Priority Trade Policy Actions to Support the 2030 Agenda and Transform African Livelihoods
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Acknowledgements

This think piece is one of a series of papers developed by ICTSD that explore the contribution that trade and trade policy could make to key objectives of the 2030 Agenda for Sustainable Development adopted by members of the United Nations in September 2015. The series is designed to help policymakers, in particular, to think through the role of trade policy in the implementation of this ambitious global agenda.

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ICTSD welcomes feedback on this publication. These can be sent to Alice Tipping (atipping@ictsd.ch) or Fabrice Lehmann, ICTSD Executive Editor (flehmann@ictsd.ch).


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CONTENTS

LIST OF FIGURES iv
LIST OF ABBREVIATIONS v
FOREWORD vi
EXECUTIVE SUMMARY vii
1. INTRODUCTION 1
2. POVERTY–RELATED OBJECTIVES UNDER KEY DEVELOPMENT FRAMEWORKS 2
3. POVERTY TRENDS AND OUTLOOK IN AFRICA 3
4. CHALLENGES TO ENSURING POVERTY–REDUCING TRADE AND GROWTH IN AFRICA 7
   4.1 National and Regional Challenges 7
   4.2 Global Challenges 7
   4.3 The Changing Trade Policy Landscape 8
   4.4 Reducing Non-Tariff Trade Costs 9
   4.5 Building Productive Capacities for Value Addition 10
   4.6 Ensuring Equal Opportunities to Benefit from Trade 11
5. PRIORITY TRADE POLICY ACTIONS TO ENSURE POVERTY–REDUCING TRADE IN AFRICA 12
   5.1 National 12
   5.2 Regional 14
   5.3 International 16
6. CONCLUSION 18
REFERENCES 19

ANNEX 1: TARGETS FOR SDG 1: END POVERTY IN ALL ITS FORMS EVERYWHERE 22
ANNEX 2: POVERTY PERFORMANCE UNDER THE MDGS IN AFRICA, POVERTY HEADCOUNT RATIO AT NATIONAL POVERTY LINES (% OF POPULATION) 23
LIST OF FIGURES

Figure 1: Distribution of income or consumption by quintile in selected African countries, most recent data available

Figure 2: Poverty status in African countries, poverty head count ratio at national poverty lines (% of population)

Figure 3: Percentage of companies surveyed affected by non-tariff measures
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAAA</td>
<td>Addis Ababa Action Agenda</td>
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<td>AfT</td>
<td>Aid for Trade</td>
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<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>CCU</td>
<td>Continental Customs Union</td>
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<td>CET</td>
<td>common external tariff</td>
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<td>CFTA</td>
<td>Continental Free Trade Area</td>
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<td>EPA</td>
<td>Economic Partnership Agreement</td>
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<td>ESA</td>
<td>Eastern and Southern Africa</td>
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<td>ESW</td>
<td>Electronic Single Window</td>
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<td>EU</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>global value chain</td>
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<td>IP</td>
<td>intellectual property</td>
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<td>LDC</td>
<td>least developed country</td>
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<td>LLDC</td>
<td>landlocked developing country</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
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<td>MRTA</td>
<td>mega-regional trade agreement</td>
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<td>NTM</td>
<td>non-tariff measure</td>
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<td>PIDA</td>
<td>Programme for Infrastructure Development in Africa</td>
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<td>PPP</td>
<td>public-private partnership</td>
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<td>RCEP</td>
<td>Regional Comprehensive Economic Partnership</td>
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<td>RTA</td>
<td>regional trade agreement</td>
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<td>SDG</td>
<td>Sustainable Development Goal</td>
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<td>SMEs</td>
<td>small and medium-sized enterprises</td>
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<td>TFA</td>
<td>Trade Facilitation Agreement</td>
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<td>TPP</td>
<td>Trans-Pacific Partnership</td>
</tr>
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<td>TRIPS</td>
<td>Trade-Related Aspects of Intellectual Property Rights</td>
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<td>TTIP</td>
<td>Transatlantic Trade and Investment Partnership</td>
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<td>UNECA</td>
<td>United Nations Economic Commission for Africa</td>
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<td>World Trade Organization</td>
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FOREWORD

“Ending poverty in all its forms everywhere” is the first and arguably most central of the 17 Sustainable Development Goals (SDGs) adopted in September 2015 as part of the United Nations 2030 Agenda for Sustainable Development. The 2030 Agenda is an ambitious set of commitments; the targets under SDG 1 on poverty reduction include, by 2030, eradicating extreme poverty and halving the proportion of the population suffering from multidimensional poverty. The challenge is particularly steep for Africa. As this paper points out, Africa’s commodity-led growth over the last few years has not, by and large, generated widespread economic opportunities. As the commodity boom cools, part of the answer to Africa’s daunting poverty challenge lies in building poverty-reducing trade, in particular within the region itself.

This think piece is one of a series that analyse the contribution trade and trade policy could make to achieving key development objectives reflected in the 2030 Agenda. Together, the think pieces are designed to help policymakers and other stakeholders to think through the role of trade policy in the implementation of this broad new framework of global commitments. In light of the continent’s particular challenges, this think piece focuses on poverty in Africa and how trade-related policy, including regional economic integration, could contribute. Like others in the series, the think piece is grounded in the goals, targets and commitments articulated in the 2030 Agenda but also looks beyond these to consider key issues in trade and poverty reduction more holistically.

This paper was written by Lily Sommer, a Trade Policy Fellow at the African Trade Policy Centre (ATPC) in the Regional Integration, Infrastructure and Trade Division (RITD) at the United Nations Economic Commission for Africa (UNECA) and David Luke, Director of ATPC in RITD at the UNECA. The authors identify a range of contextual and policy challenges facing governments and stakeholders seeking to build poverty-reducing trade in Africa, and point readers to a range of options at national, regional and global levels policymakers could consider.

The 2030 Agenda should spur policymakers to think about how trade policy can support the new framework’s ambitious objectives, including on poverty reduction. We hope that this paper proves a useful contribution to this effort.

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Chief Executive, ICTSD
EXECUTIVE SUMMARY

In September 2015, world leaders adopted the 2030 Agenda for Sustainable Development, including 17 Sustainable Development Goals, with the first calling for the eradication of extreme poverty. This new transformative agenda took effect in 2016. The Agenda 2063: The Africa We Want was adopted in 2013 and provided the basis of Africa’s input into the SDGs. The result is a global development agenda that is mutually supportive and consistent with Africa’s own development agenda.

The Millennium Development Goal of halving poverty between 1990 and 2014 was met for all developing regions except for Africa, where the absolute number of people living in poverty increased. At the same time, the continent as a whole recorded impressive growth significantly above the global average, albeit mostly driven by a commodity boom. Africa’s key challenge is to make its relatively high growth inclusive and employment-intensive so that it does not worsen inequality and helps lift people out of poverty. With the subsequent fall in commodity prices and a more uncertain outlook for growth, current projections suggest that the region is unlikely to eliminate poverty by 2030. A new approach is needed.

This think piece focuses on the transformative role trade policy offers in this regard. Trade performance in Africa has to date been suboptimal. Intra-African trade—which has significant potential to facilitate successful economies of scale, diversification and value addition—is underperforming. The think piece identifies the main challenges in building poverty-reducing trade—these include high trade costs, commodity dependence, weak productive capacities, slowing global trade and economic growth, and a global trade regime that falls short of what is needed for Africa.

The piece recommends a set of priority trade policy actions that are needed to address these challenges and shape trade so that it contributes to poverty reduction in Africa. National actions call for agricultural transformation, industrial development and integration of African firms into global value chains through reducing constraints to trade for small and medium-sized enterprises (SMEs); trade facilitation measures; efficient and effective services; and lowering protection on imported intermediate products. These actions are needed to provide the supportive domestic microeconomic conditions for Africans to benefit from trade opportunities. At the regional level, the piece highlights the potential diversification, employment and income gains from intra-African trade and the need for timely implementation of the African Union’s Boosting Intra-African Trade Action Plan, Continental Free Trade Area and Continental Customs Union. Internationally the call is for assistance to mobilise African’s productive capacity to compete and trade under preferential agreements and to increase Aid for Trade allocations to regional projects, trade facilitation and services, which are all key to unlocking structural transformation and poverty reduction in Africa.
1. INTRODUCTION

There is a clear consensus on the priority policy areas of action reflected in Africa’s long-term development vision and action plan, the African Union’s Agenda 2063: The Africa We Want, and in the United Nations 2030 Agenda for Sustainable Development (United Nations 2015b), including the Sustainable Development Goals (SDGs) and the Addis Ababa Action Agenda (AAAA) (United Nations 2015a). Yet there is need for greater clarity on how this consensus—including the laudable objective of eradicating extreme poverty by 2030—can be transformed into an agenda for Africa and an agenda for change.

Poverty is deeply entrenched in Africa. A recent World Bank Group report estimates that even though the share of extremely poor Africans declined from 57 percent in 1990 to 43 percent in 2012, the number increased by more than 100 million. It projects that the world’s extreme poor will be increasingly concentrated in Africa in the post-Millennium Development Goal (MDG) era (Beegle et al. 2016). This suggests a need to focus the global poverty agenda on Africa and generate fresh thinking on how to meet the challenge of inclusive growth and sustainable poverty reduction across the continent.

Trade is part of the answer given the strong role it can play in driving growth and poverty reduction—through employment, efficient resource allocation and improved consumer choice. Intraregional trade has particular potential to facilitate successful economies of scale, diversification and value addition. In 2013, about two-thirds of intra-African trade was in manufactured products, although overall intra-African trade made up only 16.3 percent of total African trade (UNECA 2015). Trade within Africa has therefore been suboptimal, but these new agendas provide momentum for progress.

Agenda 2063 calls for developing productive capacities, boosting intra-African trade, the establishment of a Continental Free Trade Area (CFTA) and improved regional infrastructure, among other trade-related priorities. Trade has greater prominence in the SDGs than the MDGs, with trade-related targets included as means of implementation. References to trade policy and trade-related measures feature in at least six of the 17 SDGs (Goals 2, 8, 9, 10, 14 and 17), covering such areas as reforming distortions in world agricultural markets, the improvement of Aid for Trade (AfT), special and differential treatment for developing countries, and conclusion of the Doha Development Agenda. Supply-side constraints to trade expansion such as infrastructure, energy and productive capacity are also covered extensively (Goals 4, 7, 8, 9 and 11). In addition to the SDG means of implementation targets, the AAAA addresses several other trade issues such as trade finance, investment agreements and the need for coherence between regional and multilateral trade agreements.

To eradicate extreme poverty by 2030, action will be required to overcome existing trade challenges and respond to drivers of change. This think piece explores the trends related to poverty reduction in Africa and how these are expected to evolve to 2030, the policy challenges these trends point to, and the role of trade in addressing them.
2. POVERTY-RELATED OBJECTIVES UNDER KEY DEVELOPMENT FRAMEWORKS

Poverty reduction is central to all key development frameworks of importance for Africa. Agenda 2063 recognises Africa’s poverty challenge and calls for African countries to work together to build a prosperous and united continent. Its first priority is to eradicate poverty in the coming decades through enhanced investment in the productive capacities of Africans, improving incomes, creating jobs and providing the basic necessities of life.

Africa’s Agenda 2063 was adopted in 2013 before the 2030 Agenda was finalised in 2015 and therefore provided the basis of Africa’s input into the SDGs. The result is a global development agenda that is mutually supportive and consistent with Agenda 2063. This is evident from Agenda 2063’s first aspiration, “A prosperous Africa based on inclusive growth and sustainable development,” but also by the significant overlap in priorities such as poverty reduction, ending hunger, ensuring gender equality and increasing investments in rural infrastructure. The AAAA reaffirms the importance of supporting the African Union’s Agenda 2063, as well as its 10-year Plan of Action.

“End poverty in all its forms everywhere” is the first and arguably most important SDG, but the 2030 Agenda moves beyond a focus on income poverty (see Annex 1 of this paper). It calls for the eradication of extreme poverty; halving of poverty in all its dimensions; building resilience to shocks and social protection systems; and equal rights to economic resources. The remaining 16 SDGs are crucial ingredients to achieving sustainable poverty eradication across multiple dimensions. For example, ensuring healthy lives (SDG 3) and inclusive and quality education (SDG 4) are key to creating the productive capacities needed to engage in work. Inclusive growth and decent work (SDG 8) is needed to ensure that this employment is productive, well paid and stable so that it enables the poor to escape poverty. Moreover, the challenges of poverty cannot be addressed without reducing high inequality (SDG 10), which currently constrains poverty reduction and threatens to reverse long-term development gains. Achieving gender equality (SDG 5) is particularly important since poverty and marginalisation disproportionately affect women. Similarly, progress towards poverty reduction could contribute to the achievement of other 2030 Agenda objectives, not least by helping to end hunger (SDG 2) and contributing to more inclusive societies under SDG 16.
3. POVERTY TRENDS AND OUTLOOK IN AFRICA

The MDG goal of halving poverty between 1990 and 2014 was met for all developing regions except for Africa. Between 1990 and 2012, the number of people living in poverty in Africa increased from 287.6 million to 388.8 million (UNECA et al. 2015). This disappointing outcome reflects rapid population growth, resource dependence, the depth of Africa’s poverty and high levels of inequality (see Figure 1). The average population growth rate for African countries across the MDG period was 2.4 percent compared to a global average of 1.3 percent (World Bank 2016b).

During the same period, the continent as a whole grew at an average of at least 5 percent above the global average of 3 percent, but this growth enriched the wealthiest and was not well distributed (UNECA et al. 2015). The estimated growth elasticity of poverty in Africa excluding North Africa is −0.69 in contrast to −2.02 in other regions (Bicaba, Brixiová, and Ncube 2015). Africa’s key challenge, therefore, is to make its relatively high growth inclusive and employment-intensive so that it does not worsen inequality and helps lift people out of poverty.

Figure 1: Distribution of income or consumption by quintile in selected African countries, most recent data available

Source: Authors’ calculations based on World Bank Poverty and Equity Databank and PovcalNet.

1 The growth elasticity of poverty here refers to the ratio of a percent change in the poverty rate to a percent change in income or consumption.
Poverty remains pervasive in Africa. Figure 2 shows that over half the African countries listed still have poverty rates over 40 percent (measured in terms of the head count ratio, or HCR).\(^2\) Annex 2 provides a detailed summary of poverty trends over the MDG period using World Bank data. Only 13 of 31 African countries for which comparison data are available saw an average reduction in poverty of 2 percent per year, the annual average required to halve poverty in the 25 years between 1990 and 2015. Côte d'Ivoire, Egypt, Guinea-Bissau, Madagascar and the Seychelles experienced increases in both the national poverty rate and the number of poor. Significant progress was made by some economies, however. Ghana reduced poverty by 24.1 percent over seven years, Namibia by 58.6 percent over sixteen years, Rwanda by 20.8 percent over five years, and Uganda by 65.4 percent over twenty years.

\(^2\) Head count ratio refers to the proportion of people living below the national poverty line.
Figure 2: Poverty status in African countries, poverty head count ratio at national poverty lines (% of population)

Source: World Bank 2016b, most recent data available on a country-by-country basis.
The depth of poverty is also significant in many African countries: using the same World Bank data, the poverty gap index at national poverty lines is as high as 45.3 percent, 36.7 percent, 35.6 percent and 34.1 percent in Equatorial Guinea, Burundi, South Africa and Zimbabwe respectively.\(^3\) This will make reducing poverty on the continent even more difficult.

Deprivation is not confined to income poverty, a fact highlighted in SDG Target 1.2 on halving the proportion of people living in poverty in all its dimensions. Africa excluding North Africa presents the world’s highest Multidimensional Poverty Index poverty rates, reflecting deprivations suffered by households in well-being measures such as health, education and access to electricity and cooking fuel. Multidimensional poverty rates range from 3 percent in South Africa to 93 percent in Niger (Alkire 2010). Africa's population saw progress in most non-monetary dimensions of well-being over the MDG period; however, this rate of progress was not fast enough to achieve the MDG targets and is also beginning to level off. Although school enrolment has increased, more than two-fifths of African adults remain unable to read or write, nearly two-fifths of children are undernourished and the rate of increases in immunisation and bed-net coverage is slowing (Beegle et al. 2016).

Across Africa, rural poverty remains much higher than urban poverty and must be targeted as part of progress towards the SDGs. Using national poverty lines, 73.8 percent of the poor in Africa excluding North Africa live in rural areas. The rural share of multidimensional poverty is even higher, at 85.8 percent (Alkire et al. 2014).

Under plausible assumptions on consumption growth and redistribution, eliminating extreme poverty by 2030 is out of Africa’s reach. The African Development Bank Group estimates that the poverty headcount ratio at US$1.25 a day in Africa excluding North Africa will fall to 36 percent in 2020 and 27 percent in 2030, with 398 million remaining in poverty. Under the “best case” scenario of higher consumption growth and redistribution from the top 10 to the bottom 40 percent of the population, the African poverty rate still only falls to 12.2 percent by 2030 (Bicaba, Brixiová, and Ncube 2015). Lower-than-targeted growth also risks undermining poverty reduction. The Istanbul Programme of Action’s annual target of 7 percent growth in least developed countries (LDCs)—most of which are in Africa—is unlikely to be met given current trends: the weak global growth outlook, dramatic oil price declines and adverse exchange rate movements (Commonwealth Secretariat 2016).

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\(^3\) The poverty gap is the mean shortfall from the national poverty line (counting the non-poor as having zero shortfall) as a percentage of the poverty lines. This measure reflects the depth of poverty as well as its incidence.
4. CHALLENGES TO ENSURING POVERTY-REDUCING TRADE AND GROWTH IN AFRICA

Having not achieved the MDG on poverty reduction, Africa is starting on the back foot. Attaining the poverty-related objectives of the 2030 Agenda will be even harder. This reflects challenges to ensuring poverty-reducing trade and growth on the continent related to the national, regional and global context, but also specific policy challenges.

4.1 National and Regional Challenges

Poverty reduction in Africa has been constrained by domestic and regional factors such as rapid population growth, high unemployment (particularly for youth and women), inadequate access to energy and cross-border infrastructure (particularly in rural areas), high levels of inequality, including gender disparities, and in some instances prolonged episodes of political instability. The continent is also susceptible to shocks that have reversed development gains and significantly hit productive capacities and potential economic activity. The Ebola outbreak in Liberia, Sierra Leone and Guinea, for example, is expected to result in serious reversals in efforts to reduce poverty and generate decent jobs and food security for at least the next five years (UNECA et al. 2015). These challenges are reflected in a range of SDGs, demonstrating how deeply embedded the poverty challenge is within the 2030 Agenda but also in national realities.

Trade policy is key to overcoming these challenges. High population growth is expected to continue over the SDG-period, but expanding trade can help African countries to harness the demographic dividend through creating productive externally oriented job opportunities. Closer trade ties can help to incentivise political stability, peace and productivity. Gender-sensitive trade policies are key to securing productive opportunities and decent incomes for women. Regional trade holds particular promise. Intra-African trade is the lowest of all intracontinental trade, but bold regional integration plans are expected to reduce intra-African trade constraints, helping to boost trade on the continent, and diversify Africa’s production and export base (see section 5.2).

4.2 Global Challenges

Global trends and trade and investment partnerships impact poverty outcomes. Recent estimates suggest that 44 percent of the output fluctuations of Africa excluding North Africa since 1998 are explained by external factors—namely gross domestic product (GDP) growth in G7 countries and China, oil and non-oil commodity prices, and borrowing costs for emerging economies in international capital markets (Brookings Institution 2016).

For much of the MDG period, Africa maintained high growth rates, even in the face of large external shocks such as the 2008 global financial crisis. However, this was largely fuelled by high commodity prices, which intensified commodity export dependence and inequalities. The narrowing of the economic base in many commodity-dependent countries, combined with recent developments in the global economy, suggest Africa’s rate of growth will slow in the years ahead. The World Bank revised its 2016 growth projection for Africa down from 4.2 percent in January 2016 to 2.5 percent in June 2016 (World Bank 2016a).

Global growth is expected to moderate due to slower growth in emerging markets and stagnation in Europe. This will constrain Africa’s foreign exchange inflows from exports and remittances, and may trigger protectionist measures. The World Trade Organization (WTO) projects growth in the volume of world trade to remain sluggish in 2016 at 2.8 percent (WTO 2016). Conditions in international financial markets are tightening, which risks reducing investment and business activity in Africa. Interest rates in the United States are anticipated to increase on expectation of inflationary pressures. This has already exerted pressure on African countries’ balance of payments and currencies. Weak demand has contributed to broad reductions in commodity prices since 2011, and they are expected to remain low in the short to medium term. This has negatively impacted Africa, as a heavily commodity-dependent continent, and
contributed to additional currency depreciation pressures.

These global trends make poverty reduction in Africa more difficult—not only through the immediate effects of reduced export earnings and incomes, but also through the long-term impacts of reduced capital accumulation and business investment on growth and employment. They also present opportunities, however. Low commodity prices will make it more challenging for African countries to earn export revenues unless they diversify, providing incentives for value addition and a more inclusive trade and growth model. Export diversification will be aided by the export competitiveness effect of weak currencies.

4.3 The Changing Trade Policy Landscape

The international trade landscape will influence how well Africa can take advantage of welfare-enhancing trade opportunities. Very little has been achieved under the multilateral Doha Development Agenda trade negotiations and there is a broad consensus that, overall, the outcomes of the 2015 WTO 10th Ministerial Conference were suboptimal.

Slow progress in multilateral negotiations has contributed to a significant increase in the number of regional trade agreements (RTAs) and an emergence of mega-regional trade agreements (MRTAs) between large trading powers over the last decade. Modelling exercises by UNECA indicate that, if implemented as currently planned, the three main MRTAs—the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership (RCEP)—will result in loss of market share by African countries through preference erosion and competitiveness pressures.4 Africa would see its total exports reduce by US$3 billion (0.3 percent) by 2022 compared to the baseline scenario without MRTAs, as exports to RCEP countries decrease by over US$10 billion while exports to other regions would increase by about US$7 billion. Although this trade diversion effect is relatively small, impacts beyond trade diversion could cause a bigger hit to African countries. For example, Africa’s exports to RCEP (essentially India and China) would fall by 5.4 percent, with the reductions concentrated in exports of industrial products, creating an additional challenge to efforts to establish stable supply relationships with rapidly growing markets and structurally transform African economies (Mevel and Mathieu 2016).

Shifts towards greater reciprocity in trade agreements are also expected over the next decade. The recently agreed Economic Partnership Agreements (EPAs) between the European Union (EU) and regional African groupings call for the partial and gradual asymmetric opening of African markets to EU imports. The liberalisation is asymmetric, involving more EU access to African markets, given that EU markets are already relatively open to African products. Some EU-originating goods would be granted more favourable treatment in African countries than products from other African countries, since average tariffs on intra-African trade remain high. In 2025, the African Growth and Opportunity Act (AGOA) covering preferential trade between Africa and the United States is also expected to be succeeded by an agreement with a more reciprocal structure.

UNECA’s modelling suggests that implementation of new EPAs in West Africa and the Eastern and Southern Africa (ESA) region would see a significant influx of EU exports to African countries in almost all sectors (especially in industrial goods), a reduction in intra-African trade, and tariff revenue loss (19.3 percent in West Africa). The agreements could have

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4 The modelling exercises assume the envisaged MRTAs are implemented as currently planned. However, the progress of the three agreements varies considerably. The countries that negotiated the TPP signed the agreement on 4 February 2016, in Auckland, New Zealand. According to Article 30.5 of the agreement, the ratification process must be completed by “at least six countries that account for 85 percent of the combined gross domestic production of the 12 TPP nations” for the agreement to enter into force. Discussions are still ongoing for the TTIP and RCEP agreements, which are a long way from being finalized, but progress is foreseen for 2016.
both positive and negative effects: cheaper industrial inputs from the EU would reduce local manufacturing production costs and help to drive structural transformation in African countries, but rapid full liberalisation also risks reducing the competitiveness of some local producers, potentially undermining efforts to industrialise, diversify and transition out of developing economy status if the necessary adjustments are not managed well. West Africa and ESA’s export gains to the EU would be concentrated in just a few agricultural sectors and benefit non-LDCs which currently have less access to EU markets. LDCs instead see quasi-null or negative export variations due to increased competition with West African and ESA’s non-LDCs, which risks undermining LDCs’ poverty-reduction efforts (Mevel et al. 2015).

4.4 Reducing Non-Tariff Trade Costs

Preferential market access is important, but reducing the non-tariff trade costs faced by importing and exporting African firms is an even more important policy challenge. These costs inhibit firms from importing the inputs needed to be competitive, reduce the returns they reap from engaging in exports and reduce their ability to create employment. They also increase average consumption costs for the poor, constraining improvements in food security, health and productivity.

Trade costs are much higher than prevailing tariff rates and are particularly high in Africa excluding North Africa (Arvis et al. 2013). Africa’s cost of trading with the world was 283 percent in ad-valorem tariff equivalent in 2013, higher than that of all other regions except Central Asia, which has a higher share of landlocked countries. These high trade costs reflect cumbersome domestic customs requirements and inadequate internal and cross-border infrastructure. The average African country ranks in the worst-performing 25 percent of all emerging and developing countries in terms of costs of border processing and document requirements.

Cross-border collaboration to design and implement regional energy and transport infrastructure projects has increased but falls short of what is needed to fill Africa’s deficit. The 51 projects identified under the Priority Action Plan as part of the African Development Bank’s Programme for Infrastructure Development in Africa (PIDA) were considered technically and financially achievable—the cost of annual outlays representing 1 percent of Africa’s GDP up to 2020. Implementation progress has been slow, however, due to a lack of clarity on the institutional architecture and the responsibility of different parties for execution, and inadequate discussion of public-private partnerships (PPPs) and private investment options, despite these being a priority of the programme (Patel 2014).

Over half of exporting and importing firms in African countries covered in a recent survey were affected by non-tariff measures (NTMs) (see Figure 3). The most affected are small companies and companies in the agrofood sector which are impacted by sanitary and phytosanitary regulations (ITC 2015). This is important because understanding and managing the business environment and NTMs is particularly difficult for SMEs, and SMEs are key to channelling trade and growth into jobs for poor people (Vandenberg 2006).

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5 These are UNECA calculations based on the ESCAP-World Bank Trade Cost Database. The database computes symmetric bilateral trade costs using the Inverse Gravity Framework (November 2009), which estimates trade costs for each country pair using bilateral trade and gross national output.
The costs of trading in services are also high. Most African countries for which data are available rank in the top (more restrictive) half of World Bank’s 104-country Services Trade Restrictions Index. Ethiopia, Zimbabwe, Egypt and the Democratic Republic of the Congo rank in the top 10 (UNECA 2016). Reducing these costs is important because research has shown the services sector to have a strong poverty-reducing effect across 60 countries, including 29 in Africa excluding North Africa (Goyal 2014).

4.5 Building Productive Capacities for Value Addition

Africa’s exports of primary commodities as a share of total exports increased in recent years—from 76 percent a decade ago to 82 percent in 2010-2012—partly driven by the global commodities boom. Domestic value addition is still limited by an inadequate supply of productive capacities (see section 3). Africa contributed only 2.2 percent to global trade in value added in 2011 and mainly participates in global value chains (GVCs) at lower rungs of the ladder (UNECA 2015). Low levels of value addition and Africa’s reliance on commodities constrain poverty reduction through reducing aggregate income, creating a more unequal income distribution (favouring commodity owners), and reducing the returns to labour supply.

The continent’s export structure will need to change to ensure productive jobs and poverty-reducing trade. Global and regional reductions in trade costs, new technologies and the emergence of GVCs and trade in tasks have created a wide range of industrial products and services that are now tradeable. This provides a crucial opportunity for labour-abundant Africa to attract investment in higher value-added export sectors such as agro-processed goods, textiles, leather, wood furniture and financial services.

Africa will find it difficult to harness these trading opportunities without investments in human capital and technological capabilities (Guadagno 2015). A recent African Capacity Building Foundation study highlights the need for critical, technical and sector-specific skills for the implementation of Agenda 2063 and estimates that the Agenda’s first Ten Year Implementation Plan period will require 1,611,042 more agriculture scientists and researchers and 7,441,648 more engineers to support the work required (ACBF 2016). A poorly skilled and educated labour force is the top supply bottleneck underscored by global executives when considering manufacturing investments in Africa (ACET 2014) and constitutes a barrier to investment in skills-intensive service sectors. Investments in human capital are key to addressing multidimensional poverty, through productive employment creation, enhanced returns to labour and improved education outcomes more generally.
4.6 Ensuring Equal Opportunities to Benefit from Trade

Trade impacts different population groups differently, not least because it can result in the contraction of some sectors and the expansion of others. Without redistributive mechanisms or sufficient labour mobility and options for redeployment and re-skilling, adjustment costs can be large and the gains from trade severely skewed (Winters 2016). The poor face constraints that make mobility difficult, and this at the same time reduces their ability to benefit from new poverty-reducing trade opportunities. Among these constraints are limited access to land, capital, markets and education and training, which are crucial to investing in activities for trade, particularly at higher levels of the value chain. Rural dwellers, informal workers and women are disproportionately affected by these constraints, which are inefficient and reduce the total gains and poverty-reducing effect of trade. It is no coincidence that poverty rates among these groups are significantly higher than national averages in Africa. Creating the conditions for mobility to be achieved will be a crucial challenge for policymakers seeking to harness trade to contribute to poverty reduction (World Bank Group and WTO 2015).
5. PRIORITY TRADE POLICY ACTIONS TO ENSURE POVERTY-REDUCING TRADE IN AFRICA

Efforts to build poverty-reducing trade in Africa will need to respond to the anticipated trends and challenges discussed above. This section outlines priority national, regional and international trade policy actions policymakers could consider as part of this effort.

5.1 National

5.1.1 Sectoral reforms

Action should start at home. Transformation should start in the agricultural sector, which accounts for 32 percent of GDP and employs 65 percent of Africa’s labour force, and is the sector where the greatest poverty reduction gains can be made in the short term (World Bank 2013). A shift from subsistence to market-oriented agriculture, agro-processing and food production for export will help to reduce rural poverty among those engaged in agriculture, including women. Reducing import taxes on agricultural inputs such as wheat and sugar that are key to agro-processing industries would help to support this shift. Investments in mechanisation, improvements in rural infrastructure and increased agricultural access to credit are key. Implementation of the AAAA’s financial inclusion measures will be crucial, including support for microfinance institutions, development banks, agricultural banks, mobile network operators and cooperatives.

In the medium term, industrialisation is needed for economy-wide productivity improvement, job creation and poverty reduction. Trade should play a key role. The end of the global commodity boom offers an incentive for labour-abundant Africa to build capacity to export low-value manufactures but also to build stronger services sectors which would support domestic diversification and manufacturing, and from which the bulk of global growth is derived. China’s consumption-led growth model will create demand for more consumption goods over time, which Africa should tap into. These trends require Africa to move aggressively towards diversification of goods and services production and trade, and reduce constraints to trade participation for SMEs, women, informal workers and other vulnerable groups—who are key to poverty reduction. Speeding up the pace of inclusive innovation and knowledge sharing should play a key role for late developers. Lessons in doing this can be drawn from emerging high-end innovation hubs in Africa (Adesida, Karuri-Sebina, and Resende-Santo 2016).

5.1.2 Domestic tariff structures

Wide-ranging tariff reforms are required to ensure strategic consistency between trade and industrial frameworks and promote African countries’ competitiveness based on comparative advantage. Smart industrialisation through trade is not a new concept. The East Asian tiger economies all benefited from deliberate trade policies. As part of smart industrial policies, African governments could focus efforts on lowering protection for imported intermediate and capital inputs such as fertilisers, machines, spare parts and packaged materials which are not produced locally. Tariffs should also be reduced on energy-access goods which are rarely manufactured in African countries. These interventions could cut costs of industrialisation and foster domestic value addition, integration into global supply chains and economic growth. Over the last decade, intermediates accounted for a stable share of 60 percent of Africa’s merchandise imports; the trade-weighted applied tariff on industrial products in LDCs is 18 percent for intermediates compared to 12 percent for finished products (UNECA 2015). To avoid a sudden fiscal shock due to loss of tariff revenues, there is a strong case for development partners to support compensation schemes over the Agenda 2030 period, but also for tariff cuts for those intermediates most crucial to industrialisation to be prioritised first.
5.1.3 Integrating into global value chains

Smart industrialisation should also focus on providing a conducive environment for the integration of African firms—in particular SMEs—into GVCs. This can be achieved through creating incentives for attracting foreign direct investment that partners with SMEs and builds skills, Special Economic Zones, and the removal of barriers to the cross-border movement of technically and entrepreneurially skilled persons, among other actions.

Appropriate intellectual property (IP) policies are needed to support the cross-border transmission of knowledge and innovation required for Africa’s industry to drive income convergence with developed countries and poverty reduction more generally. Strong protection of IP rights cannot boost innovation if the required skills, capital and market prospects for innovative production do not exist, as is often the case in Africa. In this context, IP protection may constrain the duplicative imitation of foreign technologies that was crucial for the technological catch-up of today’s advanced countries. To avoid this scenario, flexibilities for LDCs in the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement allow African LDCs to establish IP policies and laws that are appropriate to their level of development, which essentially means adopting differential legal frameworks consistent with the TRIPS Agreement (UNECA 2016). Using these flexibilities can be helpful in building the competitiveness needed to integrate into GVCs. The Association of Southeast Asian Nations (ASEAN) countries rarely sign external agreements that are stricter than their global IP obligations, for example, and eligible members have also exploited flexibilities offered by the international IP system. This has helped to transform ASEAN into an innovative and competitive bloc (UNECA 2016). The CFTA agreement provides an opportunity for Africa to set common IP rules and use flexibilities based on a common approach.

Effective and efficient services sectors are also crucial (Kowalski and Ragoussis 2014). The correlation between growth in services value added and growth in manufacturing value added was 0.85 across African countries over 2000-2012, pointing to important synergies between the two sectors (Pesce et al. 2016). The development of service sectors that facilitate trade and investment and provide opportunities for SMEs should be prioritised over the next five years in order to secure quick gains for African economies, with progressive improvements in other service sectors planned for the remaining Agenda 2030 horizon. Decompositions of trade costs indicate maritime transport connectivity and logistics performance are particularly important determinants of bilateral trade costs (Arvis et al. 2013). Governments could support liberalisation of priority services, like those related to maritime transport and logistics, through establishing appropriate policy and regulatory frameworks, promoting coordination between institutions that are relevant to policy reforms regarding trade in services, and upgrading the quality of trade in services data.

5.1.4 Building resilience

Even with “inclusive” trade policies, some Africans will still lose from trade, at least in the short term. Governments could build the productive capacities and resilience of vulnerable individuals faced with adjustment costs. In the medium term, this can be aided by reforms to assist labour mobility such as skills training. As African economies develop and fiscal space increases, comprehensive social protection systems, as called for under SDG 1, should be established to support citizens in managing risks and shocks. Africa can learn from Latin America’s experience, which highlights the importance of considering the incentives implicit in social programmes, incentives often associated with rules for financing and qualifying for benefits. To avoid promoting informality—which risks reducing
productivity, narrowing the tax base and undermining long-term poverty reduction efforts—social protection systems should be de-linked from labour status and financed with consumption taxes (Levy 2016). To reduce regressivity, necessities such as food, clothing and medicine could be exempt from the consumption tax.

5.2 Regional

5.2.1 Continental Free Trade Area

Intra-African trade is constrained by current tariff structures, which on average make it cheaper for African countries to export to external trading partners than to one another—the average applied rate of tariff protection within Africa is about 8.7 percent compared to only 2.5 percent imposed on imports from the rest of the world (Lopes 2016). Concluding the Continental Free Trade Area could contribute to lowering these barriers.

UNECA modelling exercises indicate that establishing the CFTA would boost intra-African trade by US$34.6 billion (52.3 percent) from 10.2 percent of total African trade in 2010 to 15.5 percent in 2022, translating into real income gains of 0.2 percent (US$296.7 billion). Increases would be highest in industrial products (53.3 percent or US$27.9 billion), which demonstrates the role the CFTA can play in driving Africa’s diversification and structural transformation. Real wages for all categories of African workers would be positively affected, with unskilled workers benefiting most—the unskilled employed in non-agricultural sectors would obtain a 0.80 percent increase in real wages and those employed in agriculture would see a 0.74 percent increase. The distribution of CFTA gains are therefore supportive of inequality and poverty reduction efforts. Gains are even higher when the CFTA is implemented alongside trade facilitation measures (UNECA 2012). These results are supported by other modelling work which identifies positive welfare impacts of the CFTA at the household level (Chauvin, Porto, and Ramos n.d.).

The indicative CFTA agreement finalisation deadline of 2017 is ambitious. Not only does the agreement cover a wide scope (trade in goods, trade in services, investment, intellectual property rights and competition policy), it involves 54 member states each with its own interests and negotiating capacity. However, timely implementation of the CFTA is crucial, particularly in the context of MRTAs and shifts towards reciprocity (see section 4). Given the political nature of the CFTA, and with the short time frame that remains for negotiations, a political track is being put in place to complement the negotiating track. The 2016 African Union Summit authorised the appointment of an Eminent Persons Group to help address complex issues in the negotiations, build consensus and champion the CFTA.

Supportive non-tariff measures are needed to enable African firms to best take advantage of the CFTA. The 2012 Boosting Intra-African Trade initiative introduced seven clusters to overcome key constraints to intra-African trade: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor market integration (AUC and ECA 2012). Implementation progress on the ground, however, remains slow and uneven. Efforts are needed to mainstream the seven clusters into development policy and programmes of both member states and the regional economic communities. The CFTA should also contain a standstill clause and aim to increase the degree of services liberalisation beyond the current status in regional economic communities and extraregional free trade agreements (Kategekwa 2016). Services trade restrictions do not feature prominently in the 2030 Agenda, yet strong and competitive services are key to poverty reduction since they help businesses to cut costs, increase competitiveness, enhance access to GVCs and build employment.

To ensure effective implementation and positive welfare effects of the agreement, a mechanism is needed to review the
Global Economic Governance

CFTA’s impact on trade and poverty from implementation until 2030.

5.2.2 Continental Customs Union

The Abuja Treaty of 1991 establishing the African Economic Community mandates the establishment of a Continental Customs Union (CCU) by 2019. The creation of a customs union would require, among other things, the creation of a common external tariff (CET) imposed by all members of the union on imports from outside the group. A functioning CCU will also require border checks between members of the union to be abolished and the alignment of all bilateral agreements and free trade agreements with the CET. This will be challenging but not impossible to achieve.

UNECA analysis using the CET structures of the Common Market for Eastern and Southern Africa and the Economic Community of West African States finds that the CCU would reduce the average protection imposed by African countries on imports from outside Africa. This increases African imports from the rest of the world by between 2.7 percent (US$16.2 billion) and 3.5 percent (US$21.6 billion) by 2022, as compared to a scenario where only the CFTA is in place. Increases are larger in industrial products and services than in agriculture and food because they face higher tariff cuts. Both intra- and extra-African exports also increase (between US$45.8 billion and US$52.9 billion) as a result of the CCU as African economies become more competitive on the world market due to lower production costs brought about by lower import costs (Mevel and Karingi 2012).

These findings highlight the potential positive impact a CCU can have on driving Africa’s structural transformation, if appropriately designed. The high protection imposed by African countries on imported intermediate goods currently limits their potential use as inputs in production processes, and the possibilities for exporting transformed products. A well-structured African CET would impose lower tariffs on intermediate inputs and capital goods important for industrialisation, but include a sensitive item list for specific agricultural and industrial goods for which regional production exists. This would help to avoid a rapid influx of imported goods on domestic markets, which could make it hard for local production to adapt, potentially hobbling the ability of African countries to transform their economies and the livelihoods of their populations.

5.2.3 Trade facilitation

Previous sections highlight trade facilitation as key to unleashing intra-African trade and maximising gains from regional integration efforts. Trade facilitation measures are partly reflected in SDG 9, but more explicitly in the AAAA and the African Union’s Boosting Intra-African Trade Action Plan.

Econometric analysis based on trade facilitation indicators suggests that the largest increases in trade flows in Africa excluding North Africa will result from the harmonisation and simplification of documents (OECD 2012). A number of African countries have introduced Electronic Single Windows (ESWs) for trade documentation. A pan-African approach is needed, however, to reconcile differences in ESW practices and their operation, and ensure technological interoperability among platforms and recognition by the country of destination of online formalities performed in the country of origin. This could be implemented relatively easily over the five-year horizon, starting with greater collaboration and the sharing of practice among national ESWs currently operating in Africa, supported by the African Alliance for e-Commerce.6

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6 One of the African Alliance for e-Commerce’s key projects is the establishment of a Regional Single Window that will interconnect all national platforms—National Single Windows—with the view to smoothing trade and enabling African countries to be more competitive on the global market.
Efforts to enhance cross-border infrastructure should continue to receive attention as harmonisation and cooperation are required to ensure unified action. African leaders should take full ownership of the infrastructure agenda and mobilise the funds required for its implementation. New and innovative sources of financing are also needed to raise the US$68 billion estimated costs of immediate investment in PIDA required through 2020 (Patel 2014). These should include government financing, but also resources generated through international financial institutions infrastructure bonds, PPPs and loan guarantees. Given the scale of investments required, all possibilities must be leveraged. The Presidential Infrastructure Champion Initiative is an indication of what is achievable if leaders work together to remove bottlenecks to progress.

5.3 International

5.3.1 Trade agreements

The Inter-American Development Bank and the International Centre for Trade and Sustainable Development are developing an RTA Exchange as a dynamic online platform and forum. The international community should support the exchange to become an information pool for developing countries and assist them in the negotiation, implementation and application of RTA rules, and also in understanding how other RTAs may affect them, including the likely distributional and poverty impacts (Suominen 2016). The impact of emerging RTAs and MRTAs on third parties should also be systematically addressed during regional and global policy discussions, including in the WTO’s Committee on Regional Trade Agreements.

International efforts need to move beyond Agenda 2030’s focus on market access. African countries already benefit from duty-free and quota-free access in their main foreign markets: China, the EU, United States, India and Japan. Africa instead requires assistance to mobilise productive capacities to compete and trade under existing agreements and diversify its export base. This is particularly important in the context of anticipated preference erosion from MRTAs. Many trade preference schemes have rules of origin that impose minimum levels of local production which most African economies cannot attain. This constrains Africa’s manufacturing exports to preference-granting countries and holds back broader industrialisation and potential poverty reduction. Lower requirements for domestic value added and cumulation zones extending beyond narrow regional groupings would encourage diversification, local and regional processing and integration into GVCs. AGOA’s third-country fabric provision provides a good example of how more generous rules of origin can boost exports and address African countries’ development needs (UNECA 2015).

Increased reciprocity in preferential schemes such as the EPAs and AGOA appears to be inevitable but must be managed and tariff reductions on imports need to be appropriately phased so African industries can adapt. Tariffs on intermediate and capital goods not produced locally could be removed first, consistent with the tariff structures recommended in sections 5.1 and 5.2. Tariffs on intermediates and capital goods for which some domestic and regional production exists could be removed next, finally followed by tariffs on finished products. This sequencing would support Africa’s industrialisation and technological catch-up, but would also provide temporary protection for local producers to guard against premature de-industrialisation, and encourage intra-African regional value chains and trade in intermediates. Signatory countries could also undertake a comprehensive analysis of the new agreements’ implications on industrial development and poverty reduction. Indeed, this has been the position taken in Tanzania.

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8 See the RTA Exchange website: http://rtaexchange.org/site.
and Uganda, which in July 2016 asked for more time to assess the implications of the proposed East African Community EPA.

5.3.2 Aid for Trade

Aid for Trade represents about 30 percent (US$40 billion) of annual financial flows of official development assistance to developing countries (De Melo and Wagner 2016). Empirical studies find AfT supports poverty reduction through increased export diversification, employment and foreign direct investment. For example, aid targeted at building productive capacities in agriculture and risk-reducing insurance schemes can raise the productivity of households close to the poverty line (De Melo and Wagner 2015).

Regional AfT is lacking, however. Although regional AfT almost tripled from US$1.2 billion during 2002-5 to US$3.1 billion in 2013, the share of regional projects and initiatives is only 5.5 percent of total AfT (Lammersen 2015). CFTA implementation would benefit from short-term regional AfT support. While dynamic gains from the CFTA are projected for all African countries, LDCs and landlocked developing countries (LLDCs) will require assistance to establish a customised pathway to benefit from phased implementation of the agreement. Revenue loss from tariff reductions are expected to be small given the relatively low level of intra-African trade but short-term adjustment assistance from donors may be required to meet budget shortfalls, especially in the current context of low commodity prices. Although AfT is demand-driven, the international community’s appetite for regional AfT can be strengthened through building institutional and human capacities at the regional level, creating financial incentives for financing regional programmes, and involving regional partners to ensure effective coordination (Lammersen 2015).

Trade facilitation accounts for just 1 percent of AfT disbursements, according to the OECD Creditor Reporting System (De Melo and Wagner 2016). The Trade Facilitation Agreement (TFA) should be used to target AfT activities towards important objectives on trade facilitation. AfT trade facilitation disbursements are largely directed towards countries closest to TFA targets as captured by the OECD Trade Facilitation Indicator Index. Recent estimates indicate that a shift in trade facilitation disbursements towards LDCs and LLDCs would provide the highest returns for AfT funds (De Melo and Wagner 2016). The WTO TFA Facility—established in 2014 to support developing and LDC members to assess their specific needs and identify development partners to help meet those needs—should be fully utilised to encourage a shift of AfT to trade facilitation measures centred on the poorest countries. Trade facilitation support should cover services, which are crucial to facilitating trade but largely absent from AfT.
6. CONCLUSION

Poverty reduction in Africa was disappointing over the MDG period. Although the continent is unlikely to eliminate poverty by 2030, it can make serious strides in this direction. Trade has a transformative role to play but is currently constrained due to high trade costs in the region, obstacles faced by the poor in participating in trade, and international frameworks and agreements that fall short of what’s needed for Africa. Interventions to reduce trade costs, build productive capacities and boost intra-African trade are crucial. Aid for Trade focused on supporting regional trade initiatives should be scaled up to support this process.
REFERENCES


## ANNEX 1

**Targets for SDG 1: End poverty in all its forms everywhere**

| 1.1 | By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than $1.25 a day |
| 1.2 | By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions |
| 1.3 | Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable |
| 1.4 | By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance |
| 1.5 | By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters |
| 1.a | Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions |
| 1.b | Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions |

**ANNEX 2**

Poverty performance under the MDGs in Africa, poverty head count ratio at national poverty lines (% of population)

Indicators used to illustrate poverty performance in the table are based on national poverty lines to provide for country-relevant thresholds and inference. Due to large gaps and lags in national poverty data it is difficult to provide time-comparable assessments across African countries, so the table presents the most recent data available for each country. The average annual percentage change for the head count ratio (HCR) is therefore provided for all countries which have two reference data points.

<table>
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<tr>
<th>Country</th>
<th>MDG benchmark</th>
<th>Most recent</th>
<th>HCR total % change</th>
<th>HCR average annual % change</th>
<th>No. of poor total change</th>
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<td>2012</td>
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Source: Authors’ calculations based on World Bank 2016b. The number of poor is calculated using total population figures for the relevant year. The total number of poor for 2014 is calculated using total population data for 2013 since data for 2014 are not available.

Note: Data not available for Algeria, Djibouti, Eritrea, Libya, Mauritius and Somalia.
ICTSD has developed a series of papers that explore the contribution that trade and trade policy could make to key objectives of the 2030 Agenda for Sustainable Development.


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