



SHARING THE GROWTH

STATE OF THE AFRICA REGION

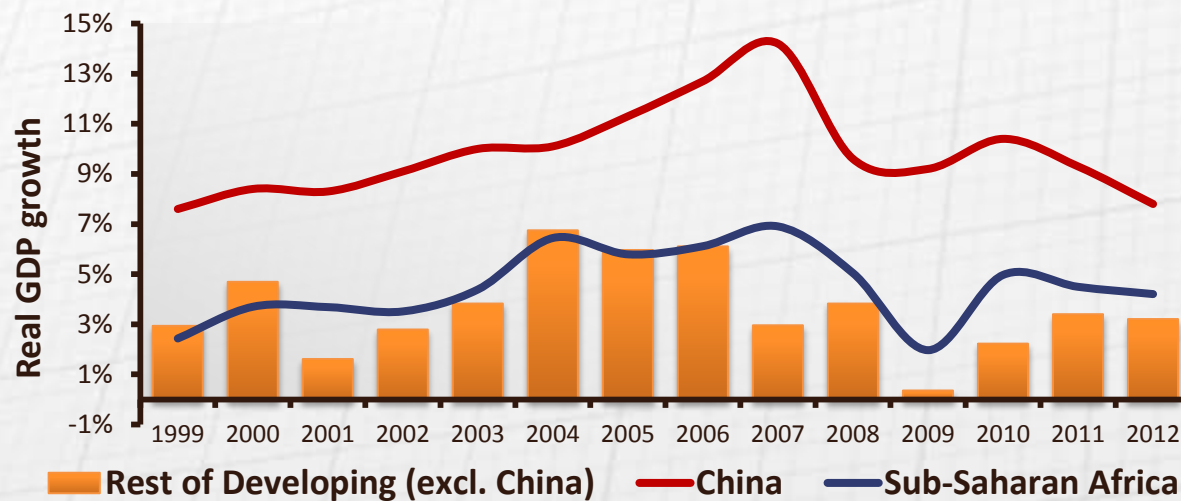
WORLD BANK – IMF ANNUAL MEETINGS 2013

OUTLINE

- **I. Progress against poverty in Africa: an overview**
- II. A four-part roadmap for sharing growth in Africa
 1. Maintain strong macroeconomic discipline
 2. Build better human and physical capital
 3. Promote growth in the places and sectors where the poor are...
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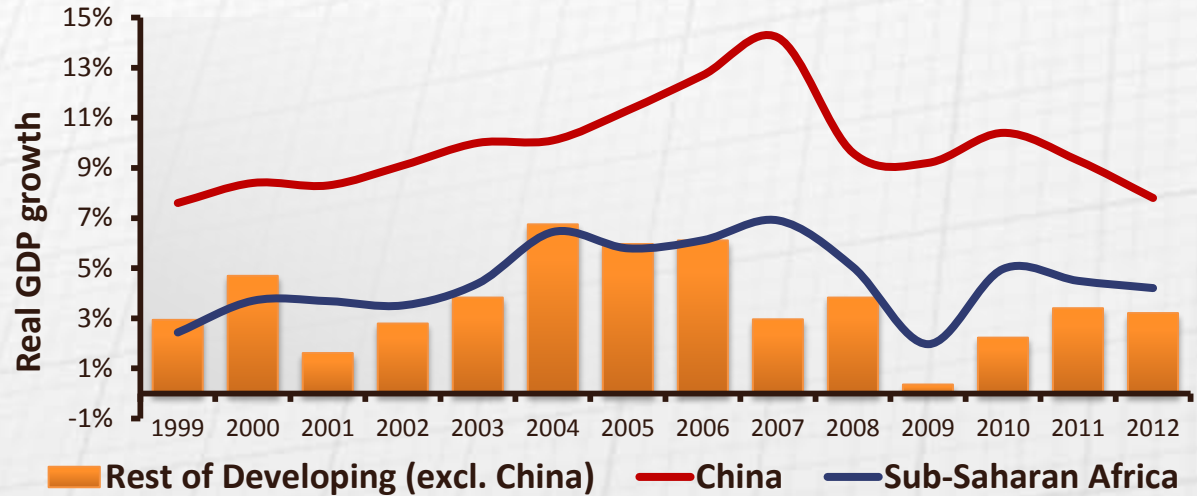
AFRICA'S GDP GROWTH IN THE 2000S WAS STRONG

**GDP GROWTH IN SSA,
CHINA AND OTHER
DEVELOPING
COUNTRIES**

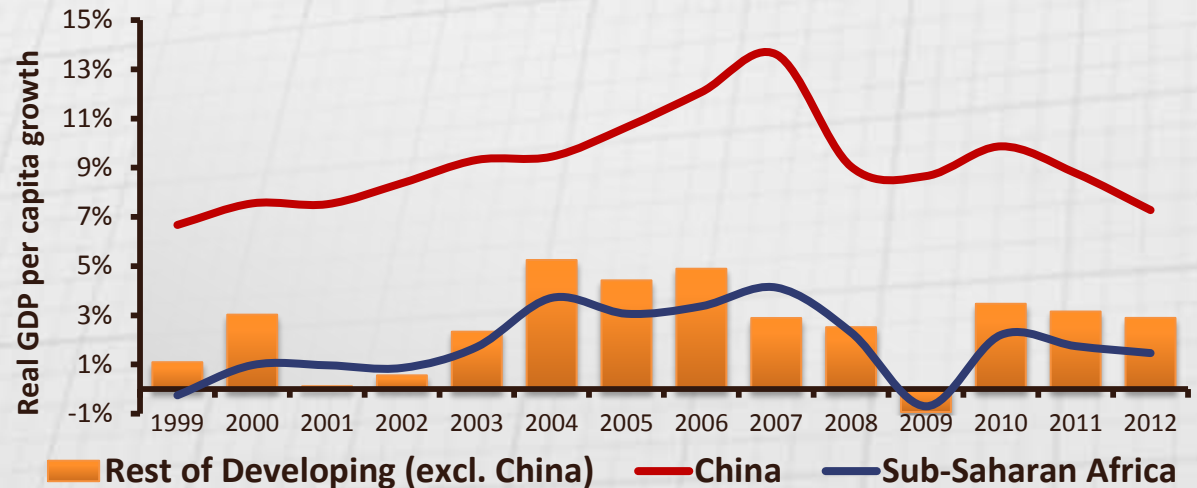


AFRICA'S GDP GROWTH IN THE 2000S WAS STRONG, ALTHOUGH NOT AS IMPRESSIVE IN PER CAPITA TERMS ...

GDP GROWTH IN SSA, CHINA AND OTHER DEVELOPING COUNTRIES

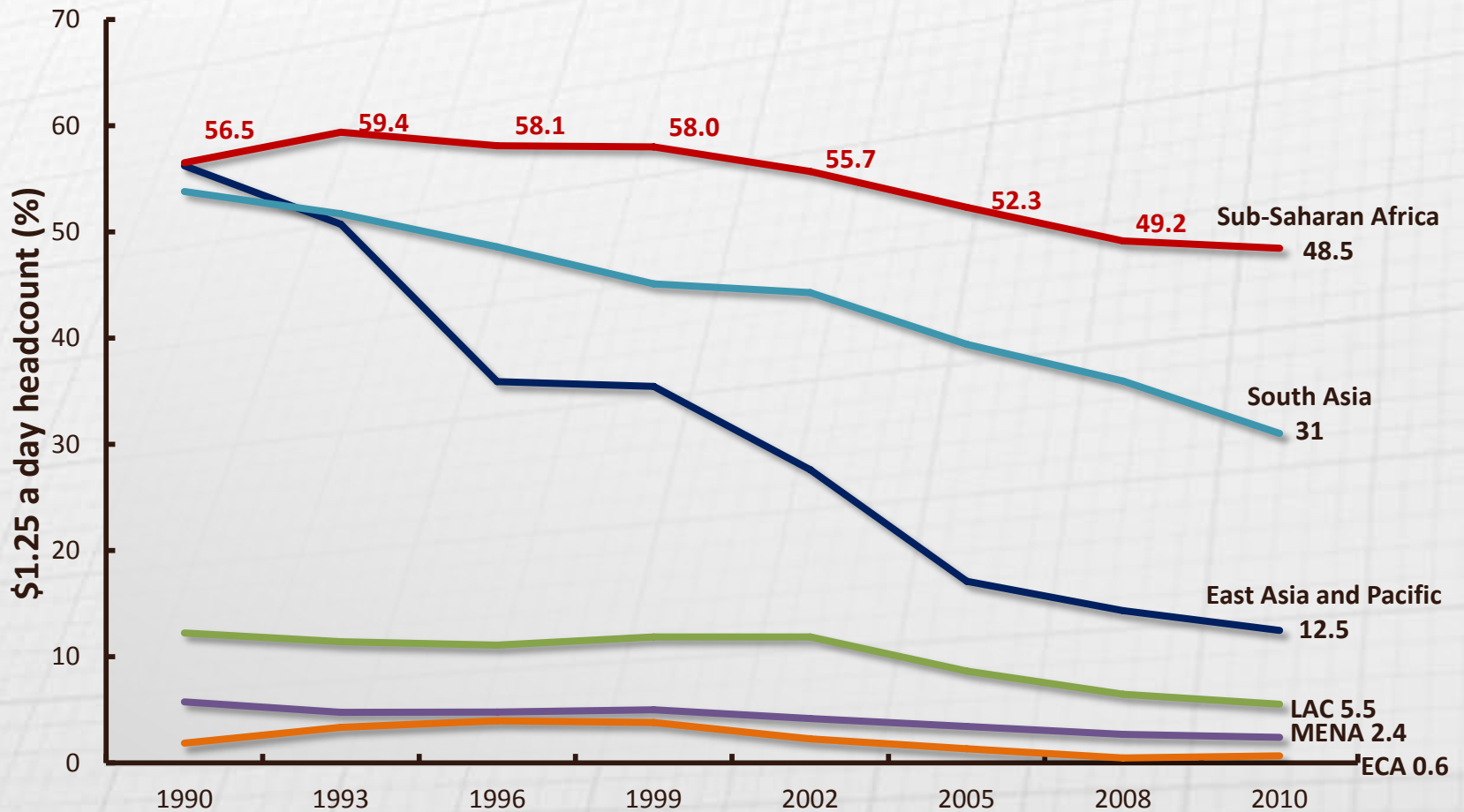


GDP PER CAPITA GROWTH IN SSA, CHINA AND OTHER DEVELOPING COUNTRIES



AS A RESULT, AFRICA'S POVERTY INCIDENCE FELL, BUT NOT SPECTACULARLY

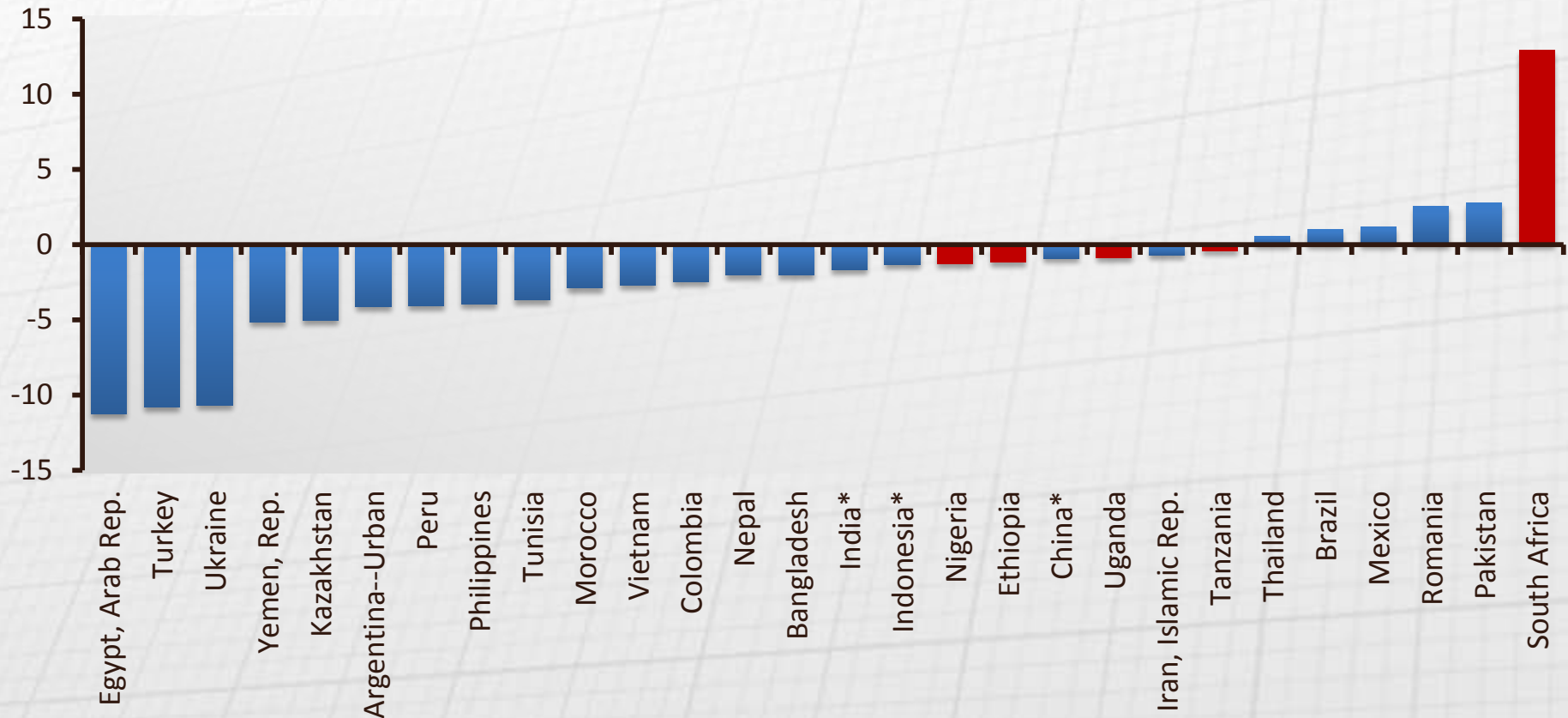
In the last twenty years, extreme poverty fell by eight percentage points in Africa, as compared to 44 points in East Asia.



THIS "POVERTY REDUCTION – GROWTH GAP" REFLECTS THE REGION'S LOW GROWTH ELASTICITY OF POVERTY...

GROWTH ELASTICITY OF POVERTY REDUCTION, 2000-2010

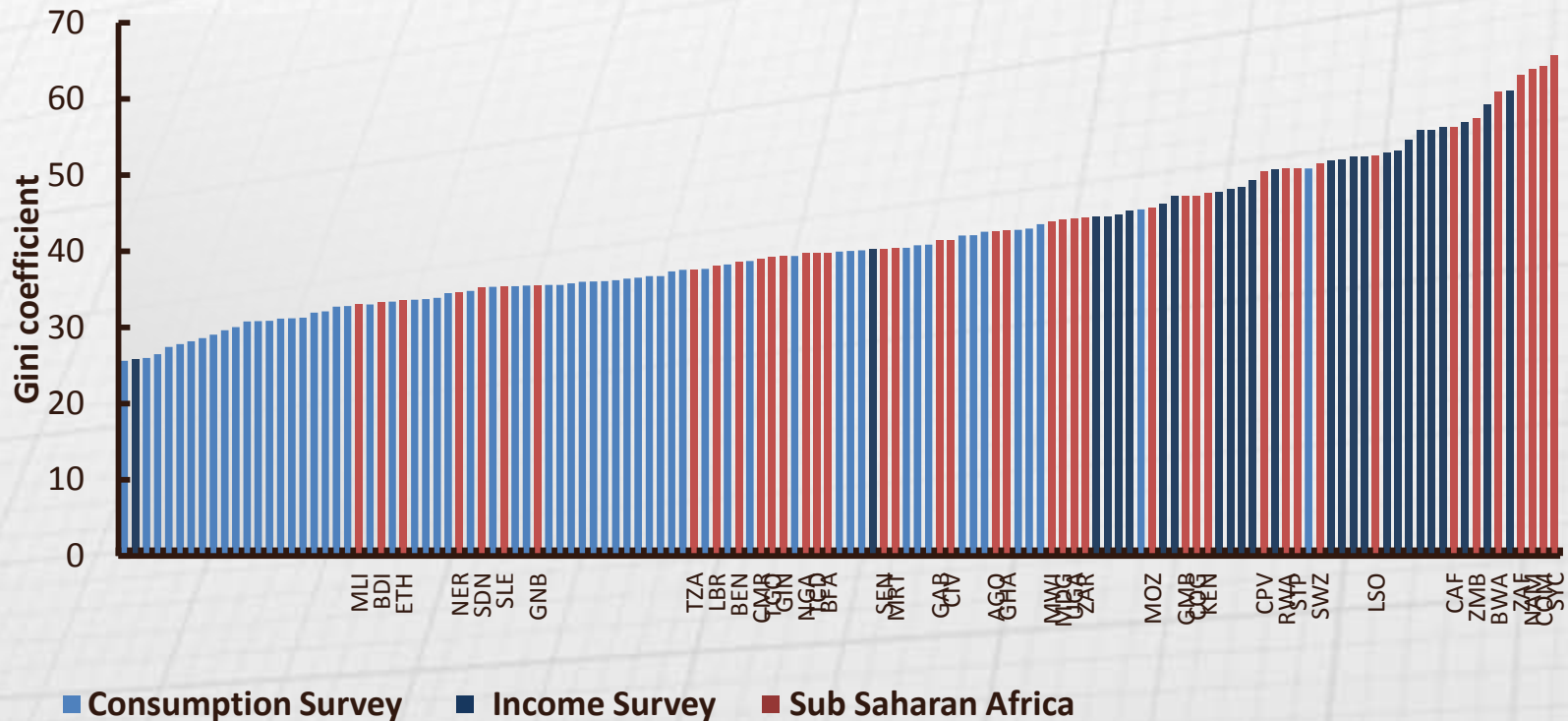
Five most populous countries by region, except Poland and Sri Lanka.



BIGGER IMPACT OF EACH PERCENTAGE POINT OF GROWTH ON POVERTY REDUCTION

... WHICH IN TURN REFLECTS HIGH INEQUALITY...

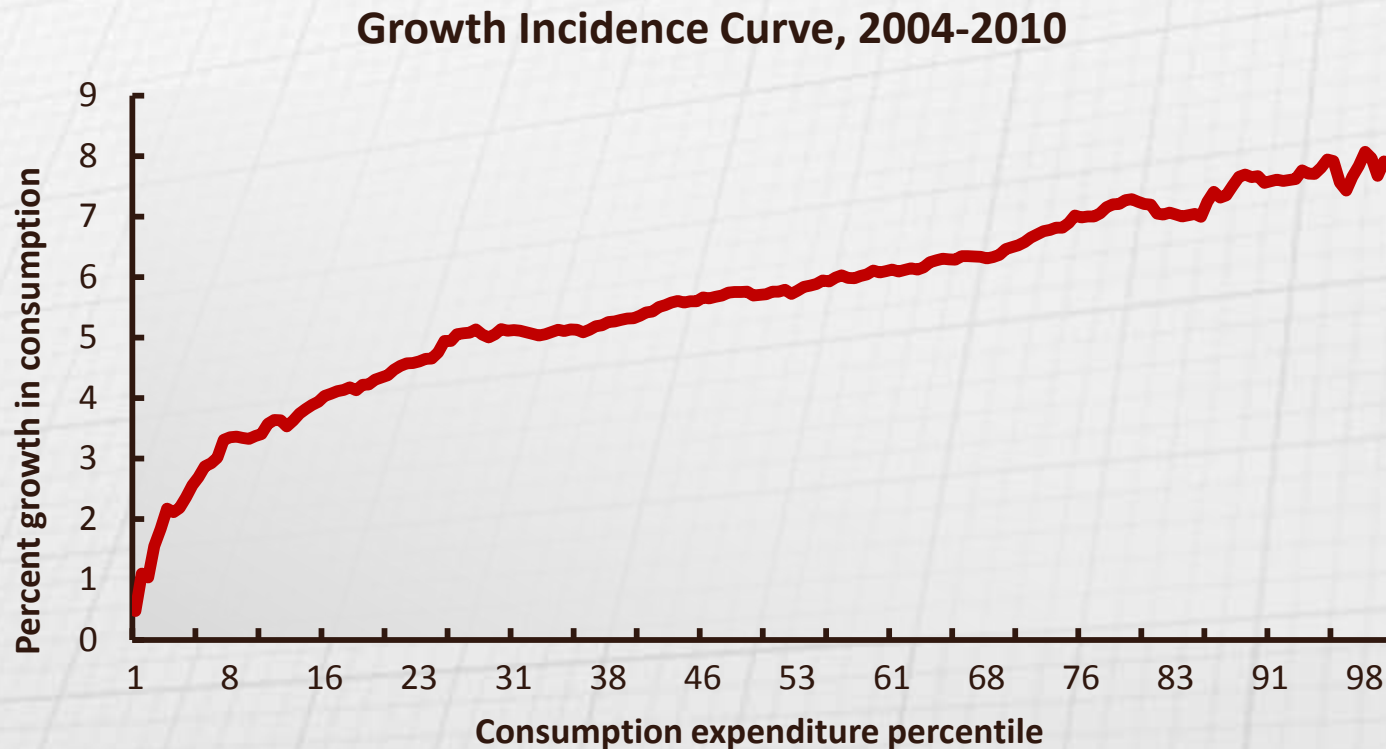
Most African countries have high levels of consumption or income inequality, relative to the rest of the world. Seven of the ten most unequal countries in the world today are in SSA.



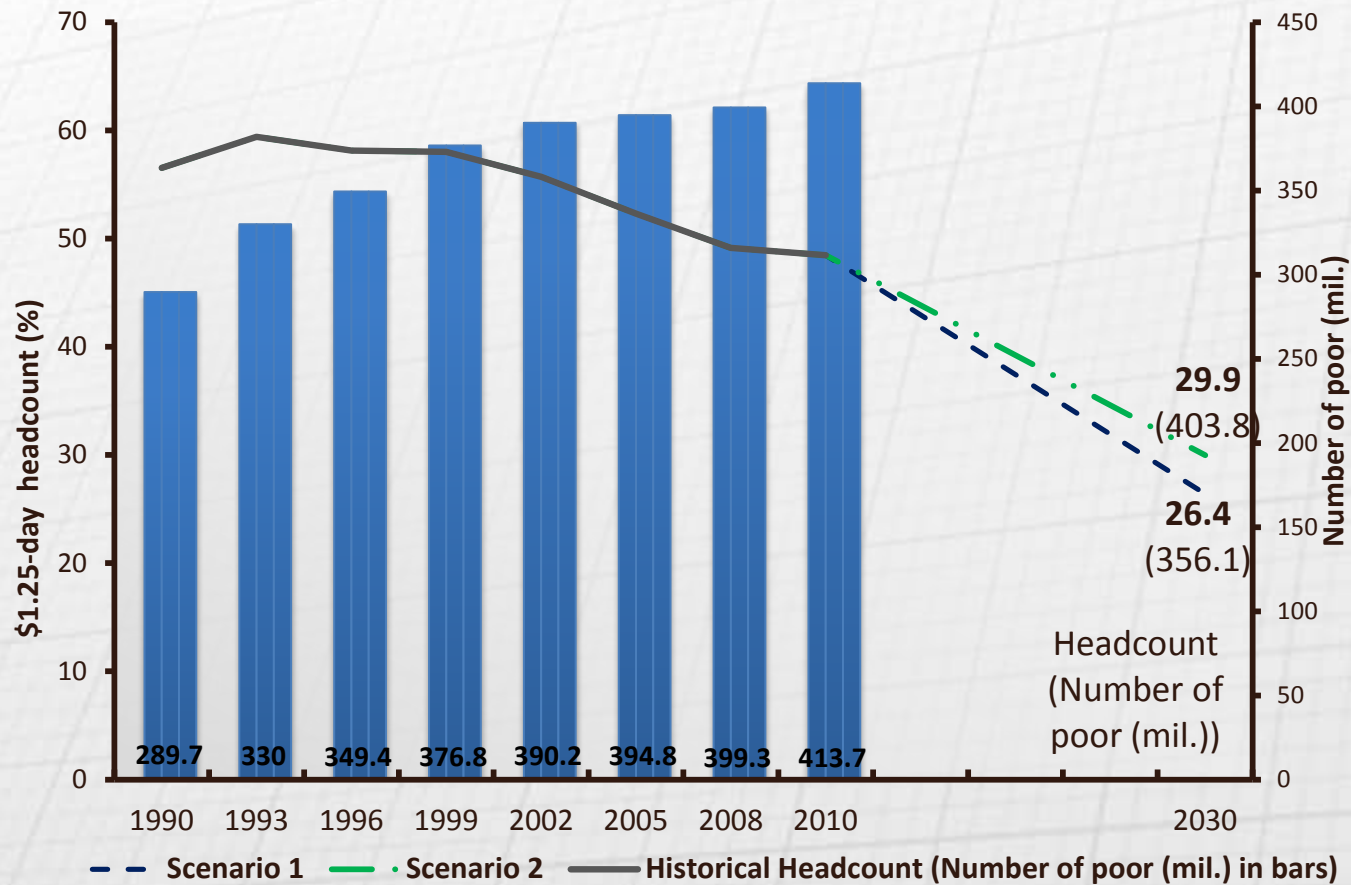
Source: PovcalNet, most recent survey available.

...AND A GROWTH PATTERN THAT IS OFTEN NOT INCLUSIVE

In one African country, average p.c. household consumption grew by 6.5% between 2004-2010. But whereas the top 5% of the population experienced annual growth rates of almost 8%, the bottom 5% grew by between 1% and 3%.

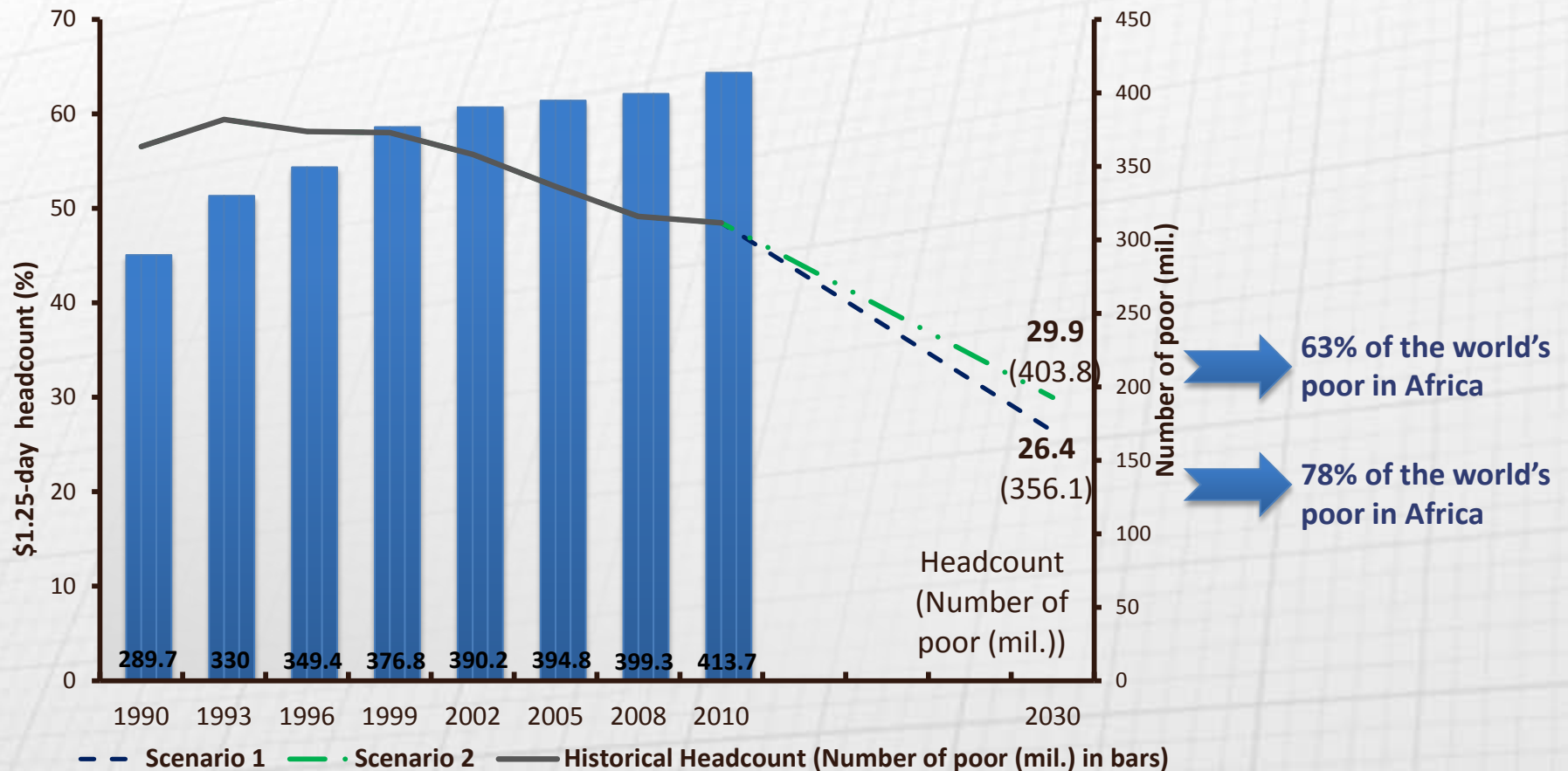


LOOKING FORWARD TO 2030, AFRICA'S POVERTY WILL LIKELY* BE REDUCED FROM A HALF, TO BETWEEN A QUARTER AND A THIRD OF THE POPULATION



* Scenario 1 projects each country's historical GDP per capita growth rate over the 2000-2010 period forward to 2030. Scenario 2 does the same using mean household survey incomes. Both scenarios assume distribution-neutral growth.

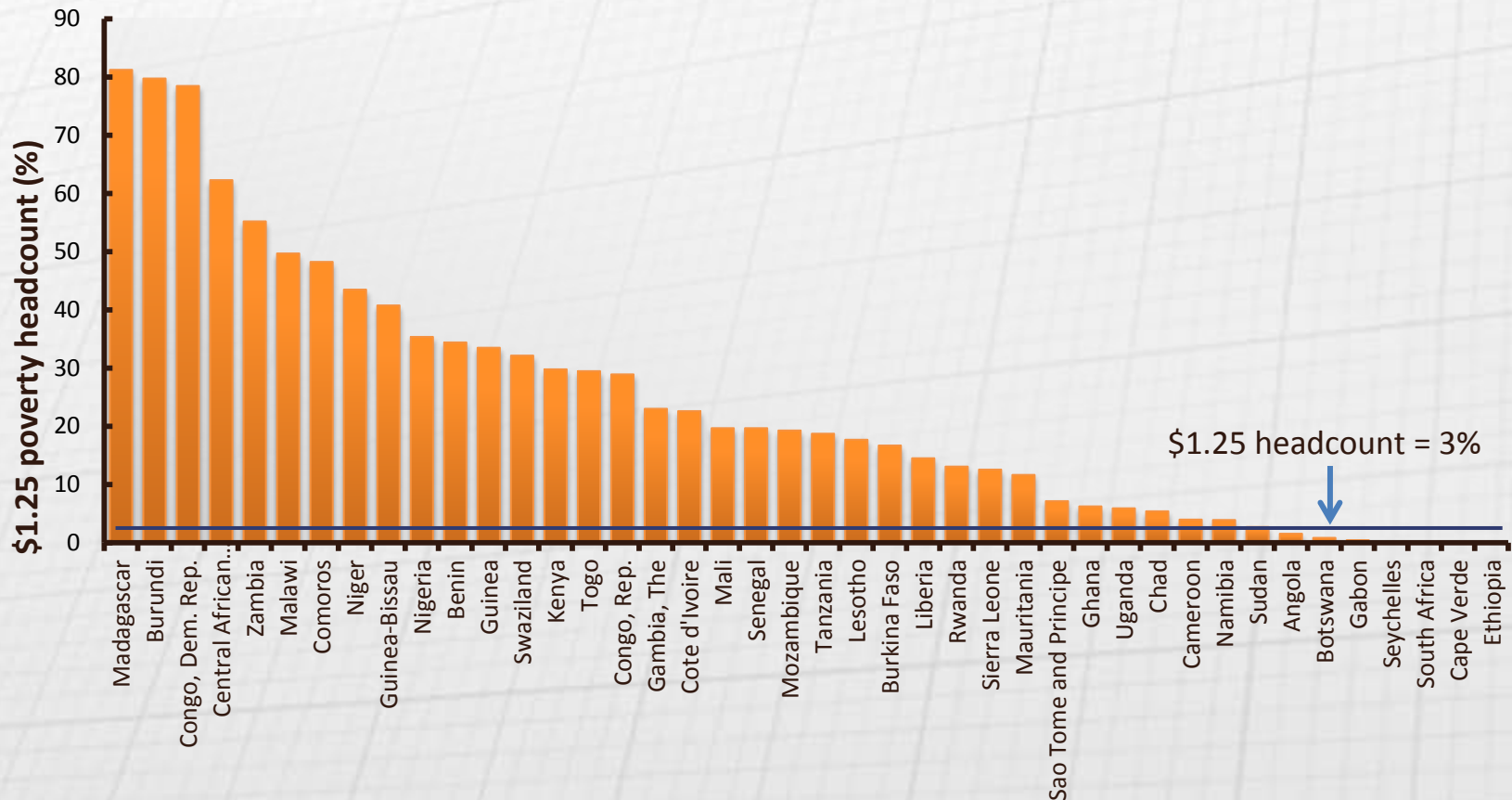
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THERE WOULD ALSO BE CONSIDERABLE HETEROGENEITY WITHIN THE REGION

Under this “business as usual” scenario (1), poverty incidence would remain above 20% in almost half of all countries, and above 40% in nine countries.



TO SUM UP

- **Poverty in Africa** remains unacceptably high, and the pace of reduction remains unacceptably slow
- Sustained economic growth in the next two decades is **essential** for progress
- But it is **not sufficient**:
 - Growth must be more inclusive
 - With falling inequality – in outcomes and opportunities.

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➤ **II. A four-part roadmap for sharing growth in Africa**

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[None of these things is likely to be possible in the absence of progress in resolving conflict, and general improvements in governance]

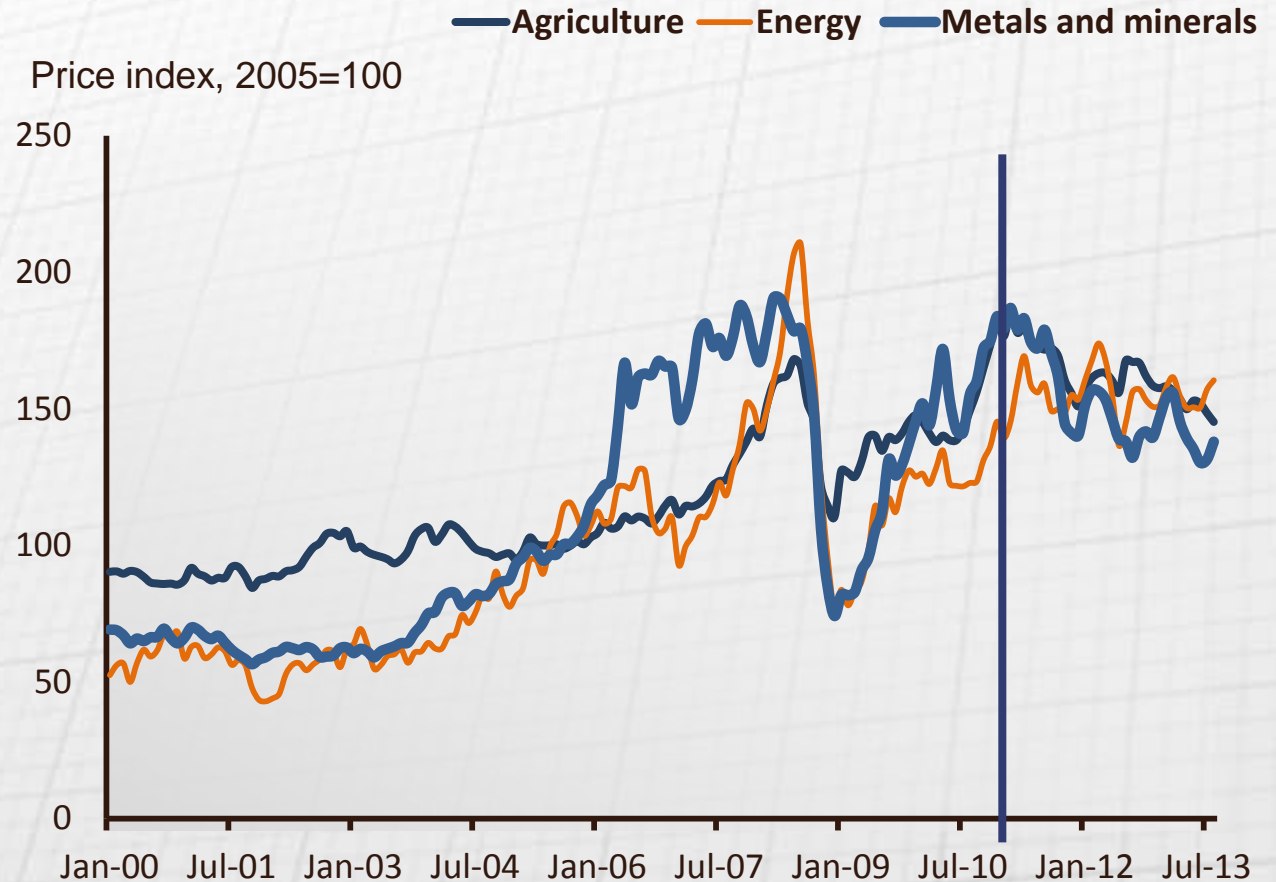
AFRICA'S GROWTH BENEFITED FROM A BENIGN EXTERNAL ENVIRONMENT IN THE 2000S

- Good policies – leading to more public and private investment – were key
- But so were rising commodity prices and abundant international liquidity



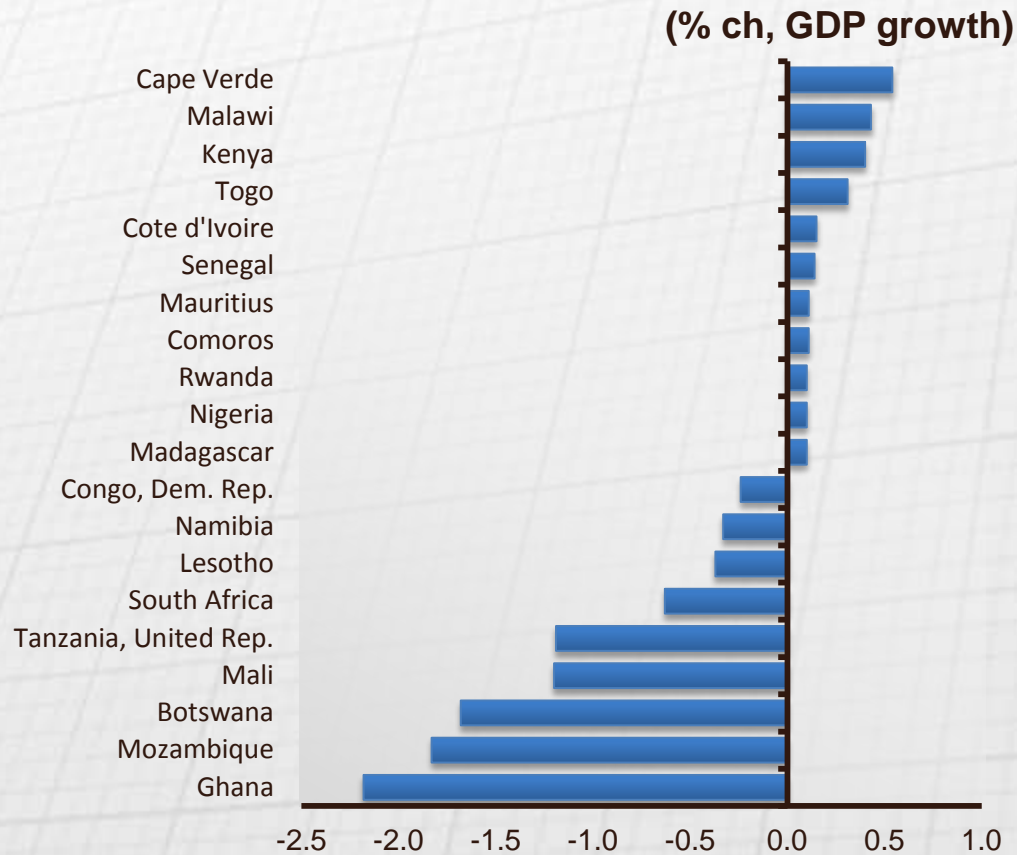
THESE TAILWINDS MAY WELL BE RECEDING...

- **Metal and mineral prices** rose by 99.4% between 2000 and 2013. Since December 2010, they have **fallen by 25%.**



...WITH LIKELY CONSEQUENCES FOR GROWTH.

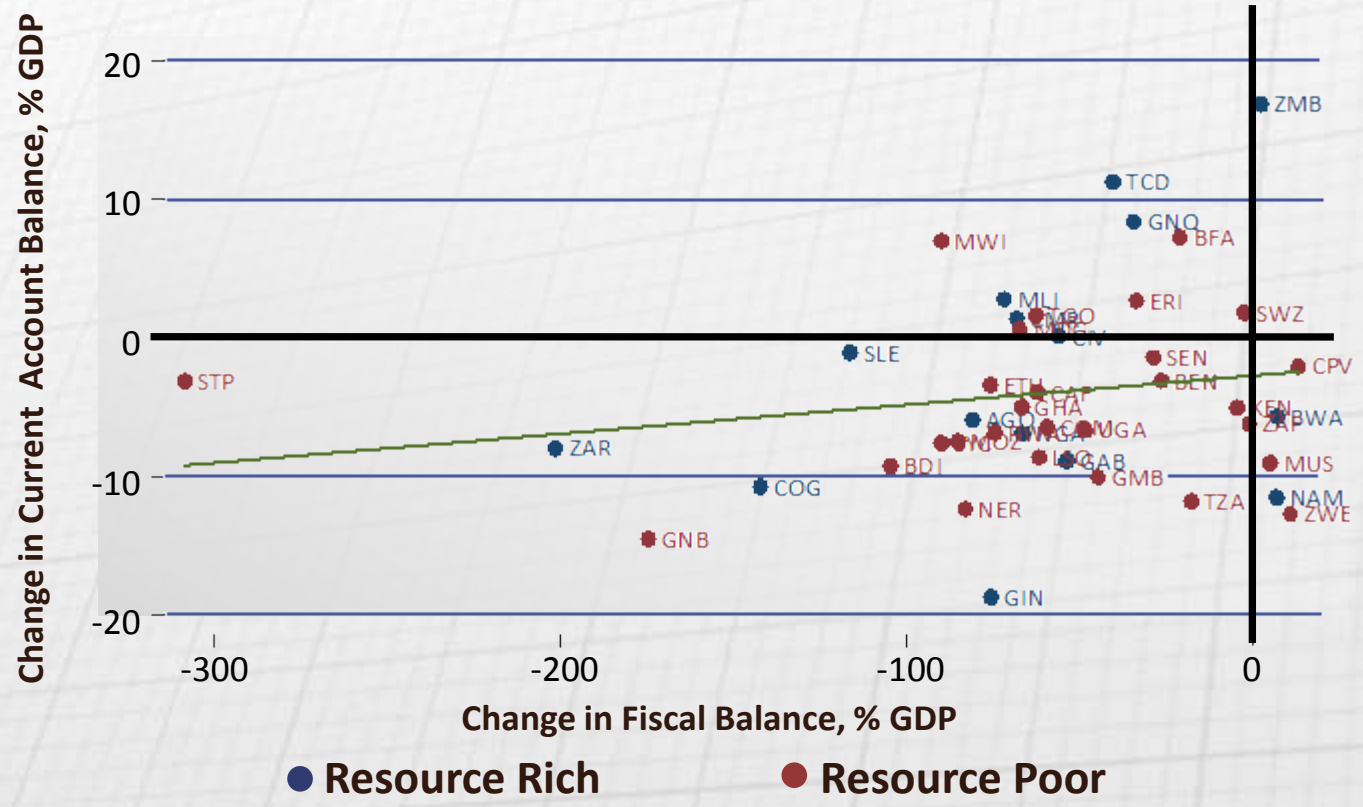
Impact of one standard deviation decline in metal prices on GDP growth



(Simulation based on a global macroeconomic model. Source: DECPG)

FISCAL AND CURRENT ACCOUNT BALANCES HAVE GENERALLY WORSENERD IN THE LAST DECADE

Change in Current Account Balance (% GDP) and Fiscal Balance (% GDP), 2000 - 2012



If terms of trade deteriorate at the same time as capital flows become less abundant, countries with low fiscal and current account deficits will fare much better.

Source: World Economic Outlook, International Monetary Fund

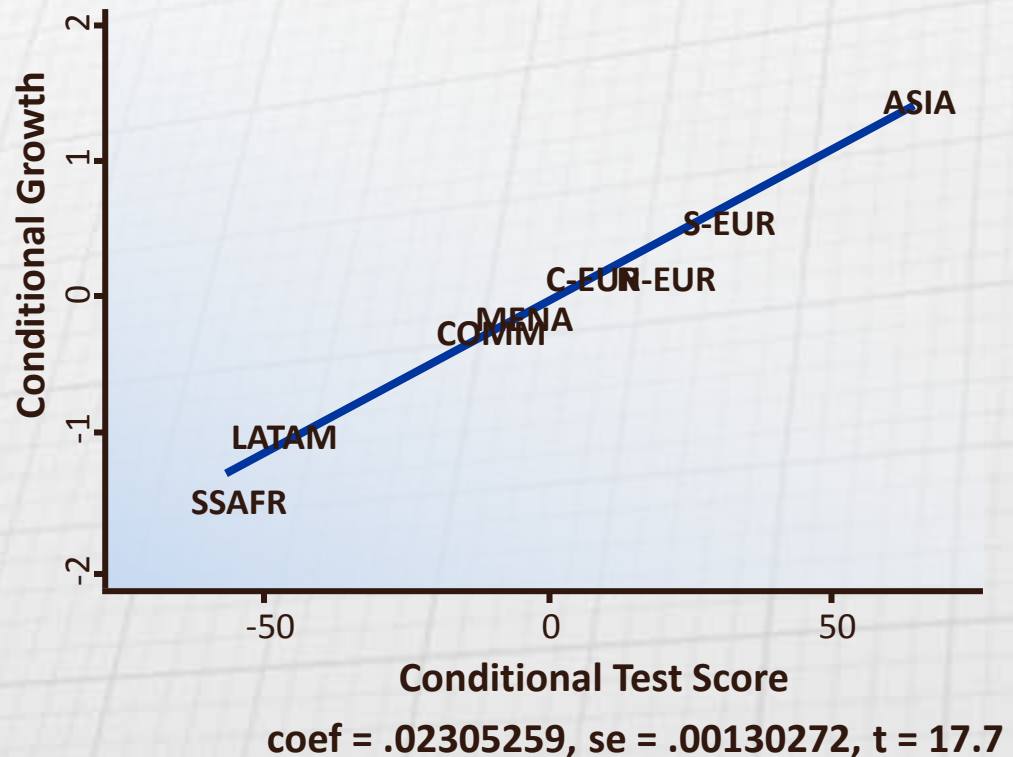
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GREATER (AND BETTER) INVESTMENT IN HUMAN AND PHYSICAL CAPITAL IS NEEDED

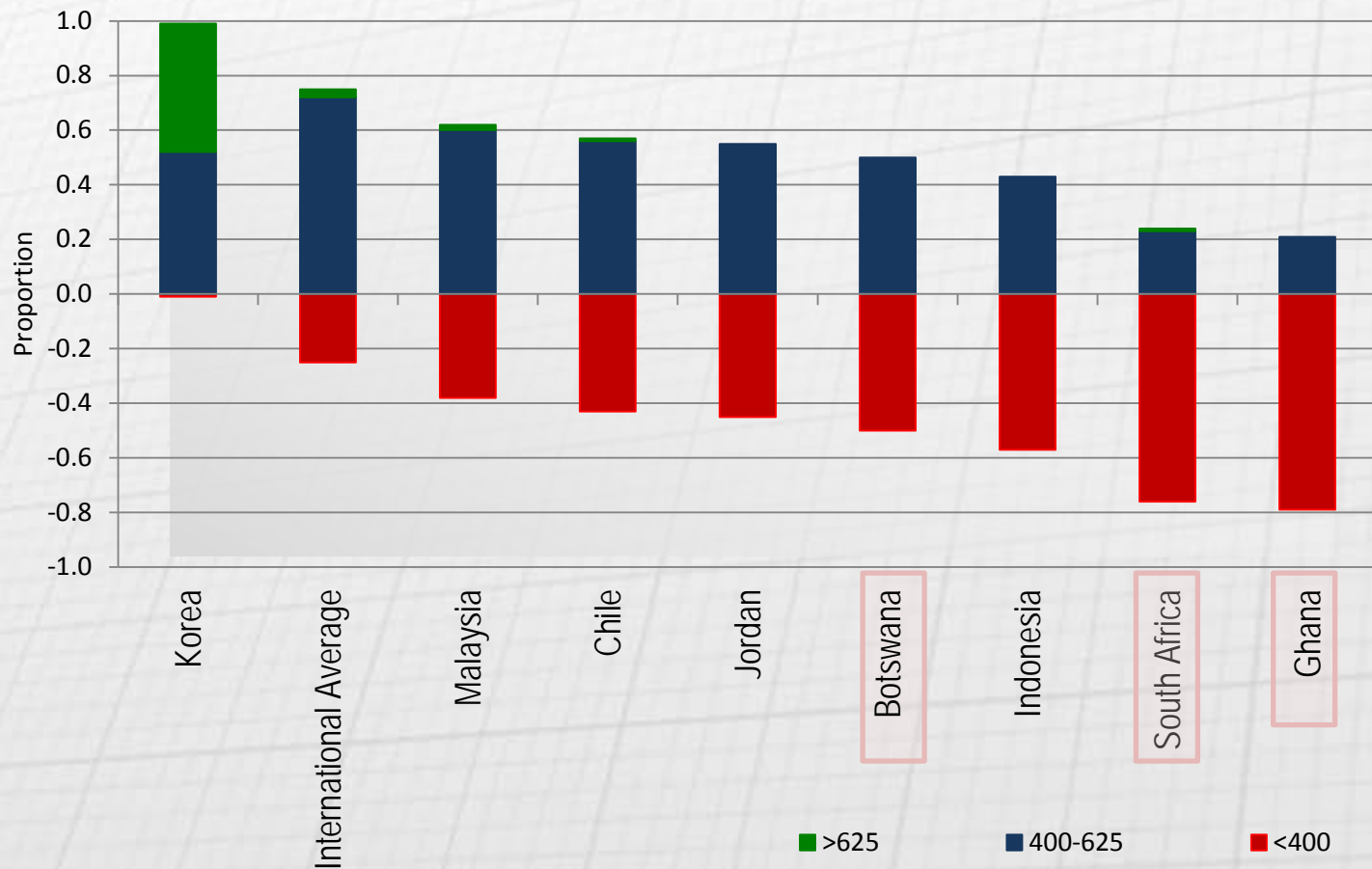
- Sustained growth is essential for poverty reduction
- As tailwinds recede, the domestic investment effort needs to become even greater
- Ultimately, growth comes from the build up of effective human and physical capital

Regional growth in GDP per capita (1960-2000) against average test scores, after conditioning on initial GDP per capita.



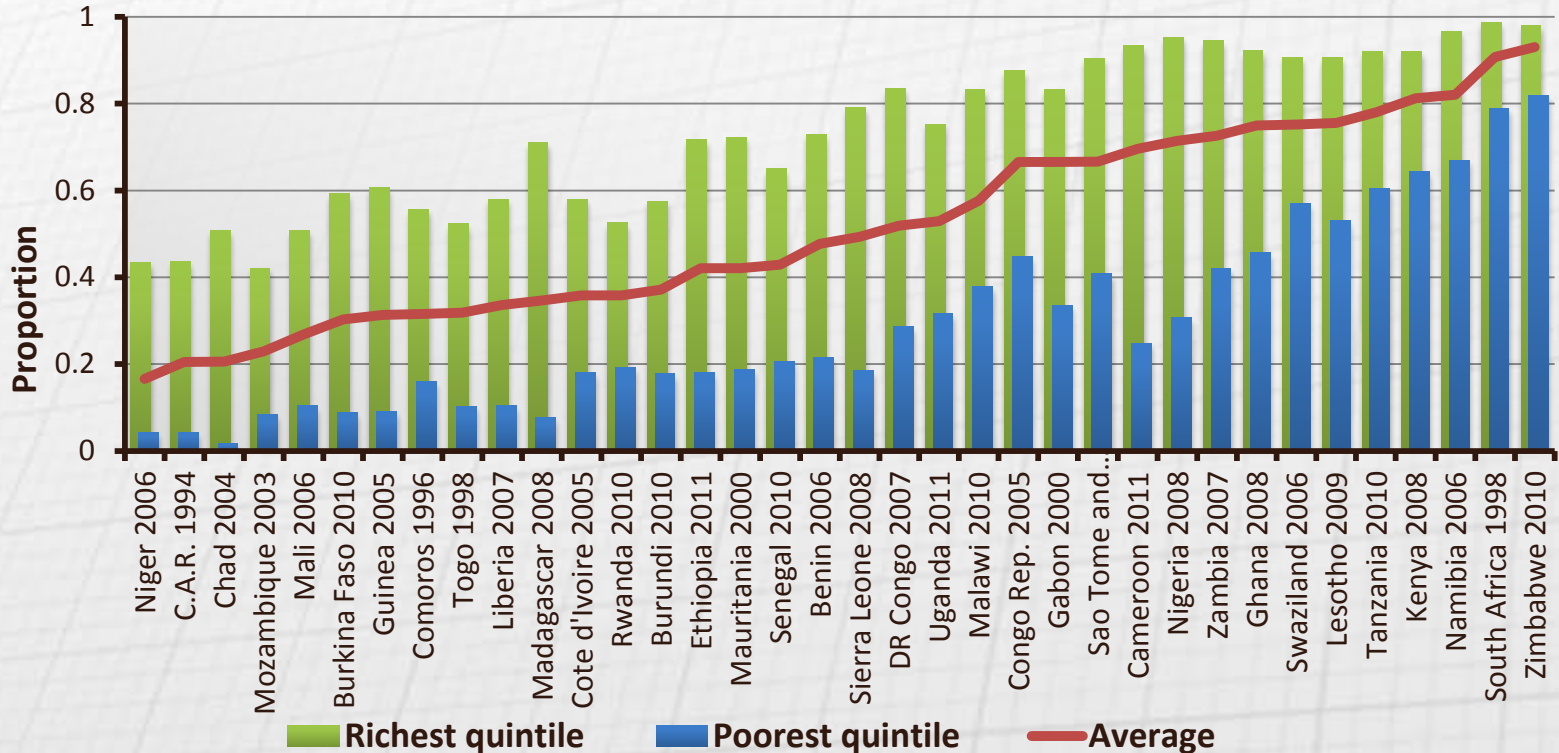
AFRICA'S LEARNING OUTCOMES COMPARE POORLY WITH THOSE ACHIEVED ELSEWHERE

Proportions of Grade 8 students scoring at “low”; “intermediate / high”; and “advanced” benchmarks (Math, TIMSS 2011)

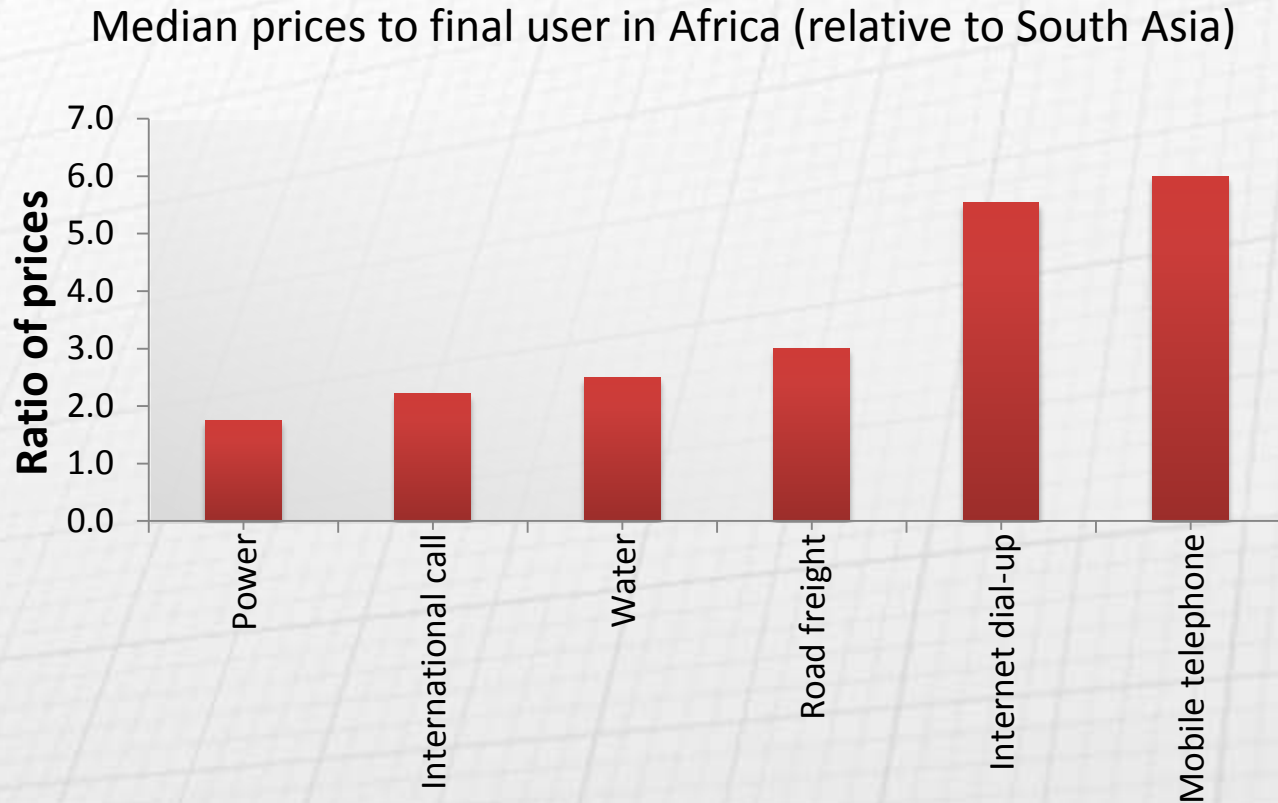


PARTLY BECAUSE OF VERY UNEQUAL SCHOOLING OPPORTUNITIES

Rich-Poor Gaps in Proportion of 15-19 Year Olds who have Completed Grade 6



ON THE PHYSICAL CAPITAL SIDE, INFRASTRUCTURE REMAINS SCARCE AND (VERY) EXPENSIVE IN AFRICA



Causes include lack of scale economies, geographic fragmentation and lack of competition.

Consequences include higher costs transmitted downstream to infrastructure users, and hence reduced competitiveness and diversification.

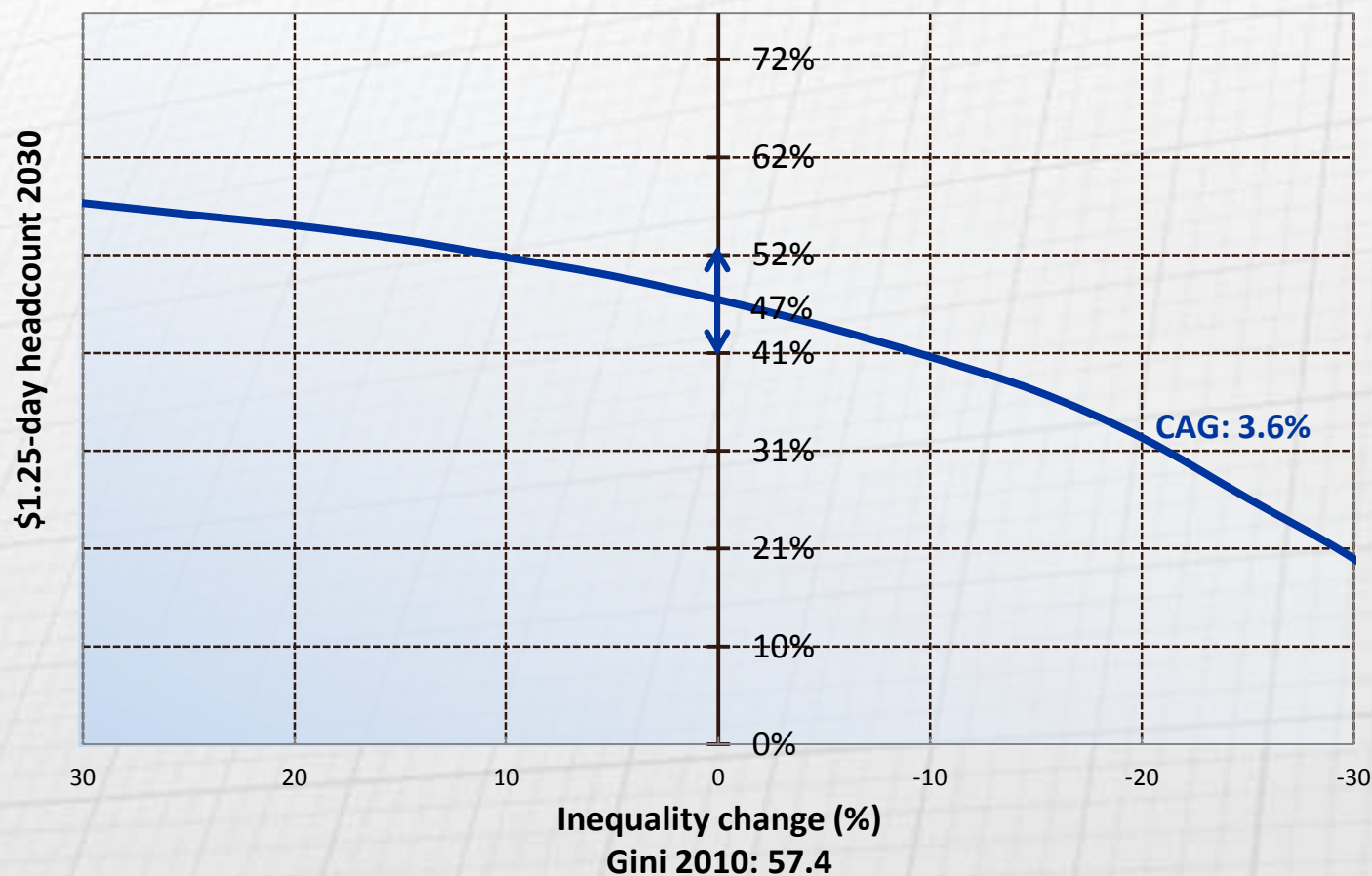
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CHANGING THE DISTRIBUTIONAL PROFILE OF AFRICA'S GROWTH CAN HAVE LARGE IMPACTS ON POVERTY —

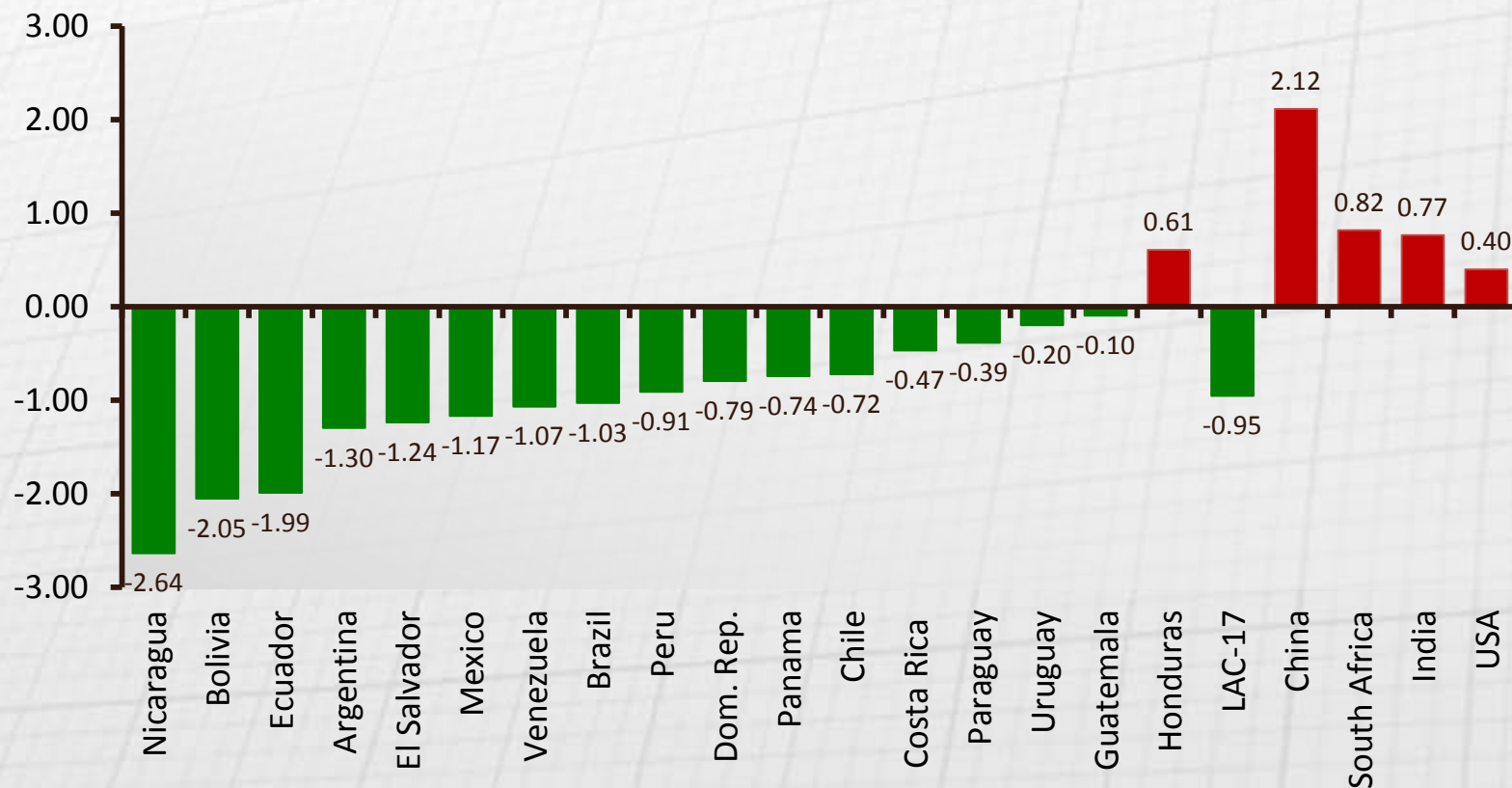
An iso-growth line in poverty/inequality space

Headcount 2010: 74.4%



CHANGING THE DISTRIBUTIONAL PROFILE OF AFRICA'S GROWTH CAN HAVE LARGE IMPACTS ON POVERTY – AND IT CAN BE DONE!

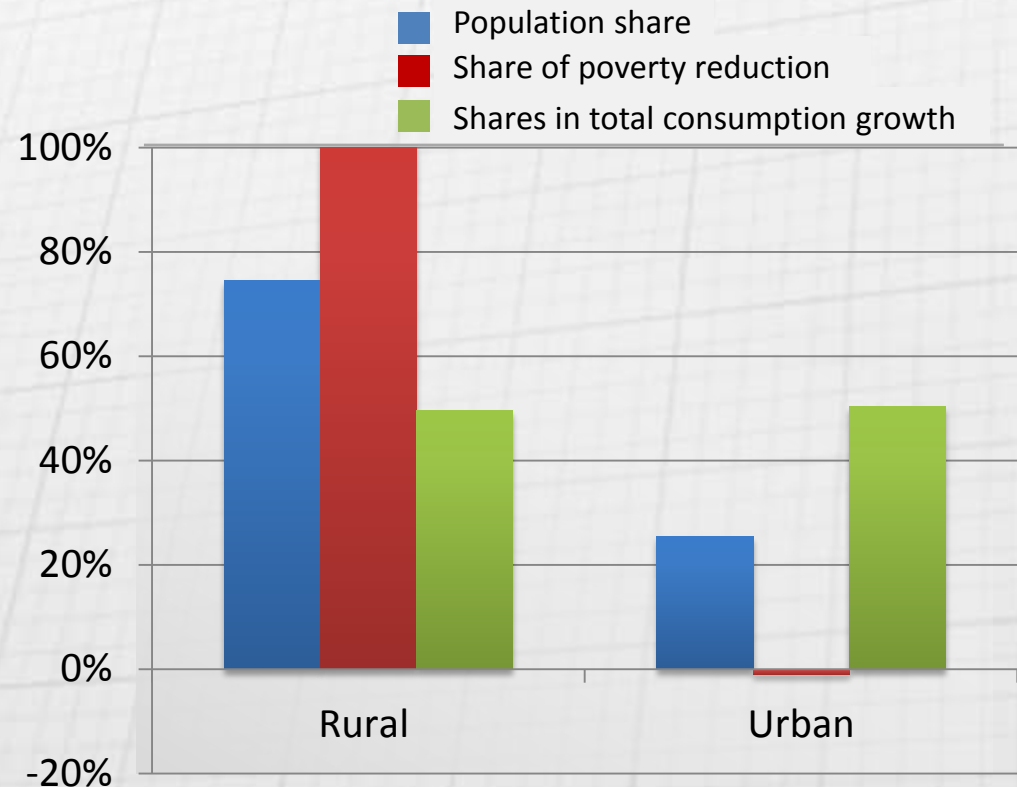
Latin America: Declining income inequality by country: 2000-2011
Annual change of Gini in %



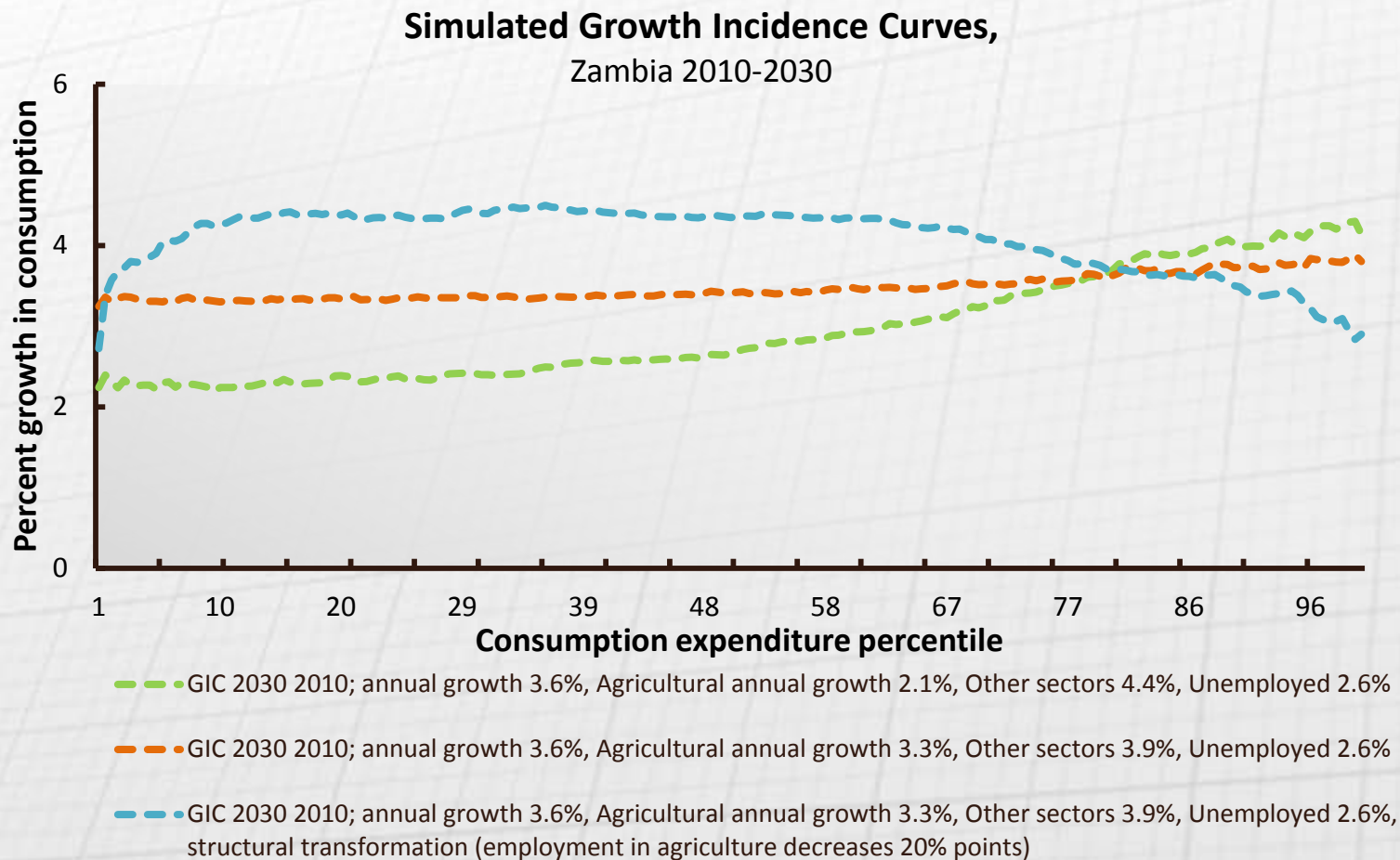
GROWTH THAT TAKES PLACE IN RURAL AREAS – WHERE MOST OF THE POOR LIVE – IS MOST EFFECTIVE IN REDUCING POVERTY

- Econometric evidence from China, India and Brazil suggests that the geographic and sector composition of growth affects the overall growth elasticity of poverty.
- In Africa, most of the growth has not been coming from the places and sectors where the poor are.
- **So most of the poverty reduction comes from very specific growth sources**

Contribution of urban and rural areas to population, poverty reduction and consumption growth in a particular African country, 2005–09



SO, BOOSTING RURAL INCOMES – THROUGH GREATER AGRICULTURAL PRODUCTIVITY AND BETTER OFF-FARM JOBS – IS KEY

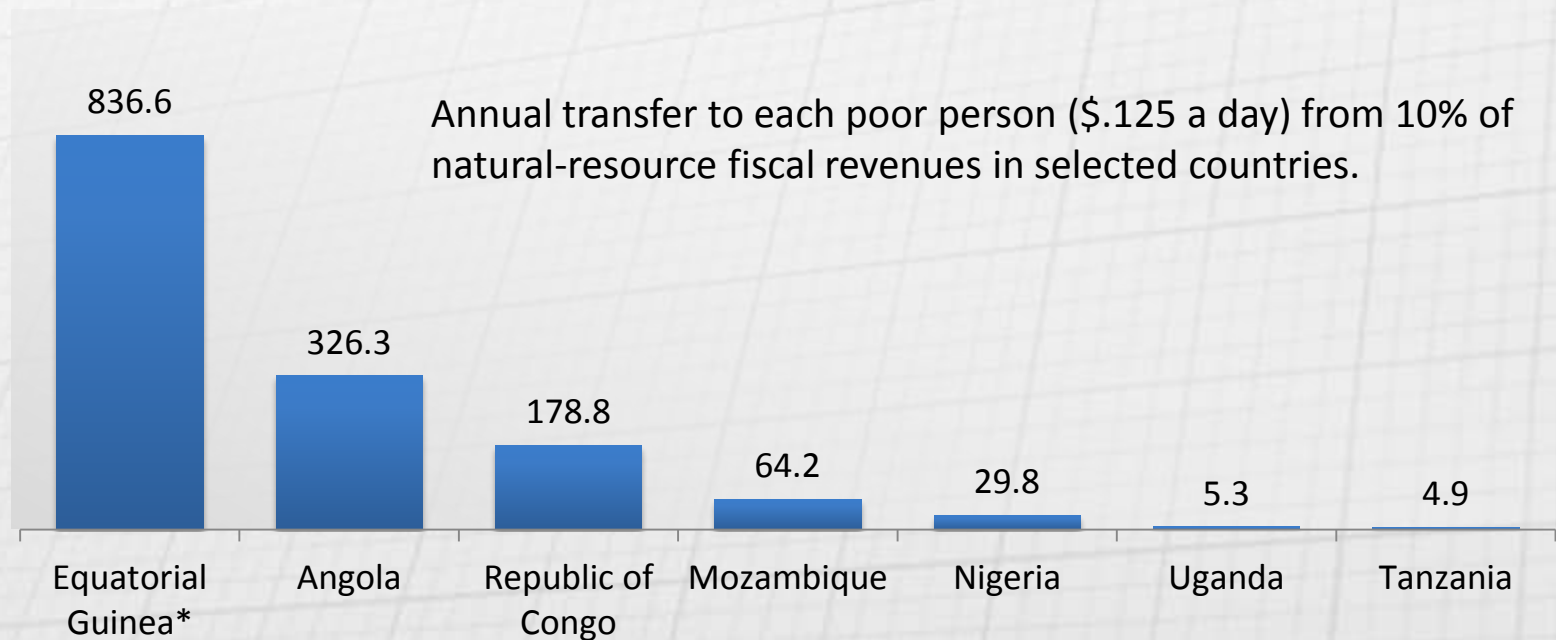


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GROWTH THAT TAKES PLACE “AWAY FROM THE POOR” CAN ALSO BE HARNESSSED

- **The natural resource sector is seldom directly pro-poor**
- **The rents it generates should typically be re-invested**
 - Building other forms of capital to replace the natural capital being depleted
 - Cash transfers targeted to the poor have a place in that investment portfolio



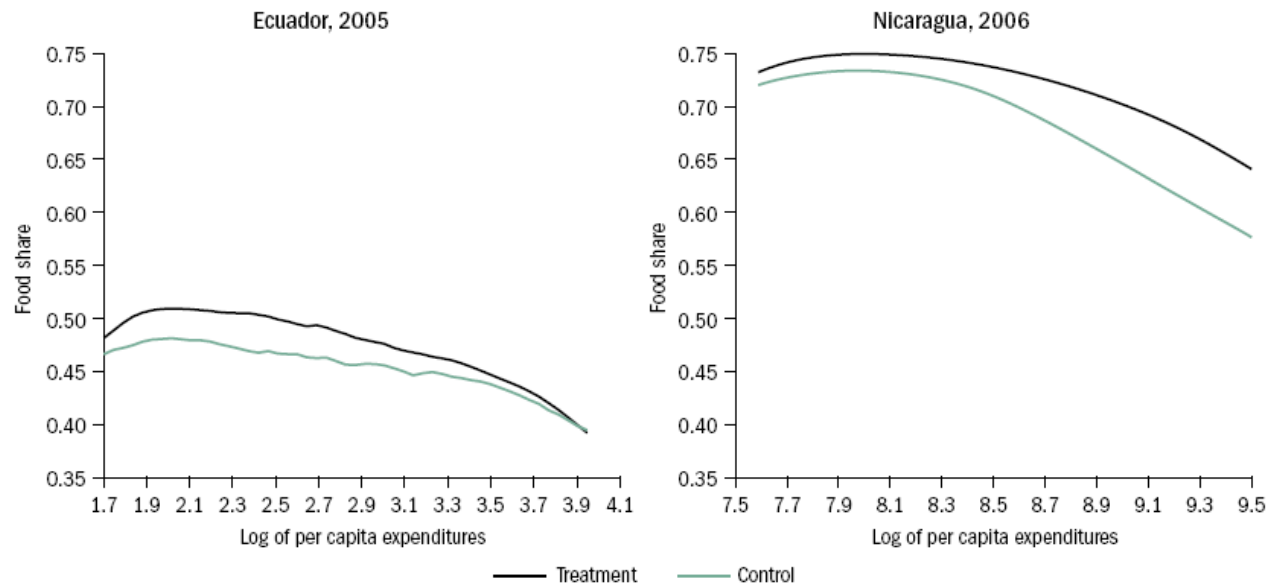
Note: number of poor for Equatorial Guinea calculated using national poverty line.
Source: Estimates of natural resource fiscal revenues from Devarajan and Giugale (2013)

THE “CCT REVOLUTION” IN SOCIAL PROTECTION...

Since the late 1990s, conditional cash transfers have shown that:

- (i) Good targeting is possible
- (ii) Transfers to increase family incomes and reduce poverty
- (iii) Households use the transfers to **improve nutrition**,...

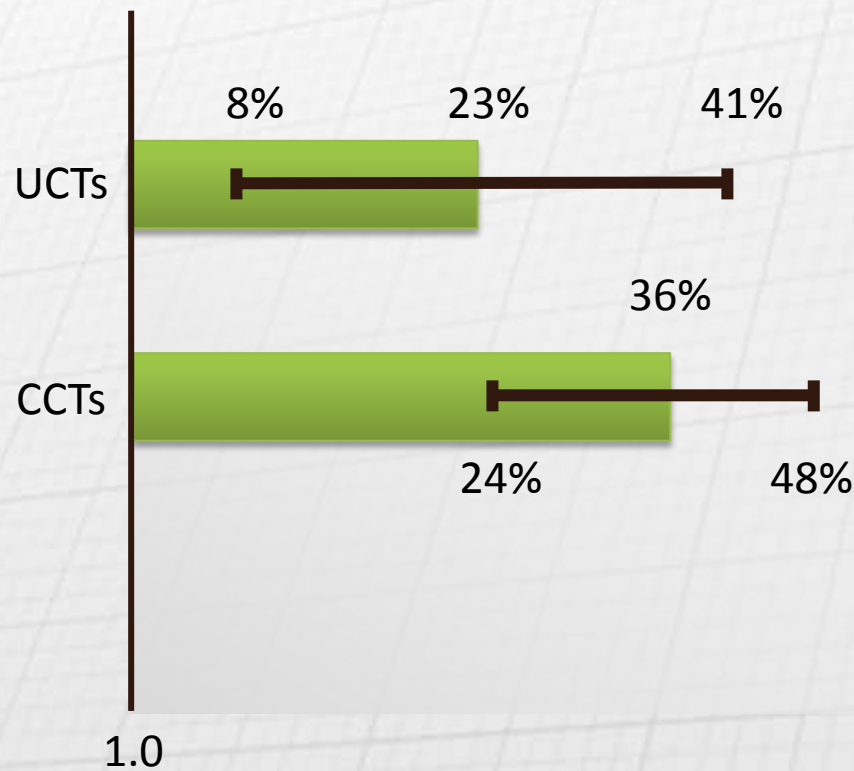
Figure 4.2 Impact of CCTs on Food Shares in Ecuador and Nicaragua



Sources: For Ecuador, Schady and Rosero (2008); for Nicaragua, Macours, Schady, and Vakis (2008).

...IS COMING TO AFRICA.

...increase investments in human capital;



Average impact of cash transfers on the odds of school enrollment (and 95% confidence interval)

Results from a systematic review of 8 unconditional and 27 conditional cash transfer interventions (Baird et al., 2013)

FAMILIES SYSTEMATICALLY INVEST PART OF WHAT THEY RECEIVE

...and even to save and invest in physical and financial capital as well!

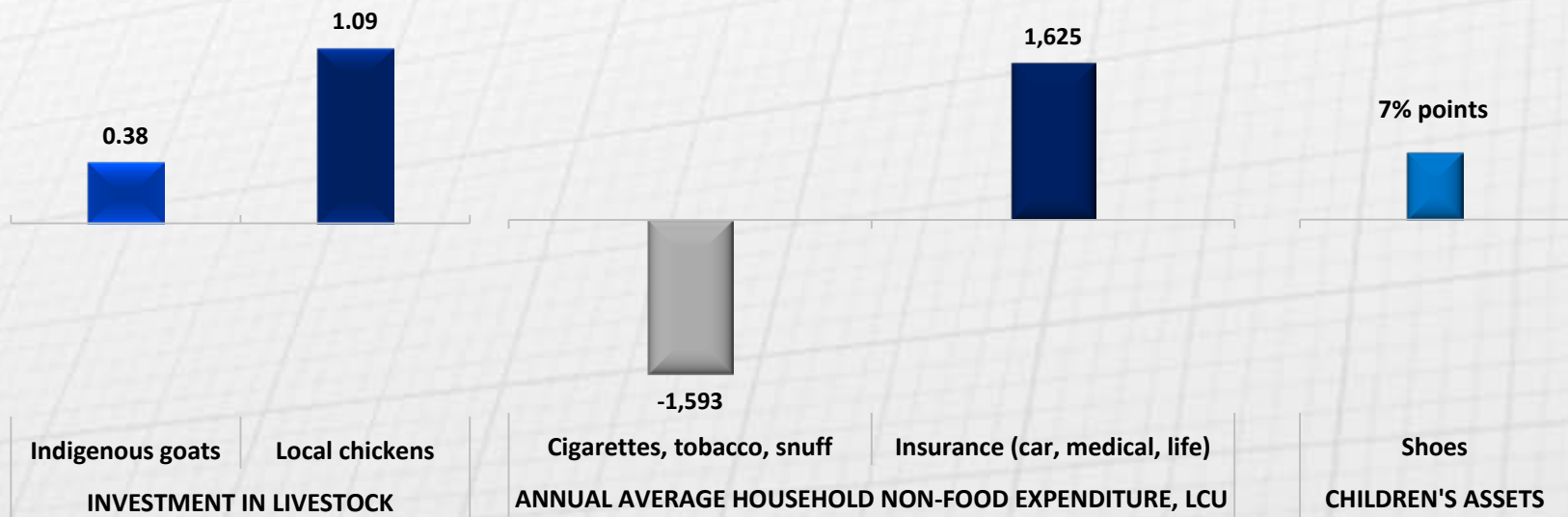
“Five years ago when my oldest daughter was in school and we received money from PROGRESA, we saved 600 pesos to buy wood and the other materials for building a chicken coop, and with what was left we bought a few chickens. Since then, we have raised many chickens that we sometimes sell, and we collect 10 to 15 eggs per week that we eat ourselves.”

- Oportunidades beneficiary in rural Mexico, August 2004, cited in Gertler, Martinez and Rubio-Codina (AEJ: Applied Economics, 2012)

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Community Based Conditional Cash Transfers in Tanzania – Some Results (endline)



Note: Investment in livestock refers to additional goats and chickens purchased by treatment households. Additional annual average non-food expenditure by treatment households measured in Tanzanian Shilling (TSH). Children's assets refers to the higher likelihood of treated children to own shoes in percentage points.

Source: charts based on results from Evans, Hausladen, Kosec and Reese (2013)

CONCLUSIONS

- Sustained **economic growth** is essential to the fight against poverty in Africa
 - Macroeconomic prudence reduces vulnerability to receding tailwinds
 - Investment in human and physical capital must become more effective (quality as well as quantity)
- But growth is not sufficient: shared prosperity will require a **reduction in inequality** (of outcomes and opportunities)
 - Boost productivity in agricultural and rural off-farm jobs
 - Cash transfers are a real policy option

THANK YOU!