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Fighting inequalities: a Path for Inclusive and Sustainable Growth in Africa

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Outline

Premise

- Addressing inequalities in all their forms has emerged as one of the major global challenges.
- The COVID-19 crisis has underscored the urgent need to address and tackle inequalities.
- The top 10% in Africa holds 54% of the total income > six times more than the bottom 50 %.
- The top 10% in Africa holds 71% of the total wealth > double the wealth held by the bottom 90%.

Key Points

- A paradigm shift is needed in the way we approach inequality.

- There are no simple solutions. In addition to sound macroeconomic management, we propose seven broad areas need special attention.

- The most important of these are to focus on quality and relevance in education and to boost the participation of women in the labor force.

Outline

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I

The Landscape of Inequality

I. Despite Africa's considerable progress in economic growth, both income and wealth inequalities remain high

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Figure 1: Evolution of the share in national income held by the top 10%, middle 40%, and bottom 50% over the period 2000-2021

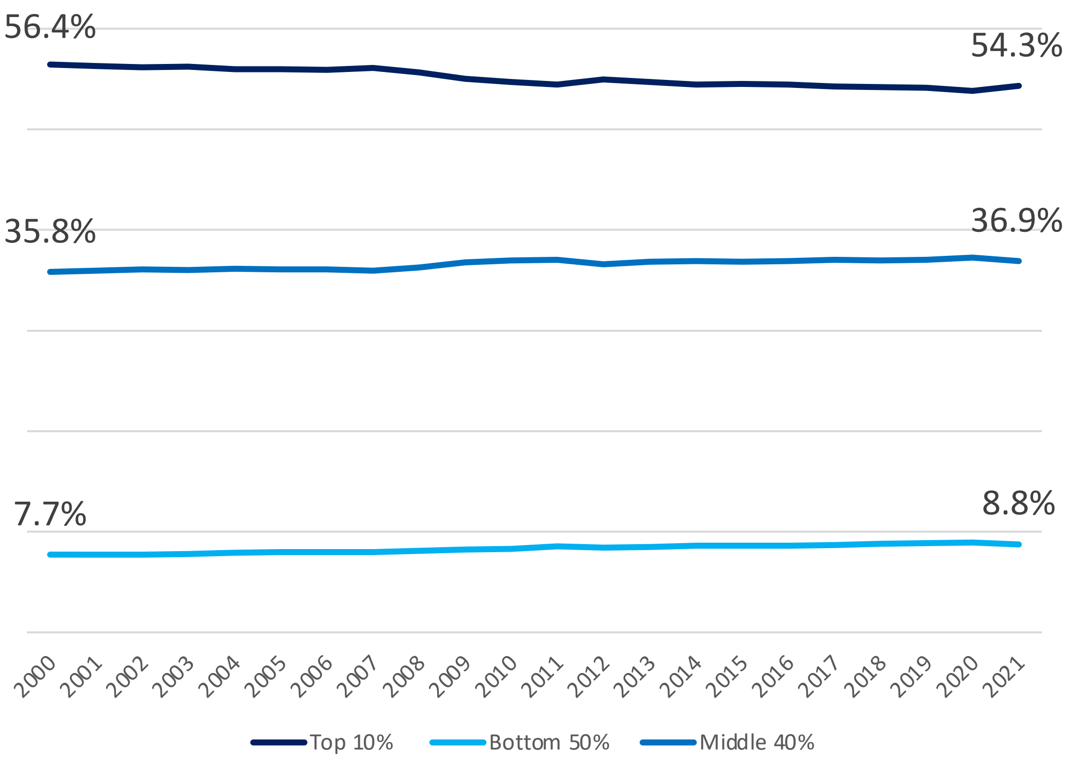
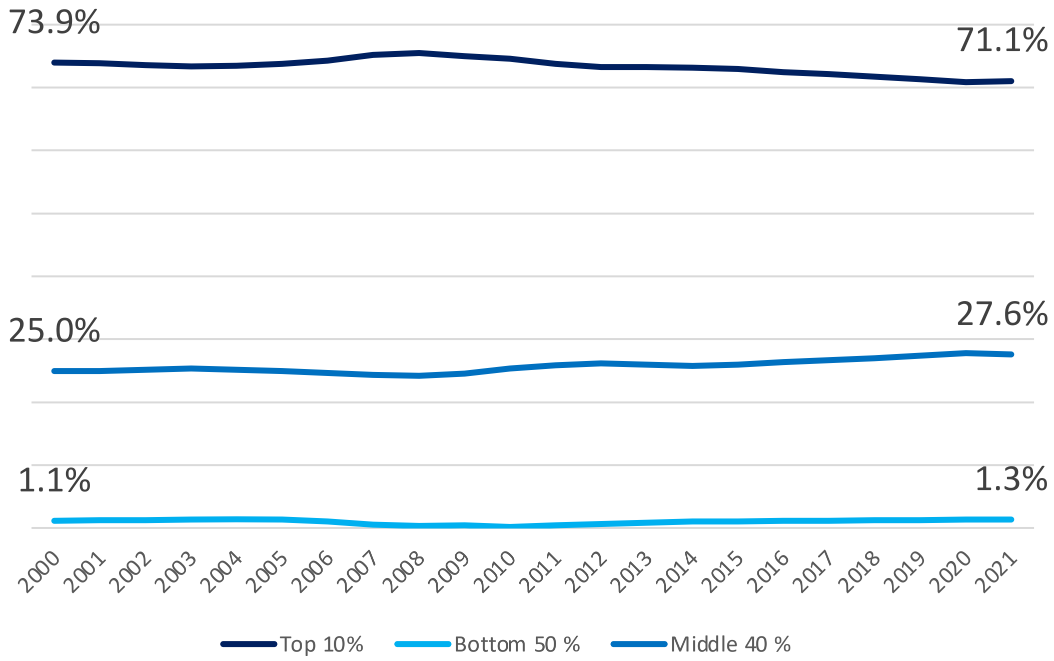


Figure 2: Evolution of the share in total national wealth held by the top 10%, middle 40%, and bottom 50% over the period 2000-2021.



Source: Author's elaboration, World Inequality Database, 2022

- The stagnation of incomes held by the poorest half of the total population becomes problematic if we consider the rising cost of living (rising costs of housing, healthcare, higher education, childcare...).
- In Rwanda, South Africa, and Zambia, educational attainment of the household head explains about 40 percent of overall inequality.

I. Out of the top 10 most unequal countries in the world, six are African, mainly resource-rich countries such as South Africa or Botswana.

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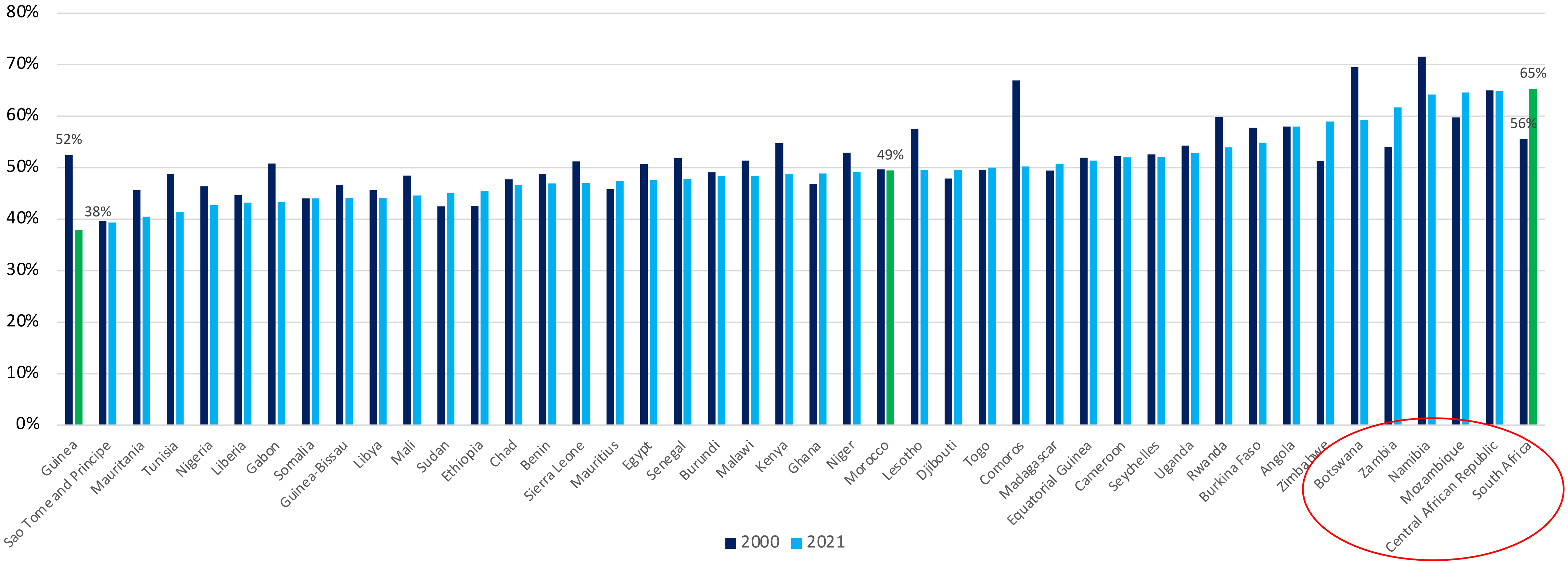
Figure 3: Evolution of the income share held by the top 10% in total income in Africa between 2000 and 2021.



Source: Author's elaboration, World Inequality Database, 2022

The availability of substantial natural resources has not translated into equitable income and wealth distribution, revealing a complex interplay between, resources abundance and disparities in economic well being.

I. While income inequalities have decreased across all African sub-regions, the reduction remains modest.

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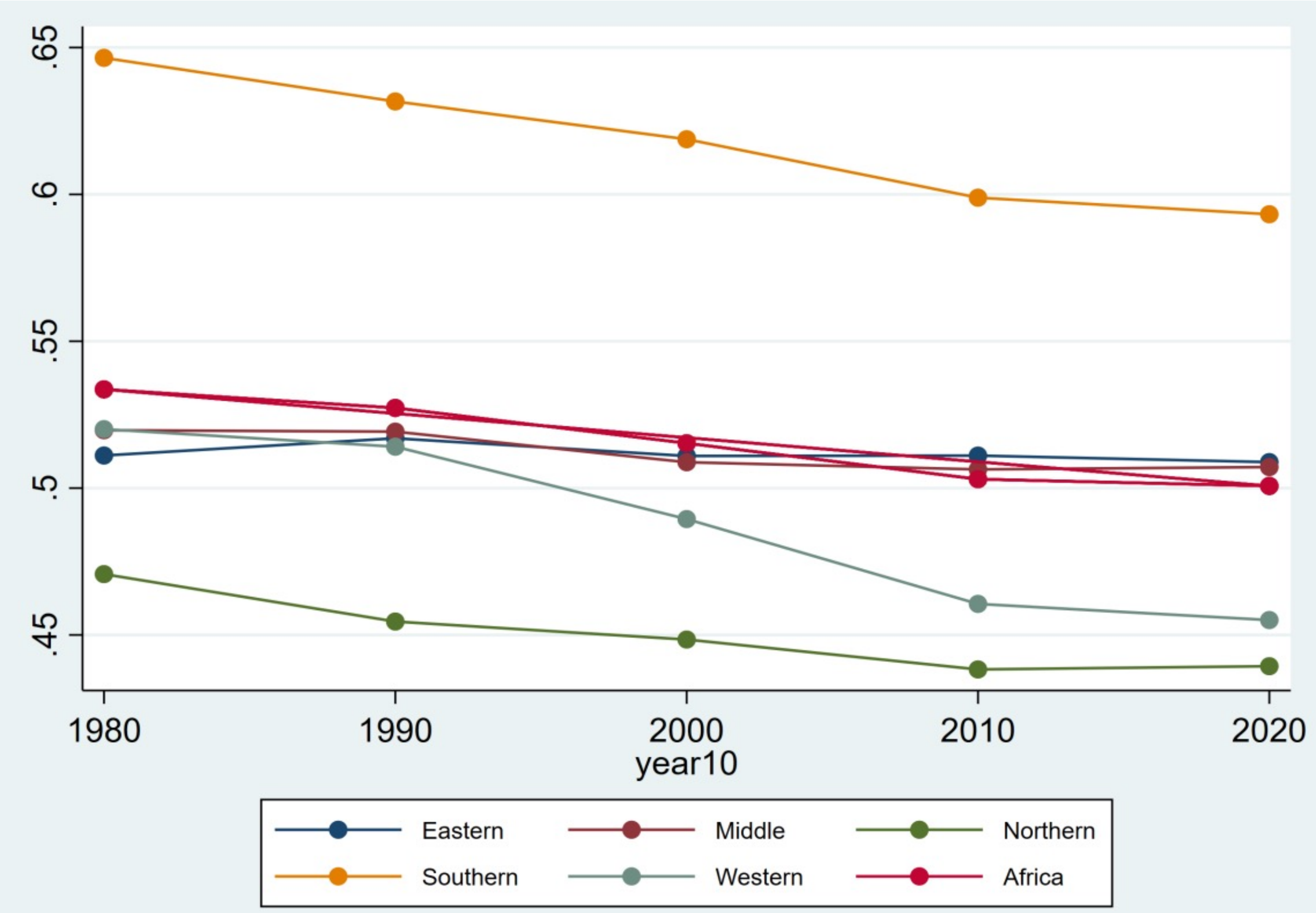
Figure 4: Evolution of the share of the top 10% wealthiest individuals in total income by African region.

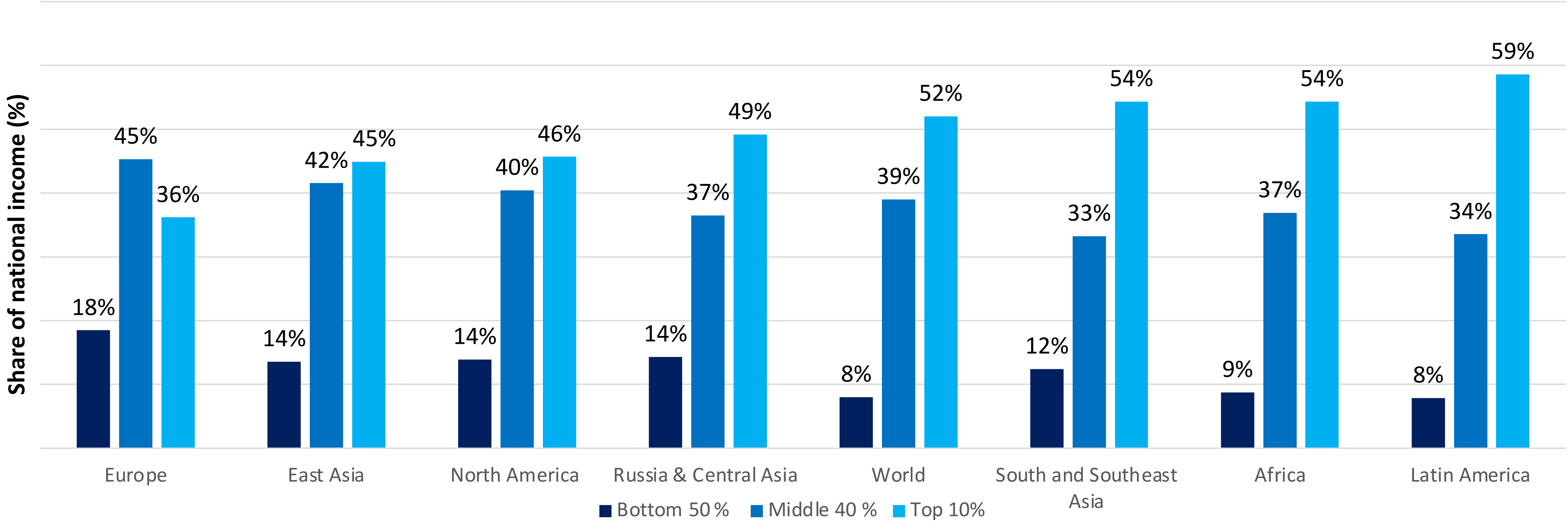


Source: World Inequality Lab Issue Brief 2022-09, What's New About Income Inequality in Africa?

This shift towards greater income equality is more pronounced in Southern and Western Africa, where sub-regional inequality has shown more substantial declines. Conversely, Eastern and Northern African countries have witnessed minimal changes in income inequality on average.

I. International comparisons place the African continent as the world's second most unequal region, after Latin America.

Figure 5: Evolution of the share of total income held by the bottom 50%, the middle 40% and the top 10% in different regions of the world, 2021.

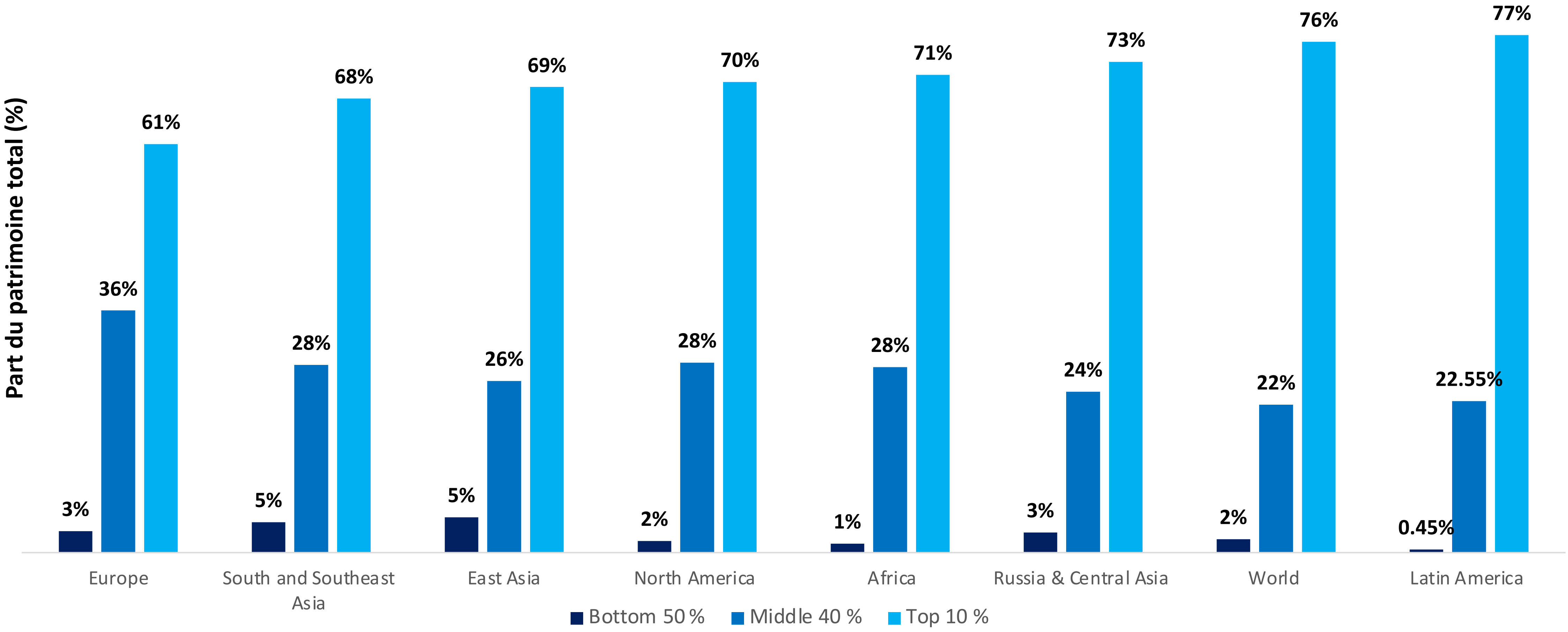


Source: Author's elaboration, World Inequality Database, 2022

In 2021, the top 10% richest population in Africa earned 6 times more income than the total income of the bottom 50% poorest population. This ratio is 7.4 in Latin America, 4.5 in South and Southeast Asia, 3.5 in Russia & Central Asia, 3.3 in North America, 3.2 in East Asia, and 2 in Europe.

I. Wealth inequality is very high across regions worldwide.

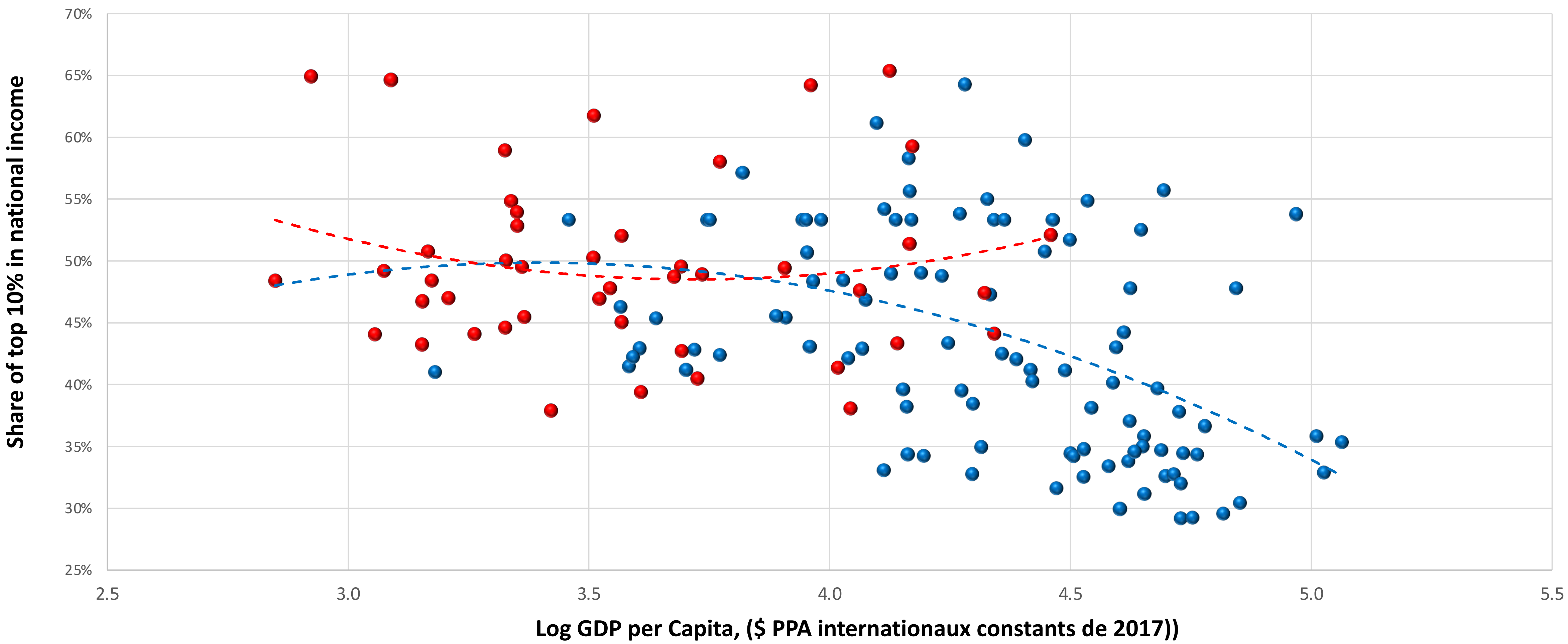
Figure 6: Extreme concentration of capital: wealth inequality worldwide, 2021



Source: Author's elaboration, World Inequality Database, 2022

I. Inequality, as measured by the share of income of the top 10% in total income, tends to fall as countries' living standards rise

Figure 7: Relationship between inequalities measured by the top 10% richest and the standard of living across all countries



Source: Author's elaboration, World Inequality Database, 2022

Outline

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Factors Behind

II. Inequality in African countries is a complex phenomenon, as it reflects gender and regional inequality as well as social/income inequality.

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- Supply side policies since the 1980’s followed by the unbridled Globalization of the 1990s onwards, led to increasing deregulation of economies and weaker safety nets.

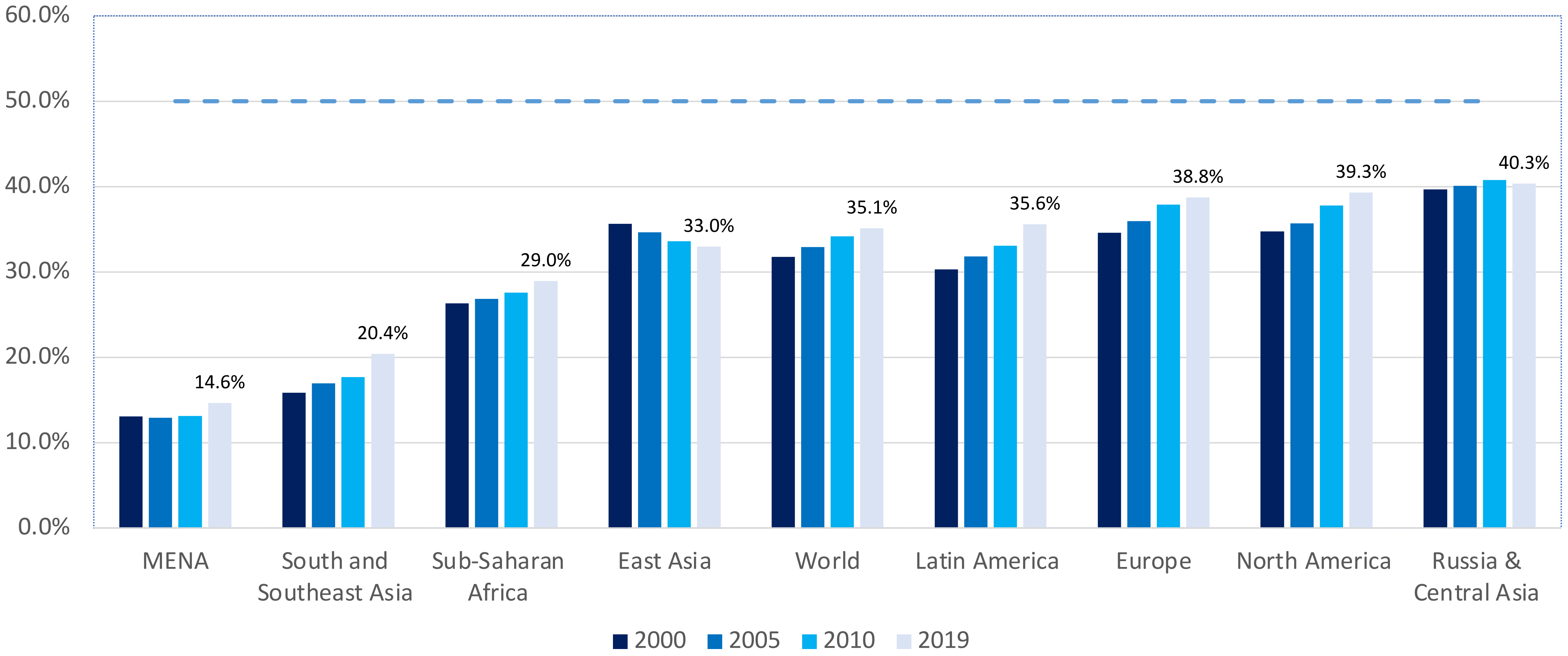
- They have also had a knock-on effect on developing countries, particularly in Africa, where needed macroeconomic reforms have often paid insufficient attention to distributional consequences and to the political economy dimensions of reforms.

- The rate of return on capital has been higher than the growth rate of GDP over very long periods, decades and centuries, accentuating wealth and, ultimately, income inequality.

- Territorial and regional disparities, as well as the colonial legacy, also play a part in explaining the extent of inequalities in Africa (past land distribution or the continuing effects of severe racial inequality in southern Africa).

- Spatial inequalities, both regional and territorial (by region, city or province, etc.) are an important dimension and explain up to 30% of income inequality in some countries.

Figure 8: Share of labor income received by women in different regions of the world, 2000-2019.



Source: Author's elaboration, World Inequality Database, 2022

Outline

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III

Future Shocks and Implications for Inequality

III. The succession of crises and future shocks, are likely to accentuate already high levels of inequality.

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- The Covid-19 health crisis alone has jeopardized all the progress made by Africa in terms of poverty reduction, pushing nearly 40 million Africans into extreme poverty (World Bank, 2020).

- The pandemic has resulted in a significant loss of learning worldwide. The number of days of school absence for young students in sub-Saharan Africa is more than four times higher than the number of days of absence for children in advanced countries.

- Low-skilled workers who lost their jobs overnight, as well as workers in the informal sector, were faced with two extremely difficult choices: "die of hunger or die of the virus".

III. Informal sector workers most vulnerable to the Covid-19 crisis

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Table 1: Informal economy workers significantly affected by social containment and distancing measures in 2020

	Informal employment (in millions)	Informal workers significantly affected (in millions)	Weight of informal workers significantly affected (% of informal workers)
World	**2 060**	**1 564**	**76**
By region			
Africa	391	325	83
Latin America and the Caribbean	158	140	89
Asia & Pacific	1 346	988	73
Europe & Central Asia	100	65	64

Source: ILO, 2020

Of the world's 2 billion informal workers, nearly 1.5 billion have been significantly impacted by measures of containment and social distancing.

III. Informal workers significantly affected by social containment and distancing measures in 2020.

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Table 2: Impact of the Covid-19 shock on median income among informal workers.

	Median monthly labor income (2016 PPP$)		
	Before COVID-19	During COVID-19 (expected level of revenues during the first month of the crisis)	
	Informal workers	Informal workers	Difference (%)
World	**894**	**359**	**-59,8**
By region			
Africa	518	96	-81,4
Latin America and the Caribbean	364	74	-79,7
North America	2 312	429	-81,5
Asia & Pacific	549	430	-21,6
Europe & Central Asia	1 253	387	-69,1

Source: ILO, 2020

The Covid-19 shock caused a sharp drop of nearly 81% in the median monthly income of informal workers in Africa during the first month of the crisis

III. Informal workers significantly affected by social containment and distancing measures in 2020.

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Table 3: Impact of the Covid-19 shock on relative poverty among informal workers.

	Relative poverty (incidence within group)		
	Before COVID-19	During COVID-19 (expected impact on relative poverty)	
	Informal workers (%)	Informal workers (%)	Difference (%)
World	**25,6**	**59,4**	**33,7**
By region			
Africa	20,7	82,9	62,1
Latin America & Caribbean	36,1	90,1	54
North America	17,6	77,3	59,7
Asia and the Pacific	21,9	36,3	14,4
Europe and Central Asia	34,1	80,2	46,1

Source: ILO, 2020

Africa is the region that experienced the largest increase in relative poverty during the first month following the coronavirus crisis, with a rise of nearly 62% among informal workers.

III. The succession of crises and future shocks, are likely to accentuate already high levels of inequality.

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- The recent surge in the price of essential goods, particularly food and energy, triggered by the Russian-Ukrainian war, has had a disproportionately negative impact, particularly on the poorest and most vulnerable population groups.

- Climate change is projected to have a disproportionately negative impact on the most disadvantaged populations.

- Climate change could push between 68 and 135 million people into poverty by 2030 and cause over 216 million people in six regions to migrate within their own countries.

- Without immediate and concrete climate action, sub-Saharan Africa could experience up to 86 million internal climate migrants, and 19 million in North Africa.

Outline

IV

The Power of Governments in Shaping Inequality on a Global Scale

IV. International evidence shows that governments can do a lot to reduce inequality, or to increase it

- Lustig and her co-authors estimate that taxes and transfers reduced the GINI coefficient by 25% :in some instances
    - Argentina from 0.497 to 0.369
    - Brazil from 0.574 to 0.438.

- Caution is essential when crafting social protection and cash transfer programs.

- Longitudinal studies show that inequality can be reduced drastically by regime change, as in the case of communist Eastern Europe, which saw a decrease in GINI from 0.4 in 1929 to 0.27 in 1990. However, this reduction came at a considerable cost to civil rights.

IV. International evidence shows that governments can do a lot to reduce inequality, or to increase it

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- Following the collapse of the Berlin Wall in 2000, the Gini coefficient increased to 0.36. This underlines the additional challenge of reconciling greater equality with economic dynamism and the protection of civil rights.

- The era of unfettered globalization following the fall of the Berlin Wall and the dissolution of the Soviet Union that led to a significant growth in inequality offers another source of lessons.

- Reforms aimed at stimulating economic growth and promoting market forces led to a period of sustained growth with negative implications on inequality.

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Seven broad areas of action to reduce inequality

V. Seven broad areas of action to reduce inequality

1. Education (promote skill development and support a culture of lifelong learning)
2. Inclusive Innovations
3. Women’s participation in the labor force
4. Well-Targeted Social Protection Schemes for all Vulnerable Groups
5. Progressive Taxation
6. Climate Change mitigation policies
7. Data

V. Narrowing gender gaps in labor force participation could more than offset pandemic scarring

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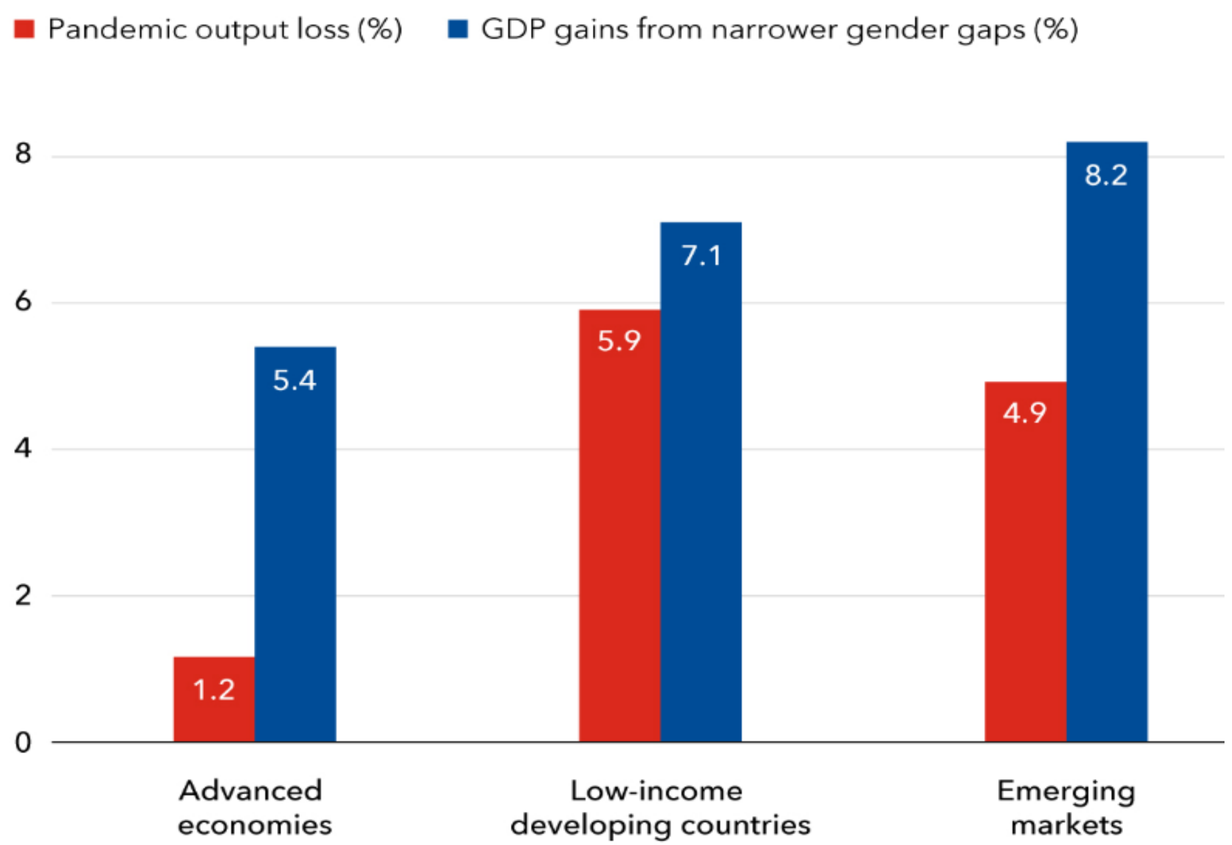

Source: IMF Staff Calculations.
Note: Pandemic Output Loss is the percent deviation of projected real GDP in 2023 relative to the pre-pandemic (Jan. 2020) WEO projection. GDP gains are computed from narrowing the gender gap by 5.9 percentage points, which is the improvement achieved in the top 5 percent of EMDEs during 2014-19.

- Only 47 percent of women are active in today's labor markets, compared with 72 percent of men
- Emerging and developing economies could boost gross domestic product by about 8 percent over the next few years by raising the rate of female labor force participation by 5.9 percentage points.

Thank you !