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Short Paper on "African strategies to boost growth and combat poverty and inequality"

By Daouda Sembene

Introduction

In recent decades, there has been a growing interest in poverty reduction across Sub-Saharan African (SSA) countries. These countries promptly embraced the Poverty Reduction Strategy Paper (PRSP) initiative, soon after it was launched in 1999. In the post-PRSP era, the strong focus on poverty reduction was sustained even though official discourse in many countries shifted increasingly its focus toward achieving economic emergence. More recently, SSA leaders adopted the 2030 Agenda, joining their peers around the world in pledging to "leave no one behind" and "reach the further behind first".

In collaboration with bilateral and multilateral partners, SSA policymakers have sought to overcome extreme poverty through a renewed emphasis on boosting growth and combating inequality. On the one hand, growth strategies are implemented with a view to accelerating economic emergence, while raising the living standards of people living below the poverty line. On the other hand, reducing inequality continues to be a key policy objective, as a necessary condition for making inroad toward poverty reduction. Social protection schemes and, in some cases, fiscal policy measures are designed to address distributional patterns that impede poverty reduction.

Based on Sembene (2015), this short paper provides a selective typology of SSA poverty reduction strategies, while unveiling associated implementation challenges and identifying factors undermined their success. It provides empirical evidence on the impact of these strategies on growth, inequality, and poverty. Finally, the paper formulates policy recommendations for improving the effectiveness of SSA poverty reduction strategies in the context of the 2030 Agenda for Sustainable Development.

1. Typology of Poverty Reduction Strategies in Sub-Saharan Africa[1]

[1] See Sembene (2015).

Pro-poor interventions in Sub-Saharan African countries have included unconditional and conditional cash transfer programs, in-kind transfer schemes, and public works Programs:

Unconditional cash-transfers. In general, most cash-transfer programs implemented in Sub-Saharan Africa tend to be unconditional. Garcia and Moore (2012) estimate that three out of four programs put in place since 2000 are unconditional. According to these authors, the primary recourse to unconditional cash transfers likely reflects weak institutional capacities in fragile states and social preferences in wealthier countries. In a number of Sub-Saharan African countries, social security systems have long been the main form of state-sponsored social protection programs and key providers of contributory cash-transfers. However, social security coverage remains limited in many countries and its benefits usually tied with employment in still anemic formal sectors. Kalusopa, Dicks, and Osei-Boateng (2012), find mandatory social security to benefit less than one-tenth of the labor force in the region. In this context, a number of countries in the region began in recent years to introduce, without conditionality, social assistance programs exclusively targeted at the poor and untied with formal sector employment. For instance, unconditional cash-transfers schemes targeting primarily the extreme poor, labor-constrained individuals and victims of food insecurity have been implemented in Ethiopia, Malawi, Mozambique, and Zambia (Schubert and Slater, 2006). Similar programs were also found to be very successful in eastern Africa, notably in Kenya and Uganda. In the latter country, stipends provided unconditionally to groups of young entrepreneurs helped raise their average earnings by half in four years (The Economist, 2013). Moreover, some southern African countries such as South Africa, Botswana, Namibia, and Lesotho developed noncontributory transfer programs that received much praise.

Conditional cash-transfers. Breaking previous trends, most recent cash-transfer programs in Sub-Saharan Africa have increasingly tended to introduce conditionality, reflecting the renewed interest of domestic and external stakeholders in strengthening social safety nets. Many such programs are usually designed to improve school attendance and health conditions for children (Garcia and Moore, 2012). The financing and implementation of such transfer schemes often entails the primary involvement of donors, development agencies, charities, and NGOs. Although African governments have attempted to keep up with the pace, cash transfers remain very small as a share of GDP. For instance, Kakwani et al. (2005) review cash transfer programs conditional on school attendance in 15 Sub-Saharan African countries and find their size to be much smaller than is needed to secure a significant poverty impact, which is at least 2 percent of GDP according to their estimates. Even though cash transfers are demonstrated to have been successful in regions such as Latin America, the empirical evidence that they work in Africa is still limited—albeit rapidly growing. The literature highlights a number of constraints that might undermine the introduction and effectiveness of conditionality in cash-transfer schemes in African countries, including supply-side constraints, weaknesses in implementation capacities of social welfare services, and cost-benefit considerations (See for instance Schubert and Slater, 2006).

In-kind Transfer Schemes. These schemes are used prevalently in many Sub-Saharan African countries, notably in the form of subsidized agricultural inputs, food and energy price subsidies, and school feeding programs:

- ***Agricultural subsidies***: After being eliminated or downscaled during the 1980s as part of structural adjustment programs, a number of agricultural support schemes were resuscitated in the following decades, reflecting probably the critical need for any large scale antipoverty programs to cover rural areas where the majority of the poor live. More recently, many African countries including Ghana, Malawi, Nigeria, and Tanzania introduced agricultural subsidies in a number of countries after the 2008 global food price crisis in an attempt to stabilize prices and ensure food security, as noted by Benin et al. (2013).

- ***Food and energy price subsidies***: At the onset of the crisis, food price subsidies also became increasingly popular across the continent, notably with many governments cutting value-added taxes and suspending customs duties on a range of food commodities in order to address actual or potential social unrest triggered by the crisis. Furthermore, several countries have also had recourse to energy price subsidies amid recurrent crises in the sector. Most notably, these took the form of fuel and/or electricity tariff subsidies in several countries. According to the IMF (2013a), many countries have limited at some point the full pass-through of fluctuations in global energy prices, including Ghana, Kenya, Mali, Namibia, Niger, Nigeria, Senegal, and Uganda. As of 2012, the fiscal cost of fuel subsidies is estimated by the IMF staff to have totaled about 1.4 percent of Sub-Saharan Africa's GDP and quasi-fiscal deficits of state-owned electricity companies found to have claimed an equivalent share in 2009-10.

- ***School feeding programs*:** These programs are among the most popular types of in-kind transfers around the world, particularly in Sub-Saharan Africa. In this region, their use is promoted by a number of domestic and external stakeholders, including the NEPAD, the World Food Program (WFP), the World Bank, and some UN agencies. For instance, the Home-Grown School Feeding program initiated by NEPAD in partnership with the WFP other institutions has helped several Sub-Saharan African countries increase students' participation in school feeding programs in the past several years. Many such initiatives undertaken in the region typically aim to improve school enrollment and attendance, educational performance, and children's health, while promoting agricultural development and food security. Yet, the bulk of these programs are often underfunded and the ineffectiveness of targeting approaches adopted in many countries constrains their potential positive impact on the poor (Bundy et al., 2009).

- ***Public Works Programs*:** Public works and employment guarantee schemes are featured among pro-poor programs implemented in Sub-Saharan Africa. Most public works programs set up in the region aim to overcome chronic poverty and unemployment by provide social protection or create jobs. However, only a few of these programs are government funded, with the majority being supported by the donor community. For instance, McCord and Slater (2009) survey 167 public works programs implemented in 29 Sub-Saharan African countries and find 83 percent of them to be donor funded. Often cited among public works programs implemented in Africa is also South Africa's Expanded Public Works Programme (EPWP) introduced in 2004 which is an innovative job creation scheme aimed at fostering social inclusion and economic empowerment. The first-phase of the program targeted the creation of one million jobs within five years, even though this ambitious objective proved difficult to achieve in the short-term partly due to limited budgetary allocations (Antonopoulos, 2013).

2. Impact of the Implementation of Poverty Reduction Strategies on Growth, Inequality and Poverty in Sub-Saharan Africa

Sembene (2015) reviews the experience of 87 countries around the world from the early 1990s until 2013. The sample includes 43 Sub-Saharan African countries of which 35 have adopted at least one full PRSP. The empirical evidence provides the following insights about the impact of poverty reduction strategies on growth, inequality and poverty in SSA countries.

Evolution of Growth in SSA Countries with Explicit Poverty Reduction Strategies

Across Sub-Saharan Africa, growth performance has been uneven among PRSP and non-PRSP countries. During the 1990s, non-PRSP countries registered impressive real GDP growth rates, averaging about 7 percent.[2] By contrast, countries that would later adopt a PRSP performed relatively poorly during the same period, with growth barely hitting 2 percent. Much of this weak growth occurred in the first half of that decade when average output grew by less than 1 percent, as 26 out of the 35 PRSP countries experienced at least one year of GDP contraction during between 1990 and 1994. Incidentally, this period witnessed several episodes of political instability throughout the region, notably with the introduction of multipartism in many countries. From 1995 until the launch of the PRSPs in 1999, economic activity recovered significantly in a number of countries, thereby raising average growth rates in prospective PRSP countries above 3 percent. Similarly, economic performance in other countries was much stronger during the second half of that decade, with average growth rates tripling compared to their level in the first half.

Disaggregated data show that, on average, PRSP countries in Sub-Saharan Africa have underperformed non-PRSP countries in the region as well as PRSP countries outside the region until the onset of the global financial crisis in 2008. Afterward, there has been a marked trend reversal with non-PRSP Sub-Saharan Africa—and to a lesser extent PRSP countries from the rest of the world—lagging behind PRSP countries in terms of growth performance.

Growth Impact of Poverty Reduction Strategies

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[2] See Sembene (2015), Figure 1.

The empirical evidence confirms that most PRSP countries in Sub-Saharan Africa has achieved stronger growth in the five years following the adoption of their first PRSP. However, the findings suggest that PRSP implementation has neither reduced poverty headcount, nor raised the income share of the poorest quintile in Sub-Saharan African countries. Yet, there is significant evidence that income share of the top quintile has increased in these countries the presence of PRSPs. By contrast, PRSP countries outside the region have been more successful in reducing poverty headcount and increasing the income share of the poor although no firm evidence links these outcomes to the presence of PRSPs.

On average, GDP and per capita income grew in these countries by about a percentage point of GDP faster five years after adopting the PRSP than five years before.[3] Among the 35 PRSP countries selected in this study, 23 experienced more rapid income growth during the five years following the adoption of their first PRSP than they did during the previous five years. Equivalently, one out of three PRSP countries register weaker growth performance during the five years following the adoption of their first PRSP than during the similar time span immediately leading up to it. In this light, it appears that PRSP implementation did not immediately lead to growth acceleration in Sub-Saharan Africa.

Evolution of Poverty and Inequality after the Launch of PRSP Initiative

Were increased growth rates associated with improved poverty outcomes in Sub-Saharan Africa? The empirical evidence reported in Sembene (2015) shows that the number of people living in the region on less than $1.25 a day increased by almost 100 million between 1990 and 1999, representing about a fifth of population growth.[4] Between 1999 and 2011, the increase in the number of poor was barely 30 million, equivalent to only 5 percent of the total population increase that took place in the region during the same period. As a result, poverty headcount ratios have continued to decline since the mid-1990s after reaching a record high of 60 percent. Still, poverty incidence remains high with almost one out of every two Africans living under the poverty line. In addition, the pace of poverty reduction has been very slow, averaging less than half a percentage point per annum over the period 1990-2011.

Finally, the evidence shows that inequality increased in about half of the sample of PRSP and non-PRSP countries for which inequality data was available even though the latter experienced relatively more cases of improved Gini indices. Moreover, greater income inequality appears to be associated with higher poverty incidence in PRSP countries. At the same time, only modest increases in the income share were secured for the poorest quintile in less than half of these countries.

Overall, the analysis suggests that across Sub-Saharan Africa non-PRSP countries grew faster than PRSP countries before the launch of the PRSP initiative and this pattern continued until recent global crisis broke out. Moreover, it appears that inequality increased in both

[3] See Sembene, 2015; Figure 3.

[4] See Sembene (2015), Figure 4.

PRSP and non-PRSP countries, with higher inequality being associated with more significant effects on poverty incidence in PRSP countries.

Effects of PRSP Implementation on Poverty in Sub-Saharan Africa

Sembene (2015) finds that income growth exerts a positive impact on the pace of poverty reduction, as a 1 percent increase in average per capita income leads to about a 2 percent decline in the incidence of poverty if inequality is kept unchanged. By contrast, inequality is found to have damaging effects on poverty, with the potential to more than offset the pro-poor aspects of growth. More specifically, a 1 percent increase in income inequality, as measured by the Gini index, results in over 4 percent increase in the poverty rate, holding constant average incomes.

Moreover, the income-inequality interaction is not significant, suggesting that stronger growth does not mitigate the adverse effects of inequality on poverty headcount. As a result, poverty incidence may edge up on average by more than 2 percentage points on average for an equivalent increase in growth and inequality.

Overall, the regressions results reported in this section confirm that growth has been broadly pro-poor and inequality poverty-augmenting in emerging and developing countries. Indeed, income growth is found to be associated with a reduction of poverty, while higher inequality correlates with increased poverty headcount. However, the empirical evidence fails to support claims that PRSP implementation has helped reduce poverty in Sub-Saharan Africa. While PRSP countries from other regions have reduced poverty further during PRSP implementation, there is no conclusive evidence that PRSP implementation helped secure this positive outcome. More generally, there is not any strong indication that PRSP countries have been more successful than other countries in making growth more pro-poor and reducing the adverse effects of inequality on poverty incidence.

Effects of PRSP Implementation on the Income Share of the Poor in Sub-Saharan Africa

Overall growth less than proportionately benefits people locked in the bottom quintile, while raising the share of the top quintile. However, the results also suggest that Sub-Saharan African countries experienced neither higher average income share for the poorest quintile nor lower share for the richest quintile during PRSP implementation. By contrast, the presence of a PRSP in other regions is found to be associated with an increased share for the poor and a lower share for the richest quintile even though there is no evidence that PRSP policies played a role in shaping these outcomes.

3. Policy Conclusions and Recommendations

Sembene (2015) reaches three main conclusions. First, I t will prove useful to raise further awareness about the need to mitigate the damaging effects of inequality on the welfare of the poor. While many PRSPs acknowledged the need to improve the distributional patterns of growth as recommended in the PRSP Sourcebook, they failed to instill among policymakers a sense of urgency in this area commensurate with the strong emphasis that has rightly been put by PRSPs on the importance of growth for poverty reduction.

Second, improved targeting of pro-poor programs and policies could be of critical importance although care needs to be taken to account for political economy considerations.

Third, the intrinsic nature of cross-country analyses along with the highly heterogeneous political landscape in Sub-Saharan Africa should preclude any temptation for a "one-size-fits-all" approach in overcoming extreme poverty. In fact, the success of poverty reduction strategies in general and pro-poor and inclusive growth strategies in particular will require in all likelihood that these are appropriately tailored to country-specific circumstances even though similar structural characteristics across Sub-Saharan African countries could be capitalized on.

Beyond the conclusions reached by Sembene (2015), the following broad remarks and recommendations can be made for more effective poverty-reducing policymaking and interventions in Sub-Saharan Africa:

Preconditions for effective poverty-reducing policymaking:

- Ensuring strong country ownership of poverty reduction strategies;
- Securing adequate and sustainable funding: many anti-poverty programs are unfunded when government-sponsored, while externally-funded interventions tend to be contingent on political developments in both recipient and donor-countries.
- Addressing regional factors that undermine poverty reduction initiatives, including conflict, insecurity, and adverse weather conditions.

Policies and interventions for poverty reduction in Sub-Saharan Africa should be geared toward:

1. Fostering strong and inclusive growth:
    - As weak growth makes poverty reduction more challenging, sustained episodes of high growth rates will be critical.
    - Increase growth inclusiveness by:
        - Stimulating the contribution to growth of sectors in which the poor are involved, including agriculture;
        - Implementing growth-friendly redistributive fiscal policy.

2. Addressing inequality:
    - Inequality has significantly impeded progress toward poverty reduction in Africa even during times of strong growth;
    - Promote social and financial inclusion of vulnerable segments of population, notably by:
        - Overcoming gender inequality;

- Addressing aggravating factors of exclusion of vulnerable groups;

- Facilitating the use of mobile technology to improve targeting and expand the reach of pro-poor programs such as transfers and agricultural subsidies etc. However, it is important to note that technology can also be bad for the poor. The April 2017 WEO finds that it has contributed to the decline in the share of labor income (check).

3. Enhancing the effectiveness of pro-poor policy interventions, notably by:
    - Improving targeting of pro-poor spending;
    - Strengthening public financial management, governance, and institutions;
    - Promoting transparency and accountability in the delivery of pro-poor public services;
    - Increasing the efficiency of public spending in general not only to make more space for pro-poor policies and programs, but also to make it more pro-poor.
    - Strengthening implementation capacities of social welfare services: The balance of power within many SSA governments with sectoral ministries endowed with weak implementation capacities relative to line Ministries. Yet the design of anti-poverty policy interventions falls under the responsibility of sectoral ministries. Unless the capacities of the latter are strengthened, these interventions are likely to be of limited effectiveness.

4. Taking into account political economy considerations:
    - This is important for instance for improving targeting of pro-poor policies and programs. When special interest groups scramble for a bigger share of the pie, the poor are likely to lose.

5. Further improving donor coordination:

- There is ample scope for improving further donor coordination to prioritize anti-poverty policy intervention and increase their effectiveness. Donor support for government interventions are not well-coordinated, in part because of governments' failure to occupy the driver seat in coordination efforts.

- In terms of resource allocation, both governments and donors will need to do a better job to maximize its poverty impact. As far as governments are concerned budgetary allocations for anti-poverty programs remain relatively small--albeit growing in many countries. This results notably from the limited progress toward shifting spending away from nonpriority areas. On the donor side a key challenge is how to harmonize own pro-poor interventions. For multilateral partners in particular, internal budget dynamics often provide disincentives to act alone to each of their different units involved in fighting poverty.

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