

TAKING THE ECONOMIC PULSE OF AFRICA

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AFRICA: A HUGE CONTINENT



54 Countries in Africa

Of which

48 Countries in Sub-Saharan Africa

Largest land mass and arable land

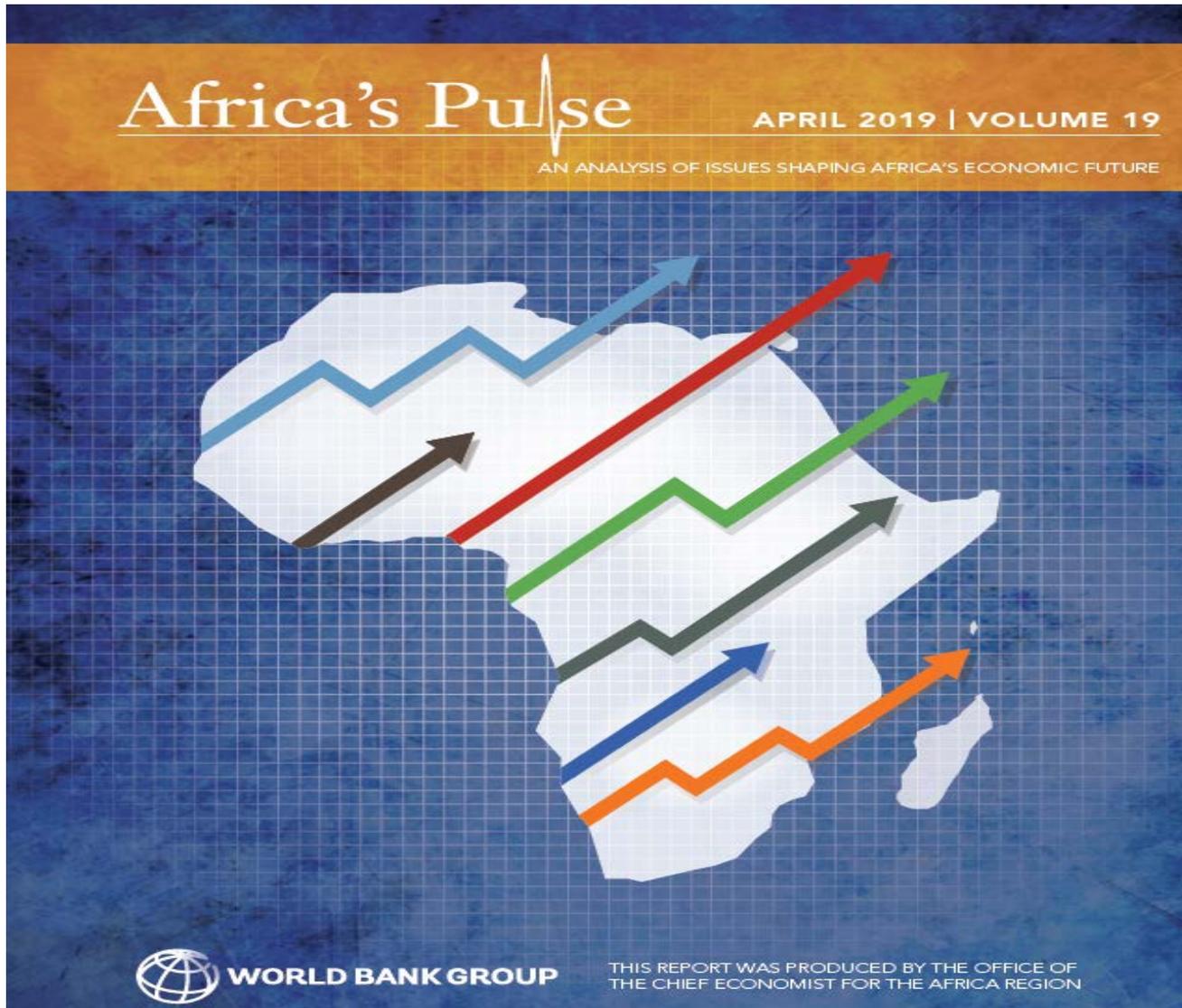
1.2 Billion People, young and fast growing;
2 billion people by 2050.

One of the fastest urbanization rates in the world: the urban population is expected to double over the next 25 years.

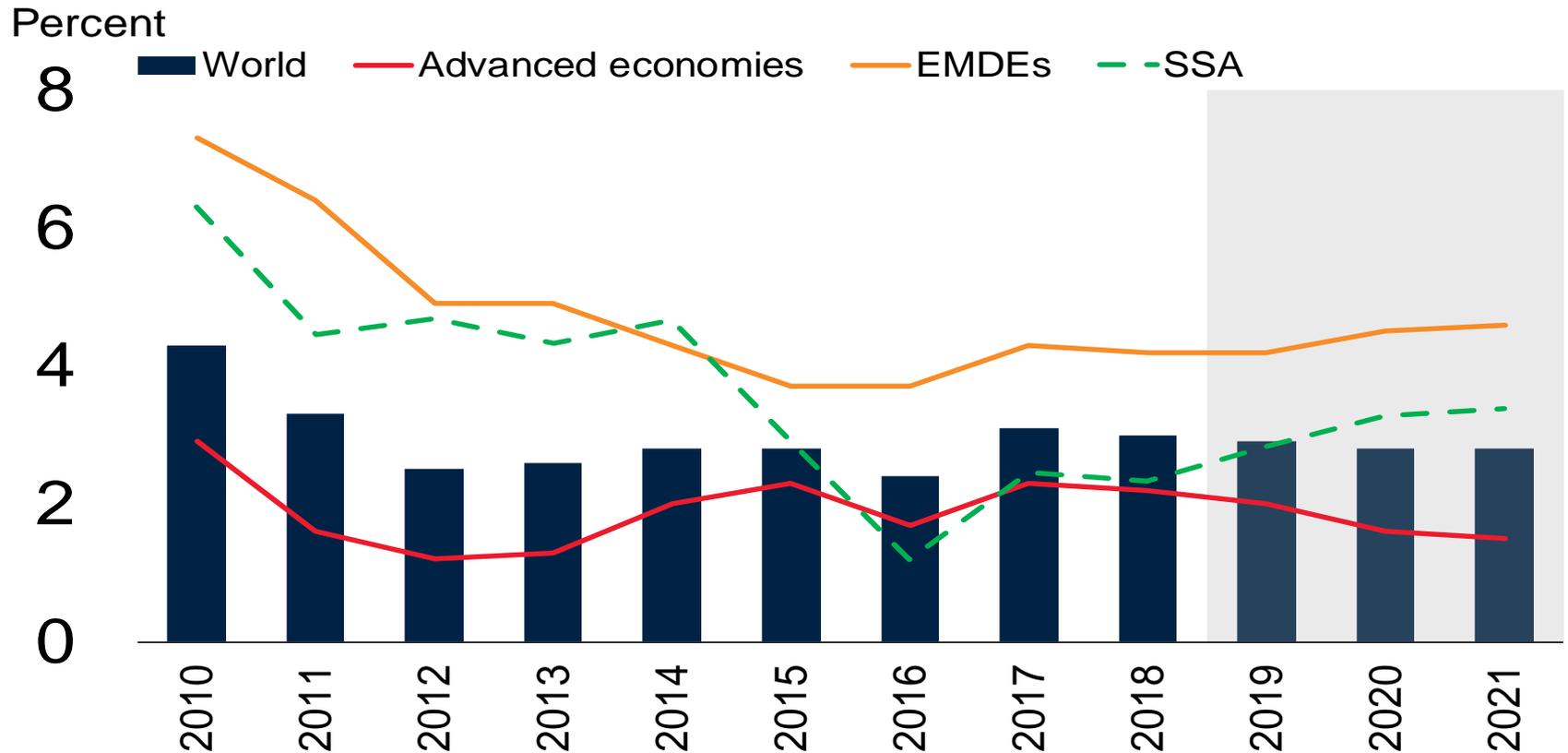
By 2030, 100 million new people in Africa's high and middle income countries with expanding business opportunities.

With the ACFTA: A large enormous single domestic market.

I. Macroeconomic Update



Growth in Sub-Saharan Africa has been recovering but remains sluggish



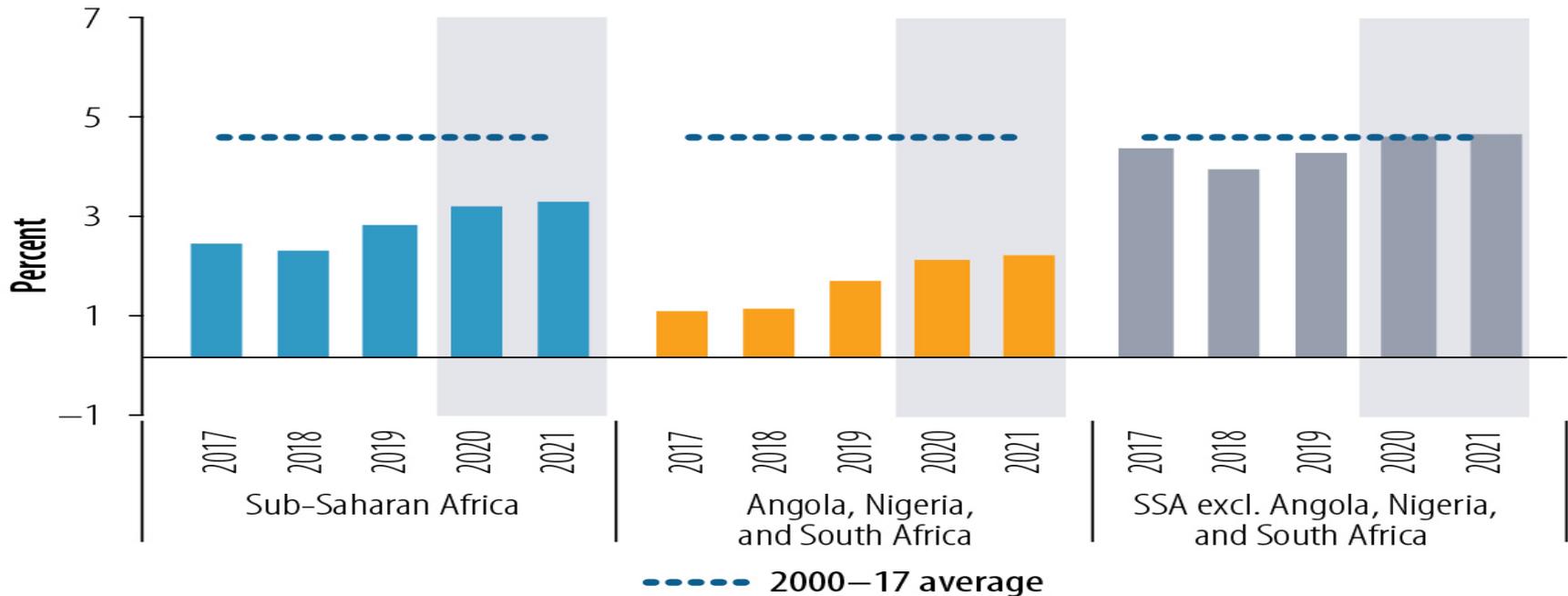
Growth was 1.3% in 2016, 2.5% in 2017; 2.3% in 2018, projected to gradually recover to 2.8% in 2019, rising to 3.3% in 2020-21, barely keeping up with population growth.

Average Growth in Sub-Saharan Africa is driven by 3 countries: Nigeria, South-Africa and Angola



- Growth in Nigeria is expected to rise to 2.2% in 2019 and 2.4% in 2020-21, assuming oil production recovers.
- In Angola, growth is forecast to grow at 2.9 percent in 2019 as oil sector recovers.
- In RSA 2019 growth is projected at a modest 1.3%, amid constraints on demand and limited government spending.

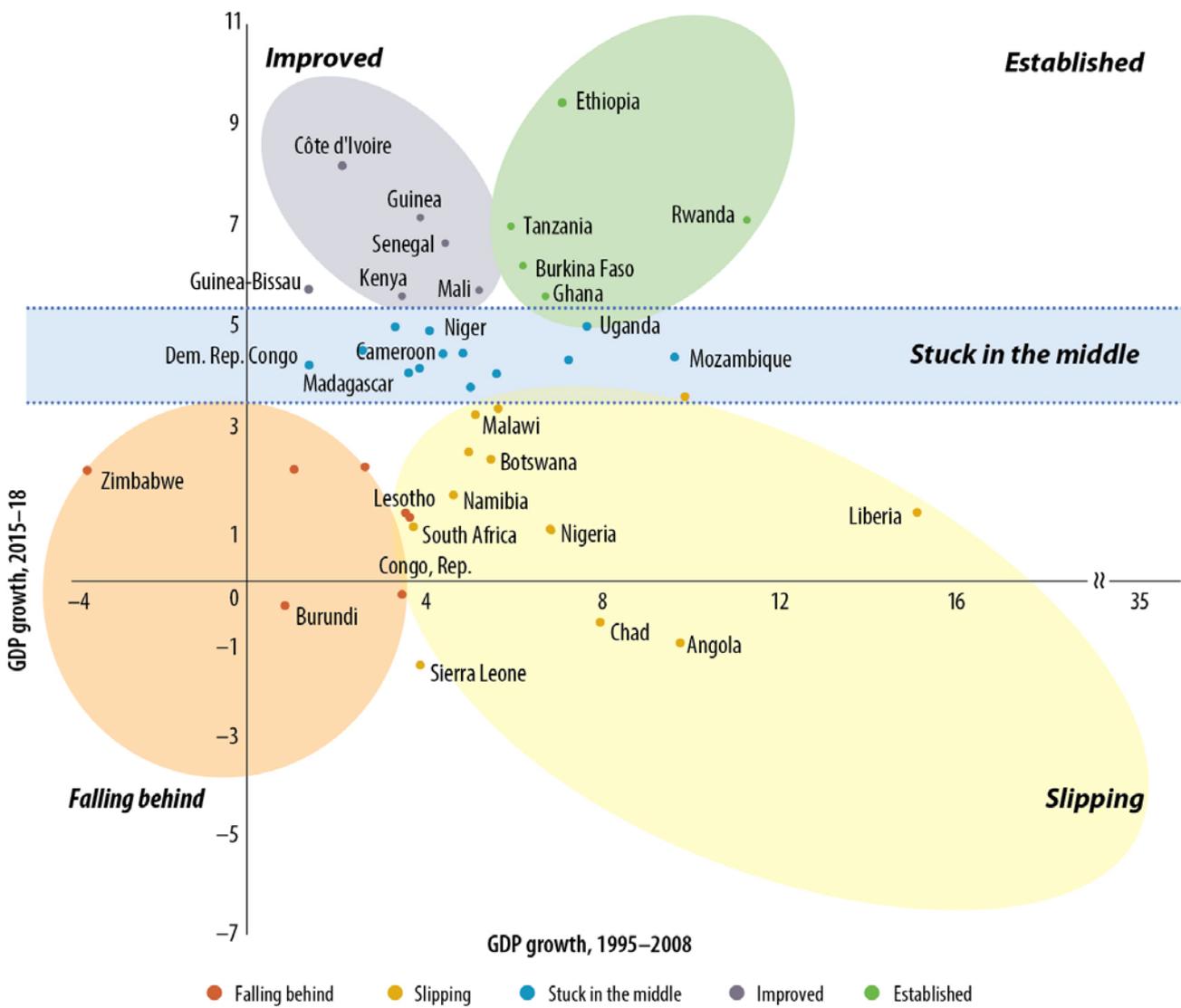
A. GDP growth forecasts



Source: World Bank (2019) Africa's Pulse, Volume 19. Washington, DC: The World Bank, April.

There is a significant heterogeneity across countries in Africa

Among the top 10 fastest growing economies (2018), 4 are in Africa and 6 are in Asia.



11 countries (nearly one-third of the region's population and 20% of the region's total GDP) have growth rates above 5.4% in 2015–18.

Established group (Burkina Faso, Ethiopia, Rwanda, and Tanzania); median annual growth rate was about 7% per year in 2015–18.

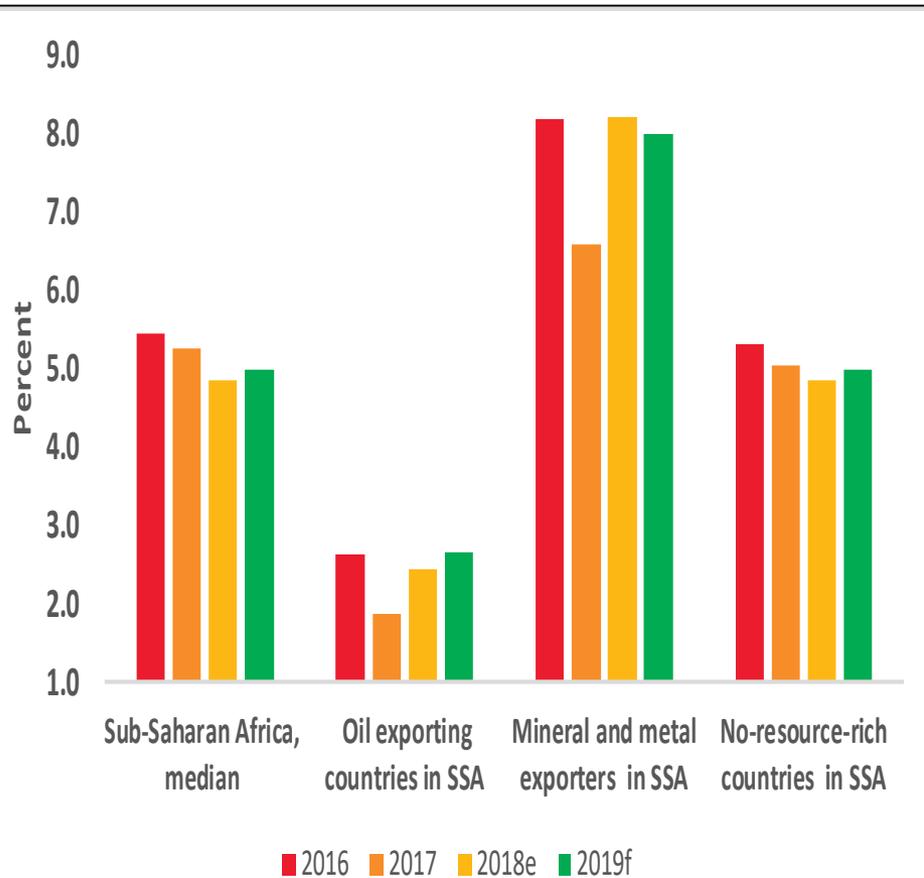
Two-thirds of the underperforming countries in the region are fragile

Source: The World Bank (2018) Africa's Pulse and GEP Monthly update, 2018

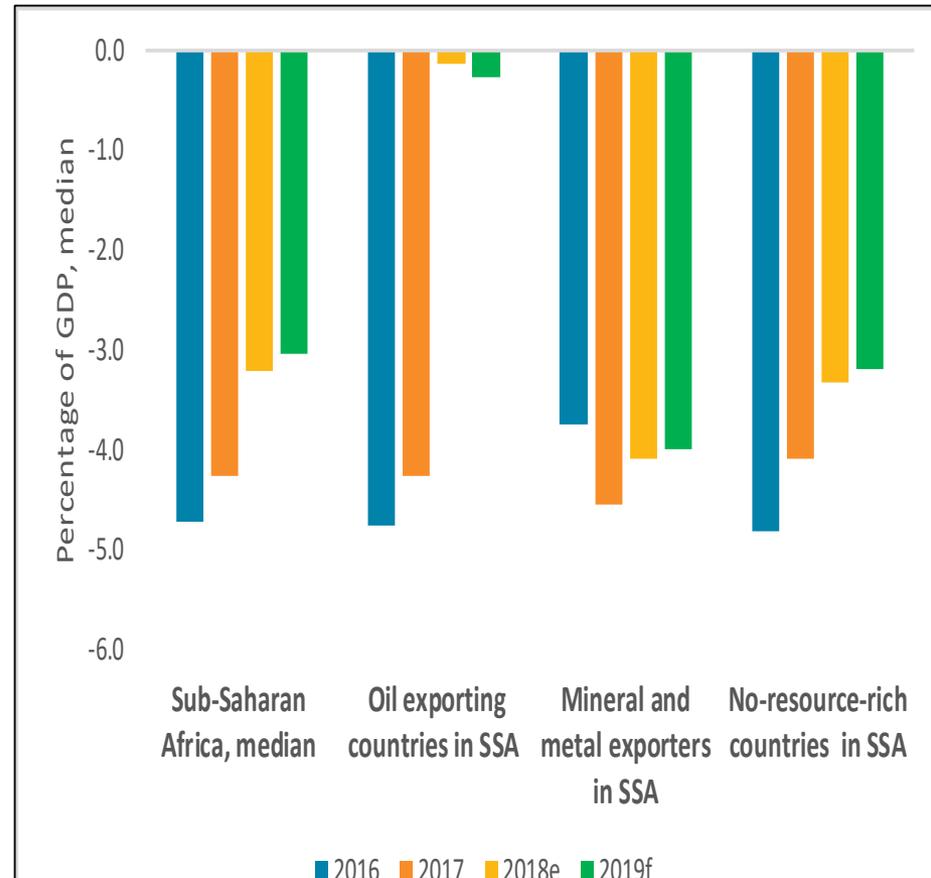
Improving Macroeconomic Outcomes

Countries in the region have made notable progress over the past decade in stabilizing inflation, and fiscal deficits are narrowing.

Inflation in Sub-Saharan Africa, by country group

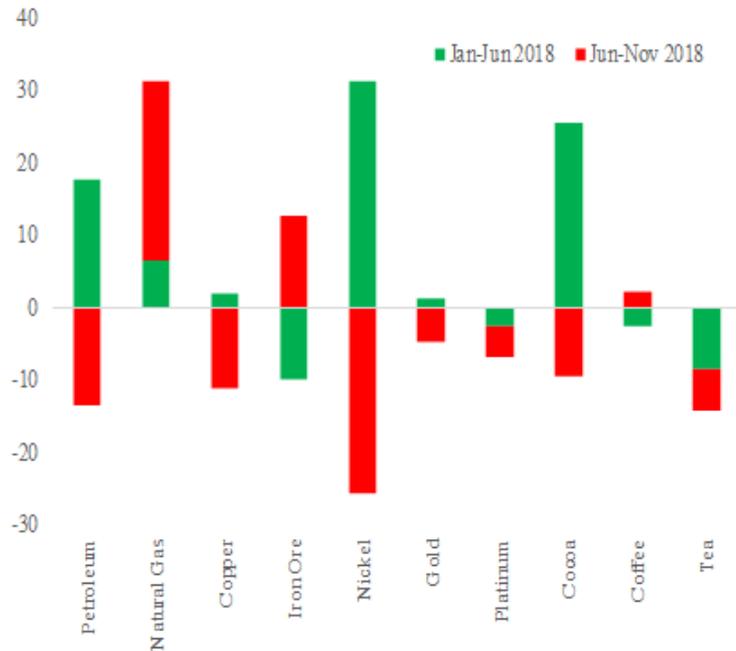
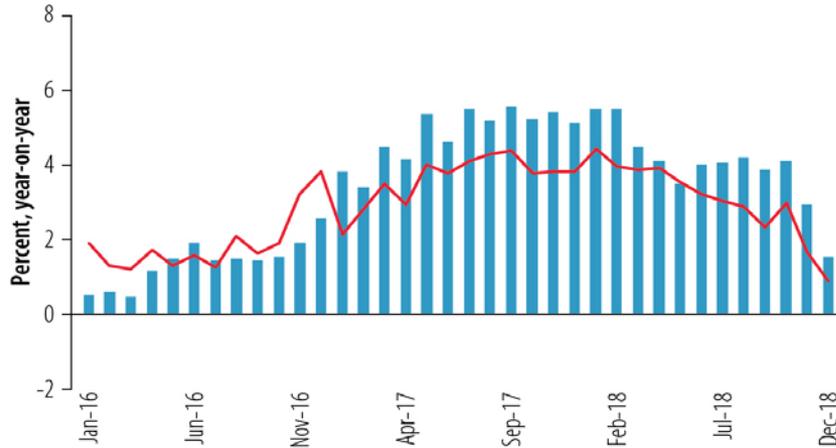


Fiscal balance in Sub-Saharan Africa, by country group



Risks to African Growth Outlook: Fears of slowdown in global growth; trade tensions; commodity price fluctuations

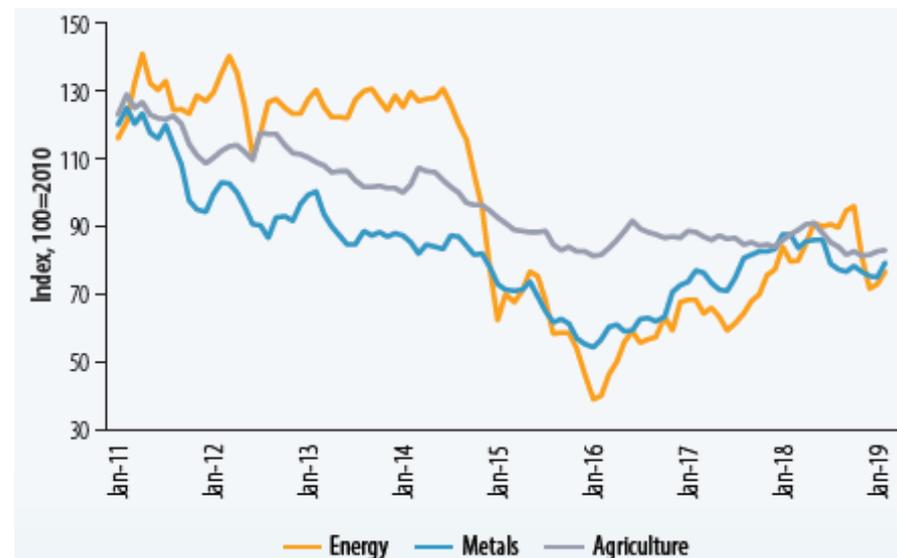
B. Industrial production and goods trade



Commodity prices recovered in the first quarter of 2019, but remained below their peak in 2018.

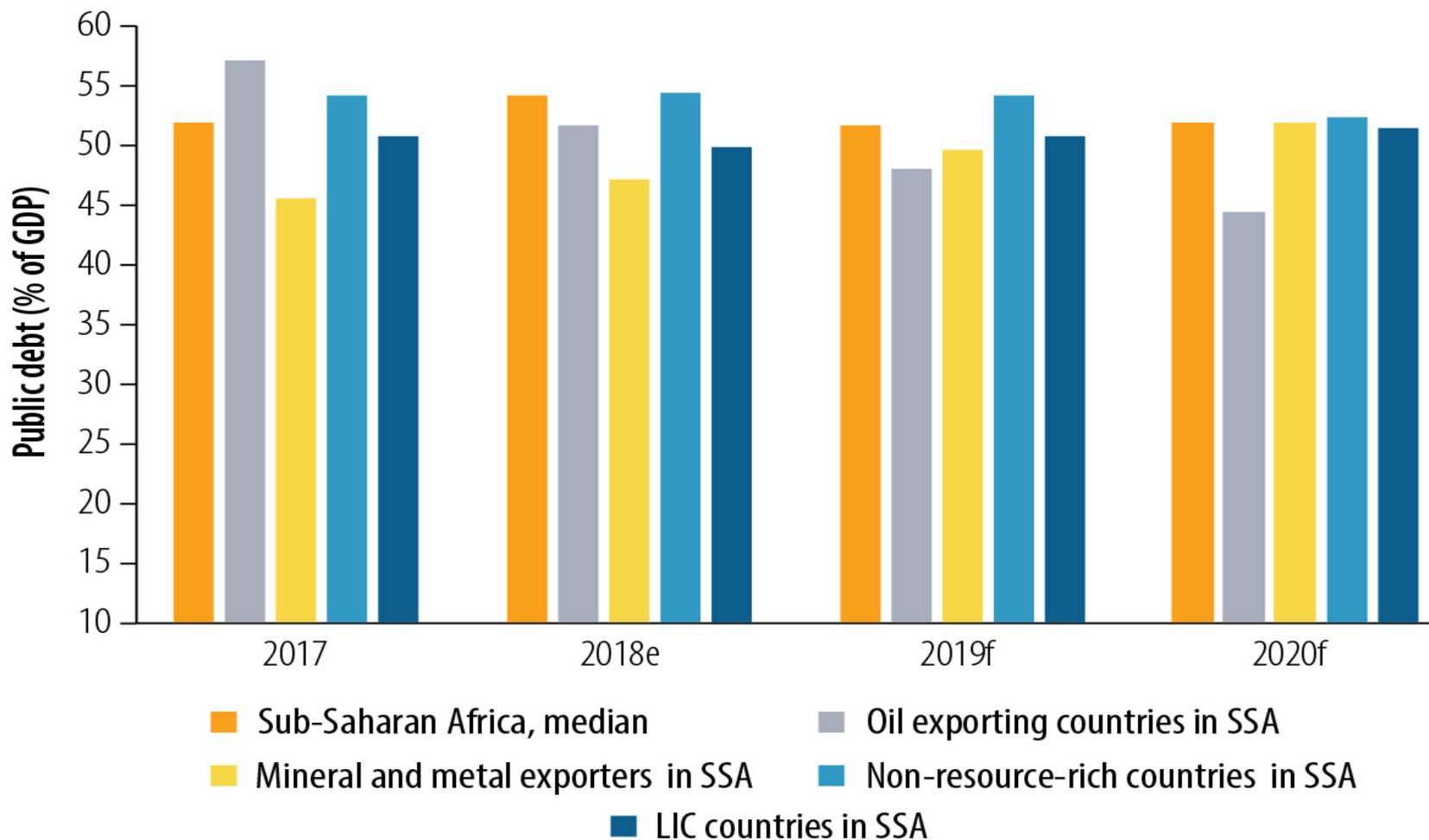
Trade tensions have resulted in heightened policy uncertainty. Intensifying trade tensions could disrupt globally interconnected supply chains.

EMDEs face a tightening of financial conditions linked to accelerating capital outflows and US dollar strength. A sharper tightening in borrowing costs could depress capital inflows and lead to slower growth in many EMDEs.



Debt remains a matter of concerns across countries THE WORLD BANK

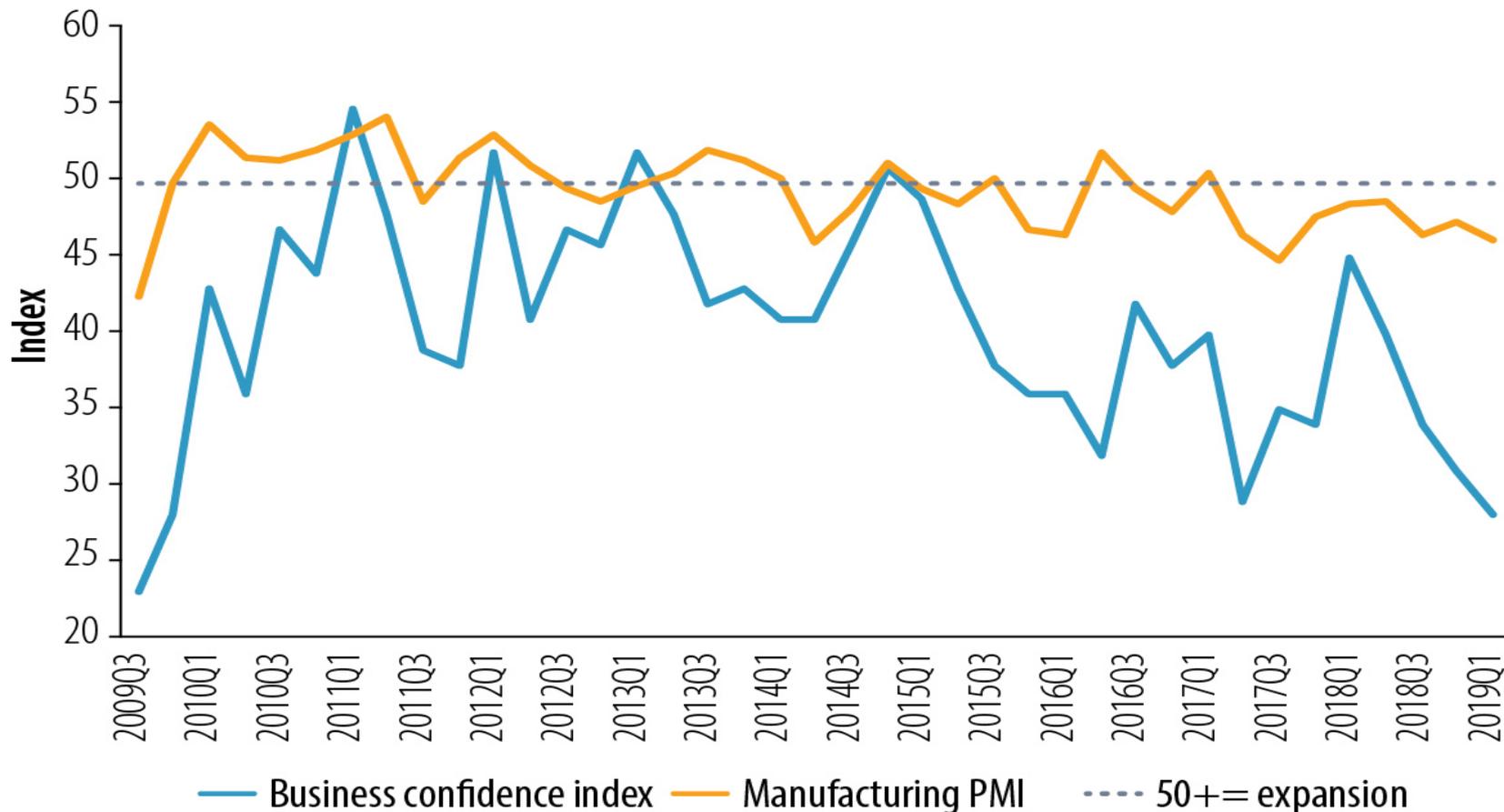
F. Government debt



Source: World Bank (2019) *Africa's Pulse*, Volume 19. Washington, DC: The World Bank, April.

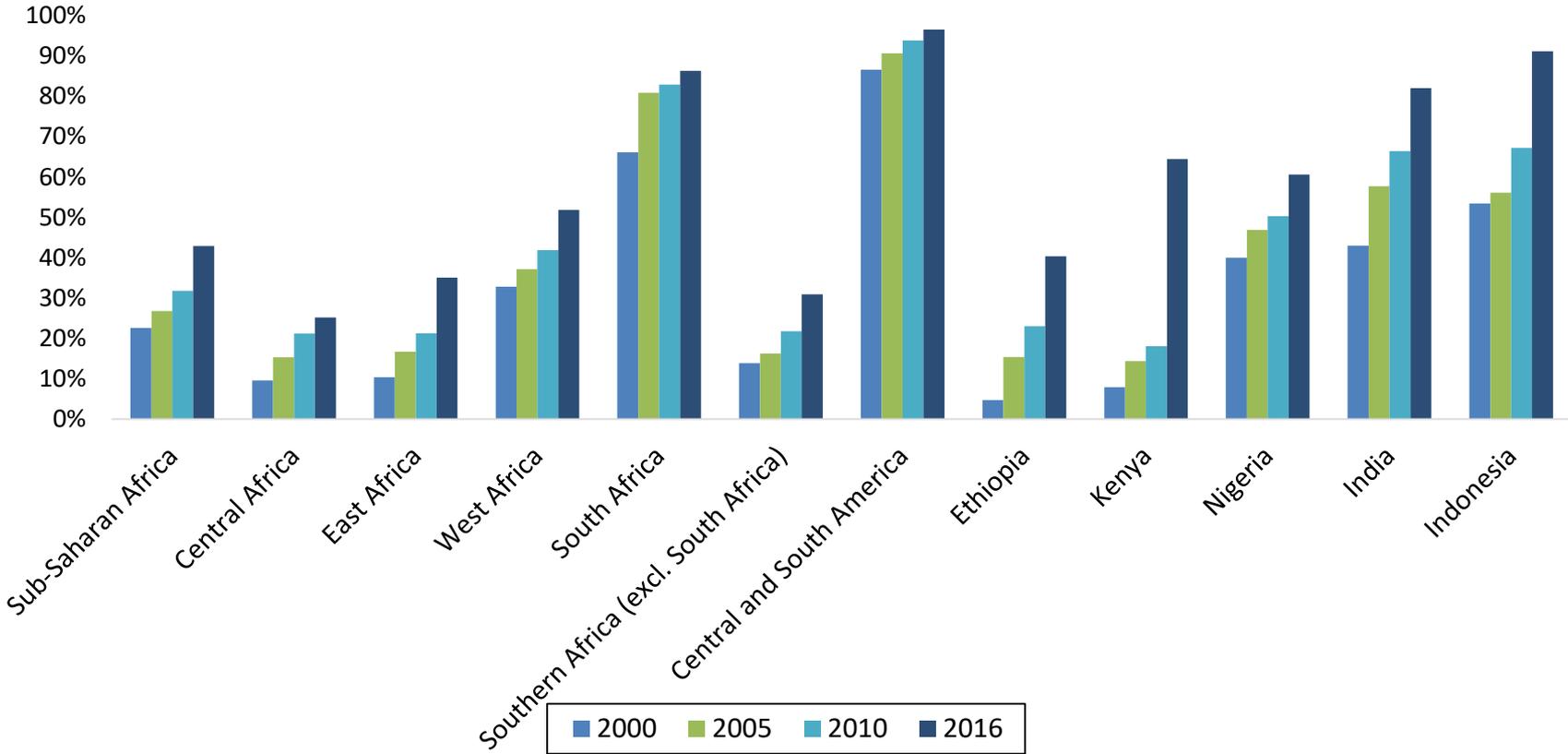
Uncertainty is affecting investment

B. South Africa: Business confidence index and manufacturing PMI



Access to Electricity – Low but rising, significant variations

Access to Electricity (%) 2000-2015



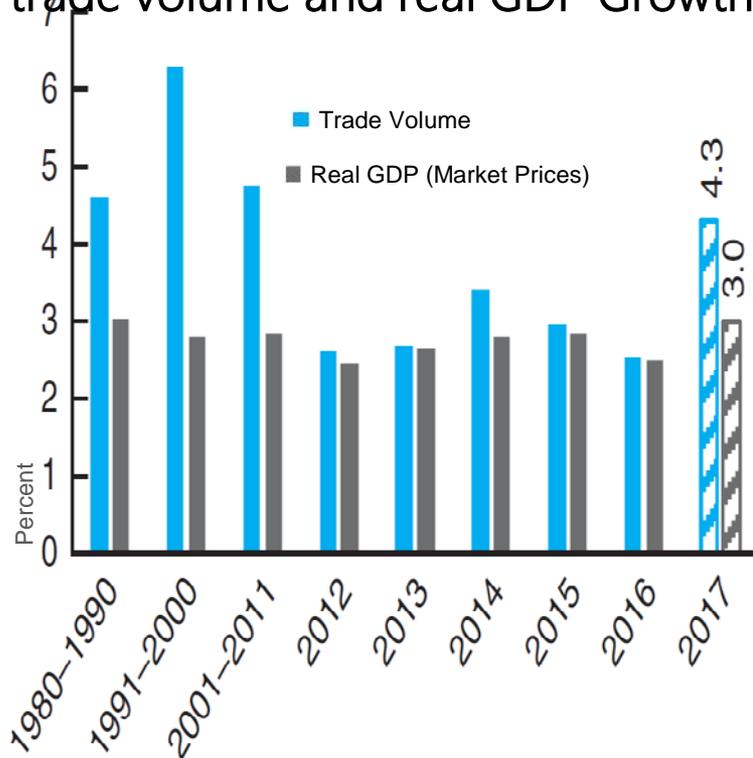
II. Looking Forward: Five Pathways to Boost Africa's Economy

1. Re-inventing Trade and Global Value Chains in a Turbulent World
2. Boosting Private Investment
3. Harnessing the Digital Revolution
4. Leveraging Demography and Urbanization
5. Building bridges between Economic research, analysis and policy making

Pathway 1: Trade is Good for Economic Growth

Trade has long been an engine of growth and economic transformation (... East Asia)

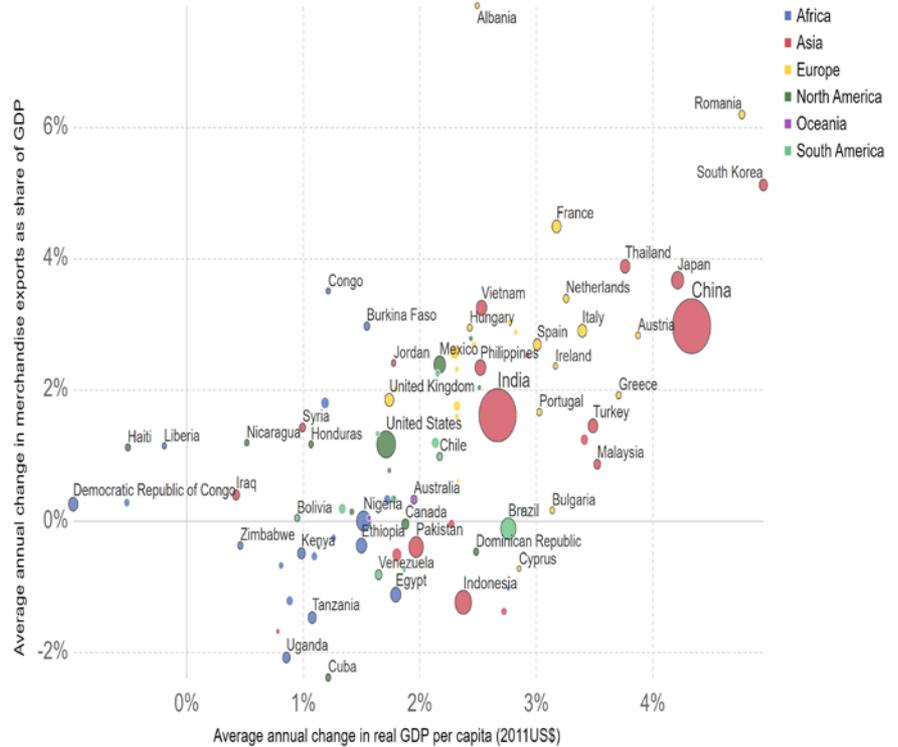
Growth in world goods and services trade volume and real GDP Growth



Source: World Bank 2018

Growth of income and trade, 1945 to 2014

Average annual change in real GDP per capita vs Average annual change in export volumes.



Source: Fouquin and Hugot (CEPII 2016), Maddison Project Database (2018)

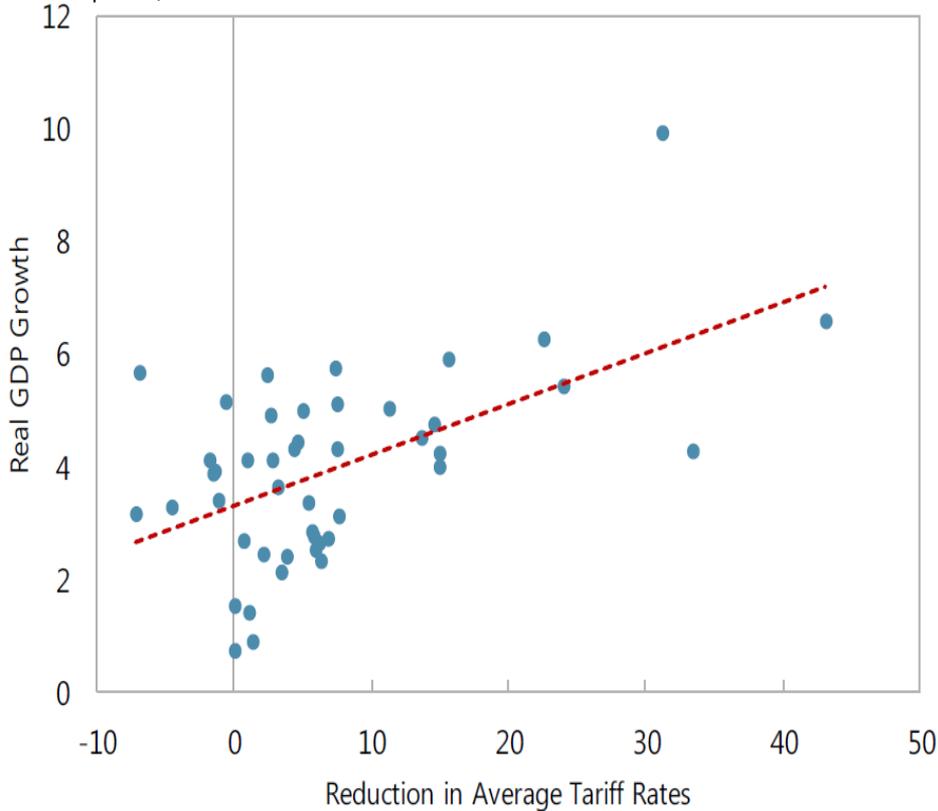
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Trade is Good, ..., Even in Times of Trouble:

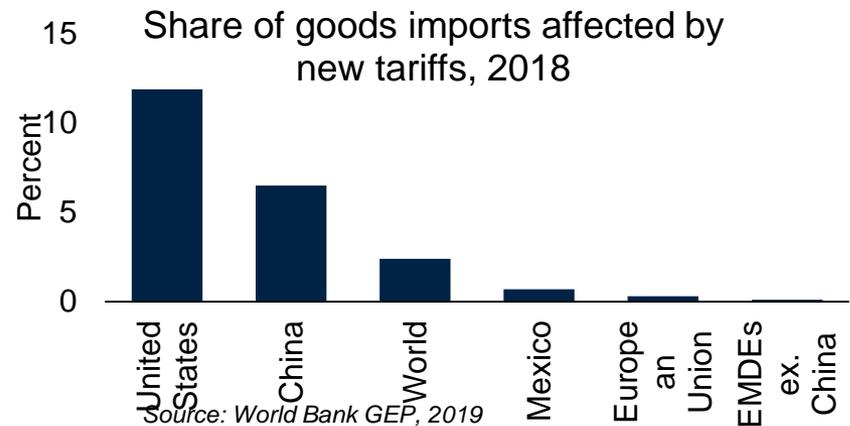
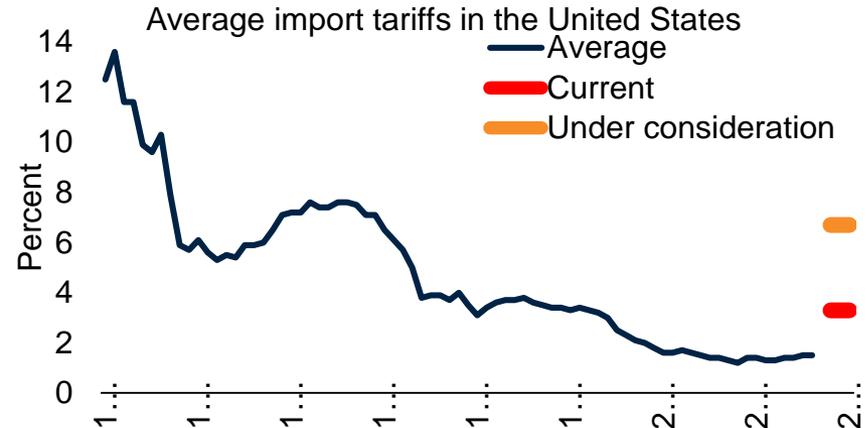
Africa has just launched the AfCFTA Amidst Rising Trade Tensions and Protectionism...



Changes in Average Tariff and Annual GDP Growth, 1990–2015 (% points)



Source: IMF, World Bank, WTO, 2017



Source: World Bank GEP, 2019

The goal of the African Continental Free Trade Agreement is to "create a single continental market for goods and services, with free movement of business persons and investments." The Agreement came to force on May 31, 2019.

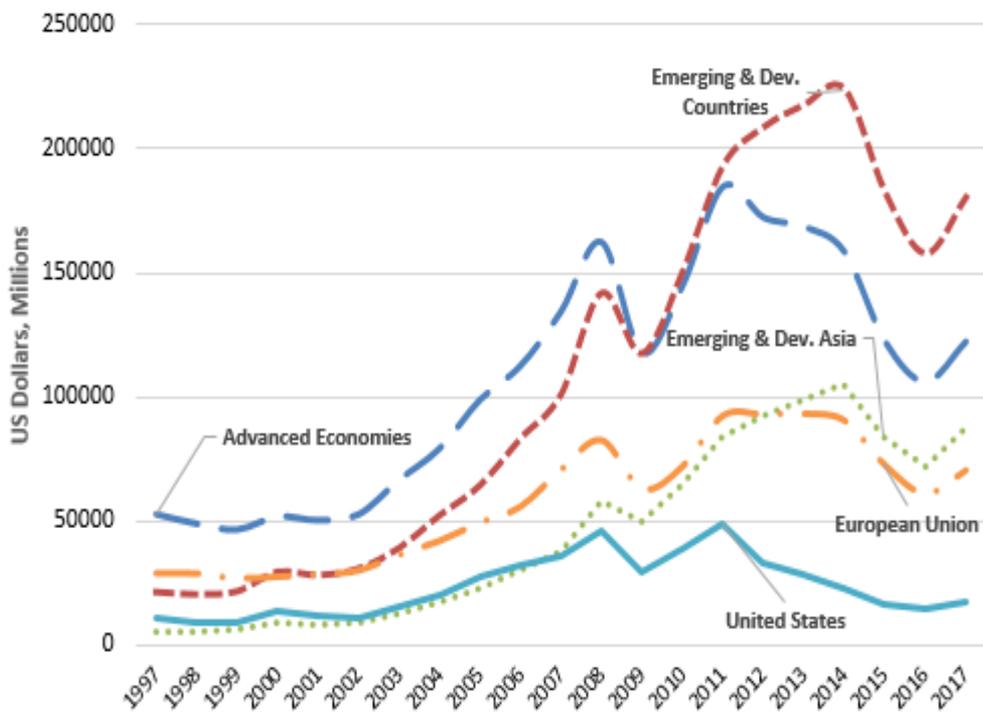
5 Potential Benefits of the AfCFTA

- 1. AfCFTA will generate economies of scale.** A market of 1.2 billion with GDP ~\$3 billion, African economies are small in size limiting prospects for large scale investments (either FDI or cross border).
- 2. Exports and Economic Diversification.** It helps diversify exports, reducing resource dependence.
- 3. Resilience.** Intra-regional trade is expected to be more resilient to global shocks. That reduces the exposure of African countries to larger shocks in advanced economies.
- 4. Stepping stone to participation in global value chains (GVCs)** and reap the benefits of the increased global fragmentation of production.
- 5. Increased overall welfare (consumers):** Access to increased variety goods of relatively reduced prices due to competition (low cost, efficient producers often win in free markets).

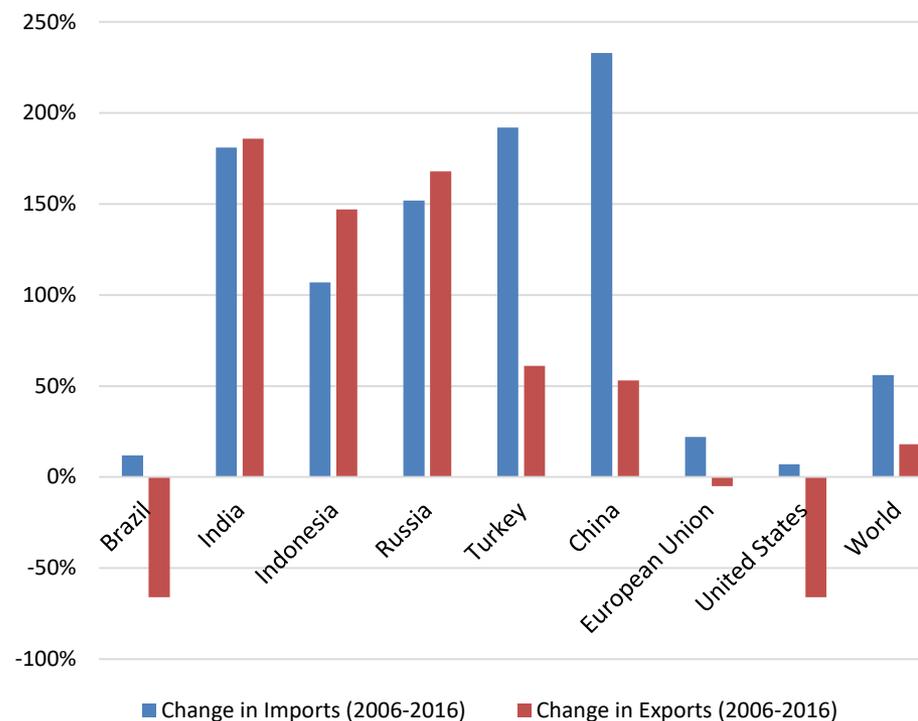
A great opportunity to re-engineer GVCs, given the Changing Patterns of Sub-Saharan Africa Trade: Rising Role of China and India

Significant shift in trade patterns: While the share of SSA trade with China and India is increasing significantly, trade with the traditional partners such as the EU and US is declining.

Sub-Saharan Africa trade flows from 1997 to 2017



Change in SSA Trading Partners (2006-2016)



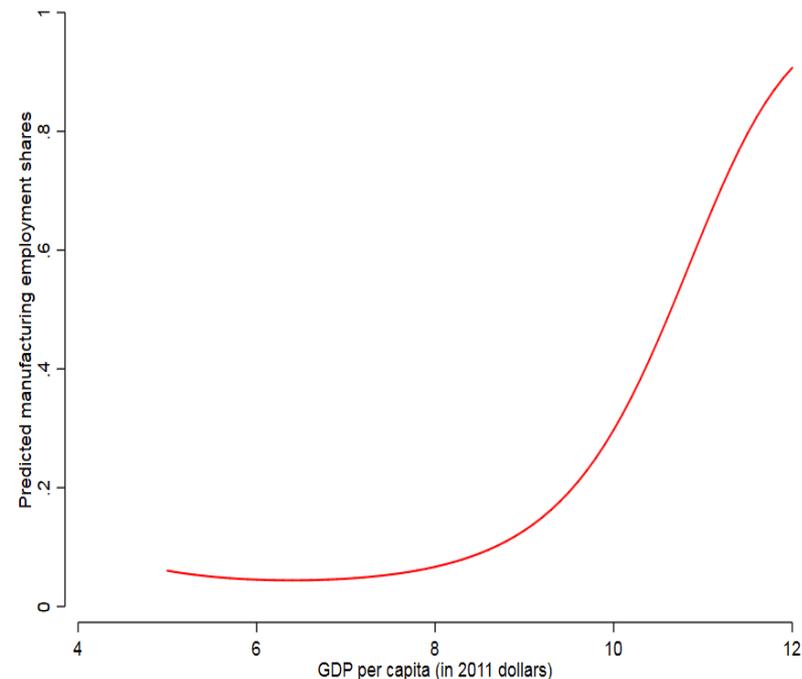
Employment Shares do not follow an inverted U-shape

Table 3: Manufacturing share of total employment regressions

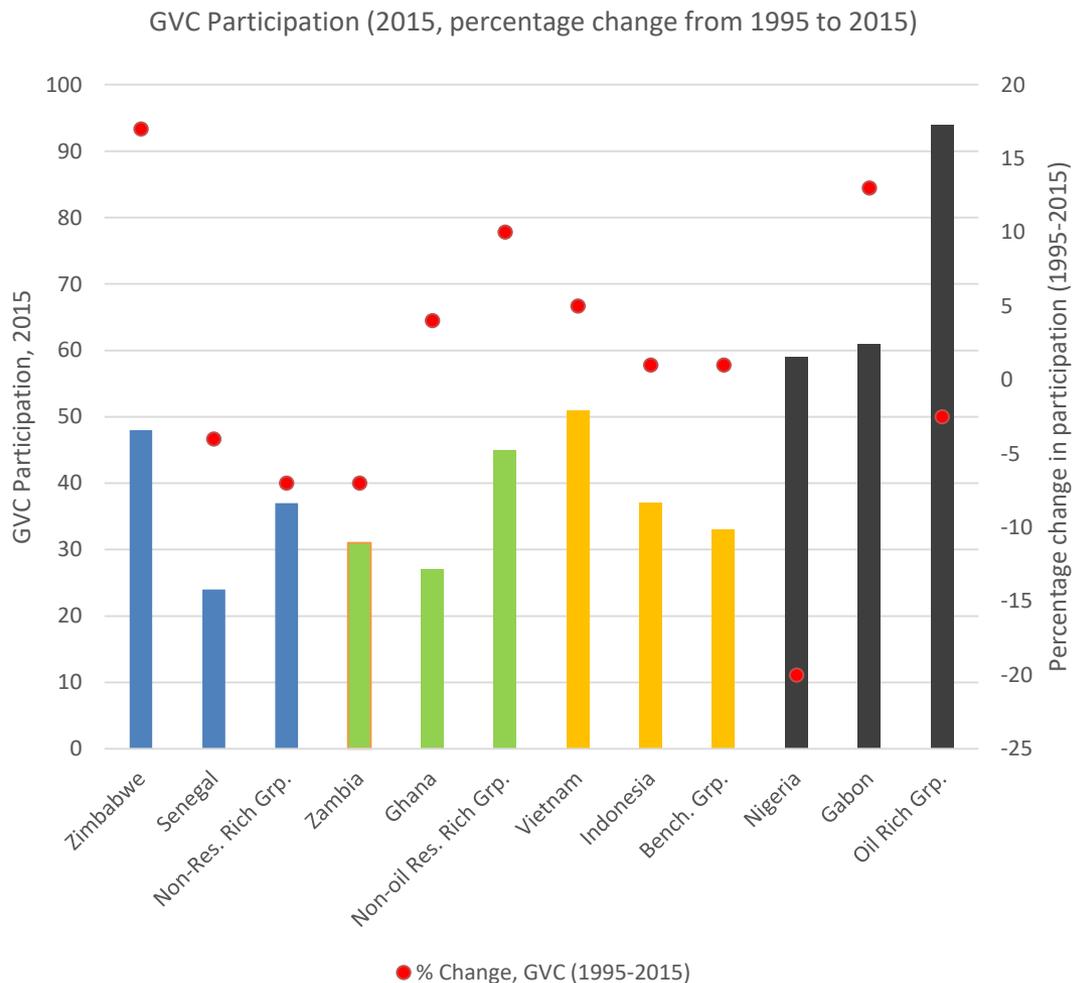
	Coefficients	Marginal Effects
Population squared (logarithm)	2.390 (2.855)	0.130*** (0.040)
Population (logarithm)	-0.011 (0.096)	
GDP per capita (logarithm)	-2.177 (1.553)	0.041*** (0.013)
GDP per capita squared (logarithm)	0.170* (0.095)	
Intercept	-27.114 (22.918)	
Observations	523	523
Number of countries	11	11
Country Fixed Effects	Yes	Yes
Time Fixed Effects	Yes	Yes

Standard errors in parentheses. Results based on fixed effects fractional logistic regressions in equation (2). * $p < 0.10$, ** $p < 0.05$, *** $p < 0.010$

Predicted employment shares as a function of GDP per capita (in 2011 dollars)



African Countries' Integration to manufacturing GVCs is high... ...and differs across resource endowment groups

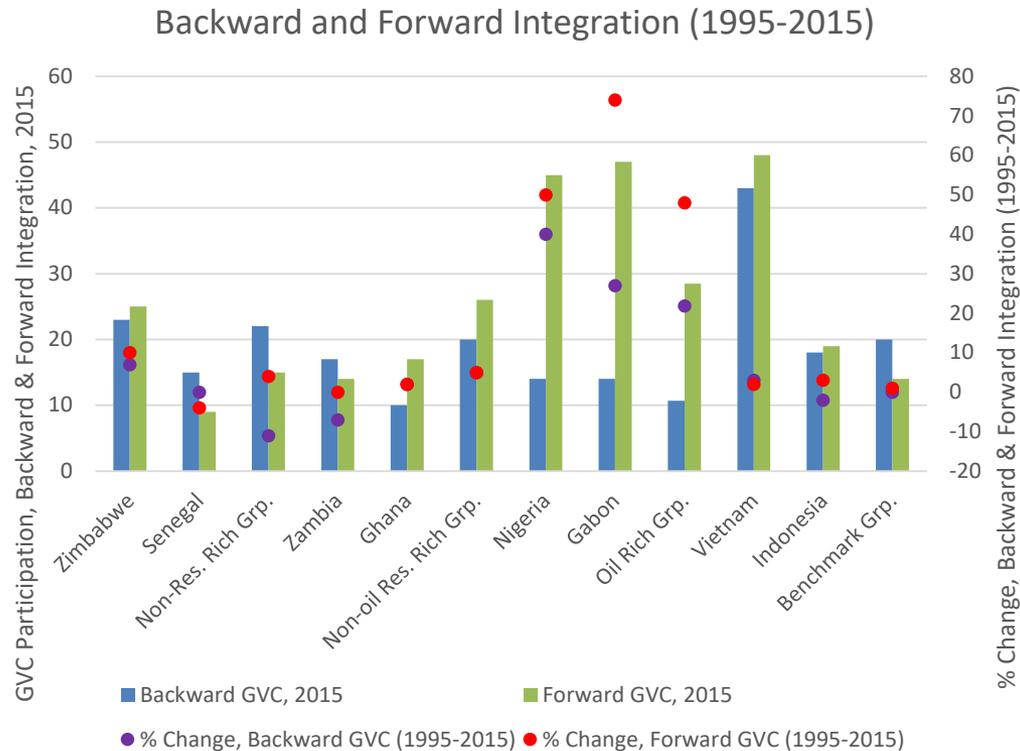


- Participation in manufacturing GVCs is high in Africa, even higher than selected Asian countries
- The overall rate of integration to GVCs is highest among resource rich countries at about 45% compared to the non-resource rich (at 37%).
- Both groups have higher integration rates than the external comparators as a group (at 33%)
- In terms of growth, between 1995 to 2015,
 - Participation in manufacturing GVCs rose by 10% in resource rich (non-oil); fell by 7% in non-resource rich group; fell by 2.5% among oil rich group; rose by only 1% in benchmark countries group
 - Among non-resource rich, it fell by 4% in Senegal; rose by 17% in Zimbabwe
 - Among resource-rich (non-oil), it fell by 7% in Zambia; rose by 4% in Ghana

Source: "Industrializing For Jobs: An Africa Regional Flagship Study".
Forthcoming, Washington, DC: The World Bank

Moving Forward or Backward?

Non-Resources Rich Countries show stronger backward linkages, ..., more relevant for job creation through GVCs



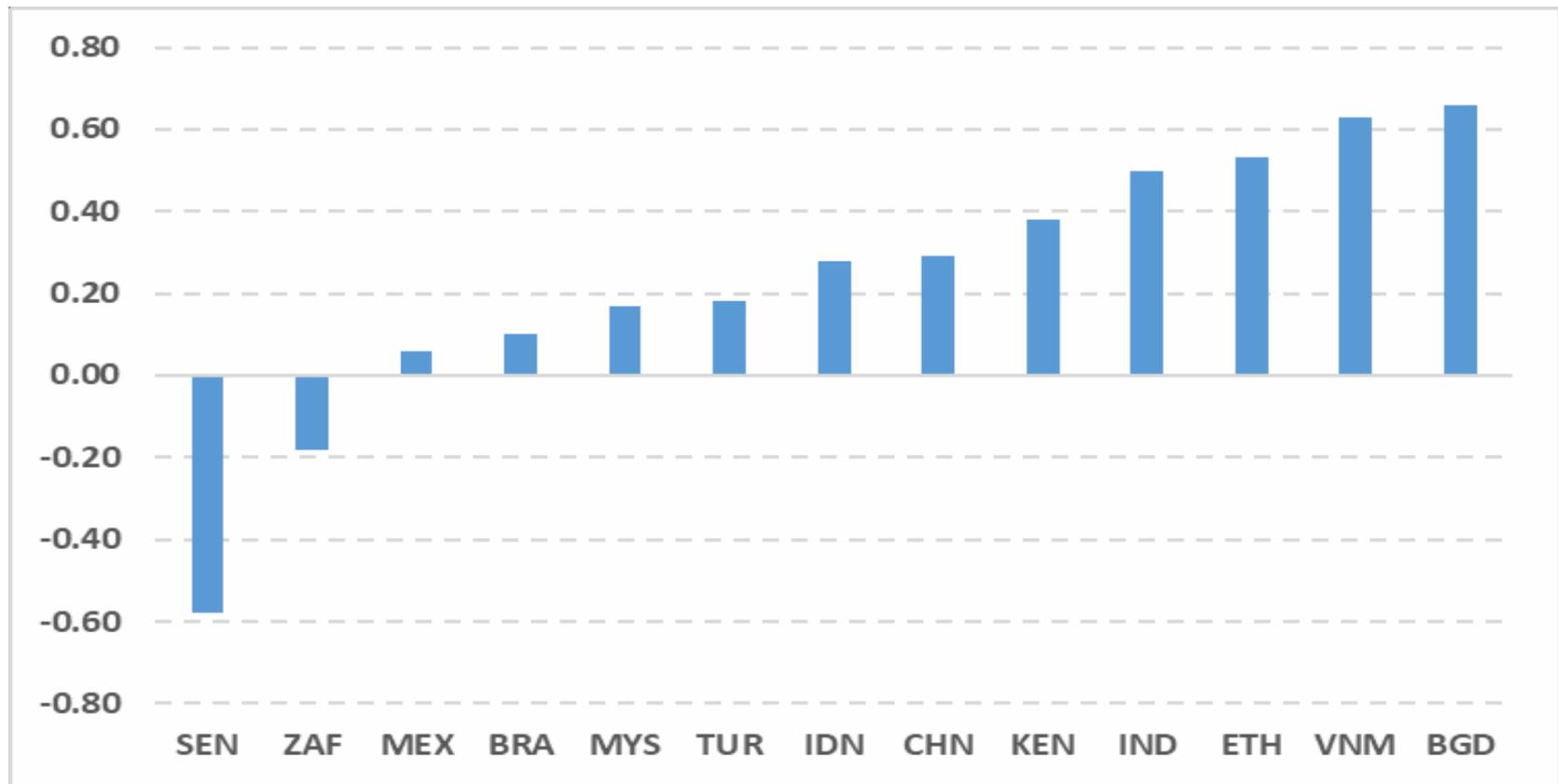
- Non-Resources Rich Countries have the highest average rate of backward integration into GVCs
- Resource rich, especially oil producers, groups have stronger forward linkages compared to non-resource rich group
- Growth in forward integration is highest among oil exporters as a group at about 50%
Nigeria, Gabon, ...
- Nigeria also experiencing a growth in backward linkages as well

Source: "Industrializing For Jobs: An Africa Regional Flagship Study".
Forthcoming, Washington, DC: The World Bank

Increased participation in manufacturing GVCs has led to net job growth: Ethiopia had the highest gains in job growth in GVCs during 2000 to 2014 among SSA countries.

- Kenya ranked 5th among sample countries (Bangladesh and Vietnam were top 2)
- Job growth was negative in Senegal and South Africa

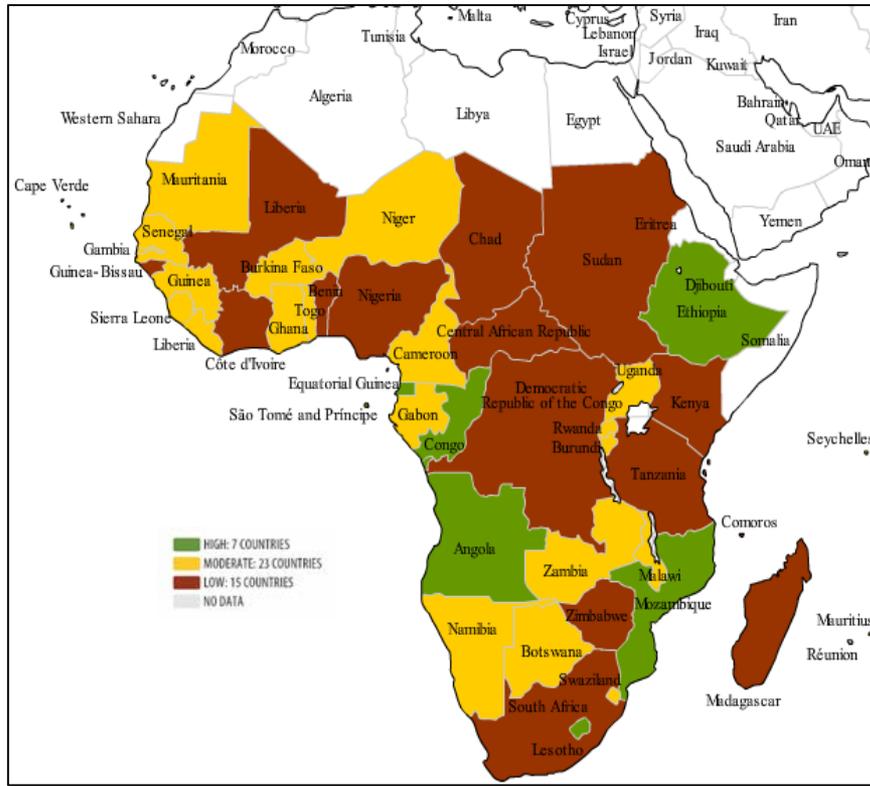
Employment growth in GVCs (2000-2014)



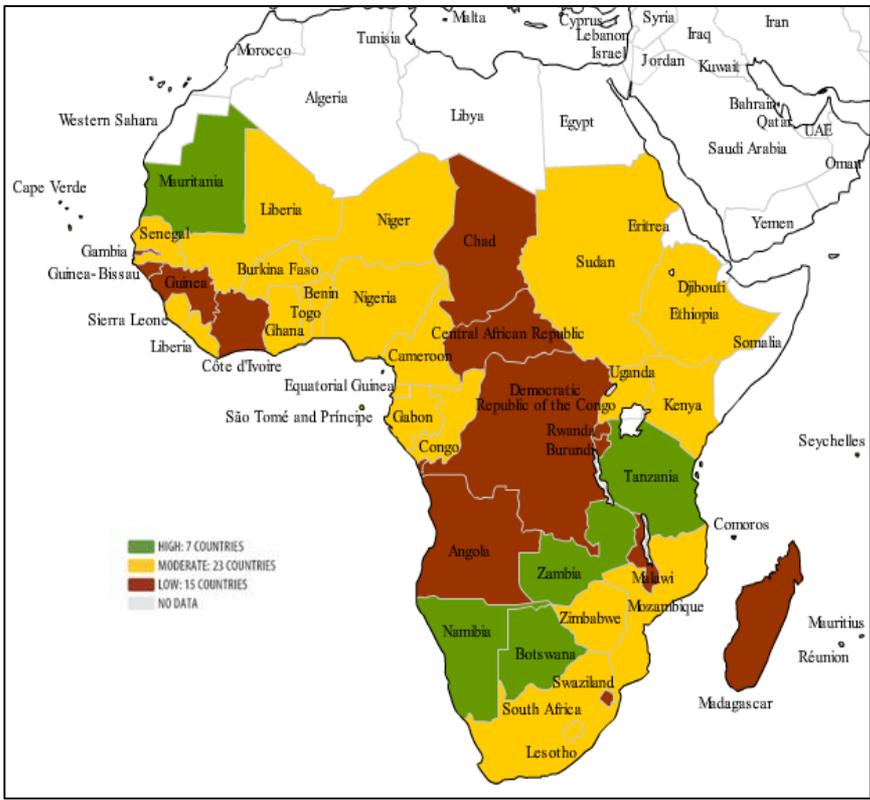
Pathway 2. Boosting Investment (public and private) in Africa: SSA remains the most under-capitalized region in the world



Public investment to GDP (2011-15)



Private investment to GDP (2011-15)



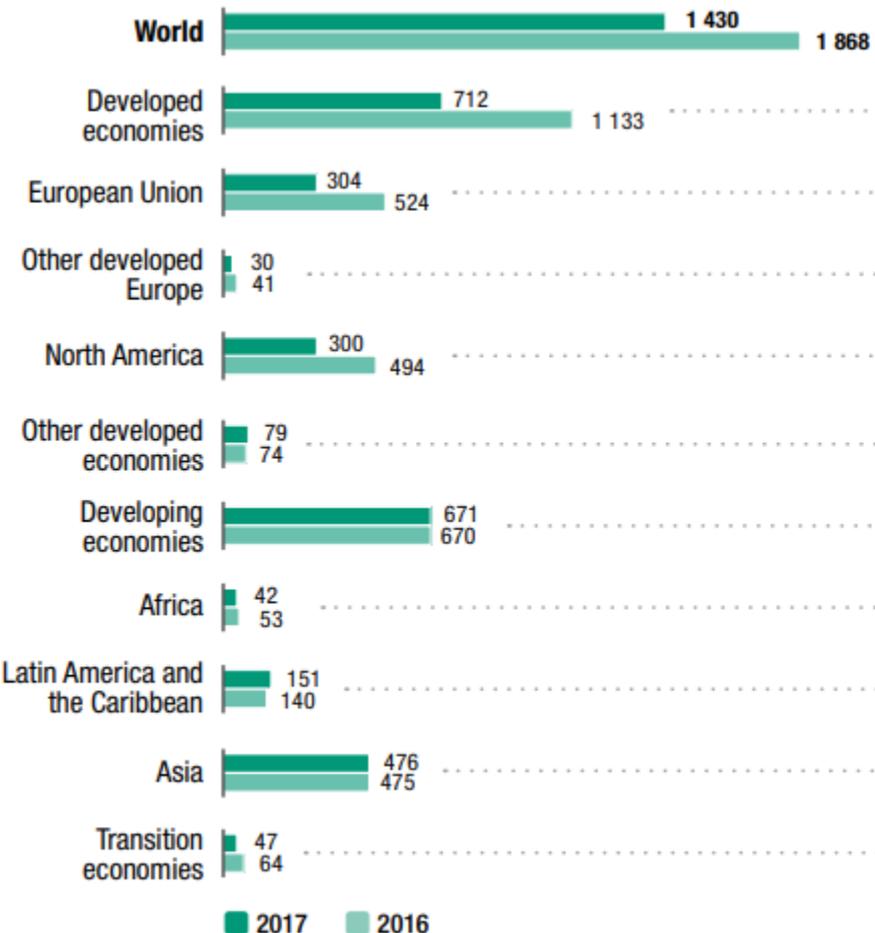
High is higher than 10 percent of GDP. **Low** is lower than 5 percent of GDP. **Moderate** falls in between.

High is higher than 20 percent of GDP. **Low** is lower than 10 percent of GDP. **Moderate** falls in between.

Source: IMF (2016) Investment and capital stock dataset, 1960-2015

FDI flows to SSA are very low and sources less diversified

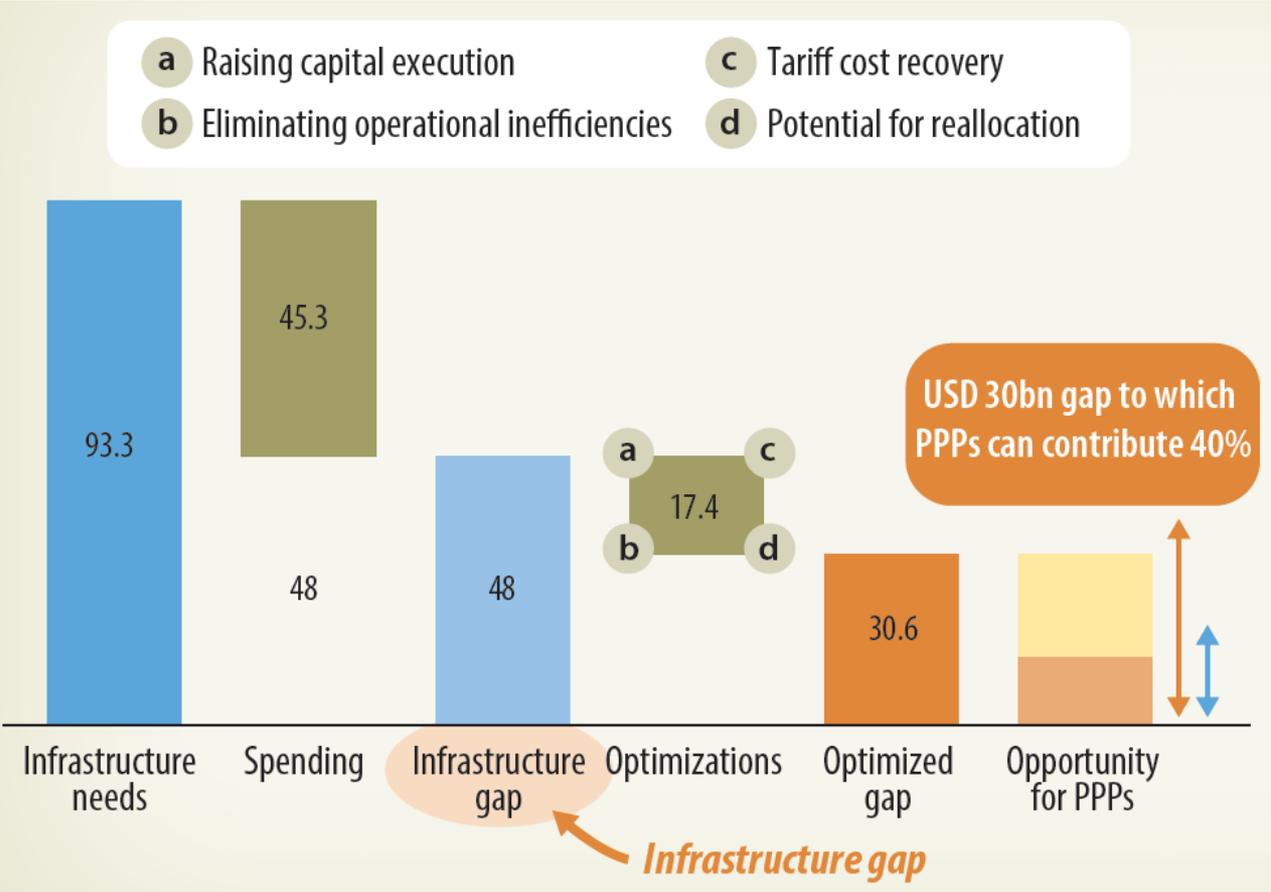
FDI inflows, by region, 2016-2017 (Billions of dollars and percent)



Top FDI sources, Africa, 2011 and 2016 (Bill USD)



As a Consequence, Africa has a large infrastructure Gap



- Africa’s annual infrastructure needs estimated at **US\$ 93 billion** (15% of region’s GDP).
- Infrastructure financing gap of **US\$ 48 billion** per year:
 - About **US\$ 17.4 billion** could be financed through operational optimization
 - PPPs potentially can contribute annually **US\$ 12 billion** (40% of optimized gap)

Source: Dornel, Arnaud (2014) Project Finance for Infrastructure in Africa. Washington, DC: The World Bank

Private investment is low despite high returns

Performance of quoted companies in developing countries (%)

		All Industrial Firms				Manufacturing firms			
		Profit	Return on	Return on	No.	Profit	Return on	Return on	No.
		Margin	Equity	Capital	Firms	Margin	Equity	Capital	Firms
Africa	Median	11	16	13	954	10	17	14	395
	75th percentile	20	28	23		16	27	24	
Asia	Median	6	12	7	4,606	5	12	7	2,829
	75th percentile	13	21	14		11	21	14	
South America	Median	7	11	7	815	6	12	8	314
	75th percentile	17	21	14		12	21	15	

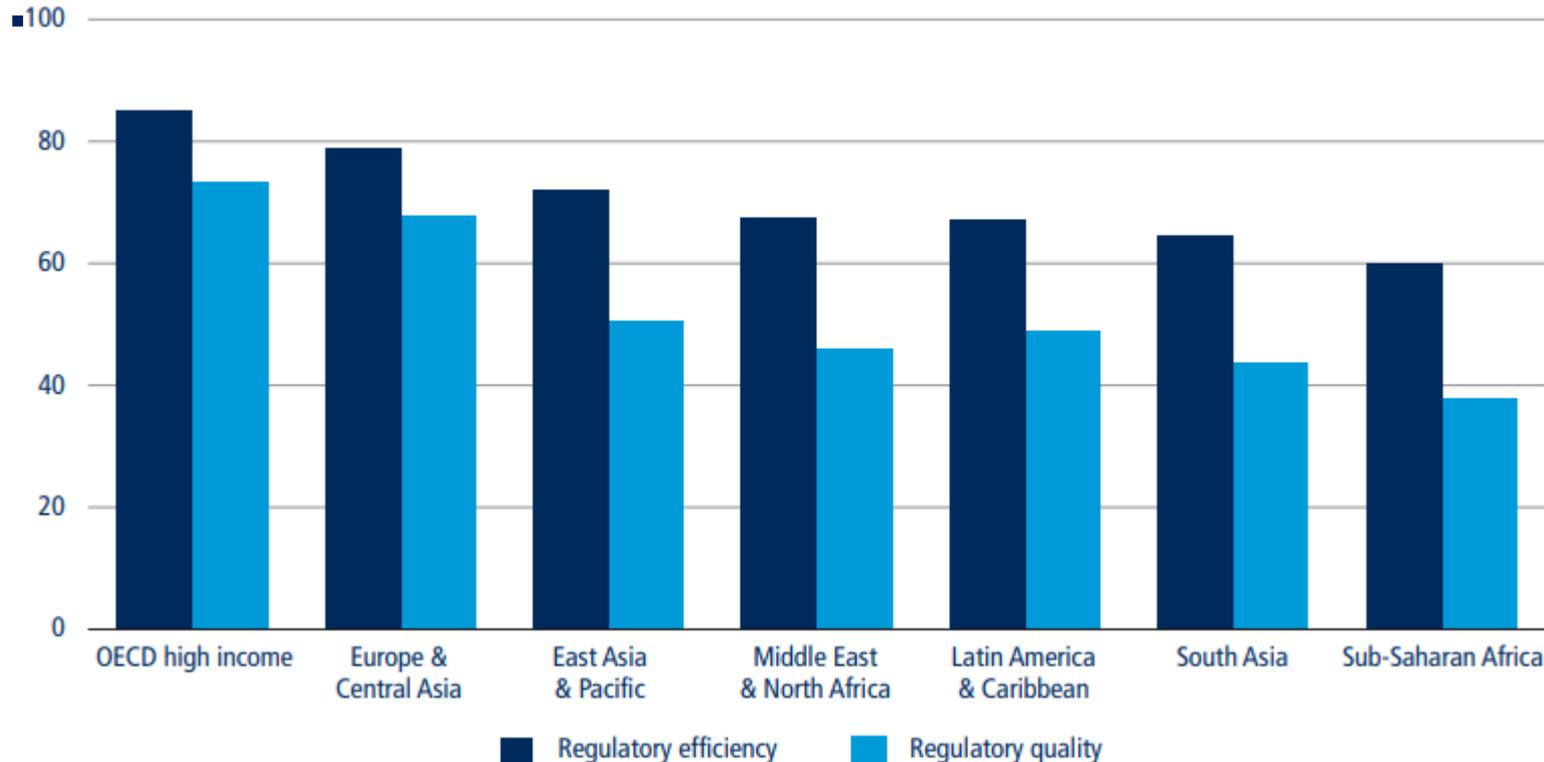
Notes. The performance measures reported in the table were constructed by the author using a panel of 6922 firms across three regions with a total of 28842 observations spanning the years 2002-2007. It is an unbalanced panel with an average of 4.2 observations per firm. It covers all Africa, and selected Asian and South American countries. The majority of firms are in manufacturing and services, with a smaller proportion in agriculture, mining and construction.

Low Investment Despite an Improving Business Climate

- Among the top 10 most improved in DB 2019, five are in SSA (Djibouti, Togo, Kenya, Cote d'Ivoire and Rwanda)
- One-third of all business regulatory reforms recorded by Doing Business 2019 were in the economies of SSA.

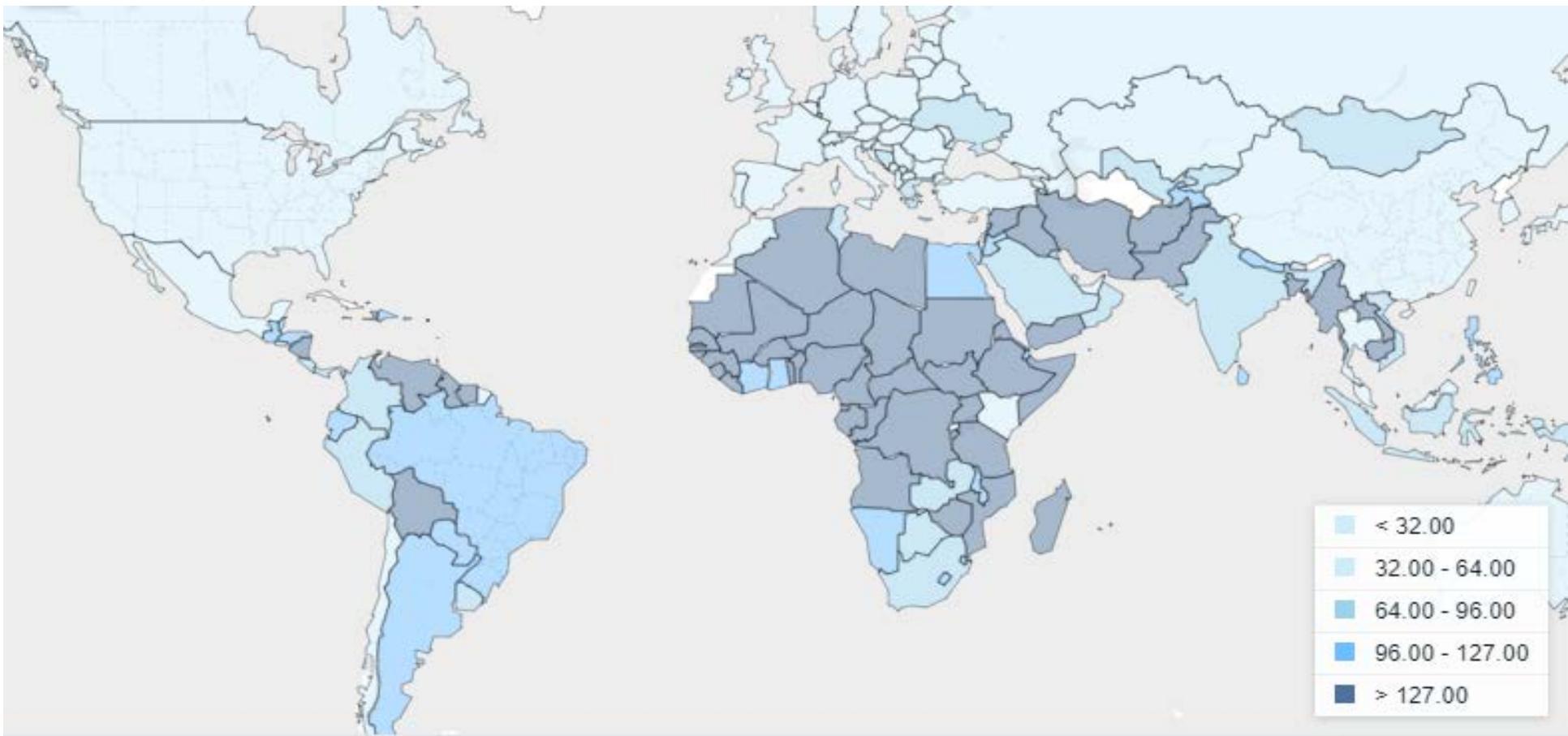
In 2006 the average time to start a business in SSA economies was 59 days; today the average is 23 days (~ 40% improvement)

Average ease of doing business score (0–100)



World Bank's Ease of Doing Business (DB) Rankings

In SSA, Mauritius, Rwanda, Kenya, Botswana, South Africa, Zambia, Lesotho, Swaziland, Ghana, Cote d'Ivoire, Uganda, are the top Reformers.



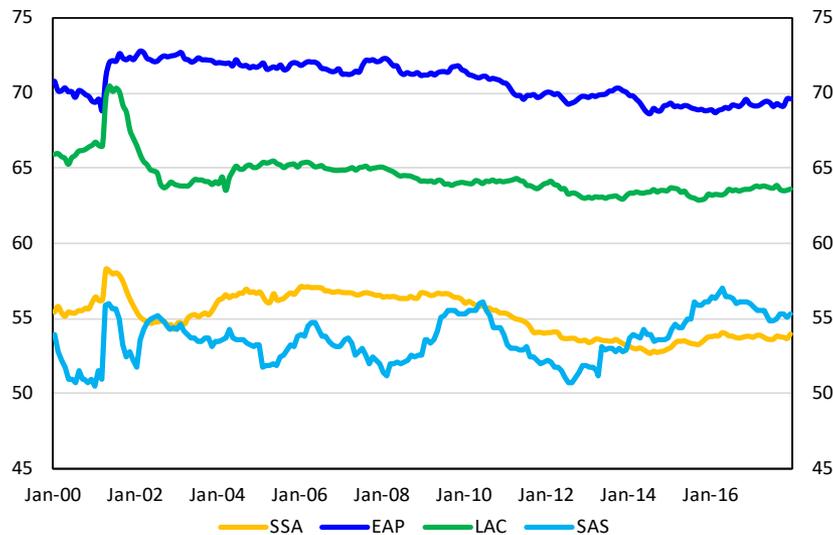
Ease of doing business index (1=most business-friendly regulations)

Perceived Risks May Be the Culprit

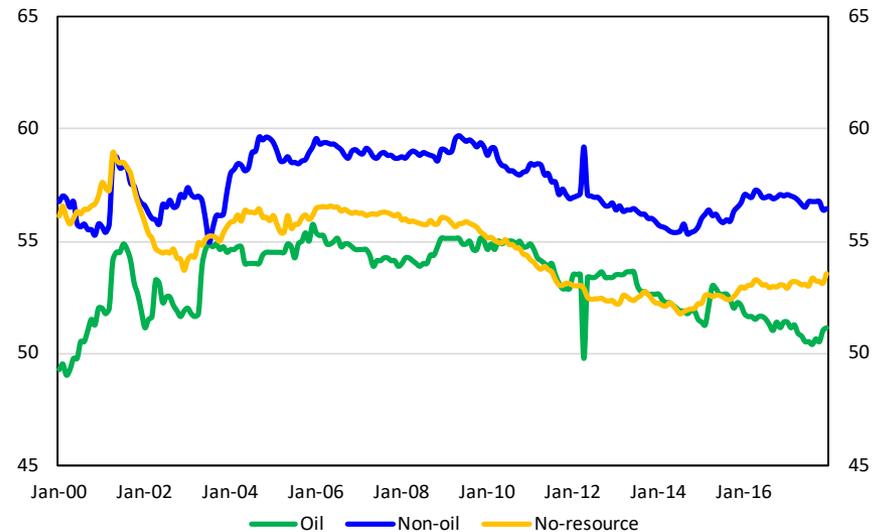
The perception of risk in Africa often exceeds real risk.

This risk perception versus reality gap is wider in SSA (History, Old Conflicts, etc.)

Political risk by region



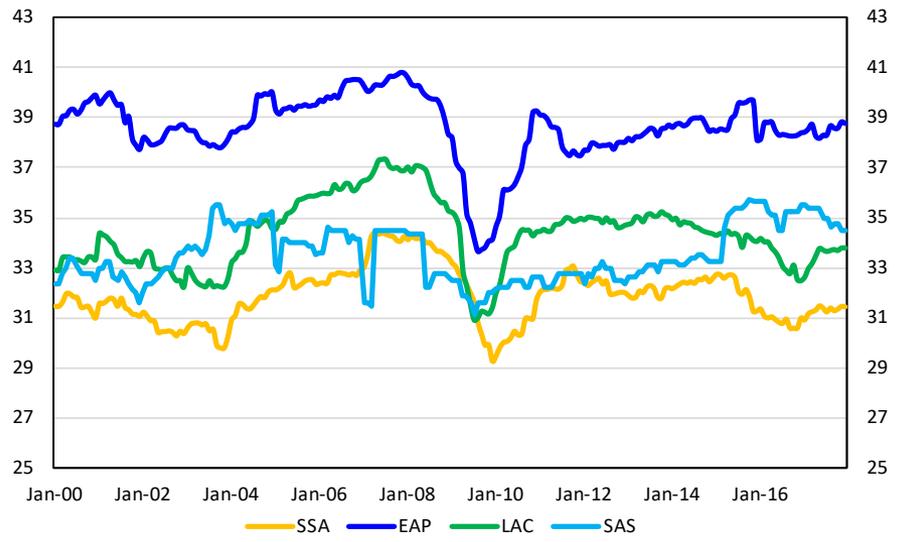
Political risk in SSA by resource group



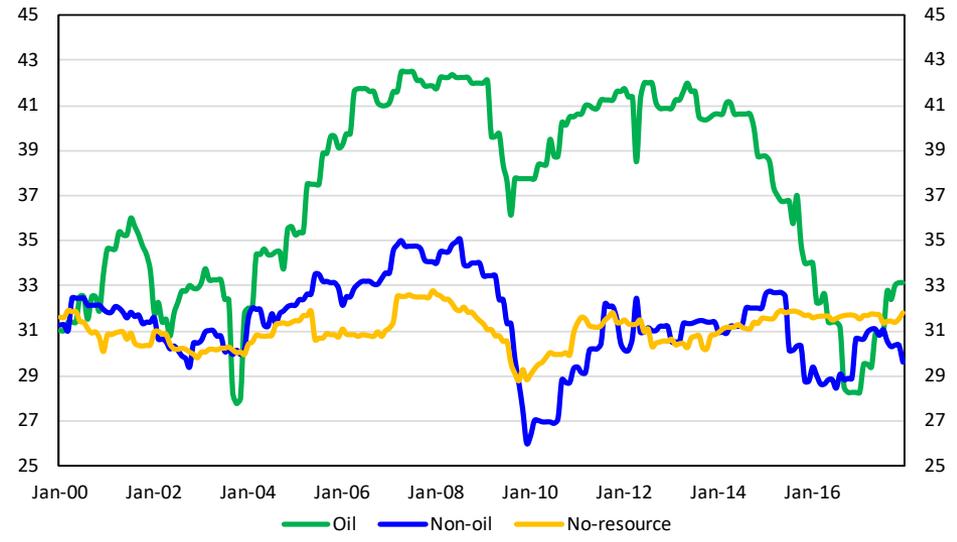
Source: The PRS Group – International Country Risk Guide
Note: Risk rating scale goes from 0 (highest risk) to 100 (least risk)

Economic risks are perceived to be higher in SSA

Economic risk by region



Economic risk in SSA by



Source: The PRS Group – International Country Risk Guide
 Note: Risk rating scale goes from 0 (highest risk) to 100 (least risk)

Pathway 3: Harnessing the power of the Digital Revolution



Digital revolution has brought many private benefits

NK

A typical day in the life of the internet

186 million
INSTAGRAM
photos

152 million
SKYPE
calls

36 million
AMAZON
purchases

8.8 billion
YOUTUBE
videos watched

2.3 billion
GB of WEB
TRAFFIC

803 million
TWEETS

4.2 billion
GOOGLE
searches

207 billion
E-MAILS
sent

SOURCE: WDR 2016 team; <http://www.internetlivestats.com/one-second/>
(As compiled on May 29, 2015)

The World Bank's Approach: Supporting the African Union's Digital Moonshot to boost growth

Every African individual, business, and government is digitally enabled



Legal and
Regulatory
Environment for
digital Economy

Effective
competition

Preventing digital
divide

Protecting against
risk of digital
exploitation

Data privacy and
protection

Cybersecurity



Digital
Infrastructure

Universal Internet
network coverage

Affordable Internet
for All at less than
2% of GNI per capita

Interim Milestone
doubling broadband
connectivity by
2021

"Dig Once Policy" to
leverage shared
road and power
networks

Universal access to
electricity as
enabler of internet
access



Digital Skills

All 15 year old
students with
basic 'digital
skills'
competencies

100,000
graduates in
advanced digital
skills programs
annually



Digital Platforms

Doubling of Online
Services Index rating
for all governments

All individuals are
able to prove their
identity digitally

At least 50% of the
population regularly
uses the Internet to
access government
or commercial
services

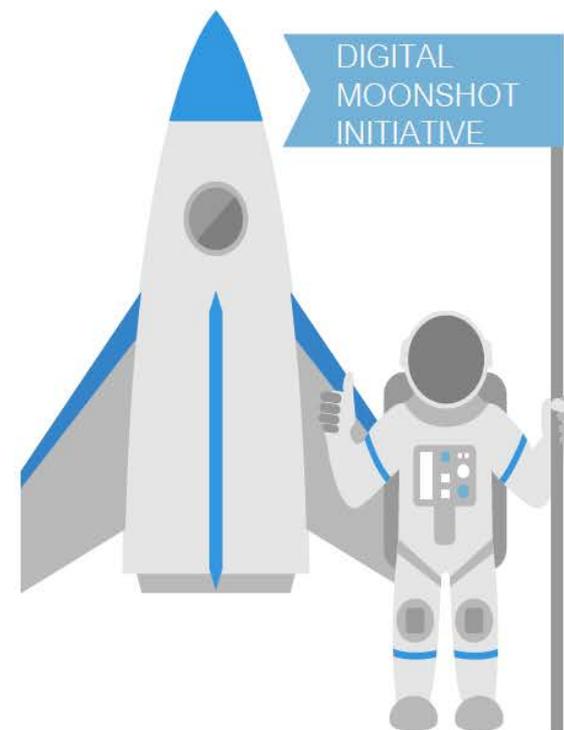
Universal Access to
Digital Financial
Services



Digital
Entrepreneurship

Tripling the number
of new digitally-
enabled businesses
created annually

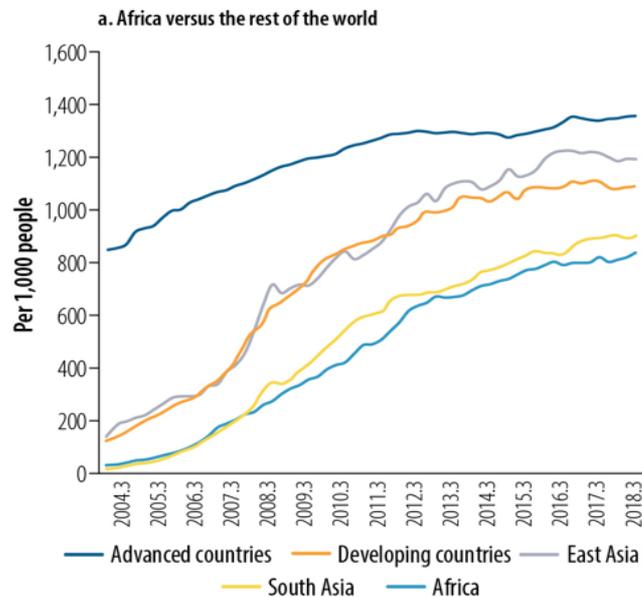
Financing for Venture
Capital to reach .25%
of GDP



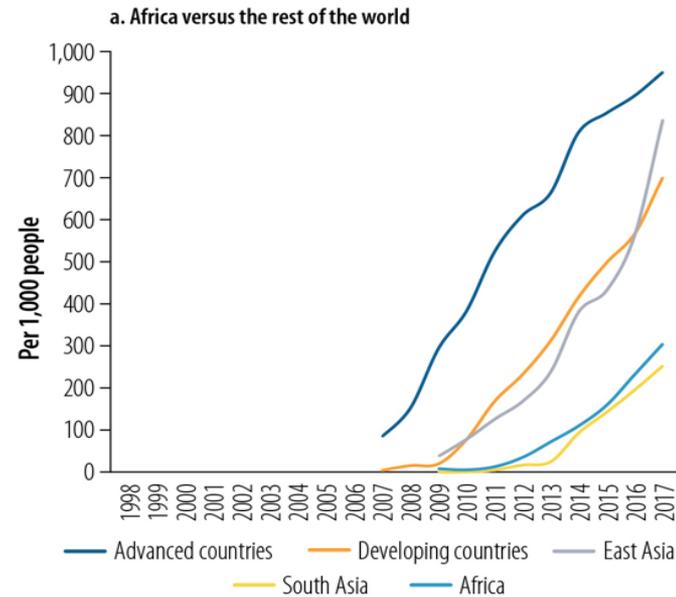
Africa has made great strides in mobile connectivity. Still lags the rest of the world in access to broadband



Mobile Connectivity



Broadband connectivity

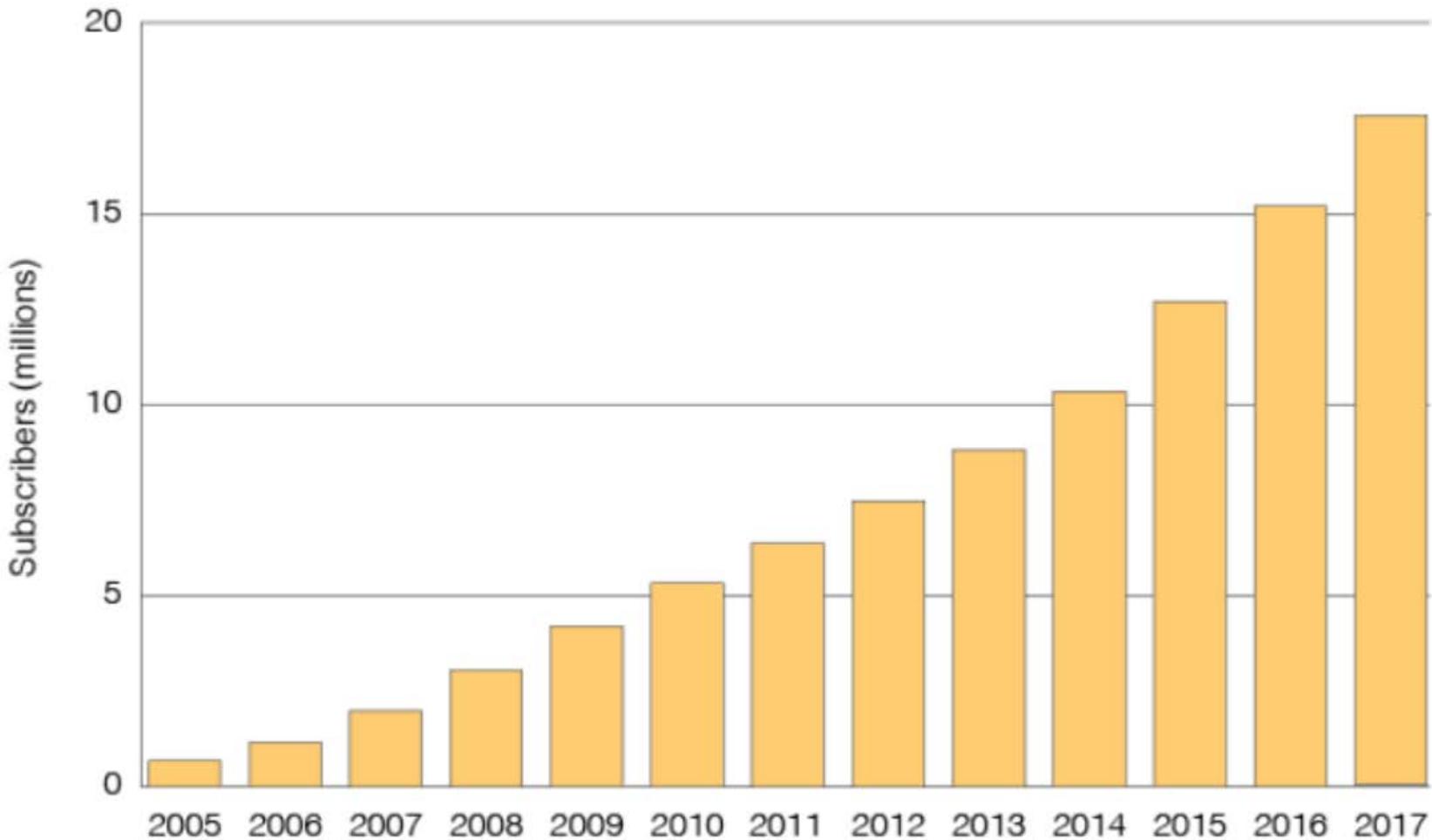


Source: World Bank (2019) *Africa's Pulse*, Volume 19. Washington, DC: The World Bank, April.

Growth of Fixed Broadband subscriptions in Africa



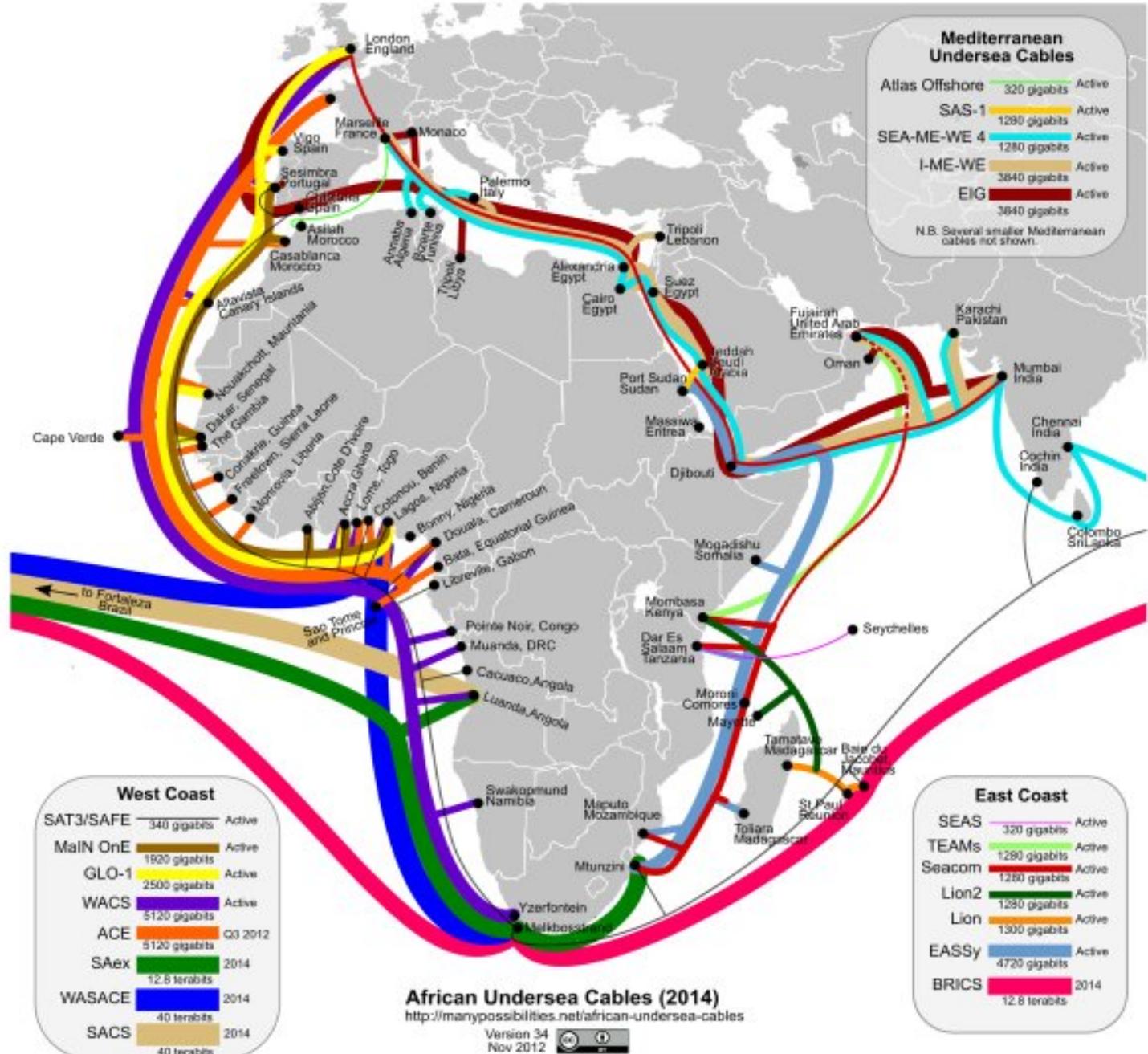
Only 7 percent of African households subscribed to high speed internet services at the end of 2017 (Telegeography, 2019).



Source: Telegeography, 2019

Predominant evidence on the effect of broadband infrastructure -> high speed internet on economic growth/structural transformation (employment, export, productivity, entry).

Policy: substantial increase in investment in broadband and complementary technologies



There is empirical evidence on how Internet affects African economies



1. Significant and large employment effects associated with fast internet.

In Benin, DRC, Ghana, Kenya, Namibia, Nigeria, Togo, and Tanzania, employment increased by 4.6-13.2 percent with the arrival of fast internet (Hjort and Poulson, American Economic Review, February 2019).

2. Access to internet improved export opportunities
3. Firms' productivity improved due to access to internet
4. Significant increase in net firm entry (largest in ICT intensive sectors) due to internet.
5. Increased on the job training and improved communication
6. (Un)employment inequality falls when fast Internet arrives.
Estimated increase in employment in a skilled occupation is biggest for

Digital Technology fosters financial inclusion; improves service delivery. Despite potential, investment in ICT is limited.

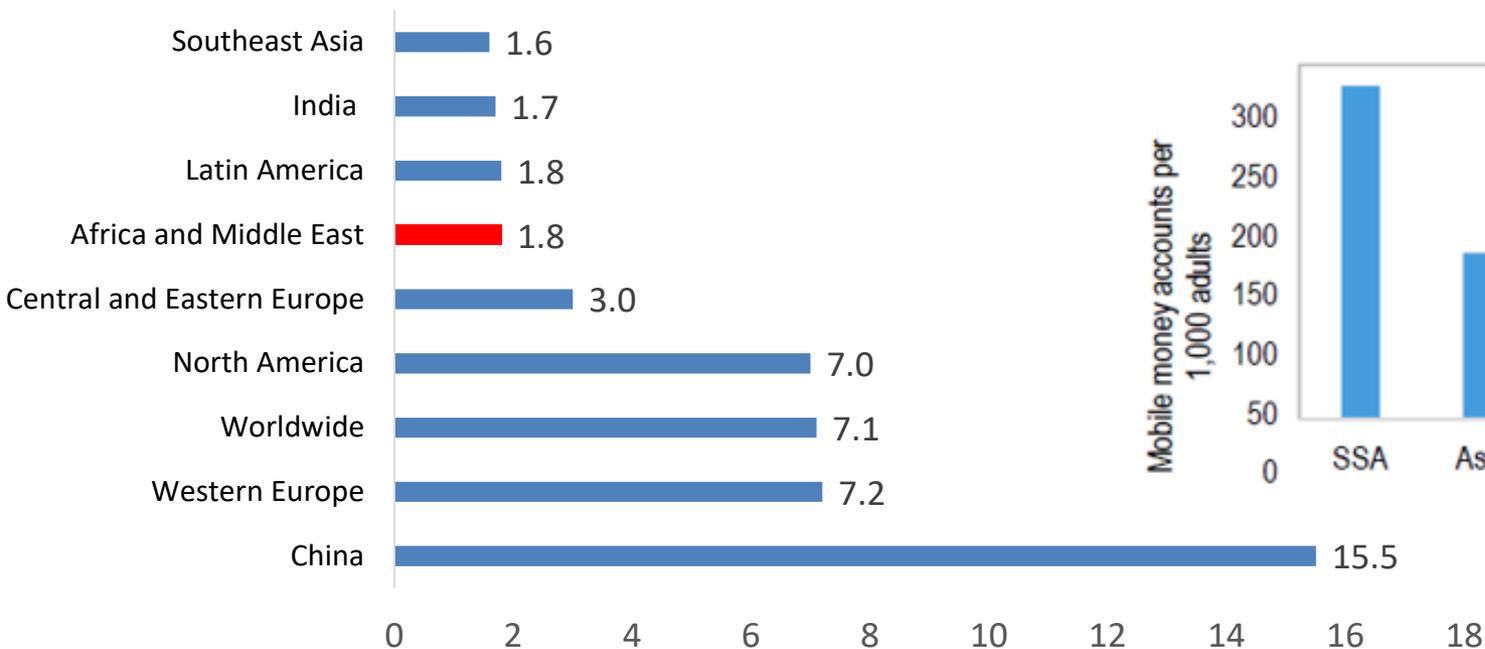
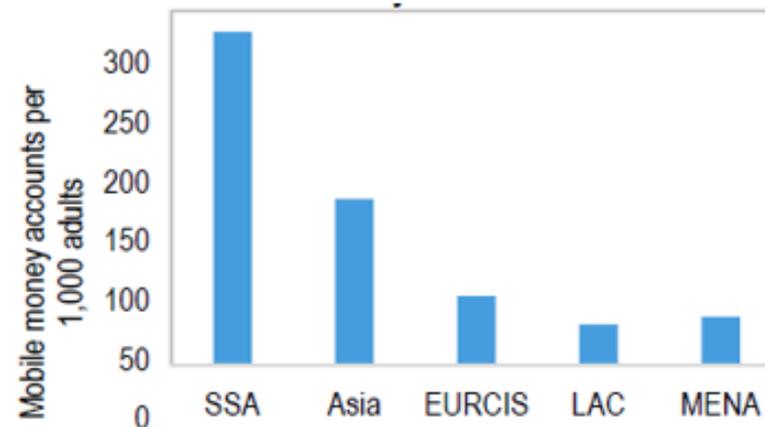
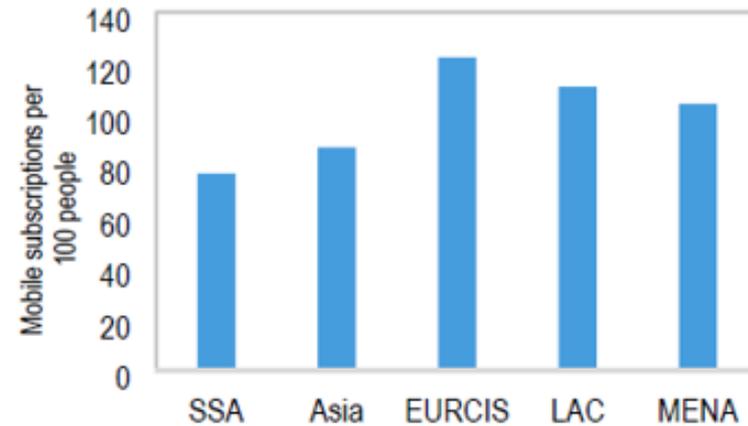


SSA spearheads the innovation in mobile finance.

DT can improve service delivery

DT is an essential input in manufacturing and organization of other production systems including services and trade.

Despite the potential for growth, limited investment in ICT.



E-commerce as % of total retail sales (2015)

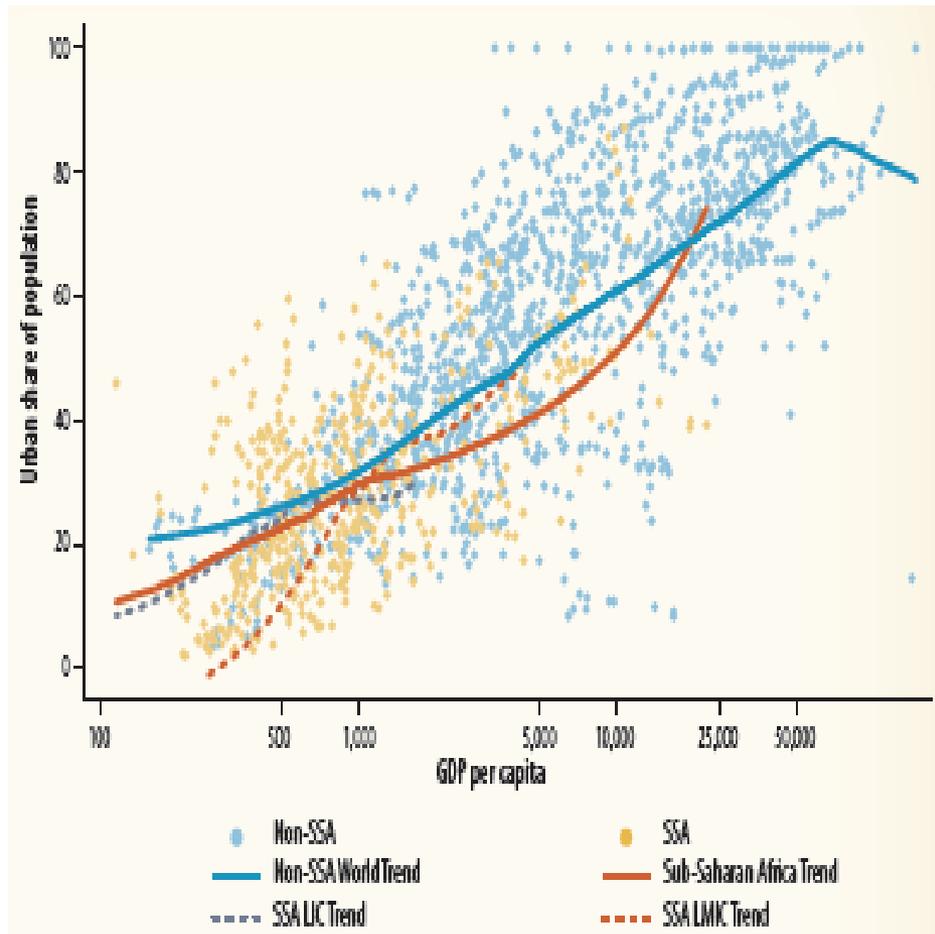
Source: eMarketer, World Bank, 2016

Pathway 4. Managing and Leveraging Demography and Urbanization

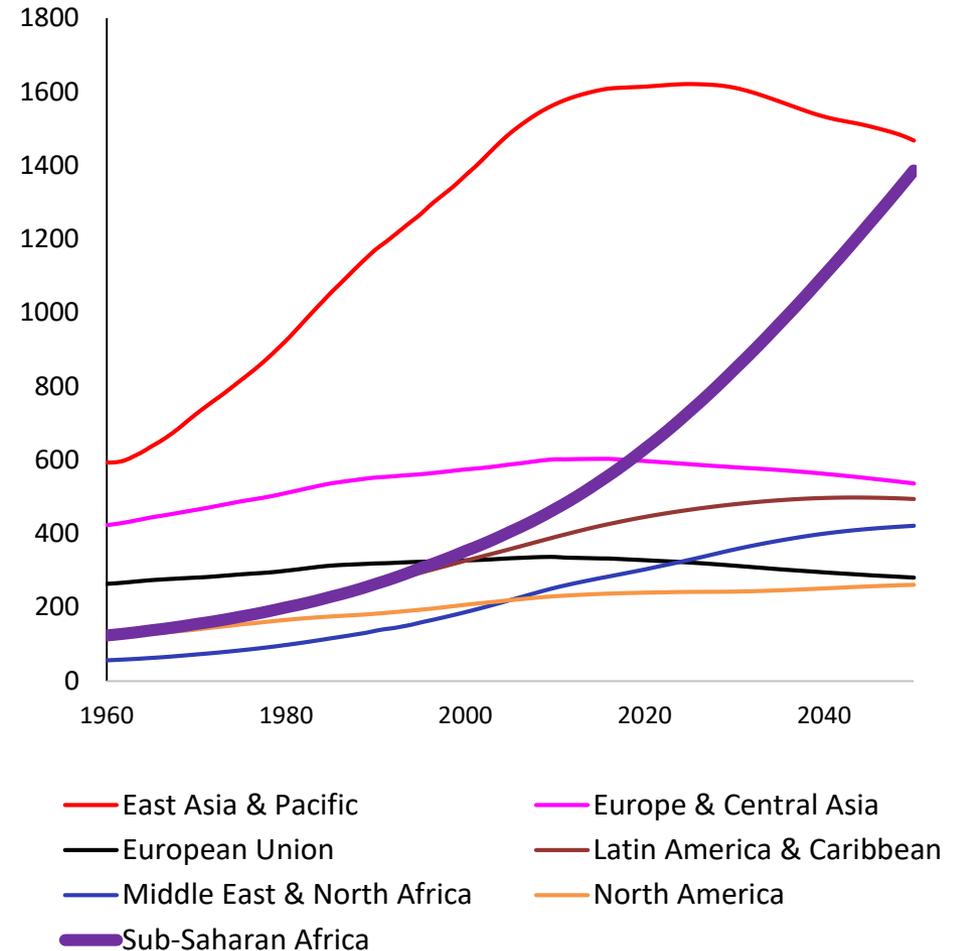
Africa will be home to 2 Billion People by 2050, mostly young and in cities, creating significant business opportunities

Africa will have the biggest pool of labor supply creating opportunities for manufacturing and services, especially given rising wages in Asia. Investing in urbanization will be key!

Urban Share of pop (%)

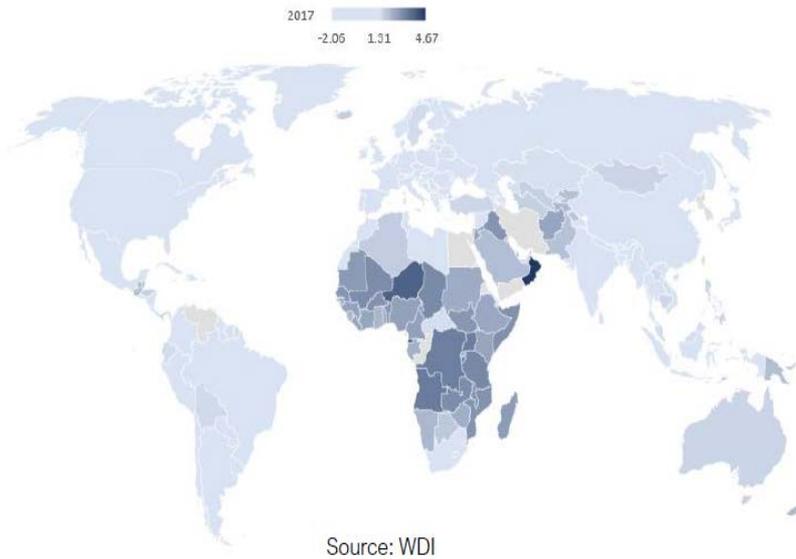


Population ages 15-64, total (millions)



Managing the Youth Bulge: Jobs Needed!

Population growth in Africa is the highest in the world



In Africa, 43% of the population is below the age of 15, the highest percentage in the world



By 2035 the number of Sub-Saharan Africans reaching working age of 15-64 will exceed the rest of the world combined, adding 11 million to the labor force every year. Accelerating economic transformation is needed to create sufficient jobs.

1 Million new Jobs needed every month!

Human capital: Empowering women to change fertility dynamics and accelerate human capital gains

Merits of Women's Empowerment

Better Jobs and Economic Growth

Women get **higher paid jobs** if allowed to pursue education and delay first pregnancy, improving their agency and social stature; and overall productivity will be raised if women's skills and talents are fully used.

Reduced Fertility

Fewer births and better spaced pregnancies expose women and babies to **fewer health risks**.

Better Health & Education

Smaller families can **invest more in each child**, allowing for better **health and education** outcomes of children.

Support Coordinated Policy Action to



Keep girls in school and increase female education



Reduce child marriage



Address social norms on fertility and female genital mutilation (FGM)



Improve access to sexual & reproductive healthcare, incl. family planning programs



Reduce child mortality, morbidity, and malnutrition



Promote gender equity, and female employment, and access to job opportunities



Promote female empowerment through safer mobility, and access to energy, finance, and Internet in rural areas



Think Africa Partnership

AN AFRICAN KNOWLEDGE
PLATFORM
BRIDGING EVIDENCE TO
POLICY
FOR HIGHER IMPACT



Office of the Chief Economist, Africa
region
World Bank Group

A multi-partner initiative to support the knowledge to policy channel:



1. Amplify and make country-relevant new wave of knowledge on African policy options
2. Strengthen regional and domestic knowledge platforms
3. Improve demand-side and absorptive capacity for economic knowledge – via the CEOG (Chief Economic Advisors to governments)



THE WORLD BANK

THANK YOU!

ありがとうございました

Arigatōgozaimashita

