

Africa 2015

Prospects, Challenges and Opportunities

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Africa continues to grow

- Despite a weak global economy, growth in SSA strengthened to 4.5% in 2014, from 4.2% in 2013. We expect growth will slow to 4.2% in 2015, largely as a result of the decreased demand for commodities.
- The pickup in growth was underpinned by increased agricultural production, a buoyant services sector, and investment in public infrastructure.
- This will help to maintain growth, despite a fall in commodity prices.
- Although the pace of growth is below the peak rates of 2002-08 (6.4%), it is broadly in line with the 4.4% average annual growth rate of the past two decades.
- In a difficult global environment, Africa continues to make progress.

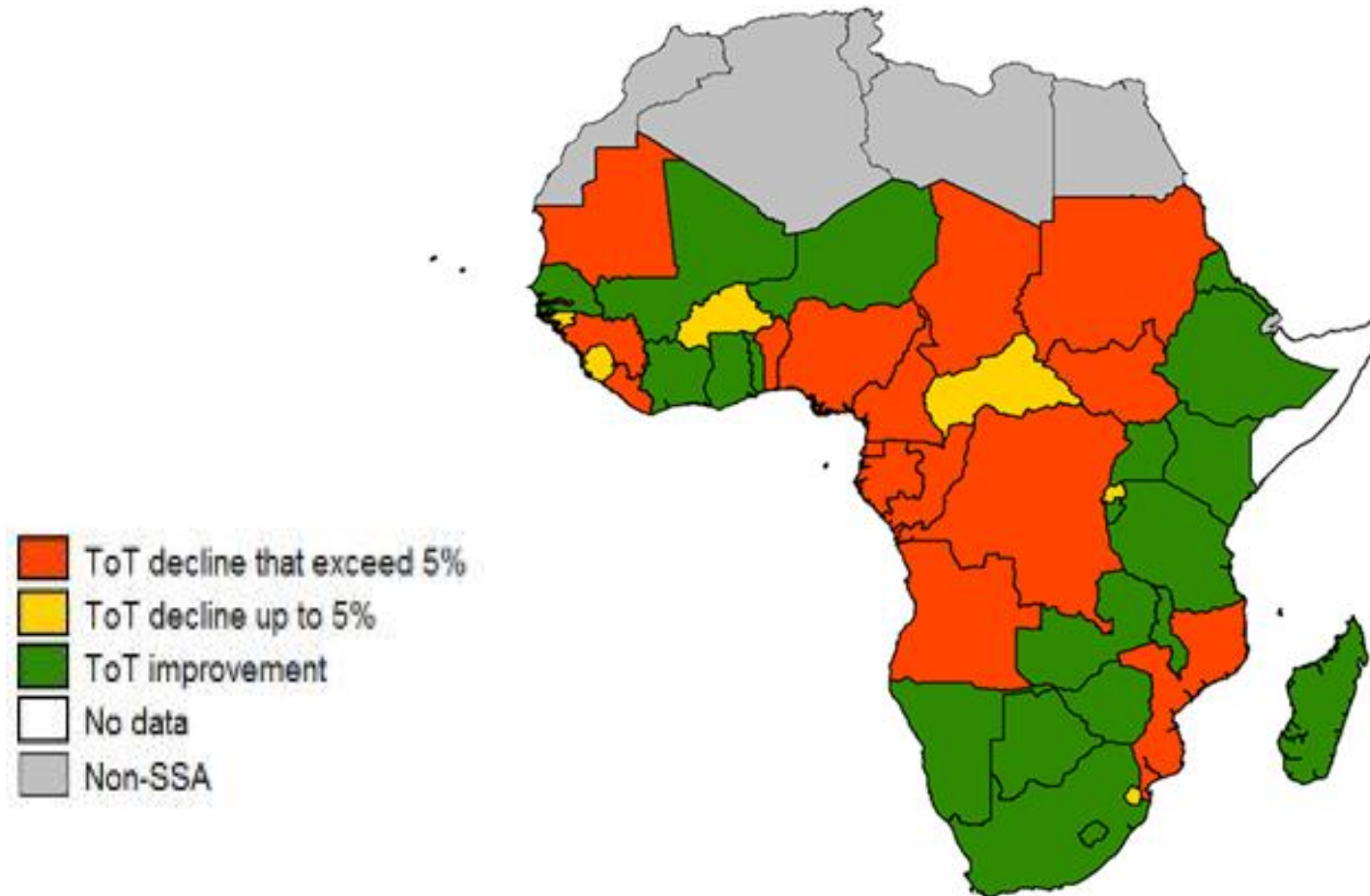
But there are risks and challenges

- A key challenge is translating growth into faster poverty reduction and greater well-being.
- Because of rapid population expansion, GDP per capita growth remains modest, at around 2%., and SSA's growth has been less effective at reducing poverty than in other regions.
- It will also be necessary to effectively manage immediate-term external shocks and domestic fragility to ensure that the gains of the last two decades are not eroded.
- For countries that need to make macroeconomic adjustments, it will be crucial to cushion the impact on the poor.

Vulnerability to commodity prices

- The end of the commodity super-cycle creates headwinds for many countries in the region, with negative terms of trade and fiscal effects for a wide range of countries.
- The continent as a whole is a net exporter of oil and other commodities, and the drop in prices will weigh heavily on commodity exporters.
- Oil exporters will face pressures on the current account as well as on fiscal balances.
- By contrast, some net oil importers stand to benefit from lower oil prices and improvement in their terms of trade.

Aggregate terms of trade impacts are heterogeneous



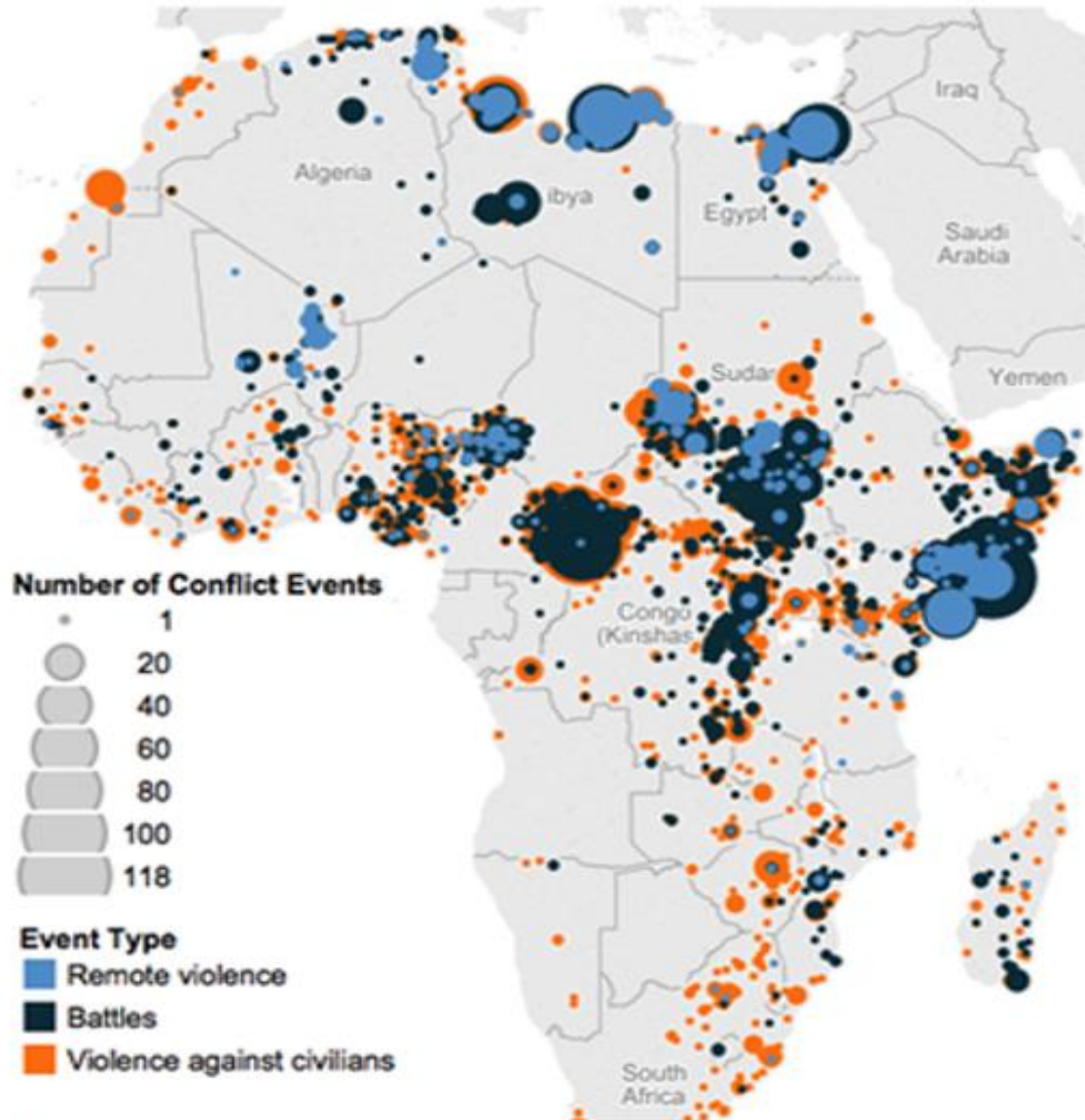
Climate change contributes to fragility

- Africa, and especially SSA, stands to lose a great deal from climate change.
 - Already in Africa, drylands account for 50% of the population, 43% of land area and 75% of agricultural lands. About 75% of Africa's poor people live in dryland countries
 - The Sahel and other drylands have seen increased rainfall volatility, and water resources are increasingly scarce.
 - Frequency and intensity of natural disasters have increased e.g., droughts in East Africa, floods and cyclones in Southern Africa.
- There is significant interplay between climate change on the one hand, and poverty and conflict on the other.
 - By exacerbating the competition for scarce resources (e.g., water, arable land), climate change can contribute to conflict.
 - SSA's poorest people work in agriculture, and will find it difficult to adapt to changes in temperature and rainfall patterns.

And conflict persists

- After declining in the 2000s, violent deaths are rising again. But there are important changes in the nature of conflict.
- Conventional warfare and civil wars are being replaced by asymmetric warfare (despite notable exceptions such as South Sudan).
- There are increases in:
 - sectarian violence by non-state actors (e.g. Boko Haram in Nigeria, Al-Shabab in Somalia and Kenya).
 - maritime piracy (in the Gulf of Guinea).
 - narco-trafficking and drug-related violence (in West Africa).
 - remote violence (e.g. terrorist bomb attacks).
 - attacks against civilians—targeting of civilians represents over 60% of organized violence in Central African Republic, Sudan and Nigeria.
- Economic marginalization of some groups and intra-country economic disparities and inequalities are important factors underlying fragility and conflict.
- The continent hosts a third of the world's displaced population.
- Failed and forgotten states” are trapped in a low-level equilibrium (e.g., CAR, Guinea-Bissau).

Typology of Conflict 2014



The Impact of Ebola

- Beyond the human loss, the Ebola epidemic is having devastating and significant economic impacts in Sierra Leone, Guinea, and Liberia, in terms of forgone output; higher fiscal deficits; rising prices; lower real household incomes; and ultimately, increased poverty.
- We estimate that these three countries will lose at least US\$1.6 billion in forgone economic growth in 2015 as a result of the epidemic (US\$500 million for Guinea; US\$200 million for Liberia; and US\$900 million for Sierra Leone, more than 12% of combined GDP).
- The social consequences will certainly be greater than the economic losses.
- But Ebola also highlighted a new risk—the threat posed by communicable diseases that know no borders.
- We must expect more outbreaks of communicable diseases, but as the Ebola outbreak demonstrated, poor countries with weak health systems are the least able to cope with such epidemics.

But there are also opportunities

- Africa is improving the climate for investment.
 - Five African countries were among the top ten improvers globally in the 2015 Doing Business Rankings for 2013/14. Overall, Africa accounted for the largest number of doing business regulatory reforms—75 of the 230 worldwide.
- The continent has become the second most attractive investment destination in the world – ranking just behind North America, and rates of return are high.
- Africa also represents a potentially huge market. It currently has 1 billion people, with a middle class of 300 million that is growing as incomes increase.
- We estimate that agriculture and agribusiness on the continent will be a \$1 trillion industry by 2030.
- As incomes rise in Asian countries – manufacturing companies are looking to relocate elsewhere. African countries are well-placed to attract this employment-generating investment, provided they put the right policies in place.

Demographic dividend

- Africa has the youngest population in the world.
 - A large number of poor, underemployed young people without opportunity is a threat to economic growth, stability and security on the continent and elsewhere. But if they are productively engaged, they become a huge asset and source of prosperity.
- In SSA more people will join the labor force in the next 20 years than the rest of the world combined. They need to have the skills required by a market economy.
- This will require significant expansion of secondary and higher education, and a special emphasis on science and math at all levels.
- Only 22 percent of African university graduates are emerging with degrees in the STEM disciplines, and the ratio of scientists and researchers in sub-Saharan Africa stands at just 79 per million population, compared to a world average of 1,081 per million.
- To reap the demographic dividend, African countries have to invest in education and skills, and also reduce fertility to lower population growth so that economic progress can be sustained.

Expansion of trade

- Sub-Saharan Africa's involvement in total world trade stands 2 percent, and intra-African trade is only about 12 percent.
- The cost of trading across borders is over twice as high in Sub-Saharan Africa compared to East Asia and OECD countries.
- There is huge scope for expansion of trade, both within the continent and with the rest of the world, and the benefits will be enormous.
- Africa can feed itself if trade barriers are reduced, lowering costs for food in urban areas and increasing rural incomes, especially for small holder farmers, the majority of whom are women.
- Trade in professional services improves access, increases quality and lowers costs, helping the private sector.
- Progress is being made. The Tripartite—the 26 countries covered by SADC, COMESA and EAC—is working toward a free trade agreement. The African Union's Comprehensive Free Trade Agreement and single air-transport market are expected to come into effect by 2017.
- And there are positive examples -- Kenya is now the third-largest exporter of cut flowers in the world, with the industry employing more than 500,000 people.

Energy

- Regular power outages cost the African economy as a whole between 1 and 4 percentage points of GDP.
- Only one in three Africans has access to electricity, and those with power access typically pay up to seven times more than consumers elsewhere.
- But Africa is rich in sources of renewable energy, most of which have not been tapped.
- Currently, only about 7 percent of the continent's hydropower resources have been developed. The rift valley has significant untapped geothermal potential. Gas is a squandered resource. Wind and solar have not been taken to scale.
- Technological development is making exploitation of the continent's renewable energy resources easier and more affordable.
- There is tremendous potential for investment to expand energy availability and access. The impact would be considerable in terms of business productivity, but also in improving health services and the quality of life and opportunities available to ordinary people, including the poor.
- If it can take advantage of its vast wealth of renewable resources, the continent has the potential for low-emission growth, leapfrogging over dependence on carbon fuels, and to become a leader in clean energy.

World Bank Group Support

- Africa is a priority for the World Bank Group.
- In FY15, our combined IDA/IBRD delivery to Sub-Saharan Africa was \$11.6 billion, including \$10.4 billion of IDA, our highly concessional fund for poor countries.
- We also continue to leverage Bank and IFC resources to mobilize private sector financing, including through IDA/IBRD guarantees, MIGA guarantees, and IFC mobilization.
- However, our lending is only one component of our support—the technical assistance and knowledge we provide is equally important.
- And by working in partnership, including with the Government of Japan, we can maximize the impact of our investment.