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

Message One: Unequal income levels and trends across regions, groups and countries (7 Outliers’ driven)
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

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
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
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:
   Population-poverty relationship is positive:
   Most countries with fertility rate of 6.0+ have high poverty rates
   Intensity of multi-dimensional poverty drives conflicts
   Most countries with poverty rate >60% experienced intense conflict – e.g. Burundi, CAR, DRC

Inequality Risks are high:
1. Corruption and Illicit outflows
2. Weak governing institutions – resource curse
   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
   Countries with high Gini are non-conflict prone countries (e.g. Botswana, Namibia, RSA
   Harold Laski Hypothesis

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

- Enhance data collection and management
- Institutionalize better governance
- Avoid resource curse practices
- Promote progressive taxation
- Distribute national assets fairly
- Increase access to basic health services
- Invest in quality education
- Promote macroeconomic stability
- Promote affordable social protection
- Increase inequality-reducing power of migration
- Invest in girls, youth and women
- Make urbanization inclusive and sustainable
- Modernize agriculture and raise yields
- Reindustrialize
- Diversify the economy
- Reduce total fertility rates
- Raise productivity in the informal sector
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