



Overview



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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”.