Reviving Growth to Transform Africa

Mahmoud Mohieldin, Senior Vice President
World Bank Group
Following a sharp slowdown, a recovery is underway in Sub-Saharan Africa

- GDP in the region is expected to strengthen to 2.4 percent in 2017/18 from 1.3 percent in 2016. The rebound is being led by the region’s largest economies.
- External conditions are more favorable, with a stronger trend in global growth, robust growth in global good trade, rising energy and metal process, and supportive global financing conditions.
- Signs of economic resilience: 41% of Africans live in countries with average GDP growth rates of over 5.5%. The countries have better quality of policies and institutions and more diversified export structures.
- However, fiscal space has narrowed significantly for most countries in the region in recent years, amid rising debt burdens.

The pickup in economic activity that started in mid-2016 is expected to moderate in 2017 due to slower growth in MENA’s oil exporters. Oil production cuts will weigh down growth in almost all countries in the subgroup.

Growth prospects for the MENA region is projected to improve in 2018 and 2019 with growth exceeding 3 percent.

Both MENA’s oil exporters and oil importers will benefit from a steady improvement in the global growth; increased trade with Europe and Asia; more stabilized commodity markets, especially oil; and reforms undertaken in some of the countries in the region.

Nevertheless, MENA’s overall growth levels are half of what they were before the 2011 Arab Spring.

Fiscal and current account balances are expected to improve over the projection period ending in 2019, resulting from both fiscal consolidation efforts and some stability in the commodity markets, including oil.

Source: MENA Economic Monitor, Oct 2017
Fragility in Africa increases vulnerability to shocks

- Fragility in Africa takes many forms, from IDPs and refugees, climate change related natural disasters, economic crises, pandemics, political instability and conflict.

- Forced displacement is straining the social fabric in Africa. Africa hosts more than a third of the world’s displaced population, accounting for more than a quarter of the global total of refugees and the largest number of IDPs.

- Conflict continues to generate displacement. For example, the war in South Sudan as of December 2016 has displaced 261,000 refugees and 1.87m IDPs

- Emerging threats in the form of trafficking, piracy, and religious extremism are growing out of situations of persistent fragility in large parts of the continent. Conflicts emerge increasingly from internal divisions

- Africa is both a hotspot for emerging infectious diseases and a region where the burden of diseases is particularly high.
Agricultural productivity remains low

• **Low yields**: Growth in cereal yields in Africa has consistently been lower than in other regions.

• **Land-focused production**: Agricultural production increases in Africa came largely from expanding the area under cultivation rather than input intensification or total factor productivity growth.

• **Underfunded investments**: African countries grossly underfund high-return investments, such as research spending, as well as mechanization, irrigation, and extension services. Rebalancing the composition of public agricultural spending could reap massive payoffs.

• **Climate change**: strong El Nino, droughts, floods, storm surges, and heat waves threaten agriculture and increase food insecurity.

---

**Agricultural Output**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>0.01</td>
<td>0.97</td>
<td>0.73</td>
<td>1.76</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>0.52</td>
<td>2.10</td>
<td>0.57</td>
<td>0.59</td>
</tr>
<tr>
<td>Other developing regions</td>
<td>1.38</td>
<td>1.34</td>
<td>1.12</td>
<td></td>
</tr>
<tr>
<td>Other developing regions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Sectoral contribution to growth (percentage points 1995-2013)**

- **Agriculture**: 2.4
- **Industry**: 1.1
- **Services**: 0.8

**Vulnerability to Climate Change, by country**

Note: TFP = total factor productivity.
Infrastructure deficit is holding back growth

- **Energy access**: Africa continues to lag behind other regions in energy access, placing an unsustainable drag on growth.

- **Inefficient utilities**: Nearly all electricity utilities are running at loss. These quasi-fiscal deficits result from operational inefficiencies: transmission and distribution losses, bill collection losses, and inefficient subsidies.

- **Infrastructure gap**: Africa’s annual infrastructure needs are estimated at US$ 93 billion (15% of GDP) but there is only $45 billion of annual investment.

Source: Adapted from Trimble et al. (2016)
WBG STRATEGY FOR AFRICA
Support Structural Transformation for Growth and Poverty Reduction

Selected entry points for WBG engagement aligned with WBG goals, Forward Look and SDGs.

Sustainable and Inclusive Growth
Human Capital
Serving All Clients
Global Agenda
Mobilizing Resources

Competitiveness

Structural Transformation

Macro Stability

Resilience to Shocks

Resilience
Serving all Clients
Global Agenda
Mobilizing Resources

Selected entry points for WBG engagement aligned with WBG goals, Forward Look and SDGs.
Changes from IDA17
- Core financing increased by 40% overall
- 100% in FCS countries
- Over 200% increase in small island states allocations
- Regional window allocation is expected to increase by 80%
- Private Sector and Refugee windows provide further resources
- Greater use of DPLs in countries with adequate macro frameworks to support structural reform

* Excludes non-core financing: CRW, Regional Programs, Scale up Facility (SUF)

### ADDRESSING IMPLEMENTATION CHALLENGES

- Strengthening knowledge base
- Building capacity through partnerships with local institutions
- Greater support for safeguards
- Ensuring project preparation and supervision is properly resourced
- Focusing at the local level

### ADDRESSING THE NEEDS OF IDA GRADUATES AND MIDDLE INCOME COUNTRIES

- Responding to macroeconomic crisis with support for structural reform to complement IMF programs (e.g. DPOs under preparation in IBRD CEMAC countries)
- De-risking projects to promote private sector investment and close the infrastructure gap (e.g. Ghana Sankofa Gas, Nigeria Power Sector Guarantee)
- Helping small IBRD states manage natural disaster resilience (e.g. Seychelles CAT-DDO)
A sequenced approach to creating markets

Scale up private sector solutions and catalyze private capital

- Energy access and renewable energy (Risk Mitigation facility)
- Value-adding agribusiness (Blended Finance and Local Currency facilities)
- Sanitation (Risk Mitigation facility)
- Telecommunication Media Technology (Blended Finance and Risk Mitigation facility)
- Financial Institutions and capital markets (Blended Finance and Local Currency facilities)

Implement the Private Sector Window in critical sectors...

- Build momentum for private sector minded reforms
- Improve SOEs governance and financial sustainability
- Accompany IFC’s and MIGA’s interventions with sectorial policies and underlying legislations/infrastructures
- Strengthen effectiveness of regulatory agencies
- Address key legal, governance and public sector impediments
- Bolster access to services and domestic capacities
- Nurture best WBG collaboration practices
- Deepen the IFC-MIGA relationship

Work as one World Bank Group to “cascade”

- This includes support with tax reforms to help improve the private sector enabling environment.
- Also support international efforts to fight tax evasion, money laundering and the illicit financial flows that have depleted Africa’s resource base.

...and support countries strengthen Domestic Resource Mobilization
WBG - IDA/IFC/MIGA - collaborates in key areas

**Energy**
- **Zambia**: Scaling solar first solar PV projects are being prepared WBG drafted a set of template documents to offer a fair and balanced risk allocation between the Government and the private parties.
- **Nigeria**: JIP (WB+IFC+MIGA) to develop the gas sector and the solar IPP market, focusing on policy reforms while working with the private sector on generation, transmission and distribution.
- **Egypt**: $1 billion puts public finances on a more sustainable footing, supports energy security, efficiency, and investment, and promotes better competition policies.

**Agribusiness**
- **Mali**: IDA-IFC-MIGA JIP support the development of targeted value chains and infrastructures in production basins to increase smallholders’ productivity and ease access to market.
- **Mozambique**: Joint work to integrate smallholders into commercial agriculture and forestry value chains.
- **Morocco**: the World Bank helped improve 13,500 km of rural roads, resulting in increased rural accessibility to lagging regions and boosting smallholders access to markets.

**SME Development**
- **Benin**: successful OHADA Entreprenant status implementation and Micro and Small Enterprises tax reform.
- **Côte d’Ivoire**: joint work to address investment climate issues plaguing the development of the SMEs.
- **Africa Region**: Helped set up Credit Bureau and Collateral Registries in west Africa.

**Regional Initiatives**
- **Sahel Agriculture**: A Joint WBG-IFC Irrigation project aimed at boosting private sector investment in modern irrigation.
- **Great Lakes**: WBG integrated approach to stability and development through infrastructure and agriculture transformation, investment climate improvement and entrepreneurship stimulation.

**Leveraging Private Sector Finance**
The SDGs need to be implemented at the local level

Local governments, communities, and stakeholders are the people who best understand the local context; however, local governments often lack the capacity to deliver results in communities, districts, and regions.

Areas of Support:

**Finance:** Strengthening the capacity of local governments to implement development programs, both at the revenue and at the expenditure levels

**Data:** Using information technology to gather information and better understand the particularities of development at the local level

**Implementation:** Strong engagement with local communities and stakeholders (government, businesses, aid agencies, and multilateral banks, and citizens) is required to remove bottlenecks that impede implementation

Examples to note: multi-sector approach to transformation of Medellin, Colombia; strengthening urbanization in Indonesia by enhancing capacity of local government spending; building urban institutions to deliver improved infrastructure and services in Kenya
## Sample Expenditure Plan

<table>
<thead>
<tr>
<th>Expenses on Delegated Functions</th>
<th>Own Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Preschool Education</td>
<td>1. Infrastructure and Public Services</td>
</tr>
<tr>
<td>2. Primary and Secondary School</td>
<td>2. Environment Protection, including waste</td>
</tr>
<tr>
<td>3. Health Care</td>
<td>3. Social, Cultural, Recreational Expenditures</td>
</tr>
<tr>
<td>4. Social Assistance and Poverty Alleviation</td>
<td>4. Local Economic Development</td>
</tr>
<tr>
<td>5. Public Order and Civil Protection</td>
<td>5. Social Housing</td>
</tr>
<tr>
<td>6. Other</td>
<td>6. Urban Development</td>
</tr>
<tr>
<td></td>
<td>7. Civil Security</td>
</tr>
<tr>
<td></td>
<td>8. Transfers to Sub-local Government Entities</td>
</tr>
<tr>
<td></td>
<td>9. Subsidies, Grants, Equity, In-Kind</td>
</tr>
<tr>
<td></td>
<td>10. Loan Repayment</td>
</tr>
<tr>
<td></td>
<td>11. Interest Charges</td>
</tr>
<tr>
<td></td>
<td>12. Guarantees Called</td>
</tr>
</tbody>
</table>

Source: Municipal Finances Handbook: Managing Local Expenditures, Morrell and Kopanyi
Revenue Sources For Local Governments

- **TAX**
  - Property, Motor, Sales, etc.

- **TOLLS**
  - Roads, Bridges, etc.

- **FEES**
  - Licensing, Facilities, Fines, etc.

- **INTEREST**
  - on bank deposits or other funds

- **CHARGES**
  - Bus Stations, Taxi Parks, etc.

- **RENT**
  - Land, Buildings, Vehicles, etc.

- **SURPLUSES**
  - from local commercial enterprises

Source: Municipal Finances Handbook: Managing Local Expenditures, Devas, Munawwar, and Simon
CONCLUDING - KEY MESSAGES
1 Growth picking up

- External conditions are more favorable, with a stronger trend in global growth, robust growth in global good trade, rising energy and metal process, and supportive global financing conditions.

2 Opportunities to Revive Growth

- Boosting agricultural productivity, bridging the infrastructure gap, investing in human capital and improving social inclusion can jumpstart growth and poverty reduction.

- Working as a WBG to improve macro stability, increase competitiveness, and strengthen resilience can lead to structural transformation and attract private sector investment in the region.

- Larger IDA18 allocations, larger presence in FCV, and new instruments to create markets and de-risk investments will be game changers in Africa. Robust analytical work to support lending.

- Local governments, communities, and stakeholders are the people who best understand the local context; however, local governments often lack the capacity to deliver results in communities, districts, and regions.

3 Transformation

4 Strong Demand

5 Localization

Key Messages
Thank You

worldbankgroup.org/sdgs

Follow us on twitter @WBG2030

Mahmoud-Mohieldin on LinkedIn

WORLD BANK GROUP

Mahmoud Mohieldin, SVP