ECONOMIC AND SOCIAL POLICIES TO REDUCE INCOME INEQUALITIES IN SUB-SAHARAN AFRICA

Ayodele Odusola, PhD

Chief Economist and Head, Strategy and Analysis Team

UNDP Regional Bureau for Africa

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KEY MESSAGES

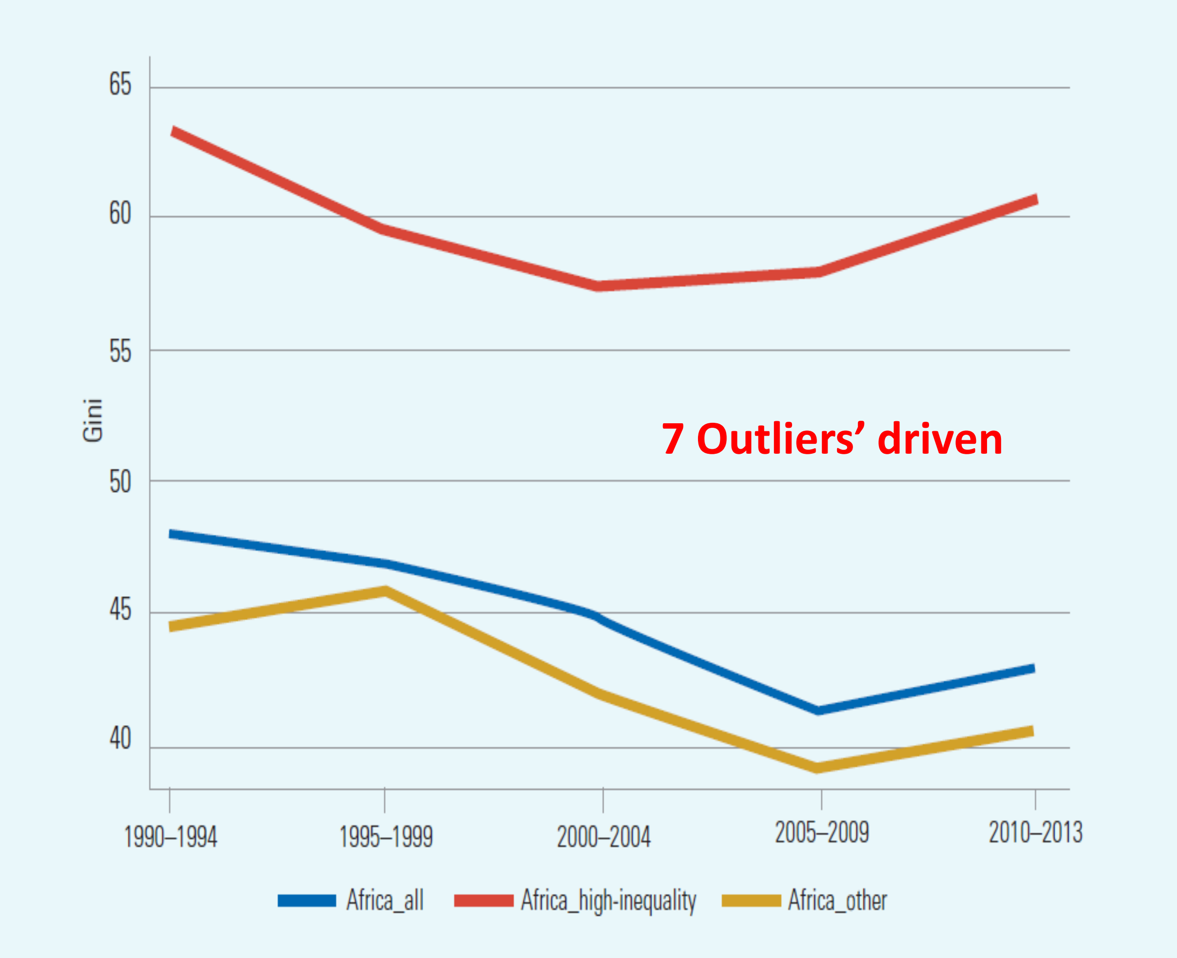
- **Divergence in income levels and trends across regions, groups and countries**
- **Drivers of income inequality are multi-dimensional and complex**
- **Inequality generates development paradoxes; which make development management more complex**
- **Extreme inequality is detrimental to growth and development**
- **There is no one silver bullet to addressing inequality in Africa**
- **Policies that help reduce poverty are not necessarily the same as those that help reduce income inequality, which underpins complementarity of policies**

Magnitude and trends of income inequality in SSA (1/3)

- SSA one of the most unequal regions (10/19)
- **GOOD NEWS: Income inequality declined in SSA by 3.4 Gini points between 1990 and 2011 ...BUT rose by 0.6 points (2008-2010) because of global financial crisis**

Gini for Africa and other developing countries (ODCs)		
Africa	**ODCs**	**Difference**
Ave. 0.43	Ave. 0.39	0.04
Min: Egypt 0.31	Min: Ukraine =0.25	
Max: SA 0.65	Max: Haiti = 0.52	
LIC =0.42	LIC = 0.39	0.03
LMIC =0.44	LMIC = 0.40	0.05
UMIC =0.46	UMIC = 0.40	0.06

FIGURE 3.2 Movements in the Gini coefficient, 1990-2013



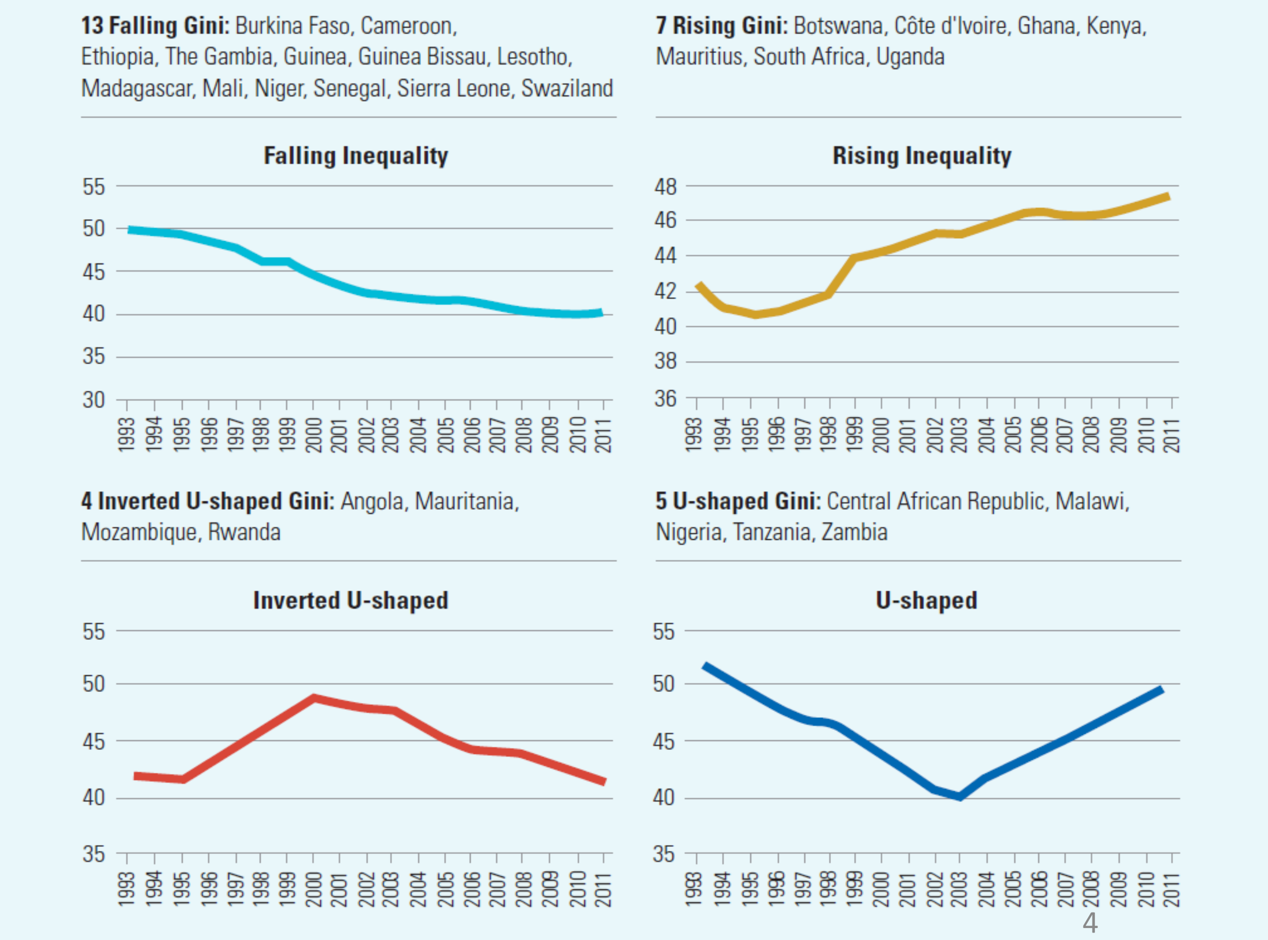
Message One: Unequal income levels and trends across regions, groups and countries

Magnitude and trends of income inequality in SSA (2/3)

- Bifurcation in inequality trends existed across countries in SSA: Gini, where data is available,
  - ✓ Declined in 59% of countries
  - ✓ Rose in 41% of countries

- Four distinct groups emerged:
  - ✓ Declining
  - ✓ Rising
  - ✓ U-shaped
  - ✓ Inverted U-shaped

FIGURE 2.3 Trend in unweighted Gini coefficient of consumption expenditure per capita for four groups of countries, 1993-2011



Cornia (2017)

Magnitude and trends of income inequality in SSA (3/3)

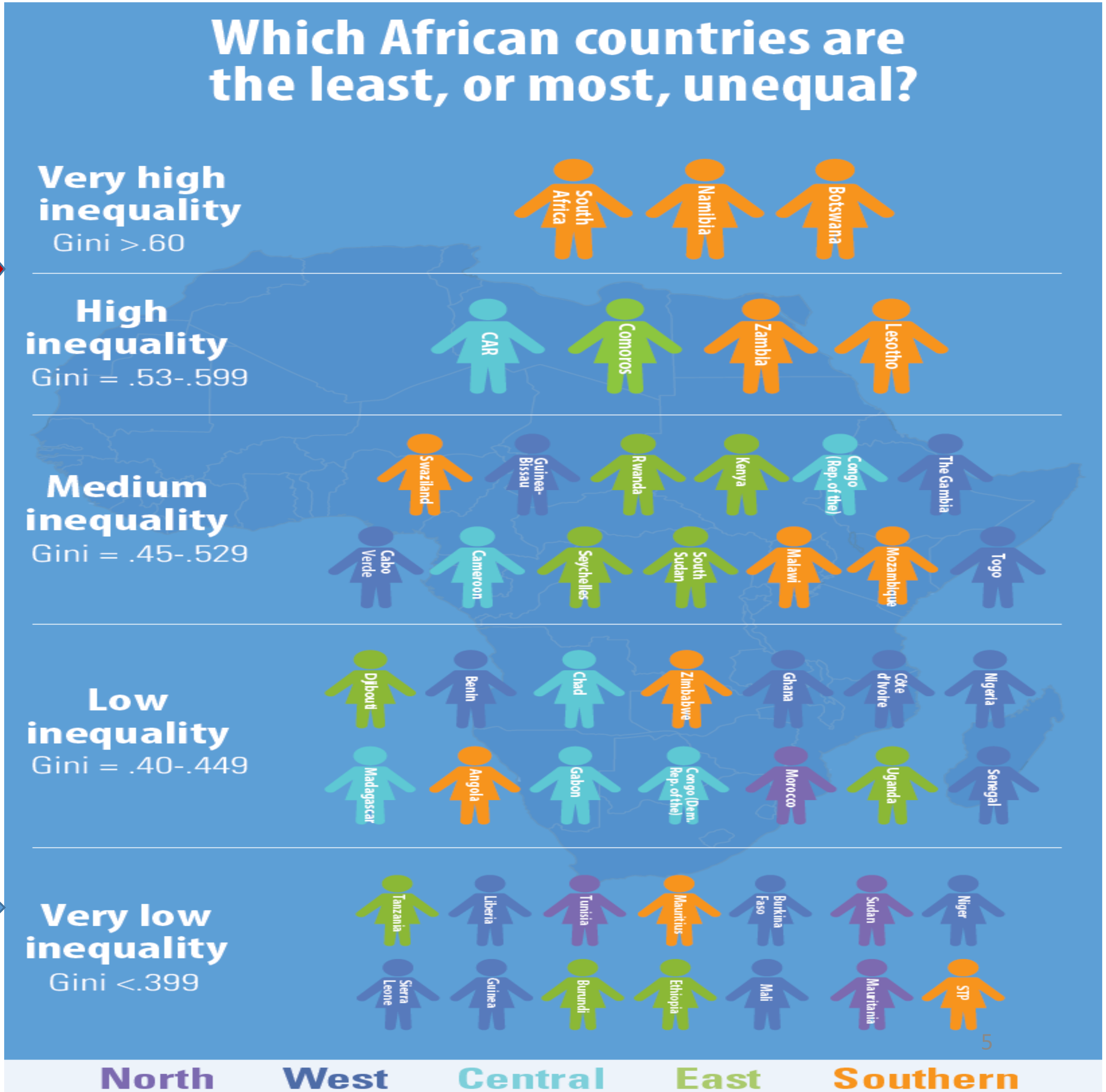
Seven **OUTLIER** countries make Africa's Gini to be above the world average – using consumption measure:

1. South Africa
2. Namibia
3. Botswana
4. Central African Republic
5. Comoros
6. Zambia
7. Lesotho

GOOD NEWS:

14 African countries are among the lowest Gini in the world,

mostly agrarian West Africa



Structural drivers of inequality (1/2)

1. Highly dualistic economic structure – labour elite Sector (mining, MNCs, FIRE, Pub. Service) Vs informal and subsistence sectors
2. High concentration of land, physical and human capital
3. Limited redistributive capacity of the state manifested by: ***natural resource curse, urban bias policies, regressive tax, ethnic and gender inequalities***

- **Inequality rises when growth occurs in:**

high asset, capital and skilled-labour concentration sectors BUT falls or remains stable in labour intensive mfg., agric. and construction sectors.

- **Inequality falls as result of:**

- **Improved distribution of human capital**
- **Increased direct taxes, efficiency of tax administration, well-targeted social protection**
- **Better distribution of socio-economic facilities – roads, electricity, schools, hospitals, etc.**
- **Enhanced productivity in agriculture**

Message Two: **Drivers of income inequality are multi-dimensional and complex**

Structural drivers of inequality (2/2)

- Inequality is a by-product of:
  - Regressive taxes (29/47)
  - Unresponsive wage structure
  - Inadequate investment in health education and social protection for the marginalized
  - Discriminatory social norms especially for women

Emerging puzzles requiring further investigations

1. No clear link exists between resource dependence and inequality

BUT resource-dependence growth presents obvious inequality RISKS:

Inequality Risks are high:

1. Corruption and Illicit outflows

2.Weak governing institutions – resource curse

2. Population growth and inequality creates a puzzle

Population-poverty relationship is positive:

Most countries with fertility rate of 6.0+ have high poverty rates

Population-Inequality relationship is negative:

Most countries with fertility rate of 6.0+ have low Gini(<0.44);

Most countries with low fertility rate have high Gini(>0.54)

3. Conflict-Inequality relationship creates a puzzle

Intensity of multi-dimensional poverty drives conflicts

Most countries with poverty rate >60% experienced intense conflict – e.g. Burundi, CAR, DRC

Countries with high Gini are non-conflict prone countries (e.g. Botswana, Namibia, RSA

Harold Laski Hypothesis

FIGURE 9.5. Correlation between fertility rate and Gini

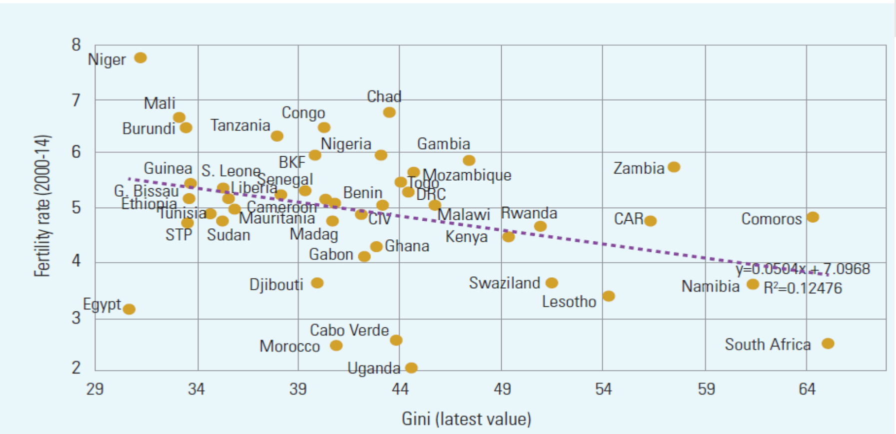
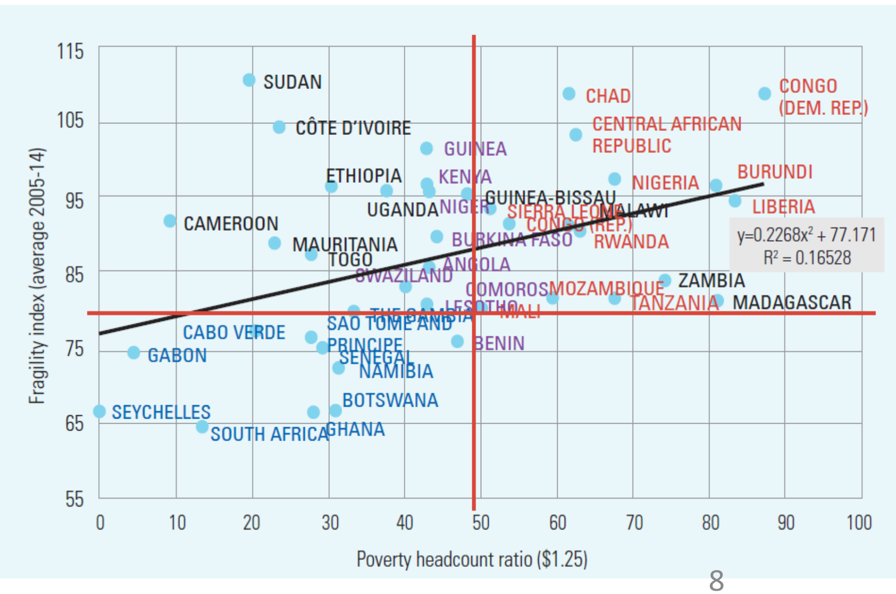


FIGURE 10.5. Correlation between fragility and extreme poverty in Africa



Message Three: **Inequality generates development paradoxes; which make development mgt. more complex**

Emerging lessons

No homogeneous solution; multi-dimensional responses are needed

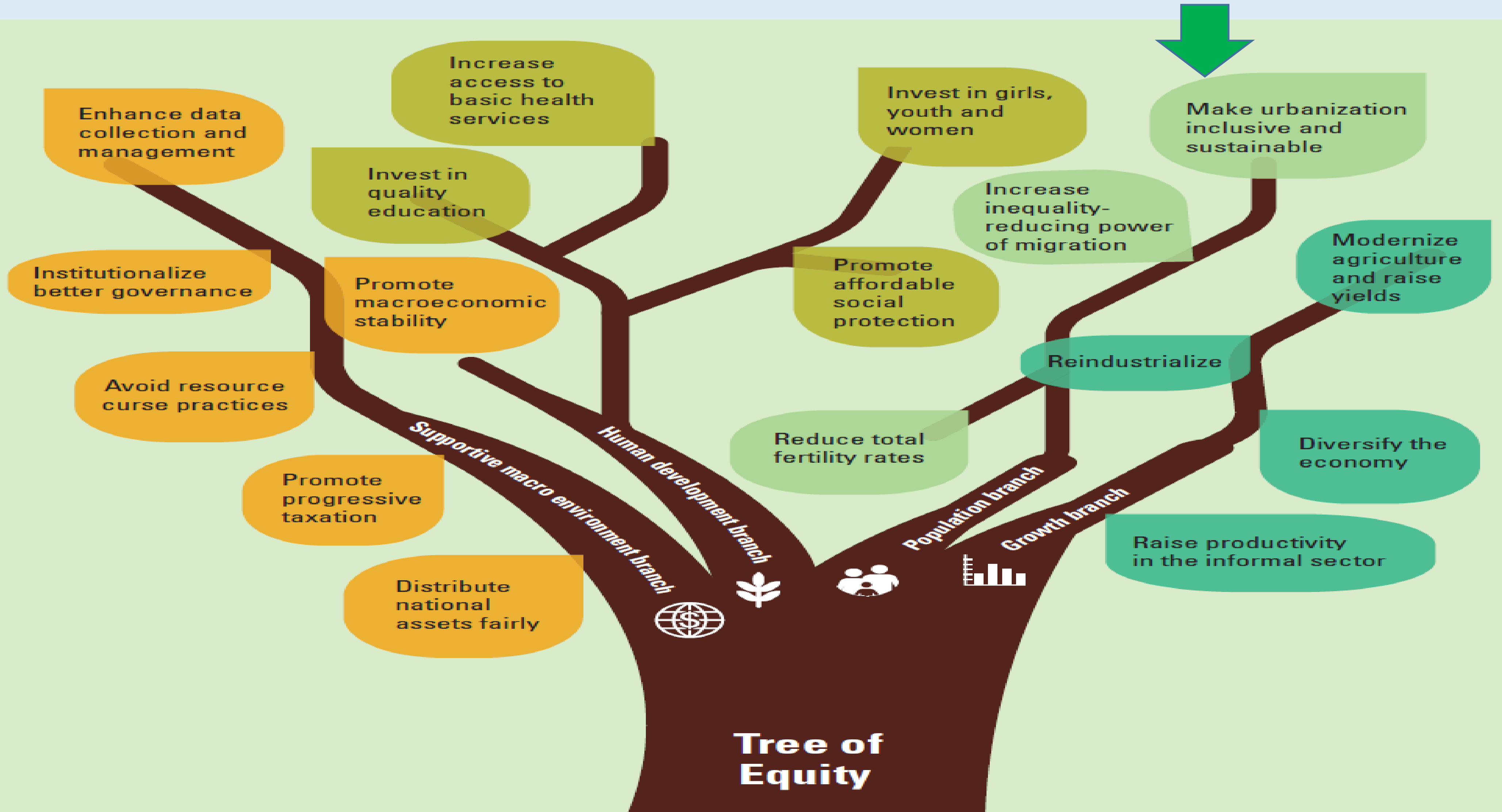
- **Education, institutions, modernized agriculture and industrialization**
- **Distribution matters: wealth, opportunities and power [PM]**
- **Equalizing social protection [FDR].**

Policies that help reduce poverty are not necessarily the same as those that help reduce income inequality.

- Complementarity of policies matter:
  - ✓ Quality education and enhanced productivity are important tools to reduce poverty
  - ✓ YET, if unaccompanied by progressive taxation and well-targeted social protection, they could accelerate income disparities

Message Four: **There is no one silver bullet to addressing inequality in Africa**

Planting and Nurturing Tree of Equity in Africa



Conclusion

Reflection from Former President Mandela:

"As long as poverty, injustice and gross inequality persist in our world, none of us can truly rest".

THANK YOU