

# FACING THE CHALLENGES, CONTINUING TO RISE

## STATE OF THE AFRICA REGION

WORLD BANK – IMF SPRING MEETINGS 2015

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Chief Economist, Africa Region

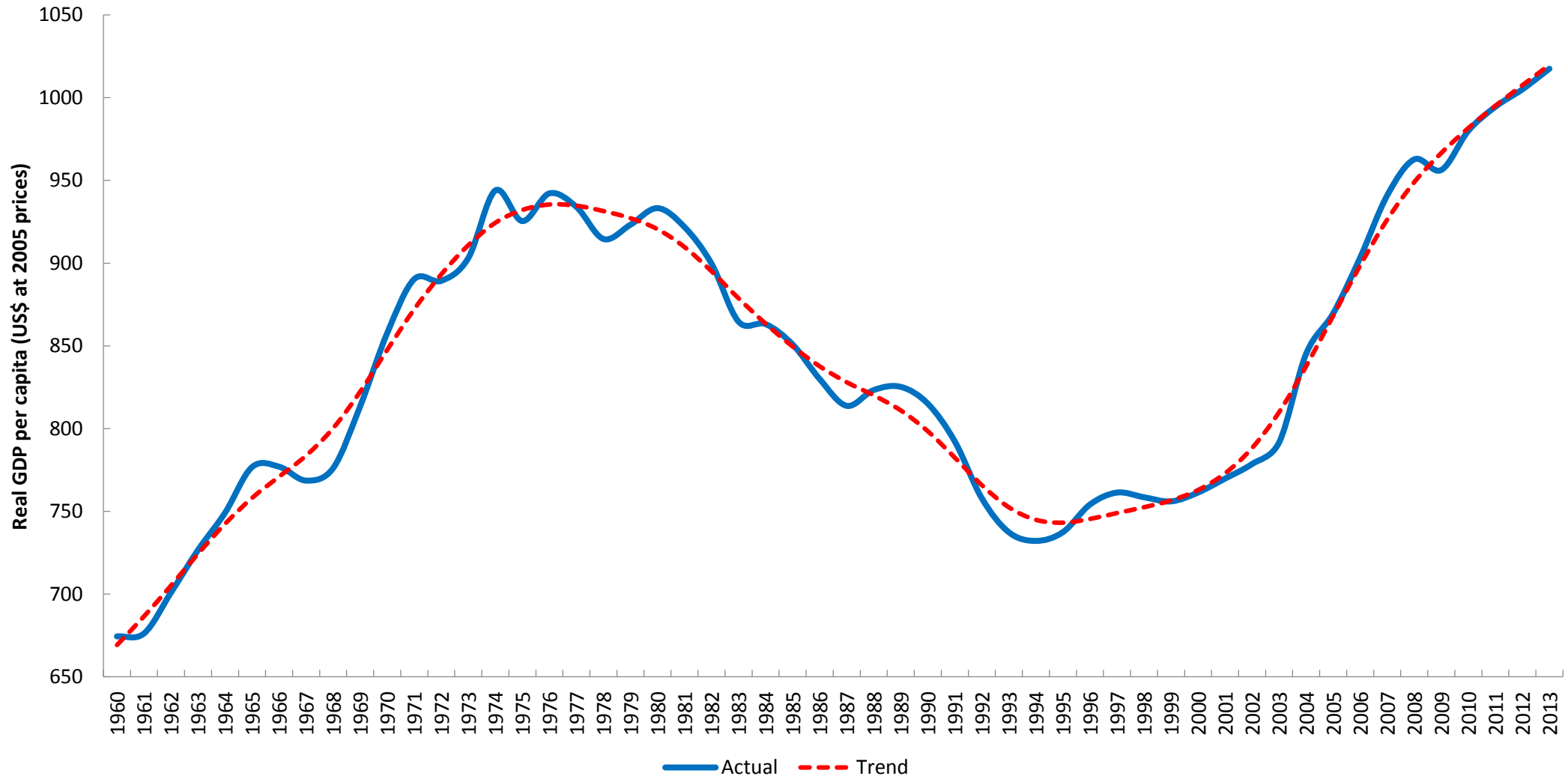
The World Bank



# OUTLINE

1. **Africa's rise**
2. Structural challenges
  - a. Harnessing demography
  - b. Boosting productivity
  - c. Promoting inclusiveness
3. Immediate risks
  - a. The end of the commodity super-cycle
  - b. Fragility and violence
  - c. Health challenges
4. Policy lessons, old and new

# 1. Africa's rise: Twenty years of sustained economic growth have established that Africa can find its own path to successful development



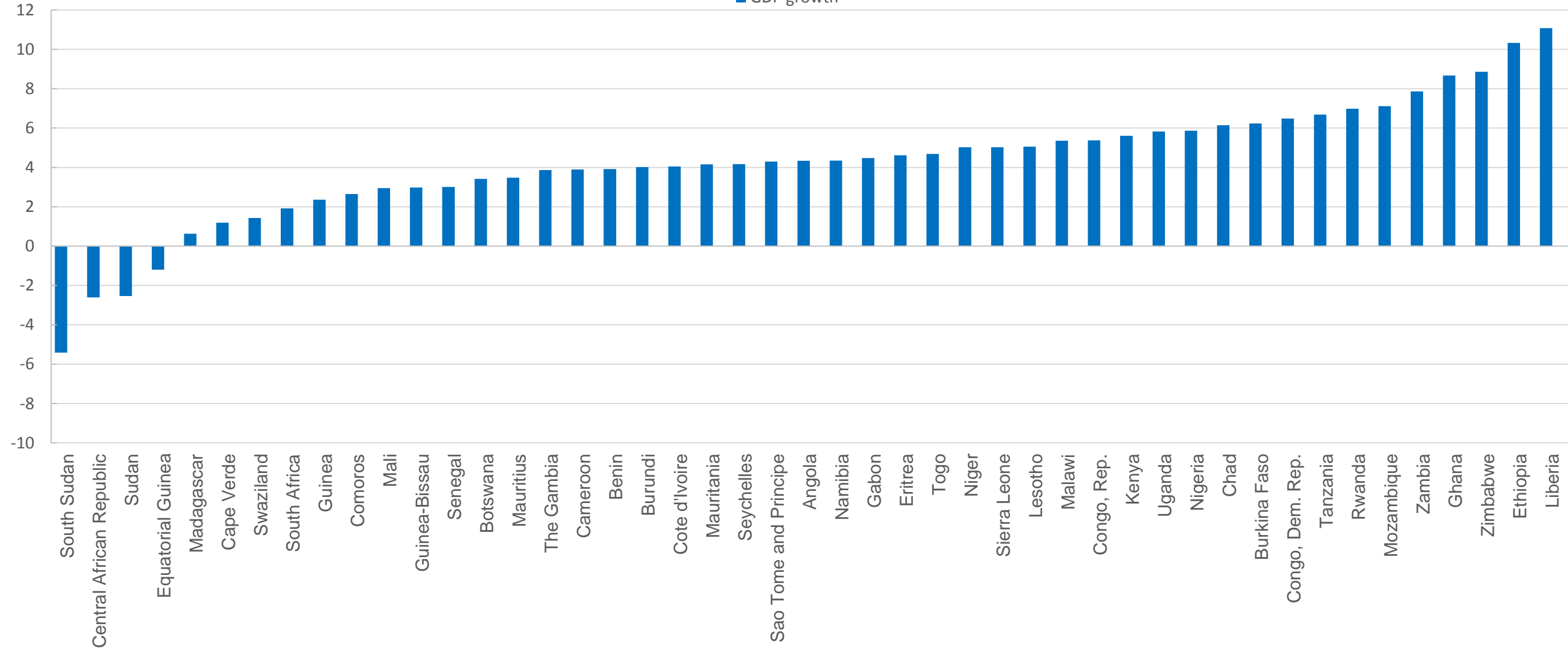
Source: World Development Indicators.

# 1. Africa's rise:

Progress has been sustained since the Great Recession, albeit heterogeneously

Growth in GDP, average 2009-2013

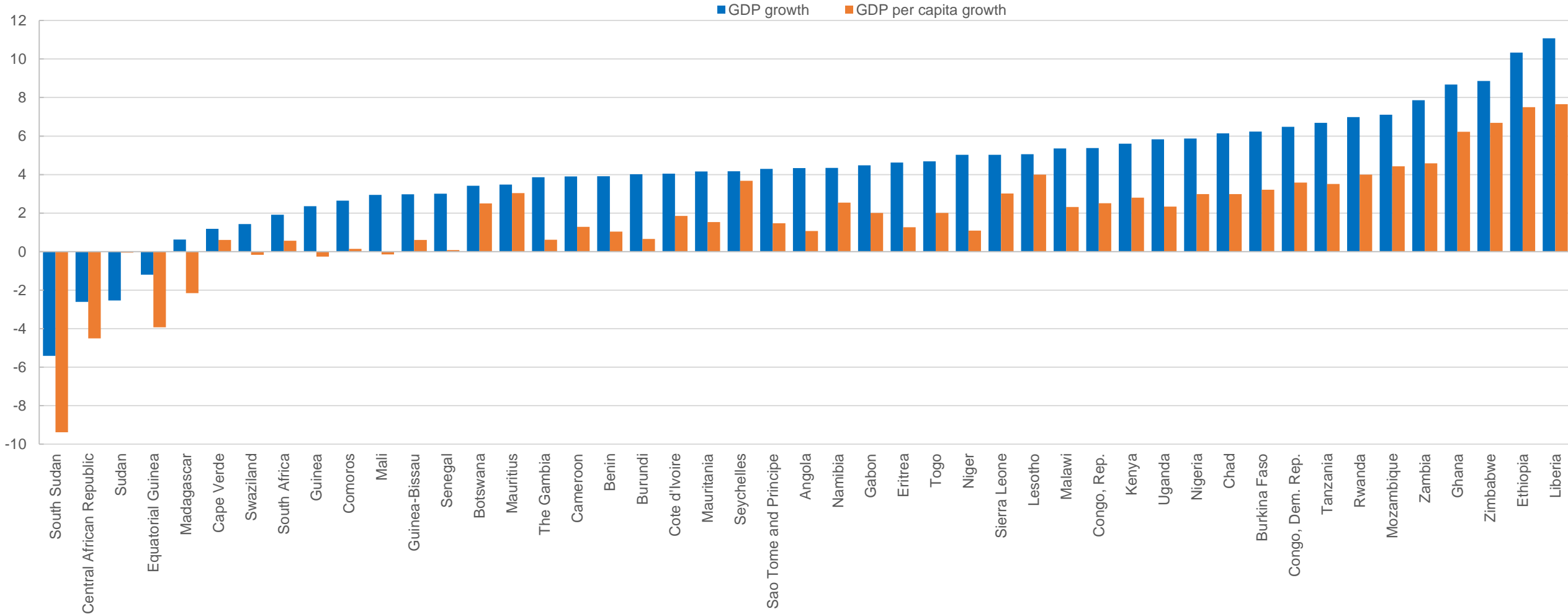
■ GDP growth



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Growth in GDP and GDP per capita, average 2009-2013

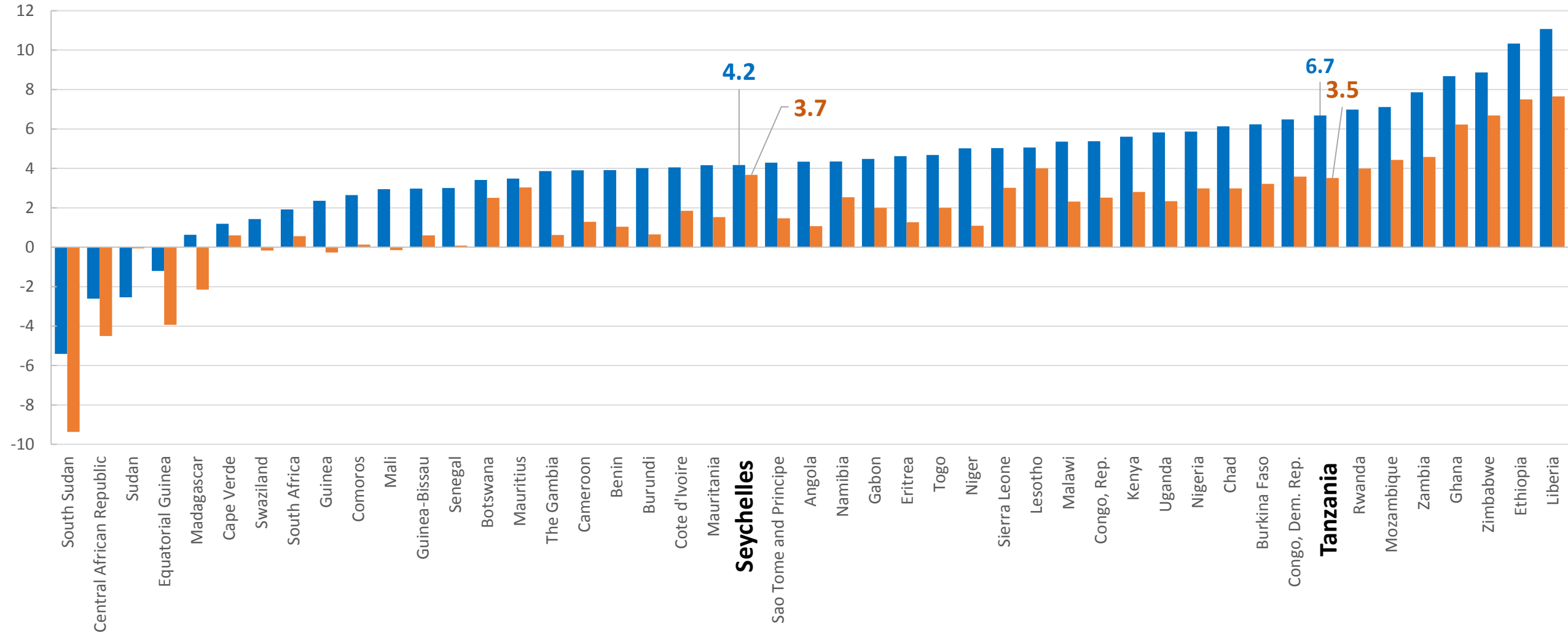


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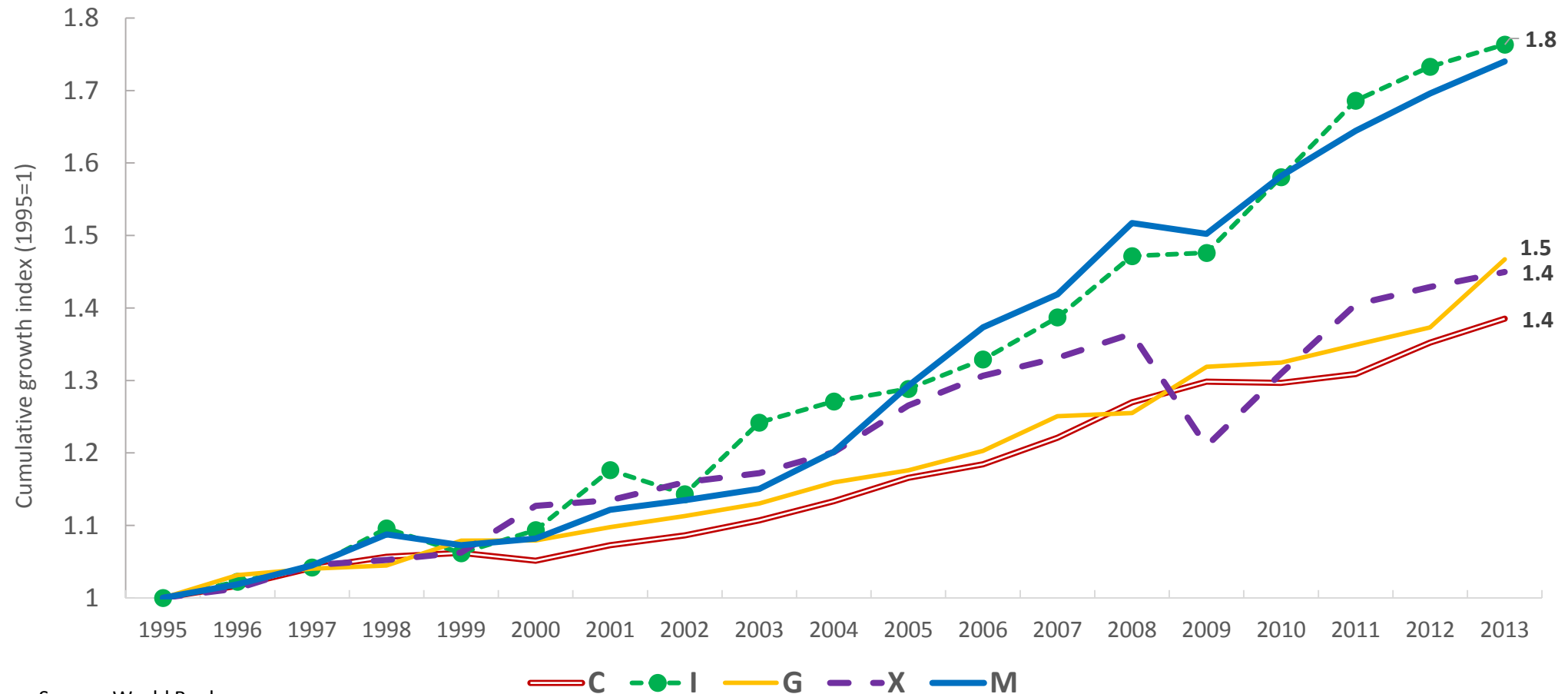
■ GDP growth ■ GDP per capita growth



Source: World Development Indicators.

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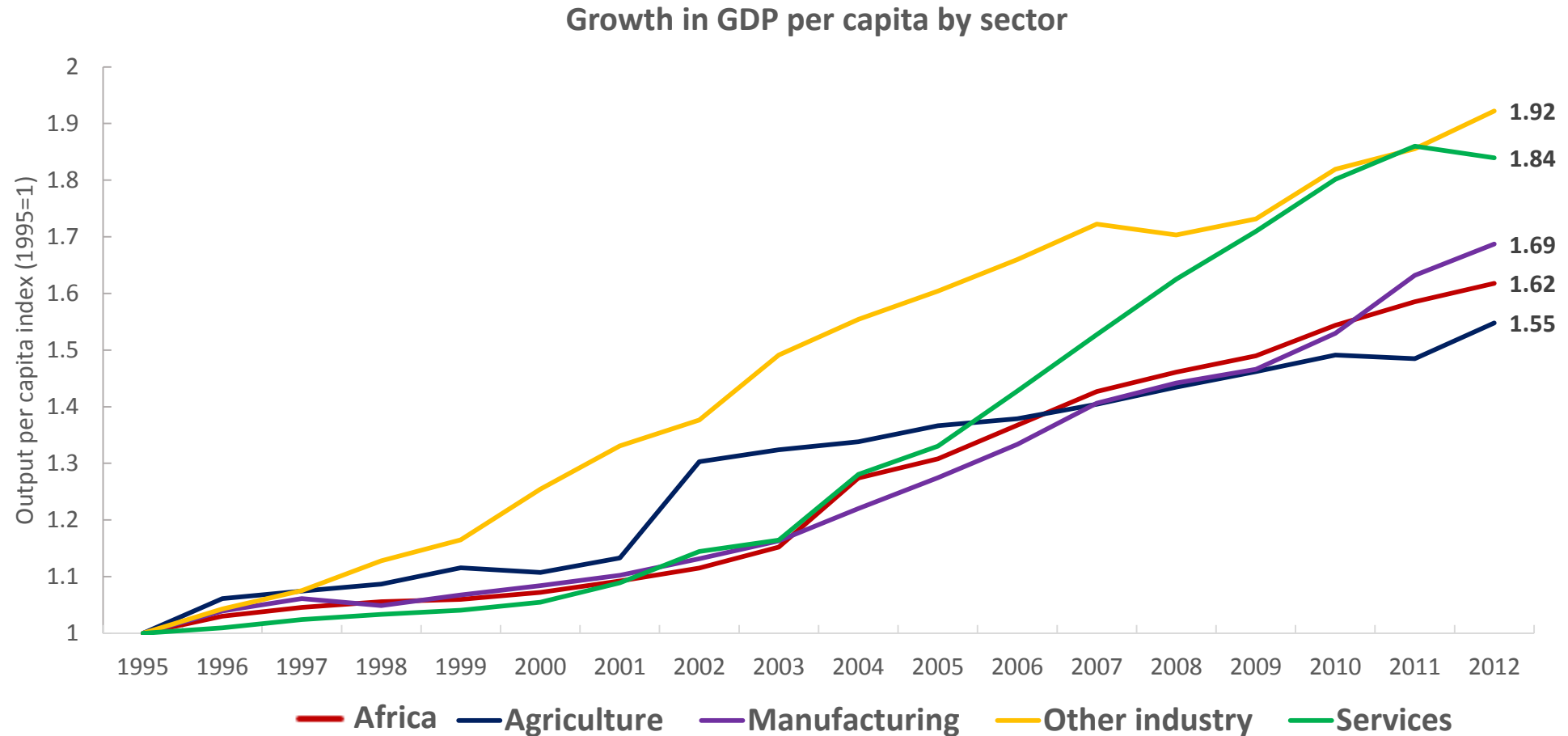
This growth has been investment-driven and, since 2004, increasingly financed by foreign savings



Source: World Bank.

# 1. Africa's rise:

Growth has been particularly pronounced in the extractives and services sectors



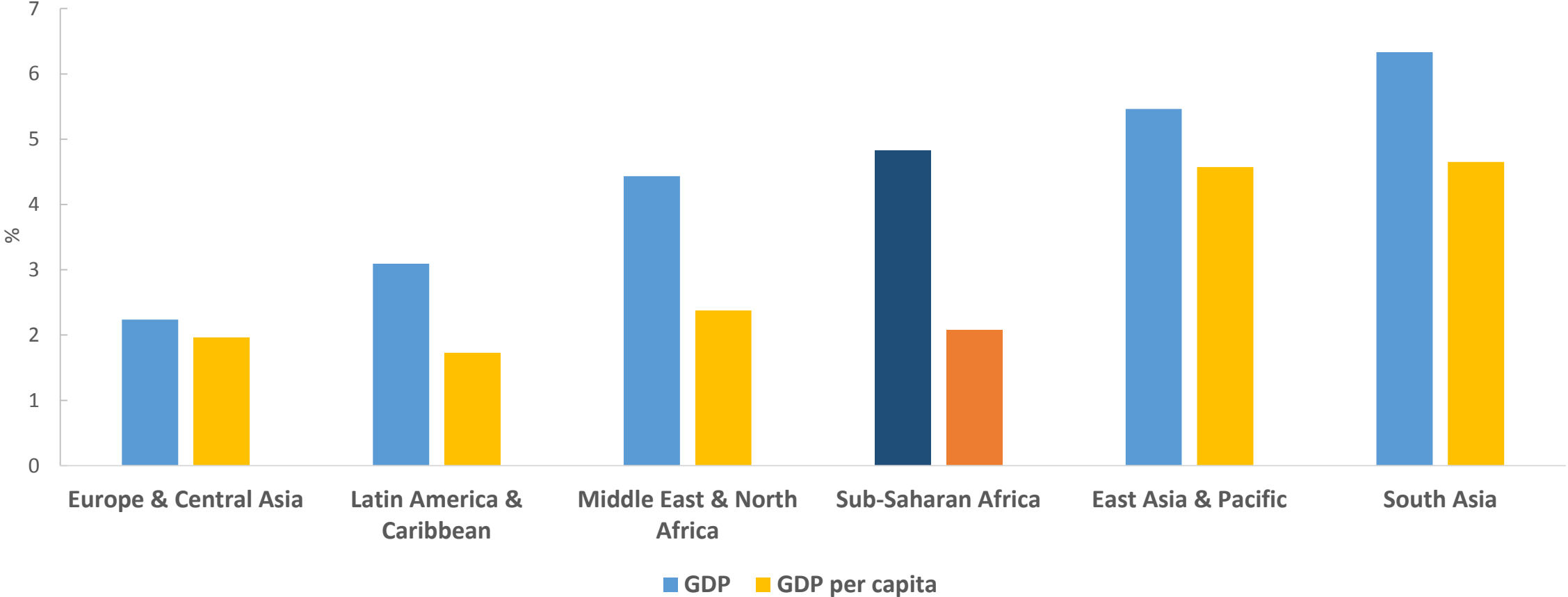
Source: staff estimates based on WDI (2015).

Note: Population-weighted average of 29 countries for which sectoral value added data can be decomposed into manufacturing and other industry



# 1. Africa's rise: In a global context

Average annual growth in GDP and GDP per capita, 1995-2013  
PPP (constant 2011 international \$)



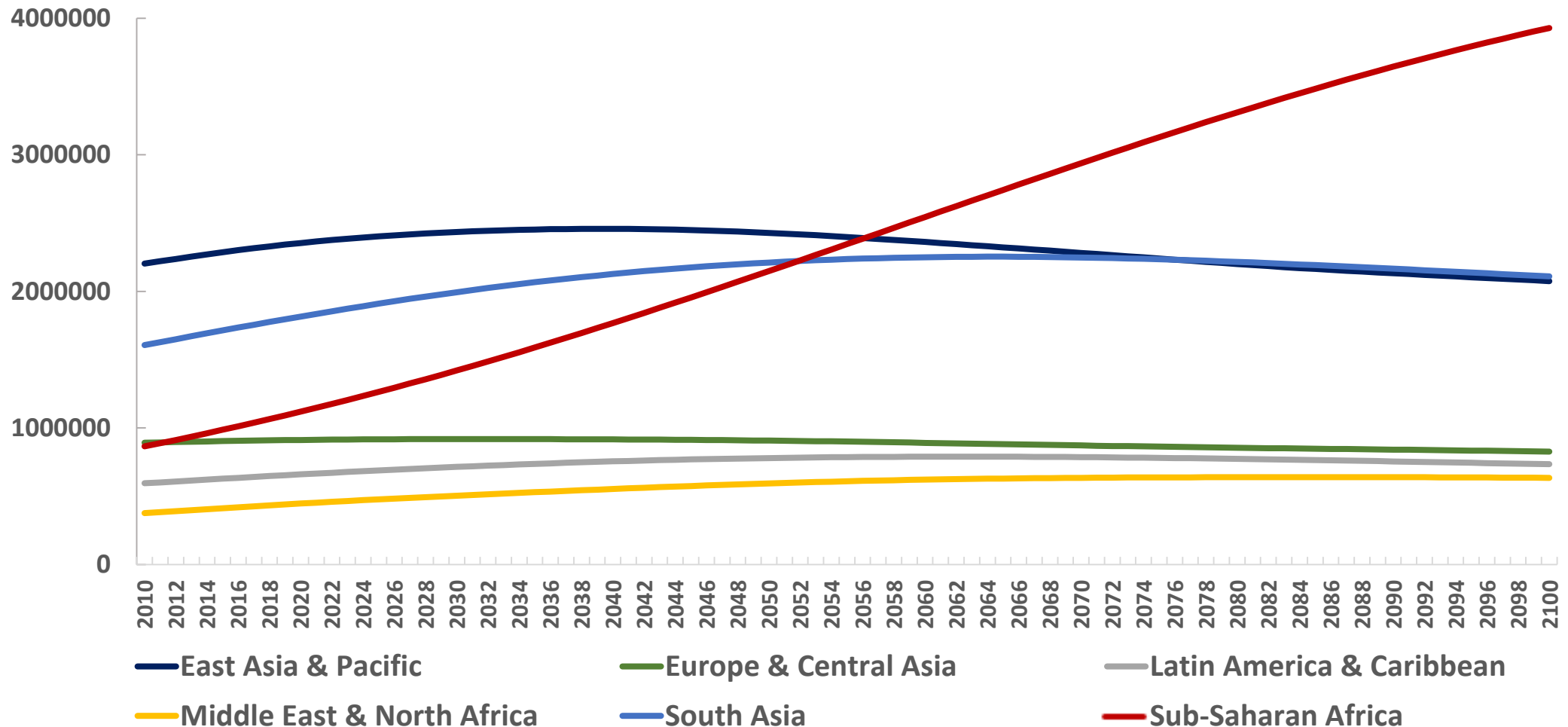
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4. Policy lessons, old and new

## 2. Structural challenges: Harnessing demography

Population projections  
Medium fertility scenario

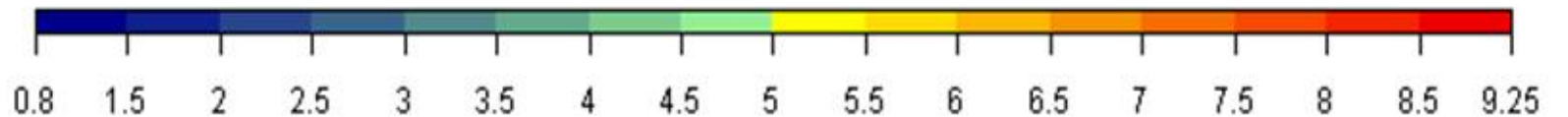
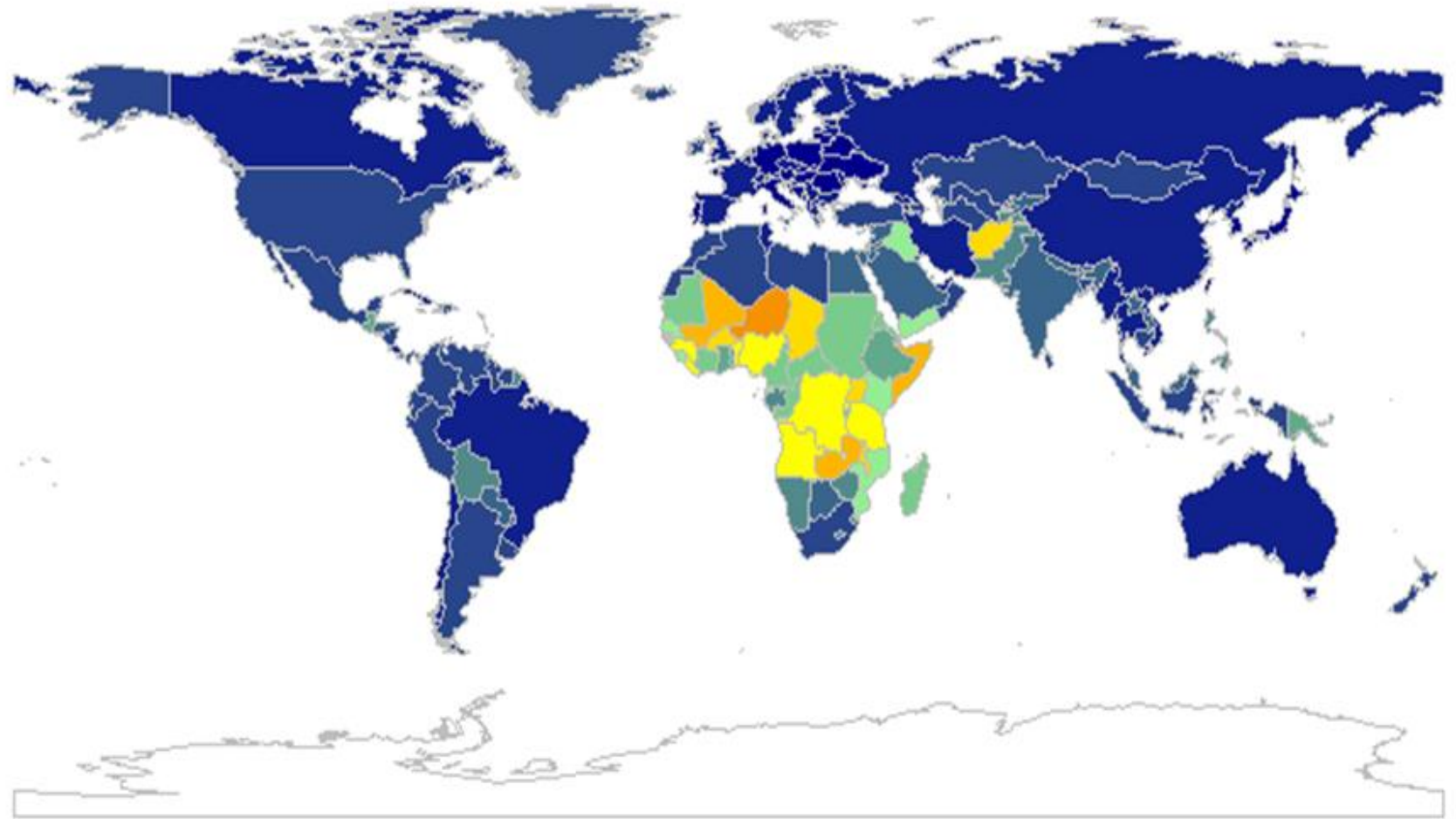


## 2. Structural challenges: Harnessing demography

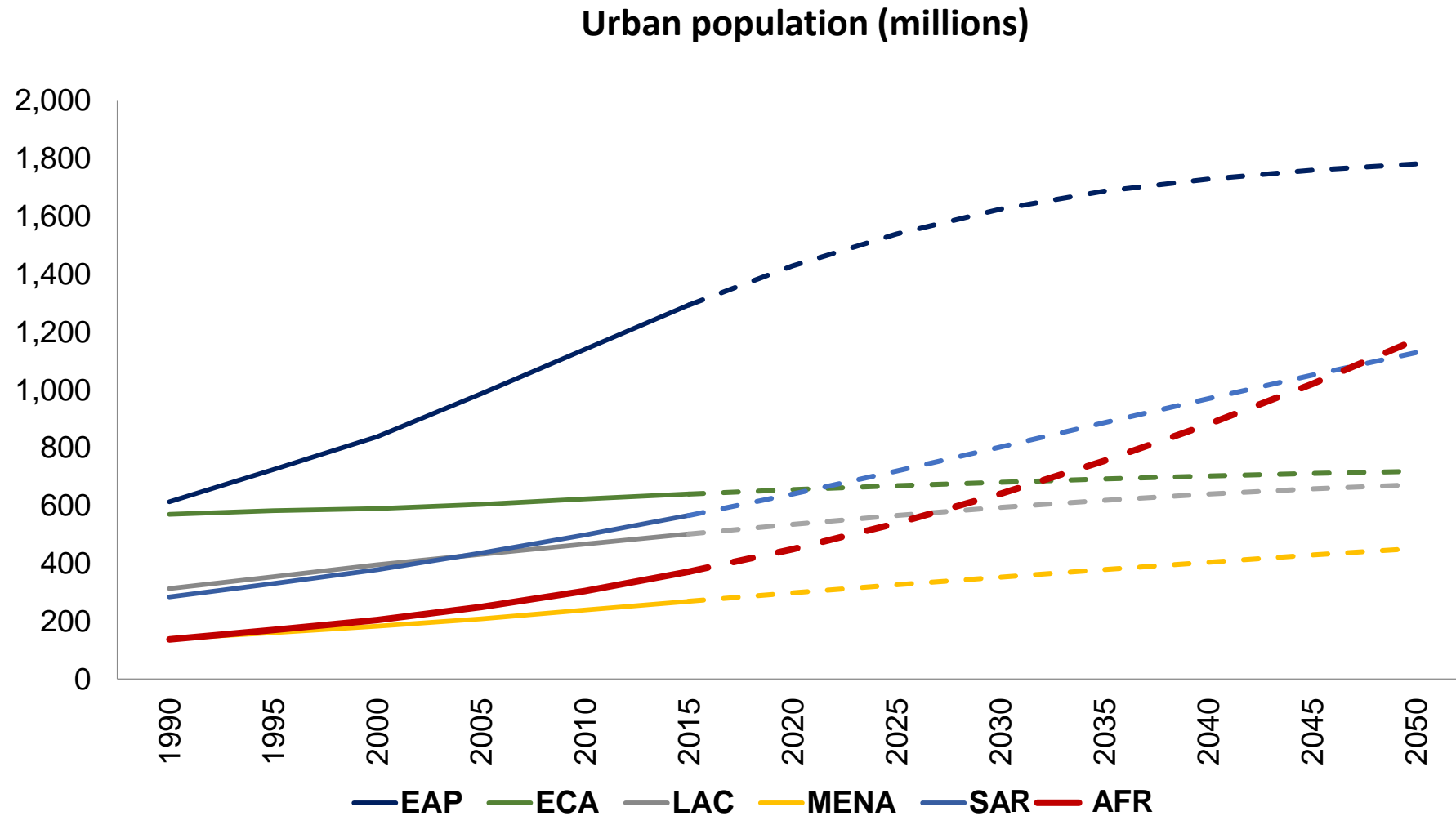
### Dividend or Disaster?

Highest fertility rates in the world are associated with:

- Low women's empowerment
- High maternal and child mortality
- Low investment in education
- High dependency ratios
- Youth employment challenges



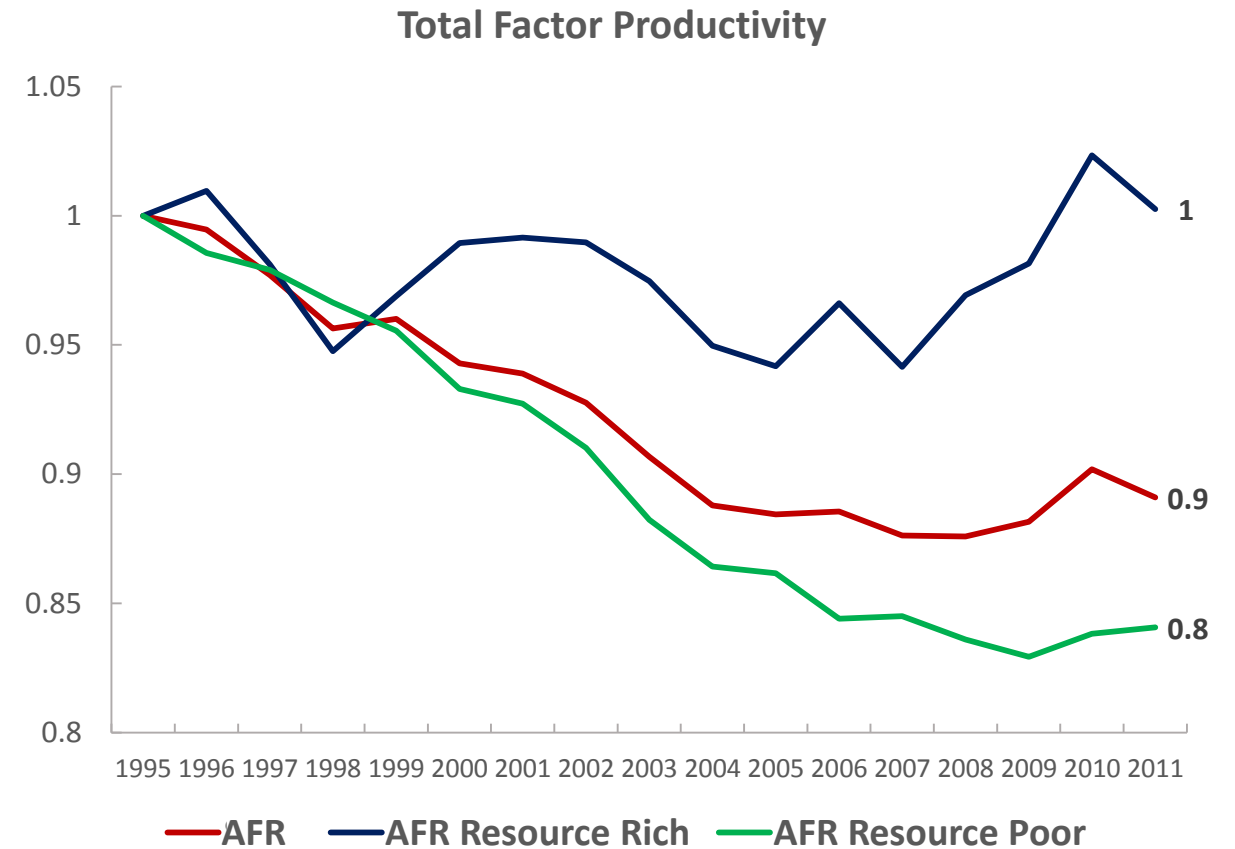
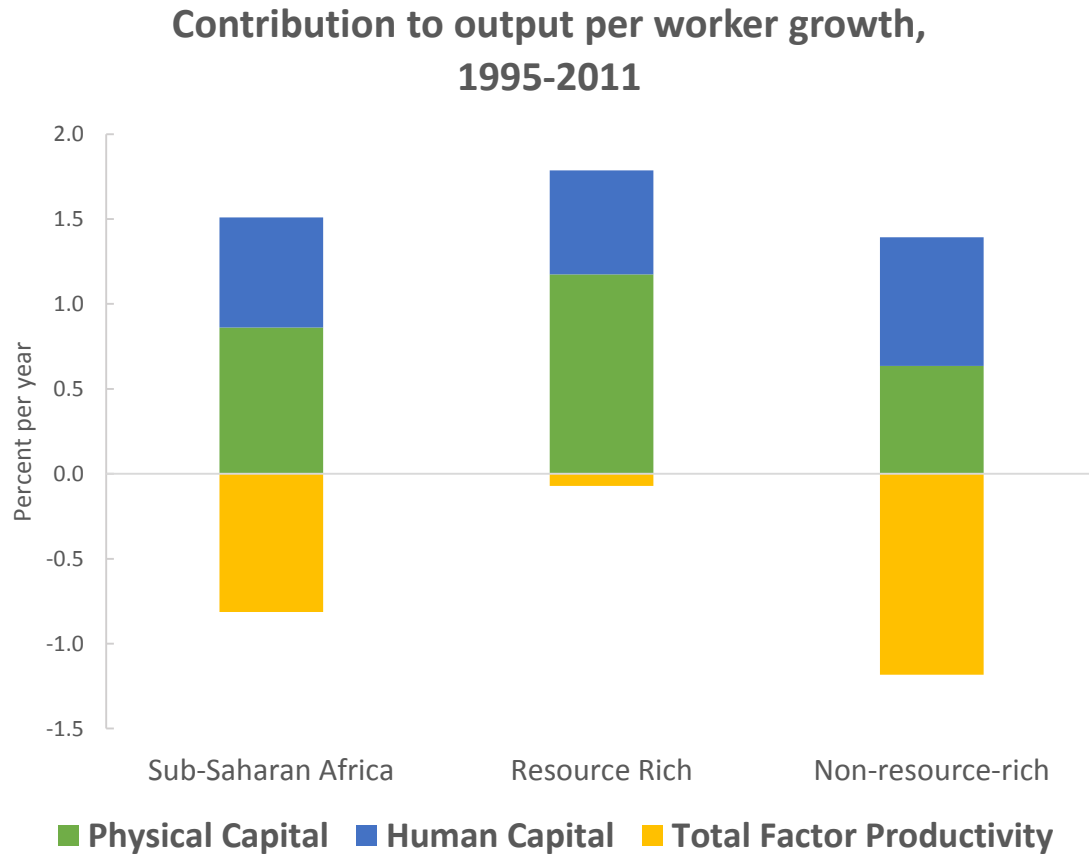
## 2. Structural challenges: Harnessing demography



Source: World Urbanization Prospects of the UN and WDI

## 2. Structural challenges: Boosting productivity

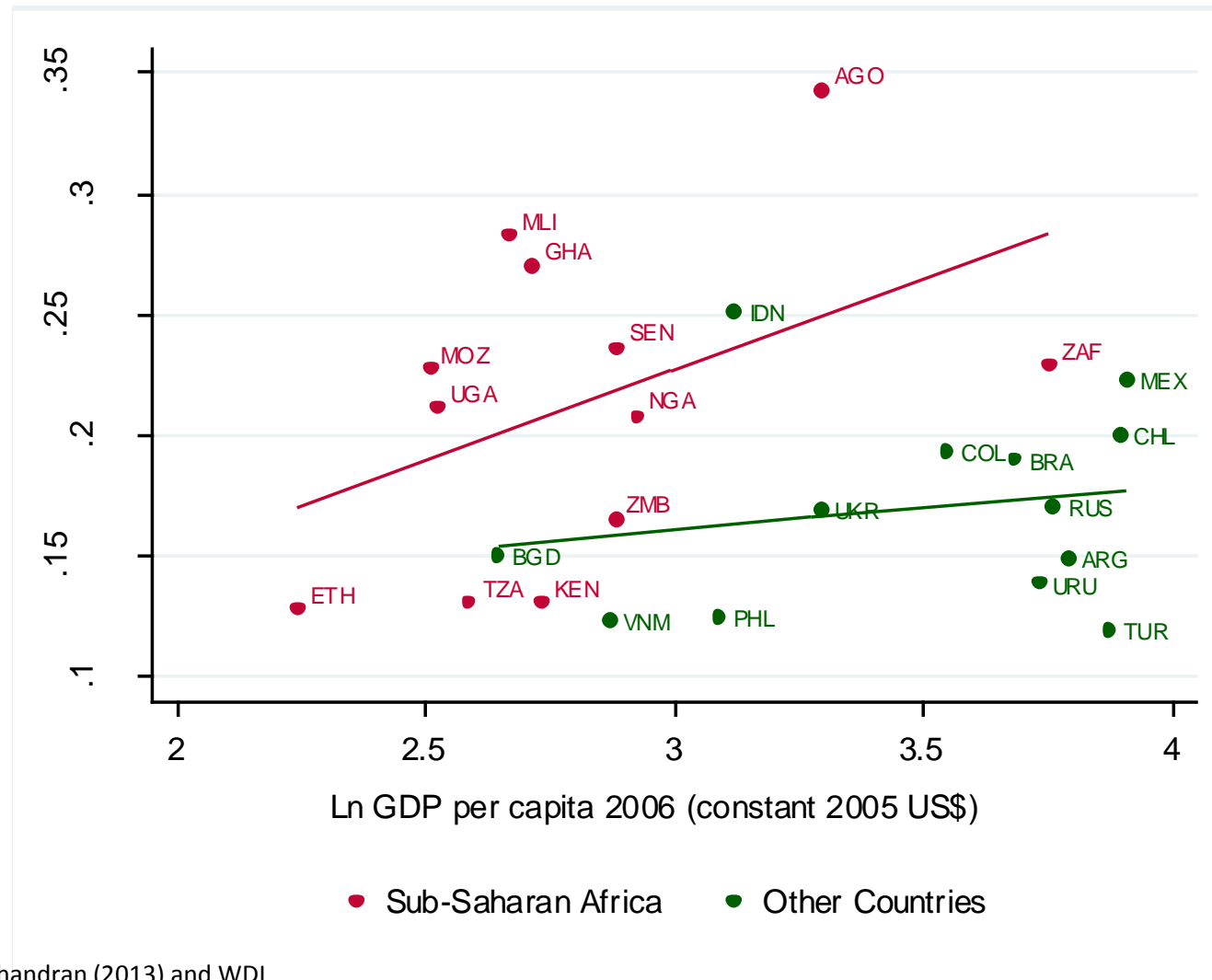
A standard Solow growth decomposition, and TFP trends



Source: World Bank.

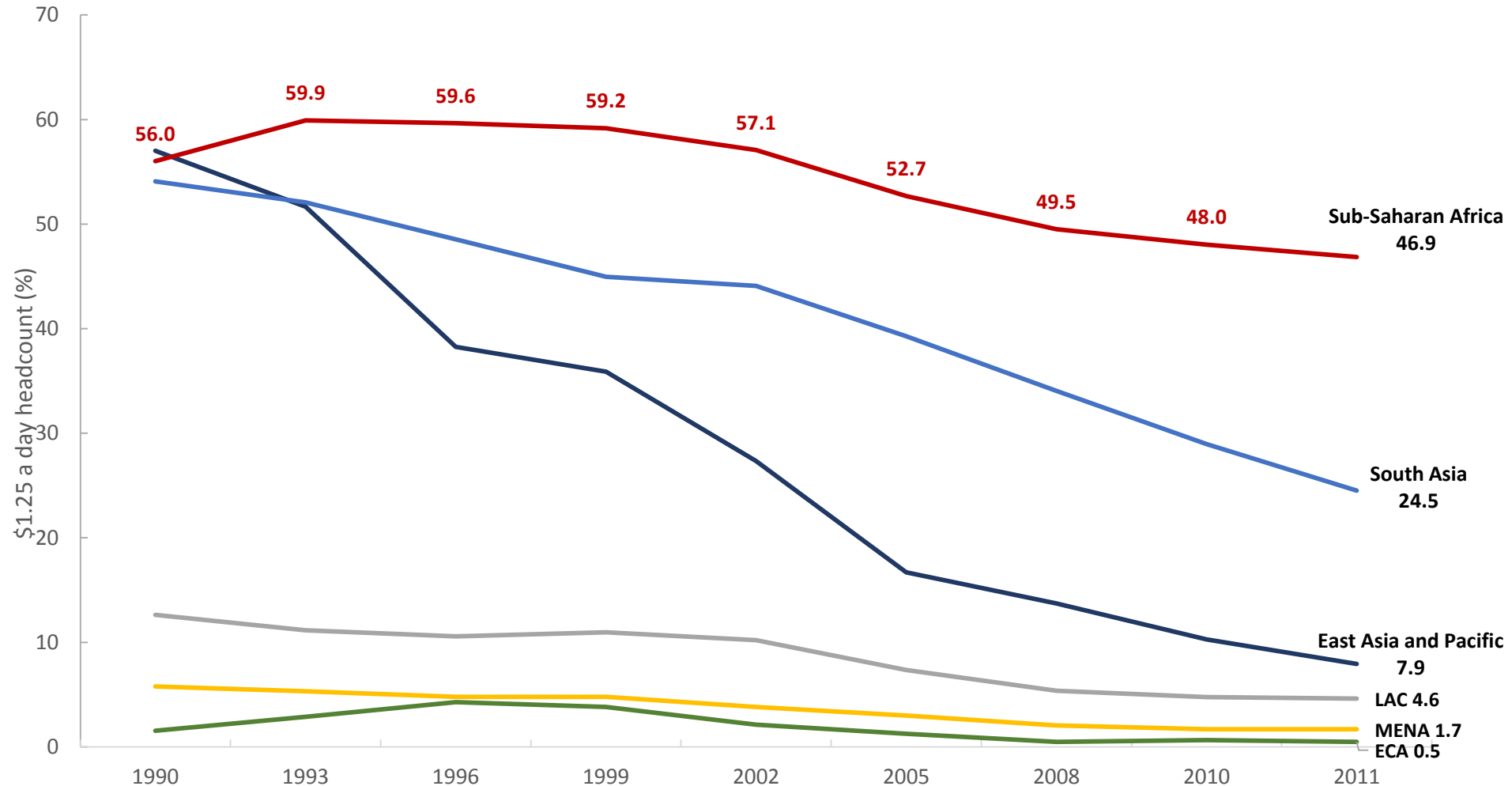
## 2. Structural challenges: Boosting productivity

Unit labor costs and GDP per capita



## 2. Structural challenges: Promoting inclusiveness

Poverty reduction during Africa's rise has been too slow - The rise must be for all Africans

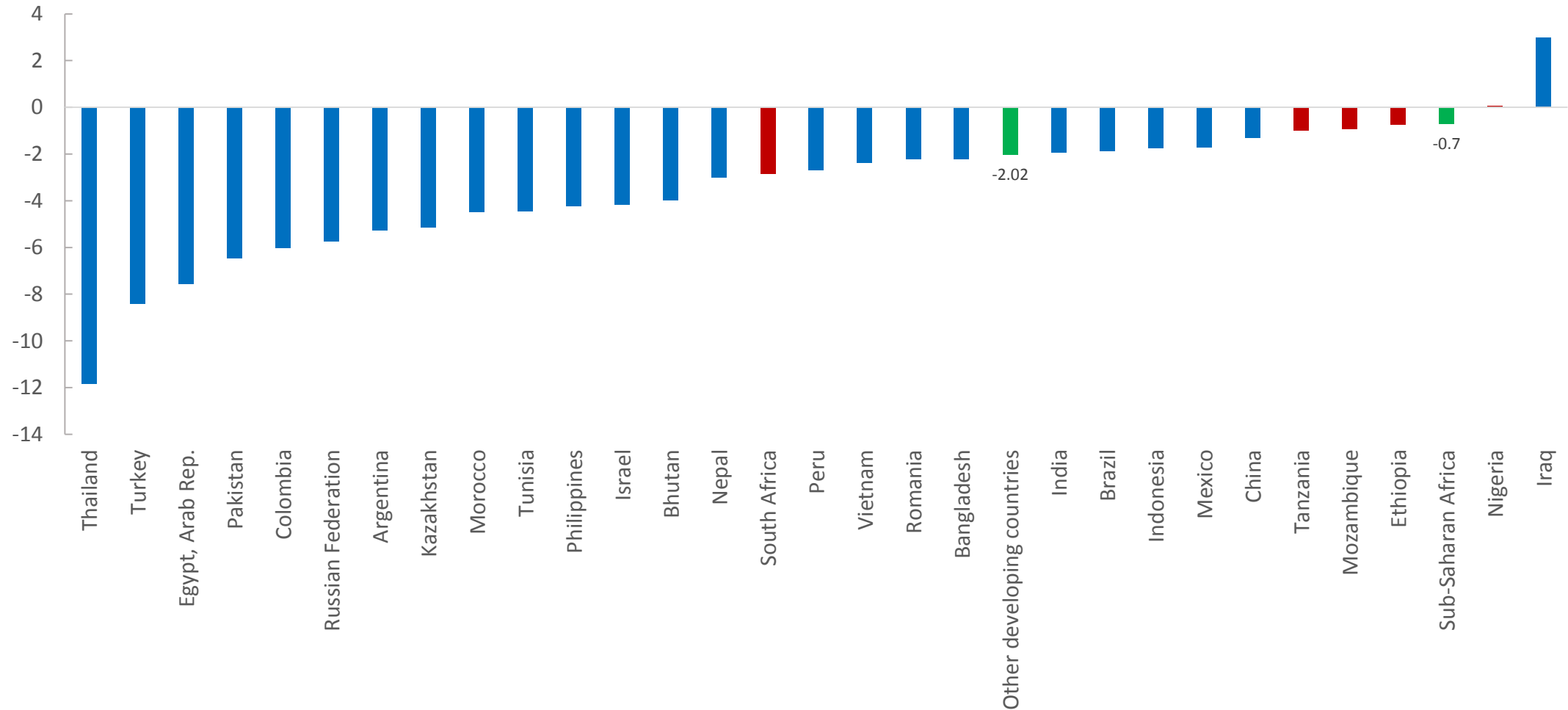


Source: PovcalNet, March 2015.



## 2. Structural challenges: Promoting inclusiveness

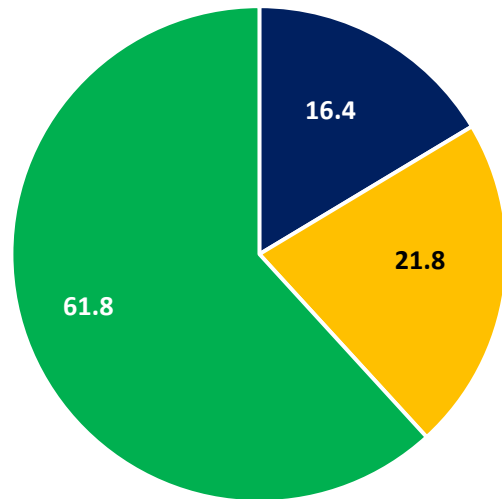
The growth elasticity of poverty reduction is lower than in other regions



## 2. Structural challenges: Promoting inclusiveness

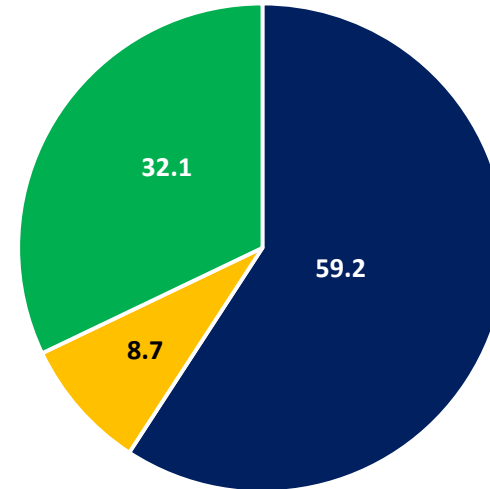
Most growth takes place in the services and extractives sectors, but most people work in agriculture

Sectoral contribution to per capita value added (2002-2012)



■ Agriculture ■ Industry ■ Services

Sectoral composition of labor (2002-2012)



■ Agriculture ■ Industry ■ Services

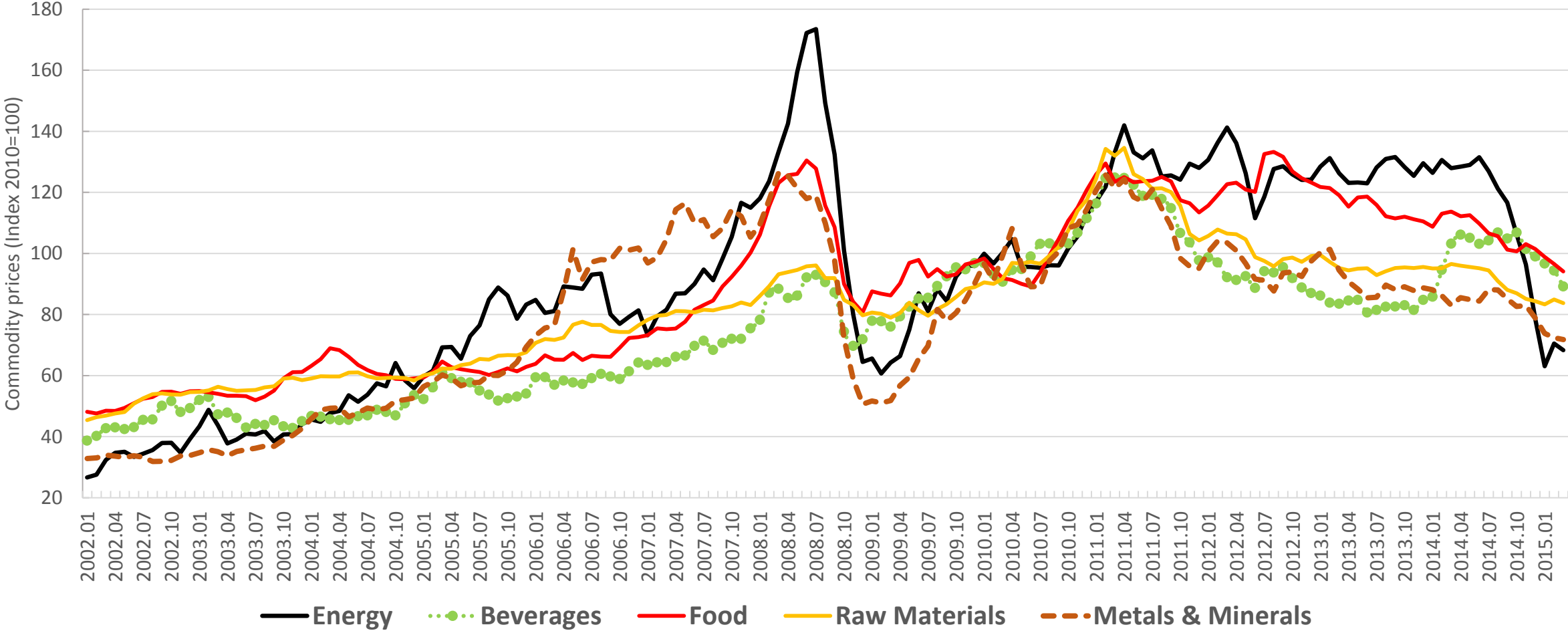
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# 3. Immediate risks: End of the commodity super-cycle

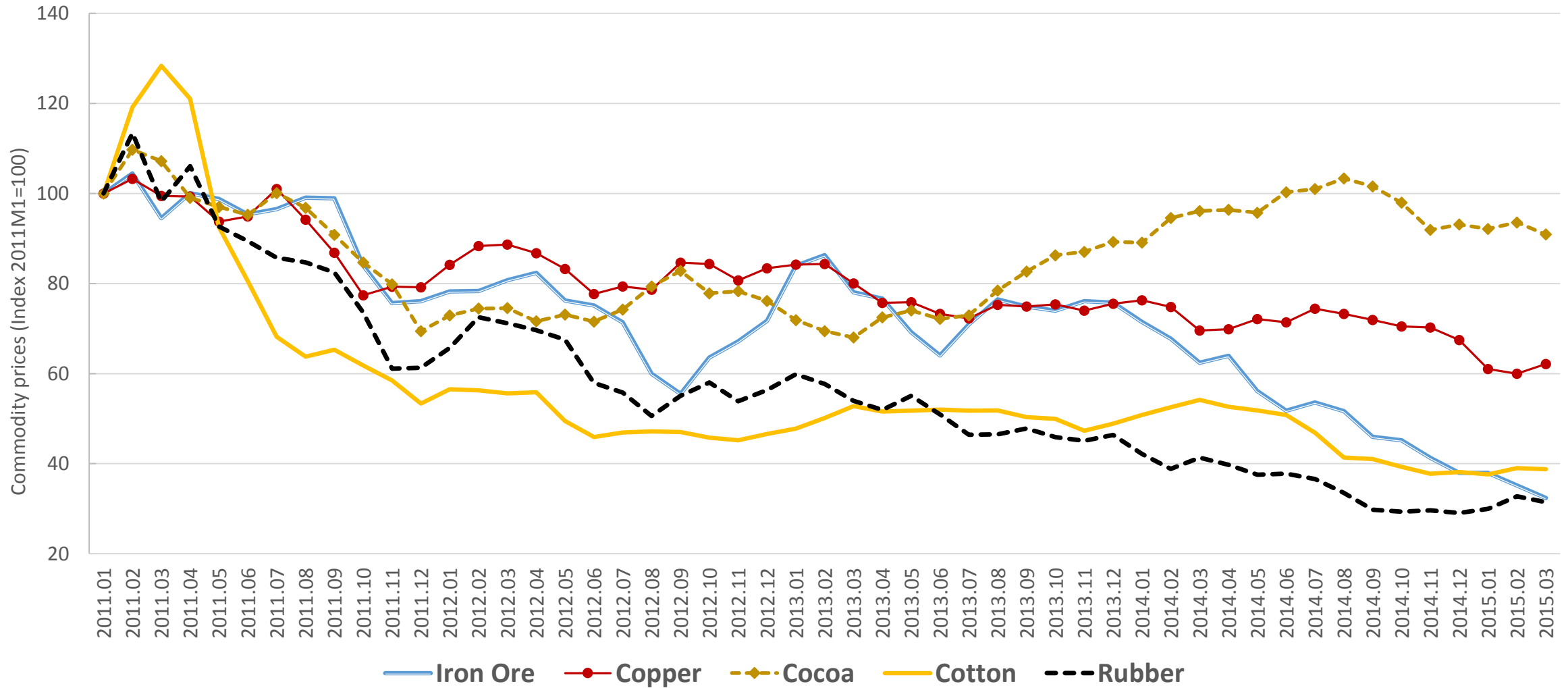
After rising steadily in 2002-2008, commodity prices have fallen since 2010

Commodity prices, 2002-2015



Source: World Bank – Commodity Markets Outlook (DEC-PG)

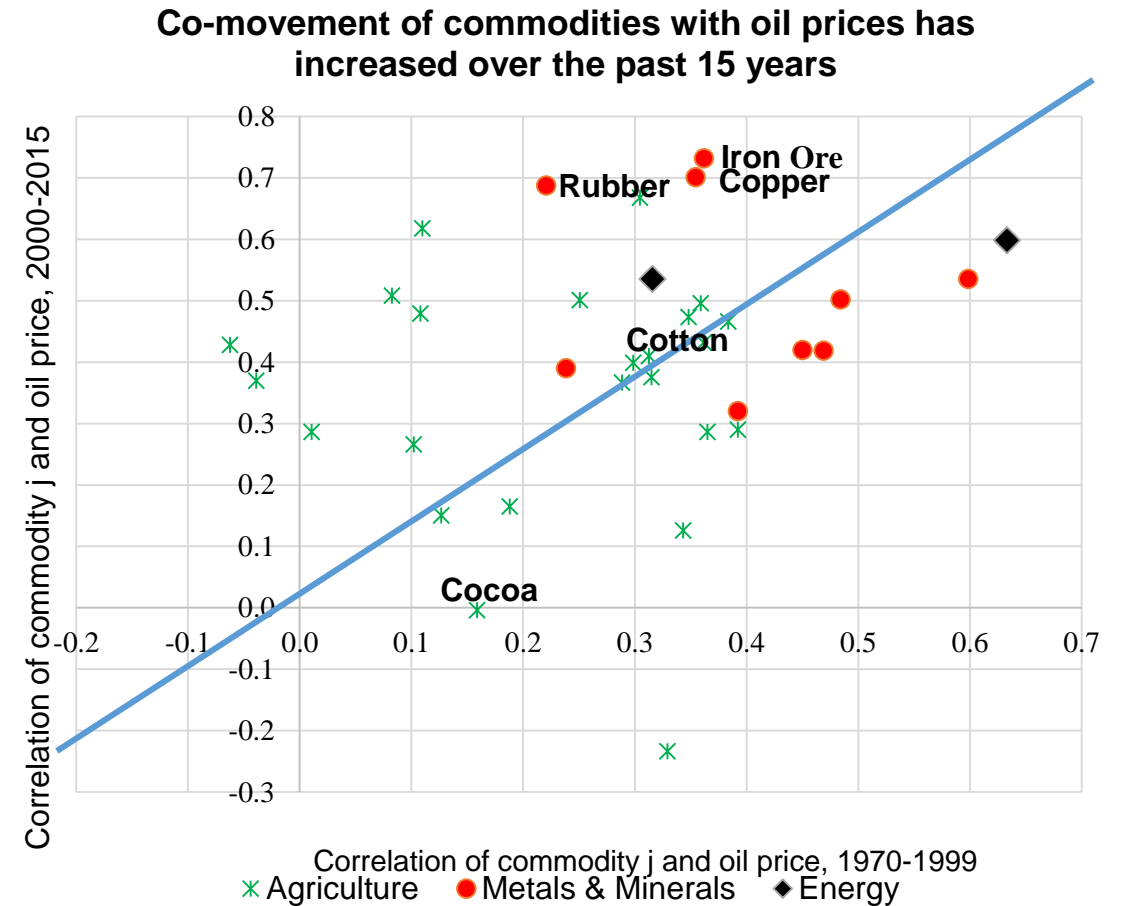
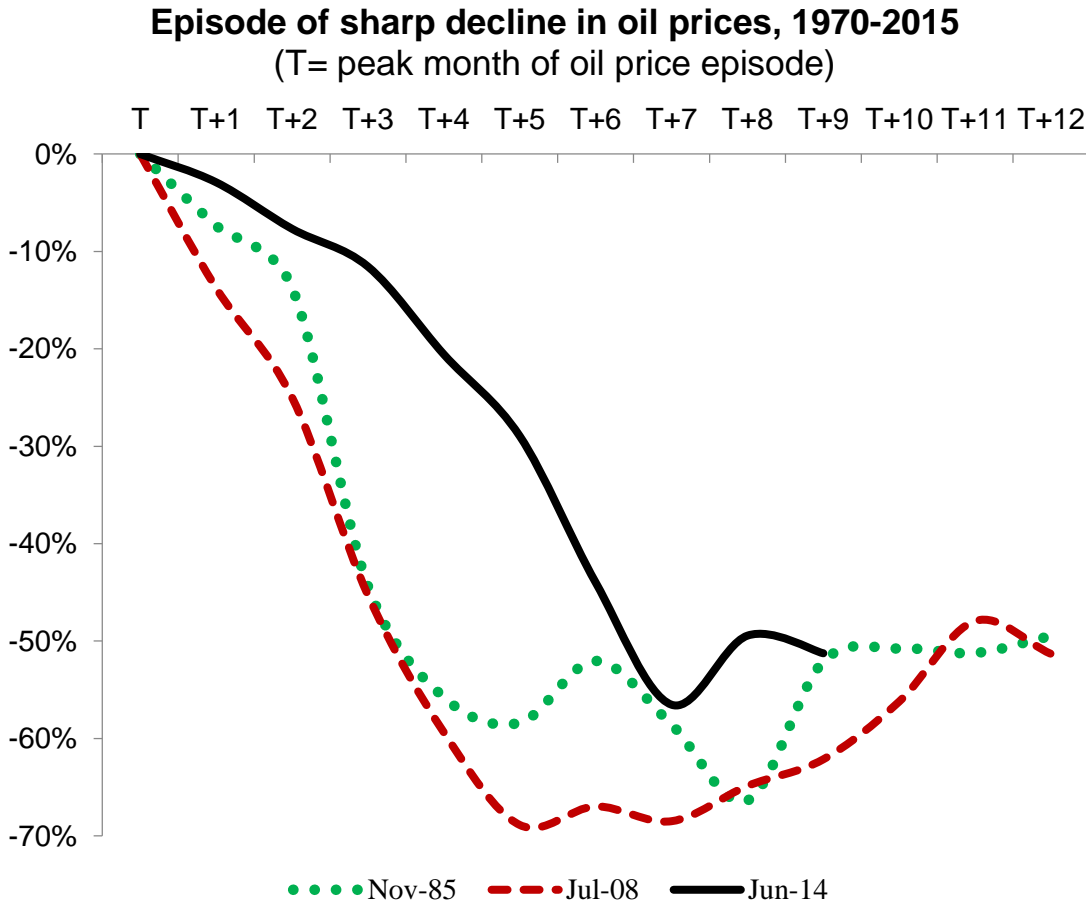
# 3. Immediate risks: End of the commodity super-cycle



Source: World Bank – Commodity Markets Outlook (DEC-PG)

# 3. Immediate risks: End of the commodity super-cycle

Though oil price plunges of this magnitude are not unprecedented, the current episode is characterized by a higher correlation between oil and other commodity prices



Source: World Bank – Commodity Markets Outlook (DEC-PG)

# 3. Immediate risks: End of the commodity super-cycle

Correlation analysis among commodity prices, 1970-1999 vs. 2000-2015

	Crude Oil	Natural Gas	Cocoa	Coffee	Tea	Rice	Wheat	Sugar	Tobacco	Cotton	Aluminum	Iron Ore	Copper	Gold	Silver
Crude Oil	<b>1</b>	0.3986	0.0004	0.0287	0.1489	0.1614	0.2265	0.1491	0.1342	0.2737	0.1725	0.2411	0.2883	0.3687	0.4140
Natural Gas	0.5785	<b>1</b>	-0.0592	-0.0829	0.1800	0.1013	0.2013	0.1130	0.0581	-0.0498	-0.1493	0.2627	-0.1058	0.1913	0.1136
Cocoa	0.1714	0.0214	<b>1</b>	0.4875	0.4069	0.0506	-0.1423	-0.0898	0.1447	0.2214	0.1600	-0.0242	0.1039	-0.0760	0.0508
Coffee	0.2581	0.0392	0.3193	<b>1</b>	0.2613	-0.1470	-0.1711	-0.1767	0.0576	0.1072	0.3026	0.0454	0.2581	-0.0540	0.0824
Tea	0.4354	-0.0015	0.3066	0.1638	<b>1</b>	-0.0266	-0.1195	0.1586	0.3297	0.2497	0.1459	0.0507	-0.0275	0.1014	0.1617
Rice	0.4613	0.4258	0.1242	0.0456	0.2859	<b>1</b>	0.5608	0.3015	-0.0581	0.3415	0.1267	-0.1076	0.4237	0.3150	0.1729
Wheat	0.6450	0.3567	0.1286	0.2670	0.3700	0.3301	<b>1</b>	0.1685	0.0286	0.2355	0.0873	-0.0407	0.4453	0.2141	0.1841
Sugar	0.1868	-0.0353	0.4144	0.6298	0.1959	-0.0742	-0.0660	<b>1</b>	0.0051	0.0014	0.1535	0.0577	0.0240	0.5049	0.2781
Tobacco	-0.2095	-0.3100	0.2576	0.2199	0.1422	-0.1523	-0.2837	0.2754	<b>1</b>	0.1409	-0.2602	0.5334	-0.0568	-0.1564	-0.0684
Cotton	0.3375	0.1981	0.2500	0.6193	0.2940	-0.0299	0.4845	0.3884	0.0755	<b>1</b>	0.1994	0.0985	0.4889	0.3019	0.2371
Aluminum	0.6702	0.3877	0.1212	0.4018	0.3054	0.1704	0.4538	0.3218	-0.2495	0.4153	<b>1</b>	-0.2307	0.5222	0.3833	0.3991
Iron Ore	0.8056	0.4224	0.2479	0.3067	0.3913	0.2955	0.6676	0.2500	-0.1684	0.4608	0.6155	<b>1</b>	-0.0515	0.1017	0.1017
Copper	0.6813	0.1916	0.1604	0.3806	0.4824	0.0964	0.5401	0.3770	-0.1724	0.4830	0.8919	0.6853	<b>1</b>	0.2609	0.3161
Gold	0.4223	-0.0147	-0.0463	0.3636	0.4257	0.3501	0.3710	0.3852	-0.1354	0.2110	0.3222	0.3715	0.4677	<b>1</b>	0.7945
Silver	0.4924	0.0591	0.0492	0.5929	0.3789	0.2189	0.5258	0.4067	-0.0651	0.5694	0.5189	0.4483	0.6232	0.8230	<b>1</b>

Source: World Bank.

Note: The table reports the correlation among year-on-year changes in international commodity prices. The above the diagonal (shaded in light red) represent correlation coefficients for the period 1970-99 while those below the diagonal (shaded in light green) correspond to the period 2000-15. Elaboration: AFRCE Staff.

# 3. Immediate risks: End of the commodity super-cycle

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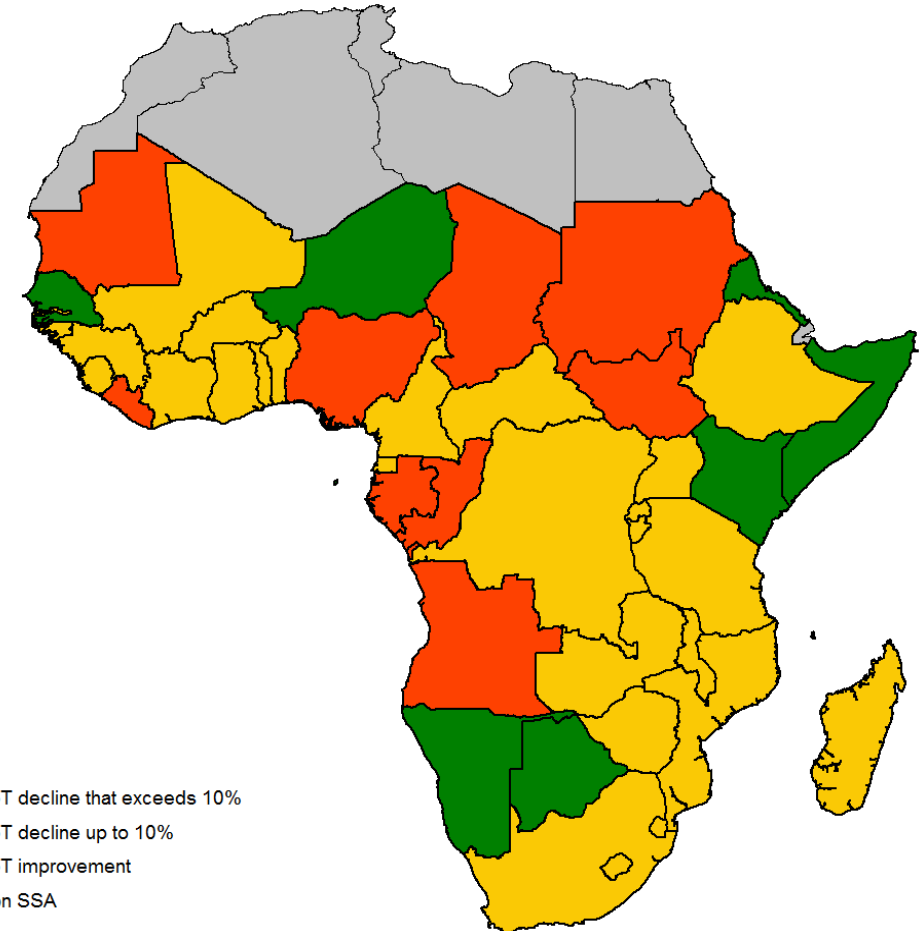


# 3. Immediate risks: End of the commodity super-cycle

## Impact on aggregate terms of trade of movements in international commodity prices in SSA

### 2011-2015 forecast:

- 39 African countries suffer a negative ToT shock (88% of population, 92% of GDP)
- Overall average ToT loss is 8% per year
- 9 countries have a loss greater than 10% per year



Source: staff estimates based on commodity prices (Commodity Markets Outlook, DEC-PG) and commodity trade (WITS)

# 3. Immediate risks: End of the commodity super-cycle

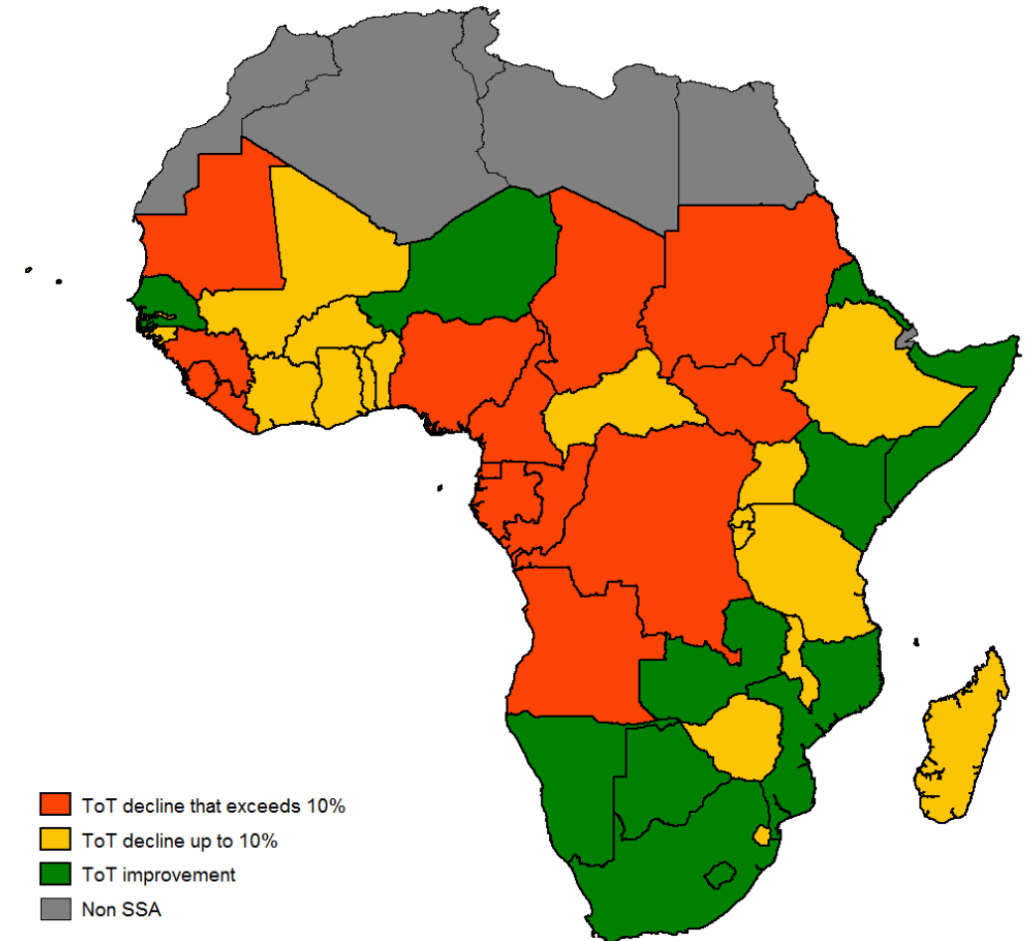
## 2014-2015 forecast:

- 36 African countries suffer a negative ToT shock (80% of population, 70% of GDP)
- Overall average ToT loss is 18%
- 14 countries have a loss greater than 10%

## 2010-2012:

- Africa's oil trade surplus equals 12% of GDP
- Oil among top 5 export items in 18 countries

## Impact on aggregate terms of trade of movements in international commodity prices in SSA

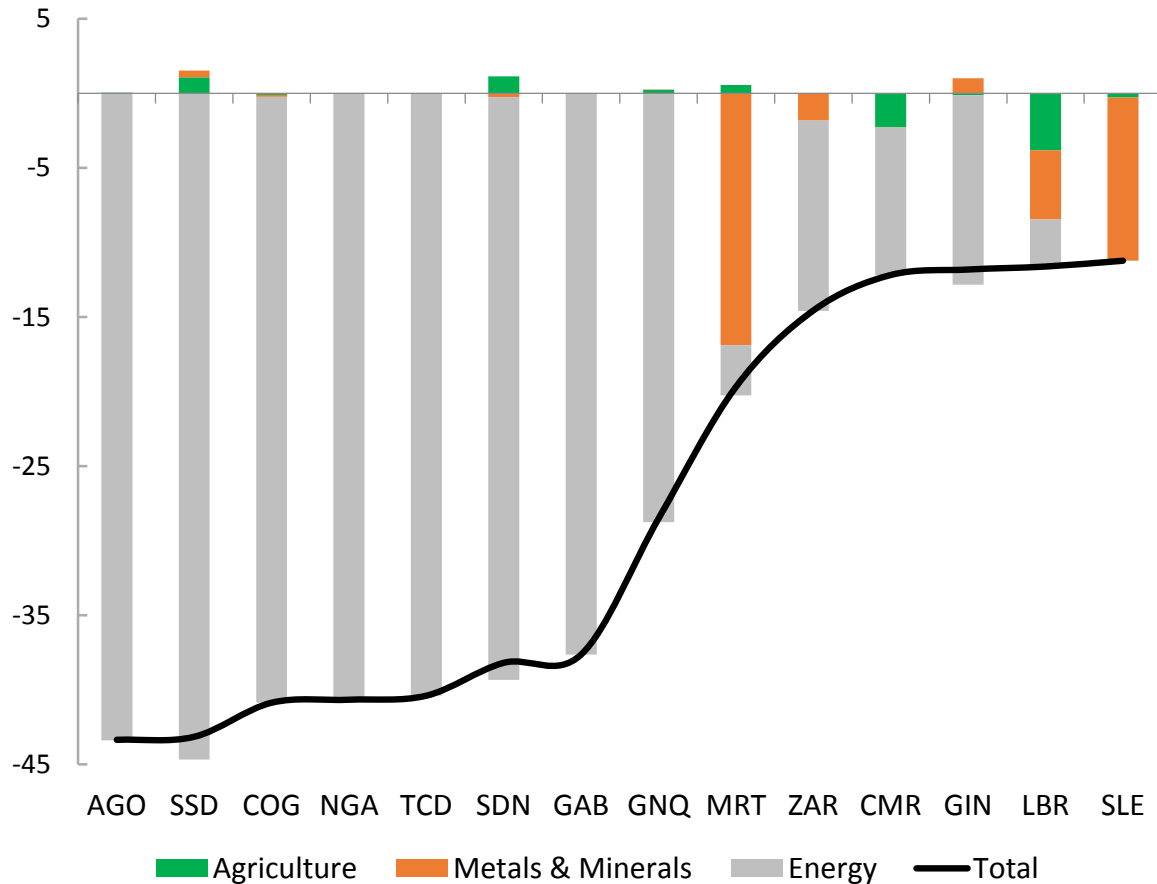


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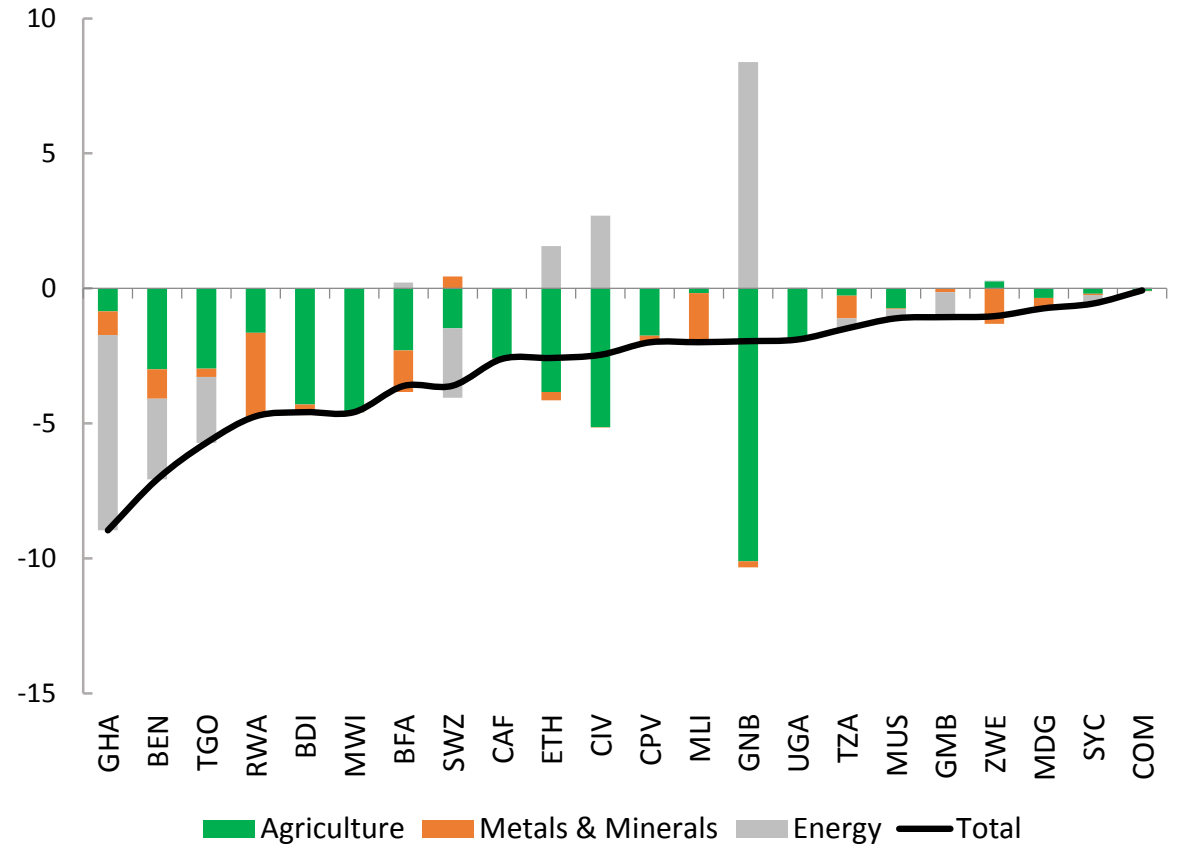
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## 2014-2015 forecast:

Aggregate Terms of Trade effect  
More vulnerable SSA countries



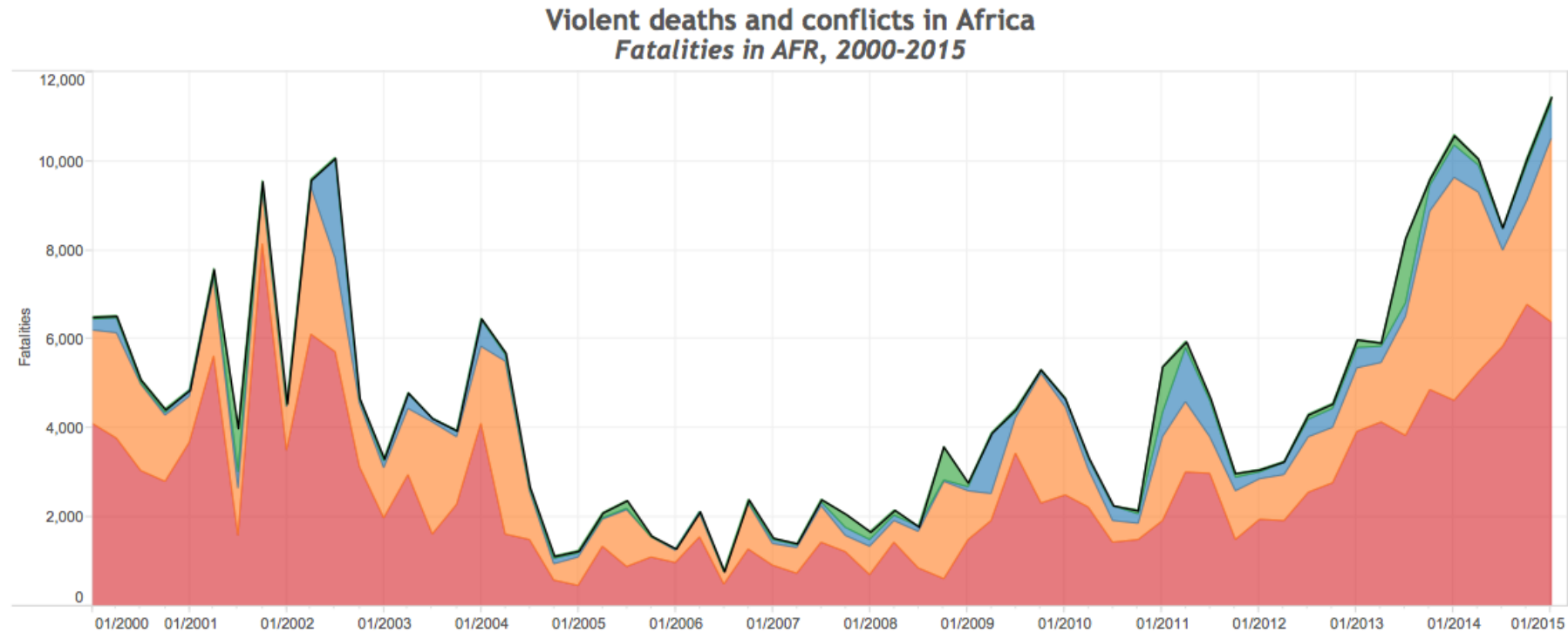
Aggregate Terms of Trade effect  
Less vulnerable SSA countries



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# 3. Immediate risks: Fragility and violence

After decreasing throughout the mid-2000s, violent deaths due to conflict – and violence against civilians in particular – has steadily risen again since 2012.



Source: Armed Conflict Location and Event Data Project (ACLED), March 21st 2015

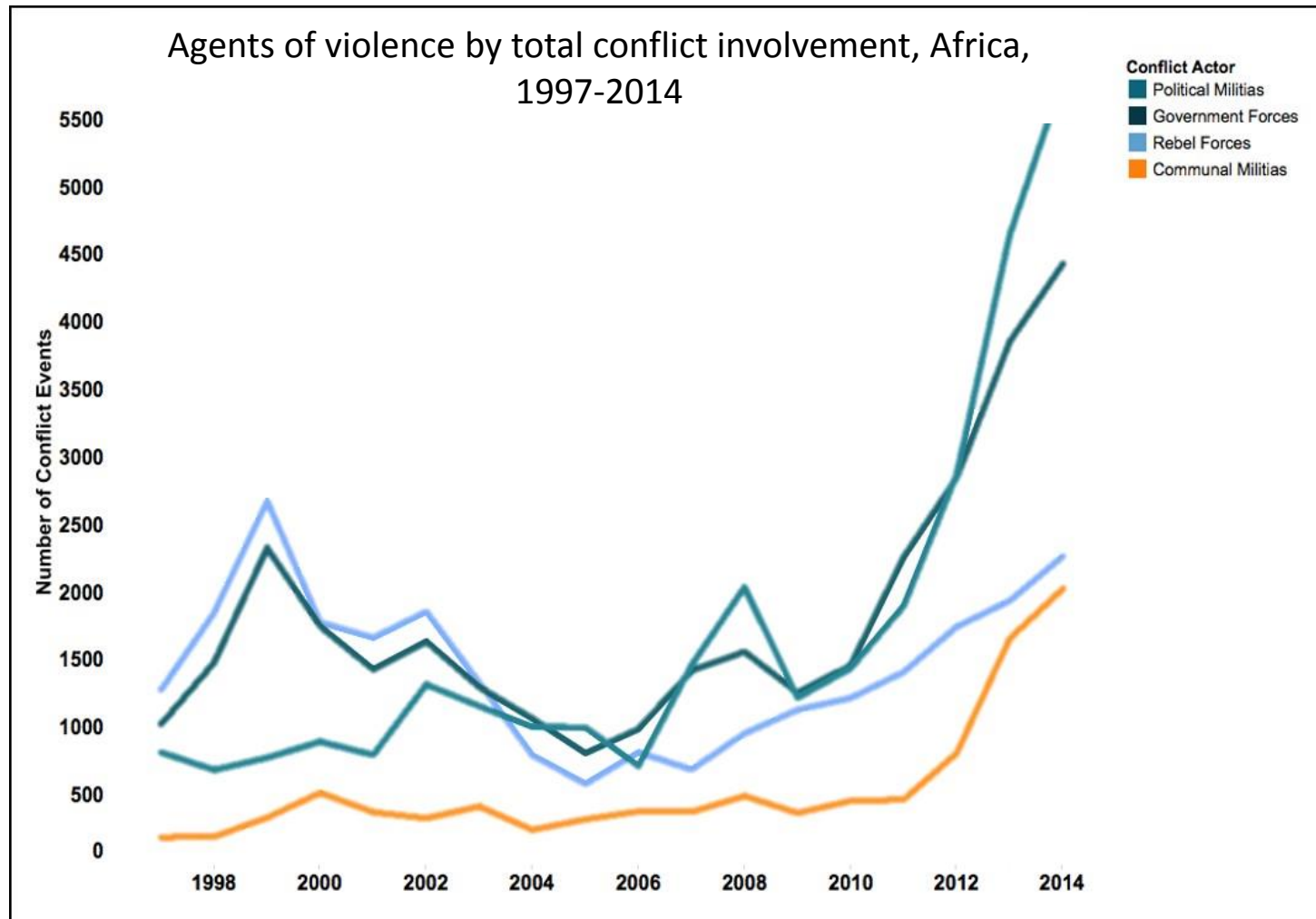
Note: Excludes MNA countries (Algeria, Djibouti, Egypt, Libya, Morocco, Tunisia) and non-violent conflict events (headquarter or base established, non-violent activity by a conflict actor, non-violent transfer of territory).

#### Event Category

- Riots/Protests
- Violence against civilians
- Remote violence
- Battle

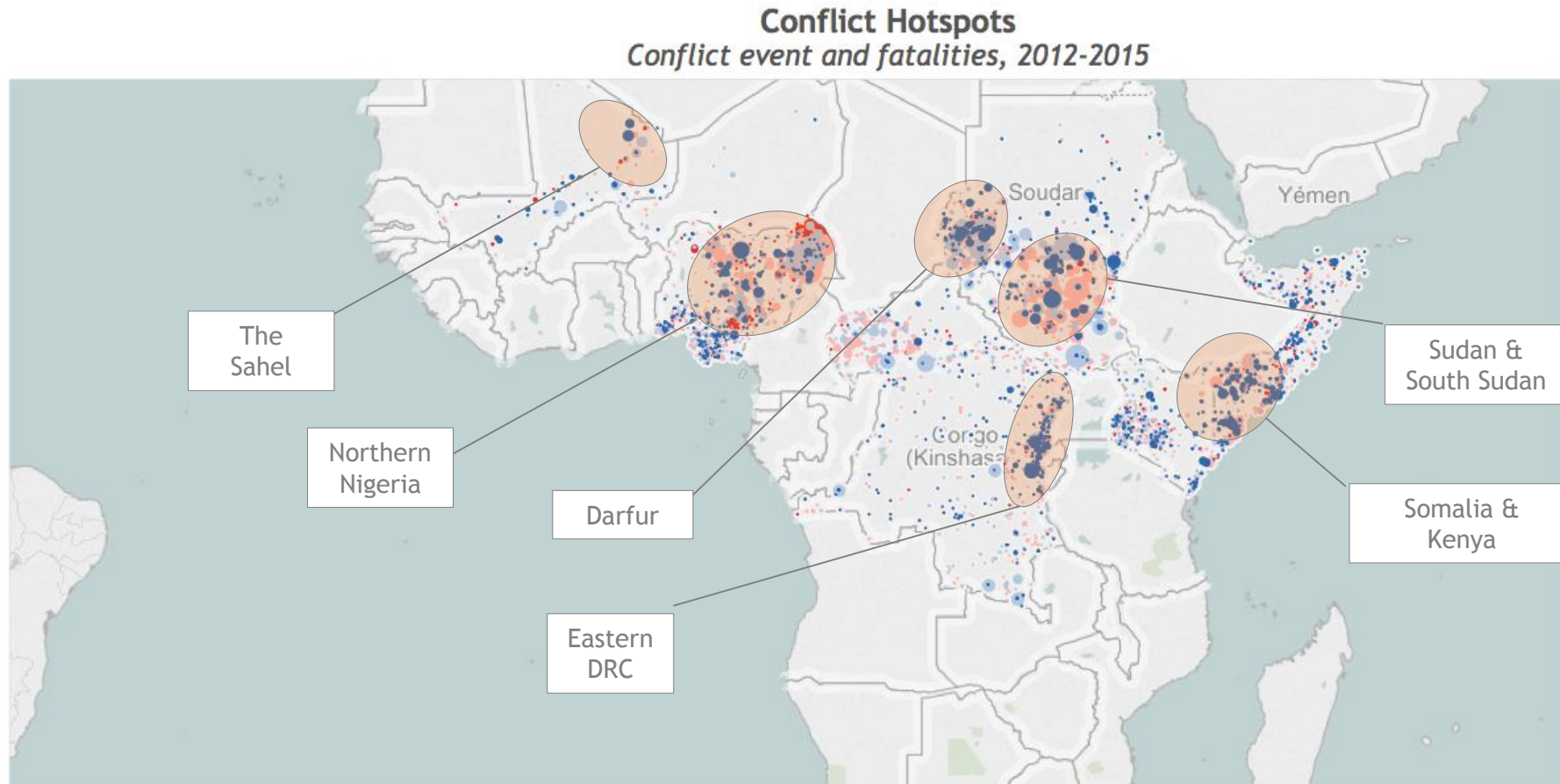
# 3. Immediate risks: Fragility and violence

Over the last decade, the region saw a reduction in traditional types of armed conflict and actors, including interstate violence and rebellion, and an increase in non-traditional forms of conflict and conflict actors that increasingly target civilians



# 3. Immediate risks: Fragility and violence

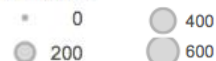
Contrary to previous decades, violence is largely concentrated in a small number of subregions



Source: Armed Conflict Location and Event Data Project (ACLED), March 21st 2015

Note: Only captures event in subregions made of specific countries (CAR, DRC, Kenya, Mali, Nigeria, Niger, Somalia, South Sudan, Sudan).

Fatalities



Year



# 3. Immediate risks: Health challenges

Ebola outbreak is slowing, but progress toward zero cases has also slowed with several reverses in Sierra Leone and Guinea

Over 10,000 deaths and 25,000 cases to date

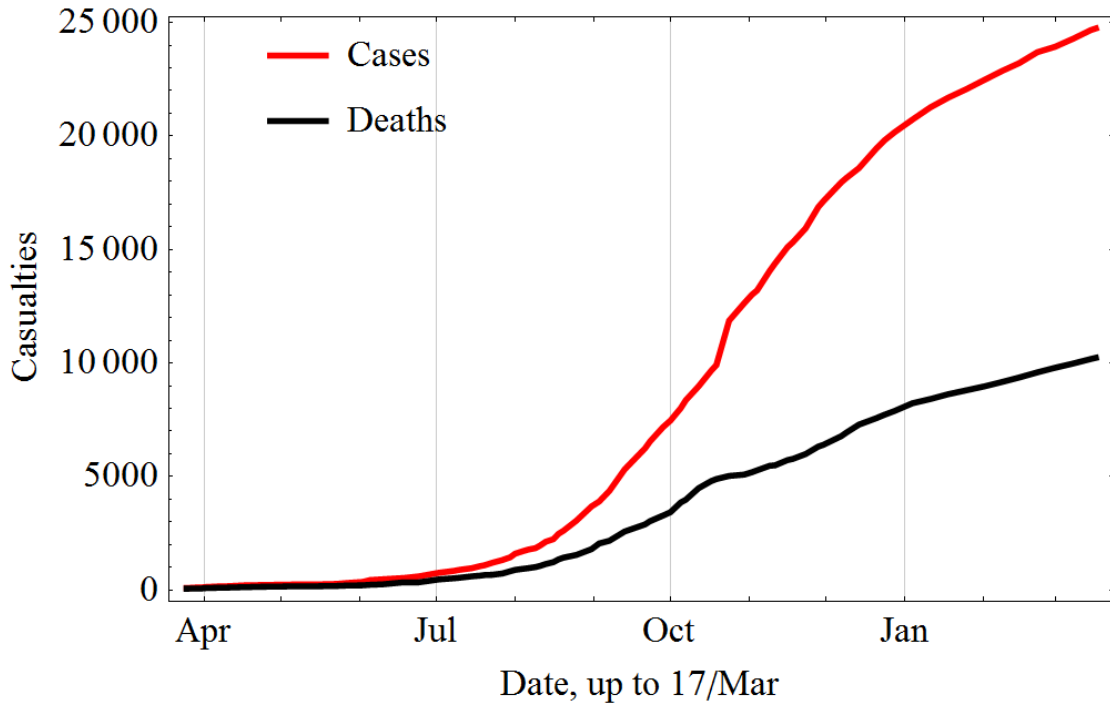
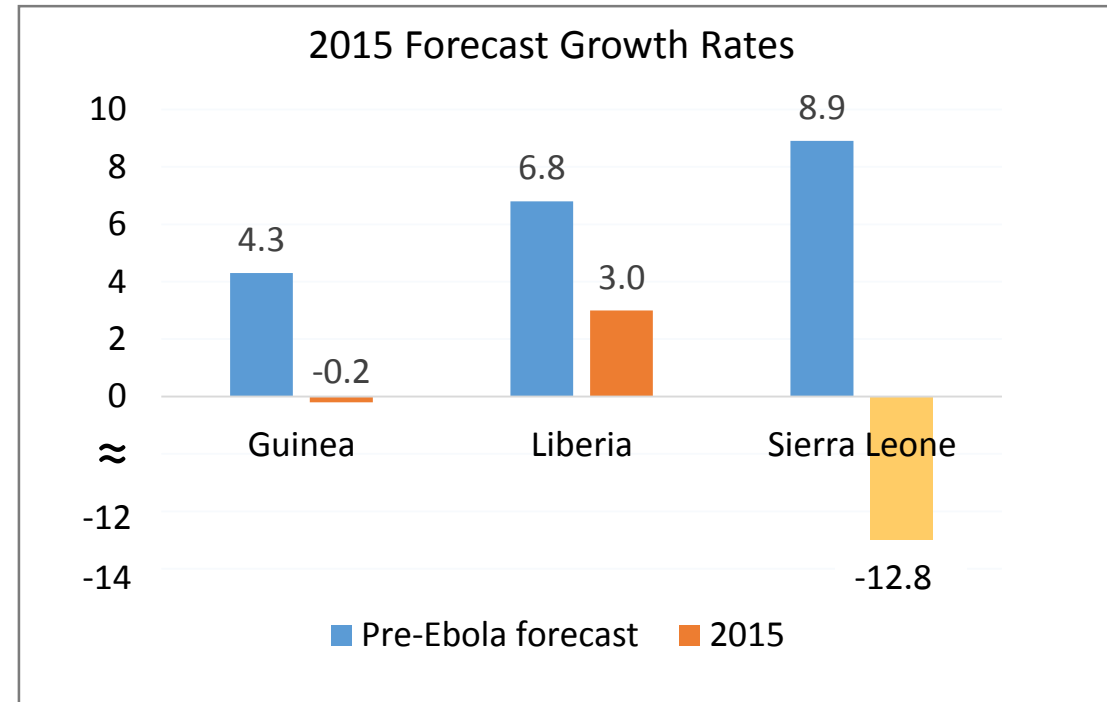


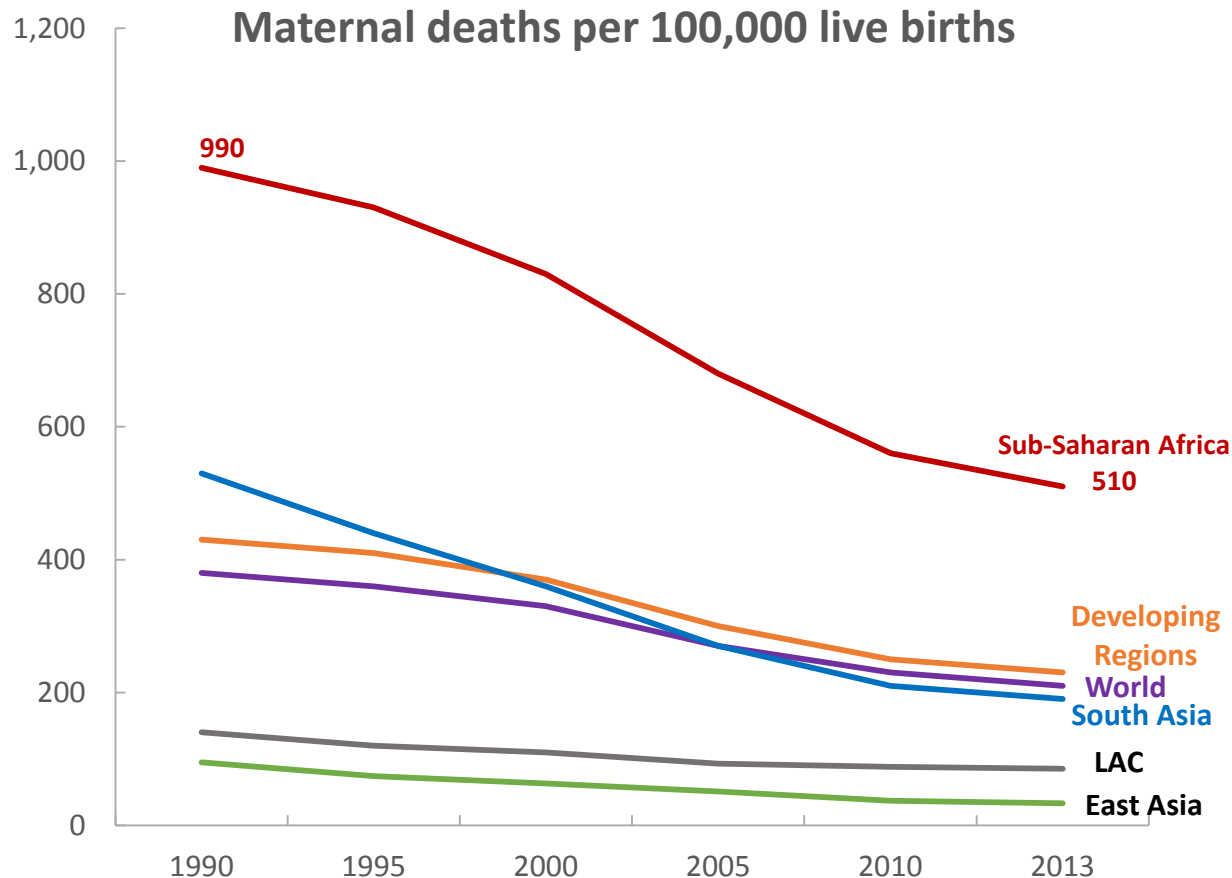
Figure source: Martin (2015)

Economic impacts in three core countries are devastating



# 3. Immediate risks: Health challenges

Ebola has highlighted weak health systems



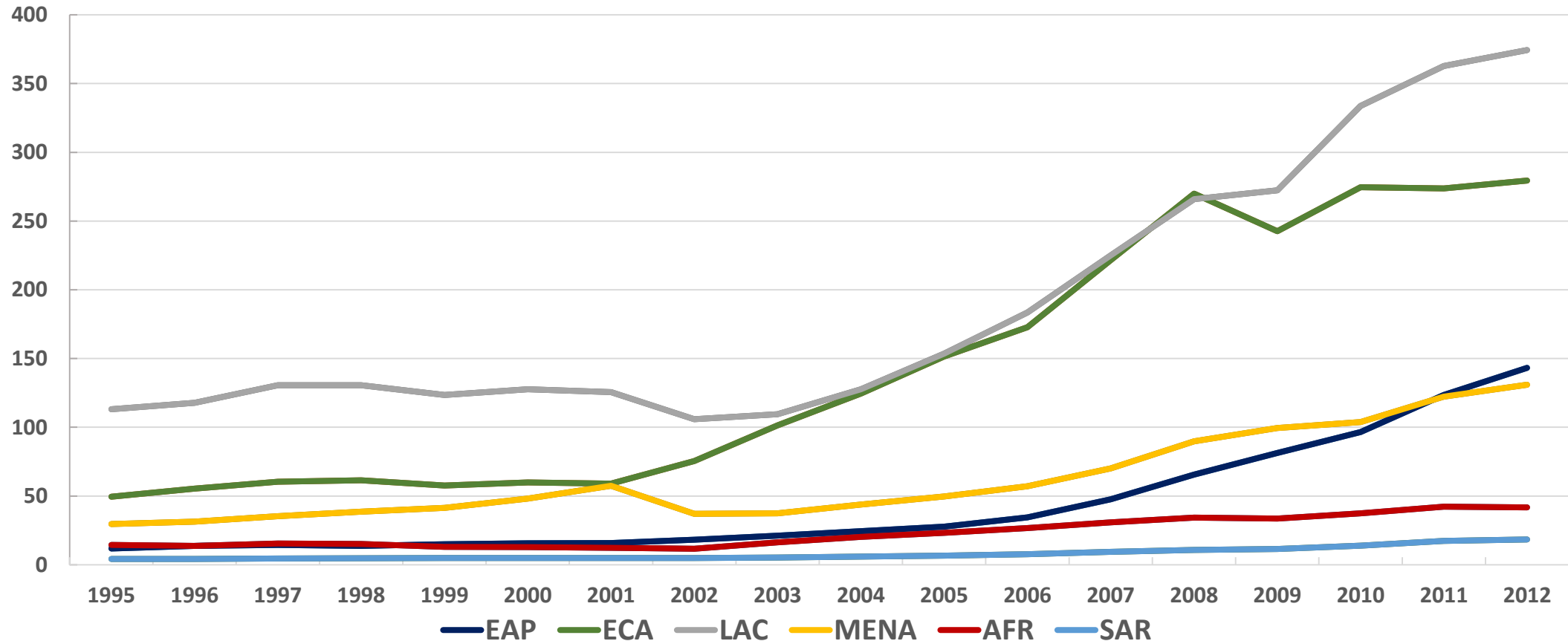
- Maternal mortality has fallen in Africa, but remains more than double that of developing regions
- Healthcare workers are lowest of any region & 27% of global average
- Disease surveillance systems are weak across much of the continent
- Affects risk not only for infectious disease, but all health conditions



# 3. Immediate risks: Health challenges

Health expenditures remain very low in SSA

Public health expenditure per capita (current US\$)



Source: aggregate level data from WBG HNP database and data for developing countries only

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# 4. Policy lessons: old and new

## I. For the long run

1. Stronger institutions of governance
  - Better able to manage both external and internal shocks
2. Human capital / skills
  - Education: invest in quality and gender equality
3. Infrastructure
  - Close the energy, transport and logistics deficits.

# 4. Policy lessons: old and new

## II. For the short run

### Policy making in times of scarcity

1. Treat the commodity price shock as “permanent” rather than “temporary”
2. Borrow with moderation
3. Raise domestic savings – public and private
4. Diversify revenues, as well as output
5. Prioritize spending: reduce fuel subsidies, target social spending on the poor
6. Enhance public investment management capacity – no room for waste
7. Policy coordination and economic integration within Africa
8. Make a deliberate effort to cushion the poor – even if at the expense of others

**Thank you**