional integration would allow countries to specialise in their comparative advantages and trade, leading to higher efficiency and growth. It would also improve critical integration into global value chains, and would reduce 'between country' inequality. Regional integration also provides platforms for collective insurance (for example, against food insecurity) and facilitates regional solutions to collective challenges, such as climate change. Regional strategies should initially focus on developing areas of industrial complementarity to raise countries' capacity to trade, supported by building regional infrastructure, to ease the movement of products, services, capital and people.

8.1.7.3 Global policies

As Ndikumana (2014) highlights, policy recommendations have typically focused on what SSA countries themselves, possibly with the support of development partners, must do to embark on a sustainable development path. Less attention has been paid to the role that global governance

73 Ostry et al. (2014) found that the direct and indirect effects of redistribution—including the growth effects of lower inequality—are, on average, pro-growth. Macroeconomic data do not indicate a big trade-off between redistribution and growth. Bagchi and Svejnar (2013) find that wealth inequality reduces growth. More disaggregated analysis reveals that wealth inequality due to political connection reduces growth, while the impact of wealth inequality that is not politically connected does not have significant impacts on growth.

74 Inclusive growth and transition to green growth are the twin objectives of the African Development Bank's Ten Year Strategy 2013 – 2022 (AfDB, 2013).

can, and should, play in addressing these challenges of poverty and inequality. Even if SSA countries were to implement appropriate measures at national and regional levels, their efforts could be undermined if complementary steps are not taken at the global level, by advanced economies and other emerging markets. A global partnership and coordinated effort, however, would enable SSA to tackle high poverty, unemployment and inequality.

How are influential institutions, such as the G20, faring on supporting inclusive and green growth in Africa and in other low-income developing countries? Following the Seoul Consensus on Development in 2010, the G20 placed development and low-income developing countries at the centre of its 2015 agenda. Development is to be a cross-cutting theme with linkages to all working groups and themes. Inclusiveness is now part of the G20 growth agenda, centred on strong, sustainable, balanced and inclusive growth. Furthermore, the Turkish Presidency of the G20 put inclusive business on the agenda for 2015, with a view to maximise the impact of the private sector on low-income countries and people. However, green growth is not among the key priorities of the year, and faded from the agenda by 2014. The G20 group could also create better linkages between their various priorities (e.g. linking agricultural productivity with infrastructure, etc.) rather than treating them as separate issues ⁷⁵.

In 2015, the G20 and its development working group also prioritised outreach to non-G20 countries, especially to low-income countries. Nevertheless, given current global governance structures, the voices of SSA countries are often not heard on issues that impact them, reflecting their limited representation in key global bodies. Africa needs to be adequately represented, as an equal partner, in key policy- and decision-making global structures, such as the G20 (AfDB et al., 2010). On a positive note, more educated and empowered citizens everywhere, including

in SSA, are increasingly holding their governments to account for a global system that would result in a more prosperous, equitable and cleaner global economy (Birdsall and Meyer, 2013).



⁷⁵ In 2015, the G20 development working group had five priorities, building on the Brisbane Development Update: (i) Infrastructure; (ii) Financial inclusion; (iii) Domestic resource mobilisation; (iv) Food security and nutrition; and, (v) Human resource development.

8.2 Achieving SDGs in Africa

In chapter 7, and in previous sections, we discussed how Africa has implemented the MDGs as well as exploring the remaining challenges it faces. A number of MDG targets have been met, but the continent has not succeeded in achieving several others: The implementation of the MDGs is unfinished business. The new SDGs are built on lessons learnt from the MDGs, taking into consideration MDG shortfalls, especially their failure to address the structural causes of poverty, inequality, and exclusion, as

well as environmental sustainability. In other words, the SDGs are a continuation of the MDGs, expanded to be more inclusive and sustainable. Prior to the adoption of the SDGs, Africa provided a common position (the 'Common African Position', or 'CAP'). Africa achieved consensus on common challenges, priorities, and aspirations for the continent, which were set out so as to be reflected in the SDGs. The CAP highlighted the importance of prioritising structural economic transformation in Africa



in order to make economic development more inclusive and people-centred. To reach this goal, Africans agreed on the following priorities: Development of productive capabilities through improvement in infrastructure, agriculture, industry, manufacturing, and services sectors; Innovation, science and technology; Upgrading value chains; Empowerment of youth and women; Sustainable exploitation of natural resources; and, the promotion of peace and security (AU, 2014). Africa's voice was heard: All of these points are now reflected, in one way or another, in the new SDGs.

It has been recognised that eradicating poverty, in all its forms, especially extreme poverty and hunger, is the greatest challenge of the world today and an indispensable requirement for sustainable development over the coming years (UN, 2015). The SDGs are composed of 17 goals with 169 associated targets - these are both integrated and indivisible (see Box 8.1). These goals come into effect on 1 January 2016 and will guide development actions over the next fifteen years.

These objectives are largely in agreement with the continent's priorities and aspirations, including the need to effectively address poverty, inequality and to develop productive capabilities through physical, human and social capital as well as knowledge and innovation. The implementation of the SDGs will require huge financial and technical resources. In this regard, the African Development Bank continues to support its RMCs through effective financial and technical assistance.

Box 8.1 The Sustainable Development Goals

- SDG 1:** End poverty, in all its forms, everywhere (7 targets)
- SDG 2:** End hunger, achieve food security and improved nutrition and promote sustainable agriculture (8 targets)
- SDG 3:** Ensure healthy lives and promote well-being for all, at all ages (13 targets)
- SDG 4:** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all (10 targets)
- SDG 5:** Achieve gender equality and empower all women and girls (9 targets)
- SDG 6:** Ensure availability and sustainable management of water and sanitation for all (8 targets)
- SDG 7:** Ensure access to affordable, reliable, sustainable, and modern energy for all (5 targets)
- SDG 8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (12 targets)
- SDG 9:** Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation (8 targets)
- SDG 10:** Reduce inequality within and among countries (10 targets)
- SDG 11:** Make cities and human settlements inclusive, safe, resilient, and sustainable (10 targets)
- SDG 12:** Ensure sustainable consumption and production patterns (11 targets)
- SDG 13:** Take urgent action to combat climate change and its impacts (5 targets)
- SDG 14:** Conserve and sustainably use the oceans, seas, and marine resources for sustainable development (10 targets)
- SDG 15:** Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss (12 targets)
- SDG 16:** Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable, and inclusive institutions at all levels (12 targets)
- SDG 17:** Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development (19 targets)

Source: UN (2015) at <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

8.3 The African Development Bank Group priorities: Support to Africa's sustainable development agenda

As discussed previously, sustaining growth, making growth more inclusive and addressing poverty, especially extreme poverty, are Africa's greatest challenges over the coming years. The shortfalls to date in making growth inclusive and sustainable has led to calls for new policies that will improve the rate at which the continent's prosperity translates into poverty reduction. Responding to the continent's challenges, the African Development Bank's Ten Year Strategy from 2013 to 2022 (TYS) focuses on improving the quality of Africa's growth through twin objectives of achieving inclusive growth and supporting the transition to green growth.



In the years ahead, the role of the Bank in Regional Member Countries (RMCs) will be more focused on strategies to minimise the risks of growth downturns and those that enhance broader participation of the poor and marginalised groups. It is believed that reducing inequality can be a valuable source of further growth in itself. The Bank in collaboration with governments and other development partners does this through two ways: Through direct participation in financing projects that meet these requirements; and, by providing policy advice to RMCs. It is worthy to note that Africa's investment needs are much larger than the Bank's resource pool. As the continent grows, this will continue to be the case. For this reason, the advisory role will continue to be a vital instrument in guiding policy formulation and implementation, with particular emphasis on providing development solutions that are country and time specific.

The Bank's resource pool has witnessed significant expansion in recent times, thanks to the commitment of member countries, development partners and the increased trust that the Bank attracts in international financial markets. The judicious use of these resources is underpinned by knowledge of the continent's development priorities and how these priorities can be delivered to yield sustainable and inclusive outcomes.

In order to more effectively use the Bank's resources to address Africa's development bottlenecks, the Bank has streamlined its Ten Year Strategy (TYS) by identifying five key priority areas called the "High-Five". Over the next ten years, the Bank will continue to concentrate its finance and policy advisory interventions in these High-Five priorities (Feeding Africa; Powering Africa; Integrating Africa; Industrialising Africa; and Improving the Standard of Living for all Africans).

8.3.1 Prioritising agriculture –feeding Africa

Increased focus on agriculture is on the basis that the pay-off, in terms of poverty reduction is highest when growth takes place in the agricultural sector rather than when it takes place in other sectors of the economy. The agricultural sector employs 2/3 of the continent's workforce and is directly linked to any strategy that seeks to address extreme poverty. Concentrating investment in this sector, therefore, has great potential for sustaining growth while at the same time contributing to lowering poverty and inequality. But, as discussed in previous chapters, this requires a more transformative approach where agricultural products are processed within the continent and where the sector's productivity increases. This is contrary to the large traditional agricultural systems characterised by low capital investment and productivity.

Investment in agriculture is arguably the most important starting point in addressing hunger and extreme poverty, and in lowering income inequality between rich and poor, between rural and urban, and between men and women. Evidence shows that Africa's inequality is mainly drawn along these lines and that, in each case, the majority of the disadvantaged are either directly or indirectly engaged in agriculture as a livelihood.

The Feeding-Africa priority goes beyond food security for the poor, to ensuring more meaningful agro-based industrialisation that will boost Africa's growth and lay the foundation for sustainable development. In addition, this approach gives many African countries the opportunity to diversify away from their dependency on natural resources, thus shielding economies against prevalent, and often unpredictable, commodity price shocks, especially for oil.

Apart from being consistent with the SDGs, prioritising agriculture is in line with the 2014 Malabo declaration on the transformation of African agriculture for shared prosperity. This declaration saw the African Union, governments and Heads of State committing to achieve specific goals by 2025: Ending hunger; Tripling intra-African trade in agricultural goods and services; Enhancing the

resilience of livelihoods and production systems; and, ensuring that agriculture contributes significantly to poverty reduction. To succeed in such a transformation, major challenges must be addressed. These include: (i) Mechanisation and improving the use of modern agro inputs such as fertilizers and agro-chemicals through improved science and technology; (ii) Upgrading agricultural and agro-industrial value chains; (iii) Access to financing; (iv) Access to markets; and, (v) Gender inclusion.

Increased concentration on agriculture is not without downside risks. Extreme weather patterns are now frequent and more severe than they have ever been. Examples from recent memory include prolonged drought in parts of East Africa and the horn (Ethiopia, Kenya, and Tanzania) in 2011, and the Sahel drought of 2012. In the absence of effective adaptation measures, African agriculture will likely face severe challenges. Climate change is already having far-reaching effects on poor and marginalised groups across the continent, many of whom (about 97 percent) depend on rain-fed agriculture for their livelihoods. Two important risk factors that characterise agricultural production are price and climate risks. While the common convention is that the former is much easier to manipulate, recent developments at the United Nations conference on climate change (Conference of Parties - COP21) provide hope that agricultural downside risks associated with climate change can be reduced through global initiatives. The commitments from developed countries and leading emitters to curtail emissions and provide support to countries hardest hit by climate change is a step in this direction. The AfDB spearheaded two important initiatives at the Paris conference: the Africa Renewable Energy Initiative and the Africa Adaptation Initiative. Both of these initiatives received strong support from development partners. Notwithstanding these commitments at the global level, Africa will continue to pursue its own initiatives to mitigate climate risks inherent in the agricultural sector.

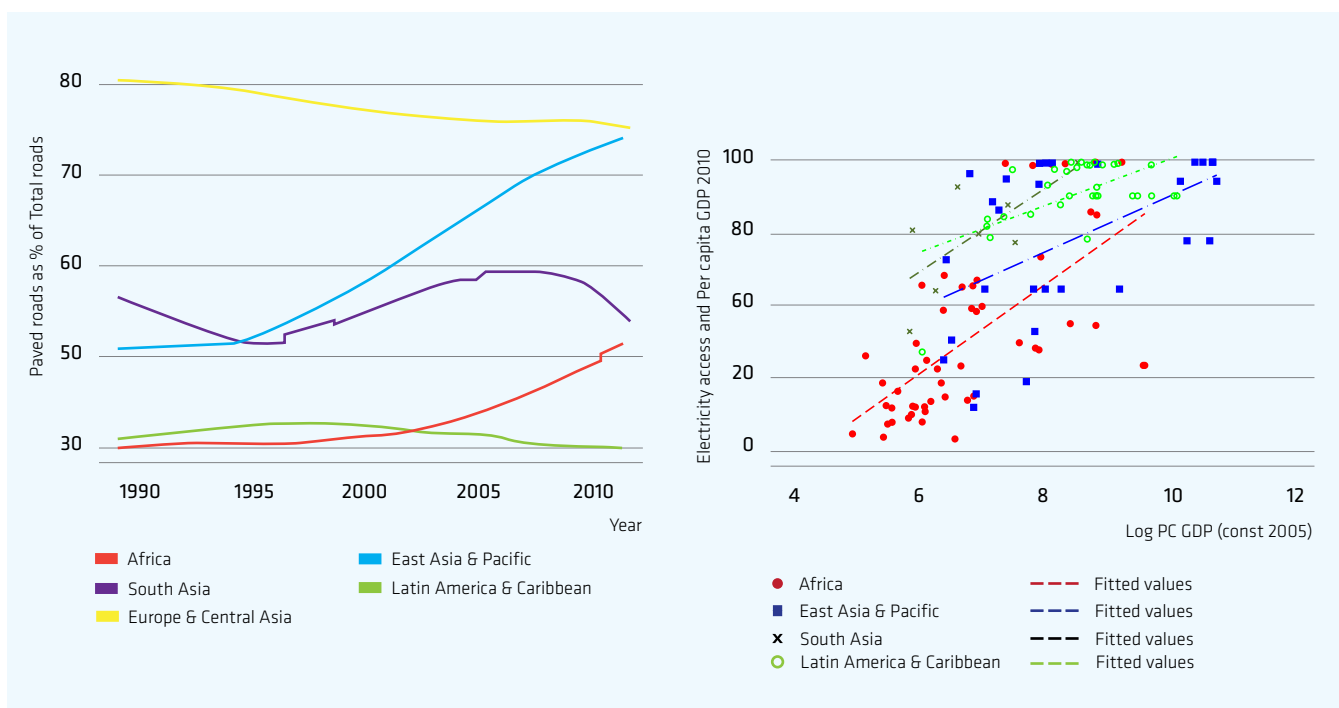
8.3.2 Prioritising infrastructure development through Africa's energy sector: Powering and lighting Africa

Infrastructure development has long been identified as a key determinant of growth, and of its sustainability. The new SDGs also underscore the importance of infrastructure for the sustainability of growth. Most African countries are limited in their ability to fund major infrastructure projects, especially in the face of competing social investment needs. Private sector participation in infrastructure financing has been limited due to its long payback period and, in some cases, due to investors' perceived risks of political instability. As a result, investment in basic infrastructure sectors such as energy, transportation, telecommunications and water and sanitation has been undesirably low across the continent. Africa has lagged behind all other regions of the world in many of these four sub-sectors. Africa has the lowest level of infrastructure development relative to many other developing regions. However, the continent has been making progress

in infrastructure expansion, relative to other regions, since the turn of the new millennium.

In 2010, a joint initiative by key institutions including; the African Union Commission (AUC), the New Partnership for Africa's Development (NEPAD) and the African Development Bank, formulated the Program for Infrastructure Development in Africa (PIDA). PIDA aimed to identify and prioritise Africa's key infrastructure needs to support development and poverty reduction goals. PIDA addresses Africa's priority infrastructure investments against 4 sub-sectoral classifications: Energy, Transportation, Water and sanitation, and, information and communications technology. These four areas also guide the Bank's operations, as discussed in the following sub-sections. In 2012, African Heads of State, in their declaration on PIDA, called for innovative solutions in order to address the financial needs of PIDA as well as to ensure its delivery. In response to this call, the African Development Bank recommended the establishment of a new infrastructure delivery vehicle, called Africa50. Africa50 is an infrastructure investment

Figure 8.1 Infrastructure development in Africa and in other regions of the world



Source: Authors' computation using World Development Indicators, 2015

platform designed to significantly narrow the infrastructure finance gap across the continent, by tapping into the Bank's recent successes in the area (see Box 8.2).

Out of PIDA's estimated US\$360 billion projects and programmes to bridge Africa's infrastructure deficit by the year 2040, as much as 60 percent is accounted for by shortfalls in energy investment. Access to electricity was limited to just 43 percent of the population, in 2010. Compared with other regions, Africa is the only region of the world with less than 50 percent electricity access among its population. East Asia & Pacific and Latin America & Caribbean both have access rates of 95 percent, while access in the developed world is estimated to be 100 percent. Limited access to electricity, combined with its irregular supply in most countries, has cost Africa dearly. It is not just a question of the constraint on economic growth in agriculture and other vital sectors of the economies, but also the opportunity cost of forgoing investment projects that could have generated employment for the continent's youth. In sum, the lack of energy has put the brakes on industrialisation.

Addressing power issues, especially through the provision of renewable energy supplies, can facilitate economic growth with minimal damage to the environment. Providing the large numbers of people reliant on biomass as a source of energy, with alternative renewable sources can significantly safeguard their health, the vegetation and the environment. African cities and villages are known for their darkness. A sustainable development agenda

requires Africa to achieve the goal of universal access to energy (SDG 7). In this regard, lighting-up and powering Africa will be a priority for the Bank over the next decade.

In recent years, the Bank's interventions in the energy sector have been characterised by: Investment in the provision of alternative sources of electricity, especially renewable energy sources; Rehabilitation and expansion of existing power generation capacities; and, a number power sector reform programmes. The energy reform and access programme has brought immense benefits to peri-urban and rural dwellers. It enhanced the productivity of small and large businesses in urban centres. An impact assessment of the Bank's energy interventions in Egypt, for instance, shows that the economic losses avoided because of AfDB loans enabling major power stations to continue to deliver their output, are sufficient to cover the total investment costs of those stations in one to three years⁷⁶. In Tunisia, a Gas Pipeline project, approved by the Bank in 2014, is expected to employ over 1000 people during construction and to provide permanent employment for an additional 102 people during its operation (AfDB, 2015).

In September 2015, the Bank launched a 'New Deal for Energy in Africa' to solve Africa's huge energy gap and to fast-track universal access to energy, by 2025. This New Deal will be the Bank's main tool to light-up and power

76 http://www.afdb.org/fileadmin/uploads/afdb/Documents/Evaluation-Reports-Shared-With-OPEV_/00157897-EN-ENERGY-IMPACT-STUDY-IN-EGYPT-MOROCCO-AND-TUNISIA.PDF

Box 8.2 The Africa50 Infrastructure Fund

Africa50 is an investment platform to support the Programme for Infrastructure Development in Africa. It focuses on high-impact, national and regional projects in energy, transport, water, and the ICT sectors. It was designed to significantly narrow the infrastructure financing gap in Africa. The vehicle aims to shorten the time between project idea and financial close - from a current average of 7 years, to under 3 years, thereby delivering a critical mass of infrastructure in Africa over the short- to medium-term.

The initial capitalization target for Africa50 was US\$500 million, to be scaled up to at least US\$1 billion. Capital is to be held by African sovereigns and the African Development Bank. The second capital increase will target an additional US\$1 billion, geared towards attracting institutional investors, both within Africa and from outside the continent. As a commercially oriented financial institution, Africa50 will seek to preserve and grow its capital base and will provide a return to shareholders.

Africa50 is an autonomous entity comprising two legal entities (the Project Finance Company and the Project Development Company). Each entity has its own capitalization, organs, and decision-making bodies. Both work in tandem, but observe a strict Chinese wall between financing and advice. Africa50 is owned by 20 African countries and the African Development Bank. The top five owners include: DRC (26.6%), Morocco (15.8%), Egypt (15.8%), AfDB (15.8%), and Cameroon (7.9%). The headquarters are based in Casablanca, Morocco.

Source: <http://www.africa50.com/>

Africa over the next decade. It is the very first priority for the newly elected President of the Bank, Dr. Akinwumi A. Adesina. The New Deal also charts the way for a transformative partnership on energy between the Bank, other development partners, African governments, and the private sector. As underscored by the President, “...a lot of financing will be needed and together we must close the US\$55 billion financing gap for energy in SSA (...)”.

8.3.3 Prioritising economic integration - Integrate Africa

Africa’s industrialisation does not only depend on its capacity to produce efficiently and in large volumes but also on its trade linkages within the region and with other regions of the world. Future growth and its sustainability, have to be premised on well-interlinked economies that enable the flow of goods and services from producer to consumer markets. Evidence has shown that intra-regional trade flows are very low in Africa. To improve linkages, while national level development planning is appropriate, coordinating development plans at regional, or even at the level of the continent, yields great synergy in outcomes. At country level, evidence shows that a large share of Africa’s within-country inequalities are drawn along rural-urban dimensions. This is exacerbated by poor linkages between rural and urban economies in many countries, often due to poor transport networks. Africa can benefit from synergistic outcomes by investing in integration at national and international levels.

The Bank will continue to champion the identification, diagnosis and implementation of investment projects with this synergistic effect. The Bank has taken several initiatives that highlight the important role of regional integration in Africa’s development. With a dedicated department since 2006, the Bank detailed its approach to regional integration most recently in the Bank Group Regional Integration Policy and Strategy 2014-2023 (RIPoS, AfDB, 2014b). This policy is anchored on two strategic pillars: Supporting regional infrastructure development; and, Enhancing industrialisation and trade. The first strategic pillar emphasises that bridging Africa’s hard and soft infrastructure gaps, such as transportation,

energy, ICT and water and sanitation, is a prerequisite for more meaningful economic integration. The second pillar focuses on enhancing trade within Africa and between Africa and other regions of the world, through increased diversification and industrialisation in areas of Africa’s comparative advantage. In accordance with the TYS, the Bank’s integration-priority seeks to create a larger African market that will enhance both intra-Africa trade and trade between Africa and the rest of the world.

8.3.4 Prioritising Africa’s industrialisation - Industrialise Africa

As discussed in previous chapters, Africa’s industrialisation requires a major shift both in strategy and investment in order to sustain current growth rates and generate quality jobs and prosperity for the population. To do so, investment in infrastructure is crucial to improve agricultural productivity and to lead the way for development of a vibrant manufacturing sector. Dependence on primary commodity exports while investing significant amounts of savings on secondary commodity imports, including food imports with minimal value added, will not help the continent’s industrialisation agenda. Instead, Africa must spend on adding value to many of its primary sector outputs. Developing industrial capacity, especially in the agricultural sector, could form the basis of high-volume trade between African countries, reinforcing industrial capacity due to the existence of demand and providing meaningful jobs for the population.

The investment demands for effective industrialisation are not small. Africa needs a strong private sector that will help drive economic activities. Growth that is driven by the state, in partnership with a vibrant private sector, is more likely to be robust and sustained. The role of the Bank in achieving a balance between state and private sector involvement takes into consideration the urgent need to address investment shortfalls, but also to ensure that this is achieved within sustainable means. In this regard, the Bank continues to be active in facilitating private investment by delivering finance, providing advice and technical assistance. With a focus on African entrepreneurship development, the Bank has worked to

address a number of investment bottlenecks that limit the full participation of private investors. In 2006, it established the Fund for African Private Sector Assistance (FAPA), which has grown over the past few years into one of the key instruments for implementing the Bank's private sector development strategy. FAPA continues to support private sector initiatives in micro-, small- and medium-scale enterprises, financial system strengthening, trade promotion, infrastructure development and initiatives that enable environmental sustainability.

8.3.5 Prioritising improvement in the quality of life of Africans

We showed in previous chapters that poverty remains (and will remain) a major challenge in SSA. Specifically, findings in chapter 2 show that Africa still has high incidence of poverty, and the projections from chapter 7 suggest that, if current trends continue, SSA may not eradicate extreme poverty by 2030. Chapters 3, 4, 5 and 6 outlined various inequality dimensions that continue to limit poverty reduction efforts. Notwithstanding these challenges, Africa could make a meaningful turnaround by investing in sectors that are more closely linked to the livelihoods of the poor and by ensuring sound policies with effective delivery mechanisms. Therefore, eradicating extreme poverty is a challenge that the Bank will overcome through all of the High-Five priority areas that feed into one, which is: "Improving the quality of life of Africans". The Bank believes that eradicating extreme poverty is feasible. It recognises that improving the quality of life is the ultimate outcome of a chain of life-improving achievements in development, including absence of extreme poverty, quality education, good healthcare and productive employment opportunities for the population. The focus of this priority intervention therefore, ensures better opportunities for all groups of society without discriminating on wealth, gender, geography, or other social attributes.

Over the years, Africa's human capital has increased in value. The workforce has become healthier and better trained, thanks to the concerted efforts of governments and the development community, especially during the past 15 years of MDG interventions. However, the combination

of slowly declining fertility rates and improved medical conditions have kept labour numbers increasing. There is no guarantee that Africa will be able to capture its potential 'demographic dividend' in order to transform it into a 'real economic dividend'. Unemployment and underemployment across Africa remain high, especially among women and the youth. It will be crucial to create quality jobs for these young people. To ensure their productivity will require, in turn, investment in human capital such as health and education (AfDB, 2014d).

The Bank aims to increase the supply of skilled workers through technical and vocational training that is linked to specific needs of the labour market. Through the links between education, nutrition and health on the one side, and economic growth and poverty reduction on the other,





the Bank's investment in skills and technology is a powerful tool for spurring growth and poverty reduction.

The Bank has recently approved and implemented several projects targeted to enhance skills capacity including: Support for the Pan African University (PAU); Support to improve access and relevance in Kenya's Technical Vocational Education and Training (TVET); Enhancing capacity in Tanzania's TVET and Teacher Education Project; and, The Senegal Virtual University Support Project (UVS). All of these projects are designed with special emphasis on gender, youth employment and poverty reduction.

8.3.5.1 A special focus on gender issues

As stated in the TYS, "...women and girls bear significantly more than half of the continent's burdens, but they also carry disproportionately high potential as generators of income..." evidence from this Report suggests that Africa suffers large penalties in terms of growth and poverty reduction due

to gender inequality. In addition, gender inequality has manifested itself through the high incidence of violence against women. The implications of such practices cost women, children and society as a whole. With poverty concentrated among women and continued limited access to employment and productive inputs, the continent's progress in reducing poverty is constrained both by women's low level participation in growth and because women's outcomes are much harder to influence.

The Bank will therefore continue to mainstream gender in all projects within the Bank's own operations. In 2014, the Bank approved a gender strategy with a focus on improving gender outcomes internally (within the Bank) through staffing and work environment, and also externally (in RMCs) through three key pillars: Legal status and property rights; Economic empowerment; and, Knowledge management and capacity building. The Bank believes that lifting the barriers that limit a potential 50% of the continent's population can immensely contribute

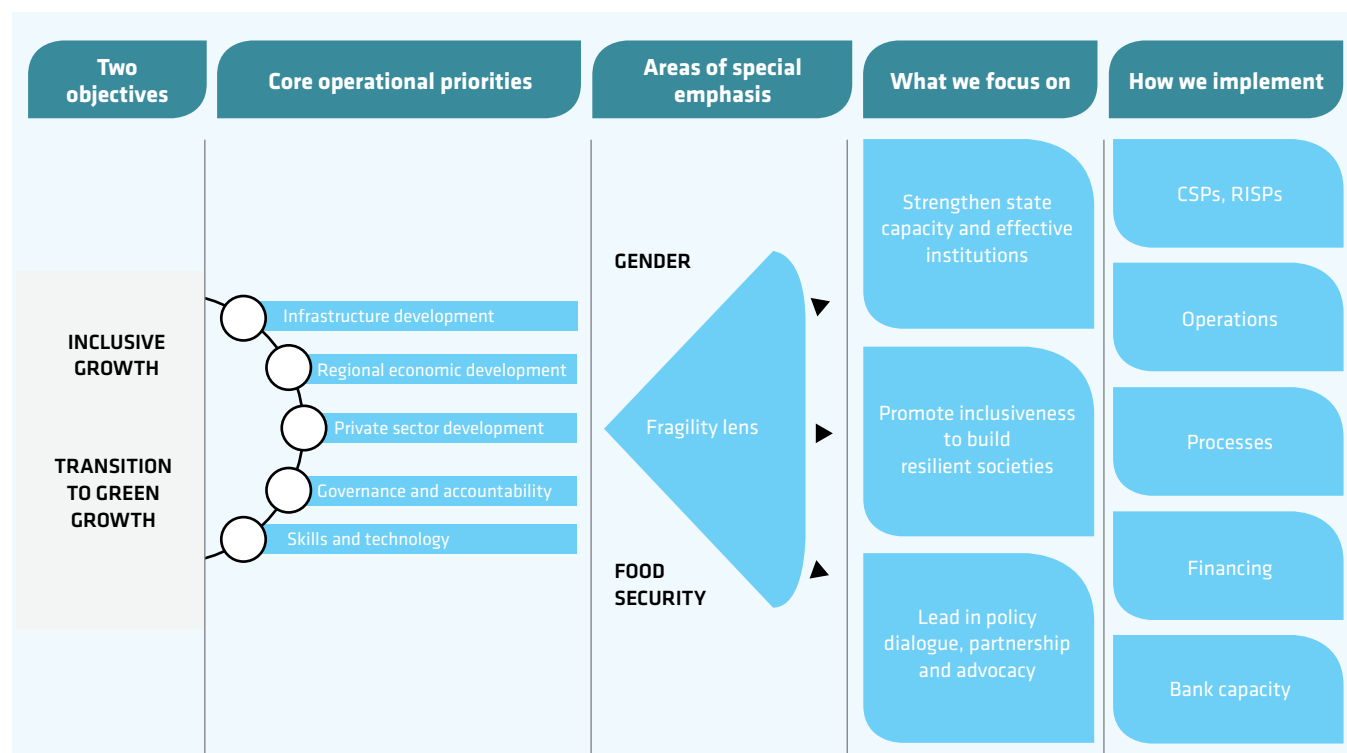
to growth while, at the same time, furthering progress in poverty reduction. Achieving inclusive growth requires mainstreaming gender in core operational strategies of the Bank such as infrastructure development, regional integration, private sector development, governance and skills development. The Bank continues to dedicate resources towards empowering African women by removing the restrictions that limit their access to education, healthcare, finance, and employment opportunities.

8.3.5.2 A special focus on addressing fragility and building resilience in Africa

As discussed in chapter 7, evidence suggests that extreme poverty will be increasingly concentrated in states affected by fragility. This finding calls for policy interventions that are not ‘business as usual’, to ensure that these countries are not left behind. The Bank has long recognised the particularities and specific needs of countries affected by

fragility. With the recent establishment of a Transition Support Department (ORTS) and the creation of a dedicated Transition Support Facility (TSF - formerly the Fragile State Facility), the Bank has become more flexible and responsive to engaging in fragile situations. Under its new Strategy for Addressing Fragility and Building Resilience in Africa, 2014-2019, the Bank moves away from a concept of fragile “states” to a more nuanced approach of fragile “situations”. This is based on an understanding that fragility is not limited to a certain set of countries: It often has regional implications and spill-overs. With this strategy (Figure 8.2), the Bank applies a fragility-lens to its engagement in all countries, with a focus on building effective institutions, promoting inclusiveness to build resilient societies and assuming leadership around fragility in Africa (AfDB, 2014a).

Figure 8.2 Addressing fragility and building resilience within the Bank’s TYS



Source: AfDB (2014a).

8.4 Conclusion

Overall, the problems highlighted in this Report call for interventions that are consistent with the development priorities of the Bank and those of the SDGs. A focus on ensuring the sustainability of growth, and a more pragmatic approach to addressing exclusion and marginalisation remain core guiding principles for the Bank's operations. Future growth in Africa will, for most part, depend on successes in diversifying towards highly productive manufacturing and improving the productive capabilities of African economies through science and technology, especially in agriculture and agro-industrialisation. Achieving these ends calls for increasing investment in key growth determinants such as physical and human capital, and improvement in the institutions that optimise the combination of these resources. To this extent, investment in

energy for people and for firms, in agricultural technology, and in other infrastructure and human capital needs will remain priority areas for the Bank.

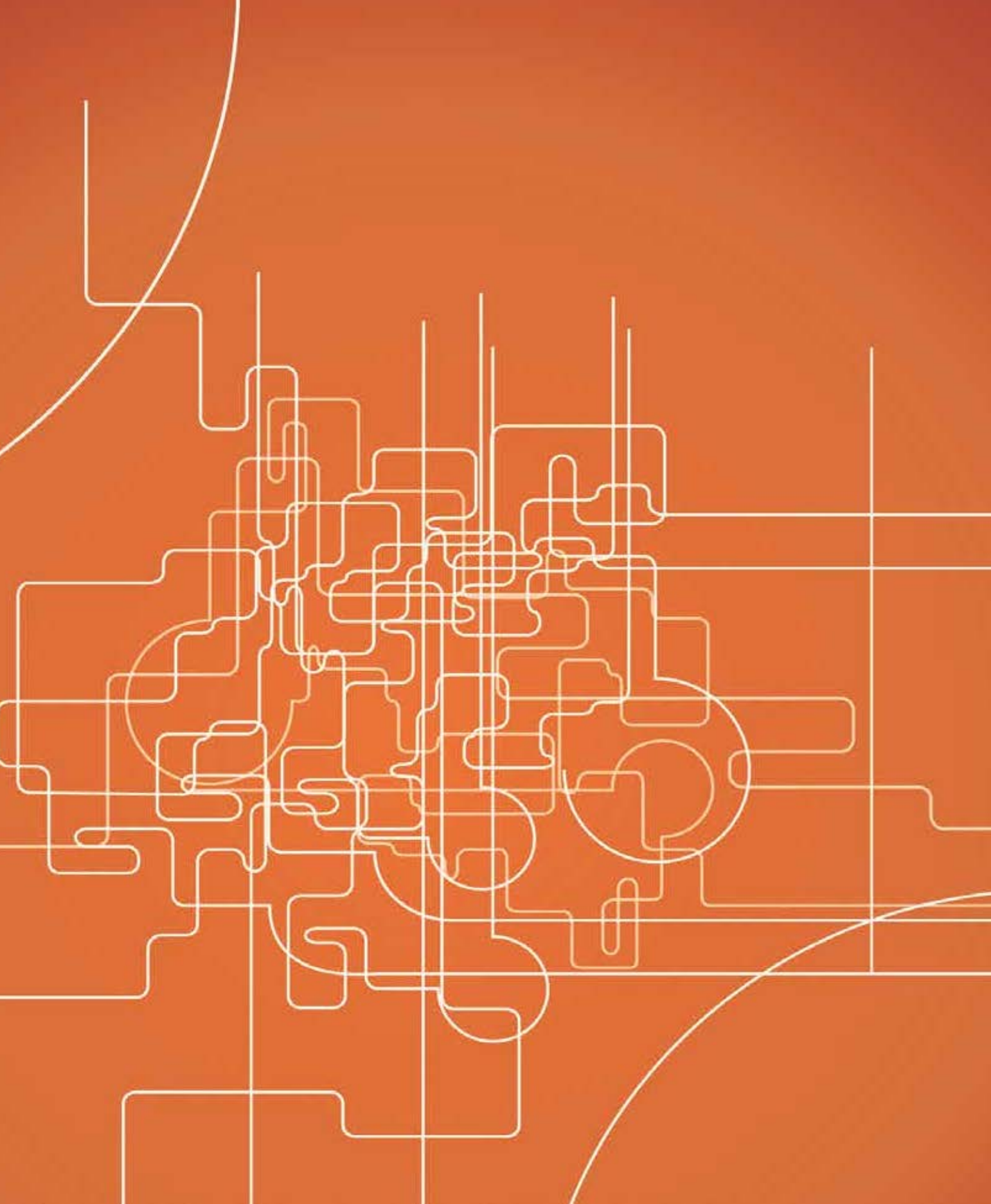
Making growth more inclusive requires enhancing the capacity of segments of society with limited opportunity to participate and benefit from the continent's growth. The Bank's prioritised intervention areas are selected with this in mind. An industrial process that is underpinned by improved agricultural productivity, accessible and reliable sources of energy and well-integrated markets will generally contribute to poverty reduction by raising productivity and improving the level of participation among the poor and other marginalised groups.



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Despite earlier periods of limited growth, African economies have grown substantially over the past decade. However, poverty and inequality reduction has remained less responsive to growth successes across the continent. How does growth affect poverty and inequality? How can Africa overcome contemporary and future sustainable development challenges? This 2015 edition of the African Development Report (ADR) offers analysis, synthesis and recommendations that are relevant to these questions. The objective of this Report is to guide policy processes by contributing to the debate analysing what has happened during recent years, what has worked well, what hasn't worked well, and what needs to be done to address further barriers to sustainable development in Africa? Africa's recent economic growth has not been accompanied by a real structural transformation. As a result, millions of Africans, especially women and youth, have been left behind. The Report highlights the intermediating role of various forms of inequality that limit the transformation of Africa's growth into prosperity for all. Unequal access to economic resources and opportunities is mirrored in the continent's high income inequality, gender gaps in earnings and opportunities, the rural-urban divide, youth under-employment and in the limited priority given to key poverty-reducing sectors like agriculture, agro-industries, and manufacturing.

Sustaining recent growth successes while making future growth more inclusive requires smart policies to diversify the sources of growth and to ensure broad-based participation across segments of society. Africa needs to adopt a new development trajectory that focuses on effective structural transformation. Workers need to move from low productivity sectors to those where both productivity and earnings are higher. Key poverty-reducing sectors, such as agriculture and manufacturing, should be targeted and accorded high priority for public and private investment. Adding value to many of Africa's primary exports may earn the continent a competitive margin in international markets, while also meeting domestic market needs, especially with regard to food security. Apart from the need to prioritise certain sectors, other policy recommendations emanating from this Report point to the need to address income inequality, to close gender gaps, to bridge rural-urban disparities and to promote youth employment. These are consistent with the African Development Bank Group's Ten Year Strategy (2013-2022) for spurring inclusive and increasingly green growth with its Regional Member Countries. More recently, the Bank Group's high five priority areas focus the Bank's actions to reach the poor much more effectively. By ensuring Africa's growth is both sustainable and inclusive, the Bank will continue to convene support for the continent's efforts to improve the quality of life for all Africans.



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