

AFRICA RESET

A NEW WAY FORWARD

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Introduction

Chapter 1

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A massive, highly diverse, and heterogeneous region

Continental Africa is one of the largest and, arguably, the most heterogeneous region of the world. With its 54 countries and a land mass roughly three times that of Europe, it has more countries than any other continent and, with 1.2 billion people, the second largest population after Asia with 4.2 billion. Given its size and number of countries, Africa is also exceptionally diverse. Its history ranges from ancient kingdoms to colonially-determined states that, with a few exceptions, became independent only in the middle of the 20th century. Its geography runs the gamut from deserts to tropical forests. Its natural resource endowments vary by country from extensive oil and mineral wealth to little more than poor soils. Its countries vary greatly in size: six have populations under one million, while four (Democratic Republic of the Congo, Egypt, Ethiopia, and Nigeria) have populations over 80 million in 2017.

At the national level, this diversity is further complicated in much of the continent by borders drawn by colonial authorities that frequently divided ethnic, geographic, or historical identities. There is, thus, no “one Africa” but rather several that share a single land mass, common borders, and a history of exchanges between local kingdoms centuries ago and foreign control through much of the 19th and early 20th centuries.

The economic diversity is as striking as the geographic, historic, or cultural (see Figure 1). The continent has 26 middle-income countries,¹ including upper-middle-income countries, such as Algeria, Botswana, South Africa, and Mauritius, that have been solidly middle-income for decades. Of the 18 African countries that were middle-income countries 25 years ago, however, only one, Seychelles, is high-income today. Africa also has 27 low-income countries² with a total population of 557 million (46

percent of Africans), including two where the average per capita income is below \$1.90 a day (2015 PPP terms).

Overall, the region has the lowest per capita income in the world and the highest proportion of absolute poor. According to the World Bank, in 2015, 40 percent of people in Sub-Saharan Africa lived below the absolute poverty line.

Many of the low-income countries are landlocked, small, fragile, or conflict-affected. Sixteen countries are landlocked. Thirty-six countries have annual economic output of less than US\$25 billion making it very difficult for their firms to generate economies of scale. And, one in three countries were classified as fragile according to the World Bank/African Development Bank (AfDB) Harmonized List in FY2017. These realities make economic and social development of the region very challenging.

The ongoing global geopolitical, economic, and environmental changes also expose Africa to additional challenges, but some of these developments could also present potential opportunities. Slower global economic growth, lower commodity prices, pushback against globalization in many countries, climate change, and tighter global financial markets make Africa’s development and faster convergence with global best practice tougher to achieve but by no means impossible.

While the continent confronts these many daunting challenges, it must not let slip away the vast opportunities before it. Africa can harvest a huge potential demographic dividend in the coming decades. Indeed, by 2050, it will be the only region with a growing working-age population as the rest of the world faces aging and even declining populations; 72 percent of the world’s growth in the working-age population between now and 2050 will be in Africa. Its natural resources will be sought by the resource-deficient economies in Asia, Europe, and elsewhere. Its local entrepreneurs could provide a spark to unleash domestic

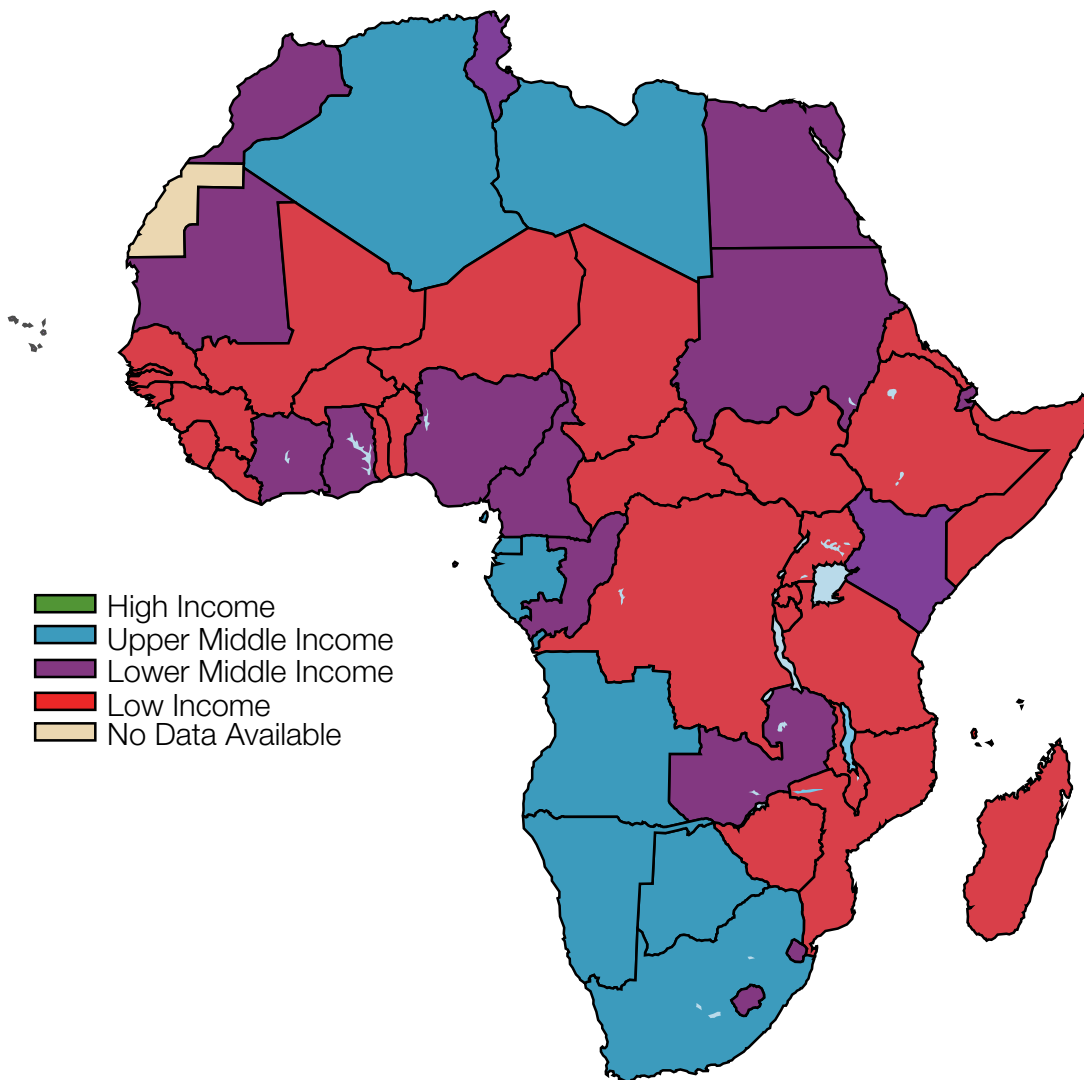
1. Algeria, Angola, Botswana, Cameroon, Cape Verde, Republic of the Congo, Côte d'Ivoire, Djibouti, Egypt, Equatorial Guinea, Gabon, Ghana, Kenya, Lesotho, Libya, Mauritania, Mauritius, Morocco, Namibia, Nigeria, Sao Tome and Principe, South Africa, Sudan, Swaziland, Tunisia, and Zambia.

2. Benin, Burkina Faso, Burundi, Central African Republic, Chad, Co-

moros, Democratic Republic of the Congo, Eritrea, Ethiopia, The Gambia, Guinea, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Somalia, South Sudan, Tanzania, Togo, Uganda, and Zimbabwe.

Africa has a very large scope to catch up with the global productivity frontier and attract international investors, as Asia did in the past 50 years.

Figure 1: Africa is largely made up of low- and lower-middle income countries



Source: World Bank (2016d)

private enterprise and harness unfolding technological changes. And, finally, Africa has a very large scope to catch up with the global productivity frontier and attract international investors, as Asia did in the past 50 years.³

3. This section and some other parts of the book build on the work done by the authors for the African Development Bank's Special Panel on Accelerating Development Impact of the High 5s (see its report of May 2017).

Some African countries are already on track to achieve such convergence. One out of six countries has averaged a per capita income growth above 3½ percent since 2010, the rate achieved by the successful Asian economies in the 1970s and 1980s. But, in the aggregate, growth in Africa has been slowing in recent years, partly because of the weak performance of two of its largest economies (Nigeria

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and South Africa). For the first time in 20 years, per capita income in Africa declined in 2016. Overall, during the past decade, the continent's growth was slower than the rest of world and its share of global output fell back to 3 percent, where it was twenty years ago. Equally worrisome, African economies are not creating good jobs on nearly the scale needed for the 200 million young people who are projected to enter the labor market during the next decade.⁴ It is urgent to address this widening gap.

The authors of this volume are persuaded that it is possible to reverse the recent trends, significantly raise Africa's economic growth, and create more quality jobs, provided that decisive actions are taken soon to exploit the available opportunities. This would put Africa on a fast track to converge with the rest of the world and achieve robust growth in per capita income. Promoting such convergence is the underlying motivation of the book.

Region-wide approaches and studies such as this book have both value and limitations. They are useful vehicles for developing and debating a broad vision for the region as a whole, identifying common opportunities and challenges, and agreeing on a general framework for realizing the vision. But beyond this, the specific strategies as well as the action agenda and its timetable must be developed at the level of each economy depending on its unique circumstances, including its economic and political history, aspirations of its people, stage of development, resource endowment, and sophistication of institutions and governance.

What is unique about this book?

The point of departure of this book is a vision of where Africa can be 40 years—or two generations—from now. The vision is deliberately based on stretch goals in key social and economic areas. While clearly ambitious, the vision is certainly plausible. To illustrate the economic and

social costs of inaction, Chapter 2 presents two scenarios: the convergence scenario and the central scenario (under which productivity growth is much slower). The differences in the outcomes in 2060 (GDP per capita, poverty levels, size of the middle class, Africa's share of global GDP) are staggering.

The chapter identifies the key multi-generational and crosscutting issues, challenges, and risks that must be tackled starting now in order to realize the vision. The intent is to inspire and lift the ambitions of all Africans and their leaders. Subsequent chapters highlight sectoral issues that require action on an urgent basis and suggest possible strategies to tackle them so that the longer-term aspirational vision can indeed be realized.

There are four other distinguishing features of the book:

- It focuses on multi-generational issues that require long lead times and are critical for Africa to meet the rising aspirations of its people.
- It results from the efforts of a highly experienced international team that has no institutional or ideological agenda.
- It combines analytical work on the lessons from other regions, particularly from Asia and Latin America, with the best existing work on Africa.
- It puts forth a framework that transcends the traditional ideological debates and gives equal priority to three overarching prerequisites for realizing the vision: putting greater focus on people, inclusion, and social cohesion; enhancing the competitiveness of African economies; and achieving greater cooperation, trade, and capital flows within the continent and with the rest of the world.

Assumptions and organization

The work underlying this book is based on several assumptions about the global economy. First, it is assumed that overall the world will remain peaceful and that there will be neither a widespread military conflict nor a natural or man-made calamity (e.g., nuclear war) affecting

4. This number is based on the increase in the working-age population as projected in United Nations. (2015). *World Population Prospects: The 2015 Revision*. New York: Department of Economic and Social Affairs, Population Division, CD-ROM edition.

Today, some 18 million youth enter the job market each year. Creating jobs for them is most urgent, and the jobs need to be created where the young live (i.e., mostly in the rural areas).

a wide swath of humanity. Second, that the ongoing historic shift in the balance of the global economy from North America and Europe to emerging markets will continue peacefully, as over the past 70 years. Third, that the global financial and trading systems will remain stable and continue to drive further globalization, though with the usual ups and downs associated with business cycles. Fourth, that changes in the Earth's climate will remain within the range currently anticipated by the scientific community. And, finally, that the pace of technological progress and improvements in the productivity frontier will be similar to that over the past century. If one or more of these assumptions fail to hold, then the outcomes for the world economy as a whole, including Africa, could well be outside the scenarios portrayed in the book.

The book is intentionally not comprehensive. Instead, it covers a limited number of topics that, in the view of the book's authors, will have a decisive impact on African economies over the next 40 years. Other criteria for selecting the topics included: intergenerational nature of the issues, horizontal interplay between the issues, and availability of data for all or the vast majority of countries. In addition, the book does not cover certain important topics covered in recent work elsewhere or in our earlier book, *Africa 2050*, published in 2014 (e.g., demographics, climate change, governance).⁵ These subjects are recognized in the book, but detailed analysis and the related action agendas are not developed here.

This volume comprises twelve chapters. After this introduction, Chapter 2 by Theodore Ahlers, "Imagining Africa 40 Years from Now," paints two dramatically different scenarios for the continent depending on what actions its leaders take in seven key policy areas beginning today. In developing the scenarios, Ahlers looks at the actual performance during the past decade, compares key indicators for Africa and Asia to draw lessons for the future, and suggests that for Africa to converge rapidly with the rest of the

world it needs to aim at annual per capita income growth of 3½ percent. Chapter 3 by Louise Fox, "Africa's Inclusive Growth Challenge: Reducing Deprivation and Creating Jobs," points out that despite a decade and half of growth, poverty and inequality in Africa remain high and almost half of the population still lives in a state of extreme deprivation. Today, some 18 million youth enter the job market each year.⁶ Creating jobs for them is most urgent, and the jobs need to be created where the young live (i.e., mostly in the rural areas). Improving productivity in agriculture is crucial as is creating and growing labor-intensive, non-SMEs. Chapter 4 by Kaisa Alavuotunki and Ritva Reinikka, "Building Human Capital: Improving Education Quality," develops a vision for education in Africa consistent with the convergence scenario articulated by Ahlers and tries to formulate a road map for how to get there. In assessing the situation today, they present the good news that the continent has made good progress on public spending targets and raising primary school enrollment rates in most countries. But they raise serious concerns about the quality of education and the reality that students are not learning basics skills. Without urgent actions on this front, the continent will not be able to realize the so-called demographic dividend or see its firms become competitive in a globalized economy.

Chapter 5, "Transforming Rural Africa: Growing a Productive Agriculture Sector" by Kevin Cleaver, is a bridge between Chapters 3 and 6 on people and social issues and the next six chapters on individual sectors. Given that some 60 percent of all Africans live in rural areas, most of the poor are rural and the immediate scope for creating large number of jobs possibly lies in agriculture-related activities, particularly in low- and lower-middle-income countries. Cleaver demonstrates the tremendous scope for improving agricultural productivity through greater private investment and management, improved rural institutions and infrastructure, better donor coordination, and more aggressive climate change adaptation and mitigation.

5. Ahlers, T. Kato, H., Kohli, H., Madavo, C., & Sood. A. (eds.). *Africa 2050: Realizing the Continent's Full Potential*. New Delhi: Oxford University Press.

6. United Nations (2015)

Openness to the global markets (including joining global value chains), promotion of industrial clusters, better infrastructure, faster progress on creating regional markets, and improvement of the local skills base are all high priority for economic diversification to succeed.

Chapter 6, “The Impact of Commodity Terms of Trade in Africa: Curse, Blessing or Manageable Reality?” by Claudio and Ieva Vilkelyte, discusses the important issue of the strong interplay between commodity cycles in international markets and the fortunes of many African economies. The authors quantify the impact of commodity prices and countries’ terms of trade in commodity-exporting economies. They show that Africa remains more dependent on commodity exports than Latin America and suggest policy measures to reduce the continent’s vulnerabilities to future shocks. Next, in Chapter 7, “Economic Diversification of African Economies,” James Bond discusses the longer-term objective of reducing Africa’s heavy dependence on commodity exports while creating well-paying jobs in manufacturing and services. He suggests that policy makers need to focus on creating the right economic (business) environment and work closely with the private sector to proactively promote new sources of economic growth. Openness to the global markets (including joining global value chains), promotion of industrial clusters, better infrastructure, faster progress on creating regional markets, and improvement of the local skills base are all high priority for economic diversification to succeed. The next three chapters address some of these issues. Chapter 8, “Africa’s Infrastructure Deficit: Closing the Gap,” also by James Bond, highlights the infrastructure constraint to Africa’s economic and social development. This chapter demonstrates that Africa is the least-endowed region in the world in terms of infrastructure. It also does not perform well on the quality of services delivered to users; they are costly and undependable. The chapter outlines the need for developing new models of infrastructure delivery that move away from state-owned enterprises, improving management of assets with more cost-reflective tariffs and government payment, and increasing private financing of infrastructure. Chapter 9, “Urbanization and Demographics: Planning Cities That Work” by Gregory K. Ingram, is closely related to the previous two chapters. Cities that work are critical for the long-term future of Africa both

because that is where the majority of Africans will live and because they provide the location for most modern economic activities (industry and high-value services). Ingram points out that a large proportion of Africa’s infrastructure will be built in and around cities. Given the rapid pace of urbanization expected between now and 2060, it is urgent that countries pay much more attention to better urban planning, improved urban governance, strengthened urban institutions, and financing sources. Ingram also highlights the link between climate change and urban development on the one hand and between urbanization and loss of agriculture land on the other.

Chapter 10, “Regional Economic Integration in Africa” by Hasan Tuluy, highlights an issue important to the region because of its many small economies and land-locked countries. The chapter points out that despite the importance of deeper economic integration to the region as a whole and its adoption as a political objective at the highest levels—including at the African Union Summits—the actual progress has been meager. Tuluy calls for a new, more pragmatic, bottom-up approach that will serve business needs along the lines of the integration achieved by East Asia. This chapter is followed by the last substantive chapter, which discusses the very worrisome conflict phenomena that currently threaten the safety and well-being of people in countries with almost one fourth of all Africans. Chapter 11, “New Threats to Africa’s Stability and Growth” by Serge Michailof, discusses the key factors that have led to fragility in many parts of Africa, particularly in the Sahel. He then suggests a possible program of action to be supported by the international community that will rebuild the state apparatus in the countries concerned, help reduce rural poverty, reform the education systems, create new jobs, and bring down the rate of population growth. The book concludes with a brief epilogue by Harinder Kohli and Hiroshi Kato highlighting the book’s messages on how to realize the aspirational vision (convergence scenarios) advocated by the authors.

As the readers of this volume well know, the global economic environment has become significantly more challenging in the years since the precursor to this book, *Africa 2050: Realizing the Continent's Full Potential*, was published in 2013. Given this tougher world the continent faces, now is the time to reflect on how Africa can “reset” its economic development with these challenges in mind. That is exactly what Theodore Ahlers, Harinder S. Kohli, and the authors of this book have done. This book has the clarity and urgency necessary to cut through much of the noise on development issues in Africa and present a straightforward and analytically rigorous framework for medium-term policy changes that can put the continent on the right track.

—*Michel Camdessus, Former Managing Director of the International Monetary Fund*

Africa faces both big opportunities and worrisome threats. The Africa that emerges over the next 40 years—a dynamic continent with a growing influence in the world or an economic backwater that exports its people and capital—depends on what countries do now. Africa is growing and many socioeconomic indicators are improving but it is no longer catching up with the rest of the world—converging. *Africa Reset* looks at performance over the last decade, highlights the difference in performance across countries, and identifies the biggest policy issues to be addressed if Africa is to converge with the rest of the world and meet the aspirations of its people.

Despite a tougher world—slower global economic growth, lower commodity prices, and tighter financial markets—one out of four African countries have averaged per capita income growth above three percent for the last decade. The progress of these high performers shows that it is what countries do—the policies of their governments, the responsiveness of their entrepreneurs, the integrity of their institutions, and the political will of their leaders—that makes the difference, not their resource endowments. The challenge is to extend this African best practice to more countries of the continent.

This book shows that the consequences of such a “reset” can transform the continent but also that the human cost of not doing so would be staggering.

In March 2017, I had the pleasure of hosting the Fifth Africa Emerging Markets Forum in Abidjan, where the preliminary research for this volume was presented and discussed. I am thrilled to see the culmination of that research published here and I applaud the editors and authors for developing this thoughtful roadmap for our continent. “Resetting” Africa’s development trajectory is exactly the attitude that we, as Africans, must take going forward, recognizing not only the challenges we face and the need to break from past complacency but also the opportunities on hand as we chart “a new way forward.” I am inspired everyday by the vibrancy and drive of Africans and, with the policy action plan put forth in this volume, I am confident in our ability to transform our continent in the coming decades.

—*Alasanne Ouattara, President of the Republic of Côte d'Ivoire*