

**FOSTERING
SHARED GROWTH:
URBANISATION, INEQUALITY
AND
POVERTY IN AFRICA**

Presented by Hon. Kwadwo Baah-Wiredu, Minister of Finance and
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Introduction:

It is a great pleasure for me to speak to you on fostering shared growth: urbanization, inequality and poverty in Africa. The presentation will look at Africa's growth performance, the impact of urbanization on growth and the need to reduce inequality and poverty in Africa to ensure sustainable economic growth.

The need to foster shared growth in Africa has been a well debated issue since the independence of many African countries. Various approaches have been suggested in literature and also by many political leaders on the continent who believe that rapid industrialization and integration of our economies can create the necessary growth required to significantly reduce poverty and inequality.

Today, there is a new wind of ideas blowing across Africa, indicating a shared firm commitment for growth and development. Thus, the focus of most African countries is to pursue aggressive policies targeted at economic growth to meet the needs of the rapidly growing population on the continent.

Let us take a closer look at Africa's Economic Performance:

The Economic performance of most African countries in the 1970s and early 1980s was not particularly interesting. After, the oil shocks of 1973/74 and 1979, coupled with widespread political unrest in many countries, the continent got plagued with economic stagnation, decay, shortfalls in export receipts, an obvious decline of economic growth and a persistent mounting of debts.

This situation led to formation of the Elliot Berg Commission to propose the implementation of Structural Adjustment for African countries. Indeed, we are all aware of the results of the implementation of adjustment programmes on the continent and the criticisms that were leveled against them, particularly those that led all of us to think of reducing the impact of macroeconomic adjustment on the very poor, the flooding of urban cities in search of greener pastures and widening of the poverty gap.

Subsequently, a lot has been done by individual countries on the continent, in an attempt to solve the problems emanating from the adjustment programmes. However, the realized growth has not been resilient and high enough to eradicate poverty and create the wealth we need for our people.

Ladies and gentlemen, let it be put on record that unless African countries deliberately put in additional effort at economic management, we cannot solve the challenges of urbanization, inequality and poverty.

Africa's Economic record

Though, we are certain of a new paradigm of economic growth, the progress made so far is not sufficient enough to eradicate poverty from our population which has been growing at about 2.8 percent in the last decade. The increase in development aid, improvement in macroeconomic stability and reforms, the rising demand for primary commodities, increased production in extractive industries and stabilization of exchange rates have been responsible for this new paradigm of growth.

However, the challenge for most countries will be how to translate the growth into sustainable decent employment, increased income per capita and sustainable 'gross domestic happiness'. By gross domestic happiness, we refer to growth that is translated into wealth creation and a significant reduction in poverty.

The continent has been experiencing growth by the oil boom in net oil exporting countries like Cameroon, Congo, Gabon, Angola, Egypt, Algeria, Libya, Nigeria and Mauritania. There is no doubt that in 2005 these economies grew by 6.2 percent as compared to the average of 4.5 experienced in the non- oil exporting countries.

Inflation has generally been on a declining path as compared with the trends experienced in the 1970s and 1980s. The impact of inflation on the continent indicates that the present policies put in place to contain inflation have been successful.

The current trend of improved fiscal balances in most African countries is a development worth noting, particularly when compared to the high deficits of the early 1980s. Though the oil exporting countries seem to have shown very aggressive improvements, the efforts of the non-oil exporting countries are commendable. For instance, surpluses as a percentage of GDP recorded in 2005 by the following non-oil exporting countries were significant: Kenya (0.3%), Botswana (2.6 %), Seychelles (8.0%) and São Tomé and Príncipe (44.8 %).

The continent has to compete with other wealthier regions for its fair share of Foreign Direct Investment and the attraction of strong multinational companies who have the capacity to impact growth. With low incomes pertaining in most Sub-Saharan African countries, only a few countries such as South Africa have been able to attract these multinational companies and thus have grown wealthier.

On the commodity front, Africa has suffered a lot of hardship as a result of fluctuating commodity prices. Most of the major exports on the continent tend to be primary and the individual countries continue to be price takers, making them unable to influence the world market. Unfortunately, this problem continues to persist on the continent today. It is obvious that until we experience a global

diversification of our exports, Africa may not be able to grow in a sustainable manner.

Challenges for growth in Africa

African countries are faced with the following challenges;

- **Slow and unstable growth on the continent:** one major challenge impeding growth in many African countries is the unsustainable manner with which they grow. While growth is slow, it is extremely difficult to find countries that have been able to sustain their pace of growth over two decades.
- **Collective strategy to manage shock on the economy:** External shocks have been the unbeaten evil for the economic managers of most African countries. For many countries, these shocks have affected the implementation of developmental projects and subsequently led to slower growth. African countries need a collective regional effort to hedge against any unexpected shocks.
- **Increased Investment and Savings:** In recent years, investment and savings as a percentage of GDP have remained rather low, as compared with our Asian counterparts. For a sustained long term growth, it is imperative for African countries to encourage massive domestic savings and to put in place policies that will attract foreign direct investment.
- **Good Governance:** Undoubtedly, good governance sets the foundation for the implementation of sound macroeconomic policies. For African countries to be able to provide the enabling environment to attract private investment; there is the need for African countries to establish good and functioning institutions. There should be transparency in the legal, institutional and regulatory framework of the various countries. In these matters, the credibility of successive governments is extremely important.

- **Infrastructural challenges;** Improving access to transportation systems in Africa is a big challenge. In fact it is sometimes cheaper to transport goods from Europe to Africa than to do the same among African countries. We need to link up our countries to make it easy for member states to share our transportation infrastructure to our mutual benefit.

Health Sector Challenge: Finally, as we build capacity for economic development, we are confronted with the adverse impact of certain health related issues. Today, HIV/AIDS, Tuberculosis and malaria will continue to claim the lives of many Africans. The impact of these diseases on the working population is frightening, as it unleashes havoc on the health of individuals, affects societies and economic growth.

Ghana's Experience

In Ghana, there are equally daunting challenges that we face in our bid to achieve middle income status by 2015, particularly with respect to tackling issues relating to urbanization. Housing and shelter seem to be one of our biggest challenges. The poor sections of the urban areas are greatly disadvantaged. Poorly implemented sector layouts and uncontrolled residential development give rise to a myriad of problems. Schools, markets, clinics, public open spaces disappear and give rise to dysfunctional neighborhoods where access to vital amenities is impossible.

Inadequate and lack of drainage is also a main source of concern. Built-up areas that are liable to flooding have caused a lot of havoc to life and property. However access to water and sanitation in general seems to be marginally better in the urban areas of Ghana than in the rural areas.

In relation to transportation, while the rural areas suffer from inadequacy, many urban centres are congested with traffic. Such inefficiency in the urban transport system is inimical to increased productivity and to growth which would otherwise enhance a positive trickle-down effect in the rural areas.

Basic services in health and education are also areas where urban advantages show. To a large extent, the urban population is better off in respect of these. The situation is not one of bias. What improves the urban communities is the participation of the private sector in these areas. In terms of health in general and reproductive health in particular; urban areas are better placed. Various special studies such as the 2003 Ghana Demographic and Health Survey and the 2005 Socio-economic and Demographic Trends survey, show disparities in provision of and access to amenities in the rural and urban areas.

There are opportunities, and structures have been put in place to address these challenges in Ghana which are being tackled with increased efforts, since the implications for the larger population outside our urban communities seem unfavourable, thus calling for action now.

Economic Potential of Africa

- **Access to Large market:** There exists a large untapped African market for all sorts of products. Adding value to our products and achieving excellence in our packaging is extremely necessary.
- **Modernizing Agriculture:** Africa is so far the only continent that has not gone through the green revolution yet the continent has a huge potential in expanding food production. Modernization of agriculture will help us to feed both the urban and rural areas.

- **Exploitation of our Energy sources:** There exists an enormous African energy potential that is currently untapped. Out of the 53 countries on the continent, 21 of them could profitably produce hydropower, but only 7 per cent of the potential is currently being used to benefit the growing needs of our rural and urban population.
- **Telecommunications potential:** Similarly, there is a huge growth potential in the telecommunications sector of our economies. Our people want to connect with each other and we need to take advantage of this opportunity to ensure none is left out.
- **Bank the Informal Sector:** There still remains a huge potential for many African countries to reform their financial sectors with a view to banking their informal sector players. A deepened financial sector can enormously accelerate growth in Africa.
- **Investment Opportunities:** Africa has a huge and profitable foreign investment potential which is yet to be recognized by many investors because of the negative image portrayed internationally about the continent. The economic stability and good governance being experienced in many African countries is an indication of the commitment of African governments to improve their foreign investment policies by redirecting it to enhance growth.

Conclusion

Finally, ladies and gentlemen, the continent of Africa has come a long way on its path towards economic development. The problems have been challenging but the various African governments are committed to ensuring economic growth, poverty reduction and the rule of law. Let me call on all Africans, our development partners and investors to assist the continent to achieve a real economic growth of 8% to

accelerate the achievement of MDGs and to improve the lives of the ordinary people in our countries, thus ensuring shared growth.

I am confident that urbanization can be turned into a positive force for economic development and turn the tide to accelerate poverty reduction efforts. This will require a mix of policies that are tailored towards ensuring improved macroeconomic development with related infrastructural structures to meet the growing needs of the urban population.

Other targeted interventions that need to be addressed include empowering the local level institutions to manage their resources better and implement their budget and development plans in a timely manner.

Since resources are scarce, proper management of resources is a must. Our efforts should impact positively on urban development and change the tide of events to make urbanization a more beneficial process for both the urban and rural populace, as growth increases and inequality and poverty are reduced.

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