Can Extreme Poverty in Sub-Saharan Africa be Eliminated by 2030? ¹

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Abstract

Eradicating extreme poverty for all people everywhere by 2030 is the first goal among the UN Sustainable Development Goals that guide the current development agenda. This paper examines its feasibility for Sub-Saharan Africa (SSA), the world’s poorest but growing region. It finds that under plausible assumptions extreme poverty will not be eradicated in SSA by 2030, but it can be reduced to low levels through high growth and income redistribution towards the poor segments of the society. National and regional policies should aim at structural transformation and industrialization that would make their growth paths more inclusive and ‘green’. International organizations, including informal ones such as the G20, can play a critical role in this endeavor by encouraging policy coordination and coherence. Further, African countries will need a greater scope for bringing their perspectives into global economic debates on issues impacting sustainable development on the continent.

Keywords: Africa, poverty, inclusive growth, simulations, policies

JEL classification: E21, E25, I32, O11, O20

1. Introduction

‘Eradicating extreme poverty for all people everywhere by 2030’ is the first goal among the UN Sustainable Development Goals (SDGs) that guide the current development agenda (UN,

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Despite Sub-Saharan Africa being the world’s poorest region, most of the research on eliminating poverty has focused on global targets (Goudie, 1998; Sachs, 2005, Maxwell, 2009; Ravallion, 2013; Basu, 2013). Recent studies found that bringing the extreme poverty below 3% of the population globally by 2030 would be challenging but achievable. One scenario assumes that progress achieved during 2000-2010 is maintained until 2030 (Ravallion, 2013). However, maintaining the growth rates from prior to the global financial crisis will be challenging, with most all of the main developing regions experiencing decline in potential growth and labour productivity. Moreover, this stream of literature also indicates that global progress with poverty alleviation is likely to slow down at low poverty levels where poverty depth often rises (Chandy et al., 2013a; Yoshida et al., 2014).

Research on eliminating poverty in Sub-Saharan Africa (SSA) by 2030 in the context of sustainable development goals has been scarce; exceptions include Fosu (2015a); Chandy et al. (2013b) and Turner (2014). This paper adds to the existing literature by taking a forward-looking perspective towards poverty eradication in Sub-Saharan Africa and simulating poverty paths under different scenarios for key macroeconomic variables such as output and population growth and income distribution. The paper also discusses national, regional, and global policies that can improve outcomes while paying special attention to the role of international organizations. It utilizes the simulation framework developed by Chandy et al. (2013a) for global poverty, which is simpler but highlights the same key variables – growth and redistribution – as the International Futures forecasting system used by Turner et al. (2014).

Our simulation results show that even under highly optimistic assumptions on accelerated growth and redistribution from the 10 richest to 40 poorest percent of population (“best case” scenario), SSA will not reduce poverty below 3% of population by 2030. The poverty rate could be brought down to low levels though – around 10% of SSA population in 2030. Faster progress in SSA requires that policy makers address high inequality and reliance of their economies on natural resources and agriculture. The paper also reiterates the role of global institutions, including the informal ones such as the G20.

The paper is organized as follows. Section II provides the literature review, while Section III shows impact of growth and redistribution scenarios SSA’s poverty paths and outcomes. Section IV examines differences among groups and countries. Section V outlines policies, while Section VI concludes with discussion of poverty reduction goals for the SSA region.

2. The Literature Review

The goals of eliminating extreme are particularly pertinent for SSA, the world’s poorest but growing region. Accordingly, poverty reduction has been consistently high on the operational and research agenda of the African Development Bank as also evidenced in the Bank’s recent report on the topic (AfDB, 2016). The implementation, however, has been facing several setbacks. First, after more than a decade of high growth, the region has been experiencing growth slowdown and weakening fiscal positions stemming from the commodity price shock as well as from weakening of growth and trade globally. Second, as Fosu (2015a) and Simpasa et al. (2016) show, relative to other regions of the world, African poverty reduction has shown low responsiveness to growth, in part because of higher population growth. Both Thorbecke

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In this paper, the extreme poverty means living on a less than $1.25 a day (in 2005 ppp adjusted prices), which is equivalent to new poverty line of $1.92 a day in 2011 ppp adjusted prices. The headcount is only one measure of poverty, which does not reflect dynamics above or below the line.
(2013) and Fosu (2015b) highlight good institutions as key condition for growth benefits reaching the poorest groups of the population.

Regarding strategies to eradicate poverty in Africa, Kuada (2015) and Obeng-Odoom (2015) have proposed a paradigm shift from structural adjustments policies to human capability development. The African Development Bank has also examined in its report and related special issue of its journal how foreign aid can be employed for inclusive development (please see Fields, 2015; Simpasa et al., 2015; Jones & Tarp, 2015; Page & Shimeles, 2015; Page & Söderbom, 2015; and Jones et al., 2015). Other works motivated by the goal to reduce poverty in Africa have assessed the role of foreign aid (Asongu, 2016; Asongu & Nwachukwu, 2016a); information and communication technology (Asongu & Le Roux, 2017; Asongu & Nwachukwu, 2016b) and globalisation (Asongu & Nwachukwu, 2016c).

Experience of other regions also indicates that maintaining and even accelerating growth should remain a priority for poverty reduction agenda (Dollar et al., 2013). Rodrik (2015) pointed out that two dynamics tend to drive growth: fundamental capabilities and structural transformation. Industrial policy — that is government prioritization of high potential sectors— is instrumental for structural transformation in SSA. Country-specific circumstances would determine which ‘constraint’ is binding to achieve progress and should receive a priority.

As Ndikumana (2014) underscores, policy recommendations to address these challenges have typically focused on what SSA countries themselves, possibly with the support of development partners, must do to embark on a sustainable development path. Less attention has been paid to the role that global governance can play in addressing these challenges.

3. How Much Can Poverty Be Reduced by 2030?

3.1. Trends in Poverty Reduction

The global poverty rate has been declining since the 1950s, but SSA has made strides only since the mid-1990s. Between 1999 and 2010, the region reduced extreme poverty by 10 percentage points, in part due to growth acceleration. The World Bank household surveys suggest though that in 2010 the poor still accounted for striking 48% of SSA’s population and 30% of the global poor. SSA’s poverty rate was more than double of the rate of the world’s second poorest region, South Asia (Chandy and Gertz, 2011 and Olinto et al, 2013).

Substantial differences in poverty rates persist among African sub-groups and countries. While frontier markets drove poverty reduction in SSA during 2000s, contribution of fragile states has been subdued. Among frontier markets, Zambia and Tanzania, have maintained high rates of poverty. In contrast, some of the middle-income countries such as Cabo Verde or Seychelles have almost eliminated it. However, high inequality and poverty have prevailed in the middle-income countries in Southern Africa. Among fragile states, both large (e.g. Democratic Republic of Congo) and smaller countries (e.g., Liberia) post high poverty rates.

In sum, extreme poverty was unevenly distributed among world regions as well as among groups and countries within regions. In SSA, some of the largest countries (e.g., Nigeria) have also high shares of population living below the $1.25 a day poverty line in both 2010 and 2030, making them a key contributor to poverty in the region. In 2010, poverty rates exceeded half of the population in fragile states as well as some smaller countries, including the frontier markets (e.g., Mozambique) and middle-income countries (e.g., Swaziland).

Higher growth and income can be associated with improved social outcomes, as illustrated, for example, by increased youth literacy rates and declining child mortality (Figures 1a and 1b). However, the positive impact of growth on social indicators is not automatic, as evidenced
by stagnating completion rates for primary education in resource-rich African countries (Figure 1d). Achieving greater human development impact from their growth thus remains a key challenge for resource-rich African countries.


3.2. Trends in Inequality

SSA’s large income inequalities with other world regions persist. Specifically, examining the trends in GDP per capita in ppp terms reveals that the gap between SSA’s income per capita

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3 A country is defined as resource-rich if over 1980-2010 on average more than 5 percent of its GDP has been derived from oil and non-oil minerals (excluding forests). The resource-rich countries in SSA are: Angola, Botswana, Cameroon, Chad, Democratic Republic of Congo, Republic of Congo, Côte d’Ivoire, Equatorial Guinea, Gabon, Guinea, Liberia, Mali, Mauritania, Namibia, Nigeria, Sierra Leone, Sudan, and Zambia.

4 Multidimensional index of poverty developed by Alkire and Santos (2010) reveals discrepancies between monetary and multi-factor poverty. For example, in Ethiopia ‘only’ about 30 percent of population lived in extreme poverty in 2010 according to PovCalnet data (below), but the country emerged as one of the poorest in Africa when the multidimensional approach to poverty was applied.
and that of major advanced economies has narrowed only marginally between 1995 and 2015. While SSA’s GDP per capita was about 6% of GDP per capita of advanced economies in 1995, it was still only 8% in 2015. In contrast, developing Asia narrowed the gap with advanced economies by increasing the ratio from 8 to 21% during the same period.

Within SSA, inequality dynamics has been driven by both within and across-country inequality, with the letter predominating until 2010. One way to gauge the SSA’s across-country inequality is to compare the GDP per capita (ppp adjusted) of a ‘typical’ (median) SSA country relative to GDP per capita of the entire region. The decline of this ratio points to widening inequality up to the global financial crisis (2009 and 2010), with a subsequent partial reversal (Figure 2). Similarly, within-country inequality is derived by comparing median and average income selected countries, revealing mixed record.

**Figure 2.** Inequality among countries in SSA, 1995–2015

Source: Authors’ calculations based on the AfDB AEO database. Note: Median income of SSA countries relative to GDP per capita of SSA is in percent. Dispersion is computed as standard deviation over median.

**Figure 3.** Inequality among SSA Regions, (Gini coefficients, %) 1995–2010.

Source: Authors’ calculations based on the AfDB AEO database.
Further, evolution of Gini coefficient measures points to high but relatively stable inequality for the Africa region and varied pattern among sub-regions (Figure 3). Inequality remains the highest in middle income countries in Southern Africa, most of which are also caught in the ‘middle income trap’. Rising inequality in East Africa, which contains some of the world’s fastest growing regions, is of great concern and requires policymakers’ attention. For example, robust economic growth of 6 – 7 percent a year notwithstanding, poverty in Tanzania declined only by 2.2 percentage points during the entire 1996 – 2010, well below 1.7 percentage point average reduction per year experienced by Rwanda (World Bank, 2013).

While SSA has experienced rapid growth since the early 2000s, the poverty-reducing impact of this growth was less pronounced than in other world regions. Specifically, the estimated growth elasticity of poverty in SSA is -0.69, in contrast to -2.02 in other regions.

Substantively, two factors drive this difference.5 First, growth generated by labor intensive sectors such as agriculture or manufacturing is more poverty-reducing than growth from the mineral sectors. Second, besides resource-dependence, high initial income inequality hampers the poverty-reducing effect of growth in SSA. The extent to which growth reduces extreme poverty depends on redistributive policies and access to services that would enable the poor to benefit from growth. Once resource-dependence and inequality are controlled for, the gap between growth elasticities of poverty globally and in Africa narrows (World Bank, 2013).

3.2. Looking Forward: The Baseline

In the calculations of poverty rates and their paths, we focus on consumption aspect of poverty, as it captures individual welfare better than alternative measures (income, assets) and is less vulnerable to external shocks (volatile) than income. Since correlation between consumption and income in Africa is relatively high, the choice of one over the other is likely to have only limited impact on outcome. Moreover, at lower income levels, the difference between consumption and income is small (AfDB, 2011).

To derive plausible future poverty paths in SSA, we draw on three main information sources, as in Kharas (2010) or Chandy et al. (2013a): (i) the projected growth of the mean level of real consumption per capita (or income); (ii) redistribution of consumption (or income) between the 10 richest and the 40 poorest percent of population; and (iii) UN population projections. While the modeling framework does not incorporate policies directly, it captures them by implicit political economy structures that lead to higher growth or redistribution.

Our baseline scenario assumes that: (i) the consumption per capita will grow as projected in the EIU database; (ii) distribution of consumption will stay constant as in 2010 data in the World Bank’s PovcalNet database and (iii) population would grow according to the UN’s medium scenario. For each country, the initial (2010) consumption levels were obtained from the PovcalNet database. The scenarios in this approach are illustrative and meant to foster debate rather than predict the future.

The dynamics of poverty reduction derived in the baseline will be driven by assumptions. As Ravallion (2013), Edward and Sumner (2014), Chandy et al. (2013a) and others, the baseline scenario takes an ‘inequality-neutral’ approach. Specifically, in projections it assumes that the actual income or consumption distribution for the most recent year available remain constant. However, since inequality changes over time, the strong assumption of constant distribution is relaxed in the alternative scenarios below.

5 Another reason is purely arithmetic: Since SSA’s poverty levels are higher and incomes lower than those in other regions, same absolute changes in poverty and incomes translate to smaller and larger relative changes, respectively.
The methodology of poverty projections has been subject to long-standing debates (Klassen, 2010 among others). For example, the use of National Account (NA) statistics data was criticized for not reflecting consumption patterns of the poorest segments and hence underestimating the prevailing poverty (Deaton, 2005). Edward and Sumner (2015) underscore that various uncertainties surrounding the poverty data and methodology should not discourage researchers from estimating poverty rates. Rather, the uncertainties and the wide range of estimates that they may lead to should be acknowledged.

Against this background, poverty for each SSA country for every year up to 2030 was estimated using the Beta distribution of the Lorenz curve. The region’s (population-weighted) poverty headcount ratio in year $t$, $H_{At}$, was obtained as follows:

$$H_{At} = \frac{\sum_{j=1}^{N} H_{jt} \frac{P_{jt}}{P_{At}}}{\frac{1}{N} \sum_{j=1}^{N} P_{jt}} \text{ with } P_{At} = \sum_{j=1}^{N} P_{jt}$$

(1)

where $P_{At}$ is Africa’s population at $t$, $P_{jt}$ is population in country $j$ at time $t$, $H_{jt}$ is poverty headcount share (in percent of population) in country $j$ and year $t$, and $N$ is the number SSA countries analyzed (Figure 1). The variations in the total poverty rate is due to the dynamics of population and the headcount index of poverty in individual countries. To show whether under these assumptions future poverty would be more concentrated in larger or smaller countries, we calculate an un-weighted (simple average) poverty headcount in $t$, $H_{At}^u$:

$$H_{At}^u = \frac{1}{N} \sum_{j=1}^{N} H_{jt}$$

(2)

The baseline scenario assumes constant consumption distribution over time (Gini coefficient of 0.4116) and an average real consumption growth of 6.5 percent per year up to 2030. Under this scenario the poverty rate in SSA would fall from 47.9 percent in 2010 to 27 percent of the population in 2030, a way above the three percent target. Further, the number of people living in extreme poverty would even slightly increase (Figure 4 and Table 1). The daily consumption of at least another quarter of the population would be $1.25–$2 a day, underscoring the vulnerability of this group to adverse shocks. Countries with rapid population growth will face greater challenges to reduce the absolute number of the poor.

Source: Authors’ calculations based on the AfDB, EIU, UN and World Bank databases.

Figure 4. Poverty rates in SSA: Baseline scenario (% of total population), 1990–2030.
Table 1. Evolution of poverty in Africa, baseline scenario, 2010–2030.

<table>
<thead>
<tr>
<th></th>
<th>2010(a)</th>
<th>2015(e)</th>
<th>2020(p)</th>
<th>2030(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st poverty line (&lt;$1.25)</td>
<td>47.9</td>
<td>42.7</td>
<td>36.0</td>
<td>27.0</td>
</tr>
<tr>
<td>2nd poverty line ($1.25-$2)</td>
<td>28.0</td>
<td>28.6</td>
<td>28.0</td>
<td>25.1</td>
</tr>
<tr>
<td>Above $2 a day</td>
<td>24.1</td>
<td>28.8</td>
<td>36.0</td>
<td>47.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Millions of poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st poverty line (&lt;$1.25)</td>
<td>393</td>
</tr>
<tr>
<td>2nd poverty line ($1.25-$2)</td>
<td>230</td>
</tr>
<tr>
<td>Above $2 a day</td>
<td>198</td>
</tr>
<tr>
<td>Total</td>
<td>820</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on the AfDB, EIU, UN and World Bank databases. Notes: In this table and the rest of the paper ‘a’ stands for actual outcomes, ‘e’ stands for estimates, and ‘p’ denotes projections.

These estimates are still more optimistic than other studies on poverty reduction prospects in Africa. Turner et al. (2014) projected that 24.9 percent of Africa’s population, or 397.3 million people, may still live on consumption below $1.25-a-day in 2030. Their estimates included North Africa, which posts lower rates of poverty than SSA.

3.4. Alternative Scenarios

This section derives other plausible poverty paths by altering the baseline assumptions about real growth of consumption (income) per person and its distribution for each African country.

First, we increase (decrease) growth of consumption per capita by 2 percentage points a year, while maintaining consumption distribution as in the baseline scenario (Figure 5a). With higher consumption growth, poverty rate falls to 15 percent of population in 2030 (221 million people). This represents decline in both poverty rate and people, with the number of poor falling by 172 million since 2010. Such poverty achievements would be more robust than under the baseline scenario, as almost two thirds of the population would achieve at least middle-income status by 2030. Conversely, should consumption growth decline by 2 percentage points a year, the poverty rate would rise to 42.1 percent of population (620 million people) in 2030, with additional about 230 million people living in extreme poverty in 2030 relative to 2010.

Second, we consider combined changes in per capita consumption growth and redistribution where besides changes in consumption growth, we consider trade-offs in consumption shares between the poorest 40 and the richest 10 percent of population in each country. Specifically, there would be a steady shift between the two groups during 2010 and 2030 by 0.4 percentage point every year, reflecting the distribution trends in historical data for Africa.

Figure 5b shows poverty outcomes for the scenarios with a higher (lower) consumption growth and a steady shift in consumption share towards the bottom 40 percent of population (top 10 percent of population). Relative to the benchmark case, poverty outcome improved

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6 This choice reflects past observed growth accelerations in Africa.

7 Middle class is defined as people living on $2 - $20 a day (in 2005 ppp terms), as in AfDB (2011a).

8 We estimate the scale of the long term distribution trend observed in historical data on African countries as: $\text{Share}_{t+1, \text{poorest}} = \text{Share}_{t, \text{poorest}} + \text{Share}_{t, \text{poorest}} - \text{Share}_{t, \text{richest}}$. Thus a 1 percentage point decrease in consumption share by the top 10 percent results in 0.4 percentage point increase in the share among bottom 40 percent and vice versa.
markedly under the ‘best case’ scenario of higher consumption growth and redistribution from top 10 to the bottom 40 percent of population, with the poverty rate falling to 9.9 percent of the population by 2030. With only 17 percent of population living on $1.25 - $2 a day, poverty reduction should be more resilient to reversals. Under the ‘worst case’ scenario, the poverty would rise to 45.9 percent of population in 2030, adding 283 million of people into the group.

The negative tradeoff in redistribution of consumption (income) is illustrated in Figure 6, which uses the last two household surveys from the PovcalNet database. Specifically, the share of consumption of the poorest 40 percent of the population declined in some of the most unequal middle-income countries in Southern Africa (e.g., Botswana, Namibia, Swaziland).

Source: Authors’ calculations based on the AfDB, EIU, UN and World Bank databases.

**Figure 5.** Poverty Rates: Alternative scenarios, 1990–2030 (percent of Africa’s population).

**Figure 5a.** African consumption growth (+ or – 2 perc. points a year).

**Figure 5b.** Consumption growth & distribution, (+ or – 2 perc. points a year and redistribution).

**Figure 6.** The trade-off in the consumption shares between the 40% poorest and the 10% richest segments of the population in SSA.

Source: Authors’ calculations based on the AfDB, EIU, UN and World Bank databases.
In contrast, the share of the poorest 40 percent rose in some of the low incomes countries (e.g., Niger).

The above scenarios highlight the uncertainty that surround the various poverty paths and likely 2030 poverty outcomes. Still, even with the wide range of plausible poverty outcomes for Africa, the 3 percent or lower poverty rate by 2030 is not among them. The challenge of reducing extreme poverty in SSA is further underscored by the asymmetry of results under opposite scenarios. The number of the additional poor under the downside scenarios exceeds the additional number of people escaping poverty under the corresponding upside scenarios.

3.5. Poverty Dynamics

Reducing poverty will become increasingly challenging over time. After the initial acceleration until about 2017, the progress is projected to slow in all scenarios (Figure 7). In the outer years, as the poverty rate declines and the mode moves above the poverty line, lifting people out of poverty will require more resources. Differently put, semi-growth elasticity tends to decline with poverty reduction, also in SSA (Table 2). From the perspective of policymakers, who measure their achievements in poverty reduction in percentage points, this measure of dynamics is more useful than elasticity.

Figure 7. Poverty rate dynamics: Alternative scenarios, 2012–2030 (percentage change).

4. Beyond the Aggregates

The aggregate results mask differences among countries and groups. This Section examines such differences, focusing on countries with the highest poverty rates and on fragile states.

4.1. Differences across SSA Countries

In 2010 the total poverty in SSA was disproportionally concentrated in several large countries and this concentration will rise over over time. Specifically, in 2010 the top five contributors

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9 Growth elasticity refers to the ratio of a percent change in the poverty rate to a percent change in income or consumption. Semi-growth elasticity refers to the ratio of a percentage point change in the poverty rate to a percent change in income or consumption.
Table 2. Sub-Saharan Africa: semi-growth elasticity of consumption, 2010–2030.

<table>
<thead>
<tr>
<th>Poverty rates</th>
<th>(Mean) growth semi-elasticity of poverty (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>45</td>
<td>-0.465</td>
</tr>
<tr>
<td>40</td>
<td>-0.454</td>
</tr>
<tr>
<td>35</td>
<td>-0.424</td>
</tr>
<tr>
<td>30</td>
<td>-0.398</td>
</tr>
<tr>
<td>25</td>
<td>-0.368</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on the AfDB, World Bank, and EIU databases. Note: Calculations were carried out under 2010 Africa distribution from PovcalNet for the baseline scenario.

accounted for more than half of the poor living in the region (Table 3a). In the baseline scenario, the poor in Nigeria, the Congo Democratic Republic and Tanzania are still projected to account for almost half of the region’s poor in 2030. Further, today’s fragile states are projected to have the highest poverty rates in 2030 (Table 3b).

Large African countries with high poverty rates where the bulk of Africa’s poor will live, such as Nigeria and the Democratic Republic of Congo (DRC), cannot be overlooked in policymakers’ efforts to tackle poverty. The impact of growth on poverty reduction varies across countries and within countries over time, depending, among other factors, on income distribution. It will be particularly challenging in fragile countries with substantial poverty prevalence and depth, such as DRC (Figures 8a and 8b), which will require sustained and inclusive growth for decades to bring down poverty.

Table 3. SSA: Differences in Poverty Rates, 2010 and 2030(p), the baseline scenario.

Table 3a. Countries contributing the most to Sub-Saharan Africa’s poverty, 2010 and 2030.

<table>
<thead>
<tr>
<th>Country</th>
<th>2010-Share of the poor % of SSA poor</th>
<th>2030- Share of the poor % of SSA poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>26.2</td>
<td>20.8</td>
</tr>
<tr>
<td>Congo DR</td>
<td>12.9</td>
<td>20.1</td>
</tr>
<tr>
<td>Tanzania</td>
<td>7.3</td>
<td>8</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>6.6</td>
<td>5.9</td>
</tr>
<tr>
<td>Madagascar</td>
<td>4.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Total</td>
<td>57.1</td>
<td>60.0</td>
</tr>
</tbody>
</table>

Table 3b. Countries with highest projected poverty rates in 2030 (baseline).

<table>
<thead>
<tr>
<th>Country</th>
<th>2010 (percent of population)</th>
<th>2030 (percent of population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congo DR</td>
<td>86.3</td>
<td>51.9</td>
</tr>
<tr>
<td>Madagascar</td>
<td>81.3</td>
<td>38.7</td>
</tr>
<tr>
<td>Chad</td>
<td>44.3</td>
<td>32.3</td>
</tr>
<tr>
<td>Central Afr. Rep.</td>
<td>62.9</td>
<td>35.1</td>
</tr>
<tr>
<td>Liberia</td>
<td>83.2</td>
<td>26.7</td>
</tr>
<tr>
<td>Average</td>
<td>71.6</td>
<td>36.9</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on the AfDB, World Bank and EIU databases. Note: Un-weighted average.
The limited reliability of poverty data in Africa also needs to be underscored. For example, the poverty rate in Ethiopia was estimated to be close to 30 percent in 2010. According to the multidimensional poverty index (which accounts for the human development index), Ethiopia was among the poorest countries in the world in 2010, alongside Niger and Mali (Alkire and Santos, 2010). This illustrates the need of looking beyond the aggregates and simple indicators, both at the regional and country level.

4.2. Differences across Africa’s sub-groups

To understand the drivers of poverty reduction in Africa, we examine the performance of the main sub-groups: (i) oil exporters; (i) frontier markets; (iii) fragile countries; and (iv) others. Denoting $H_{jt}$ as the headcount poverty rate of country $j$ at time $t$ (as percent of the country’s population), $P_{jt}$ the population of this country at time $t$, $P_{Gt}$ the population of Africa’s group, the number of countries in a group, and $m$ the number of groups, the weighted headcount poverty rate for each analytical group, $H_{Gt}$ is obtained as:

$$10 \text{ The variations of } H \text{ are due to the dynamics of population and to the dynamics of the headcount index of poverty at individual countries levels: } \Delta H_{Gt} = \sum_{j=1}^{m} \left( \frac{\Delta P_{jt}}{P_{Gt}} \times w_{jt} \right) + \sum_{j=1}^{m} \left( H_{jt} \times \frac{\Delta P_{jt}}{P_{jt}} \right) \text{ where } w_{jt} \text{ is the share of the population of the country } j \text{ in group } G.$$
\[ H^*_t = \sum_{j=1}^{N} H^*_j P^*_j \] with \[ P^*_t = \sum_{j=1}^{N} P^*_j \] (3)

where in turn \( H^*_t = \sum_{j=1}^{N} H^*_j \frac{P^*_j}{P^*_t} \). The contribution of a group to the change in Africa’s poverty rate depends on the evolution of its share Africa and the evolution of its poverty rate.

Poverty rates in today’s fragile states are expected to remain well above the rates recorded by other SSA countries up to 2030, pulling the region’s average up (Figures 9). Starting from a high rate in 2010 (almost 60 percent of population), fragile states are projected to maintain the highest poverty rate even in 2030—about 40 percent of population in contrast to 20 percent in other countries. Even under the scenario of accelerated consumption growth, extreme poverty in fragile states would amount to more than 25 percent of the population (Figure 10). The poverty gap is also much higher in fragile states than in other countries—it is expected to be 15 percent of the poverty line in 2030 vs. 7 percent in non-fragile states.

These results are heavily impacted by high rates of poverty in the Democratic Republic of Congo, which projected to account for more than third of population of fragile states. Nevertheless, fragile states constitute an important focus group for targeted poverty measures in SSA, with fragility defined as a condition of elevated risk of institutional breakdown, societal collapse or violent conflicts (AfDB, 2014).

Armed conflicts have devastating consequences in terms of human lives and economic costs (e.g., destroyed infrastructure, capital flight, reduced trust). The post-conflict countries need to deal with this legacy as well as with weakened institutions and policy frameworks. Fragile states thus warrant special attention of policy makers and development partners, especially since Africa is the continent impacted the most by fragility. Crosswell (2014) nuances this general recommendation with underscoring that weak policy performance and/or high levels of conflict and instability pose major obstacles to such progress.

Eradicating extreme poverty is a key challenge for SSA, given its high poverty rates, despite the recent decline. Further, according to the PovcalNet data, the number of people living below $1.25 has not been falling in SSA, in contrast to other regions. Progress going forward will also depend on the poverty depth, which at $0.71 average income for the extremely poor is substantial and below that of any other developing region. Moreover, the poverty line of $1.25...
computed with ppp reflecting prices of all goods in consumer basket may not be appropriate for the poorest. One reason is that food prices often rise faster than the general price level while food takes up a disproportionate share of the poor’s budget (AfDB, 2014).

5. Long-term Trends, Realistic Goals and Policy Options

5.1. Long-Term Trends

To tackle extreme poverty, African policymakers and development partners – traditional and emerging – will need to anticipate long term drivers of change. Several recent studies that have examined megatrends provide useful context and allow better understanding of the macroeconomic scenarios for growth, poverty and inequality discussed in the previous section. The African Development Bank has emphasized the following key drivers of change/long term trends impacting the continent (AfDB, 2011b):

- Changing structure of global markets and shift in economic power, with expanding middle class and private sector, and declining importance of traditional aid;
- New technologies and innovation, especially in health, agriculture and energy;
- Changes to physical environment such as climate change contributing to land, energy and water scarcity; massive and pervasive infrastructure deficit;
- Delayed demographic transition, continued heavy burden of HIV;
- Private sector development and democratization.

The long-term trends emphasized by the African Development Bank are consistent with those articulated by the African Union in the Agenda 2063: The Future We Want for Africa. They also complement long run trends impacting the global economy as highlighted in the Oxford Martin Commission for Future Generations (Oxford Martin School, 2013). These long-term trends, together with the aftermath of the global financial crisis and subdued global recovery, have already reduced the SSA’s underlying trend growth. Since growth is expected to drive poverty reduction, policymakers will need to invest in the drivers of long-run growth, both core capabilities and drivers of structural transformation, as discussed in Rodrik (2015).
5.2. Ambitious but Achievable Goals for Africa

While the SSA region is not likely to reduce poverty to 3 percent of population by 2030 under plausible assumptions, it can bring it to low levels. Based on various numerical simulations presented in Section III, a more realistic goal would be reducing poverty in SSA by a range from half to two thirds by 2030. Both high growth and reduction in inequality between the bottom 40 percent of the population and top 10 percent would be needed to reduce poverty rates to low levels (e.g., around 10 percent of the population).

Several implications follow directly from the analysis. First, efforts to reduce poverty in SSA to very low levels cannot overlook large low-income countries such as Nigeria. However, that does not imply that small middle-income countries with high prevalence of poverty such as Swaziland should be marginalized. Second, poverty in SSA will be increasingly concentrated in today’s fragile states such as the Democratic Republic of Congo, which also has high population growth. Policymakers cannot neglect safeguarding stability and peacebuilding in the DRC and other fragile countries with high poverty rates, such as Liberia. The Strategy for Fragile States of the African Development Bank (AfDB, 2014) outlines ways to reduce poverty and safeguard stability in these countries. Third, factors impacting the global economy and Africa point to some negative pressures on the region’s trend growth, underscoring the challenges in trying to raise growth from the current 5 to 7 percent a year.

5.3. Policy Options for Growth with Poverty Reduction

To eradicate poverty, SSA countries will need to adopt mix of national and regional policies that suits their individual conditions and capitalize on opportunities in the global forums.

National Policies

Higher growth that many African countries experienced since the early 2000s notwithstanding, progress with structural reforms and economic diversification have been more limited. In fact, in some countries the share of manufacturing in output and employment declined. Number of studies pointed out that growing the region’s manufacturing base, including the ICT segment, would lift productivity in across sectors.

Rodrik (2015) pointed out that two dynamics tend to drive growth: fundamental capabilities and structural transformation. Industrial policy – that is prioritization of high potential sectors—is instrumental for structural transformation in SSA. Policies of successful countries shared common features, namely a stable but flexible macroeconomic framework; incentives for restructuring, diversification and mobility; investment in physical and human capital as well as skills and technology adoption; and strong institutions. Country-specific circumstances would determine which constraints are the most binding ones and should receive a priority.

Structural transformation can drive reduction in inequality and poverty since the sources of growth matter for poverty reduction and inclusion: jobs impact poverty reduction on the aggregate scale tend to be in productive and employment-intensive sectors, which as often in manufacturing (Loayza and Raddatz, 2010). Growth needs to generate productive jobs for large segments of population, based on lessons from Latin American and other countries successful in reducing poverty. The lessons from China suggest that to reduce poverty African countries should focus on raising productivity of agriculture through market-based incentives and public support. The increased agricultural productivity also facilitates structural transformation, as manufacturing absorbs migrant workers from rural areas.
Brazil has shown that the government can help reduce poverty through redistributive programs and social protection, so far missing in most of SSA, except South Africa. Brazil has made strides in reducing poverty and inequality, with public services and cash transfers having been the key, the latter through “Bolsa Familia” program (Arnold and Jalles, 2014).

Regional Policies

Regional integration has gained momentum recently in several regional economic communities (RECs), as evidenced by increased intra-regional trade and flows of foreign direct investment, as well as announcements aiming to formalize the relations and bring them to higher levels. Successful regional integration would indeed allow countries to draw on their comparative advantages, leading to higher efficiency and growth as well as integration to global value chains, and reduced ‘among countries’ inequality. It would also provide platforms for collective insurance (for example against food insecurity) and facilitate regional solutions to collective challenges such as climate change. Regional strategies should initially focus on developing complementarity to raise countries’ capacity to trade, supported by building regional infrastructure to ease movement of products, service, capital and people.

Global Policies

Policy recommendations to eradicate poverty in SSA have typically focused on what SSA countries themselves, possibly with the support of development partners, must do to embark on a sustainable development path (Ndikumana, 2014). Well-coordinated global policies, however, can help the SSA to tackle high poverty, unemployment and inequality. How effective are international organizations such as the G20 in supporting inclusive growth in Africa and other developing countries? Following the Seoul Consensus on Development in 2010, the G20 placed development and low income developing countries (largest number of which is in Africa) at the center of its post-2015 agenda. Inclusiveness is now part of the G20 growth agenda, centered on strong, sustainable, balanced and inclusive growth, with a view to maximize the impact of the private sector on low income people and groups. However, the G20 group could create better linkages across various priorities (e.g. linking agricultural productivity with infrastructure, etc.) rather than treating them as separately.

Even though the G20 and its working groups occasionally prioritized outreach to non-G20, especially low-income, countries, views of SSA countries have often not been fully accounted for due to their limited representation in the key global bodies. Africa’s adequate representation, as an equal partner, in the key policy and decision making global structures such as G20 is thus an important priority for development agenda (AfDB et al., 2010). On a positive note, more educated and empowered citizens everywhere, including in SSA, have increasingly been making their government accountable for a global system that would result in a more prosperous, equitable and cleaner global economy (Birdsall and Meyer, 2013).

6. Conclusions

This paper has illustrated some of the challenges that Sub-Saharan Africa is likely to encounter in its efforts to eliminating extreme poverty. A key message is that while the region cannot eliminate poverty (i.e. reduce it to 3 percent of population) by 2030 under plausible scenarios, it can bring it to low levels. The intermediate goals of higher growth and reduced income
inequality reinforce each other. To achieve substantial and lasting poverty reduction, national and regional policies in SSA will need to aim for growth that is not only high and resilient to shocks, but most importantly inclusive.

This paper has focused on policies that African countries themselves can adopt—individually or collectively— to tackle effectively the challenge of pervasive extreme poverty. However, changes in the global governance structures are also called for. SSA countries would benefit from a greater scope for expressing their views in global forums such as the G20 on key issues impacting development and Africa’s place in changing global landscape.

References


