

African Development Report 2015

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

Presentation



25 AUGUST 2016

Outline of the Report

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Overview

Motivation – Why Growth-poverty and Inequality nexus?

Africa has enjoyed three decades of economic growth, but limited progress in poverty reduction

- ❑ How sustainable are growth trends?
- ❑ Whose growth has it been?
- ❑ Why has poverty been less responsive to growth?
- ❑ Transition to SDGs and future growth prospects

Motivation

What is new in the ADR 2015?

- ❑ The growth-poverty-inequality nexus in Africa is recast using insights from recent evidence.
- ❑ Africa's transition from MDGs to SDGs: new priorities and renewed commitments.
- ❑ Special focus on gender inequality, domestic violence: incidence and development consequences
- ❑ Africa's structural transformation: the role of agriculture.
- ❑ Projections of the level of growth and inequality reduction that is needed to eliminate extreme poverty by 2025/2030



CHAPTER 1

Africa's recent growth has been widespread and persistent

Apart from domestic factors, growth and its sustainability depend on a country's exposure to external factors.

Commodity price shocks:

- ☐ The end of the commodity super cycle: what next for Growth in Africa?

Oil Exporters: prolonged decline in oil prices is affecting growth performance of several oil exporting countries.

Oil importers: The shocks are expected to positively affect growth through improvement in balance of trade - an opportunity to reallocate savings made from lower oil expenditures to important social expenditures (health, education, etc.)



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



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

Overall, apart from its mainly negative effects, **Commodity price shocks present an opportunity** for policymakers to explore strategies for **diversification of their economies** into other sources of growth such as: **agriculture and manufacturing sectors.**



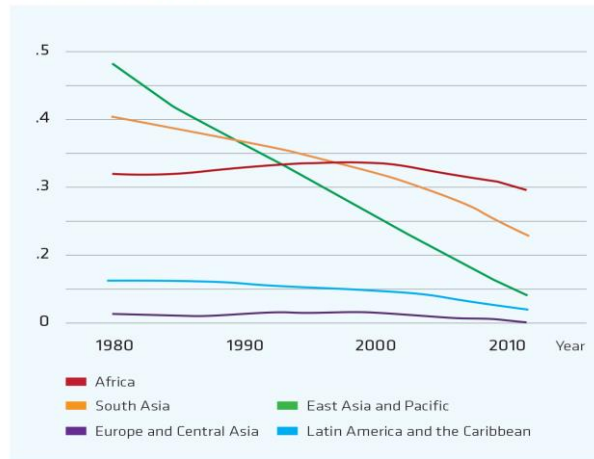
CHAPTER 2

Poverty has declined in Africa,
but remains high

Poverty increased in Africa until about 1993 and fell thereafter.

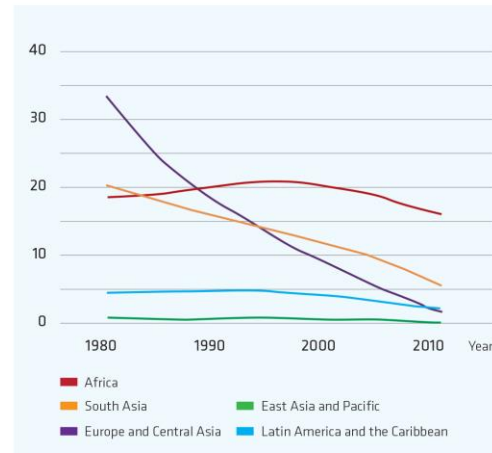
- ❑ The gap between Africa and other developing regions is wider for the poverty severity and the poverty depth measures than for the headcount poverty.

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



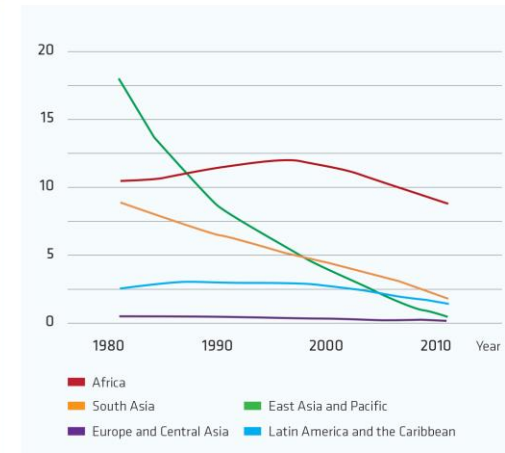
Source: Data from World Bank, 2014

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



Source: Data from World Bank, 2014

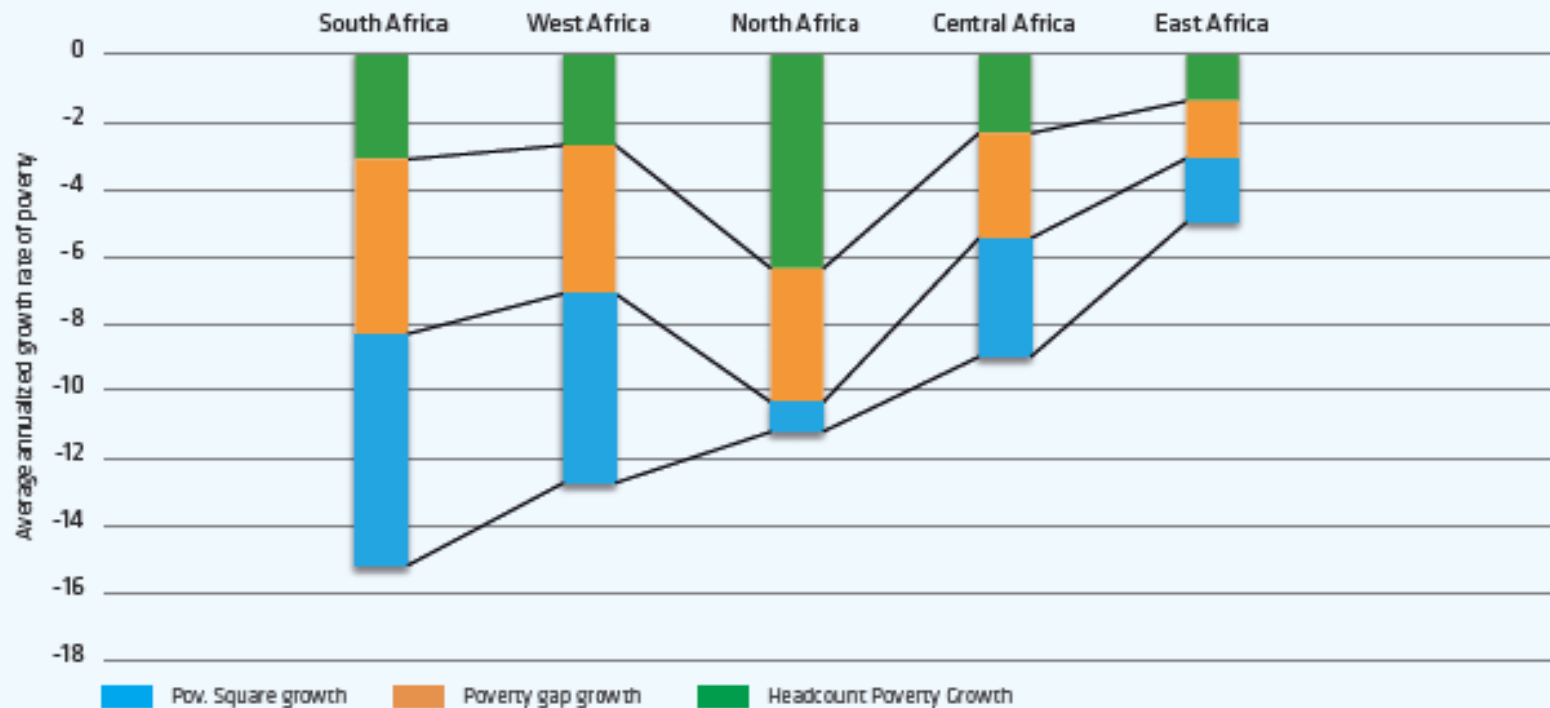
Figure 2.1c Poverty trends (\$1.25), Africa vs. other regions: Squared poverty gap



Source: Data from World Bank, 2014

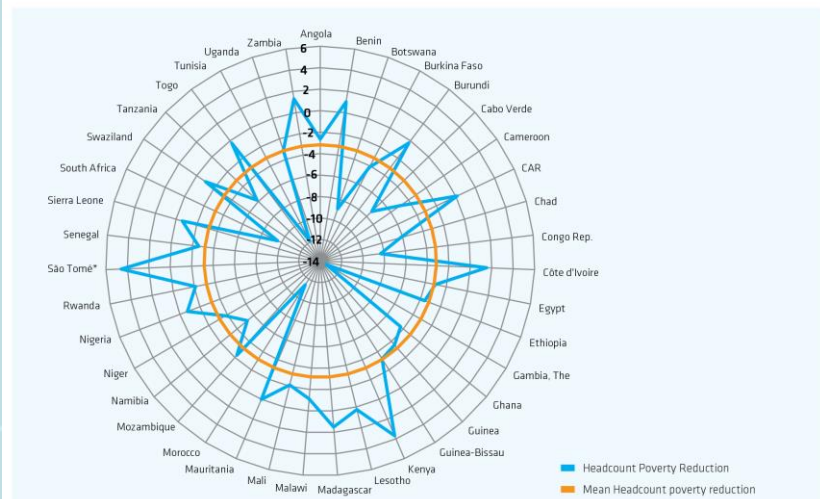
Progress in poverty reduction at regional level has been impressive but uneven

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



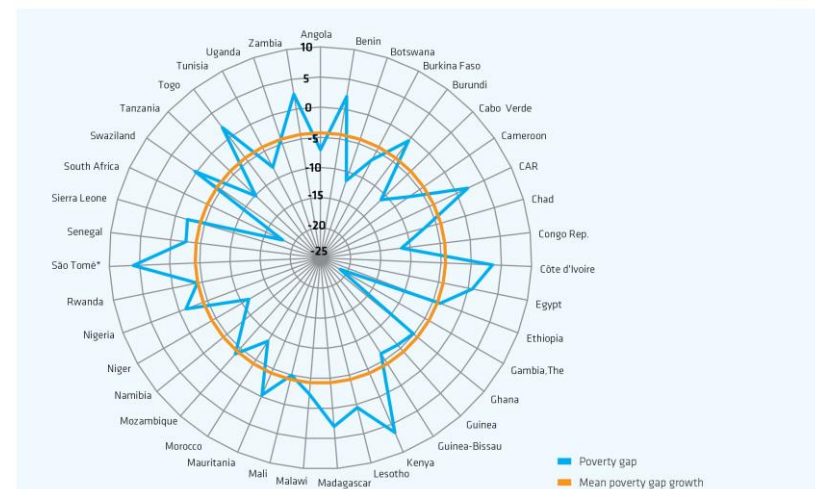
Several countries have progressed in reducing poverty

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 annualised by dividing by the number of intervening years, multiplied by 100 percent. Source: computed using data from World Bank, 2014.

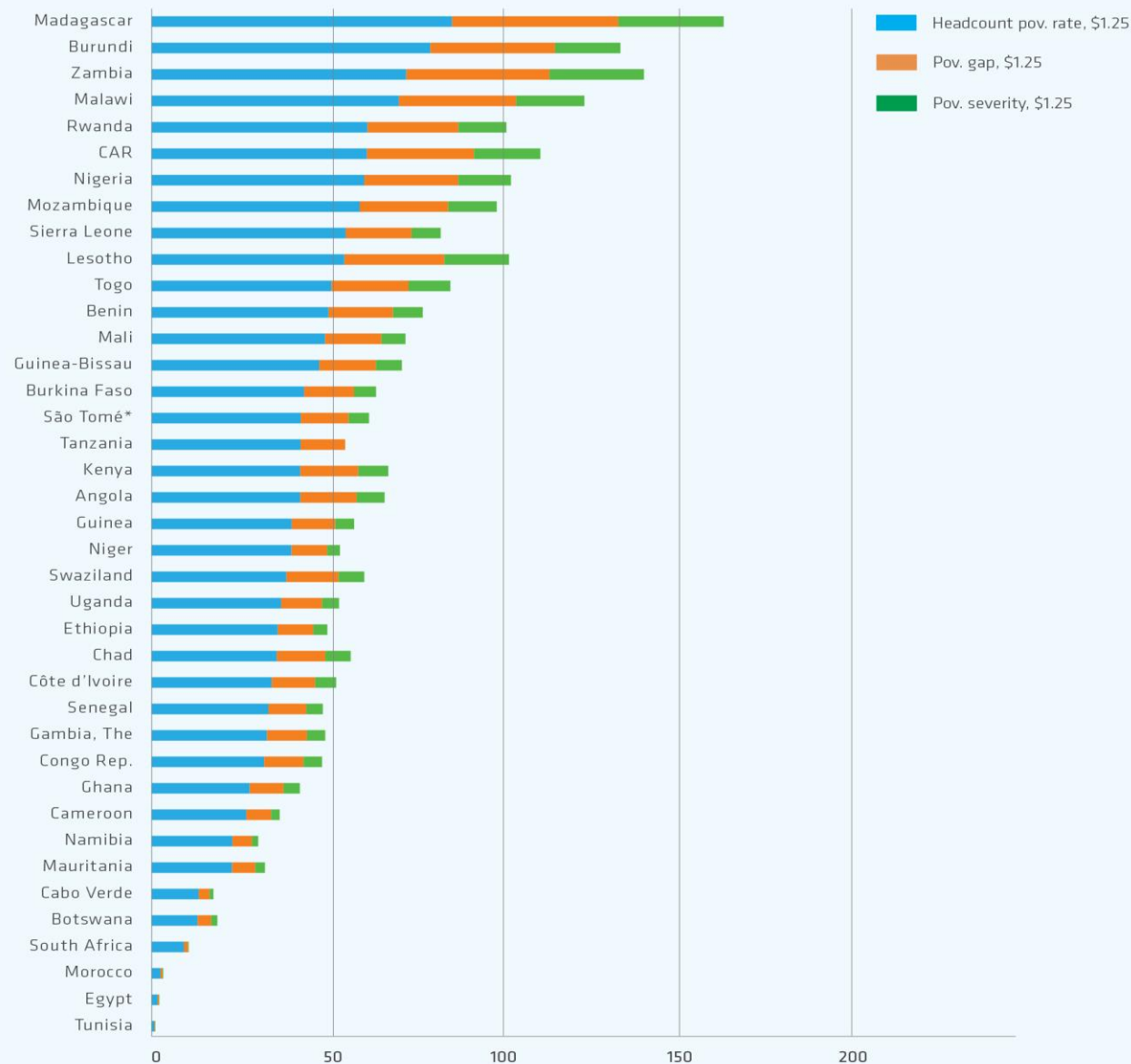
NB: negative numbers imply more poverty reduction

Current state of poverty requiring attention

- ❑ While majority of countries have made progress in reducing poverty, it remains a challenge in most countries
- ❑ Countries with large number of poor people also tend to have the most severe form of poverty
- ❑ These countries will need more attention



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).

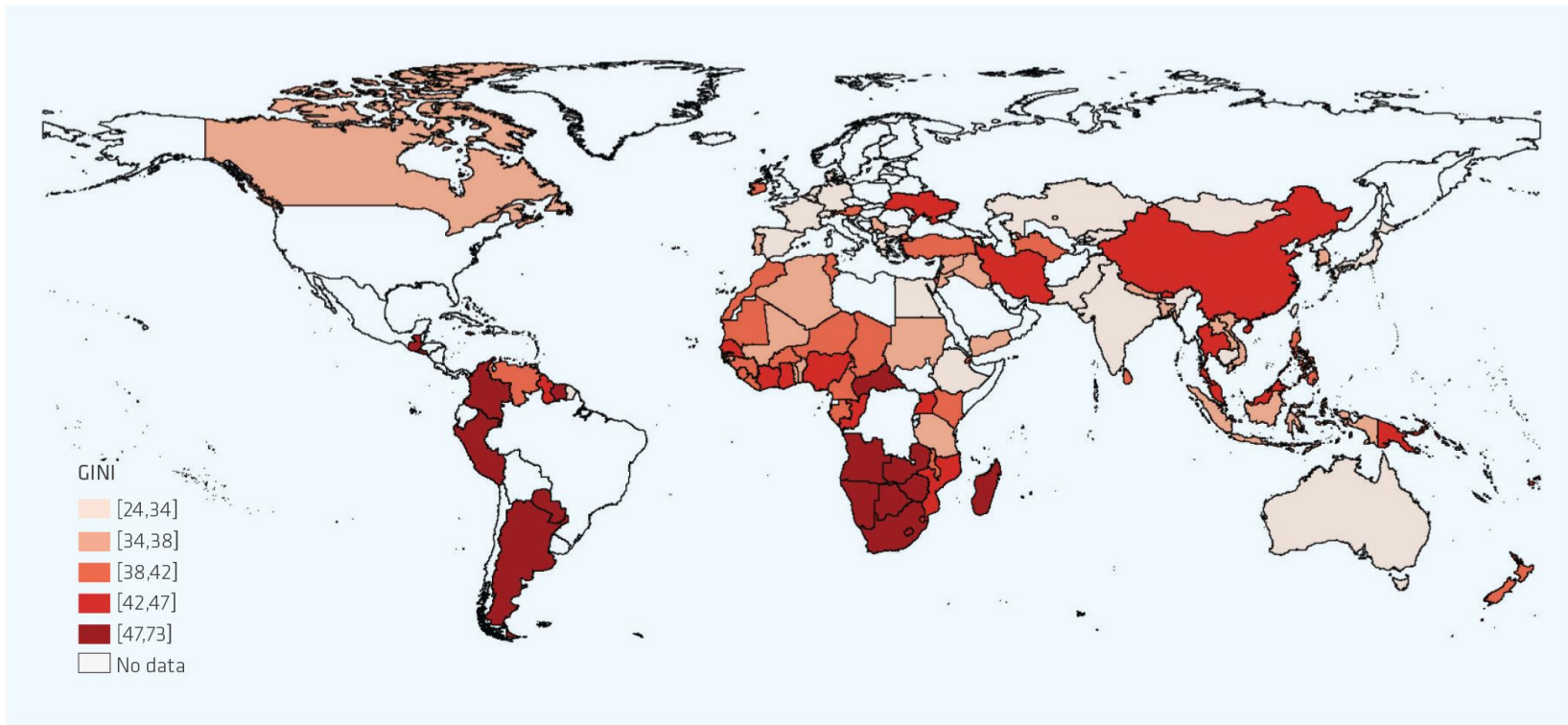


CHAPTER 3

**High inequality undermined
the efficacy of growth
in reducing poverty**

Africa is considered as one of the most unequal regions of the world

Figure 3.1 Gini-coefficients within Africa and worldwide



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

❑ 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.

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

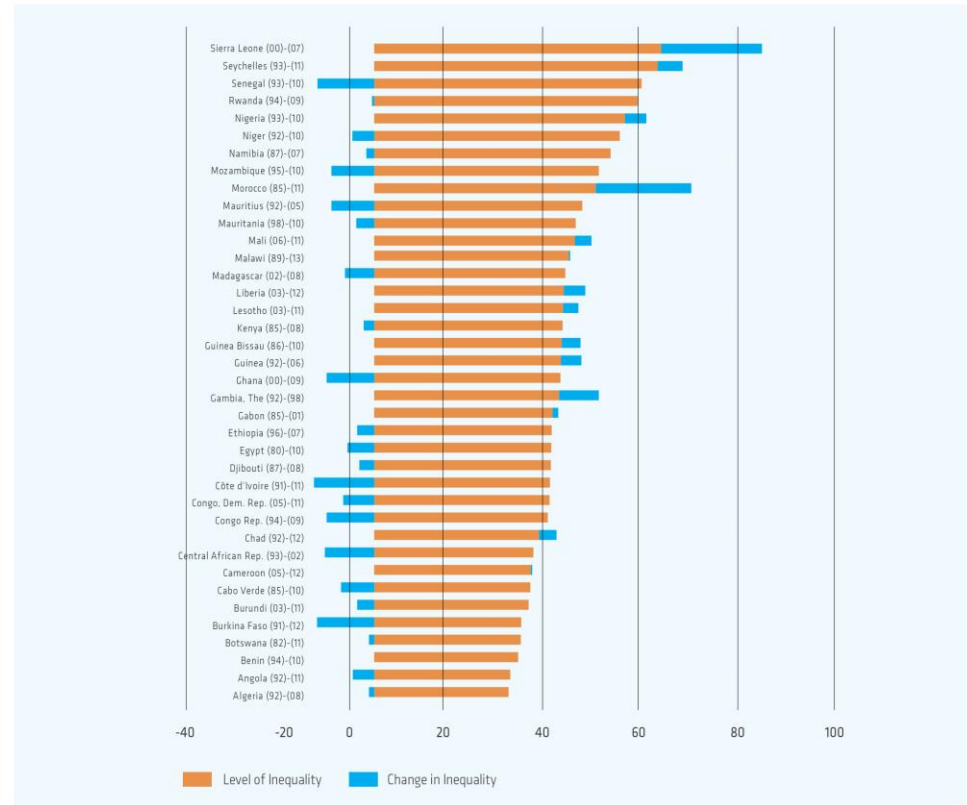


Source: Authors' calculations based on the AfDB AEO database.

Heterogeneous progress in income equalization among 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.

Figure 3.4 Inequality level and change in Africa, by country

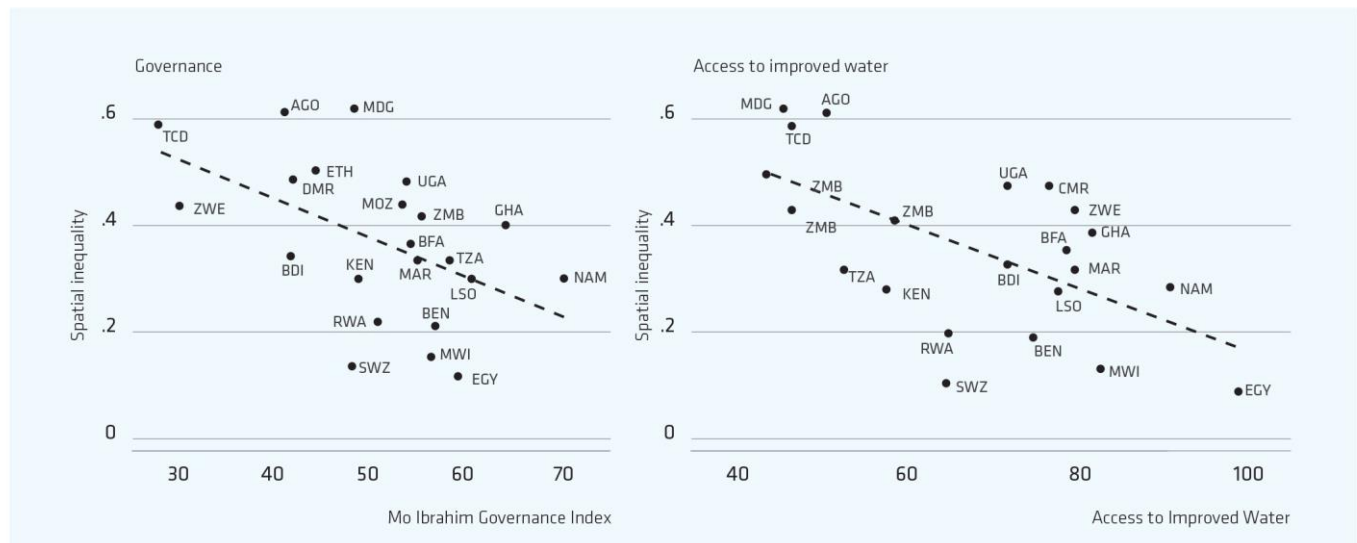


Source: World Development Indicators, March 2015. Years of observation are in parenthesis.

Within country income inequality correlates with spatial inequality

- 45% of within country inequality is accounted by **spatial inequality** - confirming the dual economic system in most African countries.
- Low-technological and largely agrarian sectors in rural areas have been lagging behind urban modern sectors in many African countries; posing an obstacle to progress in reducing poverty in the continent.
- Within-country inequality is higher among resource-rich countries

Figure 3.7 Correlates of spatial inequality





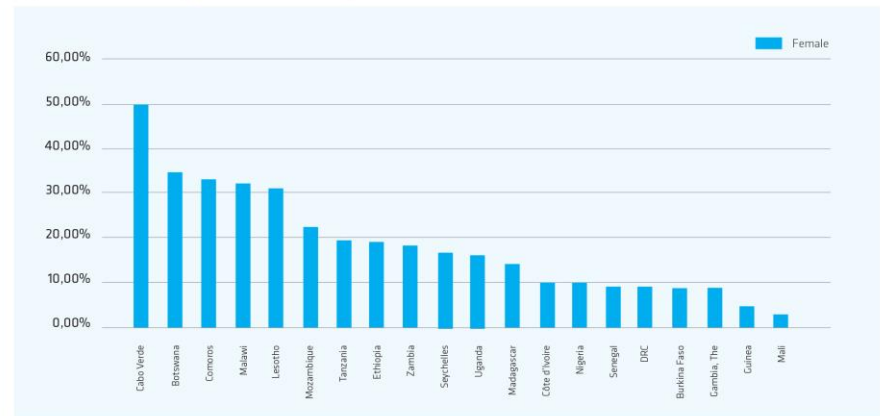
CHAPTER 4

Gender inequality: A double break on poverty reduction

Gender inequality limits growth, and slows poverty reduction

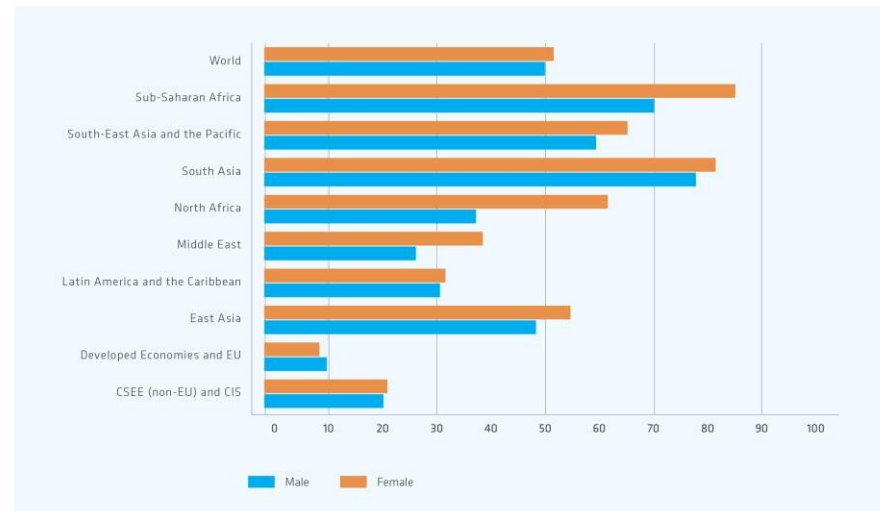
- Majority of women work in Agriculture but have limited access to inputs
- In some countries, less than 20% of agricultural land is owned by women
- Vulnerable employment is highest among women in Africa

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)*.

Figure 4.11 Share of men and women in vulnerable employment



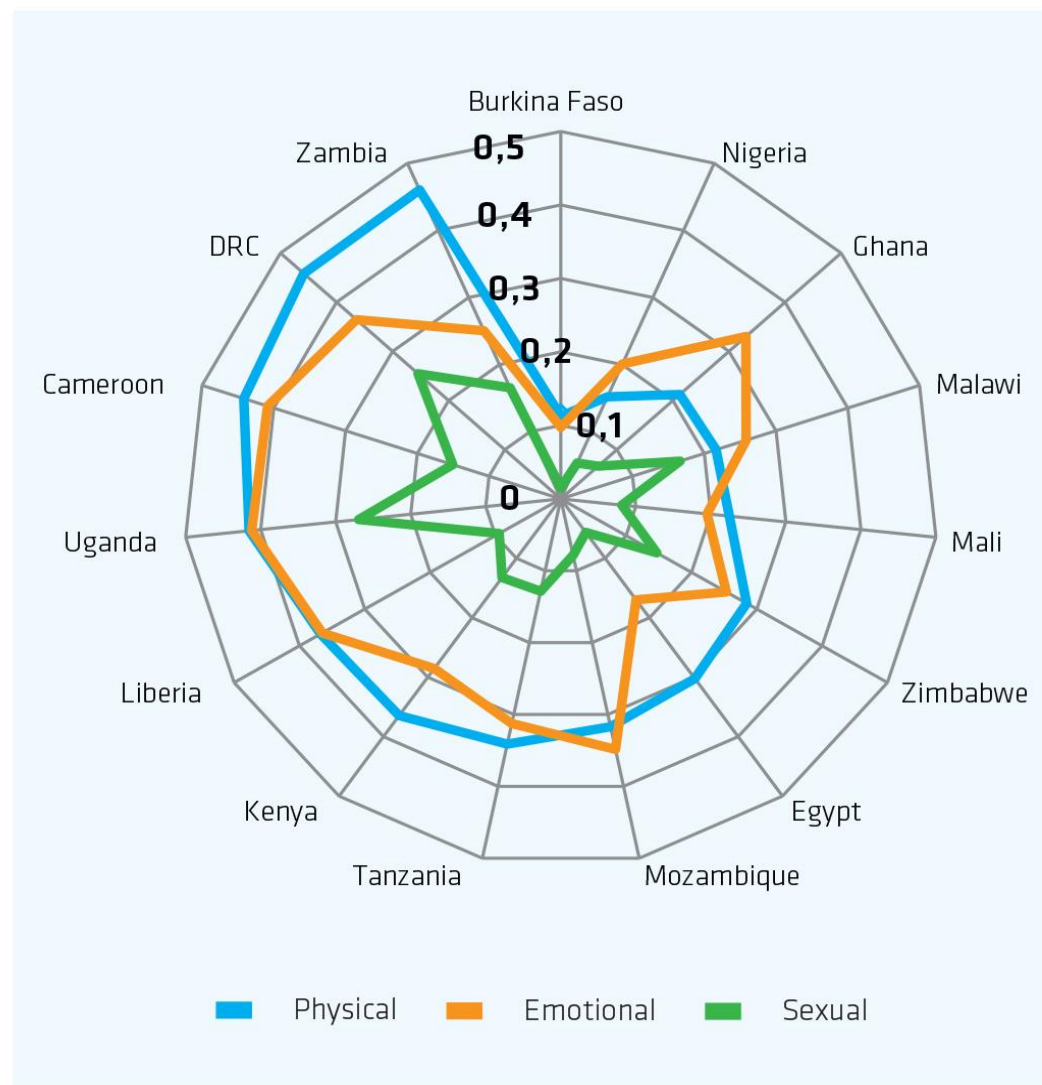
Source: Authors' computation using World Development Indicators

Domestic violence across countries

- ❑ Violence against women is widespread, mostly perpetrated by intimate partners
- ❑ Women are victims of sexual, physical and emotional Violence, with significant correlation among these forms of violence.
- ❑ Female **education and employment** are effective tools of averting violence against women

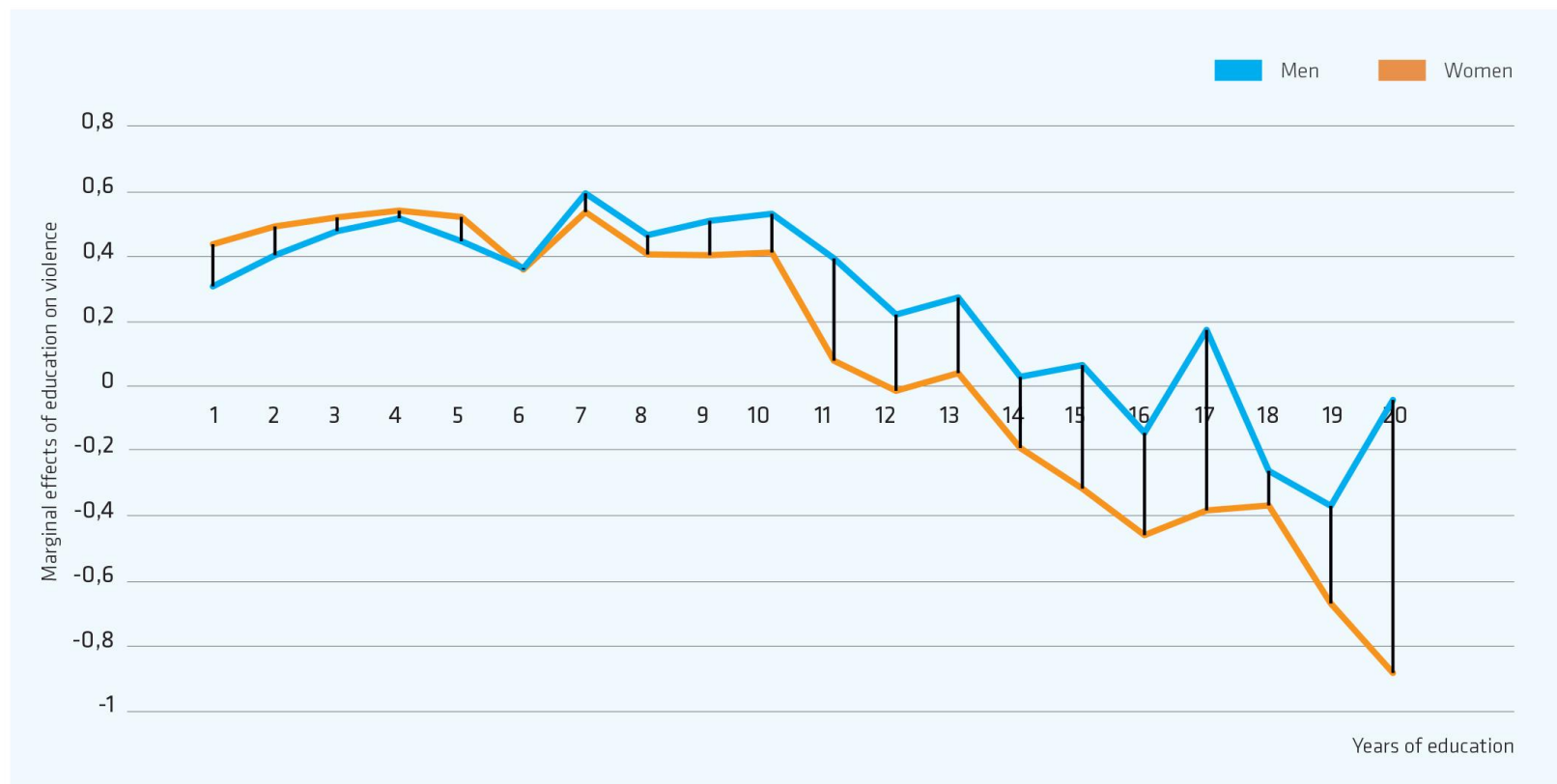


Figure 4.16 Within-country correlation between three forms of violence



Source: Author's computation using DHS data

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



Source: Author's computation using DHS data

Mapping the results (consequences from women to children)

Violence against women is associated with:

- ❑ Lower woman autonomy: to make independent decisions (purchasing, cooking, visiting, and healthcare decisions).
- ❑ Limited participation in contraceptive decision
- ❑ Shorter birth spacing

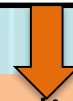


These distort child related outcomes



Child related consequences

- ❑ Lower chances of infant survival
- ❑ Lower birth weights



Violence against 50% of the population today has implications for 100% of the population tomorrow.

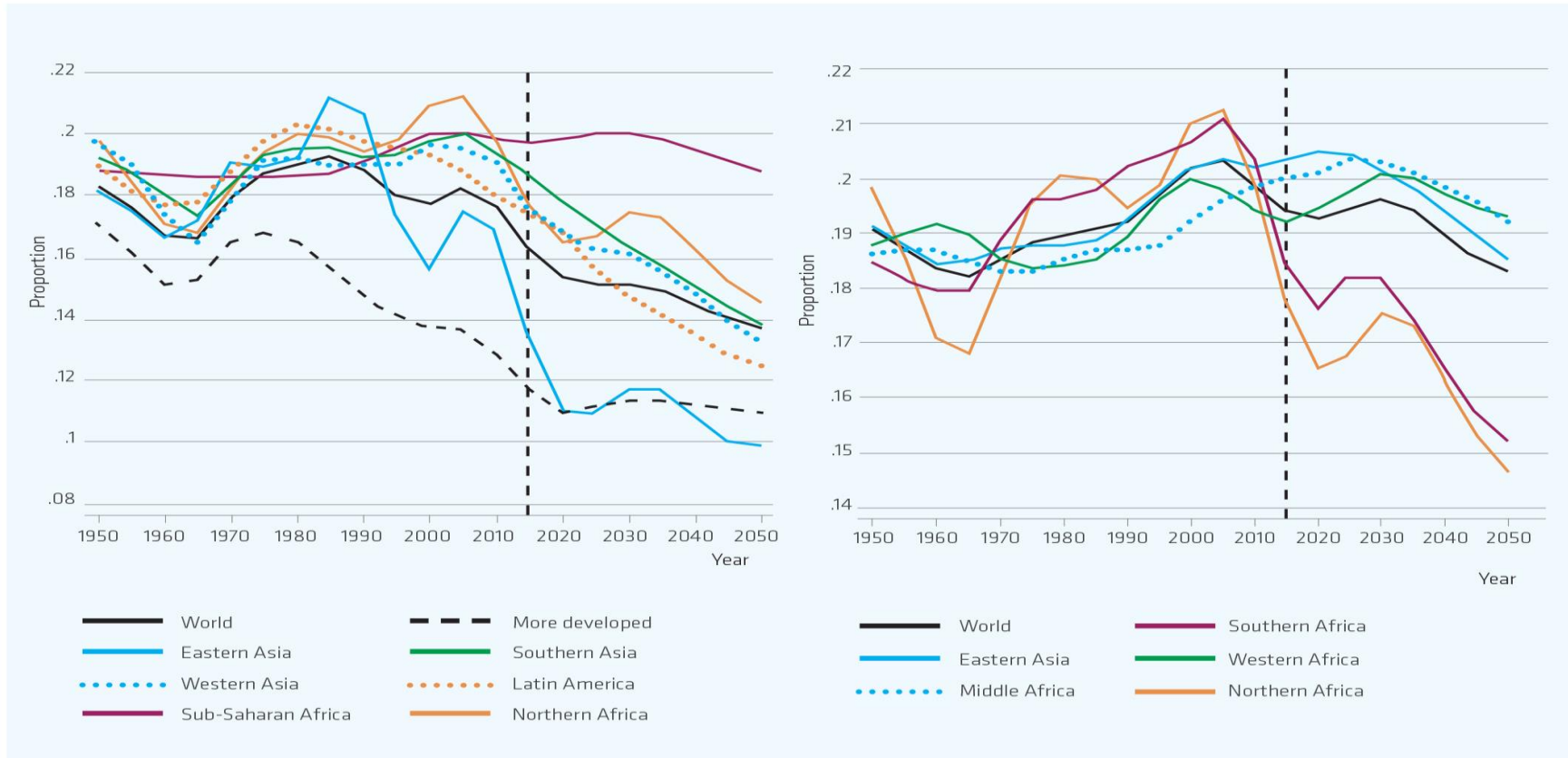


CHAPTER 5

Africa's youth in the labour market

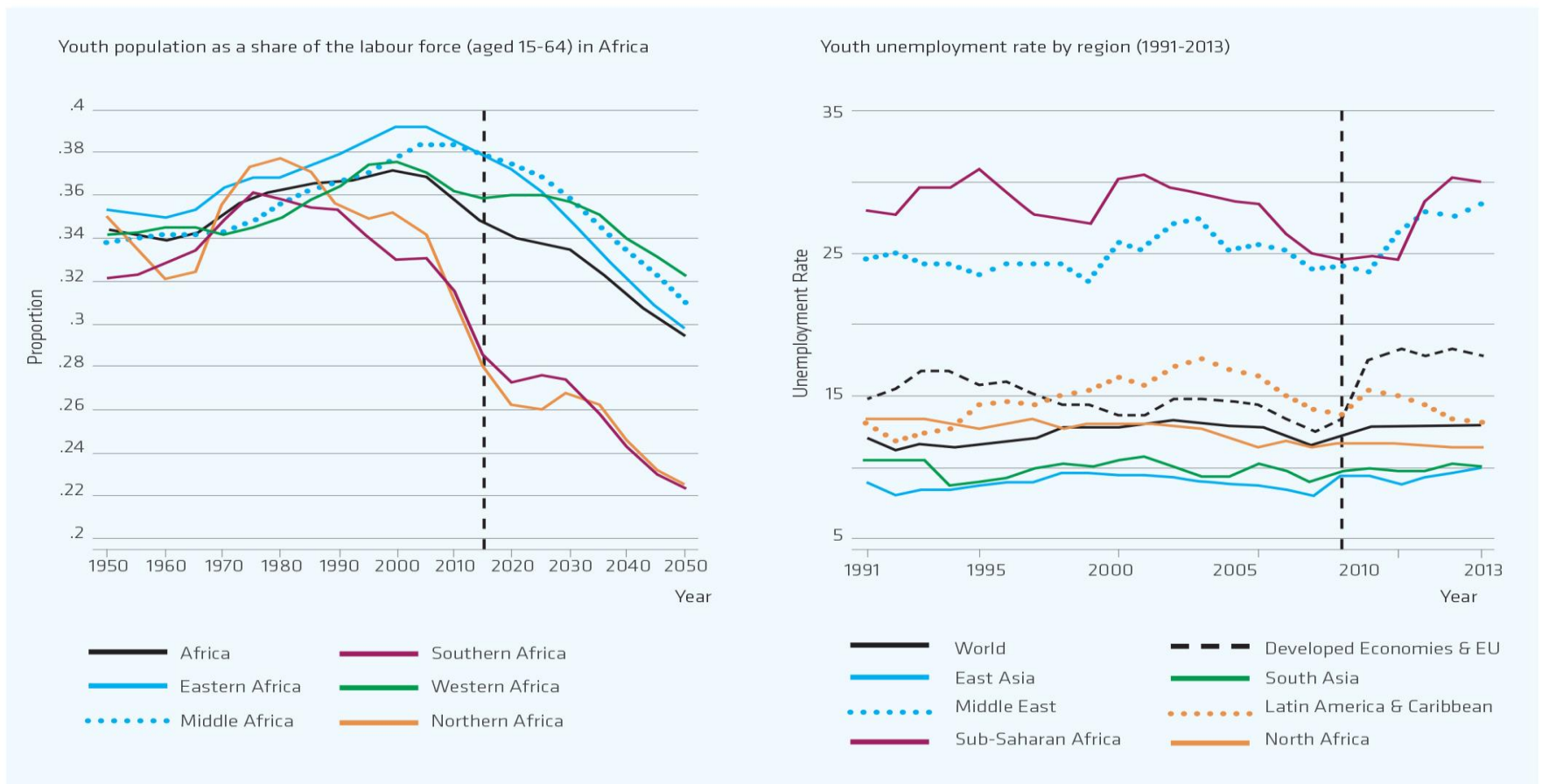
- Relative to other regions, youth population in SSA remained high
- Only Southern and North Africa had significant decline in youth share of population
- Will Africa benefit from a 'demographic dividend' as Asia did?

Figure 5.2 Youth population as a share of total population



- Generally employment statistics suggest low unemployment in many African countries
- Youth unemployment is however highest in SSA

Figure 5.3 Youth employment and unemployment



Being young in Africa: Constraints and opportunities





CHAPTER 6

Structural transformation, agriculture and Africa's development

The African pattern of structural change is very different from the classic pattern that has produced high growth in Asia, and before that, the European industrializers.

African economies are of a dual nature and there is a wide dispersion in productivity rates across economic activities.

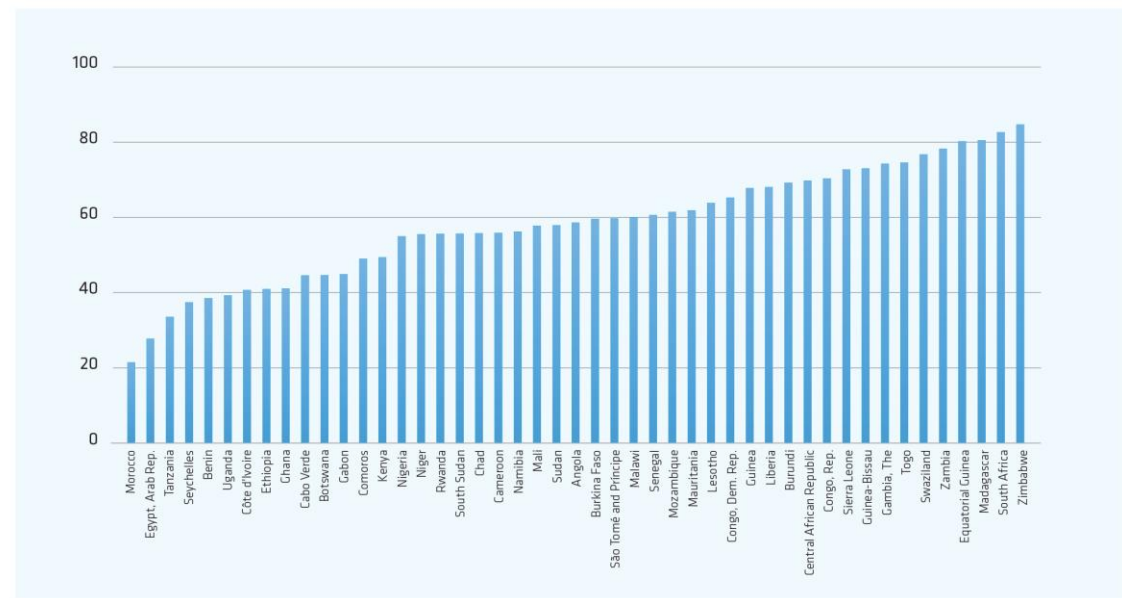


Majority of the poor live in rural areas

Helping the poor requires a clear knowledge of where they are and their source of livelihood

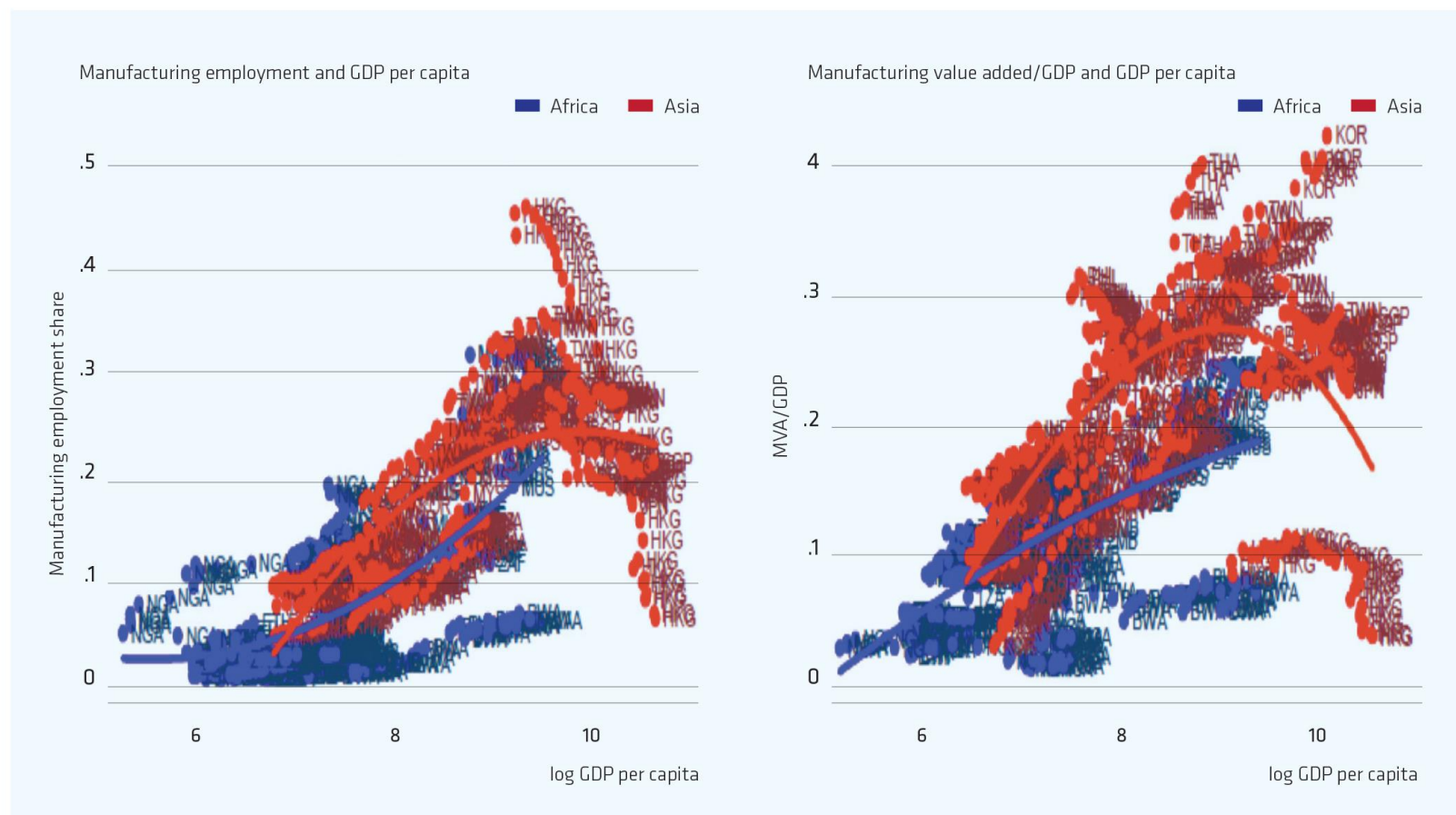
- More than 50% of rural population are poor in many countries
- More than 50% of the poor are engaged in Agriculture as livelihood

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



Source: World Development Indicators, 2015

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



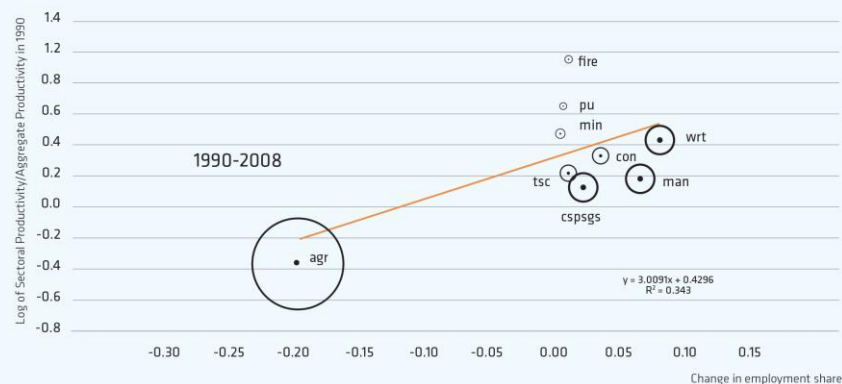
Note: Africa: Botswana, Ethiopia, Ghana, Mauritius, Malawi, Nigeria, Senegal, Tanzania, South Africa, and Zimbabwe. Asia: Hong Kong, Indonesia, India, Japan, Korea, Malaysia, the Philippines, Singapore, Thailand, Taiwan, and Vietnam.

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

Compared to elsewhere, Africa's structural transformation is at early stages

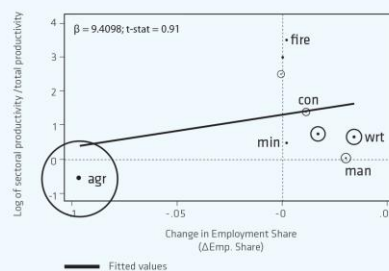
- Relative to Vietnam, Ethiopia and Kenya have made limited progress in structural transformation.
- In Ethiopia, there has been some growth-promoting structural change, but of smaller magnitude than in Vietnam. Manufacturing industry, in particular, has expanded much less.
- In Kenya, meanwhile, structural change has contributed little to growth.

Figure 6.3 Structural transformation in Vietnam, Ethiopia, and Kenya

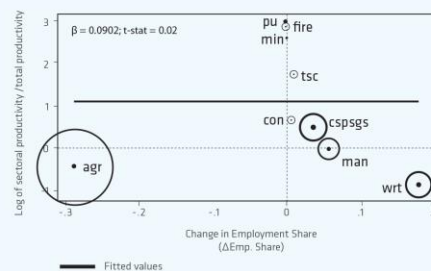


Notes: Authors' calculations based on data from the CSO. The bubble sizes indicate the share of total employment in 1990. For sector abbreviations refer to Table A.1. Source: McCaig and Pavonik (2013).

Correlation Between Sectoral Productivity and Change in Employment Shares in Ethiopia (1990-2005)



Correlation Between Sectoral Productivity and Change in Employment Shares in Kenya (1990-2005)



Source: McMillan and Rodrik (2011).

Africa has 4 options to generate growth:

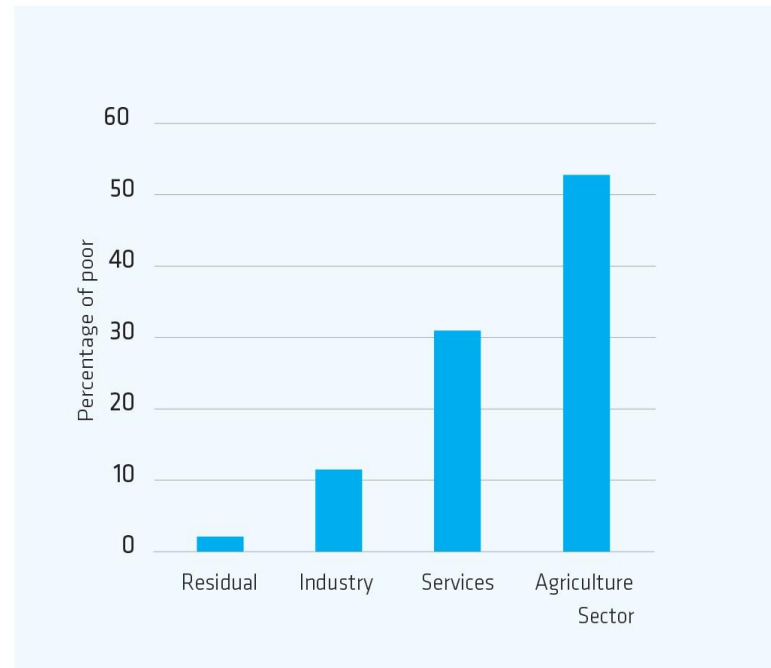
- ❑ Revive manufacturing and put industrialisation back on track
- ❑ Generate agriculture-led growth by diversifying non-traditional agricultural products.
- ❑ Generate rapid growth in services productivity
- ❑ Create growth based on natural resources



Special focus on the agriculture sector

- ❑ In Africa, close to 85% of poverty originates either in agriculture (54%) or services (31%).
- ❑ As extreme poverty increases, the poverty gap widens between those employed in agriculture and those in non-agricultural sectors.
- ❑ Promoting structural transformation while maintaining investment in the fundamentals of growth is the solution to reduce poverty.

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

What can agriculture achieve for Africa?

This sector has many direct and indirect effects both important for furthering growth and poverty reduction which are:

- ❑ Improving the lives of the poor through employment, food security and access to social amenities ; market-oriented larger scale production and improved productivity.



Understanding how agriculture achieves welfare for all

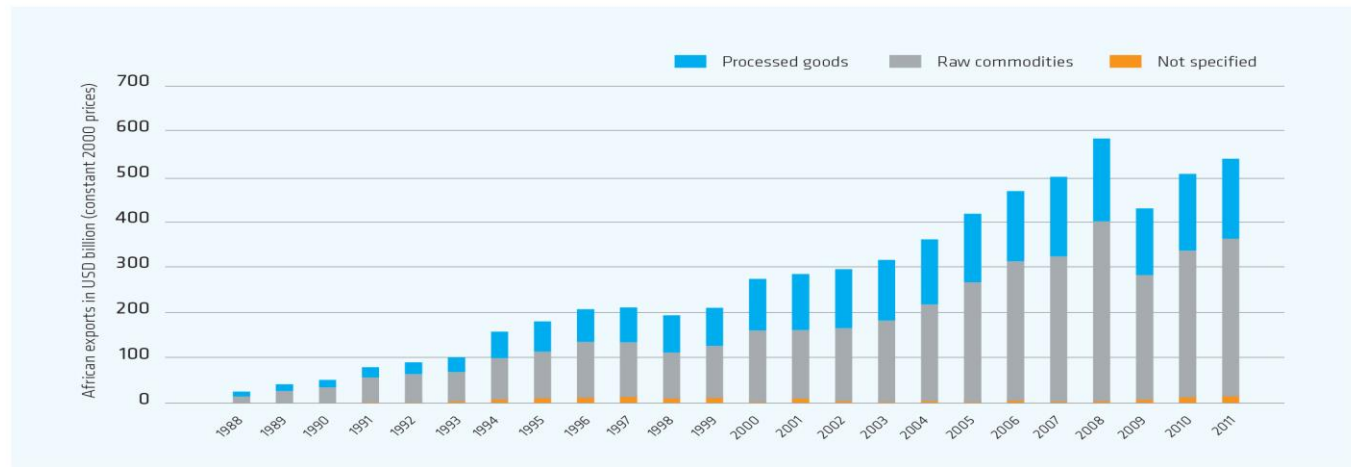
- ❑ Most African countries are considered to be agriculture-based, with agriculture as an important source of both growth and employment.
- ❑ Agricultural productivity growth can yield benefits, such as higher rural incomes and lower food prices in urban areas, which increase savings in rural and urban areas.
 - ❑ These savings can be used to finance industrialisation and expansion of the domestic market for non-agricultural goods.



Transformation and the relevance of Agriculture

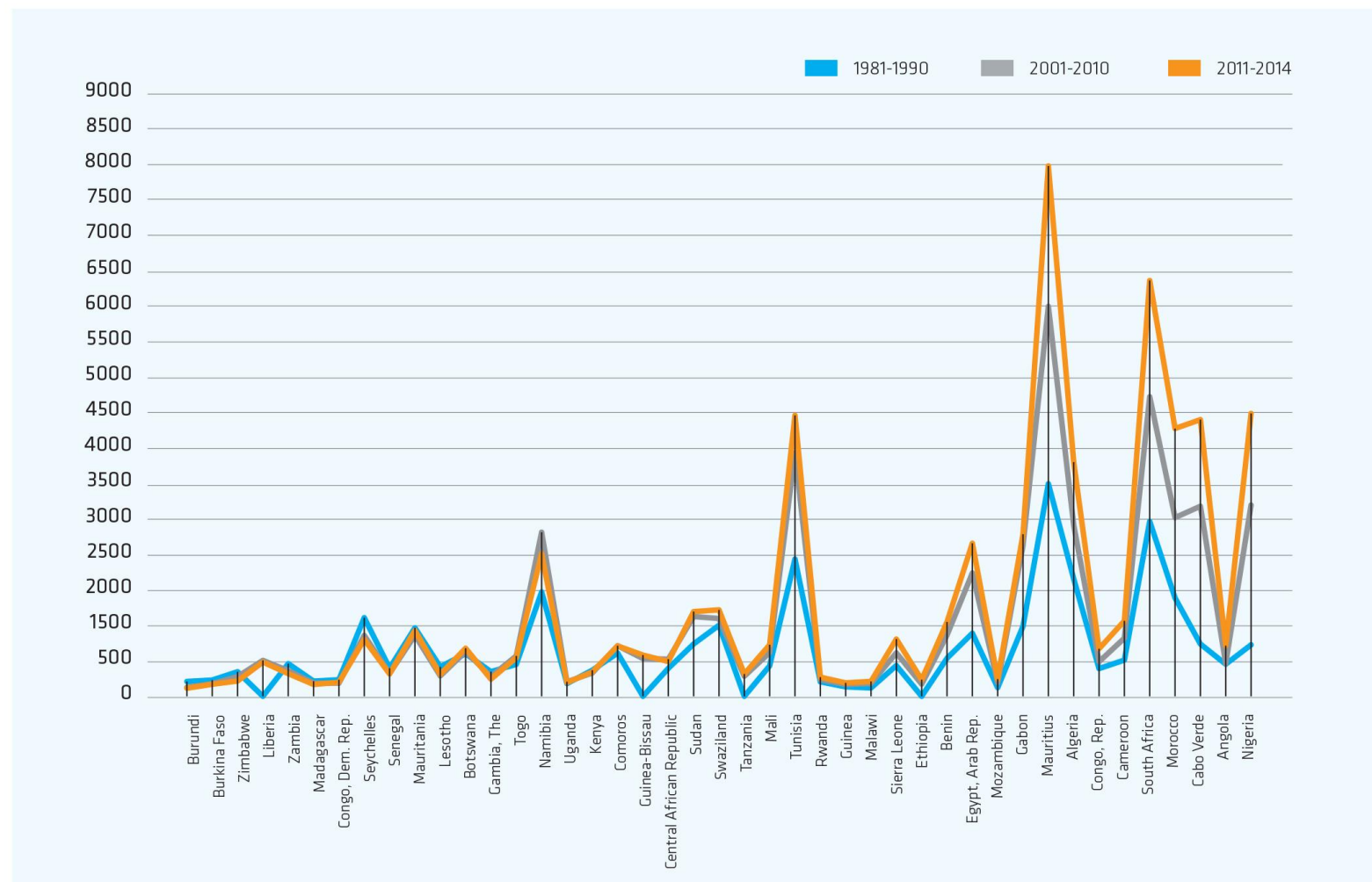
- ❑ Structural transformation necessitates a high level of productivity in agriculture.
- ❑ Growth sustainability depends on what Africa produces efficiently and its trade within the region and internationally.
- ❑ A commodity based development strategy with a focus of adding value to primary commodity extraction would foster growth in agriculture and boost other sectors of the economy.
- ❑ Understanding how agriculture achieves welfare for all

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



Source: African Economic Outlook, 2013

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



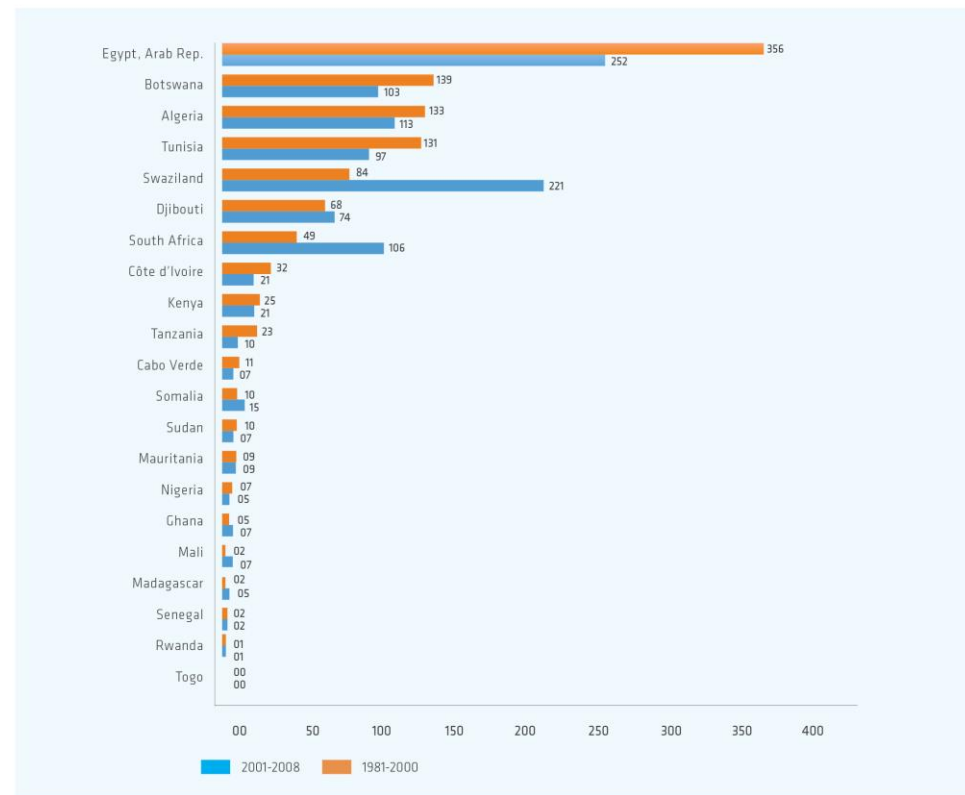
Source: World Development Indicators, 2015

Making agriculture competitive : challenges and opportunities

Shifting agriculture from subsistence to commercial orientation requires capitalising on opportunities while laying strategies to address major challenges.

- Physical capital is the most deficient input in Africa's agriculture.
- Increased physical investment in the agriculture sector would make Africa a competitive producer and reduce the exports of primary products.

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



Source: World Development Indicators, 2015



Agriculture for growth and poverty reduction

- ❑ The policy agenda should focus on agriculture as source of growth and as a business through agro-based industrialization rather than justifying investment in the sector as means to address poverty and food security.
- ❑ Adding value to many of Africa's primary exports may earn the continent a competitive edge in international markets.
- ❑ The volume of Africa's food imports are indicative of a potential intra-Africa trade in processed agricultural goods.
- ❑ 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.
 - this requires
 - the commitment of governments, the private sector and the international development community to dedicate resources to agriculture.





CHAPTER 7

Eliminating extreme poverty: progress to date and future priorities

After 15 years of implementing the MDGs Africa has achieved significant gains in the following areas:

- ❑ Improvement in primary school enrolment
- ❑ Bridging the gender gap in primary school enrolment
- ❑ Female representation in national parliaments
- ❑ Reducing child and maternal mortality
- ❑ Reversing the trend of the spread of HIV/AIDS



Despite these gains, there exists a spatial inequality in the performance of the MDGs:

- ❑ Poverty levels in Egypt, South Africa, Mauritania and Senegal have consistently been lower than the Sub-Saharan African average.
- ❑ Malawi and Zambia have remained worse than the Sub-Saharan African averages on poverty headcount.

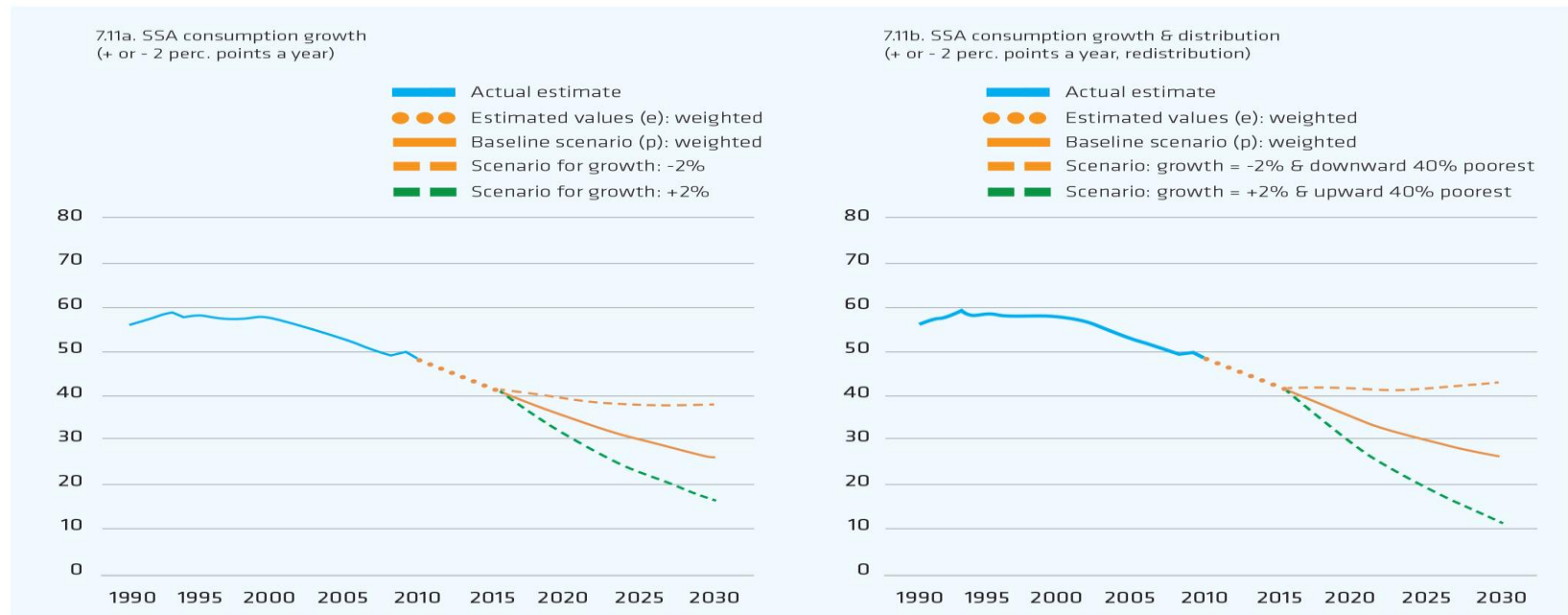


SDGs targets: reduce poverty to 3% by 2030.

Under current trends, how far can Africa get to?

- ❑ Extreme poverty can be lowered in SSA by 2030 but may not be eliminated.
- ❑ Maintaining an annual growth rate of 2%, the continent can potentially lift 172 million out of poverty by 2030.
- ❑ If this is combined with distribution policy, poverty rate can be lowered to about 10%.
- ❑ *Growth accompanied by redistribution is Africa's best policy lever for poverty reduction.*

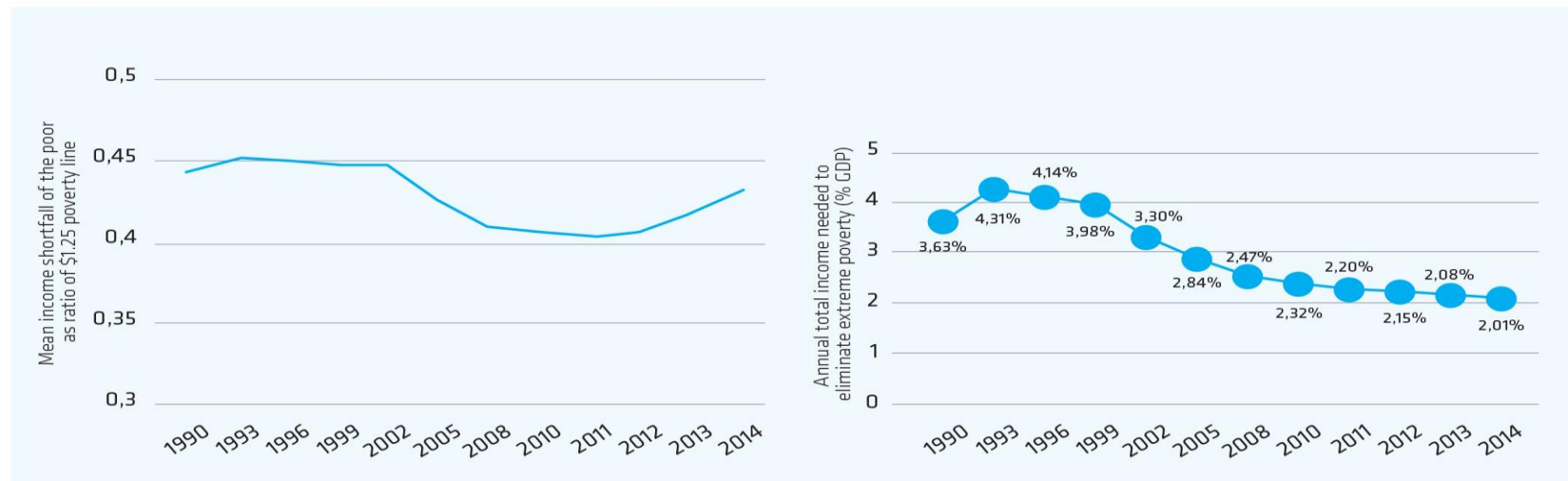
Figure 7.11 Poverty rates: Alternative scenarios, 1990 – 2030 (% of SSA population)



Conditions required to eliminate extreme poverty in Africa by 2030

- Relative to the 1.25 US\$/day 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, the population and absolute number of poor people increased dramatically **from 508 million and 284 million to 979 million and 420 million**, respectively.
- the amount of resources needed to eliminate extreme poverty for SSA in 2014 was estimated at **USD 65 billion**, higher than the 1990 estimate of USD 46 billion.
- As of 2014, on average, only two percent of GDP was needed to lift more than 40 percent of the SSA population out of extreme poverty.

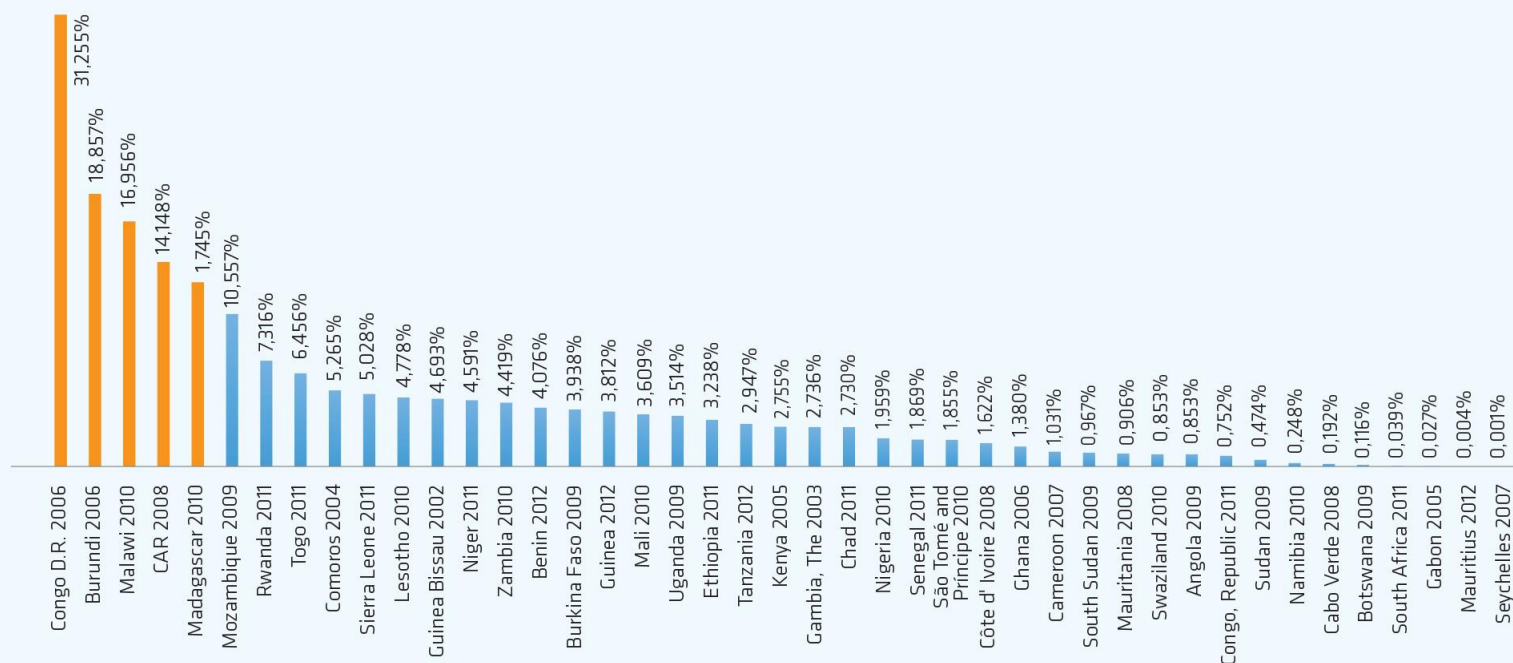
Figure 7.17 Sub-Saharan Africa's income shortfall and resources required to eliminate extreme poverty



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.

The challenge of eliminating extreme poverty differ by country

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.

Growth and redistribution required to eliminate extreme poverty in SSA

- ❑ Lowering Africa's headcount poverty to 3 percent by 2030 would require 5.3 percent annual consumption growth.
- ❑ Under a **combined accelerated-growth and pro-poor distribution scenario**, Africa 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.
 - ❑ If governments implement pro-poor policies that shift the share of income of the richest 10 percent in favour of the poorest 40 percent of the population: Africa would need an average 4.1 percent growth of per capita consumption to achieve the 3 percent poverty rate target in **2030**.
 - ❑ Achieving a **3 percent poverty target** would require **per capita consumption in Africa to increase from USD1,097 in 2015 to USD 2,138 by 2025**.



CHAPTER 8

The way forward to achieving sustainable development in Africa

The need for Africa to adopt a new development trajectory

Africa's recent growth performance did not help to address issues of:

- ❑ Inequality, growth inclusiveness; lack of infrastructure, domestic violence;
- ❑ Inadequate youth labour skills and
- ❑ real structural transformation.



A new development trajectory requires Africa to :

- ❑ Industrialise in order to produce enough food for Africa's population especially the most vulnerable.
- ❑ Address the infrastructural deficit especially the energy deficiency.
- ❑ Resolve labour productivity and costs and the adequacy of skilled labour for market need.
- ❑ Expand domestic market sizes by increasing intra-regional trade.



The African Development Bank Group priorities: Support to Africa's sustainable development agenda

- ❑ Achieving the SDGs fit accurately with Africa's priorities for the next 15 years. They are a continuation of the MDGs expanded to be more inclusive and sustainable.
- ❑ 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.
- ❑ The Bank does this through direct participation in financing projects that meet these requirements; and, by providing policy advice to RMCs.



- ❑ For a more effective impact, the Bank identifies the five key priority (High-Five) areas as:

Feeding Africa - Powering Africa - Integrating Africa - Industrialising Africa and Improving the Standard of Living for all Africans.

- ❑ The findings and policy recommendations of this Report are in line with and support the Bank's strategies and its priority areas of intervention.

Concluding remarks

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.

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.

Key poverty reducing sectors, such as *agriculture and manufacturing*, should be targeted and accorded high priority for public and private investment.

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.



Thank You!



Available online at:

<http://www.afdb.org/en/knowledge/publications/african-development-report/african-development-report-2015/>

