Africa’s marginalisation: Fact or fiction?

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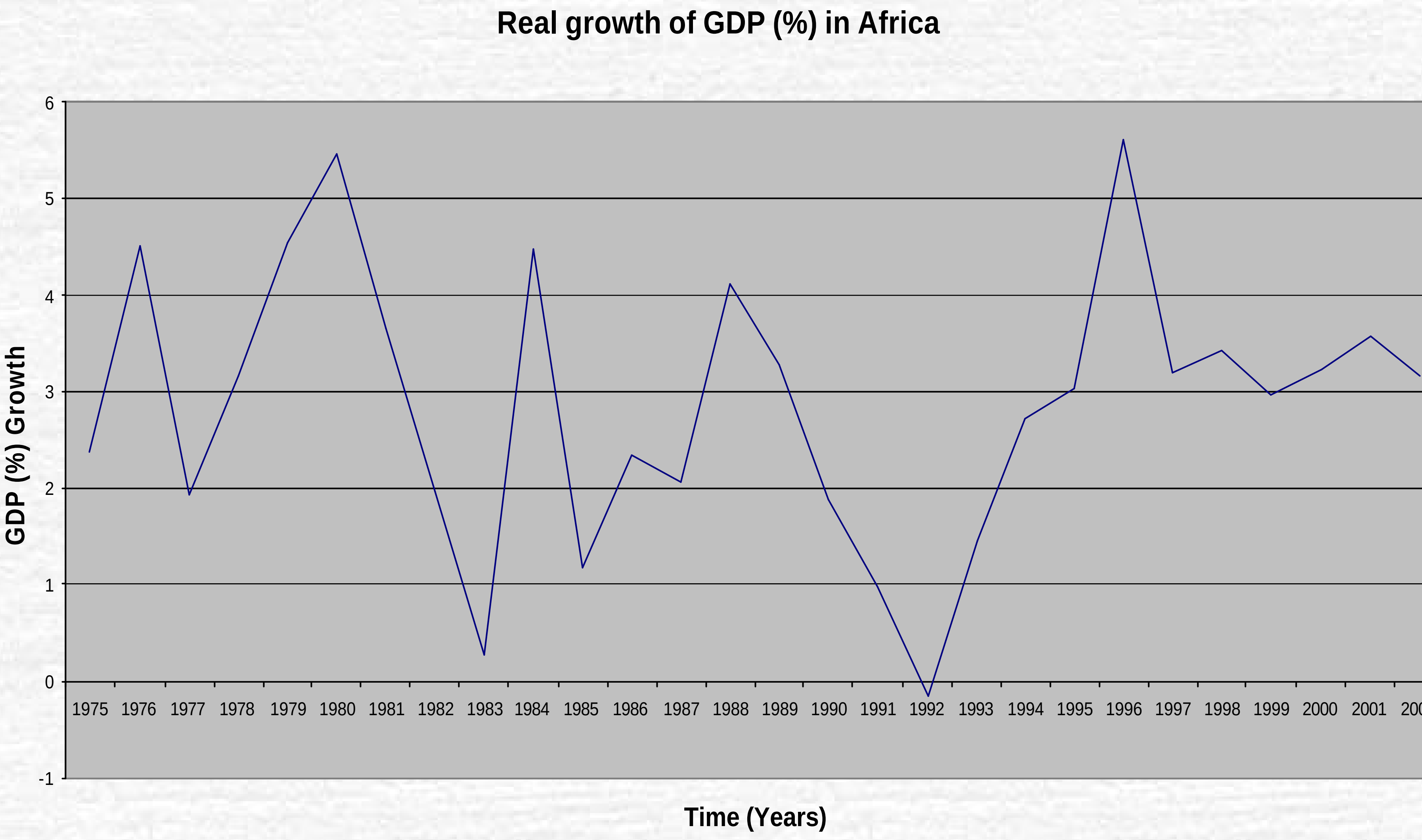
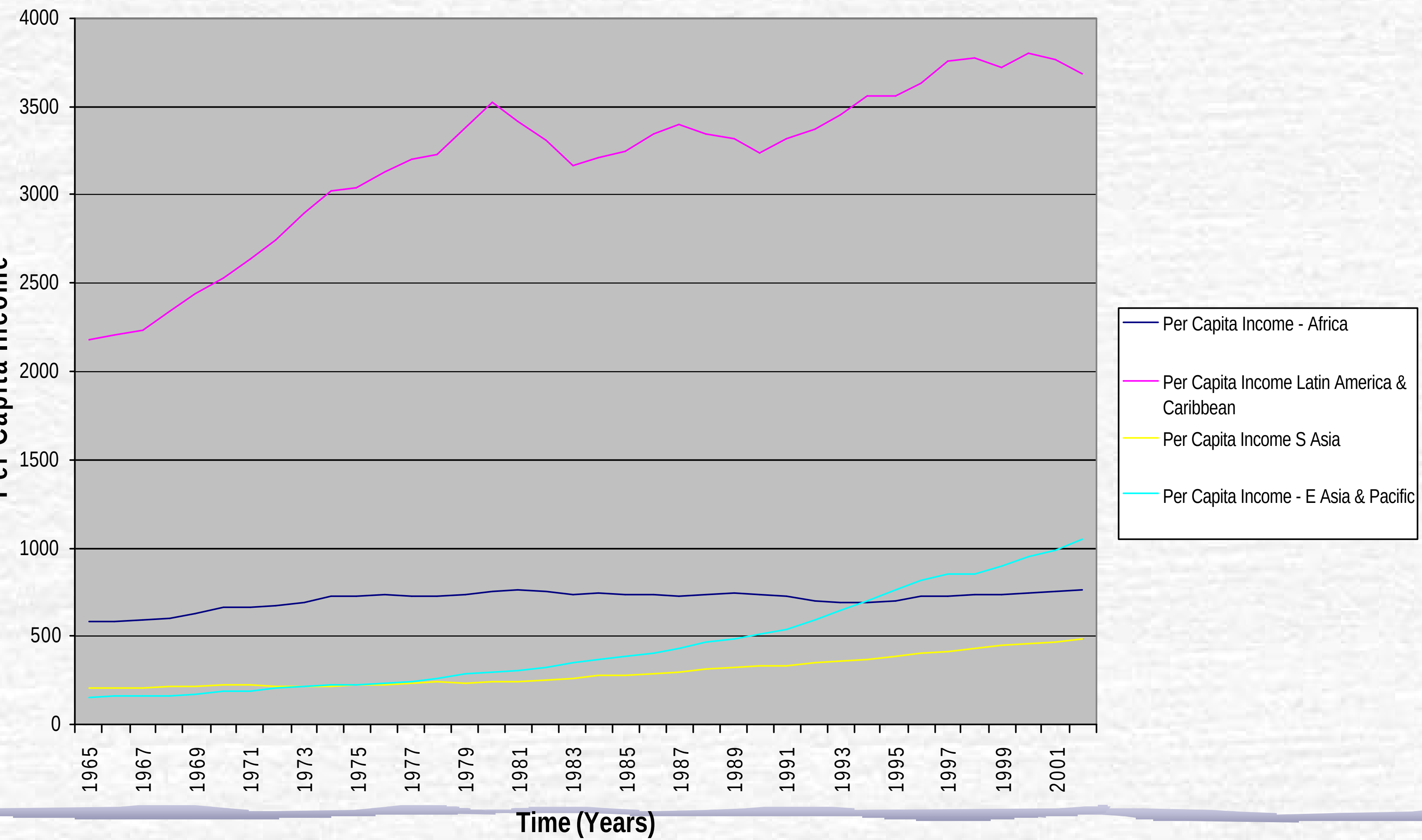
Structure

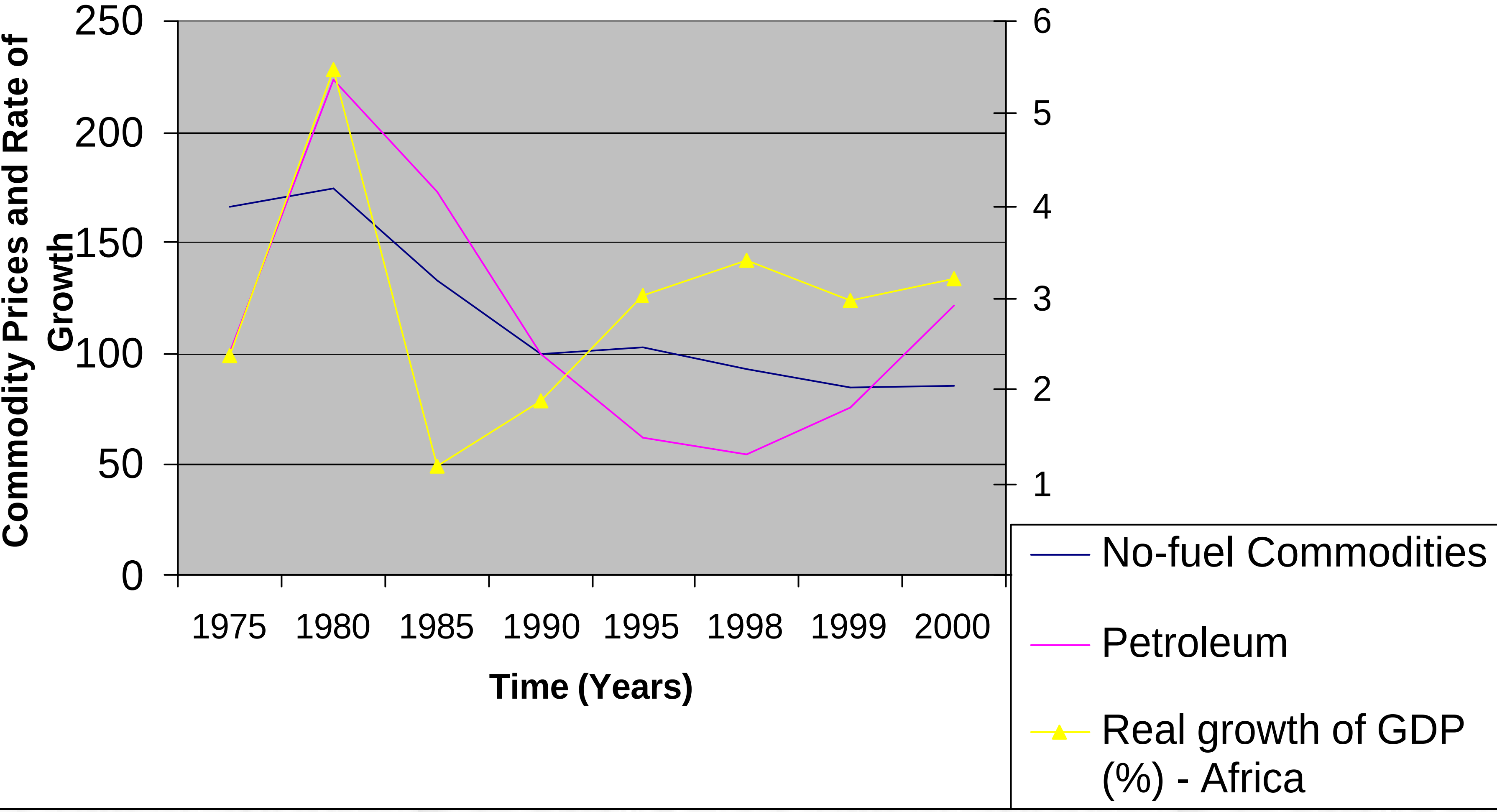
- General performance
- Stylized facts on Africa
- Development initiatives
- Growth determinants
- Some evidence on improved performance
- Concluding remarks
- Policy recommendations


Real growth of GDP (%) in Africa
GDP (%) Growth
Time (Years)
6
5
4
3
2
1
0
-1
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001

Comparison of Per Capita Income for Developing Regions



Commodity Price Indices vs Real Growth Rate in Africa



Growth Performance

Past decade:

Africa	2.6%
Developing world	5.4%
World	2.6%
Latin America	3.3%
East Asia	7.3%
South Asia	5.2%

Africa’s development profile

- Half of the population live on less than US$1 per day
- Life expectancy at birth 54 years (World 67 years)
- Adult literacy rate is 62%
- GDP per capita:
  - Africa $1 690
  - Latin America $7 234
  - East Asia $4 290
  - South Asia $2 402
  - World $7 446

Africa’s development profile

- 34% of Africa’s population are undernourished
- Only 18 telephone mainlines per 1 000 people
- 57% of exports are primary exports
- 70% of people in Africa resides in rural areas
- Largest number of HICs are in Africa
- Receive less than 4% of total FDI flows to developing countries (1970s 30%)
- External debt 54% of GDP
- Annual growth rate:
  - 1991-1999: 2.5%
  - 2000-2003: 3.5%

Table 3: Top average real economic growth performers, 1991-2001.

Rank	Country	Average growth rate
1	Equatorial Guinea	25.2
2	Namibia	9.8
3	Uganda	6.4
4	Mozambique	6.0
5	Sudan	5.8
6	Cape Verde	5.6
7	Botswana	5.5
8	Mauritius	5.3
9	Burkina Faso	5.1
10	Tunisia	4.8
11	Benin	4.4
12	Egypt	4.3
13	Mauritania	4.2

Explanations

- Equatorial Guinea’s success due to discovery of oil
- Sustainable growth pattern in Botswana, Egypt and Mauritius – due to combination of good policies and good fortune
- Other countries are emerging out of conflict and developed from low base

Ten Stylized facts

1. Slower growth but not dismal in all countries
2. Narrow production structures complicates trade
3. Improvement in monetary and fiscal discipline
4. Macroeconomic stability is important but not sufficient for economic growth
5. Inability to overcome debt crises is a serious threat to sustainable growth and development

Ten Stylized facts

1. Infrastructure is seriously lacking
2. Political instability is destabilizing growth and development
3. Africa lacks quality institutions
4. Corruption is not necessary an African phenomenon
5. Socio-economic marginalisation

Development initiatives

- Lagos Plan of Action, 1980-2000 (1980)
- UN-PAAERD, 1986
- AAF-SAP, 1989
- African Charter for the Popular Participation for Development, 1990
- UN-NADAF, 1991
- Omega Plan + MAP = Nepad

Nepad

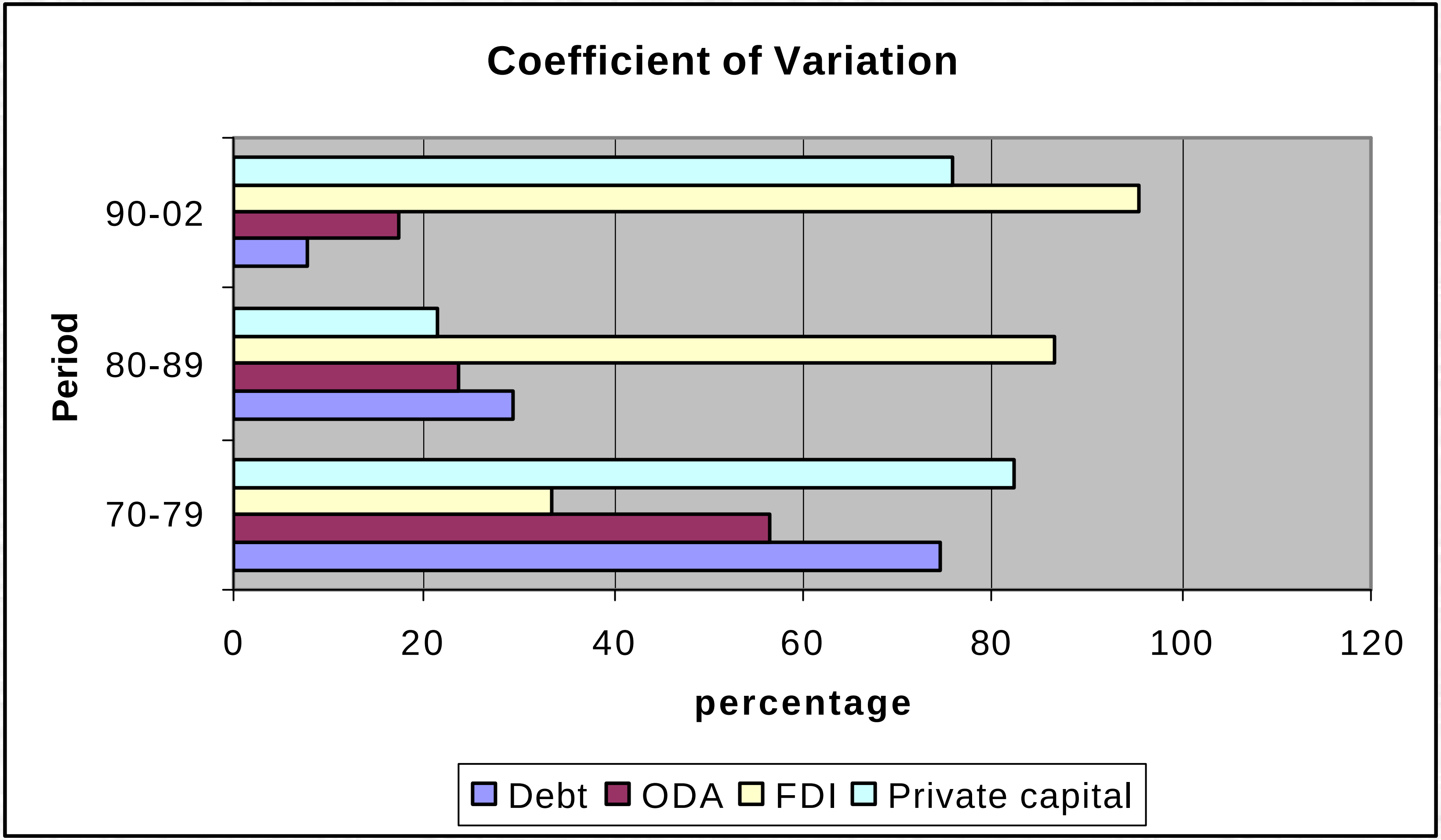
- Nepad calls for reversal of marginalisation through partnership between Africa and international community
- To reach MDG Africa fill its resource gap of 12% of GDP or $64 billion – growth of 7% p.a.
- How:
  - Market access
  - Capital flows initiative

Historical growth determinants

- Easterly and Levine: 1960-1989
  - Ethic fragmentation and poor quality institutions
- Sachs and Warner: 1965-1990
  - Close trade policies and geographic location
- Rodrik: 1965-1990
  - **Public savings**, export taxes, EAP
- Collier and Gunning: 1960-1989
  - Openness and **Investment/GDP ratio**
- Loots: 1995-2000
  - **FDI inflows, ODA flows, debt reduction**
  - Explains 61% of the growth pattern

Effectiveness of capital flows

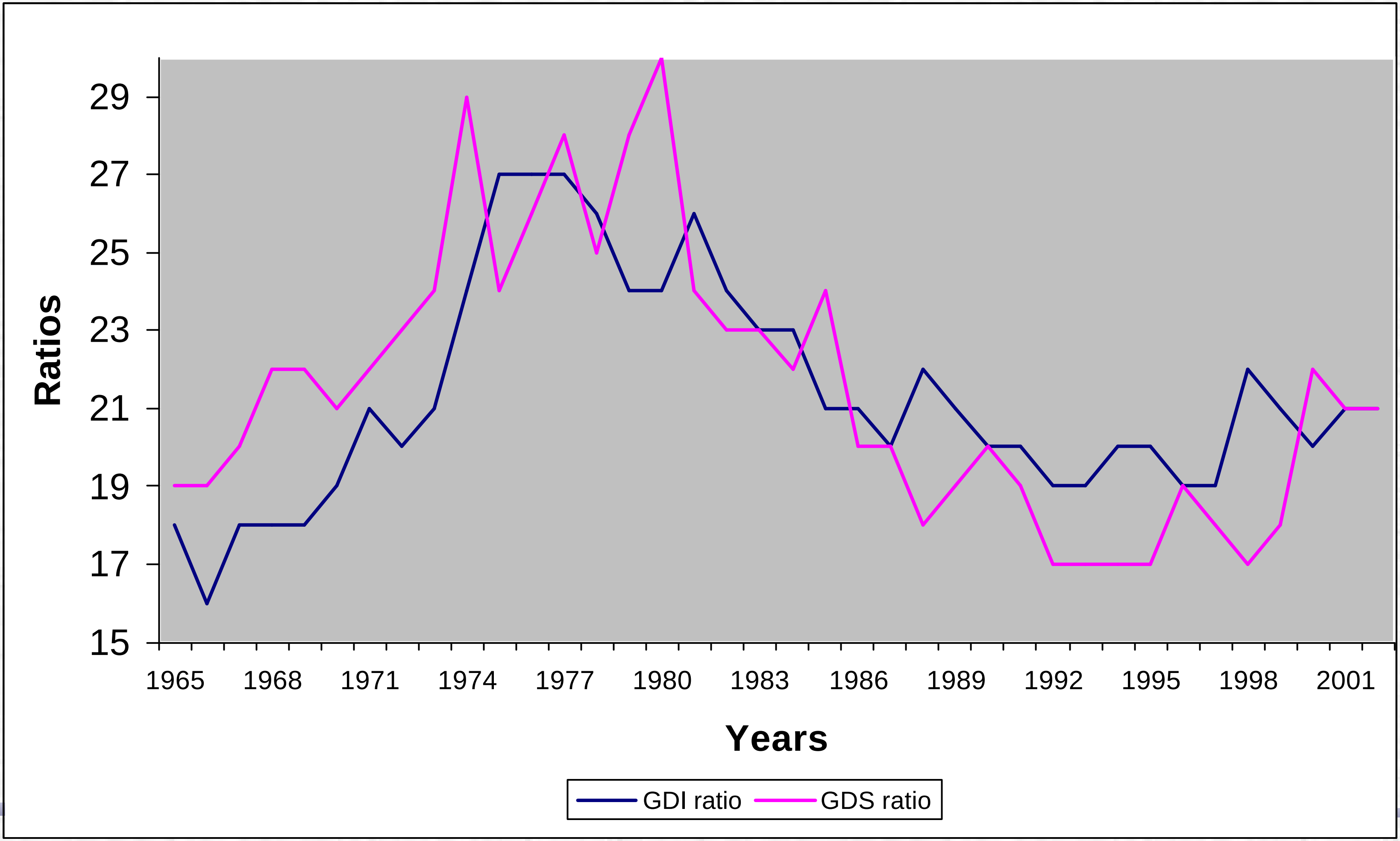
- Devarajan, Easterly and Pack: 1970-1997
  - Private or public investment
  - Productivity of investment
- Dollar and Easterly: 1965-1995
  - Aid-financed investment
  - Aid-induced policy reform


Coefficient of Variation
Period
90-02
80-89
70-79
0
20
40
60
80
100
120
percentage
Debt
ODA
FDI
Private capital

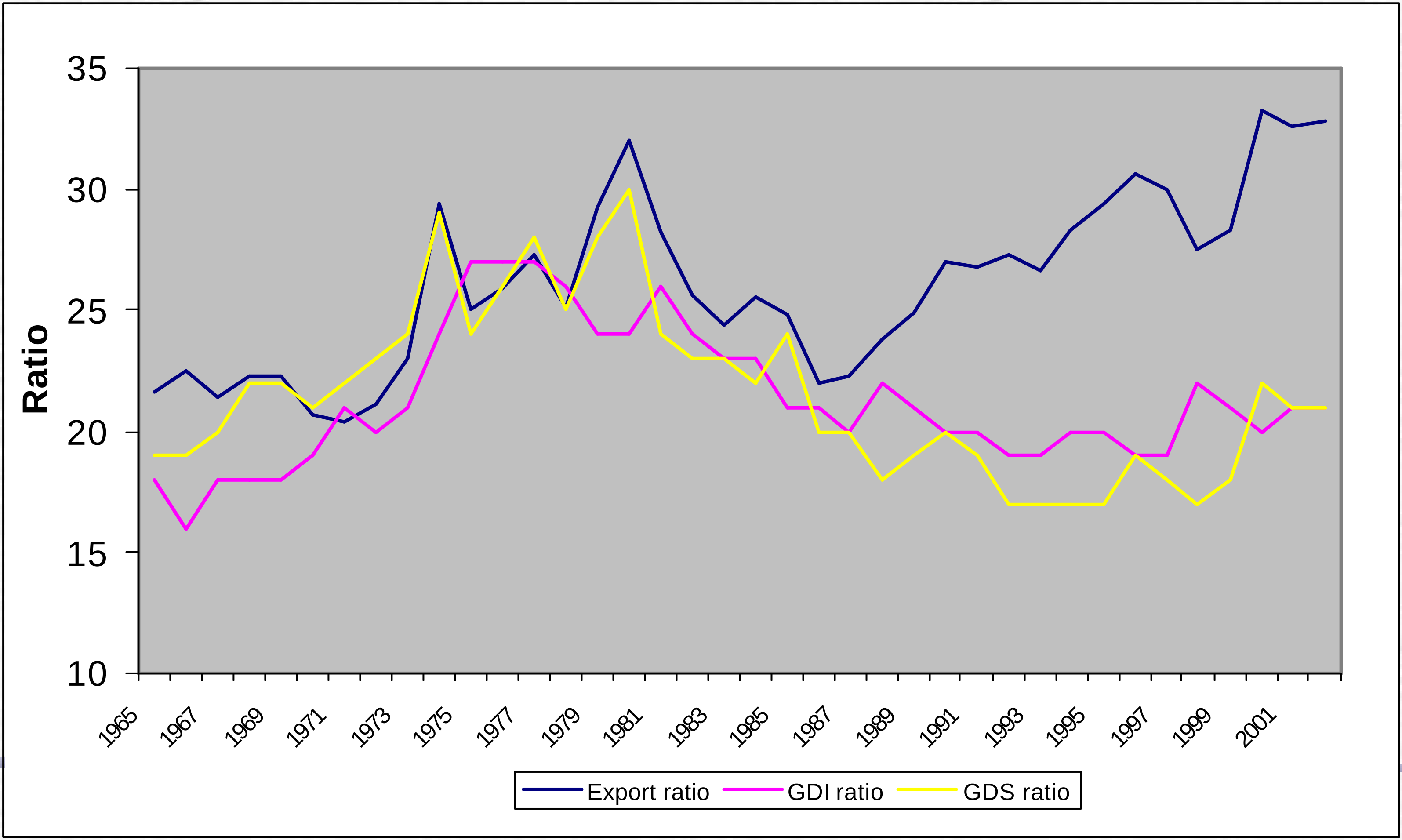
Domestic resource mobilisation

- Changing pattern in savings and investment trends
- Levels too low: Current ratios of 21% too low to ensure investment in human capital and social and physical infrastructure – 25% plus are needed
- Investment in Africa less efficient than in other developing regions
- Industrialization: Mutual reinforcement of I, S and exports

GDI and GDS ratios



Export, GDI and GDS ratios



Debt relief and restructuring

- External debt:
  - 1970: $11 billion
  - 1980: $112 billion
  - 1990: $270 billion
  - 1995: $337 billion
  - 2002: $295 billion
- Debt write-offs by HIPC Initiatives and Paris Club
- Conventional debt indicators remains unfavourable

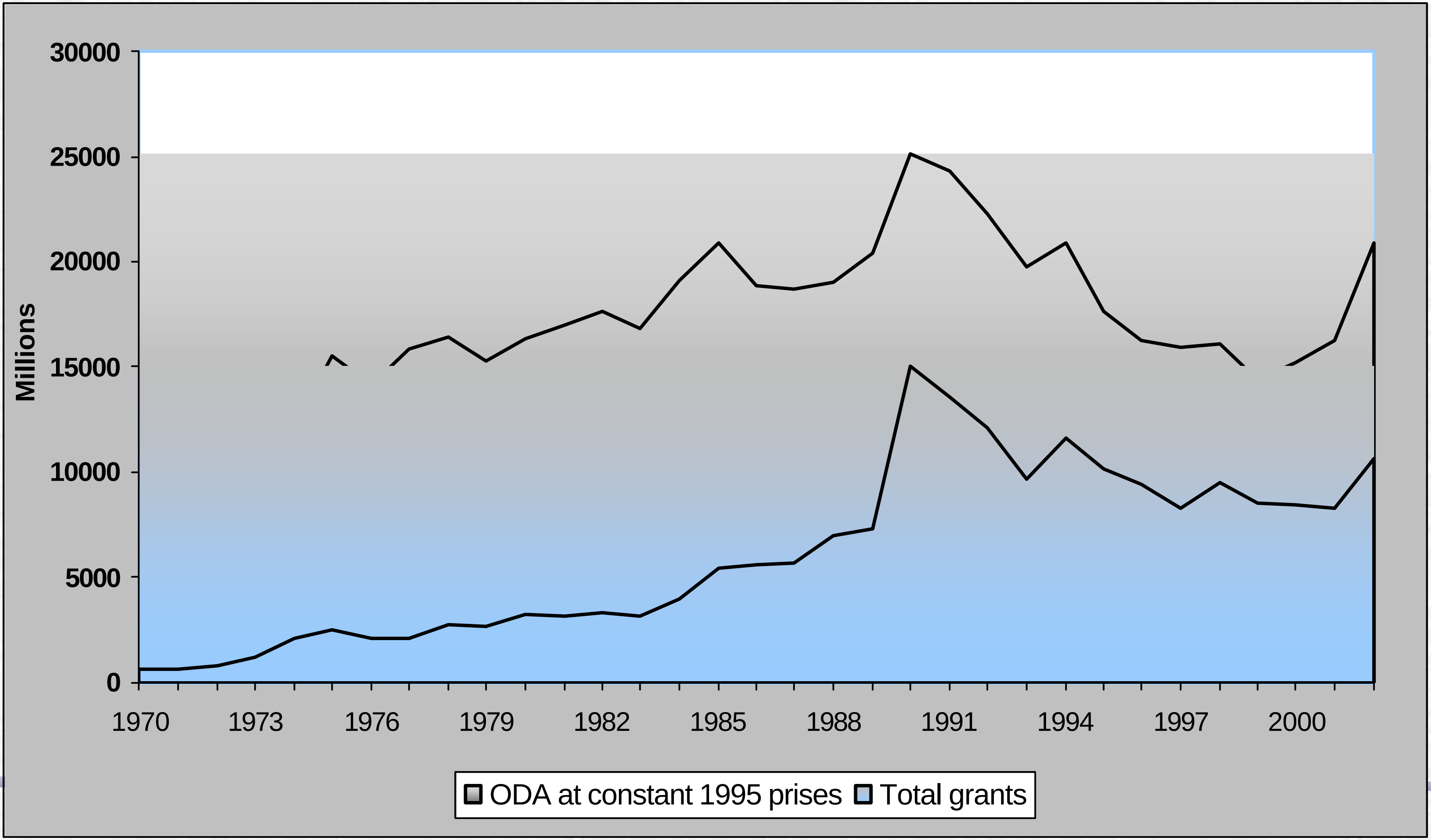
External debt trends

Period	External debt per capita (US$)	Debt to GDP ratio (%)	Debt to export ratio (%)
1970-1974	51	15.4	85.4
1975-1979	158	25.8	123.9
1980-1984	303	37.8	184.8
1985-1989	425	58.0	322.7
1990-1994	455	62.6	288.5
1995-1999	441	61.4	213.3
2000-2002	363	52.7	160.9

Debt dilemmas

- Difficulties in reaching debt service obligations
- Debt arrears have grown to unmanageable proportions. Arrears as % of total debt: 26%
- 34 African countries eligible under HIPC initiative
- Only 20% are classified as completion point countries
- HIPC initiative is also flawed: Under-funded, excessive conditionalities, restrictions over eligibility, inadequate debt relief.

Official development assistance flows



recipient countries (ODA % GDP)

Rank	Country	1990 – 1999	2000 – 2002
1	Sao Tome & Principe	100.2	69.5
2	Somalia	53.8	-
3	Guinea-Bissau	48.9	32.1
4	Mozambique	43.0	36.0
5	Rwanda	29.8	18.6
6	Cape Verde	27.1	15.2
7	Malawi	26.2	23.3
8	Zambia	24.4	17.2
9	Djibouti	23.6	12.9
10	Equatorial Guinea	23.7	1.1
11	Mauritania	22.7	28.5
12	Eritrea	21.9	34.3
13	Burundi	19.6	19.1
14	Gambia	18.6	14.1
15	Sierra Leone	18.0	40.0
	All Africa	5.2	3.4

Efficiency of aid: Three mainstream conclusions

- ODA accelerates growth and poverty reduction in a sound/quality policy environment
- Quantity of aid does not systematically affect quality of policies
- Aid flows are fungible – donor gives aid to a project that the recipient government would have undertaken

Sectoral distribution of aid to Africa

Sector	Period 1975 – 1980	Period 1995 - 2000
Social infrastructure and services	11%	37%
Economic infrastructure and services	23%	15%
Debt relief	7%	14%
Programme assistance	38%	12%
Production sectors	17%	11%
Emergency assistance	1%	6%
Multisector	3%	3%

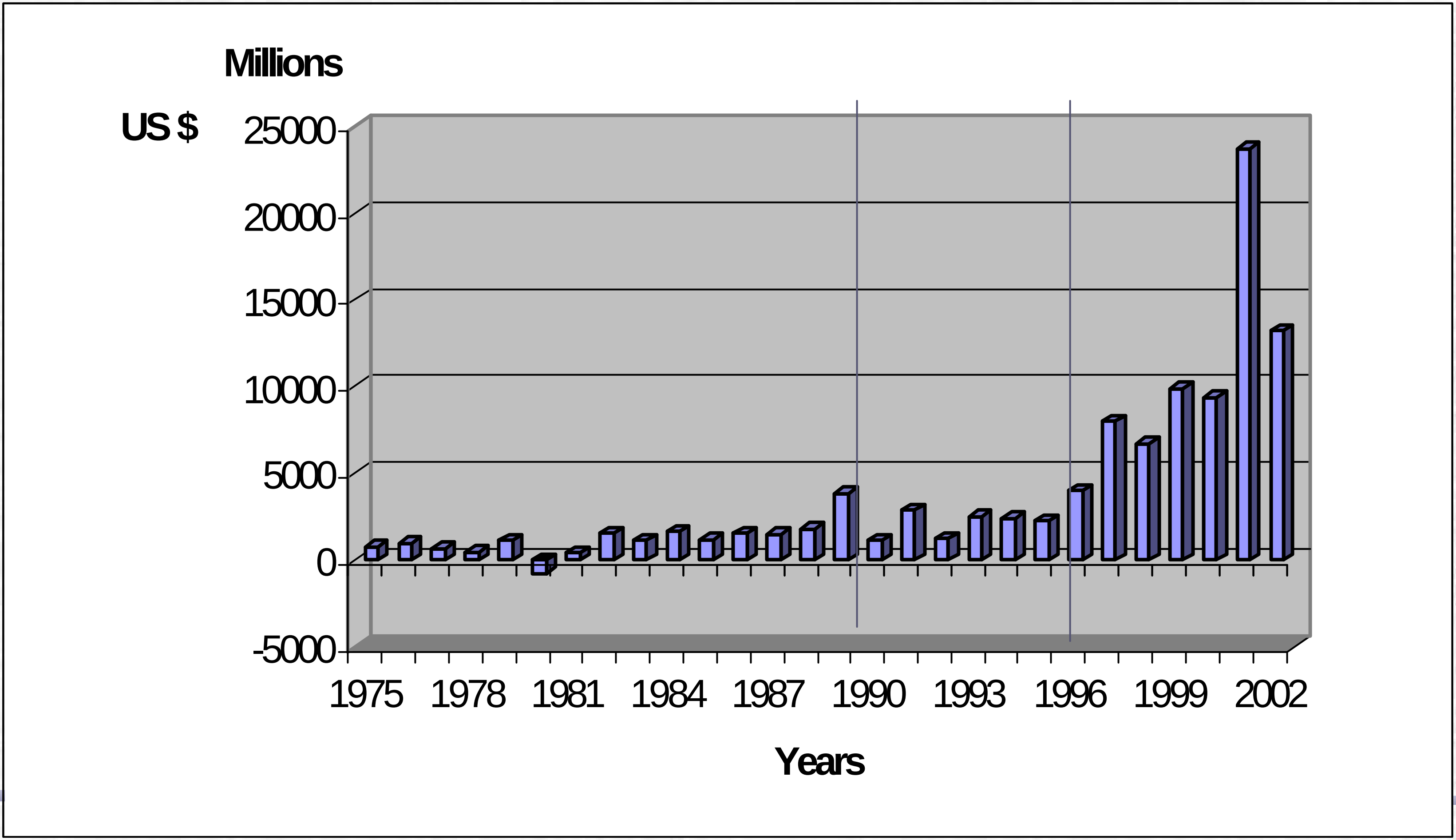
ODA: Conclusion

- Mixed results on quantity of aid and quality of policies
- Weak relationship exists between ODA per capita and growth
- ODA – education - fungible

Foreign direct investment

- Most dynamic factor in international trade
- Developing countries are receiving 27% of world FDI flows
- Africa's share is declining – 4.8% in comparison with 30% in 1970s
- Still an increase in nominal flows
- Structural breaks:
  - 1975-1987 $1 billion
  - 1988-1994 $2.3 billion
  - 1995-2001 $9.7 billion

Net FDI inflows to Africa



Top 10 recipient countries

Ranking	Country	Percentage share	Average growth rate
1	South Africa	14.4	2.8
2	Nigeria	14.1	2.3
3	Angola	11.4	7.6
4	Egypt	11.4	4.8
5	Morocco	8.1	2.9
6	Algeria	5.0	3.3
7	Tunisia	5.0	5.2
8	Cote d'Ivoire	3.0	2.9
9	Tanzania	2.7	4.6
10	Sudan	2.4	6.6
Total	Africa	77.5	

FDI/GDP ratio: Top recipients

ank	Country	FDI as % of GDP	Average real growth rate
	Equatorial Guinea	38.2	24.5
	Angola	14.5	7.6
	Lesotho	11.5	3.3
	Chad	11.3	4.0
	Congo	8.3	3.1
	Sao Tome & Principe	5.9	2.6
	Cape Verde	5.4	6.1
	Seychelles	5.4	3.7
	Eritrea	5.1	2.6
0	Namibia	4.9	3.3
1	Mozambique	4.6	8.1
2	Swaziland	4.4	3.2
3	Zambia	4.3	2.4
4	Nigeria	3.6	2.3
5	Tanzania	3.2	4.6

Conclusions

- GDI and GDS is on a recovery path, but still very low
- Improvement in debt, but still unfavourable for 80% of HIPC
- ODA is on the increase. Dependence is still problematic. Good policy environment more important
- FDI crowds in growth. Room for improvement in policy environment. Still natural resource driven.
- Volatility of FDI flows a concern

Conclusion

- Ongoing debate
- Framework conditions (ignite growth):
  - Quality institutions
  - Human capital
  - Infrastructure
- Sustainable growth factors:
  - Dynamic transformation of production structures
  - Broader macroeconomic stability

Recommendations

- Political stability
- Dynamic transformation of production structures
- Development and improvement in the quality of institutions
- Improvement in the quality of human resources
- Broader macroeconomic stability
- Improvement in infrastructure