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IS AFRICA'S ECONOMY AT A TURNING POINT?

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This excerpt from a World Bank study reviews the progress of African countries over the past two decades. You might be thinking, why should I read such a technical and boring account? Well, one reason is that you can't help African countries much with your heart until you understand African economies more with your head. When you are ignorant of the technical features of economic development, whatever you do risks being undone by broader mechanisms such as macroeconomic policies, exchange rates, good versus corrupt governance, domestic prices, aid flows, oil and trade transactions, business practices, infrastructure, and education. If you introduce micro-lending into a country to help women sell vegetables and don't know that monetary policy in that country is so loose that inflation and high interest rates will offset the benefits of the loans, you haven't helped anyone. Or if you help rural farmers become more efficient producing their food crops but are unaware that the government controls all food purchases and pays low prices to feed urban elites, you have helped the government and urban populations obtain more abundant food supplies at even cheaper prices, not raised the returns going to rural farmers.

Introduction

There is something decidedly different and new about the economic landscape of Sub-Saharan Africa (Africa or the region hereafter). After stagnating for much of 45 years, economic performance in Africa is markedly improving. In recent years, for example, GDP growth in SSA is accelerating to its strongest point at about 6 percent a year while inflation registered below two-digit level, its lowest point. The much improved economic performance is confirmed by several recent assessments.[1]

Although the current economic growth is still short-lived relative to Africa's long history of growth crisis and is certainly nowhere close to the standard of East Asia, it is nonetheless noteworthy and a cause for guarded optimism.

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The performance at least calls for a closer examination. Several interesting questions can immediately be raised: Is Africa finally overcoming the challenges of growth and poverty to claim the 21st century, as posed, for example, by Gelb et al. (2000), Collier (2007), and Ndulu et al. (2007)? In particular, is there indeed a turning point? How widespread are the recent gains among the 47 countries in the region? What are the key factors underlying the recent improvements in Africa's economic performance? Why have the recent oil price increases not dampened its growth performance? Is the growth robust and supported by improvements in the economic fundamentals? What major risks and challenges remain? Will Africa attain the Millennium Development Goals by 2015?

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The Recent Acceleration of Growth in Africa

Is the growth failure in Sub-Saharan Africa finally reversing? An upward shift in the recent growth rates suggests that a trend break may have taken place around the mid-1990s.[2] Annual GDP growth was a sluggish 2.9 percent in the 1980s and 1.7 percent during 1990–94. Since 1994, however, the pace of economic expansion has approached the threshold of moderate growth of 5 percent a year. Even if the record is measured more conservatively with regard to per capita income, the shift is perceptible: relative to its prolonged stagnation or contraction, per capita income grew by 1.6 percent a year in the late 1990s and by 2.1 percent to 3.0 percent a year since 2000. Despite the recent oil price shock, growth has remained good. From 2004 to 2006, the annual growth in GDP and per capita income, when weighted by each country's GDP, approaches 6 and 4 percent, respectively. Although improvement in aggregate output does not necessarily indicate broad economic development of the region, the current growth episode has nonetheless lasted 12 years altogether, a period that is neither trivial nor brief.

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How Widespread Is the Current Growth Acceleration?

The recent economic expansion seems to be registering across an increasing number of countries. The number of countries with economic declines dropped from 15 to 18 in the early 1990s to about 2 to 5 countries in recent years. Only one country has significant economic contraction—Zimbabwe.[3] In contrast, about 40–45 countries have positive growth, and 14–19 countries are growing by more than 5 percent a year.

During 2000–06, about 26 countries had GDP growth exceeding 4 percent a year, while as many as 14 countries exceeded 5.5 percent. Countries with at least 4 percent GDP growth now constitute a sizable portion of Sub-Saharan Africa—about 70 percent of the region's total population and 80 percent of the region's GDP. As a group, these countries have been growing consistently at nearly 7 percent a year, whether considered in the more recent period or a longer period since the mid-1990s.... There are some exceptions near the cut-off point: the performance of São Tomé and Principe, Sierra Leone, South Africa, and Zambia has improved in performance during the more recent period (2004–06), whereas that of Malawi and, to a smaller extent, Cameroon and Mauritius has deteriorated.

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Large Countries. Nigeria and South Africa are the two largest economies in Sub-Saharan Africa, accounting for almost half the regional GDP and one-fourth the population. Their slow growths in the past have tended to pull down any regional growth averages, especially if GDP weights were used. However, the growth performance of Nigeria and South Africa has improved significantly since 2000. During 2004–06 in particular, their GDP growth reached about 6.2 and 5.0 percent a year, respectively. The rest of Sub-Saharan Africa continued to do better at 6.5 percent a year during 2004–06. The weighted average (about 6 percent) for the whole region is better than its simple average (about 5 percent) for the same period, which suggests that large countries in general are doing well.

Oil Exporting Countries. Higher oil prices since 2000 now directly benefit eight countries where net oil exports make up 30 percent or more of total exports: Angola, Cameroon, Chad, Republic of Congo, Equatorial Guinea, Gabon, Nigeria, and Sudan. Côte d'Ivoire is also producing oil, but its net exports of oil are still low. Angola and Nigeria are the largest oil exporters, accounting for about 20 percent and 53 percent, respectively, of Africa's total oil exports. As a group, the oil exporters represent about 25 and 29 percent of Africa's GDP and population, respectively. Moreover, fuel now makes up about 40 percent of Africa's total merchandise exports.

Partly as a result of the recent higher oil prices, real GDP growth in oil-exporting countries accelerated to about 8.4 percent a year during 2000–06. This growth represents the strongest economic expansion among the possible country groupings. Growth during the 1990s was also significant at 5.9 percent a year.

Oil Importing Countries by Endowment and Location. Although growth in oil-importing countries lagged behind the regional average, it has also been improving, reaching 4.7 percent during 2004–06. This group is large and diverse, encompassing the majority of African countries and a wide range of characteristics. For digging deeper, the classification of countries by endowment and location ... is useful. Countries are grouped in a nonoverlapping way as non-oil resource-intensive countries, coastal, and landlocked countries.[4]

The six *non-oil resource-intensive countries* represent roughly 4.9 percent of Africa's GDP and 4.2 percent of its population.[5] Like the oil exporters, the group also did very well relative to its own past performance: 5.1 percent during 2000–06 or 5.7 percent since 2000.

The 19 *coastal countries* account for about 53 percent of the regional GDP and 32 percent of the total population.[6] This group has been growing by 3.4 percent a year since 2000—a rate that has further improved to 4.4 percent a year during 2004–06.

The 13 *landlocked countries* were traditionally the laggards in growth.[7] Although they represent as much as 32 percent of the total population in the region, they take up only 17 percent of the regional income. Annual growth in GDP since 2000 has averaged only 3 percent but has improved to 4.2 percent recently. The individual records are mixed. Although the group includes noted growth failures such as the Central African Republic and Zimbabwe, it nonetheless has several bright spots: Burkina Faso, Ethiopia, Mali, Rwanda, and Uganda.

Oil Importing Countries by Income and Fragile States. An alternative classification of the oil-importing countries is by income level and fragile states—that is, low- and middle-income countries plus fragile states....

The eight *middle-income countries* correspond to less than 8 percent of the region's total population but to 40 percent of regional income.[8] South Africa alone represents 6.3 percent of the population and 35 percent of Africa's GDP. The individual performances in this group have been mixed: whereas South Africa's performance has been improving in recent periods, that of others (such as the Seychelles, Swaziland, and to some extent Mauritius) has slowed down. Zimbabwe, which used to be in this group, is now a fragile low-income country. As a result of the mixed performance of several countries, average growth for the group has fallen slightly from the 1980s and 1990s. However, growth during 2004–06 has again rebounded to about 4 percent a year.

Fifteen countries may be classified as *low income* and non-oil exporting.[9] They are home to 45 percent of the total population but only 25 percent of the total income in the region. However, the recent performance of the group is heartening: growth has been steadily improving, from 2.1 percent a year in the 1980s to 3.5 percent in the 1990s and 4.9 percent since 2000. In recent years, growth has been approaching 5.6 percent annually. The top performers in this group include Ghana, Mozambique, Senegal, and Tanzania plus the bright spots mentioned for landlocked countries: Burkina Faso, Ethiopia, Mali, Rwanda, and Uganda.

Fragile states without significant oil resources—14 countries—still account for 18 percent of the total population and 10 percent of total income in the region.[10] For the most part, GDP growth in this group is stuck at less than 2.5 percent, but it improved to 3.2 percent during 2004–06. The challenges faced by this group are many and daunting, as has been portrayed persuasively by sources such as Collier (2007) and the World Bank (2007b, 2007c). Even so, there are hopeful signs; a few countries have managed to turn around at least their output growth: The Gambia, Liberia, São Tomé and Principe, and Sierra Leone.

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Good Luck or Good Policy: How Robust Is the Recent Growth?

Today's Africa is clearly different from the Africa of the early 1990s, when it was coming out of the declines after the first two oil price shocks, the debt problems, and stagnation of the adjustment years. Thanks to the recent acceleration of growth, there is definitely a higher economic base to work with. But how sustainable is that growth? Are the main contributing factors good luck or good policy? As the growth diagnostics so far indicate, the answer hinges not only on policy and governance but also on economic fundamentals, such as factor accumulation and productivity as well as trade and export diversification—and the significance of the changes in these fundamentals....

Commodity Prices and Terms-of-Trade. External circumstances have certainly been favorable since the mid-1990s: the global economy has been expanding at 3.2 percent a year, global trade expanded by 40 percent a year, and the share of FDI in the world GDP nearly doubled from 1.15 percent in 1995 to more than 2.23 percent in 2005. As a result of greater demand, commodity prices, including oil prices, have been pushed to new high levels. Hence, the better economic performance in the recent period is certainly partly due to the higher export prices of many African countries. Higher oil prices now benefit about 8–10 oil-exporting countries in Sub-Saharan Africa. Non-oil commodity prices have also risen significantly. Of the 40 commodity prices monitored regularly, only cotton prices declined from the high prices of the 2003 drought year. Hence, gains from higher export prices for commodities such as gold, aluminum, copper, and nickel more than offset the losses from higher oil import bills in several oil-importing countries, such as Burundi, Ghana, Guinea, Mali, Mozambique, Rwanda, Uganda, Zambia, and Zimbabwe. Overall, compared with the previous major oil price cycle during 1973–1980, the aggregate terms of trade for Sub-Saharan African countries have fared much more favorably in the current oil price cycle, relative to their respective starting points.[11]

For oil-importing countries, the weakening of the U.S. dollar has also meant that the oil price in euros or local currency has not risen as much. For Sub-Saharan Africa in particular, the real price increases of oil were in fact significantly lower than the recent nominal price increases quoted in dollars, after adjusting for exchange rate movements and domestic inflation. Since 2000, the nominal price of oil has tripled, whereas the real price has doubled. Although the nominal price was approaching $100 a barrel toward the end of 2007, the real oil price for oil importers in Africa was only 2.6 percent higher than in 2006.

Nonetheless, although economic performance remains strong in many African countries, several non-resource-rich countries will have to be monitored because their terms-of-trade losses were exacerbated by unfavorable changes in both oil and import prices. These countries include Benin, Burkina Faso, Cape Verde, Comoros, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Madagascar, Mauritius, Niger, Senegal, the Seychelles, and Togo. In most cases, the additional negative shock came from prices of staple imports, such as wheat, rice, and vegetable oils. Eritrea, for example, had an estimated negative terms-of-trade impact of greater than 5 percent of GDP from higher food prices, while Lesotho, Mauritania, Senegal, and Togo had an estimated negative terms-of-trade impact in excess of 2 percent of GDP because of changes in food prices.

Effects of External Shocks on Growth and Poverty. The importance of terms-of-trade shocks in Sub-Saharan Africa has been evolving. Historical data suggest that external shocks are important determinants of growth in Africa.... [A]id may mitigate the negative consequences of external shocks. However, ... positive external shocks are strongly correlated only with short-term economic expansions, not with sustained growth episodes.... [Oil prices] are not particularly important for output volatility in the typical African country, but only among those countries that are net oil exporters. Without compensating developments, such as higher export prices, exogenous flows, or adjustment policies, however, the marginal impact of an oil price shock can be quite significant....

Aid Flows and Debt Relief. Moreover, new commitments to scale up foreign aid from industrial countries have already led to greater external resources and debt relief for poor countries. Recent aid commitments and actual disbursements (inclusive of debt relief) have already recovered to the high points of the early 1990s. Moreover, additional and significant debt relief became a reality when the World Bank and IMF approved the financing and implementation of the Multilateral Debt Relief Initiative (MDRI) starting on July 1, 2006. Sixteen countries in Sub-Saharan Africa, together accounting for 23 percent of the regional income but 43 percent of the total population, have now reached the completion point for significant debt relief under the enhanced Heavily Indebted Poor Country Initiative and have qualified for further assistance from the MDRI. Benefiting from debt relief, MDRI countries did very well recently and grew by over 5.3 percent during 2000–06.[12]

Nonetheless, the promises made at the Gleneagles summit to scale up aid have yet to materialize. In particular, aid still has to go much beyond the high points of the 1990s to double by 2010, as pledged by donors....

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Better Leadership. However, the current acceleration of growth is not all due to luck; better policy seems to be taking place in Sub-Saharan Africa. Africa today enjoys better economic prospects because its leaders have undertaken major reforms during the past 10 years and are taking increasing control of their economic destiny. African governments are making regional initiatives in conflict resolution and are taking action to improve governance under the African Union and the New Partnership for Africa's Development initiatives. These initiatives are designed to

- Push African countries to be assertive about ownership and to assume leadership and accountability for their development programs.

- Improve the reputation of the region through certification of good practices in governance for a critical mass of African countries under the African Peer Review mechanism.
- Increase regional connectivity to improve capacity to trade within the region and with the outside world.
- Enhance the capacity of a rationalized system of regional bodies to provide regional public goods, such as cross-country transportation and power sharing, coordination in managing pandemics, and protection of regional commons such as the Nile and the Great Lakes.

Overall Policy and Institutional Environment. Although there is no perfect or leading indicator of the overall quality of policy and institutional environment, the World Bank's CPIA provides a consistent framework for assessing country performance on 16 items, which are grouped into four wide-ranging clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions.

The average CPIA scores for African countries have been rising. The average CPIA score in 1995 was 2.8. By 2006, it had risen to 3.2. The number of African countries with scores equal to or greater than the threshold of 3.5 for international good performance had also risen, from 5 countries in 1997 to 17 in 2006.

Economic performance among African countries is highly correlated with the quality of policy. Countries with CPIA scores of greater than or equal to 3.5 by 2006 tend to have higher growth and lower inflation than those with scores lower than 3.5 (excluding Zimbabwe). The low-income countries (excluding middle-income and oil-exporting countries) with good policy and institutional environment are in fact doing very well: growth averaged 5.1 percent and inflation was 6.9 percent.

Macroeconomic Management. The most striking improvement in policy is observed for macroeconomic stabilization. Inflation among African countries has come down dramatically since 1995. The number of countries able to keep inflation below 10 percent a year increased from 11–26 in the early 1990s to about 31–35 since 2000. From the 1980s to the present, there were as many as 10 different African countries with hyperinflation (greater than 50 percent) at one point or another. The extreme values can run over thousands of percentage points. The countries with hyperinflation have included Angola, the Democratic Republic of Congo, Guinea, Guinea-Bissau, Mozambique, São Tomé and Principe, Sierra Leone, Sudan, Uganda, Zambia, and Zimbabwe.

In recent years, all these countries except Zimbabwe have been able to contain inflation drastically. The regional average has fallen below 10 percent since 2002.[13] This performance is all the more remarkable in view of the significant increase in oil prices that started in 1999.

Another indicator of macroeconomic stabilization, the overall fiscal balance, also improved.[14] The average fiscal deficit as a percentage of GDP in African countries declined from 5.7 percent during the 1980s and 1990s to 2.9 percent during 2000–06. Fiscal policy in oil-exporting countries has also improved. Unlike the unchecked wasteful spending in the past, windfalls from oil revenue are increasingly being saved. At the start of the current oil price shock, fiscal deficits were increasingly reduced, and by 2004–06, the overall fiscal surplus averaged about 8 percent for the group. . . .

Adjustment to Higher Oil Prices. For the past seven to eight years, most oil-importing countries in Africa have already been slowly adjusting to the new and higher trend of oil prices, and their ability to continue the adjustment will be the key to future growth, especially if higher oil prices persist. Since 2003, the majority of African countries have allowed frequent and full passthrough of higher oil prices to domestic prices. The passthrough is less pronounced in oil-exporting countries. A few countries, such as Côte d'Ivoire and Ethiopia, have at one point or another suspended the use of formulas in favor of less frequent and ad hoc adjustments. Many countries have also tried to protect the poor by limiting price increases and taxation of kerosene. For 14 African countries for which data are available, petroleum subsidies increased from 0.75 percent of GDP in 2003 to 1 percent in 2005. On average, petroleum taxes are important sources of revenue and constitute close to 2 percent of GDP in indirect taxes.

In a recent Energy Sector Management Assistance Program (ESMAP)[15] study of 31 developing countries, the amount of passthrough in gasoline and diesel was found to be positively correlated with a country's terms of trade and inflation (GDP deflator) and negatively correlated with a country's oil vulnerability, overall fiscal position, and per capita income or growth; interestingly, it is also negatively correlated with whether a country is an oil producer or exporter. The debt-to-GDP ratio affects gasoline pricing negatively but not diesel pricing. The 31 developing countries in the sample showed less passthrough of oil cost when compared with industrial countries, particularly with respect to diesel. However, the results for 11 African countries confirmed that African countries have not been delaying adjustment to their fuel prices, even when compared with developed countries; hence, the risks of an unsustained fiscal position appear to be less than in past episodes of oil price shocks. Overall, diesel prices tended to be protected from increases to protect the poor—although such increases are implemented relatively less often in African countries. Outside of a few instances in which market mechanisms were directly suspended, African governments have been actively intervening in the fuel markets in other ways to help the poor or consumers: by adjusting taxes and subsidies, regulating margins, mandating conservation measures and cash transfers, and so forth.[16]

Exchange Rate Regimes. Unlike the past, countries with flexible exchange regimes now account for about 76 percent of Africa's GDP and 68 percent of the region's population. In recent years, and during the current oil price shock, these countries have also tended to grow better than the regional average and better than countries with fixed exchange rates. In franc zone countries, a strong currency tied to the euro is bringing about concerns regarding real exchange rate appreciation and its impact on export competitiveness.

Reduction of Policy Mistakes across Countries. Hence, though external circumstances have been favorable, there is also strong evidence that African countries have increasingly learned to avert economic mistakes and have avoided bad leadership, conflict, corruption, and macroeconomic instability. Such reduction of policy mistakes is central to preventing growth collapses—a key point from the growth analysis described earlier.

... The likelihood of growth decelerations has clearly declined by half across the board for different types of countries to about 12–14 percent, which is the average for Africa during 1995–2005. In addition, the probability of major conflict has declined the most: from 17 to 6 percent. Likewise, the likelihood of growth acceleration has improved for different types of countries. That said, oil exporters and resource-rich countries have experienced more growth accelerations than all other country subsets—well above the mean for the entire period or all countries during same recent period. This finding suggests that better commodity prices and terms of trade were still significant factors; for the recent period at least, possessing mineral resources has not been a curse to growth.

Economic Fundamentals before and after 1995. If growth is robust, economic fundamentals should have become stronger in the past decade....

Progress among all African countries was observed in the means of several economic fundamentals for all economic episodes, but the record was not uniform. Savings were higher than in the previous decade. Although aggregate investments did not change significantly, private investment and FDI went up. In particular, FDI increased by threefold in the period 1995–2005, to 5 percent from 1.5 percent in the previous decade. Nonetheless, neither the magnitudes of savings and investments as a percentage of GDP nor their changes were large, relative to levels in other successful sustained-growth economies (such as those in South and East Asia).

Trade as a share of GDP increased significantly (by about 8 percent) with exports and imports increasing by 4 percent each. The small change in the current account balance was not statistically significant, remaining close to about 6 percent. The real exchange rate appreciated substantially to an index of 103.5 from 138.0 in 1985–94, most likely as a result of favorable commodity prices since 2000. This trend raises concerns that the export competitiveness of nonprimary exports will continue to be an issue. On average, the terms of trade became slightly less favorable in the more recent decade, also reflecting the offsetting patterns before and after 2000. Average inflation was cut by half, but the change was not statistically significant because of large variations in the consumer price indexes of individual countries. The present value of public debt increased significantly, but it is likely that these data do not reflect fully the debt relief in more recent years. Government consumption decreased by about 2 percent of GDP to 15.5 percent from 17.2 percent, while no significant difference was observed for private consumption.

... For non-resource-rich countries, improvements were also observed for FDI, trade, exports, and imports in the full sample, but they were slightly more muted when compared with the results for all countries. The means for the real exchange rate, terms of trade, public debt, and government were significantly different in the two decades and more or less followed the same pattern as for all countries. In contrast, the means for savings and private investments in non-resource-rich countries were not significantly different in the two periods. The reduction in inflation remains insignificant because of great variation.

The results are somewhat more favorable for the resource-rich countries. Savings and aggregate investments in resource-rich countries experienced substantial increases (by about 5 percent of GDP) in 1995–2005. FDI showed an impressive jump to 8.2 percent of GDP from 1.8 percent, confirming that most FDI flows to Africa are concentrated in the mineral sectors. No significant change was observed for private investment. Mineral wealth did not lead to a higher level of private and public consumption, suggesting that windfall revenue was increasingly saved. However, public debt still increased. Trade, particularly exports, increased more than imports, but not enough to turn the current accounts into surplus. The real exchange rate appreciated, as expected, but as for other countries, the terms of trade became less favorable. Inflation did not improve, and the level was high on average for 1995–2005.

Important compositional effects were at work, affecting the differences of means for the subset of countries experiencing growth accelerations. Savings for all African countries undergoing growth accelerations, for instance, fell significantly, from 21 percent in 1985–94 to 13 percent in 1995–2005. Two factors were at work. Because the probability of a growth acceleration was higher during 1995–2005, the number of observations was larger (for example, 201 country-years for savings), pulling in a wider variety of country circumstances, including economies with low savings rates. In contrast, the probability of a growth acceleration was much lower for 1985–94, and the number of observations was therefore few (for example, 84 country-years for savings). However, the countries that did grow during this more difficult period had substantially better economic indicators than those experiencing normal or bad times. In addition to savings, compositional effects for all countries were also observed in aggregate investment, trade, exports, imports, and terms of trade. This factor was less important for FDI, the real exchange rate, public consumption, and public debt.

In general, there were more significant compositional effects for non-resource-rich countries than for resource-rich countries during growth accelerations. The effect was common only for savings. In non-resource-rich countries, these compositional effects were also observed for aggregate investment, private sector investment, trade, exports, and imports. One area in which the non-resource-rich countries did much better during growth accelerations was inflation: not only was the level much lower in the second period, but also the means in the two periods were significantly different.

Overall, there is therefore modest evidence of improvements in economic fundamentals, in particular for resource-rich countries. The data are, however, somewhat mixed, and the robustness of Africa's growth remains fragile.

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Key Areas of Actions to Sustain Growth

The avoidance of economic collapses will continue to depend on good policy, leadership, and aid. To sustain an accelerating growth, however, the region will have to tackle several barriers and constraints to greater productivity and investment. Addressing these barriers will require both continuing reforms and greater external assistance.

... Research shows that efficient African enterprises can compete with Chinese and Indian firms in factory floor costs. They become less competitive, though, because of higher indirect business costs, including infrastructure. In China, indirect costs are about 8 percent of total costs, but in African countries they are 18–35 percent.

Building the African private sector will be crucial both for growth and for fostering a national consensus for growth-oriented policies. Improving the investment climate and enhancing the capacity of African entrepreneurs to invest and engage in business are central to this effort.

Africa remains a high-cost, high-risk place to do business. Overall, the cost of doing business in Africa is 20–40 percent above that for other developing regions, including the costs associated with bureaucracy, corruption, risk, and essential business services. During 2006/07, the average rank of African countries was 136 in the Doing Business indicators, but four middle-income countries rank in the top third: Mauritius, 32; South Africa, 35; Namibia, 43; and Botswana, 51. Value-chain analysis ... also indicated several choke points in the supply chain for African firms: high cost of import logistics and time, low speed to market delivery, high cost of export logistics, and high incidence of rejects.

The picture is somewhat brighter for additional reforms, albeit still uneven. Forty-six sub-Saharan countries introduced at least one business environment reform in 2006/07, and Ghana and Kenya were among the top 10 reformers (Tanzania was also on the list in 2005/06). Kenya rose from 82 to 72, and Ghana from 109 to 87. But all others had ranks of 90 or higher. Nonetheless, several countries saw improvements: Mozambique went from 140 to 134, Madagascar from 160 to 149, and Burkina Faso from 161 to 165. In 2005/06, the region came in third behind Eastern Europe and Central Asia and Organisation for Economic Co-operation and Development countries with regard to countries that made at least one positive reform.

Improving the performance of Africa's financial systems is also high on the agenda for enterprise development. Firms in Africa identify financing constraints as even more severe than lack of infrastructure in limiting their business development.

Closing the Infrastructure Gap

An export push requires an infrastructure push in Africa, because many of the bottlenecks pertain to lack of infrastructure. Sub-Saharan Africa lags at least 20 percentage points behind the average for International Development Association countries on almost all major infrastructure measures.[17] In addition, quality of service is low, supplies are unreliable, and disruptions are frequent and unpredictable—all pushing up production costs, a critical impediment for investors. There are also large inequities in access to household infrastructure services, with coverage rates in rural areas lagging those in urban areas. The region's unmet infrastructure needs are estimated at $22 billion a year (5 percent of GDP), plus another $17 billion for operations and maintenance. Recent progress is encouraging. Except roads, indicators of infrastructure access rose between the 1990s and 2000s. The Africa Partnership Forum reported steady improvements in effectively using existing infrastructure and in increasing public investments. Countries are also undertaking regulatory and policy reforms, especially for water, telecommunications, and transport. Twenty of the largest African countries have or are formulating reform agendas for water and sanitation.

Compared with other regions, Africa has been slow to mobilize the private sector for the provision and financing of infrastructure. The Infrastructure Consortium reports that private sector interest has gradually spread. There is an upward trend in private sector provision and management of infrastructure, which stood at $6 billion in 2006, up from $4 billion in 2004. Most private flows (84 percent) go to telecommunications and energy. Concessions have now been awarded to operate and rehabilitate many African ports and railways and some power distribution enterprises, but financial commitments by the concessionaire companies are often small. The small commitments reflect both the value of the management improvements that the concessionaire is expected to bring and the limited scale and profitability of the enterprises taken over. An important facilitator in some cases has been the insurance instruments developed over the past 15 years by such bodies as the U.S. Overseas Private Investment Corporation and the Multilateral Investment Guarantee Agency and by the World Bank's Partial Risk Guarantee offerings.

There has been significant progress in information and communication technology. Access to communications services has increased dramatically over the past three years, with the proportion of the population (excluding South Africa) living under the mobile telephone footprint rising from 3 percent in 1999 to 50 percent in 2006. This increase has been matched by an equally rapid increase in the use of communications services. By the end of 2006, there were 123 million mobile subscribers. Average penetration rates in the region doubled between 2004 and 2006 to reach 16 percent.

Integrating the Region's Economies

The small size of African economies and the fact that many countries are landlocked call for regional approaches to common problems: infrastructure in trade corridors; common institutional and legal frameworks (customs administration, competition policy, regulation of common property resources, such as fisheries); and transborder solutions to regional health issues.

African leaders have become more aware of the benefits of regional approaches, especially in matters related to trade and infrastructure. The New Partnership for Africa's Development has adopted regional integration as one of its core objectives, and the African Union is leading efforts to rationalize regional economic communities. Most countries in Africa are party to multiple treaties or conventions addressing joint development and management of shared water resources (including navigation and fisheries), hydropower, trade corridors, irrigation, and flood control. Progress has been most notable in regional infrastructure, particularly regional power pools (in West Africa and southern Africa) and in launching customs unions (in West Africa, East Africa, and southern Africa). Progress on regional infrastructure is slowed by the technical complexity of multicountry projects and the time required for decisions by multiple governments. There is less progress in creating regional approaches to education and in systematically addressing regional health issues.

Making Agriculture More Productive

Sustained growth that reduces rural poverty will require that more countries achieve 5 percent annual growth in agricultural value added. Although growth in agricultural value added has been strong since 2000, averaging 4.6 percent in 2004, too little of it has come from higher productivity or yields.[18] Although land productivity is increasing in 38 of 46 countries, only 6 have a rate of increase of 5 percent or more.[19] Labor productivity is increasing in 29 countries, with 10 achieving increases of 3 percent a year or higher.[20]

Productivity growth will require an expansion of irrigated areas, as well as better performance of rain-fed agriculture. But less than 4 percent of cultivated land is irrigated. Because of the long lead time before investments are completed and operational, this proportion changed little in recent years. Improvements in management of soil fertility have been slow, as has been the adoption of better seeds. Spending for agricultural research and technology remains low, although it is starting to increase along with overall spending on agricultural programs in the region. On a positive note, there has been an increase in the use of water management techniques (water harvesting, reduced tillage).

Using Natural Resource Rents Well

Resource-based rents are widespread and growing because of new discoveries and favorable prices. During the 1990s, 65 percent of all FDI was concentrated in oil, gas, and mining. Between 2000 and 2010, $200 billion in oil revenue will accrue to African governments. The 2004 oil windfall alone on average resulted in a 26 percent increase in government revenue in oil-exporting countries.

However, in Africa, mineral-dependent countries tend to do worse in social indicators than non-mineral countries at the same income level, including having higher poverty rates, greater income inequality, less spending on health care, higher prevalence of child malnutrition, and lower literacy and school enrollments. But mineral-exporting economies can achieve shared growth. Indonesia, and Malaysia have all used natural resource wealth to provide a basis for a more diversified economy in which the poor have been able to participate and contribute to the process of growth.

Elements of a strategy for mineral revenue management include the following:

- Promote transparency in accounting for revenues by adopting the EITI.
- Establish fiscal rules, including setting savings rules and maintaining fiscal discipline in decentralized fiscal systems.
- Strengthen public financial management and the Medium Term Expenditure Framework.
- Monitor and evaluate outcomes.

Increasing Regional and Global Support

Developing and implementing regional strategies for increasing connectivity to the world and within Africa are crucial. Cross-country infrastructure projects are particularly important, but so too are institutional reforms, such as common customs procedures, that lower transactions costs. Complementary action by the global development community to reduce barriers to trade and to scale up aid to enhance the region's capacity to trade is also required.

Sharing the Benefits of Growth

Growth alone will not be enough to reach the Millennium Development Goals (MDGs) for Africa. At the same time that Africa's governments are pursuing a new growth strategy—and with the same vigor—they will also need to focus on delivering more and better services for human development.

Many MDGs Will Not Be Met

Despite the recent good performance, Africa's GDP per capita is still 50 percent of the level of East Asia, and the growth rate is far short of the 7 percent needed if poverty is to be halved by 2015. The mean income/expenditure of the poor, those earning less than one PPP dollar a day, is much lower in Africa than in East Asia or South Asia. Africa is far behind all other regions in terms of the UN human development index. It will also remain behind on most MDGs; if current trends continue, it will not meet the 2015 targets. In 1990, 47 percent of Africans lived in poverty. In 2004, 41 percent did, and with present trends, 37 percent will in 2015.

Although Sub-Saharan Africa is one of two regions not expected to reach most of the MDGs by 2015 (the other is South Asia), there is substantial variation among countries in both the level of attainment of the goals and the pace of progress. Mauritius has met four goals. Botswana has met three and will likely meet one more. And South Africa has met three. Among other countries, 9 will meet two goals, and 13 will meet at least one. But despite better progress—especially in education, malaria, and HIV/AIDS—23 African countries are unlikely to meet any of the MDGs. Scaling up the efforts on MDGs presents several challenges in low-income country and a recent paper by Lofgren and Diaz-Bonilla (2008) examines the trade-offs and scenarios in the case of Ethiopia.

Sharing the Benefits of Public Services Will Be Key

Africa has the lowest and most unequal access to essential services. In the 1960s and into the 1970s, many African countries widened access to essential social services and saw significant improvements in many social indicators. However, this progress did not prove sustainable. Africa has the lowest access to all essential services. Service delivery is costly for African governments because of long distances and sparsely populated areas.

The rural populations have extremely limited access to services of decent quality, including education, health care, safe drinking water, paved roads, and telecommunications. They also lack access to factors of production, such as means of transportation, fertilizer, and improved seeds.

Women in Africa provide more than half the region's labor but lack equal access to education and factors of production. Gender differentials in the areas of labor force participation and labor productivity are constraints to economic growth. A study in Kenya, for example, concluded that giving women farmers the same level of agricultural inputs and education as men could increase their yields by more than 20 percent.

Service Delivery Must Reach the Poor, Rural Populations, and Women

African rural populations and the poor have a distinct disadvantage in their access to services. To build and sustain service delivery, African countries will need to do the following:

- Improve social sector policies.
- Strengthen financial management and costing.
- Decentralize service delivery, capacity building, and training.
- Integrate sectors into multisectoral budgetary programming to underpin the implementation of the national poverty reduction strategy.

Since 1999 ... many African governments have consciously started to invest more in pro-poor service delivery, especially in the areas of health, education, HIV/AIDS, rural development (roads), agriculture, and water.

So, Is Africa at a Turning Point?

Based on the records, the verdict is guarded. There is indeed an acceleration of growth in Sub-Saharan Africa, but its sustainability is fragile. African countries in general are increasingly able to avoid mistakes and economic collapses, but increasing and sustaining growth are a difficult challenge. In the short to medium term, much depends on the continuation of favorable terms of trade, aid, and debt relief, as well as good policy. In the medium to long term, it is essential to raise the economic fundamentals, which are still lagging. Particularly needed are higher exports, more private sector growth, greater productivity of investment, higher foreign investment and remittances from migrant workers, greater regional efforts at tackling the infrastructure gaps, and improved agriculture. These economic fundamentals can be raised through continuing reforms and improved governance. In the long term, there is no substitute for improving human development and sharing the benefits of growth.

Predictions of Africa's imminent recovery or demise have proved wrong on numerous occasions in the past 40 years. Some of its economies have been badly managed and have declined, whereas others have prospered. But the energy, imagination, and entrepreneurship of its people have overcome both limited opportunities and bad policies to place the region at a position in this new century where better governments and better policies can make a difference. Shared growth can become a reality in Africa.

Notes

1. These assessments include AfDB and OECD (2007); AFRCE (various years); EIU (2007); IMF (2007a, 2007b); and World Bank (2007a, 2007b, 2007d). AFRCE briefs, from which much of this paper is derived, are biannual economic briefs prepared by the Chief Economist Office of the Africa Region at the World Bank. The briefs cover recent economic growth in Sub-Saharan Africa, issues about the scaling up of foreign aid, and the effect of external shocks. . . .
2. The statistical significance of this hypothesis is tested in the growth analysis in the next section.
3. This assessment does not include Somalia, where no good data are available, and the numbers for Sudan may not fully cover its southern regions. Both current and past data face the same limitations.
4. Strictly speaking, oil-exporting and oil-importing countries may belong to two or more subgroups simultaneously. For purposes of describing the performance, however, the classification is not overlapping, so that the subgroups add up to 100 percent. Collier (2007) and Collier and O'Connell (2006) also argue that oil and non-oil resource endowments are dominant characteristics relative to the others.
5. These countries are Botswana, Guinea, Namibia, São Tomé and Principe, Sierra Leone, and Zambia.
6. These countries are Benin, Cape Verde, Comoros, Côte d'Ivoire, Eritrea, The Gambia, Ghana, Guinea-Bissau, Kenya, Liberia, Madagascar, Mauritania, Mauritius, Mozambique, Senegal, the Seychelles, South Africa, Tanzania, and Togo.
7. These countries are Burkina Faso, Burundi, the Central African Republic, the Democratic Republic of Congo, Ethiopia, Lesotho, Malawi, Mali, Niger, Rwanda, Swaziland, Uganda, and Zimbabwe.

8. These countries are Botswana, Cape Verde, Lesotho, Mauritius, Namibia, the Seychelles, South Africa, and Swaziland.
9. These countries are Benin, Burkina Faso, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia.
10. These countries are Burundi, the Central African Republic, Comoros, the Democratic Republic of Congo, Côte d'Ivoire, Eritrea, The Gambia, Guinea, Guinea-Bissau, Liberia, São Tomé and Principe, Sierra Leone, Togo, and Zimbabwe.
11. The recovery of terms of trade in non-oil-exporting developing countries since the late 1990s is, however, still below the peaks of the early 1980s. Data are from the World Bank's World Economic Indicators.
12. So far, MDRI countries include Benin, Burkina Faso, Cameroon, Ethiopia, Ghana, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Tanzania, Uganda, and Zambia.
13. Excluding the hyperinflation in Angola and Zimbabwe. In Angola's case, inflation fell over 300 percent in 2000 to about 13 percent in 2006.
14. Low-income countries in Africa are generally constrained from borrowing in international capital markets. As a result, the current account balance, the other significant macrobalance, is not a policy-dependent variable or a good indicator of macroeconomic management. Imports in these countries tend to adjust to export revenues and aid inflows.
15. See Bacon and Kojima (2006). ESMAP is a global technical assistance partnership that has been administered by the World Bank and sponsored by bilateral official donors since 1983.
16. See Bacon and Kojima (2006) for various case studies of African countries.
17. An important exception is the penetration of fixed-line and mobile telephones, where Sub-Saharan Africa leads low-income countries by as much as 13 percent. The largest gaps are for rural roads (29 percentage points) and electricity (21 percentage points).
18. Growth in Angola, Burkina Faso, Cape Verde, the Republic of Congo, Eritrea, Ethiopia, Ghana, Mauritius, Mozambique, Nigeria, and Tanzania has been through an expansion of cropped area.
19. This rate is the five-year moving average based on 2001–05.
20. This rate is the five-year moving average based on 2000–04.

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