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Trade and Poverty Alleviation in Africa: The Role of Inclusive Structural Transformation

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Trade and Poverty Alleviation in Africa: The Role of Inclusive Structural Transformation

Patrick N. Osakwe and Miriam Poretti
Trade and Poverty Branch
ALDC/UNCTAD

Abstract

Economic transformation is increasingly believed to be the mechanism to make trade work for poverty reduction and development in Africa. This paper argues that while transformation is indeed necessary for trade to contribute to poverty reduction, the nature of transformation also matters. In particular, strengthening the contribution of trade to poverty reduction in Africa requires inclusive structural transformation, which is transformation that enhances participation of vulnerable groups in the trade and development process. And for this to happen, governments have to address economic, political and cultural issues that foster social exclusion, remove input market imperfections that prevent vulnerable groups from exploiting market opportunities, and adopt a more gradual approach to liberalization to ensure that the reforms do not have a disproportionate negative impact on the poor. There is also the need to mainstream employment as well as rural development into the transformation agenda and ensure that workers get a fair share of the gains from productivity increases resulting from structural transformation.

Note

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Acronyms

AAAA	Addis Ababa Agenda for Action
FISP	Farm Input Subsidy Programme
GDP	Gross Domestic Product
GES	Growth Enhancement Support
GIG	Gambia is Good
LDCs	Least Developed Countries
MDG	Millennium Development Goals
MGNREGS	Mahatma Ghandi National Rural Employment Guarantee Scheme
NGO	Non-Governmental Organisations
ODA	Official Development Assistance
RPRP	Rural Poverty Reduction Programme
RTIP	Rural Transport Improvement Project
SDG	Sustainable Development Goals

1. Introduction

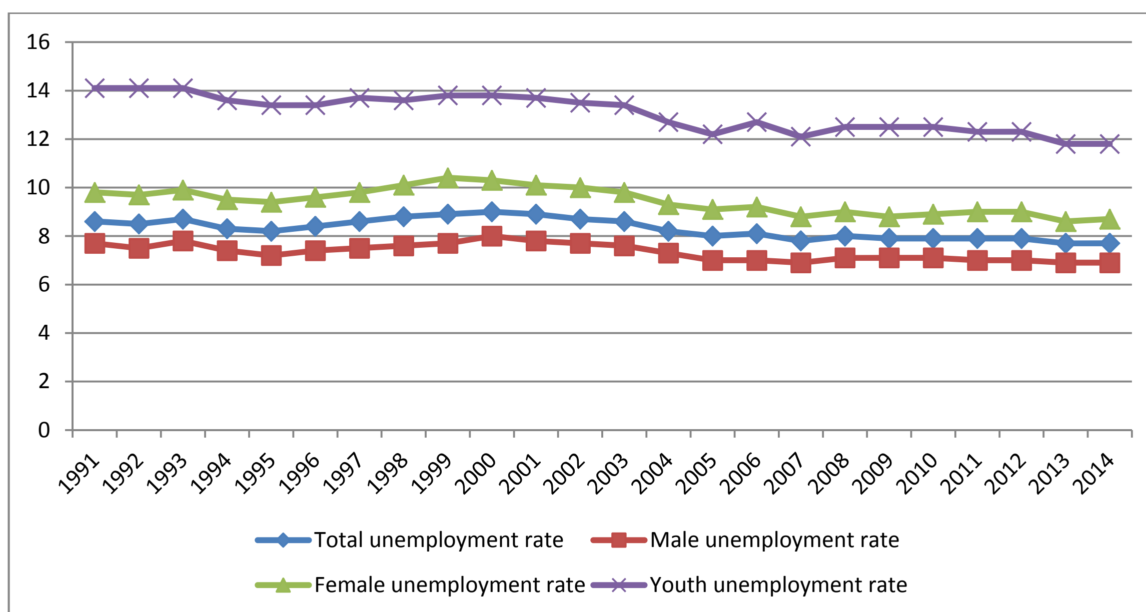
The international community recently adopted the Sustainable Development Goals (SDG) as the transformative vision and framework that will guide development policy and international cooperation over the next fifteen years. Unlike the Millennium Development Goals (MDG), the SDGs have a more ambitious agenda and so will require more innovative thinking and approaches in implementation to ensure that the outcomes are much better than was the case with the MDGs. One of the SDGs focuses on the elimination of poverty by 2030. This is obviously a herculean task which, given current trends in official development assistance (ODA), will require the mobilization of other sources of finance for development to ensure that African countries and least developed countries (LDCs) can put in place the right set of policies to achieve the goal by the target date. The Addis Ababa Agenda for Action (AAAA) identifies trade as one of the main sources of finance for implementation of the SDGs. This is not surprising in the light of the fact that economic models suggest that trade has the potential to make significant contributions to growth and poverty reduction in an economy (Krueger and Berg, 2003). Since independence in the 1960s, African governments have made efforts to exploit this potential of trade for development, as reflected in the fact that trade increasingly accounts for a very large share of output in Africa. Available data indicates that the ratio of trade to output increased from 43 percent in the period 1995-1999 to 60 percent in the period 2008-2012.

The increasing role of trade in African economies has gone hand-in-hand with an increase in the continent's growth rate as well as a reduction in the poverty rate, particularly over the past two decades. Nevertheless, recent evidence indicates that Africa is the only continent where the number of poor has also gone up over the past two decades. One of the reasons for this is that recent trade and output growth did not generate sufficient employment to absorb the rapidly growing labour force, as evidenced by the fact that there has been no significant change in the unemployment rate in Africa. For example, despite the rapid growth experienced by the continent over the past decade, the unemployment rate in sub-Saharan Africa only fell from 8.2 percent in 2004 to 7.7 percent in 2014 (figure 1). Interestingly, the coexistence of rapid growth with high unemployment in Africa is a feature that is observed in both resource-rich and non-resource-rich countries. For instance, in the resource-rich countries of Angola and Nigeria, the unemployment rates were estimated to be as high as 26 and 23.9 per cents respectively in 2011 despite a decade of relatively rapid growth. Similarly, in the non-resource rich countries such as Ethiopia and the Gambia it is estimated that youth unemployment was as high as 27 and 40 percent respectively in 2011 (AfDB et al 2012). These facts suggest that African countries have to address the challenge of employment-creation and also strengthen linkages between trade and poverty reduction to enhance prospects for meeting the SDGs on the continent. Recent research suggests that structural transformation can play a crucial role in generating employment and also in enhancing the impact of trade on poverty reduction in Africa (UNCTAD 2014). But in transforming the continent, it is important for African policymakers to recognise that the nature of structural transformation also matters for poverty reduction. In particular, if structural transformation is to have the desired impact on poverty it must be done in such a way that it fosters social inclusion, through for example, ensuring that it has a positive impact on vulnerable groups, particularly women who happen to account for a large percentage of the poor in most countries. This requires that the activities promoted in the transformation process be those in which the labour force

participation rates for women are likely to be high. It also requires fully integrating social inclusion into the transformation agenda.

Against this backdrop, this paper discusses how to make structural transformation inclusive to strengthen linkages between trade and poverty reduction in Africa. It argues, among others, that governments have to address social, political and cultural factors that foster social exclusion, remove input market imperfections that prevent vulnerable groups from exploiting market opportunities, and adopt a more gradual approach to liberalization to ensure that the reforms do not have a disproportionate negative impact on the poor. The paper also underscores the need to mainstream employment as well as rural development into the transformation agenda and ensure that workers get a fair share of the gains from productivity increases resulting from structural transformation. The rest of the paper is organised as follows. Section II provides some economic perspectives on social inclusion and development while section III identifies key transformative social inclusion programmes that have been put in place in developing countries over the past two decades with a focus on their features, impact and lessons learnt. Section IV discusses policies that are needed to foster inclusive structural transformation and strengthen linkages between trade and poverty reduction in Africa.

Figure 1: Unemployment rates in sub-Saharan Africa, 1991-2014 (%)



Source: ILO (2015).

2. Social Inclusion and Development: The Economic Foundations

In most countries, social inclusion programmes are often incorrectly regarded as welfare schemes that drain the public purse and have no discernible long-term development impact. Nevertheless, the economic literature suggests that there are strong economic rationales for adopting these schemes in developing countries. In this section, we discuss three channels through which social inclusion programmes could catalyze growth and contribute to long-term development in an economy (figure 2). The first channel operates through the impact of social inclusion programmes on human and physical capital formation (Funke and Strulik 2000). Inclusion programmes that give the poor better access to education and health services increase the economy's stock of human capital and hence have a positive impact on productivity. They can also allow disadvantaged groups in society to better exploit their potential by lifting social, economic and political barriers preventing them from participating in markets. In this sense, such programmes contribute to economic growth by allowing societies to make more efficient use of its existing human capital. With regard to physical capital, social inclusion programmes could contribute to capital accumulation when it is used to build infrastructure in an economy. Some of the infrastructure projects that have been designed and implemented as part of social inclusion programmes include road construction, irrigation works, provision of pipe-borne water, and rural electrification. Studies have shown that infrastructure development has a positive impact on growth particularly in developing countries with inadequate as well as poor quality infrastructure. For instance, it is estimated that per capita output growth in Africa over the last two decades would have been higher by two percentage points if the continent had adequate and good quality infrastructure (UNCTAD 2013).

Social inclusion programmes can also catalyze growth through reducing poverty and inequality and hence fostering peace and security in an economy. It is well-known that peace and security are necessary conditions for economic development to occur and that conflicts and insecurity have significant negative effects on trade, investment, and development (Ikejiaku 2009). They often lead to destruction and deterioration of human and physical capital. For instance, it is estimated that 80 percent of the cattle stock in Mozambique was lost during the protracted civil war that ended in 1992 (Haysom 2014). In addition, there is evidence indicating that, over the period 1981-2005, poverty rates were on average 21 percentage points higher in a country that experienced major violence than in one that experienced none (World Bank 2011). By reducing the propensity for conflicts and insecurity, social programmes minimize country-specific political risk and promote investment

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