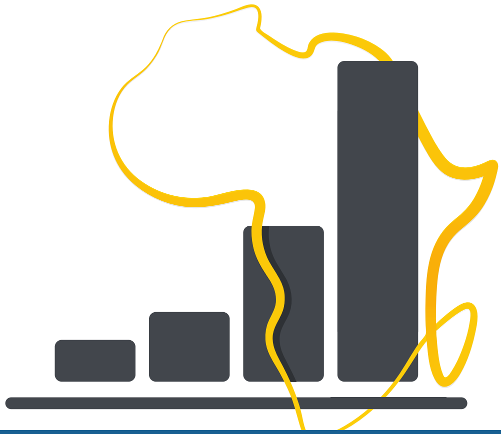


United Nations
Economic Commission for Africa

No. ECA/23/030

ECA POLICY BRIEF

Renewing the social contract to reduce poverty and inequality in Africa

The intersection of the coronavirus disease (COVID-19) pandemic, the war between the Russian Federation and Ukraine and the effects of climate change has exacted a huge toll on African development, exacerbating poverty and inequality and reversing the gains that had been made in poverty reduction in the past two decades. Growing levels of poverty and inequality pose challenges to an increasingly fragile social contract that could fray under the weight of unfulfilled expectations and threaten the attainment of peace, security and prosperity. The impact of ongoing crises on poverty and inequality in Africa and the pathways for establishing a social contract to reduce poverty and inequality on the continent are highlighted in the present policy brief. Efforts to accelerate the reduction of poverty and inequality on the continent and achieve sustainable development must be underpinned by inclusion and equality. Governments must ensure equal access to public goods and opportunities for all.

Key messages

- Poverty in Africa is primarily a sub-Saharan phenomenon. It predominates in East and West Africa and is largely concentrated in the least developed African countries. Despite the robust economic growth in Africa in recent decades, inequality has widened and remains pervasive across all subregions, even in middle-income countries.

- The poorest and most vulnerable people in Africa, including women, young people, informal workers and those living in rural settings, generally lack social safety nets and suffer the worst effects of poverty and inequality. It is critical to tackle the risks that push people into and entrench them in poverty.

- Policy recommendations include targeted spending on the development of safety nets to support the poorest and most vulnerable people; to ensure resource mobilization for an inclusive recovery that leverages financing for decent job creation; to pursue a structural development path that is just and meets the needs of the people for whom it is designed; to advance reforms for a more just and inclusive global financial architecture; and to promote gender-inclusive strategies, migration and education to ensure that the benefits of development are more equitably distributed and accrue to all.

1. Introduction

Following years of robust economic growth, recent crises, including the COVID-19 pandemic and the war between the Russian Federation and Ukraine, along with climate change and other shocks, have collectively dealt the continent a deadly blow and diminished its prospects for economic growth, while setting development back by decades.

As countries across the continent grapple to rebuild following recent crises, Governments are increasingly facing challenges in adequately responding to people's needs. Higher levels of poverty and inequality in Africa are constraining the capacity of Governments to provide adequate public goods. Consequently, an increasingly fragile social contract is at risk of fraying under the weight of unfulfilled expectations while threatening the attainment of peace, security and prosperity.

To tackle poverty and inequality in Africa effectively and to lay the foundation for a more stable, equitable and prosperous continent, African Governments need to forge a social contract that is more inclusive and responsive to the needs of the poorest and the most vulnerable people.

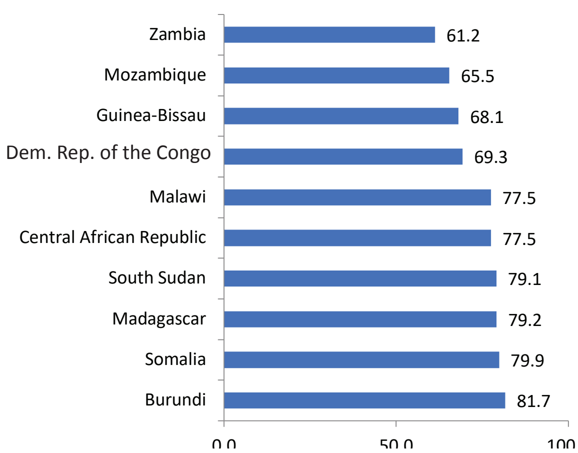
2. Scope and magnitude of poverty and inequality in Africa

In the years prior to the pandemic, Africa, like other regions of the world, had made considerable progress in poverty reduction. Despite the substantial decline in poverty levels during the economic boom years, however, inequality on the continent remained largely unchanged.

Crises driving and entrenching poverty

Disruption caused by the COVID-19 pandemic, which reduced economic activity and led to significant job losses and lower incomes, further entrenched extreme poverty and pushed millions of previously non-poor Africans into poverty. During the pandemic, poverty was highly dynamic: people moved into and out of poverty, owing to consumption volatility as a result of exposure to uninsured risks.[1] The burden posed by health-related out-of-pocket expenditure and rapid inflation aggravated vulnerability and increased the likelihood of people falling into poverty.[2]

Figure I: Percentage of the population living in poverty in the 10 countries with the highest proportions of poverty in Africa (2022)



Source: Calculations by the Economic Commission for Africa (ECA), using World Bank, Poverty and Inequality Platform. Available at https://pip.worldbank.org/home (accessed in November 2022).

Alarmingly, in 2022 Africa accounted for more than half, or 54.8 per cent, of the world's poor, overtaking South Asia, which accounted for 37.6 per cent and which previously was home to the largest share of global poverty.[3] More than half of the population of Africa, a staggering 546 million people, live in poverty, which represents a 74 per cent increase since 1990. While the pandemic pushed 62 million Africans into poverty between 2019 and 2020, 149 million non-poor people, whose income is 20 per cent above the poverty line, were at risk of falling into poverty in 2022, owing to more recent shocks.[4]

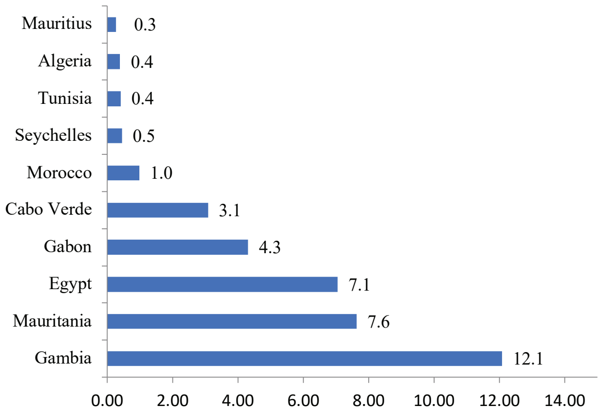
Poverty in Africa is primarily a sub-Saharan phenomenon and is a characteristic feature of East and West Africa. In 2020, the two subregions had disproportionate numbers of people at risk of falling into poverty, at 48 million and 52 million, respectively. Whereas Southern Africa, at 5.4 million, had the lowest number of people at risk of falling into poverty.[5]

Poor people in Africa are largely concentrated in the least developed countries. In 2022, almost two-thirds, or 64.9 per cent, of people living in poverty lived in Burundi, the Central African Republic, the Democratic Republic of the Congo, Guinea-Bissau, Madagascar, Malawi, Mozambique, Somalia, South Sudan and Zambia. The proportion of the national population that lived in poverty in 2022 was the highest in those countries, as shown in figure I. Conversely, with the exception of the Gambia and Mauritania, the lowest levels of poverty were primarily in middle-income countries, namely, in ascending order, Mauritius, Algeria, Tunisia, Seychelles, Morocco, Cabo Verde, Gabon and Egypt, as shown in figure II.

1 Economic Commission for Africa, Economic Report on Africa 2021: Addressing Poverty and Vulnerability in Africa During the COVID-19 Pandemic (Addis Ababa, 2022).

2 Ibid.
3 E/ECA/COE/41/4–E/ECA/CM/55/4.
4 Ibid.
5 Ibid.

Figure II: Percentage of the population living in poverty in the 10 countries with the lowest proportions of poverty in Africa (2022)



Source: Calculations by ECA, using World Bank, Poverty and Inequality Platform. Available at https://pip.worldbank.org/home (accessed in November 2022).

Widening inequality despite economic growth

While robust economic growth in Africa over the past two decades has reduced poverty, its benefits have not accrued equally. Inequality has widened and remains pervasive on the continent. At the subregional level, income inequality is highest in Southern Africa, which has a Gini coefficient of 0.61, which is well above the continental average of 0.40. Income inequality is high in Central Africa, which has a Gini coefficient of 0.45, and East Africa, which has a Gini coefficient of 0.41, when compared to West Africa and North Africa, which have Gini coefficients of 0.36 and 0.32, respectively. As shown in figure III (a) and figure III (b), income inequality is particularly high in upper-middle income countries in Africa, suggesting that growth has been insufficient to reduce income inequality.

Figure III (a):Income inequality by country income level in Africa (2022) *(Gini coefficient)*

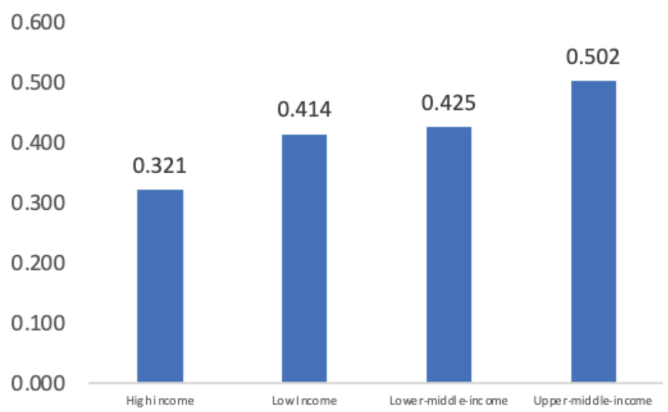
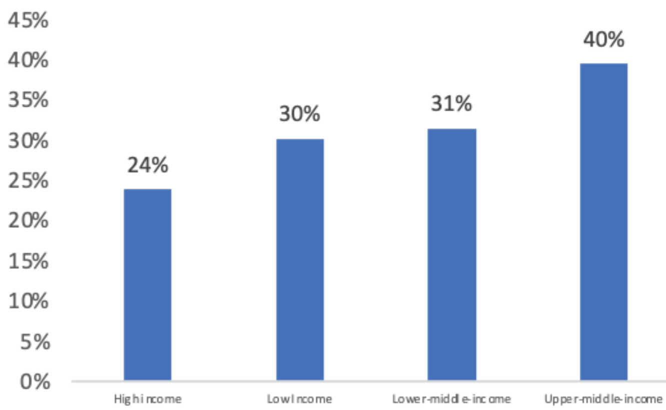


Figure III (b): Income inequality by country income level in Africa (2022) *(Tenth decile)*



Source: Calculations by ECA, using World Bank, Poverty and Inequality Platform. Available at https://pip.worldbank.org/home (accessed in November 2022).

Note: The Gini coefficient columns reflect the incidence of income inequality (ranging from 0 for perfect equality to 1 for extreme inequality). The tenth decile columns reflect the income share held by the top 10 per cent of the population. For example, in the upper-middle-income countries, the top 10 per cent of the population owned 39.5 per cent of the income.

a Low-income: Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of the Congo, Ethiopia, Gambia, Guinea, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, Somalia, South Sudan, Sudan, Togo, Uganda, Zambia.

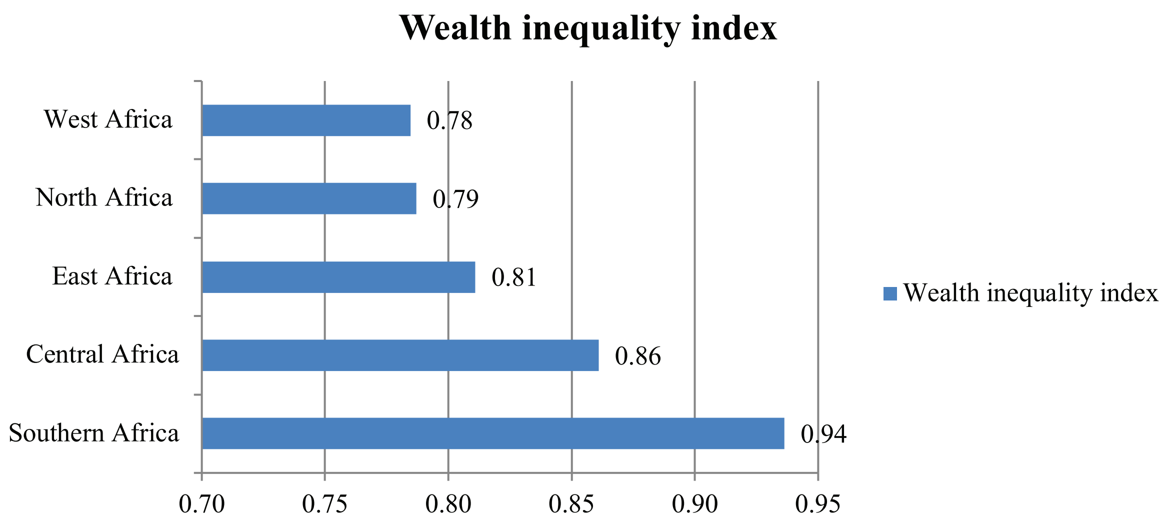
b Lower-middle-income: Algeria, Angola, Benin, Cabo Verde, Cameroon, Comoros, Congo, Côte d'Ivoire, Djibouti, Egypt, Eswatini, Ghana, Kenya, Lesotho, Mauritania, Morocco, Nigeria, Sao Tome and Principe, Senegal, Tunisia, United Republic of Tanzania, Zimbabwe.

c Upper-middle-income: Botswana, Gabon, Mauritius, Namibia, South Africa.

d High-income: Seychelles.

Wealth inequality is extremely high in Africa. At the subregional level, wealth inequality, like income inequality, is highest in Southern Africa. West Africa, despite having the second highest share of people in poverty on the continent, has the lowest wealth inequality of the African subregions, as shown in figure IV.

Figure IV: Wealth inequality in African subregions (2022)



Source: Calculations by ECA using World Inequality Lab, World Inequality Database. Available at https://wid.world (accessed in November 2022).

Note: The wealth inequality index reflects the incidence of wealth inequality (ranging from 0 for perfect equality to 1 for extreme inequality).

Impact of the pandemic on people in poverty in Africa

Recent crises have adversely affected and exacerbated the socioeconomic conditions of the poorest people in Africa, including women, young people and those who work in low-productivity agriculture and the informal sector. Owing to a lack of safety nets, they are often less prepared to cope with financial burdens when crises hit and are at greater risk of falling into or remaining in poverty for an extended period of time.

During the pandemic, women in Africa bore the worst of the effects of the crisis when compared to men. In April 2020, only 36 per cent of women in South Africa were likely to be employed, compared to 54 per cent of men, and those who remained in employment worked fewer hours when compared to men, with women working 23 hours on average compared to 29 hours for men.[6]

Similarly, for informal workers, who comprise an estimated 80–90 per cent of the African labour force and often lack unemployment benefits or health insurance, the loss of jobs or the reduction in working hours as a result of lockdowns and limited mobility during the pandemic resulted in an estimated decline in earnings of 81 per cent in the first month of the pandemic and an increase to their risk of falling further into or remaining in poverty.[7]

The rural population of Africa faced a similar fate, for whom out-of-pocket expenses accounted for between 50 and 80 per cent of total health expenditure, which possibly pushed many into poverty.[8]

Young people in Africa were hit hard by COVID-19. Layoffs, reduced working hours and disruption to education and training contributed to a growth in the number of young people not in education, employment or training and negatively affected their long-term labour-market prospects.

Children also experienced the adverse effects of the pandemic. Prolonged school closures in many African countries left millions without access to education. The gendered effects of school closures caused by the pandemic were notable and were particularly evident among African girls from poor households. According to the United Nations Educational, Scientific and Cultural

6 Daniela Casale, "Gender inequality and the COVID-19 crisis: evidence from a large national survey during South Africa's lockdown". Research in Social Stratification and Mobility, vol. 71 (February 2021).

7 International Labour Organization, "COVID-19 and the world of work", 3rd ed., ILO Monitor (2020).

8 International Labour Organization, Africa Regional Social Protection Strategy, 2021–2025: Towards 40% – a Social Protection Coverage Acceleration Framework to Achieve the SDGs (Geneva, 2021).

Organization, 98 million children in sub-Saharan Africa were out of school in 2021, and the female out-of-school rate was 4.2 percentage points higher than the male rate.[9]

3. Renewing the social contract to reduce poverty and inequality in Africa

The majority of countries on the continent (39 of 54 countries) face major challenges in achieving Sustainable Development Goal 1, on poverty alleviation.[10] With less than seven years left to achieve the Goals, it seems unlikely that the 2030 Agenda for Sustainable Development will be implemented in full, and there may be implications for the fulfilment of Agenda 2063: The Africa We Want, of the African Union .

Moreover, growing levels of poverty and inequality present challenges to an increasingly fragile social contract, which could fray under the weight of unfulfilled expectations while threatening the attainment of peace, security and prosperity. Those developments underscore the urgency with which African Governments need to confront pressing challenges and to put in place a social contract to reduce poverty and inequality that is underpinned by equal access to public goods for all, including the poor and the most vulnerable.

Addressing the risks that push people into, and entrench them in, poverty is critical. Policy measures must be aimed at effectively responding to, and accelerating the recovery from, ongoing crises and must enable those pushed into poverty to exit it quickly while providing those in extreme poverty with a cushion to better withstand crises.

Africa undoubtedly faces daunting challenges in tackling poverty and inequality as the shrinking fiscal space constrains the capacity of Governments to respond adequately to people's needs. African Governments must take bold and decisive action to ensure that the benefits of development are more equitably distributed and accrue to all.

With a view to establishing a social contract that helps to build resilience and create more inclusive, equal and prosperous societies, African Government should:

a. **Pursue pro-poor and inclusive macroeconomic policies, with spending targeted at safety nets to support the poorest and most vulnerable people.** Providing social protection offers a pathway for ameliorating poverty and inequality that is underpinned by the expectation that the Government will provide a basic level of social protection to those who are most vulnerable to enable them to better mitigate risks and avoid vicious cycles of indebtedness following an adverse event.

Policy measures that can help poor and vulnerable people to mitigate risks related to income losses are critical. Extending social protection through health and social insurance to those employed in the informal sector and in other precarious forms of employment is vital when crises hit. Community-based health insurance in Rwanda, which provides affordable health care to poor and vulnerable people, and the micro-pension plan in Nigeria, which is a social insurance programme targeted at workers in the informal sector, are examples of programmes that provide safety nets to vulnerable groups.

Policy measures that aim to help people avoid vicious cycles of indebtedness after crises are critical in ensuring that those pushed into poverty can leave it quickly. Targeted financial support, such as cash transfers aimed at women and those employed in the informal sector, are vital in helping vulnerable groups to weather crises better. Tax relief and preferential interest rates on loans for small businesses in Algeria and Egypt provided a cushion for small businesses during the pandemic. The wage support scheme of Mauritius provided financial support to those who lost jobs because of the pandemic.

An estimated 83 per cent of people in Africa lack social protection.[11] It is therefore critical to devise means of strengthening social protection for the majority of Africans, including people in poverty, women, young people and informal workers. Given that countries in Africa spend, on average, less than 5 per cent of gross domestic product on social protection, which is well below the global average of almost 13 per cent,[12] underinvestment in social protection is leading to insufficient social-protection coverage for vulnerable groups and is undermining the efforts of Governments

9 United Nations Educational, Scientific and Cultural Organization, "When estimation confirms out-of-school population is growing in sub-Saharan Africa", Factsheet No. 62, Policy Paper No. 48 (2022).
10 See the report of the Secretary-General on the work of the Organization (A/77/1).

11 International Labour Organization, Africa Regional Social Protection Strategy 2021–2025.
12 Ibid.

to address poverty and inequality effectively. African Governments need to boost spending on and extend the scope of social protection to ensure that it adequately meets the needs of poor and vulnerable people.

b. **Pursue a structural development path that is just and people-centered and for which industrialization and the African Continental Free Trade Area are catalysts.** Accelerating economic growth is critical for generating economic opportunities that create decent jobs, build resilience in economies, provide the impetus for structural transformation, and bring about an economic recovery that leaves no one behind. The African Continental Free Trade Area offers a viable pathway for fostering economic growth and holds tremendous promise for unlocking economic opportunities through intra-African trade in agrifood, services, industry and mining, which can promote structural transformation while reducing poverty and inequality through increased incomes and improved livelihoods. The pharmaceutical industry and the health and wellness sector, which are expected to generate business opportunities amounting to $259 billion by 2030 and create more than 16 million jobs, are noteworthy. Decent work opportunities in the green economy can play a role in accelerating the reduction of poverty and inequality while promoting sustainable development. Linked to the development of economic opportunities is the need for Governments to tackle informality - a characteristic feature of small and medium-sized enterprises on the continent that impedes their growth. Formalizing such businesses could enable Governments to obtain additional tax revenue that could be channeled towards public goods, including social protection for vulnerable groups.

c. **Advance reforms for a more just and inclusive global financial architecture.** The reform of the global financial architecture and its regulatory framework, and the rechanneling of special drawing rights of the International Monetary Fund could create pathways for building resilience and sustainability. An overhaul of the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative of the Group of 20 and the Paris Club is needed to make the Debt Service Suspension Initiative more effective. At the same time, the global financial architecture must be improved by strengthening debt legislation. It is essential to introduce an enhanced regulatory framework for credit rating agencies that requires more transparent methodologies and rating processes, provides proper oversight of the agencies and establishes a fair external recourse mechanism to dispute ratings. In addition, expanding the eligibility for the Common Framework to middle-income countries, with a view to using the policy of lending into arrears of the International Monetary Fund more boldly, can provide much-needed financing to debtor countries and reduce the leverage of holdout creditors. The International Monetary Fund can play a greater role in the global financial architecture, consistent with its mandate to facilitate dialogue between debtors and creditors, including by potentially serving as the secretariat for the Common Framework.

d. **Promote migration.** Intra-African migration offers a pathway for fostering inclusion while contributing to a more equitable distribution of wealth. Migration is a key pillar of the Agreement Establishing the African Continental Free Trade Area, which, if leveraged to create integrated intra-African labour markets, can promote economic growth while improving productivity. Access to economic opportunities for women and informal cross-border traders, and the employment of young people in emerging sectors in intra-African labour markets, can boost incomes while generating remittances that are both critical for development and a lifeline for countries of origin. It is critical to harness the potential of migration for poverty reduction, including by facilitating the free movement of people and intra-African labour migration, and for enabling workers to upgrade their skills and move to more productive jobs. It is, therefore, vital to fully implement the Agreement Establishing the African Continental Free Trade Area and its related protocols.

e. **Implement gender-inclusive strategies.** Digital solutions offer a viable pathway for reducing poverty and addressing inequality related to the digital gender divide. Initiatives to promote digital skills among girls can help to bridge the gender gap in education. Ensuring access to digital finance and linking women to regional and global markets can go a long way in promoting the economic empowerment of women. Investment in digitalization that is aimed at scaling up digital technologies is critical for enhancing access and bridging the digital gender gap. Improving the trading environment for women informal cross-border traders can be beneficial for their welfare and enable them to reap the benefits of trade.

f. **Promote education and skills development.** Education and skills development offer a viable pathway for reducing poverty and inequality. Given that young people in Africa are expected to comprise 42 per cent of the global population of young people by 2030, it is vital to equip them with the digital and technical skills that can enable them to engage in more specialized jobs and take advantage of opportunities in various trades. Investment in skills development is, therefore, critical. Countries need to boost both the capacity of education systems, including technical and vocational education and training institutions, to provide the necessary skills for the job market, and the capacity of schools, to foster new ways of learning through digital technologies, while ensuring that education is of a high quality and fully accessible to those from poor and vulnerable communities.