CHAPTER 3

Addressing Poverty and Inequality

Growth is essential to reduce the number of poor people—but attention must also be paid to inequality

SOME 300 MILLION AFRICANS—ALMOST HALF THE POPULATION—live on barely $0.65 a day (in purchasing power parity terms), and this number is growing relentlessly. Moreover, a severe lack of capabilities—education, health, nutrition—among Africa's poor threatens to make poverty "dynastic," with the descendants of the poor also remaining poor. The rural poor account for 80 percent of African poverty, but urban poverty is substantial and appears to be growing.

Africa is not only poor, it also suffers from vast inequality in incomes, in assets (including education and health status), in control over public resources, and in access to essential services, as well as pervasive insecurity. These dimensions of poverty and deprivation are worsening in many parts of the region. Primary school enrollment rates, after increasing sharply until the 1980s, show signs of decreasing. In some areas there are indications of a deterioration in the general health of the population, particularly among the poor and children.

Not surprisingly, the elimination of deep poverty has emerged as the overriding objective of development in Africa. Growth is essential to reduce the number of poor people, and will do so if sustained at high rates. But growth is less effective in the face of massive inequality. Given the depth of deprivation in Africa, growth will not be enough without attention to easing inequality and to eliminating the barriers that constrain poor people's ability to benefit from a growing economy and to contribute to that growth.

Indeed, although African economies respond to better economic policies, a major acceleration of growth is unlikely without a dramatic improvement in human capital, particularly public health (chapter 1).

Measures to reduce poverty are not a luxury—they are essential for peaceful development

Vigorous action against HIV/AIDS is an essential component of that agenda. Similarly, a higher savings rate is unlikely without an accelerated demographic transition. This requires lower child mortality and higher female education. So, reducing poverty and improving social conditions are not simply consequences of development—they are essential components of any viable development strategy.

For these reasons Africa's development strategies cannot be focused solely on growth. They will need to take into account likely distributional implications and be grounded in a solid understanding of who the poor are and why so many have such trouble escaping from poverty. Development strategies will also need to be adequately financed; people cannot increase consumption while sharply raising investment to support growth.

Poverty on the African scale is more than an individual phenomenon. It is also a social and political one, entering into the workings of economies and societies in a multitude of ways that differentiate the initial conditions of poor countries from rich ones. The poor are not simply the rich with less money. They often live in different areas, frequently in the most degraded environments. Poverty also makes it harder to avoid further environmental degradation. At the margin of existence, concern for security can inhibit the adoption of new, potentially advantageous cropping patterns or technology, reducing growth potential. Failing to address growing poverty in Africa risks rising violence and crime and imperils the peaceful development of viable states (chapter 2). Thus measures to reduce poverty are not a luxury; they are essential for the peaceful development of Africa and for other regions.

Dimensions of Poverty

PARTICIPATORY ASSESSMENTS AND SURVEYS HAVE INCREASED understanding of African poverty in recent years, both as seen by the poor and in terms of statistical coverage. Poverty has many facets. In addition to low incomes and assets, participatory assessments draw attention to exclusion and isolation, as well as lack of trust in public agencies. Almost everywhere, poor people say that new ways have to be found that allow them to participate in development programs and ensure that such programs reach their intended beneficiaries (box

3.1). With new technology, rapid assessments such as the Core Welfare Indicator Questionnaire are enabling speedy assessment of other factors that affect the capabilities of the poor, including access to essential public services. Almost all countries now have at least one household survey, and these are being made available on CD-ROM to enable wider analysis. These surveys typically allow an assessment of income or consumption poverty, which reflects the economic opportunities available to the poor.

Box 3.1 Voices of Africa's Poor

"Poverty is like heat: you cannot see it, you can only feel it; so to know poverty, you have to go through it."

—A man from Adaboya, Ghana

"Women are beaten at the house for any reason…They may also be beaten if the husband comes home drunk or if he simply feels like it."

—A researcher from Ethiopia

A RECENT SURVEY, VOICES OF THE POOR, BROUGHT together the voices of 60,000 poor women and men from around the world. The study used participatory research to explore poverty realities, experiences, and priorities. While poverty is often specific to certain groups and locations, some broad patterns cut across groups. Most of those surveyed believed that things had gotten a lot worse for the poor and that traditional systems of social support had eroded—leaving poor households in deeper poverty and greater vulnerability. Africa was the only region where food insecurity was the most common descriptor of poverty: many poor people were preoccupied with where their next meal would come from. Poor people also spoke extensively about the importance of assets for getting loans and making it through rough periods; they rarely spoke about income. Entrepreneurship and multiple sources of income contributed to the movement out of poverty.

Poor people also spoke extensively about the social and psychological dimensions of poverty. They craved a sense of belonging, a future for their children, safety and security for their families. Being poor means being excluded—being treated "like dogs" by service providers and traders, unable to negotiate fair prices for crops or make one's voice heard at community meetings. The most important trigger for downward mobility was illness and injury—everywhere, illness was dreaded.

Gender relations are often traumatic. As poor men lose their jobs and women are forced to earn cash incomes, gender relations based on men as breadwinners and women as homekeepers are being challenged. While in many places poor women are taking a stand and becoming involved in household resource decisions, violence against women remains widespread. Since all poverty interventions affect gender relations in households, gender discussions must include both men and women.

Finally, there is a fundamental distrust of state institutions. Almost universally, poor communities expressed more trust in church organizations and indigenous or local institutions. There was less confidence in nongovernmental organizations, though more than in government institutions. Government services rarely work, and even when they do, government servants are corrupt, rude, and exclusive. Poor people encountered corruption on a daily basis. The "us versus them" attitude toward the state is a serious problem that will take time to fix. It takes just days to destroy trust, but decades to rebuild it.

Source: World Bank 1999b.

But much more needs to be done in monitoring poverty, including obtaining a better understanding of its dynamics—how poverty evolves for individuals and groups and how it is influenced by changes in economic policies. It is also important to strengthen capacity in Africa to analyze survey data. A number of initiatives, including by the African Economic Research Consortium, are making a contribution in this area. A final critical dimension of poverty is insecurity; the poor face continued risks of further impoverishment, while the near-poor face threats of falling into poverty traps.

Better health, nutrition, and education are likely to have major effects on labor productivity and income growth

Capabilities and the Poor

Capabilities such as good health, nutrition, and education are important in their own right. Poor health, malnutrition, illiteracy, powerlessness, and social or physical isolation measure directly the low levels of well-being in most of Africa. But these capabilities can also be considered human capital, which has enormous potential to raise incomes and living standards. Much literature emphasizes education as the key to higher incomes, both for individuals and countries. But especially in an agriculture-based region, better health and nutrition are also likely to have major effects on labor productivity and income growth (chapters 1, 4). Two of these dimensions—mortality and education status—show Africa far behind the rest of the world (see table 1.3).

Mortality. Child mortality is particularly sensitive to the well-being of the population. In Africa infant mortality is close to 10 percent, and on average 157 of every 1,000 children die before the age of 5. But in many countries the mortality rate exceeds 200 per 1,000. This compares with 53 in East Asia and 9 in high-income countries.

Even taking into account its low income levels, Africa's under-5 mortality rates are exceptionally high (figure 3.1). The region has had the smallest improvement in under-5 mortality since 1970, and some countries—including Kenya and Zimbabwe—saw mortality increase in the 1990s. AIDS is also wreaking havoc on Africa's people: life expectancy has declined in almost one-third of its countries, in Botswana by almost 10 years (chapter 4).

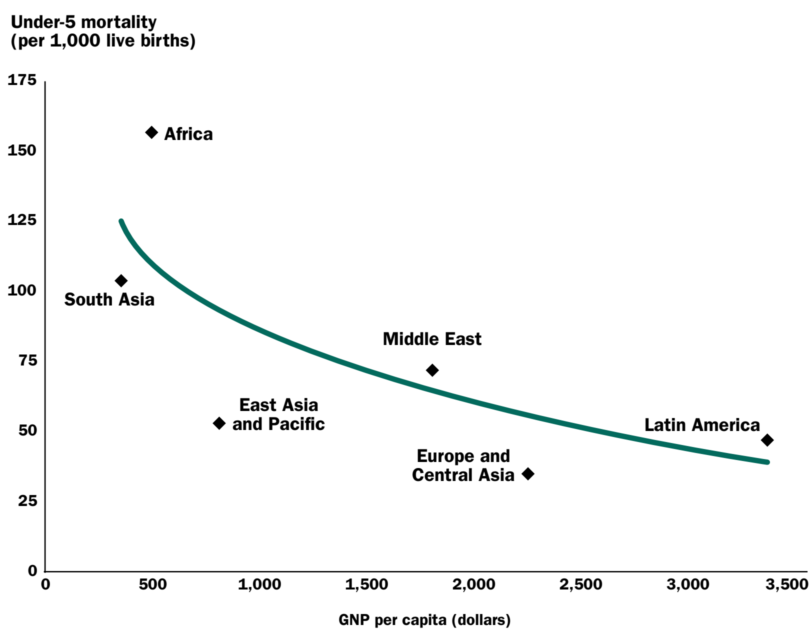
Nutrition. Anthropometric indicators of weight, height, and age provide further evidence of deterioration in the health of Africans. Children with low weight for their height are considered to be wasting; this indicates low recent nutrition levels. Children with low height for their age are considered stunted, a condition resulting from longer-term malnutrition. The overall picture is mixed (table 3.1). In some countries there have been improvements in urban populations but deterioration in rural ones. In other countries, notably Mali and Senegal, nutrition levels appear to have deteriorated overall.

Mortality in Africa is high, even considering its low income

The poorest 20 percent of the population has been the most affected by this deterioration. Among the eight countries in table 3.1, stunting has worsened among the poorest in four (Ghana, Mali, Senegal, Tanzania). But wasting has worsened among the poorest in six (Ghana, Madagascar, Mali, Senegal, Uganda, Zimbabwe).

Education. Outside Africa, most of the developing world has achieved almost universal primary enrollments, though with significant dropout rates. But in Africa primary enrollments dropped between 1980 and 1993, from 80 to 72 percent. Moreover, less than a quarter of secondary school-age children were enrolled in secondary school. And many adults have little or no education. This is important because in Africa

Figure 3.1 Under-5 Mortality by GNP Per Capita and Region, 1995



Source: Demery and Walton 1998.

Table 3.1 Nutrition Measures for Children in Eight African Countries (percent)

	First year		Second year		Change (percentage points)	
Region/country (years)	*Low weight for height*	*Low height for age*	*Low weight for height*	*Low height for age*	*Low weight for height*	*Low height for age*
Urban						
Ghana (1988 and 1993)	7.3	24.6	9.1	17.0	1.8	–7.6
Madagascar (1992 and 1997)	3.8	40.5	5.3	44.8	1.5	4.3
Mali (1987 and 1995)	9.9	19.6	24.9	23.9	15.0	4.3
Senegal (1986 and 1992)	3.5	17.5	8.8	15.2	5.3	–2.3
Tanzania (1991 and 1996)	5.1	38.0	8.1	32.6	3.0	–5.5
Uganda (1988 and 1995)	0.6	24.8	1.4	22.7	0.7	–2.1
Zambia (1992 and 1996)	5.4	32.8	3.3	32.9	–2.1	0.1
Zimbabwe (1988 and 1994)	1.4	16.0	6.5	19.0	5.0	3.0
Rural						
Ghana (1988 and 1993)	8.5	31.4	13.1	32.3	4.6	0.9
Madagascar (1992 and 1997)	6.0	50.6	8.3	49.5	2.3	–1.1
Mali (1987 and 1995)	12.3	26.2	24.4	36.2	12.2	10.0
Senegal (1986 and 1992)	7.1	26.5	13.4	32.7	6.3	6.3
Tanzania (1991 and 1996)	6.4	45.0	7.3	46.1	0.9	1.2
Uganda (1988 and 1995)	2.0	45.2	3.2	40.7	1.3	–4.5
Zambia (1992 and 1996)	5.0	46.5	4.9	48.9	–0.1	2.4
Zimbabwe (1988 and 1994)	1.1	34.3	5.6	25.0	4.5	–9.3

Source: Sahn, Dorosh, and Younger 1999.

parents' education is an important determinant of whether their children attend school.

Income, region, and gender also help determine whether children are enrolled. Primary enrollments are low overall, but particularly among poor rural females—in the 1990s only 24 percent of this group was enrolled among 16 countries surveyed (table 3.2). In Ethiopia, The Gambia, Guinea, Mali, and Niger enrollments were less than 10 percent; only in Ghana, Kenya, and Zambia were more than 50 percent of primary school-age children enrolled.

Secondary enrollments were almost uniformly low. On average only 7 percent of the poorest rural group (male and female combined) was enrolled, and in 13 of the 16 countries enrollment was negligible for this group (3 percent or less). This compared with an average secondary enrollment of 44 percent among the urban upper-income quintile.

Judged by these measures, the capabilities of African populations have shown little improvement in recent years—and in some cases have deteri-

Table 3.2 Net Enrollments in 16 African Countries by Region, Consumption Quintile, and Gender, 1990s (percent)

	Rural areas					*Urban areas*					
	Poorest quintile		*Richest quintile*			*Poorest quintile*		*Richest quintile*			
Level	*Male*	*Female*	*Male*	*Female*	*All*	*Male*	*Female*	*Male*	*Female*	*All*	*All*
Primary	32	24	50	42	36	53	48	75	70	63	40
	Rural areas					*Urban areas*					
	Poorest quintile		*Richest quintile*		*All*	*Poorest quintile*		*Richest quintile*		*All*	*All*
Secondary	7		15		11	21		44		33	19

Source: Demery 1999.

orated considerably. Poorer parts of the population are largely excluded from acquiring the capabilities they need to partake in and contribute to the growth of a modern economy. Low female enrollment is also slowing the demographic transition, reducing the prospect that African countries will move toward a virtuous circle of growth, demographic transition, and savings (chapter 1).

Measures of Poverty

There is no single measure of poverty, and all choices have their advantages and weaknesses. For welfare levels, consumption is the preferred criterion. But many surveys—especially those outside Africa—measure income.

Poverty lines. The choice of a poverty line is always arbitrary. Two options are available. One is to set an absolute standard common across all countries, such as $1 a day per person adjusted for purchasing power parity (PPP). This approach facilitates cross-country comparisons of poverty, although the conversion from national currencies into PPP dollars is subject to error. A second option is to define the poor as those falling below the poverty lines of their countries. This relative approach allows for differences in poverty lines depending on a country's level of development. But it also makes it harder to compare countries.

A choice must also be made on how to show the prevalence and depth of poverty. The headcount ratio, or percentage of the population falling below the poverty line, is a widely used measure of the prevalence of poverty. The poverty gap takes into account the extent to which the consumption of the poor falls below the poverty line. It is a measure of the depth of poverty, as well as its prevalence. The squared poverty gap weights more heavily the poverty of the poorest parts of the population and so emphasizes extreme deprivation.

Analysis using an absolute poverty line of $1 a day shows that almost half of Africans live below this level and that the number of poor has been steadily increasing. The vast majority of Africans consume less than $2 a day. This is a reflection of the desperately poor conditions prevailing in the continent and indicates how vulnerable entire societies are to falling into poverty, with large tracts of the population just a little over the $1 a day poverty line. Dealing with poverty in the region must involve expanding the income opportunities of whole groups.

Dealing with poverty in the region must involve expanding the income opportunities of whole groups

The second approach, using relative poverty lines, yields a similar picture. In 21 countries surveyed in the 1990s, more then half of the rural populations lived below the national poverty lines (table 3.3). Rural poverty is both deep and severe. The average income of the rural poor is just $163 a year, barely half the average regional poverty line for rural areas. Ghana recorded the lowest rural poverty, with a headcount ratio of 29 percent. But nine countries had rural headcounts above 60 percent.

Urban poverty is also high, as judged by national poverty lines, and is moderately deep. More than 40 percent of the urban population is poor according to national criteria, and the average income of this group is only $352 a year. More than half of the urban population is poor in Ethiopia, Guinea-Bissau, Tanzania, Swaziland, and Zambia. With the rapid growth of Africa's urban populations, high urban poverty threatens political and economic stability.

Trends in poverty and growth. For some countries it is possible to trace recent trends in consumption poverty based on household data. These reveal a mixed pattern (table 3.4). Some countries, notably Nigeria and Zimbabwe, have experienced significant increases in poverty. Ethiopia,

Table 3.3 Poverty in 21 African Countries Using National Poverty Lines, 1990s

Indicator	*Rural*	*Urban*	*Overall*
Headcount ratio (percent)	56	43	52
Poverty gap (percent)	23	16	22
Squared poverty gap (percent)	13	8	12
Mean expenditure (dollars a person per year)	409	959	551
Mean poverty line (dollars a person per year)	325	558	

Source: Ali 1999.

Mauritania, and Uganda have experienced widespread improvements in economic well-being that have filtered down to the poor. Ghana shows a mixed picture for 1987–96. Poverty rose in urban areas (especially Accra) but fell in rural areas, apparently reflecting distributional shifts due to reform programs. More recent trends appear to have changed this pattern, causing urban poverty to decline.

How do these poverty trends relate to overall growth? On average, a 1 percent increase in consumption is associated with almost a 1 percent drop in the poverty headcount ratio (figure 3.2). Growth that translates into rising consumption is thus essential for poverty reduction. But growth is not sufficient, given Africa's low incomes and high inequality and exclusion, which result in the world's largest poverty gaps.

Africa has perhaps the world's highest income inequality…

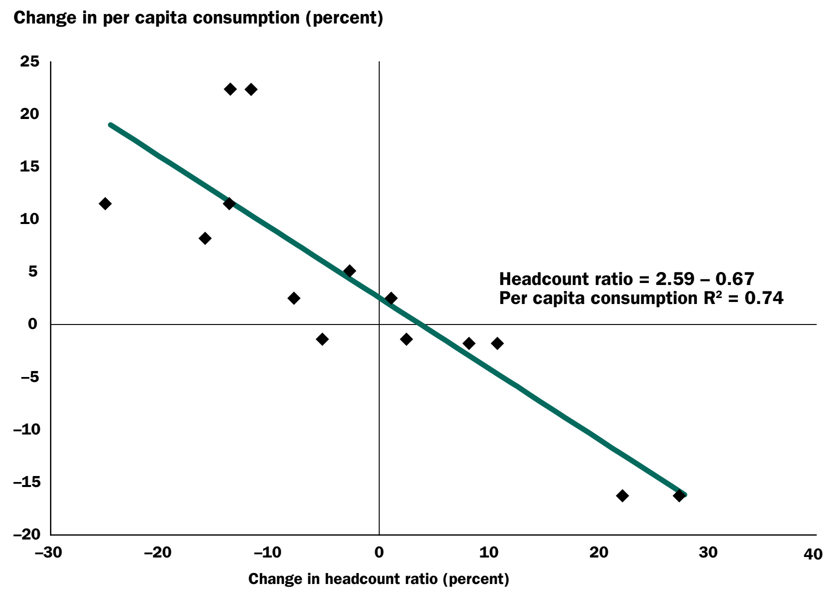
Table 3.4 Consumption Poverty in Various African Countries

	Headcount ratio		*Squared poverty gap*		
Country, years	*First year*	*Second year*	*First year*	*Second year*	*Change in per capita consumption (percent)*
Ethiopia					
Rural, 1989 and 1995	61.3	45.9	17.4	9.9	8.2
Urban, 1994 and 1997	40.9	38.7	8.3	7.8	5.1
Ghana, 1987 and 1996	31.9	27.4			2.5
Rural	37.5	30.2			
Urban	19.0	20.6			
Mauritania, 1992 and 1996	59.5	41.3	17.5	7.5	11.5
Rural	72.1	58.9	27.4	11.9	
Urban	43.5	19.0	9.7	2.1	
Nigeria, 1992 and 1996	42.8	65.6	14.2	25.1	–16.3
Rural	45.1	67.8	15.9	25.6	
Urban	29.6	57.5	12.4	24.9	
Uganda, 1992 and 1997	55.6	44.0	9.9	5.9	22.4
Rural	59.4	48.2	10.9	6.56	
Urban	29.4	16.3	3.5	1.65	
Zambia, 1991 and 1996	57.0	60.0	25.5	16.6	–1.4
Rural	79.6	74.9	39.1	23.2	
Urban	31.0	34.0	9.7	5.4	
Zimbabwe, 1991 and 1996	37.5	47.2	7.2	9.3	–1.8
Rural	51.5	62.8	10.2	13.0	
Urban	6.2	14.9	0.5	1.4	

Note: Headcount ratio and squared poverty gap are based on national (nutritionally based) poverty lines. Comparisons between countries are not valid. Ethiopia data are based on small samples. Nigeria data are provisional.
Source: World Bank data.

Figure 3.2 Changes in Headcount Ratios and Per Capita Consumption in Selected Countries and Periods

...but growth is still essential for poverty reduction



Source: Table 3.4.

Inequality and Its Implications

Africa has perhaps the world's highest income inequality. Both rural and urban incomes are unequally distributed. There is also considerable inequity in the distribution of social spending, with more going to higher-income groups than to the poor. To be effective in fighting the depth of African poverty, development strategies have to address inequality and exclusion. With current fiscal policies and service delivery systems, inequalities in capabilities will not soon be alleviated.

A Profile of Income Inequality

As conventionally measured, Africa has the world's second highest inequality after Latin America (table 3.5). But most of Africa's household surveys measure inequality using consumption, whereas most other surveys use income. Adjusting for this difference, Africa's inequality is as high as or higher than that in any other region. The poorest 20 percent of Africans account for just 5.2 percent of total household consumption, or about 4 percent of GDP. This is equivalent to less than half the foreign aid to a typical poor African country in the 1990s. At 58 percent, South Africa boasts the region's highest Gini coefficient (box 3.2).

Africa's inequality has two distinctive features. First, rural inequality is almost as high as urban inequality, with the poorest 20 percent of the population accounting for less than 6 percent of consumption in both cases (Ali 1999). Because most land is held communally in Africa, in most cases rural inequality does not stem from severe inequality in landholdings. Rather, it reflects geographic differences in the quality of land, in climatic conditions, and in access to markets and to remittances from urban areas. (The exception is Southern Africa, where in addition to the above factors, inequality in land holdings is a major determinant of rural inequality.) Africa's poor, sparse economies are not well integrated, and communities far from roads are typically far poorer than others. Spatial factors, including those relating to inadequate rural capital and infrastructure, therefore need to be taken into account in designing antipoverty policies (chapters 5, 6). In urban areas job creation and economic diversification are crucial challenges (chapter 7).

Rural inequality is almost as high as urban inequality

A second feature of African inequality is its high level despite low average income. A stylized (though debated) feature of development is the Kuznets hypothesis—that income distribution tends to become more unequal as countries develop, before tending to equalize again at relatively high income levels. Ali and Elbadawi (1999) suggest that the income at which African income inequality will naturally start to

Table 3.5 Income Inequality by Region (percent)

Region	*Gini coefficient*	*Share of top 20 percent*	*Share of middle*	*Share of bottom 20 percent*
Africa	45.0	50.6	34.4	5.2
East Asia and Pacific	38.1	44.3	37.5	6.8
South Asia	31.9	39.9	38.4	8.8
Latin America	49.3	52.9	33.8	4.5
Industrial countries	33.8	39.8	41.8	6.3

Note: Data for Africa are calculated on a consumption basis. Adjustment to an income basis (as is common in other regions) involves raising the Gini coefficient by 6 percentage points, making Africa's Gini 51 percent.

Source: Deininger and Squire 1996.

Box 3.2 Inequality in South Africa

ALONG WITH BRAZIL, SOUTH AFRICA IS PERHAPS THE world's most unequal economy. The poorest 20 percent of the population disposes of just 3 percent of income, while the richest 20 percent disposes of 42 percent. What underlies this high inequality?

Inequality within racial groups accounts for about 60 percent of overall inequality, but inequalities between racial groups account for 40 percent—a great deal relative to other countries. (In Malaysia, for example, inequalities between racial groups account for just 13 percent of overall inequality.) The share of income held by white households fell from 72 percent in 1960 to 60 percent in 1991, but some of the decline was due to slower population growth among whites. The average per capita income of Africans, 9.1 percent of that of whites in 1917, had risen to just 13.5 percent in 1995. For any poverty line, the fraction of African workers below it is far greater than the fraction of white workers. For example, if the line is set equal to monthly adult equivalent poverty income, 4 percent of the white labor force is poor—but more than half of the African workforce is.

But other factors are important as well. The unemployed, household domestic workers, and farm workers are the poorest and most vulnerable groups. The poor, especially the poorest, are disproportionately found in rural areas. Labor market factors are also central. Many Africans are unemployed, so many households do not have access to wage income. Age and education are also factors. New entrants to the labor market have trouble finding jobs, while lower education means far lower probability of finding work and almost no chance of finding well-paid work.

How can this situation be remedied? Policies should follow two broad strategies. The first is to narrow the mismatch between the supply of unskilled labor and the demand for skilled labor. This involves changes in both labor market policy and education: younger cohorts need to have better access to secondary education and higher-quality education, with a focus on technical and vocational training. The second strategy is to strengthen safety nets and poverty alleviation efforts for people—especially in poor rural areas—with few prospects for long-term sustainable employment. Both planks will require robust growth to create new jobs and fund the social safety net.

Source: African Economic Research Consortium, comparative research project on poverty and inequality in Africa.

decline is $1,566 (in 1985 PPP dollars)—several times average income today. This implies that pronounced inequality is likely to be a feature of African economies for a long time, and reinforces the importance of including distributional elements in development programs.

The Distributional Impact of Reform

Income distribution reflects deep structural features of an economy and so usually does not change much over time. Yet some African countries have experienced substantial changes—whether toward or away from equality—over short periods. Some of these changes may reflect changes in macroeconomic policy, which has considerable potential to shift incomes between social and economic groups.

Until recently little evidence was available of the impact on income distribution of policy reform, but that is beginning to change. Many poor groups—those linked to markets and public services—have benefited from the reforms and economic recovery of the 1990s (box 3.3). But other poor households, notably those in remote locations and relying on subsistence crops, as well as those without work, have fared badly. Reforms can lift many out of poverty. But there is a danger that many of the very poor will be left behind.

Box 3.3 Winners and Losers from Reform and Recovery in Ghana and Uganda

MANY AFRICAN COUNTRIES EXPERIENCED ECONOMIC recovery in the 1990s, partly because of major economic reforms. How these reforms affect poverty and inequality is of massive significance for the long-run sustainability of growth. In Ghana and Uganda reform and recovery led to surprisingly similar results for households and their living standards. In Uganda real GDP per capita grew by some 5 percent a year in 1992–97, and real private consumption per capita grew by just over 4 per cent a year. Real GDP and private consumption growth rates were also high in Ghana in 1992–98. Who were the main beneficiaries of this growth, and did the poor benefit?

In both countries GDP growth appears to have significantly lowered consumption poverty. Mean household consumption per adult equivalent in Uganda increased markedly in the 1990s, causing the poverty headcount ratio to fall from 56 percent in 1992 to 44 percent in 1997. In Ghana the headcount ratio dropped from 51 percent in 1991/92 to 43 percent in 1998/99. The declines in poverty in both countries are robust with respect to the choice of poverty line (and poverty index).

Income distribution also improved in both countries. In Uganda decreases in inequality explain 10 percent of the decline in the headcount index. (The remainder came from an increase in mean household consumption.) Similarly, in Ghana an improvement in income distribution explains just under a quarter of the decline in the headcount index for the country as a whole. Inequality did not fall in all parts of these countries, however—and in some areas it rose.

Trends in consumption and poverty were also not even across all groups and regions. Central Uganda gained the most, while the eastern region lagged behind. In Ghana the declines in poverty were concentrated in the west, Greater Accra, Volta, and Brong Ahafo, while the poorest ecological zones (the center, north, upper east) saw poverty increase. How households fared also depended on the main source of livelihood. In Uganda there were sharp falls in consumption poverty among households engaged in cash-crop production, noncrop agriculture, and manufacturing. The higher living standards of those growing cash crops accounted for more than half of the observed fall in poverty. But poverty among food-crop farmers (representing more than half of consumption poverty) declined only marginally. And poverty actually increased among those in miscellaneous services and those not working. A similar picture emerges for Ghana: economic well-being improved significantly for export farmers and those in formal and nonformal wage employment, but much less for nonexport (mainly food) farmers. And as in Uganda, poverty increased in Ghanaian households where the head was not working.

Thus in both countries many poor groups benefited from the reforms and economic recovery of the 1990s. But other poor households—notably those in remote locations, those relying mainly on subsistence food crop production, and those not working—fared badly.

Source: Appleton 1999; Ghana Statistical Service 1999.

Unequal Access: Public Spending and the Poor

Improving the human capital and capabilities of Africans, particularly the poor, is crucial to reduce poverty and to improve people's lives. Actions to develop human capital must be seen across a broad front. Reducing child mortality might require, in addition to higher incomes, increased food consumption, cleaner water, more female education, reduced disease-bearing vectors, better immunization programs and postnatal care, and more widespread basic clinical services. Not all of these objectives involve public services and public spending, but many do. Chapter 4 discusses the need for better delivery systems for public services and offers examples of effective interventions. The question here is the degree to which current budget allocations and fiscal policies are focused on benefiting the poor.

The evidence is not encouraging. Health spending, for example, is not well targeted to the poorest (table 3.6). In seven countries for which data are available, the poorest 20 percent of the population receives only 12 percent of the subsidy—compared with more than 30 percent for the richest 20 percent of the population. The only exception is South Africa, where the richest 20 percent of the population mainly uses private health care. The overall picture for education is similar to that for health. Africa's poor, particularly its women, have less access to fiscal resources directed toward enhancing their capabilities. This gender dimension to inequality hinders growth and contributes to poverty and inequality (chapter 1).

Table 3.6. Benefit Incidence of Public Health Spending in Various African Countries (percent)

	Primary facilities		*Hospital outpatient*		*Hospital inpatient*		*All*	
Country, year	*Poorest quintile*	*Richest quintile*	*Poorest quintile*	*Richest quintile*	*Poorest quintile*	*Richest quintile*	*Poorest quintile*	*Richest quintile*
Côte d'Ivoire, 1995	14	22	8[a]	39[a]			11	32
Ghana, 1992	10	31	13	35	11	32	12	33
Guinea, 1994	10	36	1[a]	55[a]			4	48
Kenya, 1992[b]	22	14	13[a]	26[a]			14	24
Madagascar, 1993	10	29	14[a]	30[a]			12	30
Tanzania, 1992/93	18	21	11	37	20	36	17	29
South Africa, 1994	18	10	15[a]	17[a]			16	17

a. Includes inpatient spending.
b. Rural only.
Source: Castro-Leal and others 1999.

Security

SECURITY IS IMMENSELY IMPORTANT TO MOST AFRICANS. FOR THEM, life involves hazards that threaten livelihoods and capabilities (such as health). A participatory poverty assessment in Ethiopia investigated this dimension of well-being among both urban and rural communities. One striking finding was the value Ethiopians place on peace and the freedom it brings as a source of well-being, quite apart from its effects on economic opportunities. This message must resonate across Africa, given the wars and rumors of wars that are rife in the region.

Security is a source of both well-being and economic opportunity

Ethiopian rural households were asked to identify events in the past 20 years that had caused great losses of income or wealth. Four broad events were associated with serious household losses: harvest failure, due mainly to drought; policy failure, highlighting the disastrous effect on rural areas of the Derg regime; labor problems, such as the death of a breadwinner; and livestock problems, especially with oxen (table 3.7). While respondents highlighted the 1984 drought as a catastrophic harvest shock, there is continuing concern about harvest failure. Erratic rainfall is a major preoccupation among the poor. Annual variations in the agricultural harvest are a source of great uncertainty and seriously undermine household well-being.

Surveys confirm these fluctuations in well-being. Just 31 percent of the rural population surveyed was poor in both 1989 and 1995 (table 3.8). But three-quarters of the population experienced poverty in one or more of the two years.

Table 3.7 Events Causing Hardship in Ethiopia, 1975–95 (percentage of respondents)

	Village location				
Event	*Tigray*	*Amhara*	*Oromiya*	*SEPA*	*All*
War	15	10	3	5	7
Harvest failure	96	86	66	74	78
Labor problems	50	29	34	54	40
Land problems	36	14	17	14	17
Oxen problems	73	47	25	33	39
Other livestock	69	36	30	30	35
Policy	40	44	35	50	42
Crime/banditry	5	2	1	4	3
Asset losses	13	18	15	15	16

Source: Dercon 1998.

Table 3.8 Movements In and Out of Poverty in Rural Ethiopia, 1989 and 1995 (percent)

Category	*Poor in 1995*	*Nonpoor in 1995*	*All households*
Poor in 1989	31.1	30.2	61.3
Nonpoor in 1989	14.8	23.9	38.7
All households	45.9	54.1	100.0

Source: Dercon 1998.

Assistance must be based on an understanding of the coping mechanisms employed by the poor, and their limitations in protecting welfare

Some of the variation in these data is due to rainfall—1989 was a bad year for the harvest, and 1995 was a relatively good year. But idiosyncratic shocks must also have been at work, dragging some households into poverty and helping other out of it. Similar results have been found for short panels in Côte d'Ivoire (Grootaert, Kanbur, and Oh 1997).

Year-to-year insecurity in livelihood is only part of the story for an agrarian economy like Ethiopia. The participatory assessment found that most communities were also preoccupied with variations in consumption (especially food consumption) within the year. Seasonal fluctuations in food availability and prices are second only to drought as perceived causes of insecurity in rural communities. Seasonality was even cited by urban respondents as a problem for most households, especially the poor. The survey also points to large within-year fluctuations in household consumption, with significant seasonal variations in poverty.

Households are also concerned about the effects of a death of a working adult. High burial costs and income losses represent a major catastrophe for a household. AIDS has obvious and massive implications for household welfare in communities that have little cushion above bare survival.

How can policies help households cope with these unforgiving uncertainties? Assistance must be based above all on an understanding of the coping mechanisms employed by the poor, and their limitations in protecting welfare. Participatory assessments have found that rural communities reduce consumption during shocks or during lean seasons, or cope by borrowing cash or by generating other income through migrant work or petty trade.

There are two broad kinds of policies to deal with risk and uncertainty. First, governments can help reduce the risks by providing better water storage and management and by assisting with crop research and diversification. Second, governments can provide a safety net that is triggered by a shock such as drought or harvest failure. The safety net can also be designed to smooth consumption within the year. Community-based public works programs can meet both these safety net objectives. To the extent that policies enable the rural sector to recapitalize itself (chapter 6), the poor will also have more assets to buffer uncertainties.

Macroeconomic and structural policies that encourage growth and employment are essential for any poverty reduction strategy

Strategies for Reducing Poverty in Africa

WHATEVER THE MEASURE—CONSUMPTION POVERTY, direct indicators of well-being—the situation in Africa is serious. Income poverty increased in the 1990s. Malnutrition (wasting) appears to have worsened. Some countries have experienced increased child mortality—and lower life expectancy, in part because of AIDS. School enrollments have backslid. Growth has not been high or sustained enough to offset the previous decline, and the population has limited capacity to take advantage of income opportunities. Given these challenges, what are the key ingredients of a poverty reduction strategy for Africa?

Growth and Jobs

Macroeconomic and structural policies that encourage growth and employment are essential for any poverty reduction strategy. Raising the growth rates of African economies would have two main benefits. It would enhance the consumption potential of the population, improving food consumption, raising nutrition levels, and reducing the number of poor people. It would also generate resources that could be used to increase spending on basic needs such as health and education—which, if well targeted to the poor, would enhance their ability to take advantage of better employment opportunities and contribute to growth. How much growth is required? More than 5 percent a year seems needed simply to prevent the number of poor from rising, whereas meeting the International Development Goals for 2015 will require growth of more than 7 percent a year (chapter 1).

Inclusive Policies

But growth is not enough. Africa's high inequality increases the importance of inclusive policies. High initial inequality implies higher growth requirements to achieve a given poverty target, and can adversely affect growth prospects (Alesina and Rodrik 1994; Deininger and Squire 1996). Changes in inequality could have a considerable impact on the number of Africa's poor. For example, a 10 percentage point rise or drop in the region's Gini coefficients could move 50 million people in or out of poverty. Such a variation is within the range of historical experience of countries over a 15-year period.

Improving human capital is crucial for Africa, both to reduce income poverty and to directly improve people's lives

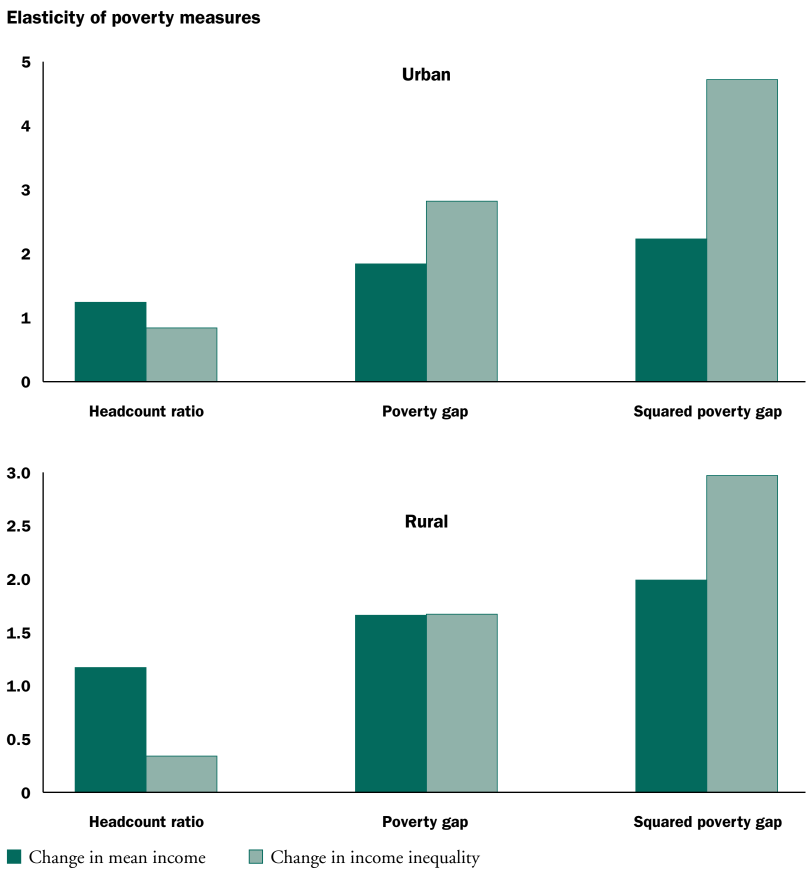
Attacking the depth and severity of poverty, as measured by the poverty gap and the squared poverty gap, requires attention to sources of persistent inequality. Different aspects of poverty respond differently to changes in income and inequality. Changes in the distribution of income—as measured by the Gini coefficient—are more powerful for attacking deep poverty, as shown by the response of the poverty gap and the squared poverty gap (figure 3.3). Geographic targeting of assistance, including for the construction of essential rural infrastructure, is key for reducing high rural inequality. And in Southern Africa and a few countries elsewhere in the region, land redistribution measures may be required as well. Addressing constraints to economic diversification, investments, and job creation will also have to be an essential feature of any development strategy (chapters 6, 7).

Better Capabilities

Improving human capital is crucial for Africa, both to reduce income poverty and to directly improve people's lives. Accelerating programs to fight HIV/AIDS is perhaps the most pressing priority for many countries. But efforts to boost human capital in the region must cover a broad front. As noted, efforts in one area—such as reducing child mortality or raising education levels—are often linked to other objectives for well-being. Not all involve public services and public spending, but many do.

Africa's fiscal policies have been ineffective in achieving these better outcomes. Major efforts are needed to ensure that poor and excluded groups receive a larger share of public spending for essential social services and infrastructure, so that better capabilities can help close the inequality gap.

Figure 3.3 How African Poverty Responds to Changes in Income and Inequality



Source: Ali 1999.

Government measures to help households cope with uncertainties must supplement the coping mechanisms used by the poor

Delivery Mechanisms and Accountability

Antipoverty programs will not succeed unless delivery systems are adjusted to deliver more public resources where the need is greatest, to increase transparency and accountability to beneficiaries, and to build the capacity of poor communities to help themselves. In highly centralized but poorly administered public bureaucracies, little public spending is likely to trickle down to the poor communities where it is most needed. Effective decentralization has both a governance component (chapter 2) and a service delivery component (chapter 4).

Stability and Security

Government measures to help households cope with uncertainties must supplement the coping mechanisms used by the poor. Participatory assessments are especially useful in improving understanding of these. Macroeconomic instability also hurts the poor disproportionately, because they have fewer mechanisms to cope with the consequences. Governments can help reduce risks by delivering better services (water storage and management, crop research and diversification) and by providing safety nets against shocks (drought, harvest failure). A safety net can also smooth consumption. Well-designed public works programs can meet both these safety net objectives.