

Africa's Economic Prospect and Challenges

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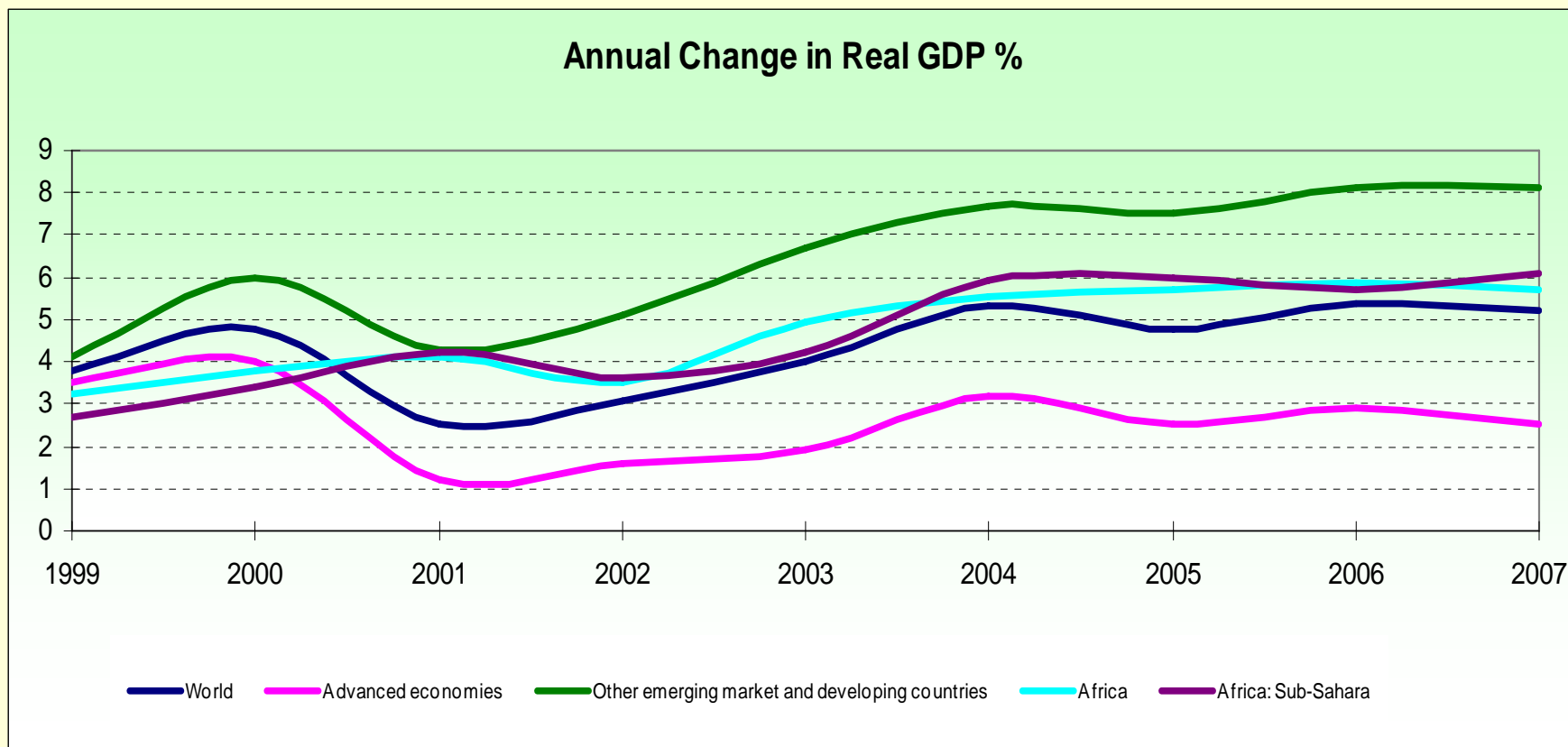
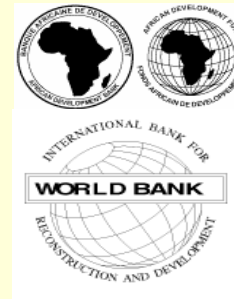
**Strategic Partnership for Africa
Tunis, February 21-22, 2008**

Key Messages

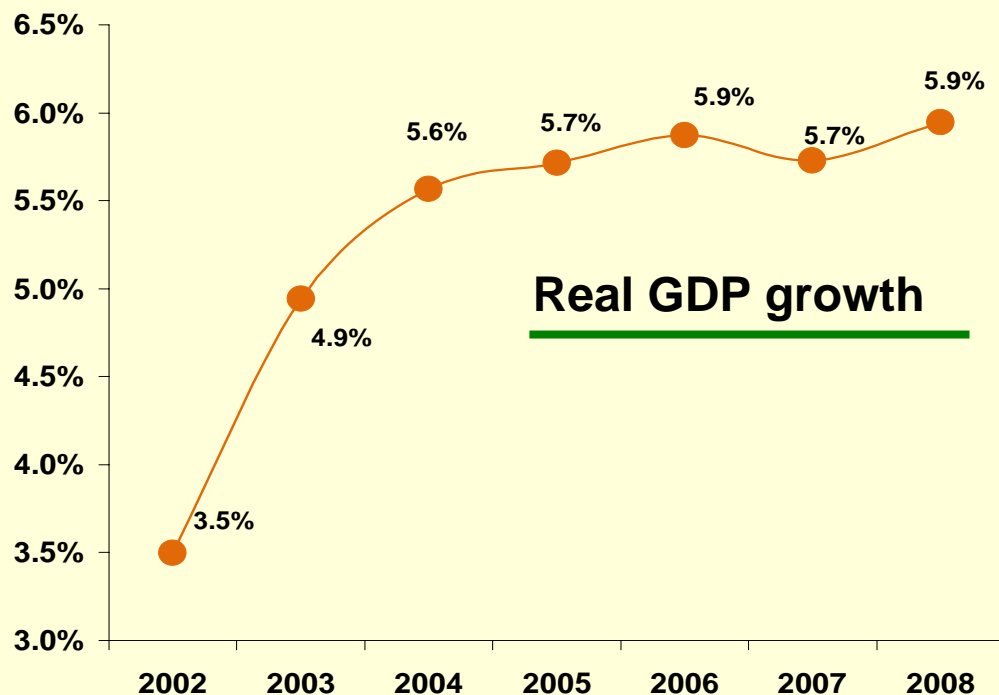


- I. African growth picking up and becoming more broad**
- II. Cyclical and Policy factors explain most of the growth**
- III. An opportunity not to be missed: growth remains volatile and major development challenges persist**
- IV. Need to sustain the good times**

Africa's GDP growth is now increasing in tandem with other developing countries and is as fast as world GDP growth



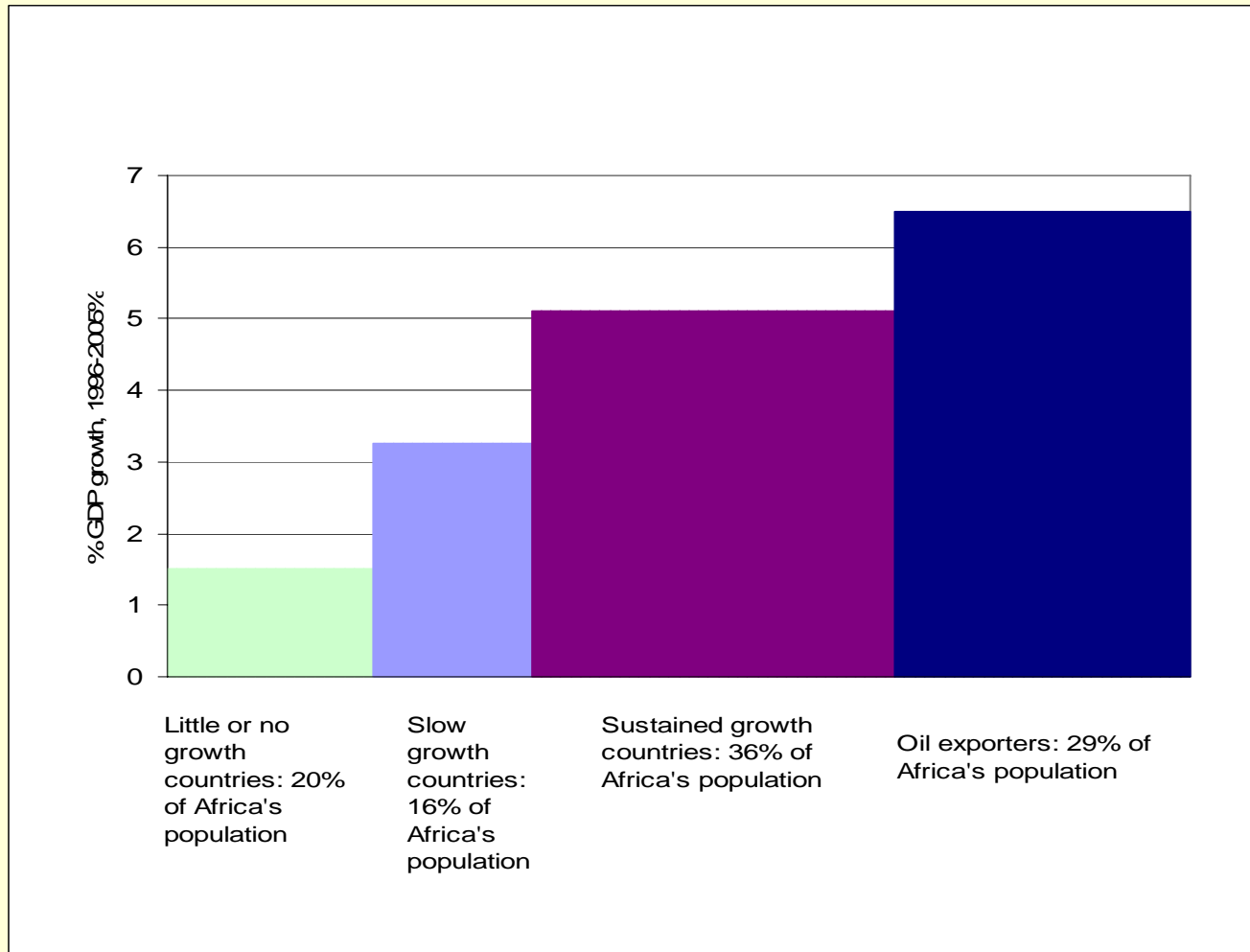
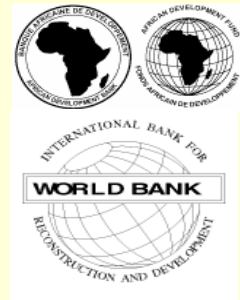
For the fourth consecutive year, in 2007 Africa's real GDP growth rate exceeded 5% -- with growth becoming more broad-based



25 countries achieved GDP growth rate of above 5 % in 2007

14 countries achieved GDP growth rate between 3% to 5% in 2007

A group of diversified sustained growers has emerged, but economic performance varied substantially

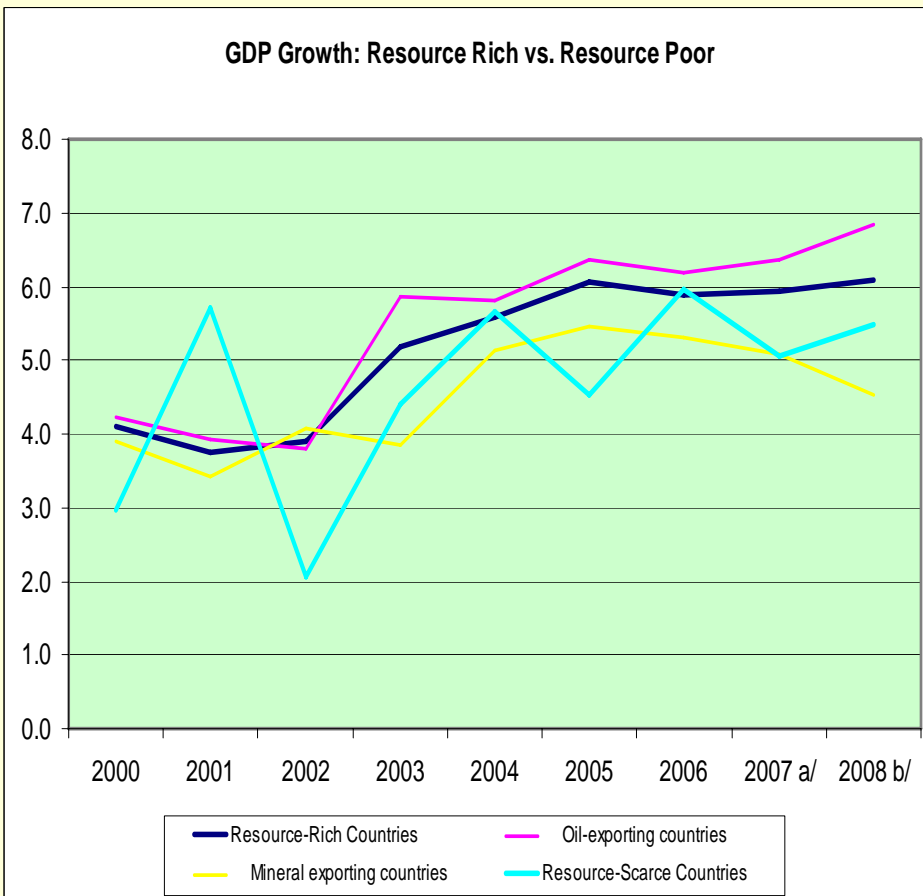


Source: ADI 2006

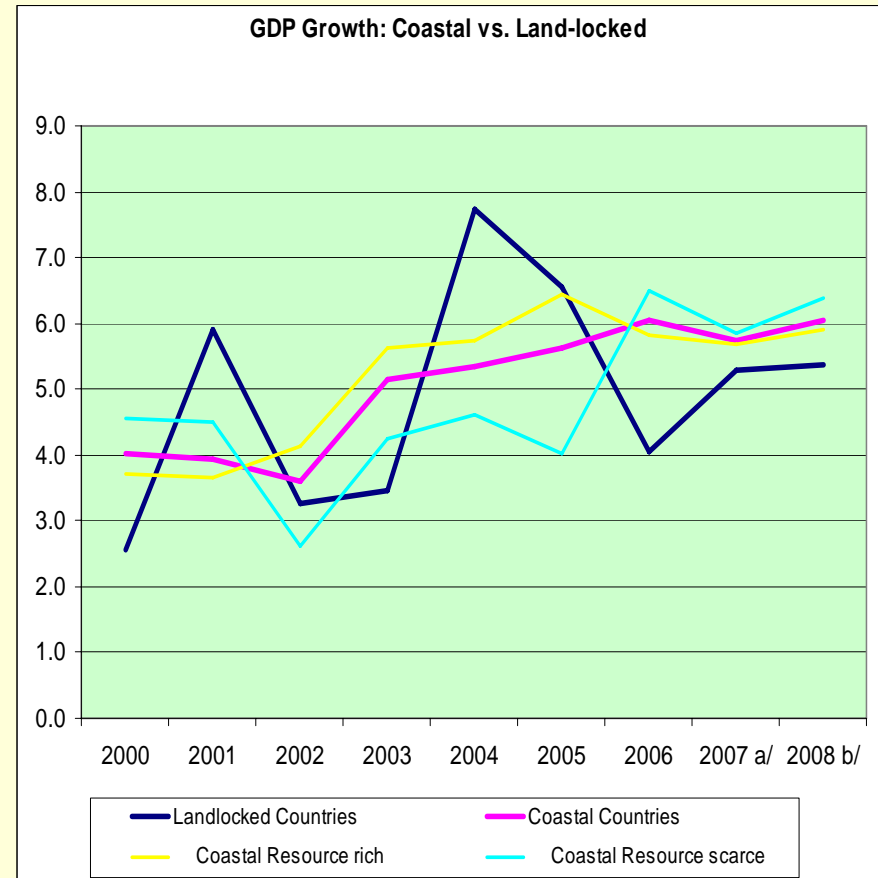
Growth is More Broad Based: growth has also picked up in resource-scarce and land-locked countries



GDP Growth: Resource Rich vs. Resource Poor



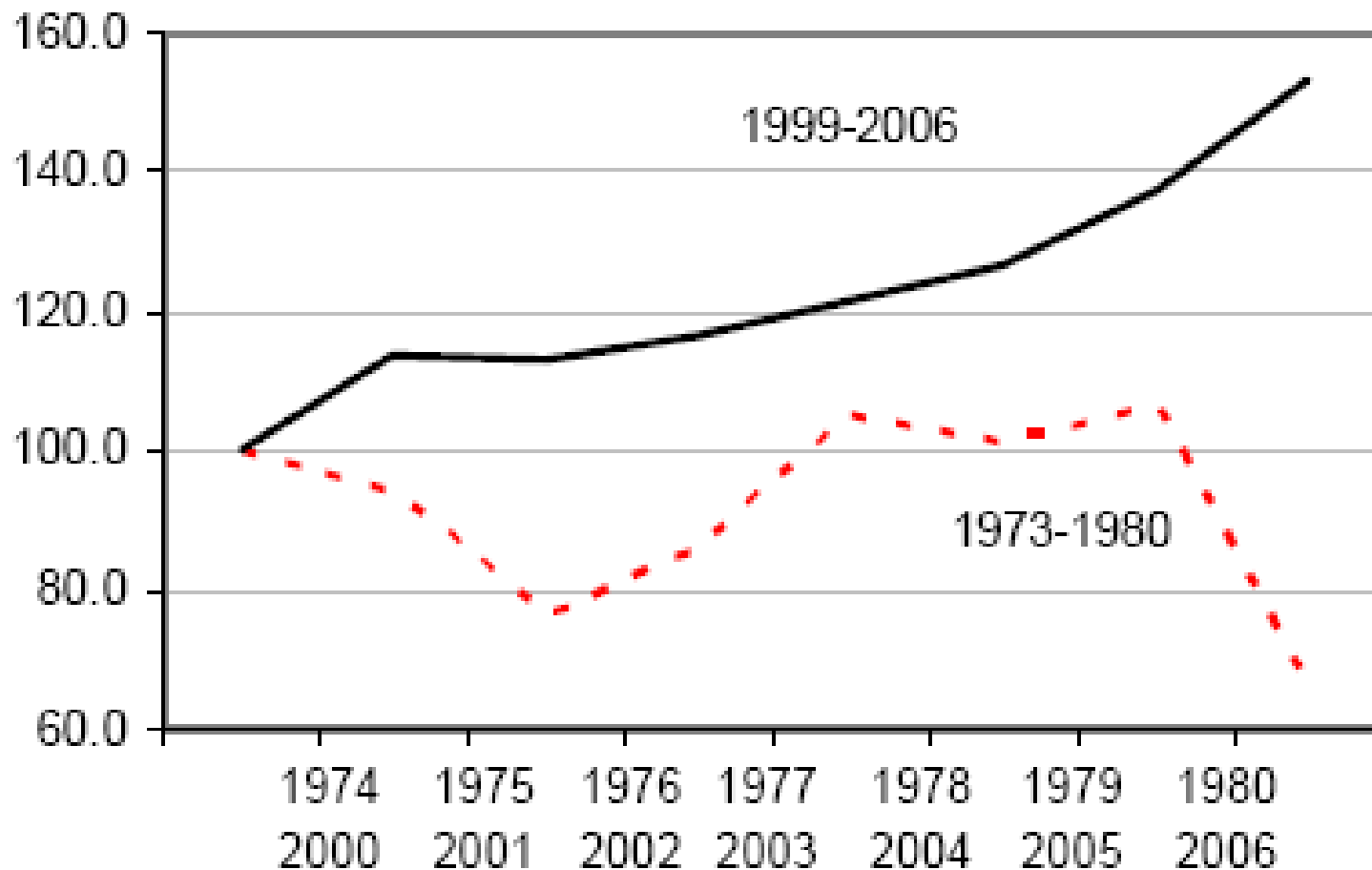
GDP Growth: Coastal vs. Land-locked



Overall Terms-of-Trade of African Countries remains relatively favorable due to price increases of both oil and non-oil commodities



Terms of Trade Index in SSA: 1973-1980 & 1999-2006 (1973, 1999=100)



Source: World Bank

**Oil prices have risen to all-time high.
 Metals prices have remained strong since 2001.
 Food prices are being boosted by supply constraints
 and strong demand.**



Figure 1: Recent Developments in Commodity Price Index (1995=100)

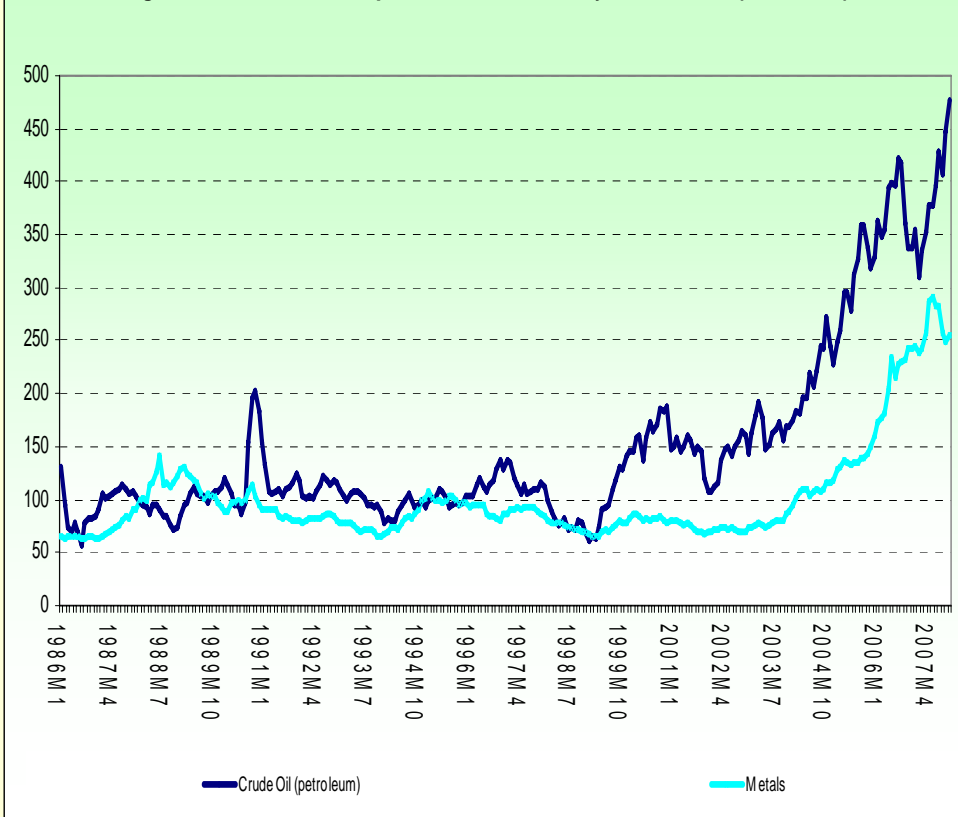


Chart 15: Coffee, Robusta (Cents/kg)

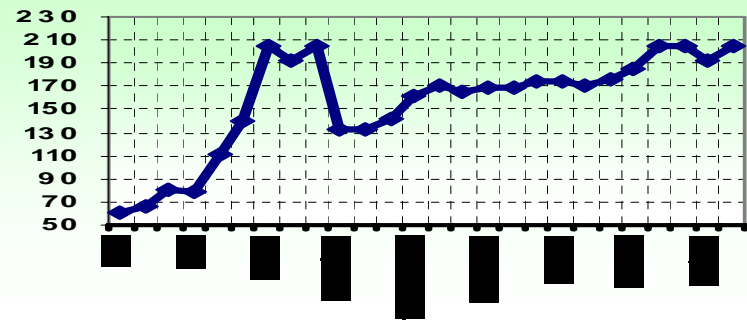
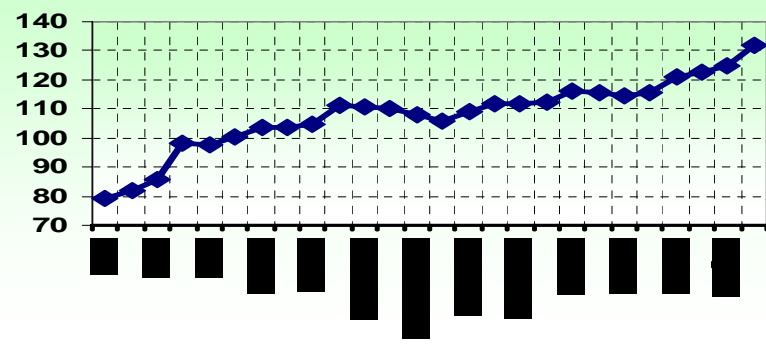


Chart 17: Food Index Prices (1995=100, in terms of US \$)



* Comprises Crude Oil (Petroleum), Natural Gas, and Coal Price Indices

While pass-through of oil cost in Africa is relatively high, African governments have not delayed domestic adjustments to rising oil price

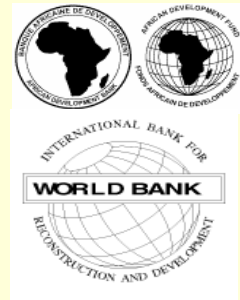


Pass-Through Coefficients for Gasoline and Diesel in Local Currency (Jan 2004-Apr 2006)

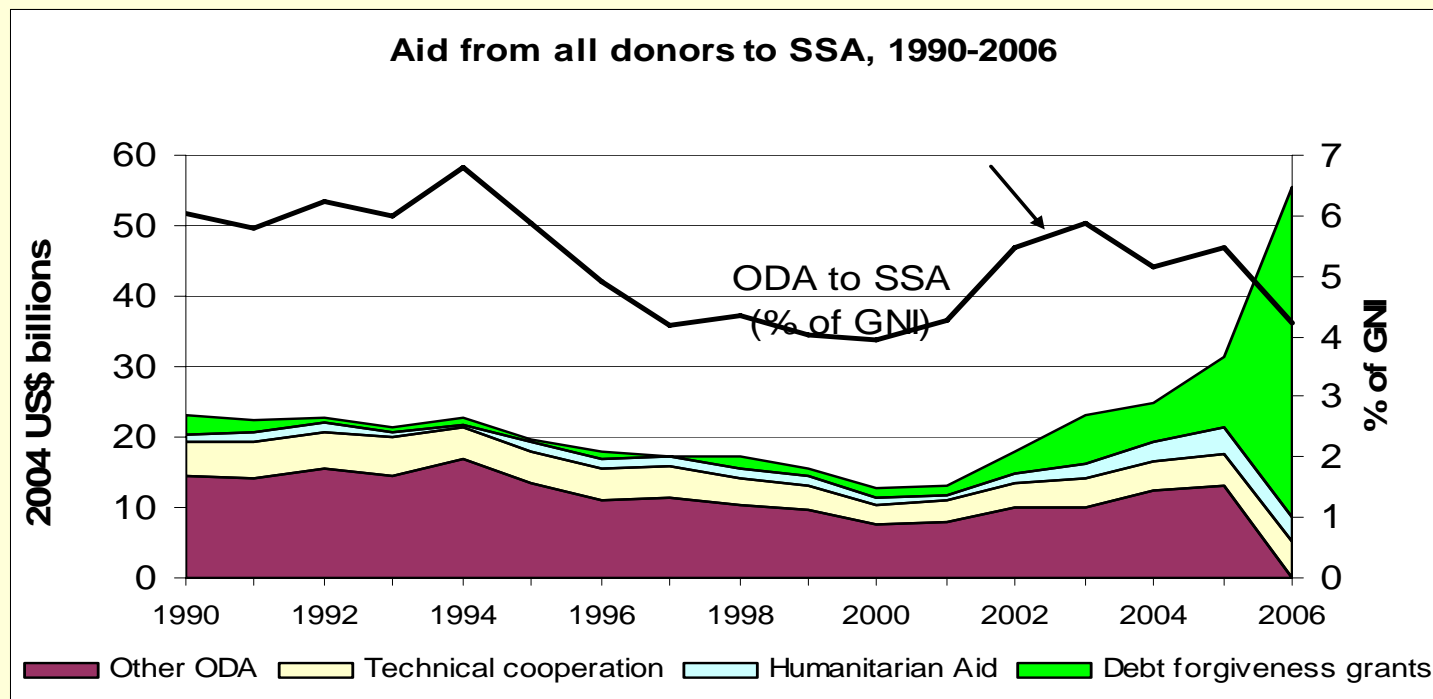
<i>Country</i>	<i>Gasoline</i>	<i>Diesel</i>
Reference industrial countries (6)	1.13	0.96
Developing countries – (31)	1.03	0.88
Non-SSA countries (20)	0.92	0.73
SSA countries (11)	1.22	1.16
Cameroon	0.91	0.98
Ethiopia	0.48	0.64
Ghana	1.33	1.21
Kenya	0.97	0.79
Madagascar	1.46	1.55
Malawi	1.14	1.22
Mozambique	1.10	1.01
Rwanda	0.98	0.76
Tanzania	1.57	1.52
Uganda	1.23	1.14
Zambia	2.20	1.93

Source: ESMAP study by Bacon and Kojima (2006). “Coping with Higher Oil Prices.”

Rising ODA & Debt Relief have also played a role in stimulating growth



- ... but aid is still falling short of Gleneagles commitments of doubling assistance to Africa by 2010
- ... there is little new aid beyond debt relief and humanitarian aid



Good policy has also contributed to the recent good time

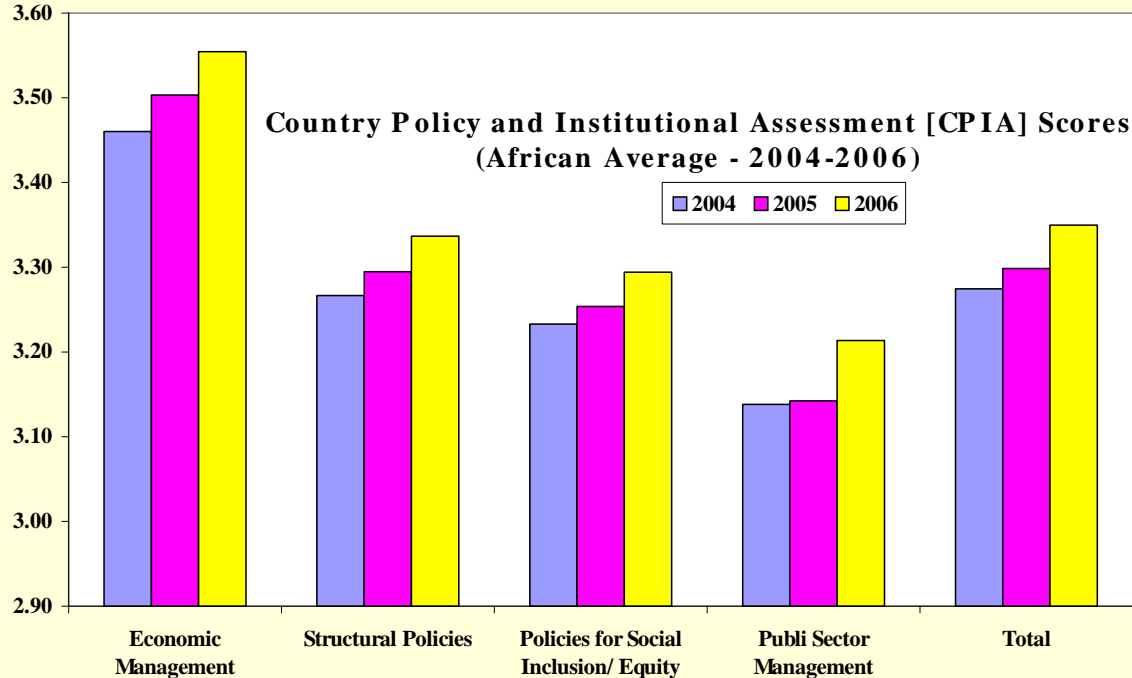


- **Better economic management**
- **More competitive exchange rate**
- **Better institutions**
- **Better governance**
- **Fewer conflicts**



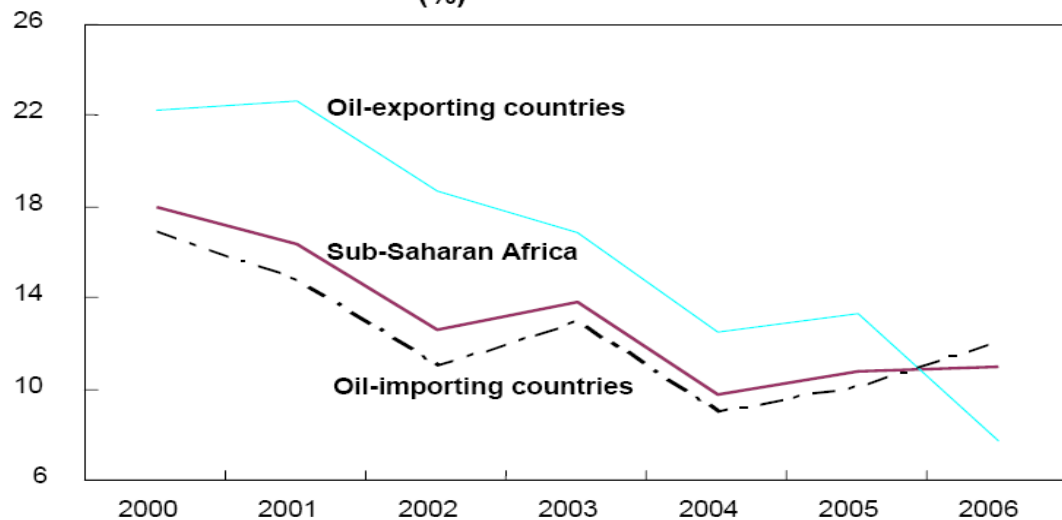
**Fundamentals
gradually
picking up ...
Economic
Management
has improved
to strengthen
growth**

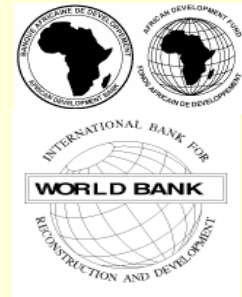
**Country Policy and Institutional Assessment [CPIA] Scores
(African Average - 2004-2006)**



**.....Greater
macroeconomic
stability attained**

**Inflation, 2000-06
(%)**



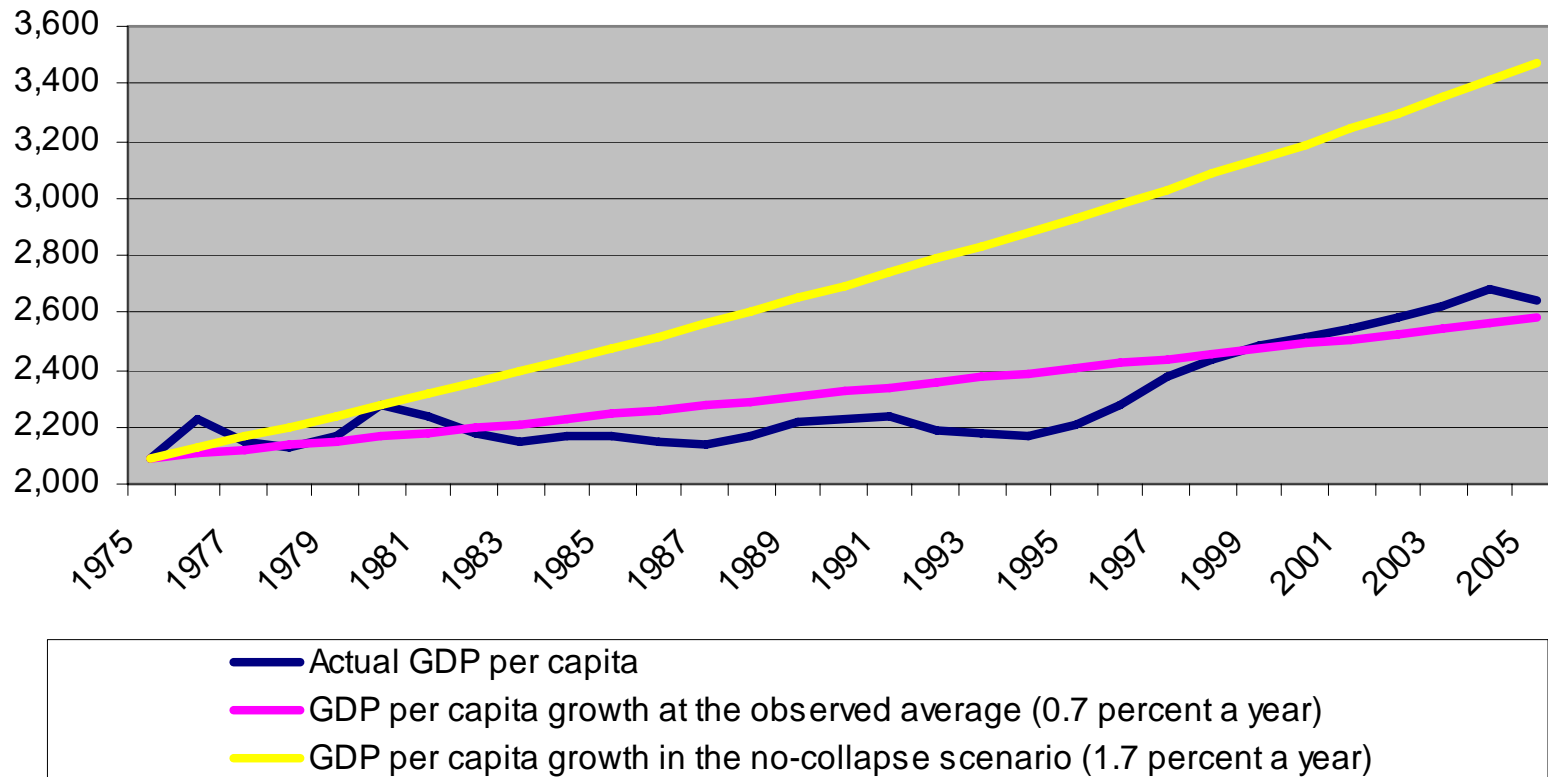


Looking ahead, the priority for African policymakers must be to avoid growth collapses

Had Africa avoided the bad times, GDP per capita would have been 30 percent higher in 2005

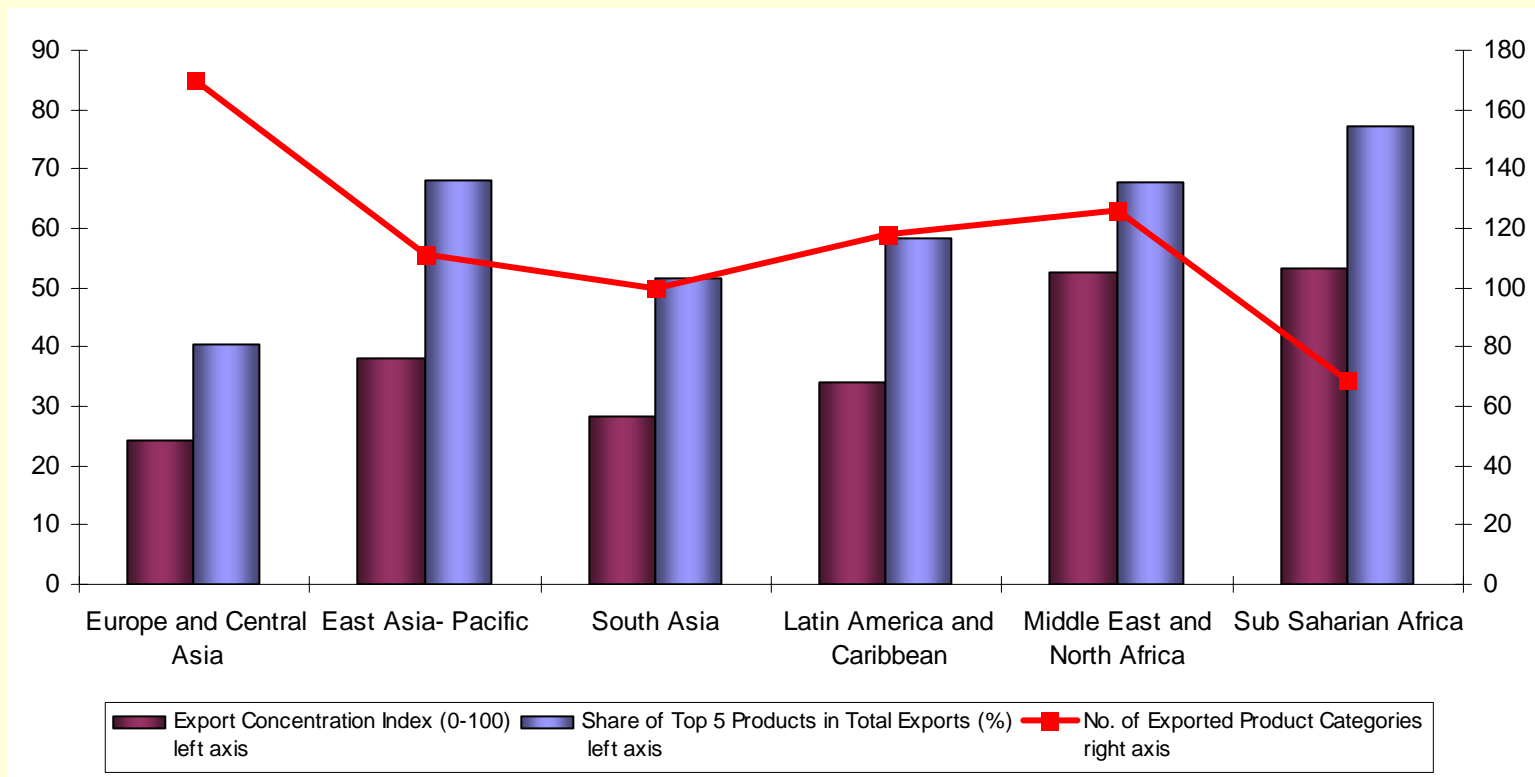


Actual and simulated GDP per capita (\$)



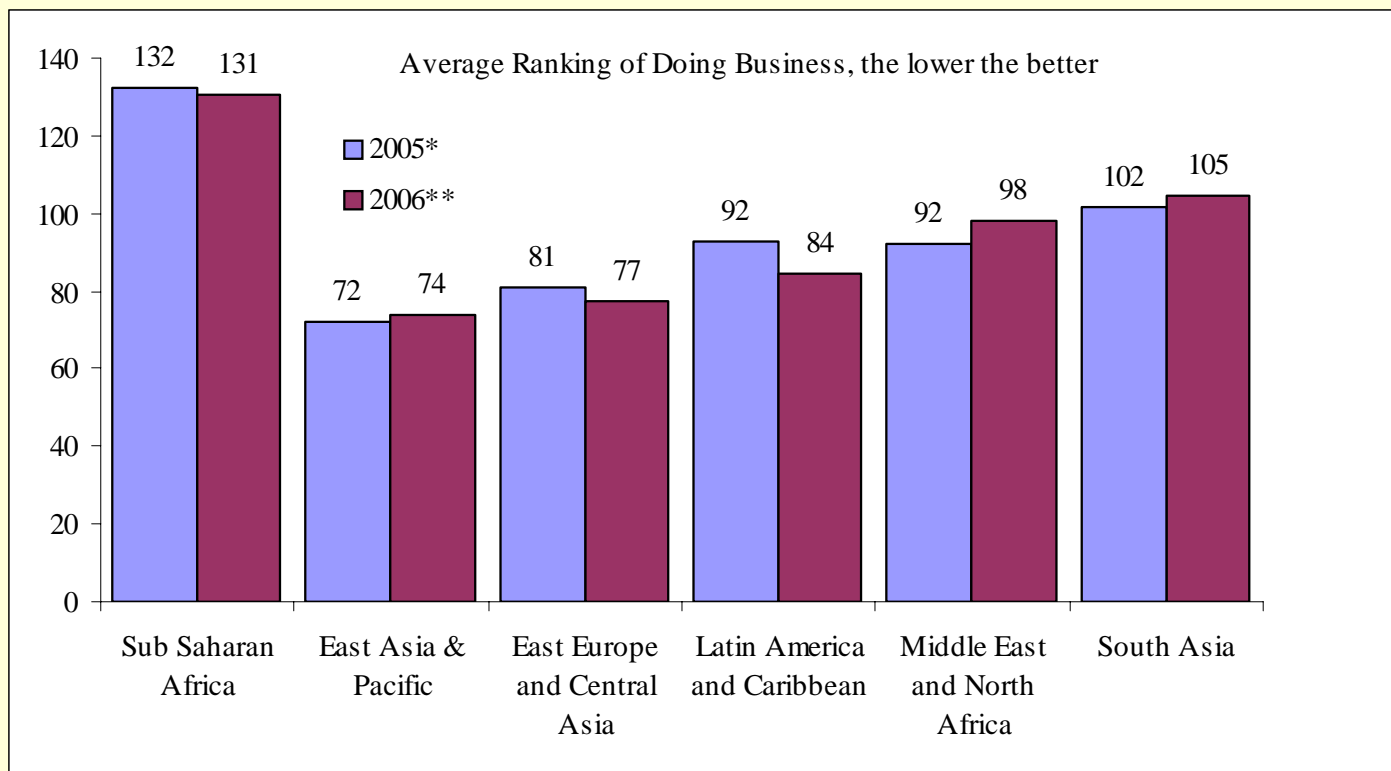
Source: ADI 2007

Export diversification is very low relative to other regions



Source: World Bank, World Trade Indicators

Africa still lags other regions in the cost of doing business



Sources: World Bank Doing Business Database

*Normalized ranking from Doing Business 2006.

** Ranking from Doing Business 2007.

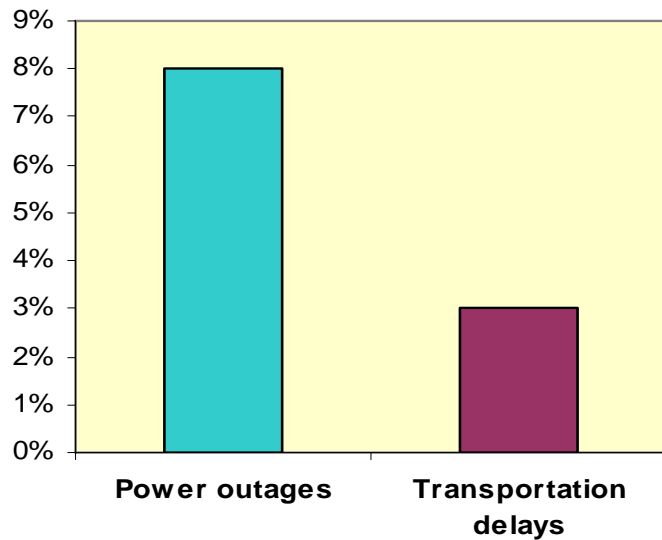
Infrastructure remains a major bottleneck



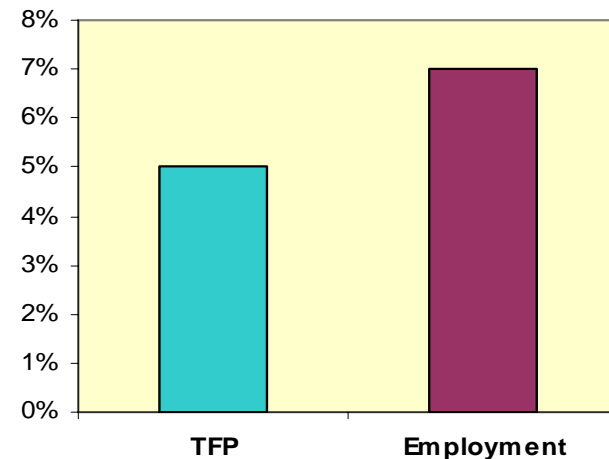
Losses due to unreliable infrastructure services are substantial

Better infrastructure could improve productivity and increase employment

Percentage of sales lost due to weak infrastructure

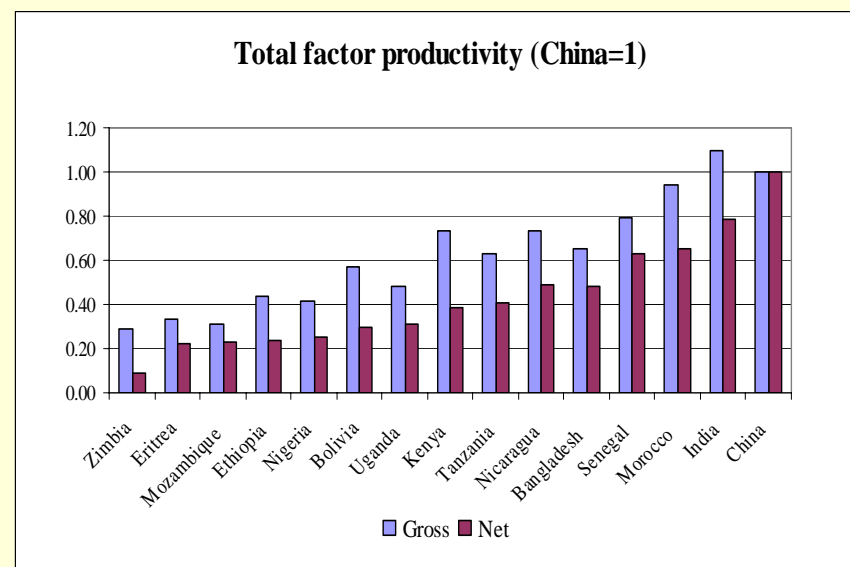
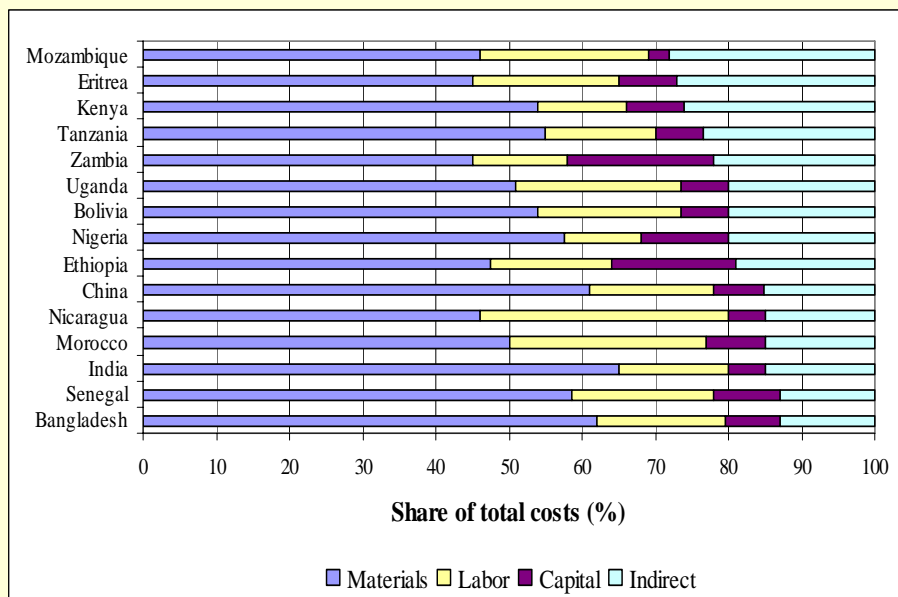


Impact of better infrastructure on productivity and employment



Source: World Bank Enterprise Surveys

Indirect costs are much higher, and net productivity is much lower than factory floor productivity

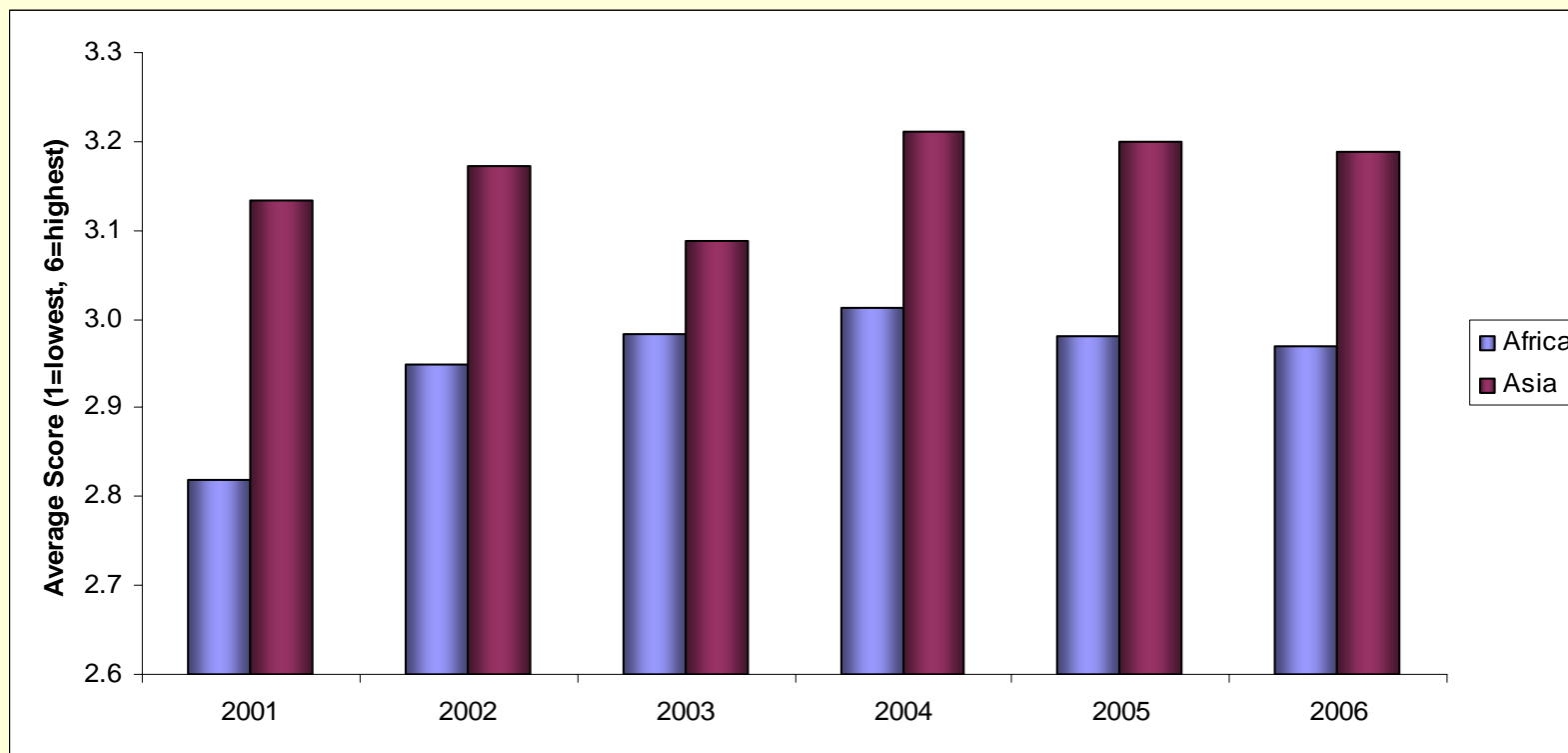


Source: Eifert, Gelb, & Ramachandran (2005)

Governance performance in Africa has improved but remains low



Av. Score for Public Sector Management and Institutions



Source: World Bank Country Policy and Institutional Assessment (CPIA)

Note: Only IDA countries for Asia

Resource Rich Countries in Sub-Saharan Africa



Definition of Resource Rich

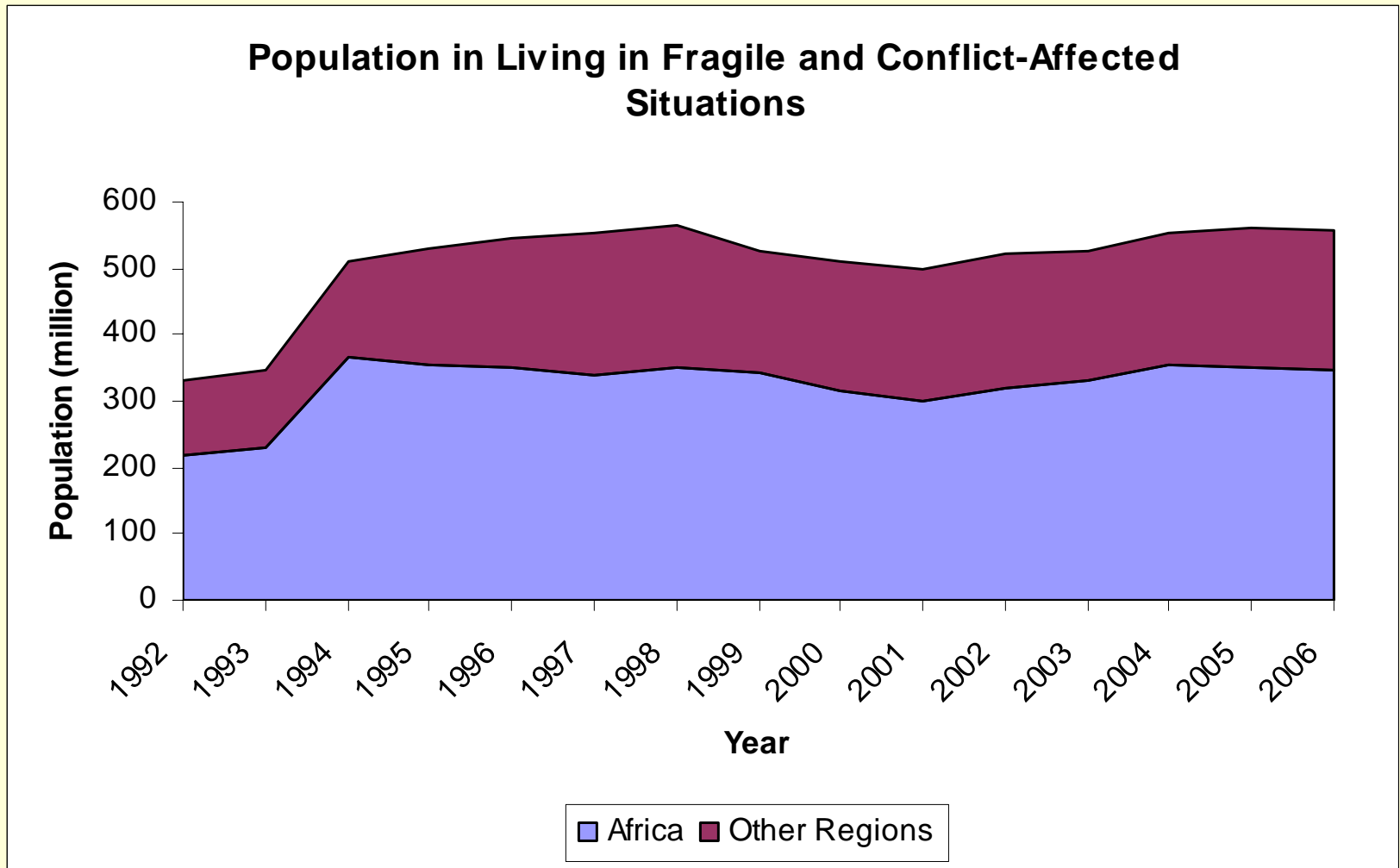
- i) average share of hydrocarbon and/or mineral fiscal revenues in total fiscal revenues at least 25% over the period 2000-2005 or
- (ii) average share of hydrocarbon and/or mineral export proceeds in total export process of at least 25%

Source: IMF (2007) *Guide on Resource Revenue Transparency, Appendix I*

KEY:

Hydrocarbon-rich
Potentially large med to long-term hydrocarbon revenue
Potentially large med to long-term hydrocarbon revenue and mineral-rich
Mineral-rich

Fragility and Conflict Remain Pervasive



Source: World Bank DDP

To sustain the good times and avoid the bad



In resource-scarce economies:

Accelerating productivity growth and increasing private investment are key

Therefore, emphasis on:

- Improving the investment climate**
- Improving infrastructure**
- Spurring innovation**
- Building institutional capacity**

To sustain the good times and avoid the bad



In resource-rich economies:

Ensuring that natural resource wealth translates into broad-based income growth and delivery of services is key

Therefore, emphasis on:

- Awards of contracts and licenses**
- Regulation and monitoring of operations**
- Collection and disclosure of taxes and royalties**
- Resource extraction and economic management decisions**
- Public spending for sustainable development**

To sustain the good times and avoid the bad



In fragile and conflict-affected situations:

Laying the basis for long-term recovery is critical

Therefore, emphasis on:

- Preventing of escalation or resumption of conflict**
- Achieving visible results in terms of service delivery through alternative mechanisms**
- Focusing on ways to enhance the capacity and accountability of state institutions**