

# **Poverty, Inequality and Labour Markets in Africa: A Descriptive Overview**

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## **Poverty, Inequality and Labour Markets in Africa: A Descriptive Overview**

### **Understanding the nature and severity of poverty, and labour market challenges in Sub-Saharan Africa**

Asked about the levels of poverty in Africa, an individual would be hard pressed to deny the existence of poverty or the need for policies to alleviate poverty on the continent. However, while the presence of poverty in Sub-Saharan Africa (SSA) seems undeniably obvious, the nature of that poverty and the relation of poverty to other factors such as the economic climate and labour market conditions is less clear.

How many people in SSA can be classified as poor and just how poor are they? What levels of inequality exist in individual regions? Has noticeable economic growth occurred, and if so, has this alleviated poverty in any way? What changes have occurred in the labour markets in terms of individuals seeking employment and the ability of the economy to absorb these individuals? Is the labour force centralised in rural or urban areas; in formal or informal employment?

By answering these questions one begins to form a multi-dimensional picture of poverty and of the interplay between the various factors involved. This in turn provides one with guidelines as to the specific areas which need to be addressed from a policy perspective.

## **Towards an in-depth analysis of poverty, inequality and labour**

The findings in this paper are derived from a comparison of existing data, either within SSA over a period of time (1981-2001), or between SSA and other regions in the world; the most important of these regions being East Asia and the Pacific, as this is the region closest in profile to SSA in terms of poverty.

This paper uses existing data to examine in compressed empirical form:

1. The prevalence and severity of poverty and inequality in SSA, as well as the levels of inequality that exist in the region.
2. The role of economic growth in engendering welfare gains in this region.
3. Shifts in participation rates and the potential growth points in the region's labour markets.

## **Defining a pattern by drawing on two sets of data**

However, where existing data is insufficient to provide in-depth information of a satisfactory nature, alternative methods of processing and collecting data have been put forward, in order to gain a more meaningful understanding of the nature and dynamics of poverty, inequality and labour markets.

*This paper therefore contributes greatly towards research in this region by providing an effective framework for the collection and processing of data in SSA. Detailed information on these is available on request.*

## **Examining poverty and inequality**

By comparing the poverty gap and inequality indicators (see Table 1), the scale of the welfare challenge facing SSA becomes clear:

**SSA has the highest incidence of poverty internationally.** Headcount indices, recorded from the period of 1981 and 2001, indicate that across all points in time close to a third of the region's population were classified as poor.

**The poor in SSA are relatively worse off than the poor in the rest of the world.** Poverty gap measures show that

- The average poor household reaches earnings of only a fifth of the 1\$ a day line, which is accepted as the poverty line.
- 46 percent of the continent's inhabitants survive on less than 1\$ a day; 21 percent on 0.50\$ and 6 percent on 0.25\$, providing an indication of the vast number of **ultra-poor** in SSA.
- The majority of the world's **ultra-poor** (those living on 0.50\$ a day or less) live in SSA.

**Table 1: Consumption Poverty Measures by Region of the World, At 1993 PPP**

Region	1981	1987	1990	2001	Annualised % Change
<b>Headcount Index</b>					
East Asia and Pacific	57.67	28.04	28.86	14.34	-3.76
East Europe and Central Asia	0.79	0.44	0.57	3.46	16.90
Latin America and the Caribbean	10.06	10.77	10.87	9.96	-0.05
Middle East and North Africa	5.08	2.91	2.32	2.35	-2.69
South Asia	53.25	45.04	40.66	31.89	-2.01
Sub-Saharan Africa	41.54	50.76	46.77	46.19	0.56
Eastern & Southern Africa			38.7	42.49	0.20
Central & West Africa			50.03	48.89	-0.05
<b>Poverty Gap Index</b>					
East Asia and Pacific	20.58	7.7	7.43	3.24	-4.21
East Europe and Central Asia	0.23	0.16	0.16	0.76	11.52
Latin America and the Caribbean	2.89	3.34	3.49	3.51	1.07
Middle East and North Africa	1	0.58	0.49	0.45	-2.75
South Asia	16.87	12.34	10.59	7.39	-2.81
Sub-Saharan Africa	16.84	22.61	19.33	20.27	1.02
Eastern & Southern Africa			17.35	18.64	0.16
Central & West Africa			20.32	21.74	0.15

**Poverty levels in SSA have increased over the past decade.** In sharp contrast to the other regions included in the study, both headcount and poverty gap indices have increased over the past decade, despite economic growth.

**SSA exhibits the highest levels of poverty and income inequality world-wide over 4 decades.**

- Although there has been a slight increase in inequality, a Gini of 0.47 reflects a highly unequal region. (The Gini coefficient used to assess inequality is expressed as a number between 0 and 1, where the closer the number is to 1, the greater the inequality.)

- Complimentary data shows that for Africa as a whole, the bottom quintile of the population accounts for less than 10 percent of the region's income, while the top quintile accounts for more than 50 percent.

*It is important to realise, however, that although these aggregate figures are a key guide, they do mask the differentiated figures at a country level, offering a reminder that the region should not be treated as a homogenous block.*

### **Analysing the effect of economic growth on poverty reduction**

The above section indicated that over the past two decades SSA has failed to deliver the economic performance necessary to alleviate poverty. A closer look at the wealth of studies done in this regard reveal that:

**Despite economic growth the per capita mean income in SSA declined over the past decade.** The rate of decline however was less in 1990-2001 relative to 1981-1987; where decline was measured at an annualised rate of 2.3 percent as opposed to 4.42 percent.

**Economic growth has had a positive impact on poverty alleviation, but:**

- This impact is not adequate and has exhibited a downward trend. Poverty-growth elasticities were higher in 1981-1987 (yielding a 1.62 reduction in poverty for a 1 percent growth in incomes) than in 1990-2001 (yielding only a 1.24 percent reduction.)

See Table 2.

- In the period from 1990-2001 SSA yielded poverty-growth elasticities of about half that of East Asia and the Pacific, indicating that growth rates are not adequately translating into poverty alleviation.

**Table 2: Elasticities of Poverty Measures to Mean Income Change**

Elasticity Measure/Period	1981-1987	1990-2001	1981-2001
<b>SSA</b>			
<b>Headcount</b>	-1.62 (-11.89)	-1.24 (-6.43)	-1.23 (-6.33)
<b>Poverty Gap</b>	-2.41 (-12.40)	-1.98 (-5.73)	-1.82 (-5.42)
<b>Poverty Gap Squared</b>	-3.11 (-12.88)	-2.51 (-5.24)	-2.30 (-4.93)

*Although SSA has indicated positive economic growth, the massive levels of inequality in the region may mean that this growth doesn't translate into poverty reduction, especially when it comes to the poor and ultra-poor.*

Consequently the effect changing levels of inequality will have on poverty levels, and the degree to which they may corrode growth-associated economic gains, needs to be factored in.

To investigate the effect of inequality on the relationship between economic growth and poverty-alleviation, it is necessary to measure (1) the "pure growth" effect on poverty reduction, independent of income, (2) the relationship between poverty and inequality and (3) what increase in mean income is required to mitigate against distributional outcomes eroding poverty reduction gains, in an effort to provide a meaningful policy benchmark. (Formulae for these calculations available on request).

**Table 3: Elasticities of Poverty Measures**

Year	1981	1987	1990	2001
<b>Sub-Saharan Africa (n=28)</b>				
<b>P<sub>1</sub>-Mean Income Elasticity</b>	-1.47	-1.25	-1.42	-1.28
<b>P<sub>2</sub>-Mean Income Elasticity</b>	-1.64	-1.42	-1.58	-1.46
<b>P<sub>1</sub>-Gini Elasticity</b>	4.95	4.11	4.32	4.35
<b>P<sub>2</sub>-Gini Elasticity</b>	7.83	6.74	6.92	7.09
<b>MPRS: P<sub>1</sub></b>	3.38	3.30	3.04	3.40
<b>MPRS: P<sub>2</sub></b>	4.77	4.76	4.37	4.85

When these formulae are applied, results (as given in table 3) show that:

**There has been a disproportionate reduction in poverty levels for a rise in economic growth for the period 1981 to 2001.**

**Elasticity for SSA declined over the period.** In 1981 a one percent increase in economic growth delivered a 1.47 percent reduction in poverty, but on 1991 this measure slipped to 1.28 percent.

**Economic growth will be more beneficial to the ultra-poor than for the moderately poor.** This is suggested by the fact that the poverty gap squared elasticities are higher than the poverty gap estimates.

**A one percent rise in the Gini is likely to result in an increase in the poverty gap between 4 and 5 percent.** Estimates however indicate that these figures are lower than those in East Asia and the Pacific where a significantly higher sensitivity of poverty to rising income inequality is experienced.

**A 3.4 percent increase in mean income was required to compensate for a one percent growth in the Gini.**

*It seems unlikely that poverty levels will decline, should current trends continue, and findings suggest that much higher levels of economic growth are required to maximise the impact on absolute and relative poverty in the region.*

## **A look at labour market dynamics in Africa**

Understanding the nature of poverty and inequality and relation between economic growth and poverty, it becomes necessary to profile the labour markets. Drawing from the available data on labour markets, it becomes apparent that:

**The SSA labour force was the third fastest growing in the world from 1980-2000.** (Here we refer to the growth in individuals of working age.) Projections for 2000–2010 reveal that despite a predicted decrease in the SSA labour force, it will be the second fastest growing in the world.

**The share of economically active women increased or remained the same.** This is true worldwide.

**The proportion of economically active women in Africa is higher than the international average.**

**Across the continent, women have a lower labour force participation rate than men.** For Africa in total in 2010, 85.2 percent of men were actively participating in the labour force, as compared to 59.2 percent of women.

**There has been rapid urbanisation in SSA over the past 2 decades.** The annual growth in urbanisation over this period is 2.39 percent. It is clear that this places massive demands on the urban labour market.

**The majority of the population is still rural-based.** This despite the aforementioned trend towards urbanisation.

**Within rural areas there has been exceptional growth in informal sector employment.** In many cases women are dominant in this sector.

**The concentration of productive activities still lies in rural areas.**

**In urban areas the vast majority of the labour force is seeking employment in agriculture.** 68 percent of all individuals were seeking employment in this sector, and 24 percent in the services sector. It's important to note that the share of the labour force in secondary industries is extremely low (9 percent).

This points to important challenges for policymakers in increasing the demand for labour (intermediated through economic growth) to match the increase in labour supply, especially in rural areas and the informal sector, with a focus on:

- Removing stereotypes that discourage participation of women in the labour market.
- Improving productivity, worker safety and wage levels in smaller enterprises, and to significantly improve the ability of the formal sector to absorb large numbers of the urban labour force into long-term employment.
- Uplifting, growing and developing the poor agrarian base.

## Highlighting the important findings of this study

Here follows an overview of the main findings presented in this study:

- The largest portion of the world's poor live in SSA.
- The world's ultra-poor, almost without exception, reside in SSA.
- The region exhibits the second highest level of inequality worldwide.
- The level and nature of economic growth in the region have not translated into a significant reduction in absolute or relative poverty levels..
- The growing labour force presents the twin challenge of dealing with the increased pressure for both urban employment and rural employment, most noticeably agriculture.
- Greater attention needs to be placed on growing the informal sector and engaging women in the economy.

If you would like more information on the information contained in this document, on the specific statistical data, or if you have any queries or questions; please feel free to contact the DPRU.