

# **Facing the Challenges of African Growth**

**Opportunities, Constraints and Strategic  
Directions**

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The background of the slide is a solid blue color. In the lower right quadrant, there are several faint, concentric circular patterns that resemble ripples in water, creating a subtle decorative effect.

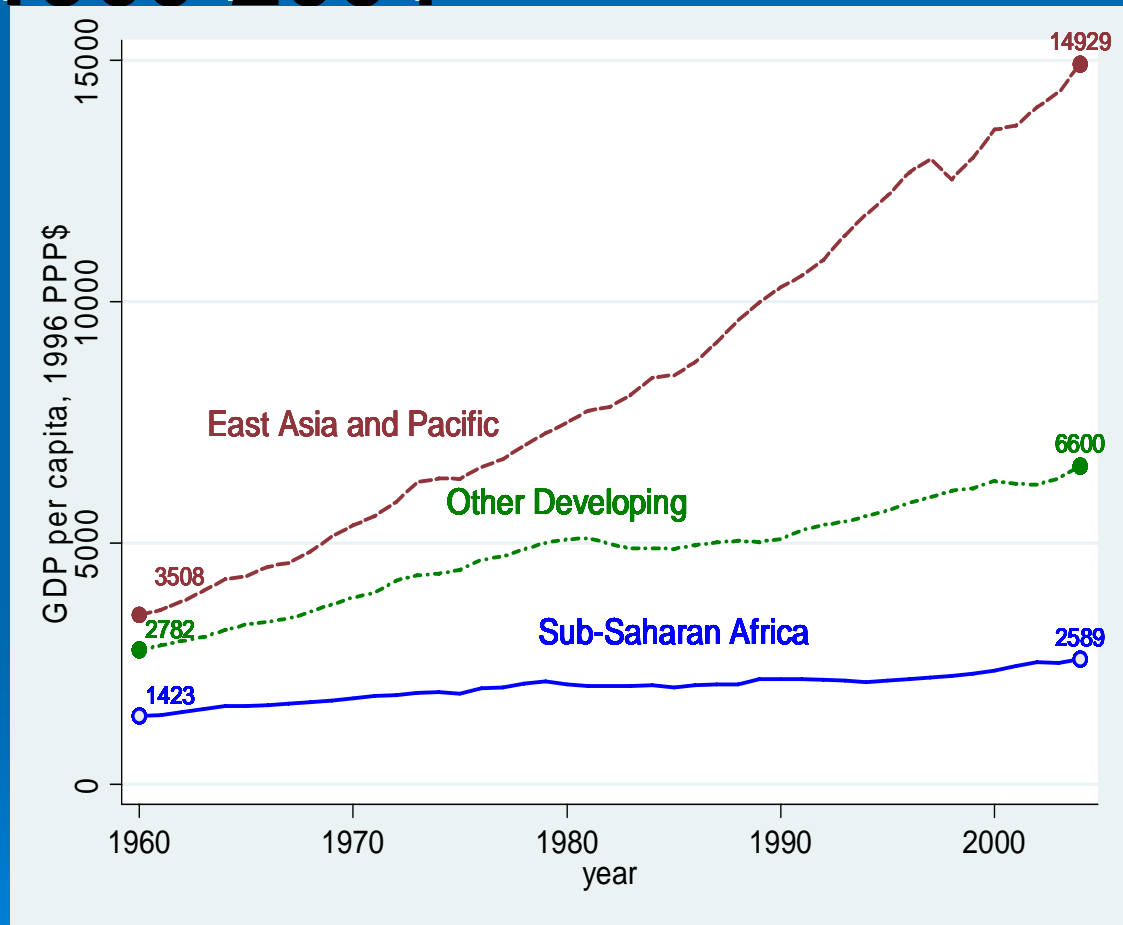
# Poverty in Africa, is largely a growth challenge

- 10 percent of the world's population, but 30 percent of the world's poor.
- Extreme poverty in Africa has increased from 36% of the population in 1970 to around 50% in 2000.
- Nearly one in two Africans (300 million people in total) is poor: spending less than 1\$ a day on basic necessities of life.

# Divergence in growth of incomes: from other regions

## 1960-2004

- Per capita income in Africa grew at 0.5% in contrast to 2.5% for other developing regions.
- Even after adjusting for differences in purchasing power
  - p.c. income, was about half that of EAP in 1960
  - by the end of the 20<sup>th</sup> century, it was less than one-fifth of EAP



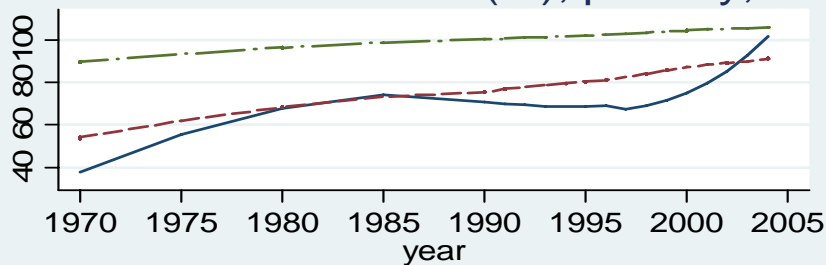
Data source: The World Bank WDI database.

Note: GDP per capita in 1996 international dollars

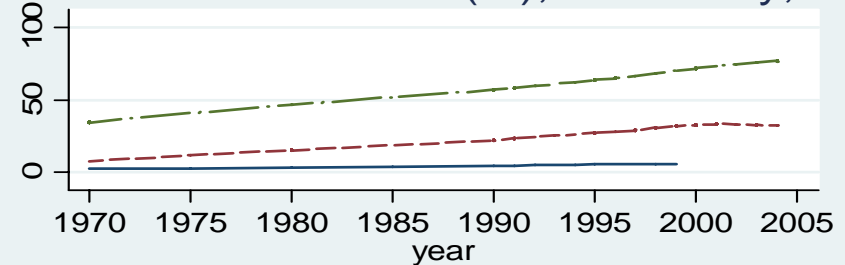
# Human Development Indicators

## Human Development

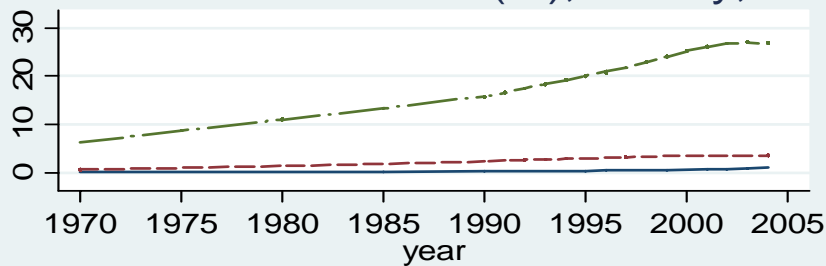
Gross enrollment rate (%), primary, total



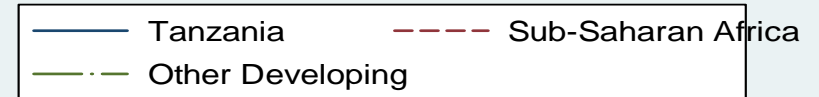
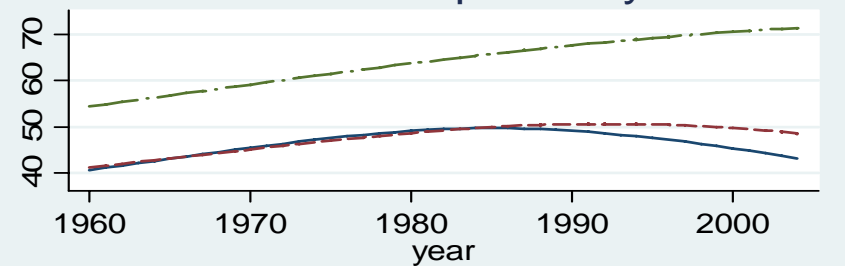
Gross enrollment rate (%), secondary, total



Gross enrollment rate (%), tertiary, total

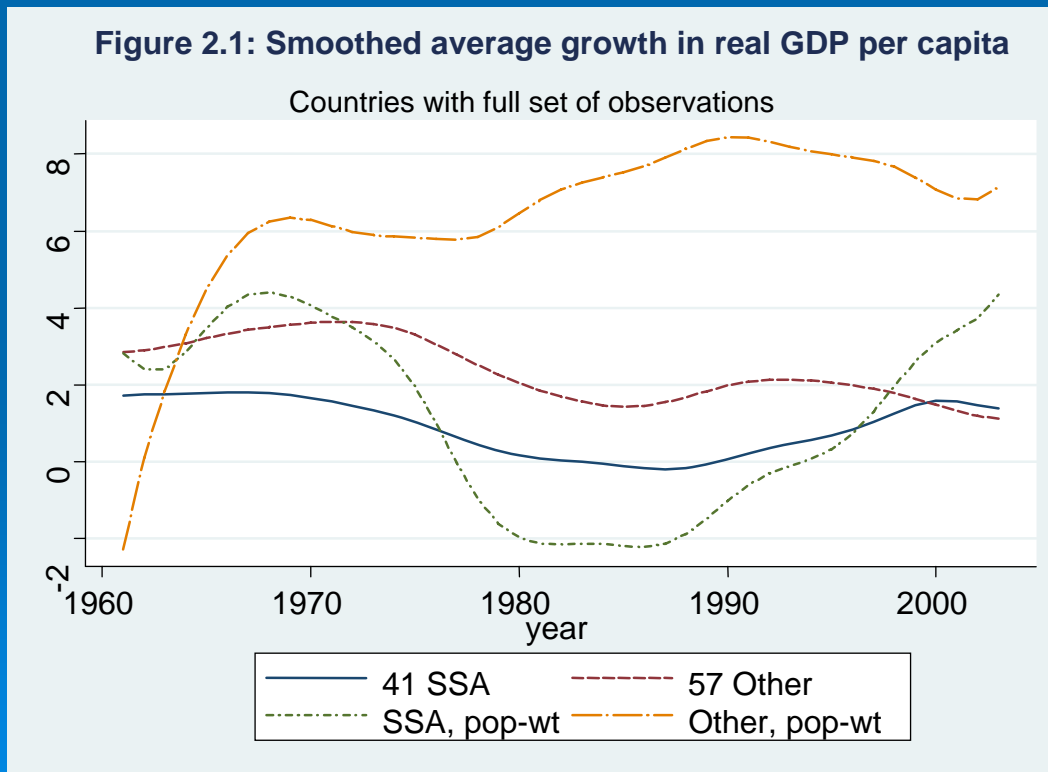


Smoothed Life Expectancy at Birth



# African Countries – Missed out on two decades of global growth

## Growth Path 1960-2004

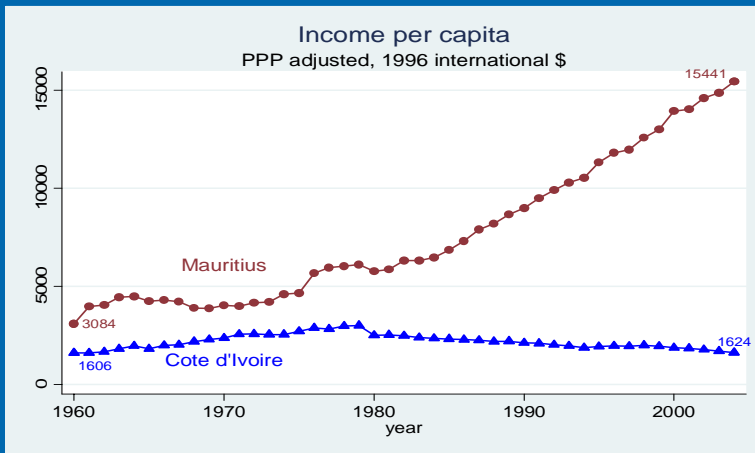


# **Six Key Conclusions from Half a Century of African Growth experience**

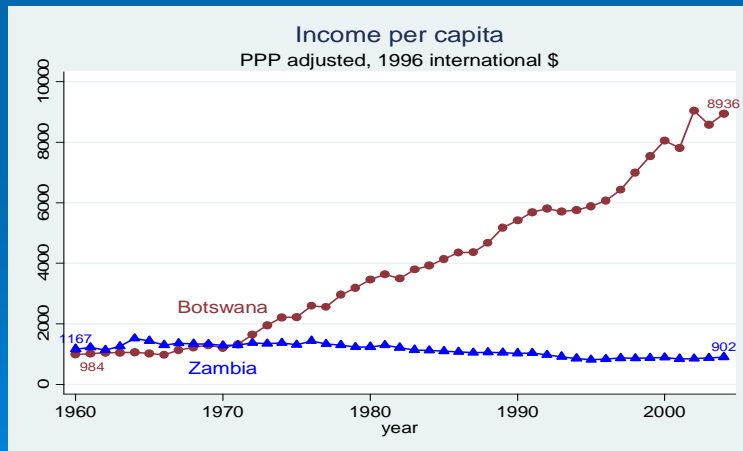
## **(i) African countries growth experience is extremely varied and episodic –**

- ◆ **large countries (DRC, Nigeria, Ethiopia, Sudan) grown more slowly**
- ◆ **extreme instability of growth for most countries - esp. resource –rich**
- ◆ **suggests focus on large countries for spillovers (e.g Southern Africa) and management of responses to shocks**

# Same Endowments - Different Paths - Different Outcomes

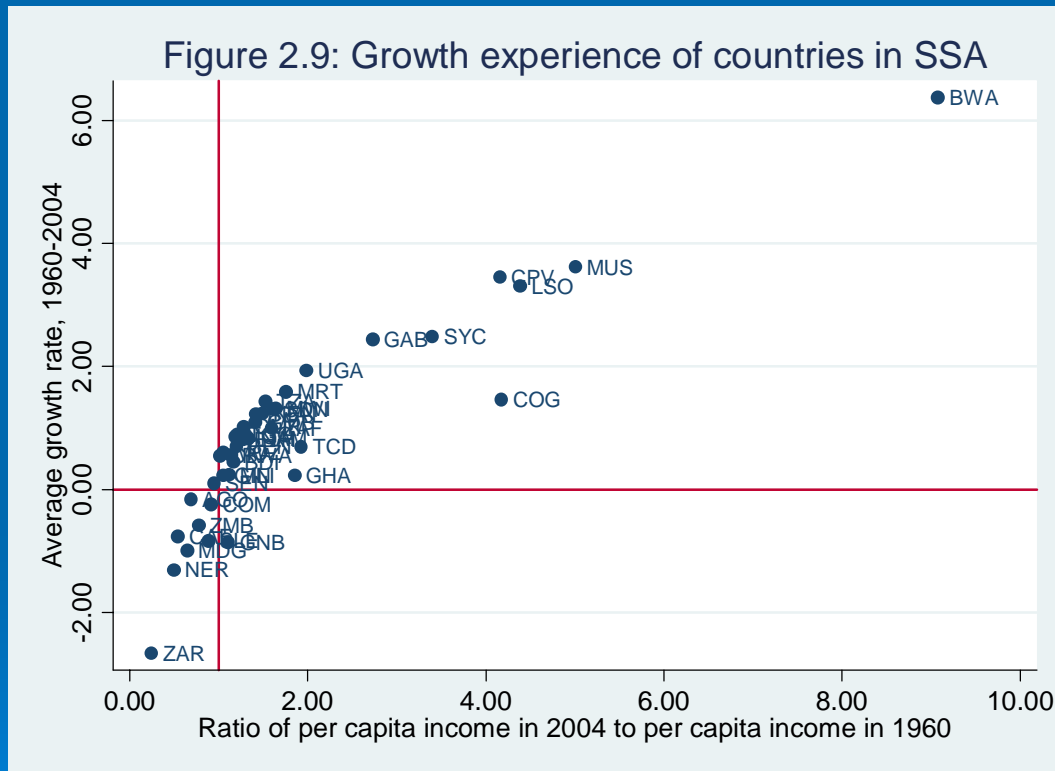


- Cote d'Ivoire and Mauritius are both coastal and resource poor countries
- pursued very different development paths
- with very different outcomes.



- Zambia and Botswana are both landlocked and resource rich
- Pursued different approaches to managing resource rents
- To very different results

# Diverse Growth Experience and Results: 1960-2004



- Per Capita Income in Nine countries in 2004 < that in 1960
- 13 middle income countries have incomes in 2004 between 60% (SA) and 9 fold (Botswana) the levels in 1960

# Lessons cont'd

**(ii) slower productivity growth more sharply distinguishes African growth from other regions**

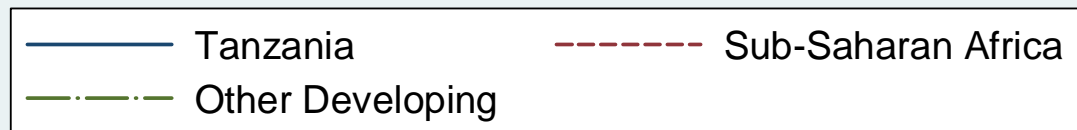
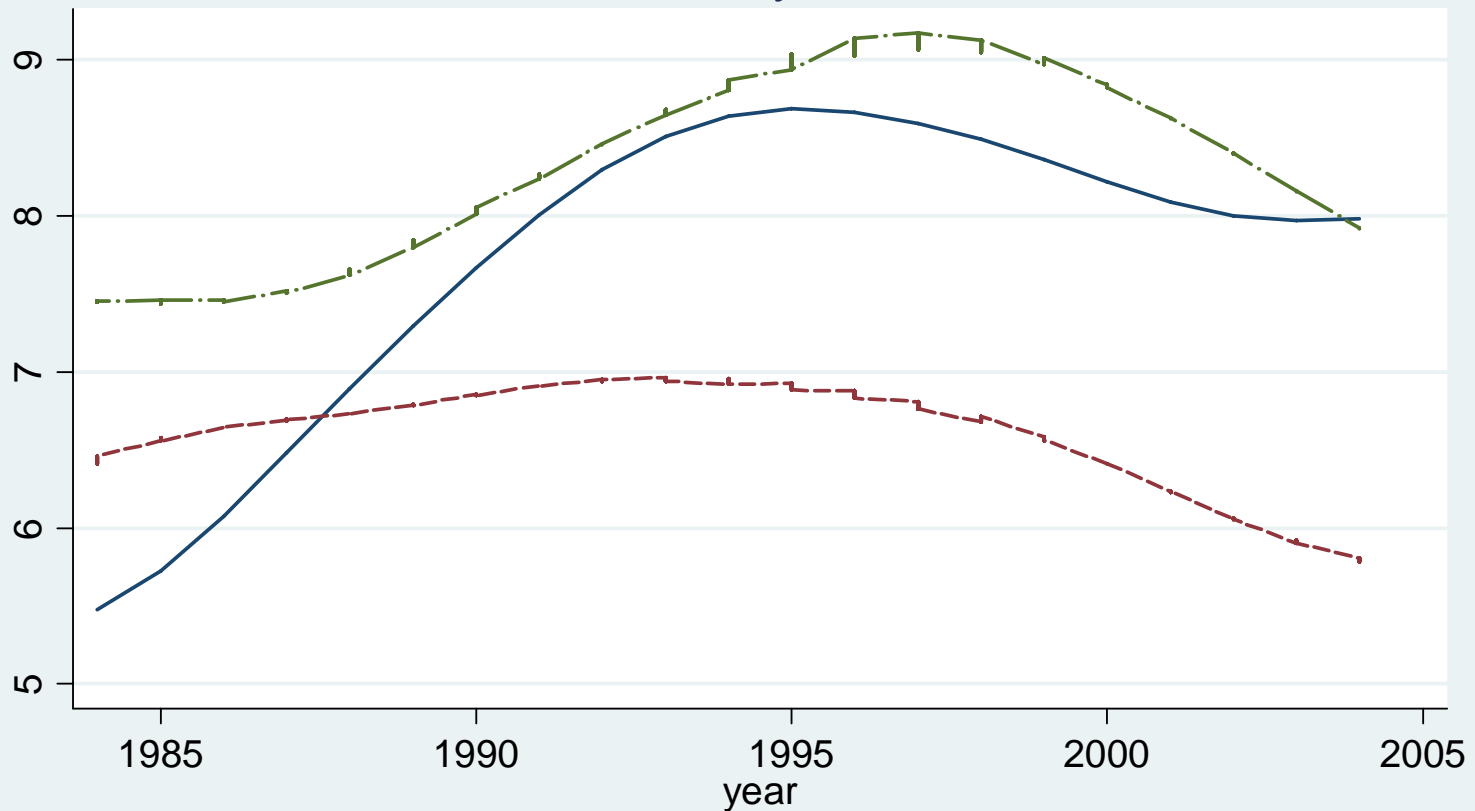
- Same level of investment generates 1/3 to 1/2 of growth in Asia
- Look beyond conditions for raising investment levels

***(iii) policy and governance matters a great deal for growth –***

- accounts for between 25% and 50% of growth difference with other regions
- The policy and governance gap with other regions has narrowed

# Risk Perception

International Country Risk Guide Index



# Lessons Continued

## **(iv) disadvantages from geography and resource curse accounts for one third of the gap of growth with LDCs**

- Nearly 40% of Africans live in land-locked countries
- 90% of SSA exposed to Tropical disease burden
- Fragmentation – A typical African Country has 4 neighbors
- More than a third of SSA countries subject to the potential resource curse

## **(v) trading partners' growth important for African growth- suggests**

- Importance of export-led growth
- focus on competitiveness;
- and reducing barriers to trade (esp. behind the border constraints)

# Lessons Continued

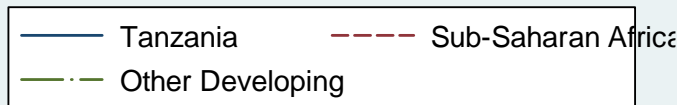
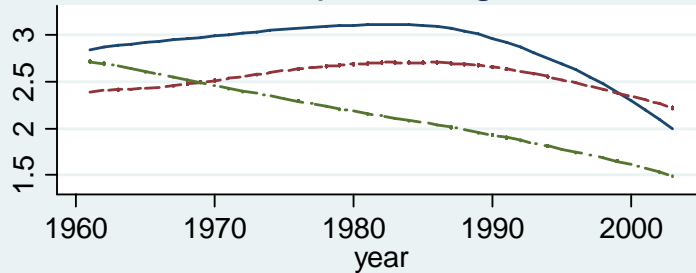
## (vi) Difference in Demography a major factor behind growth difference

- Difference in pop growth rates – the arithmetic effect
- Life expectancy a major predictor of growth difference with other regions and has gotten worse with HIV/AIDS
- Age dependence a big drag on growth –
  - More mouths to feed than hands to cook
  - fiscal and private spending burden
  - Youth unemployment a time bomb but can be an engine of growth

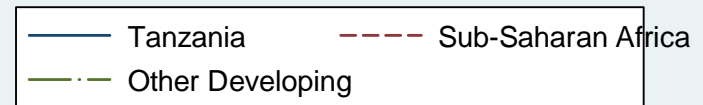
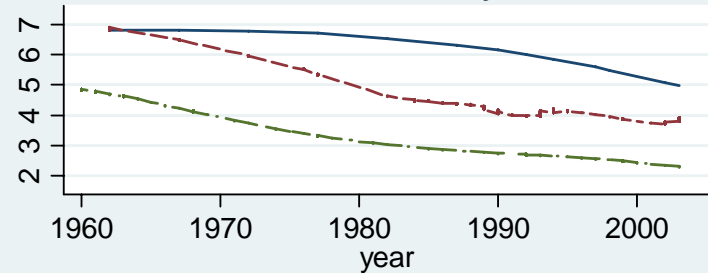
# Demographic Challenges

## Demographic Indicators

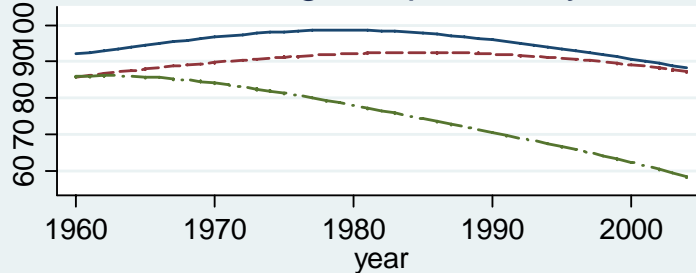
### Smoothed Population growth rates



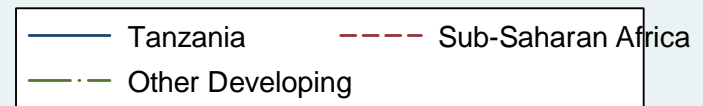
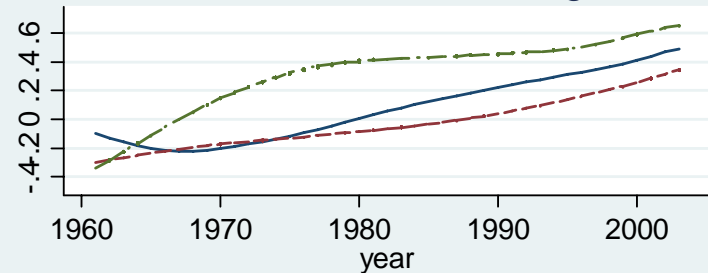
### Smoothed Fertility rates



### Smoothed Age Dependency Ratio



### Smoothed Potential labor force growth rates



# Breaking out of the low growth syndrome- Daunting but a real possibility

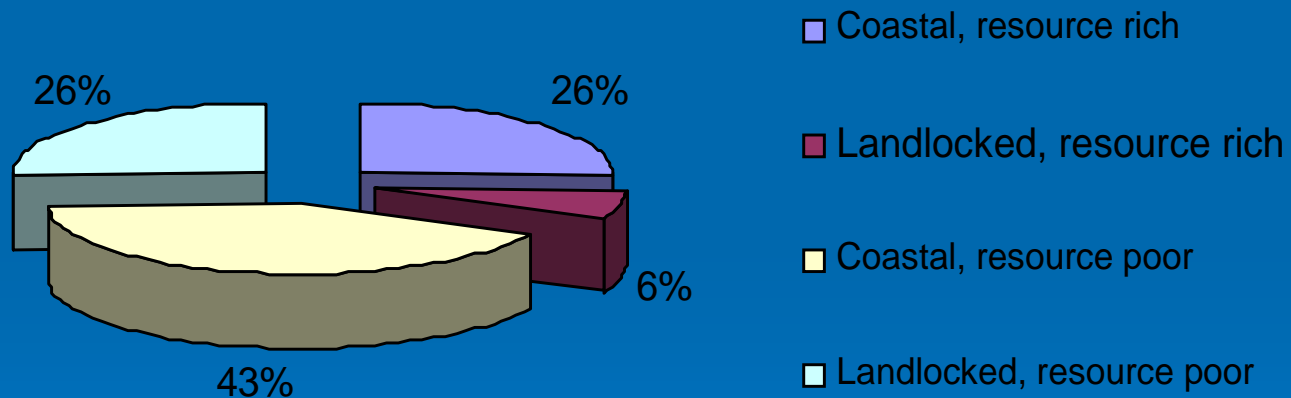
- Asia's phenomenal growth experience instructive
- Mauritius, Botswana and Seychelles, have done it and so have 10 other African middle income countries
- Since 1995, more than a third of the countries in SSA are growing at rates over 5 percent
- Can take advantage of being a late starter –lessons from success and ICT
- But not underestimate the challenges of steep competition from emerging economies

# Three key questions

- (1) what are the opportunities and hence, options, for growth available to the diverse range of African countries?
- (2) what are the major constraints to exploiting these opportunities? and
- (3) what are the strategic choices to be made by African governments and their partners to exploit these opportunities?

# Distribution of Opportunities

**Figure 3.1: Sub-Saharan Africa  
Geographical Distribution**



# Diverse endowments present different opportunities for export-led growth

## ➤ **Manufactured Export-led growth**

- the Asian model for coastal countries

## ➤ **Natural resource-based equitable growth**

- the Botswana model for resource-rich exporting countries.

## ➤ **Natural resource-based agricultural export diversification and industrialization**

- The Chilean model of agribusiness and the Malaysian model of agro industrialized export

## ➤ **Labor export and high value service sector for landlocked** – the Indian model

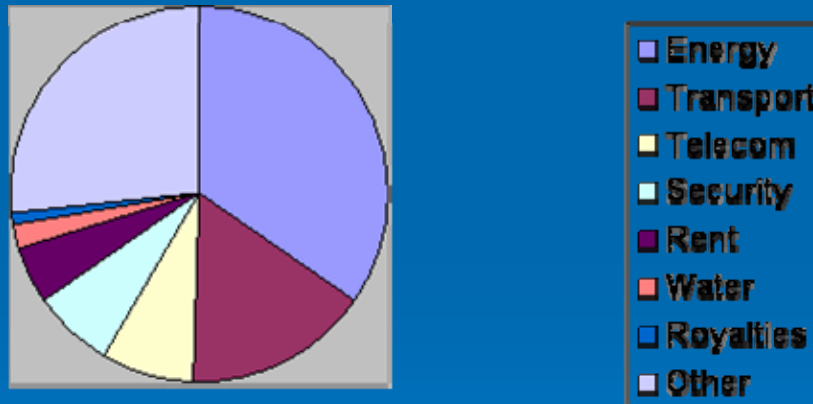
# Critical areas of action

## The Four Big “I”s

- Improving the investment climate
- Infrastructure: Embarking on a “Big Push” in investment
- Innovation for increasing productivity
- Institutional capacity

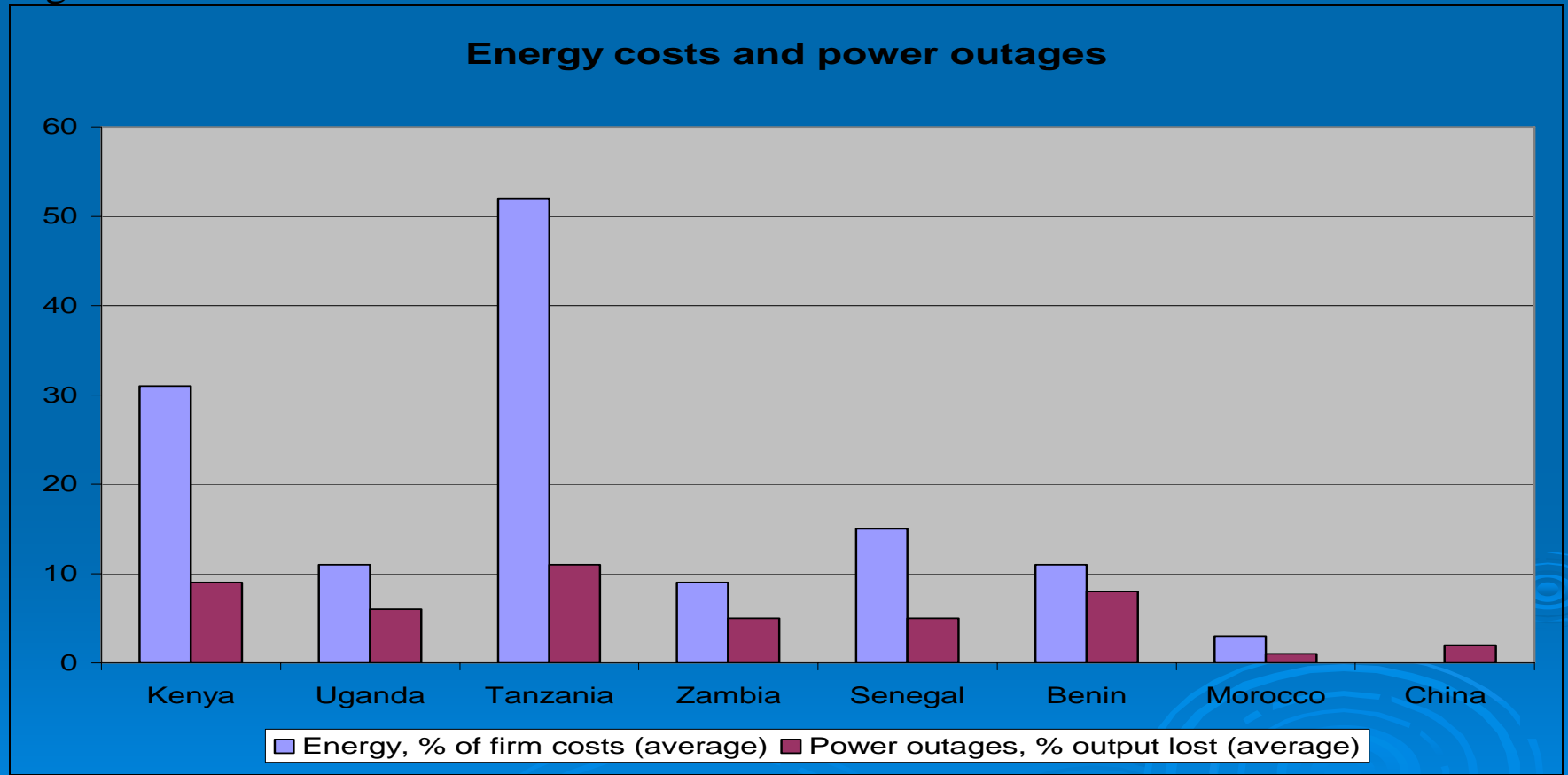
# Investment Climate – Costs of doing Business

**Energy and Transport comprise the highest components of Indirect Costs in Kenya**



# Energy Costs and Power Outages

Figure 3.3



Source: World Bank Enterprise Surveys, 2001-2005

# Investment Climate – A Menu of Actions

- **Mega focus on reducing indirect costs to firms**
  - Software issues – mainly policy environment issues
  - Hardware issues - mainly infrastructure related
- **But also reducing and mitigating risk**
  - particularly affecting *security of property* – related to crime, political instability, contract enforcement & corruption.
- **Target both foreign and local investors**
  - For local – remittances and reverse capital flight
- **Development of cohesive investment areas**
  - regional collective good reputation (peer pressure), policy coordination and connectivity

# **Infrastructure: A Big Push necessary to make a difference**

- **Particular focus on Landlocked countries**
  - which host nearly 40% of the African population.
- **A regional approach to coordinate cross-border infrastructure investment, management, and use**
  - e.g. power pooling in Southern Africa; cross country pipeline in West Africa
- **Enhanced regulatory capacity**
  - efficient use and maintenance of assets
- **Promote private-public partnerships –**
  - combine public investment in infrastructure assets and
  - operational efficiency of private management
- **Clustering for cost-effective investment & delivery of services**

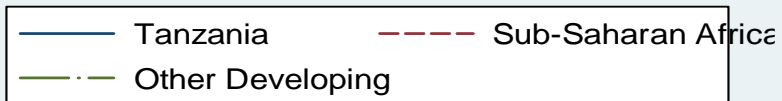
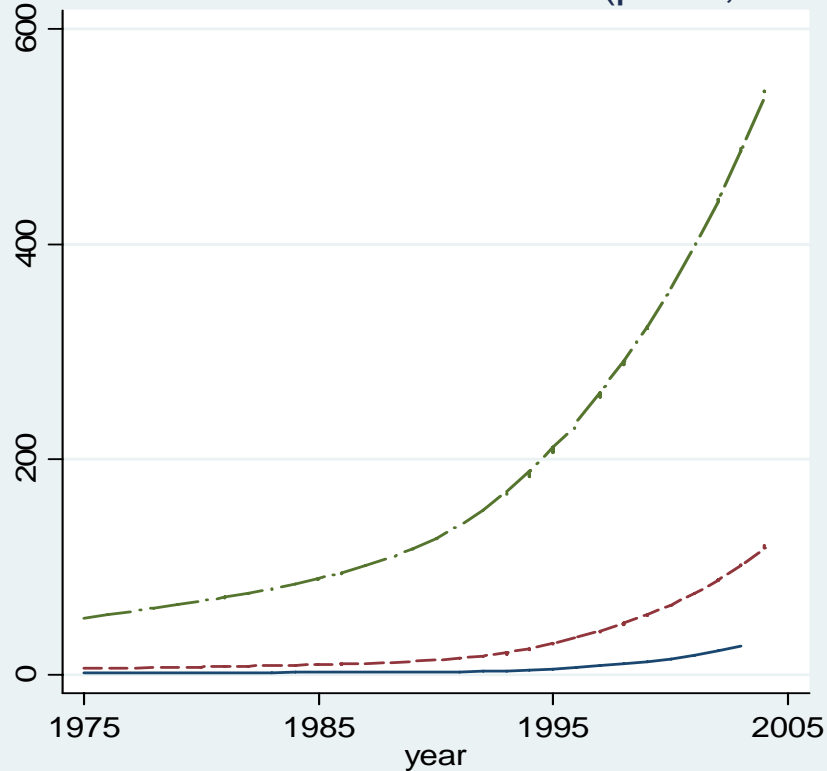
# Innovation Key for Productivity Growth and Competitiveness

- **Opportunity to leap-frog –**
  - technology a global public good
  - exploit the advantages of a late starter
- **ICT is now the main technological driver for productivity growth**
  - *Investment in ICT* improves competitiveness
  - *Investment in higher education* boosts competitiveness
- **Hence Investment in Higher Education and in ICT are key parts of the growth agenda**

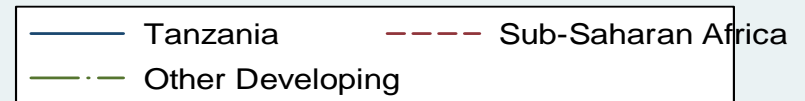
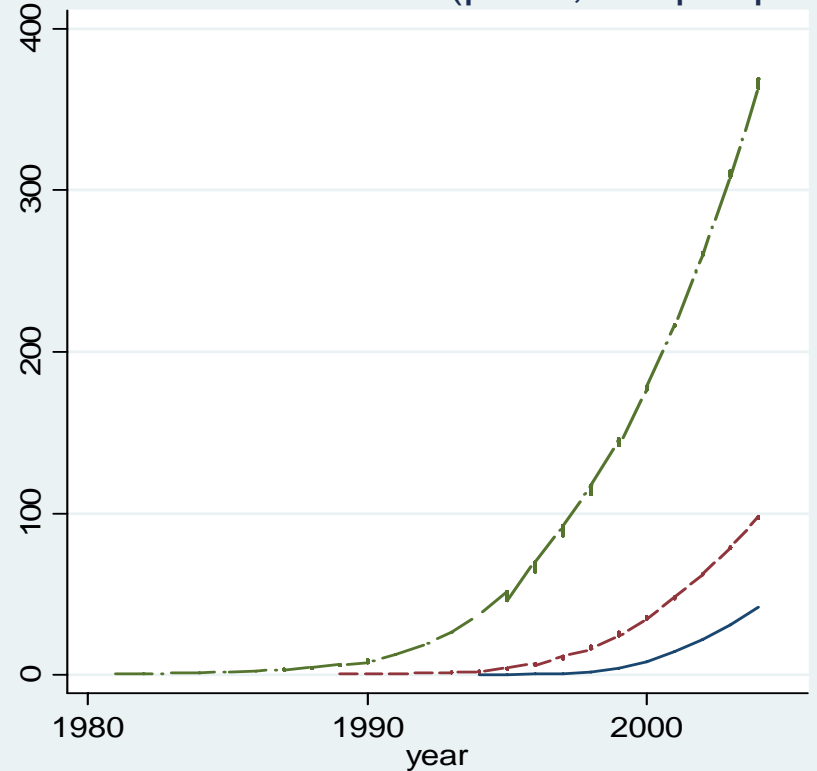
# ICT Access

## ICT

Fixed line and mobile subscribers (per 1,000 people)



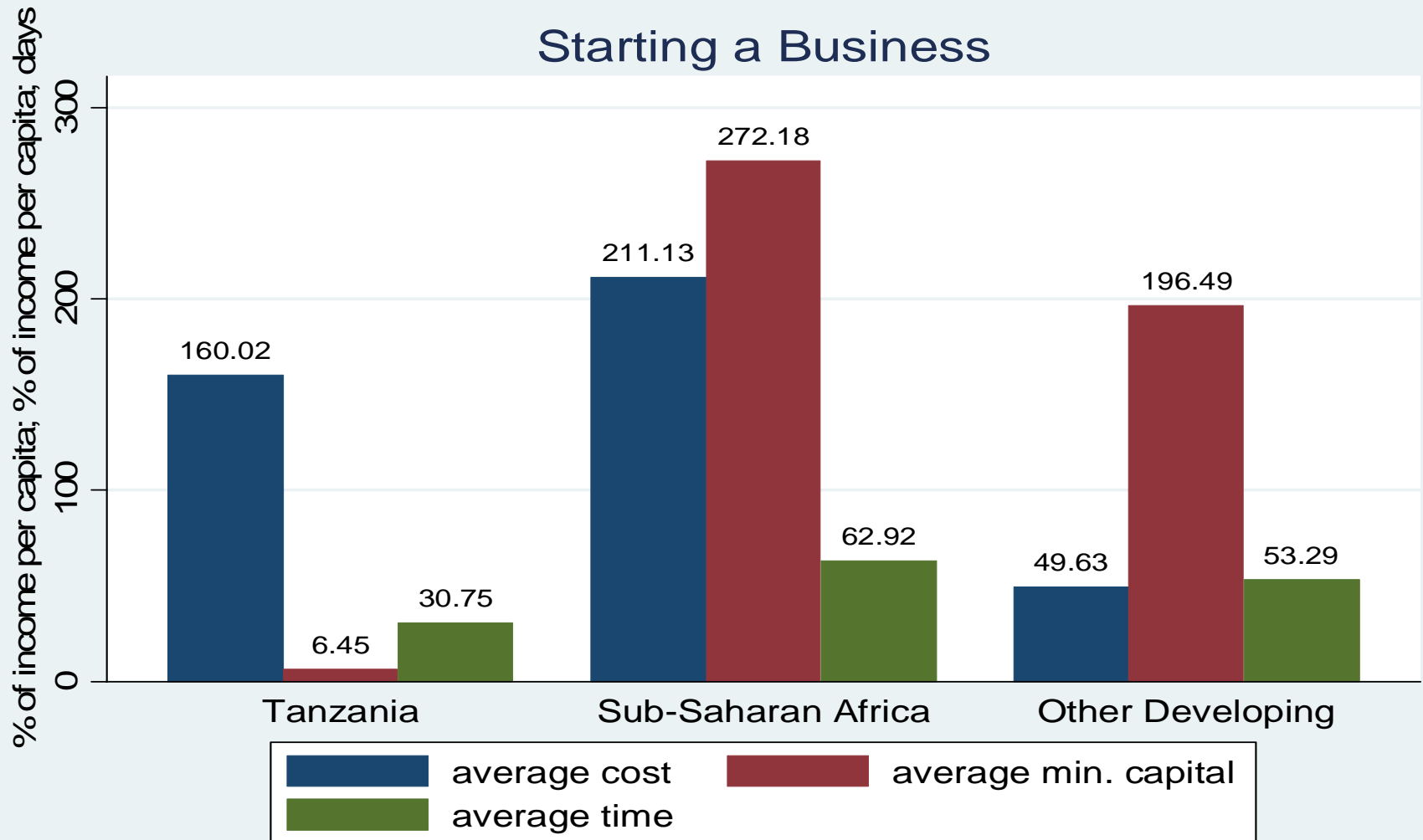
Mobile subscribers (per 1,000 people)



# **Institutional Capacity Priority Areas**

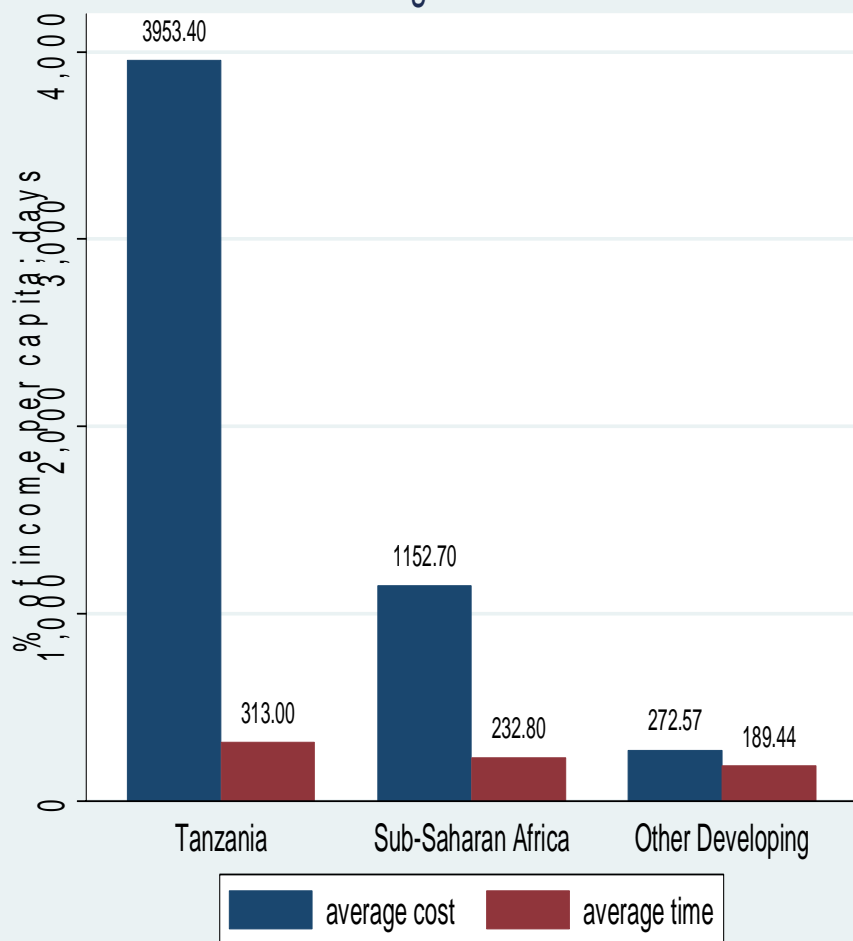
- **Enforcement of Contracts** e.g. commercial courts
- **Exercise of voice for scrutiny of public policy and action** – civil society, media and parliament
- **Enhancing Revenue Transparency** in resource rich countries – e.g. EITI
- **Prevention of corruption as a country-driven agenda** – incl. checks & balances

# Doing Business (2003-2006)

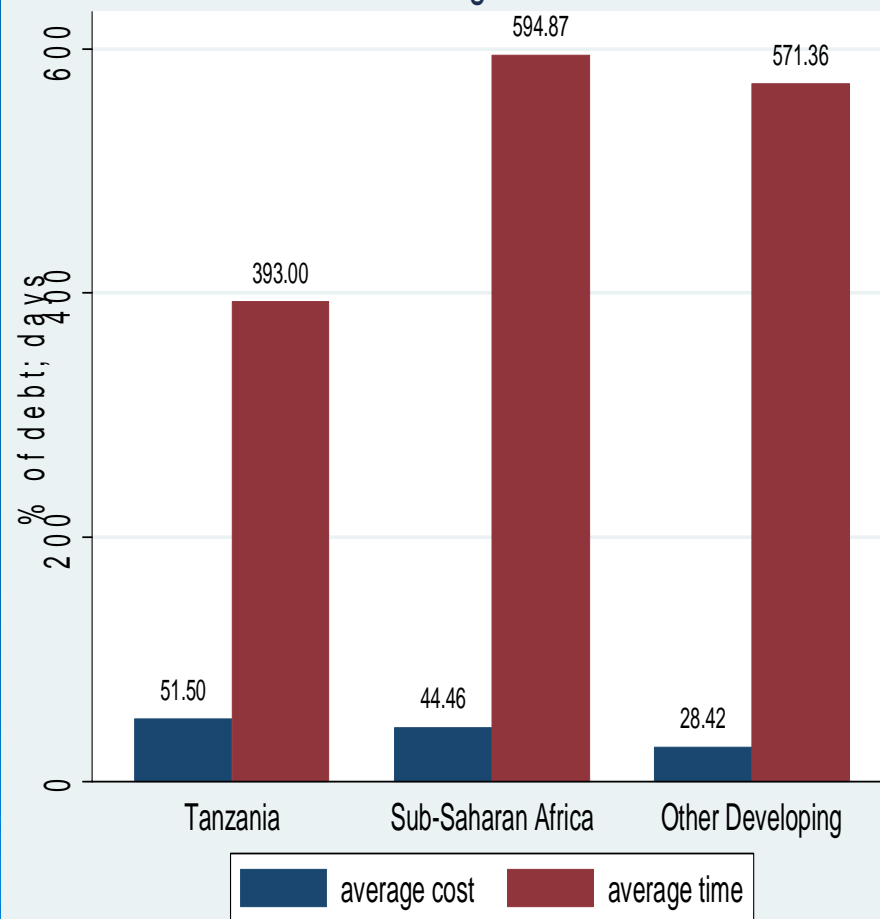


# LICENCING & CONTRACT ENFORCEMENT

## Dealing with Licences

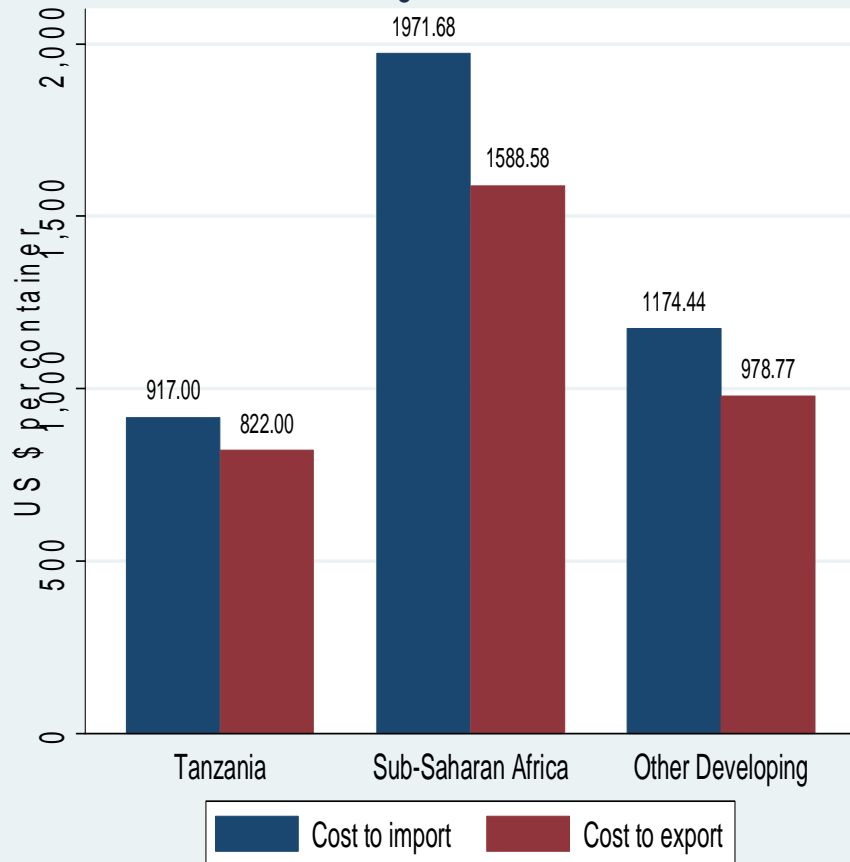


## Enforcing Contracts

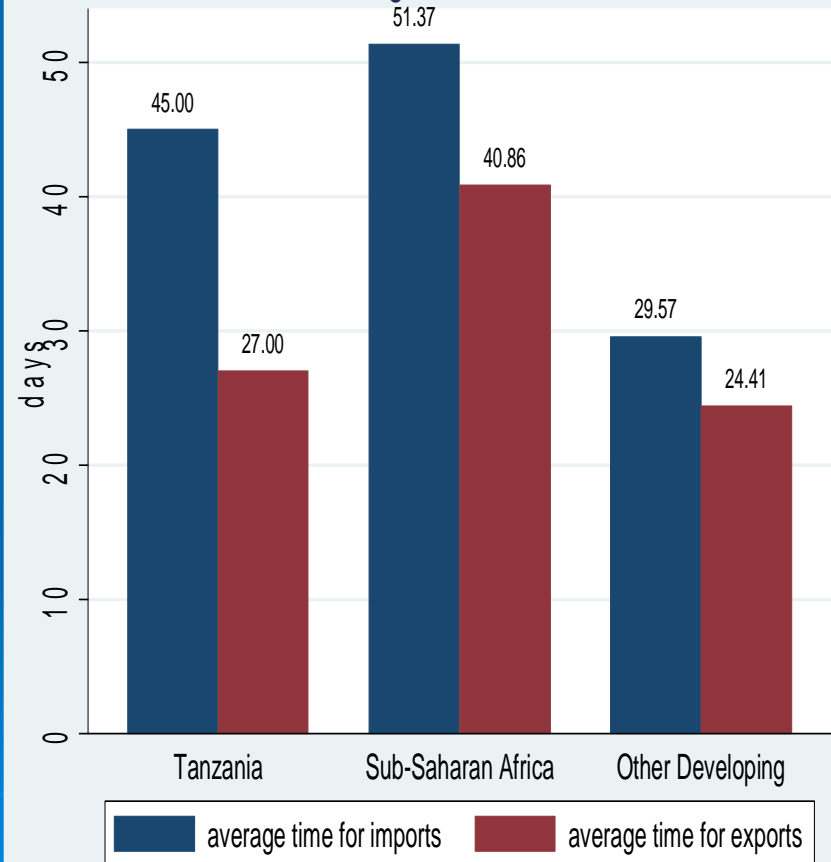


# Trading costs

## Trading Across Borders



## Trading Across Borders



# 5 Key messages to Africans

- **(i) First a message of hope: the development challenges Africa faces are daunting but not insurmountable.**
  - Asia's and even African success instructive;
  - advantage of late starters
- **(ii) Africans will have to shape their own destiny – and this includes all Africans wherever they are in the world.**
  - taking the lead but more importantly to be creative, bold and decisive
  - make this an inclusive undertaking across all stakeholders.
- **(iii) Unorthodox approaches can engender results – See East Asian experiences.**
  - Greater focus on government errors of omission (what governments have not done to spur development)

# Key Messages CONT'D

- **(iv) Leadership has a defining role in achieving success** – putting a huge weight on how leaders are chosen and more importantly how they are held accountable for results.
- **(v) Need for collective action to spur good reputation, agglomeration economies and provide regional public goods**

# 2 Key Messages to Development Partners

## **(i) More and better aid**

- **Critical to close the widening infrastructure gap and address most pressing human development needs.**
- **Progress in fulfilling the Gleneagles promise has been slow and needs new vitality**
- **Look for innovative public-private partnerships to leverage private capital**

# Message to Dev Partners contd

**(ii) a supportive global trading environment**

- **Unsuccessful Doha Round disappointing**
- **and suspension of the World Trade Organization talks will hit poor Sub-Saharan African countries hardest**
- **Need to get both back on rails**

# In Conclusion...

- Each country situation is unique and requires specific analysis of constraints and opportunities.
- But can learn from similarities for *strategic directions*.
- Emphasis is on *energizing private investment* in the short to medium run and
- *fostering efficiency and competitiveness* as preconditions for export-led growth.
- International Support – ODA and conducive trading environment key complements to African drive to growth