



Re-engineering growth in an uncertain world

STATE OF THE AFRICA REGION
WORLD BANK - IMF ANNUAL MEETINGS 2016

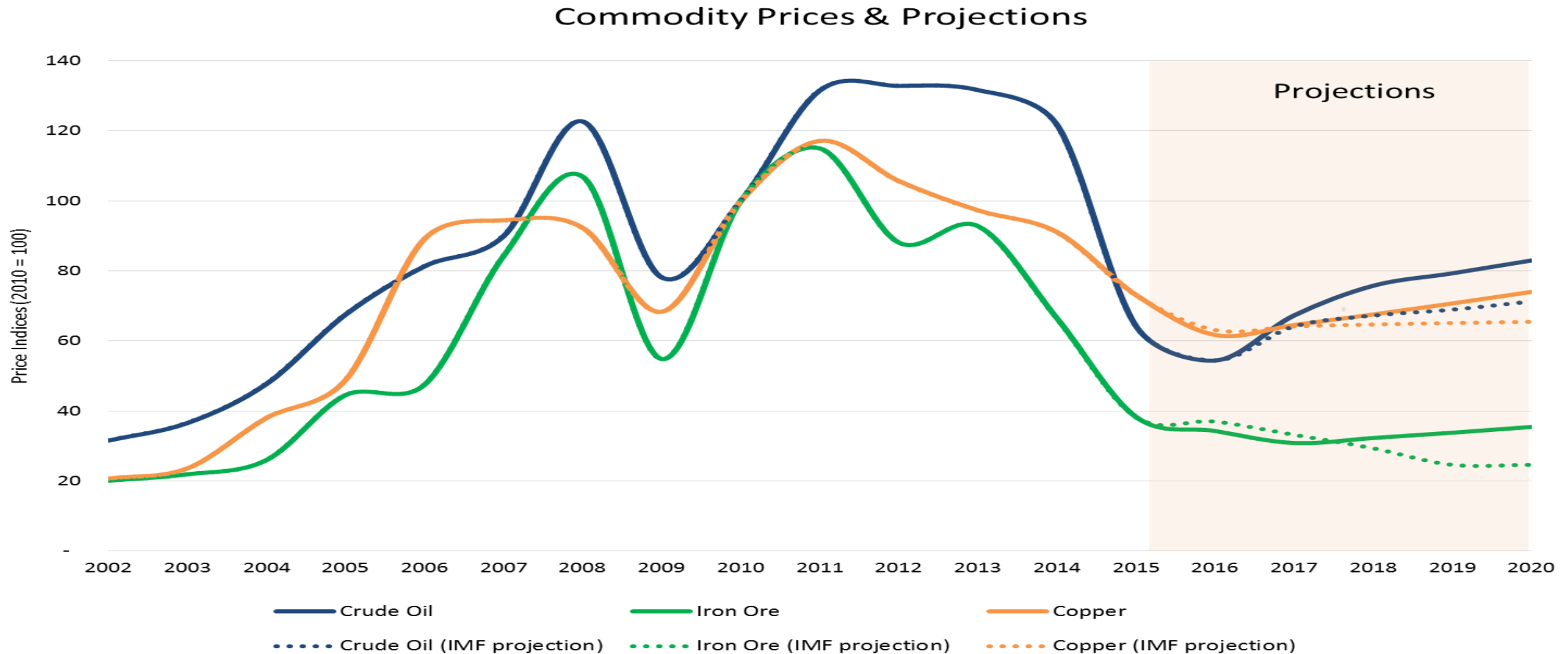
Albert G. Zeufack
Chief Economist, Africa Region
World Bank

- 1. Faltering growth, yet signs of resilience**
- 2. Africa can seize a bigger and better opportunity**
- 3. Boosting productivity and strengthening the social contract**

1. Faltering growth, yet signs of resilience

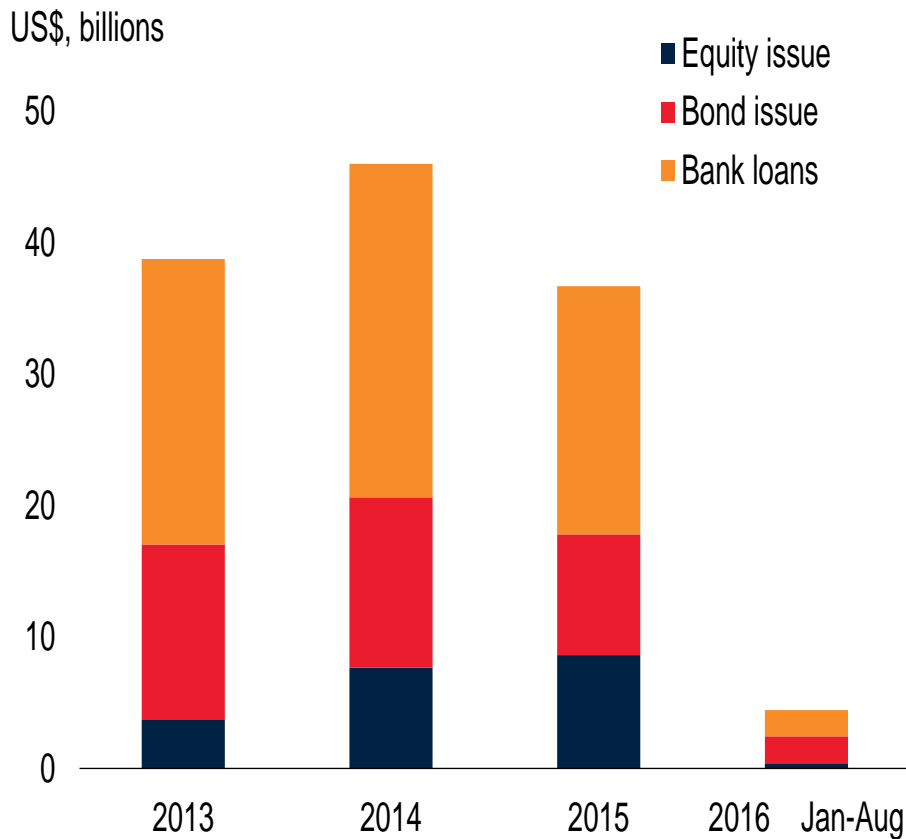


The commodity price super-cycle has ended...

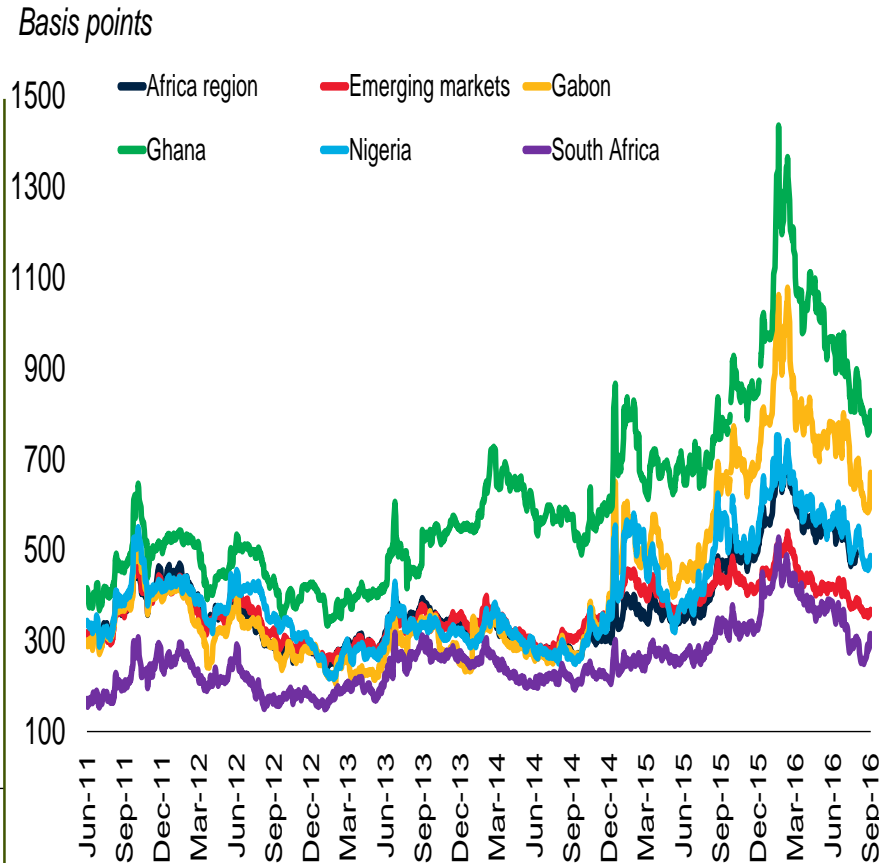


And access to financing has further tightened

Capital Flows to Sub-Saharan Africa

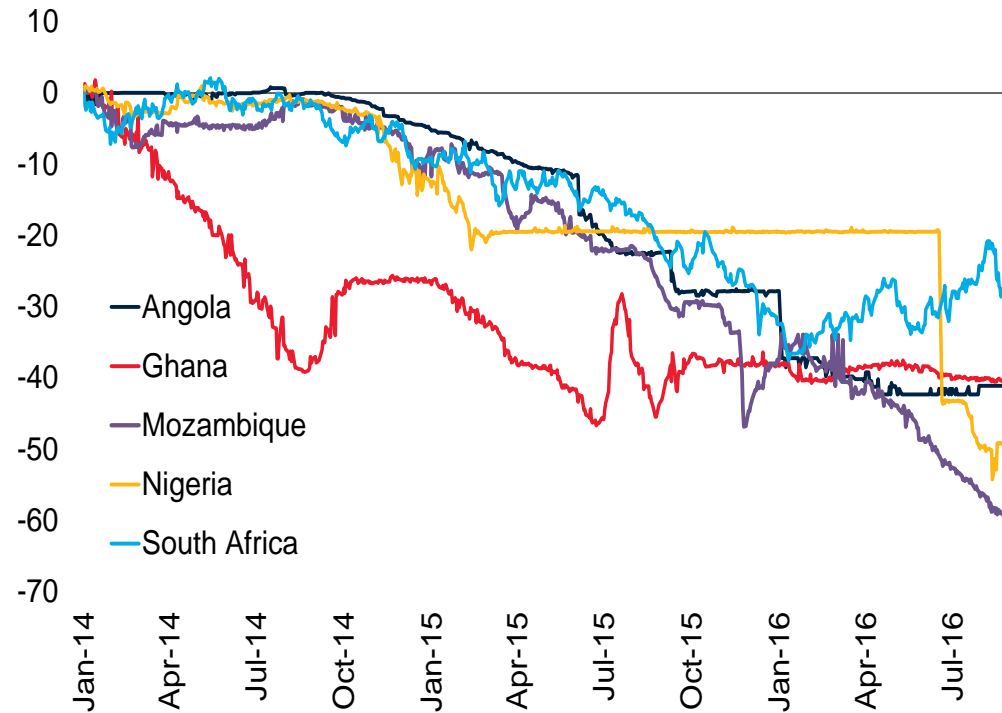


Sovereign Spreads

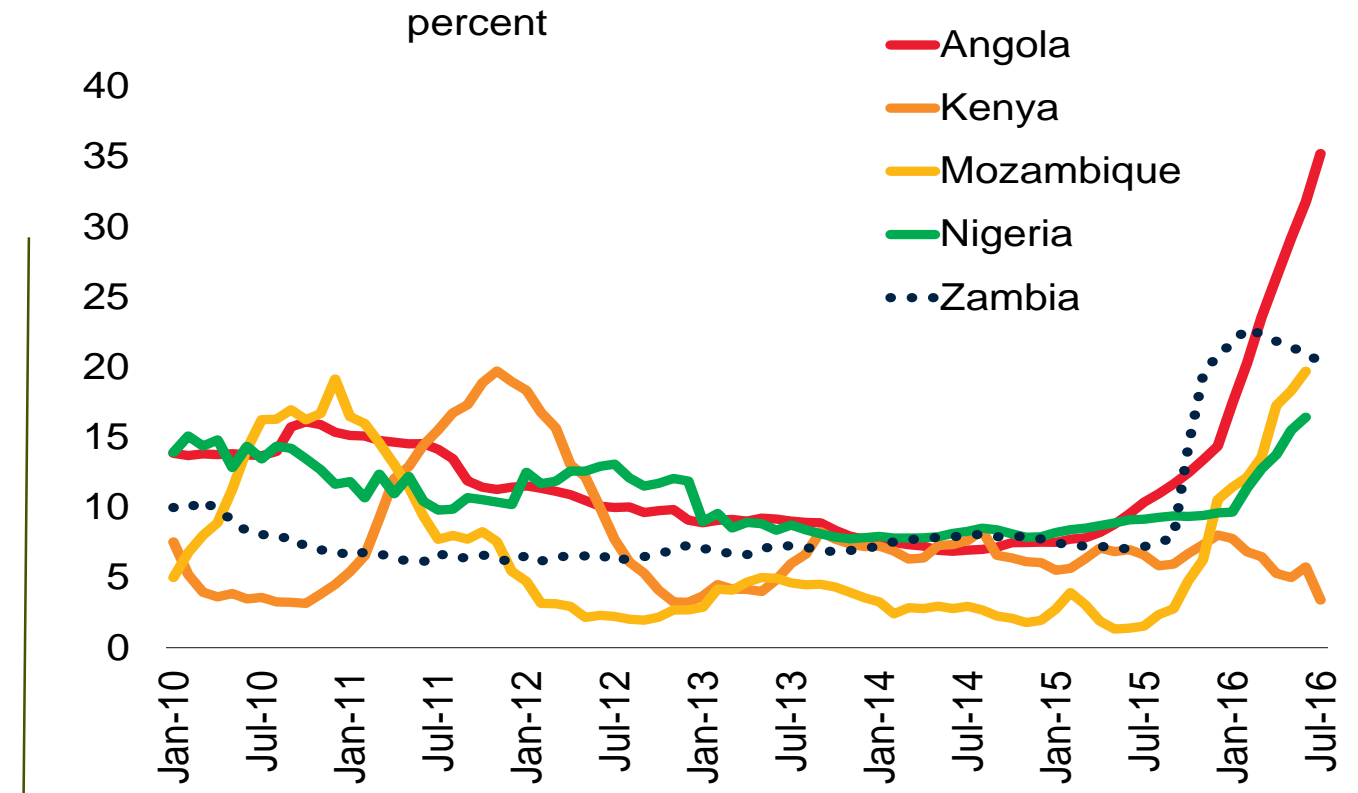


Currency pressures have fueled inflation

LCU/US\$, percent change since January 1, 2014

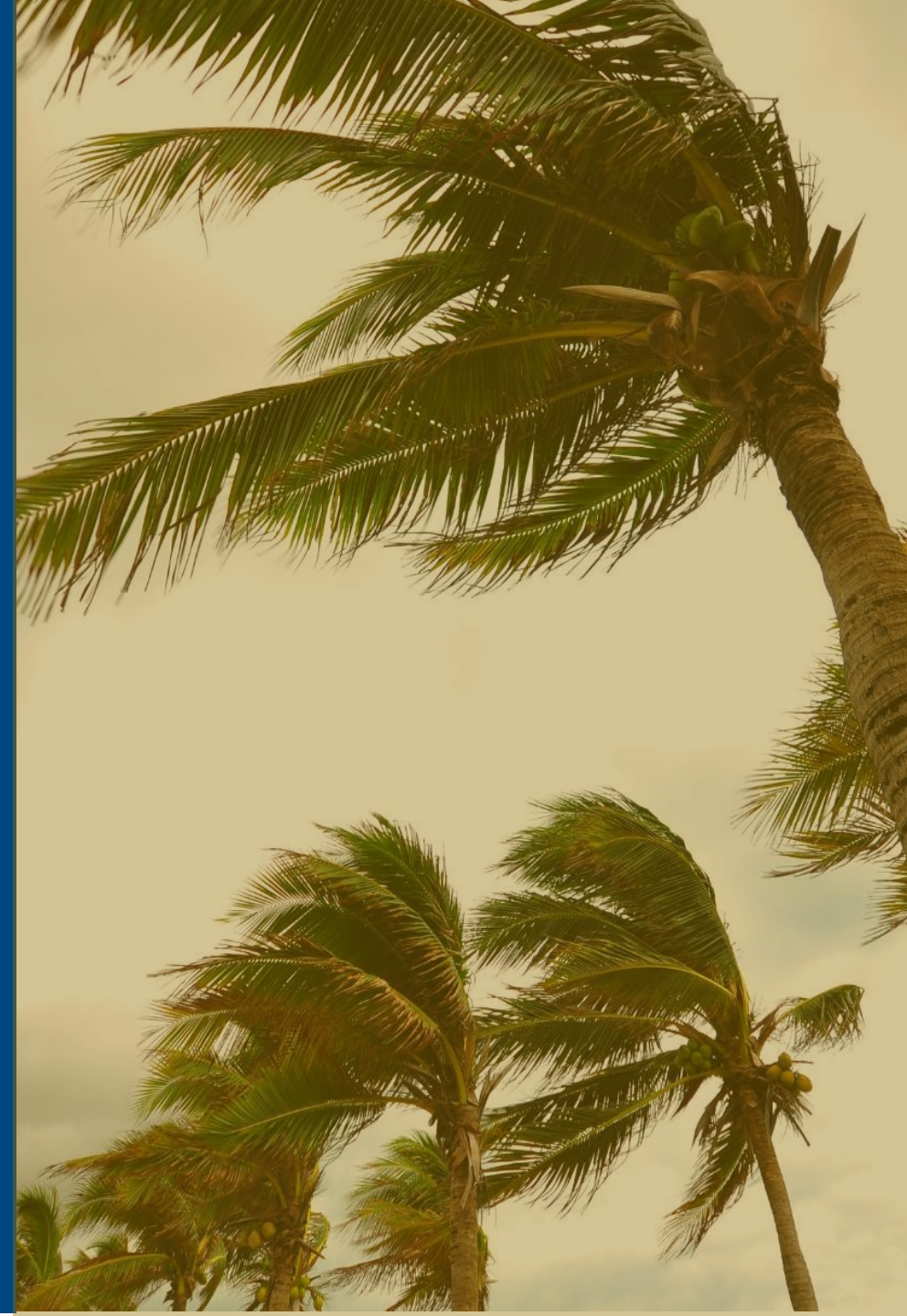


Year-on-year, in percent

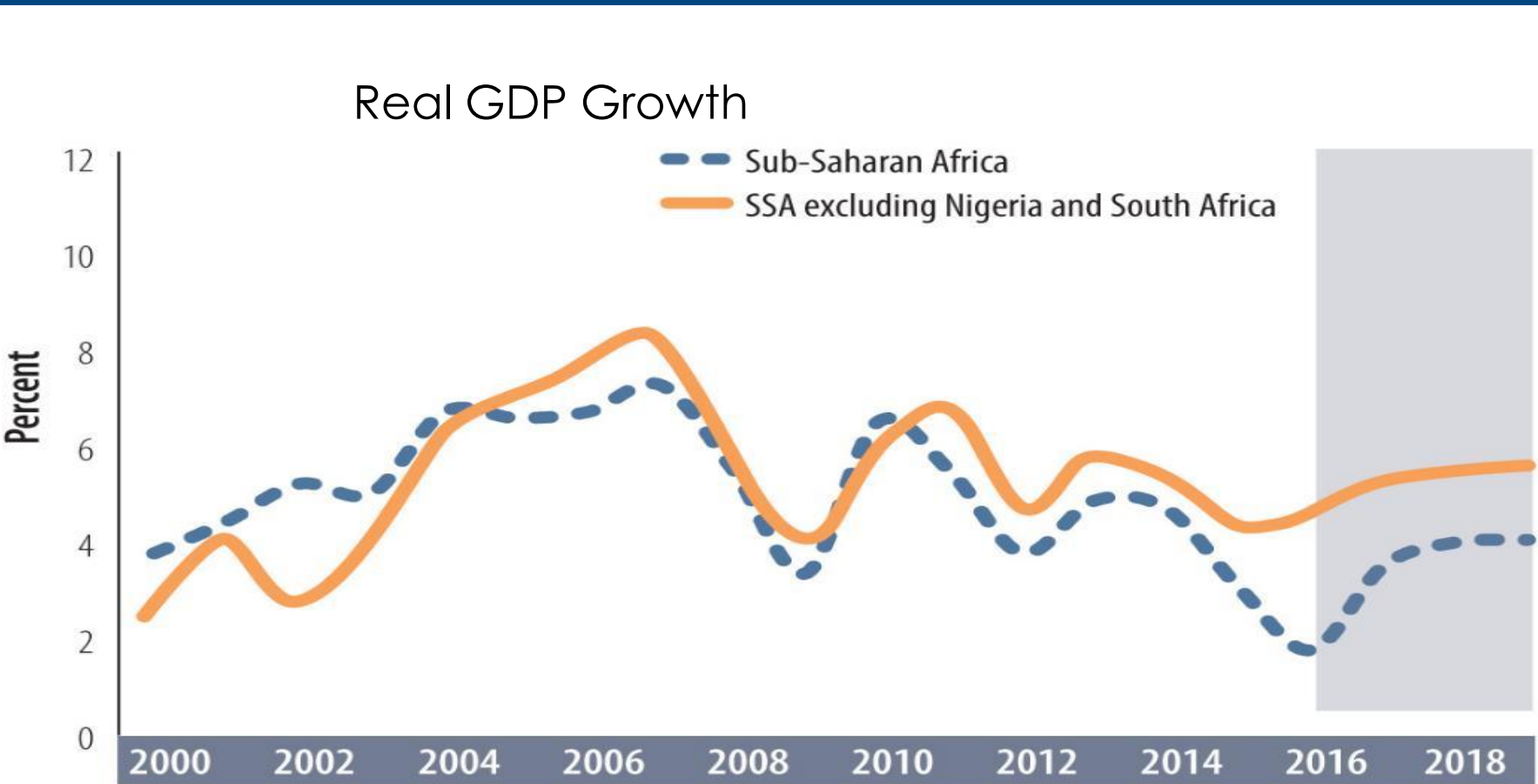


Mounting Domestic Headwinds

- Policy Uncertainty
- Terrorism
- Elections
- Natural Disasters



Leading economic growth to dip to a two-decade low... And negative income per capita growth...



1.6
Real GDP Growth in 2016

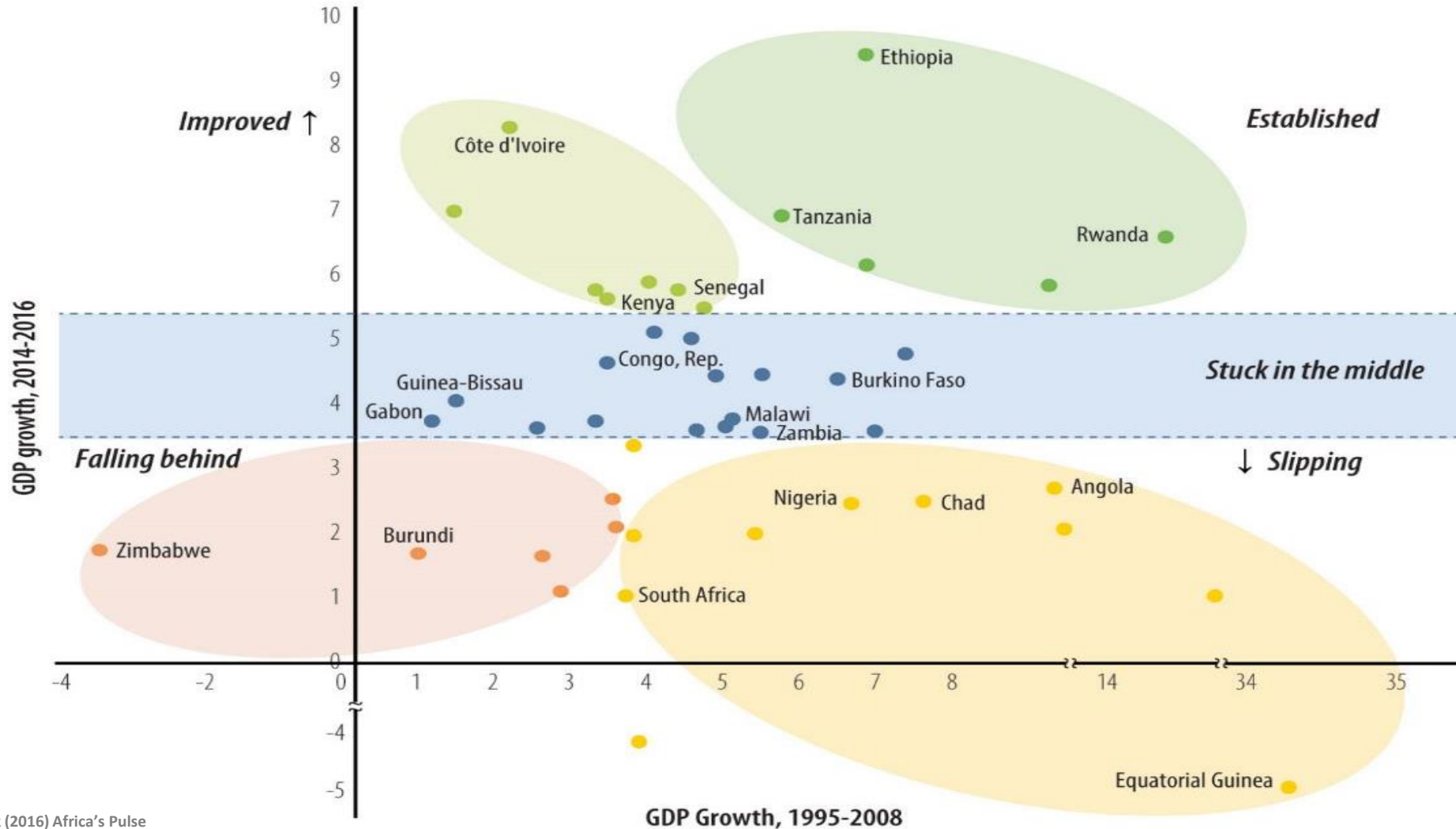
2.7
Population Growth

-1.1
Real Per Capita Growth

8

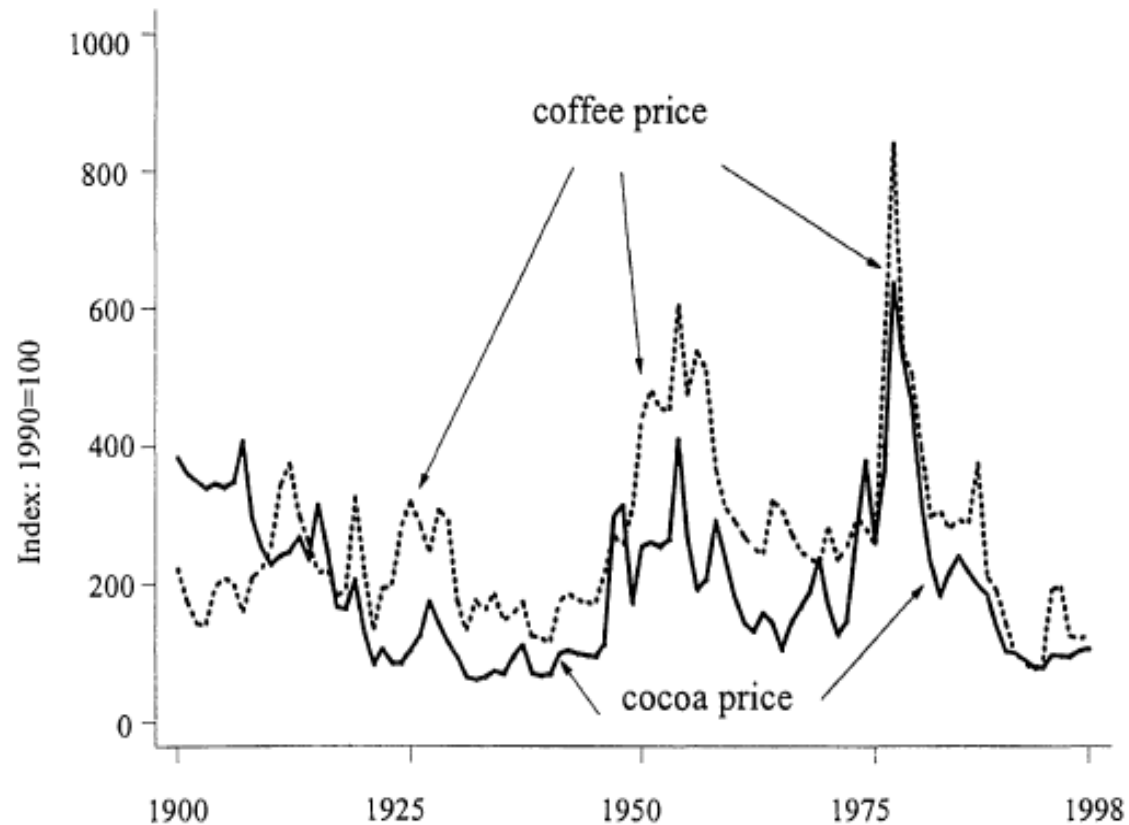
Source: The World Bank (2016) Africa's Pulse

But growth performance is not homogenous across the continent: 41% of Africans live in countries showing resilience amid weak regional growth



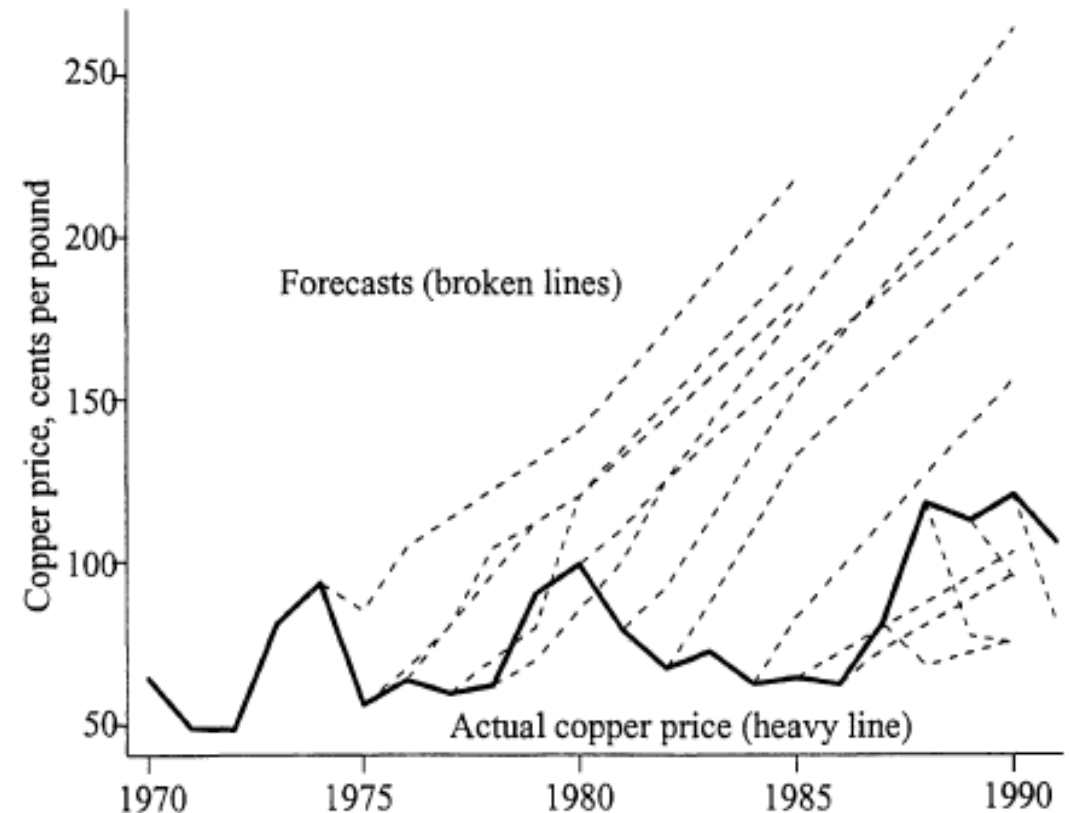
We cannot continue relying on commodities

Real coffee and cocoa prices 1900-1998



Source: World Bank data

Actual and forecast prices for copper



Source: Angus Deaton, 1999

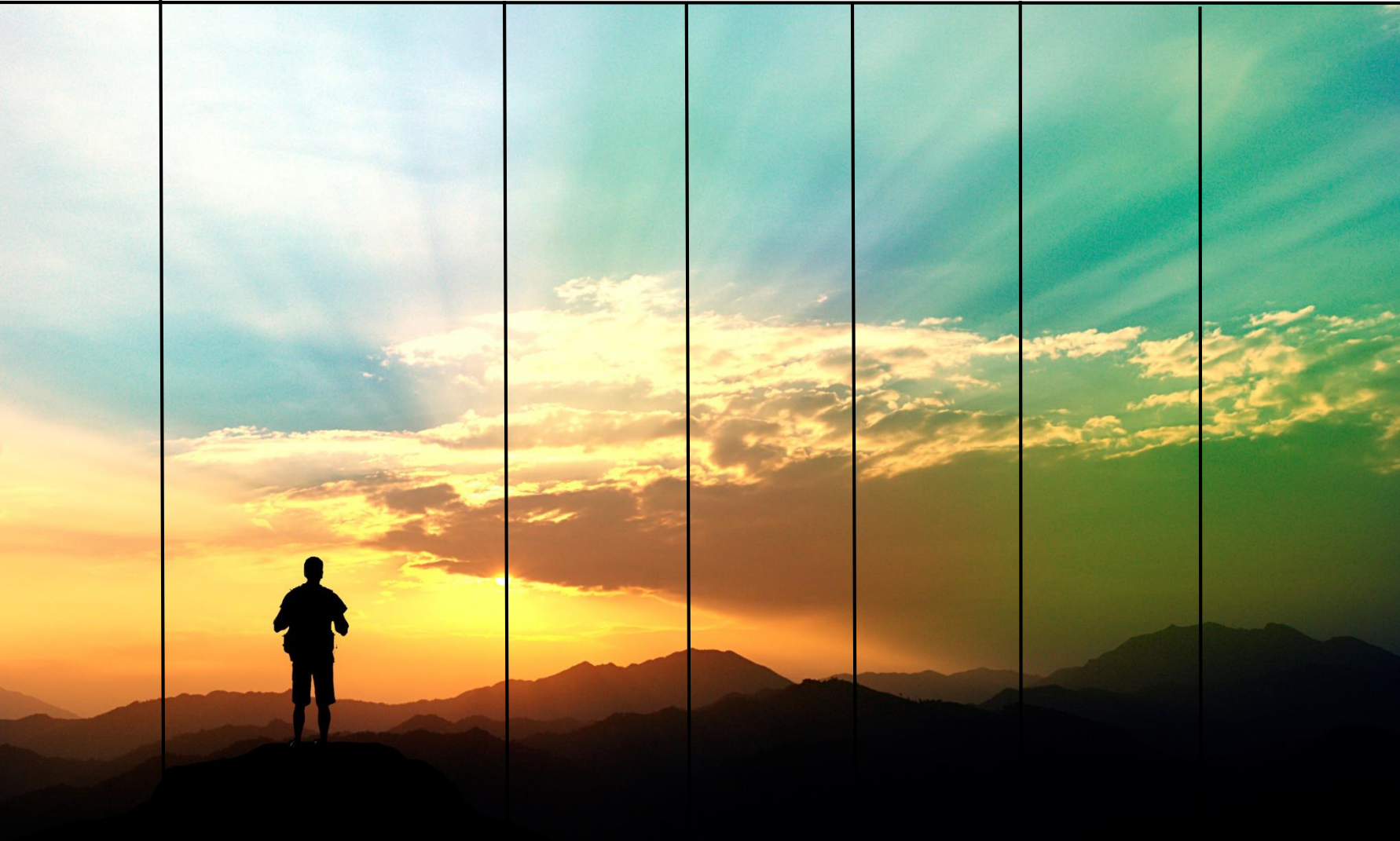
“...These figures illustrate a number of features of commodity prices that have been important both in the history of Africa, as well as for the commodity price literature in economics.

...Putting the matter conservatively, real commodity prices show distinct lack of a positive upward trend; owners of a constant flow of primary commodity would not have seen much growth in their real income since 1900....”

Angus Deaton

Laureate of the 2015 Nobel Memorial Prize in Economic Sciences¹¹

2. Africa can seize bigger and better opportunities



Grabbing opportunities for African exports of higher value products and services in Asia

Deepening regional trade at home

Rising consumption in East Asia: An Opportunity for African exports of goods and services

US\$ 9.5 trillion

Private consumption in 2010 East Asia and Pacific; 34% of the global private consumption; higher than the Euro Area!

\$25 Billion per year

East Asia demand for world's fish and seafood, a quarter of world imports

US\$ 16.3 Billion

Asia-Pacific region's chocolate market by 2018

3.2 Billion People

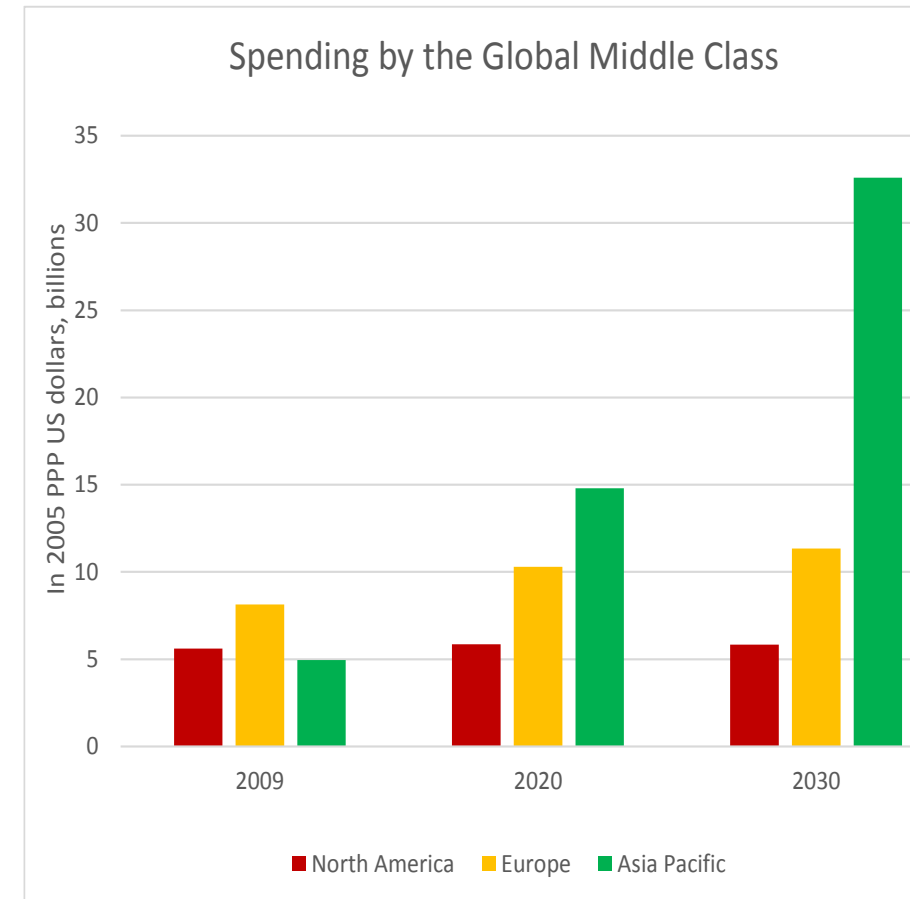
The size of the Asia's Middle-Class Population, 66% of the Global Middle Class by 2030

340 Million

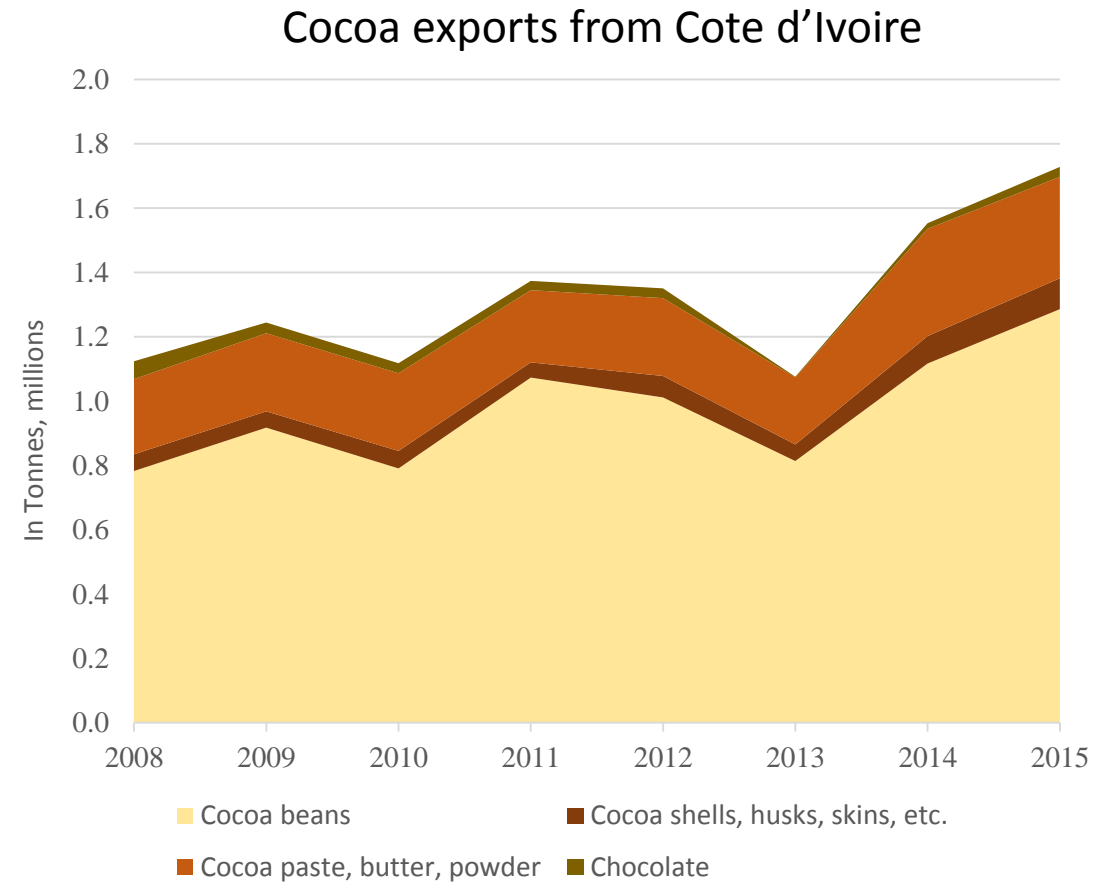
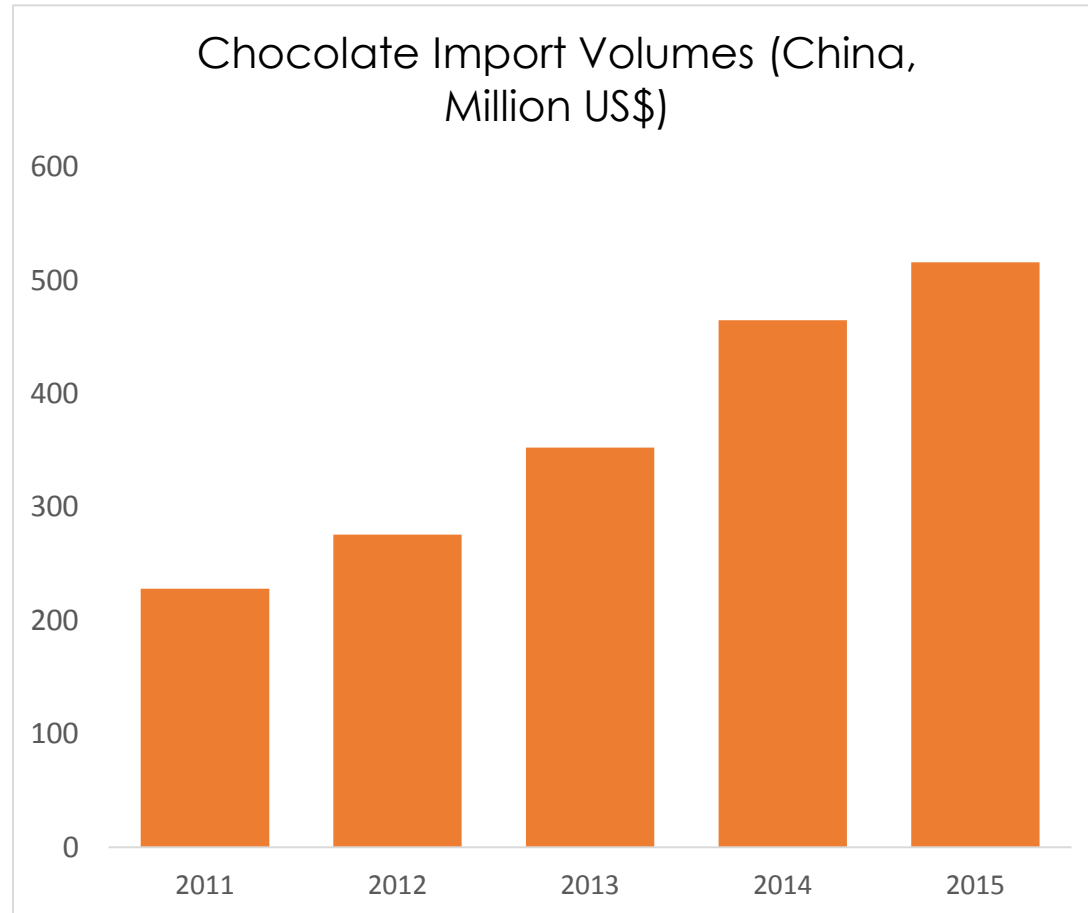
The number of international tourism departures from East-Asia and Pacific & South Asia in 2014, 28% of the world total

50%

East and South-East Asia's share of Global coconut and cashew nut Imports



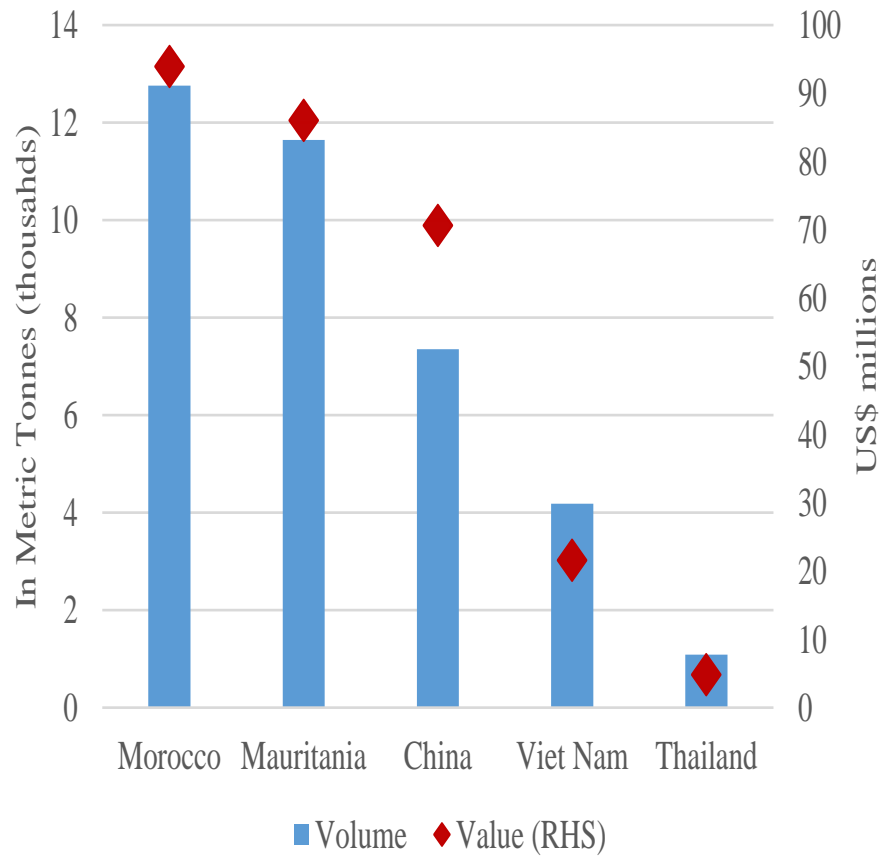
Asia-Pacific region's chocolate market will increase by around 23% by 2018!



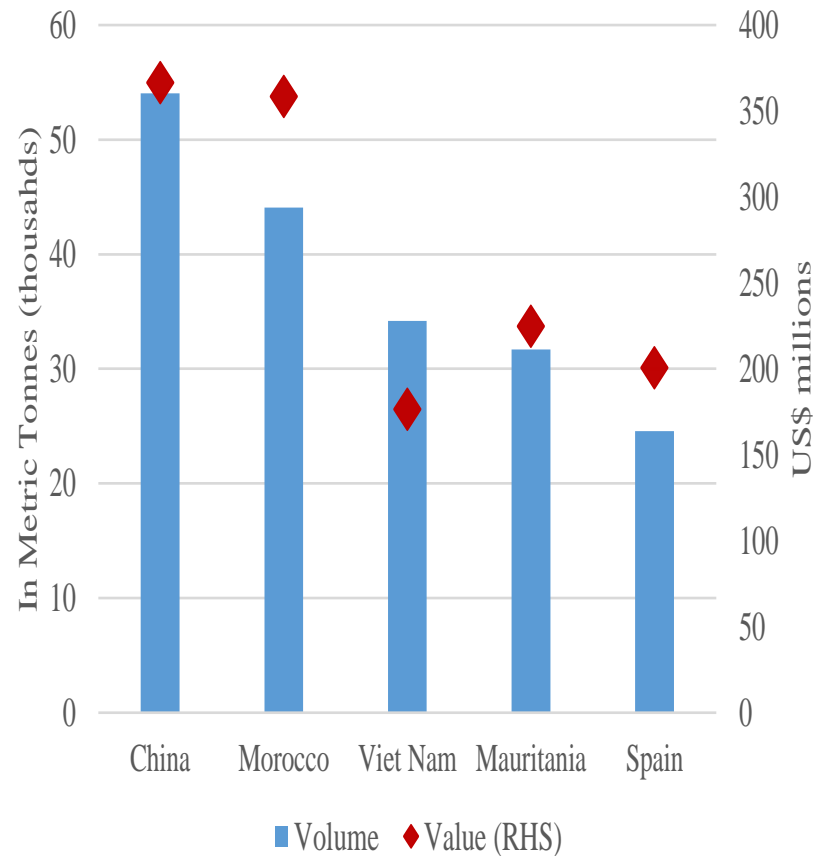
Making it sushi-ready?

Mauritania octopus exports to Japan

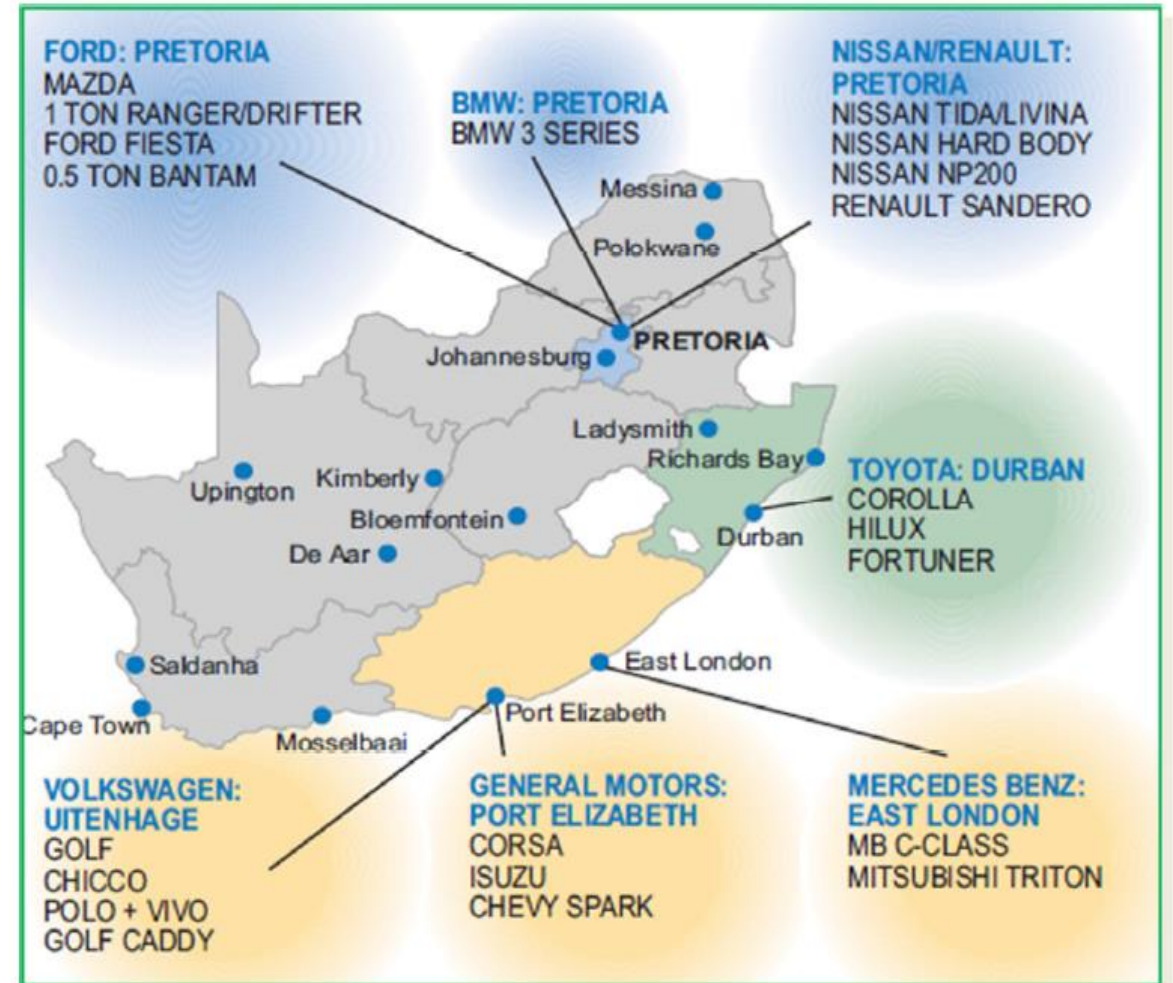
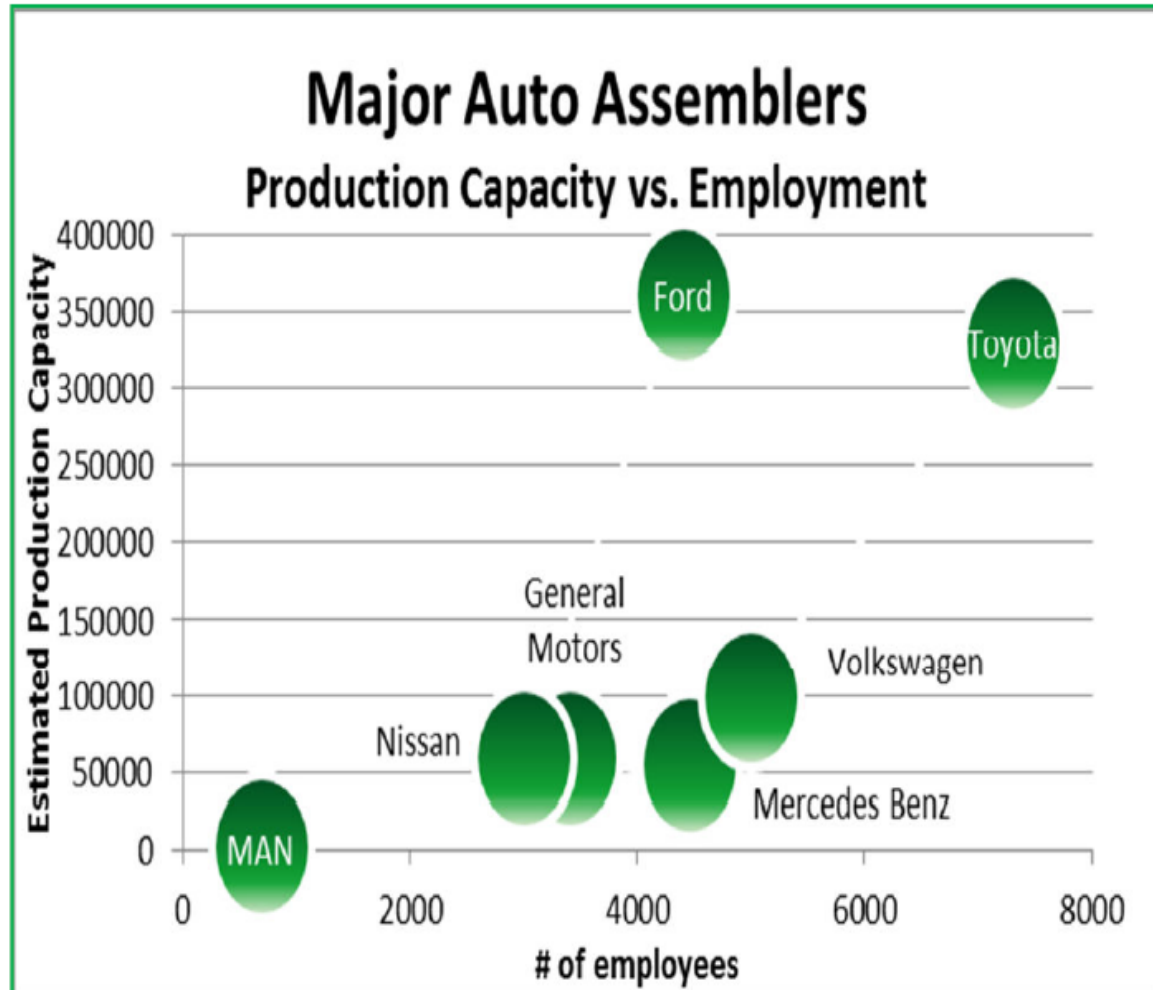
Top octopus exporters to Japan



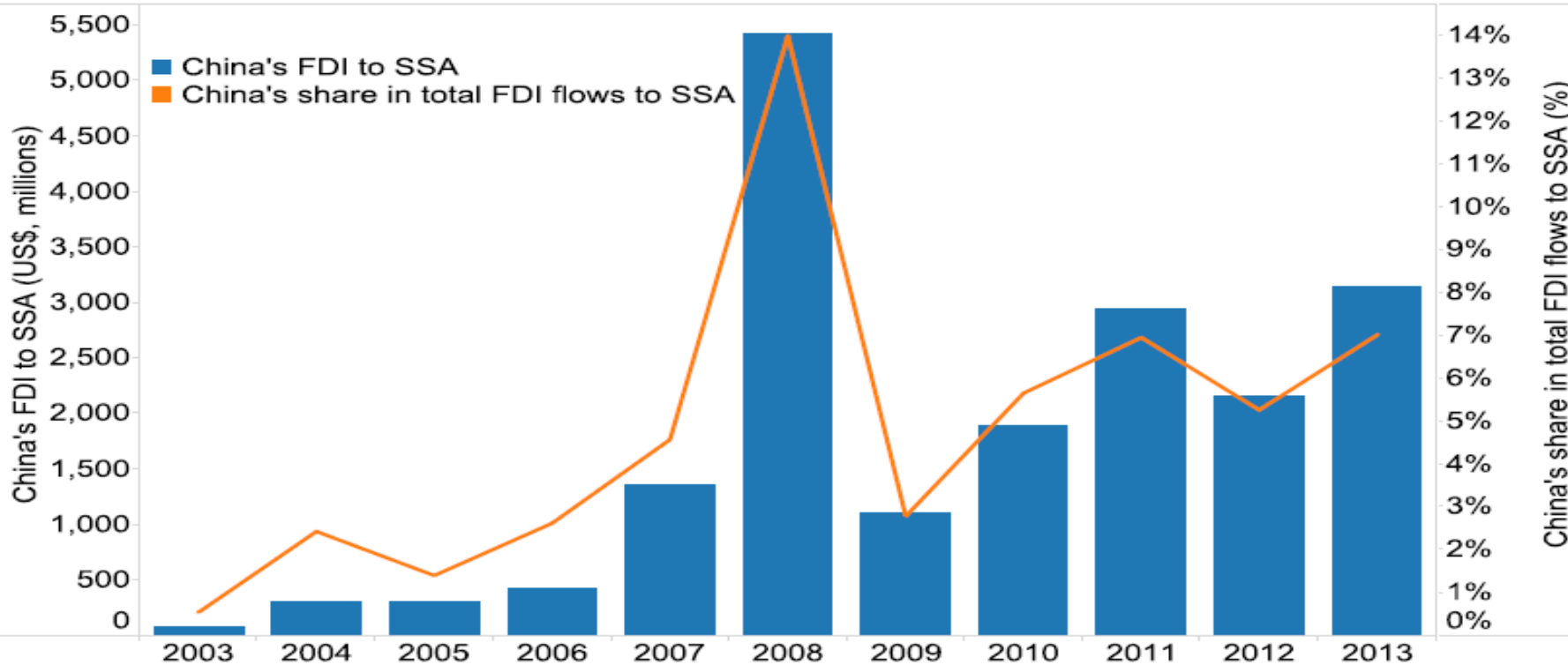
Top octopus exporters in the world



Breaking into automotive global supply chains: Auto assemblers in South Africa



China's FDI to Sub-Saharan Africa is still low



Source: UNCTAD 2014; MOFCOM 2014



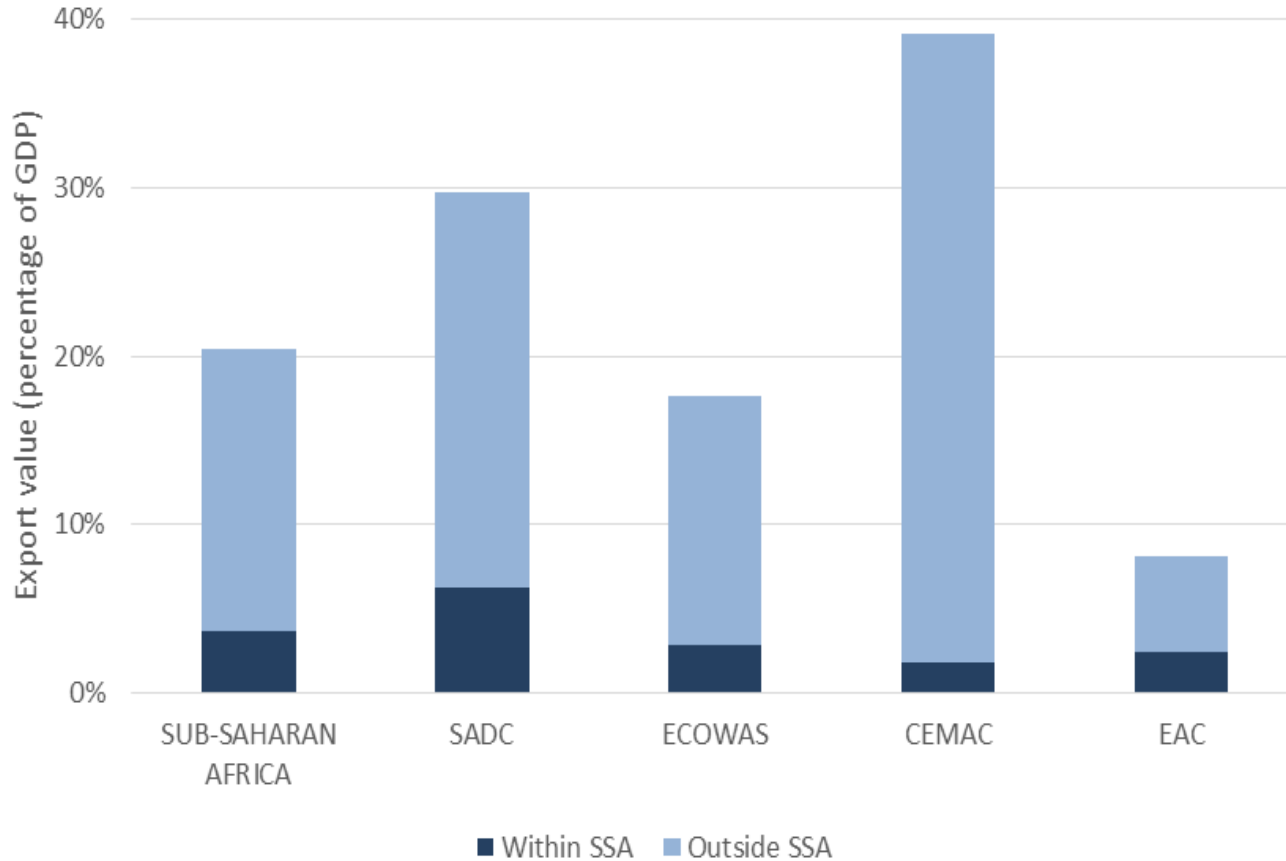
Leveraging African Diaspora



中国和非洲通过合作生产产品

Deepening intra-regional trade

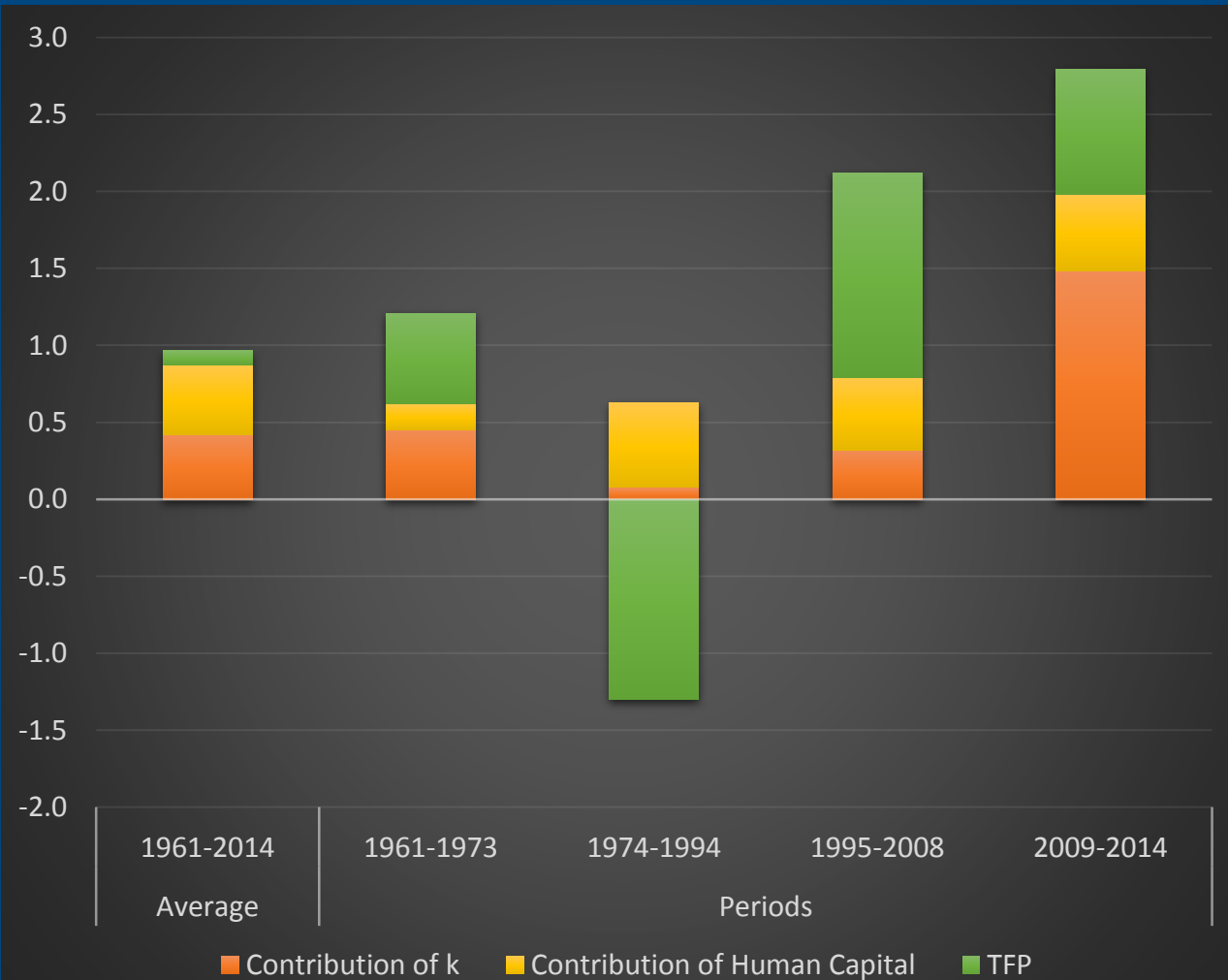
Intra- and extra-regional exports (2013 - 2015)



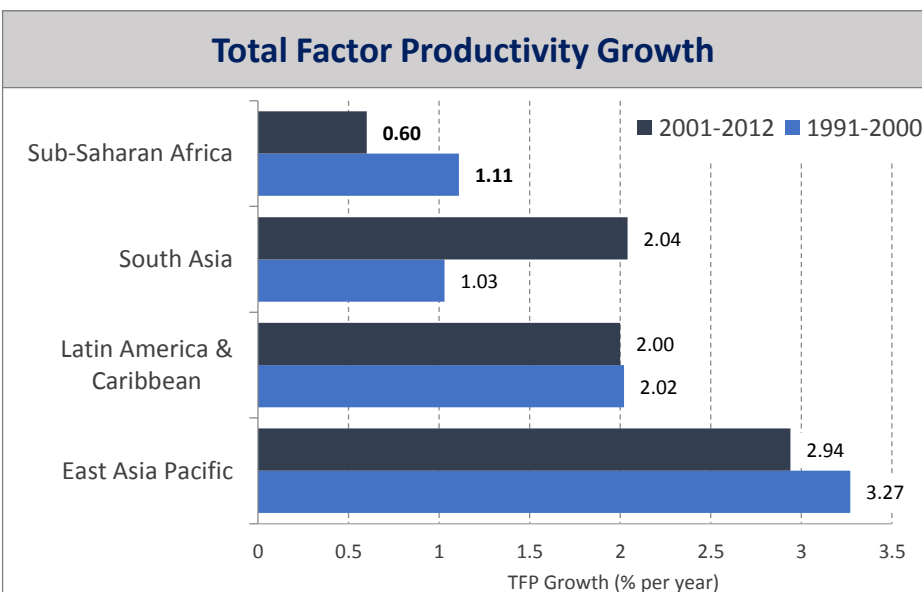
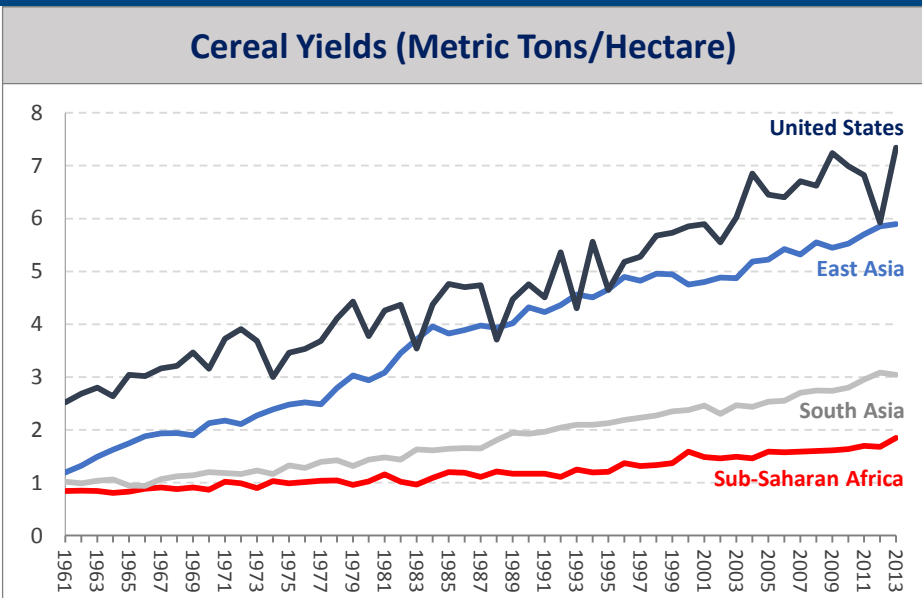
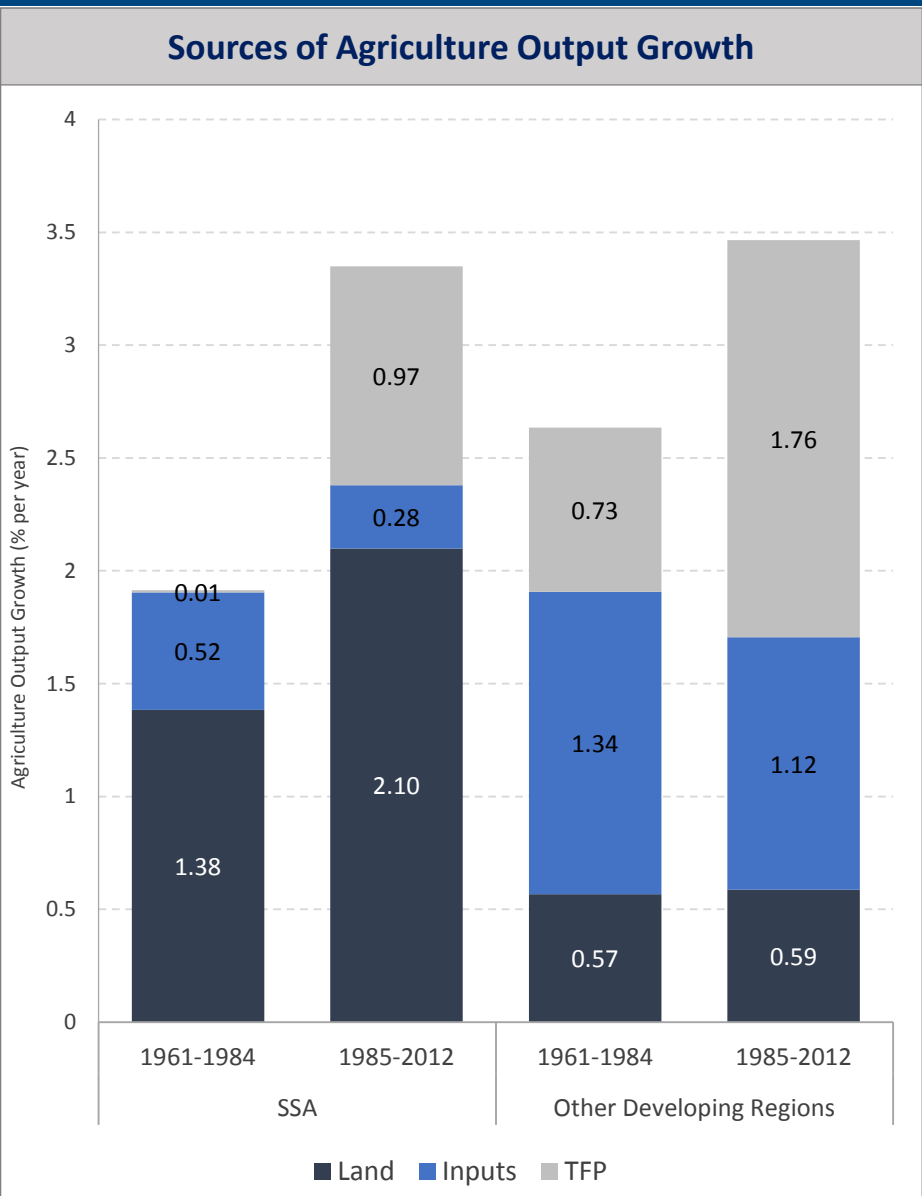
3. The Policy Mix

**Squarely Focus on policies to Boost
productivity and strengthen the
social contract**

Capital accumulation drove most of the growth not TFP



Agricultural growth largely driven by area expansion



Source: Goyal, A. and Nash. J. 2016 AFR Regional Flagship Study Forthcoming

Policies for boosting productivity



1. Close the Infrastructure gap

2. Ensure markets' contestability

- **Competition (entry and exit): dismantle cartels**
- **Factor markets (land and labor)**
- **Investment climate**

3. Reduce the distance to the technological frontier

- **Quality Education/Skills**
- **ICT**
- **Technology Adoption and Adaption**

Policies for reducing within-country inequalities and strengthening the social contract



创造优质就业机会 促进可持续增长

1. Youth Employment

2. Urban-rural divide in public services delivery

3. Gender gap in education and health

Five action-items

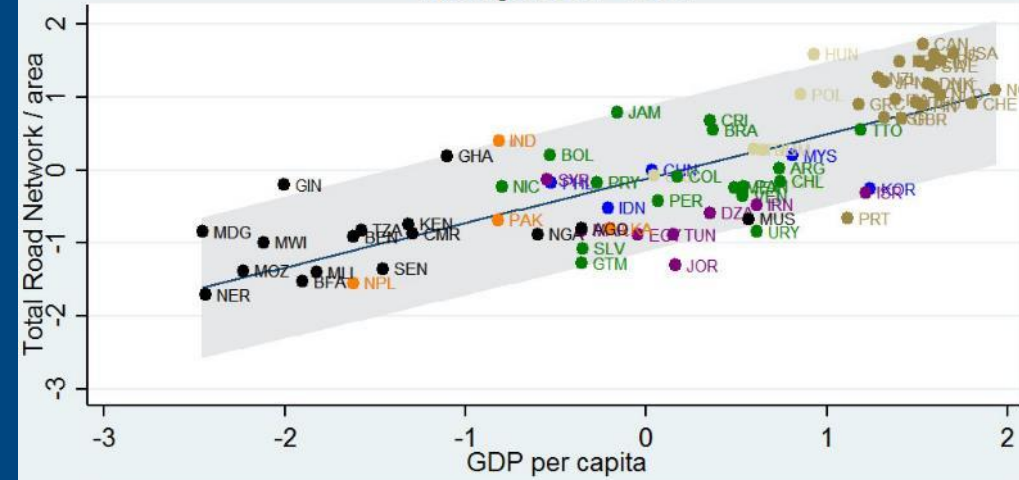
1. **Aggressively and relentlessly attract and nurture private investments in infrastructures, manufacturing and high value services**
2. **Fix Utilities once for all. They do make money elsewhere in the world when they are well managed**
3. **Step-up reforms of the regulatory framework to ensure markets' contestability**
4. **Invest in skills and technology to reduce the distance to the technological frontier**
5. **Mobilize more revenues domestically, especially from land and real estate, to deliver "spatially and gender-blind" quality public services**

Close the gap in physical infrastructure



Quantity Infrastructure: Total Road Network

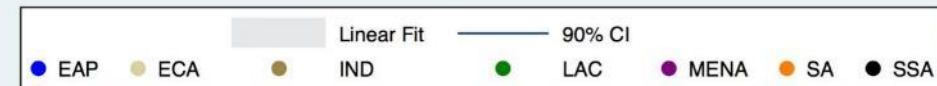
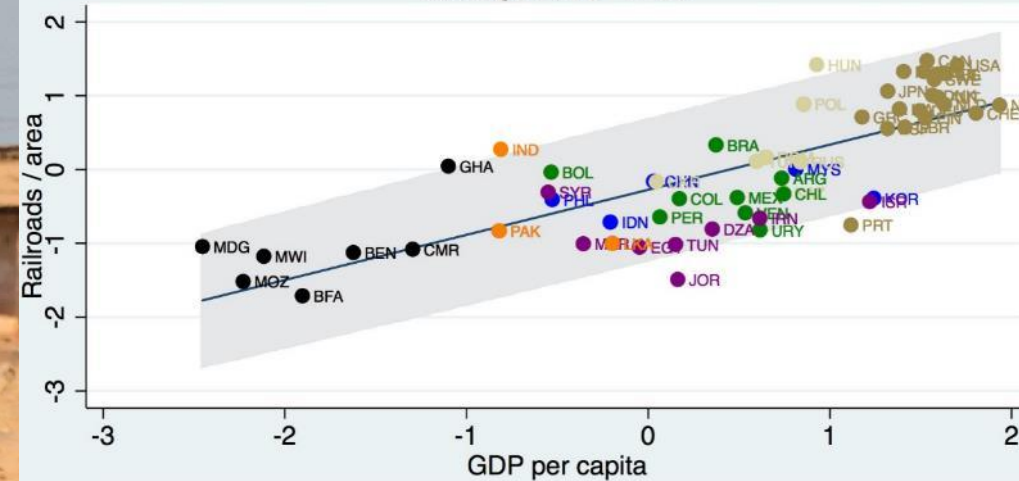
Average 2008 - 2012



R-sq: 0.6025; Observations 77; Using PWT 9.0
Geographical and demographical residuals

Quantity Infrastructure: Railroad Network

Average 2008 - 2012

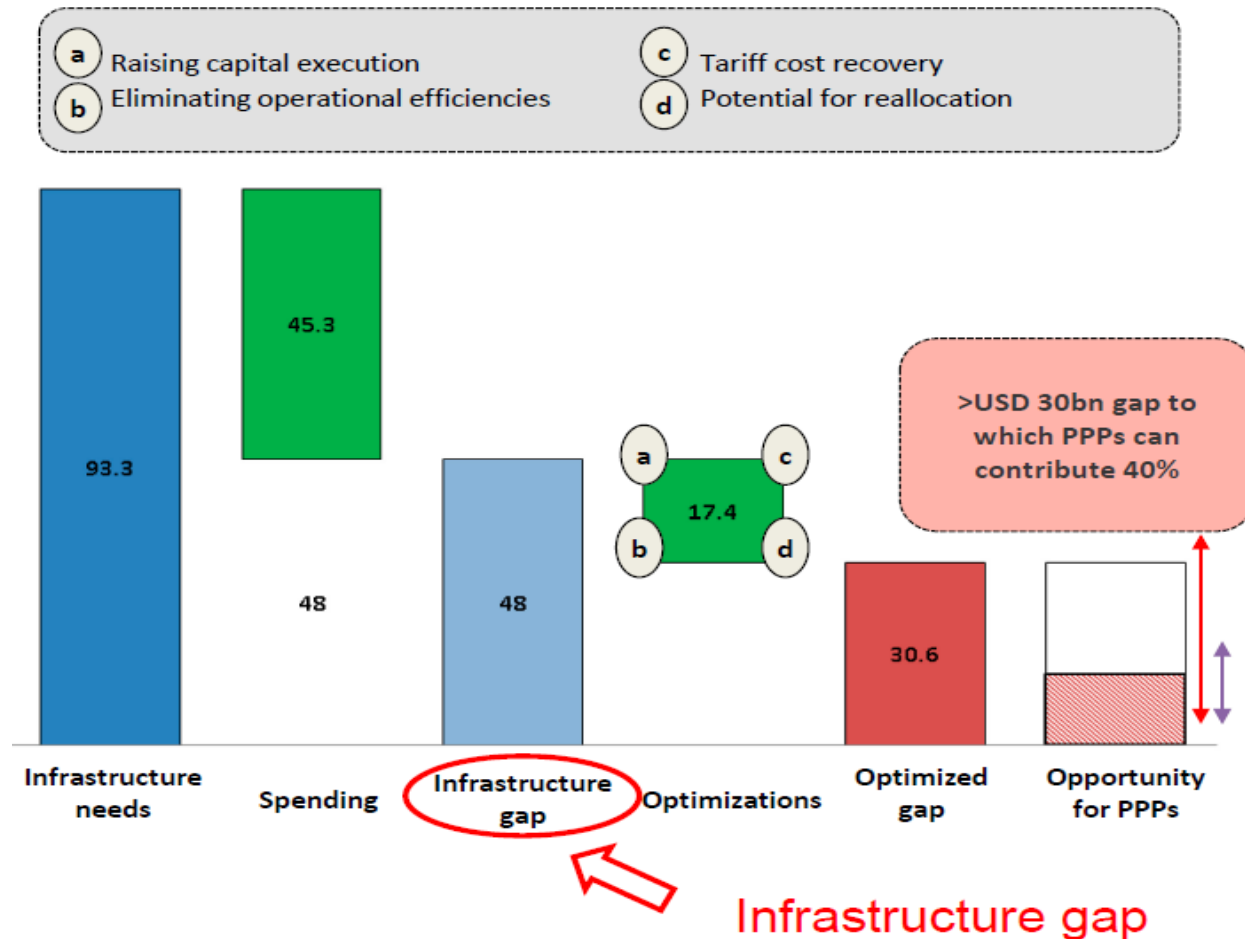


R-sq: 0.5856; Observations 59; Using PWT 9.0
Geographical and demographical residuals

Large gaps in energy at all levels of the sector

	Current status	Needs
Electricity access Rate	32%	Universal access by 2030
Generation Capacity (Per year)	1 – 2 GW per year	6 – 7 GW per year
Infrastructure Investment (Per year)	USD 9 – 10 Billions	40 – 50 Billion

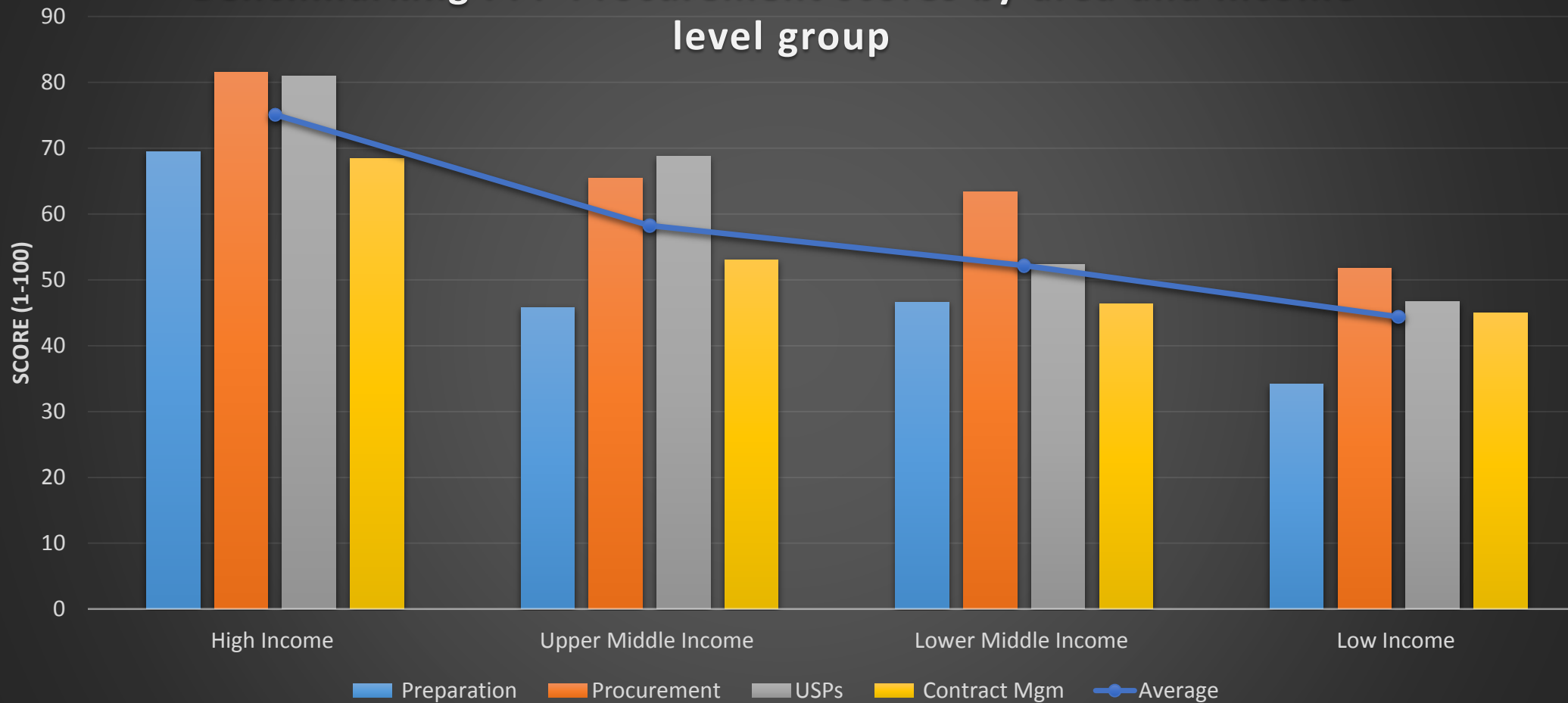
Unlocking the potential of global capital markets and private sector to finance infrastructure development



- Africa's annual infrastructure needs estimated at **US\$ 93 billion (15% of region's GDP)**.
- **Infrastructure financing gap of US\$ 48 billion per year:**
 - **About US\$ 17.4 billion could be financed through operational optimization**
 - **PPPs potentially can contribute annually with US\$ 12 billion (40% of optimized gap)**

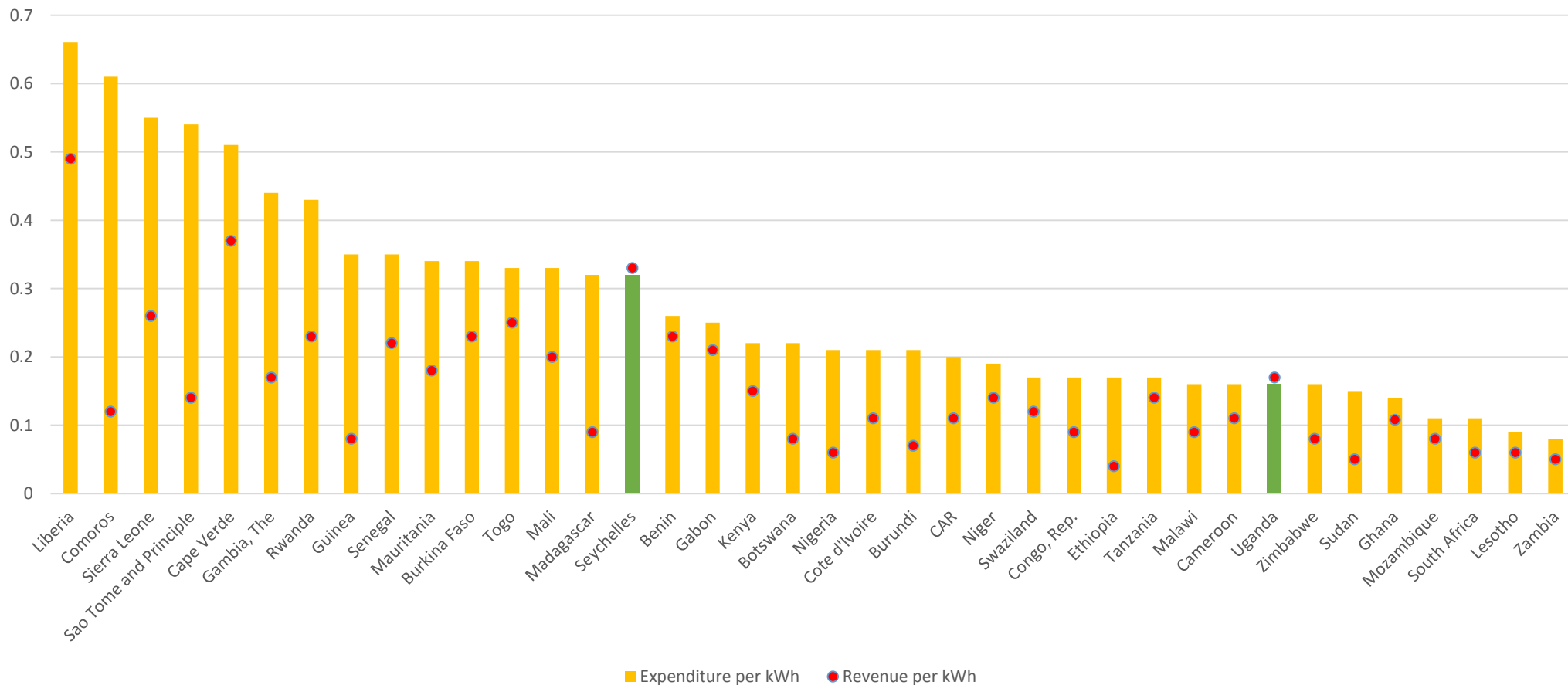
Improving procurement frameworks: Capacity, competition and transparency are key!

Benchmarking PPP Procurement scores by area and income-level group



Fix utilities: Nearly all electricity utilities running at loss on the continent

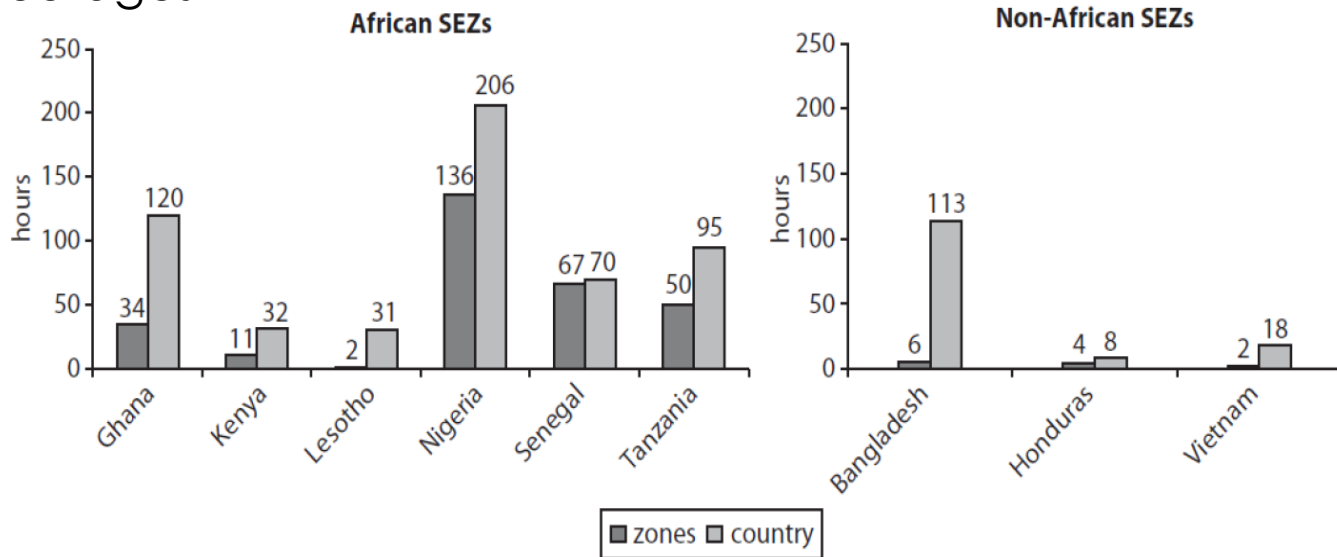
Comparison of Costs and revenue Collected per kWh billed (in 2014 U.S. Dollars)



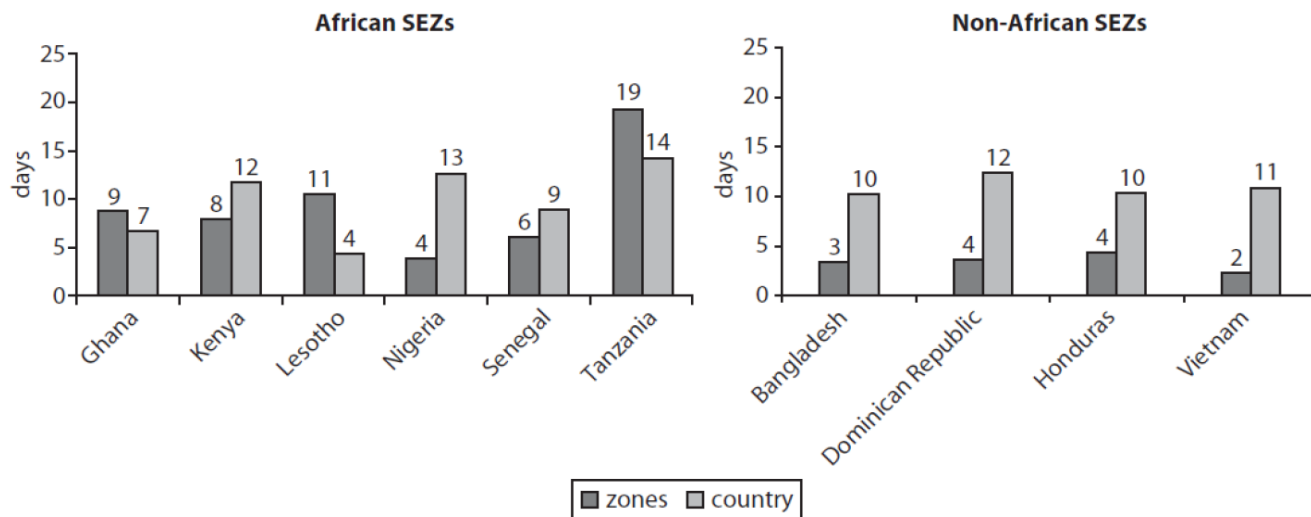
- Only Seychelles and Uganda cover their total current cost
- Lesotho and Zambia operate at less than 10 cents per kwh

Source: Adapted from Trimble et al. (2016)

Average monthly downtime due to power outages



Average time needed for imports through major seaport for customs clearance



Source: Zheng, Douglas (2015) Global experiences with Special Economic Zones: Focus on China and Africa.

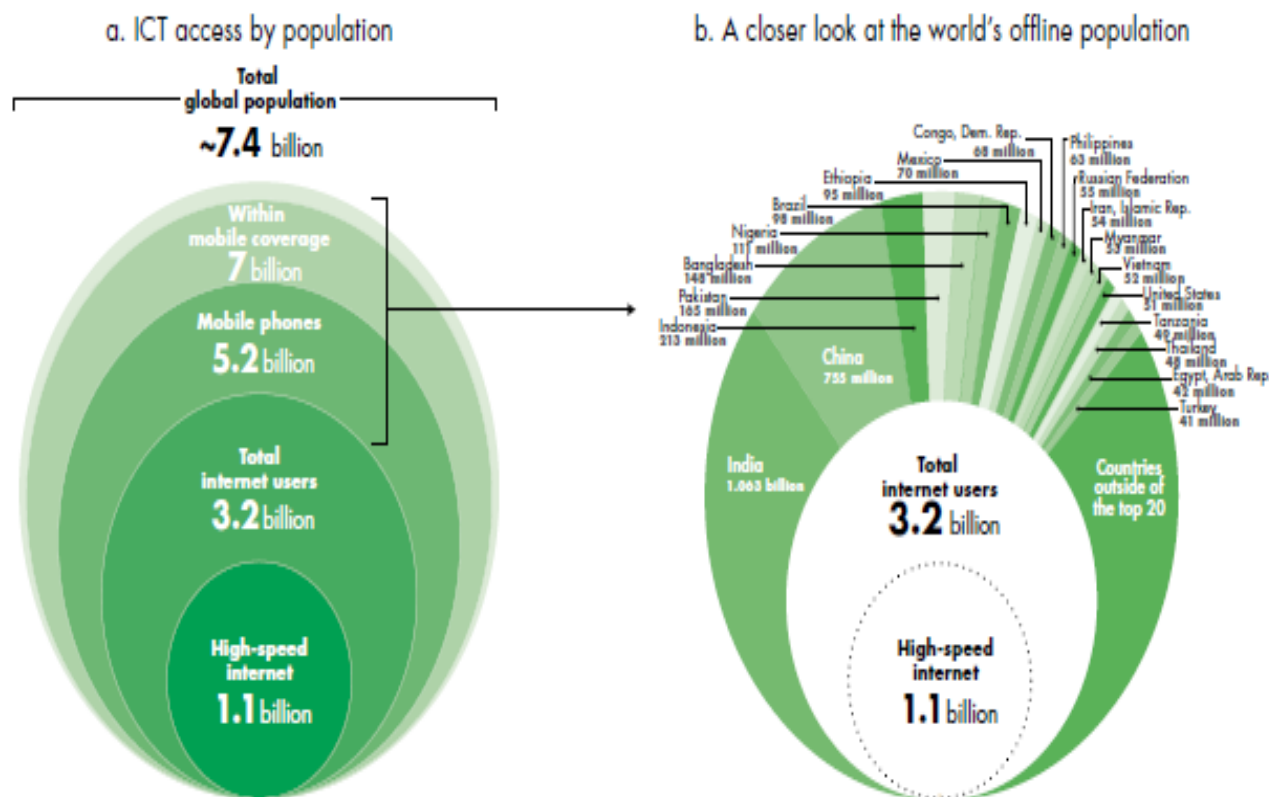
Reduce logistic costs



Invest in ICT to anticipate the changing jobs landscape

DIGITAL DIVIDENDS

Figure O.5 The internet remains unavailable, inaccessible, and unaffordable to a majority of the world's population

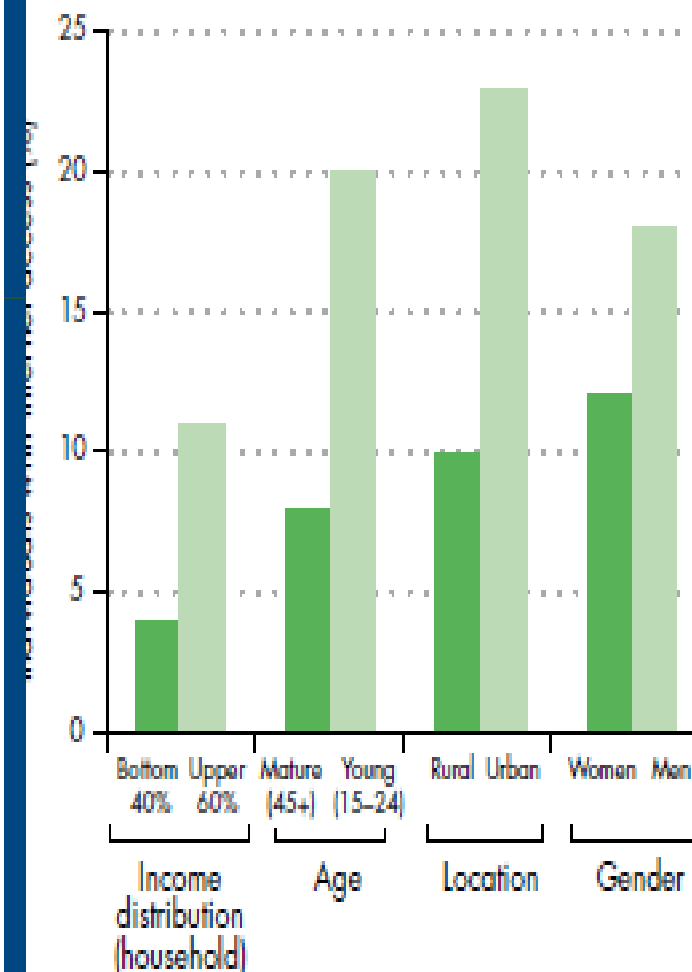


Sources: World Bank 2015; Meeker 2015; ITU 2015; GSMA, <https://gsmaintelligence.com/>; UN Population Division 2014. Data at http://bit.do/WDR2016-FigO_5.

Note: High-speed internet (broadband) includes the total number of fixed-line broadband subscriptions (such as DSL, cable modems, fiber optics), and the total number of 4G/LTE mobile subscriptions, minus a correcting factor to allow for those who have both types of access. 4G - fourth generation; DSL - digital subscriber line; ICT - information and communication technology; LTE - Long Term Evolution.

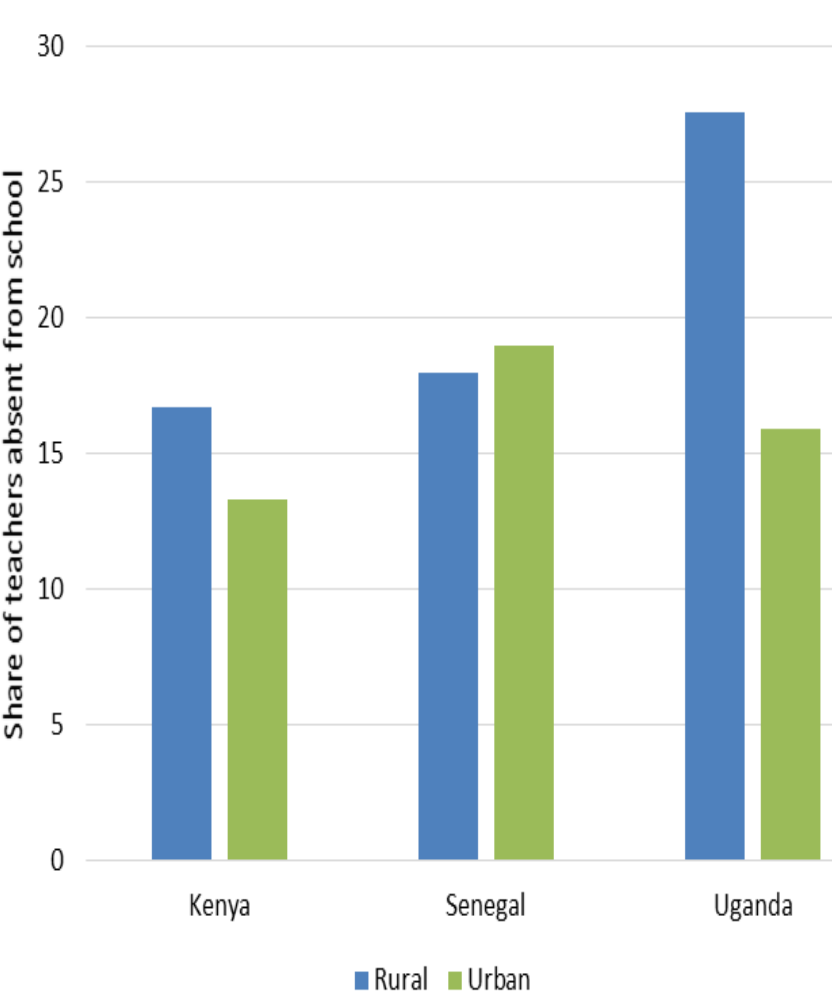
a. Africa

Within-country digital divide can be significant

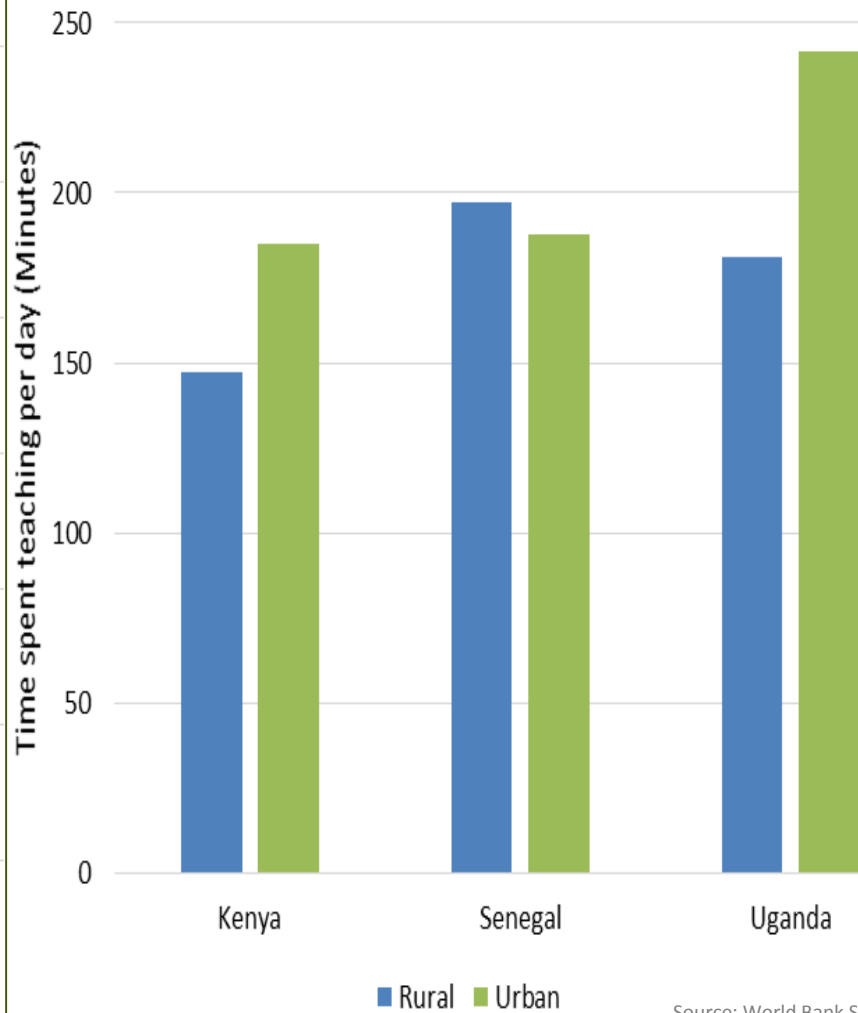


Urban-rural gap in quality of education

Absence of teachers at school



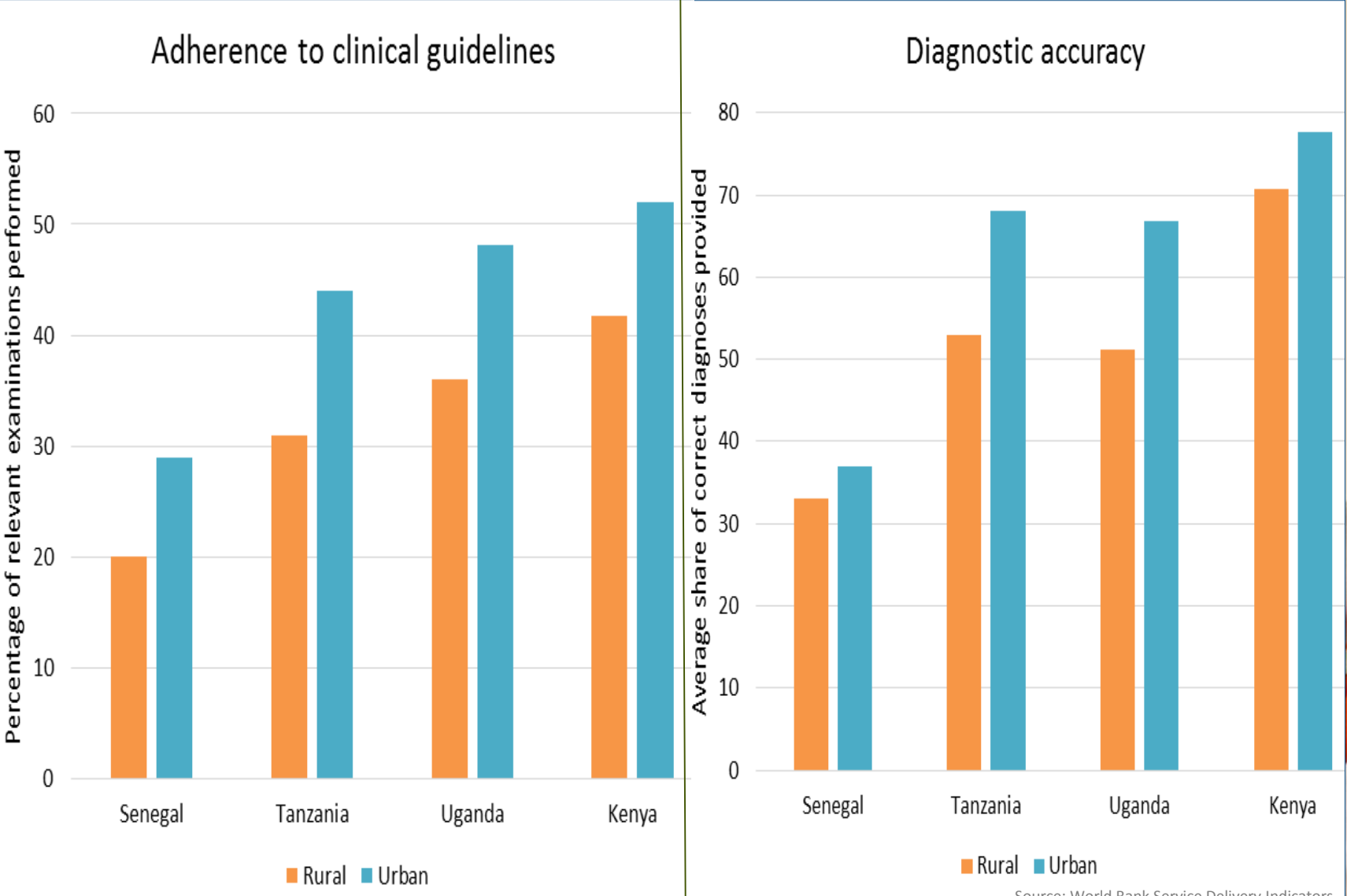
Time spent teaching



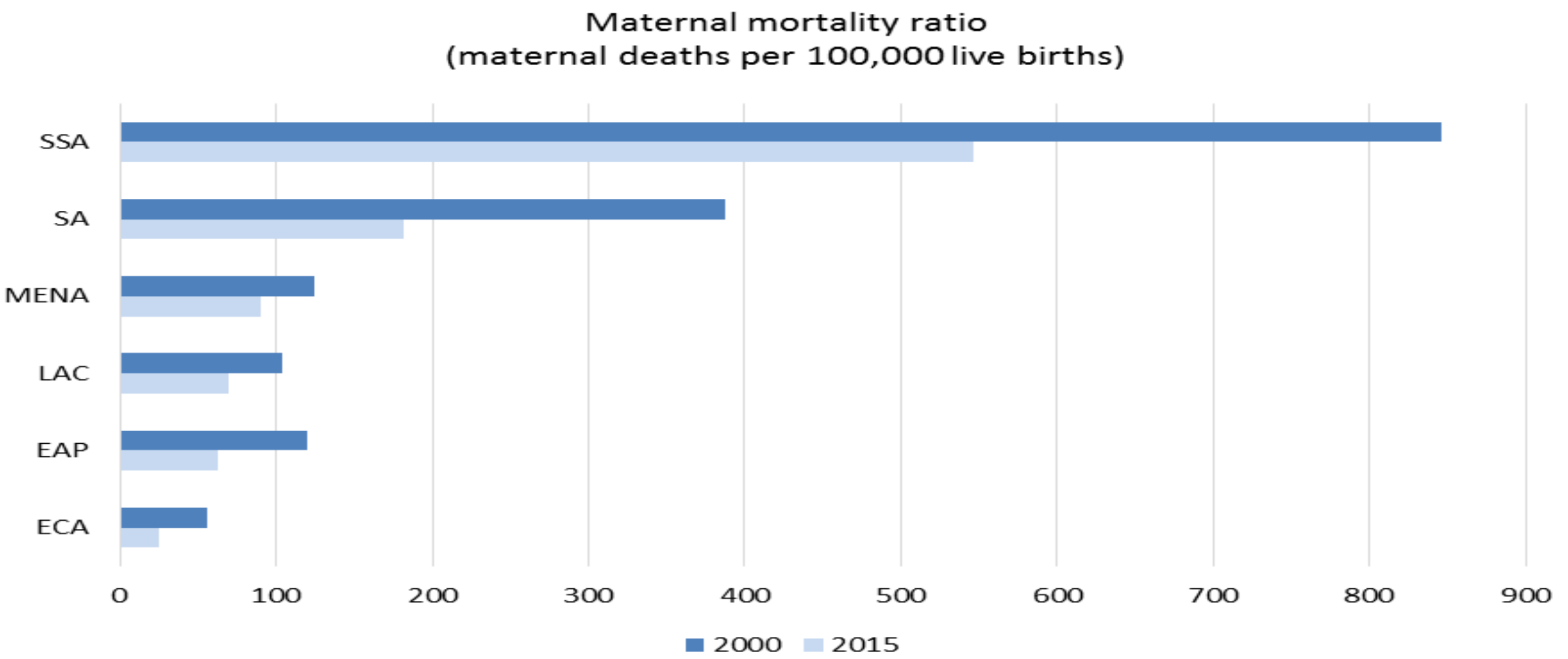
Gender gap in education



Urban-rural gap in health



Maternal mortality still too high in Sub-Saharan Africa



Accelerate progress toward universal health care in Africa

Financing

- More and better spending and effective financial protection

Services

- People-centered, quality and multi-sectoral action

Equity

- Targeting the poor and marginalized and leaving no one behind

Preparedness

- Strengthening health security

Governance

- Political and institutional foundations for the UHC agenda



Thank you!



Re-engineering growth
in an uncertain world

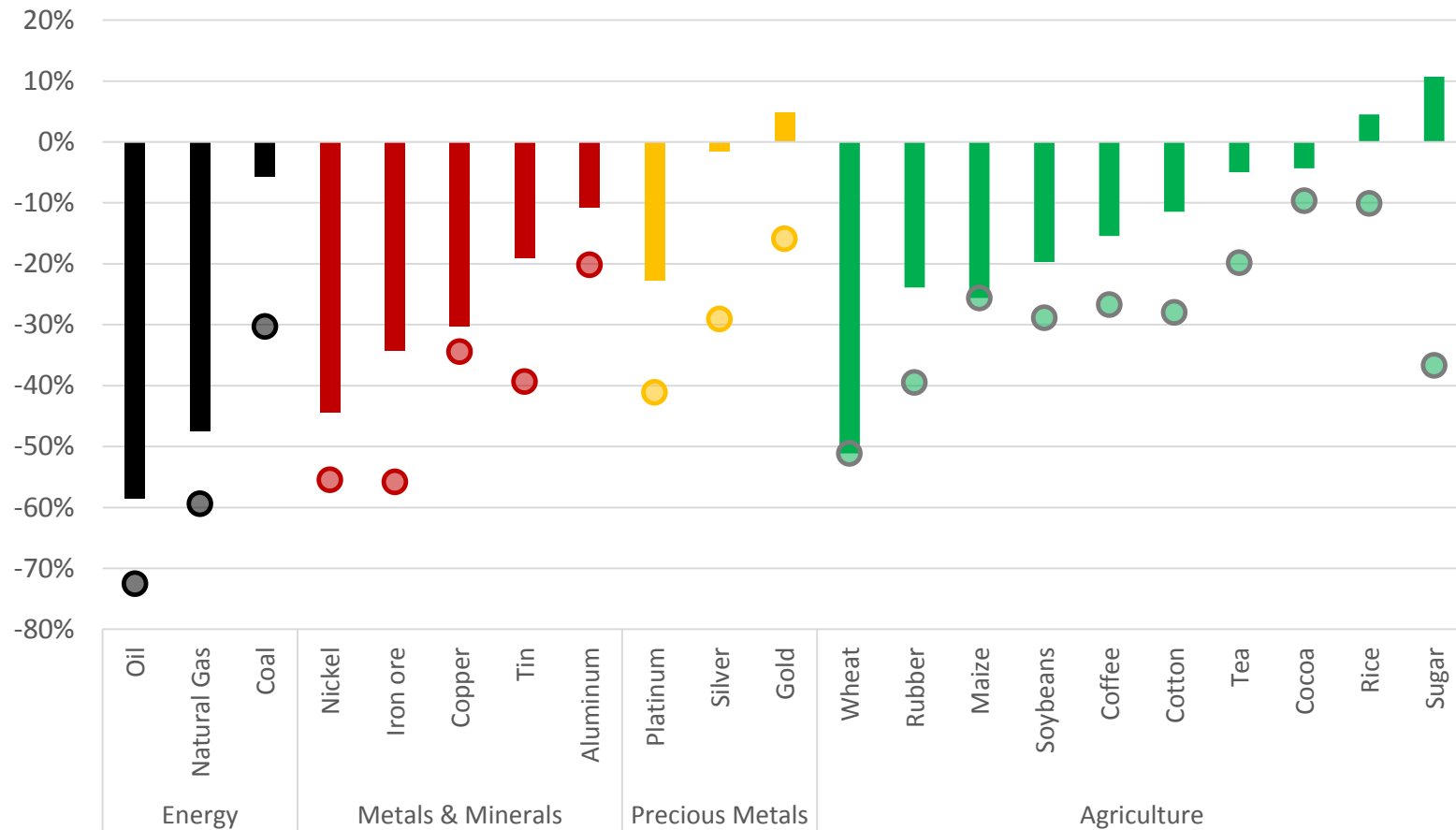
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Additional Background Material

1. Faltering growth, yet signs of resilience

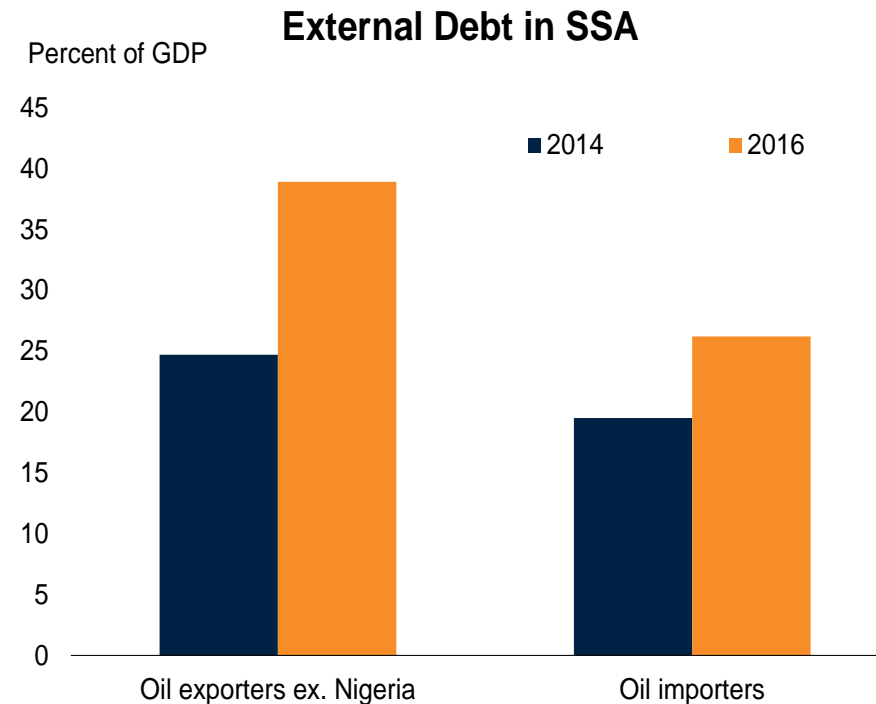
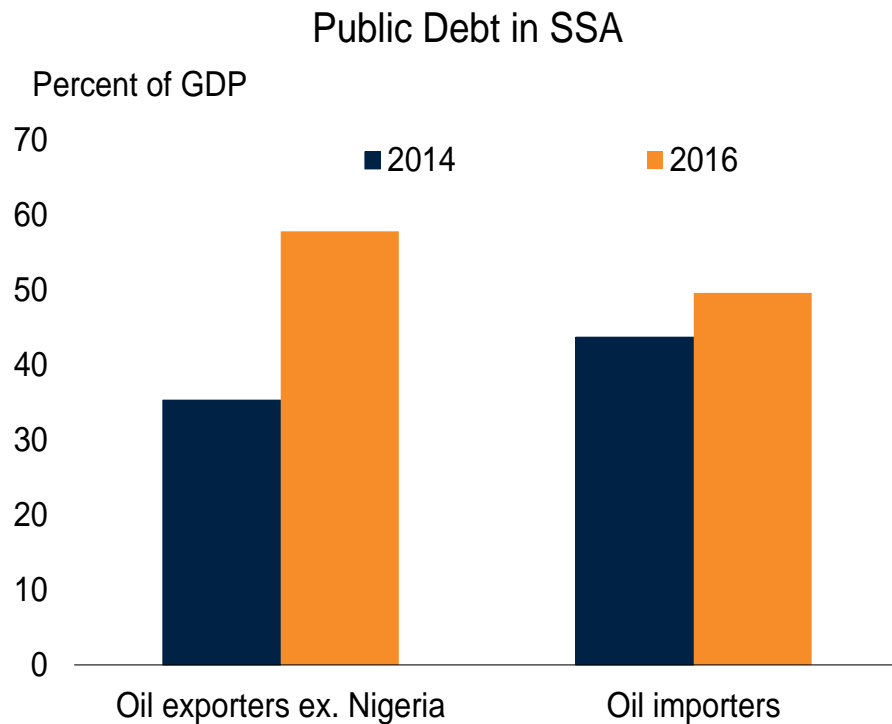


International prices of most energy commodities and extractives dropped sharply since June 2014 and may remain at lower levels...



- Oil and Natural Gas way below their June 2014 peaks.
- Most metals and minerals still below their 2011 levels.
- Agricultural prices experienced smaller declines. Sugar and rice already recovered.

Rising public and external debt among oil exporters



- Public debt stocks are sharply higher in SSA oil exporters (excl. Nigeria)
- Fewer countries tapping Eurobond markets this year.

2. Africa can seize bigger and better opportunities

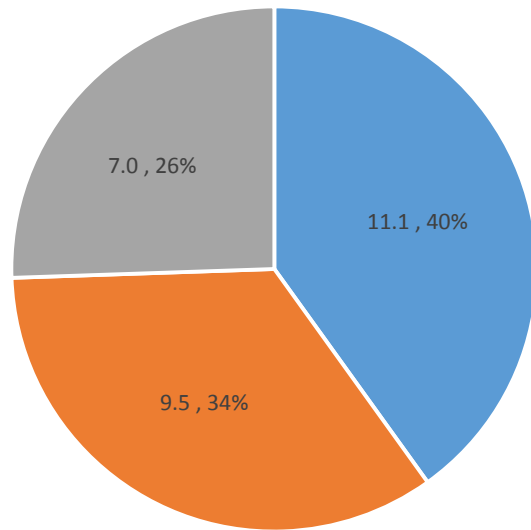


Grabbing opportunities for African Exports of higher value products and services in Asia

Deepening Regional trade at home

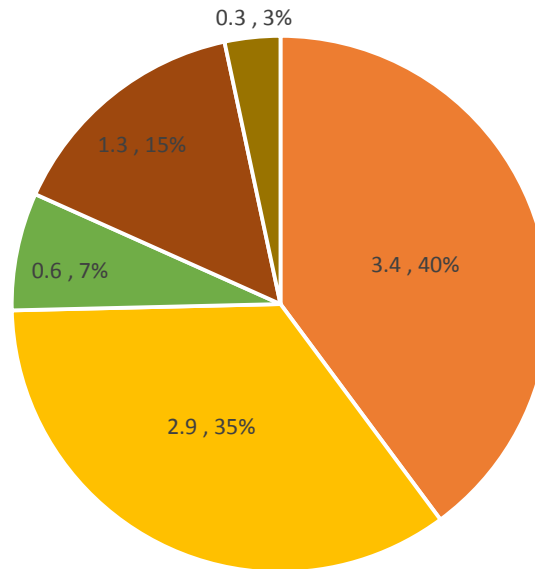
East Asian market is bigger than that of the Euro Area

Total Private Consumption in 2014 (Constant 2010 US\$), in trillion



■ United States ■ East Asia & Pacific ■ Euro area

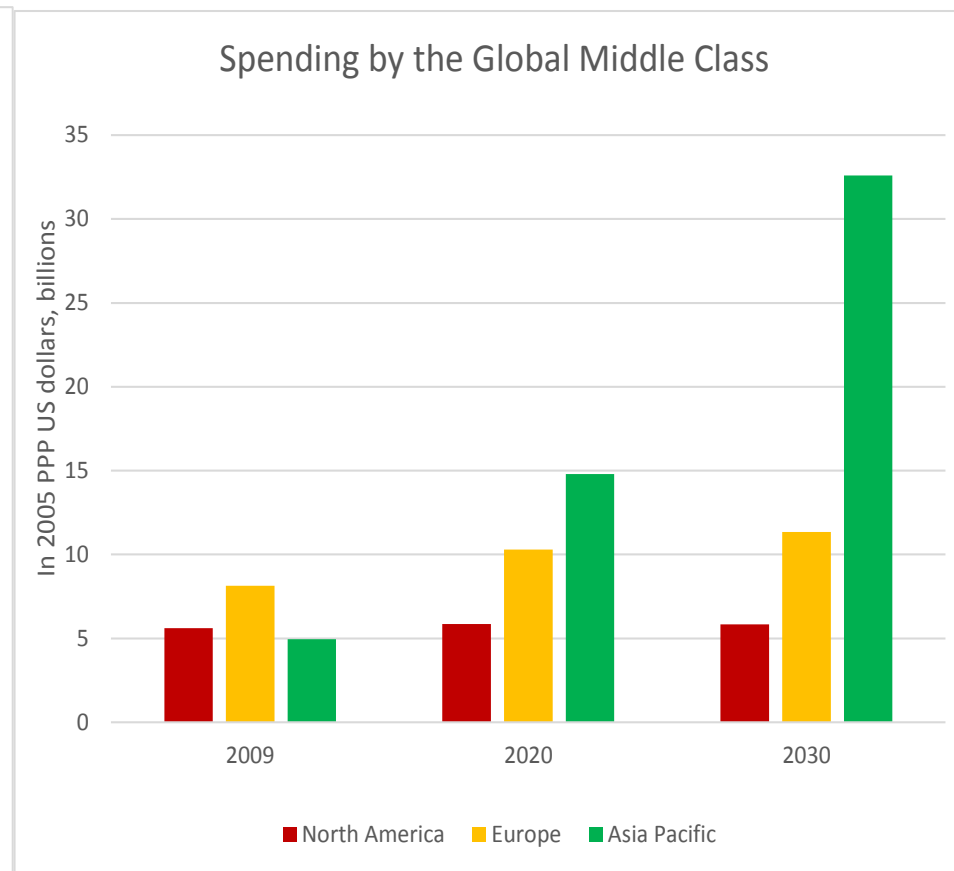
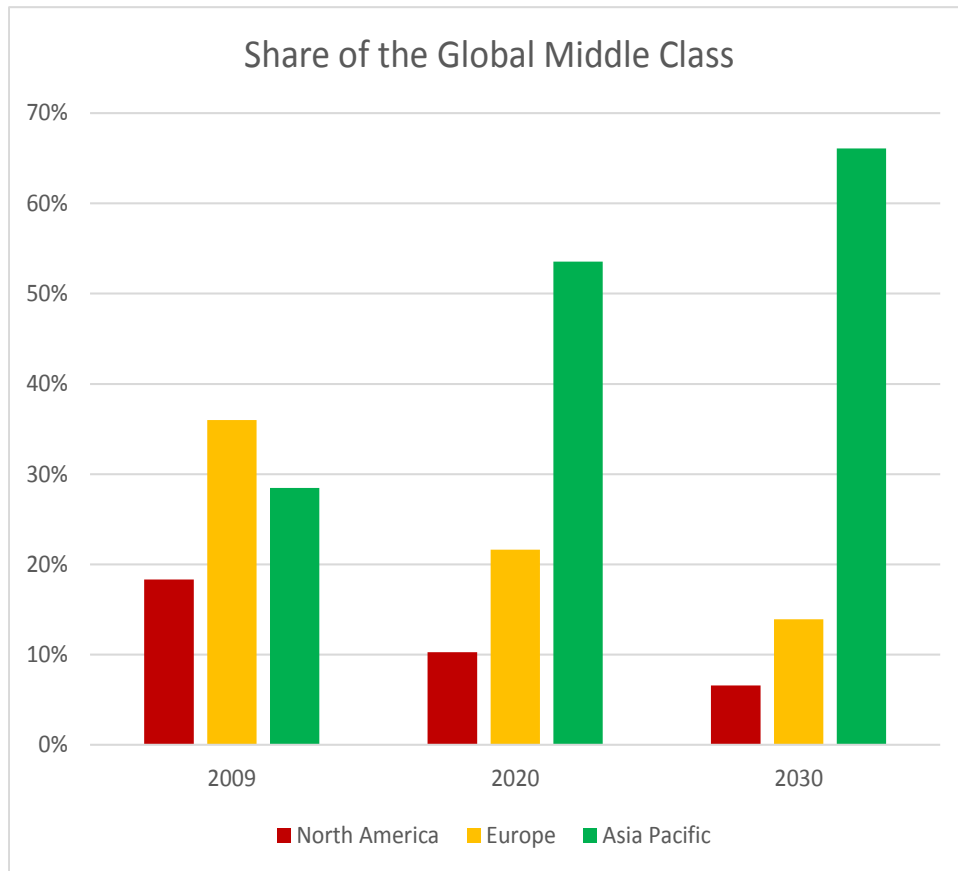
East Asia's Private Consumption in 2014 (Constant 2010 US\$) in trillion



■ Japan ■ China ■ Korea, Rep. ■ ASEAN ■ Others

- East Asia's private consumption already bigger than that of the Euro Area.
- East Asia's consumption at US\$ 9.5 trillion (2010 prices)
- Japan and China account for 75% of East Asia's private consumption.

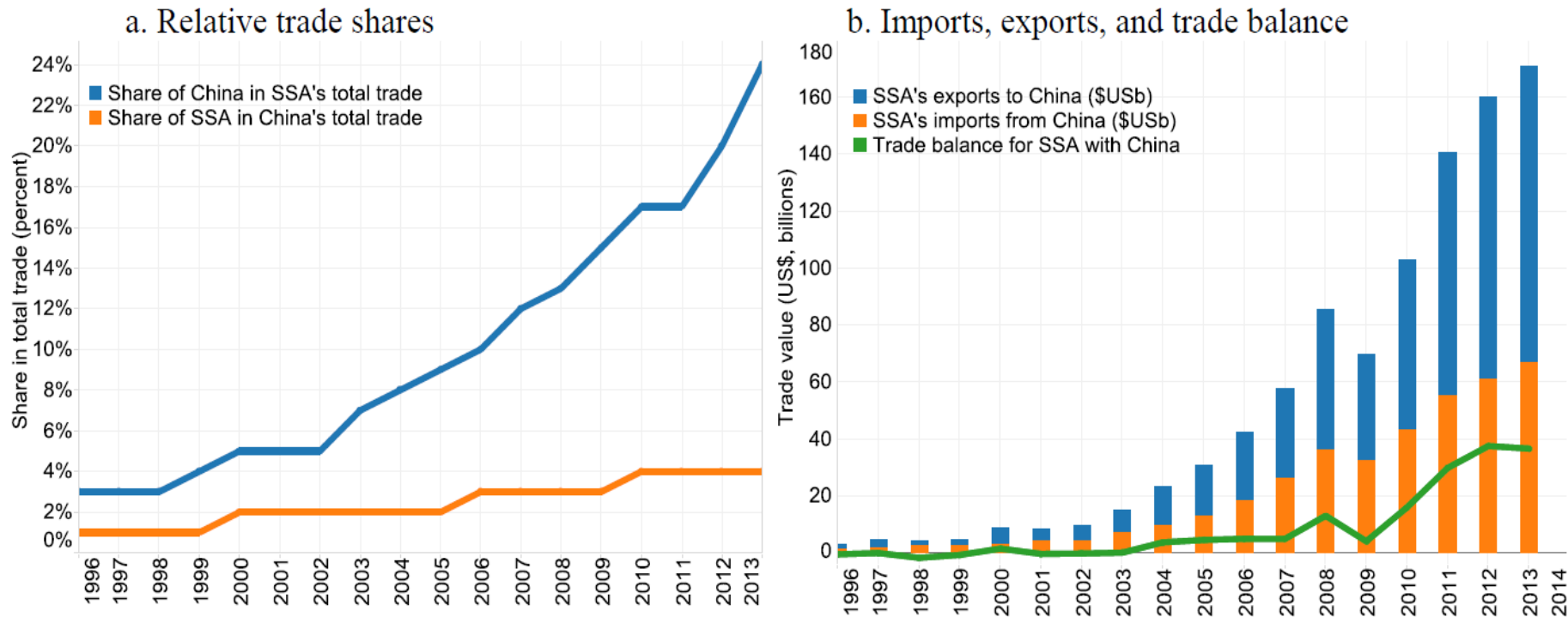
Opportunities for African Exports: Rising Middle Class in East Asia



- Middle class in Asia expected to grow from 525 million in 2009 to 3.2 billion in 2030.
- Asia's share of the global middle class expected to be 66% by 2030.
- Asia's share of spending to be about 59% by 2030.

Rising trade linkages between China and Sub-Saharan Africa

Trade between China and SSA



Source: World Integrated Trade Solution Data, World Bank

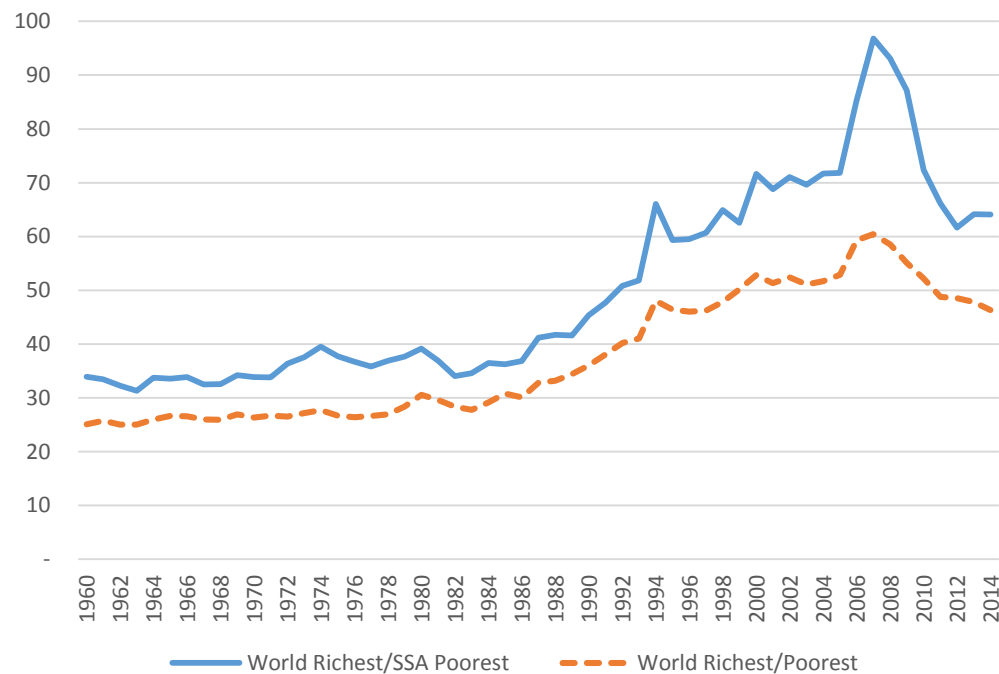
- Trade share with China increased from 3 to 24 percent over the last two decades.
- SSA exports to China growing faster than imports.
- SSA has a trade surplus with China.

3. Policies for boosting productivity and strengthening the social contract

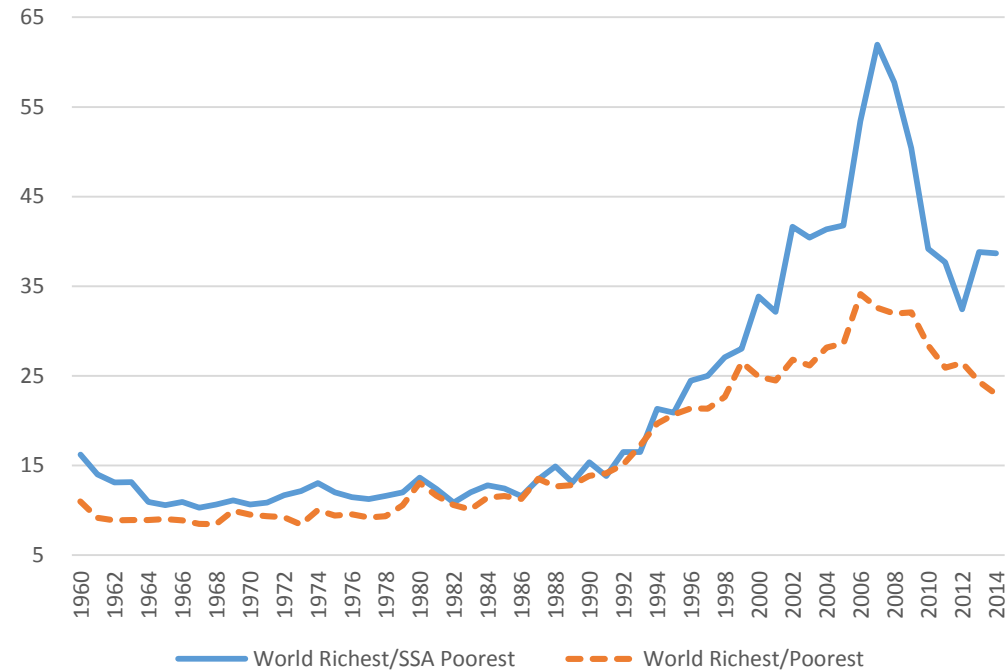


Income differences relative to richest countries persist... and they are explained by large productivity gaps

Relative income per capita



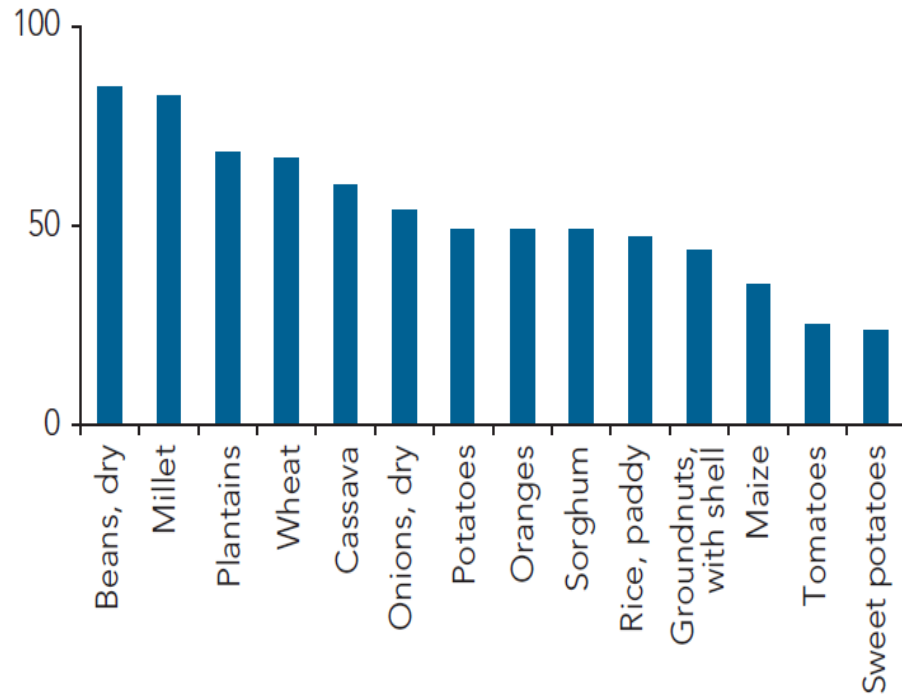
Total Factor Productivity



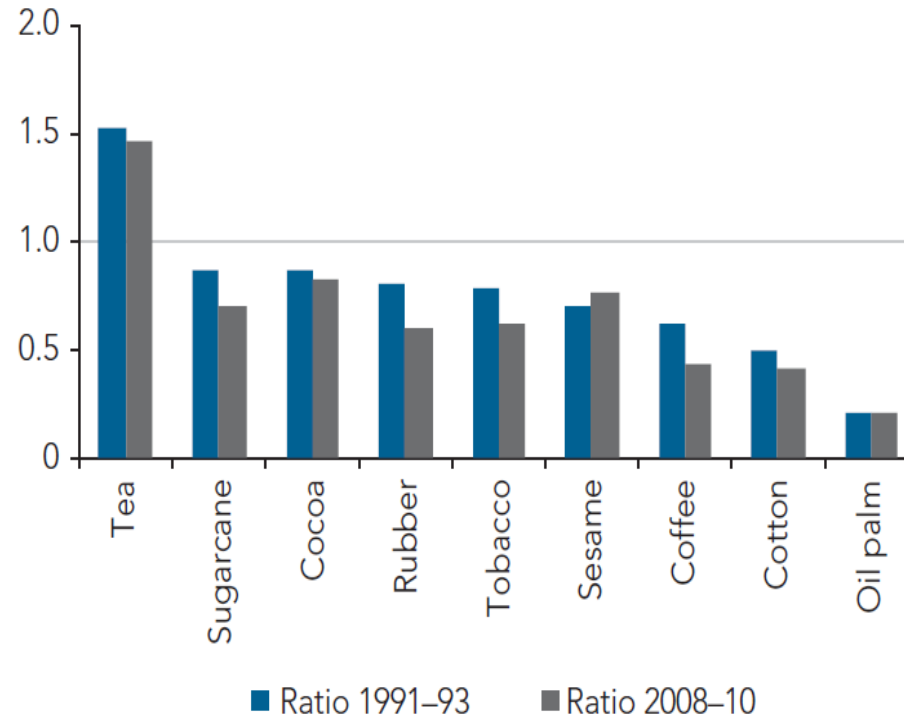
- Poorest in Africa have a larger gap with world's richest.
- Gap with world's richest grew from a factor of 35 in 1960 to 65 in 2014.
- Gap in relative income per capita overwhelmingly attributed to gap in TFP.

Agribusiness: Lower food and cash crop yields in Africa

Food crop yields in Africa relative to the rest of the developing world (=100), 2008-10



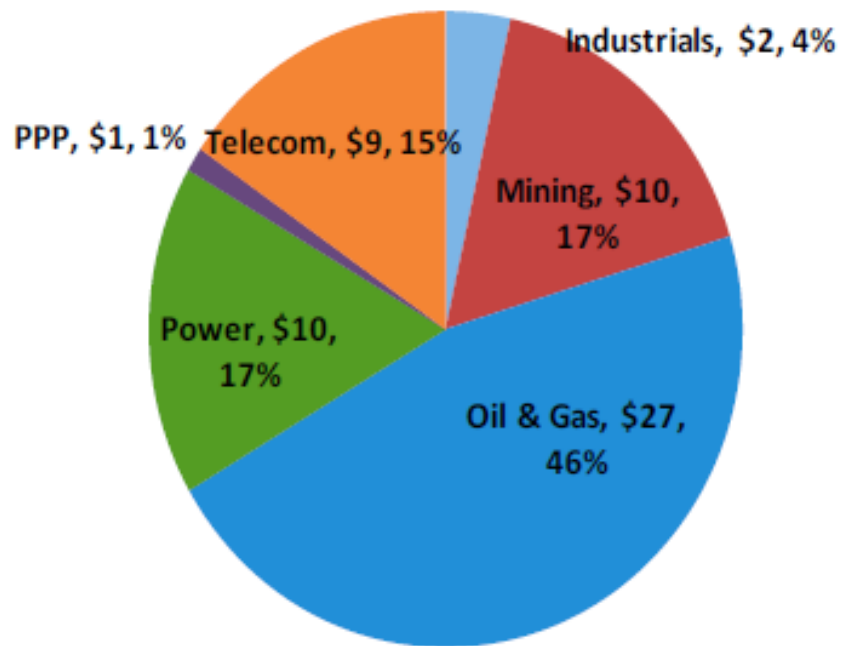
Ratio of cash crop yields in Africa vs. Asia and Latin America



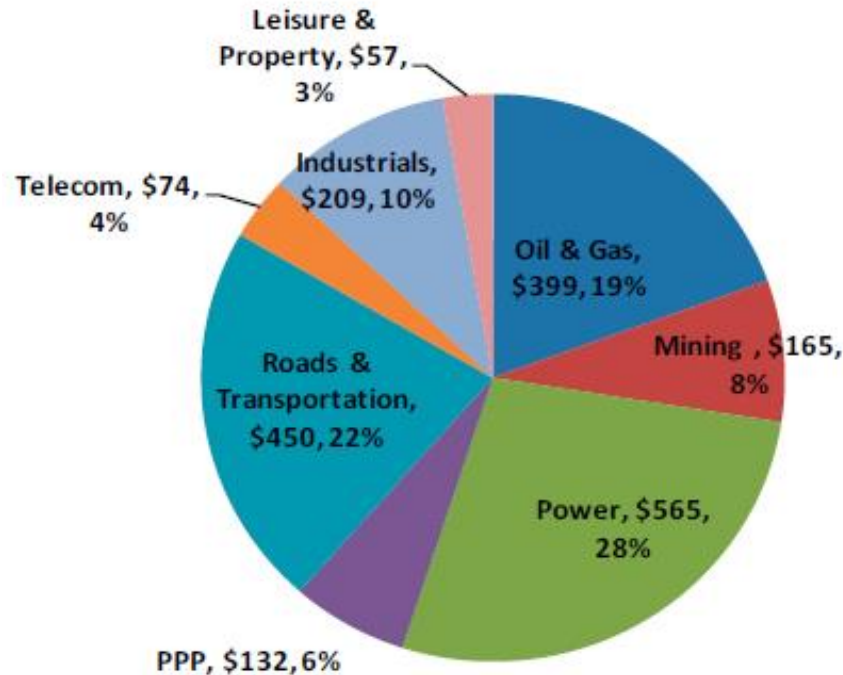
- Crop and livestock yields in SSA are low and have increased at less than half the rate of other regions.
- Yields of the 14 most important food crops in Africa are often half or less than those obtained in Asia and Latin America.
- For cash crops, yields of tobacco, rubber, coffee, cotton, and oil palm are less than half of the average for the rest of the world, and yield growth has been slower.

Infrastructure: Long-term financing

**Africa Project Finance Deal by Sector
(2003-2013, USD \$bn)**



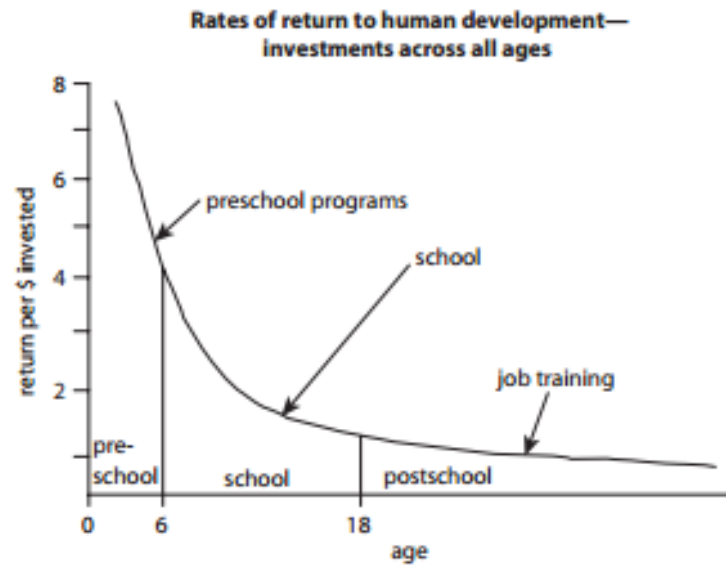
**World Project Finance Deal by Sector
(2003-2013, USD \$bn)**



- Project financing in extractives (Oil & Gas, and Mining) amount to US\$ 37 billion (64% of the region's financing volume).
- Annual infrastructure project finance over 2003-2013 represented only US\$ 1 billion (against potential US\$ 12 billion per year).
- Over 2003-13, SSA closed 158 project finance deals with debt amounting to US\$ 59 billion (3% of total project financing in the world).

Early child development holds untapped promise

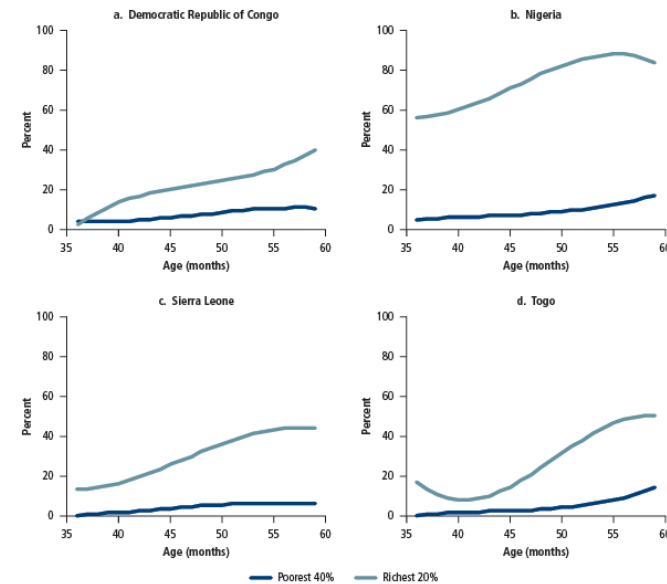
Investments in early childhood promise the highest returns



Source: Carneiro & Heckman 2003

In Africa, as elsewhere, the rich-poor gap opens in early years

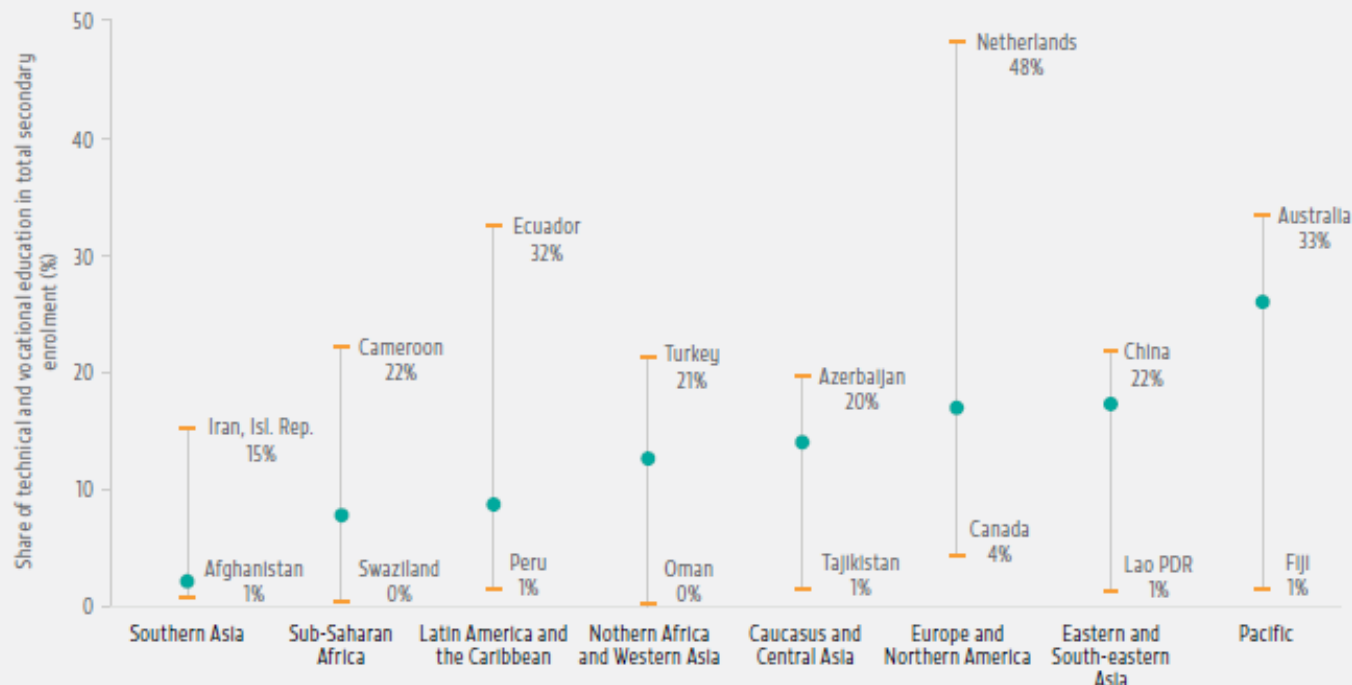
Cognitive development for richest and poorest in 4 countries



Source: Filmer & Fox 2014

Sub-Saharan Africa has the second lowest enrollment in technical education of any region

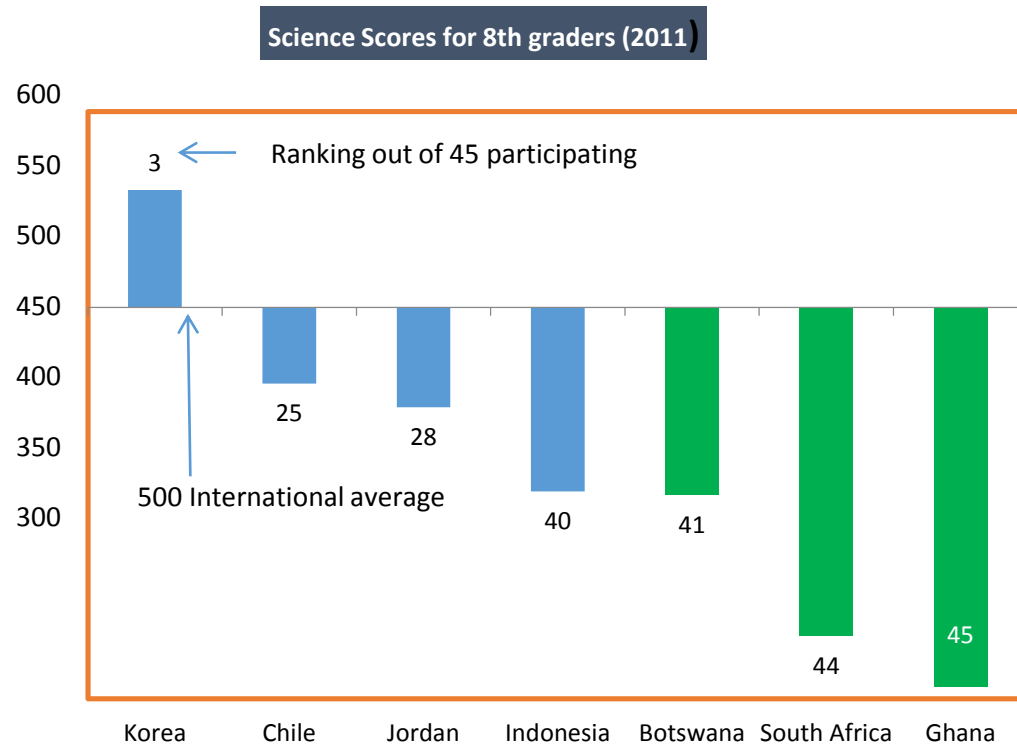
Technical and vocational programmes as a share of secondary education enrolment, 2014



Source: UNESCO (2016)

- 33% of youth never make it to secondary level
- Among those that do, few receive technical education
- Poorer youth are even less likely to enroll
- Innovations and scale needed in apprenticeships and technical education
- Several countries have implemented second-chance programs: Madagascar, Uganda, Zimbabwe

Science scores in SSA countries are way below average

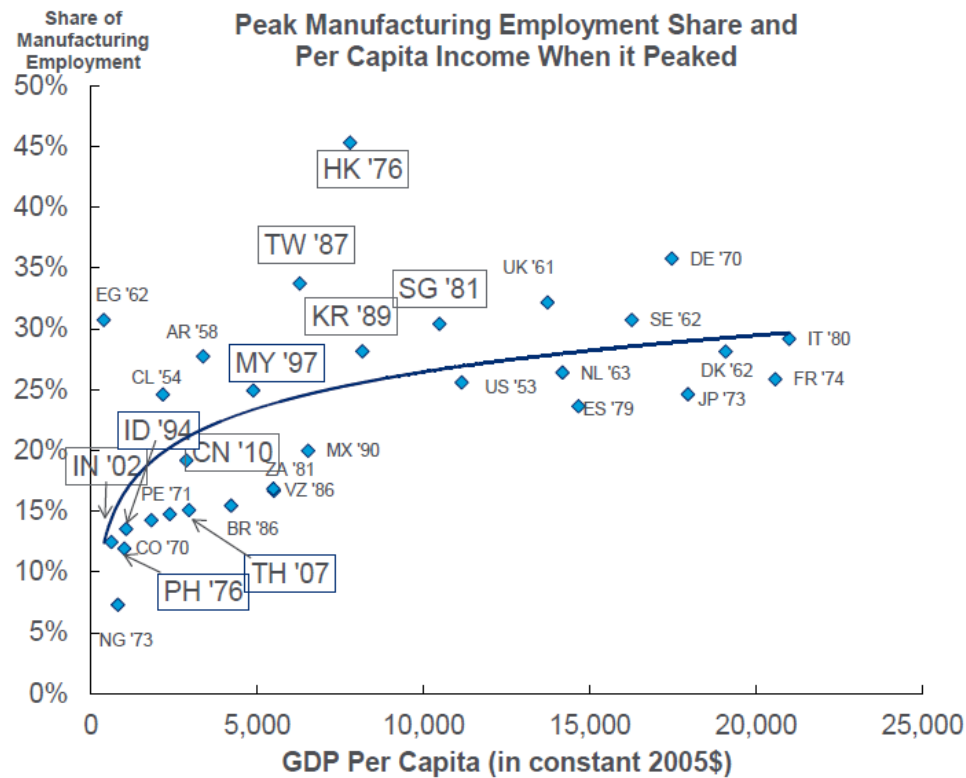


Quality basic education, critical mass of technical-scientific personnel to support Africa's transformation

- **Invest in early years:** early childhood interventions, early grade reading and mathematics
- **Secondary education for Africa's youth:** expand access and quality, improve focus on STEM
- **Technical-scientific capability :** Skills development for priority sectors; Engineers and applied scientists
- **Our approach:** Evidence based interventions, strengthen incentives, accountability and institutions; regional approach

The changing landscape of jobs

Figure 1. Peak Manufacturing Employment Share and GDP per Capita When It Peaked



Source: GGDC-10 Sector database, World Bank Development Indicators, Citi Research

- Types of jobs at most risk of being automated are often the ones developing countries specialize in.
- Routine, well-structured tasks, elementary occupations
 - Call-centers, outsourced manufacturing, transcribing, etc.
 - Not just bottom of distribution but “hollowing out” of middle – legal clerks, radiologists, etc.
- Premature de-industrialization
 - Increasingly difficult for Africa to create same manufacturing job number than Asian firms did.