المركز المصرى للدراسات الإقتصادية

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Coping With The Challenges to Africa's Structural Transformation

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Cairo, Egypt

June 13th , 2012

The report makes a strong argument that Africa has the potential to be a pole of global growth. However, to realize this potential, Africa has to identify:

1. **The main challenges to its structural transformation**

2. **Ways to cope with these challenges**

3. **Partners who will support its own development efforts**

1. Challenges to Africa's structural transformation

1.1. Africa's Young Population is Demanding Change

By 2050,

- **Africa is expected to represent 15% of the world population, compared with 10.8% in 1980**
- **Africa's population will be more than four times bigger than the EU-27**
- **Africa's share of the world's young people (between the ages of 15 and 24) is projected to grow to 31.3 percent (currently this share is 17.5 percent)**

The case for actions to address the needs, concerns and aspirations of current and future generations is overwhelming

(employment, income, savings, spending, education, health, marriage)

Sources: **IMF, March 2012 and Eurostat, 2012.**

1.2. Growing Income Inequality, Poverty and Unemployment

- **Despite an annual growth rate of more than 5% in recent years, growth has not been matched by a similar decline in income inequality (6 out of the 10 most unequal countries are in Africa)**
- **More than half of the population – about 500 million people- still live in poverty**
- **Real per capita income today is less than it was in the 1970s, signifying faster growth of population relative to income**
- **Unemployment has averaged about 12% over the past two decades, the highest rate of any region in the world**

How to foster inclusive and sustainable development in the current stage of global economic uncertainty?

Source: **The African Capacity Building Foundation, 2012.**

1.3. Informality

- **Most African countries are characterized by a dual economy in which a relatively small formal private sector coexists with a large informal segment**

- **From 60 to 70 percent of African families are sustained by the informal economy, either directly as operators or indirectly as beneficiaries of the services provided by the sector**

FDI positive spillovers to the domestic economy such as transfers of skills and know-how could be limited as a result of weak linkages with local informal suppliers

1.4. High Risk of Food Insecurity

Most African countries are agricultural. Agricultural labor comprises 59% of the total labor force and contributes 13% of value added to GDP, signifying high rural poverty (FAO, 2011)

However,

- **The lives of more than 13 million people were affected by high food and fuel prices, drought and conflict in 2011**
- **More than 320,000 children were suffering from severe malnutrition in Djibouti, Ethiopia, Kenya and Somalia**
- **In Somalia, 4 million people- more than half of the country's population- were in crisis**
- **The crisis in the Horn of Africa is not a one-time event**

What steps need to be taken to render the peoples of the African Horn more resilient to the next drought?

1.5. Unbalanced Economic Structures and Vulnerability to External Shocks

- **In a number of African countries growth has been driven by extractive industries (oil, gas, gold) with limited spillover to the broader economy**

- **Many African countries specialize in a few primary commodities (cocoa, cotton, tea and coffee), while most of their imports consist of manufactures**

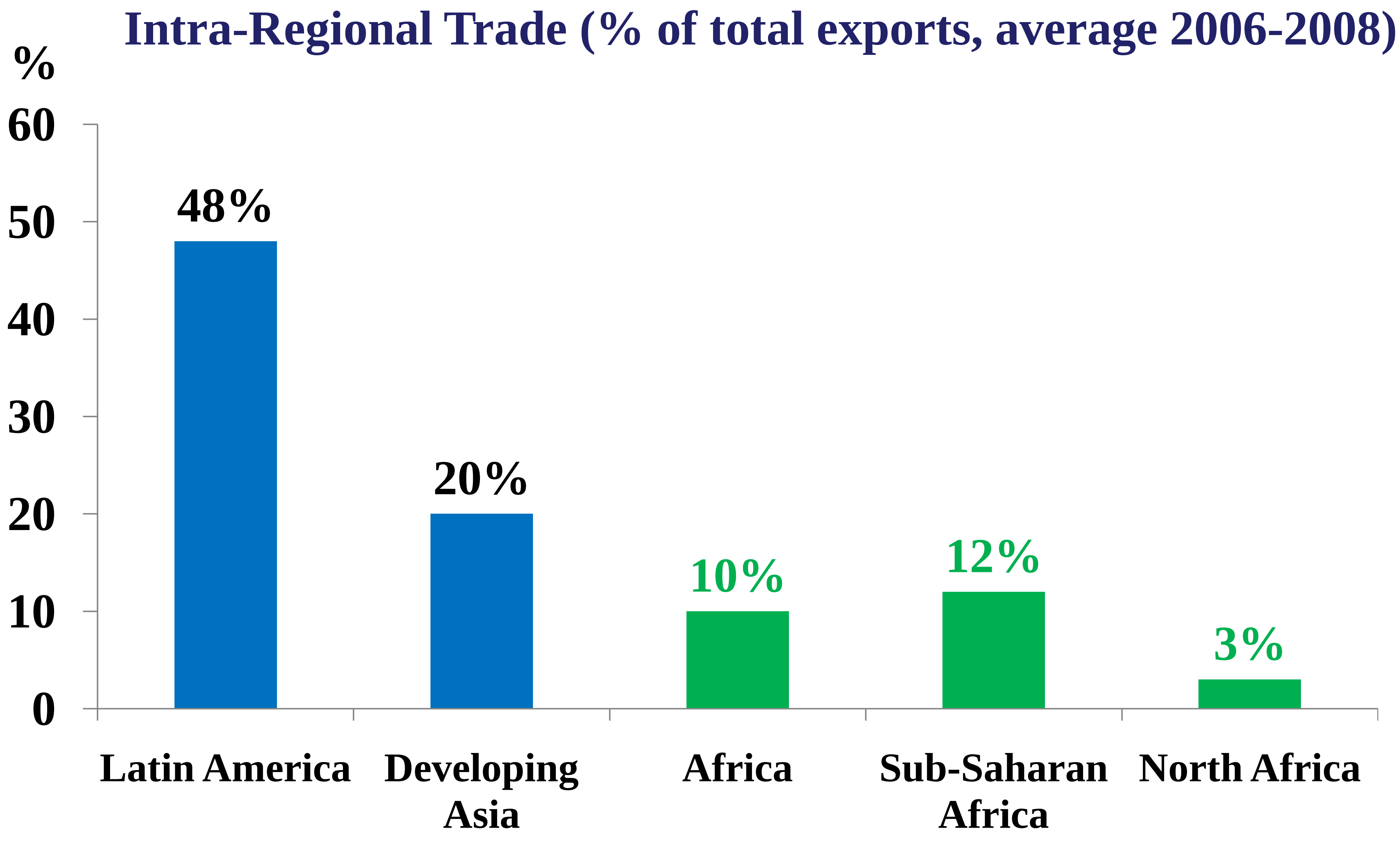
- **Several countries lack political will to have a structural policy (all efforts to make the Nigerian economy less dependent on oil have failed and its industrial value added has dropped steadily since the country gained its independence)**

Source: **The German Development Institute, Annual Report 2009-2010.**

Foreign Investment exacerbates unbalanced structures and vulnerability to shocks as it seems to:

- **Reinforce commodity dependence**
- **Have a weak impact on employment generation, working conditions and labor productivity in highly informal economies**
- **Operate in markets experiencing low transparency (many of the African countries are consistently ranked near the bottom on Transparency International's Corruption Perceptions Index, the World Bank's governance indicators and various other indices on competitiveness and governance)**

1.6. Low Level of Formal Intra-Africa Trade



Source: **African Development Bank, September 2011.**

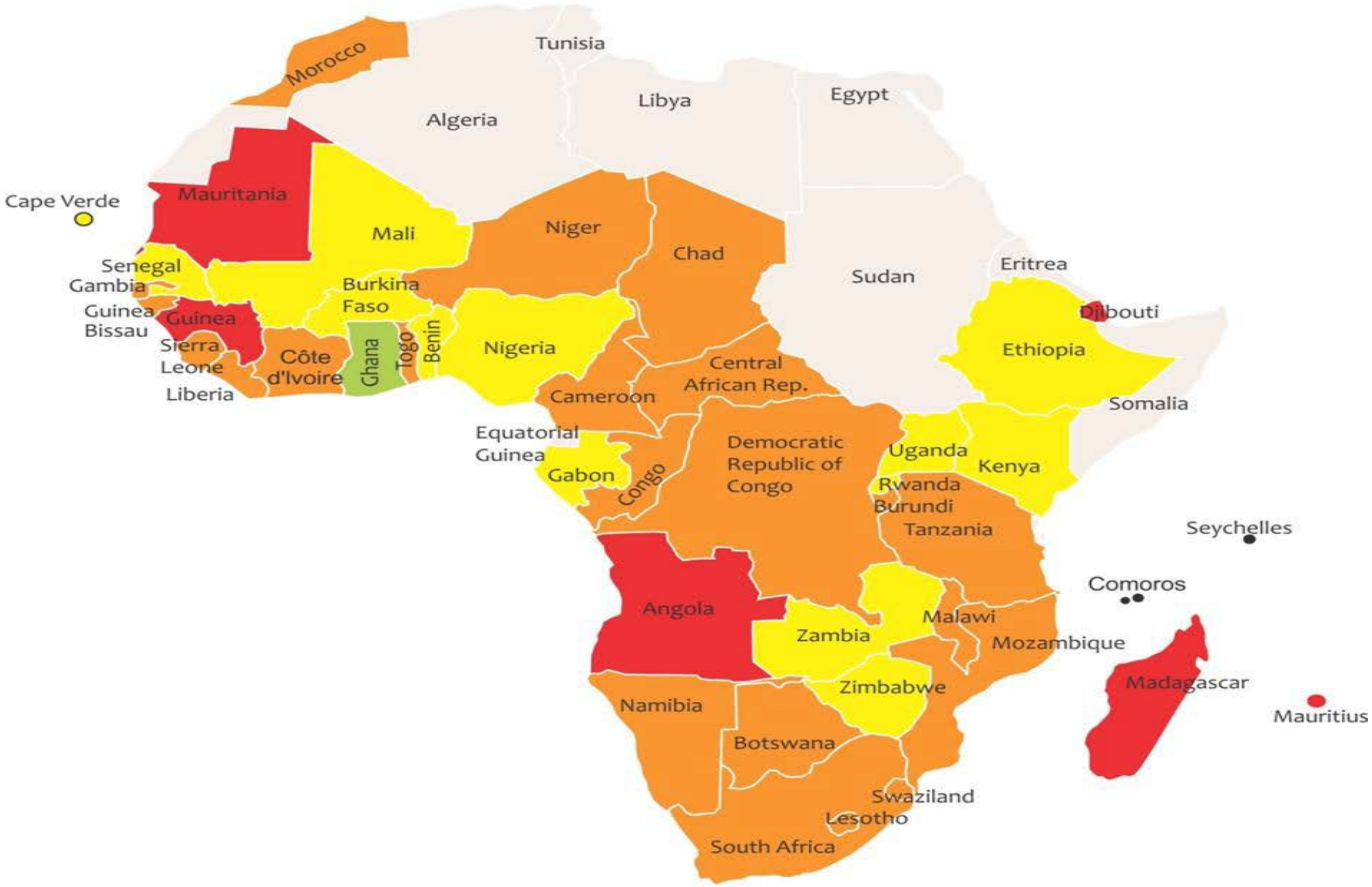
However,

- A significant level of cross-border trade occurs within the informal economy that is not captured by official records

- For example, at $206 million, Uganda's informal exports to the EAC in 2009 were estimated to reach more than half of the country's official trade with these partners

- If such informal trade were accounted for, the figures for intra-African trade would likely be much greater than the current trend of 10%

- **15 African countries, representing about one-third of Africa's population, are landlocked facing very high trade costs**
- **Africa comprises mainly countries that have small domestic markets with low purchasing power (19 African countries have fewer than 5 million people; only Nigeria has a population of 158 million in 2010)**



1.7. Inadequate Level of Infrastructure Development

- Infrastructure investment has not kept up with the increasing demand, due to rapid growth in Africa in recent years and the depletion by conflicts in fragile states (Mozambique, Rwanda and Uganda)

- Road density is less than 7 kilometers per 100 sq. km. of land, the lowest in the world

- In Congo, copper transported from the Copper belt region takes on average 2 to 3 weeks to reach the port of Durban; the same distance in Europe would be covered in 2 days

- With the exception of South Africa, railway systems that enable more efficient transport of goods and passengers are practically non-existent

- **Energy shortages are also common in Africa, which adds to the cost of transport and doing business and hampers trade in the region**
- **More than 30 countries experience power shortages and regular outages, disrupting economic activity and driving up firms' operating costs (ranging from 5 to 20 percent)**
- **For example, Zambia's hydro-power capacity of 1,600 MW is a quarter of its potential and connects only 22% of the population to grid-supplied electricity (AFDB, 2011)**

How to source more private capital for infrastructure investment?

1.8. Conflict and Political Violence

- **A conflict is estimated to turn the development clock back by 10-15 years**
- **Between 1990 and 2005, the cost of conflict in Africa was equivalent to the funds granted to the continent in international aid over the same period (both the cost of conflicts and aid from 1990 to 2005 amounted to $284 billion)**
- **Conflicts in Burundi and Rwanda have cost their governments an annual economic loss of 37 percent and 32 percent of GDP, respectively**

Source: **The World Bank, March 2011.**

2. Ways to cope with the challenges to Africa's structural transformation

2.1. There are key differences between African countries in terms of:

- The size of the economy*
- Governance structures
- Negotiating capacity and
- Resource endowment

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Hence, countries of Africa are expected to undergo processes of change at different speeds and to some extent, in different directions

* Per capita incomes range from $200 in Burundi to $20,000 in Equatorial Guinea (World Bank, 2011).

- **Oil-exporting countries where oil accounts for more than 30% of the value of total exports (seven countries with a total population of about 214 million, such as Nigeria and Angola), should focus on how to manage the available resources**

- **Middle-income countries (eleven countries with a total population of some 105 million, such as South Africa), should be interested in attracting FDI for the manufacturing sectors, focusing on the development of value chains, investing in human capital and promoting the private sector**

- **Low-income countries (14 countries with a total population of about 342 million, such as Ethiopia) still heavily dependent on aid, should focus on longer-term poverty alleviation objectives**

- **Fragile countries (12 countries with a total population of around 138 million, such as Congo) where political instability dominates, would focus on improving governance and enhancing reform capacities**

2.2. African countries need an active structural policy for:

- Fostering inclusive and sustainable development
- Economic diversification
- Boosting agricultural productivity
- Adequate resource management
- Improving governance
- Making investment work for development
- Deepening intra-African trade
- Investing to upgrade “regional” infrastructure
- Increasing financing from internal and external sources

2.3. Fostering Inclusive and Sustainable Development by:

- **Enabling the youth to take the lead by ensuring that they have a good education and good health**
- **Diversifying sources of growth towards labor-intensive sectors**
- **Promoting private sector led growth**
- **Progressive and gradual transition to formality**
- **Providing well-targeted safety nets for vulnerable groups in society**

Allowing the youth to take the lead by ensuring that they have a good education and good health

- Increasing youth literacy rates
- Enhancing secondary and tertiary enrolment
- Introducing quality assurance mechanisms
- Offering skills and knowledge development to the young
- Assigning greater emphasis to science and technology
- Providing better incentives and accountability for health care providers, upgraded management and more effective delivery mechanisms

2.4. Economic Diversification

To moderate negative external shocks from the euro debt crisis or volatility in commodity prices, African countries need to diversify:

- **Sources of growth, where the share of manufacturing exports climbs steeply (to at least 25% of GDP)**
- **Export destinations**
- **The composition of manufactured imports towards capital goods, industrial intermediates and components**

2.5. Boosting Agricultural Productivity

- Meeting African countries’ target of allocating at least 10% of national budgetary resources to agriculture
- Integrating nutrition, health, water and energy into agriculture development strategies
- Ensuring responsible foreign land acquisitions in Africa “land grabbing” , to inject investment into agriculture while respecting the rights, livelihoods and resources to all citizens, particularly women’s land rights
- Reduce the competition between biofuel and food production and to discourage trade restrictions that exacerbate food price swings

2.6. Adequate Resource Management

Growing global demand for energy, mineral and agricultural commodities, creates opportunities for growth but requires:

- **Fighting corruption;**
- **Mobilizing long-term investment; and**
- **Embarking on a lower carbon development path by making use of Africa’s considerable renewable energy resources (hydropower, solar energy, wind power)**

Adopt and reinforce the extractive industries transparency approach, which considers the value chain of natural resource management from:

- **Initial discovery through …**
- **Transparent contracting for extraction to …**
- **Transparency in revenue reporting and management to…**
- **Effective public expenditure and investment management for the benefit of the communities in resource-rich areas**

2.7. Improving Governance through:

- Fostering predictability, accountability and transparency in managing public affairs
- Promoting free and fair electoral processes
- Fighting corruption and inefficiency
- Enhancing the delivery of public service*

*** Weak governance is reflected in service delivery failures, such as teacher absenteeism in public primary schools (20% in Uganda)**

Source: **World Bank, March 2011.**

2.8. Making Investment Work For Development

- **Widen the base of technology and intellectual capital to attract foreign manufacturing investment and research and development projects**
- **Resolve conflicts of interest within the African countries themselves that are obstructing the financial sector reform process ***
- **Sequence reforms appropriately. For example, deepening domestic financial reforms should precede policies promoting FDI**

*** *Source:* The German Development Institute (DIE), 2012.**

2.9. Deepening Intra-Africa Trade

- **Non-oil exports account for 60% of Africa's exports within the region, while the corresponding share in world exports is merely 28%. Hence, Africa's external trade is concentrated in oil and minerals, entailing the risk of a "resource curse" or Dutch disease, while regional trade has prospects for diversification**

- **Full implementation of regional trade agreements (COMESA, EAC and SADC) and harmonization of trade-related policies and regulations will help African countries reap economies of scale, expand markets, collectively exploit their resources, raise their competitiveness, reduce their dependence on traditional trading partners and raise their resilience against external shocks**

2.10. Investing to Upgrade “Regional” Infrastructure

An investment of $32 billion to upgrade roads and railways promises to deliver high returns in terms of intra-African trade growth

- **African trade by $250 billion over a 15-year period**
- **Uganda’s trade eight-fold**
- **Sudan’s trade by more than 10 times**

Source: **The African Development Bank, September 2011.**

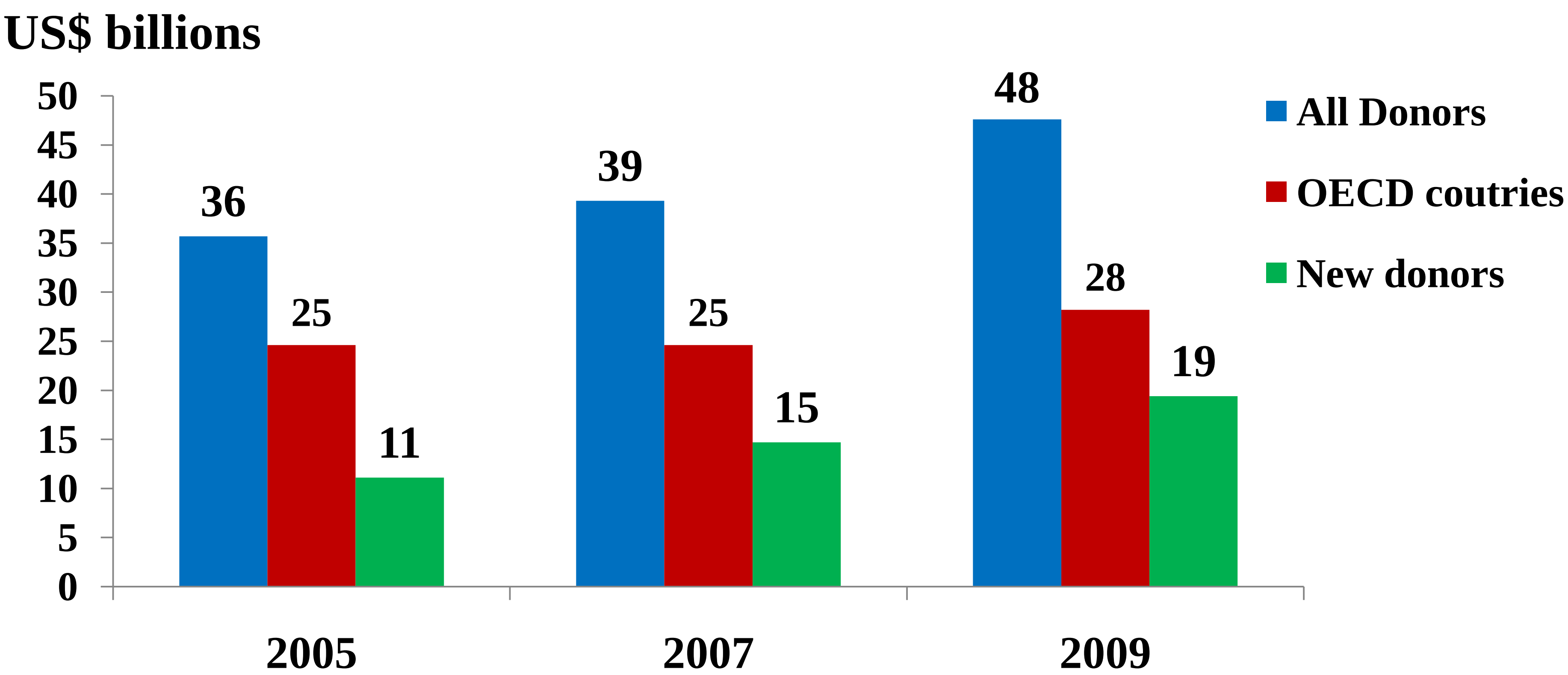
2.11. Increasing Financing from Internal and External Sources by:

- **Mobilizing domestic public resources (better use of natural resources' revenues)**
- **Expanding economic partnerships, particularly with emerging economies**
- **Introducing new financial instruments for mobilizing private savings (derivatives for risk management)**

3. Partners who will support Africa's own development efforts

3.1. In the last 50 years, about one trillion US$ in development aid has been transferred to Africa, yet:

- **External aid dependency has increased over time, raising concerns about its effectiveness**



Source: **United Nations, 2012.**

- **Official development assistance (ODA) potential shortfalls (as a result of the eurozone crisis, for example), threaten many aid-dependent African countries' development programs**

  - **Why is Africa so vulnerable despite decades of humanitarian and development assistance?**
  - **How to mobilize more domestic resources and reduce over-dependence on foreign financial assistance?**

3.2. New “players” are increasingly reshaping the structure and nature of the African policy landscape

- **Aid** from China to Africa has quadrupled from US$684 million in 2001 to US$ 2,476 million in 2009
- **Trade** with China has grown more than tenfold over the last decade, from $10 billion in 2000 to $127 billion in 2010, making China the continent’s single largest trading partner. **However**, this trade remains dominated by the **exchange of resources** for finished goods, replicating the pattern seen with other external trading partners
- **China** became the largest provider of new **Overseas FDI** to Africa in 2008 with over $5 billion. **However**, Chinese investments have focused on supporting **extraction** in Africa’s resource sector

3.3. New “players” provide financial support and offer a wealth of knowledge and expertise, but:

- **To what extent** are the activities of “new cooperation partners” such as China, India and Brazil aligned to national development programs?
- **Are** new partners an alternative to Western donors?
- **Do** new partners respond to calls for public accountability?

Conclusion

Africa's future will be determined largely by:

- The **policy choices** made (for example, promoting labor-intensive sectors);

- The **actions** taken by the African countries (such as fighting corruption); and

- The **international community's support** to these countries' own efforts (for example, aid for trade should be scaled up to close the infrastructure gap, provide trade finance and support trade facilitation efforts)

Thank you