OXFORD

POVERTY REDUCTION IN THE COURSE OF AFRICAN DEVELOPMENT

EDITED BY
MACHIKO NISSANKE & MUNA NDULO

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Foreword

Erik Thorbecke's contributions to the African Economic Research Consortium (AERC) have been truly transformational. His impact has pervaded all dimensions of the AERC research capacity-building framework—thematic research (learning-by-doing research), collaborative research, policy outreach, and networking—all anchored by the AERC collaborative project on 'Poverty, Income Distribution and Labour Markets in Sub-Saharan Africa' led by Erik and a younger generation of African researchers whom he has nurtured. Moreover, this remarkable initiative resulted in the establishment of an enduring thematic research group on poverty and income distribution that is still chaired by Erik, in his role as a long-standing international resource person for AERC.

Erik's specific contributions to the AERC collaborative project are already detailed in this volume. However, it is worth positioning these contributions in the context of the AERC in general, and, hence, for Africa. The AERC is a true African success story, and Erik has been at the forefront of the international resource personnel who have contributed to this success. The AERC celebrated its 25th year in 2014 by underscoring its many accomplishments. Among those was a collaborative research programme, involving senior AERC network researchers and thought leaders from around the globe working together on subjects of contemporary policy interest in Africa. The poverty and growth projects were singled out to be showcased in the policy round table at the anniversary celebration—a credit to Erik!

I wish to remind readers that, at the inception of the AERC, the notion of 'evidence-based policymaking' was virtually non-existent in Africa. Rather, economic policy decisions were largely guided by anecdote, judgement, heuristics, ideology, and prescriptions imported from international institutions. Moreover, there was a severe shortage of local capacity to undertake policy-relevant research. The AERC has succeeded in changing this situation by bringing rigour and evidence to economic policymaking in Africa, through capacity-building and the advancement of research and training that inform policy.

Today, the economic environment in Africa has improved greatly. Africa is now among the fastest growing regions of the world. Moreover, the growth has exhibited significant resilience over the last decade and significant diversity, as witnessed by the fact that it is not just resource or commodity producers that have been in the growth trajectory. The narrative of 'Africa Rising' is not accidental. It is attributable, in part, to improved capacity for economic policy analysis and decision-making, and a new generation of policymakers who are driven by evidence and rigour. Many of these policymakers are alumni of AERC, including a dozen or so current and past governors of central banks.

The attention in Africa has now largely shifted to the quest for inclusive growth and productive employment. While the growth has been impressive, it has not been inclusive, and poverty, inequality, and youth unemployment remain at staggering levels. The AERC Strategic Plan, 2015–20, was developed with greater attention to economic imperatives facing Africa and enhancement of inclusive capacity-building, as well as African stakeholdership. It is a credit to Erik and his team that key policy recommendations from the AERC poverty project, particularly those pertaining to pro-poor growth and development, remain relevant, and even increasingly so in the current African environment.

Established in 1988, the AERC has emerged as a premier capacity-building knowledge organization in Africa, with increasing global recognition. The focus is on building the capacity of individuals and institutions, as well as generating research and training to inform economic policies in Africa. It is now a vast network of universities, policymakers, researchers, educators, and international resource persons. Over the years, through its research and collaborative postgraduate training programmes (a network of 37 universities in sub-Saharan Africa), the AERC has produced a large number of alumni who occupy senior policy positions in governmental institutions, including over a dozen governors of central banks and deputies. It has been a remarkable African success story, and we thank Erik Thorbecke for his contributions.

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Executive Director, African Economic Research Consortium
The William E. Mayer Chair Professor of Finance

University of Maryland (on leave)
5 July 2015

Preface

Africa faces unprecedented opportunities, as well as formidable challenges, in attacking poverty and securing inclusive development through the advancement of Africa's socio-economic transformation agenda. In the light of the challenges and aspirations, the Institute of African Development at Cornell University organized a symposium on the theme of 'Growth, Poverty, and Inequality: Confronting the Challenges of a Better Life for All in Africa', 19–20 April 2013. The symposium was also a special occasion to honour Erik Thorbecke, Professor Emeritus of Economics at Cornell University and one of the creators of the Foster–Greer–Thorbecke (FGT) metric of poverty measurement, for his lifelong accomplishments with respect to addressing issues of poverty and inequality in Africa. This volume arises from the symposium, where the main analyses and ideas contained in most chapters of this volume were initially presented and discussed, and subsequently developed into the book chapters.

Machiko Nissanke and Muna Ndulo

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Part IV. Structure, Governance, and Institutions for Inclusive Development

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Abbreviations

AER	*American Economic Review*
AERC	African Economic Research Consortium
AFD	Agence Française de Développement
AfDB	African Development Bank
AFJARE	*African Journal of Agricultural and Resource Economics*
AFRE	Agricultural, Food, and Resource Economics
AGOA	African Growth Opportunity Act
AGRODEP	African Growth and Development Policy
ANSD	Agence Nationale de la Statistique et de la Démographie (National Statistical Agency of Senegal)
APE	average partial effect
BCR	benefit–cost ratio
BRIC	Brazil, Russia, India, and China
BWPI	Brooks World Poverty Institute
CAR	Central African Republic
CCT	conditional cash transfer
CDDC	Commodity Dependent Developing Country
cdf	cumulative distribution function
CEEPA	Centre for Environmental Economics and Policy in Africa
CEES	Centre for Economics, Environment and Society
CERDI	Centre d'Études et de Recherches sur le Développement International
CF	control function (approach)
CGE	Computable General Equilibrium
CIMMYT	International Maize and Wheat Improvement Centre
CRE	correlated random effects (panel data model)
CSAE	Centre for the Study of African Economies
CSO	Central Statistical Office (Zambia)
DELTA	Département et Laboratoire d'Economie Théorique et Appliquée
DFID	Department for International Development (UK)

DHS	Demographic and Health Surveys
DI	direct influence
DRC	The Democratic Republic of the Congo (also DR Congo)
EAP	East Asia and the Pacific
ECLAC	Economic Commission for Latin America and the Caribbean
EEC	European Economic Community
EECA	Eastern Europe and Central Asia
EIIC	education improvement incidence curve
ESPS	Enquête de Suivi de la Pauvreté au Sénégal (Senegal Poverty Monitoring Surveys)
EUDN	European Development Research Network
FDI	foreign direct investment
FE	fixed effects (panel data model)
FGT	Foster–Greer–Thorbecke (class of poverty indices)
FISP	Farmer Input Support Programme
FSP	Fertilizer Support Programme
GDP	gross domestic product
GDPRD	Global Donor Platform for Rural Development
GEIIC	gradient education improvement incidence curve
GHIIC	gradient health improvement incidence curve
GI	global influence
GIC	growth incidence curve
GIGA	German Institute of Global and Area Studies
G–I–P	Growth–Inequality–Poverty (nexus)
GMM	generalized method of moments (estimation)
GNI	gross national income
GoZ	Government of Zambia
H	headcount ratio
HDI	Human Development Index
HDRO	Human Development Report Office
HIIC	health improvement incidence curve
HIPC	Heavily Indebted Poor Countries
IAPRI	Indaba Agricultural Policy Research Institute
ICLS	International Conference of Labour Statisticians
ICT	information and communications technology
IDA	International Development Association

IDRC	International Development Research Center (Canada)
IDS	Institute for Development Studies (in Kenya)
IFI	international financial institutions
IFPRI	International Food Policy Research Institute
IIASA	International Institute for Applied Systems Analysis
ILAG	Ibrahim Index of African Governance
ILO	International Labour Organization
ILR	Industrial and Labor Relations
IMF	International Monetary Fund
IMR	infant mortality rate
INSEA	Institut National de Statistique et d'Économie Appliquée
IPBES	Intergovernmental Platform on Biodiversity and Ecosystem Services
IPHD	International Population, Health and Development Lab (Duke University)
IQR	interquartile range
ISSER	Institute of Statistical, Social and Economic Research
IV	instrumental variable
IZA	Institute for the Study of Labor
JICA	Japanese International Cooperation Agency
KARI	Kenya Agricultural Research Institute
KIHBS	Kenya Integrated Household Budget Survey
KIPPRA	Kenya Institute for Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
LAC	Latin America and the Caribbean
Lao PDR	Lao People's Democratic Republic
LDC	least developed country
LIC	low-income country
LMIC	lower-middle-income country
MACO	Ministry of Agriculture and Cooperatives (Zambia)
MAL	Ministry of Agriculture and Livestock
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MENA	Middle East and North Africa
MFA	Multi-Fibre Arrangement
MGI	McKinsey Global Institute
MGSoG	Maastricht Graduate School of Governance

MICS	Multiple Indicators Cluster Survey (UNICEF)
MPI	Multidimensional Poverty Index
MSU	Michigan State University
NASSEP	National Sample and Evaluation Programme
NCCK	National Council of Churches of Kenya
NCEUS	National Commission for Enterprises in the Unorganized Sector
NHRI	National Human Rights Institution
NIDS	National Income Dynamics Study (South Africa)
NIE	New Institutional Economics
ODA	official development assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OHCHR	Office of the High Commissioner for Human Rights
OPHI	Oxford Poverty and Human Development Initiative
pdf	probability density function
PEP	Partnership for Economic Policy
P–I–G	Poverty–Inequality–Growth (nexus)
PM	Path Multiplier
PNAS	*Proceedings of the National Academy of Sciences*
PPP	purchasing power parity
PREM	Poverty Reduction and Economic Management (network)
PSU	primary sampling units
SA	South Asia
SAIPAR	Southern African Institute for Policy and Research
SAM	Social Accounting Matrix
SD	standard deviation
SEA	standard enumeration area
SOAS	School of Oriental and African Studies (University of London)
SPA	structural path analysis
SSA	Statistics South Africa
SSA	sub-Saharan Africa
TI	total influence
TIPS	Trade & Industrial Policy Strategies (South Africa)
TNC	transnational corporation
TNH	Tobit or truncated normal hurdle (model)
TOT	Terms of Trade

U5MR	under-5 mortality rate
UCL	University College London
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNOMSA	United Nations Observer Mission in South Africa
UNU-MERIT	United Nations University–Maastricht Economic and Social Research Institute on Innovation and Technology
UNU–WIDER	United Nations University–World Institute for Development Economics Research
USAID	United States Agency for International Development
VITA	Volunteers in Technical Assistance
VU	Vrije Universiteit
WHO	World Health Organization
WHS	World Health Survey (WHO)
WIDER	World Institute for Development Economics Research
WIEGO	Women in Informal Employment: Globalizing and Organizing
WMS	Welfare Monitoring Survey
WRR	Scientific Council for Government Policy (Wetenschappelijke Raad voor het Regeringsbeleid)
ZMK	Zambian Kwacha

Notes on Contributors

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Part I
Overview

1

Introduction: Tracing Poverty Dynamics in Sub-Saharan Africa

Recent Progress and Future Challenges

Machiko Nissanke

Background: New Opportunities and Challenges in the 21st Century

Upsurge in Growth and Investment: A Turning Point in Africa's Economic Development?

Countries in sub-Saharan Africa (SSA) as a whole have experienced a sharp turnaround in their growth performance since the dawn of the 21st century. Although the region's growth entered a recovery phase in the mid–late 1990s, the upturn was markedly accelerated at the backdrop of the commodity boom that began in 2002. Since then, Africa, as a continent rich in natural resources, has achieved impressive gross domestic product (GDP) growth rates, higher in relation to its own historical record, as well as relative to that of many other developing regions.[1] It attained an average growth rate of 6.4 per cent for 2004–8 and weathered the impact of the global and financial crisis and the subsequent downturn of the world economy relatively well (IMF 2013). The growth has rebounded to 5 per cent on average since 2010, making SSA one of the fastest-growing regions in the world.[2] Overall, this has made it possible for SSA to post an annual growth rate of per capita GDP close to 3 per cent for the first 14 years of the 21st century. Comparing this growth rate with the earlier performance of 0.14 per cent annual growth over the period of long-term stagnation between 1960 and 2000, Thorbecke (2015a) characterized this improvement as a 'quantum jump'.

The recent sustained growth performance of African economies has raised high hopes that Africa will finally emerge from the status perceived often in the past, as cursed by perpetual economic and political malaise. Attracting growing attention in the media and newspapers worldwide, the newly emerging situation is popularly referred to as the 'African Renaissance' or 'Africa Rising'.[3] Africa is blessed not only with rich natural resources but also with its demographic dividend in favour of a young working-age population, which is increasingly factored positively into investors' decisions, against the backdrop of advanced economies with rapidly ageing populations.

Thus, there has been a sea change in investors' attitude towards Africa's future prospects. Along with other global players, many emerging economies such as Brazil, China, India, Turkey, and South Korea, as well as the capital-rich Gulf States, have rapidly expanded their economic relationships with African countries and increasingly engaged with Africa as a critical development partner, proclaiming a new form of economic relationships through 'South–South' cooperation. Importantly, with raised expectations and optimism propagated throughout Africa at large, the high pace of growth has not been confined just to a limited number of resource-rich countries this time, but has started spreading across other lower-middle-income and low-income countries (LICs), though it is by no means universal throughout the region.

The surge of interest in resource-rich Africa from emerging partners has also had tangible spillovers, hitherto unforeseen in Africa. Together with the commodity boom, it has brought substantial dividends in attracting much needed investment flows, both in portfolio and in direct investment. Private investors have increasingly started taking Africa seriously as one of the key destinations of their direct and portfolio investments. According to World Bank (2013), there has been a substantial increase in foreign direct investment (FDI) flows to SSA from just US$1.2 billion in 1990 to US$6.3 billion in 2000, and, further, to over US$35 billion in 2012. The FDI growth accelerated noticeably from the mid-2000s onwards. This has led to a huge augmentation of the FDI stocks in SSA, from US$34 billion in 2000 to US$246 billion in 2012. While, for 20 out of 28 low-income African countries, official development assistance (ODA) remains the main external source of development finance, the prominent role of aid as this source has been diminishing in many countries, since other external financial flows such as FDI and remittances, together with increased tax revenues from resources rents, have notably increased.

While a large proportion of FDI is still attracted to extracting natural resources, FDI geared towards the lower end of vertically integrated global operations of transnational corporations (TNCs), such as simple assembly-line operations, started flowing measurably at the dawn of the new millennium. FDI in the garment industry in Africa is one of the more recent examples of TNCs' operations in a number of African countries on a footloose basis, attracted by temporary conditions, such as preferential market access granted through the Africa Growth Opportunity Act (AGOA) or protections accorded under the Multi-Fibre Arrangement (MFA) before its expiry in 2005. These activities are characterized by limited dynamic externalities, as well as knowledge and skill spillovers. However, some of the very recent FDI in new knowledge- and technology-intensive sectors—such as telecommunications, mobile technology, and information and communications technology (ICT), or production of solar panels, or biotechnology-based agricultural products—do raise hope for a new generation of FDI activities that could be local market oriented and, hence, locked into Africa's future with commitments. Furthermore, private equity funds, venture capital, and other portfolio investors have also become active in some selective 'frontier' market economies, such as South Africa, Kenya, Ghana, and Nigeria.

However, the prospect of steady private capital flows into Africa is by no means certain, as they are precariously dependent on investors' expectations regarding the future relative performance of African economies in relation to other regions of the world, as well as global liquidity cycles.[4] Now, international portfolio capital attracted to Africa at the back of the commodity boom is known to be pro-cyclical with respect to commodity price cycles. Portfolio investment is prone to exit quickly as market sentiments shift, which makes it risky to be counted as a stable source of development finance.[5]

Since much of the recent surge of investment in Africa is built on the assumption of the continued thirst for natural resources from the rest of the world, the most recent sharp decline of commodity prices from their peak of 2010–11 reminds us of Africa's vulnerability to negative shocks emanating from commodity markets. Exhibiting a very strong synchronization of price cycles, commodity markets across the board have experienced intense turbulence throughout 2014–15. Led by the dramatic fall of oil prices, the commodity price index as a whole has plummeted since mid-2014. As of the beginning of 2016, commodity prices are expected to follow a downward trend for some time at the backdrop of a considerable slowdown of the global economy, in particular that of China and other emerging economies. According to the International Monetary Fund (IMF) estimate (IMF 2015b), the drop in commodity prices by almost 45 per cent between June 2014 and October 2015 brought about a sharp decline in the Terms of Trade (TOT) for SSA countries, which are heavily dependent on primary commodity exports. For example, the cumulative decline in TOT in the two years of 2014–15 for Nigeria and Angola is estimated to be nearly 30 per cent and 50 per cent, respectively, while Zambia and Sierra Leone are reported to have suffered from a reduction in their TOT amounting to 10 per cent and 27 per cent, respectively. With such a strong TOT shock, a number of oil- and mineral-exporting countries have started experiencing considerable strains in both internal and external macroeconomic balances, as well as sharp depreciation of their currencies.

The end of the commodity 'super-cycle', as evident in these statistics, has also resulted in a considerable reduction of FDI flows to the SSA region. The 2016 report by United Nations Conference on Trade and Development (UNCTAD) suggests that FDI inflows to Africa, which fell by 31 per cent from US$55 billion in 2014 to an estimated US$38 billion in 2015, largely accounted for a sharp decline in FDI in SSA. It is estimated that Nigeria has seen its FDI decline by 27 per cent to US$3.4 billion, while South Africa experienced a reduction of 74 per cent to US$1.5 billion (UNCTAD 2016). In particular, the recent slowdown of the Chinese economy has severely impacted natural resource-rich countries in the region. It is reported that African exports to China fell by nearly 40 per cent in 2015, while FDI from China into Africa also fell by 40 per cent in the first 6 months of 2015.[6]

Slow Pace of Structural Change and Continued Vulnerability and Fragility on the Ground

During the period of severe economic stagnation with continued fiscal retrenchment of the 1980s and 1990s, there was a rapid depletion of stocks of productive assets of individuals, households, and economies as a whole at the backdrop of *productivity-reducing* structural change in aggregate.[7] In the absence of *productivity-enhancing* structural changes expected from the normal development processes, fragile informal activities were the mainstay of most of SSA's economies. In fact, instead of the progression of informal units and activities into robust, more formal, productive activities, the reverse process of informalization of economies took place during the period of long stagnation. The marked increase in labour migration from manufacturing and agriculture into the service sector since 1990, revealed by de Vries et al. (2013), reflects this informalization process undergone by African economies during these periods. While the sharp contraction of manufacturing was associated with casualization of jobs and informalization of activities, the incessant exodus observed from agriculture into the service sector was the result of migration of the rural poor into an informal economy at the margin of urban centres.

As noted aptly by Thorbecke (2014, 2015a), intersectoral rural–urban migration of labour in Africa in the last two decades of the 20th century was predominantly in the form of an 'out of misery' phenomenon—that is, migration of the rural poor out of agriculture into an equally fragile existence of informal urban employment. By tracing the trajectory of the structural transformation over time, as measured by the shares of agriculture in GDP and in the labour force, Thorbecke (2014) showed that SSA countries followed a 'flawed' pattern of structural transformation, in the sense that the movement out of agriculture occurred with no increase in average per capita GDP during the long stagnation period before the turn of the 21st century.

The recent increase in economic growth and the visible scale-up of investments on many fronts in the new millennium have brought about encouraging signs since 2000 that the process of growth-enhancing structural change may have just taken off in Africa. McMillan et al. (2014), in a follow-up study on an earlier paper (McMillan and Rodrik 2011), found evidence of Africa's 'remarkable turnaround' in changes in sectoral compositions, when the data of 9 African sample countries were divided into two sub-periods of 1990–9 and post-2000. There were differences in sectoral experiences behind structural changes among the 9 sample countries in post-2000 years.

Their analysis of African data from post-2000 as a whole suggested: (1) overall labour productivity growth in Africa has become second only to Asia; (2) structural change started making a positive contribution to overall productive growth, accounting for 1.4 percentage points of labour productivity growth in the weighted sample and for around 0.4 percentage points in the unweighted sample; (3) in around half of the countries in their African sample, the growth episode after 2000 was accompanied by small expansions in the manufacturing sector; and (4) while the magnitude of overall productivity–growth and structural change has been small and pale compared to Asian countries, structural change did take place in the right direction in the recent sub-period.

Thorbecke (2014, 2015a) also showed that the patterns of structural transformation in a number of SSA countries have evolved from the flawed pattern in pre-2000 years, already noted, to a more normal pattern, as indicated by a comparison of the shares of agriculture in total employment between 1999 and 2011, against GDP per capita, as shown in Figure 1.1. Thus, he concluded that there is evidence of 'a more orderly rural–urban migration process and workers being pulled out of agriculture into more productive non-agricultural jobs rather than being pushed out' (Thorbecke 2015c: 339).

The recent trend in structural change in several SSA countries revealed in these studies is very encouraging. In particular, the reported increase in labour productivity in both the 'within sectors' component and the structural component (that is, productivity growth resulting from workers moving from low productivity sectors to higher productivity sectors through the process of structural transformation) is not negligible. Yet, workers moving out of agriculture still typically move to jobs in the service sector, instead of the more productive manufacturing sector. Furthermore, the majority of service sector jobs and those jobs in the manufacturing sector are known to fail to offer job security and stable income, since the bulk of these activities operate on a very fragile, informal basis.

Indeed, despite some promising signs of sectoral structural changes since 2000, in reality, the majority of African countries have not yet made much advancement in diversification of their narrowly based, highly

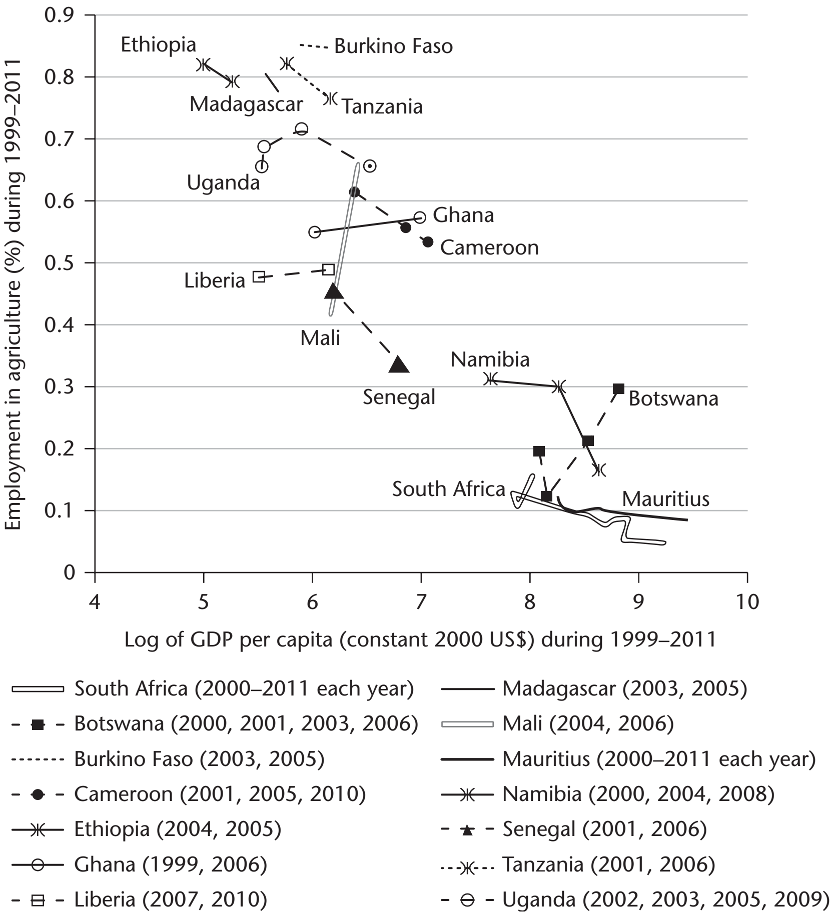

Figure 1.1. Recent structural transformation in selective SSA countries

Source: Thorbecke (2014). This figure is reproduced here with acknowledgement of UNU–WIDER in Helsinki, who commissioned the original research.

commodity-dependent economies and transformation of their socio-economic structures on a significant scale. While growth has broadened across sectors, spreading beyond oil and mining to agriculture and services, manufacturing activities still account for a meagre share of GDP. While both foreign and domestic investments have stepped up visibly, and rising domestic demand, with the emergence of 'middle classes', is perceived to have become a driving force since the mid-2000s, the sustainability of the region's growth is still largely dependent on the continuation of favourable endogenous forces (particularly, improved governance) and external factors. The commodity boom that has triggered a marked shift in investors' perceptions of Africa's prospects has not yet generated positive economy-wide spillover effects within each country,