
Africa’s Next Growth Chapter: Building Resilience and Reducing Fragility

Good evening everyone. And thank you, Zeinab Badawi, for that very warm introduction. You all know she is a fantastic media personality, from her famous shows on “Hard Talk”. Well, I sure hope she will not be so hard on me today!

I am deeply honoured to be invited to speak to you today, for this year’s Annual Lecture of the Royal African Society. I am particularly thankful to Richard Dowden, Director of the Royal African Society, his Board and their entire team for organizing this Annual Lecture, with the theme: “Africa’s Growth Story: A New Chapter”. I applaud the work and contributions of the Royal African Society to the continent’s development. Africa needs its friends and those friends are all over in this room today. Welcome!

Ladies and gentlemen, Africa has come a long way. Prior to 1990, Africa experienced very low levels of economic development. Poverty was rampant. Economies were faltering. Investments in infrastructure were low and political and economic governance were weak. With deepening poverty and low growth, many pundits gave up on Africa. You will recall that at the time The Economist called Africa “the hopeless continent”.

Things have changed since then and Africa has been on the rise. Africa posted well over 5% growth for the past decade, witnessing rapid growth and development. Extreme poverty in Sub-Saharan Africa declined by 28% between 1990 and 2015. Under-five mortality rate declined by 52% between 1990 and 2015, matching all developing regions. Macroeconomic policy management and political stability improved across the region. Business and investment environment also improved.

Africa became a significant frontier for foreign direct investment, which rose from $42.8 billion in 2004-2008 to $49.8 billion in 2011. The Economist in that year of 2011 changed its narrative on Africa to “Africa on the rise: the hopeful continent”.

For the past ten years, Africa has been growing above 5% on average. However, this growth has been largely driven by export of primary commodities. That has been the
weakness of the growth process, exposing Africa to vulnerability from volatilities and decline in global commodity prices.

After almost a decade of unprecedented high growth, many African countries have experienced a slowdown in recent years with the fall in commodity prices and a much weaker global economic environment. As a result, the economic growth rate in Africa has slowed – and the numbers are changing so quickly – almost weekly, like a yo-yo. With more recent challenges facing Nigeria and South Africa, both of which account for some 50% of the weighted GDP growth, the African Development Bank recently revised growth downwards to 1.8%, much in line with the IMF.

These are definitely very challenging times for the world – not just Africa. The global economy is going through its worst slowdown in growth in nearly three decades. The revised growth figures released by the IMF in October 2016 show that the global economy will expand by only 3.1% in 2016 with modest pick-up to 3.4% in 2017. The outlook is worse for advanced economies. The IMF has slashed the growth rate for the United States of America to 1.6%, while the European Union’s growth is equally low at 1.7%. Times are hard everywhere.

Nonetheless, all is not bleak in Africa. At the African Development Bank, we estimate 20 African countries are still projected to grow in 2016 at above 5%, while 18 countries are estimated to grow at 3-5%, all well above the global growth average.

Investment trends support this. According to the World Bank’s Doing Business Index, 30% of the business regulatory reforms done globally in 2015 occurred in Sub-Saharan Africa. As a result, foreign direct investments inflows to Africa are projected to reach $55-60 billion in 2016. Africa is still the second fastest growing destination in terms of foreign direct investments, second only to the Asia-Pacific region.

The evidence is clear: while overall growth is slower than expected, Africa is not falling apart. African economies are still resilient. During the global economic crisis of 2008-2009, Africa’s growth defied the odds, and expanded at rates higher than other regions. That resilience is still there in the fundamentals. It is estimated that growth in Africa is expected to rebound to 3.5% in 2017.

The next growth chapter for Africa is all about deepening Africa’s economic resilience and reducing fragility.
This should start with the need for more rapid diversification of African economies. Africa has a high export concentration ratio, focusing on limited markets for bulk of its exports and concentrating on a very narrow export base – mainly unprocessed raw materials. Primary commodities constitute 70% of Africa’s total exports. That needs to change.

Whether it is agricultural commodities, minerals, metals, oil or gas, Africa should now move away from being stuck at the bottom of the value chains. Focus should be on value added processing for everything Africa produces. The greater the level of processing, the higher the value Africa derives and the lower will be its susceptibility to the unending cycles of commodity price volatilities.

More than ever before, Africa should now accelerate intra-regional trade and bring down the walls that separate them. That might be a paradoxical thought, especially given where I am speaking today! Greater focus should be on expanding and promoting regional trade. As regional trade expands, African economies will trade more with themselves and reduce exposure to global economic shocks. Yet, regional trade is still relatively low, accounting for only 15% of Africa’s trade.

The recent successful experience with the tripartite free trade area that includes the East Africa Economic Community, the Southern Africa Development Community and the Common Market for East and Southern Africa is exactly what should be replicated everywhere. Alone, the majority of African economies are too small. That makes it difficult to achieve economies of scale in investments. It is much better to invest in multiple countries – across borders – than to be confined within rigid borders that constrain trade and labour mobility.

Just recently I got my African Union Passport. I was elated. While a small beginning, it goes to show that we should integrate our economies more – from openness on visas to open skies for air travels. The African Development Bank’s Visa Openness Index shows that Africans need to get visas to travel to 55% of African countries and can only get visas on arrival for just 25% of the countries. Skills do not recognize borders. Africa will benefit greatly from easier mobility of skilled labour to help unlock even greater growth across their economies.

We will hold the African passport high: the future of Africa is bright and the world should pay attention. By 2050, Africa will have the combined population of China and India today. Rapid urbanization and growth in the middle class population –
estimated to increase from the current 350 million to close to 1.1 billion by 2060 – means that Africa would be a huge consumer market. Consumer spending in Africa is projected to double to $1.4 trillion by 2020.

The recent McKinsey Report “Lions on the Move II” shows household consumer spending will rise to $2.1 trillion by 2025, while business to business spending is estimated to rise to $3.5 trillion by 2025. Without any doubt, the African market will help to boost global growth: Africa cannot be ignored!

And Africa will be the solution to feeding the world. With 65% of all uncultivated arable land left in the world to feed 9 billion people by 2050, Africa will have to feed the world. To unlock that immense potential, we must treat agriculture as a business – not a way of life. To help unlock Africa’s potential in agriculture, the African Development Bank will invest US $24 billion in the agriculture sector over the next 10 years. That is over four times our current level of investment in the sector. We will focus our support on promoting agro-allied industrialization, value-addition and export diversification.

But to fully unlock these potentials, there is need to address a number of challenges that continue to limit growth. Africa’s huge infrastructure gap still makes the cost of doing business high in several countries.

The biggest problem is electricity. About 45% of private firms in Africa see lack of electricity and the high cost of power as one of the major constraints to doing business.

Africa cannot develop in the dark. We must solve Africa’s electricity challenge – and do so, quickly.

That is why the African Development Bank has launched a New Deal on Energy for Africa. Our goal is to support governments and the private sector to accelerate the achievement of universal access to electricity over the next ten years. The Bank will be investing $12 billion in the energy sector over the next ten years. We expect to leverage an additional $45-50 billion into the energy sector.

As Africa solves its power problem, it will open up great opportunities for industrialization. New opportunities are emerging especially in light manufacturing, as global firms look for new locations for sourcing. With rising industrial wages in
China, light manufacturing companies are looking for new locations for their global value chains.

Africa must develop a “high industrial readiness index” by accelerating investments in other critical infrastructure such as roads, ports and rail, aviation and ICT, which will position it as a competitive destination of choice. That way, it will take advantage of its abundant labour and much lower wage rates to attract labour-intensive light manufacturing global firms.

Success, however, will depend on putting in place sound industrial development policies. Some may say that industrial policies are often directed at picking winners. Well, who wants to pick losers? The role of a developmental state in supporting industrialization in Africa is therefore crucial.

Just look at the example from Ethiopia, with the rapid growth of its leather and apparel industries. With smart policies, Ethiopia is attracting top global firms and rapidly emerging as Africa’s top exporter of garment and leather products. Similarly, Morocco is making great inroads in expanding its automobile industry, which has become a major source of its exports.

But financing all of these will take significant amounts of resources. To meet financing needs, in an environment of declining foreign reserves, several countries have gone into the international capital markets to borrow. The number of countries with sovereign credit rating from Moody’s, Fitch or Standard & Poor increased from 10 in 2013 to 21 by 2014. During 2013-2015, African countries issued a total of about $21 billion worth of sovereign bonds. That is much higher than $5.9 billion in 2009-2012.

Many were oversubscribed, showing investor confidence in African economies, on one hand – and attracted to the high yields on the other. There has been a slowdown of recent in terms of issuances of Eurobonds, especially due to rising interest rates and currency depreciation that raise the cost of debt service. But let me be clear: African countries are not in a debt crisis. They have liquidity challenge. With debt to GDP ratio of 21% in 2015, the risk of debt distress in Africa is still low and is broadly manageable.

To better finance its development, without getting too much into external debts, Africa needs to prioritize domestic resource mobilization. Pension funds in Africa are estimated at $334 billion, sovereign wealth funds at $162 billion, while
Remittances have reached over $62 billion. Unfortunately, pension funds and sovereign wealth funds from Africa are invested outside of Africa, often in treasury bills and equity instruments with negative real interest rates in some cases. African funds should also be invested in Africa. If we do not show confidence in Africa, how can we expect other to do so?

For this to happen, there is need for regulatory reforms to create new infrastructure-related asset classes and investment vehicles to allow pension funds to invest in African infrastructure. Domestic resources should be mobilized further through increasing tax collections. Africa’s tax to GDP ratio is low, at 15%. While tax revenues have risen to about $500 billion per year, much needs to be done to broaden the tax base and improve tax administration.

Monies that belong to Africa should not be siphoned out of Africa. We must end illicit financial flows out of Africa – all driven by corruption. Africa loses over $60 billion per year in illicit financial flows. A significant part of this is from transfer pricing, mispricing of assets, base erosion and profit shifting for tax avoidance. There is need for greater accountability and transparency in the management of public financial resources.

To help further the transparency and accountability agenda, the as African Development Bank is working closely with several African countries and the US Treasury Department, under the Partnership against Illicit Finance.

Public funds should be used to secure the future of citizens, especially Africa’s youth, not the future of powerful individuals.

The population of those youths in Africa will double from the current 480 million to reach 840 million by 2050. That will make Africa the youngest continent in the world. Yet, of the 13 million youths that enter the labour market each year, only 3 million get jobs. Just about 33% of the youths are in wage employment, while the rest are underemployed or in vulnerable employment. To be plain: Africa has a jobs crisis!

Unless we have a growth model that creates jobs quickly for them, Africa’s rapidly growing population of unemployed youths can give rise to serious social, economic, political and security challenges. The migration crisis in Europe is a case in point. What began as a trickle is fast becoming a torrent. The solution to the migration
crisis does not lie in Europe. The solution lies in creating hope and economic opportunities for Africa’s youth, within Africa.

We must act quickly. It brings to mind John Legend’s powerful lyrics from the song “If you are out there”: “If you hear this message. Wherever you stand. I am calling every woman. Calling every man. We are the generation. We can’t afford to wait. The future started yesterday. And we are already late.”

At the African Development Bank we are taking bold steps to address this issue. We have just launched the Jobs for Youths in Africa Initiative, our flagship program to address youth unemployment in Africa. The goal is to help stimulate the creation of 25 million jobs within the next ten years. Through this initiative, we will help mobilize $3 billion in support of young entrepreneurs in Africa, with a focus on business incubation. It will facilitate the establishment of skills enhancement zones to foster better links between skills and industrial development.

Particularly important is the need to train the youths for the jobs of the future, especially through greater investments in digitization, material sciences, biotechnology, artificial intelligence, the Internet of things and robotics. This is what inspired the African Development Bank to provide $40 million to support the ICT Center of Excellence in Kigali – a joint initiative between the Kigali Institute of Science and Technology and the Carnegie Mellon University – to produce the next generation of computer experts for Africa.

The new growth chapter of Africa must be one that opens up new economic opportunities for women. Women continue to face huge challenges, especially lack of access to finance, land and property rights. The situation is more difficult for a vast majority of women in the rural areas. They are disconnected and unable to take advantage of growth opportunities. In response, the African Development Bank has launched the Affirmative Finance Action for Women in Africa (AFAWA) to leverage $3 billion for women-owned businesses and women farmers.

When we get the issues of finance right for women, we will get Africa’s new growth chapter right.

The future of Africa and its resilience will depend on how it adapts to the impacts of climate change. Africa, which does not account for more than 3% of greenhouse gas emissions, now suffers disproportionately from its negative impacts. All across
Africa, climate change has caused the worst droughts in decades. Africa is projected to lose up to 40% of its cereals output due to climate change. The high greenhouse gas emissions of developed countries are choking the economic lungs of African countries.

I therefore call on the Green Climate Fund and the Global Environment Facility to pay for disaster insurance for African countries. Africa, which has been short changed by climate change, should not be short-changed on climate finance.

To further build that resilience for African economies, the African Development Fund – the Bank’s concessionary financing window – will continue to play a significant role.

The Fund allows the African Development Bank to build resilience and reduce fragility. The Fund has provided concessionary financing worth over $40 billion in over 40 African countries since inception.

Whether it is dealing with Ebola, building capacity of governments to deliver clean water, hygiene and sanitation, electricity and other infrastructure, or promoting agriculture and combating the effects of climate change, the African Development Fund has continued to deliver for Africa.

And all of that could not have happened without the support of all our African Development Fund donors. Let me use this opportunity to especially thank the UK Government for being the largest contributor to African Development Fund’s 13th replenishment, with a contribution of 603 million pounds sterling.

There is no doubt: UK is one of Africa’s best partners for development.

The African Development Fund is an instrument of hope. As we look to Africa’s next growth chapter, the Fund will play a significant role to help African countries build greater economic resilience and reduce fragility. And the UK Government’s continued strong support will be very important in using this instrument of hope to deliver more for Africa.

To summarize, we believe at the African Development Bank, that Africa’s next growth chapter must focus on what we call the High 5s: Light up and Power Africa; Feed Africa; Industrialize Africa; Integrate Africa; and Improve the Quality of Life for the People of Africa.
Focusing on them will not only unlock better growth, but will also ensure that growth impacts positively on the lives of people. And that is the only growth that matters.

And that, Ladies and Gentlemen, will be ‘New Growth Chapter’ worth reading!

Thank you very much.