

Economics of Sustainable Growth in Africa

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By HE Ichoku

Department of Economics, University of Nigeria, Nsukka

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AfriHeritage Institution

54 Nza Street, Enugu

Introduction

About half of the world's population today lives on equivalent of about \$2 per day when the global rate was 3.1% in 2016¹. Unfortunately, as at 2018, nearly 2.2 billion people live below the poverty line of US\$2 which is regarded as the threshold for extreme poverty

- The richest 20% of the world's population enjoys about 83% of the total global income where the poorest 20 % receives 1%.
- In recent years, this concentration of wealth has become increasingly extreme, with 1% of the richest people in the world owning \$110 trillion - 65 times the total wealth of the bottom half of the world's population.^{2,3}.
- About 2000 richest people in the world in 2016 had wealth gain of about US\$750 billion. If they were to stay where they were in the 2016 (without any further increase in their wealth) and this amount is distributed to the extreme poor that will be sufficient to wipe out extreme poverty from the face of the earth.

¹ <http://www.worldbank.org/en/publication/global-economic-prospects>

² Picketty T (2014) Capital in the twenty first century. The Belknap Press of Harvard University Press

³ . <https://www.sharing.org/why-nations-need-to-share/global-poverty-inequality>

- According to recent World Bank data, global poverty is decreasing, but billions of people are still trapped in poverty. They are denied the basic resources they need to survive and thrive. Economic growth has the potentials to reduced global poverty and inequality but it has also the potential to drive inequality and generate social and political conflict and economic discontent.

Modern technologies are improving economic productivity and global welfare but at the same time production processes are raising environmental challenges and creating greenhouse gasses that will make the future earth unlivable. Mitigation measures needed to hold climate change below 2^oabove of the preindustrial era is estimated to cost about USD 200-210 billion per annum up to 2030^{4,5} At the same time many have been left behind in the distribution of the benefit growth and so raising concerns about the sustainability current economic growth.

What is sustainable Economic Growth?

Goal 8 of the 17 United Nations Sustainable Development Goals is to “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”.

It is important to underline the key words used to describe the desirable type of economic growth in the vision of the framers of the SDGs. Some key words used to operationalize sustainable economic growth include: inclusive growth, productive employment, and decent work. Some of these key words are repeated in definitions of economic growth proposed by several global institutions.

The World Bank (2012) defines sustainable growth as growth that is efficient in its use of natural resources, clean in that it minimizes pollution and environmental impacts, and resilient in that it accounts for natural hazards and the role of

⁴ The Paris Agreement 2015

⁵ **UNFCCC Fact sheet: Financing climate change action Investment and financial flows for a strengthened response to climate change**, http://unfccc.int/press/fact_sheets/items/4982.php

environmental management and natural capital in preventing physical disasters. And this growth needs to be inclusive. Inclusive green growth aims to operationalize sustainable development by reconciling developing countries' urgent need for rapid growth and poverty alleviation with the need to avoid irreversible and costly environmental damage.

Sustainable growth “Is the new revolutionary development paradigm that sustains economic growth while at the same time ensuring climatic and environmental sustainability? It focuses on addressing the root causes of these challenges while ensuring the creation of the necessary channels for resource distribution and access to basic commodities for the impoverished.”⁶ **(GGGI)**

“Green growth is growth that “emphasizes environmentally sustainable economic progress to foster low-carbon, socially inclusive development”. OECD

It means “job creation or GDP growth compatible with or driven by actions to reduce greenhouse gases.” **(Green Growth Leaders, 2011)**

Domains of Sustainability

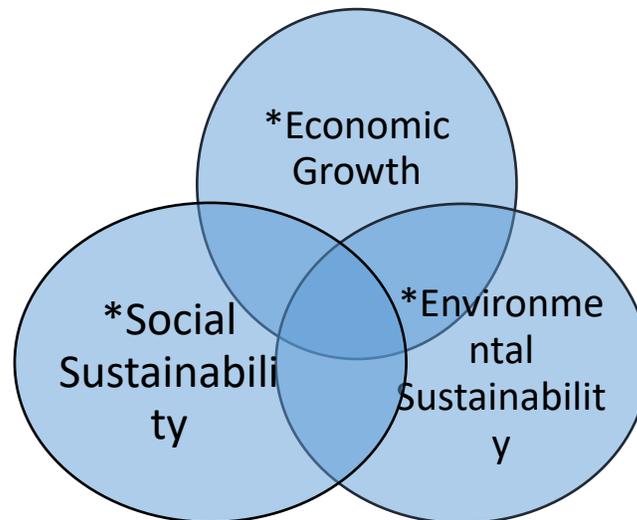
There are three domains of an inclusive green growth economy as depicted in figure 1. These domains include the economic domain, the social, and environmental sustainability domains. These domains are mutually linked and integrated. These domains are overlapping and mutually reinforcing.

Sustainable Growth in the Context of Sub-Saharan Africa

The economic growth domain of the concept emphasizes increases in GDP that promotes diversification, and stimulates technological innovation that lead to efficient production processes. The environmental sustainability dimension highlights the importance of natural resource conservation, and productivity as well as the increased preference for renewable natural resource to non-renewable resources. The social domain highlights the need for the growth process to be

⁶ Global Green Growth Institute (2011). *Green Growth in Motion – Sharing Korea's Experience*.

broad based, decreasing inequality, creating opportunities for all, especially the poor, to participate in the creation and benefits of growth



Source: UNECA (2015) Enabling Measures for an Inclusive green Growth in Africa

**The social inclusiveness of domain has often taken the back seat in analysis of sustainability. But this is exactly the domain I want to emphasize in this address. This domain has often been operationalized as pro-poor growth.

Economic growth may be said to be pro-poor, at least in the relative sense when the incomes of poor growth faster grow at faster rate than those of the rest of the population or the population as a whole⁷. In the absolute sense, growth may be said to be pro-poor if growth enhances the living standard of the poor,

Growth may be said to be inclusive when the benefits of economic growth reach all subgroups of the society. Economic growth may take place yet significant segments of the population may be left behind. Sustainable and inclusive growth requires that the society works as a team and contributes to the growth of the GDP and that everyone in the team gets the benefit of common effort. Inclusion is ensuring a fair distribution of the outcome of growth. In fact, growth with distribution is the other name for inclusive growth because sustainable growth implies that growth does not result from the effort of a few who have access to

⁷ <https://www.microfinancegateway.org/library/what-pro-poor-growth-and-why-do-we-need-know>

capital, as in the case of mining or mineral extraction, but broad based where everybody in society contributes to the baking of the national cake and receive reward for doing so.

Sustainable and inclusive economic growth not only implies that growth derives from empowering the greater and broader segments of the population to participate in the process of production through employment, education, and healthcare. Inclusion is an urgent and widespread problem across the globe particularly in African where there are great disparities in access to gains from economic growth.

In a nutshell, sustainable economic growth attempts to reconcile our need for increase in the overall output of society with a concern for redistribution, and in a manner that sustains natural resources and the environment for future generations. All economies operate in the context an ecosystem which supports the process of production. The ecosystem provides the factors of production that fuels economic growth⁸. Sustainable growth implies that the economic production process must manage the resources provided by the ecosystem in a way that will not deplete these natural resources so that they are available for the future generation.

Theoretical Basis for Sustainable and Inclusive Economic Growth⁹

A central concern of economics from the time of Adam Smith has been the concern for economic growth which from the perspective of classic economists results from efficient functioning of the market that maximizes social welfare. However, the awareness that the market can fail in certain instances, in part of due to externalities such as concern for environment and income distribution, gives rise to the need for government policy interventions to improve the outcome of the market system. In general, growth/efficiency is a concern for optimization - the maximization of output for a given level of input or the minimization of costs for a given level of output. Inclusive growth or equity on the other hand is a concern for distribution, a fair share of the pie for everyone. Unfortunately, from

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⁹ This section depends substantially on Ichoku (2006) A distribution Analysis of Health Financing in a developing Country: A Nigerian Case study applying a decomposable Gini Index

the viewpoint of neoclassical economics, there appears to be considerable scope for conflict between the two objectives, a conflict recognized as the trade-off between growth and distribution. What this implies in practice is that a government policy that is directed to achieving inclusive growth or equity in distribution is unlikely to achieve the goal of maximization of social welfare.

Under the neoclassical framework, inequality in distribution is seen as a necessary consequence of economic growth as suggested by Kuznet's U curve (Kuznet, 1955) which implies that distribution gets worse-off before it gets better-off in the process of economic development. In fact Lewis' theory of economic development (Lewis, 1954) explained inequalities in income distribution as facilitating economic growth. This position is also sometimes supported from a Keynesian perspective. It is argued that since individual's savings rate increases with increases in income, therefore, redistribution of income from the rich to the poor will lower aggregate savings and so lowers investment and economic growth. Therefore, a rise in inequality will increase investment and economic growth (Barrow, 2001).

Furthermore, there has been considerable debate whether distributional concerns in general lies within the legitimate province of the interests of the economist since the 'economic man' is essentially a utility maximizer. Whatever variable that does not enter into his utility maximizing function, such as the welfare of another person or concern for the environment is considered as an externality. These debates seem to cast doubt on the relevance of redistributive policies as an economic concern (see for example Harberger 2001). Several counter arguments to justify distributional concerns are based largely on sympathy which may give rise to specific egalitarianism.

While these counter-arguments are generally valid, it has, however, been shown that beyond the appeal to sympathy and commitment, distributional concerns also enter as an independent argument in the social maximization function. This view is suggested by new attempts to clarify the conditions for the operation of Adam Smith's 'invisible hand' as expounded by Arrow-Debreu equilibrium. The core of this new economic theory rests on the existence of market imperfections, information asymmetries and social costs of inequality that suggest that the

relationship between efficiency and equity is not, after all one of substitute but complement (see for example, Hoff 1994; Hoff and Stiglitz, 2001).

To substantiate this argument, it is noted that under the assumptions of the Arrow-Debreu conditions¹⁰ the competitive market is generally considered to lead to Pareto efficiency. However, real life is characterized by the existence of monopolies, non-convexities, oligopoly, imperfect information, and other forms of market imperfections such that equilibrium conditions are not guaranteed. The assumptions of the fundamental theorems seem, therefore, too restrictive that by the very nature of things, they are bound to be violated, at least in some sectors of the economy. The implication is that there is need for Pareto improving market interventions. This new focus arises from the deeper analysis of the implications of the fundamental theorems of welfare economics and the conditions under which the Arrow-Debreu equilibrium may be attained¹¹.

Once these equilibrium conditions are relaxed, the separation between efficiency and equity ceases to exist. The issue of equity or distribution becomes inseparably tied to the issue of efficiency. For example, Vohra (1998) shows that under increasing returns the issues of income distribution and equity cannot be divorced from efficiency concerns. Hoff (1994) shows that with imperfect information and under certain conditions, lump-sum redistributions of endowments can, indeed, improve efficiency. According to Hoff, the 'Second Theorem of the Second best' implies "a breakdown of the neat dichotomy between distribution and efficiency in the neoclassical model" (p.235). As Banerjee (2001) notes, notwithstanding the second welfare theorem notwithstanding, many economists today believe that the questions of growth/efficiency cannot be resolved independent of issues about distribution"

¹⁰ Arrow and Debreu (1954) highlight the very restrictive assumptions underlying the working of Smith's 'invisible hand' as formally defined under the first fundamental theorem of welfare economics: no increasing returns, no monopolies, complete set of markets for spot and futures markets, convex technologies complete insurance, symmetric information, the existence of lump-sum transfer instruments among others. It is characterized by tangency between marginal rates of substitution in consumption and marginal rates of technical transformation in production with price as parametric. It is basically the Walrasian equilibrium for state contingent commodities (Mas-Colell et al. 1995).

¹¹ Much of the inspiration in current literature in the understanding of the relationship between efficiency and distribution is due to the clarifications and extensions of the Arrow-Debreu model highlighting the strident conditions for general equilibrium to be attained. However, driving the Arrow-Debreu equilibrium conditions to their logical limits, Joseph Stiglitz and George Akerlof and others showed that relaxing any of these assumptions such as the assumption of full and symmetric information the competitive equilibrium was not even constrained Pareto efficient. That is to say, in the presence of information asymmetric, an allocation cannot be Pareto improved (Hoff 1994)

This is the unfortunate outcome (for advocates of the inviolability of the market) of the theory of the second best that specifies that “if there are a number of constraints preventing the satisfaction of optimal conditions it will not generally be desirable to have these conditions hold in the rest of the economy” (Killick, 1981:18). But this dichotomy may also breakdown for other reasons such as incomplete markets and externalities. Thus, it would seem that the efficiency-oriented and equity-improving healthcare financing need not after all be contradictory but actually mutually reinforcing

Empirical Evidence

To show that a policy that is directed at improving efficiency and one that is directed towards redistribution are not contradictory, a number of empirical studies both at the micro and macroeconomic levels have shown that in practice, redistribution can increase efficiency in a variety of ways (Banerjee, and Newman, 1993; Galor and Zeira, 1993; Curie, 1995). For example, Currie finds that reducing malnutrition that inhibits the development of human capital may increase the social product. If credit constraints prevent the poor from having access to productive investment, inequalities in wealth distribution may have negative impacts on economic growth (Bruno, Ravallion and Squire, 1996). In this sense, distribution and efficiency may be considered as complements rather than substitutes. Once the restrictive assumptions underlying the Arrow-Debreu model that give rise to the separability of efficiency and distribution breakdown, then the outcome will be quite model specific (Kanbur and Lustig, 2000).

Economic Growth in Africa

Unlike in the declines witnessed in the 1980s and part of 1990s, Africa’s economic growth in the first decade of this century, until the depression of 2009, was remarkable and robust at the rate of about 5%. Sustainability of the current growth in GDP is also cast in doubt as, unfortunately, the distribution of growth benefits

has been extremely unequal and concentrated on a few households, few sectors and a few geographical areas¹².

World Bank (2016) reported that although the percentage of Africans who are poor fell from 57% in 1990 to 43% in 2012 about half of the continent's population leaved in extreme poverty. The region hosts six of the world's most unequal countries (including South Africa, Botswana, Zambia, Lesoto, CAR and Namibia). The population is projected to hit 1.25 billion¹³ from its current size of about 1.05 billion.

In addition to wide inequalities in wealth and income, the region is characterized by large inequalities in access to opportunities in the labor market, access to social services which trap large numbers of the people in poverty.

Drivers of African Economic Growth

Growth has been driven by exploitation of natural resources requiring capital intensive industries including mining, oil and gas, and to some extent tourism¹⁴. These sectors do not employ huge numbers of people, and thus leading to the creation of few job opportunities. According to a CNN respondent in Tanzania "You can grow by 7 or 8%, but it's not a broad-based growth, so most people don't benefit from it. So at the same time that you have growth, there is also a growing inequality between a small elite which is benefiting from this -- sometimes literally only a few thousand people -- and millions of the population who are stuck,"

Extraction of primary resources provides immediate economic gains but its depletion reduces the prospects of more enduring and sustainable growth in the future¹⁵. Africa's natural resources are rapidly depleting due to capital intensive extraction processes. The huge growth in population is also creating anthropogenic environmental problems such erosion and landslides. For example, FAO (2012) predicts that between 2010 and 2030, the number of African

¹² UNDP (2014) *Inclusive green growth in Africa: Rational, Challenges and Opportunities*, Policy Brief

¹³ [Veselinovic M.](#) (2015) *Rich getting richer, poor getting poorer? Africa's inequality struggle*, CNN Africa Review

¹⁴ [Veselinovic M.](#) (2015) *Rich getting richer, poor getting poorer? Africa's inequality struggle*, CNN Africa Review

¹⁵ World Bank (2012) *Inclusive Green Growth: The Pathway Sustainable Development*, The World Bank, Washington, USA.

living in cities will increase by 345 million and urban population will double to about 600 million. These population increases will have impact on the environment. Increasing desertification and spreading dry lands are also compounding Africa's environmental problems.

While the major source of growth in the decades of 2000 was soaring prices of oil, minerals and commodities, growth has also been accounted for by internal structural changes that helped broader domestic growth. While one third of growth in the decade of 2000 was accounted for by soaring oil prices, the rest resulted from greater diversification of domestic economies which have led to increased contributions from retail trade, transportation, telecommunication, and manufacturing.

Agriculture currently supports the lives of about 70% of Africa's population living in rural areas. Unfortunately current agricultural practices are impeding future productive practices resulting in many more Africans falling into poverty and food insecurity.

But the growth pattern has not been homogenous across countries or even across sub-regions. Four countries, namely South Africa, Egypt, Morocco, and Tunisia are Africa's growth engine. Growth in these countries has been driven by significant diversification of the economies, particularly, by manufacturing. They are also investing extensively in technologies that promote green growth.

There is a group of countries where economic growth has been largely driven by favorable oil exports but they constitute the least diversified economies in the sub-region. These include Algeria, Angola, and Nigeria. The manufacturing sector in these economies remain under developed and contribute very little to their GDP. For example, in Nigeria the manufacturing sector contributes only about 9% to the GDP¹⁶. These countries have high prospects of growth if they use their oil revenue to diversify into other areas through greater investment in infrastructure, education and health.

¹⁶ National Bureau of Statistics 2014

Some countries in the region have been classified as transition economies where economic growth had initially been driven by improved commodity prices but have now diversified to other sectors including processing of raw materials. The countries in this group include Ghana, Kenya and Senegal. These countries are growing rapidly. While their agricultural and resources sectors together contribute about 35% of the total GDP, they are rapidly diversifying into manufacturing. Opening up the African market through greater inter Africa trade will benefit these countries.

Three countries typify what could be classified as pre-transition economies. These include Ethiopia, Mali and the Democratic Republic of Congo. Although these countries had impressive of up to 7% in the decade of 2000 they are hampered by lack of strong public institutions and stable macroeconomic environment.

Generally, the economies of the countries in SSA have remained dependent on limited number of products with low value added and dependent on foreign capital for development. Inter-African trade is very low in spite of long standing proposal for regional integrations of the economies and markets in the region¹⁷. There are severe

What can be done to achieve inclusive and sustainable economic growth in Africa

Africa has several challenges in achieving inclusive and sustainable economic growth. These challenges stem from the region's inability to restructure and diversify its economy by adapting to production processes that promote environment sustainability and social inclusiveness. Restructuring the economy of the countries of the region would require more investment and emphasis on labor intensive rather than capital intensive production process as it is currently the case. Most current sources of economic growth such as mineral extraction, and oil drilling are capital intensive and depend on imported capital. This creates and sustains environmental degradation and high levels of income inequality as the returns to capital circulate among only very few members of the population

¹⁷ <http://www.unesco.org/new/en/africa-department/priority-africa/operational-strategy/sustainable-development-and-economic-growth/>

who have access to capital and foreign investors who must repatriate capital back to their home countries.

On the other hand labor intensive processes of production have less potential to cause environmental damage. This is because labor intensive production process have less impact on the environment and the market outcome of production is distributed among a large number of people who have contributed to the production process¹⁸

Labor intensive processes, however, also demand educated and healthy labor force. This implies that African countries need to invest more on education and health. Currently Africa has very poor educational and health records. For example child and maternal mortalities as well as life expectancy in some countries of Africa are some of the worst globally and this partially explains the slow pace of poverty reduction in the region. Health is the most important asset of the poor. Ill-health devalues this asset. It reduces productivity and increases absenteeism. Many households are thrown into poverty when the breadwinner falls sick.

There is preponderance of informal work in most African countries. According a recent ILO study, about 85.8% of employment in Africa is informal compared to 68.2% in Asia, 68.8 in Arab states and 40% in Americas, and just 25% in Europe. In many countries in the region like Nigeria, informal sector accounts for over 80% of new jobs¹⁹.

There is also the need to formalize the informal sector to regulate the working conditions of the workers in the informal sector who often are slaved by the employers.

Inclusive growth will reduce unplanned population growth and lead to demographic transition which is required to put the economies of the countries of

¹⁸ Leibbrandt M and Borat H, and Woolard I (2007) Household inequality and labor market in South Africa Contemporary Economic Policy,

¹⁹ ILO (2018) Women and men in the informal sector, Geneva: ILO

the region on the path to sustainable growth. Currently the population growth if not well managed could constitute a major challenge.

Currently, African countries are challenged by infrastructural, technological and human capacity inadequacies. However, these challenges also present opportunities for African countries to take the path of sustainable and inclusive growth in their early stages of development.

There is a high level of consciousness in most countries of the region of the need to adopt policies that respond to global environmental challenges and resources. Many countries in Africa today have developed their inclusive green and sustainable growth strategies which is essential for ensuring that economic growth in African at least in the foreseeable future is driven by a vision of inclusive and sustainable growth.

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