STRUCTURAL TRANSFORMATION AND POVERTY REDUCTION IN AFRICA

STATE OF THE AFRICA REGION
WORLD BANK – IMF ANNUAL MEETINGS 2014

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Chief Economist, Africa Region
The World Bank
1. Current economic performance – a bird’s eye view
2. Africa’s uneven growth
3. Structural transformation and poverty
4. Risks – old and new
WITH GDP GROWTH STABLE AT 4.6% P.A., SSA IS THE WORLD’S THIRD FASTEST GROWING REGION IN 2013-14

Annual growth in GDP, 2013 and 2014: selected country groupings

Source: Global Economic Prospects (World Bank)
PER CAPITA GDP IS GROWING AT 2.1% PER YEAR – AND HAS BEEN RISING STEADILY FOR TWO DECADES...

Annual growth in GDP per capita, 2013 and 2014: selected country groupings

... IN A CONTEXT OF BROADLY STABLE INFLATION RATES (IN MOST CASES).

Source: World Bank
POVERTY HAS FALLEN OVER THE LAST FIFTEEN YEARS, BUT MORE SLOWLY THAN ELSEWHERE, AND THAN NEEDED TO MEET MDG1

THIS REFLECTS THE REGION’S LOW GROWTH ELASTICITY OF POVERTY REDUCTION

Growth elasticity of poverty reduction, 2000-2010 – Five most populous countries by region*, except Poland and Sri Lanka

*For which data is available
1. Current economic performance – a bird’s eye view

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4. Risks – old and new
THE WEAK LINK FROM GROWTH TO POVERTY IS RELATED TO THE UNEVEN NATURE OF THE REGION’S GROWTH

Growth in GDP per capita in SSA by country groups, 1995-2013 (Output per capita index, 1995=1)

Note: The index presented in this figure depicts the cumulative growth in real per capita GDP from 1995 to 2013 in Sub-Saharan Africa and sub-groups. We use GDP in U.S. dollars at 2005 prices from the World Development Indicators, for 45 countries in SSA (16 resource rich, 29 non resource rich)
BOTH ACROSS COUNTRIES, AND ACROSS SECTORS AND REGIONS WITHIN COUNTRIES

Growth in GDP per capita by sector, 1995-2011
(Output per capita index, 1995=1)

Source: staff estimates based on WDI (2014).
Note: Subset of 36 SSA countries for which sectoral value added data is available.
SERVICES AND THE NATURAL RESOURCE SECTOR ARE GROWING MUCH FASTER THAN AGRICULTURE AND MANUFACTURING

Growth in GDP per capita by sector, 1995-2011
(Output per capita index, 1995=1)

Source: staff estimates based on WDI (2014).
Note: Subset of 32 SSA countries for which sectoral value added data can be decomposed into manufacturing and other industry.
Compared to other LDCs, Africa’s growth is relatively more dependent on extractives, and much less on manufacturing.

Sectoral contribution to total cumulative growth

Average growth in GDP per capita by sector (1995-2011)

- Sub-Saharan Africa: Avg. growth: 2%
- Other Developing Countries: Avg. growth: 4.4%

<table>
<thead>
<tr>
<th>Sector</th>
<th>Sub-Saharan Africa</th>
<th>Other Developing Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>12%</td>
<td>17%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-2%</td>
<td>18%</td>
</tr>
<tr>
<td>Other industry</td>
<td>63%</td>
<td>7%</td>
</tr>
<tr>
<td>Services</td>
<td>7%</td>
<td>58%</td>
</tr>
</tbody>
</table>

Source: staff estimates based on World Development Indicators (2014)
Note: Subset of 32 SSA and 56 developing countries for which sectoral value added data can be decomposed into manufacturing and other industry.
THE HUGE IMPORTANCE OF SERVICES IN AFRICA IS NOT EXCEPTIONAL

The high share of extractives (and agriculture) and the low share of manufacturing are.

Source: staff estimates based on WDI (2014).
Note: Subset of 32 SSA and 56 developing countries for which sectoral value added data can be decomposed into manufacturing and other industry.
THE SECTORAL COMPOSITION OF LABOR ALSO DIFFERS GREATLY IN AFRICA AND OTHER DEVELOPING COUNTRIES


Notes: The numbers correspond to working age (15-65) population weighted averages of the most recent survey between 2002 and 2012. Average of 33 (20) SSA countries and 66 (41) other developing countries for total working (working poor).
The sectoral composition of labor also differs greatly in Africa and other developing countries... especially among the poor.

<table>
<thead>
<tr>
<th></th>
<th>Total working</th>
<th>Working poor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sub-Saharan Africa</strong></td>
<td>32.1 Agriculture</td>
<td>16.4 Agriculture</td>
</tr>
<tr>
<td></td>
<td>8.7 Industry</td>
<td>5.4 Industry</td>
</tr>
<tr>
<td></td>
<td>8.7 Services</td>
<td>8.7 Services</td>
</tr>
<tr>
<td><strong>Other developing countries</strong></td>
<td>40.8 Agriculture</td>
<td>21.8 Agriculture</td>
</tr>
<tr>
<td></td>
<td>24.1 Industry</td>
<td>18.5 Industry</td>
</tr>
<tr>
<td></td>
<td>35.0 Services</td>
<td>32.1 Services</td>
</tr>
</tbody>
</table>


Notes: The numbers correspond to working age (15-65) population weighted averages of the most recent survey between 2002 and 2012. Average of 33 (20) SSA countries and 66 (41) other developing countries for total working (working poor).
OCCUPATIONAL COMPOSITION ALONG THE INCOME DISTRIBUTION

CHANGING SECTORAL COMPOSITION OF LABOR: RWANDA

Source: World Bank, Africa’s Pulse vol. 10. Calculations using SHIP data. (z=$1.25 /day)
OCCUPATIONAL COMPOSITION ALONG THE INCOME DISTRIBUTION

CHANGING SECTORAL COMPOSITION OF LABOR: SENEGAL

Source: World Bank, Africa’s Pulse vol. 10. Calculations using SHIP data. (z=$1.25/day)
OUTLINE

1. Current economic performance – a bird’s eye view
2. Africa’s uneven growth
3. Structural transformation and poverty
4. Risks – old and new
DO SUCH DIFFERENCES IN THE PATTERN OF GROWTH – OR IN THE NATURE OF STRUCTURAL TRANSFORMATION – MATTER FOR POVERTY REDUCTION?

International evidence on sector-specific growth impacts


Notes: The results refer to time periods of analysis from 1985 to 2004 for Brazil, 1981-2001 for China, and 1951 to 1991 for India. National poverty lines are used for all countries. Vertical axis measures regression coefficients (unadjusted by sector shares)
THERE IS SOME EVIDENCE THAT THE PATTERN OF GROWTH ALSO MATTERS IN AFRICA

In Ethiopia, growth in agriculture has contributed most to poverty reduction since at least 2000.

![Sectoral contribution to poverty reduction (% points)](chart)

CROSS-COUNTRY REGRESSIONS SUGGEST THAT GROWTH PATTERNS DO MATTER FOR POVERTY REDUCTION

Africa: agriculture and services most poverty reducing
Elsewhere: industry and services most poverty reducing

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Sub-Saharan Africa</th>
<th>Other Developing Countries</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Headcount</td>
<td>Poverty Gap</td>
<td>Sq. Poverty Gap</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-0.668***</td>
<td>-1.025***</td>
<td>-1.322***</td>
</tr>
<tr>
<td></td>
<td>(0.209)</td>
<td>(0.318)</td>
<td>(0.417)</td>
</tr>
<tr>
<td>Industry</td>
<td>-0.086</td>
<td>-0.078</td>
<td>-0.115</td>
</tr>
<tr>
<td></td>
<td>(0.301)</td>
<td>(0.371)</td>
<td>(0.434)</td>
</tr>
<tr>
<td>Services</td>
<td>-0.963***</td>
<td>-1.233***</td>
<td>-1.493***</td>
</tr>
<tr>
<td></td>
<td>(0.193)</td>
<td>(0.254)</td>
<td>(0.310)</td>
</tr>
<tr>
<td>Observations</td>
<td>228</td>
<td>228</td>
<td>228</td>
</tr>
<tr>
<td>Countries</td>
<td>29</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.280</td>
<td>0.309</td>
<td>0.319</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1


Note: The null hypothesis that the sectoral composition of growth does not matter is rejected at the 1% level for all the poverty measures (Headcount, Poverty Gap and Squared Poverty Gap). This is robust to the inclusion of controls.
THIS IS ROBUST TO THE INCLUSION OF CONTROLS

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<tr>
<td>Agriculture</td>
<td>-0.673***</td>
<td>-1.024***</td>
</tr>
<tr>
<td></td>
<td>(0.227)</td>
<td>(0.337)</td>
</tr>
<tr>
<td>Industry</td>
<td>-0.084</td>
<td>-0.088</td>
</tr>
<tr>
<td></td>
<td>(0.341)</td>
<td>(0.415)</td>
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<tr>
<td>Services</td>
<td>-0.940***</td>
<td>-1.229***</td>
</tr>
<tr>
<td></td>
<td>(0.207)</td>
<td>(0.271)</td>
</tr>
<tr>
<td>CPI</td>
<td>0.015</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>(0.039)</td>
<td>(0.048)</td>
</tr>
<tr>
<td>Infant Mortality</td>
<td>0.022</td>
<td>0.007</td>
</tr>
<tr>
<td></td>
<td>(0.171)</td>
<td>(0.250)</td>
</tr>
<tr>
<td>Lag GDP per capita</td>
<td>-0.008</td>
<td>-0.007</td>
</tr>
<tr>
<td></td>
<td>(0.026)</td>
<td>(0.035)</td>
</tr>
<tr>
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DIGGING DEEPER INTO THE INDUSTRY PUZZLE

As the poverty line is raised, agriculture matters less and less, while industry gains importance (ever so slightly)

The “service elevator” dominates throughout


Note: the solid bars represent significant effects at 10% of significance or lower. Industry is not significant and agriculture loses its power as the poverty line increases (not significant for $4 a day).
Promoting agricultural productivity growth remains paramount

How do people get on to it, and how can policy help?

Three horizontal paths to giving African manufacturing a break

**DO WE NEED TO RETHINK HOW WE VIEW STRUCTURAL TRANSFORMATION?**

- 60% of Africa’s labor force, and almost 80% of the working poor are in agriculture.

- When it takes place, agricultural growth is effective at reducing poverty. But it takes place all too slowly.

- The evidence is suggestive of a “service elevator” out of poverty:
  - The services sector has grown strongly.
  - AND it has large effects on poverty.

- The manufacturing sector is in relative decline, and not effective against poverty.

  - Africa’s manufacturing weakness is not pre-ordained, but endogenous
1. PROVIDE A SKILLED LABOR FORCE

Average years of schooling (age 15+)

2. PROVIDE RELIABLE AND AFFORDABLE POWER

Industrial tariffs (US¢ per kWh)
inclusive of demand charges (where applicable), energy charges and applicable taxes and fees

Source: preliminary numbers for SSA from Electricity Subsidies Study, 2014.
Comparison countries from Readiness for Investment in Sustainable Energy (RISE) 2014.
The LPI captures the quality of transport infrastructure, timeliness of shipments, the efficiency of border clearance processes, etc. It is based on a survey of 1000 respondents from 143 countries (69 in SSA), in Oct-Dec 2013.
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BESIDE THE STRUCTURAL AGENDA OF MAKING GROWTH MORE INCLUSIVE, A NUMBER OF SHORT-TERM RISKS NEED WATCHING

Fiscal discipline is waning – at a time when external tailwinds may be turning into headwinds

Fiscal deficits (latest)

Source: International Monetary Fund, World Economic Outlook, October 2014.
PUBLIC HEALTH SHOCKS, SUCH AS THE CURRENT EBOLA EPIDEMIC IN WEST AFRICA

Economic activity is slowing markedly in the core three countries, largely due to aversion behavior.

Sierra Leone – Visitor arrivals by air (2014)

Sierra Leone – Diesel Fuel Sales Volume In Liters (2014)

Source: Sierra Leone Immigration Department

Source: Petrolum Directorate, Sierra Leone.
Fiscal impacts in 2014 -- from reduced taxes and increased spending – are at US$113 million for Liberia, US$95 million for Sierra Leone, and $120 million for Guinea. These will rise.

Note: All estimates are in 2013 dollars.
THERE IS A RISK OF BROADER REGIONAL CONTAGION – BOTH EPIDEMIOLOGICAL AND ECONOMIC

Estimated Impacts of Ebola on GDP and Annual Growth Rates for West Africa under two scenarios, 2014-2015
NEW FORMS OF VIOLENT CONFLICT, INCLUDING SECTARIAN TERRORISM

Boko Haram and the evolution of social violence in Nigeria

Fatalities in Nigeria by Category, 1998-2014

*Herder-Farmer violence. We have distinguished a separate category of violence between herders (pastoralists) and farmers, which is analytically distinct from other types of communal violence and separate from the Boko Haram insurgency.

Source: Nigeria Social Violence Project.
CONCLUSIONS

1. Africa continues to grow robustly – above 4.5% per year in GDP, and above 2.0% in per capita terms.

2. That growth continues to be relatively ineffective in reducing poverty.

3. That is because most of Africa’s poor people work in agriculture, but most of the growth takes place elsewhere.

4. Services sector growth is poverty-reducing and should be promoted – and better understood.

5. Faster gains in agricultural productivity and a level playing field for African manufacturing are needed.

6. So are solid systems and institutions to face risks in health, macroeconomics and violent conflict.
Thank you
Merci
Obrigado
Gracias