Ministry of Foreign Affairs

IOB Study

Transition and inclusive development in Sub-Saharan Africa

An analysis of poverty and inequality in the context of transition

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April 2018

Foreword

In 1945, the year in which the United Nations (UN) was founded, more than half of the world's population lived in (extreme) poverty. Much has changed since then. By the early 1990s this figure had decreased to more than a third, and twenty years later to 11%. The world failed to achieve the goal of eradicating extreme poverty and hunger by 2015, but it did take us a step closer. Economic growth and improved incomes in Asia, especially China, India and Indonesia, played an important part in that. As a result of economic growth in these countries, inequality among countries also decreased.

From the early 1990s onwards, African countries also achieved strong economic growth figures. As a result, both governments and donors had high expectations that poverty would be reduced on the continent. In reality, the picture turned out to be less rosy. Poverty did decline, but less than anticipated. In 2013, more than 40% of the population – almost 400 million people – in Sub-Saharan Africa lived in extreme poverty. Extreme poverty had shifted from Asia to Africa.

High population growth is partly responsible for this development in Sub-Saharan Africa. It means that an annual economic growth rate of 3% is needed to sustain per capita income. Partly due to the Millennium Development Goals (MDGs), countries in these regions, aided by donors, made significant progress in curbing life-threatening diseases such as AIDS, tuberculosis and malaria. Maternal and child mortality decreased substantially, and life expectancy rose from an average of 50 years in 2000 to 60 at present. Sub-Saharan Africa currently has an extremely young population: 43% is below the age of 15; 54% is below the age of 20.

Internationally, there is often mention of a 'demographic dividend': in the coming decades, the workforce will dramatically increase and the dependency ratio will decrease. But we can only speak of a dividend if these young people actually manage to find work. Herein lies one of the continent's major problems thus far: economic growth has barely increased employment, because economic development has relied strongly on the export of raw materials and their high prices. The continent has not managed to make an effective transition yet from low-productivity agriculture for own use to modern economic development. Indeed, projections show that Sub-Saharan Africa will not achieve the Sustainable Development Goals (SDGs) to eradicate extreme poverty and inequality unless drastic further measures are taken.

These developments have prompted a large number of academic studies and reports by the World Bank, the International Monetary Fund and UN institutions. This IOB study aims to bring the conclusions to the attention of a wider audience. The study identifies a number of policy priorities. First and foremost, these are priorities for the countries themselves, but they also provide guidance for donors who want to do something about the problems of poverty and inequality in Sub-Saharan Africa.

The themes in this study are closely linked to Dutch policy. The Netherlands actively supports the internationally agreed SDGs. As part of the broader foreign policy, some of the focus of development cooperation is on enhancing global stability. Indeed, international developments are increasingly interdependent. Political, social and economic change is no longer local, but also has an impact in other parts of the world. Conflicts in Syria and in the Sahel are examples of this. Socio-economic and socio-political change in Africa is having an impact on Europe. The study therefore also draws attention to 'the ring behind the ring of instability'.

IOB researchers Antonie de Kemp and Caspar Lobbrecht wrote the report. In doing so, they used two sub-studies that were conducted on behalf of IOB. The first is a study by Professor Peter Lanjouw, Professor Chris Elbers and Gerton Rongen of the Amsterdam Institute for Global Health and Development. It provides an overview of academic knowledge on the concepts of poverty, inequality and inclusive development, examines data problems, and outlines the development of poverty and inequality in Sub-Saharan Africa. The second study is by associate professor Jutta Bolt, Professor Robert Lensink and Tom Raster of the University of Groningen. They conducted research on the relationship between structural transformation, poverty and inequality in Sub-Saharan Africa.

This study was internally supervised by cluster manager Otto Genee, researcher Jan Bade and director Wendy Asbeek Brusse. IOB has also benefited from comments on the draft by Marleen Dekker, Professor of inclusive development at Leiden University and coordinator of INCLUDE, the knowledge platform for inclusive development; Margriet Kuster, until recently coordinator of poverty and inclusive development at the Ministry of Foreign Affairs; Martine Rutten, advisor at the agency for International Cooperation of the ministry's Directorate-General for International Cooperation; and many other colleagues at the Ministry of Foreign Affairs who provided commentary on parts of the report. IOB thanks everyone for their valuable contributions. It goes without saying that ultimate responsibility for this report lies with IOB.

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Abbreviations

AfDB	African Development Bank
AIDS	acquired immune deficiency syndrome
CCT	conditional cash transfer
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DC	development cooperation
DGGF	Dutch Good Growth Fund
DHS	Demographic and Health Survey
ECA	Economic Commission for Africa (UN)
EITI	Extractive Industries Transparency Initiative
EUR	euro
FLOW	Funding Leadership and Opportunities for Women
FMO	Entrepreneurial Development Bank (Financierings Maatschappij voor Ontwikkelingslanden)
FONAENF	Fund for Literacy Training and Non-Formal Education (Fonds pour l'Alphabétisation et l'Education Non Formelle)
GDP	gross domestic product
HDI	Human Development Index
HIPC	heavily indebted poor countries
HIV	human immunodeficiency virus
ICT	information and communication technology
ILO	International Labour Organization
IMF	International Monetary Fund
IOB	Policy and Operations Evaluation Department (Internationaal Onderzoek en Beleidsevaluatie)
LEAD	Local Employment in Africa for Development
MDGs	Millennium Development Goals
MPI	Multidimensional Poverty Index
NGO	non-governmental organisation
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PSD	private sector development
PSNP	Productive Safety Net Programme
PSO	private sector development
PSSN	Productive Social Safety Net
RvO	Netherlands Enterprise Agency (Rijksdienst voor Ondernemend Nederland)
SDGs	Sustainable Development Goals
SRHR	sexual and reproductive health and rights
SSA	Sub-Saharan Africa
TK	House of Representatives of the Netherlands (Tweede Kamer)
UCT	unconditional cash transfer
UNDP	United Nations Development Programme

UN	United Nations
USD	US dollar
WB	World Bank
WDI	world development indicators

Summary

According to the World Bank's most recent estimates, in 2013 fewer than 800 million people lived in extreme poverty. That was a decline of more than a billion in twenty years, despite population growth. Extreme poverty decreased from 35% of the world population to 11%. There are more encouraging signs: global inequality is decreasing, especially as a result of reduced inequality between countries. The development of Sub-Saharan Africa is positive as well: the 'hopeless continent' became 'rising Africa'. In the first fifteen years of this millennium, many countries in the region achieved economic growth figures of 6%-8% a year. This growth was stimulated by better economic policy, a resource boom, the strengthening of agriculture and technological developments (especially mobile telephony and internet). Higher public spending, especially in the social sectors, made possible in part by debt relief and foreign aid, were also contributing factors.

It was reasonable to expect that extreme poverty was set to decline substantially in many African countries. That did not turn out to be the case. Sub-Saharan Africa grew, but not everyone benefited from it. In 2013, almost 400 million Africans, 41% of the population, lived in extreme poverty. That was more than ten or twenty years earlier. There has been a reduction of extreme poverty and hunger in the world, but in 2013 in Sub-Saharan Africa, more people lived below the poverty line than ever before. One in three extremely poor people lived in fragile states such as the Central African Republic, Somalia, DRC or Burundi. Two-thirds of the extremely poor population lived in other countries, such as Nigeria, Ethiopia, Rwanda, Burkina Faso, Malawi or Tanzania. The trickle-down effect, which governments and donors had counted on, manifested itself to a much lesser degree than expected. The poorest households are benefiting less from the advantages of international trade and economic growth than previously presumed.

Forecasts by the World Bank, among others, reveal that the global community will not achieve the first of the Sustainable Development Goals (SDGs), namely to eradicate extreme poverty in Sub-Saharan Africa by 2030.[1] The same is true of SDG10, the goal to reduce inequality within and among countries. One of the targets of SDG10 is to achieve income growth for the poorest 40% that is higher than the national average. To achieve these goals, active government policy is needed that will in particular help to find a solution to the employment problem for the approximately 15-20 million young people who will enter the labour market every year in the coming decades. Young people, especially young women, already belong to the groups with the lowest incomes and the greatest existential insecurity.

The Netherlands actively supports the internationally agreed SDGs. Various policy papers express concerns about developments in Africa that are threatening stability in the region. Extreme poverty (the focus of SDG1), inequality (SDG10) and youth unemployment (SDG8) are part of that. The 2017-2021 Coalition Agreement indicates that as part of foreign policy, development cooperation focuses on fighting poverty, migration, terror and climate

[1] Estimates of the degree to which people will be living in extreme poverty in fragile states in 2030 vary from 46% to 80%. The latter figure uses a very broad definition of fragile state. From a policy perspective, this entails the risk that the figure of 80% is linked to a more standard definition, as a result of which extreme poverty in countries that are not fragile states according to the World Bank are left out of the equation.

change. The commitment focuses primarily on North Africa, the Horn of Africa and the Sahel as part of the 'ring of instability'.

One question is how the Netherlands and other countries can best contribute to the achievement of the above-mentioned SDGs and help reduce regional instability. This study contains the results of research on interventions that offer prospects for achieving goals such as reducing poverty, reducing inequality and creating sufficient employment opportunities in Sub-Saharan Africa. The research is based on an analysis of socio-economic developments in the region in the past two decades. Evaluations and academic research are the foundation of this report. In addition, it focuses in more detail on six countries: Burkina Faso, Ethiopia, Rwanda, Senegal, Tanzania and Uganda. Each of these six countries have succeeded, in their own way, in fighting poverty and inequality.

The first chapter following the introduction provides a description of economic growth and the development of poverty and inequality in the past twenty years. It shows that economic growth had a limited effect on the reduction of poverty in Sub-Saharan Africa, compared to other regions. The causes are an initial situation of high poverty, high population growth and the high intensity of the poverty. The income of a large part of the population in various countries was so low that it did not manage to rise above the poverty level even after a longer period of growth. Moreover, to this day the income of a large group of the population has still barely risen above this level. This makes the poverty rates volatile. Another explanation for why poverty has not decreased more in Sub-Saharan Africa is the high level of inequality: 10 of the 19 most unequal countries in the world are in Africa. It should be noted that several of the most unequal countries (such as South Africa, Namibia and Botswana) have on average a per capita higher income and (therefore) also lower levels of poverty. Conversely, several of the countries that are not as unequal but much poorer, such as Burkina Faso and Ethiopia, have considerably higher levels of poverty. On average, poverty decreased more in countries with strong economic growth, such as Rwanda, than in countries with lower growth. Economic growth is not an adequate condition for inclusive development, however. The latter requires active government intervention to tackle the inequality of opportunity. Investments in public services such as education and health lie at the heart of that. They contribute to the reduction of multidimensional poverty and improvements in the index of human development. Sub-Saharan Africa has made more progress on both indices than it has reducing income poverty. The MDGs, debt relief and development cooperation helped in that respect. Multidimensional poverty declined in 30 countries, but more than half of Africa's population still suffers from multidimensional poverty. The urban bias in expenditures, which is maintaining the wide gap between urban and rural areas, remains a bottleneck.

A key question is why economic growth failed to bring prosperity to more people and what the cause of the differences among countries is regarding this point. Two factors play a crucial role in this: demographics and the structure of economic development. The birth rates in most countries in Sub-Saharan Africa are high, even though they are slightly declining. Together with a drop in child mortality and higher life expectancy, in part the result of controlling the HIV/AIDS pandemic, this has led to high population growth.

The result is a continent with a young population: 43% is below the age of 15 and another 20% is between the ages of 15 and 24. This young population is often described as a 'demographic dividend'. Nevertheless, this underestimates the implications of the present demographic composition. First of all, the average income only starts to increase above an economic growth rate of 3%. In addition, a policy aimed at reducing the birth rate will not have a major impact in the short term on population growth. Indeed, given the present composition of the population, the number of young families will continue to grow in the coming decades. Thus far, of the six countries studied only Rwanda and Ethiopia have succeeded in reducing the overall birth rate. In both countries, this translated into a decline in poverty. Third, the dependency ratio is not low in a young population such as that in Sub-Saharan Africa – in fact it is high. That means high education and health-care costs, for example, or what is the case in practice, low expenditures per pupil or child. This has a direct impact on the costs and quality of (public) service provision.

We can only speak of a demographic dividend if the continent actually manages to find work for the 15-20 million young people who enter the labour market every year. That has not been the case thus far. A characteristic of socio-economic development in Sub-Saharan Africa is 'jobless growth', or at least modest employment growth, which does not keep pace with the growth of the workforce. This does not translate into high unemployment figures, simply because many people entering the workforce cannot afford to have no job at all. Many young people end up in the low-paid informal sector, either in agriculture or, especially in the cities, in low-productivity services. A lack of education plays a role in this. Poorer households do not have the financial resources to pay for education or its related costs (such as transport). Thus, the inequality of opportunity keeps the 'vicious circle of poverty' turning. The levels of education are especially poor in rural areas and among women.

Another, related explanation of why poverty did not decrease more lies in the structure of the economic growth. When countries start to develop into modern economies, then this generally takes place in tandem with a strong increase in productivity in agriculture and growth in the industrial and service sectors. But that is not how growth has occurred in Sub-Saharan Africa. Economic growth there was mainly related to a rise in the export of raw materials and agricultural crops. Mining (oil, gas and minerals) has a strong enclave character with limited spillover effects to the rest of the economy. The share of the manufacturing sector in the economy and employment opportunities remained limited in many countries. The causes are an inadequate economic infrastructure and a poorly educated workforce.

Vocational training is outdated and does not focus enough the demands of the labour market. The construction industry has benefited from economic growth and was a source of it, but employment conditions in this sector are poor. The service sector experienced extensive growth, but it has a dual structure: high-productivity services such as banking, insurances and ICTs are becoming increasingly important economically, but they have generated few jobs. The biggest increase in employment opportunities comes from informal service provision, mainly in the cities. Increasingly, this involves low-productivity jobs with commensurate incomes. The combination of a high rate of urbanisation,

a shortage of (formal) jobs and high birth rates among the poor population means there is a risk that large groups of (partially) unemployed young people will form a new, poor underclass in the cities in the coming years.

Productivity in agriculture did increase somewhat, but the expansion in production was mainly the consequence of the use of new farmland. Nonetheless, extreme poverty decreased primarily in countries where agriculture played a large part in economic growth. Urbanisation helped to reduce poverty, but then mainly because the income that could be earned in cities in the informal services was higher than the income from agriculture for personal use.

Policy options

Demographic pressure, extreme poverty, inequality and a lack of prospects are ingredients that are threatening stability in the region. The 2017-2021 Coalition Agreement calls the fight against inequality of opportunity and nurturing talent one of the cabinet's key ambitions. In the area of foreign policy and international cooperation, the agreement identifies the promotion of stability as one of the key objectives. In that context, the United Nations' Sustainable Development Goals are a primary focus. The cabinet is allowing impact and added value to play a decisive role, with special attention on the most vulnerable groups, such as women and children.

The Dutch agenda aims to link aid, trade and investment in such a way that Dutch interests and those of the recipient countries coincide. The question is how to link this objective to the above-mentioned aspirations. It is increasingly accepted internationally that poverty and inequality cannot be eradicated solely through economic growth and that the margins of society are not necessarily benefiting from an increase in international trade. More trade and investment do not automatically create more employment opportunities, as the examples in Sub-Saharan Africa demonstrate. A nightmare scenario is jobless growth, in which every year new cohorts entering the job market are unable to find decent work and extreme poverty barely decreases, if at all.

An effective poverty policy, which also focuses on reducing inequality of opportunity and outcome, and also manages to create sufficient employment opportunities, requires a multi-sectoral strategy that focuses on the following key elements:

1. a policy that focuses on increased productivity in agriculture;
2. strengthening the process of structural transformation, both by increasing productivity in agriculture and services, and by making investments that encourage the development of a labour-intensive industry;
3. improving the distribution of human capital through universal access to health care, including SRHR, and education; and
4. increasing and effectively collecting taxes in combination with targeted social expenditures.

Achieving these objectives is primarily the responsibility of national authorities, but donors play a role in this as well. Chapter 4 examines how they can contribute to such a strategy.

If poverty, reducing inequality and creating jobs were the primary focus, then the Netherlands could contribute in the following sectors (to an extent this is already happening):

1. *Agriculture*: If there is consensus about anything in the literature, then it is the necessity of increasing agricultural productivity. The Netherlands plays a leading role in the area of agriculture and food security. Expenditures on this in recent years have increased substantially, but the Netherlands could use the aid even more effectively. The food security policy review (IOB 2018a) concludes that the policy could devote more explicit attention to poor farmers. That can be done by focusing the expertise and aid more on increasing smallholder farmers' productivity, for example by improving access to agricultural inputs and tools, supporting mechanisation, providing demand-driven training in less-favoured areas and reinforcing the rural infrastructure. Existing programmes for land reform and enhancing land rights, as well as credit and insurance, are in line with this as well. Support for agricultural research is also one of the most effective instruments for increasing production and agricultural productivity.

2. *Infrastructure*: The Netherlands supports investments in infrastructure through various PSD programmes, but these programmes could increase their focus on poverty as well. The recent policy review of water management concluded that most projects devoted little attention to poverty or inclusive development (IOB, 2018b). One option is to have infrastructure programmes focus more on less-favoured regions and countries experiencing the greatest bottlenecks. It would involve investing in rural roads, for example, which help to improve linkages to regional markets and cities in the area, access to electricity, clean drinking water and sanitation, and public services. In line with the aim of persuading governments to rescind energy subsidies, the Netherlands could (partially) finance connection costs with these investments.

3. *Employment opportunities*: the Netherlands has freed up resources for the considerable problem of youth unemployment (via LEAD and the DGGF, for example). These resources are modest in relation to the problem. In addition to the projects that were undertaken, the Netherlands could examine, in dialogue with the partner countries and other donors, which structural options are available to strengthen the labour market and employment opportunities in these countries. In addition to agriculture and the agro-industry, other measures include strengthening the economic infrastructure, education, health care and tourism. In terms of supporting the growth of the (light) labour-intensive industry, the Netherlands can contribute to the strengthening of the transport infrastructure, the continuity of the energy supply, access to capital and a better alignment of education to the labour market. One option that needs to be studied in more detail is strengthening temporary labour migration, in which young people can temporarily build experience with companies in Europe and subsequently use this expertise in their own country.

4. *Education*: International organisations and researchers believe that this is the most crucial intervention: poverty, inequality and unemployment cannot be effectively tackled without substantial investments in education. The 2017-2021 Coalition Agreement also recognised this: 'Good education brings out the best in people, reduces and prevents learning disadvantage and enables talent to flourish. Good education lays the foundations for a healthy and successful society.' The demographic development in Sub-Saharan Africa is such that governments are insufficiently able to provide high-quality education in the short term. This problem increases inequality and makes it more difficult for young generations to escape the poverty trap. Regarding the problem of youth unemployment, major investments in secondary and vocational education are necessary in order to facilitate the transition to a more productive form of agriculture, as well as industry and productive services. Vocational education in particular is outdated and not aligned to the demands from the labour market. The Netherlands can also support programmes for conditional cash transfers to promote enrolment in education by vulnerable groups. Supporting the education of girls is an effective way of fighting both gender inequality and population growth.

5. *SRHR and health care*: Sex education and the wider availability of contraception do not have a major impact on population growth in the short term, but they are necessary to curb it in the long run. SRHR has remained a spearhead of Dutch policy, but at the same time cutbacks on basic health care are undermining care for mothers and children. Research has shown that investments in basic health care help to reduce mother and child mortality and particularly benefit the poorest groups. Alignment with government programmes can be more effective than supporting individual projects, the sustainability of which is harder to guarantee.

6. *Support of cash transfer programmes*: Conditional and unconditional cash transfers are the most effective instruments for reducing poverty and inequality in the short term. Unless the transfers aim to achieve highly specific goals, unconditional transfers are preferable. In addition to the immediate impact on consumption, they generally have positive effects on children's nutrition, education, health, savings and productive investments. Here too, it is better not to initiate one's own projects but to align with government initiatives. Those programmes can be more efficient and effective, in part by avoiding duplication and the existence of economies of scale. The programmes often suffer from major budgetary deficits or are necessarily limited in scope.

Different organisations, such as the World Bank and UNDP emphasise the importance of an integrated multi-sectoral strategy. Such a strategy is more effective than implementing a wide range of isolated and fragmented projects. The Netherlands can increase coherence by focusing much more on a country strategy and giving embassies in partner countries a more coordinating role in implementing the key programmes. A targeted focus on the primary objectives is crucial in that respect, and careful consideration has to be made regarding which intervention under which specific circumstances will have the greatest impact on reducing poverty, inequality and creating jobs: the potential effectiveness of interventions in the area of (for example) agriculture or infrastructure does not necessarily mean that

every intervention (in every low- or middle-income country) in these areas will make an efficient and effective contribution to achieving these objectives. The effectiveness of the interventions can be further promoted by working closely with governments in partner countries and with other donors (including the AfDB). Finally, various IOB evaluations demonstrate that the Netherlands is better off focusing on proven solutions than using pilot schemes to look for niches that are expected to have a major catalytic effect. Various evaluations have demonstrated that ending a pilot scheme often means the end of the entire project.

1

Introduction

1.1 Background

The lost continent. That was name given to Sub-Saharan Africa after decades of weak or even negative economic growth. A region where elites seemed to only pursue their own interests, one which produced infamous heads of state such as Amin in Uganda, Bokassa in Central Africa and Mobutu in the Congo. A region where patrimonial relationships, inefficient governance and equally inefficient public enterprises brought no development but only further impoverished the population. Where disastrous economic policies led to massive inflation, overvalued currencies, capital flight and massive foreign debt. Where countries were unable to reap the harvests of their raw materials. Where billions in development aid seemed to have no impact.

In 2000, *The Economist* still referred to the continent as 'Hopeless Africa'. In retrospect, the magazine could not have been more off the mark. At the time, the seeds for an emerging Africa had already been sown. Various countries, including Burkina Faso, Mozambique and Uganda, started to show high growth rates. Other African countries would follow suit in subsequent years, some as a result of the rapidly rising international demand for raw materials. In addition to oil exporters such as Angola, Nigeria, Cameroon and Chad, 17 other countries also achieved growth rates that we can only dream of in Europe. 'Hopeless Africa' became 'Rising Africa'.

The new millennium brought more good news. On a global scale, poverty declined dramatically. In 1990, 35% of the world's population lived in extreme poverty; in 2013 that was less than 11%. In 1990 almost 1.9 billion people were considered extremely poor; in 2013 that number had shrunk to 767 million (World Bank, 2016a). A second, more recent trend is the reduction of inequality in the world. This is mainly the result of declining inequality among countries (Milanovic, 2016; World Bank, 2016a). Three countries were mainly responsible for the decrease in global poverty: China, India and Indonesia. The declining inequality among countries can be primarily attributed to strong economic growth in the world's two largest countries: India and (especially) China.

As far as poverty and inequality are concerned, emerging Africa was unable to live up to expectations: in 1990, 57% of the population lived in extreme poverty; in 2012 that was still 43% (Beegle et al., 2016). As a result of population growth, more people in the region lived in extreme poverty in 2012 (389 million) than in 1990 (280 million) or in 1999 (376 million). As it turns out, the economic growth per capita of 2.5% per year did not sufficiently find its way to the poorest segments of the population. There was much less of a trickle-down effect, which governments and donors had counted on, than anticipated.

The recognition that the poorest groups have not benefited enough from economic growth has contributed to academic and political interest in poverty and equality, especially in Sub-Saharan Africa.[2] Increasingly it has led to the realisation that economic growth is a

[2] A recent and detailed example is the study by a group of researchers associated with the University World Institute for Development Economics Research (see, for example, Arndt et al., 2016).

necessary but not adequate condition to fight poverty. This insight has contributed to two of the Sustainable Development Goals (SDGs), namely eradicating extreme poverty (SDG 1) and reducing inequality within and among countries (SDG 10).[3] One of SDG 10's targets is to achieve income growth for the poorest 40% that exceeds the national average. Moreover, government policy must promote equality of opportunity and remove barriers. On 25 September 2015, 193 countries, including the Netherlands, unanimously adopted the SDG agenda.

Research shows that it is far from evident that the international community will manage to achieve the SDG goals related to poverty and inequality. That is especially true of Sub-Saharan Africa (ODI, 2016). Economic growth there was insufficiently linked to the creation of jobs for the rapidly growing workforce. As a result (hidden) unemployment, especially among young people and women, increased dramatically. The drop in price of raw materials and agricultural products in recent years, and the fall in demand from China, highlight the vulnerability of economic development in many African countries.

The nexus of economic growth, poverty and inequality in Sub-Saharan Africa cannot be viewed in isolation from the process of structural transformation. The latter is a change process that a society undergoes, characterised by the emergence of the industry and service sectors, the (resulting) decline in importance of agriculture in the economy, a demographic change with decreasing birth and mortality rates and rapid urbanisation. Another characteristic and condition is a considerable rise in agricultural productivity, which makes it possible for large parts of the workforce to earn an income outside of this sector, without this resulting in food scarcity, high food prices or a substantial rise in the import of food. This process has been barely visible in Sub-Saharan Africa in the past 20 years. Agricultural productivity remained low, as a result of which the sector was insufficiently able to help poverty significantly decline in rural areas. The development of industry stagnated. Jobs were mainly created in informal and low-productivity services.

1.2 Dutch policy

The SDGs are guidelines for Dutch policy in the area of development cooperation. Well before adopting the SDG agenda in 2015, the minister for Foreign Trade and Development Cooperation identified the aims in a policy note entitled 'A World to Gain' of contributing to the eradication of extreme poverty in one generation and promoting sustainable and inclusive growth all over the world.[4] Two years later, in September 2015, the minister presented a policy paper on poverty and inequality. In it, the minister indicated that eradicating extreme poverty by 2030 is only feasible if inequality is tackled. The policy paper contained 20 action points for inclusive growth and development (TK 2015-2016, 33 625, no. 182). The amount of EUR 350 million had been set aside in the budget for this action plan. The progress report of November 2016 (TK 2016-2017, 33 625, no. 236) also mentioned

[3] SDG1 is a continuation of MDG1.

[4] In addition to ensuring success for Dutch companies abroad as a third target. See TK 2012-2013, 33 625, no. 1.

inclusive development, whereby the poorest and most marginalised groups would be included in social, economic and political development and benefit from it as well, as a guiding principle for the policy. The first report on the SDGs also mentioned the Netherlands' commitment to contribute to inclusive development and the eradication of poverty (Kingdom of the Netherlands, 2017). Indeed, 11 of the 15 Dutch partner countries belong to the group of least-developed countries. Eight of these are in Sub-Saharan Africa. The Netherlands endorses the five internationally accepted strategies for inclusive development: create jobs; develop human and physical capital; fight discrimination and exclusion; redistribute through taxes and transfers; and develop inclusive governance and inclusive institutions.

The above-mentioned plan with 20 action points is based on these strategies. It follows two approaches: work for women and young people, and dialogue for change. One of the mentioned instruments is the Local Employment in Africa for Development (LEAD) programme for jobs for young people in Algeria, Eritrea, Egypt, Libya, Mali, Nigeria, Somalia and Tunisia. In addition, the Dutch Good Growth Fund (DGGF) earmarked EUR 25 million for the creation of jobs and the promotion of youth entrepreneurship in Africa. The Netherlands also wants to fight inequality by providing aid to civil society organisations that support marginalised groups. The Dutch voice programme focuses on this (with a budget of EUR 50 million). The Funding Leadership and Opportunities for Women (FLOW) and the Leading from the South programmes aim to fight gender inequality. In addition, the Netherlands wants to help countries strengthen their tax systems. Moreover, the cabinet views inequality as a cause of migration. The cabinet wants to provide refugees with adequate and sustainable shelter and support in their own region backed by investments in basic services, infrastructure and the creation of jobs.

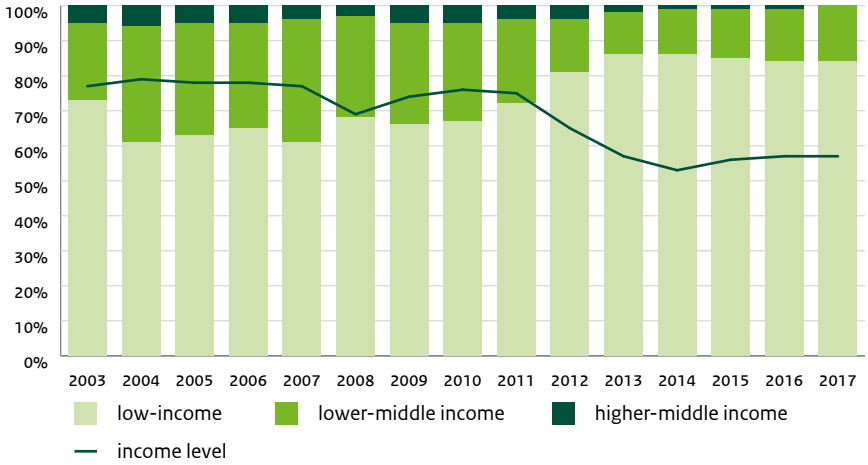
Sub-Saharan Africa has traditionally been an important region for Dutch development cooperation. Between 2003 and 2010, every year approximately 50%-55% of bilateral expenditures went to Sub-Saharan Africa, on average about EUR 700-900 million.[5] Approximately 60%-70% of that was allocated to low-income countries in the region (see figure 1.1). The largest part of the remainder went to lower middle-income countries. Higher middle-income countries received about 5% of the funds annually.

Due to the cutbacks that took place during the Rutte I and II cabinets, bilateral expenditures decreased from 2011 onwards to about EUR 500-600 million (see IOB, 2016). Relatively speaking, the cutbacks spared the poorest countries: the share of low-income countries in bilateral expenditures for Sub-Saharan Africa increased to about 85% of the total; higher middle-income countries in Sub-Saharan Africa essentially did not receive Dutch aid anymore in 2017.

[5] Between 2003 and 2010 approximately 35%-40% of the annual ODA expenditures was allocated regionally. To a large extent, this kind of allocation cannot be inferred from the ministry's financial system, because it concerns expenditures to multilateral institutions, co-financing organisations and implementing organisations, such as FMO or RvO.

Figure 1.1 also shows the average income in countries that received aid (weighted with the extent of the aid) in relation to the average income in Sub-Saharan Africa.[6] The green line in the figure illustrates this. It shows that between 2011 and 2017, the Netherlands gave relatively more aid to low-income countries. In 2011 bilateral aid went to countries whose incomes were approximately 75% of the average; in 2017 that was 57%. This confirms that aid to Sub-Saharan Africa focused more on poorer countries. Moreover, per capita expenditure was relatively high for small countries such as Rwanda and Burundi compared to Ethiopia and Uganda. One reason is (regional) instability. In Rwanda, 20% of the aid went to the governance and civil society organisations category. Expenditures here aimed to strengthen both the justice sector and the process of decentralisation. Almost 25% of the aid for Burundi focused on democratisation and strengthening governance. More than a third of the aid for South Sudan was humanitarian, while 28% was used to reinforce the rule of law.

Figure 1.1 *Development of Dutch bilateral ODA expenditures to Sub-Saharan Africa*



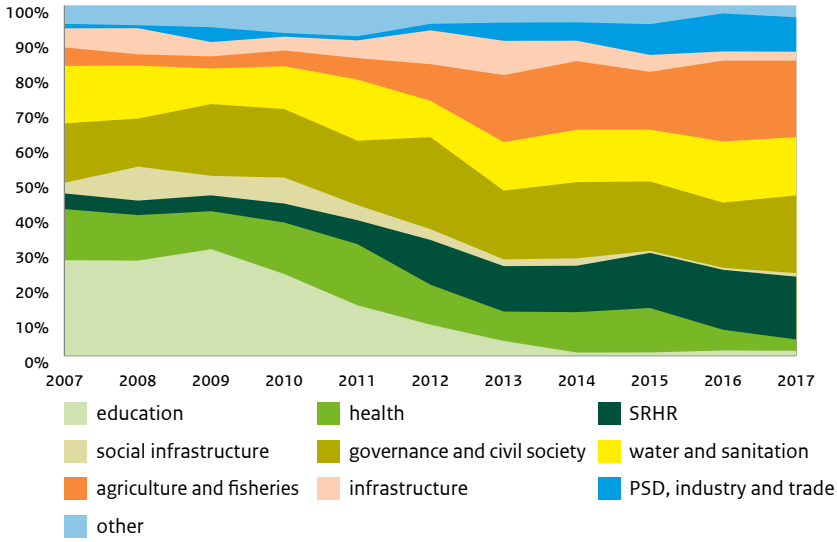
Source: Ministry of Foreign Affairs

In terms of themes, there was a clear shift in expenditures from 2010 onwards towards the spearheads of food security, water and SRHR (see figure 1.2). For SRHR, it mainly concerned expenditures for reproductive health care. The figure does take into consideration expenditures on humanitarian aid, debt relief and general budget support. A considerable shift also took place regarding expenditures for governance and civil society, namely from

[6] Distribution by income category can present a distorted picture in two ways. The figure is based on the current way of categorising, but 10 years ago countries such as Ghana and Zambia were low-income countries. The percentage that went to low-income countries at the time was therefore de facto higher. Second, the category of low middle-income countries, for example, is broad and encompasses these as well as countries that find themselves more at the bottom, such as Ghana and Zambia, as well as wealthier countries such as Angola, Cape Verde and Swaziland.

aid via governments and multilateral institutions to NGOs and civil society. In 2009, 19% of the total in this category went to NGOs and civil society organisations; in 2016 that was 64%. This development is in line with the policy change to channel far fewer expenditures through governments. It is also in line with the Dialogue and Dissent policy framework, which aims to promote change and inclusive and sustainable growth and development and reduce inequality by supporting civil society organisations in the area of lobbying and advocacy.

Figure 1.2 *Development of Dutch ODA expenditures to Sub-Saharan Africa*



Source: OECD/DAC (CRS data) and Ministry of Foreign Affairs.

1.3 Problem and approach

This study aims to further support Dutch policy to promote inclusive growth in Sub-Saharan Africa. Section 1 of this chapter already demonstrated that there are huge challenges. Despite the image of a 'Rising Africa', favourable economic development has not managed to lead to the structural transformation that is necessary to eradicate extreme poverty and ensure inclusive development.

The key question for this study is which instruments donors have at their disposal to help achieve these objectives. A good understanding of the development of poverty and inequality and the determinants is essential in this endeavour.

The report wants to provide answers to the following questions:

1. What do we know about the development of growth, poverty and inequality in Sub-Saharan Africa?
2. What do we know about the relationship between growth, poverty and inequality in Sub-Saharan Africa?
3. Which effective instruments do donors have at their disposal to help reduce poverty and equality in this region?
4. What choices can Dutch policy make, aimed at strengthening inclusive development in Sub-Saharan Africa?

The Amsterdam Institute for Global Health and Development (AIGHD) conducted a sub-study for this report, which provides an overview of the (academic) knowledge on the concepts of poverty, inequality and inclusive development, examines data problems and provides an outline of the development of poverty and inequality in Sub-Saharan Africa. The University of Groningen conducted research on the relationship between structural transformation, poverty and inequality in Sub-Saharan Africa.[7] The study also used academic and policy-related literature that has been published in recent years about the problem of poverty and inequality in Sub-Saharan Africa. IOB studied developments in six countries in more detail. The country selection was based on:

- low-income countries;
- with at least 10 million inhabitants;
- which were experiencing positive development in the areas of poverty, inequality and/or the Human Development Index (HDI); and
- conclusions from the literature about success stories in the above-mentioned areas.

The starting points resulted in the following selection:

- Ethiopia: combines low inequality with a decline in poverty and improved HDI;
- Rwanda: scores well on reducing poverty and improving HDI;
- Uganda: scores well on reducing poverty and improving HDI;
- Burkina Faso: had the highest economic growth in the region, reduced inequality and improved its HDI scores;
- Senegal: scores well on reducing poverty and improving HDI;
- Tanzania: scores well on improving HDI and (more recently reducing poverty).

The six countries have several elements in common: they all belong to the group of least-developed countries, they are strong agriculturally, and had, with the exception of Senegal, strong economic growth during the period 2000-2015. Four of the six are landlocked. The discovery of raw materials played a role in the economic development of two of them: Burkina Faso (gold) and Tanzania (gold and other minerals). In three countries, socialist experiments have made way for a more liberal economic direction: Burkina Faso, Ethiopia and Tanzania. Three countries are post-conflict countries (Ethiopia, Rwanda and Uganda).

7 Both reports can be found on the IOB website.

1.4 Concepts

Poverty

There are many dimensions to poverty, which can be absolute and relative. Though in practice this concept is often measured in terms of (a lack of) income and resources to secure basic necessities, it is in fact broader. It refers to insufficient resources to be able to lead a good and meaningful life (Lanjouw et al., 2018).[8] These resources consist of incomes, but also education, health care, freedom, etc. The concept is therefore related to a lack of opportunity, powerlessness, poor social relations and vulnerability.

A common method used to measure poverty is based on income or consumption level. The poverty line defines the minimum level under which people are considered to be poor. This study uses, unless otherwise indicated, the World Bank's poverty lines, namely:[9]

- an income below the threshold of USD 1.90 a day. Sometimes this is also referred to as the threshold for low-income countries or extreme poverty;
- an income below the threshold of USD 3.20 a day. Sometimes this is also referred to as the threshold for lower middle-income countries or moderate poverty; and
- a threshold of USD 5.50 for higher middle-income countries.

The study mainly employs the first two poverty thresholds.

The poverty lines are based on what is required to secure basic necessities. They are determined by a basket of goods, a food basket to which other goods have also been added. The thresholds are adjusted for the purchasing power of one dollar in a given country. The per capita income in dollars does not necessarily create an accurate picture of the actual purchasing power. In low-income countries the purchasing power of an American dollar is generally higher than in the United States or in Europe. Figures based on *purchasing power parities* adjust for this difference. In practice incomes (and therefore poverty as well) in Sub-Saharan Africa are based primarily on consumption patterns. Many workers, especially in rural areas, do not receive wages but live mainly on what they produce themselves. Nor are incomes always registered properly either.

The poverty line can help determine the *headcount ratio* – the percentage of people with an income below the poverty line. The *poverty gap* is the average income shortage of people with an income below the poverty line. In Sub-Saharan Africa many incomes cluster around the extreme poverty line, which means the figures are sensitive to small changes (such as a large or even a small harvest).

A disadvantage of measuring poverty based on income level is that it is an indirect way of measuring deprivation (Alkire and Santos, 2014). Consumption patterns are not uniform and may change over the course of time. Indeed, people do not necessarily consider themselves as poor due to a low income, but more because of the latter's (social) effects. Moreover, an equal income is not the same thing as equal access to goods and services.

[8] This section is based on the sub-study by Lanjouw et al. (2018), which was conducted for this report.

[9] Most countries have their own poverty lines as well, which depend on the national living standards. Sometimes the differences with the World Bank definitions are large.

Services such as education, health care, water and sanitary facilities, and energy are often not available through the market. These kinds of considerations have contributed to the development of methods for measuring *multidimensional poverty*. The multidimensional poverty index, developed by Alkire and Foster (Alkire and Foster, 2011; Alkire et al., 2015) combines three dimensions (education, health and standard of living). Compared to the index of poverty rates for extreme poverty, this one generally results in a larger number of poor households, especially in fragile states, but also in Ethiopia, Burkina Faso and Uganda. Section 2.3 examines multidimensional poverty in more detail.

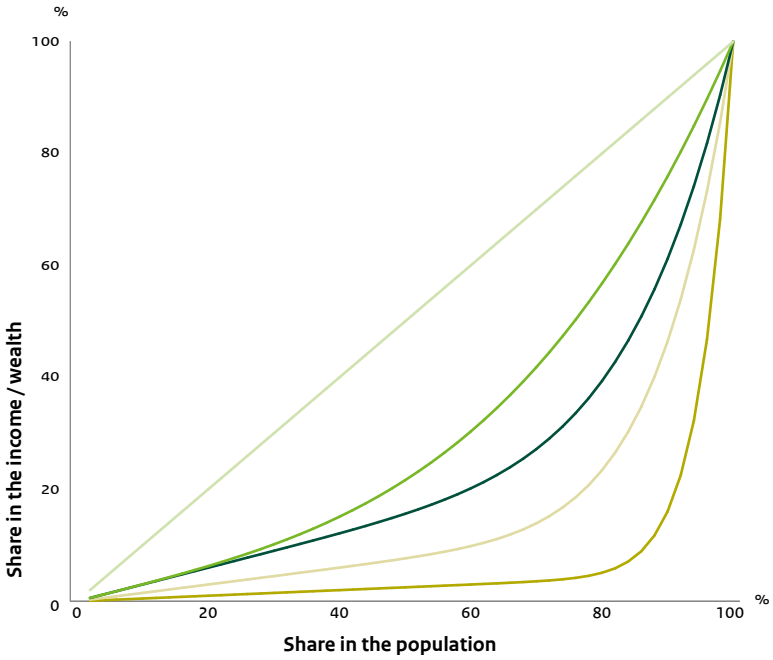
Inequality

Like poverty, there are also many dimensions to inequality, though economic research almost always focuses on income, consumption or wealth. Inequality essentially describes the entire distribution of income or wealth. It is difficult to express this in a single number. Inequality standards really only cover certain aspects. For example, you can examine the income of the poorest 10% in relation to the richest 10%, or the poorest 20%, etc. The more commonly used Palma ratio shows the relationship between the share of income of the richest 10% and that of the poorest 40%.

The most frequently used standard for measuring inequality, which is used here as well, is the *Gini coefficient*. This coefficient measures the inequality between values of a frequency distribution (for example, levels of income). The Gini coefficient has a value between 0 and 1, in which 0 corresponds to perfect equality (everyone has the same income), and 1 to perfect inequality. In the latter case, one person receives a country's total income. Of course, these extremes do not occur in real life. Instead of between 0 and 1 the Gini is sometimes calculated as a percentage as well, so as a number between 0 and 100.

The Gini coefficient is closely linked to the *Lorenz curve*, which provides a graphical representation of inequality (see figure 1.3). The x axis shows the cumulative population share and the y axis the total share of this group in the income or wealth. The steeper the curve, the more unequal the distribution. The Gini coefficient measures the relationship of the area between the diagonal (which represents perfect equality) and the curve until the entire area beneath the diagonal. The further the curve is from the diagonal, the more the Gini increases. The coefficient varies between 0.26 (for Scandinavian countries) and 0.63 (for South Africa). On a global scale, the Gini is approximately 0.67 (Milanovic, 2016). The inequality between countries has a Gini of approximately 0.47. The relative inequality between countries has been declining in recent years, though the absolute inequality is still increasing. Wealth is distributed more unequally than income.

Figure 1.3 *Global distribution of income and inequality (2011-2013)*

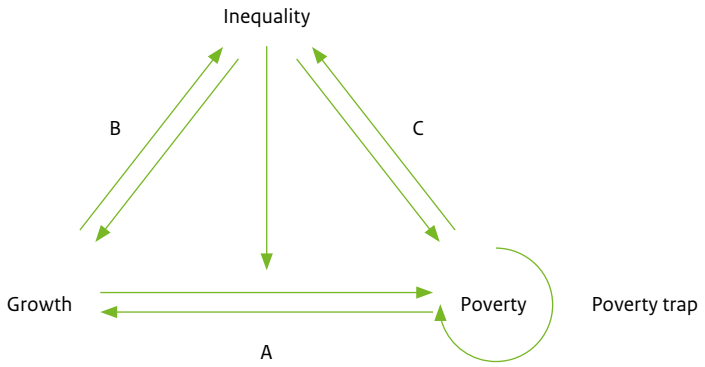


Source: WDI; Milanovic, 2011; Davies et al., 2011.

Poverty, inequality and economic growth

In the academic literature on economic growth, poverty and inequality it is customary to consider these three factors in relation to one another. Economic growth is an important determinant of poverty reduction (Dollar et al., 2002 and 2016; Ravallion, 2016). The degree to which economic growth can contribute to poverty reduction, however, depends on the initial situation (with very low incomes, growth does not immediately lead to poverty reduction) and the level of inequality in a society (who benefits from growth). Conversely, countries with high poverty figures usually have lower growth rates. This also explains why it is difficult to determine the impact of development cooperation on economic growth: when a researcher takes insufficient account of the negative correlation between poverty and economic growth, the impact seems negative. Rigorous research, which properly adjusts this relationship, will discover the positive impact (see, for example, Arndt et al., 2016).

Figure 1.4 *Relationship between economic growth, poverty and inequality*



Source: Lanjouw et al., 2018.

In the literature, it was long thought that economic growth almost by definition goes hand in hand with an increase in inequality and that conversely this inequality has a positive impact on economic growth. But based on empirical research, economists are revising their opinion. It is becoming increasingly clear that high levels of inequality do not have a positive but a negative impact on economic growth (Bourguignon, 2004; Birdsall, 2005; Easterly, 2007; Banerjee, 2009; Ortiz and Cummings, 2011; Stiglitz, 2012; Ostry et al., 2014; Cingano, 2014).

1.5 Limitations

Figures from Sub-Saharan Africa on income, poverty and inequality harbour many uncertainties. Revisions of the national incomes, with substantial amendments in Nigeria (90%), Ghana (60%), Senegal (30%), Tanzania (30%), Kenya (25), Zambia (25%) and Uganda (13%) make this clear.[10] The background research for this study by Lanjouw et al. (2018) discusses data problems in detail, especially in the area of inequality (see also Jerven, 2013). Lanjouw et al. cite the following problems:

- Economic growth is usually derived from official national accounts, while income and distribution statistics, such as those about poverty and inequality, come from surveys among households. The differences between both sources can be substantial, in part because they both have considerable margins of error. As a result, there is often a by no means negligible difference between the growth of the national income and the income growth of households measured in surveys.

[10] For Ghana 2010 and for Senegal 2017. For the other countries 2013/2014.

- A good registration of incomes is lacking in Sub-Saharan Africa. Many smallholder farmers live off the products that they produce themselves. In addition, a large group has a job as a freelancer or employee in informal businesses, and these often volatile incomes are not recorded either. Nor is there an accurate idea of the highest incomes, let alone wealth.
- In the literature, poverty and inequality are measured almost with no distinction on the basis of the percentage of the total population that lives below the poverty line (the headcount rate), and the Gini coefficient, respectively. We cannot create a comprehensive picture of income distribution based on these standards alone.
- An element that contributes to the uncertainty is the clustering of incomes around the different poverty lines. Small changes in the system of pricing goods that are part of the basket of consumption goods which is used to calculate incomes can therefore have major consequences: in one survey a household may be just below the poverty line, while the same household might be just above it in the next survey.
- National averages do not provide insight into underlying developments. For example, rising local inequality may go hand in hand with stable or even declining inequality at the national level if the averages of the local communities move towards each other.

The report obviates these limitations by using, in addition to the data, qualitative studies and by focusing in more depth on six case studies.

1.6 Reading guide

Chapter 2 describes the development of the triangle of economic growth, poverty and inequality in Sub-Saharan Africa. The chapter not only devotes attention to the most commonly used standards for measuring poverty, namely those of income or consumption, but also to multidimensional poverty and the Human Development Index (HDI). The chapter also examines developments in the six case study countries. Chapter 3 is the heart of the analysis: why was socio-economic development in Sub-Saharan Africa not more inclusive? This analysis focuses on two related factors: demographic development and the lack of structural transformation. Both factors confront the continent with a major challenge: how to find work for the large cohorts of young people who enter the labour market every year? If the region cannot achieve that aim, then there can be no question of inclusive development. The chapter also investigates the relationship between less-developed institutions and the low level of inclusive development in Sub-Saharan Africa. Based on the conclusions from chapter 3, chapter 4 discusses options for governments and donors to contribute to the eradication of extreme poverty and the realisation of inclusive development.

2

Development of economic growth, poverty and inequality

2.1 Introduction

This chapter examines the development of economic growth, poverty and inequality in Sub-Saharan Africa in in the last 20 years. The aim is gain insight into how economic growth has helped to reduce poverty and what role changes in inequality has played in that.

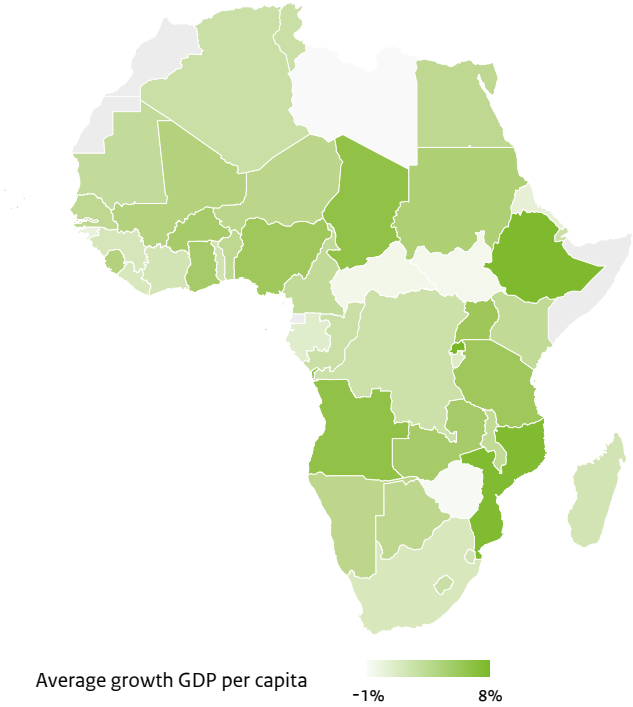
Section 2.2 starts with a brief outline of the development of economic growth and poverty. As is often the case, this section uses the most common notion of poverty, namely income poverty, or more accurately: income poverty as measured by household consumption. Poverty encompasses much more than just income or consumption, however: it often also entails poor access to water, electricity, education or health care. Section 2.3 will discuss this multidimensional poverty. The following section (2.4) examines how inequality has developed in the six countries. The chapter closes with a short summary (2.5). The data does not provide a clear picture: countries with the highest economic growth have both the highest (Rwanda) and the lowest (Ethiopia) levels of inequality; poverty decreased substantially in the country with the lowest level of growth (Senegal). The country with the greatest decline in inequality (Burkina Faso) did not have the highest decrease in poverty. Economic growth and inequality in Uganda are comparable to that in neighbouring Tanzania, and yet poverty decreased more in Uganda. Multidimensional poverty is the lowest in countries with the highest income of the six (Senegal and Tanzania). In most countries, multidimensional poverty decreased more than income poverty. Senegal is an exception.

2.2 Development of economic growth and poverty

The economic development of Sub-Saharan Africa can be roughly divided into three periods: economic growth up until the first oil crisis (1973), stagnation and recession up until the turn of the century, and recovery and strong subsequent economic growth (see also Ndulu et al., 2008; McKay, 2017). Factors that played a role in the stagnation are the international oil crises (1973 and 1979), deterioration of the terms of trade as a result of the demand for raw materials, poor economic policy and management by nationalised companies (Zamfir, 2016), neglect of agriculture, over-exploitation by the elite (e.g. DRC and the Central African Republic), war and internal conflict (Prunier, 2008; Arndt et al., 2016; Williams, 2016), the devastating impact of the HIV/AIDS crisis, the debt problem and the negative impact of structural adjustments demanded by the IMF and World Bank in exchange for further support. This period was further characterised by ongoing trade deficits and a deterioration of the physical and social infrastructure.

Many African countries started to recover in the second half of the 1990s. This was particularly evident in growth figures of 6%-8% a year after the turn of the century.[11] Explanations for this growth spurt include better economic policy, the raw materials boom (from 2002 onwards), strengthening of agriculture, foreign aid, a major reduction of the debt burden through debt cancellation and technological advances (particularly mobile telephony and internet) (see also Radelet, 2010; Thorbecke 2015; Nissanke, 2017a; Zamfir, 2016; UNDP, 2017). Other factors include urbanisation and, partly fuelled by the MDGs, investments in social sectors and progress in their indicators. The resolution or reduction of conflict also played a role (for example, in Ethiopia, Eritrea, Somalia, Sudan, Uganda, Rwanda, Liberia and Sierra Leone).

Figure 2.1 *Average economic growth in Africa*



Source: WDI (data 1997-2016).

[11] As discussed in length in chapter 1, reliable and accurate figures on economic growth, poverty and inequality are a problem in Africa (see also Devarajan, 2011; Jerven, 2013 and Zamfir, 2016). Countries such as Ghana (2010), Nigeria, Kenya and Uganda (2014) have revised their estimates of national income in recent years, and the result has been a considerable increase in national income (for example, 25% in Kenya and 13% in Uganda. It enabled Ghana to achieve the status of (lower) middle-income country overnight (IOB, 2014). In these cases, the recalculation mainly led to adjustments to the size of the services sector.

An element that has received less attention in the discussion is the role of public expenditure. In the 1980s and 1990s, governments had to impose severe cutbacks as a result of demands by the IMF and the World Bank and a high debt burden. From the late 1990s onwards, a decrease of this debt burden was on the horizon (HIPC I and II), whereby investments in the social sectors became a condition to become eligible for debt relief. Donors combined debt relief with general budget support, which was an impetus for expenditures in the social sectors (IOB, 2012). Various authors (e.g. Radelet, 2010; Bates et al., 2013a; Fosu, 2017b) view the improved quality of governance, democratisation and improved accountability to the population, and the emergence of a new generation of entrepreneurs and political leaders, as determinants of economic development.

The fastest-growing countries were not necessarily those experiencing the greatest degree of political reform; instead, it was often countries where the importance of the production and export of raw materials increased, such as Nigeria, Angola and Chad. Figure 2.2 gives an idea of the impact of the raw materials boom. The figure shows that countries exporting oil achieved the highest growth rates between 2002 and 2009. Nigeria's sizeable economy dominates these figures, but other oil-exporting countries had similar growth rates as well. Until 2009, Angola had the strongest growth in the region (Lanjouw et al., 2018), but was hit hard by the financial crisis and the drop in demand for oil from China. The group of *emerging economies* (see annex 1 and Radelet, 2010) underwent a similar development, with the exception of South Africa. Here too, the raw materials boom played a role in a number of countries, such as Mozambique (oil and gas), Tanzania (gold and other minerals), Zambia (copper) and Burkina Faso (gold). But countries without many raw materials, such as Ethiopia, Uganda and Rwanda achieved high growth rates. A number of countries lagged behind this development. These mainly concerned fragile states such as DRC, Burundi, Central Africa, Niger and Eritrea. Economic recovery has started to gain ground in a number of these countries in recent years (including DRC, Côte d'Ivoire and Niger). As a group they have posted the highest growth figures in Sub-Saharan Africa since 2011.
It seems that economic growth was often high in post-conflict countries that had managed to stabilise. Countries that had just put conflict behind them often experience rapid economic growth during reconstruction (Cramer and Chang, 2015). This is the case in four of the six countries with the strongest economic growth in the period 1995-2010: Ethiopia, Mozambique, Rwanda and Uganda.[12]

Ethiopia experienced spectacular development from 2004 onwards, with growth rates among the highest in the world.[13] The government stimulated the development of the country with investments in the infrastructure, such as roads, as well as dams and hydroelectric power (Dercon, 2010; Stifel and Woldehanna, 2016; World Bank, 2016a). The country focused on expanding agriculture and diversifying exports (and more recently growth in the horticulture and flower sector). This helped exports to quadruple between 2004 and 2011

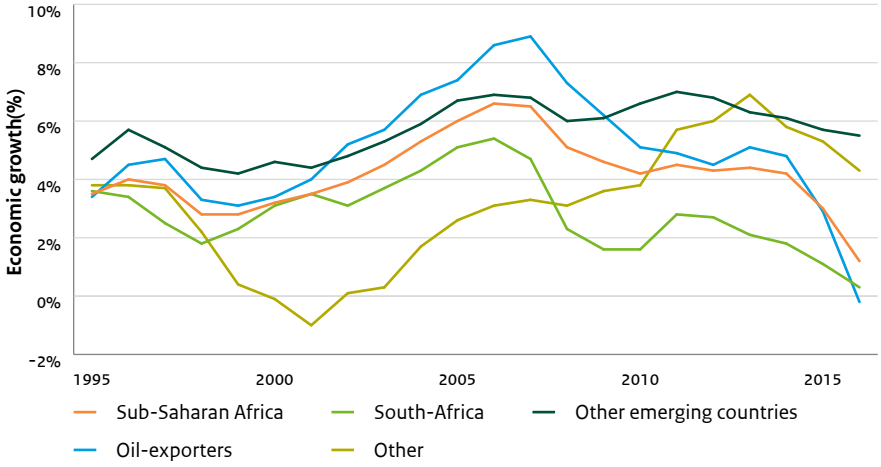
[12] Mozambique also benefited from the discovery of oil, gas and minerals.

[13] Growth figures from the IMF and the World Bank are consistently lower than the national figures. For the period 2000/2001 – 2010/2011, the national statistics bureau reported an average growth of 11%. The IMF's calculation came to 8%.

(Cramer and Chang, 2015).[14] In addition, investments in education and health care had already had an impact on economic growth in previous years (Batu, 2016).

Economic growth continued on its course in *Rwanda* following the genocide of 1994, which had plunged the economy into free fall. The country almost continuously achieved high growth figures of almost 8% a year. Government expenditures, boosted by foreign aid, were the engine of economic development, in addition to favourable economic policy (McKay and Verpoorten, 2016; Diao and McMillan, 2017). According to various authors, Rwanda was successful because the government actively promoted development from the private sector and managed to keep the most negative types of rent-seeking under control (Booth and Golooba-Mutebi, 2012). The private sector still has many limitations and is heavily influenced by the army, however. Moreover, while Rwanda scores satisfactorily on World Bank indicators for effective governance, it scores less well on indicators for democracy, freedom of expression and freedom of political organisation.[15]

Figure 2.2 *Development of economic growth in Sub-Saharan Africa**



** Three-year averages (with the exception of 2016). See Annex 1 for an overview of the countries.*

[14] The authors also mention the country's resistance to IMF's advice on how to open up the economy more rapidly to foreign companies.

[15] In terms of fighting corruption, the country compares favourably vis-à-vis other African countries on several indices (including Transparency International's), though there are critical voices as well (such as the Bertelsmann Stiftung).

Civil war and internal conflict have also had a negative impact on socio-economic development in *Uganda* for a long time. A return to peace in 1986, economic policy and donor support helped to put Uganda back among the fastest-growing economies in Africa in the 1990s (Kasekende and Atingi-Ego, 2008; Radelet, 2010; Kuteesa et al., 2010). The country was able to maintain this economic growth in the decade that followed. Peace in the north of the country in 2006 following the departure of Joseph Kony's notorious Lord's Resistance Army, stronger regional markets for agricultural crops and favourable weather conditions all contributed to this (Ssewanyana et al., 2011).

Although more stable than the above-mentioned countries, *Burkina Faso* experienced a period of economic recession between independence and the mid-1990s (Savadogo et al., 2004; PNDES, 2016). Since then the republic has been performing better economically than other countries in the West African region (IOB, 2016). The average economic growth during the period 2000-2016 was 5.5%.[16] This growth was mainly the result of an expansion of the public sector, made possible by foreign aid, mining (from 2007 onwards) and the expansion of several services (communication, transport and banking) (IMF, 2014; World Bank, 2017b). The expansion of the public sector contributed to about a third of the economic growth between 2005 and 2013 (World Bank, 2017b). This growth was initially stimulated mainly by favourable cotton prices and an increase in foreign aid, and later, from 2007 onwards, strong growth in the export of gold. The macro-economic policy, better functioning government institutions, foreign aid, and investments in infrastructure and education contributed to this growth (IMF, 2014).

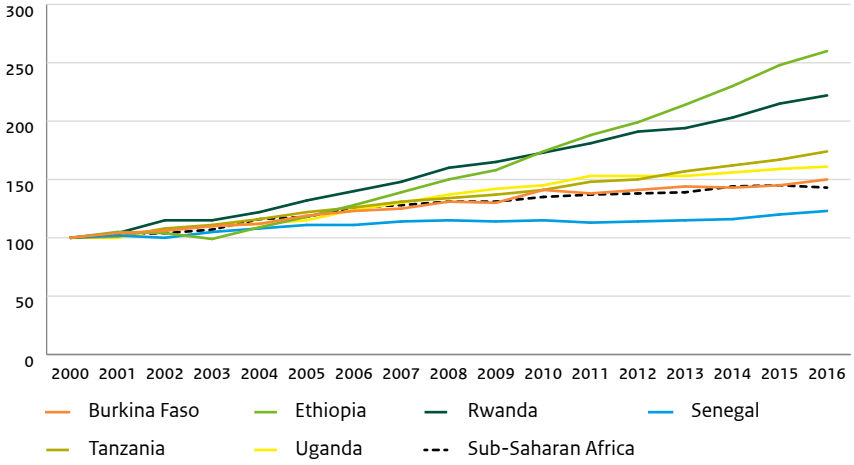
After two decades of stagnation, from the turn of the century onwards, *Tanzania* achieved average economic growth of 7% a year, which made it one of the fastest-growing economics in Africa (Utz, 2008; Radelet, 2010; Arndt et al., 2016; IOB, 2016). Economic reform in the 1990s and the macro-economic policy that was implemented thereafter were the foundation for this growth (Robinson et al., 2011; IOB, 2016). After that, government expenditures (boosted by foreign aid) and private investment, especially in mining, were the impetus for economic development (Robinson et al., 2011; Wuyts and Kilama, 2014a; ESFR and UNDP, 2015).[17] In terms of export, the share in raw materials has increased substantially.[18]

[16] From 2013 onwards, growth figures decreased dramatically compared to previous years. Causes include the falling price of gold and cotton, political unrest, the political situation in Mali and the impact of the Ebola crisis (IMF, 2015; AfDB, 2015). Loss of revenue forced the government to reduce expenditures, which had a negative impact on government investments.

[17] The most important raw materials are iron, coal, diamonds, tanzanite, nickel, uranium, gas and especially gold. After South Africa and Ghana, Tanzania is the third largest gold-producing country.

[18] The raw materials are mainly exported to China. China is now the second-largest trade partner, after India (ECA, 2016).

Figure 2.3 *Development of per capita income 2000-2016**



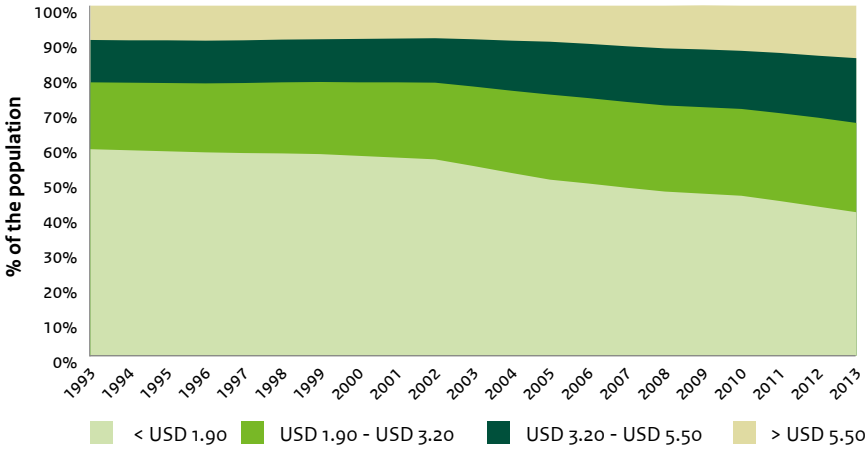
** GNI, based on constant prices in USD; index figures (2000=100). For Ethiopia based on GDP growth per capita. Source: World Bank (WDI).*

Senegal is one of the most stable countries in Sub-Saharan Africa. An exception to the rule is the occasional eruption of violence in the southern province of Casamance, where the separatist Mouvement des Forces Démocratiques de la Casamance (MFDC) has been fighting for independence since 1982. The violence and poor public services there have caused people to flee to Dakar and other cities. Like many countries in Sub-Saharan Africa, there is significant migration from rural to urban areas, also partly as a result of soil erosion and climate change. Approximately a quarter of the population lives in the capital Dakar. Despite relatively stability, since 2001 the country has joined the ranks of least-developed countries again. Per capita economic growth, with an average of 1.4% during the period 2000-2016, lagged slightly behind that of many other African countries (more than 2%). But despite the high price of oil and food, extreme poverty decreased, from 55% in 2001 to 47% in 2011, particularly as a result of major foreign aid and money transfers from Senegalese living abroad (especially in Europe). The latter now constitutes about 15% of the national income, and it therefore exceeds aid (more than 5%) and direct foreign investment (2-3%) put together. Economic growth barely contributed to new employment opportunities. As a result of high population growth (hidden) unemployment is on the rise. Relatively speaking, Senegal has a somewhat more sizeable industry than other countries with a comparable level of income. In addition, tourism is important to the economy. Following debt relief in 2006 public debt increased dramatically again in recent years (from 25% in 2007 to 62% in 2016). In addition to creating job opportunities the country is also faced with the challenge of finding financial resources to invest in social spending and infrastructure without letting (foreign) debt accumulate any further.

Poverty reduction lags behind economic growth

Poverty decreased less than anticipated in most countries based on economic development. In 1999, 58% of the population on the continent lived in extreme poverty; in 2013 that number had gone down to 41% (see figure 2.4). Population growth (of 46% in this period) increased the number of people living in extreme poverty (from 376 million in 1999 to 389 million in 2013). One in three extremely poor people live in fragile states such as the Central African Republic, Somalia, DRC or Burundi. In these fragile states, 27% of the population lives in Sub-Saharan Africa. Two-thirds of the extremely poor population lives in other countries, such as Nigeria, Ethiopia, Rwanda, Burkina Faso, Malawi or Tanzania.[19] According to estimates by the World Bank (Burt et al., 2014; Milante et al., 2016) if policy does not change 23% of the population in fragile states will be living in extreme poverty in 2030. That would also mean that 46%-67% of the extremely poor households would live in one of these countries.[20] Children are a vulnerable group. According to UNICEF and World Bank (2016) figures, in 2013 half of the children and boys (up to the age of 18) in Sub-Saharan Africa lived in an extremely poor household.

Figure 2.4 *Development of poverty in Sub-Saharan Africa*



Source: WDI (interpolation of missing years).

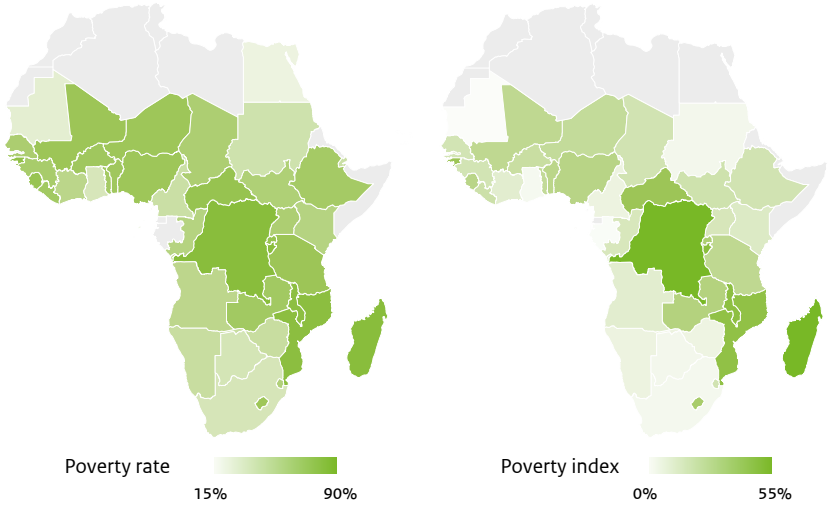
[19] This is based on the World Bank's list of fragile states, see http://www.worldbank.org/en/ topic/ fragilityconflictviolence/brief/harmonized-list-of-fragile-situations. The Fund for Peace provides an alternative index, with 11 different groups, varying from 'very sustainable' to 'very high alert'. African countries do not appear in the three most stable groups. Mauritius scores the highest. South Sudan scores the lowest, followed by Somalia and the Central African Republic. Annex 3 provides a breakdown of poverty based on this categorisation.

[20] The figure depends strongly on the question of which countries are considered fragile states. Milante et al. (2016) include Nigeria in the figure of 67%, for example. See also: http://www. worldbank.org/en/ topic/fragilityconflictviolence/overview And: https://www.oecd.org/dac/governancepeace/conflictfragilityandresilience/docs/List%20of%20fragile%20states.pdf

A large part of the population lives on a consumption level just above the poverty level of USD 1.90 a day. A small livelihood shock, caused by drought, water shortage or a failed crop, for example, could lead to an immediate return to (extreme) poverty (Arndt et al., 2016; IOB 2016; Lanjouw et al., 2018). With the somewhat higher threshold of USD 3.20, 67% of the population would still be poor (as opposed to 78% in 1999). In addition, 85% of the population would have a consumption level lower than the purchasing power that corresponds to USD 5.50 a day in the United States.

Conversely, the *poverty gap* seems to have been drastically reduced: in 1999 people living in extreme poverty had an income that was on average 26% below the poverty level of USD 1.90; in 2013 this had decreased to 16%. For the higher poverty line of USD 3.20 (the poverty line for lower middle-income countries) that is a drop from 44% to 32%. The poverty index, defined as the multiplication of the percentage of the population that lives under the poverty line of USD 3.20 multiplied by the poverty gap, has decreased from 34 in 1999 to 21 in 2013. This means a 38% drop in poverty. Poverty figures are currently particularly high in South-East Africa, Central Africa and large part of West Africa.[21] In relation to income, poverty is still especially high in Mozambique, Nigeria and DRC. The opposite is the case in Ghana, where poverty is relatively low. The latter is striking, because inequality is relatively high there (see section 2.4).

Figure 2.5 *Poverty in Sub-Saharan Africa*



*Percentage of poor with a poverty line of USD 3.20; the poverty index = % households * poverty gap.*
Source: WDI.

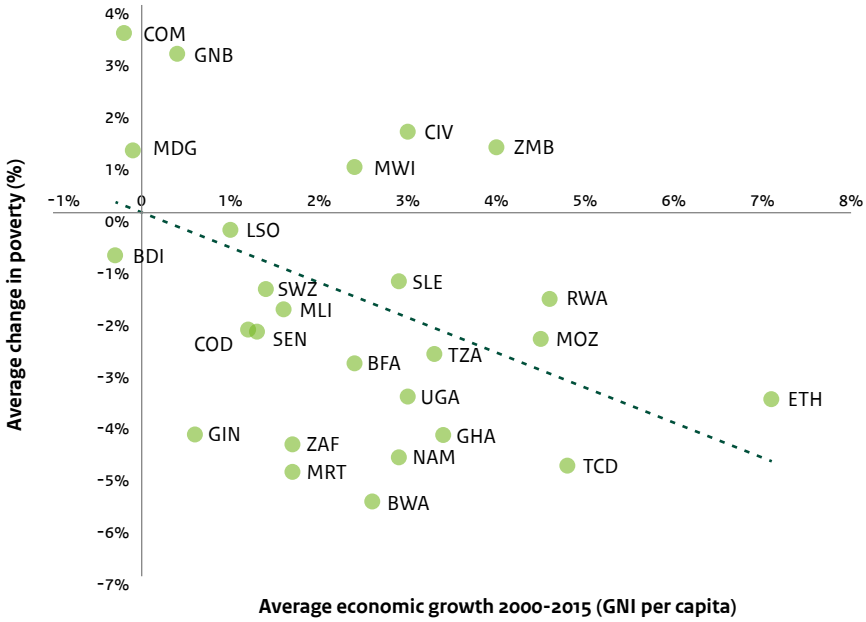
[21] Figures are lacking for the Horn of Africa, with the exception of Ethiopia.

The relatively limited decline of (extreme) poverty means that for Sub-Saharan Africa the growth elasticity of poverty is low (World Bank, 2013; Arndt et al., 2016; Page and Shimeles, 2015; Ravallion, 2016; UNDP, 2017). It comes to -0.7, as opposed to -2.0 for other developing countries (World Bank, 2013). Whereas in other countries, economic growth of 1% causes poverty to decrease by 2%, in Sub-Saharan Africa it is only 0.7% (see also figure 2.6). The causes, in addition to high population growth, are an initial situation of high poverty and high inequality, and both in terms of opportunity and outcome (income) a high intensity of poverty (Fosu, 2015 and 2017a; Watkins and Quattri, 2016). In Zambia, Côte d'Ivoire and Malawi, economic growth went hand in hand with a rise in poverty, which expresses itself in higher income inequality. Rwanda and Ethiopia compensated high economic growth with a relatively low growth elasticity of poverty.[22] Nevertheless, poverty figures in both countries are still high. After China, Nigeria, Bangladesh and Indonesia, Ethiopia is the country where the most people live in poverty. In Rwanda in 2010, approximately 80% of the population lived in poverty and approximately 60% in extreme poverty (World Bank, 2015a).

Ghana, Senegal and Uganda, on the other hand, are countries where the percentage of poverty reduction was greater than the economic growth (World Bank, 2016a; McKay, 2017). In Uganda this was mainly the result of a rise in income in agriculture. Between 2006 and 2012 favourable rainfall and high prices were responsible for two-thirds of the rise in income from crops for the poorest 40%. Governmental social programmes also helped to reduce poverty. Government expenditures increased, in part thanks to donor support, from 19% of the national income in the early 1990s to 32% in 2008/2009. This boosted economic growth (Ssewanyana et al., 2011; World Bank, 2016a). Extreme poverty decreased dramatically, from 64% in 1999 to 35% in 2012. Nonetheless, more than a third of the population still lives in extreme poverty. And another 30% has an income below the poverty line of USD 3.20.

[22] In the literature, authors often use national poverty figures instead of those of the World Bank, which are more comparable internationally. The national figures of Ethiopia and Rwanda show a greater reduction of poverty than the World Bank figures.

Figure 2.6 *Relationship between economic growth and poverty reduction in Africa*



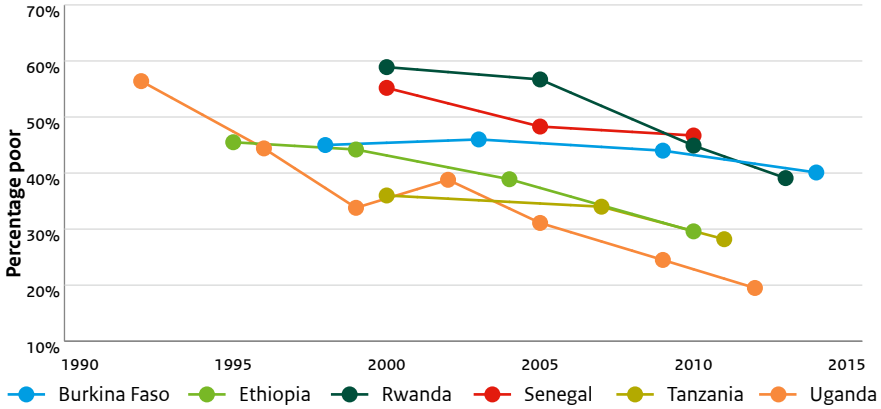
Poverty figures for Tanzania are for 2007-2012. See Annex 1 for the country abbreviations.
Source: Adapted by IOB based on WDI.

Since the end of the first decade of this century, economic growth and inequality reduction have had a greater impact on poverty rates in Sub-Saharan Africa (Thorbecke and Ouyang, 2017). Tanzania is an example. Between 2001 and 2007 the country combined high economic growth with an essentially constant level of inequality and consistently high poverty figures (Arndt et al., 2013; Bandara et al., 2014; Arndt et al., 2016; Magombeyi and Odhiambo, 2016; Adam et al., 2017).[23] One explanation is that the growth was not so much stimulated by higher consumption expenditures as by private investment and government expenditure (Arndt et al., 2016). The impact of economic development on poverty rates was greater during the period 2007-2012, which was indeed expressed in a slight decline in income inequality (Arndt et al., 2016). In Burkina Faso national poverty rates also decreased less than one would initially expect based on the economic growth there (Grimm et al., 2016; World Bank, 2017a). One explanation for this is the low initial level: many households lived too far below the poverty line, as a result of which the economic growth and inequality

[23] The decline in poverty is also disappointing because according to data from household surveys many households had an income close to the poverty line (Atkinson and Lugo, 2010).

reduction were not reflected in the lower poverty figures.[24] There has been a clear decline in poverty since 2010, even though more than 7.5 million people still live under the (extreme) poverty line in Burkina Faso. A large number of these households lives just above it, which means that minor shocks, such as a bad harvest, quickly result in a significant rise in the number of poor households (World Bank, 2017a).

Figure 2.7 *Development of poverty 1990-2015*



** Poor population as a percentage of the total population. National poverty figures.*

Although relative poverty in an urban environment can be distressing, absolute poverty is primarily a rural phenomenon. More than 80% of poor households live in rural areas and more than half of them depend on the food that they produce for their livelihoods (World Bank, 2015a). Table 2.1 shows the differences between urban and rural poverty for the six case study countries. The table uses national poverty definitions, which means that the figures are not comparable. Rwanda, Tanzania and Uganda employ relatively low poverty lines and Senegal a relatively high one. The table therefore also provides figures for extreme poverty based on the World Bank's definition (USD 1.90). Moreover, the figure also contains information about the average per capita income.[25]

The table shows that poverty is higher in rural areas than in the cities in all six countries. Nevertheless, the differences are substantial: in Burkina Faso about three times as many people are poor in rural areas than in urban areas; there is less difference in Ethiopia. In Tanzania poverty rates improved, especially in Dar es Salaam, which is where economic

[24] In 2003 extremely poor households had an income that was on average 24% below the poverty line of USD 1.90; for households with an income below USD 3.10 that number was 42%. The Gini is less sensitive to changes at the extremes of income distribution and more so to those in the middle, but that does not really play a role here, because a large part of the population, including the middle segment, is poor. The income share of the wealthiest 20% did decrease in favour of other groups, however.

[25] The last column adjusts the differences in purchasing power of a dollar, which is also the case when estimating the poverty lines for a given country.

growth was concentrated (World Bank, 2015b; IOB, 2016). Furthermore, the decline in poverty was mainly the result of a shift from agricultural to other activities in rural areas and migration to second-tier cities. Thirty per cent of the group that managed to escape poverty continued to work in agriculture, while not more than 15% did so by migrating to major cities (Christiaensen and Todo, 2013). The breadwinner in extremely poor households in urban environments works in the low-productivity services sector or is unemployed.

Table 2.1 *Rural and urban poverty in six countries*

	National definitions				World Bank data			
	Capital	Urban*	Rural	Total	Poverty line USD 1,90	Poverty line USD 3,20	GNI per capita (USD)	GNI per capita (USD, ppp)
Burkina Faso	10	14	48	40	44	76	640	1,680
Ethiopia		26	30	30	34	73	660	1,730
Rwanda	21	16	44	39	60	82	700	1,870
Senegal		33	57	47	38	68	950	2,480
Tanzania	4	22	33	28	47	79	900	2,740
Uganda		10	22	20	35	67	660	1,820

** Excluding the capitals of Burkina Faso, Rwanda and Tanzania.*
Years: Burkina Faso: 2014, Ethiopia: 2010/2011, Senegal: 2010, Rwanda: 2013/2014, Tanzania: 2011/2012, Uganda: 2012. GNI per capita: 2016.
Source: WDI and national statistics bureaus.

2.3 Multidimensional poverty

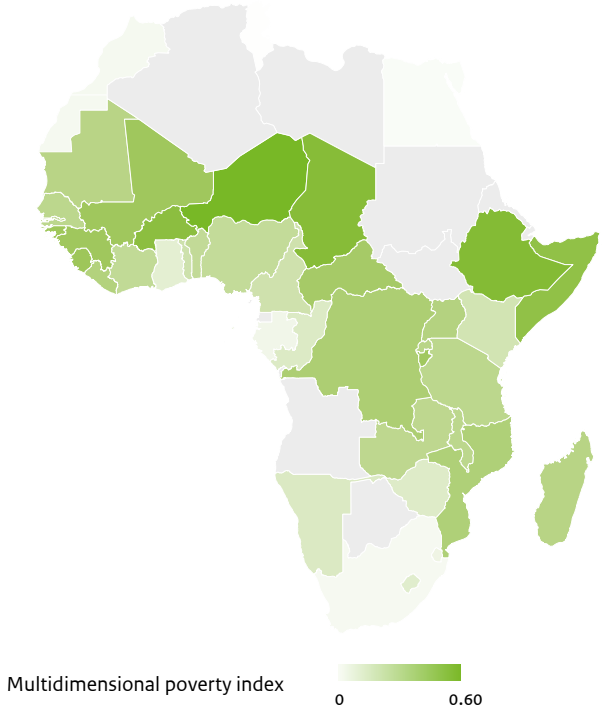
The previous section described the development of poverty as measured by income or consumption. This shows the relationship between economic development and opportunities for the poorest population groups to participate in it independently. At the same time, it is only part of the story: poverty is much more than a low income or low consumption. Poor access to social services and democratic structures is part of it as well. There is also a vicious circle at work here: the most vulnerable groups in a society that lack a good economic and social infrastructure do not have access to the labour market or finances, nor are they in a position to borrow money or save for investments or disasters. They are not able to invest in education or health care, which leads to poor health and a lack of skills, etc.

The *Multidimensional Poverty Index* (MPI), developed by Alkire and Foster (Alkire and Foster 2011; Alkire et al., 2015 and 2017; Alkire and Housseini, 2017) attempts to do justice to the different dimensions of poverty. The index combines three dimensions (education, health care and the

standard of living) and uses ten indicators.[26] At the country level, the index is strongly correlated with indicators for income poverty. It does, however, generate higher values for a number of countries in the Sahel (including Niger, Ethiopia, Burkina Faso and Chad) and lower values for Ghana and a number of countries in Southern Africa (see Annex 3).

In some countries, multidimensional poverty has dramatically decreased in recent years. The first ones that Alkire and Housseini (2017) mention are Rwanda and Ghana, followed by Tanzania, Uganda, Mozambique, Ethiopia and Niger. Burkina Faso and Ethiopia still have a high MPI score, despite all the improvements. In both countries, multidimensional poverty is particularly high in rural areas. In Burkina Faso, 84% of the population is poor according to the multidimensional index. That percentage is even 95% in rural areas. In Ethiopia, the lower MPI score was mainly the result of reduced intensity, rather than the percentage of multidimensionally poor households. This latter figure only decreased to a limited degree. In 2000, approximately 94% of the Ethiopian population was poor according to the MPI. Eleven years later, this was still about 86%.

Figure 2.8 *Multidimensional poverty in Sub-Saharan Africa*

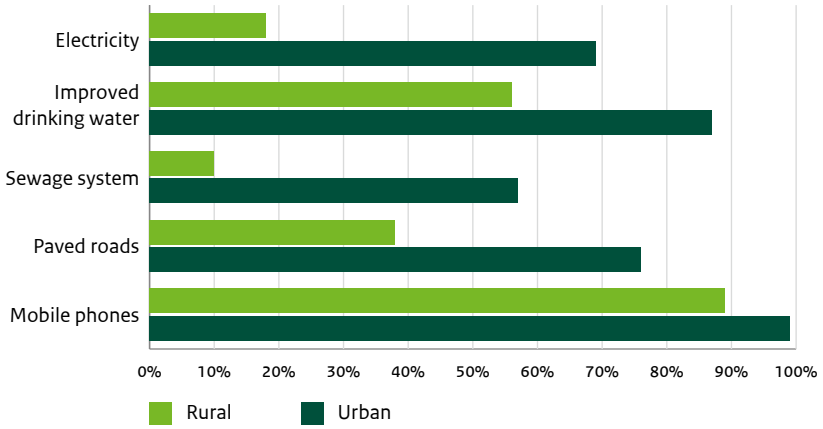


Source: Data OPHI (data approximately 2010-2012).

[26] Years of education, enrolment in education, child mortality, nutrition, electricity, drinking water, sanitary facilities, floors, fuel to cook with and assets. A person is multidimensionally poor if he or she is deprived of at least four of these indicators. In addition the authors also measure the intensity (or degree) of the deprivation. The multidimensional poverty index is the product of both figures.

The differences between urban and rural areas in the Multidimensional Poverty Index are usually greater than is the case for income poverty (Alkire and Housseini, 2017). This can be partly accounted for by indicators such as access to electricity, clean drinking water and sanitary facilities (see figure 2.9). One problem with investments in public and social services is that they are often concentrated in large cities. In the six examined countries, the inequality between urban and rural areas is relatively low in Rwanda. A characteristic of development in Rwanda is that the improvements have not been limited to cities but have been mainly implemented in rural areas (McKay and Verpoorten, 2016). In Rwanda multidimensional poverty decreased between 2005 and 2010 from 83% of the population to 66%. Almost all indicators on the index contributed to this: education, health care, assets and living circumstances. Government policy also contributed to this (McKay and Verpoorten, 2016). The government implemented (obligatory) free primary education, improved the infrastructure of education and enhanced opportunities for adult education. Partly as a result of this, enrolment in education is high compared to neighbouring countries. In the health sector, the government implemented a kind of performance-related financing and obligatory insurance. Partly as a result of these measures, but also due to funded interventions, child mortality halved between 2000 and 2010. The average life expectancy shot up from 48 years in 2000 to 67 years in 2015.

Figure 2.9 *Differences in infrastructure between urban and rural areas (2015)**



** Data on electricity and improved drinking water: % households with access to the service. For the other data: sample area Afrobarometer where the service is available.*
Source: WDI (electricity and drinking water; Sub-Saharan Africa) and Afrobarometer (sewage system, paved roads and mobile phone; Africa).

Table 2.2 *Multidimensional poverty in six countries*

	National	Rural	Urban	Rural/urban
Burkina Faso	0.54	0.62	0.23	2.7
Ethiopia	0.56	0.64	0.23	2.8
Rwanda	0.35	0.37	0.20	1.9
Senegal	0.33	0.46	0.14	3.3
Tanzania	0.32	0.39	0.15	2.6
Uganda	0.37	0.41	0.13	3.2

Source: OPHI, 2015.

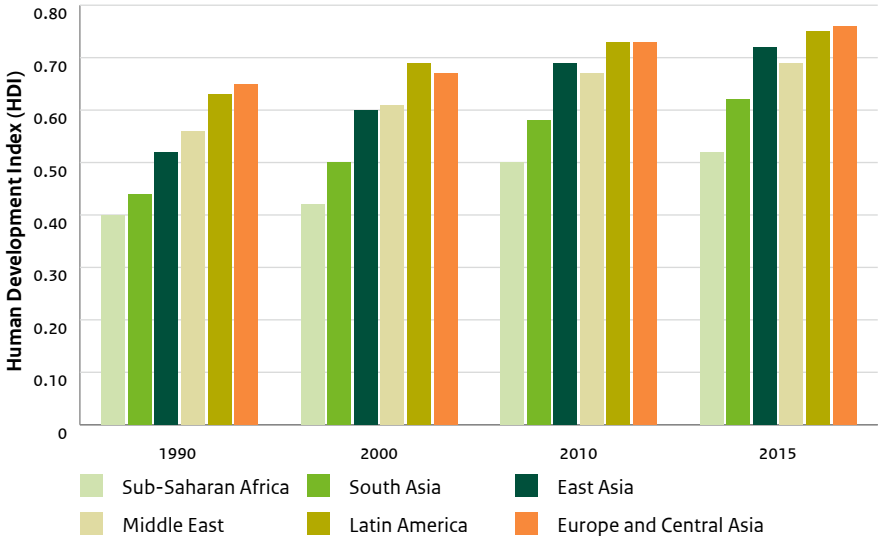
The figures for Tanzania are comparable to those for Rwanda. The most recent data suggest that two-thirds of the population in Tanzania also lives below the multidimensional poverty line. This figure is not only substantially higher than the national poverty definition (28%), but also the international definition of extreme poverty (USD 1.90, 47%). But while the poverty measured in terms of family consumption only declined slightly between 2000 and 2010, various other prosperity indicators for the poorest part of the population improved significantly (see figure 2.10 and Arndt et al., 2014; Alkire et al., 2015). One explanation is that government expenditure in the first decade of this century, partially made possible by foreign aid, was the engine of growth and that (private) consumption expenditure lagged behind (Bandara et al., 2014).

Between 2001 and 2007 government expenditure per capita in the social sectors quadrupled (Atkinson and Lugo, 2010). Government and donor investments in education and health care had positive consequences in these sectors, and the poorer quintiles were able to benefit from them (IOB, 2012). The inequality in enrolment in education decreased considerably after mandatory school fees were abolished early in the century (Maliti, 2016).

Changes in multidimensional poverty at the national level are also reflected on the Human Development Index (HDI), the index of human development maintained by the UNDP.[27] As a whole, Sub-Saharan Africa lagged considerably behind Asia and Latin America on this index during the period 1990-2000. Government cutbacks as a result of the debt burden and structural adjustment programmes are a potential explanation. Driven by economic growth and the MDGs, the HDI improved considerably between 2000 and 2010. Both income growth and better access to education, but particularly the rise in life expectancy, played a role in this. Sub-Saharan Africa still lagged behind the increase on the HDI in Asia, which created a gap with Sub-Saharan Africa during the period 1990-2000.

[27] In addition to income, this index of human development contains, just like the MPI, contains indicators for health (life expectancy) and education. One difference is that it concerns an index of aggregated (national) indicators.

Figure 2.10 *Changes Human Development Index 1990-2015*



Source: UNDP.

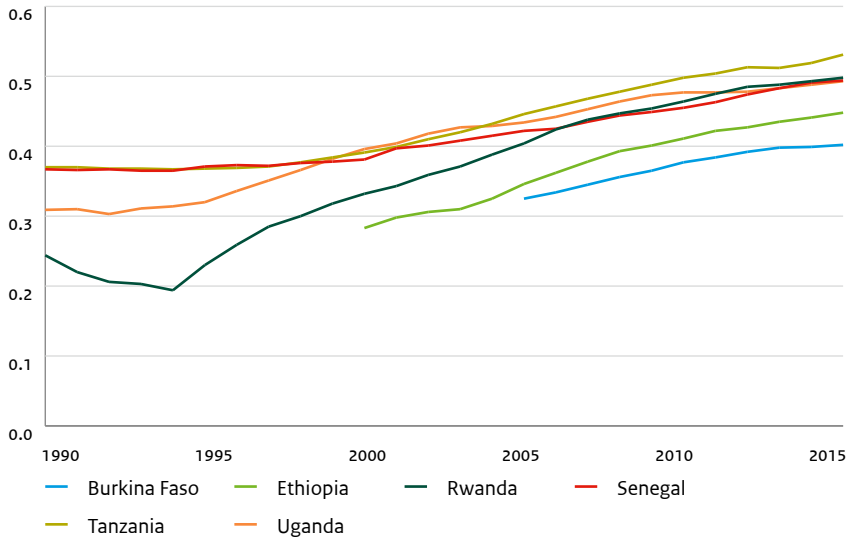
Figure 2.11 shows the development of the HDI for the six case study countries. Measured from 2000 onwards, the HDI has increased most among these six countries in Rwanda, Ethiopia and Tanzania. They are also among those countries where the multidimensional poverty index improved the most. As also mentioned with the Multidimensional Poverty Index, this was not so much the result of income improvement in Tanzania as an increase in the average life expectancy (from 50 years in 2000 to 65 years in 2014) and the number of years of education (from 3.6 years in 1990 to 5.1 years in 2014). There is also a difference with Uganda here: while poverty figures improved much more in Uganda than in Tanzania, from 2003 onwards the HDI rose more in Tanzania than in Uganda. Income poverty also decreased considerably in Senegal, like Uganda, but the former made less progress on non-monetary indicators, as is reflected by the MPI and the HDI (McKay, 2017).

Burkina Faso's low score on the HDI index shows that the country still has a long way to go. In 2015 only Chad, Niger and the Central African Republic had lower scores. The HDI index has improved since the first measurement for that country in 2005, but it will take another 20 years at the current pace for the country to reach today's average (median) level. The improvement is not so much a result of income improvement but more an increase in average life expectancy (from 54 years in 2005 to 59 years in 2015) and an increase in the expected number of years of education (from 3.5 years in 2000 to 4.7 years in 2005 and 7.5 years in 2012).

Life expectancy has increased thanks to better health care, access to improved drinking water facilities and sanitary services. Malnutrition and child mortality are still high, however

(Grimm et al., 2015). There are still major challenges when it comes to education as well. Despite all the progress, enrolment in education is low compared to other countries in Sub-Saharan Africa. Particularly as a result of the low education index, Burkina Faso has been among the 10 countries with the lowest HDI since measurements started being taken for that country.

Figure 2.11 *Changes Human Development Index in six countries*



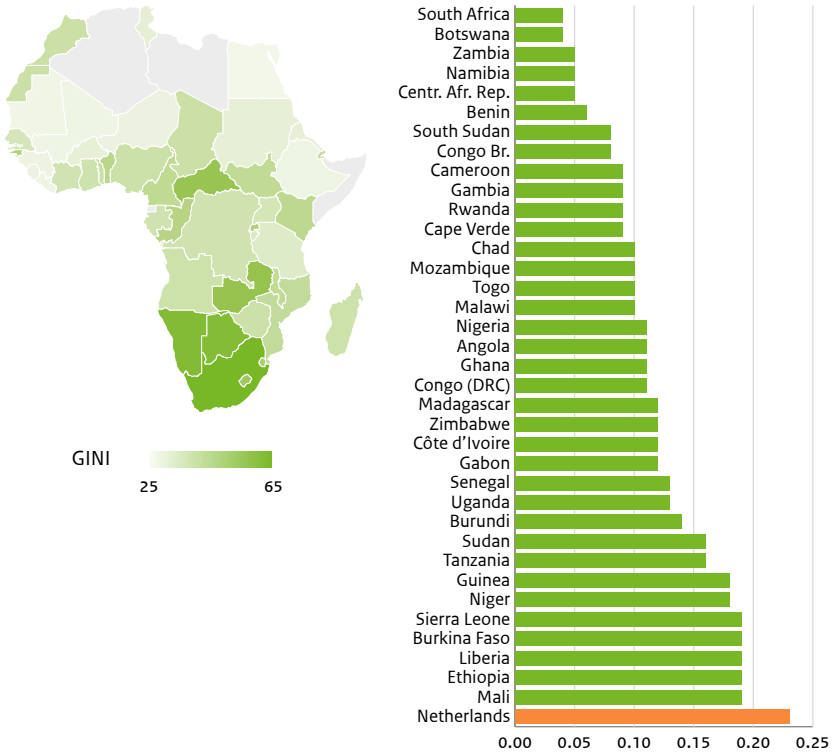
Source: UNDP.

2.4 Inequality

Income inequality is high in many countries in Sub-Saharan Africa: 10 of the 19 most unequal countries in the world are in Africa (UNDP, 2017). There is great variation (see figure 2.12). South Africa has the highest inequality with a Gini of 0.63 (in 2011); the much smaller Sao Tomé and Principe had the lowest value in 2010 (0.31). It is difficult to discern clear patterns, though of course the high level of inequality in South Africa is striking, in addition to the Central African Republic (Lanjouw et al., 2018). On the other hand, there is relatively low inequality in the Sahel region, with the exception of Chad. In addition to the Sahel, there is also relative equality in Tanzania, a consequence of Nyerere's policies (Collier, 2009). In Tanzania, the average income of the poorest 20% was less than USD 300; the wealthiest 20% had an income of almost USD 1,800 (on an annual basis). In a completely egalitarian society, the income of the poorest 20% would have been almost USD 800. Based on purchasing power parities, that is approximately USD 2,400 (net income a year). If we compare that to countries in Sub-Saharan Africa, then it appears that, after checking for income, poverty is on average 0.5-0.6 percentage points lower in countries where inequality is a percentage point lower. In other words, a country such as Rwanda could decrease

poverty by almost 10 percentage points if it succeeded in bringing its level of income inequality to that of Ethiopia or Burkina Faso.

Figure 2.12 *Inequality in Africa*



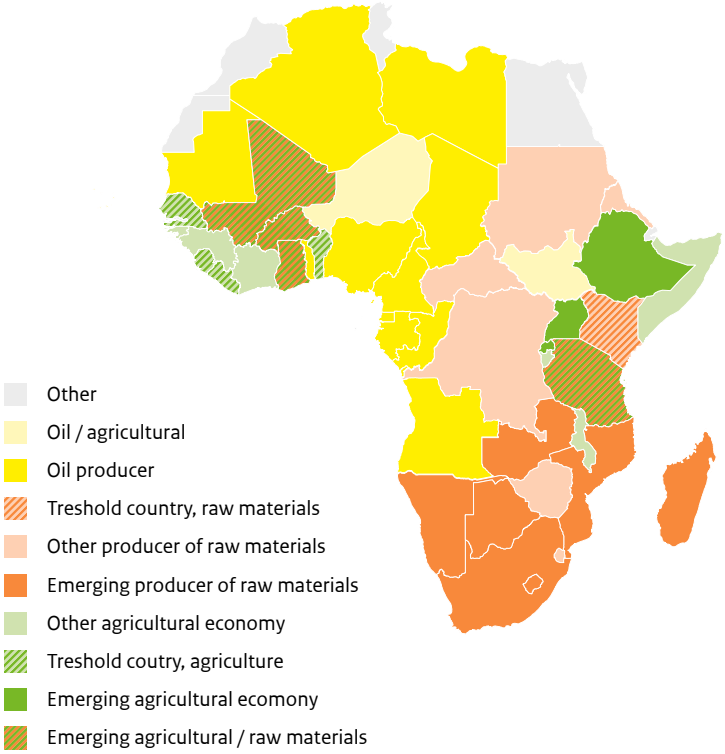
Left figure: Gini; right figure income poorest 20%/income wealthiest 20%.
Source: World Bank (WDI) and UNDP (2017).

There is a negative correlation between inequality and the level of economic development, as measured by per capita income or the Index of Human Development, and inequality (see Annex 3).[28] In Sub-Saharan Africa, on the other hand, countries with the highest income (in Southern Africa) appear to also have the highest inequality figures. Conversely, a low level of development in the Sahel and Horn of Africa go hand in hand with a relatively limited level of inequality. Countries with high inequality are relatively often countries rich in raw materials (especially oil), while countries in which agriculture is more important are often far less unequal (Khan et al., 2016, see also figure 2.13). Countries where agricultural crops represented a sizeable share of the economy were in a better position to reduce poverty than countries that depended strongly on raw materials. Countries such as Mali, Burkina Faso and Tanzania seem to be exceptions in the figure, but these are actually primarily

[28] For this analysis, we used the database in Alkire et al., 2015.

agricultural economies, where the production of raw materials (especially gold) has increased substantially in recent years. In Tanzania this contributed to a rise in inequality.

Figure 2.13 *Characterisation of African economies*



Source: based on Radelet, 2010; Khan et al., 2016; OEC.

The relationship mentioned by Khan et al. corresponds to the main causes of inequality cited by the UNDP (2017):

1. *a highly dualist economic structure*, in which employment opportunities are concentrated in the raw materials sector, a limited number of multinational companies and the government sector, and in which the majority of the population earns an income from subsistence agriculture and the informal services. Zambia, Angola and also Chad are examples of this;
2. *a high concentration of physical (assets) and human capital* (a small, well-educated group and a clear majority without access to good-quality education). South Africa is an example of this (Leibbrand et al., 2016).
3. *a limited capacity of the government to redistribute the (primary) income* (limited fiscal capacity, an urban bias, major gender inequality): the Central African Republic and Togo are examples of this.

4. Research also shows that when there is major inequality in the initial situation, then the income elasticity of poverty is usually low (Ravallion 2015; Fosu 2009; UNDP 2017). High economic growth does not go hand in hand with a substantial reduction of poverty. In Sub-Saharan Africa high inequality contributes to relatively high food prices, which leads to higher poverty levels (Gelb and Diofasi, 2015).

Just as there is a vicious circle in poverty between a lack of opportunity to earn an income and a low income, so too the unequal distribution of income and wealth is a symptom of underlying inequality regarding access to such things as health, education, the labour market, finances, etc. Unequal opportunities have a negative impact on income and vice versa. Inequality of opportunity can be caused by social exclusion, usually based on ethnicity, religion, region, culture, gender, age or disability (Handley et al., 2009; UNDP, 2013; UNDP, 2017). Moreover, increasingly empirical research is providing evidence that high inequality exercises a negative influence on economic development in low-income countries: countries with very skewed income distribution have lower and less sustainable growth rates (Bourguignon, 2004 and 2015; Birdsall, 2005; Easterly, 2007; Ortiz and Cummings, 2011; Stiglitz, 2012; Ostry et al., 2014; Cingano, 2014; IMF, 2015a; Dabalen et al., 2015; Nissanke, 2017a). Inequality leads to worse health and social outcomes, resulting in reduced work productivity and economic growth (Easterly, 2007; Grimm, 2011; Stiglitz, 2012). What's more, inequality undermines the social consensus needed for reform, and it has a negative impact on investments. It contributes to a decline of social cohesion and leads to social and political tension and conflict (UNDP, 2017). Guaranteeing equal opportunity makes an economy more dynamic and therefore has a positive effect on the economy as a whole in the long run (World Bank, 2015a).

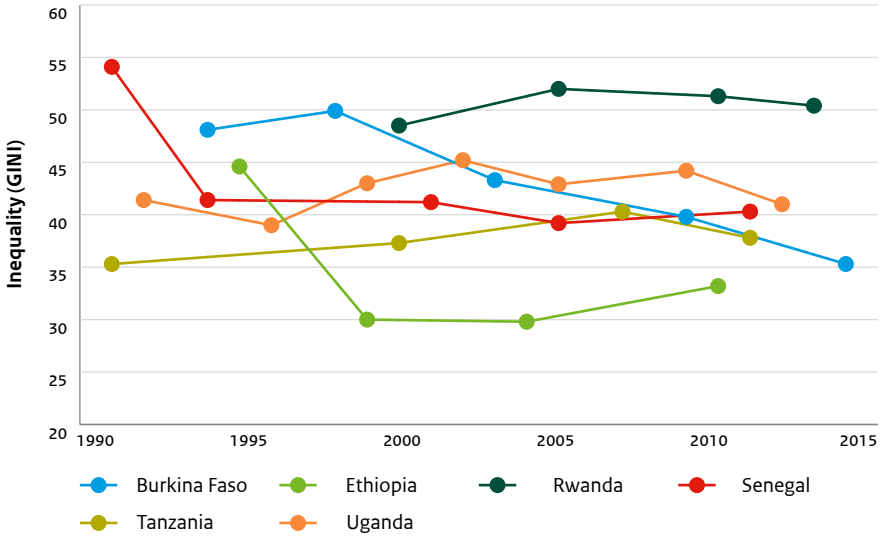
Lanjouw et al. (2018) examined how (income) inequality developed from the late 1990s onwards in Sub-Saharan Africa. They concluded that the increase in inequality – with a rise in the Gini of 0.52 in 1993 and 0.56 in 2008 (AfDB and the WB, 2018) – is primarily the consequence of a gap that has emerged between the average incomes of countries and not of increased inequality within countries. It is difficult to distinguish between trends for groups of countries, though inequality seems to have mainly increased in Southern Africa and East Africa (but also in Ghana and Côte d'Ivoire) and decreased in a number of countries in the Sahel. A subsequent conclusion is that in countries where poverty increased, this often went hand in hand with a rise in inequality. Furthermore, it is difficult to discern a pattern for the short term: in addition to countries where the Gini clearly rose, there are also countries where it declined. Many factors played a role in this.

Development through time did not generate a clear pattern for the six case study countries either. In *Rwanda's* case, the high inequality was striking, not only in the figure below, but also regionally. Although the figures are not as extreme as in Southern Africa, the distribution of wealth is considerably more unequal than in neighbouring countries. Like many other countries, inequality in urban areas is higher than in rural areas. There is also major gender inequality: women earn substantially less than men in the same profession; the impact of education and experience on income for women is also considerably lower than for men (World Bank, 2016a). On the other hand, despite high income inequality, inequality in access to social services has decreased.

Despite a slight increase in the Gini index, *Ethiopia* is one of the least unequal countries in Africa (World Bank, 2015a; UNDP, 2017). Inequality has increased in the cities, where it is greater than in rural areas (IMF, 2015a).[29] Research also shows that income disparity between ethnolinguistic groups is on the rise (Geda and Yimer, 2014). The increase in income inequality in Ethiopia is also reflected in a rise in inequality regarding access to public services. Higher vaccination rates, for example, are largely attributable to improvements among the wealthiest 40%.

In *Uganda* inequality increased from a Gini of 0.39 in 1993 to 0.45 in 2002. After that, it remained fairly constant, but in the years following 2009 it began to fall again. Between 2010 and 2013, consumption growth among the poorest 40% was higher than that of the wealthiest 60% (World Bank, 2016b). In Senegal and Ethiopia, inequality figures dropped dramatically in the 1990s, after which they remained fairly stable (see figure 2.14).

Figure 2.14 *Development of inequality in six countries*



Source: WDI.

Of the six countries, *Tanzania* shows the most consistent rise of inequality. It began to increase with the liberalisation of the economy. Between 2001 and 2007 the poorest 20% lost income, while the other quintiles, in particular the wealthiest 20%, including many well-educated people in cities, saw their incomes rise (Hoogeveen and Ruhinduka 2009; Mkenda et al., 2010; Almanzar and Torero, 2014; Belhai Hassine and Zeufack, 2015). The inequality between city (Dar es Salaam) and countryside increased. The causes of this are

[29] Calculations based on the household survey Living Standards Measurement Study (LSMS) confirm this picture. The Gini index of urban consumption was 0.35 in 2013/14 and it increased to 0.38 in 2015/16.

unequal distribution and access to land, a poorly developed private sector, corruption and patrimonial relationships, regional differences in work opportunity, unequal treatment of men and women, and unequal access to social services (Matotay, 2014; UNDP, 2017). Another explanation is the concentration of economic growth in sectors with a high concentration of capital and in capital-intensive sectors with high-qualified labour. Mining is an example of this. The sector is characterised by high capital intensity that offers little employment opportunity, a high percentage of expats and multinationals that channel their profits out of the country (UNDP, 2017). It concerns capital-intensive enclave industries, which only contribute to a limited degree to employment opportunities for low-skilled workers. Moreover, tax exemptions mean that government revenue is limited and therefore not used frequently enough for productive and (social) investments. The situation in Tanzania has been more favourable in recent years (2007-2012): economic growth not only went hand in hand with a reduction of poverty, but also with a (modest) decline in inequality. The latter was mainly reflected in a rise in consumption, which at 3.4% a year among the poorest 40% was higher than among the wealthiest 60% (1%) (Belhai Hassine and Zeufack, 2015).

Burkina Faso, on the other hand, is one of the few African countries where income inequality has consistently decreased in the past 20 years (UNDP, 2017). In a short period of time, the country developed into one of the most egalitarian African countries, in addition to Ethiopia and Mauritania. For example, the income share of the wealthiest 20% of the population decreased from 57% at the beginning of the century to 44% in 2014. The income share of the poorest 40% rose during that same period from 14% to 20%. The decrease of inequality is the result of 1) higher incomes (revenue) from agriculture, 2) urbanisation, whereby people generated a higher income from incomes in the informal sector than from their own agricultural activities in rural areas and 3) a rise in transfers from migrants (INSD, 2015; World Bank, 2017b). As was the case in other countries, investments in public services, with support from donors, played a role in decreasing multidimensional poverty and inequality in Burkina Faso. Indeed, inequality in access to health-care centres for childbirth halved between 2005 and 2010. In Ouagadougou and its surroundings, the percentage of women that gave birth in a health-care centre increased from 95% to 97% and in other cities from 81% to 91%, but in rural areas it essentially doubled, from 31% to 61%.

2.5 Summary

From the late 1990s onward, just when many thought Africa was a lost continent, many countries in the Sub-Saharan Africa region began to recover economically. Instead of a 'lost continent', we now speak of 'emerging economies'. Economic growth was stimulated by better economic policy, the raw materials boom, strengthening of agriculture and technological advances, (particularly mobile telephony and internet). Higher public expenditure, especially in the social sectors, partially feasible as a result of debt relief and foreign aid, also contributed. Poverty decreased in most countries, though less than expected considering the impressive growth figures. In 1999, 58% of the population on the continent lived in extreme poverty; in 2013 that number went down to 41%. As a result of

high population growth, in 2013 more people lived in extreme poverty than in 1999. Poverty remains particularly high in rural areas. It appears that the growth elasticity of poverty is low in Sub-Saharan Africa: compared to other regions, the impact of economic growth on the reduction of poverty is limited. The causes are an initial situation of high poverty, high population growth and the high intensity of the poverty.

The latter indicates that while the percentage of people or households with an income or expenditures below a certain threshold is a simple measuring standard, it is not particularly suitable for measuring change. For example, the income of a large part of the population in various countries was so low that even after a longer period of time these people were unable to lift themselves above the poverty line. Conversely, a large population group also has an income that is only just above this threshold. Minor setbacks put them right back below the poverty line.

Another reason why poverty has not decreased more in Sub-Saharan Africa is the high level of inequality: 10 of the 19 most unequal countries in the world are in Africa. This is partly a legacy of the past: inequality has not changed much compared to the period in which these countries were colonised. The most unequal countries often have an abundance of raw materials, though there are exceptions, such as Rwanda. Still, inequality figures do not provide sufficient explanation for the disappointing decrease in poverty figures. Inequality has increased in Sub-Saharan Africa, but that is more the result of varying average growth rates in countries than it is of an increase in inequality within countries. Burkina Faso is one of the few African countries where income inequality has consistently declined in the past 20 years.

Different factors explain this seemingly contradictory development. First, economic growth is indeed a factor in the decline of poverty: poverty decreased more on average in countries with high economic growth, such as Rwanda, than in countries with weaker growth. Second, regional circumstances play a role. In Uganda the poor farming population benefited both from greater security in the north of the country and greater stability in the region. Third, the discrepancy reflects uncertainties in the figures, both regarding economic growth, which seems to be overestimated in Ethiopia, for example, and figures about poverty and inequality, which are based on something completely different (household surveys). A fourth explanation is that in addition to private investment, government expenditures in different countries, including Tanzania, were an engine of economic growth. These expenditures were only partially reflected in higher expenditures for social protection, but they were reflected in the improvement of social services. The latter helped to reduce multidimensional poverty. It decreased more than income poverty. However, there were greater improvements in urban areas than in rural areas, which reflects the urban bias in government policy. The impact of government expenditures are also reflected in the higher HDI scores, though there is still a major gap with the rest of the world. The index has low value in several fragile states, but also in Burkina Faso and Ethiopia, for example. The poor level of education plays a role in that. The opposite is true in Senegal: income poverty decreased more than multidimensional poverty. Relatively low economic growth inhibited a rise in public spending, while transfers from Senegalese living and working abroad helped to decrease income poverty.

3

Determinants of socio-economic development

3.1 Introduction

The previous chapter's conclusions raise numerous questions. One of them is why economic growth has not reduced poverty more. A second question is what explains the differences between countries: why have some countries been more successful at reducing poverty than others, and what role has inequality played in this? To answer these questions, this chapter ties in with international literature about socio-economic development in Sub-Saharan Africa in the past 15-20 years. To reflect the local context, the chapter will also focus in detail on a number of individual countries: Burkina Faso, Ethiopia, Rwanda, Senegal, Tanzania and Uganda.

The analysis confirms the outline presented in chapter 2: there is not one clear pattern for each country. Most countries in Sub-Saharan Africa do have high population growth, however (section 3.2). As a result, there needs to be a minimum of 3% economic growth to prevent per capita income from decreasing. One effect of such a young population is that relatively high investments are needed in education and health care to achieve an acceptable expenditure per pupil or child. Countries that have managed to reduce population growth (Ethiopia and Rwanda) have also managed to reduce poverty considerably.

Population growth is one of the major challenges facing African development: how do you prevent the 'demographic dividend' of a young population from turning into a demographic time bomb? That means that the continent will have to find work in the coming decades for the 15-20 million young people who enter the African labour market each year. The structure of economic development (section 3.3) plays a role in this. Understanding it helps to explain why economic growth did not go hand in hand with a greater poverty reduction. First of all, it appears that while raw materials did contribute to economic growth and export, there were barely any spillover effects on the rest of the economy. The impact on employment opportunities was also limited. By means of currency revaluation, they can contribute to the Dutch Disease effect, which makes the manufacturing industry less competitive in the process, especially compared to countries like China and India. Partly as a result of this, the transition to an economy with a modern industry and services sector never got started. The services sector is extensive, but there are too many low-productivity jobs.

Another question is what role the government plays in this (section 3.4). There is wide consensus about the political role and the low quality of institutions in Sub-Saharan Africa, though that is less the case regarding the question of whether these weak institutions should be held accountable for the fact that transition is not taking place.

Section 3.5 takes stock of these six case study countries. What emerges from the outline is that poverty reduction was mainly possible when small-scale agriculture had the opportunity to develop, or when – especially in rural areas – there were available alternatives to that. Urbanisation also helped to reduce poverty, but then mainly because the incomes that were being earned in the cities in the informal services sector were higher than the incomes from

subsistence agriculture. This path does not seem to offer many prospects for the future: further urbanisation is causing an increasingly large number of migrants to resort to the low-productivity services sector. Section 3.6 summarises the chapter.

3.2 Demographic development

One reason why economic growth has not led to a greater reduction of poverty in Sub-Saharan Africa is the demographic development there. Compared to Latin American and Asian countries, the decline in (overall) birth rates started much later in Africa (in the 1980s and 1990s as opposed to the 1960s and 1970s), and the pace of this decline was also slower than in other regions (Basu and Basu, 2014). As a result of high birth rates and a substantial increase in life expectancy, the population doubled between 1990 and 2015.

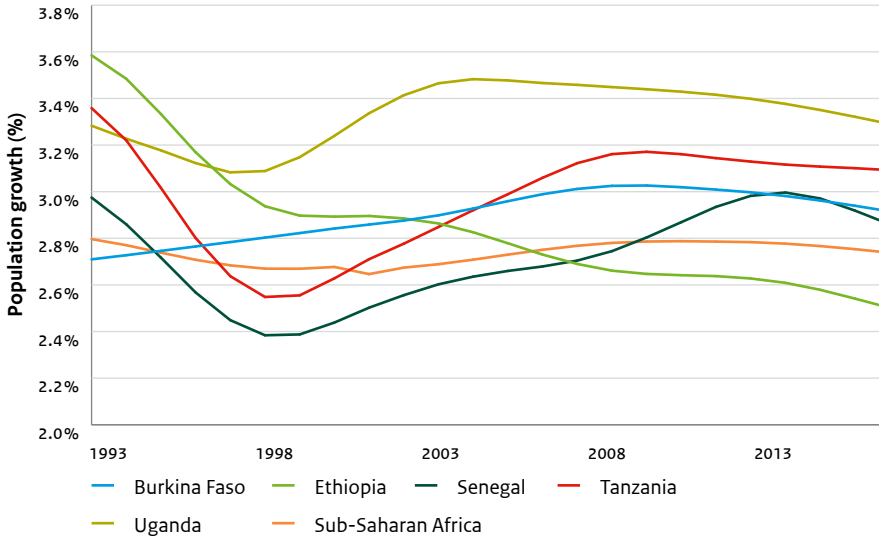
Life expectancy rose by an average of 10 years between 2000 and 2015, in part because nutrition and drinking water improved and killer diseases such as TCB, malaria and HIV/AIDS were tackled more effectively. The latter had a direct impact on population growth in many countries, as is evident from the changes in population growth in Uganda, Tanzania, Ethiopia and Senegal (see figure 3.1).[30]

In Uganda, the government managed to effectively tackle the aids pandemic at an early stage. In addition, the government encouraged population growth, believing that it would have a positive effect on both economic development and the country's political position in the region. Another cause is the acceptance of refugees from surrounding countries. Uganda currently accommodates about 1.4 million refugees (about 4% of the population), more than one million of which are from South Sudan. Indeed, the districts with the most refugees have the highest population growth.

Various countries are carrying out an active policy to reduce population growth, and birth rates are falling in many countries. Of the six case study countries, Rwanda and Ethiopia made the most progress in that respect. In Ethiopia the government took measures, such as raising the legal age for marriage for girls (from 15 years to 18 years), carried out active policy to prevent girls from leaving school early and promoted their participation in the workforce (UNDP, 2017). Active government policy also had a mitigating effect on population growth in Rwanda. Following active government campaigns to limit the number of children per family and improve the availability of contraception, the average number of children per woman fell from six in 2005 to four in 2015. This decrease is mostly concentrated in relatively wealthy families (McKay and Verpoorten, 2016).

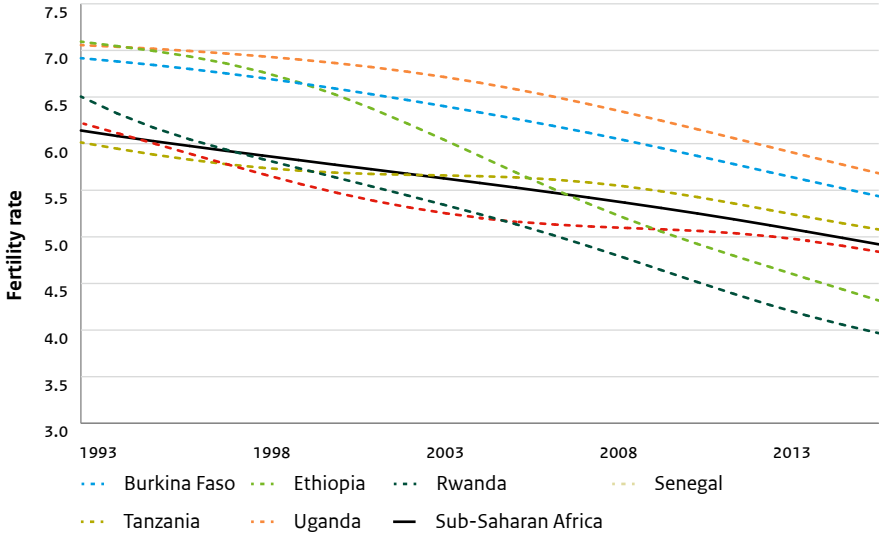
[30] Rwanda has not been included here because of the dramatic changes in figures as a result of the genocide and the acceptance and return of refugees. In recent years, the population has grown by an average of 2.5% a year.

Figure 3.1 *Population growth in different countries in Sub-Saharan Africa (1993-2016)*



Source: WDI.

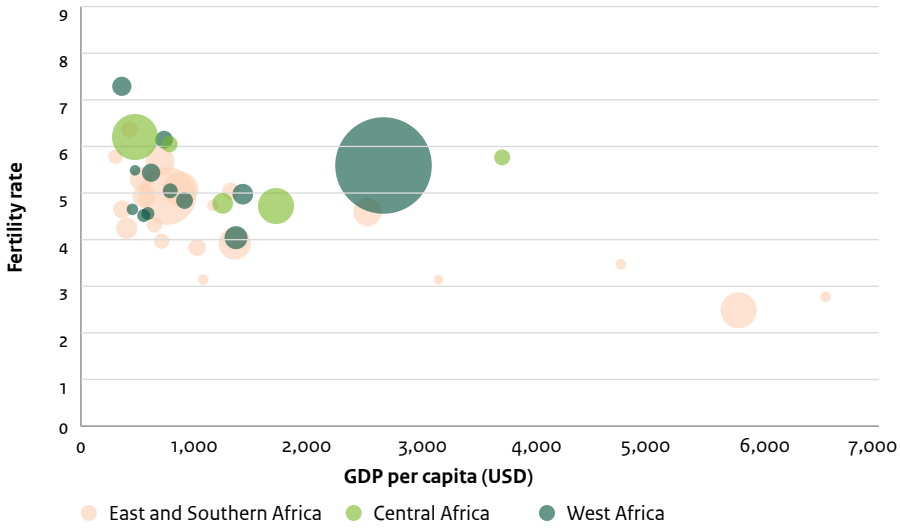
Figure 3.2 *Development of overall fertility rates in Sub-Saharan Africa*



Source: WDI.

Generally, fertility rates are still high, especially in West Africa, with Niger clearly leading the way (with an average of seven children per woman). In Nigeria, women have an average of 5-6 children. Women in countries in Central Africa also have a relatively high number of children, especially in DRC. Angola still has high fertility rates, especially in light of the country's average income level. Figure 3.3 shows the relationship between average income, with relatively low fertility rates for Namibia (3.5), Botswana (2.8) and South Africa (2.5). Measured by average income, fertility rates are relatively low in Ethiopia (4.3) and Kenya (3.9).

Figure 3.3 *Income and fertility rates (2015)*



Source: WDI (2015 data).

Demographic dividend?

The demographic development in Sub-Saharan Africa is described as a 'demographic dividend' in both policy papers and in international literature: the young population makes it possible for the share of 15-65 year-olds in the overall population to increase and therefore the dependency ratio to decrease.

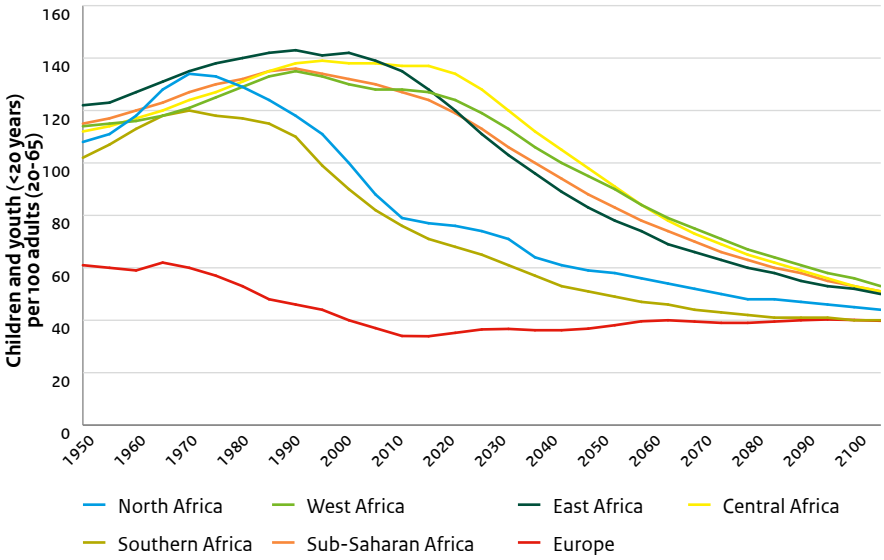
Population growth also has clear disadvantages. First, the continent needs to achieve real economic growth every year of at least 3% to prevent per capita income from falling.[31] This helps to explain why until recently economic growth did result in a reduction of the *number of people* living in extreme poverty. Second, in the short term, growth does not mean a decrease but in fact an increase in the dependency ratio. A large part of the population (43%) in Sub-Saharan Africa is currently still under the age of 15 (and 54% is under the age of 20).

[31] High population growth in Sub-Saharan Africa leads to an increase in global inequality (Rougoor and Van Marrewijk, 2015).

Population growth initially leads to lower investment per child (education and health care). Sachs (2015) uses the example of spending on education. Governments in Sub-Saharan Africa would have to spend three times as much on education as Western countries to maintain the same share per child/student in relation to the national income. The Netherlands currently spends about EUR 10 billion a year on primary education. Given the ratios in Sub-Saharan Africa, the Netherlands would need to spend EUR 30 billion to maintain the same level of education. This is approximately equal what is spent on education as a whole. In Sub-Saharan Africa, the expenditure per pupil is now often about 2% of the expenditure per pupil in the Netherlands. This affects the quality of (public) education and hence opportunities for the poorest income decile group and thus also inequality.

The demographic dividend only pays off when countries also manage to create employment opportunities for the large group of young people that enter the labour market each year. This has not been the case so far. High population growth has led to lower productivity, on the one hand due to lower investment in human capital, but also as a result of lower capital investment per employee.

Figure 3.4 *Dependency ratio of children and youth (1950-2100)*



Source: UN, 2017.

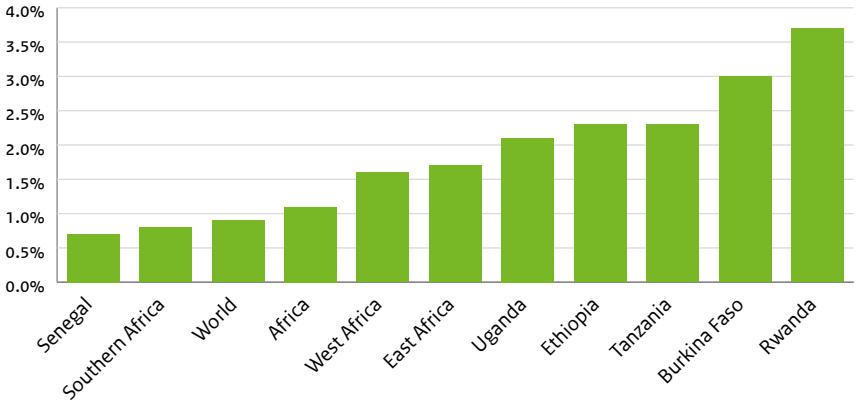
There are additional challenges as well. Agricultural production will have to increase substantially to feed the growing population, which is expected to double between now and 2050.[32] That will not be easy in a country like Ethiopia, which is a net exporter. The soil is

[32] The import and export of food is fairly balanced for the region as a whole, though there are major differences between countries. Total food production, however, is six times higher than food imports.

infertile, and agriculture remains vulnerable to weather conditions, with the effects of drought a constant threat. Furthermore, the amount of land available per farmer in Sub-Saharan Africa is declining: in 2015 it was 1/3 (0.2 hectares per person) of what it was in 1960 (0.6 hectares per person). In Rwanda, more than 90% of all cultivatable land is already being used for food production. Options for expanding agriculture there are limited, given the country's small surface area and high population density. The country already has one of the highest population densities in the world, with 471 inhabitants per square metre.[33]

In a number of countries, demographic pressure goes hand in hand with substantial migration to urban areas, especially in East Africa (Rwanda, Burundi, Tanzania, Uganda), Burkina Faso, Mali and Angola. In Burkina Faso, for example, in 1998 not even 17% of the population lived in an urban environment; this figure had increased to more than 30% by 2016. This, too, has presented governments with major challenges. Ouagadougou, Kigali and Dar es Salaam are some of the fastest-growing cities in Sub-Saharan Africa. Dar es Salaam is expected to have more than 10 million inhabitants within ten years (World Bank, 2014). Yet intra-rural migration in Tanzania is more extensive than migration from rural to urban areas (Wineman and Jayne, 2016).

Figure 3.5 *Urbanisation in Sub-Saharan Africa*



** Average annual change in the percentage of the population that lives in cities*
Source: UN, 2014.

[33] The Netherlands has a population density of 503 per km².

3.3 Structural transformation

A second factor that explains the limited reduction of poverty in Sub-Saharan Africa is weak growth in the number of productive jobs, precisely in countries with the highest economic growth (Page and Shimeles, 2015; AfDB and World Bank, 2018). Between 2000 and 2008, the workforce increased by more than 107 million people, but employment opportunities did not rise by more than 73 million jobs (UNDP, 2017). This development harbours a great deal of hidden unemployment as well: a lack of programmes for social protection has forced many young people to accept low-productivity jobs in agriculture or the services sector, who often help a family member or work in a family business. A growing supply of labour keeps the price low, thus increasing equality and maintaining the level of poverty.

Economists attribute this lack of demand for productive work mainly to economic developments in Sub-Saharan Africa (see, e.g., McMillan and Harttgen, 2014; McMillan et al., 2014; Booth, 2015; Bourguignon, 2015; Page and Shimeles, 2015; De Vries et al., 2015; Gong, 2015; Thorbecke and Ouyang, 2017; Fox et al., 2017). Economic growth did not match the economy's *structural transformation*, which is what happened in some countries in South-East Asia, for example. This is a process of change from an agrarian economy to a modern economy where industry and the services sector are given a more prominent position. In agriculture, productivity is on the rise, farmers are focusing increasingly on production for (larger) markets and (fast-growing) cities. Outside of agriculture, especially in the cities, production and employment opportunities in industry and the services sector are on the rise. Generally, this coincides with decreasing fertility rates.

Research shows that economic growth in Africa did not take place along these lines. When authors speak of Africa, they talk about 'output reprimarisation' (a rise in the export of raw materials and agricultural crops for the market), de-industrialisation, especially between 1980 and 2005, and 'informal tertialisation', or strong growth in the (informal) services sector (see, e.g., Page, 2012a; McMillan et al., 2014, UNDP, 2017; Stiglitz, 2017a). Almost all African countries still depend on raw materials and agricultural crops, which have a limited added value, for their exports (Stiglitz, 2017b). The share of the manufacturing industry in the national income decreased from 15% in the late 1980s to 10% 20 years later (Page 2012b; UNDP, 2017).[34] The causes are low domestic savings as a result of an unfavourable investment climate, including a poor transport infrastructure and high transport costs, problems with the energy supply, insufficient access to capital, inadequate management skills, a lack of skilled labour, financing problems, a lack of capital goods and an unstable political environment (Clarke, 2011; Dinh et al., 2012; Dinh and Monga, 2013; Filmer and Fox, 2014).[35] The result is jobless growth: the increase in employment opportunities lagged far behind economic growth: between 2000 and 2008, the number of employment opportunities per year grew by an average of 2.8%, less than half of the rate of economic growth. Between 2009 and 2014, employment opportunities increased more (3.1%), but this

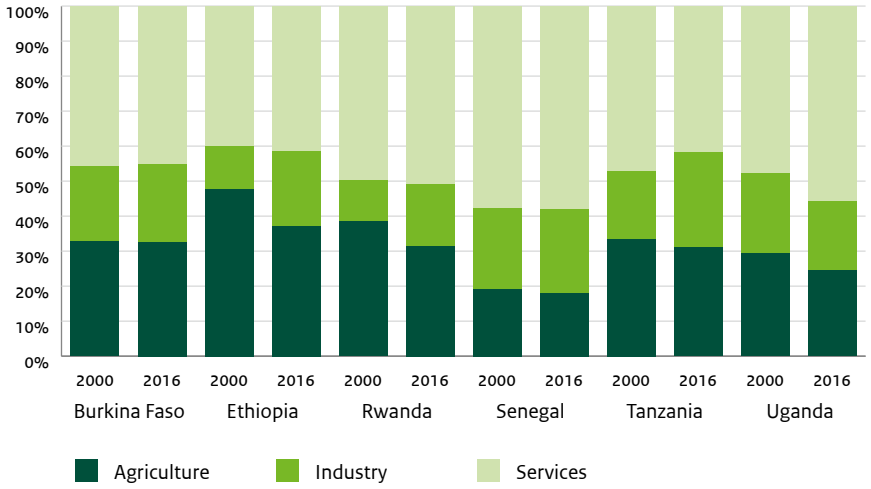
[34] Figures are excluding South Africa.

[35] Average savings in Sub-Saharan Africa are 15%-20% of the GDP (about USD 1,500 per capita) compared to approximately 30% in the Netherlands (about 45,000 per capita).

was still 1.4% less than the economic growth (AfDB and the World Bank, 2018). Women and youth were especially affected by this development.

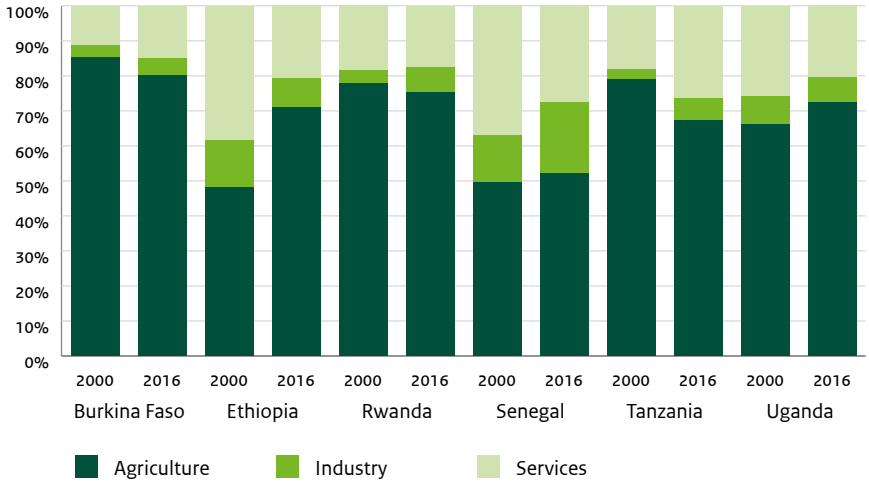
Figure 3.6 outlines the share of agriculture, industry and the services sector, respectively, in the national income for the six case study countries. Figure 3.7 does the same for employment opportunities. A comparison of both figures shows low agricultural productivity compared to the other two sectors: in Burkina Faso, 80% of the workforce works in agriculture, but the share of the sector in the national income is barely over 30%. In Uganda, agriculture is good for 25% of the national income, but more than 70% of the population works in this sector. Almost 90% of the workforce with an income below the poverty line works in agriculture. In the six countries, and especially in Senegal and Uganda, the services sector contributes the most to the national income. In Uganda the number is over 45%, whereas not more than 21% of the workforce works in the sector. Telecommunications, banking and insurance, tourism and retail are the most important growth sectors. There is limited industrialisation and the changes do not correspond with what is needed to achieve a real take-off.

Figure 3.6 *Share of different sectors in domestic income in 2000 and 2016*



Source: WDI.

Figure 3.7 *Share of different sectors in employment in 2000 and 2016 Burkina Faso*



Source: ILO (WD).

Industry

The rise of the industry sector (the secondary sector) in the total is actually a distorted picture, because in addition to the manufacturing industry it also includes the construction sector and mining. Construction was a growth sector in several countries, including Tanzania, Ethiopia, Rwanda and Uganda (World Bank, 2016a). In Uganda, for example, growth in this sector was partly stimulated by money transfers by Ugandans that live and work abroad (Ssewanyana et al., 2011).

Moreover, in Tanzania the increase in the share of industry was mainly the result of expansion in the mining industry. The share of the manufacturing industry in domestic income decreased from almost 10% in 2000 to about 6% in 2016. The sector concentrates on a limited number of products with relatively low added value. Apart from the oil and gas industry, mining, the construction sector, communication, financial services and tourism, the private sector is still characterised by low productivity, weak growth and a lack of competition, despite some diversification (Osberg and Bandara, 2012; World Bank, 2016a).

The manufacturing industry has experienced stronger growth since 2007, especially in base metals and food processing. The expansion of these sectors has contributed to more inclusive growth, with the creation of low-skilled labour (World Bank, 2016a). In Burkina Faso the share of the manufacturing industry in domestic income decreased from almost 14% in 2000 to about 6% in 2016 (see figure 3.8). Since 2007, the role of gold in the country's economy has increased dramatically, which is both the result of the discovery of new gold veins and generous tax incentives for foreign entrepreneurs (IMF, 2014). In 2015, Burkina Faso was the third-largest producer of gold in West Africa. That year, the export of gold accounted for 13% of the national income (IMF, 2017).

The raw materials boom promoted foreign investment and has contributed to strong export growth. Foreign investment in Africa increased from USD 6.3 billion in 2000 to more than USD 35 billion in 2012. The privatisation of mining in various countries encouraged more efficient extraction and marketing. Zambia is an example of this. The nationalisation of the copper mines there, together with the low prices on the global market, resulted in extremely inefficient and loss-making production.[36] Privatisation in the early years of this century, in addition to rising prices on the global market, changed all of this. It was a bitter experience for the countries themselves, however, which only benefited to a limited degree from the rise in raw material prices. The privatisation, enforced by the IMF and World Bank, had to be implemented quickly during a period in which the prices were low. Moreover, national authorities were ill-equipped to negotiate with multinationals, and on top of that they were not adequately supported in this process (Nissanke, 2017b). Tax revenue from mining is usually limited as a result of exemptions.[37]

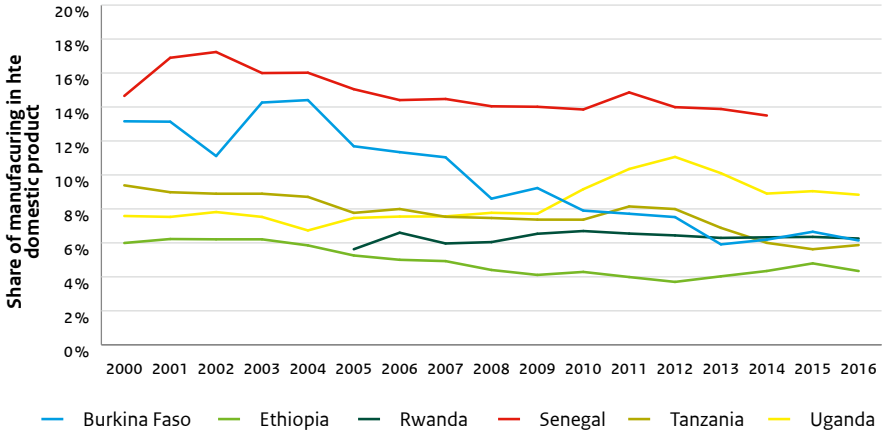
The downside of the raw materials boom is a strong dependency on a limited number of export products: in 2013, 60% of Africa's exports consisted of oil, iron ore, bituminous minerals and gas (Zamfir, 2016). The sharp decline of raw material prices, following the peak in 2010/2011, reveals the vulnerability of the economic development. The fall in raw materials prices not only helped to worsen the terms of trade, but it also led to a considerable decline in foreign investment (Nissanke, 2017a).

In principle, the raw materials sector could act as the driving force for economic transformation, because it generates the resources for investing in the manufacturing industry. In practice, precisely the opposite effect is possible, because the potentially high income from the export of raw materials may be seen to diminish the need for economic transformation. Instead of using the revenue from mining to fund the infrastructure, these investments are not being made and are being used for consumption expenditures and to delay reforms, aimed at more effective tax collection (UNDP, 2017).

[36] A particular factor that also played a role in Zambia was the solidarity as a frontline state with the fight against apartheid in South Africa. This considerably limited the export options for the copper.

[37] Osberg and Bandara (2012) conclude that the profits from mining are significant enough to make a difference in reducing poverty in Tanzania, at least if they were taxed.

Figure 3.8 *Development of the manufacturing in six countries (2000 and 2016)*



Source: WDI.

The manufacturing industry's contribution to employment opportunities is limited. In Sub-Saharan Africa it does not make up more than 3% of overall employment (Filmer and Fox, 2014). In Uganda, large companies in this sector only provide work for 100,000 people, about 9% of formal employment (or 0.7% of the workforce) (Shinyekwa et al., 2016). The sector is barely competitive internationally, in part because of the poor infrastructure and the emergence of the Dutch Disease effects from the raw materials industry, which focuses on export (Ndulu et al., 2017). The African market is thus flooded with cheap imports from China and India, which is hampering the development of a continental manufacturing industry. The textile industry is an example (Filmer and Fox, 2014). The African manufacturing industry exports little and produces barely anything for the domestic market. Exceptions are the wood-processing industry and the food and drink industry in Senegal, Cameroon, Ghana, Ethiopia, Kenya and Uganda, for example. Mining is capital intensive and does not generate many employment opportunities, and wages are low (McMillan and Harttgen, 2014; McMillan et al. 2014; Filmer and Fox, 2014). There are considerably more employment opportunities in the (informal) artisanal mining industry in countries such as Tanzania and Burkina Faso than in the large mining companies. In Burkina Faso, the official mining industry provides work for fewer than 10,000 people. The IMF (2014) estimates the indirect effects on employment at approximately 27,000 jobs. In terms of employment opportunity, small-scale artisanal mining is more important, just like in Tanzania. About 700,000 work there, including many women and children (IMF, 2014). It mainly concerns households in rural areas, where looking for gold is a side activity to agriculture. The labour conditions are poor, however, and the yield is low – 3% of the total (Zabsonré et al., 2015).[38]

[38] Burkina Faso's government has launched projects with UNICEF to abolish child labour from mining.

Uganda is actually the only one of the six case study countries to show clear growth in the manufacturing industry (especially in the period 2005-2012), though the country remains strongly agrarian, with a major dependency on the export of coffee, tea and tobacco. Uganda has benefitted from greater stability in the region, both domestically (in the north) and in surrounding countries (Ssewanyana et al., 2011; World Bank, 2015a; Byiers et al., 2015). While the population in the north of the country was able to gradually recover from the destructive impact of the Lord's Resistance Army, the export of food and manufactured products to surrounding countries became the engine of the economy. An indication of that is the rise in the share of exports in the national income from 11% in 2000 to 20% in 2012. Moreover, the importance of non-traditional export products such as fish, corn, cut flowers, processed food and gold increased (Byiers et al., 2015). The share of manufactured products in the export of goods rose from 3% to 34%. Since 2005, the discovery of extensive oil and gas reserves has attracted considerable direct investment from abroad (Byiers, 2015). Total direct foreign investment increased from less than USD 400 million in 2005 to USD 1.2 billion in 2012.[39] Another factor in the economic growth is the government's decision, much earlier, to allow Asian (mostly Indian) entrepreneurs to return to Uganda.[40] By around 2010, they had invested more than USD 1 billion in the Ugandan economy, especially in industry, the processing of agricultural products, sugar, trade, tourism, banking, real estate and information technology (Ssewanyana et al., 2011). They helped to strengthen the country's private sector. The country's growth has slowed down since 2010, the result of a more volatile external environment (political crises in South Sudan and DRC), less favourable weather conditions (drought in 2001) and economic policy (World Bank, 2015a).

Agriculture

Countries that combined strong economic growth with a considerable reduction of poverty used the development of agriculture as an impetus (McMillan et al., 2014a; Arndt et al., 2016). Ethiopia is often cited as an example. Almost 75% of the Ethiopian population lives in rural areas and depends on agriculture (Kabeta and Sidhu, 2016). Traditionally, the sector has offered the most employment opportunities and makes a major contribution to the national income and exports. Every per cent of growth in the national income reduced poverty by 0.55%, but in agriculture alone that was 0.9% (World Bank, 2015a). Though the government invested in increasing productivity in the sector and improving the infrastructure, the higher agricultural yield was mainly the consequence of the expansion of agricultural land (Dercon, 2010; World Bank, 2016a). Since about 2005, the horticulture sector has been gaining ground rapidly. In Rwanda, agriculture contributed to about a quarter of the economic growth. Agricultural production doubled between 2000 and 2012, partly as a result of increased productivity and partly as a result of increasing the amount of farmland. A further increase in productivity in agriculture was hampered by the use of outdate techniques. As a result, the country depends partially on the import of food. Today, more than half of the workforce earns at least part of its income from outside agriculture, which was a rare occurrence in the early 2000s. Higher agricultural production and income

[39] Total investments in the gas and oil sector are estimated to increase to over USD 10 billion. The actual exploration is expected to begin around 2020.

[40] During Amin's rule, many Asian entrepreneurs were forced to leave the country.

diversification helped to reduce poverty (Ansoms and McKay, 2010; World Bank, 2015a; ACET, 2017).

For many countries in Sub-Saharan Africa, the higher agricultural output was not so much the result of an increase in yield per hectare through innovation and technological change, as of putting new land into operation and using the soil more intensively (Benin, 2016; Nin-Pratt, 2016; UNDP, 2017). Though this was mainly true of countries with a relatively low population density, it also concerned a number of more densely populated countries such as Uganda and Rwanda. Agricultural production also increased in Burkina Faso in the past 15 years as a result of the expansion of agricultural land and much less due to a rise in productivity through modernisation, improved irrigation or the use of improved seeds (Grimm et al., 2016). The expansion of agricultural production did help to increase incomes in rural areas and reduce poverty in the process. The concentration on cotton increased the vulnerability to exogenous shocks (climate, exchange rates, international prices, changes in international demand) (Grimm et al., 2016). The sector's resilience has improved through investments in irrigation and the growing use of genetically modified cotton seed (IMF, 2014). In Burkina Faso, the economy outside agriculture and mining is characterised by small companies, often in the informal sector targeting the domestic market. Productivity is low due to a limited level of education and the absence of technological innovations. The companies have barely any access to external financing. Access to markets is limited as a result of the poor infrastructure and the still relatively low degree of urbanisation.

Services

In many countries in Sub-Saharan Africa, the share of the services sector in the overall economy is substantial, as figures 3.6 and 3.7 show. A distinction must be made in that respect between the high-productivity business services, including banking and insurance, the ICT sector and tourism, the public sector and the informal low-productivity services. The companies in the former sectors are part of the national economy, but provide, with the exception of tourism, few employment opportunities. The share of the public sector in employment opportunity is the highest in countries that have an abundance of raw materials (Fox and Thomas, 2016): the income from this sector provides financial leeway for a relatively extensive public sector. In Tanzania, for example, there were 274,000 new jobs for the 700,000 entrants, the overwhelming majority of which were created by development projects and the public sector (Matotay, 2014). The increase in employment opportunity comes mainly from low-productivity informal services in the cities, however (De Vries et al., 2015). Migration to the cities (see section 3.2) went hand in hand, and still does, with a shift in employment opportunity from agriculture to these services. In the cities, informal small companies are not developing into larger formal companies often enough, because the conditions for that are insufficiently present. Large enterprises cannot really be run in an informal way, but the conditions for this growth – economies of scale and good connectivity – are usually insufficiently present (Collier, 2017). Partly as a result of this development, the informal sector remains large.[41] In 2010, not more than 16% of the

[41] This is a deliberate choice for many of the companies, because the benefits of formalisation are limited (World Bank, 2012).

workforce had a job in the formal sector, in industry or in the services sector (Filmer and Fox, 2014; Kilimani, 2017). Three out of four employees have a job in low-productivity agriculture or in the informal economy (including the small-scale services sector), where wages are also low (Page 2012b; Page and Shimeles, 2015; Nissanke 2017a). Only one in six young people has a job in the formal sector, often in construction (AfDB, 2016b). In Burkina Faso almost 96% of the working youth below the age of 25 is active in the informal sector (81 percentage points of which in agriculture). More than half (56%) of the young people help out family members or work in a family business. In Tanzania, a large and increasingly growing part of employment opportunity is concentrated in informal jobs with low incomes and without social protection (ESFR and UNDP, 2015). That is especially the case in rural areas in subsistence farming, but also in the cities in marginal occupations in the services sector. In Burkina Faso, approximately 80% of non-agrarian employment opportunities consist of informal jobs (BTI, 2014). These jobs only offer limited incomes, with limited opportunities for expansion and growth. This informal economy is extremely vulnerable (Lin, 2012; Nissanke, 2017a). Many of these jobs are lost after a short period of time (World Bank, 2012). High unemployment has caused young people to become dissatisfied and frustrated (Filmer and Fox, 2014; Fox and Thomas, 2016). They are looking for opportunities to improve their livelihoods, to follow in their parents' footsteps, which means: subsistence farming or low-productivity labour in the informal sector. This was a factor that played a part in the fall of President Compaoré.

Urbanisation

Structural transformation also goes hand in hand with urbanisation. This is a process that did get underway in Sub-Saharan Africa, at an early stage in fact: urbanisation is currently taking place among those with low income levels, which is affecting the development of cities (Lall et al., 2017). Many African countries are still in the early stages of urbanisation, but urban populations are expected to triple in the coming 30 years (Collier, 2017). Cities essentially provide space to increase productivity, because they can offer economies of scale and good connectivity and make it possible to specialise. In many Sub-Saharan cities, these potential advantages are only manifesting themselves to a limited degree. The causes for that are: (1) overpopulation and congestion, which undermines the potential of good connectivity, (2) unclear land rights, (3) informality, which hampers operational efficiency and thus growth (Collier, 2017). Congestion and unclear land rights are partly the result of poor households migrating from rural areas: on the one hand, they do not have sufficient rights to sell the land they live on, and on the other hand, occupancy makes alternate use of the land difficult. Moreover, the political elite and companies with effective political connections abuse the ambiguous status of urban territory to establish their claims.[42] This development creates considerable fragmentation, and as a consequence it is not possible to fully exploit the advantages of the city (Lall et al., 2017). Under-investment helps to sustain the congestion and poor quality of the infrastructure (Lall et al., 2017). One consequence of the virtual absence of the advantages that a city potentially offers is that many companies in African cities remain small and produce mainly for their immediate surroundings, and much less for regional and international markets (Lall et al., 2017). They are not connected

[42] Large parts of Kampala have been claimed by six individuals, for example (Collier, 2017).

to international markets and therefore benefit from any economies of scale or the advantages of specialisation. As a result, the impact on employment opportunity is limited.

Different factors mean that urban development does not sufficiently correspond to the strong growth of a modern international competitive sector. First, there are the problems of congestion and an inadequate infrastructure, which cause high transport costs. In addition, the costs are high as a result of weak institutions, poor regulation and relatively high labour costs. There are several explanations for the latter. First, food prices are relatively high due to low agricultural productivity (Nakamura et al., 2016). This results in relatively high spending on food by the urban population, as well as relatively high labour costs (Nakamura et al., 2016; Lall et al., 2017).[43] Furthermore, productivity in the manufacturing industry and the services sector is relatively low due to the low level of training. The effects of the Dutch Disease, which harm the manufacturing industry's ability to compete with companies in other countries, can play a role as well in countries that export raw materials. The lack of access to capital is also inhibiting the development of the manufacturing industry. The fact that the benefits of specialisation do not materialise is partly exacerbated by the expectations of potential entrepreneurs, who will not invest because of the absence of a good infrastructure for their companies (including suppliers and customers). This creates a vicious circle (Lall et al., 2017).

Transition, poverty and inequality

What does this analysis mean for the development of poverty and inequality in Sub-Saharan Africa? First, it appears that when agriculture and the services sector in Sub-Saharan Africa account for a high share of employment, it goes hand in hand with high poverty (Page and Shimeles, 2015). Low-productivity labour that generates little income is concentrated in these sectors. The coefficients found by the researchers are approximately equal in size, which suggests that the shift of employment opportunity from agriculture to the services sector does not correspond to a decline in poverty. There are differences between countries in that respect, however. In Rwanda, the shift from working in agriculture to working the industry and services sector helped to reduce poverty, but that was barely the case, if at all, in Tanzania and Uganda (Page and Shimeles, 2015). In *Rwanda* the transition of employment from agriculture to other sectors was relatively successful (World Bank, 2015a). Young men with better skills are particularly likely to find work outside agriculture more quickly (World Bank, 2016a). Women often continue to work in agriculture, even though there is a visible shift to paid employment instead of subsistence agriculture there as well. A rise in wages in agriculture has partly helped to reduce poverty. The discrepancy between the demand for and supply of labour remains substantial, however. There is a major shortage of (formal) jobs in the industry and services sector.

In their study, Bolt et al. (2017) discovered that migration from rural to urban areas helped to reduce poverty, but it also increased inequality. There is more job and income diversification in cities, and on average incomes are higher than in agriculture, also in the

43 Inhabitants of cities in Sub-Saharan Africa pay an average of 20%-30% more for their food than households in cities in other parts of the world with similar incomes (Nakamura, 2016; Lall et al., 2017).

informal sector. In Burkina Faso, the rise in labour productivity can be mainly attributed to this development (Grimm et al., 2016). But precisely because it mainly concerns low-productivity labour in the informal sector, this migration has had a negative impact on the average level of labour productivity in the cities (Grimm et al., 2016; World Bank, 2017a). An indicator for this is that employment opportunity in the services sector has increased more than the output (De Vries et al., 2015; Page and Shimeles, 2015). The absorption capacity of cities is decreasing as well, as a result of which new migrants are increasingly ending up in low-productivity positions, so that any further urbanisation will go correspond with a further decrease of average productivity (World Bank, 2017a).

Research shows that diminishing employment opportunities in agriculture corresponds with a decline in inequality (Bolt et al., 2017). A potential explanation, which has not been examined yet, is that the least successful farmers abandon the sector for other work, whether in the region or for an informal job in the services sector in the cities. An example of the former is Tanzania, where the shift in sources of income from agriculture to other sectors, especially in the larger villages and (smaller) cities in rural areas, helped to reduce poverty. Second, the reverse also appears to be true, namely that an increase in employment opportunity in industry goes hand in hand with a decline in inequality. The increase in employment opportunity in the services sector has not had a significant effect on inequality. Explanations include the considerable differences in productivity in the sector, as well as considerable similarity in average productivity.

3.4 Quality of governance

Different researchers view the improved quality of governance, democratisation and improved accountability to the population, as being among the most important reasons behind economic growth in Sub-Saharan Africa in recent years (e.g. Radelet, 2010 and 2016; Bates et al., 2013a; Fosu, 2017). Reinforcing democratic governance and accountability to the population has often considerably improved macro-economic policy in many countries (Radelet, 2010; Masaki and Van de Walle, 2015).[44] The latter is reflected in getting the budget deficit and inflation under control, for example. In various countries, such as Angola, Ethiopia, Rwanda, Uganda, Mozambique and Namibia, the end of conflict contributed to strong economic growth. This led to a quick return to pre-conflict income levels. Development aid strengthened growth in these places and thus reduced the chances of

[44] Masaki and Van de Walle find that democratisation has a significant, though not very sizeable, impact on economic growth. The authors acknowledge that there are considerable data problems and econometric problems.

conflict breaking out again (Hoeffler, 2015).[45] At the same, despite the improvements, the insufficient quality of governance in many countries is an obstacle for further development of the continent (Joseph, 2013 and 2015; Devarajan and Khemani, 2016; World Bank, 2016c; Fosu, 2017).[46] One element that plays a role in this is corruption: research points to the negative effect of corruption on economic growth and thus also on poverty reduction (Kahana and Qijun, 2010; Ugur, 2014; d'Agostino et al., 2016).[47]

Various researchers cite the vital role of the government in the economy in the development of Sub-Saharan Africa (see, for example, Noman and Stiglitz, 2015a and Stiglitz, 2017a). A serious government intervention is necessary to correct market failure (Booth et al., 2015; Stiglitz, 2017a), but the quality and the scope of the government intervention must be improved in that respect as well. It not only concerns reinforcing good governance indicators, but it also concerns government investment and strengthening the available public services (Booth et al., 2015; McMillan et al., 2017b). Part of it is about political will, part is about capacity and part is about money. Just as a low level of education and a poor alignment of education and the labour market hamper the development of the private sector, so the government has to contend with a similar development. The top echelon of political and administrative leadership is well schooled, often abroad, but the gap with operational services is great. A lack of resources also plays a role (Thomas, 2015).[48] In many African countries, tax revenue is limited, both as a result of low incomes and a high degree of informality (Gray and Khan, 2010). The lack of financial resources and the limited personal capacity impose restrictions on the ability to function.

45 There is a negative correlation between the quality of governance and the possibility of conflict, and thus also poverty and economic growth (Collier, 2007; Hegre and Nygård, 2015; Yiew et al., 2016), as several examples in Sub-Saharan Africa show (such as DRC, Burundi and the Central African Republic). Conversely, a low income and weak economic growth contribute to the emergence of conflict (Hoeffler, 2015). Hegre and Nygård (2015) find that the quality of governance has a positive effect on the possibility of conflict: chances of conflict breaking out again are smaller in countries with good governance than in countries where the quality of governance is poor. However, informal mechanisms seem to be more important than formal institutions.

46 Other researchers question the importance given to institutions. According to them, extensive empirical research reveals that differences in the pace of development in countries cannot be explained by differences in the quality of government institutions (Booth, 2015; Chang, 2002 and 2015; Khan, 2012a and 2012b; Kelsall, 2013). One difference, however, was a more pragmatic and inclusive development approach compared to countries in Sub-Saharan Africa (Booth et al., 2015). It is difficult to put this debate to rest empirically, which is mainly explained by measurement problems (how do we measure institutions and their quality) and endogeneity: is economic development explained by improved institutions, and conversely does the improvement of institutions follow economic development or are both factors simultaneously influenced by a completely different development?

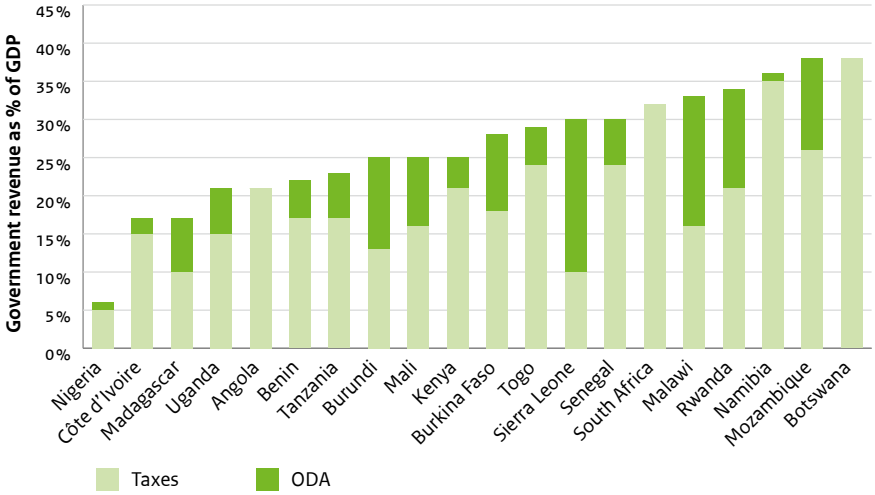
47 The impact is not large, incidentally.

48 The example in section 3.2 of the effect of the demographic development on necessary investments in the education sector show how large the discrepancy is between the necessary and available resources (see also Sachs, 2015). Burkina Faso is a good example. In terms of population, the country is slightly bigger than the Netherlands, but the total national income is about equal to what the Netherlands spends on primary education. Taking into account price differences, the national income is about equal to what the Netherlands spends on education (approximately EUR 30 billion). The Netherlands spends about 5.5% of its national income on education, Burkina Faso about 4.5% (over 20% of the budget). Given the composition of the population, the expenditure should be three times higher than in the Netherlands.

The UNDP study (2017) shows that inequality is connected to a government's limited capacity to redistribute income and (as a result) the unequal distribution of public services (see chapter 2). Tax revenue is limited by ineffective tax systems, a lack of qualified personnel, ineffective enforcement, tax competition between countries, exemptions and the existence of an extensive informal sector, which means incomes are not properly registered.[49] Partly due to these factors, government revenue in the low-income and lower-middle income countries in Africa often does not amount to more than 15%-20% of the national income (excluding ODA). Moreover, relatively speaking countries with the highest incomes have the highest tax revenue (Odusola, 2017, see also figure 3.9). Taxes on goods and services is often the most important source of income for a government (ITC, 2017). Direct taxation only amounts to a little more than a third of the total.

Acemoglu et al. (2015) find that democracy has a significant and robust effect on tax revenue, but no effect on inequality. If there is any effect, then it is a negative one: after strengthening democracy, inequality *tends* to increase if it was already high, the gap between poor population groups and the middle classes was small and if the country had already developed into a modern economy (Acemoglu et al., 2015). In Sub-Saharan Africa, South Africa, Namibia and Botswana are among the countries with the highest scores on the World Governance Indicator for democratic freedoms, as well as among the most unequal countries. In a number of African countries, taxation is de facto degressive (World Bank, 2016a). Burkina Faso, on the other hand, has a progressive tax system, which helps explain why inequality is lower there than in other countries (UNDP, 2017).

Figure 3.9 *Government revenue as % of the GDP*



Source: WDI.

[49] The question of whether a tax system is progressive or degressive also depends on the basis for the duties. In Ethiopia, for example, agricultural duties are degressive. Indeed, poverty exists more among the rural population than in the cities.

Recent figures for several countries in Sub-Saharan Africa show that taxation and government expenditure have a limited effect on inequality (see table 3.1).[50] One of the causes is the low level of tax revenue. Expenditures on (in particular) primary education, health care and cash transfer programmes help to reduce inequality, but it is mainly the wealthier income deciles that benefit from tertiary education and energy subsidies.[51] On balance, tax collection and government spending are having a limited redistributive effect in the five countries: lower taxes and government spending have decreased inequality by 2-9 percentage points in these countries. This is partly due to the fact that overall tax revenue is quite low. The impact in Tanzania is somewhat greater than in Ethiopia, Uganda and Ghana. This is both the result of progressive income taxes and indirect taxes, as well as government spending on education and health care (Younger et al., 2016). The rise in spending on primary and secondary education, and to a lesser on health care, has mainly benefitted people in lower income brackets in various countries.

Table 3.1 *Effects of taxes and government expenditures on inequality*

		Gini		
		Primary income	Expenditures	Effect
Ethiopia	2010-11	0.32	0.30	-0.02
Ghana	2012-13	0.44	0.40	-0.03
Tanzania	2011-12	0.38	0.33	-0.05
Uganda	2012-13	0.41	0.38	-0.03
South Africa	2010-11	0.69	0.60	-0.09
The Netherlands*	2015	0.56	0.29	-0.27

** For the Netherlands, primary income and income after taxes and transfers. Source: CBS.*
Source: Lustig, 2018; Younger et al., 2016; Jellema et al., 2018; Younger et al., 2017; Hill et al., 2017; Inchauste et al., 2015.

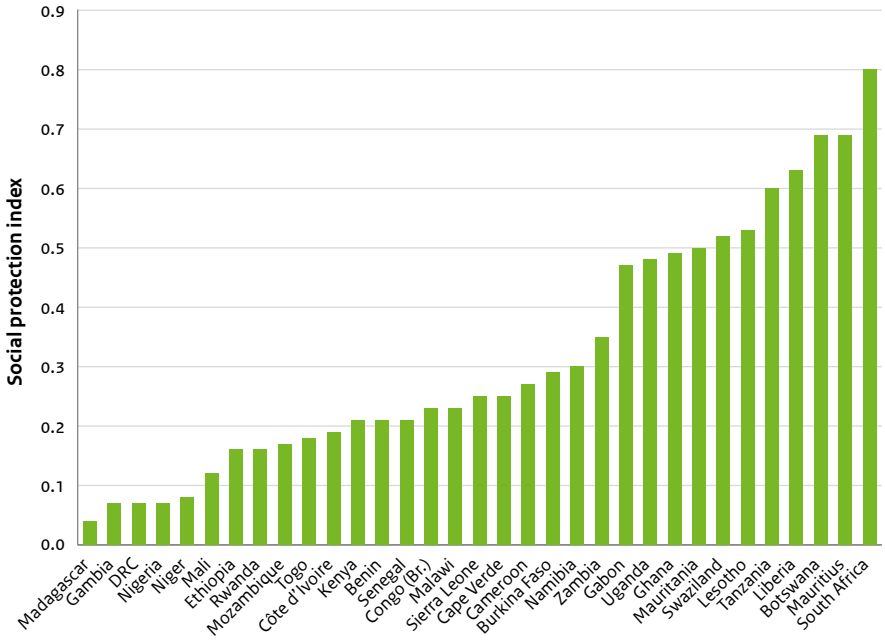
50 Higgins and Lustig (2016) show that this is not a problem restricted to Sub-Saharan Africa. The authors examined 17 countries (none of which were in Sub-Saharan Africa) and concluded that the amount of taxes paid by at least a quarter of the poor households in ten of these countries exceeds the transfers that they receive. Based on a meta-analysis, Anderson et al. (2018) conclude that government expenditures in Sub-Saharan Africa have not contributed significantly to poverty reduction. They also find that investments in education and health care are less effective than in other regions. These conclusions come with a caveat, however: these researchers' conclusions are largely based on studies that were published at the beginning of the millennium or even earlier. They primarily describe developments in the 1990s, when countries in Sub-Saharan Africa were implementing severe cutbacks in education and health care (IOB, 2008a and 208b).

51 Examples of cash transfer programmes include the Productive Safety Net Programme (Ethiopia), the LEAP cash transfer programme (Ghana) and the Productive Social Safety Net (Tanzania).

Subsidies (for water and electricity, for example) often do not reach households that live under the poverty line because they are not connected to the services as a result of prohibitive connection charges (Estache et al., 2014; IOB, 2016; Younger et al., 2016; World Bank, 2016a). These subsidies thus have the effect of widening income gaps. Households with the lowest incomes are then forced to use more expensive alternatives (because they have to buy water from individual sellers, for example, instead of sourcing it directly from the public network).

Another reason why the government has a limited redistributive effect is that social protection programmes in Sub-Saharan Africa are not well developed yet. On average, countries there spend 5% of their national income on social protection. This figure is higher in Liberia (11%) and South Africa (10%), but considerably lower in Côte d'Ivoire (2%), Cameroon (2%) and Kenya (3%) (UNDP, 2017). Democratic governments and middle-income countries spend more on average on social protection than autocratic governments and low-income countries. It also appears that countries who have an abundance of raw materials spend less on average on social protection than other countries (UNDP, 2017). These are generally more unequal countries as well.

Figure 3.10 *Index for social protection in Sub-Saharan Africa*



Source: UNDP, 2017.

Table 3.2 provides the indices for the six case study countries. The first row contains the expenditures on social protection as a % of the GDP. The row below that shows the ratio between reaching the poorest 20% and total reach: a figure above 1, as is the case with Ethiopia and Uganda, thus represents effective reach: the reach to the poorest 20% is then higher than the average reach. A figure below 1 indicates that the programmes' reach to the poorest groups is below average. The table also provides the score on the UNDP's index for social protection.[52]

Table 3.2 *Social protection in six countries*

	Burkina Faso	Ethiopia	Rwanda	Senegal	Tanzania	Uganda
Expenditures on social protection as % of the GDP	5.1%	3.2%	7.3%	5.3%	6.8%	3.5%
Reach to poorest/ total reach	0.9	1.2	0.2	06	1.0	1.1
Social protection index	0.29	0.16	0.16	0.21	0.60	0.48

Source: UNDP (2017)

Tanzania scores the highest of these six countries. The country combines relatively high spending on social protection with a reasonably effective reach. Rwanda and Ethiopia have the lowest scores, for different reasons. Expenditure is quite high in Rwanda, but it is barely reaching the poorest groups. In Ethiopia the opposite is happening: there programmes are reaching the poorest groups reasonably well, but the amounts are low. Burkina Faso has a fairly low score because the total reach is low. In 2015 and 2016, about 300,000 people (37,500 households) received food and 15,000 households in the provinces of Yatenga and Zondoma received financial transfers (Sylla et al., 2017). In Uganda, expenditures on social safety net programmes were limited by low tax revenue (World Bank, 2016b; see also figure 3.9). Fiscal policy therefore had little impact on poverty reduction (Byiers et al., 2015; IMF, 2017).[53]

3.5 Overview

Chapter 2 provided an overview of the development of poverty and inequality in Sub-Saharan Africa and the previous section placed this in the context of demographic development, the structure of economic growth and the quality of governance. This section

[52] In addition to these indicators, this index also indicates the total reach and the average amount (of the value of a transfer in kind). This amount (on average USD 0.5 per day) is far below the World Bank's poverty line in almost all countries.

[53] The Social Assistance Grants for Empowerment (SAGE) scheme reaches three million elderly people, about 3% of the target group (Byiers et al., 2015). The Northern Uganda Social Action Fund (NUSAF) from 2003 focuses on investments in infrastructure, income support and (temporary) employment opportunities. The Agricultural Livelihoods in Northern Uganda (RALNUC) project and the Development Assistance to Refugee Hosting Areas (DAR) project focus on helping farmers with labour-intensive public works programmes that make use of a voucher system (Byiers et al., 2015).

outlines the coherence between the six case study countries. Table 3.3 provides an overview as a basis.

Burkina Faso is one of the poorest countries in this group of least-developed countries. Economic growth there was not the highest of the six. An unstable regional environment had a negative impact on economic growth. In part thanks to the macro-economic policy carried out there, the improved functioning of state institutions, foreign aid, and investments in infrastructure and education, Burkina Faso did achieve the highest growth rates in the region. The country is strongly agriculture-driven and traditionally produces large amounts of cotton. It has relied heavily on the export of gold in recent years. Economic growth did not bring about corresponding poverty reduction, despite inequality having decreased. One explanation for this is the weak initial situation: a large part of the poor households had incomes far below the poverty line. Figures show that the poverty gap, the average distance to the poverty line, has decreased considerably, but the rise in income was not enough for many to lift themselves above the poverty line. A second factor, as is the case in the other countries, is the demographic development, which has cause economic growth per capita to stagnate at about 3% a year. One reason why this was not higher is implied in the structure of economic development. This is the third factor. Growth did not go hand in hand with the creation of productive jobs. Ninety per cent of the poverty is concentrated in rural areas. Income growth was strongly based on the expansion of agricultural land and migration from rural to urban areas, and much less on increasing agricultural productivity. Newcomers in the cities usually found work in low-productivity informal services. Neither source is sustainable. Gold exploration, a source of economic growth from 2008 onwards, does not provide much employment opportunity. As the poorest of the six countries, Burkina Faso relies heavily on foreign aid. Bilateral aid decreased after 2014, partly as a result of the Netherlands' withdrawal and a decline in aid from the United States. This has been partly compensated by a rise in loans from the World Bank. A combination of a low tax ratio and a low national income means that there is limited space for social expenditure. As a result, the country has low scores on the Human Development Index and high ones for multidimensional poverty. In particular, Burkina Faso's low score on the education index since measurements started to be made has placed it among the ten countries with the lowest HDI.

Table 3.3 *Evaluation of poverty and inequality in six case study countries*

	Burkina Faso	Ethiopia	Rwanda	Senegal	Tanzania	Uganda
Type of economy	Mixed	Agricultural	Agricultural	Mixed	Mixed	Agricultural
Share manufacturing	-	--	-	+	-	0
Income per capita	--	--	--	-	-	--
Economic growth	0/+	++	++	-	+	+
Labour force participation	++	++	++	-	+	++
Formal employ-ment	--	(?)	-	0	--	-
Increase in employment*	-	--	--	0	--	-
Poverty	-	+	--	+	-	+
Poverty reduction	-	+	+	+	-	+
Growth elasticity poverty	0	--	--	0	-	0
Multidimensional poverty	--	--	0	0	+	0
HDI	--	-	0	0	+	0
Inequality	++	++	--	0	+	0
Change in inequality	++	0	0	+	-	0
Population growth**	-	++	++	-	-	--
Urbanisation rate	-	--	-	+	-	--
Good governance	0	--	+	+	0	-
Democracy	0	--	--	+	0	-
Political stability	0	-	+	+	+	-
Government effectiveness	--	--	++	--	--	--
Tax revenue	0	-	+	++	0	--
ODA per capita	+	-	++	++	0	0
Social protection	-	--	--	--	+	+

** Relationship between increased employment and economic growth (AfDB and the World Bank, 2018).*
*** High population growth is depicted by --; low is depicted as ++.*

Ethiopia is also one of the poorest countries in the world, despite spectacular economic growth since 2004, with published average growth figures of 10% a year. Although there are doubts about the accuracy of these figures, it is clear that they were high, even without the exploitation of natural resources. The Ethiopian government played a role in this with a policy that focused on strengthening the economic infrastructure and increasing agricultural productivity with a market-oriented agricultural model, supported by modern rural institutes that encourage the use of improved seeds and fertiliser. This approach made agriculture an engine of economic growth in Ethiopia. Though the strong economic growth did not result in a corresponding reduction of poverty, the decrease in poverty was substantial compared to Burkina Faso and Tanzania, for example. This is connected to both the structure of economic growth, in which agriculture played a role, and relatively low population growth as a result of active government policy. A majority of households is clustered around the poverty line, however. They remain vulnerable to fluctuations in income and purchasing power, for example due to failed crops as a result of drought or inflation. Though Ethiopia receives extensive foreign aid assistance, it is low per capita compared to other countries, while tax revenue is also relatively low. This limits the space for social programmes, which translates into high multidimensional poverty, despite a progressive tax policy and a productive safety net programme. The low score on the Human Development Index is the result of both low incomes and low enrolment in education.

Development in *Rwanda* is largely comparable to that in Ethiopia. Economic growth supported the agriculture and services sector. The increase in agricultural productivity helped to reduce poverty in rural areas. Despite active government policy, land right inequality persists, as a result of which the fruits of increased agricultural productivity are unequally distributed and the poorest groups benefit the least. Extreme poverty and inequality are therefore higher in Rwanda than in the other countries. The use of modern techniques remains limited in agriculture and Rwanda depends on other countries for its food supply. According to various authors, Rwanda has been successful because the government actively promotes the development of the private sector and has managed to keep the most negative forms of rent-seeking under control. The private sector, especially agriculture, still suffers from many limitations, with the armed forces being highly influential. Approximately a fifth of the workforce works in the services sector, where the most productive jobs are concentrated in the capital Kigali. Rwanda is making rapid progress on many development indicators as a result of active government policy, but also due to extensive foreign aid. Examples include the introduction of free and obligatory primary education and health insurance for all inhabitants. This is reflected in considerable improvements in enrolment in education and a sharp increase in life expectancy. As a result of an active demographic policy and an active information campaign, Rwanda has the lowest population growth and lowest birth rate of the six countries. Unemployment among young people is a major problem. To reduce poverty and inequality, it is essential that Rwanda creates jobs in industry or the services sector for the almost quarter of a million people entering the labour market.

Senegal is a special example. The country is more urbanised than the other countries. The economic transition is further advanced there as well. Agriculture has a smaller share in the

economy and employment than in the other case study countries. The manufacturing industry, where food and drink and textile are the largest sub-sectors, is further developed than in the other case study countries. The sectors are also well integrated into national economic development, and therefore agricultural products have a relatively high added value. Moreover, Senegal has a well-developed tourist sector. In addition, the many transfers by Senegalese who live and work abroad (especially Southern Europe) have helped to reduce poverty (Cisse, 2011; Shimeles and Nabassaga, 2017).

Like Burkina Faso, *Tanzania* can be characterised as a mixed economy. Two-thirds of the workforce works in an outdated agricultural sector, but the raw materials boom, together with government spending, was a determinant of economic growth. The direct and indirect employment opportunities related to the production of raw materials has been limited, however. The same is true of financial services. Industry does not employ more than 5% of the workforce. Unemployment, including hidden unemployment in agriculture and the informal services, is high. Economic growth did not bring a corresponding reduction of poverty, in part due to high population growth: almost half of the population is extremely poor. Poverty figures improved mainly in Dar es Salaam, where much of the economic growth was concentrated (in the financial services and public sector). Poverty reduction in the countryside was mainly the result of a shift from agriculture to other activities in rural areas and migration to secondary cities. Income from mining and other tax revenue are quite low due to exemptions (in 2014 17% of the national income), but the government did manage to invest a great deal in improving social services as a result of relatively sizeable foreign aid. Government expenditure therefore stimulated economic growth. Relatively speaking, the country made excellent progress on the UN's Human Development Index and in reducing multidimensional poverty as a result of these investments. Indeed, the country has the highest score of the six countries on these indices. Tanzania also makes a considerable effort regarding social protection, including an extensive cash transfer programme. In addition, the government is working on improving agricultural productivity.

In the 1990s, *Uganda* was one of the fastest-growing economies in Africa, in part thanks to a return to peace in most of the country, its macro-economic policy and sizeable foreign aid. From about 2006 onwards, peace in the north of the country, fewer conflicts in the region and favourable weather conditions contributed to this. Thanks to these factors, Ugandan farmers were able to export more to neighbouring countries, which was mainly what determined the rise in income of the poorest farmers. Unlike Burkina Faso, for example, economic growth in Uganda went much less hand in hand with a shift in labour from agriculture to low-productivity services (AfDB and the World Bank, 2018). The Poverty Eradication Action Plan (PEAP) from 1997 helped to reduce poverty with its social programmes. This plan was largely funded by donor support and debt relief. Government expenditures increased, as a result of donor support, from 19% of the national income in the early 1990s to 32% in 2008/2009. This was also a boost for economic growth. Extreme poverty decreased dramatically, from 64% in 1999 to 35% in 2012. Uganda is thus one of the Sub-Saharan Africa countries with the highest reduction of poverty, despite fairly high inequality and high population growth.

3.6 Summary

Chapter 2 outlined economic growth and the development of poverty and inequality in Sub-Saharan Africa. Key questions here are why economic growth did not bring prosperity to more people and why there are differences between countries regarding this point. These questions help us to understand which interventions would be the most effective in reducing poverty and inequality in Sub-Saharan Africa and thus help to achieve the sustainable development goals. To be able to come up with answers for these questions, this chapter has devoted attention to socio-economic development in all of Sub-Saharan Africa, as well as six countries in particular: Burkina Faso, Ethiopia, Rwanda, Senegal, Tanzania and Uganda. In their own way, each of these six countries has been successful in fighting poverty and inequality.

One reason why economic growth has not led to a greater reduction of poverty in Sub-Saharan Africa is the *demographic development* there. Compared to Latin American and Asian, countries, the decline in (overall) birth rates started much later in Africa (in the 1980s and 1990s as opposed to the 1960s and 1970s), and the pace of this decline was also much slower than in other regions. The decline in infant mortality and higher life expectancy therefore resulted in high population growth. The consequence is a continent with a young population: 43% is under the age of 15 and another 20% is between the ages of 15 and 24. This young population is often described as a 'demographic dividend'. But this underestimates the implications of the present demographic composition. If the Netherlands were to have the same demographic composition, then it would have to spend EUR 30 billion a year on primary education, as opposed to EUR 10 billion. Furthermore, we can only speak of a demographic dividend if the continent actually manages to find work for the 15-20 million young people who enter the labour market every year. That has not been the case thus far. High population growth, insufficiently inclusive development and high (hidden) unemployment among young people are three key, related problems in Sub-Saharan Africa. Population growth means that the average income will only increase once there is economic growth of 3%. Of the six case study countries, Rwanda and Ethiopia have been relatively successful in reducing the overall birth rate, which has translated itself in both countries into a relatively large reduction of poverty. The opposite is true in Uganda, and to a less extent Burkina Faso, where population growth remains high. Nevertheless, Uganda experienced a considerable drop in poverty, due to quite unique and temporary regional circumstances, but in Burkina Faso it had a negative impact on poverty reduction, despite diminishing inequality.

Another reason why poverty did not decrease more lies in the structure of the economic growth. When countries start to develop into modern economies, then this generally takes place in tandem with a strong increase in productivity in agriculture and growth in the industrial and service sectors. But that is not how growth has occurred in Sub-Saharan Africa. Economic growth there was mainly related to a rise in the export of raw materials and agricultural crops. Mining (oil, gas and minerals) has a strong enclave character with limited spillover effects on the rest of the economy. This has led to the problem of jobless growth and hence growth without a corresponding reduction of poverty. Productivity did

increase somewhat in agriculture, but the expansion of production was mainly the result of the use of new farmland. There was barely any development of industry. The construction sector did benefit from economic growth and was a source of it. The services sector experienced substantial growth, but it had a dual structure: high-productivity services such as banking, insurance and ICT are becoming increasingly important economically, but they have generated few jobs. The greatest increase in employment is in the informal services sector, especially in the cities. Increasingly this involves low-productivity jobs with corresponding wages.

It appears reducing poverty was mainly possible when small-scale farming had the opportunity to develop, or when – especially in rural areas – alternatives for agriculture emerged. Poverty decreased in Rwanda and Ethiopia thanks to government investments in agriculture. In Uganda, farmers were able to benefit from an increase in regional stability. In Tanzania, poverty reduction in rural areas was mainly the result of a shift from agriculture to other activities in rural areas and migration to secondary cities. Urbanisation helped to reduce poverty, but then mainly because the income that could be earned in cities in the informal services was higher than the income from agriculture for personal use. Burkina Faso is an example of this. Newcomers are increasingly being forced to opt for low-productivity services, however, the result of which is a decline in the average productivity of the services sector in the cities. Senegal is a special example. The manufacturing industry is further developed there than in the other case study countries. The food industry is well integrated into national economic development, and therefore agricultural products have a relatively high added value. In addition, the many transfers from Senegalese living and working abroad (especially in Southern Europe) have helped to decrease poverty.

This chapter also devoted attention to government policy. Taxes, transfers and government expenditures only help to reduce inequality to a limited degree. In practice, ineffective tax systems, a lack of qualified personnel, ineffective enforcement, tax competition between countries, exemptions and the existence of an extensive informal sector stand in the way of effectively collecting revenue. Partly due to these factors, government revenue in low-income and lower middle-income countries often does not exceed 15%-20% of the national income. Many countries have sizeable energy subsidies, which has the effect of widening income gaps. Programmes for social protection are still in their infancy. ODA still plays a significant role. Rwanda, for example, cannot so much spend more on social programmes than the other case study countries because its own tax revenues are higher, but more so because the ODA it receives, measured as a percentage of national income, is much higher.

4

Policy options

4.1 Introduction

It is increasingly accepted nationally and internationally that poverty and inequality cannot be eradicated solely through economic growth and that those in the margins of society are not necessarily benefitting from an increase in international trade. An effective poverty policy requires a multisectoral strategy focused on both stimulating employment opportunities and reducing inequality of opportunity and outcome (World Bank, 2015a). Recurring elements in this kind of strategy include (World Bank, 2012, 2015a and 2016a; Badine and Makombe, 2015; Fox and Thomas, 2016; UNDP, 2017; Stiglitz, 2017b, AfDB and the World Bank, 2018):

1. a policy that focuses on increasing agricultural productivity and decreasing dependency on weather;
2. strengthening the process of structural transformation, both by increasing agricultural productivity and service provision and by investing in the development of labour-intensive industry;
3. ensuring a better distribution of human capital through universal access to health care, investing in care for babies and young children, improving access to and the quality of primary education, secondary education and vocational training;
4. increasing and improving the collection of taxes in combination with targeted social expenditures, including conditional and unconditional transfers. This chapter focuses on options for governments and donors to address the problems of unemployment, poverty and inequality. The analysis is based on policy evaluations, years of scientific research and systematic reviews, which have yielded a wealth of information about what does and does not work in these areas. This chapter discusses sectors and themes, and the related interventions that have proven to be effective ways of addressing the above-mentioned problems: agriculture, infrastructure, education and health care.

There is wide consensus about the need to increase agricultural productivity (4.2). To reduce poverty and inequality, these interventions need to target smallholder farmers. Research by Bolt et al. (2017) shows that otherwise inequality will increase, not decrease. In addition, considerable investments in infrastructure are needed for structural transformation to take place (4.3). On the one hand, sizeable investments are necessary in fast-growing cities (such as Lagos, Dar es Salaam and Ouagadougou), and on the other hand, reducing poverty and inequality requires investing in the rural infrastructure. Strengthening the infrastructure is also necessary to create sufficient employment opportunity in industry and modern services for the rapidly growing workforce (4.4). There are also opportunities in construction, tourism and public services. Creating jobs requires considerable investment in education (4.5) and health care and SRHR (4.6), in order to reduce inequality of opportunity. This chapter also reflects on the role that taxes (4.7) can play in reducing poverty and inequality. Cash transfers (4.8) have proven to be extremely effective in that respect. Section 4.9 provides an overview of the chapter.

4.2 Agriculture

Though the share of agriculture in the economy is decreasing in Africa, the sector is of crucial importance for effectively fighting poverty. First of all, a large part of the population still works in agriculture. Despite urbanisation, the rural population, and therefore the labour supply, continues to increase. As the previous chapter illustrated, it is not possible to fundamentally tackle the poverty problem without doing something about income and job prospects. Second, increasing productivity is a condition for reinforcing structural transformation.

Increasing food production is necessary to ensure that the rapidly growing population has access to an adequate supply of food. Currently, Sub-Saharan Africa imports USD 37 billion worth of food (about 12% of imported goods) (ACET, 2017). Currency devaluation means that these imports are becoming more and more expensive. The causes include low productivity in these countries' own agriculture sectors, high transport costs, urbanisation and shifting preferences (especially in cities) from unprocessed to processed foods.

The report *Agriculture Powering, Africa's Economic Transformation* (ACET, 2017) outlines a dual strategy for Africa, which combines industrialisation, based on light industry, with the modernisation of agriculture, aimed at:

- increasing labour and land productivity;
- increasing production and the processing of agricultural crops;
- reducing the export of primary agricultural products and food imports;
- reducing dependencies by diversifying production;
- boosting resilience against unfavourable weather conditions;
- integrating into other sectors of the economy.

The transformation requires investing in agricultural technology and inputs, as well as the local infrastructure. Investing in irrigation is necessary to increase productivity by means of a stable water supply but also by absorbing the impact of climate change (drought) (Page and Shimeles, 2015). Poor irrigation makes production sensitive to weather conditions. Access to high-quality inputs is especially important in countries where the availability of land is becoming an increasingly acute problem, such as Ethiopia, Rwanda and Burundi (Benin, 2016). A poor local infrastructure also makes it difficult to obtain inputs such as seeds and fertiliser and market products. Moreover, increasing agricultural production requires further investment in knowledge, partly focused on the skills needed to operate and maintain agricultural machinery, food processing, marketing, transport, logistics and quality control.

Information programmes are often still ineffective. Better results are being achieved with programmes that offer these farmers a number of choices (Filmer and Fox, 2014). Special schools for farmers (farmer field schools) can also help to increase production and the income of farmers, especially in combination with value chain interventions, but here too the theory is not always sufficiently aligned to what happens in practice (Filmer and Fox, 2014; IOB, 2017). The Ugandan example (see chapter 3) illustrates the importance of regional

integration. Poverty decreased considerably in Uganda after farmers in the north were able to till their land again and export to neighbouring countries as a result of greater regional stability.

Though increasing productivity is necessary to reduce poverty in rural areas (Benin, 2016), strengthening agriculture is not the same as a policy that focuses on reducing rural poverty. The IOB policy review on food security (2017) shows that measures aimed specifically at increasing productivity or reinforcing value chains usually do not reach the poorest groups. Small-scale farmers are stuck in a poverty trap, because they do not have sufficient resources to invest in expanding production or productivity (Filmer and Fox, 2014). Other research points to this as well (Nissanke, 2017b). Booth (2015) calls the neglect of small-scale farmers' productivity the biggest problem in the development of the African economy. The conclusion is that inclusive development for this group requires a different approach, driven by a local analysis.

Access to capital is a major problem for many farmers, which could be solved through better access to credit or, for the poorest farmers, income transfers. As it turns out, subsidies for inputs (especially fertiliser, but also seeds) often fail to reach the poorest farmers and drive off local traders (IOB, 2011; ACET, 2017). ACET therefore recommends introducing a voucher system, like the one in Nigeria, in which governments no longer distribute fertiliser but instead offer target groups vouchers that put them in the position to buy inputs on the market. In addition, land reform and improved land rights contribute to higher productivity. The vast majority of African farmers work on small pieces of land, the rights of which are unclear. Major landowners, especially in East and Southern Africa, retain possession of the most fertile land, while a large majority of the population are unable to access it (UNDP, 2017). Farmers invest more when their land rights have been clearly defined (Filmer and Fox, 2014).

Studies also point to the importance of reinforcing connections between cities and rural areas (Losch, 2016). One of the reasons why poorer villages are poor is because they lack certain (geographical) characteristics that wealthy villages and cities do have. These include differences in soil condition, for example, but also infrastructure and educational facilities (Gräb and Grimm, 2011).

In 2003, a group of countries agreed in the Maputo Declaration to devote at least 10% of the their government's budget to agriculture, but thus far only seven of these countries (including Burkina Faso, Ethiopia and Senegal) have consistently achieved that target. In Ethiopia, it has been the government's policy since 1995 to combine increased agricultural productivity with a productive safety net programme (UNDP, 2017). The government has been promoting a market-driven and decentralised agricultural model with modern rural institutes that encourage the use of improved seeds and fertiliser. Land certificates resulted in better land management and (45%) higher productivity (IOB, 2014). Agricultural expansion has been further stimulated by improving the infrastructure, commercialising agriculture and better-functioning food markets (Stifel and Woldehanna, 2016). Investments in roads substantially improved farmers' access to markets. This approach

made agriculture an engine of economic growth in Ethiopia. Increased labour productivity in agriculture helped to reduce inequality between regions (IMF, 2015b).

In Rwanda, the government used a similar approach to the one in Ethiopia. It stimulated production by smallholder farmers through investments in agricultural inputs and techniques and rural roads (Fox and Kaul, 2017). At the same time, the Rwandan government ensured macro-economic stability, a better investment climate and encouraged new investments in the private sector. Investments in education and health care helped to increase the (potential) labour productivity of young Rwandans, while population growth declined as a result of family planning programmes. The advantages of increased productivity mostly benefitted families with better land rights, however (Diao and McMilan, 2017). These often wealthier households cultivate higher quality products and have better access to markets. As a result, they are able to benefit more from the higher agricultural yields.

A role for donors

A lesson from the recent policy review on food security is that measures that focus solely on increasing productivity or strengthening value chains usually do not reach the poorest farmers (IOB, 2017). There is a real danger that untargeted stimulation of productivity causes inequality and poverty to increase (Nissanke, 2017a). Reducing poverty and inequality works better with programmes that focus on small-scale agriculture. This requires interventions that target the local context and take account of local agro-ecological characteristics of the agricultural soil and the range of options and limitations that local farmers have (Benin, 2016). A second conclusion from the IOB policy review is that it is better support proven solutions, aimed at reducing dependency on weather (e.g. better irrigation), than to keep looking for new donor-driven niches that may have a catalytic effect (see also Benin, 2016). Experience shows that even successful projects are rarely scaled up if the donor has only reserved funds for the pilot project.

Effective instruments include (see also ACET, 2017):

1. Supporting land reform and programmes that focus on securing land rights;
2. Improving smallholder farmers' access to agricultural inputs and agricultural tools, by means of vouchers, for example;
3. Supporting mechanisation in agriculture, by expanding the local manufacturing of small machinery and maintenance and rental through farmer organisations;
4. Supporting farmers through demand-led training activities, especially in more disadvantaged areas;
5. Supporting agricultural research. This is one of the most effective instruments to increase production and productivity in agriculture (Page and Shimeles, 2015; IOB, 2017). The level of investment in this area in Africa is low (not more than 0.7% of the sector's contribution to the national income, as opposed to 3% in developed economies);
6. Developing a legal framework for small-scale family businesses;
7. Supporting environmentally friendly agriculture and reducing dependency on weather conditions;

8. Strengthening local infrastructure. In Tanzania, the opportunity for farmers in the region to develop activities outside agriculture was the main reason for rural poverty to have decreased;
9. Supporting programmes that focus on strengthening local infrastructure and also reinforcing the relationship between urban and rural areas;
10. Developing an agro-industry that result in African countries giving their own agricultural products more added value;
11. Strengthening regional integration;
12. Supporting farmer organisations, including through capacity development on production, exploitation of economies of scale and improving bargaining power (Losch, 2016);
13. Developing targeted programmes to give smallholder farmers access to credit; and
14. Supporting social protection programmes.

4.3 Infrastructure

Most countries in Sub-Saharan Africa score low on indicators for infrastructure (World Bank, 2017a). The energy sector is an example. Only 35% of the population has access to electricity. At 0.04 megawatts per 1,000 inhabitants, the capacity is well below that of other regions, and, more importantly, well below demand.[54] Sub-Saharan Africa is also the region with the least-developed transport infrastructure. Access to infrastructure is unevenly distributed, which is a factor in the inequality of outcome.

Yet improvements have been taking place. In 1990 over 50% of the population had access to clean drinking water; in 2015 that was 77% (World Bank, 2017a). According to research, investments in infrastructure (especially in telecommunications) contributed to the return of economic growth in Africa since the later 1990s (Foster and Briceño-Garmendia, 2010; IOB, 2014; World Bank, 2017a). In Uganda sizeable investments in infrastructure, including dams and hydropower plants stimulated economic growth. These kinds of investments are a condition for creating a modern manufacturing industry and improving access to markets (IOB, 2014; WEF, 2017a).

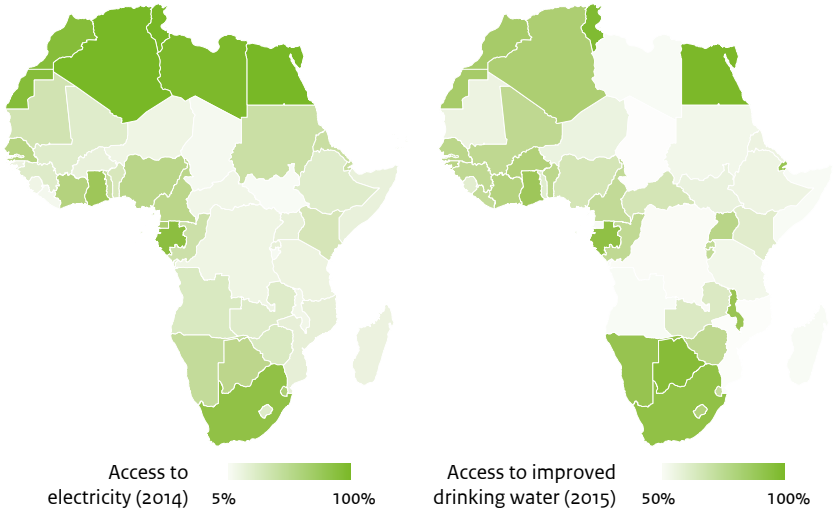
Despite the increase in investments, poor infrastructure remains a major problem. There is still a major financial gap. According to the AfDB (2018), Africa needs to invest about USD 68-108 billion more in infrastructure every year, especially if it wants to create sufficient employment opportunities for the fast-growing workforce. The bank is not confident about the possibility of private funding in that respect: approximately 5%-10% of global infrastructure spending is privately funded. According to the World Bank (2017a), economic growth in Sub-Saharan Africa would be an average of 2.6 percentage points higher every year if the region managed to solve the problems in the area of infrastructure. That mainly entails improving the energy and transport infrastructure. In order to benefit fully from the

54 By comparison, in 2010 the Netherlands had a capacity of 1.6 MW per inhabitant.

advantages of investments in infrastructure, governments would also need to invest in education, training and a better regulatory environment (AfDB, 2018).

If investments in infrastructure have sufficient focus, they can lead to poverty reduction (Calderón and Servén, 2014). Labour mobility in rural areas, for example, can be enhanced by improving the transport and communication infrastructure, education and health care (Wiseman and Jayne, 2016). In countries that still have under-developed road networks, such as Ethiopia, Uganda and Tanzania, investments in rural roads cause transport costs to decrease and traffic to increase, the result of which is a rise in the use of fertiliser and other inputs for agriculture, increased production, more work opportunities outside of agriculture, a rise in incomes and consumption, poverty reduction and better education and health care (Hine et al., 2015). Strengthening the infrastructure therefore helps to reduce poverty and improve results in the areas of education and health care (Estache et al., 2014).[55] But here too we need to add a word of caution: although roads are a good way to make rural areas accessible and give farmers access to markets, these kinds of investments can also result in an increase in inequality. Indeed, the wealthiest farmers, who have modern transport facilities at their disposal, benefit more from rural roads than the poorest farmers who do not have access to these facilities (Bryceson et al., 2008). That means that in addition to roads, measures must also be taken to ensure access to transport.

Figure 4.1 *Access to electricity and improved drinking water*



Source: WDI.

[55] One danger is the emergence of a negative effect on economic activities in neighbouring communities, where no investments have been made in the rural road network (World Bank, 2016a).

A role for donors

According to various researchers, in strengthening the business climate, donors have focused too much on reducing bureaucratic rules and too little on the importance of investing in infrastructure (Page and Shimeles, 2015). This has taken a turn in recent years, however. ODA expenditures on infrastructure have increased from USD 6 billion in 2002 to USD 30 billion in 2014. Part of this increase can be attributed to several major donors: Germany, France, Japan, the United Kingdom, the EU and the World Bank. The Netherlands actively participates in several large infrastructure funds.

Past research by IOB (2014) revealed that funders of infrastructure assume that what is good for the country is also good for people in the lowest income groups. It is tempting, then, to take the lowest cost per user as a proxy for the highest cost effectiveness (Foster, Vivien and Briceno-Garmendia, 2010). This easily puts the focus on large-scale investments in an urban environment but it does not necessarily lead to a reduction of poverty and inequality. It seems that the situation for poor households has improved less than it has for wealthier income deciles as a result of this approach, perhaps with the exception of the telecom sector.

Infrastructure can help to reduce poverty and inequality, but then explicit attention needs to be devoted to the problem. Medium-sized donors could shift their focus to breaking out of the urban bias, which is already part and parcel of many national policies. That means, for example, investing more in rural infrastructure, with average higher costs per user. A focus on quantitative reporting means that incentives for these kinds of investments are not always pointed in the right direction: it easily results in an urban bias (Poulton, 2014).

The policy review on renewable energy (IOB, 2015) concludes that improving energy services could be a way of improving living conditions in rural areas and stimulating economic activity there, providing it is ensured that the poorest households actually do get to use these services. If that cannot be ensured, then inequality is more likely to increase than decrease. In many African countries, governments spend a great deal on energy subsidies, but many households are so poor that they cannot afford regular access to specific infrastructure services such as water and energy (Estache et al., 2014). It is precisely those households living below the poverty line that are often not reached by these subsidies (e.g. for water and electricity), because they are not connected to the services as a result of prohibitive connection costs (IOB, 2016; Younger et al., 2016; World Bank, 2016a). Subsidies then have the effect of widening income gaps. The paradox is that households with the lowest incomes are being forced to use more expensive alternatives (e.g. because they have to buy water from individual sellers, instead of being able to source it straight from the public network). This is an argument in favour of subsidising the connection costs and not the use itself (Estache et al., 2014). Moreover, infrastructure policy should take the interests of households in rural areas more into account.

Experience also shows the poverty reduction in rural areas is connected to finding other sources of income. Governments and donors can enhance labour mobility in rural areas by improving transport, the energy supply, the communication infrastructure, education and health care.

At the same time, more attention needs to be devoted to the urban infrastructure. Many African cities are unable to adequately benefit from the economic potential because they are not sufficiently aware of the advantages of the city (see section 3.3). Cities could become much more of job engine than is currently the case, but that requires considerable investment in the urban infrastructure (Collier, 2017; Lall et al., 2017). It requires strengthening the urban authorities, who at present have too little space and resources to tackle these problems, and it also requires better legislation and stronger institutions. Both of these are still too often based on the colonial past and have not been adapted to meet current requirements.

Donors can take the following concrete steps:

1. Invest in rural roads, which help to improve connections to regional markets and cities in the area;
2. Invest in ensuring access to electricity, especially electricity generated in a sustainable way;
3. Invest in ensuring access to clean drinking water and sanitation;
4. Fund connection costs for the people in the poorest income groups;
5. Invest in the infrastructure for public services (schools, health-care services);
6. Invest in the rural communication infrastructure;
7. Invest in the urban infrastructure, aimed at promoting the growth of businesses that are able to compete regionally and internationally; and
8. Provide support to urban planning and the organisation of the urban infrastructure, property rights and municipal taxes.[56]

4.4 Employment

The problem of poverty and inequality cannot be viewed in isolation from employment. African citizens cite unemployment as the most acute problem (AfDB et al., 2017). One challenge is creating a sufficient number of jobs for young Africans (Dekker and Hollander, 2017). Every year, 15-20 million young people enter the African labour market, and this number will only increase in the coming years. In the next 15 years, 375 million African youth will become adults (Losch, 2016). Vulnerable groups in particular, including women and young people in fragile states, barely have a chance of finding work. Sixty per cent of the unemployed in Sub-Saharan Africa is 25 years old or younger (UNDP, 2017). A third of the people between the ages of 15 and 35 who are not enrolled in education is unemployed, and another third has an insecure job in subsistence agriculture or in low-productivity and poorly paid services. Young people are abandoning agriculture en masse, both because of its image as an old-fashioned sector that has failed to modernise, and because they are not given space by the older generation. They end up in poorly paid services. Whereas young people in many countries still have temporary contracts, this is much less the case in Sub-Saharan Africa, with the exception of several countries, such as South Africa.

[56] An example of this is the Develop to Build (D2B) project, which is financially backed by the Kampala Capital City Authority in order to provide a solution for the traffic problems and air pollution in Kampala.

Permanent jobs are much less common, with the exception of Nigeria and a few countries in Southern Africa. In Tanzania, for example, one in fifty working young people (15-29 years old) have a permanent employment contract, and another one in fifty a temporary contract. Approximately 10% is an employee without a contract. Most young people work for their families (almost 60%) or for themselves (approximately 27%). Vulnerable groups in particular (including young people, women and migrants) have to rely on the low-productivity informal sector. The resulting earnings are not enough to lift anyone out of poverty: 69% of employed young people in Sub-Saharan Africa is extremely poor (ILO, 2017).[57] Many young people also become discouraged and abandon the labour market. In 2012, more than 60% of young people in Kenya between the ages of 15 and 24 did not have a job, nor were they looking for one (ILO, 2013). This figure is even higher for young women. Poor domestic prospects are part of the reason why 44% of young people in Sub-Saharan Africa want to emigrate to work abroad (ILO, 2017).

In order to create a sufficient number of jobs, it is necessary for structural transformation to get underway. Agriculture cannot create enough jobs on its own. Indeed, high productivity growth in agriculture means fewer people are needed in the sector (Dercon, 2010). Employment opportunity in the services sector consists largely of informal jobs that have little added value and offer low incomes. The absorption capacity of cities for these types of jobs is diminishing. Migrants are ending up more frequently in low-productivity positions, so that further urbanisation goes hand in hand with a decrease in average productivity.

Growth of the internationally competitive manufacturing industry could contribute to considerable job growth (Filmer and Fox, 2014). Filmer and Fox estimate that it could take 20 years for this kind of transformation to generate a sufficient number of jobs. According to the authors, this emphasises the importance of setting this process into motion as quickly as possible. This reduces dependency on raw materials and agricultural crops for export and could also help to enhance domestic demand, for example for the construction and services sector. To achieve this growth, industry had to become more competitive. This requires strengthening the transport infrastructure, improving access to energy, removing trade barriers, improving access to capital and improving education, and aligning education to demand from the labour market. The most important bottlenecks depend on the local context: in one country it may be access to energy, while in another it may be the transport infrastructure and in a third country it may be the bureaucratic barriers (Filmer and Fox, 2014). Various countries are also experimenting with special export zones. Experiences with these in Africa are mixed, however (Farole and Moberg, 2017). In Tanzania and Ethiopia, for example, they have had little success thus far (ECA, 2016; McMillan et al., 2017a).

A role for donors

For a sustainable structural transformation to take place, Sub-Saharan Africa will have to focus more on strengthening the manufacturing industry, construction, infrastructure and modern services (banking and insurance, ICT, tourism). This is necessary to provide jobs for the rapidly growing group of young people in the cities.

57 With consumption per person of less than USD 1.90.

Donors can support initiatives in different ways:

1. Contribute to the development of an agro-industry for the processing of agricultural products. This not only creates jobs, but it also helps to increase the added value of agricultural crops in the given country. This also reduces dependency on the import of processed food, the demand of which is increasing in cities.
2. There is also a major potential for job creation in the economic infrastructure, including in construction and the greening of the economy. Donors can support the funding of investments in infrastructure, especially in rural areas, and the greening of the economy. The latter simultaneously helps to achieve the Rio goals. According to the World Economic Forum (2017a), greening the economy just in South Africa would already generate 460,000 jobs.
3. The construction sector is growing fast in many African countries, creating a shortage of trained labour. Low wages and poor and unsafe working conditions give the work limited appeal, however. Donors can help to train young people for the construction sector, preferably by supporting formal vocational training. In addition, they can help by improving working conditions in the construction sector.
4. In order to achieve growth in (light) labour-intensive industry and services, it is necessary to strengthen the transport infrastructure, guarantee continuity of the energy supply, ensure access to capital and improve the alignment of education to the labour market.
5. Other growth sectors include tourism, education and health care. Tourism is a labour-intensive sector with multiplier effects on other sectors. Enhancing employment opportunity in education and health care is necessary to achieve satisfactory levels of provision.[58]
6. Donors can help to set up institutions that will bring supply and demand on the labour market closer together (Kilimani, 2017). Job seekers still depend too much on social networks. An example of this kind of labour market instrument is the JobMatch programme in Rwanda, which tries to bring together employers and vulnerable young people via a system of text messages (Dawes et al., 2014).
7. Training activities aimed at improving technical, financial and management skills can help to improve productivity (Filmer and Fox, 2014). It is advisable, however, that these are properly evaluated, because insight into the effectiveness of these kinds of training activities is still limited currently (IOB, 2014; Filmer and Fox, 2014).
8. Donors can contribute to programmes aimed at breaking away from informal-sector employment. Measures are required to achieve this, such as (ILO, 2013):
   - removing bureaucratic barriers, long-term procedures and improving the registration of ownership rights;
   - improving social protection for employees in the informal sector;
   - strengthening the alignment between education and the labour market by providing training for market-related skills;
   - fighting discrimination and inequality with programmes aimed at vulnerable groups;

[58] Researchers mention the need to double employment opportunities in Tanzania, for example, and quadruple them in the health care sector (ESFR and UNDP, 2015).

- promoting entrepreneurship among young people with cash transfer programmes and training.

9. Donors can experiment more with types of (temporary) labour migration. Whereas there is an increasing shortage in various sectors in Europe as a result of demographic developments, on the one hand, it appears that in Uganda and Senegal transfers from labour migrants have helped to reduce poverty.

Various countries have successfully managed to take measures to reduce dependency on the informal sector (ILO, 2017). It concerns initiatives, such as in Brazil, which promote the idea of having your first job in the formal sector, which contribute to formalising the economy (such as in Colombia) and which promote formal entrepreneurship (such as in Chili and Mexico). In Liberia, for example, people are gaining experience with 'one-stop-shops', the proprietors of which can meet all of the requirements for setting up a business. Measures are particularly effective when they target large informal companies (Mbaye and Benjamin, 2015). Also important are measures that help to increase productivity in the informal sector. In the manufacturing industry it often concerns small companies that carry out simple operations. The quality is often low (Filmer and Fox, 2014). Obstacles to improving quality and productivity include a lack of space, access to credit, and skills and obstruction by local authorities.

We know little about the effectiveness of many of the training activities that are held, in particular because evaluations are inadequate in this area (IOB, 2014). And to the extent that we do know what the effects are, they are often disappointing, usually because they do not clearly match the demands of the labour market (Filmer and Fox, 2014; Fox and Kaul, 2017). Research shows that demand-driven training activities, which are developed in close consultation with employers, are more effective than supply-driven training activities (Dekker and Hollander, 2017). This is a task for governments and donors. Companies rarely offer the required training.

Experiences with employment opportunity programmes are generally less favourable. They require an integrated and coordinated approach, which takes local capacity sufficiently into account (AfDB, 2016b). But these requirements are rarely met. Research reveals that programmes for micro-credit are often not effective when it comes to creating jobs (Grimm and Paffhausen, 2015; Fox and Kaul, 2017).

4.5 Education

One obstacle to creating jobs is the low level of education of a large part of the population. The skills gap helps to explain why a labour-intensive industry is not getting off the ground and why society is having difficulty modernising (Stiglitz, 2017a). In many countries, the vocational training system is outdated and does not focus enough on demand from the labour market. A labour-intensive industry and modern services sector are barely getting off the ground partly because employers are not capable of finding adequately qualified personnel (World Bank, 2012; WEF, 2017a). In Burkina Faso, for example, only a quarter of the workforce has been to school, and those who do have an education cannot always read or write (World

Bank, 2017b). Fifty-eight per cent of young people up to the age of 24 do not have an education; the percentage for people aged 25 to 35 years is even 71%. Young people are poorly trained for jobs in agriculture, industry and the services sector. Because a large part of the population performs low-productivity work (whether in agriculture or informal services), a vicious circle is created in which there is barely any training on the job (Kilimani, 2017). Various researchers conclude that there can be no economic transformation in Tanzania if it fails to raise the quality of education (Hanushek and Wößmann, 2008 and 2010; Mkenda et al., 2010; Bandara et al., 2014; Matotay, 2014). Making the transition to a middle-income country means that the percentage of highly skilled people in the workforce has to increase from 3% to 12% and the percentage of medium-skilled employees has to increase from 13% to 33% (Moyo et al., 2010). This requires making a substantial investment in education.

Research by opinion surveys such as Afrobarometer reveals that, according to the citizens of Africa, after unemployment the most pressing issues requiring more attention are education and health care (AfDB et al., 2017). Education is an important determinant of opportunities for work and helps to reduce inequality (Filmer and Fox, 2014; Sparreboom and Stavena, 2014; Dekker and Hollander, 2017). That is especially the case in Africa (Abdullah et al., 2015). The level of education is particularly low in rural areas and among women. Poorer households lack the financial resources to pay for education or its related costs (such as transport).[59] The importance of education is clearly reflected in the degree to which young people have found a job in the modern formal sectors. In Burkina Faso, 85% of highly skilled employed young people found a job in the modern sectors; for young people with higher secondary education the number is 50%, for lower secondary education 19%, for primary education 10% and for unskilled only 2% (World Bank, 2017b). This means that educational systems have to focus more on reaching vulnerable groups, whereby (conditional) transfers and nutrition at school (lunches) could play a role. Inequality in access to primary education has declined considerably since 2000, both within and among countries (Dabalen et al., 2015). Quality remains a problem that needs to urgently improve.

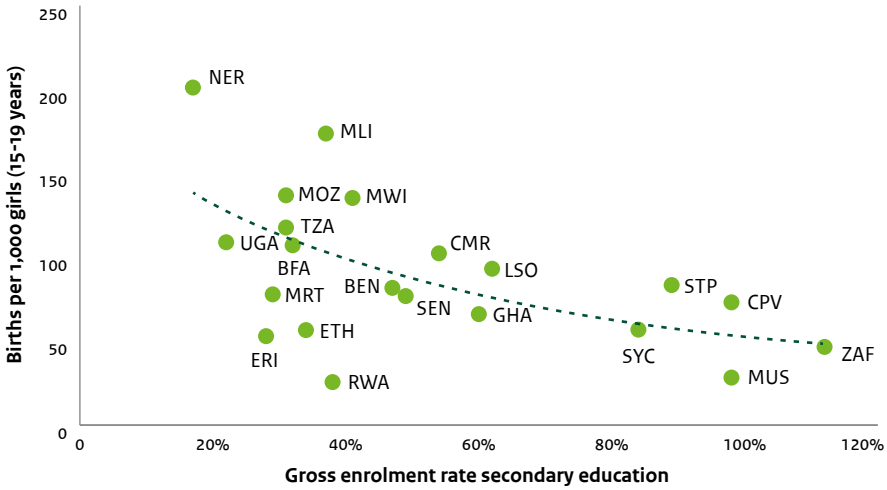
IOB (2011) has conducted research in the past on the relationship between education and the labour market in Uganda. This study shows that the economic benefits of primary education are limited for many young people: it does not help to increase job opportunities, and in addition young people have no possibility to pursue further training. As a result, many young people end up in low-skilled, low-productivity and low-paid activities in agriculture and in (other) informal jobs. There is a synergy here: a lack of opportunity on the labour market explains why there is a high dropout rate in education. Finishing primary education only has significant advantages if it provides access to secondary education, where there is a much better return. Those who go further in education make a faster transition to better professions (Garcia and Fares, 2009; Bandara et al., 2014). The enrolment of girls in secondary education is hampered by pregnancies and forced marriages.

Providing girls with education is an effective way of ensuring that fewer girls have children at a very young age. The figure below provides an indication of this: young girls up to the

59 The World Bank (2017) therefore advocates more comprehensive programmes for conditional transfers.

age of 20 in countries where there is a high enrolment of girls in secondary education have far fewer children on average. In Ethiopia, 61% of women without an education have a child before reaching the age of 20; that figure for women with eight years of education is 16% (Pradhan and Canning, 2016). The authors estimate that one additional year of education for girls reduces the chances of teenage pregnancy by seven percentage points and the changes of teenage marriage by six percentage points.

Figure 4.2 *School enrolment among girls and childbirth among young women*



** Gross enrolment figures in secondary education and number of births per 1,000 women in the age category of 15-19 years. Abbreviations: see appendix 1.*
Source: WDI.

In countries such as Niger and Mali, there is a combination of low enrolment in secondary education and a high number of women who have children. Mauritius and South Africa are on the other side of the spectrum, with high enrolment in education and far fewer births among young women between the ages of 15 and 19. Rwanda is a clear exception, where the number of births per 1,000 women between the ages of 15 and 19 is relatively low, despite the low enrolment of girls in secondary education. This is the result of the Rwandan government's active demographic policy (see also section 3.2). On balance, a higher enrolment in secondary education of 50 percentage points can be correlated to a decrease of about 90 births per 1,000 girls between the ages of 15 and 19.[60]

[60] The graph only depicts a correlation and not a causal relationship. Indeed, there is also reverse causality: girls also drop out because they give birth to a child. Nevertheless, it appears from a statistical analysis of Sub-Saharan Africa (based on panel data for the period 1993-2016; source: WDI), which takes into account the potential impact of other factors, that the correlation still stands. The analysis checks for endogeneity through the use of fixed effects and with enrolment in primary education as an instrument for enrolment in secondary education. Income is incorporated as a control variable. The conclusions are compatible with the literature (Canning et al., 2015).

A role for donors

Improving education (especially secondary and vocational training) is a condition for expanding industry and services. Strengthening preschool and primary education are instruments for reducing disadvantages. Fox and Kaul (2017) cite improving the quality of education as 'possibly the best development strategy', which at the same time is being neglected because the impact is only noticeable in the long term.

Donors can help to reduce poverty and inequality in a number of ways by strengthening education among the lowest income deciles:

1. The World Bank (2016a) cites the importance of intervening at a very young age, such as preschool, in order to address cognitive and social underdevelopment at an early stage and preventing it from worsening. Indeed, it appears that children from disadvantaged situations benefit in particular from preschool education.
2. Moreover, we need to improve the quality of primary education, especially in disadvantaged groups. Effective interventions include:
   - strengthening the education infrastructure in rural areas, especially school desks, books, access to electricity, sanitation (especially for girls);
   - considerably improve the infrastructure for teaching staff (teachers' accommodations) in rural areas, so that it becomes more appealing to work there;
   - support education for girls. The low enrolment of girls often points to the existence of many other problems (IOB, 2011);
   - devote attention to education in local languages in rural areas (create the possibility of learning English or French, for example, through audio-visual tools); and
   - strengthen school management and the inspection of weak schools.
3. Strengthen (secondary) education. This is necessary in order to achieve economic transformation, with a shift in labour from agriculture to industry and the high-productivity service sectors (UNDP, 2017).
4. Support and improve the quality of vocational training, for example by shifting its focus more to demand from the labour market (Filmer and Fox, 2014, Page and Shimeles, 2015). A study in Uganda suggests that investing in vocational training is about 50% more effective than wage subsidies, in which entrepreneurs provide employees with on-the-job training (Alfonsi et al., 2017). Moreover, training programmes are most effective in combination with a range of other services, such as credit, mentoring and access to networking.
5. Support 'second chance' education and adult education.
6. Support programmes for conditional income transfers in order to promote enrolment in education among vulnerable groups.

A good example of the way in which donors can provide support for the education of girls is the support Netherlands gave to the Forum for African Women Educationalists in Zambia (FAWEZA). FAWEZA gave grants to orphans and other vulnerable groups of girls, who were thus able to stay in school. Other grants were used to set up safe houses, mobile schools, reading groups, remedial courses and mobile libraries. The Netherlands supported FAWEZA in Zambia for about 10 years until the embassy was closed in 2013, and in doing so it was FAWEZA's largest partner. FAWEZA helped girls who had become pregnant to return to

school after giving birth (that was 39% in 2006 and increased to 67% in 2014 (IOB, 2016). In 2002, 143 of every 1,000 young women between the ages of 15 and 19 gave birth to a child in Zambia; in 2015 that number was 88.

For the large group of young people who lack the necessary skills, second chance learning programmes are useful (Watkins and Quattri, 2016). Examples include Ghana's 'School for life' programme or the *Fonds pour l'Alphabétisation et l'Education Non Formelle* (FONAENF) in Burkina Faso, a national fund for literacy programmes for adults, a programme that the Netherlands supported for years. The fund has helped to significantly improve literacy both qualitatively and quantitatively (Ilbouda et al., 2012). These programmes have a considerable impact on people's lives and work. In agriculture, the training activities had a positive impact on the techniques that were used and therefore on production as well. In the services sector, they helped to enhance marketing and management skills. The ability to read and write helped people manage their incomes and led to better access to microfinancing. Second chance programmes can also provide a targeted combination of education and internship (Filmer and Fox, 2014). Experiences with this in Sub-Saharan Africa are still limited, however.

4.6 Health care and SRHR

There is extensive literature suggesting that investing in health care is important for reducing inequality and improving opportunities on the labour market (Hirano and Otsubo 2015; World Bank, 2015a). Income disparities determine differences in access to health care and vice versa (World Bank, 2016a). Good health contributes to good results in education and high labour productivity. Thus, the improved health of the population also has a positive impact on economic growth (Mwabu, 2016). Conversely, additional interventions in the area of health care in countries with low incomes are cost-effective, because considerable improvements can still be gained with limited resources (Jamison et al., 2013; Addison et al., 2015; IOB, 2016). Figure 4.3 provides an example of this. The figure outlines the relationship between expenditure per capita on health care and mother and child mortality.[61]

Investing in the health of mother and child is also an effective instrument for reducing poverty and inequality (WB, Global Monitoring Report; Watkins and Quattri, 2016). In fact, that already starts with types of family planning. In the various Demographic and Health Surveys (DHS), on average a quarter of women indicate that they have more of a need for types of family planning. The poorest quintiles have an average of three children more than the wealthiest quintiles (Watkins and Quattri, 2016).

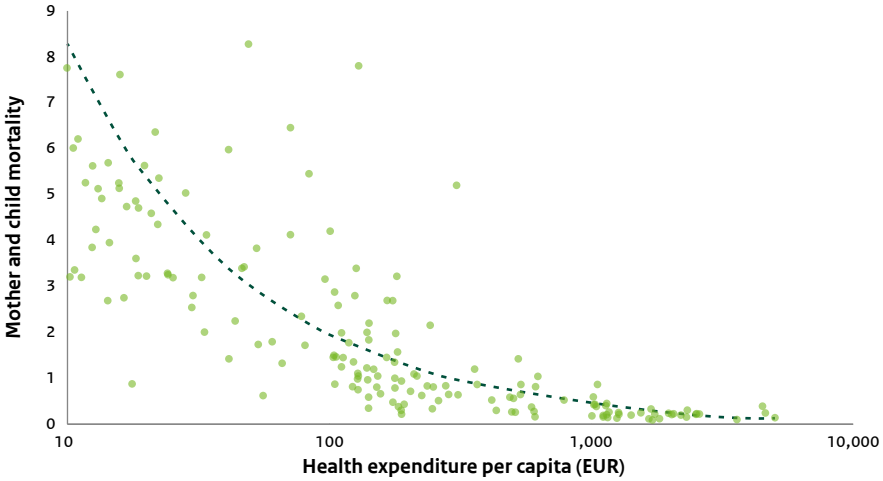
This only maintains the level of poverty and inequality, but it also contributes to high population growth. Breastfeeding and other interventions in the first years of life lay the foundation for later opportunities because they tackle inequality at an early stage. They

[61] Based on a composite index for both individual variables.

prevent the emergence of irreversible disadvantages, which are caused by malnutrition (World Bank, 2016a). Research shows that if 90% of women were to provide breastfeeding for long enough, then child mortality would decrease by 13% (Papp, 2014). In Burkina Faso, a programme for farmers, which combined improving production with providing information about the importance of nutrition, led to a considerable decrease of illness among babies and young (Gillespie et al., 2016).

In Rwanda, good results have been achieved with a national insurance programme, which covers 90% of the population and which is free for the poorest households (Binagwaho et al., 2014). In addition to better health indicators, the insurance also resulted in better performances at school (Strobl, 2017). It does appear that the poorest people with insurance made less use of health-care services than their wealthier counterparts (Shimeles, 2010). This indicates that not only does formal access still have to be arranged, but the actual use has to be promoted as well.

Figure 4.3 *Health-care expenditure and mother and child mortality**



** Composite index. Source: IOB, 2016.*

A role for donors

Donors have played a role in recent decades in improving health care in Sub-Saharan Africa. The region still faces major challenges, however. Expenditures per person are still extremely low. Donors can help to reduce poverty and inequality through investments in health care and SRHR by supporting:

1. Programmes to promote sexual and reproductive health and rights. Sex education and the wider availability of contraception do not have a major impact on population growth, but they are necessary to curb it in the long run. In the various studies, a quarter of African women indicate that they have more of a need for types of family planning. In

Rwanda, good results have been achieved with programmes in the area of SRHR. Population growth is low there now compared to neighbouring countries, despite a sharp rise in life expectancy. Taking into account the number of children that women are giving birth to, there is a great need for these kinds of programmes in West Africa and Central Africa, as well as Burundi, Uganda, Zambia, Mozambique, Somalia and South Sudan.[62]

2. Investments in basic health care. Research shows that these help to reduce mother and child mortality and particularly benefit the poorest groups, for example in Tanzania, Burkina Faso and Zambia (IOB, 2016). National plans such as the *Plan national de Développement sanitaire 2011-2020* in Burkina Faso contribute significantly to reducing inequality in the distribution of services between urban and rural areas (IOB, 2016; UNDP, 2017).
3. Support of vaccination programmes (including GAVI).
4. Programmes that ensure healthy nutrition (including breastfeeding) in the first years of life lay the foundation for later opportunities because they tackle inequality at an early stage. They prevent the emergence of irreversible disadvantages, which are caused by malnutrition.
5. Support the set up and funding of health-care insurance (with good experiences in Rwanda, for example).
6. Support to programmes for conditional income transfers that aim to improve health care for young children.

4.7 Taxes

Taxes can help to reduce poverty and inequality in different ways. Choices regarding taxes and the system of collecting taxes determine a government's capacity to fund public expenditures and redistribute income. In practice, the options for redistributing income through taxes are often limited (see section 3.4). Moreover, pervasive tax avoidance results in lost tax revenue. Large companies divert their profits to countries with lower rates. Crivelli et al. (2016) estimate that multinationals evade USD 600 billion worth of taxes per year worldwide, a third of which is at the expense of developing countries. A recent study by Cobham and Janský (2017) provides estimates at the country level. For many African countries, the loss of tax revenue more or less equals the foreign aid they receive each year. In Zambia it is even almost double.[63] The governments of Ethiopia, Tanzania and Uganda miss out on almost 20% of their tax revenue as a result of these practices (see appendix 4). Multinationals are abusing tax agreements via Dutch shell companies, to name one example, in order to pay as few taxes as possible at the source (Weyzig, 2013).

[62] In Uganda, UNICEF has developed a plan with the government to prevent child marriages and pregnancies at a young age (UNICEF, 2015). The programme focuses on improving access to reproductive health care, encourages girls to continue with their educations and attempts to change social and cultural values.

[63] See Cobham and Janský (2017) on the limitations of data and the methodical limitations of this study. The estimates present the scale of the effects.

As long as governments do not succeed in substantially increasing their own tax revenue, there will only be limited room for social spending and income redistribution. Improving the tax system and an efficient method for collecting taxes is therefore crucial in order to effectively fight poverty and reduce inequality. This requires donors and governments to work together, as agreed in the Addis Ababa Action Agenda (2015).[64] The outcome document called on all developed countries to make an effort to spend at least 0.7% of their GNI on development cooperation and 0.2 percentage points of that on the poorest countries. During the 2015 conference, the Netherlands launched – together with other donors, a number of developing countries and international organisations – the Addis Tax Initiative.[65] This initiative aims to strengthen cooperation on taxes. Donors that signed the initiative have committed themselves to doubling the resources for technical assistance to improve tax policy and collection. In addition, agreements were made on how to tackle tax evasion and avoidance. The aim is for this to put countries in a position to mobilise more resources to finance development, such as infrastructure, increased agricultural productivity and social services.

The 2017 monitoring report confirms that development partners (donors) still have a great deal to do to achieve the goal of doubling support for capacity building by 2020. It requires an increase of more than USD 200 million. What's more, the commitment appears to still be lopsided: a lot of money is going to Afghanistan and Tanzania, for example, but little is going to Ethiopia. One problem facing partner countries is a complex tax system for companies, which leads to high transaction costs.

One problem connected to tax competition and tax avoidance is the ability to obtain sufficient revenue from one's own natural resources. As processing does not take place in the country of origin, the added value is usually low, while the revenue from recipient governments is relatively limited as a result of tax exemptions and avoidance. Various organisations have been set up internationally to ensure that the population in countries that export natural resources benefit adequately from the mineral wealth. In 2003, governments, companies and civil society organisations created the Extractive Industries Transparency Initiative (EITI), which aims to enhance transparency in the extractive industries (for example, how licences are granted, what amount of taxes are paid and how the funds are spent). The EITI also advises when conflicts arise. The Natural Resource Charter from 2010 is a series of precepts for governments and society that aim to ensure that national natural resources are used to develop a country. The charter contains a set of 12 policy precepts including the management of exploration and taxation. African countries have fairly average scores on the Resource Index, with the exception of DRC, Zimbabwe, Mauritania, Eritrea and Chad. In general, African countries are a little weaker when it comes to managing income. Here it concerns the optimal and equitable investment of income for present and future generations and reducing the massive fluctuations of revenue (National Resource Governance Institute, 2017).

64 See http://www.un.org/ga/search/view_doc.asp?symbol=A/CONF.227/L.1

65 House of Representatives of the Netherlands, session 2014–2015, 32 605, no. 171

A role for donors

In order to effectively fight poverty, it is important for many countries to increase their own revenue. That would mobilise resources to finance development, such as infrastructure, increased agricultural productivity and social services. Donors can play a role in the following ways:

1. Provide advice on how to improve taxation and tax collection. In the framework of the above-mentioned Addis Tax Initiative, a number of donors, including the Netherlands, has committed themselves to doubling the number of resources for this. The technical assistance is meant for capacity building and to support international tax issues. The advice concerns (AfDB et al., 2015):
   - strengthening taxation
   - strengthening effective tax collection
   - compliance
   - fiscal consequences of the liberalisation of trade
   - tackling corruption
2. For a policy aimed at reducing poverty and inequality, technical assistance can also examine how the total amount of taxation and transfers impacts the poorest households (Higgins and Lustig, 2016). The energy subsidies that widen income gaps are an obvious example.
3. Revision of tax agreements that lead to tax avoidance or have a negative impact on African countries.
4. Improve taxation and management of revenue from natural resources, including concessions and contract negotiations. If Sub-Saharan Africa wants to benefit more from its own raw materials, then the continent has to retain more of the materials it exploits. This means a considerable increase in taxation on mining activities. The export zones established by governments, with their extensive tax exemptions, share the same risk as the mining sector. Elbadawi and Nadir (2015) cite the following:
   - contract negotiations to ensure the best deals and prices for raw materials, resulting in the competitive and transparent exploitation of these materials, the maximisation of tax revenue (for example, through transfer pricing);
   - efficient use of the raw materials by creating tax institutions and funds for the use of the resources, with an eye to later generations; and
   - equitable distribution of the resources to maximise the welfare effects across regions and communities, for example by increasing social transfers and expanding social safety nets.

4.8 Social protection

There are still a limited number of programmes for social protection in Sub-Saharan Africa. Expenditures are relatively low and are not increasing at the same pace as the national income (UNDP, 2017). On average, countries in Sub-Saharan Africa spend 5% of the national income on programmes for social protection (see chapter 3). Since about 2005, cash transfer programmes have been on the rise in Africa as an instrument for contributing to

more inclusive development. Earlier, Latin America in particular experimented with conditional cash transfers. In Sub-Saharan Africa, unconditional transfers have been given a more prominent place (Garcia et al., 2012). Whereas the latter category is primarily effective when it comes to directly fighting poverty, improving nutrition and making specific investments possible, the former is primarily aimed at achieving specific goals, such as specific medical care for children or promoting enrolment in education. In Africa, income transfers were initially strongly donor-driven, but later governments took over successful pilot projects (Garcia et al., 2012). The result is increasingly a mix of different instruments, which is to say a mix of conditional and unconditional transfers, as well as options to secure additional income through (public) employment opportunity programmes during seasons when the land does not yield much. An example of that is the Productive Social Safety Net (PSSN) in Tanzania. This programme focuses on: a) a significant decrease in the percentage of chronically poor households; b) improving the training of and use of other social services among these groups; c) absorbing income fluctuations as a result of seasonal influences and other unpredictable factors; and d) ensuring sustainable sources of income (World Bank, 2016b). In addition to an unconditional basic transfer, households can receive money if they allow their children to participate in health programmes or go to school (Magombeyi and Odhiambo, 2016). The programme's reach has increased from 2% of the population in 2014 to 10% in 2016. In Senegal, the reach of a similar programme increased from 3% in 2013 to 16% in 2016 (World Bank, 2017a). Another example is the Ethiopian Productive Safety Net Programme (PSNP), which the Ethiopian government launched in 2005 with the support of donors. The Netherlands contributed financially from 2008 onwards (an average of EUR 10-15 million a year. See also IOB, 2017). By 2016, the PSNP had grown into the second-largest social programme in Sub-Saharan Africa with the support of approximately eight million people. Households receive six months of support a year in the shape of food, money or a combination of the two. Healthy members of households receiving support are offered work, such as rehabilitating the land and water or developing the rural infrastructure. Households that are not in a position to contribute to the above-mentioned activities receive unconditional aid.

An evaluation of the Transfer Project concludes that unconditional transfers in Sub-Saharan Africa have a similar impact as the results of conditional transfers in Latin-America (Davis et al., 2016).[66] The transfers are effective in directly fighting poverty (World Bank, 2017a). For example, in Kenya the number of people with an income of less than a dollar a day participating in the Cash Transfer for Orphans and Vulnerable Children programme decreased by 13% (Davis et al., 2016). Participating households spend more on food, the number of meals per day is on the rise and malnutrition is declining. Many of the examined programmes also helped to increase food production and productivity, for example by increasing the livestock population (see also Akresh et al. 2103 and 2016). Beneficiaries of the Zambian Child Grant programme make more use of the land, fertiliser, seeds and hired labour. The total agricultural output increased by about 50% as a result of this. In this specific case, the profit for households was greater than the transfer itself as a result of the

[66] The conclusions here are partly based on an evaluation of the Transfer Project, cash transfer projects in Ethiopia, Ghana, Kenya, Lesotho, Malawi, Zambia, South Africa and Zimbabwe. Similar projects were also carried out in other countries, including Tanzania and Burkina Faso.

increase in agricultural output. There were other health effects in addition to reducing malnutrition. In Lesotho, for example, the Child Grants Programme helped to reduce cases of diarrhoea in young children by 15 percentage points.[67] The impact on enrolment and results in education are, according to the researchers, comparable to the impact of conditional programmes (Davis et al., 2016). The authors conclude from this that unconditional transfers are superior, because they are more efficient (low administrative costs, much less need for monitoring) and they are much less apt to disrupt allocation decisions. The ultimate effectiveness of the transfers depends on the actual amount, the frequency of payment, the regularity of payment, the question of who received the subsidy (the man or the woman), how effectively the subsidy is able to reach the target group, and the way in which this group was involved in the programme.[68] The local context is also important. An evaluation of cash transfers in Uganda shows that elderly people in an integrated environment where services are readily accessible benefit more from income transfers than elderly people in remote areas where that is much less the case (Kuss and Llewellin, 2018).

If the preferences of households and governments match those of donors, then it is indeed unnecessary to establish any further conditions.[69] One question is whether unconditional transfers in Africa can be compared to conditional transfers in Latin America (Gaarder, 2012). Evaluations of mixed programmes, in Tanzania, Burkina Faso and Malawi, for example, do reveal differences, however.[70] For example, an evaluation of experiments with cash transfers in Burkina Faso shows that conditional and unconditional transfers have the same impact on children that traditionally receive preference in households (boys, somewhat older children), but that conditional transfers are more effective at improving the enrolment in education of children who originally would have been less likely to go to school, such as girls and young children. Conditional transfers also appear to be more effective in the area of health care (Akresh et al., 2103 and 2016). A programme in Burkina Faso that provided children, in addition to their school meals, with food (flour) to take home helped to improve the health of younger children in the families. The authors conclude that this is a highly cost-effective way of improving the nutrition of small children (Kazianga et al., 2014). In Malawi, conditional transfers appear to result in better educational achievements, but the likelihood of girls becoming pregnant is lower in the unconditional programme. This latter conclusion confirms that financial stimuli are not particularly effective if they only target one part of the problem or solution (Baird et al., 2010; Baird et al., 2014). Something else worth noting about this project is that part of the

67 The impact of the different programmes on the use of health-care facilities is mixed. A logical explanation for this is poor access to health-care facilities in different countries.

68 When no impact has been observed, that is usually the result of poor programme implementation. For example, erratic payments in the Livelihood Empowerment Against Poverty Program (LEAP) restricted the impact on consumption patterns.

69 In which case allocation is not distorted.

70 One of the reasons why the impact of conditional and unconditional transfers do not show major differences could be that in many cases the conditionalities were not hard (Garcia and Moore, 2012). A systematic review of the impact of education provides an indication of that (Baird et al., 2014). The review found that the impact of conditional transfers were only greater if conditions are effectively enforced.

impact, in this case avoiding early marriage and pregnancy, dissipates quickly when the transfers cease to be made (Baird et al., 2016).

An evaluation of a pilot programme in Tanzania revealed that households participating in the programme insured themselves more frequently for health-care expenses and were healthier than a control group (Evans et al., 2014). The programme had a positive effect on enrolment in education, especially among girls. The system encouraged people to save and invest, in cattle for example. Other research shows that conditional income transfers to women in Tanzania are an effective way of encouraging investments that increase people's own productivity (Kessy, 2014). In Ethiopia, recipients of food had an income after two years that was almost 60% higher than that of a control group (Sabates-Wheeler and Devereux, 2010). The increase in income was slightly lower (45%) with a combination of money and food (45%).[71] The IMF (2015) discovered that the programme increased consumption among the poorest 40% of the Ethiopian population and thus had an effect on inequality and poverty (for comparable conclusions, see Gilligan et al., 2009; Hoddinott et al., 2015, Berhane et al., 2017).

Table 4.1 summarises the results of a number of studies on Sub-Saharan Africa. The table provides the effects on poverty and consumption, education, health and SRHR, food security, productive resources, market access and credit. The table shows that income transfers are an effective instrument for reducing various dimensions of poverty in Africa.

[71] No difference in income was observed when the support consisted only of money. This could be the result of extreme inflation in 2007; the first round of the survey took place in 2006 and the second in 2008.

Table 4.1 *Effects of cash transfer programmes in different countries*

Country	Name of the programme	Conditional	Poverty and consumption	Education	Health and SRHR	Food security	Productive investments	Market access, credit and savings
Transfer Project:								
Ghana	Livelihood Empowerment Against Poverty Program	UCT						
Kenya	Cash Transfer for Orphans and Vulnerable Children	UCT						
Lesotho	Child Grants Programme	UCT						
Malawi	Social Cash Transfer Scheme	UCT						
Zambia	Child Grant Programme	UCT						
Zimbabwe	Harmonized Social Cash Transfer Programme	UCT						
South Africa	Child Support Grants	UCT						
Other projects:								
Burkina Faso	Nahouri Cash Transfers Pilot Project	CCT UCT						
Ethiopia	Productive Safety Net Programme	UCT						
Kenya	GiveDirectly	UCT						
Kenya	Hunger Safety Net Programme							
Mozambique	Food Subsidy Programme							
Malawi	Zomba cash transer programme	CCT UCT						
Tanzania	Community-Based Conditional Cash Transfers	CCT UCT						
Uganda	Senior Citizens Grant (SCG)	UCT						
Zambia	Monze Region Cash Transfer Programme							

UCT= undonditional cash transfer; CCT= conditional cash transfer.
Green = significant and positive effect; Yellow = no unambigious results; Red = No significant effect; Grey = Not evaluated.

A role for donors

1. Support instruments for social protection. Donors can help to improve targeting and also broaden arrangements and increase the levels of disbursement. Well-targeted and adequate protection are among the most effective instruments to reduce poverty and inequality through social protection. (UNDP, 2017).
2. Conditional and unconditional income transfers are among the most effective short-term instruments for reducing poverty and inequality. Unless the transfers focus on achieving very specific goals, unconditional transfers are preferable. In terms of the direct impact on consumption, they generally have positive effects on children's' nutrition, education, health, savings and investments. Donors can contribute both by increasing transfer payments and expanding their reach, particularly in the poorest countries where governments lack the resources for this. Indeed, the World Bank (Garcia and Moore, 2012) advises donors not to initiate their own projects, but to join government initiatives. These programmes tend to be more efficient and effective, in part by avoiding duplication and the presence of economies of scale. Donor support is particularly vital in low-income and lower middle-income countries (Monchuk, 2014). The programmes often have major budgetary deficits or are necessarily limited by design.

4.9 Summary

If Sub-Saharan Africa is to achieve the SDG goals regarding poverty and inequality, then it will have to overcome massive challenges. Solving these problems requires a multisectoral strategy, which devotes attention to agriculture, infrastructural problems, job creation, investments in education and health care, boosting government revenue and social protection. This chapter examined which interventions donors can use to effectively contribute to poverty and inequality reduction and create employment opportunities in the region. This analysis was based on evaluations and academic research.

Demographic developments and structural transformation require a considerable *increase in agricultural productivity*. This means making major investments in agricultural technology, improved inputs, particularly in knowledge. The Netherlands has a great deal to offer in that area. Investments will only help to reduce poverty and inequality, however, if they also target smallholder farmers and small-scale agriculture. Effective instruments include land reform and ensuring land rights, reinforcing the local infrastructure and public services, strengthening ties between urban and rural areas, supporting farmer organisations, and providing social protection in case of disasters. While untargeted support of agriculture can help to raise productivity, it may also increase inequality instead of reducing it.

A targeted reduction of poverty and inequality requires further *investment in the rural infrastructure*. This would enhance labour mobility in rural areas by improving the transport and communication infrastructure, education and health care. Research shows that it is more useful to ensure access than it is to lower the price of use (as is the case with energy

subsidies). The latter often ends up widening the income gap, for example if the poorest households cannot afford to pay for the connection costs.

These investments in infrastructure will help to accomplish a transition from jobless growth to *labour-intensive growth*. This requires a transition from the current growth model, which focuses on production and the export of raw materials, to the development of industry and productive services. Both sectors have to become more competitive, which requires strengthening the transport infrastructure, improving access to energy, removing trade barriers, improving access to capital, and improving education and aligning education to demand from the labour market. Donors can contribute to the development of an agro-industry for the processing of agricultural products, the strengthening and greening of the economic infrastructure, construction, tourism and public services (especially education and health care). Donors can also contribute by setting up institutions that will bring supply and demand on the labour market closer together and contribute to programmes that focus on breaking away from informal-sector employment.

There are no panaceas for eradicating poverty and reducing inequality, though various researchers have concluded that *education* 'steals the show'. Investing in education is of the most cost-effective methods of reducing poverty and inequality. That already begins in preschool education. In addition, the quality of primary education needs to improve. Sub-Saharan Africa has made massive progress in improving access to education, but quality remains a problem. A lack of financial resources is the main cause of this. Creating jobs, particularly for groups in a disadvantaged situation, requires increasing access to secondary education and strengthening vocational training. Donors can support projects that help to align education to the labour market and also contribute to the necessary increase in resources for vocational training, which would enable many more young people to enjoy a good-quality vocational education. For the large groups of young people who lack the required skills, second chance programmes, such as literacy projects and combinations of internship and training, are essential. Educating girls is an effective way of ensuring a decrease in the number of girls that already marry and/or have a child at a very young age.

From the latter we turn to *health care* and *sexual and reproductive health and rights* (SRHR). Sex education and the wider availability of contraception do not have a major impact on population growth in the short term, but they are necessary to curb it in the long run. Providing poorer households with better health care is cost-effective, because excellent results can be achieved at that level with relatively inexpensive interventions. Breastfeeding and other interventions in the first years of life lay the foundation for later opportunities because they tackle inequality at an early stage. They prevent the emergence of irreversible disadvantages, which are caused by malnutrition. In Rwanda, good results have been achieved with a national insurance programme and with programmes in the area of SRHR. Population growth is low there now compared to neighbouring countries, despite a sharp rise in life expectancy.

In order to effectively fight poverty, it is important for many countries to increase their own revenue. Choices regarding taxes and the system of collecting taxes determine a government's capacity to fund public expenditures and redistribute income. In practice, the options for redistributing income through taxes are often limited as a result of an ineffective system for collecting taxes and considerable tax avoidance. As agreed in the Addis Tax Initiative, which was co-initiated by the Netherlands, donors can help to increase partner countries' tax revenues through technical assistance. For a policy aimed at reducing poverty and inequality, technical assistance can also examine how the total amount of taxation and transfers impacts the poorest households. In addition, donors can help to strengthen the management of raw materials and the income they generate.

Increasing one's own revenue makes the expansion of *social safety nets* and *conditional income transfers* possible. These are among the most effective short-term instruments for reducing poverty and inequality. There have been good experiences in Africa with these instruments. Evaluations of these programmes are overwhelmingly positive. They have a direct impact on the recipients' income, consumption and food security. These programmes also generally have positive effects on education, health, savings and investments. The ultimate effectiveness of the transfers depends on the actual amount, the frequency of payment, the regularity of payment, the question of who received the subsidy (the man or the woman), how effectively the subsidy is able to reach the target group, and the way in which this group was involved in the programme. Donors can provide financial support to the system of national social safety nets, which makes it possible to reach larger groups and somewhat increase the extremely low amounts.

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Annexes

Annex 1 Classification of countries

Average economic growth (GDP per capita) 2000-2016

Emerging countries:		
Botswana	BWA	2.6
Burkina Faso	BFA	2.5
Cape Verde	CPV	3.5
Ethiopia	ETH	6.0
Ghana	GHA	3.5
Lesotho	LSO	2.7
Mali	MLI	1.7
Mauritius	MUS	3.9
Mozambique	MOZ	4.1
Namibia	NAM	3.0
Rwanda	RWA	5.1
Sao Tomé and Principe	STP	2.6
Seychelles	SYC	2.3
South Africa	ZAF	1.5
Tanzania	TZA	3.5
Uganda	UGA	2.8
Zambia	ZMB	3.4
Treshold countries:		
Benin	BEN	1.3
Kenya	KEN	1.8
Liberia	LBR	1.1
Malawi	MWI	1.3
Senegal	SEN	1.4
Sierra Leone	SLE	3.1
Sub-Saharan Africa		2.0

Oil-exporting countries:		
Angola	AGO	3.4
Cameroon	CMR	1.6
Tsjaad	TCD	3.8
Republic of the Congo	COG	1.3
Equatorial Guinea	GNQ	6.9
Gabon	GAB	-0.6
Mauritania	MRT	1.4
Nigeria	NGA	4.2
South Sudan	SSD	-7.6
Sudan	SDN	4.2
Other countries:		
Burundi	BDI	-0.4
Central African Republic	CAF	-1.1
Comoros	COM	0.2
Congo (DRC)	COD	1.5
Côte d'Ivoire	CIV	0.7
Eritrea	ERI	-1.2
Gambia	GMB	0.2
Guinea	GIN	1.5
Guinea-Bissau	GNB	0.8
Madagascar	MDG	0.0
Niger	NER	0.9
Somalia	SOM	n.a.
Swaziland	SWZ	1.7
Togo	TGO	0.3
Zimbabwe	ZWE	-1.7

Annex 2 Core data case studies

Table B2.1 *Socio-economic development in Burkina Faso 1998-2014*

	1998	2003	2009	2014/2016*
Economic growth	7.3	7.8	3	5.8
Avg growth previous period	4.6	4.7	6.7	5.1
Population (million)	11.0	12.7	15.1	18.6
Income per capita (GDP, USD)	256	332	553	650
Income per capita (NNI, USD)	219	295	449	531
Per capita economic growth	4.3	4.8	-0.1	2.8
Avg per capita growth previous period	1.8	2.5	3.6	2.0
Inequality (GINI, WDI)	50	43	40	35
Income share poorest 20%	5	6	7	8
Income share wealthiest 20%	57	50	47	44
Poverty (WDI):				
extreme poverty (<1.90)	82	57	55	44
poverty (<3.20)	91	79	80	75
poverty gap (1.90)	43	24	20	11
poverty gap (3.20)	60	42	39	31
National poverty figures:				
Rural	51	52	51	48
Urban	17	20	20	14
Total	**45**	**46**	**44**	**40**
Corected poverty data (Grimm et al. 2016):				
Rural	69	53		
Urban	27	20		
Total	**62**	**47**	**43**	
Human Development Index (HDI)		0.31	0.36	0.40

** For economic growth, income and population figures: 2016; for inequality and poverty figures: 2014. For HDI: 2015. Last year is 2012. Source: WDI: UNDP.*

Table B2.2 *Socio-economic development in Ethiopia 2000-2015*

	1999/2000	2004/2005	2010/2011	2015
Economic growth	6	13	12	10
Avg growth previous period	2	3	10	10
Population (million)	65.5	75.6	88.7	99.4
Per capita economic growth	3	10	9	7
Avg per capita growth previous period	-1	0	8	7
Inequality (GINI, WDI)	30	30	33	
Income share poorest 20%	9	9	8	
Income share wealthiest 20%	39	39	42	
Poverty (WDI):				
extreme poverty (<1.90)	55	36	34	
poverty (<3.20)	87	76	71	
poverty gap (1.90)	16	8	9	
poverty gap (3.20)	39	27	27	
National poverty figures:				
Rural	45	39	30	
Urban	37	35	26	
Total	**44**	**39**	**30**	
Human Development Index (HDI)	0.28	0.35	0.41	0.44

Source: WDI.

Table B2.3 *Socio-economic development in Rwanda 2000-2014*

	2000/01	2005/06	2010/2011	2013/14
Economic growth	8	8	8	6
Avg growth previous period	3	7	8	9
Population (million)	8.2	9.1	10.4	11.2
Per capita economic growth	4	6	5	3
Avg per capita growth previous period	2	5	5	6
Inequality (GINI) *	49	52	51	50
Income share poorest 20%	5	5	5	5
Income share wealthiest 20%	55	58	58	57
Poverty (WDI):				
extreme poverty (<1.90)	77	68	60	60
poverty (<3.20)	90	84	81	81
poverty gap (1.90)	38	31	24	24
poverty gap (3.20)	56	49	43	42
National poverty figures:				
Rural		62	49	44
Urban		29	22	16
Kigali	23	21	17	21
Total	**59**	**57**	**45**	**39**
Human Development Index (HDI)	0.33	0.39	0.45	0.48

** World Bank estimate*
Source: WDI, EICV1, EICV2, EICV3, EICV4, UNDP.

Table B2.4 *Socio-economic development in Senegal 1999-2016*

	2000/01	2005	2010/2011	2015/2016
Economic growth	3.9	5.6	3.0	6.6
Avg growth previous period	3.4	4.2	3.8	3.6
Population (million)	10.0	11.3	13.1	15.2
Income per capita (GDP, USD)	477	774	1,042	932
Income per capita (NNI, USD)	417	686	911	789
Per capita economic growth	1.4	2.8	0.0	3.6
Avg per capita growth previous period	0.8	1.6	1.0	0.6
Inequality (GINI, WDI)	41	39	40	
Income share poorest 20%	7	6	6	
Income share wealthiest 20%	48	46	47	
Poverty (WDI):				
extreme poverty (<1.90)	49	38	38	
poverty (<3.20)	77	68	69	
poverty gap (1.90)	17	13	13	
poverty gap (3.20)	36	30	30	
National poverty figures:				
Rural	65	59	57	
Urban	41	34	33	
Total	**55**	**48**	**47**	
Human Development Index (HDI)	0.38	0.42	0.46	0.49

** For 2000-2001 average growth 1993-1999.*
Source: WDI: UNDP.

Table B2.5 *Socio-economic development in Tanzania 2000-2015*

	2000/01	2007	2011/12	2015
Economic growth	6.0	8.5	5.1	7.0
Avg growth previous period*	3.1	6.8	6.7	6.5
Population (million)	33.5	39.3	44.9	48.8
Income per capita (GDP, USD)	304	466	820	872
Income per capita (NNI, USD)	260	528	722	779
Per capita economic growth	3.2	5.2	1.9	3.7
Avg per capita growth previous period*	0.1	3.8	3.4	3.1
Inequality (GINI, WDI)	37	40	38	
Inequality (national data)	36	35	34	
Income share poorest 20%	7	6	7	
Income share wealthiest 20%	45	47	46	
Poverty (WDI):				
extreme poverty (<1.90)	65	53	47	
poverty (<3.20)	95	78	76	
poverty gap (1.90)	45	19	14	
poverty gap (3.20)	63	38	34	
National poverty figures:				
Rural	39	39	33	
Urban	26	23	22	
Dar es Salaam	18	14	4	
Total	**36**	**34**	**28**	
Human Development Index (HDI)	0.37	0.44	0.51	0.52

** For 2000-2001 average growth 1993-1999.*
*** Arndt et al. (2015) also provide a recalculation for 2007 based on the approach for 2012.*
In that case, they come to a figure of 0.37 for that year.
Source: WDI: UNDP.

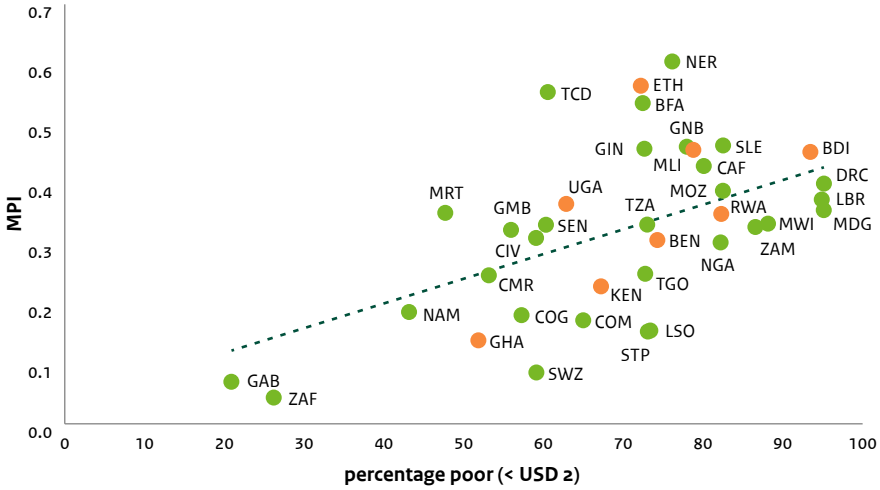
Table B2.6 *Socio-economic development in Uganda 1999-2016*

	1999	2005	2009	2012	2016
Economic growth	8.1	6.3	6.7	3.9	4.6
Avg growth previous period*	7.1	6.1	8.7	6.3	
Population (million)	23.0	28.5	32.8	36.3	41.5
Income per capita (GDP, USD)	258	316	647	648	615
Income per capita (NNI, USD)	212	245	426	478	
Per capita economic growth	4.7	2.7	3.1	0.4	1.3
Avg per capita growth previous period*	3.7	2.6	5.0	2.7	
Inequality (GINI, WDI)	43	43	44	41	
Income share poorest 20%	6	6	6	6	
Income share wealthiest 20%	50	50	51	48	
Poverty (WDI):					
extreme poverty (<1.90)	64	53	41	35	
poverty (<3.20)	85	76	69	65	
poverty gap (1.90)	26	19	13	10	
poverty gap (3.20)	4	38	30	26	
National poverty figures:					
Rural	37	34	27	22	
Urban	10	14	9	10	
Total	**34**	**31**	**25**	**20**	
Human Development Index (HDI) **	0.38	0.43	0.47	0.48	0.49

** For 1999: average growth 1992-1999.*
*** HDI: last year 2015.*
Source: WDI: UNDP.

Annex 3 Poverty and inequality

Figure B3.1 *Relationship between income poverty and multidimensional poverty*

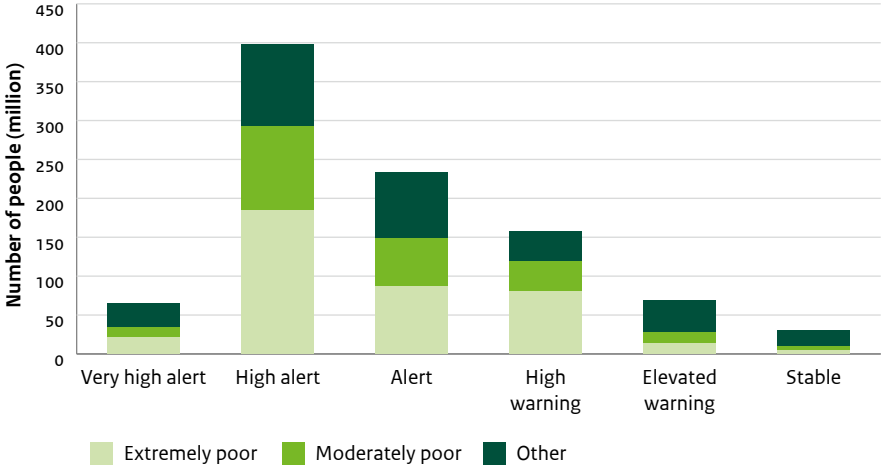


Source: Data OPHI (data ca. 2010-2012).

Figure B3.2 *Relationship between quality of governance and inequality*

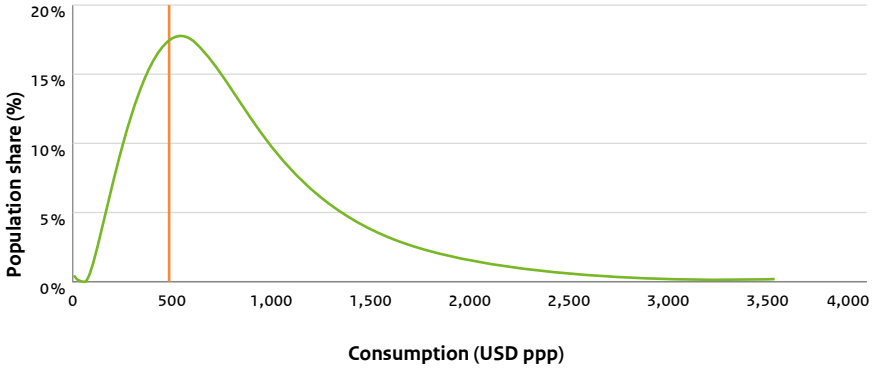
Quality of governance based on World Bank Governance Indicators
Source: Data OPHI (data ca. 2010-2012).

Figure B3.3 *Poverty and fragility (2017)*



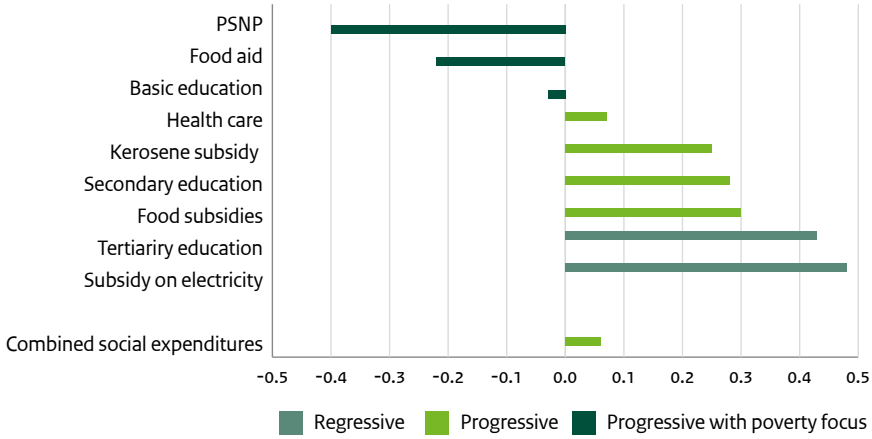
Source: WDI (2013 poverty figures) and Fund for Peace (2017).

Figure B3.4 *Consumption distribution Ethiopia 2015-2016 (in USD, ppp)*



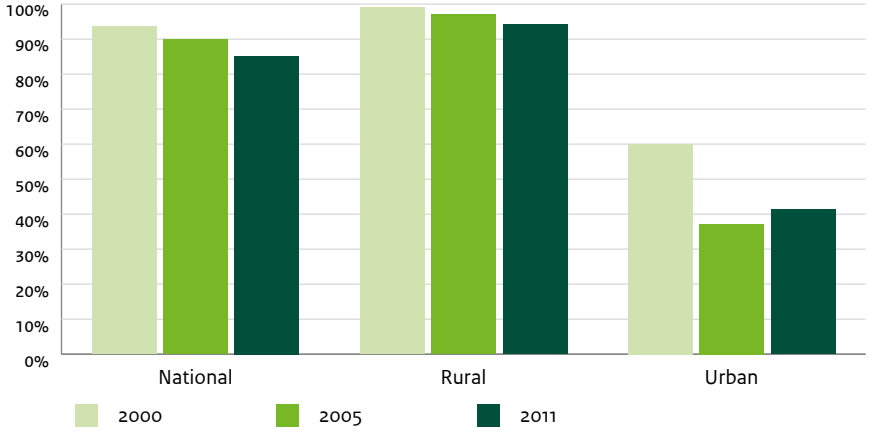
Source: IOB's own calculations, based on LSMS microdata.

Figure B3.5 *Concentration-coefficients of policy tools in Ethiopia*



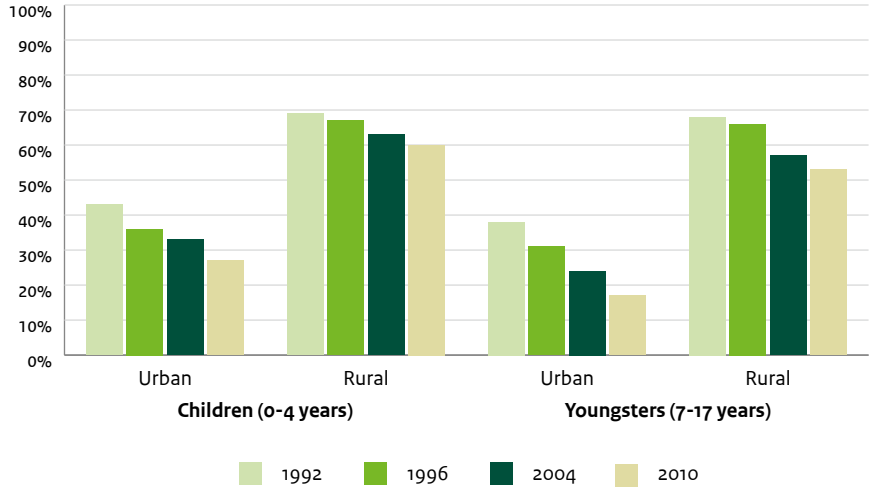
Source: World Bank 2015b.

Figure B3.6 *Development of multidimensional poverty in Ethiopia*



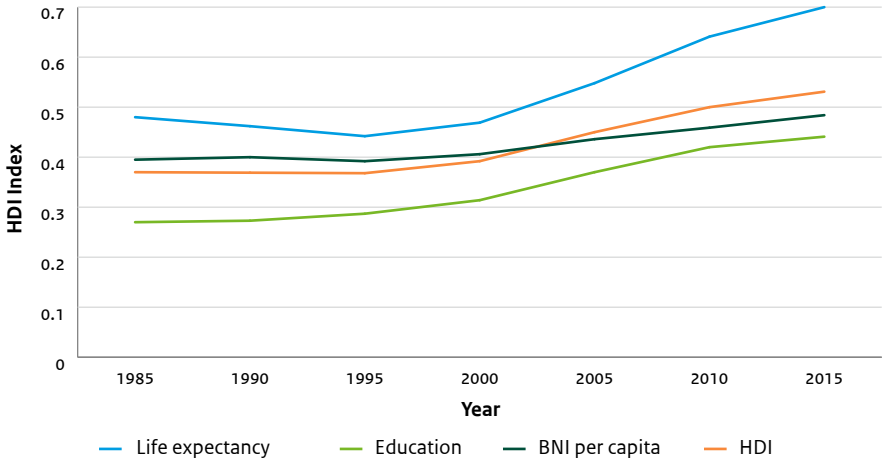
Source: Alkire et al., 2014.

Figure B3.7 *Development of the index for multidimensional poverty in Tanzania*



Source: Arndt et al., 2017.

Figure B3.8 *Development of the HDI and parts of it in Tanzania*



Source: UNDP.

Table B3.1 *Distribution of social development indicators in Ethiopia*

	Wealth quintile					Gini-index
	I	II	III	IV	V	
Vaccinations (%):						
2005	14	17	22	18	36	0.17
2011	17	18	18	25	51	0.23
Stunting (%):						
2005	52	55	52	51	40	005
2011	49	48	46	45	30	0.08

Source: IOB's own calculations based on DHS 2005 and DHS 2011.

Table B3.2 *Distribution of social development indicators in Rwanda*

	Wealth quintile					Gini-index
	I	II	III	IV	V	
Enrolment in basic education (%):						
2005	82	86	84	85	91	.02
2015	86	92	95	94	93	.01
% births with professional assistance:						
2005	27	30	34	40	66	.25
2015	84	91	91	93	97	.02
Vaccinations (all 8, %):						
2005	74	74	75	78	74	.01
2015	87	93	93	97	95	.02
Stunting (%)						
2005	55	48	45	45	30	.09
2015	49	45	38	30	21	.15
Chiold mortality (<5, per 1,000):						
2005	211	195	170	204	122	.08
2015	84	77	68	58	40	.13

Source: IOB's own calculations based on DHS 2005 and 2015.

Table B3.3 *Development of childbirth in health-care centres in Burkina Faso*

	Poorest 20%	Second quintile	Middle 20%	Fourth quintile	Wealthiest 20%	Gini
2005	20%	25%	33%	46%	84%	0.29
2010	46%	56%	67%	77%	93%	0.14

Source: DHS Burkina Faso (2004 and 2012).

Annex 4 Costs of tax avoidance

Table B4.1 *Estimated annual tax avoidance per country, in USD millions*

Country	Tax avoidance	als % of total taxes	Total ODA (2016)	GDP (2016)
Chad	948	106%	226	9,601
Guinea	289	31%	175	8,200
Zambia	982		565	21,064
Eritrea	136		12	
Namibia	487	13%	113	10,948
Mozambique	457	14%	1,060	11,015
Benin	196	14%	184	8,583
Burundi	63	19%	168	3,007
CAR	48		278	1,756
Ethiopia	1,108	19%	1,854	72,374
Gambia	21	17%	23	964
Kenya	1,061	15%	1,496	70,529
Malawi	86	12%	581	5,433
Mali	266		657	14,035
Niger	171	21%	339	7,528
Rwanda	180		555	8,276
Senegal	360	13%	578	14,684
Sierra Leone	108	27%	537	3,737
Tanzania	748	21%	1,445	47,340
Uganda	529	22%	958	24,079
South Africa	5,826		955	296,456
Burkina Faso	180	9%	360	11,693

Source: Cobham and Janský (2017) for tax avoidance, and WDI for total ODA and GDP.

Evaluation and study reports of the Policy and Operations Evaluation Department (IOB) published 2012-2017

Evaluation reports published before 2012 can be found on the IOB website: www.iob-evaluatie.nl or www.government.nl/foreign-policy-evaluations. The reports below can also be downloaded there.

IOB no.	Year	Report	ISBN
419	2017	Food for thought: Review of Dutch food security policy 2012-2016	978-90-5328-495-7
418	2017	Policy review of Dutch development aid policy for improved water management, 2006-2016	978-90-5328-496-4
417	2017	Policy review of Dutch cooperation with UN development agencies	978-90-5328-493-3
417	2017	Beleidsdoorlichting van de Nederlandse samenwerking met de ontwikkelingsorganisaties van de Verenigde Naties	978-90-5328-492-6
416	2017	Shifting Interests, Changing Relations, Support Under Pressure: Policy review of Dutch support to Southern civil society development	978-90-5328-489-6
415	2016	The gaps left behind: An evaluation of the impact of ending aid	978-90-5328-484-1
414	2016	Voorkomen is beter dan genezen. Nederland en de WHO (2011-2015)	978-90-5328-482-7
413	2016	Policy Review Public Diplomacy 2010-2014	978-90-5328-491-9
413	2016	Beleidsdoorlichting publieksdiplomatie 2010-2014	978-90-5328-487-2
412	2016	How to break the vicious cycle: Evaluation of Dutch development cooperation in the Palestinian Territories 2008-2014	978-90-5328-483-4
411	2016	Cultuur als kans. Beleidsdoorlichting van het internationaal cultuurbeleid 2009-2014	978-90-5328-480-3
410	2015	Vreedzame geschillenbeslechting en het tegengaan van straffeloosheid. Beleidsdoorlichting internationale rechtsorde	978-90-5328-478-0
409	2015	Evaluation of the Matra Programme in the Eastern Partnership countries 2008-2014	978-90-5328-475-9
408	2015	Aided Trade: An evaluation of the Centre for the Promotion of Imports from Developing Countries (2005-2012)	978-90-5328-477-3
407	2015	Opening doors and unlocking potential: Key lessons from an evaluation of support for Policy Influencing, Lobbying and Advocacy (PILA)	978-90-5328-474-2

IOB no.	Year	Report	ISBN
406	2015	Policy Review of Dutch Humanitarian Assistance, 2009-2014	978-90-5328-481-0
406	2015	Beleidsdoorlichting van de Nederlandse humanitaire hulp 2009-2014	978-90-5328-473-5
405	2015	Gender sense & sensitivity: Policy evaluation on women's rights and gender equality (2007-2014)	978-90-5328-471-1
404	2015	Renewable energy: Policy review on the Dutch contribution to renewable energy and development. Summary report	978-90-5328-476-6
404	2015	Met hernieuwde energie. Beleidsdoorlichting van de Nederlandse bijdrage aan hernieuwbare energie en ontwikkeling	978-90-5328-472-8
403	2015	Premises and promises: A study of the premises underlying the Dutch policy for women's rights and gender equality	978-90-5328-469-8
402	2015	Work in Progress: Evaluation of the ORET Programme: Investing in Public Infrastructure in Developing Countries	978-90-5328-470-4
401	2015	Evaluation of the MDG3 Fund: 'Investing in Equality' (2008-2011)	978-90-5328-468-1
400	2015	The Only Constant is Change: Evaluation of the Dutch contribution to transition in the Arab region (2009-2013)	978-90-5328-467-4
399	2015	Gender, peace and security: Evaluation of the Netherlands and UN Security Council resolution 1325	978-90-5328-465-0
398	2014	Navigating a sea of interests: Policy evaluation of Dutch foreign human rights policy 2008-2013	978-90-5328-460-5
397	2014	Riding the wave of sustainable commodity sourcing: Review of the Sustainable Trade Initiative IDH 2008-2013	978-90-5328-464-3
396	2014	Access to Energy in Rwanda. Impact evaluation of activities supported by the Dutch Promoting Renewable Energy Programme	978-90-5328-463-6
395	2014	A strategic approach? Dutch coalition-building and the 'multi-bi approach' in the context of EU decision-making (2008-2012). Summary, main findings and issues for consideration	978-90-5328-462-9
395	2014	Strategie bij benadering. Nederlandse coalitievorming en de multi-bi benadering in het kader van de EU-besluitvorming (2008-2012)	978-90-5328-462-9
394	2014	Autonomy, partnership and beyond: A counterfactual analysis of policy coherence for Ghana	978-90-5328-459-9
393	2014	Balanceren tussen koopmanschap en diplomatie. Evaluatie van de Netherlands Business Support Offices 2008-2013	978-90-5328-458-2
392	2014	Good things come to those who make them happen: Return on aid for Dutch exports	978-90-5328-456-8

IOB no.	Year	Report	ISBN
391	2014	Useful patchwork: Direct Funding of Local NGOs by Netherlands Embassies 2006-2012	978-90-5328-455-1
390	2014	Investeren in wereldburgerschap. Evaluatie van de Nationale Commissie voor Internationale Samenwerking en Duurzame Ontwikkeling (NCDO)	978-90-5328-454-4
389	2014	In search of focus and effectiveness: Policy review of Dutch support for private sector development 2005-2012 (extensive summary)	978-90-5328-461-2
389	2014	Op zoek naar focus en effectiviteit. Beleidsdoorlichting van de Nederlandse inzet voor Private Sector Ontwikkeling 2005-2012	978-90-5328-451-3
388	2013	Évaluation d'impact des foyers améliorés au Burkina Faso : Étude de l'impact de deux activités bénéficiant du soutien du Programme de promotion des énergies renouvelables	978-90-5328-452-0
388	2013	Impact evaluation of improved cooking stoves in Burkina Faso: The impact of two activities supported by the Promoting Renewable Energy Programme	978-90-5328-449-0
387	2013	Between Ambitions and Ambivalence: Mid-term Evaluation SNV Programme 2007-2015	978-90-5328-448-3
386	2013	Evaluation issues in financing for development: Analysing effects of Dutch corporate tax policy on developing countries	978-90-5328-447-6
385	2013	Economic diplomacy in practice: An evaluation of Dutch economic diplomacy in Latin America	978-90-5328-446-9
384	2013	Achieving universal access to sexual and reproductive health and rights: Synthesis of multilateral contribution to advancing sexual and reproductive health and rights (2006-2012)	978-90-5328-445-2
383	2013	NGOs in action: A study of activities in sexual and reproductive health and rights by Dutch NGOs	978-90-5328-444-5
382	2013	Buscando novas relações : Avaliação da política externa dos Países Baixos para a América Latina. Informe especial sobre o Brasil	978-90-5328-453-7
382	2013	En busca de nuevas relaciones: Evaluación de la politica exterior de los Paisos Bajos en América Latina. Resumen del informe principal	978-90-5328-450-6
382	2013	Op zoek naar nieuwe verhoudingen. Evaluatie van het Nederlandse buitenlandbeleid in Latijns-Amerika	978-90-5328-443-8
381	2013	Balancing Ideals with Practice: Policy evaluation of Dutch involvement in sexual and reproductive health and rights 2007-2012	978-90-5328-442-1
380	2013	Linking Relief and Development: More than old solutions for old problems?	978-90-5328-441-4

IOB no.	Year	Report	ISBN
379	2013	Investeren in stabiliteit. Het Nederlandse fragiele statenbeleid doorgelicht	978-90-5328-440-7
378	2013	Public private partnerships in developing countries. A systematic literature review	978-90-5328-439-1
377	2013	Corporate Social Responsibility: the role of public policy. A systematic literature review of the effects of government supported interventions on the corporate social responsibility (CSR) behaviour of enterprises in developing countries	978-90-5328-438-4
376	2013	Renewable Energy: Access and Impact. A systematic literature review of the impact on livelihoods of interventions providing access to renewable energy in developing countries	978-90-5328-437-7
375	2013	The Netherlands and the European Development Fund – Principles and practices. Evaluation of Dutch involvement in EU development cooperation (1998-2012)	978-90-5328-436-0
374	2013	Working with the World Bank. Evaluation of Dutch World Bank policies and funding 2000-2001	978-90-5328-435-3
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Published by:

Ministry of Foreign Affairs of the Netherlands
Policy and Operations Evaluation Department (IOB)
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Photo cover: Loresho, Nairobi. © Johnny Miller / Unequal Scenes
(https://www.millefoto.com/ http://unequalscenes.com/)

Translation: Mark Speer
Layout: Xerox/OBT, Den Haag
ISBN: 978-90-5328-501-5

Published by:

Ministry of Foreign Affairs of the Netherlands
Policy and Operations Evaluation Department (IOB)
Postbox 20061 | 2500 EB The Hague

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