

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

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REAPING THE POTENTIAL BENEFITS OF THE
**African Continental
Free Trade Area**
FOR INCLUSIVE GROWTH



ECONOMIC
DEVELOPMENT IN

AFRICA

Report 2021



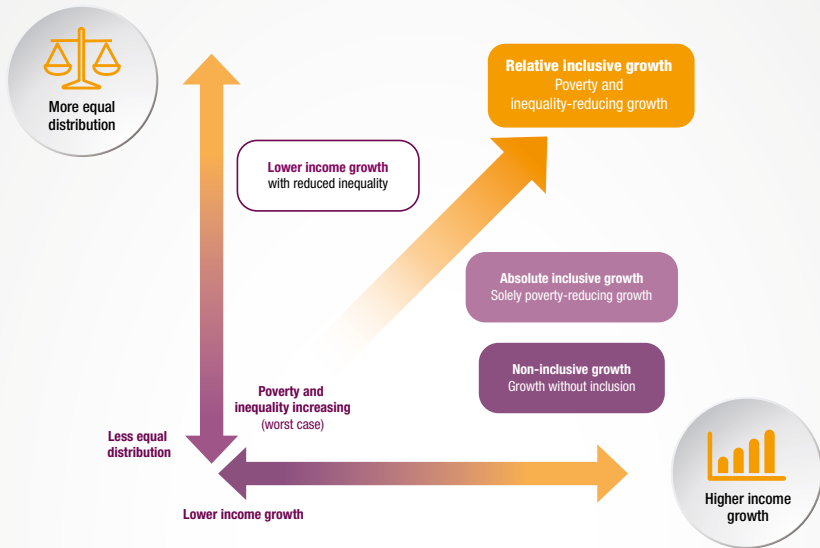
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Chapter 1

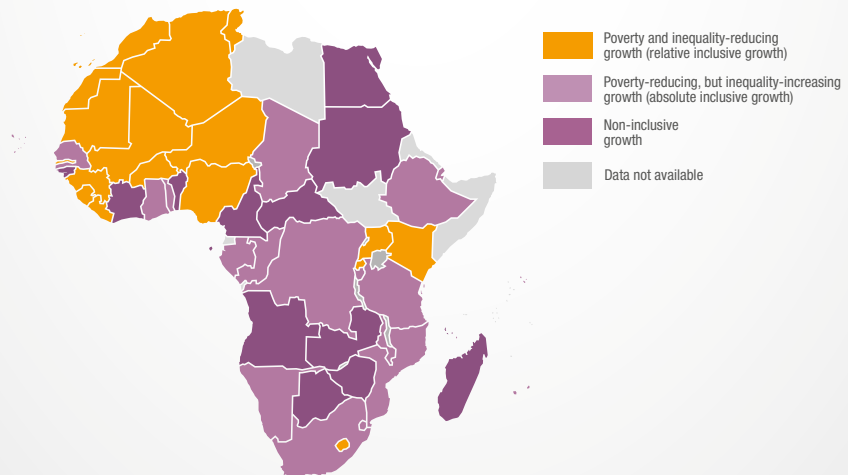
Inclusive growth in Africa

Inclusive growth in the context of regional integration and the African Continental Free Trade Area is discussed in this chapter and the ways in which the regional integration agenda is reflected in the Free Trade Area as an instrument to foster inclusive growth and “build back better” in the aftermath of the pandemic are clarified. In particular, recent trends in inclusive growth, taking into account income and non-income dimensions, are discussed and assessed in sections 1.1 and 1.2. Country-based case studies exploring three broad categories of income inclusive growth are presented in section 1.3. Finally, a review of recent trends in intra-African trade and a discussion of how the African Continental Free Trade Area can help overcome the adverse effects of the pandemic on inclusive growth are provided in sections 1.4 and 1.5.

INCLUSIVE GROWTH AS A TARGET OF AGENDA 2063



LESS THAN HALF OF COUNTRIES IN AFRICA HAVE EXPERIENCED INCLUSIVE GROWTH OVER RECENT DECADES*



* Inclusive growth is assessed for each country between the two years for which household data are available from the Povcal Net database of the World Bank, from 2000 to 2020.

1.1 Recent trends: Poverty and inequality in Africa

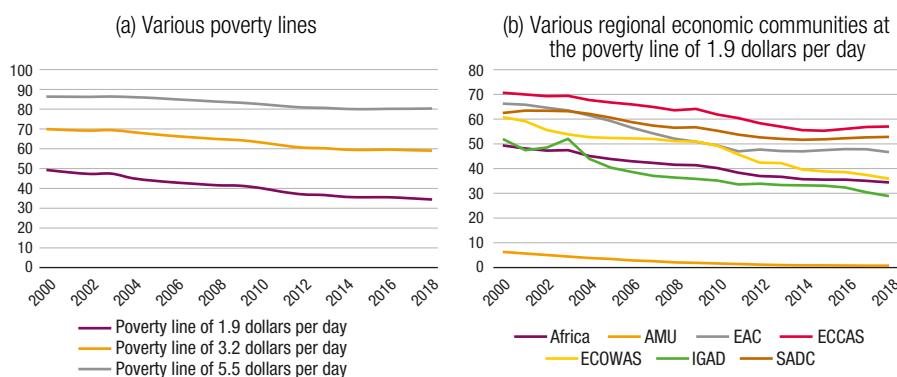
Recent trends related to inclusive growth in Africa in the areas of poverty, inequality and the non-income components of inclusive growth are described in this section, highlighting regional disparities. Reductions in poverty and inequality are critical features of inclusive growth. In the period 2010–2019, real gross domestic product (GDP) per capita in Africa grew by 0.25 per cent, varying by regional economic community (REC).

In the period 2010–2018, poverty decreased in Africa, as measured by the poverty line and headcount rates, with variations across RECs. The proportion of households with an income or consumption level at below \$1.9 per day fell from 40.2 per cent in 2010 to 34.4 per cent in 2018; at \$3.2 per day fell from 63.2 to 59.1 per cent; and at \$5.5 per day fell from 82.5 to 80.2 per cent (figure 4 (a)). The pandemic has led to increased poverty. With regard to extreme poverty, as Valensisi (2020) shows, Africa (excluding North Africa) is the most-affected region in the world: the 2020 poverty headcount rate is estimated to have increased by 2.7 percentage points as a result of the pandemic, corresponding to an additional 31 million people living in extreme poverty (at the poverty line of \$1.9 per day). Similarly, Mahler et al. (2020) note that the pandemic could lead to 40 million additional poor in Africa (excluding North Africa) at the poverty line of \$1.9 per day. There are also wide disparities in poverty rates across RECs, as shown in figure 4 (b).

Figure 4

Africa: Poverty headcount rates

(Percentage)



Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.

Note: Poverty lines are calculated at purchasing power parity.

The lowest poverty rate is in the Arab Maghreb Union, and the Economic Community of Central African States has the highest, irrespective of the poverty line used in the calculation. Generally, there is an observable relationship between inclusive growth and lower poverty rates; poverty decreased in all countries with inclusive growth, except in Seychelles, and poverty increased in all countries that did not have inclusive growth, except in Cameroon.

With regard to inequality, UNCTAD estimates for countries in Africa based on the Povcal Net database of the World Bank show that the Gini index ranges from 27.6 per cent (Algeria) to 63.3 per cent (South Africa). Countries with the lowest indices are mainly part of the Arab Maghreb Union and the Economic Community of West African States (Algeria, Guinea, Mali, Mauritania and Tunisia) and the countries with the highest indices are mainly in the Economic Community of Central African States and the Southern African Development Community, including the Central African Republic, Eswatini, Namibia, Sao Tome and Principe, South Africa and Zambia.

Overall, poverty rates have fallen in Africa, but reducing inequality remains a challenge. In addition to reductions in poverty and inequality, improved economic performance should be reflected through better human development outcomes, lower levels of unemployment and greater gender equality and environmental protection. Beyond income and wealth, people's well-being is shaped by a range of non-income dimensions, such as their health, education and employment status (Asian Development Bank, 2017). Recent data on the key non-income components of inclusive growth in Africa are summarized in box 1.

Box 1

Non-income components of inclusive growth

Human capital

Education should foster the development of skills, entrepreneurship and behaviour for leading a rewarding life compatible with sustainable and inclusive growth. Countries should ensure that all children complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes by 2030, in line with target 4.1 under Sustainable Development Goal 4. However, countries in Africa are far from achieving this target. Girls continue to face discrimination in terms of access to quality education in many countries, yet this lack of equality appears to be

decreasing. For example, 25 per cent of parliamentarians in Africa are women, which is above the global average of 21 per cent. However, closing the gender gap for women and girls in all spheres of life is urgent in Africa, as many girls continue to be denied access to education. The disadvantages faced by women and girls in education and training start in the early years. In addition, the current pattern of skills production in Africa does not match labour market demands or development needs; there is a mismatch between unemployed graduates and the lack of a skilled workforce. The University of the People (2017) states that a degree from a university in Africa will not necessarily translate into employability for graduates and that there is “a seeming paradox at work: while Africa faces a shortage of skilled workers in many fields such as science, mathematics, technology engineering and health, graduates of African universities still find themselves underemployed”. This observation could also be linked to the limited access to the productive resources needed to translate skills into job creation and businesses. Africa needs to develop and improve technical and vocational training focused on jobs in secondary and tertiary schools, and there is a need for better collaboration and partnerships between industry and universities in Africa, to address the multiple challenges confronting higher education.

Health is another critical dimension of inclusive growth; the role of health investments and their distribution is increasingly recognized as an integral component of the debate on inclusiveness. The health of a country is primarily reflected by life expectancy at birth; this measure has increased in Africa since 2000 yet remains below the world average. Africa lags behind Asia, the continent with the second lowest average life expectancy, by nearly 10 years for both men and women. However, the gap between life expectancy at birth in Africa and that in the rest of the world is narrowing. Data from the World Health Organization shows that, while men in Africa born in 2000 can expect to live 51.1 years on average, compared with 64.4 years worldwide, those born in 2019 can expect to live 63.4 years on average, compared with 70.9 years worldwide. Countries should reduce the global maternal mortality ratio to less than 70 per 100,000 live births by 2030, in line with target 3.1 under Sustainable Development Goal 3. However, countries in Africa are far from achieving this target, with a maternal mortality ratio of 500 per 100,000 live births in 2017. Data from the UNCTADstat database shows that while the maternal mortality ratio has been slowly falling since 2000, it remains high in all RECs except for in the Arab Maghreb Union, in which target 3.2 (to reduce under-5 mortality to at least as low as 25 per 1,000 live births by 2030) has also, on average, already been achieved. Significant efforts have been made in RECs to reduce child mortality since 2000, yet efforts should be redoubled, to achieve the target by 2030.

Employment and gender inequality

Many countries in Africa have experienced significant economic growth yet employment challenges remain, as this economic growth has not created enough jobs. Unemployment can lead to violence and unrest because unemployed young people are often the most vulnerable to crime, political violence, religious radicalization or human traffickers. Growth cannot be considered inclusive without decent work for the population. With regard to the population aged 25 or over, the employment-to-population ratio was 68 per cent in 2019, that is, one in three Africans aged 25 or over was unemployed. In 2019, the female labour force participation rate of 54 per cent in Africa compared favourably with the global average of 47 per cent. Women account for more than 50 per cent of the population in Africa, but in 2018, generated only 33 per cent of continental GDP. Inclusive growth requires higher rates of female labour force participation, yet women remain marginalized in the labour market in Africa. Progress made in Africa towards gender parity in the world of work appears positive given the high rate of labour force participation, yet too few women are in high-quality professional and technical jobs and most women work in low-paid, often subsistence-level jobs in the informal economy. Backhaus and Loichinger (2021) find a positive association between female labour force participation and female educational attainment across working age. Female education is further positively related to female employment in the non-primary sector. In contrast, early motherhood is associated with lower levels of schooling among females and a widening gender gap in labour supply. Gender inequality in labour force participation is not expected to decline sharply in the short term. According to the McKinsey Global Institute (2019), in 2019, gender parity in Africa was 0.58 (1 = full parity). Without radical action, it could take 140 years for Africa to achieve full parity. However, advancing women's equality could add 10 per cent or \$316 billion to the continental GDP by 2025. Employment in most countries in Africa does not contribute to sustainable development, given the dominance of the primary sector. In 2019, agriculture accounted for almost half of all jobs in Africa, yet agricultural employment is declining in favour of services. However, the secondary sector (manufacturing, industry, etc.) only accounted for 13 per cent of employment in 2019, despite its importance for economic diversification and the building of productive capacities.

Sources: Asian Development Bank, 2017; Backhaus and Loichinger, 2021; ILOstat database, International Labour Organization; International Labour Organization, 2020; McKinsey Global Institute, 2019; Mba, 2017; United Nations Educational, Scientific and Cultural Organization, 2016; University of the People, 2017; World Development Indicators database, World Bank; World Health Organization, 2021.

1.2 Assessment

Trends in inclusive growth in countries in Africa are assessed in this section, using pro-poor growth rates and growth incidence curves (Ravallion and Chen, 2003). Data on income and consumption shares by decile are derived from the Povcal Net database of the World Bank and, in most cases, data on consumption shares by decile are used, with income shares by decile used for countries for which data on the former are unavailable. Economists debate on whether poverty measurements based on consumption are better indicators of welfare than those based on income. For example, Meyer and Sullivan (2003) opt for consumption measures, stating that consumption should be used to set benefit standards and evaluate transfer programmes, and Moratti and Natali (2012) state that consumption expenditure is probably the most common and preferred welfare indicator. Inclusive growth is assessed by comparing the two years for which data are available in the period 2000–2020 for each country (box 2).

Box 2

Measuring inclusive growth

Inclusive growth benefits all social segments of a population, in particular the poorest. The pro-poor growth rate is a proxy for the measurement of inclusive growth, and it is possible to calculate this rate and the growth incidence curve, to measure inclusive growth in Africa. Data on income or consumption share by decile are drawn from the Povcal Net database of the World Bank; the data used are estimated directly from available household surveys and are identical to the estimates in the World Development Indicators database and the Poverty and Equity Data Portal. The distributional data used are drawn from nationally representative household surveys. The Povcal Net database uses per capita household income or consumption expenditure, that is, every household member is assigned an equal share of household income or consumption, regardless of age and without taking into account economies of scale. It should be noted that estimated growth reflects average annual growth based on household surveys and differs from GDP growth based on national accounting data. It is at present difficult to empirically assess inclusive growth based on GDP, as it is not typically disaggregated by quantiles of population.

The analysis utilizes a data series beginning in 2000. The comparative year ($t-1$) is the first year in which data on deciles are available since 2000 and the year to be compared (t) is the most recent year in which data on deciles are available. The growth rate in income of the decile (d) between the years $t-1$ and t is calculated using the following equation:

$$g_t(d) = \frac{y_t(d)}{y_{t-1}(d)} - 1$$

where $y_t(d)$ is the income or consumption of the decile at year t

As the years $t-1$ and t are not the same for all countries, for the purposes of comparison, the annual growth rate in income of the d decile is determined for each country as given in the following equation:

$$\bar{g}_t(d) = \left(\frac{y_t(d)}{y_{t-1}(d)} \right)^{\frac{1}{T1-T0}} - 1$$

where $T0$ and $T1$ are the years ($t-1$) and (t), respectively

Growth incidence curves are constructed from the $\bar{g}_t(d)$ of the 10 deciles. The estimated pro-poor growth rate is measured by the mean growth rate of the poor and this is compared with the average growth rate, that is, the growth rate of the overall mean. The mean growth rate of the poor is calculated using the following equation:

$$pro\ poor\ growth\ rate = \frac{1}{H_t} \int_0^{H_t} \bar{g}_t(d) d(d)$$

where H_t is the poverty headcount (calculated at the poverty line of \$1.9 per day (purchasing power parity))

The average growth rate is calculated using the following equation:

$$\bar{g}_t = \left(\frac{\bar{y}_t}{\bar{y}_{t-1}} \right)^{\frac{1}{T1-T0}} - 1$$

where \bar{y}_t is the average income or consumption at year t

The following categories of growth may be obtained:

$$\text{average growth rate} > \text{pro poor growth rate} > 0$$

where growth is considered absolutely inclusive. In this case, on average, the situation of the poor has improved but less than that of the non-poor (i.e. those with an income or consumption level at above \$1.9 per day)

$$\text{pro poor growth rate} > \text{average growth rate} > 0$$

where growth is considered relatively inclusive (best-case scenario). In this case, the pro-poor growth rate is higher than the average growth rate

$$\text{average growth rate} < 0$$

where there has not been any growth, because the overall average real income or consumption level has decreased

$$\text{average growth rate} > 0 > \text{pro poor growth rate}$$

where, on average, the situation of the poor has not improved, while the overall average real income or consumption level has increased; therefore, growth has not been inclusive

Sources: Ravallion and Chen, 2003; UNCTAD calculations, based on data from the Povcal Net database of the World Bank.

The inclusive growth patterns in countries in Africa are shown in table 1, comparing the mean growth rate of the poor with the growth rate of the overall mean (in relative and absolute terms). It can be seen that growth has been relatively inclusive in 17 countries, namely, Algeria, Burkina Faso, Cabo Verde, the Gambia, Guinea, Kenya, Lesotho, Liberia, Mali, Mauritania, Morocco, the Niger, Nigeria, Rwanda, Sierra Leone, Tunisia and Uganda. In these countries, the average income or consumption of the poor has increased and their situation has improved. In addition, as the mean growth rate of the poor is higher than that of the non-poor, growth is likely to be poverty- and inequality-reducing.

Table 1

Africa: Inclusive growth patterns

Growth pattern	Variation in poverty headcount	Variation in Gini index	Country	Year 1	Year 2	Pro-poor growth rate	Average growth rate	
						(Percentage)		
Growth in average per capita income	Relatively inclusive (best case)	Decrease	Decrease	Lesotho	2003	2017	7.00	5.16
				Niger	2005	2014	6.83	4.53
				Gambia	2003	2015	6.75	3.68
				Liberia	2007	2016	5.16	4.81
				Guinea	2002	2012	5.13	2.96
				Tunisia	2000	2015	4.62	2.83
				Cabo Verde	2002	2015	4.48	1.95
				Algeria	1995	2011	3.85	1.64
				Sierra Leone	2003	2018	3.77	3.07
				Morocco	2001	2014	3.61	3.40
	Burkina Faso	2003	2014	3.54	1.42			
	Mauritania	2000	2014	3.14	1.68			
	Rwanda	2000	2017	2.88	2.26			
	Uganda	2000	2017	2.69	2.68			
	Mali	2001	2010	2.61	0.70			
	Nigeria	2004	2019	2.54	1.58			
	Kenya	2005	2016	1.75	0.21			
	Absolutely inclusive	Decrease	Decrease	Dem. Rep. of the Congo	2005	2012	10.57	10.59
				Namibia	2004	2015	4.04	4.49
				Gabon	2005	2017	2.77	2.89
Senegal				2001	2011	1.05	1.30	
Chad				2003	2011	4.65	6.12	
Increase		Increase	Congo	2005	2011	4.50	5.77	
			United Rep. of Tanzania	2000	2018	4.48	4.77	
			Mozambique	2003	2014	2.92	4.52	
			South Africa	2001	2015	2.86	4.54	
			Ghana	2006	2017	2.68	3.73	
Increase	Increase	Eswatini	2001	2016	2.23	3.17		
		Ethiopia	2000	2016	2.13	2.83		
		Mauritius	2007	2017	1.67	2.28		
		Malawi	2004	2016	0.41	1.12		
		Burundi	2006	2014	0.40	1.65		
Increase	Increase	Djibouti	2002	2017	0.13	0.95		
		Togo	2006	2015	0.05	0.80		
		Seychelles	2000	2013	0.54	1.39		
		Botswana	2003	2016	3.54	-0.62		
		Sudan	2009	2014	2.66	-0.48		
Decline in average per capita income	Yet growth for the poor	Decrease	Decrease					

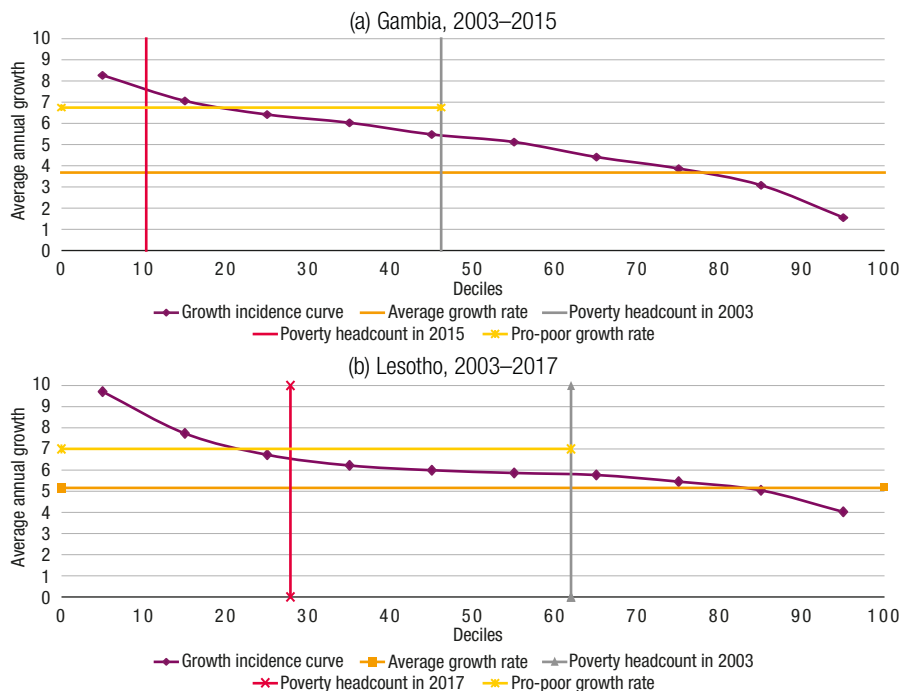
Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.

Notes: The poverty headcount is calculated at the poverty line of \$1.9 per day (purchasing power parity). The assessment of inclusive growth is based on the pro-poor and average growth rates (see box 2). Periods of conflict are not accounted for due to data limitations. Data are not available for Equatorial Guinea, Eritrea, Libya, Somalia and South Sudan.

The growth incidence curves of the Gambia in 2003–2015 and Lesotho in 2003–2017, as shown in figure 5, were both downward sloping and above the x-axis, and the line representing the mean pro-poor growth rate was well above that representing the growth rate of the overall mean. The curve also presents a negative slope, which suggests that the growth episode benefited the poorest. The average income or consumption of the poor has increased and their situation has improved in 18 countries, but at a lower rate than the non-poor; inclusive growth was absolute in these countries.

Figure 5
Growth incidence curves

(Percentage)



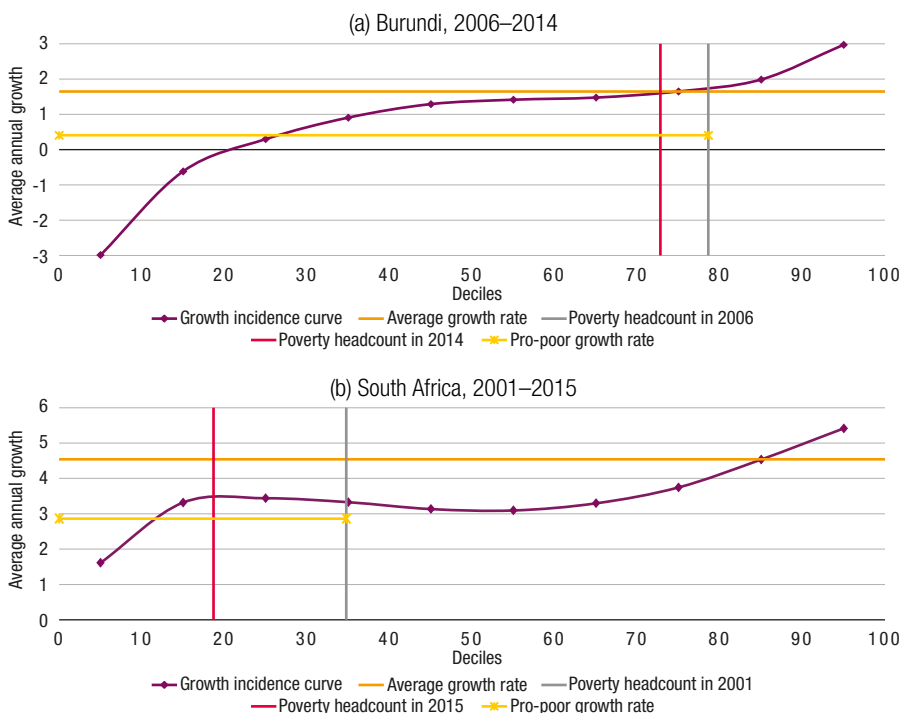
Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.
Note: Poverty headcounts are calculated at the poverty line of \$1.9 per day.

In 14 countries, namely, Burundi, Chad, the Congo, Djibouti, Eswatini, Ethiopia, Ghana, Malawi, Mauritius, Mozambique, Seychelles, South Africa, Togo and the United

Republic of Tanzania, growth was followed by an increase in inequality. Inequality decreased in the Democratic Republic of the Congo, Gabon, Namibia and Senegal, yet the mean pro-poor growth rate remained slightly lower than the growth rate of the overall mean. In Burundi in 2006–2014, the mean pro-poor growth rate was positive and was much lower than the growth rate of the overall mean and that the consumption of the poorest 20 per cent decreased (figure 6 (a)). The growth incidence curve in Burundi also increased by decile. South Africa experienced poverty-reducing but inequality-increasing growth, as the growth incidence curve in 2001–2015 increased by decile (figure 6 (b)).

Figure 6
Growth incidence curves

(Percentage)



Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.

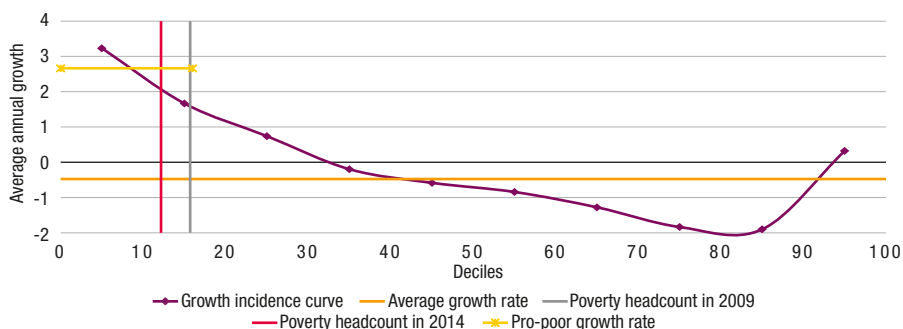
Note: Poverty headcounts are calculated at the poverty line of \$1.9 per day.

The experiences of Botswana in 2003–2016 and of the Sudan in 2009–2014 are engaging, because the average income or consumption of the poor increased and poverty and inequality decreased, yet there was a lack of relatively inclusive growth because overall average real income or consumption fell; growth was inclusive only for the poor. In the Sudan in 2009–2014, the real income or consumption of the fifth to the ninth decile decreased (figure 7). The situation in Botswana was similar.

Figure 7

Sudan: Growth incidence curve, 2009–2014

(Percentage)



Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.

Note: Poverty headcounts are calculated at the poverty line of \$1.9 per day.

The pro-poor growth rate and the average growth rate in countries in Africa that did not experience inclusive growth are shown in table 2. There was increased poverty and a lack of inclusive growth in Angola, the Comoros, Côte d’Ivoire, Egypt, Madagascar and Zimbabwe. The mean pro-poor growth rate and the growth rate of the overall mean were both negative. In Angola, the Comoros, Madagascar and Zimbabwe, the decrease in growth was less for the poor than the non-poor; this was not the case in Côte d’Ivoire and Egypt.

In Benin, Cameroon, the Central African Republic, Guinea-Bissau, Sao Tome and Principe and Zambia, growth was not inclusive. On average, the growth situation of the poor deteriorated. Growth was followed by an increase in inequality and a lack of poverty reduction in these countries, except in Cameroon in 2001–2014, when poverty decreased (figure 8). The growth incidence curve of Cameroon in 2001–2014 increased, except for the last decile; growth in the poorest deciles was negative.

Table 2
Africa: Non-inclusive growth patterns

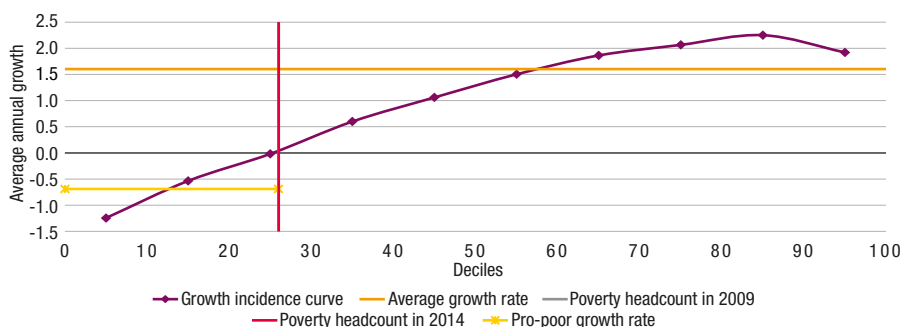
Growth pattern	Variation in poverty headcount	Variation in Gini index	Country	Year 1	Year 2	Pro-poor growth rate	Average growth rate	
						(Percentage)		
Decline in average per capita income of the poor	Growth is not inclusive	Decrease	Increase	Cameroon	2001	2014	-0.69	1.60
		Increase	Increase	Sao Tome and Principe	2001	2017	-1.64	2.44
				Central African Rep.	2003	2008	-2.41	4.18
				Benin	2003	2015	-2.87	0.41
				Zambia	2003	2015	-3.95	0.82
	Guinea-Bissau	2002	2010	-4.58	0.01			
	Relatively small decline in growth among the poor	Increase	Decrease	Madagascar	2001	2012	-0.89	-2.06
				Angola	2000	2018	-1.29	-1.86
				Comoros	2004	2014	-2.21	-2.97
		Increase	Increase	Zimbabwe	2011	2017	-3.16	-3.50
Sharp decline in growth higher among the poor than the non-poor				Decrease	Egypt	2000	2018	-0.41
	Increase	Increase	Côte d'Ivoire		2002	2015	-0.90	-0.44

Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.

Notes: The poverty headcount is calculated at the poverty line of \$1.9 per day (purchasing power parity). Variations in poverty headcount and the Gini index are not taken into account in the assessment of inclusive growth. Periods of conflict are not accounted for due to data limitations. Data are not available for Equatorial Guinea, Eritrea, Libya, Somalia and South Sudan.

Figure 8
Cameroon: Growth incidence curve, 2001–2014

(Percentage)



Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.

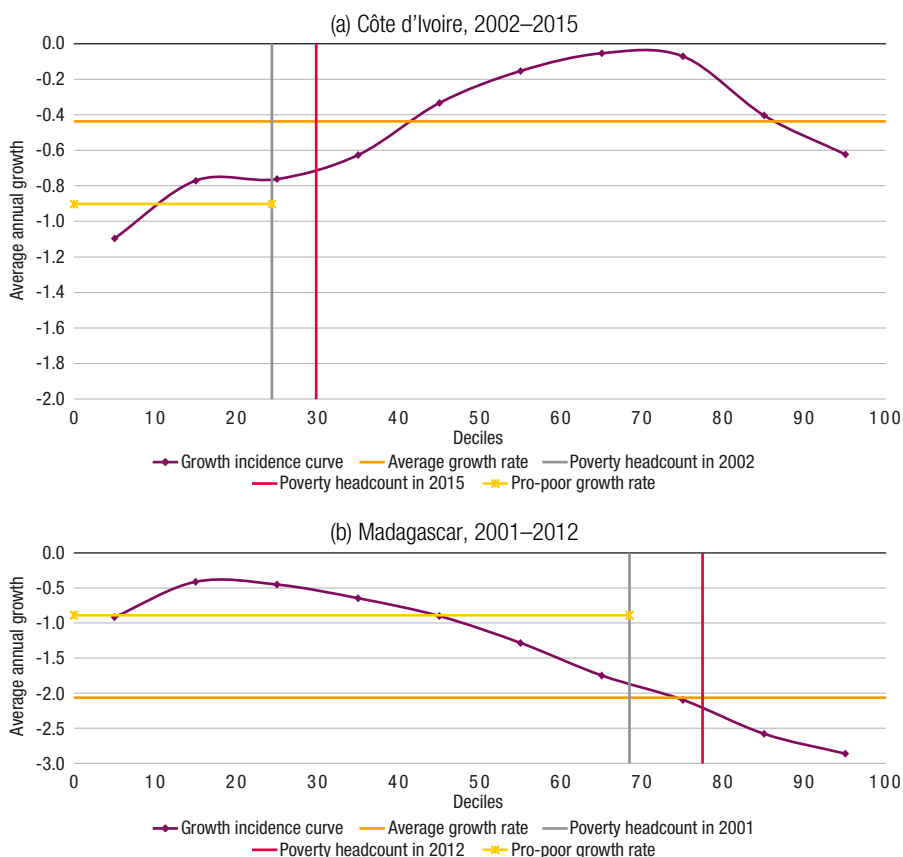
Note: Poverty headcounts are calculated at the poverty line of \$1.9 per day.

In Côte d'Ivoire in 2002–2015 and Madagascar in 2001–2012, among all deciles, there was a lack of growth (figure 9). However, Côte d'Ivoire is among the fastest-growing economies in Africa. Conflicts during the period considered might partly explain these results. In addition, a country may experience economic growth without this being fully reflected in household survey data.

Figure 9

Growth incidence curves

(Percentage)



Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.

Note: Poverty headcounts are calculated at the poverty line of \$1.9 per day.

1.3 Case studies of different types of inclusive growth

Empirical measures of inclusive growth are the most interesting at the country level, yet they do not explain why results differ across countries. In this section, the aim is to advance one step further by presenting case studies of developing countries that illustrate three broad categories of inclusive growth, namely, relative, absolute and non-inclusive growth. The situation in the Gambia provides an example of inclusive growth in which poverty and inequality decreased; the case study explores some of the policies and measures that made this possible. The situation in South Africa provides an example of absolute inclusive growth and illustrates the importance of deepening the analysis of the statistical results presented above, by documenting such a situation with a view to providing useful information for other policymakers in Africa. The situation in Zambia provides an example of non-inclusive growth in which poverty and inequality increased despite significant revenues from copper during the commodity boom; the data cover the period 2003–2015, from the beginning of the commodity boom to four years after the end.

1.3.1 Gambia: Poverty-reducing and inequality-reducing inclusive growth

In 2003–2015, the Gambia witnessed an increase in mean and median household consumption, combined with a significant decrease in poverty and inequality. Almost half of all households in the Gambia had a per capita consumption level at less than \$1.9/day in 2003 and, in 2015, only one household in 10 had a per capita consumption level at less than \$1.9/day (table 3). In addition, poverty decreased sharply in 2003–2015. The Gini index and mean log deviation index also decreased during the period.

Table 3

Gambia: Growth, poverty and inequality

	Consumption		Headcount	Poverty gap	Square of poverty gap	Watts index	Gini index	Mean log deviation index	Population
	Mean	Median							
	(Dollars per month)		(Percentage)					(Millions)	
2015	148.74	115.27	10.30	2.26	0.77	2.83	35.92	21.37	2.09
2010	128.95	90.75	25.35	7.59	3.27	10.32	43.57	32.51	1.79
2003	96.40	61.96	46.14	17.94	9.26	26.79	47.33	38.99	1.45

Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.

Note: Poverty measurements are calculated at the poverty line of \$1.9 per day (purchasing power parity).

Relatively inclusive growth may also be the outcome of several projects and strategies implemented in the Gambia. In 2003–2015, three poverty reduction strategy papers were implemented with support from the International Monetary Fund. The first did not achieve satisfactory results; according to the International Monetary Fund (2007), the programme was suspended due to misreporting and a lack of transparency, particularly with regard to government borrowing from the central bank. After the Gambia successfully addressed the concerns and following effective implementation of an International Monetary Fund staff-monitored programme, the second poverty reduction strategy paper was implemented in 2007–2011 and achieved satisfactory results, particularly under pillar 1, focused on rapid economic growth and poverty reduction (International Monetary Fund, 2011). During this period, the Gambia recorded annual economic growth rates of above 6 per cent and maintained macroeconomic stability, which is important for inclusive growth. The development of the agricultural sector, as well as expenditure on poverty reduction programmes, also helped to alleviate rural poverty (International Monetary Fund, 2011). The third poverty reduction strategy paper was supported by international development partners and had as its principal strategic objective the acceleration of growth and employment (African Development Bank, 2012b).

In addition to the poverty reduction strategy papers, the International Monetary Fund has implemented other poverty reduction projects in the Gambia, such as the poverty reduction and growth facility; all but one of the quantitative performance criteria and indicative targets of the facility have been met (International Monetary Fund, 2007). The Gambia also benefited from two joint assistance strategies prepared jointly by the African Development Bank and the World Bank, implemented in 2008–2011 and 2012–2015, respectively. These strategies did not directly aim to reduce poverty and inequality but supported and strengthened the three poverty reduction strategy papers. According to the African Development Bank (2012b), the objectives of the second joint assistance strategy, to enhance productive capacities and accelerate growth and competitiveness, were successfully achieved. A particular focus was on economic governance and agriculture and the special focus on agriculture was “a deliberate attempt at effecting inclusive growth as recent research has found agriculture to be more poverty reducing than other economic activities and given the fact that over 70 per cent of the population in the Gambia are engaged in agriculture” (African Development Bank, 2012b). Finally, in 2013, a food and agriculture sector development project aimed to reduce rural household poverty, food insecurity and malnutrition through improved agricultural productivity and commercialization (African Development Bank, 2013). Strategies focused on agriculture, a sector on which most of the poor depend, help to improve livelihood security. Some of the strategies also made it possible to increase youth

employment levels. The success of such projects has contributed to inclusive growth in the Gambia.

Regional integration has also supported inclusive growth in the Gambia. In 2011, the African Development Bank initiated a regional integration strategy paper for West Africa for 2011–2015, covering the Economic Community of West African States. The strategy was based on two pillars, namely, linking regional markets and building capacity for the effective implementation of the regional integration agenda (African Development Bank, 2014b). The strategy, aligned with Vision 2020 of the Community, aimed to reduce poverty and inequality through regional integration. A final assessment of the strategy is not yet available. However, analysis by UNCTAD finds that in most countries in the Economic Community of West African States, growth has been relatively inclusive.

The Gambia progressed in human development and the quality of institutions in 2003–2015, enhancing inclusive growth during this period (table 4). The Human Development Index, which is a proxy for a decent standard of living, improved in the Gambia in 2003–2015, with an average annual growth rate of 0.94 per cent; the global equivalent average annual growth rate was 0.82 per cent. The index of economic freedom and the corruption perceptions index also increased, indicating a higher quality of institutions.

Table 4

Gambia: Human Development Index, Index of Economic Freedom and Corruption Perceptions Index

	2003	2015	Annual increase, 2003–2015
	(Percentage)		
Human Development Index (1 = the most developed, 0 = the least developed)	0.42	0.47	0.94
Index of Economic Freedom (100 = maximum freedom, 0 = minimum freedom)	50.3	57.5	1.12
Corruption Perceptions Index (100 = highly clean, 0 = highly corrupt)	25	28	0.95

Source: UNCTAD calculations, based on data from the World Data Atlas.

1.3.2 South Africa: Poverty-reducing but inequality-increasing inclusive growth

South Africa is among the countries in which growth has been absolutely inclusive. In 2001–2015, the average level of consumption of the poor increased and the mean pro-poor growth rate was lower than the mean growth rate of the non-poor. South Africa successfully doubled average and median household consumption. Poverty decreased

at the poverty line of \$1.9 per day, perhaps partly due to the growth, employment and redistribution strategy introduced in 1996 and the accelerated and shared growth initiative launched in 2006 (table 5). The former strategy, based on free-market principles, with a strong focus on economic growth, aimed to ensure a strengthened financial situation and lowered interest rates and that inflation would be brought under control, allowing for significant growth in household consumption and a reduction in poverty in 2001–2005 (Mosala et al., 2017). However, the strategy was accompanied by an increase in unemployment and strict austerity measures that perpetuated entrenched inequalities (Mosala et al., 2017). Despite a slight decrease in inequality in 2005–2015, inequality remained higher in 2015 than in 2001. The accelerated and shared growth initiative was implemented by the Government of South Africa to improve the country's economic performance and job creation, with the aim of supporting an inclusive growth path (Mosala et al., 2017). The main objective was to halve poverty and unemployment in 2004–2014 and enable South Africa to achieve and sustain average economic growth rates of 4.5 per cent in 2004–2009 and 6 per cent in 2010–2014 (African Development Bank, 2008).

Mosala et al. (2017) state that it is difficult to measure the success of the initiative, although the poverty headcount at the poverty line of \$1.9 per day fell from 25.7 to 16.2 per cent in 2005–2010, the implementation period of the initiative. In 2010, the new growth path superseded the accelerated and shared growth initiative, to address joblessness, poverty and inequality. In 2012, the national development plan was introduced to complement the new growth path (Mosala et al., 2017). Inequality decreased in 2010–2015, the first period of implementation of the path and the plan.

Table 5

South Africa: Growth, poverty and inequality

	Consumption		Headcount	Poverty gap	Square of poverty gap	Watts index	Gini index	Mean log deviation index	Population
	Mean	Median							
	(Dollars per month)		(Percentage)						(Millions)
2015	340.15	135.38	18.70	6.11	2.86	8.58	63.03	75.03	55.39
2010	361.11	141.55	16.17	4.81	2.05	6.55	63.38	75.29	51.22
2009	342.50	135.36	16.74	4.73	1.95	6.30	63.01	73.51	50.48
2005	271.59	100.90	25.68	8.23	3.69	11.37	64.76	77.83	47.88
2001	182.72	88.78	34.77	13.02	6.13	18.73	57.77	60.47	45.57

Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.

Note: Poverty measurements are calculated at the poverty line of \$1.9 per day (purchasing power parity).

National strategies were reinforced by country strategy papers of the African Development Bank, which provided the framework for the collaboration of the Bank with South Africa and the necessary flexibility to respond to new demands, yet South Africa made limited use of development assistance and donor resources (African Development Bank, 2008). In 2001–2015, the World Bank also implemented a series of projects and strategies to help stimulate growth and reduce poverty in South Africa, such as the Maloti Drakensberg Transfrontier Conservation and Development Project (Zunckel, 2007).

To support regional integration, the African Development Bank implemented regional assistance strategy papers for Southern Africa in 2004–2008 and 2011–2015. The first strategy paper established complementarities between the client-focused country strategy papers of the Bank and interventions in the Southern African Development Community, and coincided with the implementation of the accelerated and shared growth initiative. During this period, household consumption increased and poverty and inequality decreased. During the implementation period of the second strategy paper, in South Africa, household consumption decreased and poverty increased.

In 2001–2015, the Human Development Index improved, yet the quality of institutions, as proxied by the Index of Economic Freedom and the Corruption Perceptions Index, decreased (table 6).

Table 6

South Africa: Human Development Index, Index of Economic Freedom and Corruption Perceptions Index

	2001	2010	2015	Annual increase, 2001–2015 (Percentage)
Human Development Index (1 = the most developed, 0 = the least developed)	0.61	0.66	0.70	0.99
Index of Economic Freedom (100 = maximum freedom, 0 = minimum freedom)	63.80	62.80	62.60	-0.14
Corruption Perceptions Index (100 = highly clean, 0 = highly corrupt)	48.00	45.00	44.00	-0.62

Source: UNCTAD calculations, based on data from the World Data Atlas.

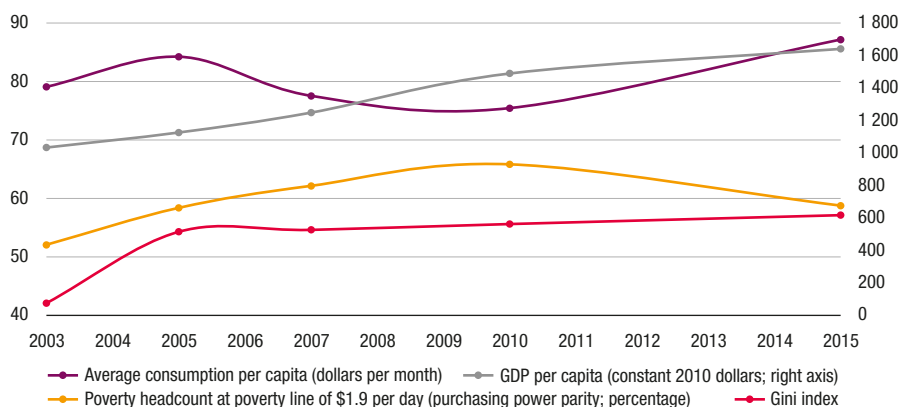
1.3.3 Zambia: Exploring non-inclusive growth

Zambia is a landlocked country with poor access to services and markets. Continued commodity export dependence on copper means that agriculture has been neglected

in government policy. Trade has decreased and droughts have impacted agricultural production, worsening rural conditions and poverty. High levels of external debt and debt service, resulting in under-resourced education and health services, have also exacerbated poverty. Zambia experienced non-inclusive growth during a period of continued GDP per capita growth in 2003–2015. However, this growth did not always lead to improved household consumption, which declined in 2003–2010, or to poverty reduction. Both poverty and inequality continued to increase in 2003–2010 (figure 10).

Figure 10

Zambia: Consumption, poverty headcount, Gini index and gross domestic product per capita



Source: UNCTAD calculations, based on data from the Povcal Net and World Development Indicators databases of the World Bank.

On average in 2003–2015, the situation of the poor deteriorated and the consumption level of the non-poor increased. In 2015, more than half of households in Zambia consumed less than \$1.9 per day (table 7). Several poverty reduction strategy papers were implemented with the International Monetary Fund and the World Bank, with the aim of halving poverty in line with the Millennium Development Goals, boosting economic growth, accelerating agricultural development and improving education and rural infrastructure in Zambia. The poverty reduction strategy papers supported the transitional national development plan implemented in 2002–2005; the fifth national development plan, in 2006–2010; and the sixth national development plan, in 2011–2015. The strategic focus of the fifth national development plan on human resources and economic infrastructure development was an essential step towards the realization of Vision 2030, which aimed to significantly reduce hunger and poverty and ensure that

Zambia became a middle-income country by 2030; and the theme of the sixth national development plan was sustained economic growth and poverty reduction, human and infrastructure development, diversification and rural development (Government of Zambia, 2006). In 2003–2015, Zambia benefited from poverty reduction budget support from the African Development Bank, aimed at poverty reduction and inclusive and sustainable economic growth. Zambia is a lower middle-income country (Government of Zambia, 2018). However, there are high levels of income inequality and the national strategies have not yet reduced poverty and inequality. Silungwe and Silungwe (2019) state that increasing poverty is due to structural adjustment programmes, which disproportionately affect the poor, as well as the HIV/AIDS pandemic and increased unemployment due to the privatization of Zambia Consolidated Copper Mines in 1998.

Table 7**Zambia: Growth, poverty and inequality**

	Consumption		Headcount	Poverty gap	Square of poverty gap	Watts index	Gini index	Mean log deviation index	Population
	Mean	Median							
	(Dollars per month)		(Percentage)			(Millions)			
2015	87.16	45.46	58.75	30.68	19.61	53.14	57.14	60.47	15.88
2010	75.44	39.15	65.82	32.95	19.87	53.43	55.62	53.91	13.61
2007	77.54	42.40	62.14	31.36	19.30	52.03	54.62	52.89	12.17
2005	84.22	46.56	58.37	28.49	17.14	46.48	54.29	52.44	11.86
2003	79.07	55.87	52.05	18.81	9.06	26.75	42.06	29.87	11.26

Source: UNCTAD calculations, based on data from the Povcal Net database of the World Bank.

Notes: The mean and median are of consumption for growth. Poverty measurements are calculated at the poverty line of \$1.9 per day (purchasing power parity). The indices are measures of inequality.

1.4 Intra-African trade for inclusive growth

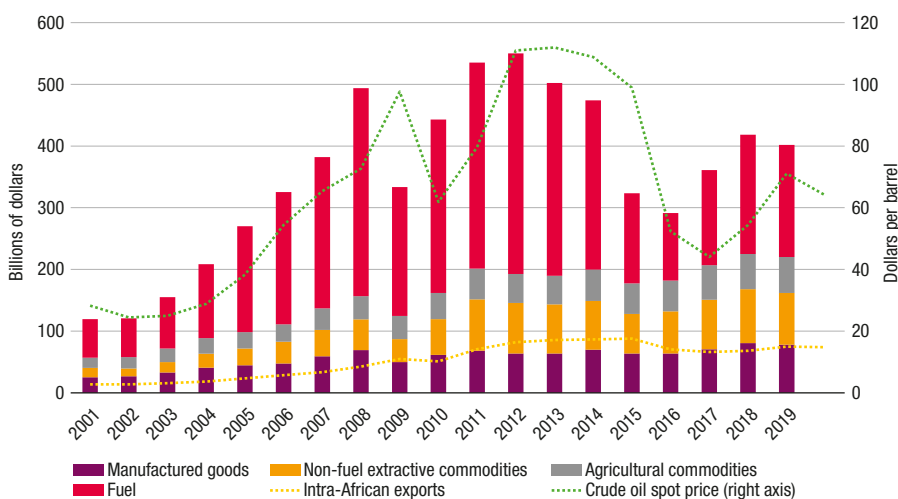
Trade is pivotal for economic growth and for poverty and inequality reduction. Under the African Continental Free Trade Area, countries need to remove tariffs on 90 per cent of goods, progressively liberalize trade in services and address a number of other non-tariff barriers in order to improve regional cohesion and trade. An overview of intra-African merchandise and services trade performance is provided in this section, to highlight the potential of the region to inclusively enhance trade performance through the Free Trade Area.

1.4.1 Trade in merchandise

The export potential of Africa is undermined by a significant dependence on primary commodities, which account for about 70 per cent of extra-African exports; manufactured goods account for only 15 per cent of extra-African exports. The dependence on primary commodity exports makes the continent vulnerable to external shocks such as volatile commodity prices. Fuel exports constitute more than half of all extra-African exports and crude oil prices are a strong driver of overall export value (figure 11). The value of the total exports of Africa, at \$400 billion, has decreased since 2010, mainly driven by lower fuel prices.

Figure 11

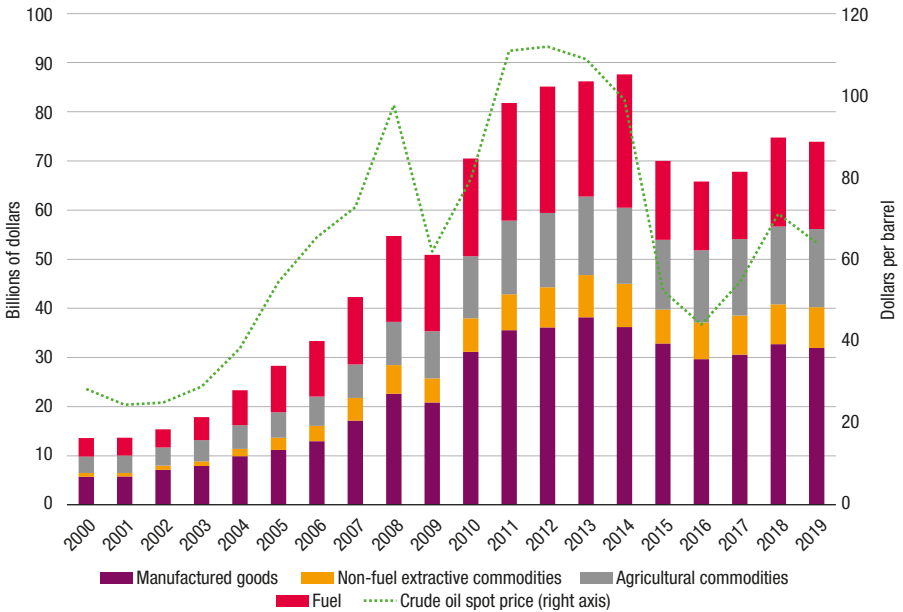
Extra-African exports



Source: UNCTAD calculations, based on data from the UNCTADstat database.

In 2019, intra-African merchandise exports totalled \$70 billion and accounted for 14.4 per cent of total exports from Africa. In 2000–2019, Africa had the highest level of export dependence on the rest of the world and the lowest share of intraregional exports in total exports, compared with other regions, except Oceania. Countries in Africa trade more manufactured and agricultural commodities between themselves and fewer extractive commodities than with the rest of the world (figure 12). This is because most mineral and metal refining activities take place outside of the continent.

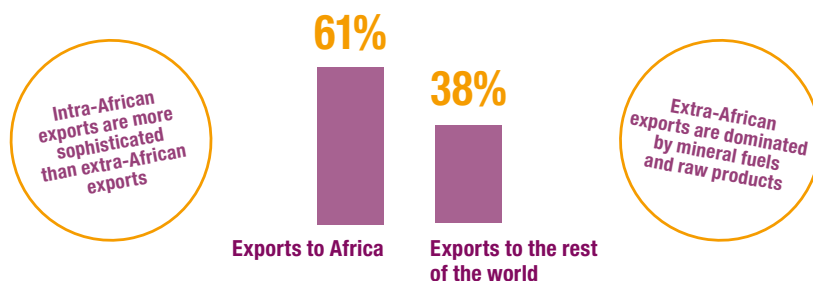
Figure 12
Intra-African exports



Source: UNCTAD calculations, based on data from the UNCTADstat database.

Extracontinental exports are dominated by mineral fuels and raw products, which together account for 62 per cent of exports. In contrast, 61 per cent of intra-African trade is comprised of semi-processed and processed goods (International Trade Centre and UNCTAD, 2021), indicating the greater potential benefits from increased regional trade for transformative and inclusive growth. Countries with more diversified exports tend to have greater shares of intra-African exports than countries with less diversified exports (UNCTAD, 2019a). There is a bidirectional relationship: on the one hand, exploiting regional import demands offers opportunities for export diversification and, on the other hand, countries that have already managed to diversify their exports are able to serve the regional market to a greater extent. A major objective of RECs is to generate higher levels of trade between member States, yet intra-REC exports as a share of total exports have remained low. In all RECs, intra-REC exports and imports are less than 20 per cent of total exports and imports, except for in the Southern African Development Community (20.2 per cent of total exports).

SHARE OF PROCESSED AND SEMI-PROCESSED GOODS IN EXPORTS TO EACH REGION



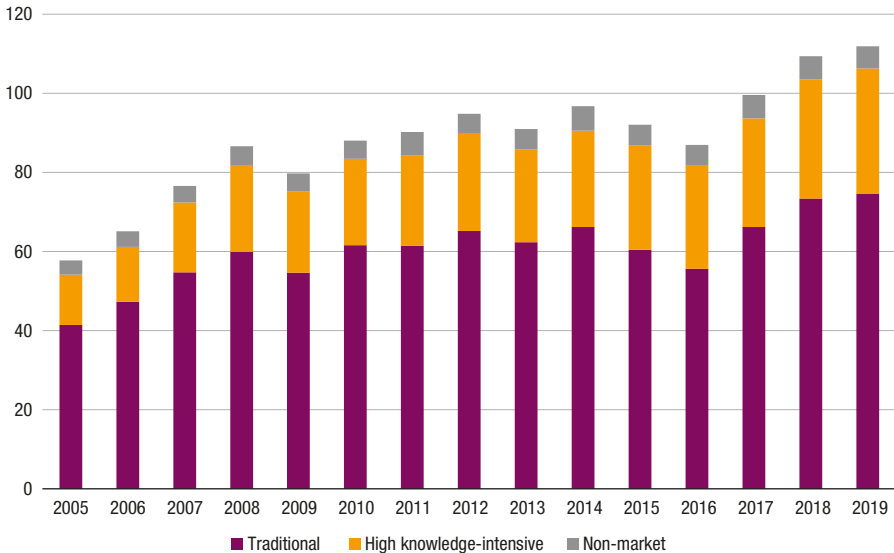
1.4.2 Trade in services

International trade in services is changing rapidly and new technologies broaden the tradability of services across borders. The World Trade Organization (WTO) General Agreement on Trade in Services specifies the following four modes of supplying services: cross-border supply electronically; consumption of services abroad (e.g. a museum visit as a tourist); establishment of firms; and/or temporary presence of natural persons in a partner country. Services, unlike goods, which can be measured when they cross the border, are delivered in a variety of modes, including electronically. Typically, therefore, only the financial flow related to a transaction is observable. For this reason, trade in services data are usually based on balance of payment statistics and do not distinguish between trading partners. The availability, quality and cross-country comparability of trade in services data are unsatisfactory, in particular when compared to merchandise trade statistics. Because of their nature, services are more difficult to measure than goods.

According to estimates by the Organisation for Economic Co-operation and Development (OECD) and WTO through their joint Balanced Trade in Services database, extra-African services exports grew by 27 per cent in 2010–2019, to \$112 billion (figure 13; bilateral services transactions are not reported by countries in Africa and the database uses official statistics and estimates for missing data, such as through a gravity model, as described in Liberatore and Wettstein (2021)). The decomposition of services exports has stayed relatively stable since 2010, with traditional services constituting around 70 per cent of total extra-African services trade. High knowledge-intensive services exports increased from 25 per cent in 2010 to 28 per cent in 2019.

Figure 13
Extra-African services exports

(Billions of dollars)



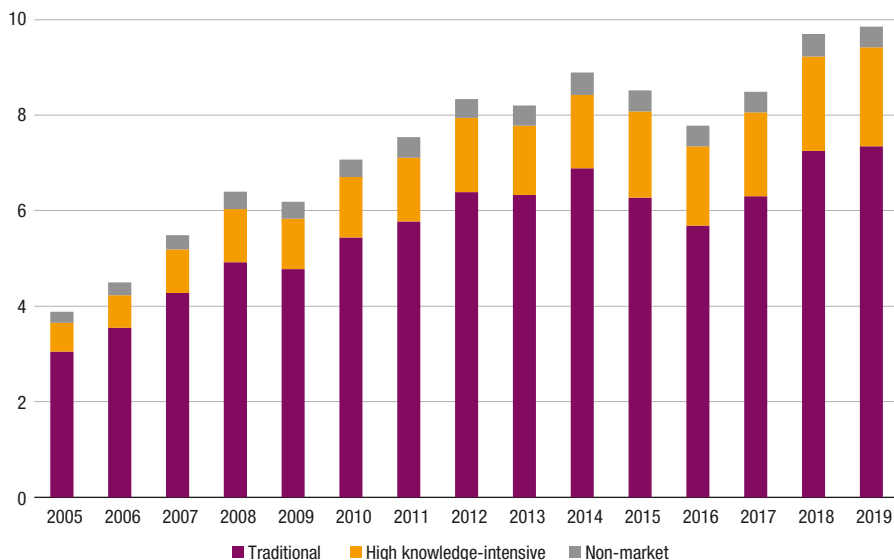
Source: UNCTAD calculations, based on data from the Balanced Trade in Services database of OECD and WTO.
Note: Traditional services include transport, travel and maintenance and repair services not included elsewhere; high knowledge-intensive services include manufacturing services, construction, insurance, financial services, telecommunications and information services, personal, cultural and recreational services and other business services; and non-market services include public administration services, community services and health and education services.

Estimated intra-African services exports are relatively low, at \$10 billion, which is equivalent to about 8.1 per cent of total services trade, including both intra- and extra-African services trade (figure 14). With regard to the decomposition of services exports, intra-African and extra-African trade are similar, with around 70 per cent of traditional services exports, 20 per cent of high knowledge-intensive services exports and a small percentage of non-market services in this broad categorization. As with trade in merchandise, the low level of officially reported services trade values may be linked to a large share of services being traded informally; however, this requires further in-depth research. For instance, Grover and Dihel (2016) provide anecdotal evidence that informal transactions across Africa have grown in the education, health, construction, housekeeping, entertainment and hairdressing sectors.

Figure 14

Intra-African services exports

(Billions of dollars)



Source: UNCTAD calculations, based on data from the Balanced Trade in Services database of WTO and OECD.
Note: Traditional services include transport, travel and maintenance and repair services not included elsewhere; high knowledge-intensive services include manufacturing services, construction, insurance, financial services, telecommunications and information services, personal, cultural and recreational services and other business services; and non-market services include public administration services, community services and health and education services.

Overall, the regional trade trends for both merchandise and services illustrate the opportunities in the region to increase trade through the African Continental Free Trade Area. UNCTAD (2019a) highlights the following three major categories of obstacles to intra-African trade: low complementarity of regional trade due to low economic diversification and weak productive capacities; tariff-related trade costs associated with the slow implementation of the tariff liberalization schedules underpinning free trade agreements; and high non-tariff trade costs that hamper both the movement of goods and services and the competitiveness of firms in Africa. The African Continental Free Trade Area is expected to address these trade frictions, as discussed in chapters 3 and 4. As argued in this report, another reason for low regional trade might be the underestimation of official trade figures and the high prevalence of informal trade.

In Africa, the share of informal trade in total trade is high and, if it is to function well, the African Continental Free Trade Area needs to be able to capture informal trade. Informal traders, both within and between countries, are among the most vulnerable economic actors. More evidence is needed about how informal trade is characterized and how targeted provisions can support the inclusion of vulnerable and marginalized groups within the trade system.

1.5 Inclusive growth in the aftermath of the pandemic

The year 2020 saw the worst recession since the Second World War (World Bank, 2020b), as economies around the world closed businesses and frontiers to curb the COVID-19 outbreak, resulting in a dramatic fall in domestic activity and international trade. In Africa, this was the first recession in 25 years (World Bank, 2020c). The significant decline in international trade has had profound repercussions, in particular as most countries in Africa have a high level of commodity dependence and heavy reliance on world markets. As such, low productivity and disruptions in key value chains in the United States, as well as in Asia and Europe, compounded by a slump in the international price of primary commodities, have led to a contraction in the value and quantities demanded of exports from Africa. The average annual export growth rate of the region contracted by an estimated -20.3 per cent in 2020, with the smaller economies contracting most in terms of GDP (Gondwe, 2020). Consequently, most countries in Africa registered considerable revenue losses, which significantly constrained the capacity of their Governments to extend the public services that were key in responding to the crisis.

The impact of these external shocks was further intensified by pandemic-related disruptions within the region, as most countries in Africa simultaneously imposed restrictions on the movement of people and goods. These measures greatly undermined regional value chains and regional integration efforts and also had far-reaching direct effects on the lives of the most vulnerable groups. Given that close to 86 per cent of Africans are informally employed (International Labour Organization, 2018), such measures resulted in a loss of income and livelihood for many daily wage earners. Coupled with shortages of essential commodities, including food and pharmaceuticals, owing to the heavy dependency on international markets, the pandemic further reinforced the vulnerability of the region to poverty, inequality and food insecurity (Akiwumi, 2020). Addressing the pandemic ultimately dampened inclusive growth prospects in the region in pursuit of both the 2030 Agenda for Sustainable Development and Agenda 2063 of the African Union. This has underscored the importance of regional self-sustenance,

particularly by extending the breadth (increased participation) and intensifying the depth (extended product range) of intra-African value chains, for inclusive growth and development.

Achieving this optimal level of self-sustenance is possible under the African Continental Free Trade Area, the objective of which is to integrate, diversify and industrialize economies in Africa. However, it remains imperative to account for the negative impact that the pandemic has had on trade and integration in the region. Recovery plans have been initiated in many countries and vaccination schemes are under way, bringing optimism that economic activities will return to full mode, both the social and economic repercussions of the pandemic will continue to affect the world in the short to medium terms, as most economies remain depressed by the uncertainties. The full operationalization of the African Continental Free Trade Area will therefore take place against this pandemic-related background of uncertainty, in which both global and regional value chains remain weak. Nevertheless, the African Continental Free Trade Area presents Africa with a chance to reconfigure supply chains, with the aim of reducing dependence on external trading partners and insulating from future shocks. Strengthening and/or developing viable regional value chains through the Free Trade Area requires an ambitious implementation plan accompanied by policies focused on reducing commodity dependency. In addition, rationalizing the industrial sector to support regional value chains, while leveraging the digital economy through the African Continental Free Trade Area, would help to foster regional resilience against future pandemics.