OVERVIEW

ACCELERATING POVERTY REDUCTION IN AFRICA

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Editors

WORLD BANK GROUP

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Overview

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Foreword

Our goal is a world free of poverty. To get there, we must accelerate poverty reduction in Africa. Although the share of Africa's population living in extreme poverty has come down substantially, from 54 percent in 1990 to 41 percent in 2015, more Africans are living in poverty today than in 1990, in part because of population growth. In fact, the world's poor are increasingly concentrated in Africa.

Tackling this challenge begins with being able to measure it robustly. Following *Poverty in a Rising Africa*—the precursor to this report, which mapped the data landscape—efforts to improve Africa's poverty data are starting to pay off. More and better household surveys are now available to track and analyze poverty. And Africa's Statistical Capacity Indicator—which grades country statistical systems on the quality, frequency, and timeliness of core economic and social data—has been improving.

The key features of Africa's poverty, and its causes, have been widely documented. But some of the challenges, such as climate change, fragility, and debt pressures, are gaining in importance. And although macroeconomic stability and growth are critical components for reducing poverty and improving well-being, they are not sufficient. Despite economic growth in Africa, the region's persistently rapid population growth, structural impediments (low human capital, persistent gender inequality, and large infrastructure deficits), and increasing reliance on natural resources continue to hold back poverty reduction.

This report revisits the challenges and opportunities to tackle Africa's poverty, drawing on the latest evidence. It focuses on the income opportunities of the poor, the policies needed to support these opportunities, and the resources needed to finance pro-poor investments. A pro-poor agenda means generating more formal jobs while working to increase the incomes of smallholder farmers and informal workers in secondary towns and strengthening their capacity to manage risks. This approach is how the poor will likely benefit the most.

The report advances a poverty-reduction agenda for Africa that rests on four pillars: accelerating Africa's fertility transition; leveraging the food system, both on and off the farm; mitigating fragility; and addressing the poverty financing gap. The report further calls for integrated approaches in these areas—simultaneously addressing supply- and demand-side constraints—and highlights the promise of technological leapfrogging for poverty reduction in Africa.

The World Bank is committed to helping Africa build a better future for its people and to alleviating poverty in all its forms. Through comprehensive data and analysis, we are able to paint a more accurate picture of both the complexity of the issue and how best to address it. Thanks to this report, we are one step closer to achieving our twin goals of eradicating extreme poverty and boosting shared prosperity.

Hafez Ghanem
Vice President, Africa Region
The World Bank

Acknowledgments

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Abbreviations

BIG	basic income guarantee
DAC	Development Assistance Committee (of the OECD)
DC	direct current
DDP	direct dividend payment
EU	European Union
GDP	gross domestic product
GNI	gross national income
ICT	information and communication technology
IMF	International Monetary Fund
LDCs	least developed countries
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PV	photovoltaic
R&D	research and development
SDG	Sustainable Development Goal
SIGI	Social Institutions and Gender Index
SMEs	small and medium enterprises
TFR	total fertility rate
UNCTAD	United Nations Conference on Trade and Development
UNU-WIDER	United Nations University-World Institute for Development Economics Research
VCD	value chain development
WASH	water, sanitation, and hygiene

Key Messages

Poverty in Africa Today and Tomorrow

- Poverty in Africa has fallen substantially—from 54 percent in 1990 to 41 percent in 2015—but the number of poor has increased, from 278 million in 1990 to 413 million in 2015.
- Under a business-as-usual scenario, the poverty rate is expected to decline to 23 percent by 2030, rendering global poverty primarily an African phenomenon.

Main Features of African Poverty

- Most of the poor (82 percent) live in rural areas, earning their living primarily in farming. Nonwage microenterprises are the main source of nonagricultural employment and income for the poor and near poor. Strikingly, rural poverty is higher in areas with better agroecological potential.
- Poverty is a mix of chronic and transitory poverty. Fragile and conflict-affected states have notably higher poverty rates.
- Low human capital and high gender inequality impede poverty-reduction efforts.

Four Primary Areas for Policy Action

- *Accelerate the fertility transition*. Rapid population growth and high fertility are features of many countries on the continent. They hold back poverty reduction through multiple channels. Family planning programs will play an important, cost-effective role in accelerating the fertility transition, which will complement the effect of increasing female education, and empowering women (including by offering life skills, addressing social norms around gender, and reducing child marriage).
- *Leverage the food system*. Raising smallholder agricultural productivity, especially in staple crops, increases the incomes of the poor directly and addresses rising urban demand for higher-value agricultural products. Complementary public investment (in agricultural research and extension, irrigation, and rural infrastructure) remains key. Inclusive value chain development and technological leapfrogging can bring previously unattainable markets and production techniques (such as irrigation and mechanization) within reach of the poor.
- *Mitigate fragility*. Uninsured risks and conflict entrap people or push them back into poverty. Many risk management solutions already exist, with roles for both the private and public sectors, but an important hurdle remains incentivizing the public and private actors to act now, before the shocks and conflict occur.
- *Address the poverty financing gap*. More, and more efficient, public financing focused on the poor is needed to finance this poverty-reduction policy agenda. In addition to the continued need for official development assistance (ODA), domestic tax compliance and international tax avoidance need to be addressed, as well as making public spending more pro-poor and more efficient. This is especially important in resource-rich countries, where poverty reduction and human development indicators are often relatively worse.

Overview

Poverty Reduction in Africa: A Global Agenda

Africa's turnaround over the past couple of decades has been dramatic.[1] After many years in decline, the continent's economy picked up in the mid-1990s, expanding at a robust annual average of 4.5 percent into the early 2010s. People became healthier and better nourished, youngsters attended schools in much greater numbers, and the poverty rate declined from 54 percent in 1990 to 41 percent in 2015 (World Bank 2018c). The region has also benefited from decreased conflict (although simmering in some countries and notwithstanding pressing numbers of displaced persons), an expansion of political and social freedoms, and progress in the legal status of women (Hallward-Driemeier, Hasan, and Rusu 2013; World Bank 2019b). The availability and quality of poverty data to record this progress have also improved.

Despite these accomplishments—described in detail in the precursor to this report, *Poverty in a Rising Africa* (Beegle et al. 2016)—the poverty and shared prosperity challenges remain daunting: Poverty rates in many African countries are the highest in the world and are forecast to continue to be in double digits. Slowing economic growth in recent years has also slowed poverty reduction. And notably, the number of poor in Africa is rising (from 278 million in 1990 to 413 million in 2015), in part because of high population growth (World Bank 2018c). Africa will not reach the United Nations Sustainable Development Goal (SDG) of eradicating poverty by 2030.[2]

Globally, there is a shifting concentration of poverty from South Asia to Africa. Forecasts suggest that poverty will soon become a predominantly African phenomenon. The nonmonetary dimensions of poverty (nutritional and health status, literacy, personal security, empowerment), while improving, are still the lowest in the world in many countries (Beegle et al. 2016). The world's bifurcating demography, inequality and climate change, and the resulting migratory pressures, add further global interest to address poverty in Africa. But the rapid spread of digital technologies and solar power and increasing South-South trade also provide new opportunities to tackle this pressing challenge (Dixit, Gill, and Kumar 2018; Gill and Karakülah 2018; World Bank 2019a). How Africa can accelerate its poverty reduction is now a global preoccupation—and the focus of this report.

Of course, Africa comprises many countries with quite varying poverty rates and divergent socioeconomic and agroecological conditions. Half of Africa's poor live in 5 countries; 10 countries account for 75 percent of Africa's poor.[3] Yet the poorest countries, and regions within countries (those with the highest poverty rates), are not necessarily the same countries or regions housing most of the poor. This poses a challenge as to where to target the poverty-reduction efforts, at least from a global perspective.

Fragility and resource abundance are key country features to account for in the design of poverty-reduction policies. Historically, neglect of regions and countries with high poverty rates, even when not densely populated, has often bred conflict, which easily spreads to the surrounding areas. Fragile and conflict-affected states have notably higher poverty rates as well as the slowest poverty reduction, even long after the conflict ended. This pattern emphasizes the debilitating role that conflict plays in improving well-being as well as the critical importance of tackling poverty in fragile states to advance Africa's poverty agenda.

Many African countries depend heavily on natural resources. Resource dependence has only grown since the commodity boom of the 1990s and 2000s (figure O.1) and is increasingly the environment within which Africa's poverty reduction must take place. Yet, resource dependence often undermines institutional quality and erodes long-run growth potential and poverty reduction. Spending on human capital in these countries, and the efficiency of that spending, is systematically lower than in non-resource-dependent countries (de la Brière et al. 2017). In extreme cases, resource abundance may even lead to conflict (Collier and Hoffler 2004).

FIGURE O.1 Natural resource dependence has increased substantially in most African countries

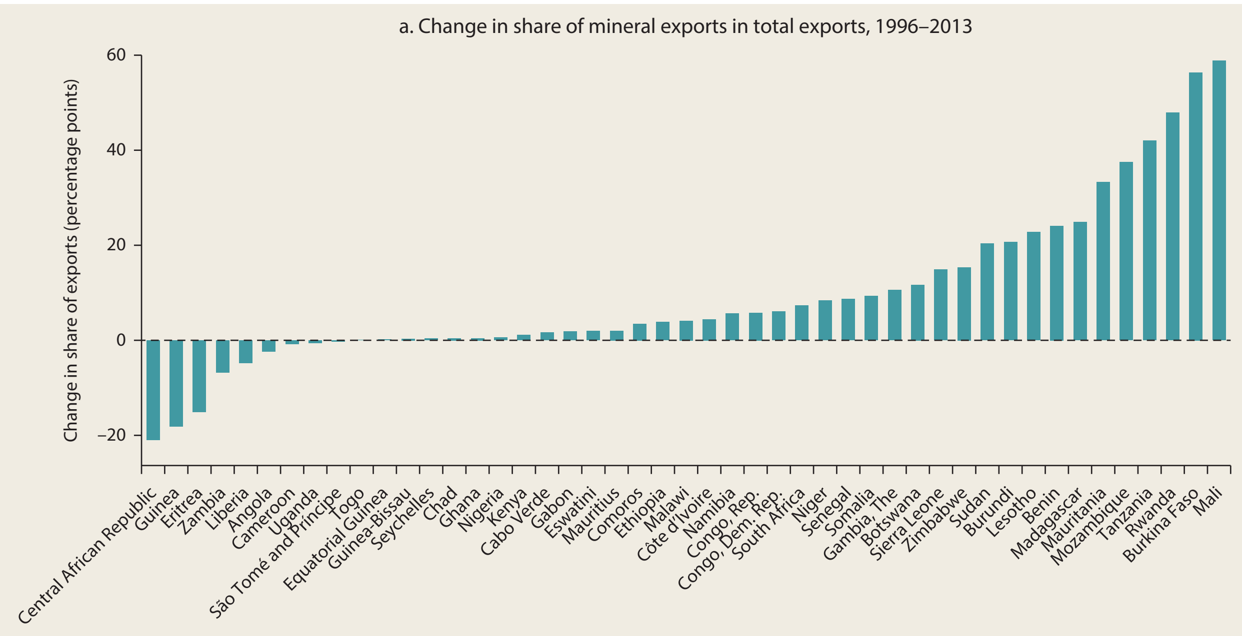

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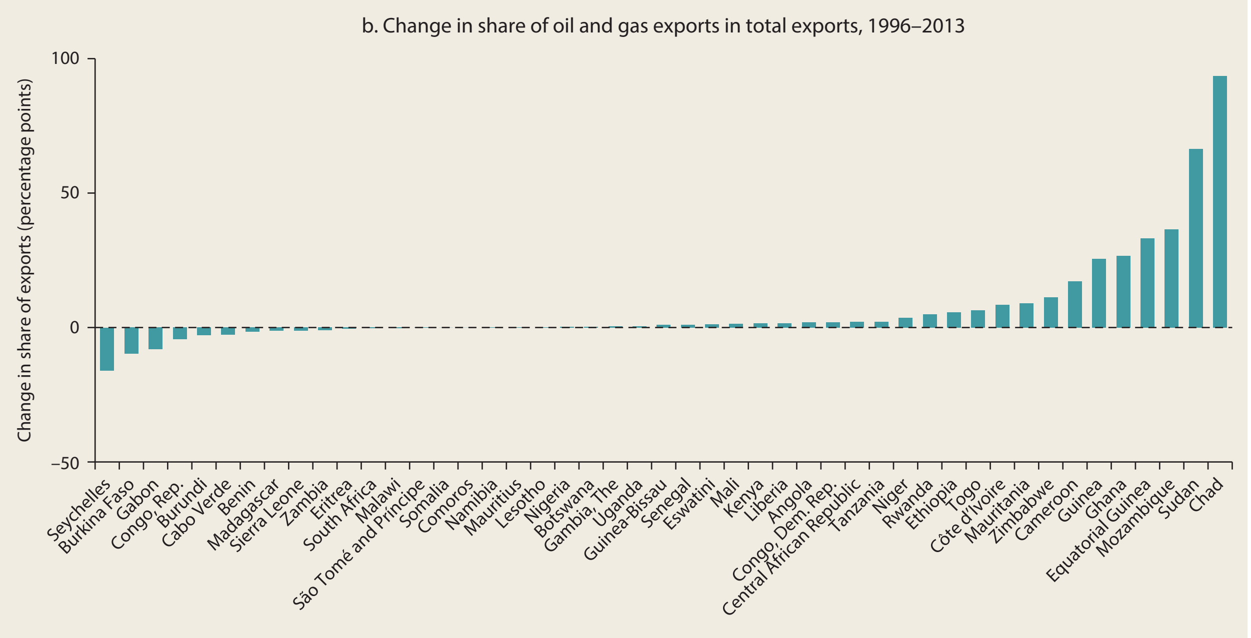
FIGURE O.1 Natural resource dependence has increased substantially in most African countries *(continued)*



Source: Calculations based on United Nations Conference on Trade and Development (UNCTAD) data.
Note: There is a close correlation between the export and government revenue shares of natural resources. Data on the latter, although arguably the better indicator of resource dependence, are patchy.

Poverty in Africa: Stylized Facts

Across countries, poverty manifests itself also in many similar ways. First, poverty remains predominantly rural—82 percent of Africa's poor are rural—with the poor earning their living primarily in farming or, when working off the farm, in agriculture-related activities (Allen, Heinrigs, and Heo 2018; Beegle et al. 2016; Castañeda et al. 2018). Although this does not mean the solution lies automatically in agricultural or rural development, it does indicate a policy entry point—either to reinforce the income-earning opportunities of the poor in situ or to help them connect with income-earning opportunities elsewhere.

Second, poverty is a mix of chronic and transitory: about 60 percent of Africa's poor are chronically poor, and 40 percent are in transitory poverty. Therefore, asset building and the generation of income opportunities as well as effective risk management strategies are both important for poverty reduction. They often also interact with each other.

Third, about half of Africa's poor are younger than 15 years old, showing the need for greater attention to reach children. Measured gender gaps in monetary poverty are modest, though the data underpinning these numbers assume equal sharing in households. Numerous other nonmonetary indicators show large structural gender inequalities.

Fourth, the poor have weak links to the state. They have weak access to good-quality public goods (infrastructure) and services, and they have limited voice in public policy making.

Moreover, Africa's poverty rate has not only been higher than in most other low- and middle-income countries; it has also declined more slowly.

Africa's Slower Poverty Reduction

Three notable factors have contributed to Africa's slower poverty reduction:

- *Persistently high fertility and population growth*. Although Africa's gross domestic product (GDP) growth has been robust over the past couple of decades (except in recent years), economic output has grown more slowly in per capita terms than in other low- and middle-income countries. African countries' higher fertility and faster population growth have left their populations with much lower income per person.
- *Poor initial conditions*. Less of Africa's (rather modest) per capita household income growth has translated into poverty reduction than in other countries, simply because of the high initial poverty in the region. The lack of assets and access to public goods and services, as well as the limited availability of good income-earning opportunities for a large share of the population, limit the ability of many to contribute to and participate in economic growth. It is poverty, rather than inequality per se, that has been holding back poverty reduction in many African countries. When compared with other equally poor countries in other regions, African countries have not been less effective at converting per capita household income growth into poverty reduction.
- *The composition of Africa's growth*. Africa's poverty reduction has been slower because of the composition of Africa's growth—in particular, the increasing reliance on natural resources and the modest performance of its agriculture and manufacturing sectors.

Accelerating the fertility transition, addressing key facets of Africa's poor initial conditions, and shifting to a pro-poor growth and policy agenda will go a long way toward accelerating poverty reduction.

High Fertility, Slow Poverty Reduction

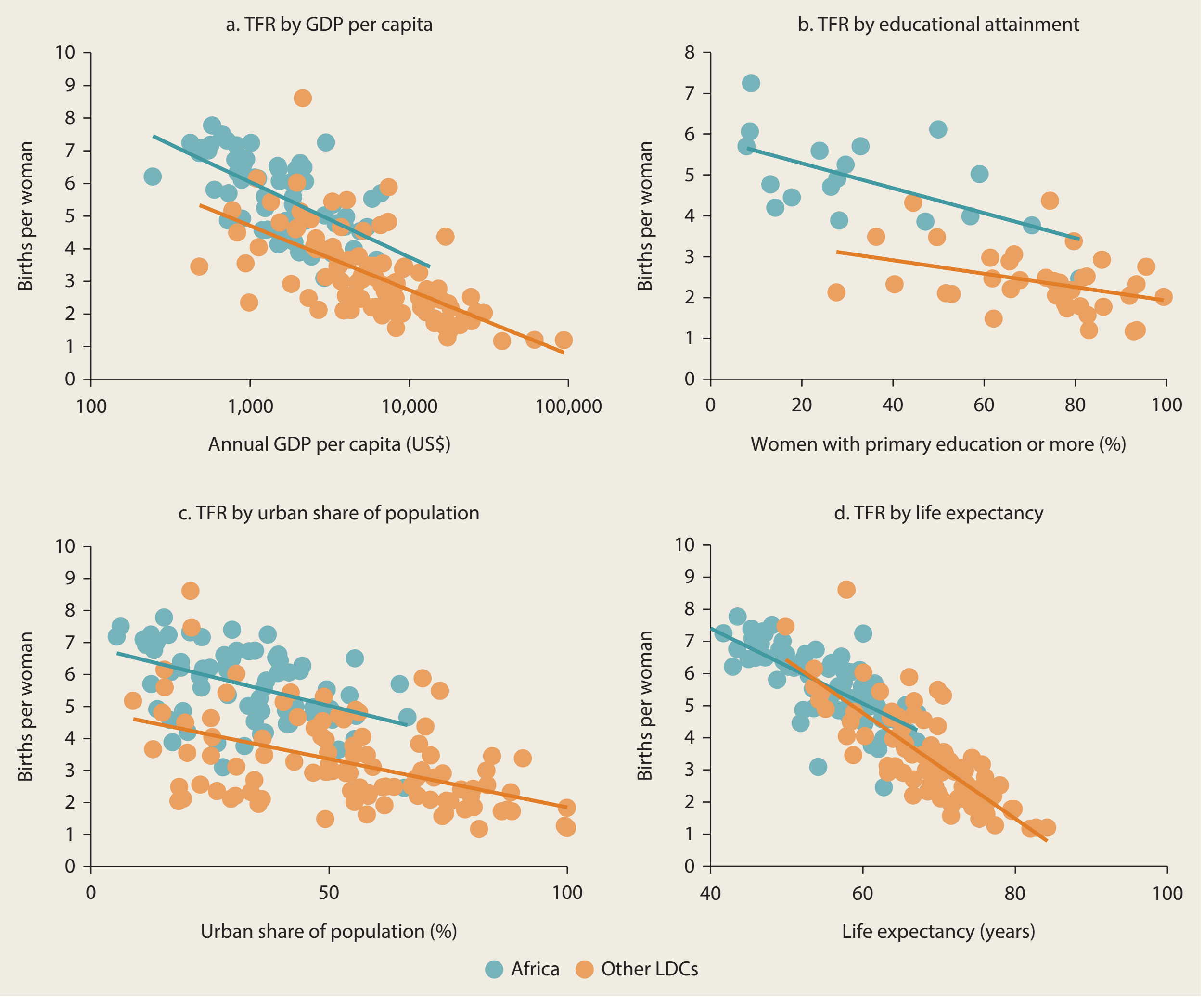
At 2.7 percent per year on average, rapid population growth remains a defining feature for many countries on the continent. It follows from continuing high fertility (5.1 children per woman in 2010–15 compared with 6.7 in 1950–55) despite a rapid decline in under-five child mortality (from 307 deaths per thousand in 1950–55 to 91 in 2010–15) (World Bank 2019c). High population growth poses a substantial burden on African governments, families, and especially women through several channels. It elevates the fiscal needs for social services, which only pay off much later. High fertility has also been an important direct contributor to Africa's explosive urban growth, not simply the result of rural-urban migration (Jedwab, Christiaensen, and Gindelsky 2017). Rapid urban growth makes it hard for urban centers to keep up the infrastructure base to remain productive, create employment, and be an effective force for poverty reduction (Lall, Henderson, and Venables 2017).

With rural populations often clustered on a small share of the arable rural land, high population growth is further increasing land pressures in several African countries, without concomitant agricultural intensification to compensate thus far (Jayne, Chamberlin, and Headey 2014). And, not least, the burden on women of care and domestic work increases with more children and reduces their income-earning opportunities. This is especially hard on poor women, who often begin childbearing at much younger ages and also have more children (on average at least twice as many [5–7] as women in wealthy households).

Fertility reduction, on the other hand, is associated with faster economic growth (the demographic dividend) and faster poverty reduction. A 1 percent fall in the dependency rate is associated with a 0.75 percentage point fall in headcount poverty (Cruz and Ahmed 2016). Accelerating fertility reduction is therefore an important entry point for accelerating Africa's poverty reduction. Africa's fertility rate per woman of childbearing age is, on average, one birth higher than in other least developed countries (LDCs), controlling for conventional demographic and socioeconomic factors (figure O.2) (Bongaarts 2017).

In addition to female education, much greater attention to family planning programming is needed. Outside Africa the average number of unwanted births per woman of childbearing age has decreased from one to zero over the past couple of decades. In Africa it has remained at two (Günther and Harttgen 2016), suggesting a large latent demand for contraception. Limited provision and poor implementation of family planning programs explains much of the delayed decline in Africa's fertility rate (de Silva and Tenreyro 2017). Other entry points to accelerate the demographic transition include empowering women, including providing life skills for women and girls, addressing social gender norms, and focusing on child marriage.

FIGURE O.2 In Africa, fertility is less responsive to conventional parameters of development than in other LDCs



Source: World Bank calculations, adapted from Bongaarts (2017), using latest data from the World Development Indicators 2019 database.
Note: LDCs = least developed countries (as defined by the United Nations Committee for Development Policy); TFR = total fertility rate (total number of children born to a woman in her lifetime). Data used are for the years 1990 and 2018. Last available year chosen when data were missing.

Poor Initial Conditions

Poor initial conditions also hold Africa back in addressing poverty. These include not only the low levels of human capital and access to infrastructure but also the more deep-seated structural impediments such as natural resource dependence (discussed earlier), gender inequality, and social redistributive pressures.

At the individual level, poor educational attainment reduces the prospect of escaping poverty.[4] Where the gap in educational attainment is large, as in much of Africa, much growth and poverty reduction can already be expected from widespread, quality basic education (box O.1). A severe lack of infrastructure exacerbates things. The low returns to the poor's land, labor, and skills arise partly also from their inability to access and afford information and communication technology, energy, and transport services (Christiaensen, Demery, and Paternostro 2003; Grimm et al. 2017; James 2016). More recent insights on the psychology of poverty further show how the lack of human capital, physical assets, and access to basic infrastructure not only reduce the earning capacity of the poor but also tax their mental "bandwidth" and undermine their ability to plan, exercise self-control, and aspire—behaviors associated with escaping poverty (Haushofer and Fehr 2014; World Bank 2015).

Gender inequality also drives poorer economic growth outcomes by reducing total factor productivity—in addition to its influence on gender gaps in education, employment, and governance (Ferrant and Kolev 2016). This is particularly the case in low-income countries. Dismantling gender-based discrimination in social institutions could increase global growth by as much as 0.6 percentage points per year over the next 15 years (Branisa, Klasen, and Ziegler 2009, 2013, 2014; Yoon and Klasen 2018). Reducing gender gaps would also raise the growth prospects of African economies—and hence also reduce poverty (box O.2).

Finally, with poverty widespread, shocks frequent, and insurance absent, people often hold back from investing for fear of redistributive consequences (Platteau 2014).

More and Better Jobs for the Poor

Finally, the scope and need for pro-poor growth policies to accelerate poverty reduction in Africa is large. Although Africa will not be able to eradicate poverty by 2030,

BOX O.1 Investments in human capital are critical to alleviate poverty

Human capital investments yield substantial long-run benefits and are critical in the agenda to reduce poverty in Africa. A range of evidence shows that children who have a disadvantaged start in life face a greater lifelong risk of being trapped in poverty. A human development trap initiates a cycle of poverty that runs across generations and traps families in poverty (for example, low education and poor health result in low adult income, poor human development for children, and so on) (Bhalotra and Rawlings 2013; Bhutta et al. 2013; Victora et al. 2008). Because the economic benefits of public investments in human development are realized far into the future (a decade or longer), they may lack appeal to governments, given the many immediate demands on public finances.

Raising human capital in Africa is a pressing issue, and more so for the poorest. Children in poor households have worse childhood outcomes across many dimensions of well-being. The scale of undernutrition in Africa is staggering, with children in poor households having much higher rates (World Bank 2018b). And poor children (and poor parents) in Africa have starkly unequal access to critical services that influence children's health. Although universal education access has greatly shrunk the enrollment gap between poor and nonpoor children at least at the primary level, poor children are learning much less than their peers in nonpoor households (World Bank 2018d).

BOX O.2 Gender inequality is a hurdle to poverty reduction in Africa

African women continue to encounter disadvantages in education, health, empowerment, and income-generating activities. They tend to have significantly lower human capital endowments than men (although, among the youngest cohort, this gap has narrowed, with girls having caught up to boys in some countries); worse access to labor markets; lower wages; more limited access or title to productive assets (such as land, credit, and other inputs); fewer political and legal rights; and more stringent constraints on mobility and socially acceptable activities. As a result, gender inequality can trap women in poverty and generate a vicious cycle for their children.

Beyond the intrinsic value of equal opportunities, gender equality will bring with it economic growth and greater poverty reduction for countries. Four entry points to reap the economic returns from closing gender gaps include the following (Klasen 2006):

- A growth strategy that raises the demand for female labor (such as the export-led growth strategies of East Asia)
- Addressing gender gaps in education, especially in poorer households where school enrollment rates tend to be much lower than in the rest of the population
- Actions to improve women's access to productive assets—more secure property rights and access to land as well as better access to credit, modern inputs, and other means of production (including land)
- Policies that help poorer couples reduce their fertility.

the poverty projections show that 50 million more people could be lifted out of poverty by then if the incomes of the poor were to grow 2 percentage points faster annually (while keeping constant each country's historical per capita annual growth rate over the past 15 years) (Cattaneo 2017). Combined with lower population growth and addressing poor initial conditions, pro-poor growth—growth whereby the incomes of the poor also grow substantially as the economy develops—will go a long way in accelerating poverty reduction now and in the future.

A pro-poor policy agenda requires getting the growth fundamentals right as well as increasing growth where the poor work and live (so that they can contribute and benefit directly), while addressing the many risks to which households are exposed. With the scope for redistribution to solve Africa's poverty limited in most countries, the focus is squarely on the productivity and livelihoods of the poor and vulnerable—that is, what it will take to increase their earnings. As such, this report views its task through a "jobs" lens. This naturally focuses the report on the structural, spatial, and institutional transformations needed to raise the incomes of the poor and vulnerable, in particular, on sectoral and subsectoral policies and investments—on agriculture, on off-farm employment, and on managing risk and conflict—to broker these transformations. What these are is far from obvious, because just as not all growth policies are equally poverty reducing, neither are all agricultural growth or urbanization models equally good for the poor (Christiaensen and Kanbur 2017; Diao et al. 2012; Dorosh and Thurlow 2018; Pauw and Thurlow 2011).

Growth Fundamentals and Poverty Financing

Macroeconomic stability, regional integration and trade facilitation as well as a conducive business environment are fundamental for economic growth (Bah and Fang 2015; Sakyi et al. 2017). They also affect poverty (Antoine, Singh, and Wacker 2017; Dollar and Kraay 2002; Le Goff and Singh 2014; Rodrik 1998).

Particularly, three macroeconomic indicators have emerged as statistically important in the cross-country growth regressions:

- *The rate of price inflation*, reflecting monetary policy
- *The exchange rate*, reflecting openness to trade and other trade policies
- *The level of government consumption expenditure*, or the size of the fiscal deficit, reflecting fiscal policy.

When these indicators deteriorate, poverty is likely to rise (Antoine, Singh, and Wacker 2017; Christiaensen, Demery, and Paternostro 2003; Dollar and Kraay 2002; Rodrik 2016).

The evolution of inflation and exchange rates in Africa has been mostly favorable. Yet, rapidly rising fiscal deficits in many countries pose concern. Gross government debt in Africa increased from about 32 percent of GDP in 2012 to 56 percent of GDP in 2016. Fourteen countries were considered at high risk of debt distress at the end of 2017, compared with seven in 2012 (World Bank 2018a). Looking at debt dynamics—the growing difference between real interest and growth rates, and widening primary deficits—adds further urgency to reining in public debt (Gill and Karakülah 2018).

In addition to implementing the policy frameworks needed to broker pro-poor growth, financing the accompanying poverty-reducing investments—many of which only pay off over time, such as human capital—within a tightening fiscal space, is the other important challenge to tackle. More resource mobilization is needed as well as more, and more efficient, spending on areas important for the poor, such as health, education, agriculture (for example, extension and irrigation), and rural infrastructure. Here there is a considerable role for making maximum use of leapfrogging technologies to bring hitherto inaccessible (and traditionally expensive) communication, energy, and transport services within the reach of the poor (box O.3).

Earning More on the Farm

Leveraging Africa's food system, on and off the farm, is key to bringing poverty down and raising living standards. Agriculture has historically proven to be particularly poverty reducing, especially at low income levels (Christiaensen and Martin 2018). Rapid urbanization and income growth add opportunities for agribusiness development and employment generation in agriculture's value chains, off the farm. But not all agricultural growth is equally poverty reducing, with smallholder staple crop productivity and livestock development continuing to demand particular attention for poverty reduction. More integrated approaches are needed, leveraging the private sector through value chain development. But public investment focused on the provision of public goods (for example, irrigation) and services (for example, extension) remains equally vital, especially to boost smallholder staple crop and livestock productivity.

Favorable Conditions for Leveraging the Food System

The conditions for leveraging the food system for poverty reduction in Africa today are particularly favorable:

- Food demand is robust, though mainly driven by population growth.
- World food prices are still about 70 percent higher than before the 2008 world food crisis (40 percent in real terms).
- Urbanization and income growth add opportunities for product differentiation and value addition, and thus for off-farm employment opportunities in agribusiness.
- The domestic agricultural policy and trade environment (including intraregional) have improved.
- Political leadership remains largely supportive.

Against this background, supply has also responded. But not enough, and Africa's food import bill has still risen steeply,

BOX O.3 Leapfrogging technology holds promise for poverty reduction in Africa

Most of the poor in rural areas (and to a lesser extent in urban areas) remain deprived of access to affordable and reliable information and communication, energy, and transport infrastructure (and services). Without these, it is hard to access markets and public services, increase productivity, and raise income in either farm or off-farm activities. By reducing fixed costs and thus the traditional economies of scale in infrastructure provision, technology is helping Africa address this gap. Prepayment and per unit payment business models, facilitated by mobile-phone technology, are further bringing services within the reach of the poor. This holds great promise for poverty reduction.

Perhaps the most dramatic of these technological changes has been in telecommunication services, with 73 percent of Africa's population now having a mobile-phone subscription (World Bank 2018a). And the trend is not just about phone calls. The development of the M-Pesa mobile money application in Kenya ("M" for mobile, "pesa" for "money" in Swahili) put a rudimentary "bank account" in everyone's pocket. And Hello Tractor in Nigeria, an app for renting tractors, reduces search and matching costs, bringing the economies of scale of high-productivity, lumpy capital goods within the reach of smallholders (Jones 2018). The next frontier is widespread penetration of high-speed internet.

African rural towns and households might similarly leapfrog straight to cheap renewable electricity provided by solar panels and minigrids based on shared solar photovoltaic (PV) systems and direct current (DC) distribution lines. Tanzania has been a front-runner in the rollout of microgrid electrification programs; other countries have started to follow suit (including Kenya, Nigeria, Rwanda, and Uganda).

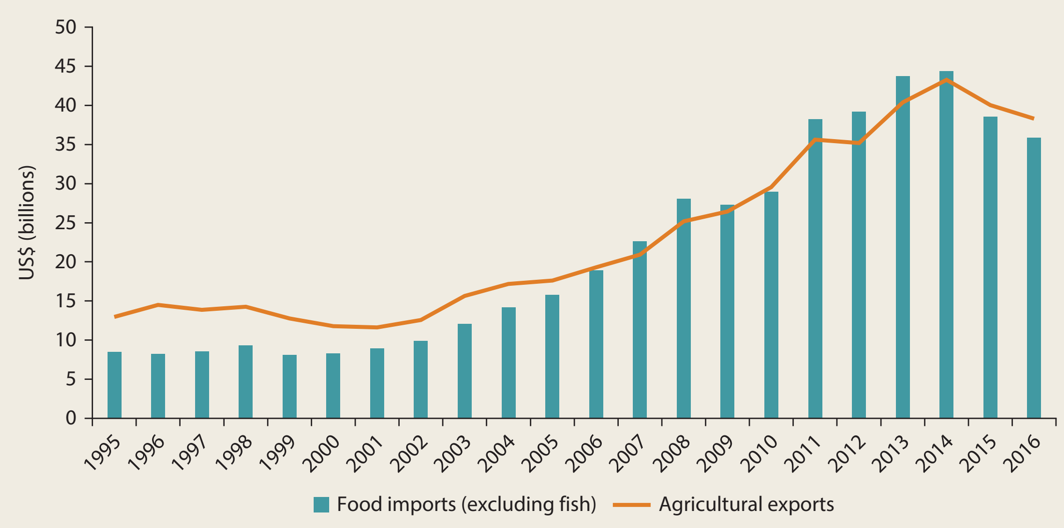
The poor can benefit from these leapfrogging technologies directly, as adopters, through greater access to productivity-enhancing capital goods (for example, solar power) as well as better market access to buy and sell their goods and services. But, more often than not, they mainly benefit indirectly, through the wider and cheaper availability of goods and services following adoption by others.

Importantly, however, these technologies will deliver on the promise of accelerating poverty reduction only when deliberate complementary public policies are taken in three areas: (a) the removal of barriers to the technologies' adaptation and diffusion to rural areas where the poor live and work; (b) investment in skill formation (foundational as well as digital); and (c) the creation of an appropriate enabling ecosystem to run and maintain the technologies.

by US$30 billion over the past 20 years (figure O.3). Many of these imports could be competitively produced domestically. Output growth in cassava and maize, and partly also in rice, including through yield growth, confirm the potential for a more robust supply response. Africa's rising food import bill poses a burden on the external balances and signifies an important missed opportunity. This holds even more in Africa's oil-rich countries, where public investment in agriculture is lower and poultry imports are higher.

Climate change and resurging conflict pose challenges to reap these opportunities. Yet, the expected climatic changes are not unequivocally detrimental. Maize yields, for example, are predicted to increase in the Sahel and many parts of eastern and central Africa (Jalloh et al. 2013; Waithaka et al. 2013). And agriculture also plays an important role in the prevention of conflict—which often finds its origins in climate-related agricultural shocks—as well as in the recovery of fragile states (Martin-Shields and Stojetz 2019). A climate-resilient and remunerative agriculture provides a viable alternative to illicit and mercenary activities for individuals who otherwise see a low opportunity cost to participating in conflict.

FIGURE O.3 Africa's food import bill has tripled since the mid-2000s



Source: FAOSTAT 2018 database, Food and Agriculture Organization (FAO), http://www.fao.org/faostat/.

Most important, brokering the supply response will require sustained political attention. The recent decline in the agricultural share of total spending to pre-2008 levels, despite declared political commitment, will need to be reversed.

Not All Agricultural Growth Is Equally Poverty Reducing

Raising smallholder staple crop productivity (the so-called Green Revolution) demands particular attention.[5] Low labor productivity in staple crops still locks many people into staple crop agriculture. Because of this, as well as more widespread income (including via the price channel) and linkage effects, raising staple crop productivity has larger growth multipliers and greater poverty-to-growth elasticities than an equal amount of productivity growth in cash crops (Diao et al. 2012).

Unfortunately, staple crops attract less public and private sector attention than cash crops, as does smallholder livestock holding, which is the second income source for many smallholders (Otte et al. 2012). Development of Africa's agricultural exports (old and new) complements the staple crop agenda. It also does not have to compete with public investment in staples, because private sector interests can be leveraged. The challenge is to balance policy attention.

Larger poverty-reducing effects come further from supporting slightly larger, commercially oriented smallholders, with the poorest and least productive farmers in the village (often also those with less land) benefiting primarily through lower food prices and the local labor markets (in and outside agriculture) (Hazell et al. 2010; Mellor 2017).

Poorer farmers may further benefit from better access to technology and inputs as well as markets. Such positive spillovers are less likely however when farms become large (more than 100 hectares) or even of medium scale (more than 10 hectares). These entities tend to use less agricultural wage labor and yield smaller local consumption linkages for the poor (that is, more of the revenues are spent on urban [and imported] goods and services) (Chamberlin and Jayne 2017;

Deininger and Xia 2016, 2018; Pauw and Thurlow 2011).

Larger ("estate") farm entities may however be needed for certain crops, to ensure consistent volumes of high-quality crops in compliance with standards to access the more-demanding export markets. Examples include labor-intensive exports of high-value fruits and vegetables, flowers, and fish. Less clear is the necessity of such an agrarian structure to supply the domestic urban markets.

An Integrated Approach Is Needed

So, what are the entry points to raise Africa's agricultural labor productivity? A myriad of input, factor, and product market constraints hold agricultural intensification back, with pockets of land scarcity emerging and the seasonality of agricultural labor calendars too often ignored. The latter often leads to underuse of agricultural labor and the perception of agriculture as an intrinsically less productive activity. This only holds, however, when agricultural labor productivity is expressed as agricultural output per worker, not when expressed per hour of work (McCullough 2017).

Mechanization and better water management can help. Less than 2 percent of the cultivated area and less than 5 percent of households in six African countries (which together cover 40 percent of Africa's population) use any form of water control (Sheahan and Barrett 2014). Small-scale, simple, affordable, self-managed irrigation systems that are rolled out at scale hold hope if access to complementary inputs and markets are developed simultaneously.

Yet, too often, singularly focused interventions are pursued, or interventions are poorly coordinated. Africa's Green Revolution, mechanization, and irrigation efforts each need an integrated approach that simultaneously addresses supply- and demand-side constraints to tackle poverty.

The experience of Ethiopia is illustrative. The government simultaneously and sustainably focused on

- *Increasing smallholder staple crop productivity* by deploying 45,000 extension agents (three per district), facilitating access to credit, and improving water and land management;
- *Improving market connectivity* through rural road investment; and
- *Providing a form of insurance* through the Productive Safety Net Program, one of the largest social protection programs in Africa.

Since the mid-1990s, smallholder cereal yields in Ethiopia have more than doubled; extreme poverty has more than halved.

Evidence from detailed microeconomic studies supports the existence of important synergies from integrated agricultural interventions (Ambler, de Brauw, and Godlonton 2018; Daidone et al. 2017; Pace et al. 2018). Yet, success of an integrated approach is not assured. With integration comes complexity, which challenges effective implementation, especially in low-capacity, poor-governance environments.

Inclusive Value Chain Development, but Also Public Goods

Value chain development (VCD), often facilitated by external agents such as governments as well as nongovernmental and international organizations, increasingly emerges as a market-based, institutional solution to simultaneously address the multiple market constraints (Swinnen and Kuijpers 2017). Smallholder farmers can be linked to higher-value domestic and export markets by (a) supplying raw agricultural products (gains stemming from reduced production and price risk, higher premium prices, and access to previously unattainable input and output markets and agronomic knowledge); or (b) indirectly through employment opportunities. Buyers gain by securing a consistent volume of high-quality crops as well as the standards compliance needed to access these markets. The poorest often benefit through localized spillovers. Horizontal coordination of smallholder farmers is often important to make value chains more inclusive. It reduces the transaction costs of involving small farmers and can increase bargaining power and thus their share of the value added.

Although VCD holds promise for traditional and new cash crops as well as for livestock and livestock products, contract enforcement is inherently more difficult in staple marketing because of the risk of either (opportunistic) side-selling by smallholders or strategic contract breach by buyers (Swinnen, Vandeplas, and Maertens 2010).[6] Experimentation with VCD for staples has begun, however, along with the growing demand for consistent volumes and quality as well as opportunities for value addition in Africa's domestic staple markets (rice and teff for urban markets, feedstock maize for livestock, barley for beer)—a space to be watched.

Nonetheless, to raise smallholder staple crop productivity, the need for public good provision remains undiminished. This requires increased public spending in agriculture, which has started to falter, as well as a shift in its composition away from private (input subsidies) to public goods, including (a) agricultural research and development (R&D) and extension for both staples and livestock, and (b) investment in irrigation and rural infrastructure. The latter also benefits the broader rural economy, and new technologies hold promise.

Moving Off the Farm: Household Enterprises

In addition to raising incomes on the farm, employment opportunities off the farm will become increasingly important as agricultural productivity and incomes rise, countries urbanize, and the demand for nonfood goods and services grows. About a third of this employment will still be linked to agriculture, up and down the value chain, in agricultural input production and provision as well as food processing, marketing, and services (Allen, Heinrigs, and Heo 2018; Tschirley et al. 2015).

Over the short to medium term, for many of Africa's poor, moving to work opportunities off the farm will largely mean moving into informal household enterprises (typically with no hired workers) but unlikely into wage employment (be it formal or informal wage work). Even in countries where wage employment is growing fast (for example, through increasingly challenged, labor-intensive exports), the low base of wage employment and the pace at which youth enter the labor force imply that wage employment will absorb only a small share of the job seekers over the coming 10–15 years.

Only a few household enterprises fall into the category of "opportunity" entrepreneurship, "constrained gazelles," or "transformational" entrepreneurs. Nonetheless, household enterprises are an important part of the broader economic transition—and a particularly important one at that for poverty reduction. They typically have low productivity, remain small and informal throughout their life cycle, are managed and operated by household members, and only a few create paid jobs for nonhousehold workers (Nagler and Naudé 2017).

These enterprises are often started from necessity. The lack of wage jobs and the absence of formal unemployment insurance push people to jump-start self-employment as a survival strategy. Therein also lies their strength for the poor. They are readily available, and with little skills and capital required, easy to enter and exit, and often critical in complementing the income, thus helping households cope and smooth consumption. They are often also an important source of cash for financing modern input purchases and thus for developing other activities (Adjognon, Liverpool-Tasie, and Reardon 2017).

The importance of the informal or semi-formal nonfarm sector as a provider of jobs and livelihoods for Africa's burgeoning labor force means it cannot be neglected by policy. The choice of focusing on the formal or informal sector or on small and medium enterprises (SMEs) and large firms or household enterprises is, however, not simply an "either-or" proposition. Investments in human capital, infrastructure, and a transparent regulatory framework will benefit the spectrum of enterprises. But not all investments cut across, and investments can also be made that more directly benefit nonfarm businesses run by poor households.

More Profitable Household Enterprises for the Poor

Because most household enterprises do not grow, they mainly create employment through entry. Available evidence suggests that job creation through entry can be achieved by relatively small amounts of financing, which can be combined with skills training, though the addition of training tends to make the interventions less cost-effective. As in agriculture, stand-alone interventions addressing one single constraint (such as skills or finance) tend to be less successful than interventions that target multiple constraints at the same time, highlighting the importance of packaging different interventions in one.

In many African countries, access to finance is difficult, especially for youth from less well-off families without collateral. Although several countries have attempted to improve access to finance, especially for the politically sensitive demographic segment of unemployed youth, financing modalities have not always been flexible enough to make a big impact (entailing short repayment periods without grace periods, high interest rates, requirements to borrow in groups, and so on). Creating jobs by facilitating entry of household enterprises will require the design of flexible and affordable financing mechanisms as part of a broader enabling environment.

To reach the poorest and most vulnerable, an emerging and promising approach is to combine safety net interventions with packages of support (including skills, finance, advisory services, working space, and so on) to facilitate entry into self-employment and raise the labor earnings of social protection beneficiaries (Banerjee et al. 2015). These combined "protection and promotion" interventions are currently being implemented on a large scale in several African countries, with ongoing impact evaluations examining their effects.

Much remains to be learned, including with respect to agricultural value chains linking SMEs with microenterprises. Few studies have focused specifically on poor or near-poor households, which may face different constraints than vocational or transformational entrepreneurs or may lack any ambition to grow their businesses in the first place. In addition, most studies have focused on urban settings, though most of Africa's poor live in rural areas.

Fostering Demand: The Roles of Towns, Regional Trading, and Digital Technology

Most interventions targeting the entry or growth of household enterprises focus on alleviating the supply-side constraints (such as finance or skills). Although these supply-side interventions can help entry into self-employment and, to some extent, increase earnings, the survival and growth of these small enterprises is ultimately determined by the demand for the goods and services they provide. Household enterprises are rarely a source of job creation beyond the household members, but data show that those better connected to markets (in urban areas and towns) and owned by a better-educated person nevertheless appear to have the ability to grow and hire workers (Nagler 2017; Nagler and Naudé 2017).

From this perspective, Africa's ongoing urbanization and the increasing education level of its youth could increase the potential for job creation in future household enterprises. In rural areas, improving connectivity with nearby markets and towns has the potential to improve earnings and spur welfare-enhancing diversification. Such an improvement entails not only investment in rural infrastructure but also policies to foster better transport services.[7]

Critical within this agenda is how governments manage their urban spaces. Not all urban development has shown equal poverty-reducing potential. Cross-country research and case country evidence from India, Mexico, and Tanzania suggest that, for poverty reduction, growing towns matters more than growing cities (Berdegué and Soloaga 2018; Christiaensen, De Weerdt, and Kanbur 2019; Christiaensen and Todo 2014; Gibson et al. 2017).[8] Secondary towns in rural areas provide local centers of economic activity and demand and are more accessible to the poor because of their proximity and the lower threshold for migration (Rondinelli and Ruddle 1983). This accessibility facilitates especially the first move, which is often the most difficult (Ingelaere et al. 2018), and their proximity makes it easier to return home, when things fail, which is especially important in the absence of formal safety nets. The type of employment available in towns (unskilled and semiskilled) also tends to be more compatible with the skill sets of the poor.

Public investments to help rural towns grow can increase demand for agricultural products produced in surrounding rural areas, thus increasing rural incomes, which in turn would increase demand for the nonfarm goods and services produced by household enterprises. Unfortunately, more often than not, governments view household enterprises, which are mostly informal, as a detriment to urban spaces rather than as a critical source of income for the poor and many nonpoor, especially in the larger urban centers. For example, efforts to "sanitize" city centers may well lead to impoverishment of vulnerable workers who depend on dense foot traffic for their livelihoods (Resnick 2017).

Integrating household enterprises or the informal economy in general into urban or national development plans would be a start toward leveraging their potential. It would provide a framework for the government and the informal sector to start discussing the design of supportive policies that facilitate the operation of household enterprises while still protecting the public interest.

The demand for the poor's goods and services often also finds itself just across the border. This is vividly illustrated by the concentration of (agriprocessing) enterprises along the eastern and northern borders of Zambia, catering to Lilongwe in Malawi and Lubumbashi in the Democratic Republic of Congo, respectively. Cross-border trade is often also an important driver of town development (the so-called border towns) (Eberhard-Ruiz and Moradi 2018).

Finally, digital technology holds promise to connect the enterprises of the poor with expanding urban and foreign demand for goods and services. Recent evidence from China shows the potential: e-commerce penetration (typically clustered in so-called Taobao villages) is associated with higher consumption growth, with the effects stronger for the rural sample, inland regions, and poorer households (Luo, Wang, and Zhang 2019). Capitalizing on this trend will require equipping youth from poor households with at least basic education and digital skills while also making internet connectivity affordable, reliable, and widely available (see box O.3 earlier in this overview).

Managing Risks and Conflict

Risk and conflict are higher in Africa than in other regions and exacerbate poverty challenges. Civil war is prevalent; the dominant livelihood, rainfed agriculture, is risky; markets are poorly integrated, making prices volatile; and health, water, and sanitation systems are weak. Price, weather, and health shocks have large impacts on welfare, especially given the inadequacy of financial markets, social protection, and humanitarian systems, as well as the continued reliance on costly coping mechanisms. Conflict has far-reaching consequences, including forced displacement and migration of those able to migrate.

The direct impact of a calamity on well-being is the visible, headline-grabbing way that conflict or poorly managed disasters set back progress. However, the persistent impact of uninsured risk on household behavior every year—regardless of whether the feared event occurs—is arguably the larger constraint to accelerating poverty reduction in Africa. Poor households choose safer, less remunerative activities that limit income growth and poverty reduction.

Addressing Risk and Conflict through Prevention

Much can be done to reduce risks and to help households manage risks ex post. The most prevalent shocks in Africa—relating to price, weather, health, and conflict—are slow in onset; affect incomes more than assets; and tend to be covariate, affecting many households in the same area at once. Risk is higher in poorer areas and in rural areas. The prevalence of different shocks varies across the continent (map O.1).

In many cases, the cost of prevention is lower than the cost of managing the event. Development of markets is the best way to reduce price risk in Africa, and this requires addressing tariff policies as well as investing in infrastructure and transport services. To reduce health risks and improve child health, improving water, sanitation, and hygiene (WASH); fighting malaria; and achieving mass immunizations are key. And targeted investments in irrigation, natural resource management, and improved seeds can reduce exposure to weather risks. In general, there is underinvestment in these cost-effective risk-reducing interventions.

As for conflict, a discussion on addressing the sources of fragility that underlie specific conflicts in Africa is beyond the scope of this report, but some emerging evidence has highlighted that well-targeted aid focused around job creation and support for disaffected youth and ex-combatants could help reduce the risk of conflict (Blattman and Annan 2016). More evidence is needed.

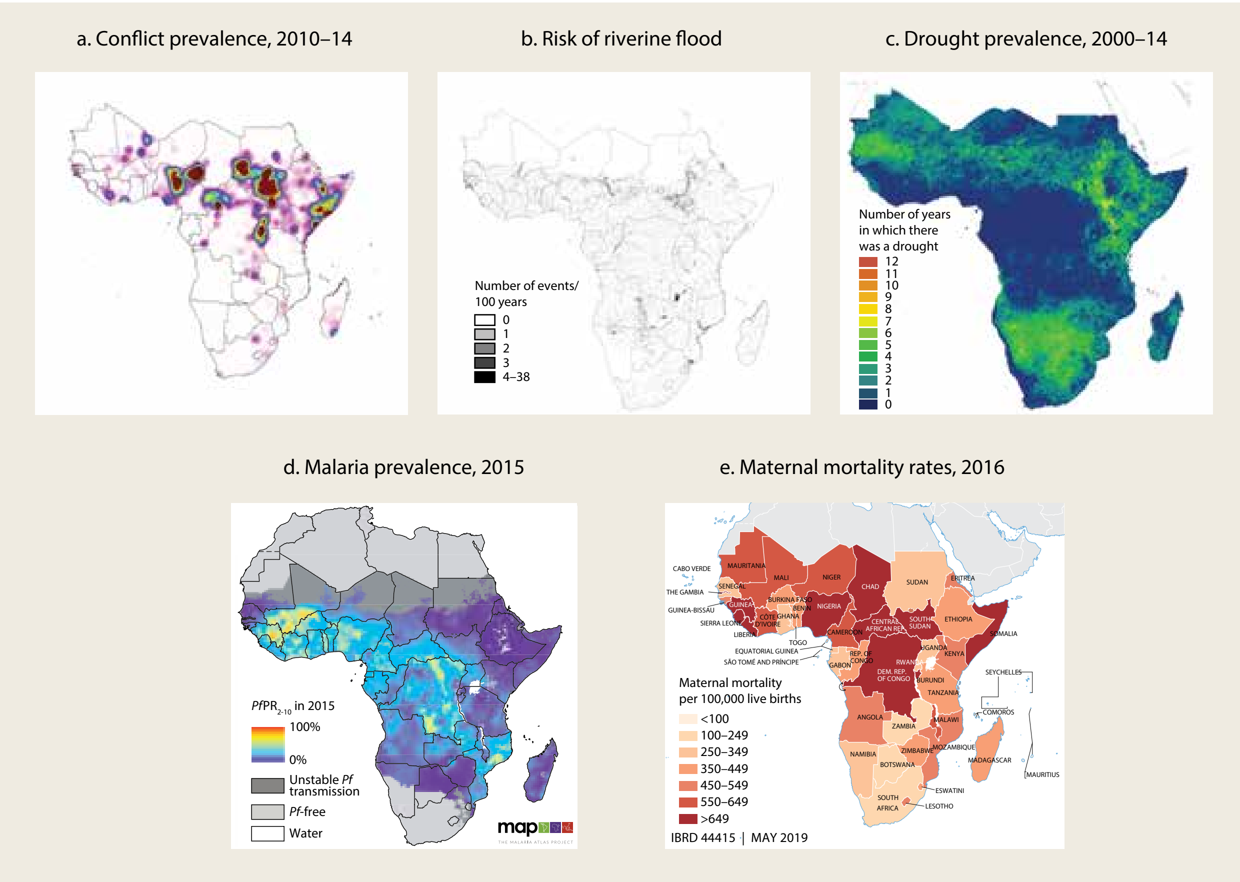
Better Insurance for the Poor

When prevention is not possible, a mix of safety nets and financial instruments can help households manage in the aftermath of a shock. Both are needed to manage shocks. Savings and regular safety net transfers help households manage small shocks, while larger shocks are better managed by insurance or by scaling up safety net support. Better-off households are more likely than poorer households to rely on financial markets to manage risk, but poor households still need access to financial markets to help them manage smaller shocks and to enable them to secure more "insurance" than could be provided through public safety nets alone.

Public finances spent on insurance subsidies and shock-responsive safety nets may target different households or different risks and may substitute for each other depending on the relative strength of public delivery and private markets in the local context. During conflict, financial market development that reduces the cost of sending and receiving remittances can also help, because private transfers and migration are predominant coping strategies.

However, financial markets are often weak, and safety net investments are too often made after shocks occur. Moreover, countries continue to rely on ex post humanitarian aid to help households, which by its nature is neither timely nor predictable. Reforming humanitarian financing—from reducing reliance on ex post appeals to using ex ante financing instruments with predictable and timely payout mechanisms (like the World Bank's Pandemic Emergency Financing Facility)—is essential. But it will not improve support to households on the ground unless it is combined with investments in contingency planning for support service delivery.

MAP O.1 Some parts of Africa are hit harder by risk



Sources: Panels a–c: Fisker and Hill 2018; panel d: the Malaria Atlas Project (https://map.ox.ac.uk/); panel e: World Development Indicators database, maternal mortality ratio.
Note: Panel c: A drought year is defined as a year in which at least half the growing period months are recorded to have a predicted greenness anomaly value below the 10th percentile of predicted greenness. Panel d: Each 5 km^2 pixel on the map shows the predicted *Plasmodium falciparum (Pf)* prevalence rate as a proportion of all children ages 2–10.

The Time to Act Is Now

Addressing risk and conflict—through either risk reduction or risk management—requires action before shocks occur. There is room for more technological innovation and better information systems, but fundamentally encouraging action before shocks occur will require addressing the incentives that currently keep postponing action until after shocks occur.

For governments, this requires addressing the perverse political incentives that reward them for big postdisaster gestures rather than for planning for a rainy day. Coping with disasters using humanitarian aid is much cheaper (that is, free) than predisaster investments in prevention and preparedness. Building capacity within governments to invest in risk reduction and risk management is also necessary.

For individuals, this will require inducing households to overcome behavior that limits household investment in risk reduction and management: a scarcity-induced focus on the present, resignation, and ambiguity aversion. This can be done by reducing the cost to households of investing in risk reduction and management while households learn about new strategies to reduce or manage risk. In addition, there is a need to expand mandates and regulations to address adverse selection in health insurance markets, to increase trust in financial institutions, and to reduce fixed-cost insurance markets.

And finally, as with many aspects of improving policies and programs, there is a data agenda. Better data on disasters as they unfold and on ex ante risk exposure will help improve financial market development and the design of shock-responsive safety nets.

Mobilizing Resources for the Poor

The agenda to address poverty in Africa extends beyond shifting programs and policies. It will also require a careful revisiting of a range of domestic revenue and spending patterns. Within the region, some countries have the means to address the poverty gap (the income needed for a poor household to just escape poverty), be it through theoretical tax rates on the nonpoor or through transfers of natural resource revenues directly to citizens, such as through "direct dividend payments" (DDPs).

For most African countries, however, closing the poverty gap (as a theoretical exercise) would mean implausibly high tax rates on the rich or implausible natural resource revenues. Current domestic revenues are not enough to tackle poverty in the short term, let alone to improve Africa's poor initial conditions in human capital—investments that only pay off a generation later. What is the path to tackle these challenges?

The Domestic Revenue Imperative

Several low-income African countries have tax revenues relative to GDP of under 13 percent (that is, revenues net of grants), which is often considered the "tipping point" necessary to execute basic state functions and to sustain development progress (Gaspar, Jaramillo, and Wingender 2016). The Organisation for Economic Co-operation and Development (OECD) average in 2015, for comparison, was 34.3 percent (OECD 2017).

While low on average, the level of revenue collection in Africa has shown improvement. The region experienced the largest increase in tax revenue across the globe since the turn of the century, albeit starting from a very low point (IMF 2015). But IMF projections find that the countries with the lowest domestic resource mobilization levels are also expected to grow at lower rates, further widening the gap. To turn this around, countries need to continue to improve tax compliance; start focusing more on local large taxpayers, corporate taxes, and transfer (mis)pricing (which has a global agenda); and expand excise and property tax collection.

Some countries in Africa also generate substantial revenues from natural resources. Out of 37 countries for which data are available, 22 are considered resource-rich—from oil-rich countries like Chad and the Democratic Republic of Congo to those with lucrative mining operations such as Botswana (diamonds) and Mauritania or Niger (minerals). In these countries, revenues make up 10–20 percent of GDP. Low- and middle-income countries with substantial natural resources also tend to have higher tax revenues than countries at the same income level that lack such resources.

Therefore, in principle, resource revenues can enhance spending on agriculture, rural infrastructure, and social sectors (for example, health and education as well as social protection programs) and thus contribute to poverty eradication. These revenues notwithstanding, poverty reduction is slower and multiple human development indicators are worse in resource-rich countries in Africa than in other African countries at the same income level—so this revenue is not resulting in greater pro-poor spending (Beegle et al. 2016; de la Brière et al. 2017).

Making Public Spending Go Further for the Poor

Turning from raising more money toward spending more effectively and with a pro-poor focus, there is a large unfinished agenda. A key area to make public spending more pro-poor is to address high subsidy expenditures (particularly fuel, energy, and fertilizer subsidies), which are often regressive with little impact on poverty. The lack of impact from agricultural input subsidies gets magnified when they crowd out other investments in the sector that could raise productivity. Cash transfers seem more effective and efficient than subsidies where evidence exists (Dabalen et al. 2017). But more research is needed to compare their performance relative to other competing needs like spending on education, health, WASH, public goods in agriculture (such as research and irrigation), rural infrastructure, and security.

Spending patterns from a "pro-poor" perspective have a mixed track record—with some sectors generally reaching international expenditure targets (like education) but others falling short for many countries (health, WASH, and agriculture). Although many countries are close to meeting or exceeding global targets for spending as a share of GDP or government expenditures, absolute spending levels are still very low.

And within-sector spending is often inefficient and sometimes regressive (such as spending more on services used disproportionately by the nonpoor than the poor). Inefficiency in spending on services manifests itself in several ways—for example, in high rates of absenteeism among teachers and supplies not reaching frontline providers. As a result of both limited spending on pro-poor sectors and inefficiency in the spending, many poor still pay for access to basic services critical for human development; out-of-pocket expenditures are high. Notably, resource-rich countries spend less on education and health than other African countries of similar income level (Cockx and Francken 2014, 2016).

Finally, combining the insights on taxation and spending practices, it emerges that many in the bottom 40 percent of income are often net taxpayers instead of net recipients. That is, in the aggregate, the total cash benefit transferred to the poorest 40 percent of the population through subsidies and direct transfers is smaller in absolute magnitude than the burden created by direct and indirect tax instruments (de la Fuente, Jellema, and Lustig 2018). Although these calculations refer only to the cash-based financial position purchasing power of individuals—excluding the value of in-kind benefits like education, health, or infrastructure services—they give cause for pause.

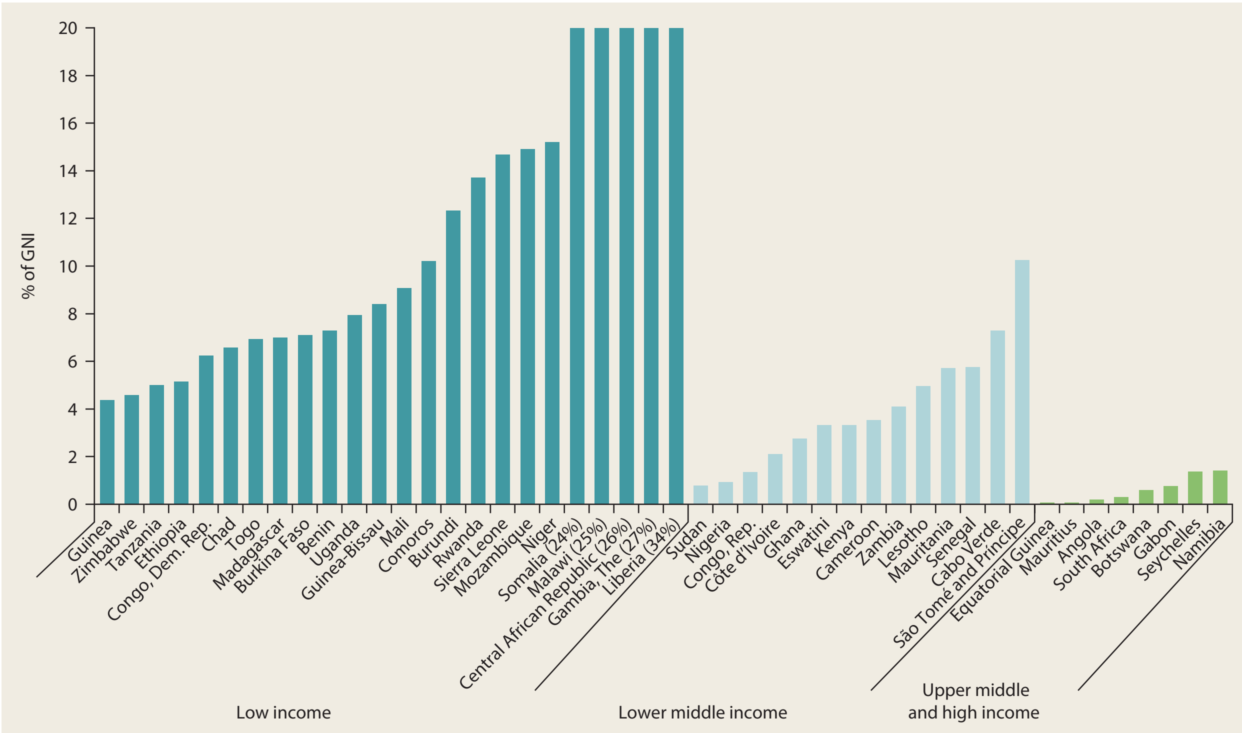
To accelerate poverty reduction in Africa, a careful reexamination of its fiscal systems from a pro-poor perspective is needed. It also requires a better understanding of the political dynamics of pro-poor policy making.

An Important Role Remains for Official Development Assistance

Taken together, the low base on which to tax, the low capacity to tax more, and the political inability (or lack of will) to channel revenues from natural resources into pro-poor social spending result in a large financing gap for critical spending. Although improving revenue and spending performance is important, even with improvements, official development assistance (ODA) will remain critical for the poorest countries.

Aid makes up more than 8 percent of gross national income (GNI) for half of low-income countries in Africa (figure O.4); ODA supports key sectors for reducing poverty, including health, agriculture, and education. But although global ODA has been increasing and reached an all-time high of US$140 billion in 2016 (at current prices), ODA to African countries increased from 2013 to 2017 (from US$45.8 billion to US$46.3 billion), after a dip to $42.5 billion in 2016. But in per capita terms, ODA declined from US$48.30 to US$42.60 because of the region's population growth.

FIGURE O.4 ODA is a large share of GNI in low-income countries



Source: Organisation for Economic Co-operation and Development (OECD) 2017 data, https://data.oecd.org/.
Note: GNI = gross national income; ODA = official development assistance. ODA data do not include aid inflows from international charities, international nongovernmental organizations, and private donations.

The proportion of aid going to African fragile and conflict-affected states also continued to decline. A total of 13 OECD Development Assistance Committee (DAC) donors, including the European Union (EU) institutions, reduced their contributions to African fragile and conflict-affected states between 2014 and 2015 (ONE 2017). The overall decline, at least in part, is because the donor countries were spending more in their own countries on refugees and asylum seekers.

The issuing of debt over the past decade in the face of macroeconomic slowdown over the past couple of years, combined with insufficient revenue and lagging ODA commitments, has put country debt concerns back on the radar. Although debt levels remain below those in the late 1990s—when several international debt relief initiatives were implemented—debt has been rising more rapidly in Africa than in other regions since 2009. So, while governments could borrow domestically and internationally to finance more spending on social sectors and WASH, many will find it difficult.

Way Forward: Four Primary Policy Areas

In conclusion, from the wide range of themes and issues discussed across the chapters of this report—focused on raising the incomes of Africa's poor and accelerating poverty reduction—four areas for primary policy attention are advanced.

Accelerate the Fertility Transition

Rapid population growth in Africa—averaging 2.7 percent per year—remains a defining feature that holds poverty reduction back for many countries and households on the continent. It elevates the fiscal needs for social services, which only pay off much later. High fertility has also been an important direct contributor to Africa's explosive urban growth, making it hard for urban centers to keep up the infrastructure base to remain productive and create employment. And high fertility limits women's income-earning opportunities.

Accelerating fertility reduction is therefore an important entry point for accelerating Africa's poverty reduction. A 1 percent fall in the dependency rate is associated with a 0.75 percentage point fall in headcount poverty (Cruz and Ahmed 2016). Investments in family planning programs can play an important cost-effective complementary role, in addition to female education, programs offering life skills for women and girls, addressing social norms around gender through social and behavior change communication, and reducing child marriage.

Leverage the Food System

Much poverty reduction remains to be gained from leveraging Africa's food system, on and off the farm. Raising smallholder agricultural labor productivity increases the income of the poor directly and reduces the price of food for the urban poor. Urbanization and economic growth are boosting domestic demand for higher-value agricultural products, also creating employment opportunities off the farm up and down the value chains, often particularly for women. Rising agricultural productivity will also increase demand for nonagricultural goods and services, facilitating intersectoral and rural-urban labor reallocation.

However, not all agricultural development and urbanization models are equally poverty reducing, with raising smallholder staple crop productivity and secondary town development particularly effective. More-integrated approaches—tackling both supply- and demand-side constraints at once—are needed, both to raise agricultural productivity and to increase the return to informal nonagricultural household enterprises, where most of the poor will find off-farm employment.

Inclusive value chain development provides a market-based solution to integrate, especially for nonstaple foods. But complementary public investment (in agricultural research and extension, irrigation, and rural infrastructure) remains key, especially for staple crop productivity.

Finally, technological leapfrogging and new business models bring previously unattainable markets and production techniques within reach of the poor (such as solar pump irrigation, and mechanization in agriculture, and e-commerce household enterprises). This, too, requires complementary public investments in ICT infrastructure and skills.

Mitigate Fragility

Risk and conflict have long permeated African livelihoods. This substantially complicates Africa's poverty-reduction efforts. Shocks are frequent, conflicts often cast a long shadow, coping capacity is mostly inadequate (especially for the poor and near-poor), and uninsured risks hold and push people back into poverty. Climatic change is making weather patterns even more erratic and extreme, and the upsurge in terror-related conflict adds further uncertainty.

Twenty-nine percent of Africa's poor live in fragile states, a share projected to increase to 50–80 percent by 2030. This trend puts fragile and conflict-affected states at the center of Africa's fight against poverty. Climate change and conflict may further interact to increase each other's occurrence and detrimental effects (Hsiang, Burke, and Miguel 2013).

Better risk and conflict management to address fragility is the third policy entry point for accelerating poverty reduction in Africa. Many of the solutions exist, with a role for both the private and public sectors, but the most important hurdle remains incentivizing public and private actors to act now, before the shocks and conflict occur. A more productive agriculture also helps.

Address the Poverty Financing Gap

Making progress in these three policy areas requires public financing focused on the poor, including to overcome Africa's poor initial conditions in human development. In Africa's few non-low-income countries, the challenge is not so much the amount of resources required to address poverty, but rather the decision and effort to redirect resources to policies and programs that benefit the poor. However, for most countries in Africa, which house most of the poor, current domestic resources are not nearly sufficient to address poverty—and insufficient domestic revenue mobilization, lagging ODA commitments, and rising debt levels following the macroeconomic slowdown further shrink their fiscal space.

In principle, the discovery of natural resources across Africa over the past two decades could help. Yet poverty reduction and multiple human development indicators are often worse in resource-rich countries in Africa than in other countries at the same level of income.

In addition to the continued need for ODA to address the fiscal gap, Africa's fiscal systems need to become more effective in raising incomes (including through addressing domestic tax compliance and international tax avoidance) as well as in making public spending more pro-poor and more efficient.

These four primary policy entry points are relevant across countries, albeit to different degrees. Fertility is, for example, already lower in southern Africa than in western and eastern Africa. Risks are pervasive everywhere but take on different forms. Finally, not all countries are struggling with fiscal deficits, but pro-poor spending and spending efficiency can be improved in most of them, and especially in the resource-rich countries.

Notes

1. Throughout this report, "Africa" refers to Sub-Saharan Africa.
2. This ambition is articulated in SDG 1, Target 1.1 (http://www.un.org/sustainable development/poverty/). It is tracked by measuring progress on the proportion of people living below the $1.90-a-day international poverty line (in 2011 purchasing power parity).
3. Ranking countries from those with the largest number of poor, Nigeria accounts for about one-quarter of Africa's poor (85.2 million); the next four (the Democratic Republic of Congo, Tanzania, Ethiopia, and Madagascar) for another quarter; and the next five (Mozambique, Uganda, Malawi, Kenya, and Zambia) for the following 25 percent.
4. In Africa, the likelihood of being poor is 3 percentage points lower on average when an individual has some primary education; 7 percentage points lower given completed primary or incomplete secondary education; 10 percentage points lower given completed secondary education; and 12 percentage points lower given tertiary education (controlling for the area of residence, household structure, and demographic characteristics) (Castañeda et al. 2018).
5. The increase in smallholder staple crop productivity is often referred to as the "Green Revolution," in reference to Asia's rapid increase in smallholder staple crop productivity in the 1960s and 1970s, through a package of modern inputs (seeds, fertilizer, and pesticides); water control; and reduction in price volatility.
6. Side-selling is a practice by which farmers divert part or most of their contracted production to other buyers. It is greater when limited value addition does not permit price premiums to make contracts more incentive-compatible. On the other hand, the wide availability of undifferentiated staples and the limited opportunity for value

addition also increases the opportunity for buyers to breach the contracts and reduces their incentives to engage in contracting to begin with.

7. The much wider availability of motorcycle and motorized tricycle taxi services able to navigate Africa's rugged rural roads, following the import of much cheaper models from China and India, is a good example of the importance of transport services for connectivity. The trend led the World Bank to raise its estimated distance of an all-season road providing rural connectivity from 2 kilometers to at least 5 kilometers, in constructing its 2016 Rural Access Index (https://datacatalog.worldbank.org/dataset/rural-access-index-rai).
8. Similarly, although there is a positive effect of city size and urban concentration on growth in high-income countries, no such effect has been found so far in low- and middle-income countries. If anything, the effect is likely negative (Frick and Rodríguez-Pose 2016, 2018).

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green press INITIATIVE

"*Accelerating Poverty Reduction in Africa* is written skillfully, with rigorous and solid analysis, a rare mix of rhyme and reason, practical wisdom, and a deep sense for acting together to design and apply solutions to resolve the challenge. In my 30 years of research and working in development, I have come across several treatises on the role of agriculture in driving development. But this work by the World Bank is par excellence in assembling and synthesizing the empirical evidence and makes a compelling case of how investing in four key areas—reducing rapid population growth and high fertility; increasing smallholder productivity in staple foods and leveraging rising urban demand for higher-value agricultural products; improving risk management to reduce fragility; and mobilizing public financing focused on the poor—is critical for helping millions of resource-poor farmers lift themselves out of poverty. My hope is that policy makers will read it."

— **AGNES KALIBATA,** President of the Alliance for a Green Revolution in Africa

"Poverty is increasingly becoming a primarily African challenge that needs new thinking in the way that Africans, in partnership with global supporters, tackle it effectively. This excellent flagship report rightly points us toward focusing action on three key features specific to African poverty: its predominantly rural nature, its fragility, and its inadequate or unequal capabilities. I fully endorse the need for a fresh push to accelerate the delayed demographic transition and to take advantage of new technology-enabled opportunities to take jobs and livelihoods to where the poor are by helping to diversify rural economies and by making the informal economy more dynamic and better connected to formal systems. The report rightly emphasizes the adoption of risk mitigation strategies against fragility to ensure steady progress and offers a practical guide to prioritizing action."

— **BENNO NDULU**, former Governor of the Bank of Tanzania

"The World Bank from its inception has been at the forefront of the gigantic struggle to reduce poverty in the developing world. It has been the leading institution in attempting to measure poverty incidence, analyzing its causes, and suggesting appropriate measures to be undertaken by affected countries and the donor community. While most developing regions were successful in improving the standard of living of their people, Africa until recently continued to suffer from massive deprivations. This report provides a comprehensive analysis of the underlying conditions and obstacles that make it so difficult to achieve the same level of progress in Africa that so many Asian countries enjoy. At the same time, the report documents the recent improvements in monetary and nonmonetary poverty indicators in Africa, and it provides useful policy recommendations for a more inclusive and accelerated growth structure. *Accelerating Poverty Reduction in Africa* is a must-read for anyone concerned with African development."

— **ERIK THORBECKE**, H. E. Babcock Professor of Economics Emeritus, Graduate School and International Professor, Cornell University

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