

Africa's Pulse

An analysis of trends shaping Africa's economic future

This document was produced by the Office of the World Bank Chief Economist for the Africa Region



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Although Africa is the least integrated region in the world, it was hard hit by the global economic crisis. Economic growth went from 5.2 percent in 2008 to 1.6 percent in 2009. Fortunately, it responded by maintaining the good policies that had brought growth in the past, and now with a global recovery underway, it is seeing a quick rebound. Output is projected to expand by around 4.3 percent in 2010. Despite the many challenges facing the continent—weak initial conditions for the MDGs, a massive infrastructure deficit, low agricultural productivity, and weak governance—Africa's performance in the recent past gives us cause for optimism. Today, aid to Africa has the potential to be as productive as it has ever been.

- > Africa was hit hard by the global economic crisis, but growth is rebounding.
- > The response of African policymakers helped to dampen the impact of the crisis and set the stage for the continent to benefit from a global recovery.
- > Despite the wrenching shock of the global economic crisis and long-term development challenges, Africa's performance over the past decade and a half gives cause for optimism.
- > Although Africa is off-track in reaching many of the MDGs, and the crisis has pushed some countries further behind, the continent has, over the past decade, been making substantial progress toward the MDGs.
- > Though rising, aid is falling short of commitments: Africa is likely to receive less than half the additional aid that donors agreed to provide by 2010 at the Gleneagles summit.

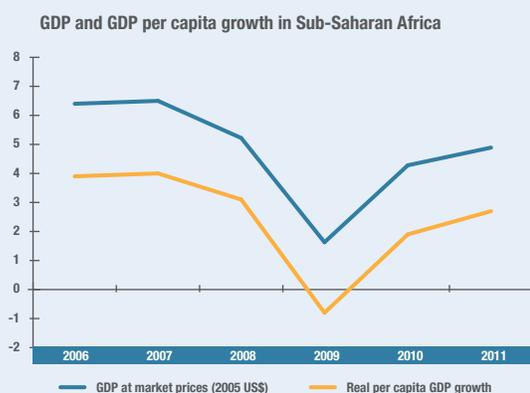
I. Recent Economic Trends and Prospects

Economic recovery

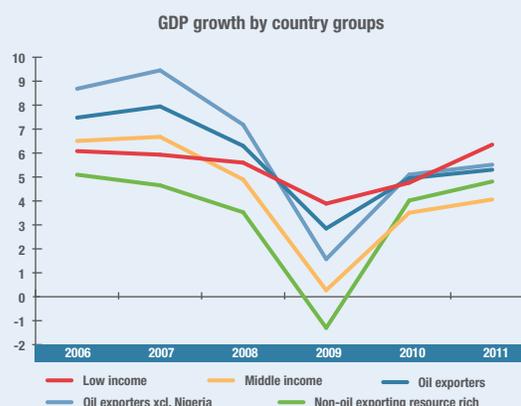
Amid a global recovery, Sub-Saharan Africa is seeing a rebound in economic activity. After growing at an estimated 1.6 percent in 2009, output is projected to expand by around 4.2 percent in 2010—a faster turnaround than Africa registered in previous crises. Growth is expected to accelerate to 4.9 in 2011, but will remain below the 6 percent growth rate recorded in the pre-crisis period. Per capita income, which fell by nearly 1 percent in 2009—the first such contraction in a decade—will also post an upward trend.

AFRICA'S ECONOMIC GROWTH DROPPED BY ALMOST FOUR PERCENTAGE POINTS IN 2009.

Although it will rebound in 2010, it will stay below pre-crisis levels through 2011.

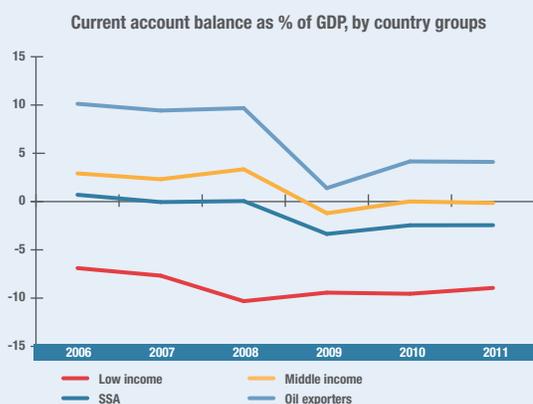


Source: Development Prospects Group, World Bank.
Note: 2009 data are estimates; 2010 and 2011 data are projections.

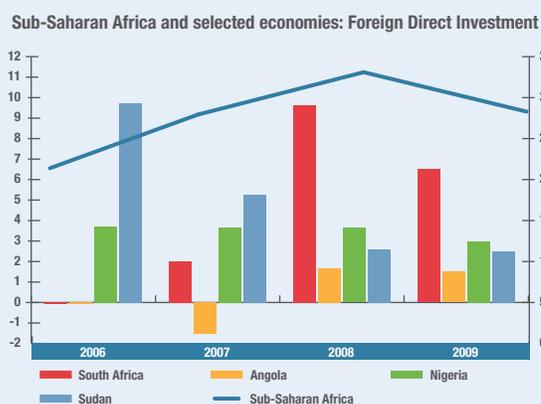


Although Africa is the least integrated region in the world, it was not able to escape the effect of the global economic crisis. The combination of weak export demand, lower commodity prices, declining private capital flows (which had exceeded foreign aid in 2007), slowdown in remittances, lower tourism revenues, and weaker government revenues all conspired to reduce Africa's economic growth rate by close to four percentage points in 2009. The region's middle-income countries, which are more integrated in global markets, were the hardest hit: with growth slipping by about 4.5 percentage points in 2009. Slumping energy prices depressed earnings of oil-exporting countries, contributing to the weak economic performance of these economies.

THE COMBINATION OF WEAK EXPORT DEMAND, LOWER COMMODITY PRICES, AND DECLINING CAPITAL FLOWS—AMONG OTHER THINGS—CONSPIRED TO REDUCE AFRICA'S ECONOMIC GROWTH IN 2009.



Source: Development Prospects Group, World Bank.



Until the onset of the global financial crisis, Africa had been experiencing a period of sustained and widespread growth. In addition to the oil exporters, some 22 non-oil-exporting countries were experiencing better than 4 percent growth for a decade. The region's per capita GDP was growing at an average annual rate of over 2 percent. The sources of this growth were three-fold: (i) external resources—aid, debt relief, private capital flows and remittances were all increasing; (ii) strong commodity prices and a buoyant global economy; and (iii) improved macroeconomic policies, reflected for instance in the fact that the median inflation rate in the mid-2000s was about half that in the mid-1990s.

Africa's policy response to the crisis

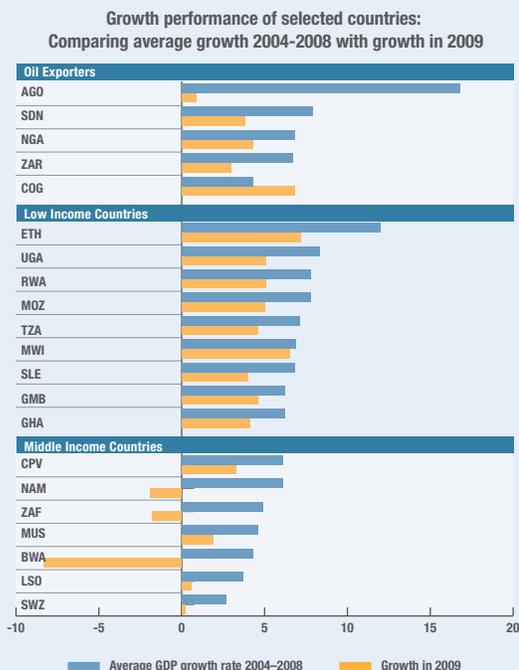
Despite its severity, the response of African policymakers to the global economic crisis helped to dampen the impact, and set the stage for the continent to benefit from a global recovery. The fall in growth initially prompted concerns of a slowdown or reversal of the reforms that African governments had been undertaking for the last decade—the same reforms that enabled the continent to grow at 6 percent a year before the crisis. The payoffs to these reforms had now become much less. The good news is that this did not happen. Policymakers generally continued to pursue prudent economic policies during the crisis; some countries accelerated their reforms. Many countries maintained and, in some cases, even increased social spending. Safety nets were ramped up in several countries: countries have attempted to protect the poor by scaling up existing safety net programs where they exist and appear to be functioning well—Ethiopia, for instance, has increased the wage paid in its public works program.

Countries also focused on supporting capital spending to finance much-needed infrastructure. For example, in the Republic of Congo, capital spending increased from 9.4 percent of GDP in 2008 to 14.4 percent of GDP in 2009 in order to accelerate the rehabilitation and reconstruction of basic infrastructures. In Rwanda, capital expenditures increased from 8.6 percent of GDP in 2007 to 11.2 percent of GDP in 2009.

The international financial institutions responded strongly to support countries' efforts to limit the economic slowdown, protect core developments, strengthen the private sector, and assist the poor.

Overall, African countries saw a widening of fiscal deficits by about 3 percent of GDP in 2009, as countries used fiscal policies to counter the effect of the slowdown in economic activity. Fiscal deficits rose by over 9 percent of GDP for the group of oil-exporting countries and by nearly 7 percent of GDP for middle-income countries. Among low-income countries, those that had fiscal space, such as Tanzania and Zambia, ran modest fiscal deficits; those that did not, such as Ghana, contracted their deficits.

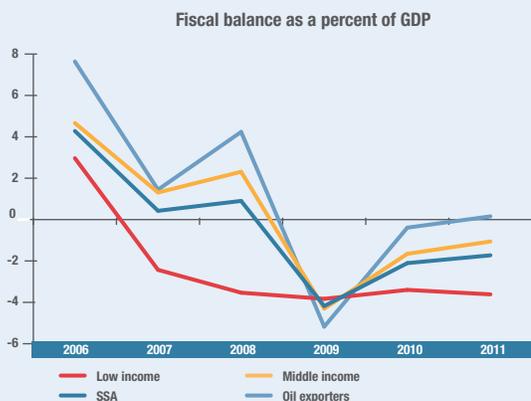
BEFORE THE GLOBAL ECONOMIC CRISIS, AFRICAN COUNTRIES HAD SEEN SUSTAINED GROWTH ACROSS THE BOARD.



Source: Global Economic Prospects, 2010.

THE RESPONSE OF AFRICAN POLICY MAKERS HELPED DAMPEN THE IMPACT OF THE CRISIS.

Fiscal Balances deteriorated as countries countered the effects of the economic slowdown.



Source: Global Economic Prospects, 2010.

The prudent response to the crisis means that the policy environment in Africa, which had been improving until the crisis, continued to improve during the crisis. As a result, Africa's economic growth is expected to turn around faster than in previous crises. Of course, sustaining the recovery will depend upon the quality of domestic policies and on the growth performance in key export markets and investment partners, particularly the United States, the European Union, and China. Looking ahead, the withdrawal of fiscal and monetary stimulus poses a challenge to policymakers. The concern will be not to undermine the economic recovery underway, while ensuring that the medium-term economic policy framework is consistent with securing long-term growth.

Risks to economic prospects

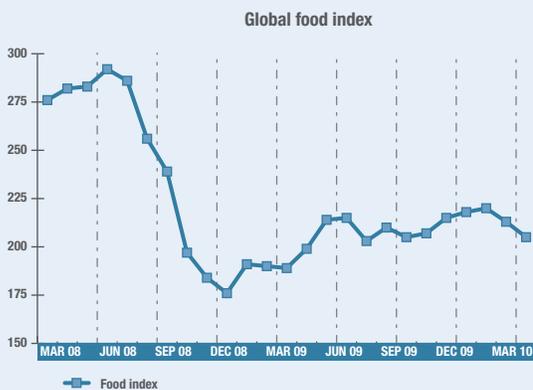
Rising global food prices. Rising global food prices present a risk to the region's growth prospects. The recent upward trend in price of staples in domestic markets is worrisome as it poses a significant threat to both food security and nutrition in the region (see Box 1).

BOX 1: Food prices: rising again

Global food prices rose by 24 percent between December 2008 and December 2009 (and by 16.7 percent between December 2008 and March 2010) according to the World Bank food benchmark index. Although food prices remain below the highs of mid-2008, the recent double-digit increase in food prices could aggravate the adverse effect of the food price spike of 2008, which still linger in many countries in the region. The two main reasons for this are: one, the price adjustment in domestic markets has been much slower than the easing of food prices in international markets after the mid-2008 spike; and two, the global economic crisis may have further strained the already stretched coping mechanisms of the poor in these countries.

Among countries with the largest increase in domestic price of main staples (out of 58 countries monitored by FAO, GIEWS) for January-October 2009 were several Sub-Saharan African countries: Nigeria (sorghum 50%), Uganda (maize 35%), Sudan (sorghum 24%), Tanzania (maize 23%), and Kenya (maize 16%). The upward trend in price of staples in domestic markets is worrisome as it poses a significant threat to both food security and nutrition in the region.

RISING GLOBAL FOOD PRICES POSE A RISK TO FOOD SECURITY AND NUTRITION



Source: Food Price Watch (February 2010), Poverty Reduction and Equity Group, PREM Network, The World Bank.

Debt sustainability. Widening fiscal deficits have pushed up debt ratios and raised concerns of possible debt distress in low-income countries.

Thanks to the HIPC initiative and the MDRI, many low-income African countries entered the global economic crisis with low debt burdens. But in the face of limited aid and declining non-debt flows (such as FDI and remittances), countries had to increasingly rely on external and domestic debt financing to close the widening fiscal financing gaps.

Debt levels and ratios have consequently deteriorated. Results from recent debt-sustainability analyses show that the present value (PV) of the public-debt-to-GDP ratio is estimated to be about 5 percentage points higher in 2009 than 2008. A similar pattern is observed in public external debt ratios. The deterioration is short term; the uptick in public debt to GDP tapers off in the long term and debt ratios are expected to return to a downward trend by 2011-12. Two countries—Central African Republic and the Republic of Congo—saw their debt risk improve from high risk to moderate risk, with delivery of HIPC/MDRI debt relief.

For countries that entered the crisis with relatively high debt vulnerabilities (i.e., a high risk of debt distress or already in debt distress), the crisis has not exacerbated their debt situations.

While the crisis has had a significant impact on the debt vulnerabilities of low-income countries in the region, debt vulnerabilities generally remain manageable and risks of a broad-based debt crisis are low. Nevertheless, the global crisis has raised anew concerns about debt sustainability and underscored the need for prudent borrowing policies.

Aid flows lag commitments. Although rising, ODA is falling short of donor commitments. The global economic crisis has brought to the fore the question of aid commitments to Africa. At the Gleneagles summit in 2005, Africa's partners agreed that for Africa to reach the MDGs, official development aid would have to double by 2010. The latest OECD-DAC data show that by 2010 Africa is likely to receive less than half of the additional aid that donors agreed to provide to the region at the 2005 G-8 Gleneagles Summit: about \$11 billion of the \$25 billion in additional aid financing.¹ The crisis highlighted the need for additional external assistance (in the face of declining growth and government revenues and increasing poverty), and the fact that, given the economic policy response to the crisis, additional aid at this time could be highly productive. Today, we have a unique opportunity to accelerate growth and poverty reduction in Africa. Aid to Africa must increase by more than the shortfall in the Gleneagles commitments in order to help low-income countries in the region resume and accelerate progress on the MDGs.

¹ http://www.oecd.org/document/11/0,3343,en_2649_34487_44981579_1_1_1_1,00.html.

2. Africa and the Millennium Development Goals

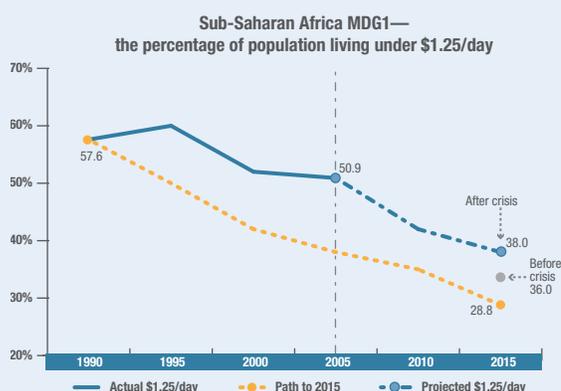
MDGs still off-track, but progress has been made

Although African countries are off-track on most of the MDGs, Africa has, over the past decade, been making the greatest progress toward the goals. The impact of the crisis on poverty and human development outcomes could stall this progress, making it harder to sustain the gains.

Poverty. Africa's economic growth has been accompanied by a reduction in the proportion of Africans living on less than \$1.25 a day from 58 percent in 1995 to 51 percent in 2005. Over the past decade, the region's poverty rate has been declining at about one percentage point a year.² Nevertheless, the \$1.25-a-day poverty rate is at about 50 percent, the same rate as in 1980. Even without the crisis, the continent as a whole was off-track on the first MDG—to reduce the 1990 poverty rate by half by 2015. The global crisis has slowed progress on reducing poverty: the poverty rate on current trends is now expected to fall to 38 percent by 2015, as opposed to the pre-crisis projected rate of 36 percent. The crisis will leave an additional 20 million people in extreme poverty by 2015.

THE GLOBAL ECONOMIC CRISIS SLOWED PROGRESS ON POVERTY REDUCTION.

The poverty rate is now expected to fall to 38% by 2015. The pre-crisis projected rate was 36%.



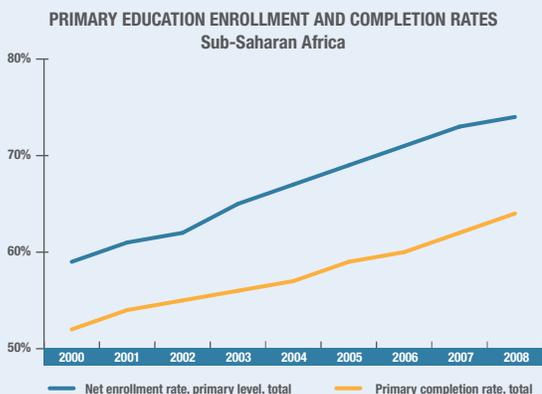
Source: World Bank staff calculations using the Povcal database.

Human development goals. The crisis could affect progress on other human development outcomes as well. Before the crisis, Africa was the region with the fastest progress in primary school completion: the average primary completion rate increased from 53 percent to 65 percent between 2000 and 2008. Among low income countries, several had 50 percent or higher improvement in completion rates, including Mozambique, Rwanda, Ethiopia, and Burundi—admittedly, starting from a low base. African countries have also made progress in closing the gender gap in primary school enrollment ratios. More and more girls have been enrolling in primary schools. Improvement varied between 5 to 40 percent increase for low

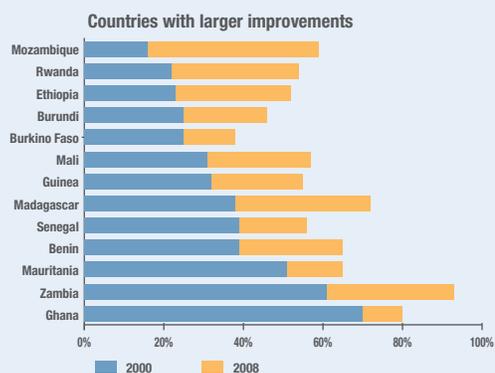
income countries in Africa: Benin, Burkina Faso, Ethiopia, Guinea, and Liberia saw a 20 percent increase in their gender parity index between 2000-08; changes were less for Zambia and Rwanda, which had much higher initial values in 2000. If the experience of past crises is a guide, many more children, most of them girls, will not be able to complete primary school.

² Although the population share in extreme poverty is falling, as a result of population growth, the actual number of poor people—nearly 380 million—has been increasing.

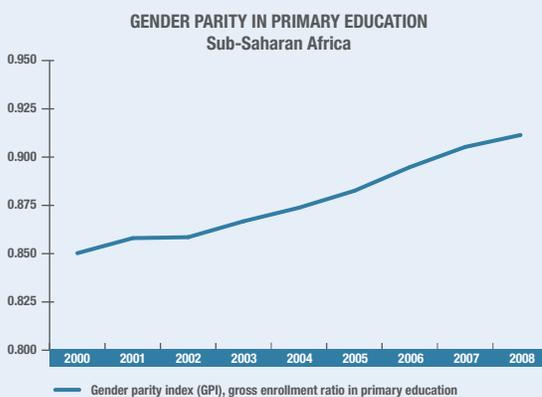
ALTHOUGH IT IS OFF TRACK TO MEET THE MDGs, AFRICA HAS MADE GREAT PROGRESS TOWARDS THE GOALS IN THE LAST DECADE, THE MOST AMONG ALL REGIONS OF THE WORLD.



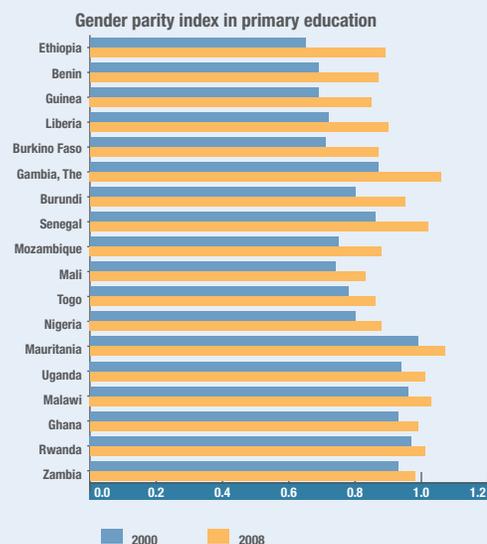
Source: Edstats, World Bank



Source: World Development Indicators, World Bank.



Source: World Development Indicators

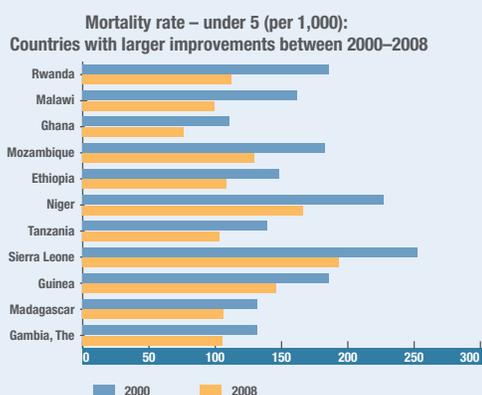


Source: World Development Indicators.

There is some evidence that child mortality in Africa, after stagnating for some time, had begun to fall sharply before the crisis. Countries such as Rwanda, Ethiopia, Gambia and Malawi have seen declines of 25-40 percent in under-five mortality during 2000-08. As a result of the crisis, the under-five mortality rate might fall by less: to 139.5 per 1000 (post-crisis trend) instead of 129.2 per 1000 (pre-crisis trend) by 2015 (Global Monitoring Report 2010). As a result of the slowdown in growth in 2009, Friedman and Schady (2009) estimate that an additional 30,000-50,000 infants are unlikely to reach their first birthday.

AS A RESULT OF THE GLOBAL ECONOMIC CRISIS, THE UNDER-FIVE MORTALITY RATE MIGHT FALL LESS THAN PREVIOUSLY EXPECTED.

The slowdown in growth in 2009 might mean 30,000-50,000 additional infant deaths.



Source: World Development Indicators.

Medium-term Challenges

Sustained growth and faster progress on the MDGs will depend on how well African countries address longer term challenges of large infrastructure deficits, lagging agricultural productivity, poor service delivery, weak governance, and climate change.

Infrastructure gap. During the past decade, Africa has made great strides in Information and Communications Technology. The number of mobile phone subscribers rose from 11 million in 2000 to 246 million in 2008—an average annual growth rate of 50 percent.³ These improvements have been estimated to contribute as much as one percentage point to per capita GDP growth. Yet in other infrastructure areas such as energy, water, and transport, the expansion of infrastructure is slow. For example, results from the Investment Climate Surveys show that half of the firms surveyed listed electricity as a major constraint to business operations, and over a quarter of firms reported transport as a major constraint. Regional collaboration is becoming increasingly important in tackling many of the infrastructure challenges facing the region.

A recent study (Africa’s Infrastructure: A time for Transformation) shows that: (i) infrastructure services are twice as expensive as elsewhere, partly because of the large infrastructure gap compared to other regions; (ii) addressing Africa’s infrastructure needs will cost about \$93 billion a year—about 40 percent of this spending is needed for power which is by far the largest challenge; and (iii) further institutional, regulatory, and administrative reforms are needed to realize potential efficiency gains and reduce the financing gap for these services.

THE INFRASTRUCTURE GAP POSES ONE OF THE GREATEST CHALLENGES TO AFRICA’S SUSTAINED GROWTH.

Normalized Units	Sub-Saharan Africa— Low Income Countries	Other Low Income Countries
Paved road density	31	134
Total road density	137	211
Main line density	10	78
Mobile density	55	76
Internet density	2	3
Generation density	37	326
Electricity coverage	16	41
Improved water	60	72
Improved sanitation	34	51

Source: World Bank, 2009, Africa’s infrastructure: A Time for Transformation.
Note: The World Bank, Africa Action Plan, 2009, p. 4.

Investment climate. There have been recent improvements in Africa’s business climate, reflected for instance in the 2010 *Doing Business Indicators*—for the first time an African country (Rwanda) was ranked as the “top global reformer”; two African countries—Liberia and Rwanda—were among the top 10 reformers; and Mauritius moved into the ranks of the top 20 economies on the Overall Ease of Doing Business.

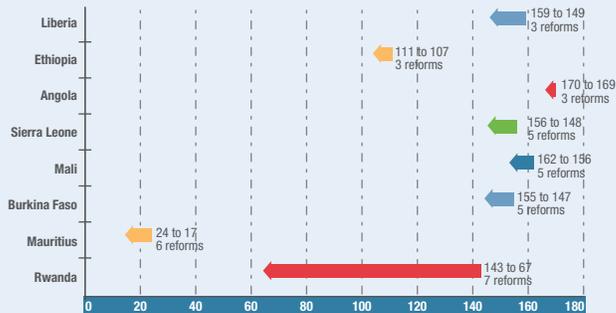
Nevertheless, Africa’s private investment rate is still below 15 percent of GDP, and eight of the ten countries judged as having the most difficult environment in the world for starting a business are in Africa.

3 “International Communications Union, 2009, *Information Society Statistical Profiles, Africa*.

THE POLICY ENVIRONMENT IN AFRICA IS IMPROVING IN MANY AREAS, INCLUDING BUSINESS ENVIRONMENT.

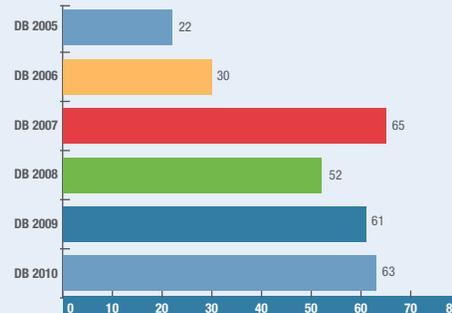
For the first time, an African country was ranked “top global reformer” in the 2010 *Doing Business Indicators*.

Improvement in ranking on the ease of doing business, 2007/09



Source: Doing Business Report 2010.

Reforms in Sub-Saharan Africa (46 economies)



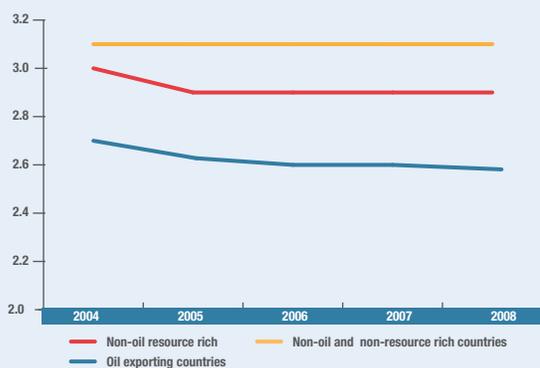
Source: Doing Business Report 2010.

Agriculture. After decades of neglect, African agriculture is slowly reclaiming its role as a major instrument for reducing poverty. Agricultural GDP growth has been accelerating from 2.3 percent a year in the first half of this decade to close to 4 percent in the latter half. From 2003-2007, 13 countries registered better-than-three-percent growth in agricultural output per worker.⁴ The improvements have been the result of reform of agricultural policies, increased donor and government attention, and increases in food prices. However, with less than 5 percent of cultivated land irrigated, African agriculture remains extremely vulnerable to the effects of global climate change—more frequent floods and droughts, as well as a drying trend in large parts of the continent.

SCORES ON PUBLIC SECTOR MANAGEMENT AND INSTITUTIONS FOR IDA-ELIGIBLE COUNTRIES IN AFRICA DID NOT CHANGE MUCH DURING 2004-08.

Oil exporting countries registered much lower scores on average than non-oil exporting countries.

CPIA score on public sector management and institutions (2004-08)



Source: The World Bank.

Note: Average scores for IDA-eligible countries in Africa.

Governance. There are indications that governance is improving in several African countries, yet weak governance and low capacity remain a reality for many African countries. Some countries such as Ghana, Mozambique and Nigeria have made significant progress in institutional quality. Post-conflict countries such as Rwanda have also seen gains in this area. Overall, however, the World Bank’s CPIA (Country Policy and Institutional Assessment) scores on public sector management and institutions for IDA-eligible countries in the region did not change much during 2004-08. There are significant variations across country groups, with oil exporting countries registering much lower scores on average than non-oil exporting countries.⁵ Also, the quality of public sector management and institutions tend to be lower in Africa than in other regions.

4 The World Bank, *Africa Action Plan, 2009*.

5 Scores from Transparency International’s Corruption Perception Index show that only 11 percent of oil exporters in Sub-Saharan Africa (IDA and non-IDA countries) saw an improvement in this index during 2006-09, compared with 50 percent for non-oil countries.

3. Yes Africa Can: Success Stories from a Dynamic Continent

The economic landscape of Africa has changed dramatically since the mid-1990s, as stagnation has given way to dynamism in a broad swath of African countries. Below are some examples of recent development successes.

Rwanda: Improving health through results-based financing. As a result of a sweeping reform that linked physicians' pay to their performance (among other things), there has been a dramatic improvement in health outcomes in Rwanda: In three years, modern contraception nearly tripled, assisted deliveries increased from 39 percent to 52 percent, use of insecticide-treated nets among children under 5 years increased from 4 percent to 67 percent, and under-five mortality decreased by more than 30 percent. To be sure, these outcomes were due to a number of factors, but randomized impact evaluation shows that the introduction of results-based financing was one of the significant determinants.

LINKING PAY TO PERFORMANCE, AMONG OTHER REFORMS, IMPROVED HEALTH OUTCOMES IN RWANDA.

For example, under-five mortality decreased by more than 30% in three years.

Indicator	2005	2008
Contraception (modern)	10%	27%
Delivery in health centers	39%	52%
Infant mortality rate	86 per 1000	62 per 1000
Under-five mortality rate	152 per 1000	103 per 1000
Anemia prevalence: children	56%	48%
Vaccination: all	75%	80%
Vaccination: measles	86%	90%
Use of insecticide treated nets among children under 5	4%	67%
Fertility	6.1 children	5.5 children

Source: Demographic and Health Surveys, 2005 and 2008.

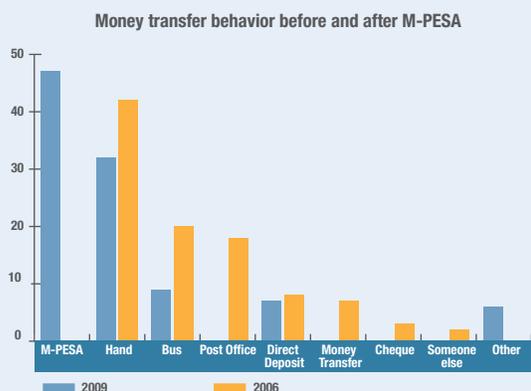
Mobile payments go viral: M-PESA in Kenya.

M-PESA, a small-value electronic payment and store of value system that is accessible from ordinary mobile phones, is enjoying a boom.⁶ Since its introduction in 2007, it has been adopted by 9 million customers—i.e., 40 percent of Kenya's adult population. M-PESA is facilitating an average of \$320 million per month in person-to-person transfers. Half of the 16,900 retail stores providing M-PESA services are located outside urban centers. Twenty-seven companies are using M-PESA for bulk distribution of payments, and 75 companies are using its new bill pay function, including the state-owned electric utility company.

By providing a cost-effective and reliable electronic means of payments, M-PESA is offering a sustainable and affordable way to provide financial services, including to the poor. While the success of M-PESA is a result of the great vision and creativity of Safaricom, it also benefited from several enabling factors within Kenya. More specifically its success was facilitated by a strong latent demand for domestic remittances, poor quality of available financial services, liberal banking regulation, and a mobile communications market characterized by Safaricom's dominant market position and low commissions on airtime sales. M-PESA presents an example of how technological innovation can be adapted to address local issues.

M-PESA IS OFFERING AFFORDABLE FINANCIAL SERVICES TO KENYA'S POOR THROUGH MOBILE PHONES.

Since M-PESA's introduction in 2007, it has been adopted by 9 million customers, or 40% of Kenya's adult population.



Source: Ignaco Mas and Dan Radcliffe, 2010, Mobile Payments go Viral: M-PESA in Kenya, African Success Stories Study.

6 M-PESA ("M" for mobile and "PESA" for money in Swahili) was developed by mobile phone operator *Vodafone* and launched commercially by its Kenyan affiliate *Safaricom*.

TOURISM HAS BEEN A KEY DRIVER OF GROWTH IN CAPE VERDE.

Tourist receipts reached \$432 million in 2008, comprising 25% of GDP.



Source: L. Twining-Ward, 2010, *Cape Verde's Transformation: Tourism as a Driver of Growth*, African Success Stories Study.

Tourism in Cape Verde. In spite of its isolation, poor natural resource base, chronic droughts, and long history of outmigration, Cape Verde has achieved an unprecedented average annual growth in GDP of 6.5 percent over the last decade. Tourism has been a key driver. Tourist arrivals increased from 67,000 in 1999 to over 285,000 in 2008. Early estimates for 2009 suggest the total may be close to 300,000. Tourist receipts reached \$542 million in 2008, comprising 72 percent of all service exports, 25 percent of GDP, and providing direct and indirect employment for 15 percent of the workforce.

Although the country still faces development challenges, such as dependence on tourism, a chronic trade deficit, and a limited export base, Cape Verde has demonstrated that when conditions are right—political stability, good governance, favorable economic incentives—tourism assets can yield fast economic gains.

Mali: Linking mango farmers to markets. Mali saw a six-fold increase in exported mangoes between 1993 and 2008 on the back of increasing demand in Europe and the ability of mango producers and exporters to adapt to the market. Sea freighted exports that were at zero in 1993 rose to 4,600 metric tons in 2008. Transit time from Sikasso to northern Europe decreased from 25 days in 1993 to 12 days in 2008. At the same time, the farmgate prices of mangoes increased from 50 FCFA to 125 FCFA between 1993-2008.

Mali, a landlocked country, overcame a number of challenges in order to boost mango exports. By implementing a multi-modal transportation system, combining road, rail and sea freight, Mali was able to overcome its infrastructural constraints. Through a partnership with private operators, a cold chain system was established, transporting mangoes using refrigerated containers all the way to Europe. Backed by donor funding, phytosanitary improvements were made, certification and traceability programs were implemented, and training in orchard management and post-harvest handling was offered to Malian agricultural workers.

More on the World Bank in Africa:

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A MULTI-MODAL TRANSPORTATION SYSTEM IN MALI HELPED OVERCOME INFRASTRUCTURE CONSTRAINTS, BOOSTING MANGO EXPORTS.



Source: Y. Sangho, P. Labaste and C. Ravry, 2010, *Growing Mali's Mango Exports: Linking Farmers to Markets through Innovations in the Value Chain*, African Success Stories Study



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