Is Africa’s Growth Reaching the People?

Dr. Donald Kaberuka
President

Event: Royal African Society Business Breakfast
London, United Kingdom
11 March 2013
Ladies and Gentlemen, Good morning.

It is a privilege to be here once again at the Royal African Society. Thank you Mark and Richard for giving me the opportunity. You have asked me to speak about the quality of growth in Africa in recent years. It is an important question for us, indeed for the emerging countries too. I would like to address this from the perspective of equity; opportunity; public policy; economic transformation; and political inclusion.

**Africa rising**

There is now a broad consensus that with the exception of countries in or emerging from conflicts most African countries have exhibited remarkably strong growth since the turn of the millennium. The statistics might be weak and sometimes unreliable but the story is consistent. African economies have expanded spectacularly over the last decade. Per capita incomes have been rising at 3.2% per annum since 2000, or faster than population increase for the first time in 30 years. Sub-Saharan Africa will grow in the neighbourhood of 6% during 2013. Foreign direct investment alone has increased from 15 billion dollars at the turn of the millennium in 2000, to 46 billion in 2012. This is significant. It means the three decade long deepening poverty has been stopped.

But this is the key issue. Economic growth is not economic transformation. Africa needs diversified economies which are joining global value chains for sophisticated products and not primary goods. The current level of growth has to be sustained for more than a decade to have real impact. A few countries are approaching the lower Middle Income Category. Some on policy induction, such as Cape Verde, and Ghana, others on natural resource discovery induction, such as Angola and Equatorial Guinea. Various surveys confirm that an embryonic middle class is forming with growing disposable income to fuel domestic demand.

**Inclusive growth**

Nonetheless, at a time when global poverty is at its lowest (down from 50% in 1980 to 25% in 2010), lack of inclusive growth and inequalities are issues in Asia, Latin America, and particularly in Africa. It is legitimate to wonder why poverty has declined only slowly in Africa, despite strong growth; why unemployment especially among the young persists. I have been crisscrossing West Africa over the past few months, so let me illustrate this with the situation in the ECOWAS region. In the last decade ECOWAS GDP has multiplied five times, from 85 billion dollars in 2000 to 400 billion in 2012. If you look at the region’s three largest economies this is the picture you get: Nigeria’s growing from 47 billion to 270 billion; Ghana’s from 7.5
billion to 40 billion; and Ivory Coast from 10.4 billion to 24.3 billion – a much slower growth due to the civil war. On the whole, the region’s per capita income has gone from 370 dollars to 1300 dollars.

And by the way, the region’s debt has also come down dramatically, from 90% to 12% of GDP. The number of people living below 1.25 dollars a day has marginally declined to 52%. However, the number of people in absolute poverty has increased from 100 million in 1990 to 160 million in 2012. In Sub-Saharan Africa, 300 million people live just above the poverty line, often in the informal sector, where they float in and out of that poverty line. For Africa, as a whole, Bank staff calculates that ‘wealth inequality’ has been rising by around 1.5% per year since 2000.

If you take that popular measure of inequality, the Gini coefficient, we find it has increased from 42% to just less than 50% in the last seven years alone. Or put another way, the inequality adjusted per capita growth of around 1.7% is not enough to impact poverty in a meaningful way.

This is an issue of major public policy implications for the Bank. That is why with a view to monitor inclusive growth across 54 African countries, we have developed an index of inclusion based on four principles: opportunity; equity; economic diversification; and political inclusion.

The index, ranging from zero (no inclusion) to one (total inclusion), is very revealing of the problem. In this decade of such strong economic growth, the index has steadily worsened from 0.4 in 2000 to 0.6 in 2011. Indeed some countries as high as 0.7. As I said earlier, inequality and unemployment are issues globally and Africa is not an exception: just look at Asia and the famous middle income country trap. But if this problem is not tackled now, it has the seeds to stop the strong performance in its tracks. Part of the reason poverty is still endemic is the low base from where we have come. To use a frequent imagery in this type of analysis, think of the famous "J" curve. The continent has arrested the decline, but now it must sustain the momentum. If sustained, per capita incomes can double within a decade.

Public policy design: equity, opportunity and political inclusion

From a purely technical angle we know what needs to be done. For example, we need to get all children of both genders in quality education. We need to design effective safety nets. Subsidies must be targeted, with an exit strategy. They must not undermine public finances. We need to support small businesses, promote financial inclusion, address gender inequalities and actively support agriculture.
Indeed, a number of “best practices” of policies that have nurtured inclusive growth now abound. They include avant garde social safety nets in Ethiopia, universal primary health care in Rwanda and the Malawi farmers’ subsidy. In the case of Rwanda, one million people were lifted out of poverty in only a few years through expanded, effective social services delivery, supported by a program of building assets by rural communities such as livestock.

**Political will and political inclusion**

But lack of inclusion is not simply a technical problem, or the structure of the economy. Above all, it is about the structure of power, as we saw in North Africa. No technical architecture can address the situation where elites are bent on promoting kleptocracies, practicing crony capitalism, capturing rent, marginalizing large parts of the country or failing to effectively extend basic service delivery.

That is the starting point: inclusion demands that governments are clean, accountable and can deliver. This is why lack of inclusion and inequalities are most entrenched in countries with strong extractive industries. There is abundant rent, and little accountability to citizens. I have often wondered though about the responsibilities of business here – and I am not referring to corporate social responsibility. Sometimes, one has a feeling that rent seeking elites and extractive industries companies live on each other blissfully. Otherwise, how do we explain the situation where a country pumps out two million barrels of oil per day, and yet half the population live below the poverty line?

**Infrastructure and transformation**

But while it is about changing the structure of power, it is also about providing infrastructure as a basis for diversification and transformation. Think of how information technology penetration is changing lives. Recall the image of the Masai Man, looking after his cows with his cell phone to his ear. The cell phone has increased inclusion – from financial access, market information and service delivery even to deepening democracy.

But recall also how shortages of energy undermine large and small businesses. 50% of business people, in surveys we have conducted point to energy problems as the number one constraint: unavailability, frequent outages and expensive tariffs. Take the example of Liberia: 24 megawatts of electricity with a price of 54 cents per kilowatt hour, probably the most expensive in the world. Investors are pouring into Liberia, into the Mano River, but this investment is in the extractive industries such as iron ore and bauxite where little transformation is possible.
Friends, let me conclude. There is no doubt that the current momentum in African economic fortunes is a much welcome development compared to the dismal years of the 1980s and 1990s: the lost decades. It would be an exaggeration to assert that the populations have not benefitted from this new era of economic growth. Think of the impact remittances have had. These family to family transfers have had an incredible impact in broadening benefits among poor people. There has been a real gain on MDGs, on school’s enrolment, on service delivery.

However, it is also true that the opportunity to spread the benefits of economic growth to the wider population was lost. The narrow range of growth drivers, limited transformation and rent capture remain problematic. This is now the big task ahead: to pursue equity and opportunities for all.

That in turn requires deepening political reforms: ensuring political inclusion, voice and accountability. Reforms that recognize that a written constitution, regular elections and political parties are necessary, but anchoring democratic practice and cultures is where the issue lies. Reforms that draw on best practices on safety nets to protect the poor – from Africa itself as well as international examples as in Brazil under Lula.

But public policy, however well designed, is not enough. It must be accompanied by an acceleration of investments and policies that spur, expand and diversify the growth drivers such as agriculture – where the potential for job creation is the highest – and remove bottlenecks like infrastructure.

From energy, transport and broadband, investment in infrastructure is a necessary condition to build economic growth for economic transformation. Inclusive growth is not only possible; it is now a real necessity for Africa to go to the next level.

You have all heard of the middle income trap. This is Africa’s trap, which we must avoid and can. This is why inclusive growth is very much at the centre of the African Development Bank’s newly adopted 10-year strategy. This will be the theme at our Annual General Meetings in Marrakesh in May. I hope to see many of you there.

Thank you for listening.