

Facing the Challenges of African Growth

**Opportunities, Constraints and Strategic
Directions**

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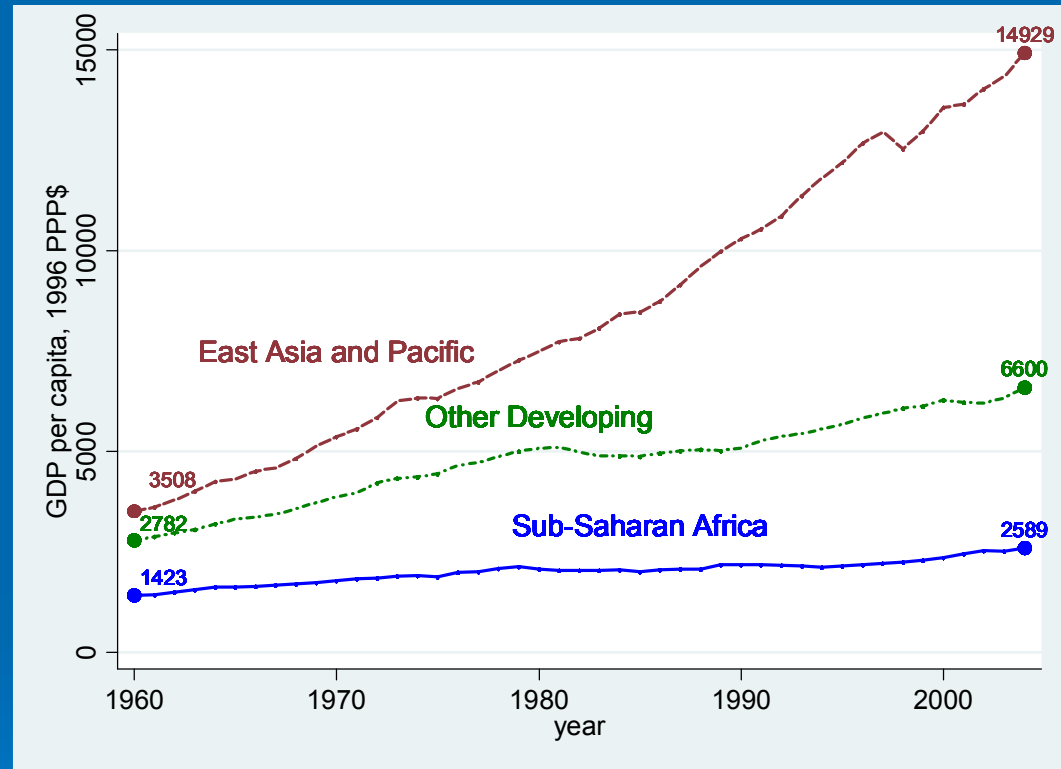


Key Questions

- **The period from 1960 to 2000 was one of remarkable growth and transformation in the world economy and Africa missed out on it.**
- **Why did most of Sub-Saharan Africa fail to develop over most of this period?**
- **Why did a few small economies in Africa succeed spectacularly?**
- **What will it take to sustain the acceleration of growth since the mid-1990s?**

Income Divergence – SSA Vs OTHERS 1960-2004

- Even after adjusting for differences in purchasing power
 - p.c. income, was about half that of EAP in 1960
 - by the end of the 20th century, it was less than one-fifth of EAP
- The difference due to mainly Growth
 - – SS Africa grew erratically at avg 0.5%
 - Other dev'ping regions grew steadily at avg 2.5%

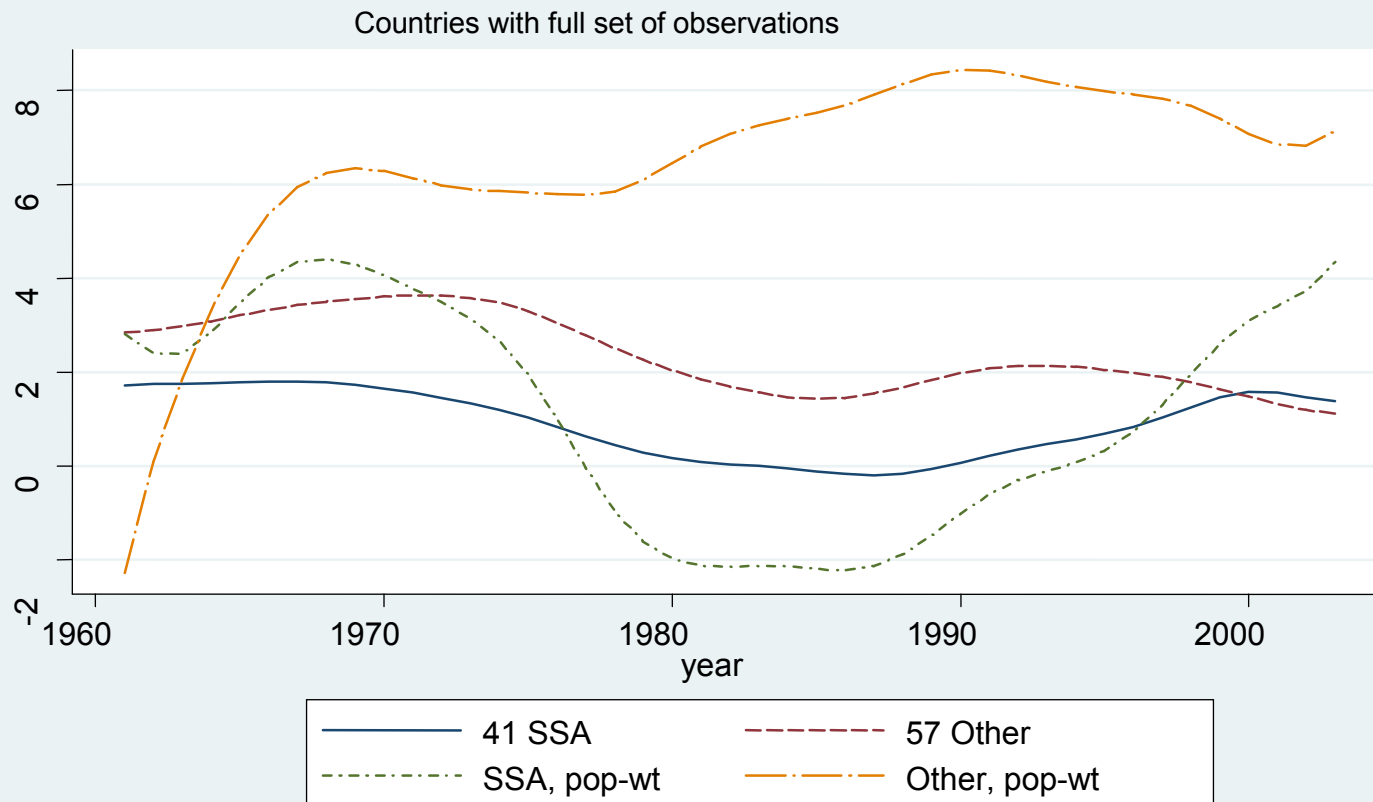


Data source: The World Bank WDI database.
Note: GDP per capita in 1996 international dollars

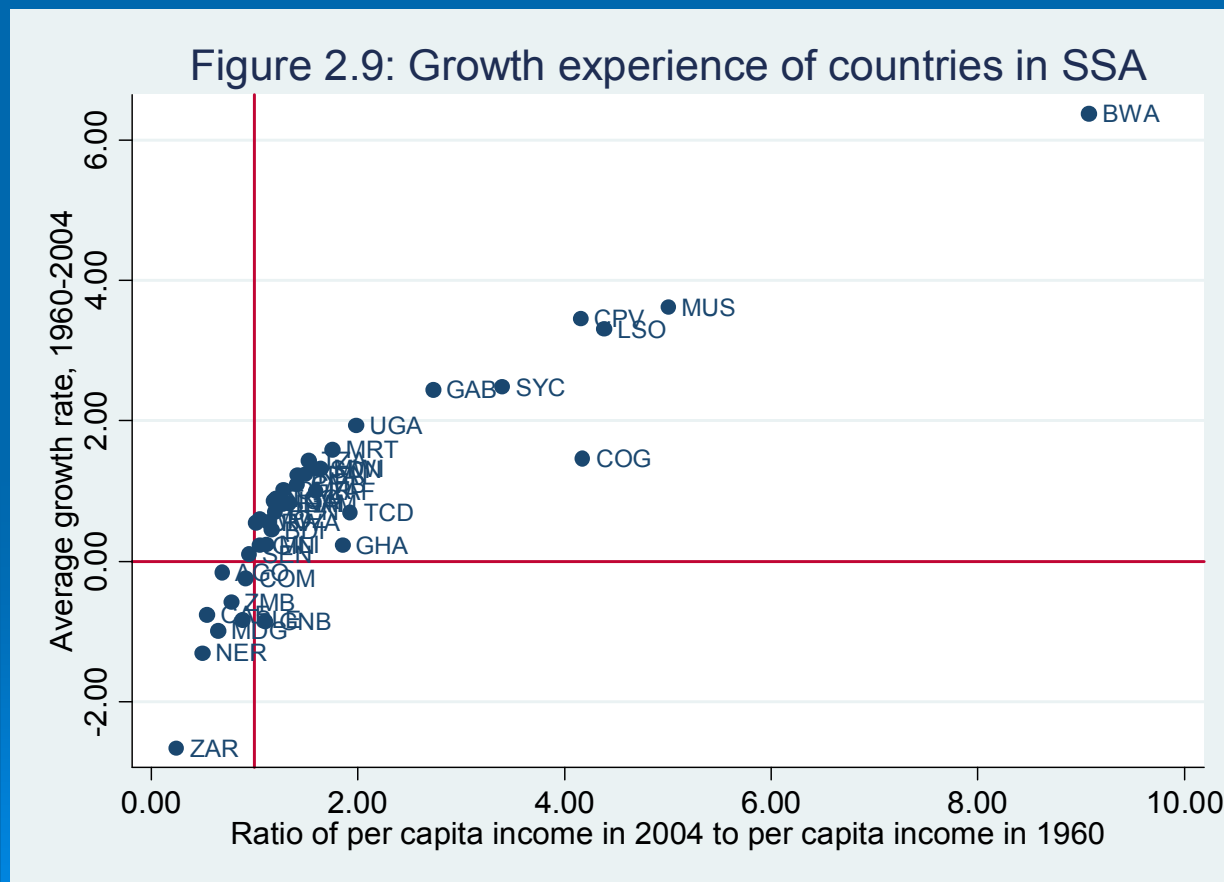
African Countries – Missed out on two decades of global growth

Growth Path 1960-2004

Figure 2.1: Smoothed average growth in real GDP per capita

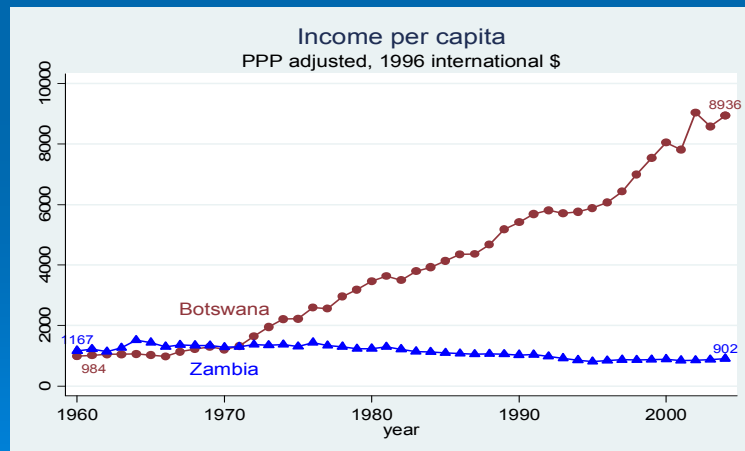
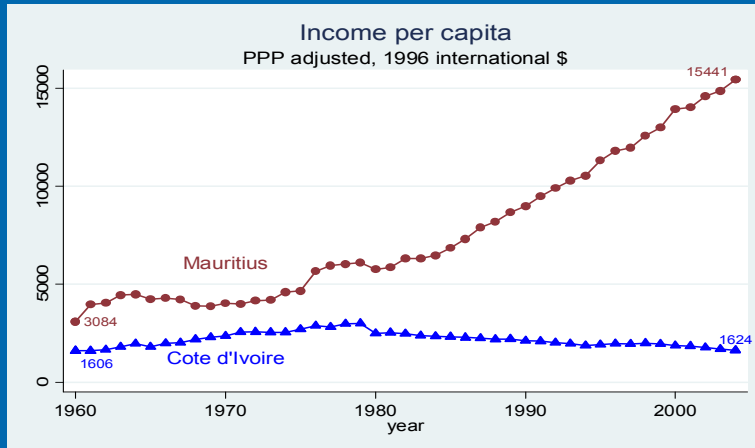


Diverse Growth Experience and Results: 1960-2004



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

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

Six Key Conclusions from 45 Years 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

(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 but it is still very significant

Lessons Continued

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

- 40% of Africans live in land-locked countries
- 90% of SSA exposed to Tropical disease burden
- Fragmentation – 48 small economies with small markets – average GDP \$3 billion; with 4 neighbors on average
- More than a third of SSA countries subject to the potential resource curse

(v) Trading partners' growth important for African growth-

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

(vi) Age dependence a big drag on growth –

- More mouths to feed than hands to cook
- fiscal and private spending burden (and impact on saving)
- Suggests speeding up demographic transition

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

- **Investment climate**
 - focus on reducing indirect costs and risks
 - Target both foreign and local investors & investment areas
- **Infrastructure: a “Big Push” in investment and Efficiency**
 - Particular attention to landlocked countries
 - A Regional approach - coordination and cost effectiveness
- **Innovation for increasing productivity**
 - Skills – tertiary education- and ICT key for competitiveness
- **Institutional capacity**
 - Contract enforcement; enhanced public scrutiny ; revenue transparency in rr countries; country-driven anti-corruption

6 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**

(vi) Reaching for Deeper Pockets

- Domestic Resource Mobilization
 - Savings
 - Local loan syndications
 - IPOs
- Prudent commercial borrowing by the public sector
 - Sovereign bonds
- Cashing in on the growing remittances
 - \$40 billion estimated remittance flows into and within Africa annually

2 Key Messages to Development Partners

(i) More and better aid

- help meet the ambitious MDG agenda and fulfill the promises of support
- Look for innovative approaches to leverage public-private partnerships.

(ii) Help Engender a supportive global trading environment

Get both DOHA and WTO talks 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