

Chapter 3

Dynamics of growth, jobs and inequalities in Southern Africa

This chapter addresses the links between growth, employment and inequality in the Southern Africa region (Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe). It examines the drivers of growth and the need to diversify the economy. The chapter also shows the challenges interlinking the lack of quality jobs and the inequality in Southern Africa. It highlights the heterogeneity across countries and the common problems they face.

The chapter begins with the region's economic profile. The subsequent three sections present the evolution of growth, jobs, and poverty and income inequality in the region. A discussion of the relationships between inequality, employment and economic growth follows, and the final section presents policy recommendations.

BRIEF IN

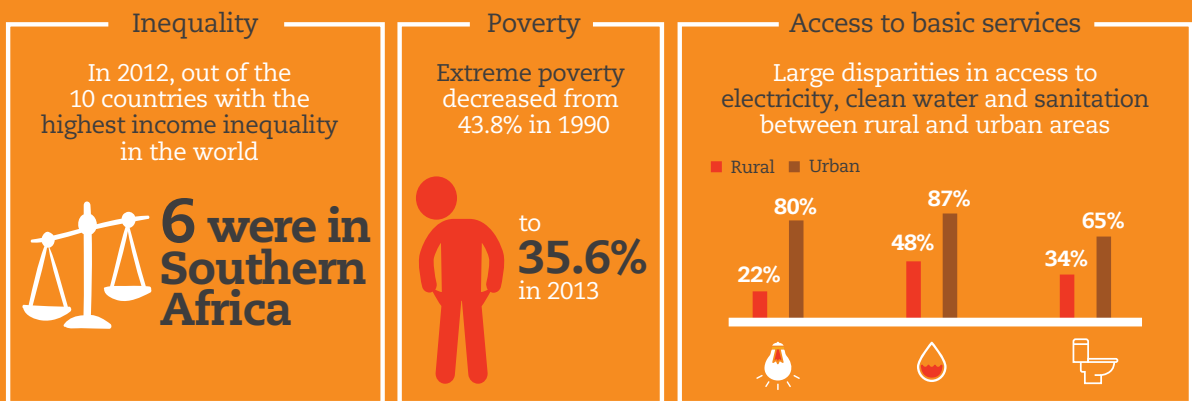
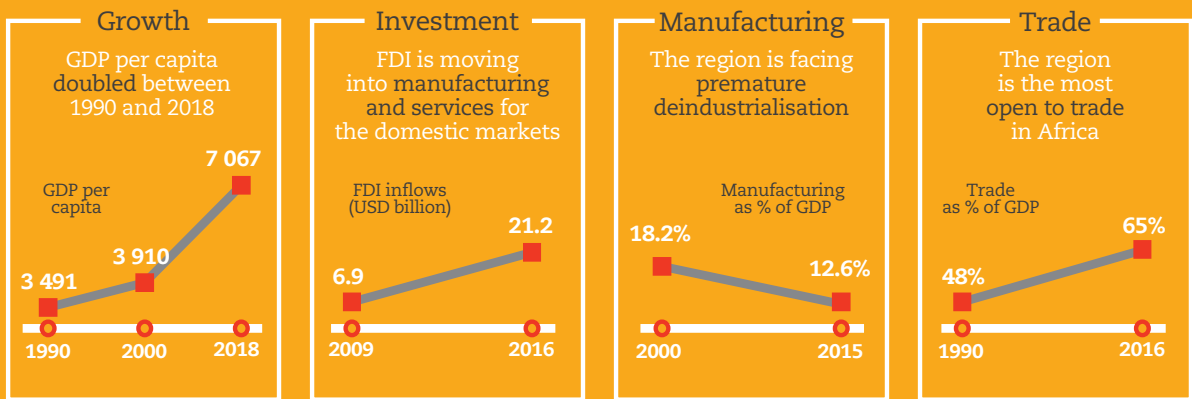
Southern Africa has registered steady **economic growth** since 2000, but sustaining it remains a challenge. Annual real gross domestic product (GDP) grew at 5.2% between 2000 and 2008 before slowing down to 2.6% between 2009 and 2016. Volatility in commodity prices and investment in the extractive sector has strongly affected this performance.

Manufacturing value added in the region dropped to 12.6% of GDP in 2015, from 18.2% of GDP in 2000. A number of countries depend heavily on the mining sector, which is volatile and creates few jobs. In other countries, subsistence agriculture still dominates. FDI in the region is increasingly moving into manufacturing and services to take advantage of growing domestic markets. The challenge remains to facilitate strong linkages and knowledge transfer between investors, lead firms and local suppliers to upgrade their capabilities and create local jobs.

Employment remains a major challenge in Southern Africa: every year between 2015 and 2030, 1.1 million people are estimated to join the labour force. Limited job creation, a skills mismatch and barriers to start and grow new businesses have contributed to unemployment rates of 15-35% in SACU member countries. Elsewhere, the majority of workers are underemployed and working in poverty, mainly in agriculture and low value-added services.

Southern Africa is characterised by high levels of income **inequality**, with the region being home to six of the world's top ten unequal countries. While Southern Africa performs relatively better than other African regions, gender inequality remains a significant hurdle. Unemployment rates for female workers are generally higher than for male workers, even among the youth, and the gap between male and female labour force participation remains wide. Social spending and decent growth have helped reduce extreme poverty, but the extreme poverty headcount in the region remains at 35.6%. The majority of the rural population still lacks access to basic services such as electricity, water and sanitation, creating a large opportunity gap with the urban population.

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Southern Africa regional profile

Table 3.1. Basic indicators for Southern Africa, 2017

Population (thousands)	176 842
Land area (thousands of km ²)	5 908
Population density (people/km ²)	30
GDP, PPP (USD billion)	1 201
GDP per capita, PPP (USD)	6 939

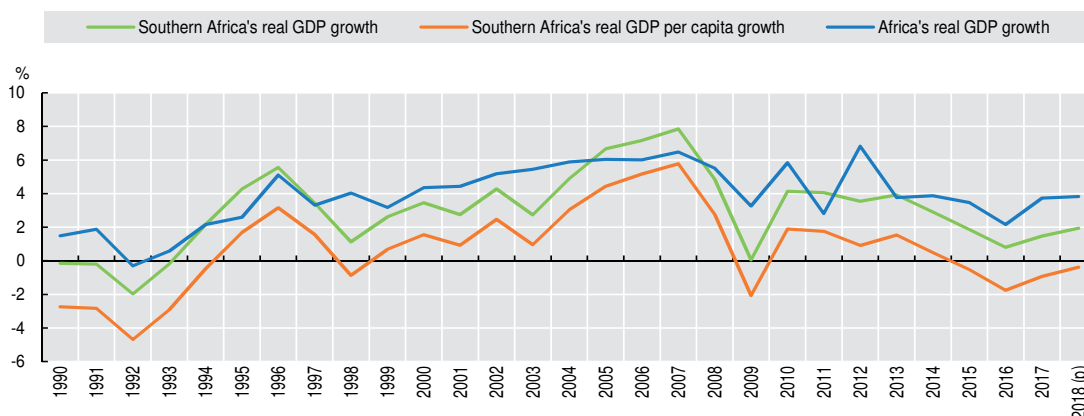
Source: Authors' calculations based on UNDESA (2017), *World Population Prospects* (database); World Bank (2017a), *World Development Indicators* (database) and IMF (2018), *World Economic Outlook Database*.

Table 3.2. Financial flows and tax revenues to Southern Africa (current USD billion), 2009-16

		2009	2010	2011	2012	2013	2014	2015	2016	
Foreign	Private	Inward foreign direct investment	6.9	4.8	5.3	7.2	20.7	23.7	14.0	21.2
		Portfolio investments	12.7	14.8	16.3	23.1	14.4	15.0	13.0	10.1
		Remittances	1.7	2.0	2.1	2.0	1.8	1.7	1.5	1.3
	Public	Official development assistance (net total, all donors)	6.9	6.6	7.0	7.2	7.8	6.6	6.6	6.3
Total foreign flows		28.2	28.3	30.7	39.4	44.7	47.0	35.1	38.9	
Domestic tax revenues		106.2	135.5	164.1	164.1	156.2	149.0	123.2	107.1	

Source: IMF (2018), *World Economic Outlook Database*, OECD (2018a), *International Development Statistics* (database), and World Bank (2017a), *World Development Indicators* (database).

Figure 3.1. Growth dynamics in Southern Africa and Africa, 1990-2018

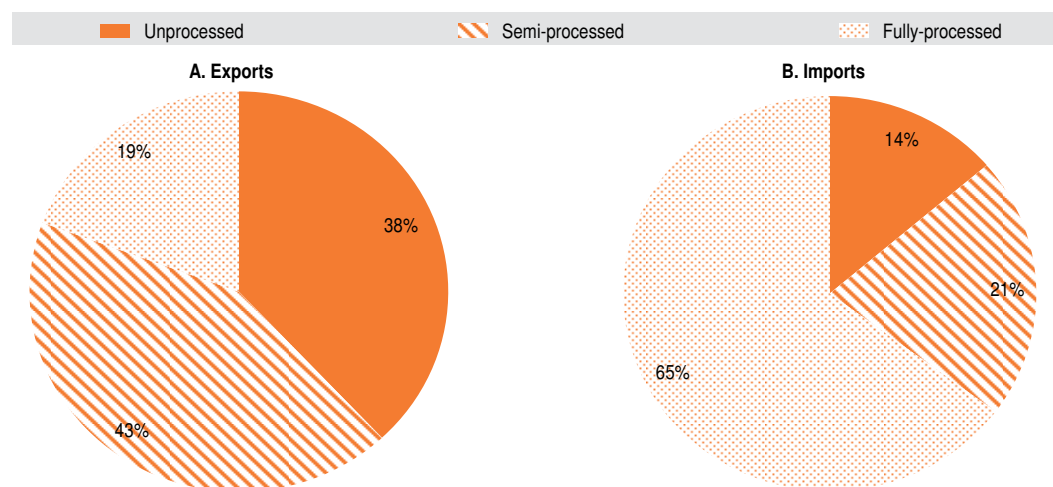


Note: (p) = projections.

Source: Authors' calculations based on IMF (2018), *World Economic Outlook Database*.

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Figure 3.2. Trade composition in Southern Africa, 2016



Source: Authors' calculations based on United Nations Statistics Division (2017), *UNCOMTRADE* (database).

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According to the African Union's Abuja Treaty of 1991, Southern Africa comprises ten countries: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe. In 2017, the region was estimated to have a population of 177 million, representing about 14% of the African total. With a land mass of over 5.9 million km², Southern Africa has a population density of 30 inhabitants per square kilometre, which is lower than Africa's average of 43.

The total regional GDP at purchasing power parity (PPP) stood at USD 1 201 billion in 2017, with a per capita GDP of USD 6 939. South Africa, which makes up 64% of the regional GDP, plays a crucial role not only as a source of investment for Southern Africa but also as a market for other countries in the region, especially Southern Africa Customs Union (SACU) members. Its economic performance has profound effects on the entire region. Over the period 1990 to 2017, regional real GDP growth averaged 3.0% per annum, compared to 4.2% for Africa. During the same period, Southern Africa's annual population growth averaged 2.2%. The region's per capita GDP thus grew on average by 0.7% per annum over that period.

Over the past two decades, Southern Africa has shown decent growth rates; however, the region remains one of the most unequal in the world. In 2016, six of the ten countries with highest income inequality in the world belonged to Southern Africa (UNECA, 2017). Although some countries in the region have recorded declining inequality since 1990, it remains extremely high for the majority.

The other major problem in the region is high unemployment. It is increasing in half of the countries.

Regional Economic Communities have been critical in fostering co-operation among member countries in recent times. All ten countries in Southern Africa are members of the SADC. Botswana, Lesotho, Namibia, South Africa and Swaziland form the SACU. Malawi, Swaziland, Zambia and Zimbabwe are also members of the Common Market for Eastern and Southern Africa (COMESA). Similarly, Angola maintains dual membership in the SADC and the Economic Community of Central Africa. Intra-SADC trade lags behind intra-regional trade in other parts of the world. Increasing regional integration could help Southern Africa continue its efforts to industrialise, as laid out in the SADC Industrialization Strategy and Roadmap 2015-2063.

Most countries in Southern Africa were actively engaged in the negotiations for the Continental Free Trade Area (CFTA). Once fully operational, this CFTA trade area will facilitate increased trade among the signatory countries.

Diversifying Southern Africa's economies and links with global markets is key to sustaining long-term growth

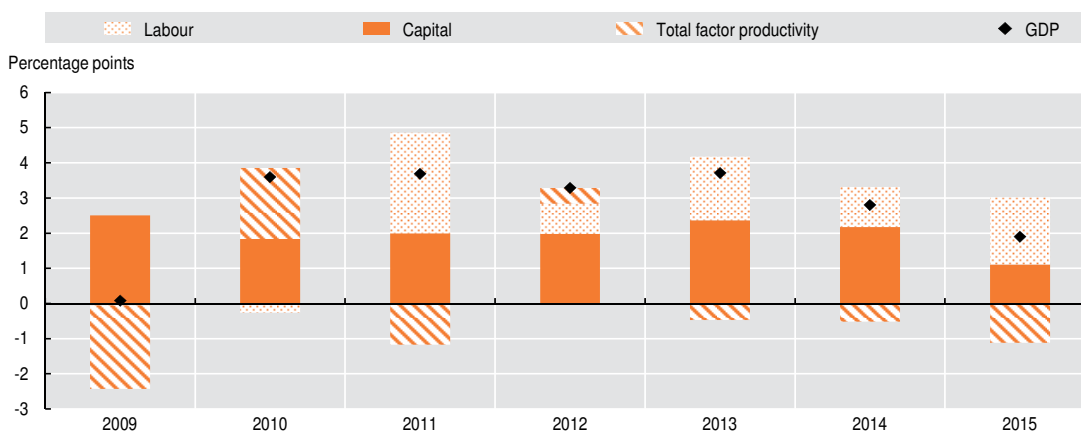
Southern Africa has posted decent but insufficient growth and faces important constraints


Southern Africa's economies have rebounded from the economic slump at the beginning of 1990s. Growth in Southern Africa during the period 1990 to 1994 declined by -0.1% per year as a consequence of adverse weather conditions and Angola's civil war. These conditions affected non-oil production negatively, while oil production continued to register growth as it was in off-shore areas not affected by the war. Since the mid-1990s, Southern Africa has registered steady economic growth. Between 2000 and 2008, the region recorded strong growth at 5.2% annually – peaking at 7.8% in 2007. During this period, high commodity prices boosted growth in the natural resource-rich countries such as Angola, Botswana, South Africa and Zambia. Good macroeconomic management and increased investment also increased growth.

However, growth has slowed down in recent years. Between 2009 and 2016, Southern Africa's economic performance decelerated to 3.6% per annum on average. Among the African regions, the global economic recession affected Southern Africa the most. The slowdown is also a result of an electricity deficit and of reduced agricultural production due to drought. Growth is expected to have decelerated further to 1.6% per year in 2017 and 2018 due to political uncertainty and low business confidence. Beyond 2018, growth in the region should strengthen as demand for commodities is projected to increase, electricity supply is improving in most countries and investor confidence is improving.

On the supply side, capital expansion has been the main driver of growth. Figure 3.3 shows the decomposition of economic growth into the main factors of production – capital, labour and total factor productivity – from 2009 to 2015. Capital contribution to growth was steady and averaged 2 percentage points per year over the period. Labour's contribution was lower, averaging 1.2 percentage points per year. For most of the years, total factor productivity was negative and averaged -0.16 percentage points. Between 2011 and 2015, the contribution of total factor productivity was fairly low.

Figure 3.3. Contribution to GDP growth by factors of production in Southern Africa, 2009-15



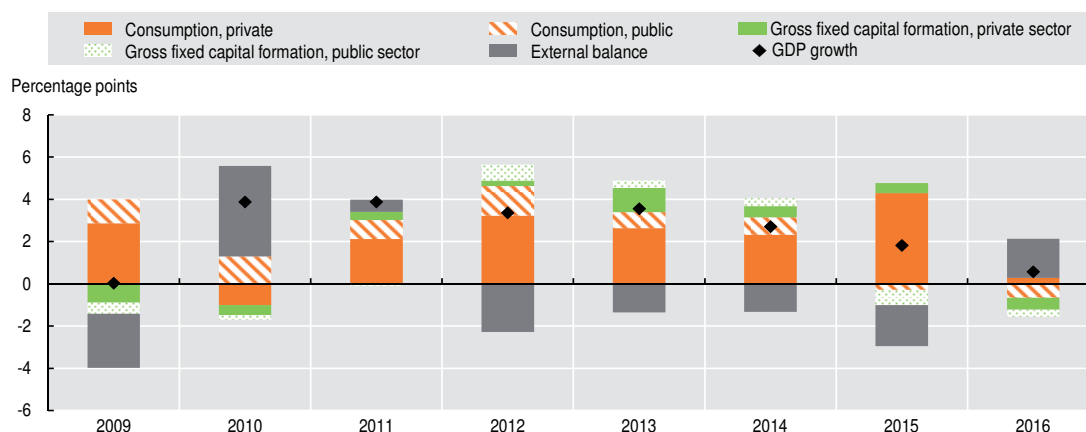
Source: Authors' calculations based on Conference Board (2017), *Total Economy Database*.
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On the demand side, private and government consumption have largely supported Southern Africa's positive economic growth performance. Decomposition of economic

growth by expenditure reveals that private consumption increased by 2.3% of GDP per year between 2009 and 2016 (Figure 3.4). In terms of share in GDP growth, private consumption accounted for 87.9% over this period.

The second important source of growth on the demand side is public consumption. It grew by 0.8% of GDP per year and accounted for 30% of GDP growth. In contrast, net exports were negative and external balance contributed -0.5 percentage points to GDP growth annually.

Figure 3.4. Growth decomposition by expenditure in Southern Africa, 2009-16

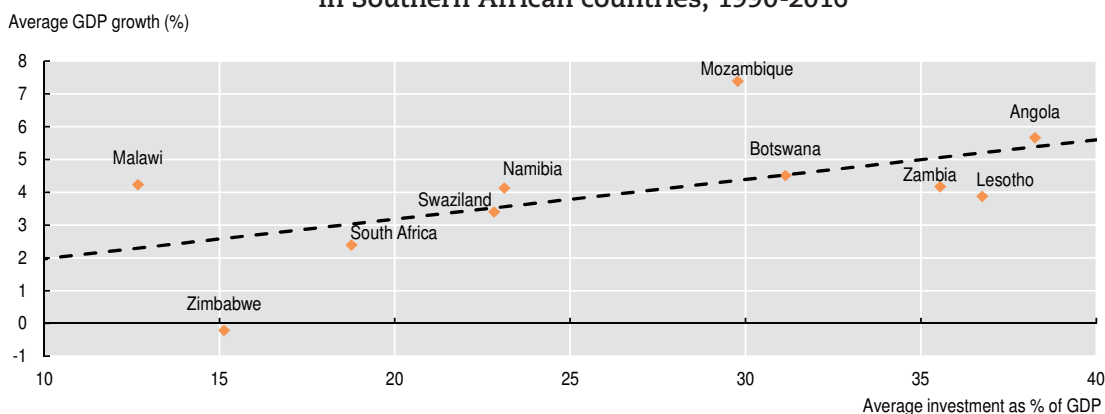


Note: Due to availability, data include Angola, Lesotho, Malawi, Namibia, Swaziland, South Africa, Zambia and Zimbabwe. Source: Authors' calculations based on World Bank (2017a), World Development Indicators (database) and IMF (2018), World Economic Outlook Database.

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The weak investment level is a cause of concern for long-term growth as accumulating capital spurs economic growth (Solow, 1956; Romer, 1986; Levine and Renelt, 1992). Investment increased marginally between 1990 and 2016. The total investment level rose from an average of 21.5% of GDP per year during the period 1990-95 to 23.3% of GDP during the period 2010-16. By 2010-16, the total investment level was higher than that for Western Africa yet lagged significantly behind Central, East and North Africa. Among Southern African countries, those with higher growth also saw high levels of investment over the 1990-2016 period (Figure 3.5).

Figure 3.5. Annual economic growth and investment in Southern African countries, 1990-2016



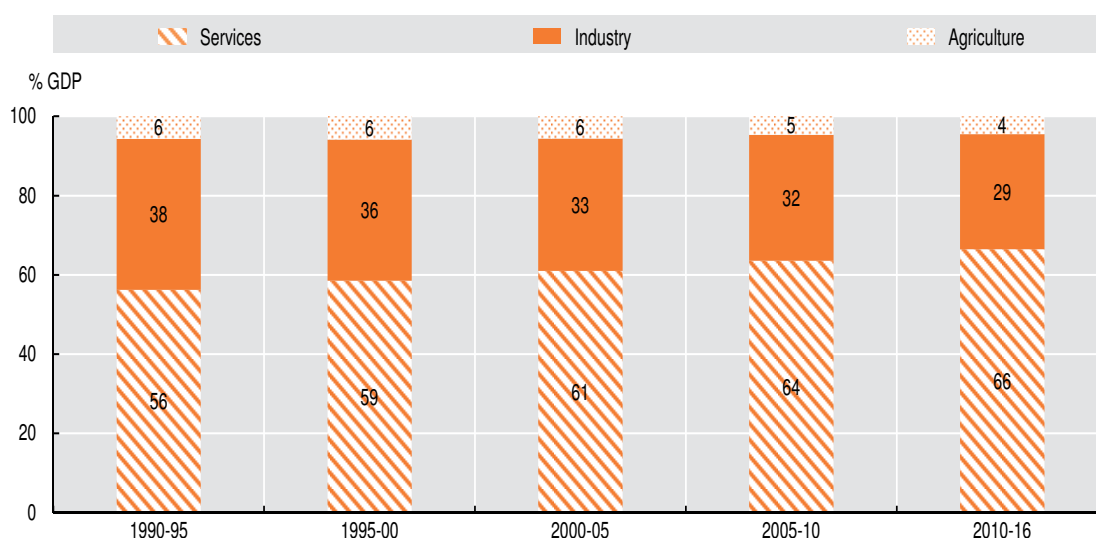
Source: Authors' calculations based on World Bank (2017a), World Development Indicators (database) and IMF (2018), World Economic Outlook Database.

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Southern Africa is experiencing premature de-industrialisation

Over time, Southern Africa's share of services in GDP has increased while its industry's share has declined (Figure 3.6). The services' share of GDP increased from 59% during the first half of the 1990s to 68% during the 2010 to 2016 period. In contrast, industry's share shrunk from 38% to 29% of GDP. The share of agriculture has remained relatively low at around 5%. There is significant heterogeneity across countries, however. For example, agriculture accounts for more than a quarter of GDP in Malawi and Mozambique while the services sector accounts for more than 60% in the SACU countries. In Angola and Zambia, natural resource rents accounted for over 10% of GDP between 2005 and 2015.

Figure 3.6. Average sector value added as a percentage of GDP in Southern Africa



Note: This uses unweighted average to derive the regional figures. As a result, the components may not add up to 100%

Source: Authors' calculations based on World Bank (2017a), World Development Indicators (database).

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The region shows a trend toward “premature de-industrialisation”, whereby countries start de-industrialising at a lower income level than in the past (Rodrik, 2016). Even in South Africa, which has the most advanced industrial sector in the region, manufacturing value added has decreased to 13% of its GDP. Manufacturing can be crucial in providing productive jobs for relatively unskilled workers. It also allows for rapid productivity improvement to catch up with global competitors. The rising of the middle class in the region, which increases the number of urban consumers, also offers new opportunities for local producers to tap into domestic markets.

However, challenges to industrialisation remain. These include a lack of appropriate skills, a power deficit, a lack of finance, weak co-ordination and implementation of regional industrial policies, and poor infrastructure (UNECA, 2015). Southern Africa needs to tackle these constraints to ensure that its industrial sector grows.

The reduction in the share of manufacturing prompted the SADC Industrialisation Plan and Roadmap 2015-2063. Adopted in 2015, it sets out clear and ambitious targets to transition from the commodity-dependent growth path to value-adding, knowledge-intensive and industrialised economies. It aims to do so through targeted and selected industrial policies which facilitate investment in strategic economic sectors.

Southern Africa needs to expand trade and investment linkages with the rest of the world

In Africa, Southern African countries are among the most open to the global economy. With the implementation of structural adjustment programmes by most governments and the efforts towards regional economic integration, trade openness has increased significantly since 1990. Total trade increased from 48% of GDP in 1990 to 66.6% in 2009-16, the second highest in Africa behind Central Africa. In term of financial flows, the region has attracted high levels of Foreign Direct Investment (FDI) and portfolio inflows thanks to relatively stable macroeconomic conditions and developed financial markets (see Table 3.2).

Diversifying its export basket is a priority for the region. The good news is that unprocessed goods accounted for only 38% of Southern Africa's exports in 2016 (Figure 3.2, Panel A). This share is much lower than the shares for other African regions (ranging from 46% to 84% of exports). South Africa exports most of the more sophisticated products. The country accounts for 71% of the region's exports of semi-processed goods, mostly manufacture of basic metals, such as gold and platinum, and unset diamonds. It also accounts for 90% of exports of fully-processed goods, such as automobiles, machinery equipment and wine. Another example is Lesotho, which has taken advantage of the African Growth and Opportunity Act's preferential trade terms to develop a textile sector for export to the United States' market.

However, several Southern African countries depend mainly on exports of a single commodity. For example, in 2014, oil accounted for 96% of Angola's exports, copper accounted for 60% of Zambia's exports and unprocessed diamonds accounted for 73% of Botswana's exports.

So far, FDI in the region has been mostly concentrated in resource-rich economies, where it has declined due partly to the fall in global commodity prices. The majority of FDI went to Angola, Mozambique and Zambia and supported the mining and extraction sector. Angola accounted for two-thirds of FDI in Southern Africa in 2016. The country remains one the largest FDI hosts among the least developed countries.

The decline in global commodity prices in recent years and uncertainties over mineral tax policy in some countries have led to a reduction in FDI in the region. FDI flows to Botswana fell to USD 10 million in 2016, by far the lowest recorded since 2012; this is related to the fall in global diamond prices. Similarly, Zambia recorded less than half a billion US dollars in FDI inflows for the first time since 2011.

Johannesburg has emerged as the most strategically placed city for greenfield FDI (or new FDI) in Africa (AfDB/OECD/UNDP, 2016). Network analysis shows that Johannesburg has become the primary broker of greenfield FDI flows into Africa. In fact, FDI is increasingly concentrated along a development corridor linking Gauteng and Maputo which includes cities like Johannesburg, Pretoria and Maputo. This area benefits from a dense cluster of cities of various sizes. The strong development of road, rail and port infrastructure binds cities together into cohesive economic regions. Membership in the SADC plays an important role, as it offers access to markets. Further increasing regional integration could help Southern Africa attract more and more diversified FDI and support domestic firms to expand their market access.

Creating quality jobs is a major problem in Southern Africa, especially for the youth and females

Though highly diverse, the employment structures in Southern African countries can be categorised into two broad groups. In the SACU countries (Botswana, Lesotho, Namibia, South Africa and Swaziland), structural unemployment has persisted due

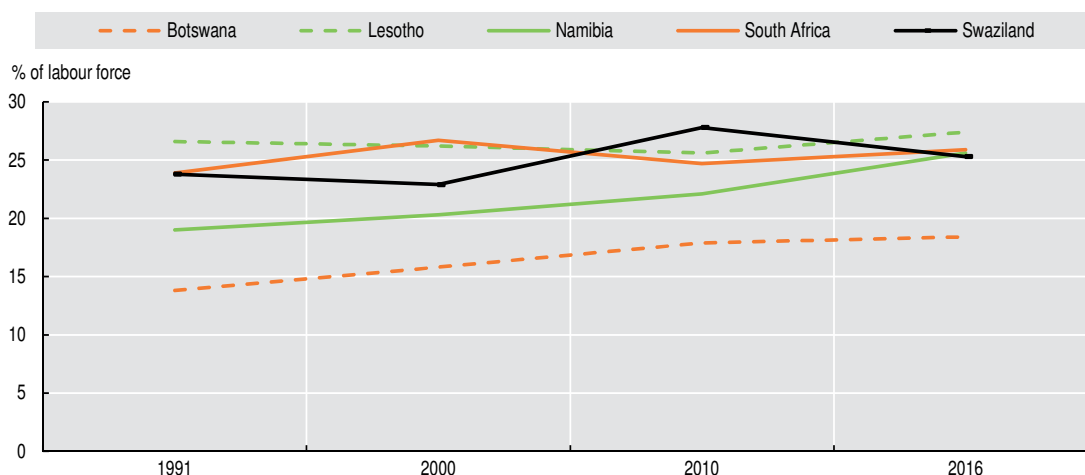
to labour market distortions and a skills mismatch. In non-SACU countries (Angola, Malawi, Mozambique, Zambia and Zimbabwe), the unemployment rate is lower yet underemployment is a severe concern.

The following section will discuss the diverging stories of these two groups. Despite the differences in the challenges they face, all countries in the region struggle to create quality employment especially for young people and women.

Structural unemployment in the SACU countries is high due to a skills mismatch and a low rate of entrepreneurship

SACU countries are characterised by a higher level of job quality but also higher structural unemployment. In these countries, the services sector accounts for the largest share of employment, ranging from 46% in Lesotho to 71% in South Africa. Most of those employed are waged employees in the formal sector. However, the unemployment rate has remained at over 15% since the 1990s (Figure 3.7). Botswana, Lesotho, Namibia, South Africa and Swaziland even had an increase in unemployment rates between 1991 and 2016. Across all periods, unemployment is higher among females.

Figure 3.7. Unemployment trends in Southern African Customs Union countries, 1991-2016



Source: Authors' calculations based on World Bank (2017a), *World Development Indicators* (database).

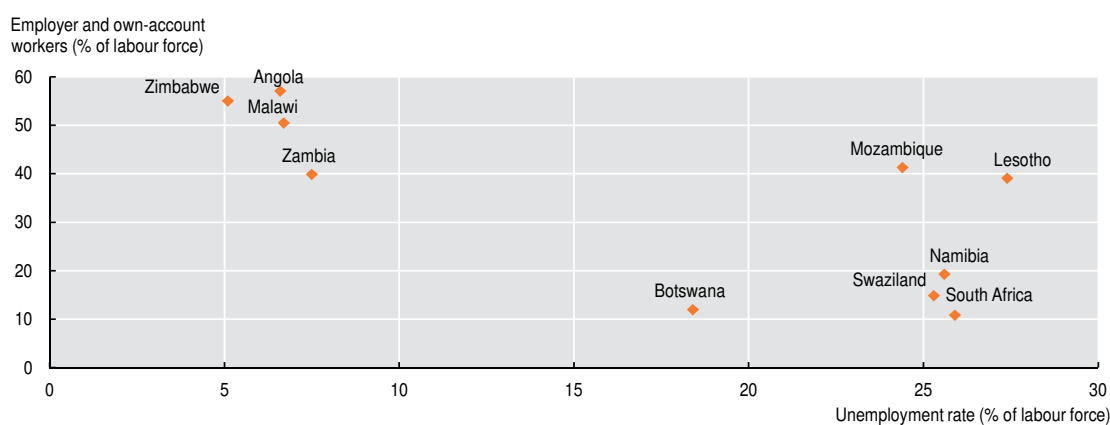
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These countries have small informal sectors despite high unemployment rates. Lesotho had an informal sector which accounted for 9% of total employment in 2008 (Bureau of Statistics, 2008). South Africa stands out as a country with a low informal sector employment rate but with high unemployment rate. Informal sector employment in South Africa accounted for 9.8% of the labour force in 1997, and this increased to 13.1% in 2006 (Maree, 2007; Brynard, 2011).

A skills mismatch has also contributed to structural unemployment. Growth has been associated with tertiary sectors and sophisticated manufacturing which demands highly skilled labour. However, semi-skilled and unskilled labour is in oversupply. For example, in South Africa, the unemployment rate has increased despite positive economic growth during the post-apartheid period due to skill-biased technological change (Levinsohn, 2007; AfDB et al., 2012). Similarly, growth in Botswana has been accompanied by rising unemployment rates. The mining sector accounts for 35-50% of GDP in Botswana, yet it only employs 4% of the total formal labour force due to its capital-intensive nature.

A more dynamic business environment with higher rates of entrepreneurship and growth among small businesses could help create the much-needed jobs. The share of the labour force working as employers or own-account workers is significantly lower in the SACU countries than in the rest of the region (Figure 3.8). In South Africa, high barriers to entrepreneurship and labour market segmentation have prevented a large share of the unemployed population to transition to self-employment when they wanted to (Kerr, 2018; OECD, 2017a). In South Africa, labour rigidities through centralised bargaining are estimated to decrease employment in an industry by 8-13% with losses concentrated among smaller firms. Entrepreneurial skills may be also inadequate in the population, as informal employment was suppressed under apartheid (Kingdon and Knight, 2004).

Figure 3.8. Unemployment rate and status of employment for Southern African countries



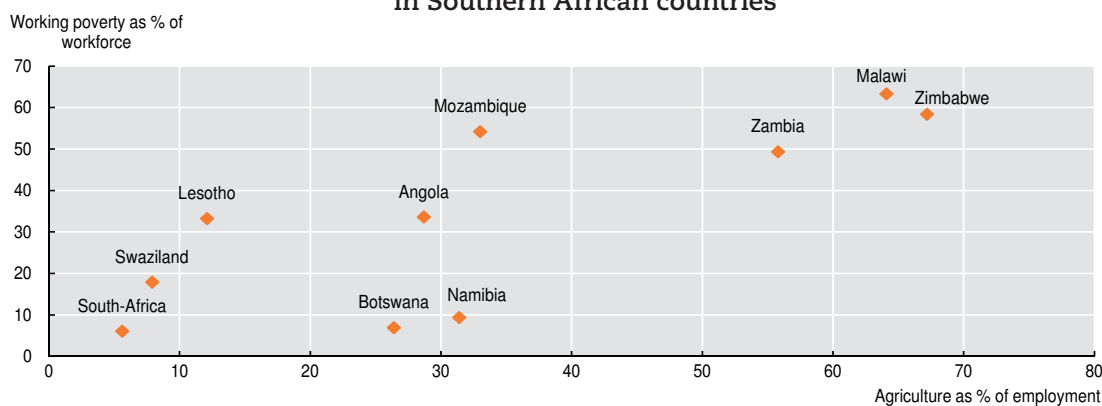
Source: Authors' calculations based on ILO (2017), ILO Stat (database).

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In the non-SACU countries, underemployment is linked with working poverty

Unemployment rates are lower in the non-SACU than the SACU countries, but underemployment remains pervasive. This problem resembles that of many other sub-Saharan African countries. The magnitude of unemployment is masked by underemployment or disguised unemployment as people take on unsuitable jobs or work less hours. For example, 8.3% of the employed in Zambia in 2014 were underemployed. The instance of working poverty is therefore much higher in these countries (Figure 3.9).

Figure 3.9. Sectoral employment and working poverty rate in Southern African countries



Source: Authors' calculations based on ILO (2017), ILO Stat (database).

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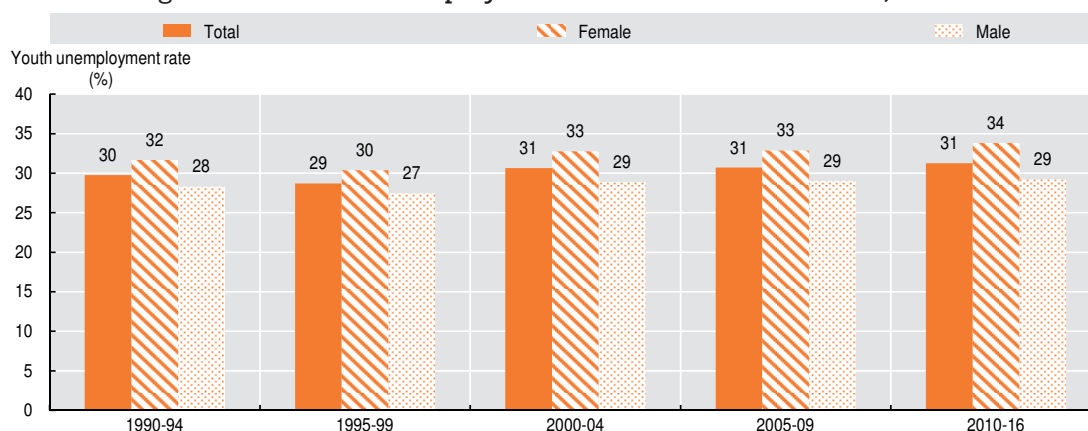
In the non-SACU countries of the region, the informal sector has absorbed workers who cannot find employment in the formal sector. In Zambia, where unemployment fell from 18.9% in 1991 to 7.5% in 2016, the share of informal employment increased from 74% to 83.9% (CSO, 2015). The informal sector covered 95% of the labour force in Mozambique in 2014 and 94% in Zimbabwe the same year (Danish Trade Union Council, 2014; Zimstat, 2014).

Structural transformation is therefore an important driver for creating more and better jobs. In Malawi, Zambia and Zimbabwe, the majority of the population is still working in subsistence agriculture. In resource-dependent countries such as Angola and Zambia, the mining sector has contributed the most to growth yet little to employment. Mining accounts for only 3.5% of employment despite contributing 14% to GDP. In Angola, resource rent has attracted agricultural labour to urban services (see Chapter 1). Supporting labour-intensive activities that require relatively lower skills, such as agro-processing and light manufacturing, can create waged jobs for local labour.

Better employable skills can improve labour market outcomes for the youth in Southern Africa

The youth suffer particularly from the employment problem (Figure 3.10). Youth unemployment, especially among females, has increased over time for the majority of countries in the region. Botswana, Namibia and Swaziland had the largest increases in youth unemployment rates, each in excess of 7%, between 1991 and 2015. Apart from Zambia that recorded a large decline of 17.6% over the period, the other countries recorded small reductions.

Figure 3.10. Youth unemployment rates in Southern Africa, 1990-2016



Source: Authors' calculations based on World Bank (2017a), *World Development Indicators* (database).
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Youth unemployment in some countries is extremely high and has increased over time. In South Africa and Swaziland, over half of the youth aged between 15 and 24 were estimated to be unemployed in 2016. A similar pattern exists in all the region's other countries except Malawi, Zambia and Zimbabwe. Urgent measures are needed to address this growing problem, especially in light of the 1.1 million new entrants to the labour market per year between 2015 and 2030.

Women also face more challenges than men in Southern Africa's labour market. First, they are less likely to participate in the labour force. The total labour force participation rate is only 61% for women, compared to 71% for men. This gap varies across countries but is more severe in Botswana, Lesotho, South Africa and Zimbabwe. Even when women do participate in the labour force, they are more likely to be unemployed. This pattern holds also among youth (Figure 3.10).

Many youth are self-employed workers, yet they lack the necessary skills to succeed. These general trends are observed in several countries in Africa and other developing regions (OECD, 2017b). In Malawi, rural youth entrepreneurs have low education levels and 80% acquire business skills informally, either through self-teaching (44%) or by learning from family members (36%) (OECD, 2018b). In South Africa, just less than half of early-stage entrepreneurs had at least a secondary qualification in 2016, while a quarter had some secondary education (GEM, 2017).

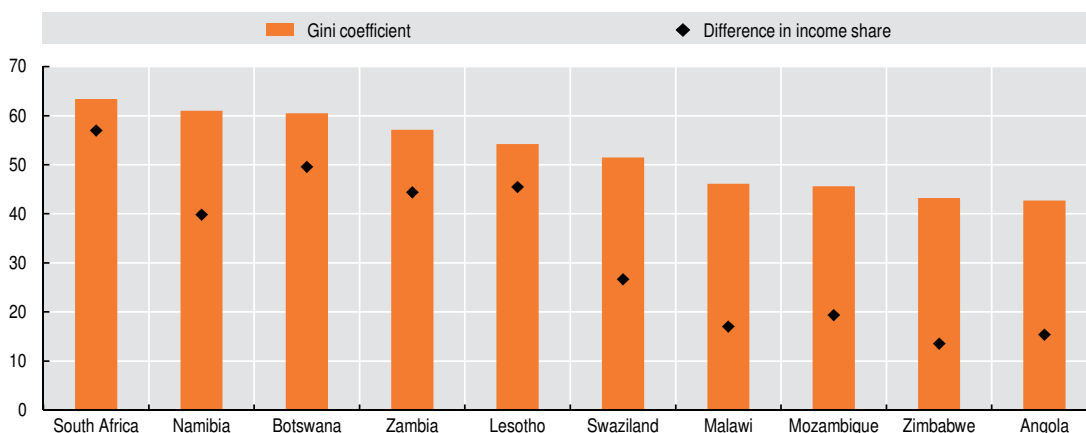
The shortage of entrepreneurial skills lowers both the likelihood of young entrepreneurs to set up their own businesses successfully and the survival rate of youth start-ups. Indeed, the 2013 United Nations survey of 640 small and medium-sized enterprises (SMEs) in six Swaziland cities reveals a large experience and skill gap between young entrepreneurs (ages 15-35) and adult entrepreneurs (ages 36+) (Brixiová, Ncube and Bicaba, 2015). Only 40.1% of young entrepreneurs had prior work experience, relative to 60.6% of adults. Similarly, less than one out of five young entrepreneurs received business training, while a quarter of adult entrepreneurs were trained. This points to the need to better design and target entrepreneurship programmes as well education and training to better align youth aspirations with labour market realities and facilitate school-to-work transitions (OECD, 2017c).

Southern Africa has made uneven progress in reducing inequality

Income inequality remains high in Southern Africa despite a marginal reduction


Southern Africa is one of the most unequal regions in the world. Of the ten countries with the highest income inequality, six are found in Southern Africa (UNECA, 2017). South Africa had the world's highest Gini coefficient (63), followed by Namibia (61), Botswana (61), Zambia (57), Lesotho (54) and Swaziland (52) (Figure 3.11).¹ The inter-decile ratios show a similar structure (Figure 3.11). South Africa, Botswana and Lesotho, in that order, have the highest gaps between the top and bottom income deciles, implying that these countries have the greatest inequality in the region. Angola and Mozambique have the lowest gaps, as well as the lowest Gini coefficients, hence the lowest inequality in the region.

Figure 3.11. Gini coefficients and difference in income share in Southern African countries



Note: The difference between the top and bottom group refers to the ratio between the income shares held by the richest 10% to the income held by the poorest 10% in the national income distribution. The latest available data is shown for each country.

Source: Authors' calculations based on World Bank (2017b), PovalNet (database).

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In some countries, the fiscal system has been able to reduce inequality. In particular South Africa's taxes and social spending system have achieved the largest reductions in income inequality among a sample of 29 developing countries in the Commitment to Equity database.² The combination of slightly progressive taxes (personal income taxes, value-added taxes, excise taxes and the fuel levy) and highly progressive spending (cash transfers, free basic services, and spending on health and education) reduced the country's Gini coefficient from 77.1 to 59.6. Similarly, fiscal policy in Zambia reduced the Gini coefficient from 59 to 48 after accounting for redistribution and tax burdens, especially through public expenditures on education (De la Fuente, Rosales and Jellema, 2017).³

However, not all countries have been equally successful. In many cases, in-kind subsidies benefit the rich more than the poor due to different access and consumption patterns. In Angola, fuel subsidies cover almost 7.5% of household expenditure for the richest 20% of households, twice as much as that for the bottom 20% (World Bank, 2016). Similarly, in Zambia, benefits of tertiary education serve mostly the richest segment of society, and health spending excludes the poor without access (Cuesta, Kabaso and Suarez-Becerra, 2012).

Non-inclusive growth and high initial inequality have also led to pervasive inequality in the region. As mentioned earlier in this chapter, growth has been limited to capital intensive sectors such as mining and high-tech manufacturing, which tend to hinder sharing the fruits of growth. In South Africa, the concentration of capital and land among the wealthier groups and cultural and historical factors exacerbate the dualistic employment market. This leads to highly segmented employment outcomes among different groups in society. It creates high wage inequalities within each sector as well as a wide gap between those who are employed and those who are not (Keeton, 2014). Consequently, inequality in South Africa remains among the highest in the world despite a highly redistributive fiscal system (Inchauste et al., 2015).

Most Southern African countries have made good progress in reducing poverty

Poverty levels in the region are high. The extreme poverty headcount stands at 35.6% mostly due to very high rates in Lesotho, Malawi, Mozambique and Zambia (i.e. below USD 1.90 per day, Table 3.3). In these countries, reliance on subsistence agriculture by the large majority of the workforce and limited access to education and health services further contribute to high poverty and inequality levels (Mussa, 2015). In contrast, a number of middle-income countries in the region, such as Botswana, Namibia and South Africa, have attained lower levels of poverty. In these three countries, almost a quarter of the population lives on USD 1.90-3.20 a day (2011 PPP), but this income group is vulnerable to falling back into extreme poverty.

Table 3.3. Poverty rates in Southern African countries

Country	Headcount poverty, USD 1.90/day			Poverty gap, USD 1.90/day		
	Earliest year	Latest year	% change	Earliest year	Latest year	% change
Angola (first: -, last: 2008)	-	30.1	-	-	9.6	-
Botswana (first: 1993; last: 2009)	34.8	18.2	-16.6	13.5	5.8	-7.7
Lesotho (first: 1994; last: 2010)	69.6	59.7	-9.9	44.8	31.8	-13.0
Malawi (first: 1997; last: 2010)	63.6	70.9	7.3	24.9	33.3	8.4
Mozambique (first: 1996; last: 2008)	85.4	68.7	-16.6	47.3	31.4	-15.9
Namibia (first: 2003; last: 2009)	31.5	22.6	-8.9	10.2	6.7	-3.6
South Africa (first: 1993; last: 2011)	29.3	16.6	-12.7	9.5	4.9	-4.6
Swaziland (first: 1994; last: 2009)	81.7	42.0	-39.6	51.0	16.6	-34.4
Zambia (first: 2000; last: 2015)	54.1	64.4	10.4	34.7	29.5	-5.2
Zimbabwe (first: -, last: 2011)	-	21.4	-	-	5.2	-
Southern Africa (first: 1990; last: 2013)	43.8	35.6	-8.2	20.8	14.2	-6.6

Note: Regional average for Southern Africa is generated by estimations from World Bank (2017b), PovCal Net. Source: World Bank (2017b), PovCal Net (database).



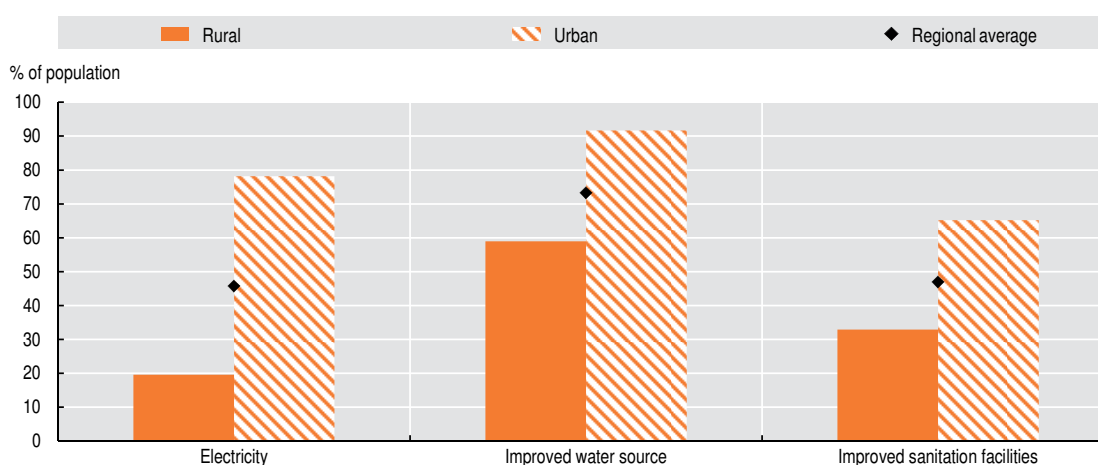
Poverty rates and severity have decreased for most countries, with Botswana, Mozambique, South Africa and Swaziland having reduced them the most. In Botswana, for example, increasing agricultural incomes and demographic changes have reduced extreme poverty by 11.6 percentage points, from 29.8% in 2002/03 to 18.2% in 2009/10. Increases in agricultural incomes, including agricultural subsidies, accounted for 47.8% of poverty reduction over this period (World Bank, 2015a). Decreased demographic ratios accounted for 24.3% of the poverty reduction. Other factors, such as increased wages in non-agricultural sectors and improved households' access to finance, also helped alleviate poverty.


Looking forward, broad-based employment growth will be necessary to strengthen the income of the poor and move them firmly into the middle class. The rising middle class will be important to create a skilled and educated workforce and provide the consumption base for local entrepreneurs to tap into (see Chapter 2, Megatrend 4).

Malawi and Zambia saw their poverty rates increase between 1996 and 2016. In Zambia, the poverty rate peaked at about 73% in 1998 and only started declining thereafter. The increase in poverty was driven by economic decline and the closure of state-owned enterprises that had become uncompetitive as the country liberalised its economy. A review of Zambia's 2015 fiscal policy shows that fiscal policy has been able to reduce inequality, but it has also contributed to increasing the poverty headcount (De la Fuente, Rosales and Jellema, 2017). Indeed, the poor receive only a small portion of in-kind benefits such as fuel, electricity, education and health subsidies, and the various direct cash transfers programmes are too small to reduce poverty. Furthermore, the poor pay more into the fiscal system than they receive from it, in the form of higher prices due to value-added taxes and alcohol and tobacco excises.

While income-based poverty has been reduced significantly in Southern Africa, a large share of the rural population still do not have access to basic services such as water, sanitation and electricity. During the period 2010-16, on average the proportion of the population with access to electricity was 46% (Figure 3.12). Slightly over three-quarters (78%) of the population in urban areas had electricity, while rural access on average stood at 20%. Similarly, only 59% of the rural population had access to an improved water source compared to 92% in urban areas. And only 33% of the rural population had access to improved sanitation facilities, compared to 65% of the urban population.

Figure 3.12. Access to basic services in Southern Africa, 2010-16



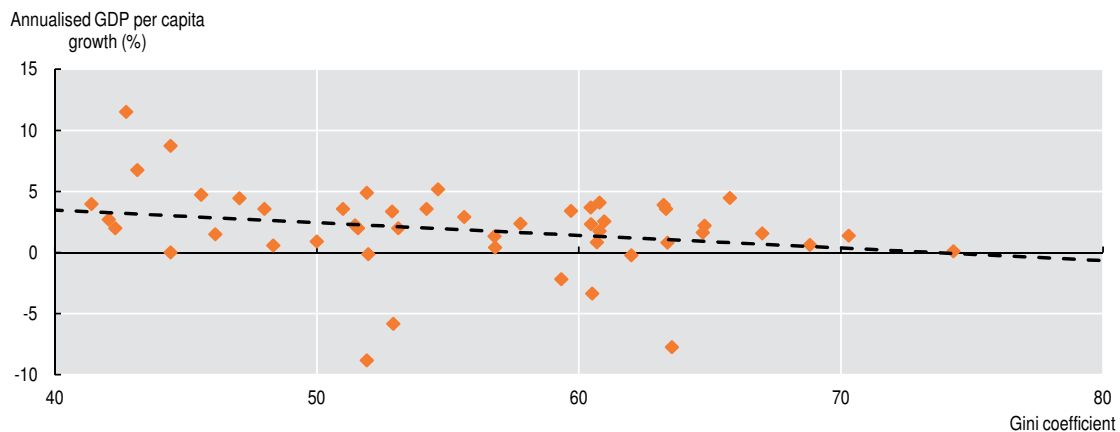
Source: Authors' calculations based on World Bank (2017a), World Development Indicators (database).
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Tackling the inequality and employment challenges is the key to unlock long-term development in Southern Africa


Reducing high inequality and unemployment will facilitate long-term growth in Southern Africa

Addressing inequality can boost long-term growth through several channels. First, it enables the poor to accumulate productive assets and invest in human capital. Second, it increases their purchasing power and thus changes the structure of domestic demand for higher-quality goods and services. Third, it helps ensure social cohesion and political stability. The analysis presented in Figure 3.13 shows a negative association between long-term economic growth and income inequality. While this association does not imply causality, it does show the link between the two variables in the region.

Figure 3.13. GDP per capita growth versus Gini coefficient in Southern African countries, 1990-2016



Note: Each scatter point represents a five-year average of growth and Gini coefficients for each country in Southern Africa.

Source: Authors' calculations based on World Bank (2017a), *World Development Indicators* (database).
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Reducing income inequalities can have a positive impact on the duration of growth (IMF, 2012). SACU countries could almost double the duration of growth periods if they had the same level of inequality as other countries with the same level of GDP per capita.⁴ For most growth spells, the average duration could have been increased from about 5-8 years (e.g. Namibia) to 15 years and more (e.g. Botswana).

According to this analysis, income inequality appears to play a statistically more significant role in explaining the length of growth spells than other factors, such as investment, infrastructure, external shocks (e.g. terms of trade), the quality of public institutions and the financial sector. This result is important because of the nature of growth in the region. Since most countries depend on primary agricultural and/or mineral exports, they have experienced growth spells that are driven by external shocks and, therefore, that may not last long. However, targeting inequality will help to lengthen those growth spells.

Addressing inequality and unemployment in Southern Africa requires an integrated approach

In Southern Africa, unemployment and inequality are interlinked. Unemployment is higher among the bottom 40% of the income distribution compared to the top 10%. Inequality and unemployment also reinforce each other. The five-year averages of Gini

coefficients positively correlate with the unemployment rates for each Southern African country. In South Africa, a 10 percentage point reduction in unemployment would lower the Gini coefficient by 3%; but to achieve the same Gini results solely through government transfers would require increasing them by 40% (Anand, Kothari and Kumar, 2016).

High inequality can lead to unemployment in several ways. High inequality leads to liquidity constraints that prevent the poor from investing in health, education and skills. This underinvestment creates a large pool of low-skilled workers that the economy cannot absorb, driving up structural unemployment. Furthermore, labour force participation rates are highest among top income deciles, those that also have access to better opportunities (Leibbrandt and Levinsohn, 2011). In South Africa, for example, most new entrants in the labour market do not have the necessary skills to find a job or, if employed, to earn decent wages. This has led to a situation where 3 million youth are not in employment, education or training and 600 000 university graduates are unemployed. At the same time, the private sector cannot fill the existing 800 000 job vacancies (The Economist, 2012).

Boosting employment opportunities will have to stay at the forefront of addressing inequality and unemployment. Namibia provides a case in point. Although its Gini coefficient dropped from around 63 in 2003 to 61 in 2009, partly owing to generous social safety nets, the country's level of income inequality remains high. Income inequality in Namibia is linked to high unemployment due to inadequate skills and a skills mismatch. The national development agenda thus needs to further encourage the creation of low-skill jobs on a large scale, namely through industrialisation. Unlocking the barriers to entrepreneurship can also allow motivated entrepreneurs to create jobs. Better education and training, especially for the youth, will be critical to address the skills mismatch and the unemployment trap.

At the same time, the entrenched nature of inequality and unemployment calls for combining labour market policies and social assistance programmes. Well-targeted direct redistribution policies can effectively reduce inequalities as seen in the case of South Africa. Countries in the region have increasingly used cash and in-kind transfers (Garcia and Moore, 2012). However, creating broad-based employment growth through structural transformation will be necessary to tackle income inequality at the source. The decomposition of income shows that employment income is the most important source of income inequality. Relying on social assistance alone may not be enough to eliminate the root cause of inequality (Leibbrandt, Finn and Woolard, 2015; Leite, McKinley and Osorio, 2006).

Policy recommendations

Pushing Southern Africa's industrialisation agenda remains key

The SADC Industrialization Strategy and Roadmap 2015-2063 has set out a clear and ambitious plan to transition from a commodity-based to a technology-based industrial sector. In following up, SADC has adopted further regional strategies and protocols including the SADC Finance and Investment Protocol (FIP) Revised Annex 1 on Investment and the SADC Protocol on Trade.

Despite some early encouraging signs, implementation remains challenging. Recent benchmarking of the SADC FIP shows that regional integration strategies have helped firms in many countries join the regional and global value chains and attract more and better-quality FDI (SADC/OECD, 2017). For example, general retailers such as Shoprite or Pick and Pay as well as more specialised retailers such as Ellerines (furniture) or Mr. Price

and Foschini (clothing) have been able to expand into the SACU market (World Bank, 2015b). Other retailers from outside of South Africa such as Choppies (Botswana) have also established 28 supermarkets in South Africa and 13 in Zimbabwe. However, not all countries have reaped the benefits, partly due to the lack of implementing and of monitoring such strategies. At the same time, the lack of a harmonised dispute settlement and of an arbitration mechanism may deter further increases in FDI (Chidede, 2017).

Two major priority areas for reforms stand out. One is to create opportunities for learning from FDI. This could be achieved by increasing co-ordination between national and regional actions especially through linking FDI to the local economy. A review of good practices in effectively using local content and local value-added provisions could help identify practices to implement at the regional level. Global experience shows that these policies need to be complemented with supply-side support for local firms to upgrade and meet the standards and requirements of lead firms. Monitoring effectiveness is also essential to avoid unconditional support of uncompetitive local firms.

The opportunities and challenges are sector specific, so policies must be targeted to each sector. Table 3.4 presents a recent review of the challenges and opportunities for each key cluster identified by the SADC Industrial Strategy. For example, the automotive sector is largely constrained by its small market size while the textiles and garments sectors lack the skilled labour and capacity to manage the supply chain. As a consequence, policies to facilitate local value chain development will be effective only when they are industry and country specific (AfDB/OECD/UNDP, 2014).

Table 3.4. Challenges and opportunities for several key clusters identified by the SADC Industrial Strategy

Value chain	Challenges	Opportunities
Automotive	<ul style="list-style-type: none"> • Production is limited to South Africa • Local capacity is constrained by small market size 	<ul style="list-style-type: none"> • Vehicles tailored to African needs (durable, affordable) can jump-start production
Textiles and garments	<ul style="list-style-type: none"> • Lack of skills and co-ordination capabilities • Local content requirements place undue burden on manufacturers 	<ul style="list-style-type: none"> • Industry may shift from Asia to the African continent, as production costs rise in Asia
Medical devices	<ul style="list-style-type: none"> • Lack of adequate regulatory and accreditation framework undermine efforts of local manufacturers 	<ul style="list-style-type: none"> • Need to focus on research and development, education and vocational training to capitalise on value added through human capital
Pharmaceuticals	<ul style="list-style-type: none"> • Long registration time for drug licensing • Regionally fragmented regulations • Over-reliance on foreign drugs 	<ul style="list-style-type: none"> • Regional initiatives to increase capacity for local generic drug development and production
Agro-processing	<ul style="list-style-type: none"> • Small-holder farmers impede economies of scale, mechanisation and fail to meet national and international standards 	<ul style="list-style-type: none"> • Initiatives to support small-holder farmer • Investment in climate smart agriculture

Source: SADC/OECD (2017), *FDI-SME Linkages in Regional and Global Value Chains and the Development Dimension in SADC*.

The other priority area for reform is to advance intra-SADC integration and increase intra-African trade. Better implementation of existing SADC protocols and agreements would advance integration and create jobs. At the continental level, the Southern African countries need to fast-track the process to adopt and implement the CFTA. Reducing non-tariff barriers by improving customs procedures and simplifying rules of origin would lower trade costs in the region. These trade agreements should also expand to services, which have been growing significantly in Southern Africa.

Building key infrastructure, supporting the development of support services and reducing non-tariff barriers are essential to facilitate trade. SADC can follow the lead of the EAC and COMESA by adopting a simplified trade regime with instruments tailored to the needs and requirements of small-scale traders (Fundira, 2018). Such measures would help create jobs and boost income for informal cross-border traders.

Education and training programmes can increase the employability of Southern Africa's youth population

Governments should ensure that sufficient resources are devoted to building human capital through education. Education must be transformed to not only increase enrolment but also improve quality so that the imparted skills match those demanded by industry. The region should make efforts to close its skills gap, for instance by establishing centres of excellence to generate important technical skills that Africa is currently importing.

Developing an effective vocational system will help address skills shortages and redirect the youth back into training. Only 12% of South African students in upper secondary education were enrolled in vocational programmes in 2013. The technical and vocational education and training (TVET) sector can be further strengthened in terms of qualifications and training of staff, resources and curriculum content to make it more viable and attractive to students and businesses (Field, Musset and Alvarez-Galvan, 2014). Generalising apprenticeships and internships as part of the education curriculum in TVET colleges and universities may favour youth entry into the labour market.

Governments can also support local entrepreneurs to start new businesses. Reforms to ease the cost of doing business, lift competition barriers in many sectors and facilitate the expansion of firms in the region would boost productivity and help create jobs. Integrating SMEs into local value chains can expand the demand and learning opportunities for entrepreneurs to develop their businesses. Supply-side policy can also increase the capabilities of domestic entrepreneurs through improving management skills, access to finance/start-up capital and the business environment.

Concentrating the limited resources available on a narrow range of cases maximises the chances of having a real impact. In Angola, Botswana, South Africa and Zambia, the majority of entrepreneurs are motivated by new business opportunities. Identifying those entrepreneurs and providing them with targeted support proves more effective than indiscriminate measures. By contrast, in Malawi and Namibia, the lack of formal employment opportunities pushed the majority of job seekers into self-employment. To help such entrepreneurs transition back to labour markets, entrepreneurship policies will need to co-ordinate with social protection and training.

Southern African governments need to gradually invest in integrated social protection systems and mobilise domestic finance

The current social protection systems are highly uneven across Southern Africa, reflecting countries' unique economic structures and challenges. In particular, South Africa has developed a relatively comprehensive system with social grants for vulnerable groups, unemployment insurance, public works programmes and other progressive social policies. This is in response to the consequences of former apartheid regimes. Other SACU countries have successfully implemented universal non-contributory pension schemes. In contrast, the non-SACU Southern African countries have much smaller social protection systems due to weaker institutional and fiscal capacities and to the prevalence of informal and agricultural workers. In recent years, these countries have succeeded in reducing poverty using cash transfer programmes, yet the overall systems remain fragmented and under-articulated.

In all cases, developing an integrated social protection system can help ensure a basic level of coverage for all. Expanding coverage remains a challenge, even in countries with more advanced systems. In Botswana, the social protection system comprises more than 29 programmes by 10 government agencies; many overlap each other. Despite the complex and fairly comprehensive system, 80% of children who are deprived in any one

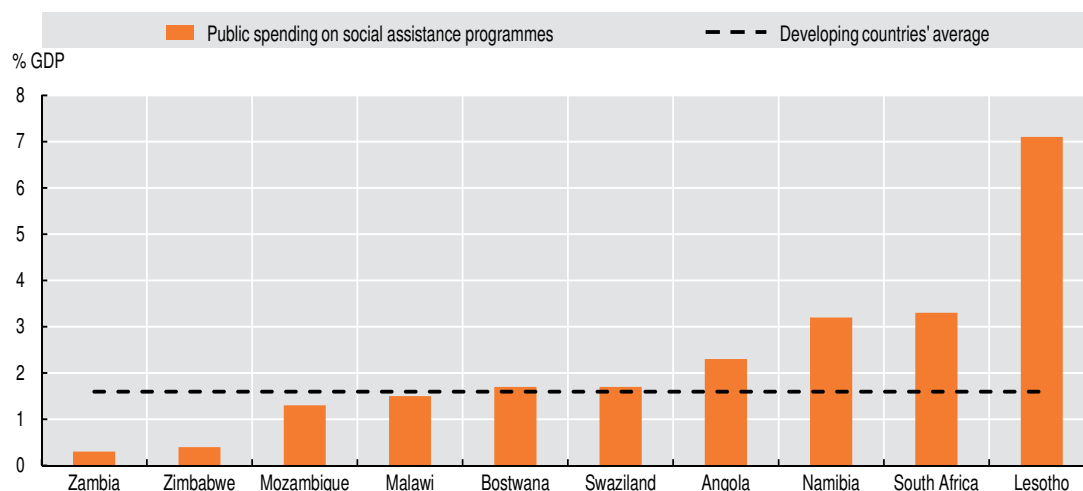
dimension of poverty live in households that do not benefit from either state pensions or governmental assistance (Social Policy Research Institute, 2017).

Countries in Southern Africa also can increase operational efficiencies by avoiding duplication and by capitalising on synergies between programmes. In the near future, governments in the region may not have the fiscal space to expand social spending further because commodity prices are unlikely to return to the high levels of the mid-2000s and low growth is likely to persist. Improving the effectiveness of social spending is thus especially important. Zambia, for example, has done so by introducing the National Social Protection Policy in 2014 which includes both social assistance and social insurance. In the long run, governments will need to gradually develop social assistance, social insurance and labour market policies in an integrated system.

Domestic fiscal mobilisation will be crucial to boost social protection spending. Figure 3.14 shows spending on social assistance programmes across Southern African countries, excluding expenditure on social insurance and labour market programmes. Lesotho, Namibia and South Africa have fared much better than the average for developing countries. On the contrary, Zambia and Zimbabwe spend less than 0.5% of GDP on social assistance.


The African Union's Agenda 2063 targets increasing public spending on social protection to 5%. Governments will need to diversify financing schemes in order to boost their budgets for social protection. Malawi and Zambia largely rely on donor funding for social protection. In resource-dependent countries such as Angola and Botswana, resource rents account for 50-80% of government revenues (Ulriksen, 2013). While resource rents can provide an immediate boost and incite new entrants to participate in voluntary schemes, funding social protection systems cannot rely solely on resource revenue due to its volatility. Increasing direct taxation is the most important tool in the long term, yet it requires sustained investment in administrative and institutional capabilities (OECD, 2017d).

Figure 3.14. Public spending on social safety net programmes in Southern African countries



Note: The figure shows data for the latest available year.

Source: World Bank (2018), ASPIRE (database).

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Annex 3.A1. Additional statistical tables and figures on Southern Africa

Table 3.A1.1. Sector distribution of employment in Southern African countries

	Agriculture	Industry	Services
Angola (2017)	28.7	21.5	49.7
Botswana (2010)	26.4	17.5	56
Lesotho (2008)	12.1	41.7	45.5
Malawi (2011)*	64.1	4.4	31.5
Mozambique (2012)*	33	14.4	52.6
Namibia (2013)	31.4	14.4	54.2
South Africa (2015)	5.6	23.9	70.5
Swaziland (2011)*	7.9	43.5	48.6
Zambia (2012)	55.8	10.1	33.7
Zimbabwe (2014)	67.2	7.3	25.4

Source: World Bank (2017a), *World Development Indicators* (database) and * National Labour Force Surveys.

Table 3.A1.2. National unemployment rates in Southern African countries, 1991-2016

	National unemployment rates*				Change 1991-2016
	1991	2000	2010	2016	
Angola	6.7	6.8	6.8	6.6	-0.2
Botswana	13.8	15.8	17.9	18.4	4.6
Lesotho	26.6	26.2	25.6	27.4	0.9
Malawi	6.9	7.4	6.5	6.7	-0.2
Mozambique	24.7	23.2	23.5	24.4	-0.3
Namibia	19.0	20.3	22.1	25.6	6.6
South Africa	23.9	26.7	24.7	25.9	2.0
Swaziland	23.8	22.9	27.8	25.3	1.5
Zambia	18.9	12.9	10.8	7.5	-11.4
Zimbabwe	5.8	4.8	6.3	5.1	-0.7

Note: * World Bank estimate using the International Labour Organization (ILO) method.

Source: World Bank (2017a), *World Development Indicators* (database).

Notes

1. The Gini index measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. The index ranges from 0 in the case of “perfect equality” (each share of the population gets the same share of income) to 100 in the case of “perfect inequality” (all income goes to the share of the population with the highest income).
2. The Commitment to Equity (CEQ) project has been led by Nora Lustig since 2008. It is an initiative of the Center for Inter-American Policy and Research and the Department of Economics, Tulane University, the Center for Global Development and the Inter-American Dialogue. The CEQ project is housed in the Commitment to Equity Institute at Tulane. See www.commitmenttoequity.org.
3. The Gini coefficients for South Africa and Zambia are based on data on revenue or consumption and years that differ from those shown in previous sections (calculated based on PovCal data).
4. Each SACU country is compared to the countries having the next three higher levels of income per capita (in constant USD, averaged over the period 2008-10) and the next three lower levels of income per capita.

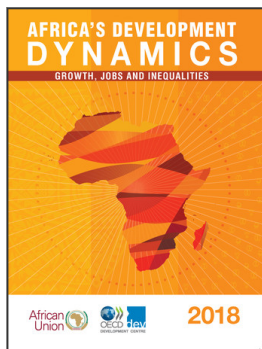
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