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## MYTHS AND REALITIES OF ECONOMIC GROWTH AND POVERTY IN SSA COUNTRIES[1]

**Kwasi AGYEI** [2]

**José M. MELLA**[3]

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**E-mail:** amenet@uam.es

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[2] Contact email: a.kwes2@yahoo.com

[3] Contact email: jose.mella@uam.es

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# WORKING PAPER. MYTHS AND REALITIES OF ECONOMIC GROWTH AND POVERTY IN SSA COUNTRIES

Kwasi Agyei, Lecturer of Spiritan University College, Ejisu-Kumasi

José M. Mella, Full Professor of Economics at the University Autonomous of Madrid and former Visiting Professor at Spiritan Universtiy College

## SUMMARY

Today, there is a debate among development experts on how countries can end extreme poverty. One of the most outstanding proposals is that economic growth is an important mechanism for achieving the target of finishing with poverty. So, it is relevant to know the empirical evidence concerning the myths and the realities on this issue in Africa Sub-Saharan (SSA) countries. The paper will be focused on two points. From one side, it will deal with questioning five "myths". Myth 1: In SSA countries, GDP growth translates into improvements in household living standards. Myth 2: In SSA countries, economic growth benefits the poor just as much as everyone else. Myth 3: In SSA countries, "inclusive growth"-or "pro-poor" growth- will reduce the income gap between rich and poor. Myth 4: pro-poor growth will reduce the income gap between rich and poor. Myth 5: we should focus on ending extreme poverty before addressing climate change. From another side, the paper will try to find out the real role- "realities"- of the structural transformation (Sectorial changes of SSA economies) and the institutional factors (Economic opportunities, safety, and rule of law) on poverty reduction in

SSA countries. Finally, bearing in mind the results, the paper will suggest some economic policy recommendations.

Key words: Economic growth, poverty, SSA countries

# 1. INTRODUCTION [1]

Sub-Saharan (SSA) Africa has long been seen as the world region with the highest level of poverty and deprivation and some of the worst social outcomes. At the same time, it can be said that in 1960 many Asian countries were as poor and often much poorer.

The subsequent fifty-seven years have seen impressive progress in many Asian countries. SSA African countries generally grew more slowly than Asian countries; and they then suffered twenty years of stagnation and decline from the mid-1970s to the mid-1990s (McKay and Thorbecke, 2015).

Equally well known, though, is the impressive economic progress African countries have experienced over the past twenty years and especially the past ten years. The annual growth rate of real dollar values of per capita GDP for SSA Africa, which had averaged — 1.2 per cent between 1974 and 1994, was 1.6 per cent between 1995 and 2005, and 2.2 per cent between 2005 and 2012[2], and this trend continued up to 2016. Economic growth in Sub-Saharan Africa is projected to recover to 2.6 percent in 2017, following a marked deceleration in 2016 (1.1%). The upturn in economic activity is expected to continue in 2018-19, reflecting improvements in commodity prices, a pickup in global growth, and more supportive domestic conditions.

Poverty Reduction Strategy Paper (PRSP) in Sub-Saharan Africa have shown strong signs of growth resilience in the aftermath of the recent global crisis. Yet, there is evidence that growth has more than proportionately benefited the top quintile during PRSP implementation. PRSP implementation has neither reduced poverty headcount nor raised the income share of the poorest quintile in Sub-Saharan Africa. While countries in other regions have been more successful in reducing poverty and increasing the income share of the poor, there is no conclusive evidence that PRSP implementation has played a role in shaping these outcomes (Sembene, 2015).

Even though, the under-five mortality rate, malnutrition rates, life expectancy, school attendance, and drinking water facilities, showed substantial improvement since the end of the past century. This indicates a remarkable progress in living conditions. However, SSA Africa remains the most deprived region worldwide according to most of these indicators.

Therefore, it is also clear that there is much scope for greater effectiveness in the transmission of growth into poverty reduction.

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[1] Not to be quoted without permission.

[2] All data used here are from World Development Indicators, 2017

This paper sets the context in this section 1 by reviewing very briefly the evidence of growth and poverty in SSA countries. Section 2 discusses the two main theoretical approaches of poverty, inequality, and growth. Section 3 introduces the so-called five "myths" about poverty, growth, and inequality. Section 4 provides empirical evidence on "realities" of structural transformation and institutional factors. In concluding, section 5 draws some conclusions and proposes some economic policy recommendations against poverty.

## 2. STATE OF THE ART

A key question is to what extent has this growth led to reduced poverty? What are the transmission mechanisms and why do they appear to operate so much less efficiently than in Asia? In addition, how could the poverty-reducing impact of growth be further enhanced? Much less is known about these questions. The channels through which growth in sub-Saharan Africa has led to poverty reduction are not well understood.

### 2.1. Structural transformation approach

An analysis of the broad sectoral composition of GDP shows that the share of agriculture is highest in the two poorest regions, South Asia and sub-Saharan Africa, which one would, of course, expect. In Asia, one observes a sharp reduction in the share of agriculture in GDP over this period, but by contrast, the share of agriculture did not change much in sub-Saharan Africa. The share of industry was always higher in Asia than in the African subcontinent, reflecting a much more successful industrialization process. In SSA Africa, the industrial sector, especially the manufacturing component, declined over this period. The share of services in GDP continues to be large in each of these regions.

There is also evidence of some structural transformation in SSA African countries. It is at the heart of the development process and occurs when low-productivity workers in agriculture (the dominant sector at an early stage of development) move into more productive jobs outside of agriculture.

In Africa before 2000 workers who left agriculture were typically pushed out by lack of income rather than being pulled into more productive employment opportunities. This led to what has been referred to as a "migration of misery". SSA countries face difficult challenges, including the "resource curse", infrastructure deficiencies, landlockedness, and others, which Asian countries are less affected by.

In SSA countries, land productivity has been growing hardly at all[3]. Little land is irrigated, many farmers use almost no fertilizers, poor technology, low skill levels of farmers, low agricultural capital per worker/farmer or per unit of land (machinery), bad policy discriminations against agriculture. These factors are behind these poor records[4].

It is true that high input prices[5] are a significant explanation of the low agricultural productivity of SSA African countries[6]. In addition, few people in SSA countries have good market access. Only 20% of the rural population lives within one hour of a market centre. The lack of transportation to market is a major impediment to buying and selling goods. Most rural areas are remote and isolate, which represent serious drawbacks for agricultural development.

If current trends continue, it seems likely that poverty in SSA Africa will remain a largely rural phenomenon for many decades to come.

The structural transformation out of agriculture is a widely recognized element of economic growth. Africa's pattern of transformation is puzzling. First, the gap between productivity in agriculture and other sectors appears to be far bigger than that found in other regions of the developing world. Second, apart from a few countries (Nigeria, South Africa), the rate of migration to urban areas is surprisingly low, given the vast differences in productivity between agriculture and other sectors.

That does not necessarily imply that agriculture development offers the best prospects for solving poverty problems. The best prospect for reducing rural poverty and increasing agricultural productivity might come from non-agriculture, creating additional opportunities for people to exit farming. A strategy of exporting non-agricultural goods or cash crops, and importing food, might prove better than a development strategy based on agriculture (Collier, 2008, quoted by Golling, 2015).

[3] In contrast, with East Asia which grew very rapidly.

[4] The staple foods of SSA Africa-tropical maize, cassava, cooking bananas and plantain, sweet potatoes, yams- are not crops widely researched and developed. They receive few "*spillovers*" from research carried out in other parts of the world.

[5] Due to tariff barriers or price distortions in the non-agricultural sector, high costs of producing intermediate inputs or transporting them to rural areas, imperfect competition in the wholesale and retailing sectors, and subsidy-cuts.

[6] As Golling (2015) proposes, it would be helpful to have greater evidence on levels of agricultural productivity in Africa.

An opposite view challenges the "agro-pessimism" of Collier, and it concludes that "agricultural growth" is still important for most low-income African countries (Golling, 2015) to reduce poverty and increase per capita incomes.

Nevertheless, recent data (Christiansen, 2017)[7] show that we cannot state that farmers, in general for SSA countries, use low levels of modern productive resources. The agricultural sector in Africa is changing in the sense of more use of fertilizers, and the diversification of farmer incomes. Even though, the sector continues to suffer a lack of formal credits, and it has been producing a structural transformation, but towards surviving activities, not of development. However, families with more educational levels and access to credit undertake agro-food permanent activities, not necessarily of survival. This path of the analysis needs more research efforts.

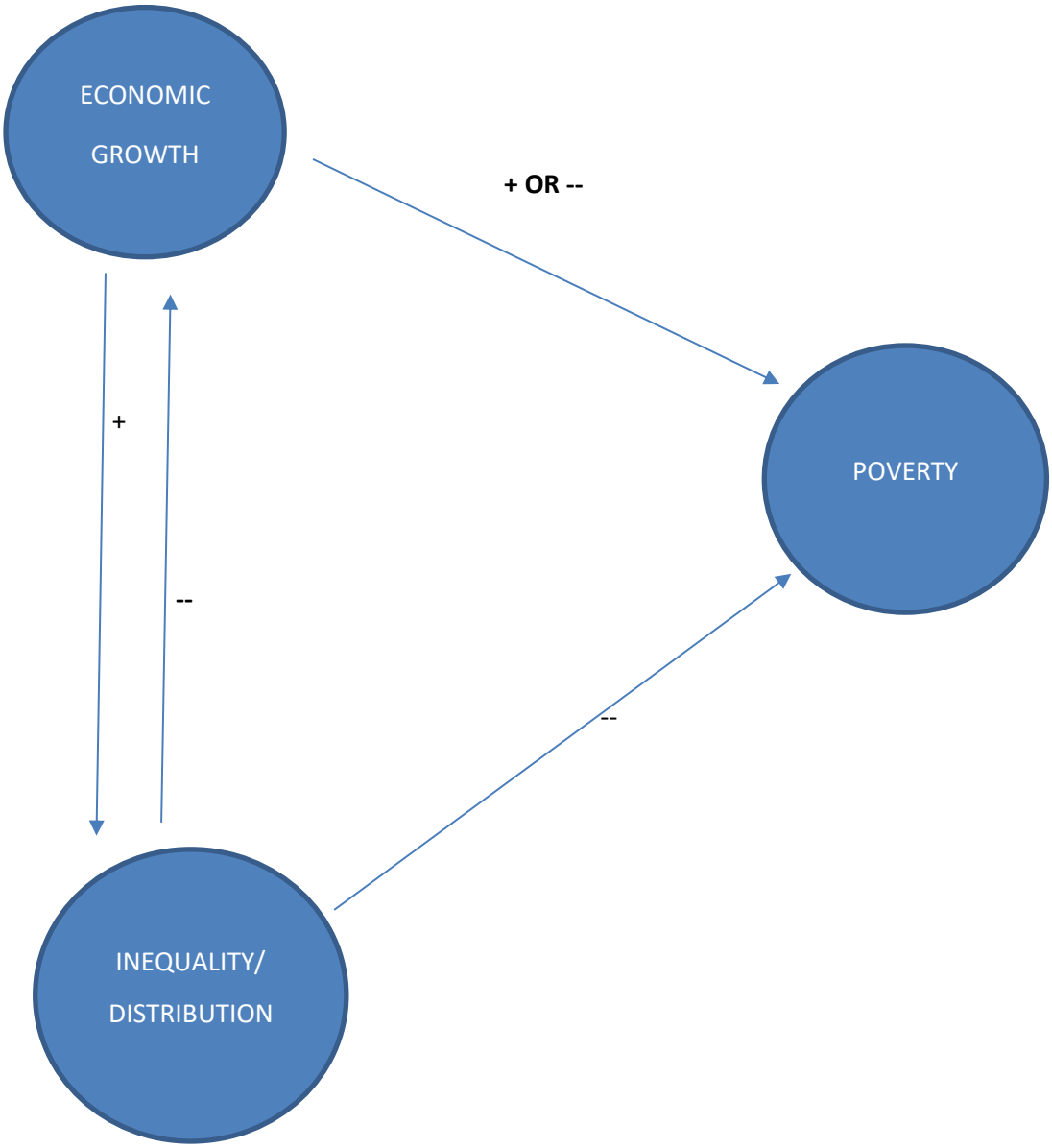
### 2.2. Growth, inequality, and poverty approaches

As suggested by Ravallion (2012), high initial levels of inequality may be a factor in dampening growth. Reducing inequality is a key future policy priority. Inequality acts as a filter between GDP growth and poverty alleviation. To make the transmission mechanism more inclusive, inequality has to fall.

If the rapid reduction in absolute poverty is a primary objective of development, then the achievement of this goal requires a combination of growth and distribution policies. The relationship between growth and distribution depends positively on the level of development and negatively on the degree of inequality. A development strategy affecting distribution and growth fully determines poverty levels.

[7] Data from agricultural surveys carried out in Ethiopia, Malawi, Niger, Nigeria, Tanzania, and Uganda for the 2009-2013 period.

**DIAGRAM 1. GROWTH, INEQUALITY AND POVERTY**



Analysts (Thorbeke, 2015) consider that the challenge to establishing a development strategy for reducing poverty lies in the interaction between distribution and growth, and not in the relationship between poverty and growth on one hand and poverty and inequality, on the other.

The development strategy, which is followed by a given country, affects poverty through two different paths: first, through its contribution to the growth channel, and second, through its impact on income distribution.

There are two conflicting theoretical strands underlying the causal chain from income inequality to growth: first, the classical approach and, second, the "modern" or "new" development theories. Whilst the former emphasizes the growth effects on inequality, the latter links greater inequality to reduced growth through channels such as the diffusion of political and social instability leading to greater uncertainty and lower investment, rent-seeking activities, and increased insecurity of property rights.

Thus, the ultimate poverty-reduction effects depend on how the growth pattern affects income distribution, as inequality acts as the filter between growth and poverty reduction. Poverty reduction would require some combination of higher growth and a more pro-poor distribution of the gains from growth.

In fact, as far as we are concerned, no robust generalization can be made relating to the impact of growth on inequality (Thorbeke, 2015). It seems that a more equitable income distribution would enhance the rate at which growth is transformed into poverty reduction[8].

The new political economy theories, linking greater inequality to reduced growth, operate through a number of channels (Diagram 2). These channels are:

1. Unproductive rent-seeking activities.
2. Social and political instability leading to uncertainty and lower investment.
3. Redistributive policies encouraged by income inequality impose disincentives on the rich to invest and accumulate resources.
4. Lack of credit markets resulting in underinvestment by the poor.

[8] There is considerable variance of the growth impact among SSA countries. "An efficient poverty-reduction strategy requires that a country-specific approach be undertaken in determining the appropriate emphasis on growth vis à vis inequality" (Fosu, 2008, quoted by Thorbeke, 2015). A typology of countries facing relatively similar conditions is suggested, together with appropriate development strategies (Thorbeke, 2015).

5. Smaller income to the middle class has a strong positive effect on fertility, and this, in turn, has a significant negative impact on growth[9].

DIAGRAM **2. Channels through which inequality effects growth**


[9] Other channels are also relevant such as bad regulatory regimes, ethnic redistribution regimes, regimes of intertemporal redistribution that transfers resources from the future to the present, the state breakdown and insecurity.

Therefore, inequality is not a final income of growth, but plays a central role in determining the rate and pattern of growth, which may be pro-poor or anti-poor.

The SSA African countries are going through an unprecedented growth spell, which is if government adopt desirable development strategies can improve economic and social performance. These development strategies should be shaped in the light of the prevailing institutions and the political and economic power structure.

## 3. FIVE "MYTHS" ABOUT POVERTY, GROWTH, AND INEQUALITY

Today, development experts from a range of organizations and universities, including the World Bank, are gathering to discuss how we can end extreme poverty.

'Pro-poor' or 'inclusive' growth **-** ensuring that growth benefits the poor more than the average - is a popular mechanism for achieving this. For example, the Sustainable Development Goals and the World Bank both have targets that aim to promote income growth for the bottom 40% of every country's population.

While we should welcome this recognition that *who benefits* from growth matters just as much as the *amount of growth*, some myths around this remain.

Myth 1: in SSA countries, GDP growth translates into improvements in household living standards.

Myth 2: countries that gained middle-income status over the last decade have higher levels of inequality.

Myth 3: growth benefits the poor just as much as everyone else.

Myth 4: pro-poor growth will reduce the income gap between rich and poor.

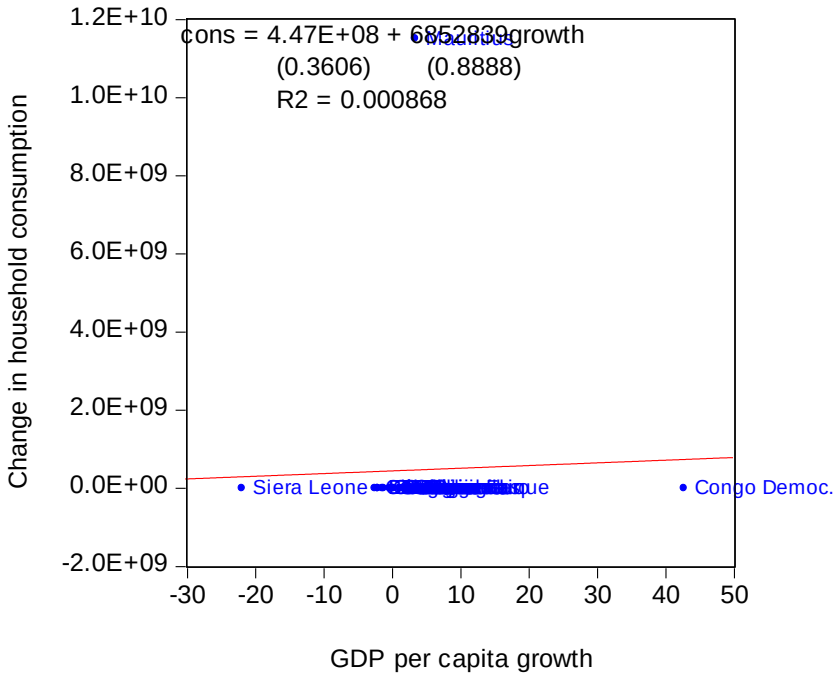
Myth 5: we should focus on ending extreme poverty before addressing climate change **(**Drought, reduced agricultural productivity, increased food prices, child malnutrition**).**

This myth is based on the idea that if developing countries focus on lifting GDP growth, this will raise average household living standards.

But research illustrates that for the poorest countries, there is not a clear relationship between GDP growth and average household levels of consumption. This can be seen in the graph 1 below of countries that had low-income status around 2000.

It is not clear whether this is due to a disconnection between the formal economy and household living standards, or problems with how we measure these.

**Graph 1. On annual GDP per capita growth and annual change in household consumption**



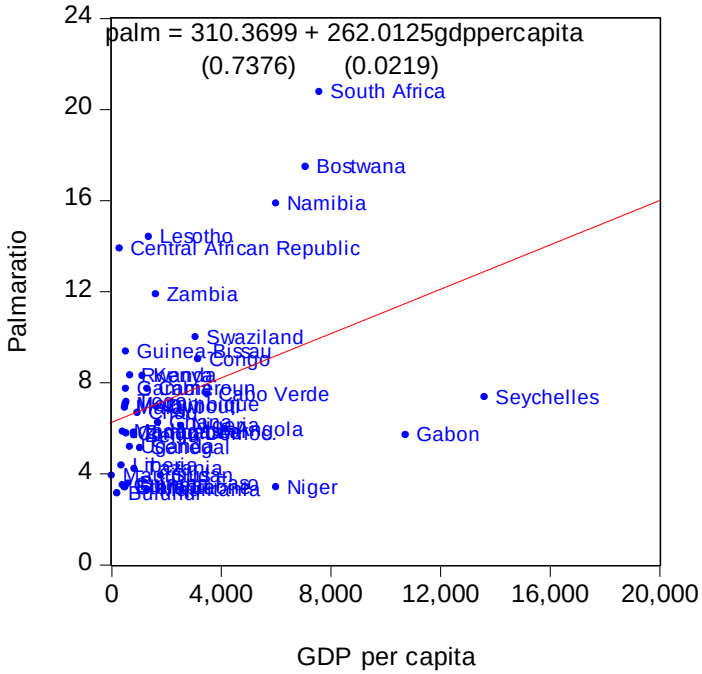

Source : Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

**Myth 2: countries that gained middle-income status over the last decade have higher levels of inequality.**

This common belief is based on the Kuznets Curve, which suggested that as countries move from low to medium standards of living, inequality worsens. Recent UN publications reinforce this idea by providing evidence for it on average.

However, recent research illustrates that this average is driven entirely by a few outliers. In fact, then the opposite is true. Countries that moved from low to middle income status are slightly more equal on average than those that stayed low income.

**Graph 2. Palma ratio (see google for the definition) and GDP per cápita as recent as posible**



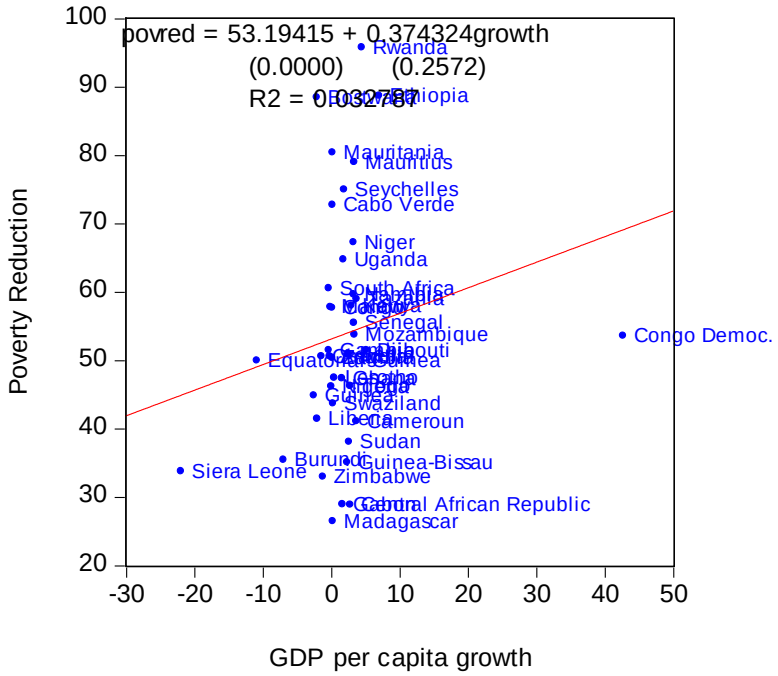

Source: Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

**Myth 3: growth benefits the poor just as much as everyone else.**

This myth was spread by a misinterpretation of a famous World Bank paper by Dollar and Kraay, Growth is Good for the Poor, which shows that on average the bottom end of the distribution has grown roughly as fast as the mean. This led some to argue that the poor always benefited from growth as much as everyone else in all countries. But there are papers that show that while around half of countries experienced 'pro-poor' growth, most of the SSA population lives in countries where the income of the bottom grew slower than the average.

If all countries in SSA Africa had experienced equal growth over the last 15 years, million more people would have escaped extreme poverty by 2015. As this Graph 3, the reader can see what we are saying.

**Graph 3. Poverty Reduction and GDP per capita growth**




Source : Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

The result revealed that growth rate in gdp per capita in 2015 does not exert significant effect on poverty reduction even at the 10 percent level of significance. The implication of the results is that deliberate policy to reduce poverty will be futile. Thus, the theory that posits that growth in GDP trickles down to the poor is not a reality in Sub-Saharan Africa. The result largely is intuitively plausible. Growth is normally skewed in favor of the few rich people relative to the masses who live in abject poverty. Most of the time growth in the overall economy is driven by the growth in cities relative to the rural community where most of the dwellers are poor. This result is supported by the assertion made by Dahlquist (2013) who noted a country or region with a large fraction of poor and a low growth rate shown to have problems in reducing poverty. Dahlquist (op cit.) further indicated that economic growth does not appear to be sufficient tool when the level of poverty is extreme.

**Myth 4: pro-poor growth will reduce the income gap between rich and poor.**

A common misunderstanding is that if growth were higher for the poorer parts of the distribution, this would reduce the income gap between rich and poor.

In fact, as a new paper illustrates, the gap in incomes between rich and poor has increased in *all* countries that experienced growth over the last fifteen years.

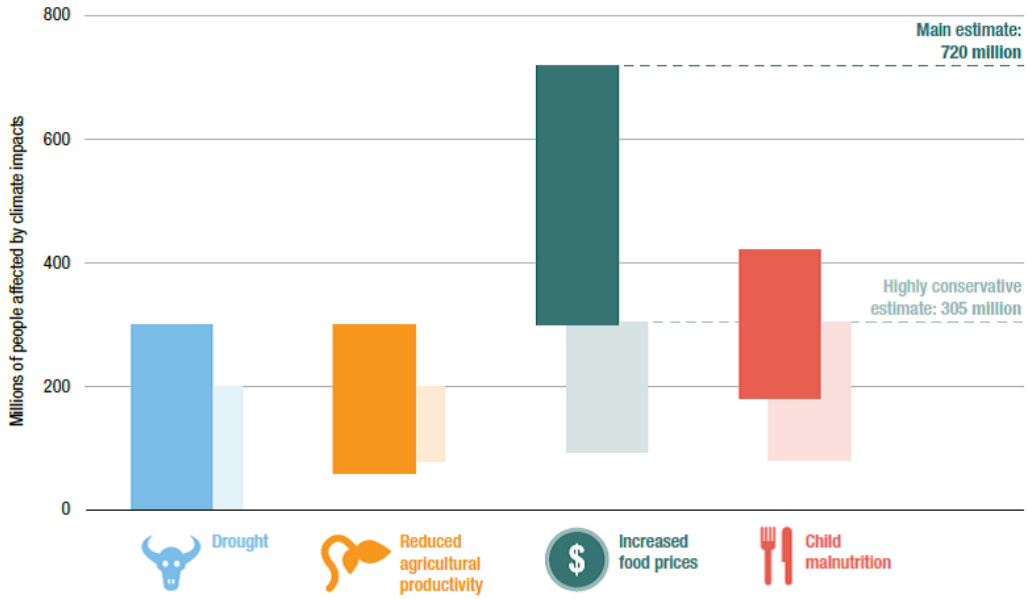
The graph could show how the gap between the average income of the top 10% and bottom 40% grew each year.

**Myth 5: we should focus on ending extreme poverty before addressing climate change.**

Some commentators suggest that developing countries should focus on boosting growth to eliminate extreme poverty by 2030, and only then worry about reducing carbon emissions. This implies that it it is possible to delay addressing climate change and that its devastating effects will not push people back into extreme poverty.

But an ODI report highlights that if action is not taken to address climate change immediately, over 700 million people could re-enter extreme poverty from 2030 to 2050.

**Figure A: Up to 720 million people are at risk of facing extreme poverty from climate impacts between 2030 and 2050**




So where does this leave us? Drought reduced agricultural productivity, increased food prices, child malnutrition.

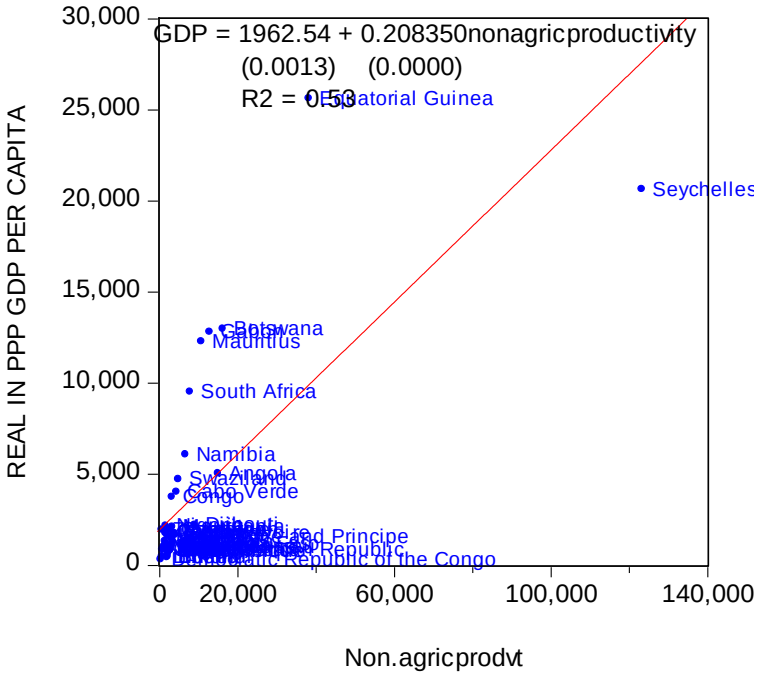
As recent research shows, pro-poor growth can help eliminate extreme poverty. But this approach alone won't close the gap between the rich and the poor - and we can't try and address it without addressing climate change simultaneously.

# 4. "REALITIES" OF STRUCTURAL TRANSFORMATION AND INSTITUTIONAL FACTORS

This section of the paper discusses the realities associated with structural transformation and institutional factors. First, it looks at structural transformation and development, structural transformation and poverty reduction and the role of institutional factors in reducing poverty in Sub-Saharan Africa.

## 4.1 Structural transformation and development

**Graph 4. Real GDP per capita and productivity in the non-agricultural Sector.**



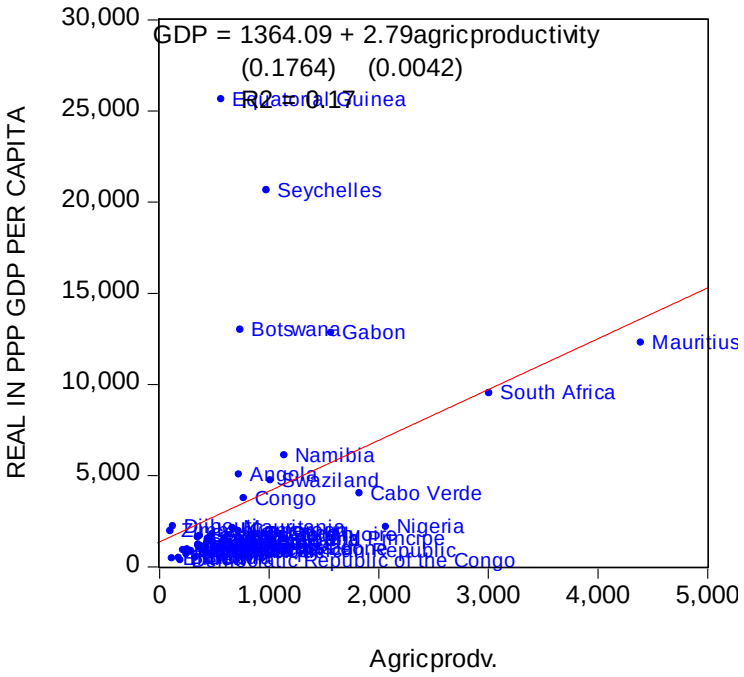

NAPRODPERWK refers to nonagricultural output per worker

Source: Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

The scatter plot shows the relationship between real GDP per capita in constant purchasing power parity (PPP) in 2010 and productivity per worker in the non-agricultural across 47

countries in Sub-Saharan Africa. The graph shows positive linear relationship between real GDPs per capita in PPP in 2010 and productivity per worker in the non-agricultural sector. The implication of this result is that as productivity per worker in the non-agricultural sector increases, real GDP per capita increases as well in the Sub-Saharan Africa economies. However, it could be observed from the graph that, most of the countries are bunched together at the lower left corner of the graph. This gives the indication that most Sub-Saharan Africa economies have low productivities levels in the non-agricultural sector with a corresponding lower level of development indicated by real GDP per capita. To quantify the magnitude and the direction of the effect of productivity per worker on real GDP per capita, a simple regression equation is estimated. The summary of the regression results can be found in the upper part of the graph. The $R^2$ value is 0.53, which indicates that about 53 percent of the variation in the real GDP per capita in 2010 is explained by productivity per worker in the non-agricultural sector. Further to this, productivity per worker in the non-agricultural sector exerts significant effect on the real GDP per capita across the Sub-Saharan Africa countries. This gives credence to economic theory that development of the non-agricultural sector is a key driver to growth and development.

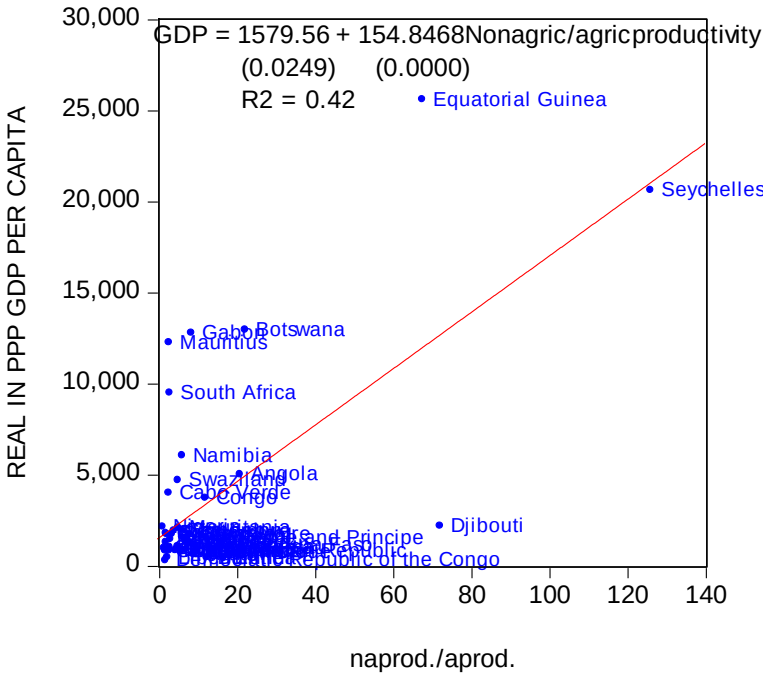
**Graph 5. Real GDP per capita and productivity in the agricultural Sector.**




APRODPERWK refers to agricultural output per worker
Source: Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

Graph 5 generally shows positive relationship between real GDPs per capita and the agricultural productivity per worker. That is as the productivity in agricultural sector increases real GDP per capita also increases as well. The $R^2$ value indicates that about 17 percent of the variation in real GDP per capita is explained by productivity in the agricultural sector in sub-Saharan Africa. Productivity per worker exerts a significant positive effect on real GDP per capita at the 1 percent level of significance. A unit increase in the productivity per worker levels increases real GDP per capita by GH$2.79 across the selected countries in sub-Saharan Africa. Productivity per worker in the non-agricultural sector explains more of the variation in real GDP per capita relative to the agricultural sector. This may give the indication that agricultural sector is necessary for growth but not sufficient for substantial transformation of the economies. Thus, more emphasis should be laid on the transformation of non-agricultural sector that may generate substantial transformation, growth and development in economies in the selected countries in sub-Saharan Africa. However, laying more emphasis on the industrial sector should not lead to the neglect of the agricultural sector. There should balance in the development of the sectors. Failure to recognize this may weaken the industrial base through weak forward and backward linkages.

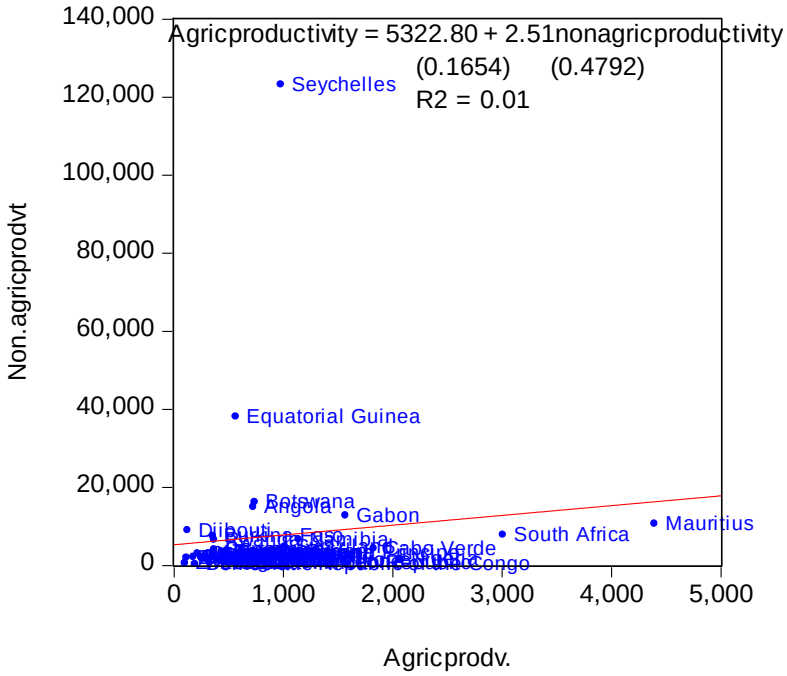
**Graph 6. Real GDP per capita and the ratio of productivity in the non-agricultural to agricultural sector.**




NA/APRODPERWK refers to the ratio of nonagricultural output per worker to agricultural output per worker
Source: Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

The scatter plots indicate that there is a positive association between real GDPs per capita and the ratio of non-agricultural productivity to agricultural productivity. The $R^2$ indicates that 42 percent of the variation in real GDP per capita is explained by this ratio. The regression results further indicate that the ratio of the productivity levels exerts a significant effect on real GDP per capita at the 5 percent level of significance. If productivity increases by one unit in favor of the non-agricultural sector, real GDP per capita improves by GHS154.85 in Sub-Saharan Africa. This gives the indication that improvement in productivity levels in favor of the non-agricultural sector will benefits economies in Sub-Saharan Africa. Thus, investment in technology and innovation that enhances productivity in the non-agricultural sector relative to agricultural sector, is likely to stimulate transformation of these economies.

**Graph 7. Productivity in the non-agricultural and productivity in the agricultural Sector.**




NAPRODPERWK refers to nonagricultural output per worker and APRODPERWK refers to agricultural output per worker

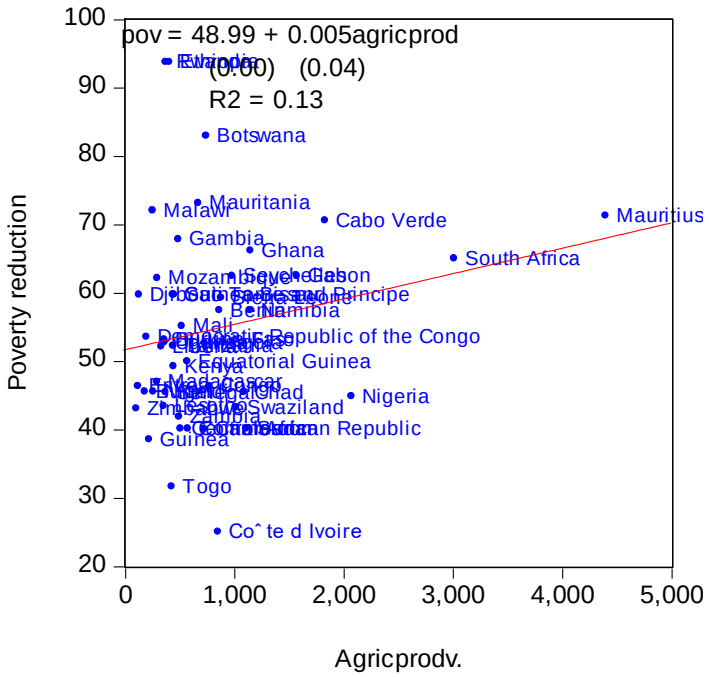
Source: Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

The scatter plots revealed no association between nonagricultural productivity and agricultural productivity. That is the productivity in the non-agricultural sector does not move linearly with that of the agricultural sector. The regression results revelation indicates that productivity per

worker in the agricultural sector does not exert a significant effect on productivity per worker in the non-agricultural sector. The regression results confirm the lack of relationship between the two variables indicating that production in the agricultural sector is not a determinant of production in the manufacturing sector. This could be due to the weak forward and backward linkages between the agricultural sector and non-industrial sector in these countries.

### 4.2. Structural Transformation and Poverty Reduction

**Graph 8. Poverty reduction and productivity in the agricultural Sector.**

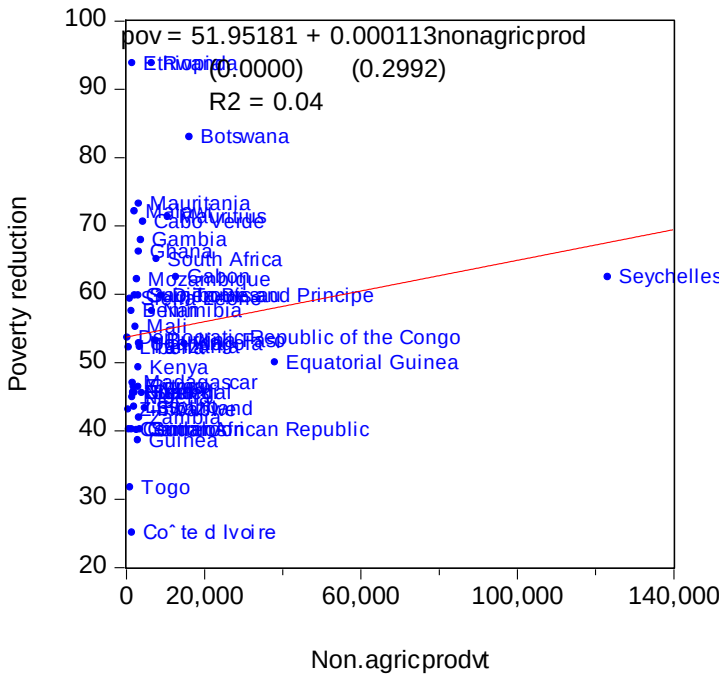



Agric prodv. Refers to agricultural productivity
Source: Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

Graph 8 reveals that improvement in the productivity of the agricultural sector exerts a significant effect on poverty reduction at the 5 percent level of significance in Sub-Saharan Africa. Since most poor people are found in the agricultural sector, productivity improvement is a gain to the poor and therefore betters their lots. As noted by Luc et. al (2010), the contribution of a sector to poverty reduction is shown to depend on its own growth performance, its indirect impact on growth in other sectors, the extent to which poor people participate in the sector, and the size of the sector in the overall economy. Lucin et. Al (op cite) further indicated that bringing together these different effects using cross-country econometric

evidence indicates that agriculture is significantly more effective than nonagricultural in reducing poverty among the poorest of the poor (as reflected in the $1-day squared poverty gap). These results are driven by the much larger participation of poorer households in growth from agriculture. Webb and Block (2012) in their study also indicated that structural transformation raises total income, and that poverty falls faster with strong support for agriculture.

**Graph 9. Poverty reduction and productivity in the non-agricultural Sector.**



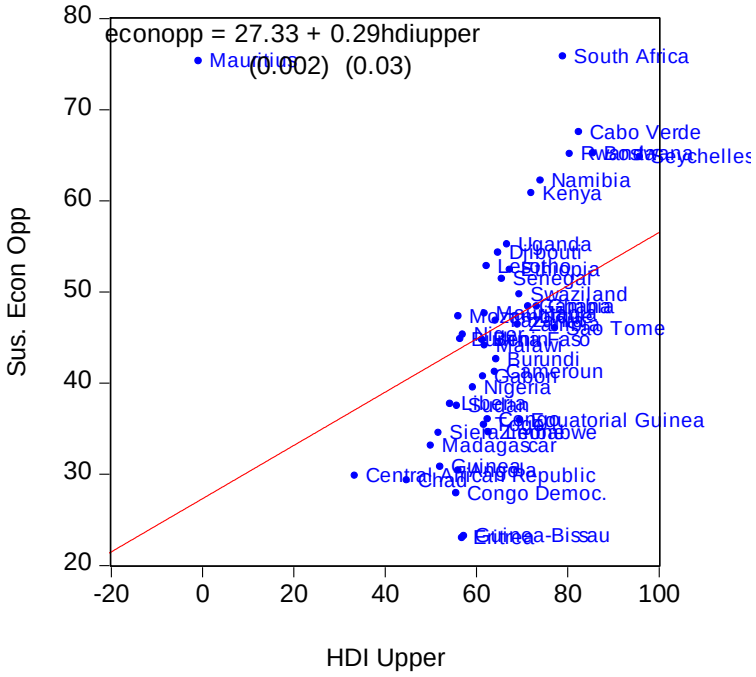

Non.agric prodvt. refers to non-agricultural productivity per worker
Source: Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

The least squares signify that productivity in the non-agricultural sector exerts no effect on poverty reduction even at the 10 percent level of significance. Perhaps improvement in the non-agricultural sector does not trickle down to the poor. Moreover, it is likely most of the poor are not found in the industrial sector. Timmer and Akkus (2008) indicated that making sure the poor are connected to both the structural transformation and to the policy initiatives designed to ameliorate the distributional consequences of rapid transformation has turned out to be a major challenge for policy makers over the past half century. There are successes and failures, and the historical record illuminates what works and what does not. Trying to stop the structural

transformation does not work, at least for the poor, and in fact can lead to prolonged immiseration. Investing in the capacity of the poor to cope with change and to participate in its benefits through better education and health does seem to work.

### 4.3. The Interlationship between Social and Economic Institutions

**Graph 10. Sustainable Economic Opportunity and Humand Development Index.**

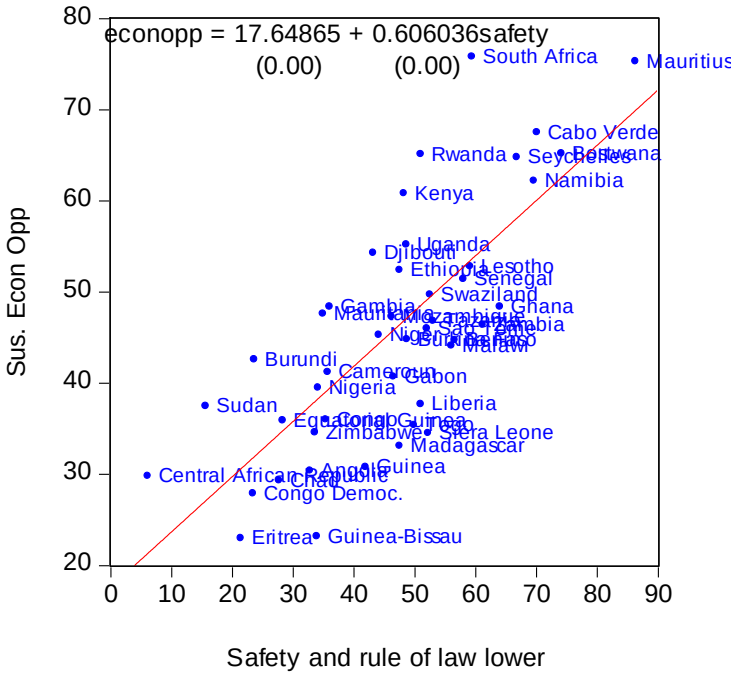



Sus. Econ Opp refers to sustainable economic opportunity and HDI Upper human development index with upper limit

Source: Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

Th least squares revealed that human development exerts a significant effect on sustainable economic opportunity at the 1 percent level of significance (Graph 10). This implies that more educated and healthier the people in sub-Saharan Africa are, the better opportunity that exist for the citizens. The educated have better knowledge and information on existing economic opportunity, being able to draw up comprehensive business plan to attract partners and financiers to the nurture their ideas.

**Graph 11. Sustainable Economic Opportunity And Safety and Rule of Law.**



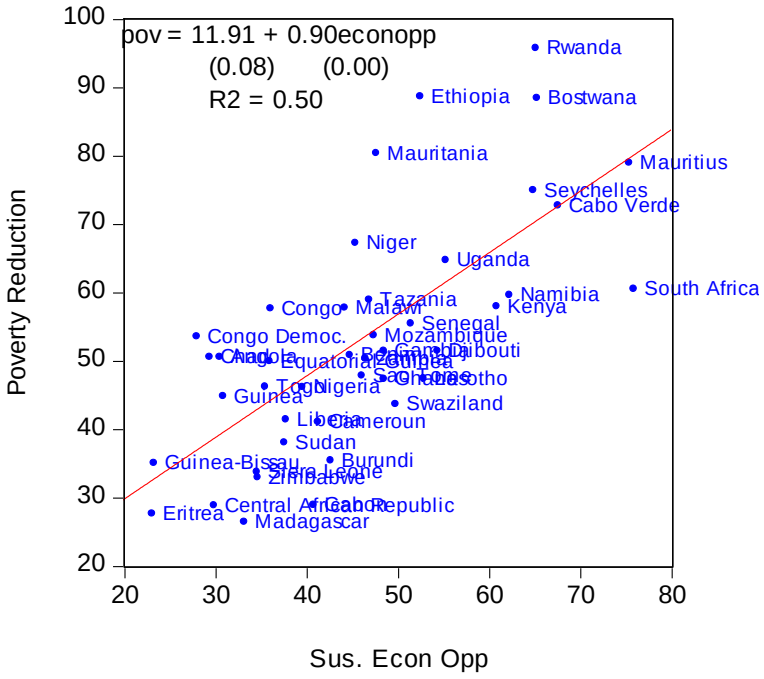

Sus. Econ Opp refers to sustainable economic opportunity
Source: Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

Safety and rule of law exerts a significant effect on sustainable economic opportunity at the 1 percent significance level. Strong institutions such as safety and rule of law provide conducive and enabling environment for businesses to operate. The protection of property right and the prevalence of justice makes investment climate safe thereby creating massive opportunities for investors to invest in the economy (North 1990). In general, policy on the rule of law affects the rules of the game that allow people to transact (North opt. Cite). The link between security, stability and development has been clearly established, as has the negative impact of the absence of rule of law on growth (World Bank, 2011). Civil wars are particularly devastating to development, and other forms of widespread crime and violence divert the provision of public goods, destroy private property and infrastructure, and lead to extortion, monopoly and other harmful practices (Collier, 1999, and Buvinc and Morrison, 1999). In addition to preventing economic development, violence and crime have a direct impact on social development and wellbeing of citizens. (Narayan et. al 2000). This is often contrasted in the literature with the aspects of the rule of law widely associated with the ability of states to ensure the human security of their citizens, including both physical safety and fulfillment of basic needs. Recent

analysis suggests that of the various dimensions of the rule of law, the basic control of violence has the strongest correlation to economic growth in developing countries.

### 4.4. Institutions and Poverty Reduction

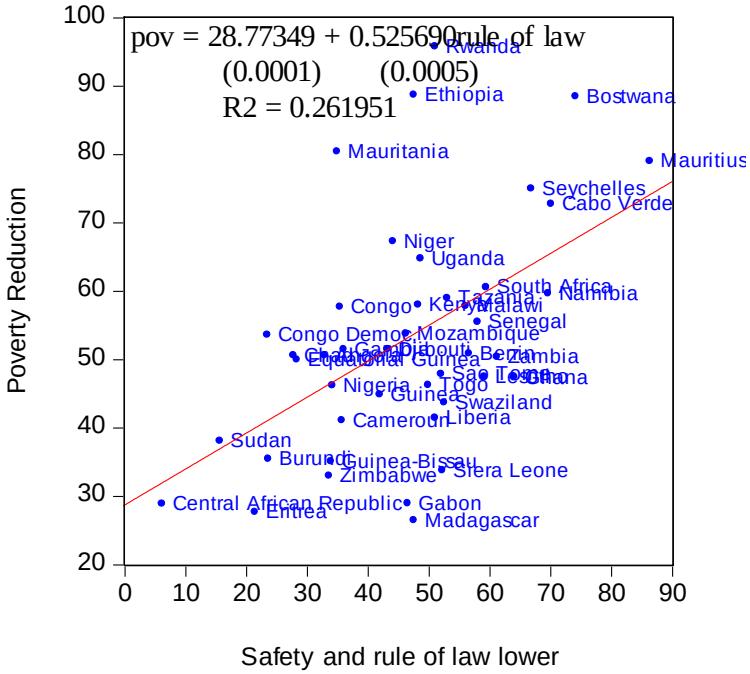
**Graph 12. Poverty Reduction and Sustainable Economic Opportunity**




Sus. Econ Opp refers to sustainable economic opportunity
Source: Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

Sustainable economic opportunity exerts a significant positive effect on poverty reduction at the 1 percent level of significance (Graph 12). The implication of these results is that increases in the level of sustainable economic opportunity improves poverty reduction in Sub-Saharan Africa. Building sustainable economic opportunity improves access to economic resources, which are an all-inclusive for citizens to partake for which the poor can also have access to.

**Graph 13. Poverty Reduction and Safety and rule of law**




Source: Authors' scatter plots and Computations based on data obtained from World Bank's World Development Indicators

Safety and rule of law exert significant effect on poverty reduction at the 1 percent level of significance (Graph 13). Improvement of safety and rule of law limits the level of corruption in the society. The World Bank indicates that lack of access to justice is itself central dimension of poverty.

## 5. CONCLUSIONS AND ECONOMIC POLICY RECOMMENDATIONS AGAINST POVERTY

The results revealed that economic growth plays negligible role in reducing poverty. However, structural transformation with integrate agricultural sector in the process significantly affects poverty reduction. Institutional variables such human development index and safety and rule of also play significant role in reducing poverty. It is therefore recommended that policy makers in Sub-Saharan Africa countries should make structural transformation as policy option to reduce poverty levels for the selected countries in the region. The agricultural sector should be well supported during the process of transformation to generate the desirable results on poverty reduction.

Bearing in mind our data, the debates between “agro-pessimists” and “agricultural fundamentalists” are a bit unfortunate. There is not such a stark choice between a strategy based on exclusively on agriculture or an strategy that largely ignore the sector in Africa. It is evident that many countries, including the largest (Congo, for example), will be unable to feed their population with imports, and will continue to depend heavily on domestic production for its food needs.

But, having said that, it is clear that, in the long run, non-agricultural productivity growth will be crucial for Africa, as it has been in every other region of the world. The non-agricultural sector will eventually become the primary source of employment, and a smaller number of people (presumably operating larger farms) will produce food for urban markets. The role of governments in the structural transformation is agricultural research for genetic improvements and new seeds, transportation infrastructures, and managing quality and setting standards.

With high persistent poverty rates, the region is facing with the urgent need to regain the momentum on growth and to make this growth more inclusive. This will require deep reforms to improve institutions for private sector growth, develop local capital markets, enhance efficiency of utilities, improve the quantity and quality of public infrastructures, and strengthen domestic resource mobilization, to facilitate structural transformation. So physical, social, and institutional infrastructures are required such as transportation, cold chain facilities, processing and storage facilities, and similar physical infrastructure needs.

The paper also recommends that strong institutions should be built such as safety and rule of law as an option for reducing the poverty levels in the region. The independence of the institutions is critical to achieve this objective.

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