AFRICAN DEVELOPMENT BANK GROUP

Briefing Notes for AfDB's Long-Term Strategy

Briefing Note 5:
INCOME INEQUALITY IN AFRICA[1]

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INCOME INEQUALITY IN AFRICA

I. INTRODUCTION

1.1 This brief examines the problem of income inequality in Africa. Specifically, it addresses its trend and variations as well as the role of the African Development Bank in tackling it. Africa accounts for a large share of the world's people living in absolute poverty. Its share of the world's poor rose from just below 20% to close to 25% (Kayizzi-Mugerwa, 2001). Nearly 50% of the population in Sub-Saharan Africa lives on less than US$ 1 a day today: the world's highest rate of extreme poverty in the world.

1.2 The number of impoverished people has doubled since 1981. Since the late 1980s, the number of people living on less than US$ 1 per day in Sub-Saharan Africa rose by 70 million, reaching 290 million in 1998, which is over 46% of the total population. In Liberia, nearly 60% of the population lives on less than US$ 2 a day. In the Central African Republic, the figure is 50%. By contrast, in North Africa, only 2.2% of the population lives on less than US$ 1 a day, and 23% on less than US$ 2.

1.3 Growth has not entirely eluded Africa**.** In the 2000s, six of the world's ten fastest-growth countries were in Africa, but this has not significantly helped to equal incomes or to redistribute wealth. Accelerated per capita growth has failed to create enough job opportunities for the young, who comprise the majority of the poor, of whom young women and rural youth are the poorest. Whereas an average of 72% of the youth population in Africa lives with less than US$2 per day, in Nigeria, Ethiopia, Uganda, Zambia and Burundi, the incidence of poverty among young people stands at over 80% (ADI 2008/2009, World Bank).

1.4 In resource-poor countries suffering from net trade losses due to higher import prices for food and energy, growth in per capita income is too low. Further, in resource-rich countries -- Congo, Nigeria, Angola and South Africa – that benefit from net trade gains such that their real income increases faster than real output (ADI 2008/2009, World Bank), performance has also been poor (AEO, 2011).

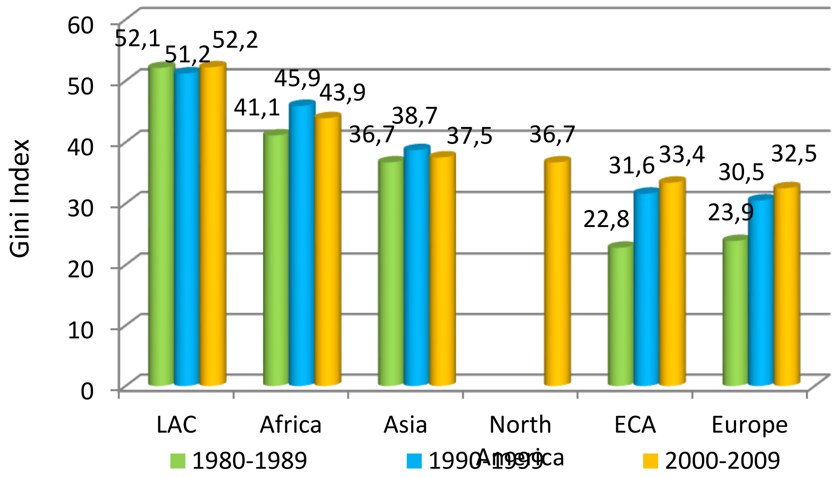
II. TREND IN INCOME INEQUALITY

2.1 In addition to being of the poorest regions in the world, Africa is also the world's second most inequitable region after Latin America. Inequalities have not diminished over time. In 2010, six out of the 10 most unequal countries worldwide were in Sub-Saharan Africa, and more specifically in Southern Africa.

2.2 In all African countries, the richest capture the largest share of income. When measured by the share of income that goes to the poorest, inequalities are striking, and accompanied by geographic disparities between urban and rural areas where the poor are concentrated. In Mozambique, the mean share of the lowest 20% of the population is 5.2% of total income while the top 20% has a share of 51.5%. A larger percentage of the population is poor in rural areas (56.9%), compared to urban areas (49.6%).

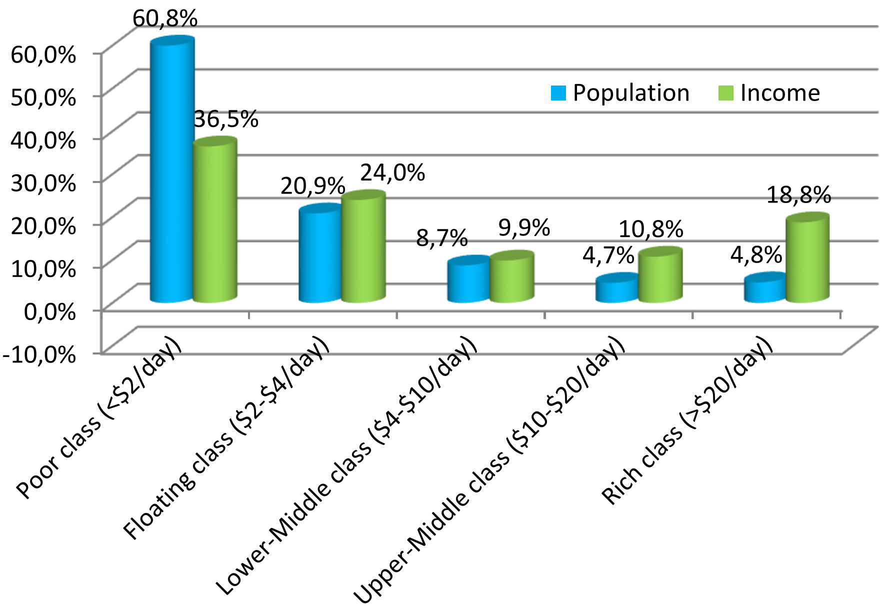
2.3 The poor (<$2/day) account for 60.8% of Africa's population and hold 36.5% of total income in Africa. The rich (>$20/day) account for 4.8% of the population and 18.8% of total income (Figure 2). These disparities are reabsorbed by the middle class in terms of embodying the concept of equity in income distribution. For example, the lower-middle class ($4-$10/day) is almost balanced: 8.7% of the population lives on $4 to $10 per day and accounts for 9.9% of total income. It appears that income distribution in Africa is characterized by some equity for the middle-income classes and significant differences within the rich and poor income groups.

Figure 1: Regional Inequalities



Source: World Development Indicator.s

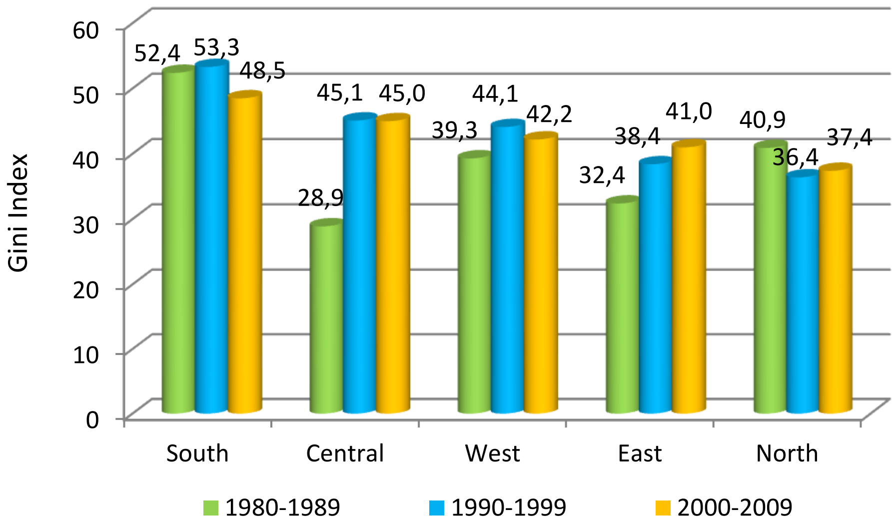
Figure 2: Population and Income Distribution by Classes in Africa



Source: AfDB Market Brief (2011).

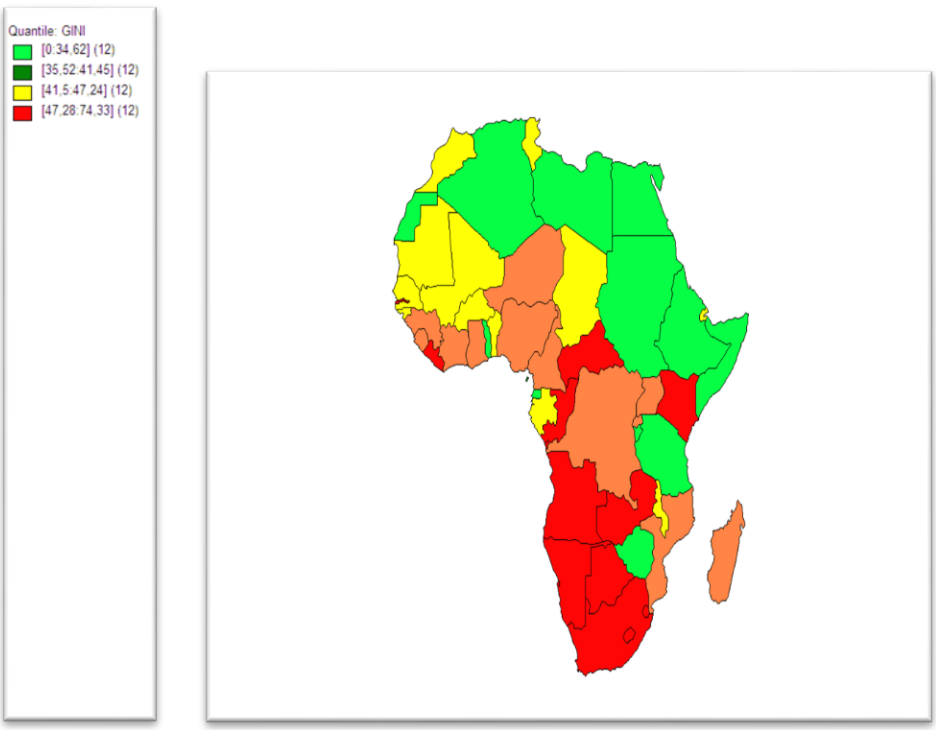
2.4 **Variations in Income Inequality in Africa**: Overall, Southern Africa is the most unequal part of Africa (Figures 3 and 4). Namibia, Comoros, South Africa, Angola, Botswana, Lesotho and Swaziland count among the continent's top ten most unequal countries and the most striking increase in inequality is found in South Africa and the Central African Republic whose Gini coefficients have risen from 58 to 67 between 2000-2006 and from 43 to 56 between 2003-2008, respectively.

Figure 3: Southern Africa shows the most inequality



Source: World Development Indicators

Figure 4: Geographical distribution of the Gini coefficient in Africa



Source: PovCal Data Base and AfDB Estimates. No data for Equatorial Guinea, Libya, Sudan, Somalia and Zimbabwe.

III. THE ROLE OF THE AFRICAN DEVELOPMENT BANK

3.1 Since the 2000s, regional member countries have been developing strategies to reduce poverty and income inequalities with the support of the development community, including the Bank. The PRSP approach, initiated in 1999 by the IMF and the World Bank, uses a comprehensive country-based strategy for income inequality reduction and makes the necessary link between countries and the development community to achieve better results and achieve the MDGs. Most countries in Africa have developed PRSPs with Bank support. These strategies provide, the requisite macroeconomic, structural and social policies and programs to promote growth and reduce poverty. Furthermore, Country Strategy Papers (CSPs) are developed in each Regional Member Country (RMC) and aligned to the PRSP objectives, and therefore put income inequality reduction high on their agenda.

3.2 RMCs have also developed sector-wide approaches (SWAps) strategies to address issues related to income inequalities. Interventions such as infrastructures development, support to private sector or technical assistance all contribute to income generation and to boost growth. Income inequalities have also been tackled through support to education, targeting the poorest and the most in need to make sure that new generations do not fall into the poverty trap. Similarly, support to health insurance mechanisms made it possible to shield vulnerable populations from catastrophic health expenditures, which could exacerbate income inequalities.

3.3 As the Bank defines its new long-term strategy, it is opportune moment to support inclusive growth that can translate into wider participation in the growth process and less income inequality The Arab Spring and growing inequalities in Southern Africa have put into stark relief the urgency of such an agenda.

3.4 The Bank's new Human Development Strategy argues that income inequalities must be addressed by more inclusive growth that increases employment opportunities for all, yields productivity gains and economic growth, and provides a sense dignity and control over personal destiny. This strategy seeks to achieve value for money and accountability in service delivery by fighting corruption and promoting voice in decision-making. It seeks greater inclusion and social cohesion thanks to stronger safety nets and other risk protection mechanisms. This inclusive growth agenda will be included in the Bank's Long Term Strategy to draw the attention of regional member countries to the need to take action to promote a more equal distribution of income and wealth.

IV. CONCLUSION

4.1 Recent impressive growth has not improved widespread poverty or income inequalities that continue to prevail across the continent. The existence of a strong middle class accompanied by the right polices may help reduce income inequalities. If this is the case, those government policies and donor interventions that help create a middle class will have the effect of lowering income inequalities and hence poverty levels.

4.2 The Bank has a clear mandate to support RMCs in strengthening strategies to reduce income inequalities across and within countries. Its inclusive growth agenda and new Long Term Strategy will position the Bank as a leading institution to promote activities that foster economic growth in an inclusive way. It will seek to promote job-creating and pro-poor economic growth. Operationally this will require:

1. Increased employment opportunities for all to support productivity gains and economic growth and create a sense of dignity and control over one's destiny.
2. Achieving value for money and accountability in service delivery, fighting corruption and promoting voice in decision-making, making sure public money works to deliver services to all including the poorest.
3. Inclusion and social cohesion, including safety nets and other risk protection mechanisms (AfDB, 2012).

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