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## The structural anatomy and institutional architecture of inclusive growth in sub-Saharan Africa

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# **The structural anatomy and institutional architecture of inclusive growth in sub-Saharan Africa**

Erik Thorbecke\*

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**Abstract:** The distinct features of inclusive growth within the context of sub-Saharan Africa are identified. The anatomy of growth is analysed by exploring the interrelationship among growth, inequality, and poverty. The present growth spell appears to have been relatively inclusive. The recent structural transformation has led to a more normal and desirable migration process. Two alternative development strategies are described: pro-poor growth and pro-growth poverty reduction. The finding that high initial poverty incidence acts as a deterrent to subsequent growth is confronted with micro evidence from rural villages. Finally, the architecture of inclusive institutions in Africa is reviewed.

**Keywords:** inclusive growth, inequality, poverty, structural transformation, institutions, sub-Saharan Africa

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## 1 Introduction

Inclusive growth is the new paradigm and strategic recipe in the development community. Over the last 60 years the definition of development and strategies to achieve it, progressed from the maximization of gross domestic product (GDP) in the 1950s, to employment creation and the satisfaction of basic needs in the 1970s, to structural adjustment and stabilization in the 1980s and early 1990s, to poverty reduction, followed by sustainable and shared growth that dominated the scene until recently. The evolution in the conception of development climaxed with the present broad-based concept of inclusive growth. An important contribution of inclusive growth is that it recognizes that human development is a highly multi-dimensional concept. Progress in improving human development implies, of course, poverty reduction. In that sense, it builds on and expands on the basic needs doctrine.

Another important contribution is that the pattern and process (arguably even more so than the pace) of growth are crucial determinants of inclusive growth. All segments of society have to be involved in this process—the poor, the middle class, and the rich. On the production side, involvement is through productive employment. On the public policy side, involvement is through voice and representation in local and national policy-making decisions.

How can poor individuals gain access to productive jobs and gain voice? For that to happen, they have to build up their human capital by acquiring the additional skills and educational levels required to be competitive in the formal sector—and often in the informal sector as well. However, the poor, uneducated and marginalized households are not playing in a level field. The opportunities available to them are limited in comparison with better-off individuals who happened to have been born in middle- or upper-class families. The inequality of opportunities is endemic in much of sub-Saharan Africa (SSA) and is a large contributor to the prevailing uneven income and wealth distribution. The circular bi-causality linking the inequality of opportunities to an unequal income distribution leads to a vicious downward spiral and poverty trap. In turn, the economic and political balance of power is ripe for breeding extractive economic and political institutions that will further reinforce the status quo. The message in this paper is that this vicious spiral can be broken through appropriate policies and institutions attacking poverty directly. The resulting poverty reduction could then act as a strong impetus to the generation of productive inclusive growth.

Section 2 defines the concept of inclusive growth and reviews alternative definitions. In 2.1, an attempt is made at identifying the distinct and most desirable features of inclusive growth within the specific context of SSA. A case is made that reduction in income inequality and a greater degree of protection for the poor should be crucial features of the pattern of inclusive growth most appropriate to the conditions prevailing in the African sub-continent. Sub-section 2.2 analyses the extent to which the current growth spell in SSA is inclusive. Two different viewpoints and diagnoses are reviewed. One group of analysts sees the glass as half-full and feels that the high present pace of growth has succeeded in generating an inclusive pattern of growth. Another group is more reserved and cautious regarding the sustainability of the present growth spell and advocates a more pro-active role for governments.

Section 3 is devoted to the anatomy and dynamics of growth. In 3.1, the role of the structural transformation in contributing to the process of inclusive growth in SSA is explored. A tentative finding is that the recent structural transformation in a sample of SSA countries has led to a more normal and desirable migration of agricultural workers into more productive jobs in non-agricultural sectors. Sub-section 3.2 analyses the conceptual interrelationship among growth,

inequality and poverty. A clear understanding of this interrelationship is necessary in order to grasp the concept of inclusive growth. Next, in 3.3 two alternatives and complementary development strategies are described: pro-poor growth and pro-growth poverty reduction. Sub-section 3.4 provides strong evidence that while, in general, high initial poverty incidence acts as a deterrent to subsequent growth, micro evidence from rural villages in Ethiopia and Rwanda suggest an opposite relationship. This apparent paradox is resolved.

Section 4 focuses on the architecture of inclusive institutions in SSA. It contains three sub-sections: 4.1 the case for pro-poor and pro-growth institutions; 4.2 conditions successful institutions need to fulfill; and 4.3 desirable institutions in small-scale agriculture, infrastructure and social protection schemes appropriate to SSA conditions. Finally, Section 5 concludes.

## 2 Inclusive growth

### 2.1 Distinct and desirable features of inclusive growth within the context of SSA

Over the last half a dozen years, a rich literature on inclusive growth has flourished. While there appears to be a substantial degree of agreement among authors and agencies regarding the main features of inclusive growth, there is no unique definition that has been adopted by the development community. In fact, there remain conflicting views in the interpretation of some dimensions of inclusive growth which are discussed subsequently.

Perhaps the most comprehensive and concise definition of inclusive growth is that of the Indian Planning Commission, i.e. ‘... growth that reduces poverty and creates employment opportunities, access to essential services in health and education, especially for the poor, equality of opportunity, empowerment through education and skill development, environmental sustainability, recognition of women’s agency and good governance.’ (Planning Commission, Government of India 2008: 2).

Rather than reviewing in detail the various definitions proposed by different agencies and authors, we shall focus on the conception of inclusive growth that conforms to and is consistent with the rather special initial conditions of SSA. The African Development Bank (AfDB) (2012a) defines inclusive growth as ‘economic growth that results in a wider access to sustainable socio-economic opportunities for a broader number of people, regions or countries, while protecting the vulnerable, all being done in an environment of fairness, equal justice, and political plurality.’ (p. 2). The AfDB (2012a) emphasizes the following features of inclusive growth which correspond largely to the World Bank’s definition, particularly, as expressed in Ianchovichina and Lundstrom (2009a, 2009b):

- Rapid and sustained poverty reduction requires inclusive growth that allows people to contribute to and benefit from economic growth.
- Inclusive growth refers *both* to the pace and pattern of growth, which are considered interlinked, and therefore in need to be addressed together.
- The inclusive growth approach takes a longer term perspective as the focus is on productive employment as the main instrument rather than on direct income redistribution, as a means of increasing incomes for excluded groups.

- Unlike the pro-poor growth agenda, which focuses mainly on the welfare of the poor, inclusive growth is concerned with opportunities in the labour force for poor and middle class alike.
- The ability of individuals to be productively employed depends on the opportunities to make full use of available resources as the economy evolves over time.

The main difference between the conventional approach to inclusive growth as exemplified by the World Bank and the African vision appears to be in the treatment of income inequality and the degree of protection to be afforded to the poor. The issue is whether in a sub-continent where poverty is endemic a fall in income inequality should be an inherent feature of inclusive growth. The question is how pro-poor growth should be? There are two definitions of pro-poor growth. The *relative* definition is that the poor benefit proportionately more than the non-poor from the prevailing growth, which implies a fall in income inequality. The absolute definition only requires that the poor benefit from growth.<sup>1</sup> Ianchovichina and Lundstrom (2009b) and the World Bank adopt the absolute definition, while the African view appears more sympathetic to the relative definition as the following quotation suggests: ‘Long-term sustainable high economic growth rates are necessary to reduce poverty and must be accompanied by growing productive employment to reduce inequality’ (AfDB 2012a: 2).

The main argument in favour of the absolute definition can be illustrated by an example drawn from Ianchovichina and Lundstrom (2009b): ‘For example, a society attempting to achieve pro-poor growth under the relative definition would favour an outcome characterized by average income growth of 2 per cent where the income of poor households grew by 3 per cent, over an outcome where average growth was 6 per cent, but the incomes of poor households grew by only 4 per cent. While the distributional pattern of growth favours poor households in the first scenario, both poor and non-poor households are better off in the second scenario.’

Two key assumptions are implicit in the above causal argument. First, any possible reverse effects from income inequality to the pace and pattern of growth are ignored (such as the presumed dampening effects of inequality on growth proposed by the ‘New Political Economy of Development’ to be discussed subsequently). Secondly, no welfare value is attached to less inequality in the income distribution as a development objective in its own right. Even recognizing that a certain degree of income inequality is required to provide entrepreneurs the necessary incentives for growth to occur, society, in its social-welfare function, might value greater equity as an end in itself.

Given the extremely high and, in some instances, growing income inequality prevailing in many SSA countries it makes sense to incorporate a reduction in income inequality as part and parcel of an inclusive growth strategy in the African context. Also, as will be discussed subsequently, a strong case can be made that the reverse link from poverty reduction to the promotion of productive inclusive growth may be even more robust in SSA than in other developing regions. The complex discussion of the interrelationship among growth, inequality, and poverty as well as the dynamics of poverty reduction is undertaken in Section 3, where the above issues are addressed and analysed.

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<sup>1</sup> Thus an extreme case where the average income of the poor increases by only one per cent following a GDP growth spell of eight per cent would be considered pro-poor according to the absolute definition.

## 2.2 A tale of two worlds: how inclusive is the present growth regime in SSA?

Economists tend to be divided in two different worlds or camps when it comes to appraising the extent to which the present growth spell in Africa, starting in the late 1990s, is inclusive. One world feels that the present growth pattern is reasonably inclusive and should rely mainly on the private sector as the engine of growth while minimizing the role of the government. The other camp, in contrast, tends to feel that the present structure of growth is not—or not—sufficiently inclusive and that the government needs to play an active role to create inclusive political and economic institutions and a more level playing field. At the risk of drawing a caricature, I shall refer to the first group as growth is enough (GE) and the second one as growth with government (GG).

If I may be allowed to digress briefly away from Africa, the battle between these two worlds is nowhere fiercer than in India today and perhaps best exemplified by the public battle between two iconic economists, Amartya Sen, the most influential proponent of GG, and Jagdish Bhagwati, an equally strong proponent of GE.

In a very recent *New York Times* article featuring the above battle the fundamental question is posed as follows: ‘Does India simply need more time for growth to work its magic, or is there something fundamentally wrong with its formula? Do improvements in health and literacy create growth or simply derive from it?’ (*New York Times* 2013). Sen’s position is that India has failed to invest substantially in the health and welfare of its people, which could doom its economy and people in the future. India’s rapid growth (averaging eight per cent per annum over the last decade) has not achieved much to reduce India’s horrendous levels of child undernourishment. The *New York Times* quotes Sen as saying: ‘There has been a kind of write-off of public institutions by this administration, and they think the only thing that works is business, so they think the more we put in the hands of business the better. ... That’s a disastrous position to take’. In contrast, Bhagwati denounces that position as ‘not only mistaken but dangerous since ... money spent on government programmes is largely wasted ... India’s myriad problems have less to do with poor health and literacy than a poor investment climate.’

SSA could almost be substituted for India in the above paragraph to reflect the two polar views, embraced by different authors and development agencies, relating to how inclusive the present African growth spell is and the best strategy to achieve inclusive growth. Yet, I perceive a nuanced distinction that will be highlighted shortly. In the context of SSA, the camps seem to be divided *more* on the issue of how inclusive the present growth pattern is than on the relative importance and respective roles of the government and the private sector. Some analysts see the glass as half full (HF) and continuing to be filled by a successful ongoing inclusive growth process, while others see the glass as still half empty (HE) and in need of major reforms if the very high initial endemic poverty and inequality are to be significantly reduced. While the HF world would rely more on private enterprise and free markets, the HE world sees the government as playing a key necessary and complementary role in areas such as education, health, social protection, and infrastructure. But, interestingly enough, even the HF proponents appear to recognize that the prevailing conditions in the African sub-continent characterized by the i) depth of monetary and non-monetary poverty; ii) extreme inequality; and iii) a relative scarcity of inclusive political and economic institutions require a pro-active government.

Before reviewing and analysing the two different diagnoses and interpretations of how inclusive the present SSA pattern of growth is, we need to present briefly some stylized facts relating to growth, inequality, and poverty.<sup>2</sup>

- Africa's economic growth has been truly remarkable. GDP per capita in SSA has grown in the last decade or so at a rate of about 2.5–3.0 per cent per annum compared to essentially zero per cent between 1960 and 2000. Six of the ten fastest growing economies in the world are in SSA. One can truly characterize the present growth spell as a quantum jump.
- Among the more important factors that contributed to the acceleration of the pace of growth appear to be high commodity prices, a large inflow of foreign investment in natural resources and land, falling fertility rates, and better governance.
- Half of the population is still poor but significant progress has been achieved. The headcount poverty ratio has fallen from a high of 58 per cent in 1996 to 48 per cent in 2010, using the US\$1.25 a day extreme poverty line.
- Yet, the total number of poor below the extreme poverty line increased from 349 million in 1996 to 414 million in 2010.
- Income inequality is extremely high with six of the world's ten most unequal countries being in Africa (South Africa's present Gini coefficient is .65).
- Income inequality increased slightly within Africa as a whole—the Gini coefficient rising from about .43 in 2000–04 to .46 in 2005–09. Out of the sixteen African countries for which Gini coefficients were reported in AfDB (2012a), income inequality appears to have risen in five, fallen in six, and remained essentially unchanged in the other seven countries.
- 'Despite the creation of 37 million new and stable wage-paying jobs over the past decade, only 28 per cent of Africa's labour force holds such positions. Instead, some 63 per cent of the total labour force engages in some form of self-employment or 'vulnerable' employment, such as subsistence farming or urban street hawking'.<sup>3</sup>

Within the context of SSA, the HF camp consists, among others, of Pinkovskiy and Sala-i-Martin (2010), whose paper's revealing title is 'African poverty is falling ... much faster than you think!', as well as Young (2012) and the International Monetary Fund (IMF) (2011). Below is a very brief, selective and, hopefully representative, sample of HE views.

Some indicators based on historical data on living standards, collected as part of the Demographic and Health Survey (DHS), paint a very rosy picture of major improvements over the last two decades. Young (2012) constructs measures of real consumption based upon the ownership of durable goods, the quality of housing, the health and mortality of children, the education of youth, and the allocation of female time in the household covering 29 SSA countries. He finds that 'real household consumption in sub-Saharan Africa is growing between

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<sup>2</sup> The evidence below comes from World Bank (2013a, 2013b); and AfDB (2012a, 2012b), if not otherwise indicated.

<sup>3</sup> Fine et al. (2012).



3.4 and 3.7 per cent per annum, i.e. three and a half to four times the 0.9 to 1.1 per cent reported in international data sources' (Young 2012: 3).

A comprehensive IMF (2011) study of six SSA countries concluded that 'There is evidence of growth having been fairly inclusive in the region's high growth countries. We find, for example, that the lowest quartile in four of the high growth case studies (Ghana, Tanzania, Uganda and Zambia) enjoyed fairly high increases in consumption. But there are signs that in many of these countries higher income households enjoyed still higher growth in consumption. This implies some increase in inequality ... We find evidence of real income growth having been underestimated in some countries—fairly significantly in some cases ... and thus poverty rates likely overstated' (pp. 24–5). An interesting finding is that 'the extent to which growth is inclusive is not related to the level of economic growth.' (p. 11). In some instances, the poorest quartile did relatively better than richer households in low-growth countries (e.g. Cameroon) and in other instances the bottom quartile did relatively worse in high-growth countries (e.g. Ghana, Mozambique, Rwanda, and Tanzania). This finding reinforces the contention that the pattern of growth is as, if not more, important than the pace of growth.

The extensive research output of the African Economic Research Consortium (AERC) on the growth-inequality-poverty nexus within a large number of African countries perhaps best exemplifies and supports the more cautious HE vision and the GG strategy (see among others Thorbecke 2013a, 2013b). Fosu (2012)<sup>4</sup> finds that while income growth was on average the main engine for poverty reduction in SSA since the mid-1990s, in certain countries, though, high inequality was a crucial deterrent to poverty reduction. Fosu (2009) also shows that the impact of income growth on poverty reduction in SSA is a decreasing function of initial inequality for all three Foster-Greer-Thorbecke (FGT) poverty measures. In addition, he confirmed that the poverty/income growth elasticity in the SSA region is only one-third of that in the rest of the developing world.

Still other indicators of wellbeing, such as the UNDP's Human Development Index, are much less sanguine than Young's rosy assessment. This index for SSA grew at a rate of only 1.3 per cent per annum between 2000 and 2011 (AfDB 2012b, Table 4.1).

The main contribution of the large number of country studies undertaken under the auspices of AERC on the growth-inequality-poverty nexus is that the idiosyncratic characteristics of African countries in terms of high initial levels of poverty and inequality, traditional reliance on a narrow natural resource output base, and institutional under-development, may call for a structure of inclusive growth somewhat distinct from that applicable to other developing regions. The main policy implications of the findings of the HF/GG world are that to speed up the process of poverty reduction in the sub-continent would require a combination of: i) significant declines in inequality; ii) a further acceleration in growth rates (a difficult option given the present remarkable growth spell); and iii) a more inclusive growth pattern.

Even within the African sub-continent, successful national inclusive growth development strategies will need to be designed to conform to the distinct initial conditions of each country. In particular, as will be argued in Section 4, a high priority should be placed on a speedy reduction in inequality and direct actions to lower poverty through appropriate social protection and labour schemes. By changing the initial conditions, a more inclusive growth pattern can be triggered.

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<sup>4</sup> Former director of research at the AERC.

It was previously hinted that in the SSA context, more so than in the context of other developing regions, there appears to be more convergence between the HE/GG and the HF/GE worlds. An excellent example of this convergence is provided by the IMF (2011) document previously cited that concludes its rosy outlook by recommending a pro-active role for the government as the following quote reveals clearly ‘once it has been established that growth has not indeed been inclusive, temporary and well-targeted transfer programmes could be considered to help those being left out by the growth process. ... Perhaps more importantly ... those countries that experienced higher growth in agricultural employment also experienced higher poverty reduction. Some public policies could ... lead to short-term increases in output and productivity ... necessary for accelerating poverty reduction’ (p. 25). These recommendations coming from an institution generally more sympathetic to the HF/GE vision are very similar to those emanating from the AERC and other authors more in the HE/GG camp.

### **3 The anatomy and dynamics of growth**

#### **3.1 The role of the structural transformation in contributing to inclusive growth in SSA**

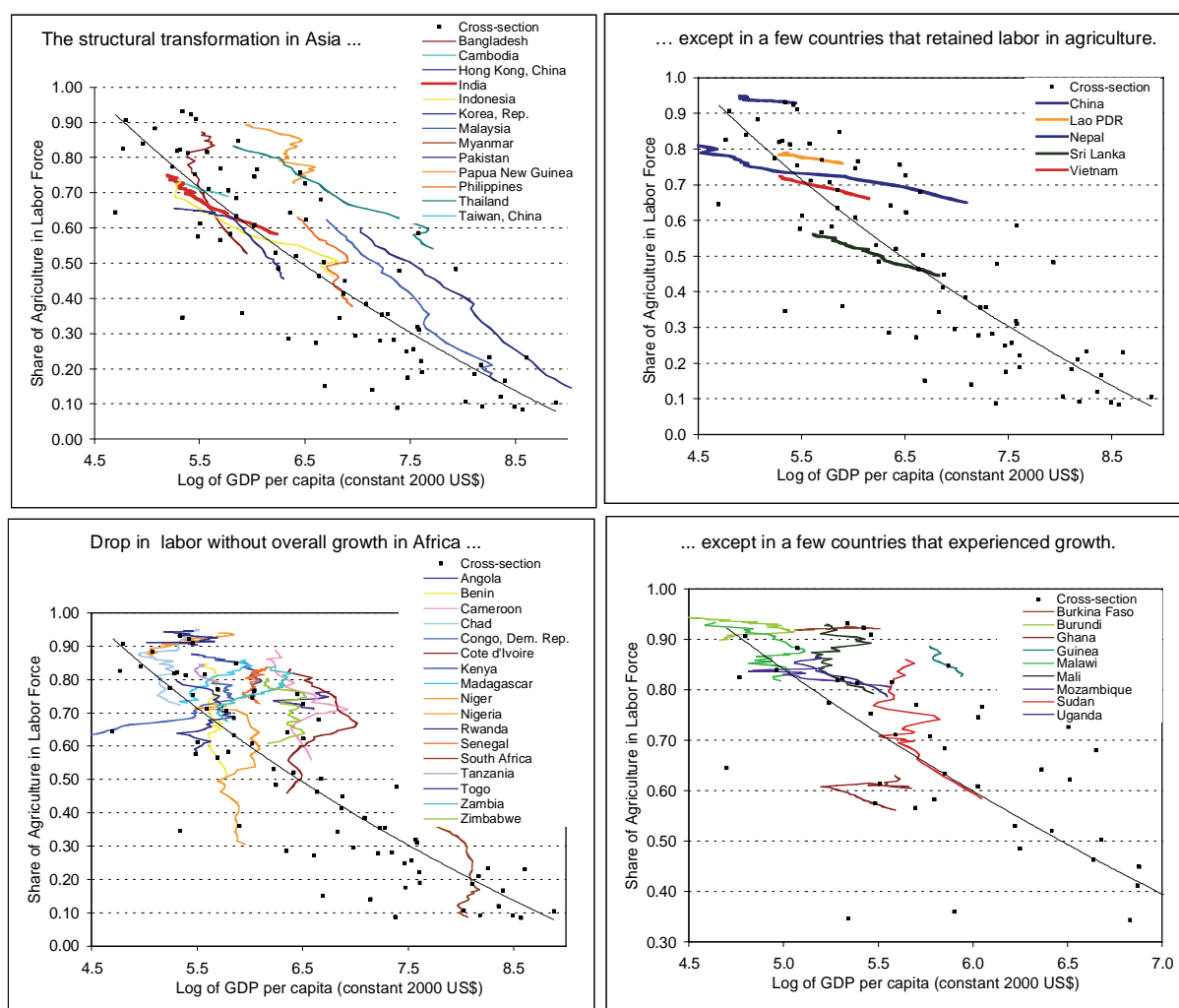
The great majority of the African agriculture-based countries are still at an early stage of development characterized by a relatively very high share of the total labour force employed in agriculture and the bulk of total output originating in agriculture. To understand the anatomy of the growth process in such countries one has to turn to the structural transformation—one of the best known dynamic regularities affecting the composition of output over time. Throughout the structural transformation, both the share of agriculture in GDP and the share of agriculture in the labour force decline. The regularity underlying the structural transformation appears very robust cross-sectionally (see Figure 1).

As de Janvry and Sadoulet (2010) make clear, the structural transformation represents the outcome of an underlying growth process which is not specified. While the development path of most Asian countries followed closely the ‘normal’ pattern represented by the international cross-sectional regression line (Figure 1, upper left panel), a majority of SSA countries, on the other hand, stagnated between 1960 and 2000, yet one observes in these countries a dramatic fall in the share of agriculture in the labour force (Figure 1, lower left panel). As de Janvry and Sadoulet (2010) indicate, what this means is that the rural-urban migration that occurred was not pulled by rising incomes in the urban economy, but pushed by lack of income opportunities in agriculture resulting in stagnant rural incomes<sup>5</sup> and that ‘deviations from the normal structural transformation provide a useful diagnostic of the missed contribution of agriculture to African development’ (de Janvry and Sadoulet 2010). In the few SSA countries where the structural transformation pattern followed the normal pattern (such as Burkina Faso and Uganda), this appeared to have been linked to episodes of GDP growth (see Figure 1, lower right panel).

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<sup>5</sup> Lipton (2004) characterized this phenomenon as the ‘migration of despair’. In this case, migration ‘depresses wage rates, denudes rural areas of innovators and hence, while it may briefly relieve extreme need, seldom cuts chronic poverty’ (quoted in Diao et al. 2008)

Figure 1: Deviations from the normal pattern for the share of agriculture in the labour force



Source: Figure 2 in de Janvry and Sadoulet (2010).

The *World Development Report 2008* (World Bank 2007) makes a convincing case that agriculture is the only possible engine of growth in many SSA countries. Two of the three AERC framework papers focused on agriculture (Gollin 2009; and Thorbecke 2009) tend to agree. Most country reports prepared for the AERC Growth-Poverty project emphasize the key potential role of small-scale agriculture in contributing to poverty reduction and pro-poor growth.

The key question is whether the sector that was Africa's Achilles' heel for so long and tended to be unmercifully exploited by politicians motivated by short-term gains is contributing to the present growth spell. More specifically, has there been an acceleration in agricultural output since 2000, and how inclusive has it been? The evidence suggests that a changing policy environment and increased attention to agriculture has had a significant effect on overall productivity growth based on technical efficiency gains (Diao et al. 2013). While the *resource-based growth* has been very modest enabling agricultural production to grow by about two per cent annually since 1960; from the mid-1980s on, agricultural productivity has shown gradual improvements.

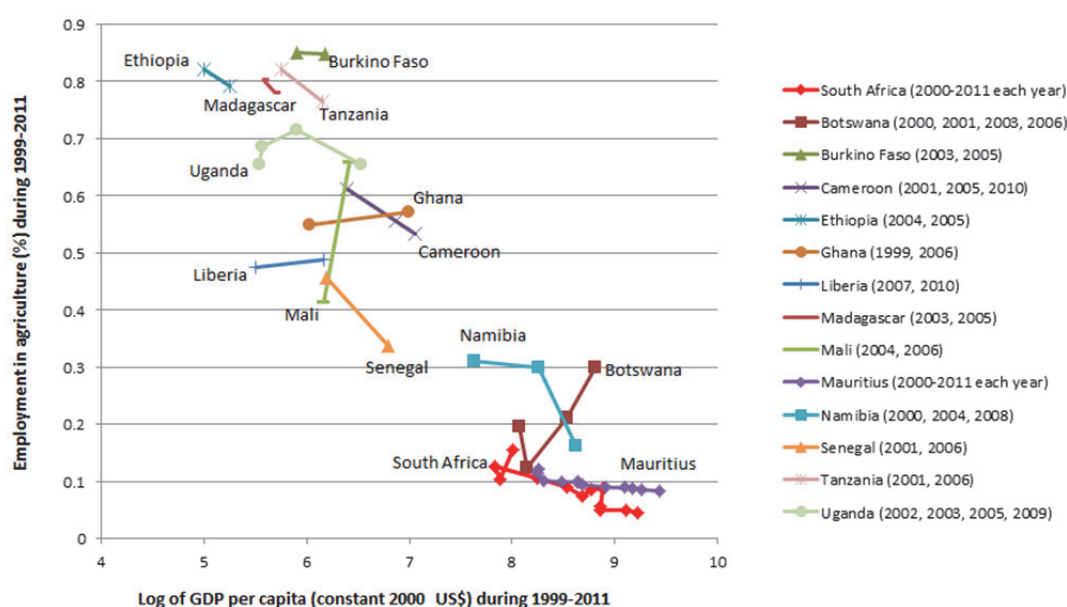
This *productivity-based growth* raised average farm output per unit of input by another percentage point, resulting in average growth of about three per cent per year between 1986 and 2011. In spite of recent progress, agricultural productivity in SSA lags far behind other regions of the world (Fuglie and Rada 2013). Also, a remaining cause of concern is that the rate of growth of

agricultural output does not appear to have accelerated during the present growth spell, compared to the preceding decade.

Even if the acceleration in the growth of agricultural production has remained modest in the last decade, evidence of a more normal (as shown in Figure 1, lower right panel), less flawed structural transformation in recent years, if observed, could be highlighted as an element consistent with inclusive growth. In order to determine whether such tendency indeed occurred, we gathered the most recent observations on the share of employment in agriculture and constant per capita GDP available for any sub-period from 2000 on.<sup>6</sup>

We found fourteen SSA countries for which at least two annual observations were available from 2000 on. As can be seen from Figure 2, the number of observations and time-spans vary, and therefore, the figure has to be carefully interpreted. However, in general, Figure 2 suggests that, for the sample of countries included, the structural transformation during the present growth spell appears to be closer to normal with a few exceptions. Mali is the only country in this sample that appears to suffer from a flawed transformation with a large (and unexplainable) fall in the agricultural share of employment combined with a fall in GDP per capita. In turn, Ghana, Botswana, and Liberia report rising shares of agricultural employment together with significant GDP growth. This could reflect increasing productivity in agriculture. Based on this limited information, our tentative conclusion is that the structural transformation in the present growth spell has generally been inclusive in so far as it reflects a more orderly rural to urban migration process and workers being pulled out of agriculture into more productive non-agricultural jobs- rather than pushed out.

Figure 2: Recent structural transformation in selective SSA countries



Source: Author, based on World Bank (2013a).

<sup>6</sup> The data set used by de Janvry and Sadoulet (2010) to derive Figure 1 was not kept up in recent years. Instead of using the share of agriculture in the labour force which is apparently no longer available, we had to rely on the share of agriculture in total employment. Although these two concepts are not analogous, their movements over time tend to coincide.

### 3.2 The interrelationship among growth, inequality, and poverty

To fully understand the anatomy of inclusive growth, it is essential to analyse briefly the interrelationship among growth, inequality, and poverty. The economy of any nation or region is influenced *inter alia* by the process of globalization, which is largely exogenous (outside the control of the national state), and the national development strategy, which includes the set of policies followed by the government and the existing institutions and is, at least partially, endogenous (under the limited control of the government).

By globalization, we mean here greater economic integration within the world economy manifested through increased openness. The major channels, through which globalization affect the economy of any given country, are through trade, foreign investment, technology transfer, and labour migration (see Nissanke and Thorbecke 2010, for a detailed discussion of the various globalization transmission mechanisms). Thus, for example, an increase in Kenya's exports of horticultural products contributes to GDP growth, and because the latter is labour-intensive, it contributes also to poverty reduction through increased employment of unskilled workers. In contrast, foreign direct investment in oil exploration and oil wells, likewise, contributes to output but creates few jobs and may lead to more inequality in the income distribution, because of its reliance on capital-intensive technologies. The point is that the various globalization channels at work influence the structure of growth differently in different settings.

Figure 3 illustrates schematically how globalization and a given development strategy affect the structure of growth, inequality, and poverty (abstracting from a number of feedback loops originating with poverty reduction back to growth and inequality that are discussed subsequently). In general, globalization and the country-specific development policies and institutions will have a positive effect on growth (the upper left arrow in Figure 3) and a more indeterminate effect on income distribution (the lower left arrow). In turn, these last two channels—the growth and distribution—interact dynamically to produce a growth-inequality-poverty triangular relationship (the right-hand triangle in Figure 3). The latter is referred to as Bourguignon's triangle (Bourguignon 2004).<sup>7</sup>

A key and controversial link in this triangle is that from income (and wealth) inequality to growth. This relationship is characterized by two conflicting theories. The classical theory argues that income inequality is a pre-condition to growth as the rich have a higher marginal propensity to save than the poor. Hence, a more unequal income distribution, for the same level of aggregate income, will generate a larger total flow of savings, leading to more investment and higher growth (Kaldor 1956). In contrast, the modern new political economy of development makes a strong case that greater income inequality is likely to dampen growth through a variety of channels, such as the diffusion of political and social instability, unproductive rent-seeking activities, and increased insecurity of property rights (Perotti 1993; Thorbecke and Charumilind 2002; and Devereux and Sabates-Wheeler 2004). Still, another link in the growth-inequality-poverty nexus is from growth to inequality. The Kuznets' law that held, that at an early stage of development, growth would bring about a worsening of the income distribution up to a threshold level of per capita income and reduce inequality beyond this threshold, has essentially been dethroned. There is no clear cut-link between the contemporary growth spell in SSA and a

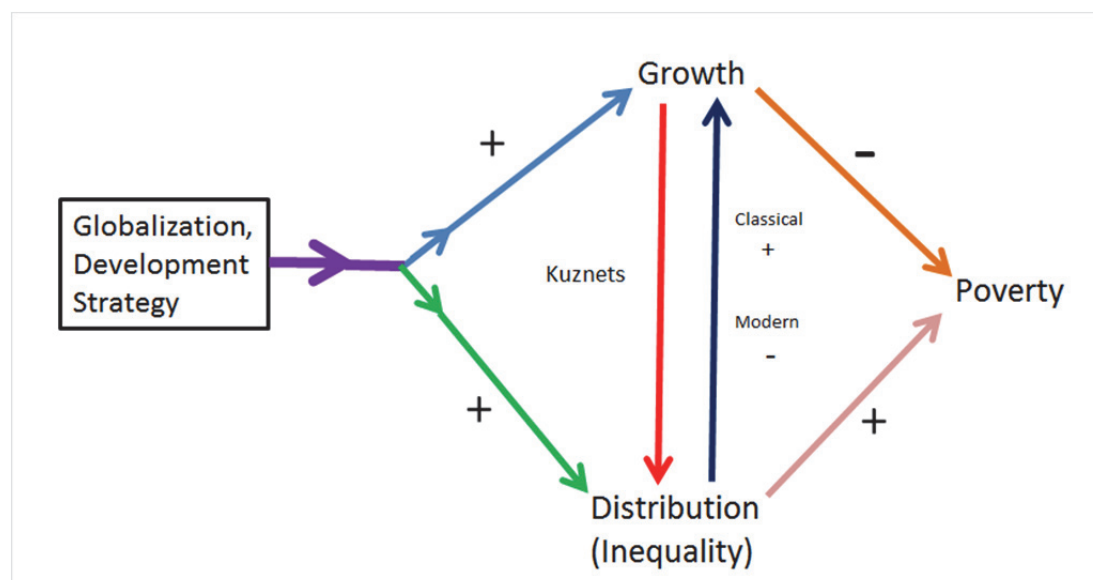
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<sup>7</sup> The methodological discussion that follows in this sub-section relies extensively on Nissanke and Thorbecke (2010) and Thorbecke (2013a), and is subsequently applied to the choice of appropriate inclusive institutions in the SSA context.

rise in income inequality. As pointed out previously, there are about as many cases where income inequality rose as cases in which it fell.

In summary, the pattern of growth—that is shaped by the forces of globalization and the national development strategy—determines the state of the income distribution and of poverty. Each link of the causal chain in the growth-inequality-poverty nexus plays its role in contributing to the developmental outcome in any given country. Inequality acts as a filter between growth and poverty alleviation.

Figure 3: Globalization and development strategy and interrelationship among growth, inequality, and poverty



Source: Author.

### 3.3 Pro-poor growth and pro-growth poverty reduction strategies

The causal chain linking growth to poverty has been thoroughly and critically researched and is today relatively well understood. This research has given rise to, and been based on, a rich literature on *pro-poor growth*. The contributors to that literature essentially accepted and adopted the premise that an inclusive structure of growth, anchored on employment and resulting in a relatively equal income distribution, would not only reduce current poverty but also set the stage for an acceleration of future growth. The message was clear: Excessive inequality is bad for inclusive and sustainable development.

The reverse causal chain from poverty reduction to lower inequality and more inclusive growth has been largely ignored until recently—if not rejected out of hand as a non-starter on the false and untested premise that any poverty-reducing intervention could not be productive. Improving the wellbeing of the poor households today would necessarily be at the cost of trading off (sacrificing) some growth tomorrow.

An early path-breaking study (Perry et al. 2006) proposed a *pro-growth poverty reduction* strategy as a (complementary) alternative to a pro-poor growth strategy. The study advanced the thesis that there are reinforcing vicious circles that keep families, regions, and countries poor and unable to contribute to national growth. The study identified a number of channels through which poverty dampens or precludes growth. Examples of such channels are that poor individuals: i) have limited access to financial markets which seals them off potentially profitable investment

opportunities; ii) often suffer from poor health which affects their productivity; iii) attend low-quality schools that constrain their human capital; and iv) are more vulnerable to labour market risks and income fluctuations and tend to under-invest in their own and their family's human capital. In turn, poor regions and countries: i) have fewer individuals capable of adopting, managing and generating new technologies; ii) lack infrastructure and face much higher transaction costs; and iii) often find ethnic conflicts exacerbated by income disparities.

The underlying logic of pro-growth poverty reduction is that by attacking poverty *directly* and reducing it, some major constraints on the behaviour of the poor will be removed making it possible for the poor to contribute to growth. They will be better able to acquire more education and skills, invest in their farms and informal activities, and adopt riskier but more productive technologies (such as high-yielding seed varieties in small-scale agriculture). Before making the case that a strategy based on pro-growth poverty reduction is appropriate within the present context of SSA, the difference between the latter and the more conventional pro-poor growth strategy should be clarified. In the first instance, the trigger (intervention) point is poverty per se. Policies and institutions alleviating poverty directly (such as a social protection scheme that contributes to the human capital of the poor) can engender a virtuous spiral<sup>8</sup> bringing about a faster and more inclusive growth structure which, in turn, could lead to a more equal income distribution and still further reduction in poverty. Figure 4 illustrates the virtuous process that operates through the triangular relationship:

poverty reduction → higher and more inclusive growth → less unequal income  
distribution → poverty reduction → higher and more inclusive growth → ...

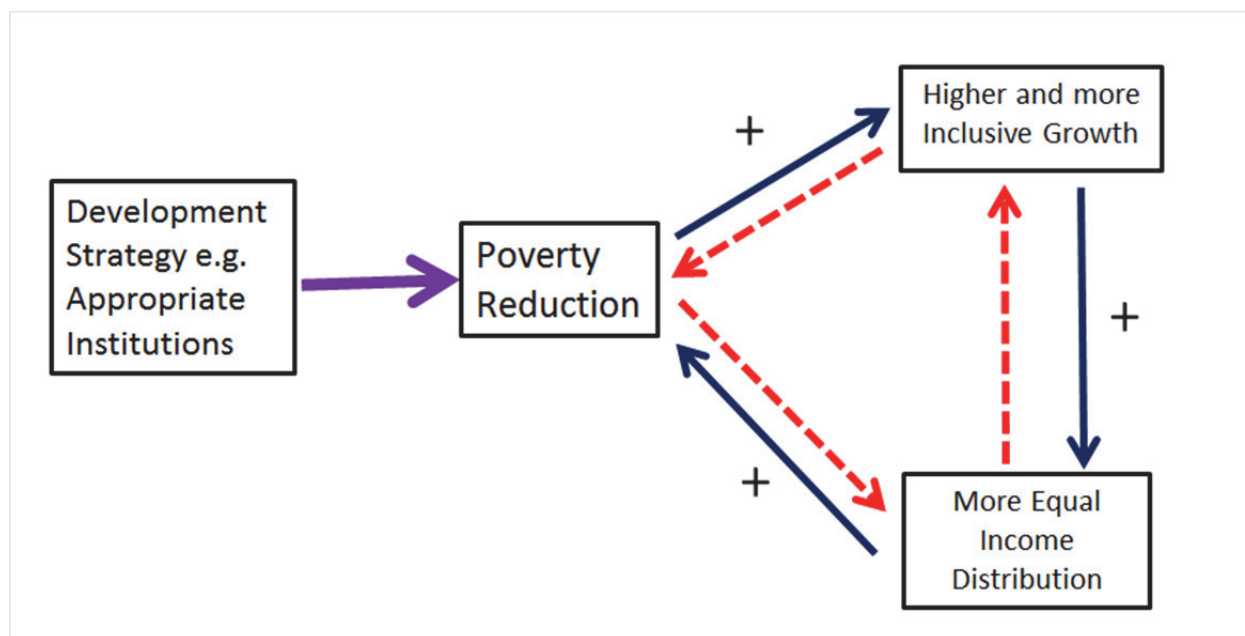
We call this process a virtuous spiral as each link reinforces the preceding one, and each link works in a bi-causal way. For example, an intervention (institution) reducing poverty can contribute to a more inclusive growth pattern while the latter helps reduce poverty still further. This is why each of the three links (sides of the triangle) in Figure 4 contains two arrows moving in opposite directions (creating feedback loops).

In contrast, the trigger point under the pro-poor growth strategy would be any policy intervention affecting the level or structure of growth (such as public investment on infrastructure in the rural areas). Once underway, the same causal spiral illustrated in Figure 4 would run its course. If the new infrastructure investment (say a road network consisting of farm-to market roads) is successful in creating more rural employment and reducing transaction costs for small farmers, it would create a more inclusive growth structure, reduce income distribution inequality and poverty, and follow the same virtuous spiral as depicted in Figure 4. Of course, a combination of institutional and policy interventions affecting both the structure of growth and the level of poverty could be doubly effective.

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<sup>8</sup> Virtuous spiral, in contrast with virtuous circle, conveys a dynamic process of continuing improvement.

Figure 4: Impact of poverty reducing institutions on inclusive growth and income distribution



Source: Author.

A convincing case in support of the validity and feasibility of a pro-growth poverty reduction strategy requires two key questions to be affirmatively answered. Firstly, is there some evidence that a high incidence of poverty in a given setting is an obstacle to growth, and will act to dampen future growth? Secondly, even if evidence can be brought to bear in support of the above contention, are there realistic institutions and schemes that can contribute to growth by reducing poverty? In the remainder of this section, an attempt is made to answer both of these questions affirmatively.

### 3.4 Does high initial poverty retard growth? An apparent paradox resolved

Ravallion (2012) in an important paper, attempting to explain why poverty convergence is not occurring world-wide, used a sample of almost 100 countries covering the period from 1980 to the present. Among his main findings are that 1. High initial poverty rates have sizeable negative impacts on the growth rate; 2. It is high poverty not inequality that retards growth; and 3. The growth elasticity of poverty reduction tends to be lower in countries with a higher initial poverty rate. If high initial poverty is the main impediment to growth then this finding provides a strong *rationale* for addressing poverty reduction directly encouraging a growth-enhancing poverty reduction strategy in addition to a more conventional inclusive growth strategy. The immediate question that is elicited by these results is that of endogeneity between growth and poverty. Slow growth contributes (if not causes) poverty. No wonder then that initial high poverty would be associated with low growth. However, Ravallion (2012) rules out this interpretation by making clear that: 'We see that the finding that a higher initial poverty rate implies a lower subsequent growth rate in the mean (at given initial mean) is robust to allowing for the possible endogeneity of the initial mean and initial poverty rate' (p. 16).

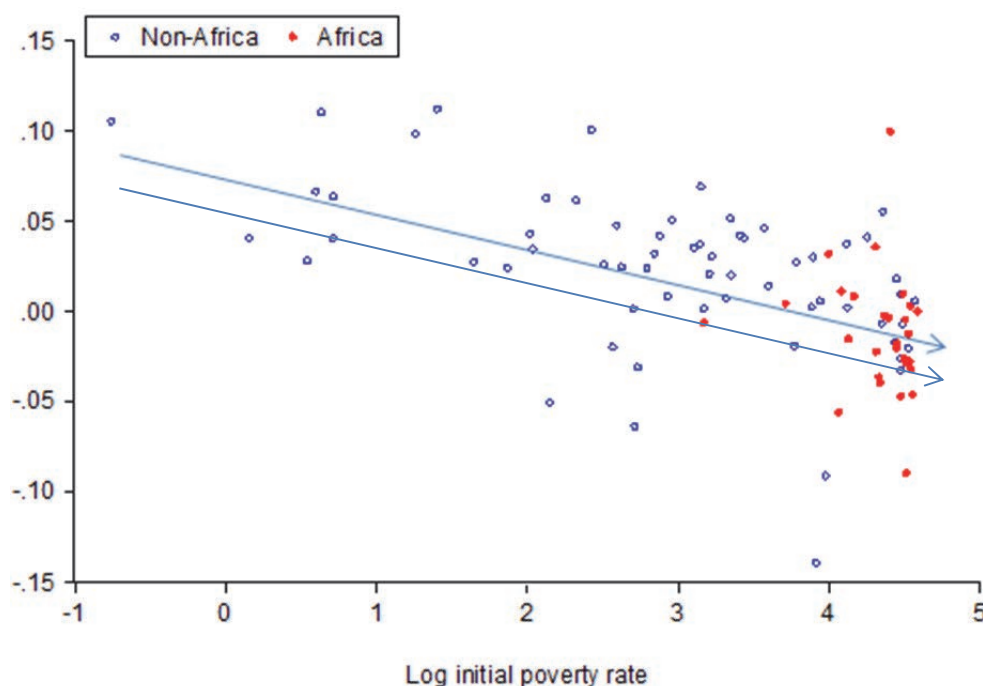
Fosu (2012) echoes Ravallion's findings while also emphasizing the role of inequality. He concludes that: 'Viewed within a global context ... the relatively low levels of income appear to be a major culprit for retarding the effectiveness of income and inequality improvements for poverty reduction in SSA countries generally.' Thus, these last two studies, if they can be further



confirmed, provide a strong justification for a pro-growth poverty reduction strategy, particularly, in the African sub-continent where the incidence of poverty is still very high in spite of the present growth spell.

It is interesting and relevant to note that the negative relationship between initial poverty and subsequent growth does not hold for the SSA sub-sample of countries. If anything, when we re-estimated Ravallion's regressions using only the 28 SSA countries in his full sample, we obtain a *positive* but not significant relationship.<sup>9</sup> The explanation for why the initial poverty rate is no longer significant when one focuses on Africa alone is because by truncating the sample to include mainly high poverty countries one loses the power to detect the true relationship. There is not enough variance within the sub-continent to be able to capture this relationship. The graph in Figure 5 illustrates this point. The vertical axis is the annualized growth rate in the mean controlling for the initial mean plotted against the (log) initial poverty, consistent with the regression in Ravallion (2012). As expected we see the strong negative relationship over the whole data set. However, when we focus just on the SSA sub-sample (n=28, using the World Bank classification) the relationship is no longer evident (the red dots).<sup>10</sup>

Figure 5: Annualized growth rate regressed on initial poverty full sample versus SSA sample



Source: Ravallion, see Footnote 10.

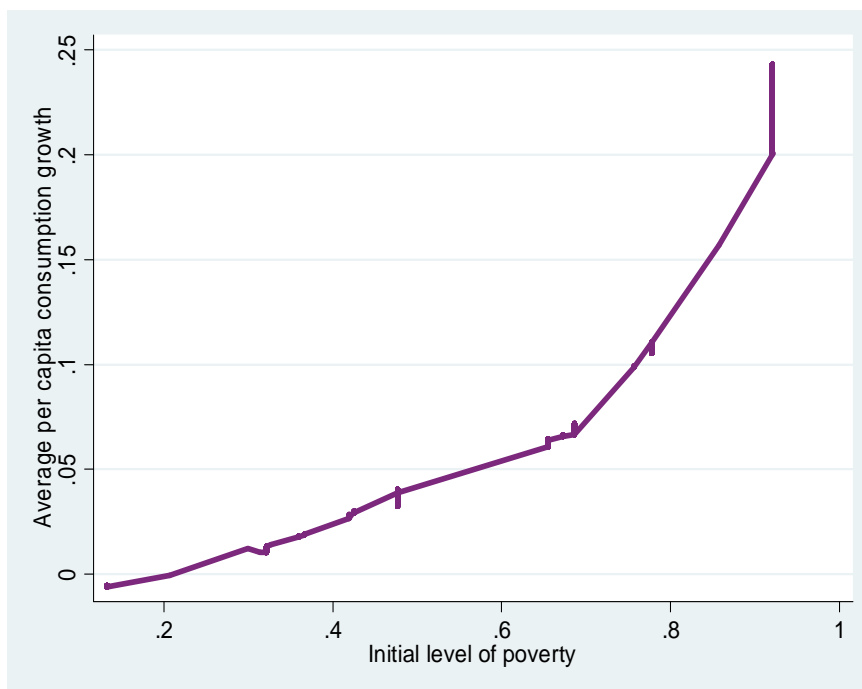
It is also conceivable that there are some specific initial conditions in the African sub-continent that differ significantly from those of other developing regions (what Easterly and Levine called the African dummy). These specific conditions, such as the prevalence of inter-ethnic conflicts resulting from the colonial powers' setting of artificial national boundaries and when often the loyalty is to the clan and not the nation, could create an environment where the growth pattern differs from that of other regions.

<sup>9</sup> Similar results were obtained when we used the sample of 33 African countries, rather than just 28 SSA countries.

<sup>10</sup> I am grateful to Martin Ravallion who provided me with this graph (in Figure 5) and explanations in a private communication.

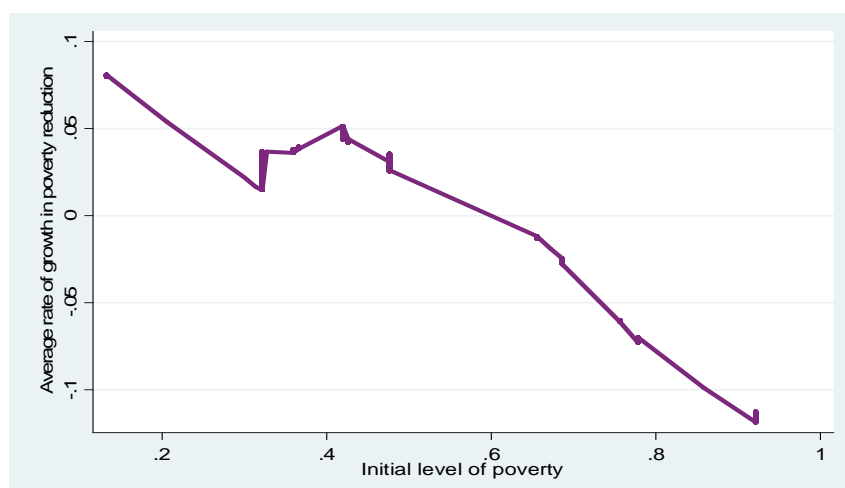
What happens when Ravallion's findings are confronted with micro level evidence? I had access to cross-sectional observations on poverty incidence and subsequent growth in samples of Ethiopian villages and Rwandan districts. While I expected to find a strong negative correlation between these variables, consistent with Ravallion's hypothesis, the correlation turned out to be strongly and significantly positive. Those villages and districts with high initial poverty incidence tended to experience subsequent faster growth and greater poverty reduction. Figures 6 and 7 show the high correlation between high levels of poverty based on a sample of 15 Ethiopian villages during 1994–2009 and, respectively, average per capita consumption growth and average rate of poverty reduction. Figure 8, in turn, is based on 30 Rwandan districts and shows an equally strong correlation between high initial poverty levels and subsequent poverty reduction. Clearly, at first brush, these findings appear to be in conflict with those of Ravallion. How can the micro-level cross-sectional village information appear to be so inconsistent with the robust macro-international cross-sectional findings?

Figure 6: Initial poverty and growth in rural villages of Ethiopia, 1994–2009



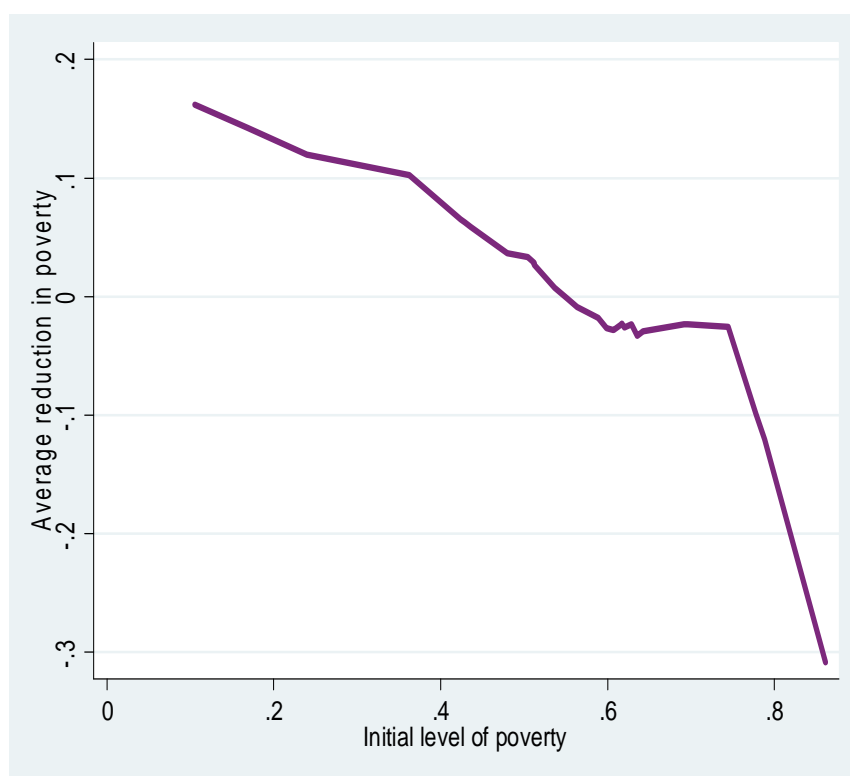
Source: Author.

Figure 7: Initial level of poverty and average rate of reduction in poverty in Ethiopian villages, 1994–2009



Source: Author.

Figure 8: Initial level of poverty and average rate of reduction in poverty by district in Rwanda, 2001–05



Source: Author.

In fact, a convincing and simple resolution of this apparent paradox is readily available. One could speculate that the Ethiopian and Rwandan governments allocated their anti-poverty and social protection funds where they were most needed and proportionately to the incidence of poverty. Although I do not have specific evidence, Abebe Shimeles (arguably one of the most knowledgeable Ethiopian researcher on poverty) wrote to me in a private communication: ‘I know for a fact that the governments of both Ethiopia and Rwanda made a conscious effort to direct public expenditure and aid resources to poor areas. ... I will collect the data on public

expenditure to see if the strong convergence in poverty could be explained.<sup>11</sup> Clearly, in the case of Rwanda the period 2001–05 was characterized by post-war catch-up (Verpoorten 2013; Serneels and Verpoorten 2012). This is why one finds higher consumption growth in the poorest districts (which were poorer because they suffered more from the genocide and other forms of violence). In addition, the most destitute districts are likely to have received relatively more foreign and humanitarian aid in the period immediately following the episodes of conflict than those districts less affected. Social protection schemes in Rwanda became effective in the second half of the 2000s. Furthermore, even in the absence of foreign or central government aid, one would expect some regression to the mean following the impact of major shocks.

If the above hypothesis that governments and foreign aid donors allocate funds inversely proportionately to the initial poverty levels could be further confirmed, it would also provide an additional endorsement of the effectiveness of a pro-growth poverty reduction strategy. Attacking poverty directly through appropriate schemes (such as public works programmes in the Ethiopian case as mentioned in Section 4.3) can endow poor unemployed workers with productive jobs and wages and help jump-start economic growth in the short run and contribute to social overhead capital (e.g. rural roads) in the medium run.

The key question is why countries starting out with a higher incidence of poverty tend to face worse growth prospects. High poverty may pick up, among others, the negative effects of the often dismal performance of agriculture including a flawed structural transformation in the past, the low quality of primary and secondary education, and the general lack of inclusive institutions. The upsurge in SSA growth in the last decade might have been associated with, and influenced by the significant fall in poverty in many SSA countries-reflecting the bi-causal relationship between growth and poverty. These issues are addressed in Section 4.

## **4 The architecture of inclusive institutions in SSA**

### **4.1 The case for pro-poor and pro-growth institutions in SSA**

Acemoglu and Robinson (2012) make an extremely compelling and convincing case, based on a myriad of historical episodes world-wide, that growth (and, more generally development ) can only be sustained in the long run if it is anchored on and supported by inclusive political and economic institutions. Central to their theory ‘is the link between inclusive and political institutions and prosperity. Inclusive economic institutions that enforce property rights, create a level playing field, and encourage investments in new technologies and skills are more conducive to economic growth than extractive economic institutions that are structured to extract resources from the many by the few and that fail to protect property rights or provide incentives for economic activity.’ (p. 430).

The tragedy of Africa according to them is that independence rather than creating a critical juncture for improvements in the highly extractive colonial institutions in place, created an opening for unscrupulous leaders to build on and intensify further the prevailing extraction process. The end of the Colonial period left SSA with a vacuum of inclusive institutions.

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<sup>11</sup> Private communication to author dated 16 August 2013. I am grateful to Abebe Shimeles for providing me the information on Ethiopian and Rwandan villages.

While it may be somewhat premature to embrace the notion that SSA is undergoing a truly sustainable economic and social Renaissance, it is clear that an opportunity exists for a change of regime from a largely exclusive and extractive structure of growth to a more inclusive one. The incidence of poverty and inequality is still very high in the sub-continent and if governments of African countries succeed in reducing them further, than a virtuous spiral of inclusive growth might be generated, as illustrated in Figure 4. The time would appear to be ripe and hospitable for such a transition and the adoption of institutions geared to reduce poverty and inequality while being simultaneously productive (Thorbecke 2013b).

Nevertheless, before advocating such a pro-growth poverty reduction strategy in SSA, a key question needs to be answered: Is there convincing evidence that such institutions can be successfully initiated in SSA? A number of comprehensive evaluations of social protection programmes and labour schemes (SPLs) have unambiguously answered this question affirmatively (Alderman and Yemtsov 2013; World Bank 2012; FAO 2012) and given many examples of productive SPLs. In a recent study, Thorbecke (2013b) provides an extensive list of already successful inclusive institutions in SSA and additional institutions that proved to have contributed to poverty reduction and productive growth in Asia and Latin America and that could be adapted to the special conditions of SSA.

#### **4.2 Conditions successful inclusive social protection and labour institutions need to fulfill**

What should be the architecture of those institutions? In order to be both poverty-reducing and productive, successful institutions in the developing world need to fulfill a number of conditions. First, rarely can an isolated SPL programme (by itself) satisfy the dual objectives of poverty alleviation and contribution to inclusive growth. Poor households tend to be affected simultaneously by a variety of poverty traps (e. g. dynamic and intergenerational poverty traps, social and economic exclusion poverty traps, nutritional traps, demographic traps, spatial development traps, and traps caused by inadequate assets). The cumulative effect of mutually reinforcing traps is to deepen the incidence of poverty and its consequences on household wellbeing. Rather than attacking each of these traps separately, breaking their cumulative effects calls for a broad-based development strategy consisting of a combination of SPL instruments and policies (Thorbecke 2013a).

Second, and directly related to the above condition, greater centralization is crucial. Acemoglu and Robinson (2012: 81) define ‘political institutions that are sufficiently centralized and pluralistic as inclusive political institutions’ and observe that ‘the lack of political centralization almost to the point of total collapse of the state’ is a feature shared by many SSA countries. Individual loyalty is to the tribe, clan, or ethnic group rather than to the nation, which leads to fragmentation and conflicts. Evidence suggests that a number of African countries have managed to become more centralized in the recent past such as Burundi, Ethiopia, Rwanda, and Tanzania and perhaps even South Africa. Greater centralization does not necessarily go with greater pluralism but is, at least, one condition of political inclusiveness.

Third, SPL schemes are needed both i) in normal times to address long-term poverty, expand opportunities, and protect households against idiosyncratic shocks; and ii) in times of global or macro crises to act as safety nets (World Bank 2012). This means that they have to be already incorporated in the institutional fabric; they are unlikely to succeed if they have to be created on an ad hoc basis. A final condition worth mentioning is that the SPL programmes cannot be ‘one

size fits all' (World Bank 2012). Programmes have to be adapted to the specific setting, institutional capability, and culture of a given country or region.

### **4.3 Examples of inclusive institutions in small-scale agriculture, infrastructure, social protection, and social protection schemes**

In this sub-section we attempt to sketch some of the more important features SPL schemes need to possess in order to be both poverty reducing and productive in three overlapping areas: small-scale agriculture, infrastructure, and social protection. In the process, we give a few selective examples of successful institutions in some African countries and in developing countries outside Africa that appear to be potentially transferable to part of the sub-continent.<sup>12</sup>

#### *Small-scale agriculture*

If small-scale agriculture is to play its role as engine of growth in many of the lesser developed SSA countries, it needs a clear strategic vision and a co-ordinated approach.<sup>13</sup> The state has to provide the necessary guidance and resources to accelerate growth. SSA can learn much about how to encourage small-scale farmers from the earlier development history of Japan, Eastern and South-Eastern Asian countries. For example, in Taiwan, multipurpose farmers' associations were extremely successful from the mid-1950s to the mid-1970s in providing collective goods, and in sharing and disseminating information.<sup>14</sup> These associations constituted an important arm of the Joint Commission for Rural Reconstruction (JCRR)-an institution that operated as a kind of super ministry of agriculture. As I wrote many years ago 'The fruits of research on new varieties and improved farm practices undertaken under the auspices of the JCRR were conveyed to these farmers' associations by extension agents, often combined with supervised credit. Joint buying of inputs and selling of outputs by these associations reduced monopolistic or oligopolistic powers on the other side of the market' (Thorbecke 1993).

The above experience and similar ones in South Korea, Indonesia, and other Asian countries suggest strongly that the agricultural strategy be designed and implemented in SSA countries today in a centralized fashion under the authority of an institution (such as a super ministry of agriculture) that has control (including budgetary control) over many instruments such as, research, extension, credit, and appropriate rural infrastructure. I presume that this would be an example of the type of centralization Acemoglu and Robinson recommend. Centralization in the design and budgeting of an inclusive growth strategy does not imply that devolution and delegation of power to sub-national districts is ruled out. Of course, there is a fine line and natural confrontation between centralized co-ordination and decentralized implementation.<sup>15</sup>

One of the effects of a strategy of increasing productivity in small-scale agriculture is to raise farmers' incomes and even accelerate and facilitate the labour migration out of agriculture into

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<sup>12</sup> Most of the examples are based on Thorbecke (2013b), which contains a detailed discussion of what SSA can learn from successful inclusive institutions in Asia and Latin America.

<sup>13</sup> In my generation, one would have called it a Plan before this word could no longer be used in good company.

<sup>14</sup> It can be argued that the level of development and wellbeing during the time-span from the mid-1950s to the mid-1970s in Taiwan corresponds roughly to that prevailing presently in poor SSA countries.

<sup>15</sup> In the 1970s and 1980s, during the highly successful rice intensification programme, Indonesia relied on a powerful institution, Bappenas (Ministry of National Development Planning) that was in charge of both planning agricultural development and controlled the budgetary allocation. The devolution of power was to district-level institutions (Bappedas) that were responsible for district-level co-ordination and implementation.

rural off-farm activities and, also, the rural-to-urban migration. Here again the experience of Japan and East Asia can provide useful lessons to agricultural-based African countries. Investment in rural (often vocational) education and physical infrastructure (to be discussed shortly) provided the migrants with desirable skills valuable in off-farm activities and in urban industrial endeavors; and reduced the transaction costs of moving.

The previously mentioned evidence that the recent structural transformation in a number of SSA countries tended to follow more the normal trend is encouraging, yet a lot more needs to be done. The relevance of the structural transformation from the vantage point of inclusive growth was, first, expressed clearly in the fundamental contribution of Kuznets that trends in inequality depend on rising labour productivity which, in turn, facilitates and accelerates the structural transformation. The resulting upheaval in the economy, such as greater voice by the poor and the appearance of a middle class, encourages a *social transformation*. As McKinley (2009) pointed out: 'It is this social transformation that is the basis for a trend break in the income distribution of a country' (p. 14). The relatively greater political and economic power of the lower and middle classes allows them to demand more inclusive economic and political institutions and improvements in human wellbeing for the poorer segments of society. This is the rationale behind the notion that a successful process of inclusive growth should be anchored on an appropriate structural transformation path.

### *Infrastructure*

The importance of adequate physical infrastructure to reduce transaction (particularly transportation) costs of farmers and traders in rural areas cannot be over-emphasized. A successful institution is Ethiopia's Productive Safety Nets Program (PSNP) that, among others, made major contributions to public works, such as road building and rehabilitation, as well as the prevention of environmental degradation. In 2009, public works were said to be operational in almost a third of Ethiopia's districts generating an estimated 190 million workdays of labour (Alderman and Yemtsov 2013). It would appear that the PSNP structure could be a model to be copied in an adaptive fashion by a number of SSA economies. This institution consists of three components: 'Public Works' that builds community infrastructure and agricultural assets, 'Direct Support' that provide social assistance to the poor, and the 'Household Asset Building Programme' which empowers rural households to increase their incomes, food production and assets. The PSNP is one of the largest social protection interventions in Africa reaching eight million Ethiopians in 2011. There is persuasive evidence that public works in Ethiopia have contributed to: i) a large scale network of rural roads and other physical infrastructure; ii) the protection and improvement of household level food security; and iii) asset security and new household asset formation.

Infrastructure investment can play a major role in speeding up the intersectoral labour mobility and the rural to urban migration. Given the still very high growth rate of the labour force, a large number of new stable jobs needs to be created outside of agriculture in sectors such as labour-intensive manufacturing, tourism, construction and communication. Again, a balanced portfolio of infrastructure investment can act as a 'lubricant' in the process of social transformation.

### *Social protection schemes*

The first distinction that needs to be made in the domain of social protection schemes is between unconditional and conditional grants. Unconditional cash transfers consist largely of cash transfers to vulnerable groups such as older people and children. The Old Person Grants and the Child Support Program in South Africa are both based on unconditional cash transfers. Their relative importance in the wellbeing of those groups is very high—amounting to 3.5 per

cent of GDP and reaching more than two million pensioners and more than ten million children (FAO 2012). Clearly, these schemes have improved the wellbeing of the recipients and by adding to the stock of human capital and through the productive expenditures of pensioners these programmes have also contributed to a more inclusive growth pattern. Some of the more developed countries in SSA might consider adopting some variant of the South African Pension system.

The great majority of social protection schemes in the African sub-continent are of the unconditional type. Yet, particularly in the human capital domain SSA could benefit greatly from adopting conditional cash transfer programmes (CCTs) that have had enormous success in Latin America and more specifically in Mexico and Brazil. Arguably the most well-known and effective CCTs world-wide are the Oportunidades scheme in Mexico and the Bolsa Família programme in Brazil. Both have been extensively studied and evaluated. ‘Oportunidades is a government social assistance programme founded in 2002, based on a previous programme called Progresas, created in 1997. It is designed to target poverty by providing cash payments to families in exchange for regular school attendance, health clinic visits, and nutritional support’ ([Wikipedia](#)). Oportunidades was instrumental in reducing poverty and income inequality significantly, as well improving health and educational attainment in regions in which it has been deployed. More than one quarter of Mexico’s population participates in Oportunidades.

Bolsa Família is a social welfare programme run by the Federal Brazilian government.<sup>16</sup> It provides financial aid to poor Brazilian families; if they have children, families must ensure that the infants attend school and are vaccinated. It also works to give free education to children who cannot afford to go to school to show the importance of education (reproduced from [Wikipedia](#)). Perhaps the main lesson of the above two Latin American institutions is that they had a major productive macroeconomic impact. The fall in household poverty and public investment in human capital were the triggers that led to a significant reduction in inequality and, arguably, to a faster and more inclusive pattern of growth.<sup>17</sup> Oportunidades and Bolsa Família are prime examples of pro-growth poverty reduction institutions.

## 5 Conclusions

It is clear that SSA is currently undergoing an unprecedented growth spell. Since 2000, the African sub-continent has enjoyed no less than a quantum jump in the pace of aggregate economic growth. While some analysts describe the new process as signaling an African Renaissance, the present study suggests that a more guarded appraisal would be in order.

On the positive, side the very high pace of growth has reduced the incidence of poverty significantly but does not appear to have made any dent on the relatively very high income inequality. The latter still acts like a filter between growth and poverty alleviation. There is some evidence that the pattern of growth in SSA has become more inclusive during the current growth spell than before 2000. Among others, the structural transformation in many SSA countries is

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<sup>16</sup> *The Economist* (2008) described Bolsa Família as an ‘anti-poverty scheme invented in Latin America’ [which] ‘is winning converts worldwide.’

<sup>17</sup> Social protection policies have been the major contributor to the dramatic reduction in poverty and inequality in Brazil in the last decade. Moderate poverty fell from 26 per cent of the population in 2003 to 14 per cent in 2009 and extreme poverty was halved from ten per cent to five per cent. Inequality also fell from a Gini coefficient of 0.59 (among the highest in the world) to 0.54. Similar reductions in poverty and inequality occurred in Mexico during the same period.



presently less flawed than in the past. Workers who are moving out of small-scale agriculture rather than being ‘pushed out’ into even less productive informal jobs, as was the case prior to 2000, appear increasingly to be ‘pulled into’ more productive jobs outside of agriculture.

Yet, much more needs to be done to convert the high pace of growth into a truly inclusive pattern. Given the convincing evidence that high initial inequality and poverty can retard and dampen subsequent growth by, among others, fueling social, political, and ethnic conflicts, a strong case can be made for government interventions to reduce inequality and poverty directly. Two complementary development strategies, i.e. a pro-poor growth and a pro-growth poverty reduction are analysed and described in some detail. In particular, the latter could help engender a virtuous spiral of productive and inclusive growth.

A tragedy of the colonial legacy in SSA is the scarcity of inclusive political and economic institutions and the abundance of extractive institutions. It is essential that SSA countries build more inclusive institutions. We argued that institutions that reduced poverty directly can also be productive. The old trade-off between equity and efficiency can be replaced by a complementary relationship linking poverty reduction to increased productivity through an appropriate choice of institutions. Selective examples of such institutions, in the domains of small-scale agriculture, infrastructure and social protection schemes, are presented and discussed. It is clear that the African sub-continent can learn from successful inclusive institutions both within Africa and in developing regions of Asia and Latin America. A number of those institutions appear to be good candidates for transplantation to the distinct conditions prevailing in Africa.

The final message of this study is that the dawn of an African Renaissance might turn into a sustainable reality if the opportunity presented by the current growth spell is taken advantage of. It is always easier to introduce new policies and institutions in an era of growth than in an era of stagnation.

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