Afternoon Keynote Speech at Harvard University's 9th Annual African Development Conference

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March 24, 2018

Opening

Thank you for that kind introduction, and a very good afternoon to all.

Distinguished Keynote Panelists, Conference Committee, Ladies and Gentlemen,

It is an honor to join this conference today and to be given the opportunity to engage with you about some of the economic challenges facing sub-Saharan Africa and policies to address them. I must say that I share your disappointment in not having former President Mohamud of Somalia deliver his keynote today as I know it would have drawn needed attention to the imperative of continued support for countries like Somalia in their efforts to exit fragility. Let me do my best to step in, speaking to broader sub-Saharan African issues. I want to begin by thanking the Conference Committee for their kind invitation. As was the case when I first participated four years ago, I am thrilled to join this stimulating gathering to reflect on the future of our dynamic continent.

Following yesterday's excellent kick-off and this morning's vibrant discussion of the journey to Africa's Agenda 2063 I'll focus my remarks on four immediate challenges I see for the region; on what they may mean for the longer-term; and on the need for timely multi-faceted action to address them, all with the view to improving the prospects for realizing Agenda 2063 objectives.

Four Immediate Challenges

So, *what are these challenges*? I believe we would all agree that *foremost among them is returning the region to a path of durable growth*. 2016 saw the lowest sub-Saharan African growth in 20 years, resulting in negative per capita income growth. Growth in 2017 is estimated to have been better, but at only 2.7 percent it was barely enough to prevent another year of decline in per capita income. Relatively low commodity prices and delayed partial policy responses in oil exporters continue to weigh on sub-Saharan Africa's growth outlook. A further pickup in growth to 3.3 percent and 3.5 percent is projected for 2018 and 2019 respectively, allowing a small increase in per capita incomes. But momentum is weak.

Now, it is true that these average figures obscure a varied picture in the diverse set of countries that make up sub-Saharan Africa, and that some continue to grow robustly. But these are nonetheless worrisome developments for a region with the highest levels of poverty and very high inequality despite the growth momentum of the past two decades.

A number of the non-resource intensive countries—like Côte d'Ivoire, Kenya until recently, and Senegal—have continued to grow strongly but vulnerabilities there have increased, with considerably higher debt levels, much of it accumulated through infrastructure financing. In fact public debt was above 50 percent of GDP in half of SSA countries at end-2016 compared to 34 percent only five years ago. The challenge in returning the region to a path of durable growth is therefore two-fold: first, to make up for lost time by continuing to implement corrective macroeconomic policies in oil-exporting countries; and second, for non-resource intensive countries to move toward fiscal consolidation in order to contain debt levels. Uncertainties in the global economy underscore the necessity of continued policy adjustment in sub-Saharan African commodity exporters to restart robust growth on the one hand, and the importance of building buffers in non-resource intensive countries to safeguard their strong growth on the other hand.

The next challenge I want to highlight comes from the greater interconnectedness seen in sub-Saharan Africa in recent years. This—together with the recent signing of the Continental Free Trade Area (CFTA) agreement—is a welcome development, and is an important objective of Agenda 2063. But notwithstanding the reasons given to explain it, the absence of Nigeria's and South Africa's signatures on the CFTA agreement sends worrisome signals. And interconnectedness also carries the risk of cross-border spillovers. This risk is most evident in the financial sector's Pan African banks and could be realized if measures to strengthen cross-border supervision and to safeguard and manage risks are not implemented in a timely fashion. Nigeria, South Africa, and Angola—the region's three largest economies—together account for some 60 percent of sub-Saharan Africa's economy. Recession in Nigeria's case and stagnation in South Africa and Angola accordingly weighed heavily on the region's poor performance in 2016. Improved growth performance in these three countries in turn accounted for the largest share of the 2017 regional growth uptick but this reflected some one-off factors, and their projected growth rates for 2018 and 2019 continue to be relatively low and below potential. These countries must fully embrace the imperative of growth-friendly policies not just for themselves but for the region as a whole, with a view to maximizing the benefits from increased regional trade and integration. The still relatively weak formal trade links do not negate the need for these countries to be mindful of the potential impact of their policies on their neighbors—the ultimate objective is to expand regional trade but with growth-enhancing policies in place to ensure that it unleashes positive rather than negative spillovers.

Ladies and gentlemen, *sub-Saharan Africa's high level of income and gender inequality is another source of potentially weak growth*, socio-political tensions, and instability down the road. There has been a small decline in the level of gender inequality, although it is still higher than elsewhere. The region's income inequality did not improve during the past two decades of high growth and remains the second highest in the world, next to Latin America. The IMF's

October 2015 Regional Economic Outlook for Sub-Saharan Africa found that the region's growth could be boosted by close to one percentage point annually if inequality was reduced to levels prevailing in fast-growing Asian economies. *Adopting equality-enhancing fiscal and financial sector policies and removing gender-based legal impediments therefore constitute the third pressing challenge in attaining higher more inclusive growth*. It is clear that concrete progress on these issues cannot be made in the absence of more ownership at the highest political level. So sub-Saharan African leaders must do a lot more to demonstrate such ownership and their recognition of the growth-enhancing effects of greater gender and income equality.

The fourth and final challenge I want to speak to is the impact of difficult political situations in some countries and a heated election environment in others. We have seen for example developments in the Democratic Republic of the Congo and the protracted impasse surrounding the Kenyan elections. South Africa's economy deteriorated amidst damaging politics over the past several years, and both Nigeria and South Africa will soon return to election mode. It is no doubt encouraging that Kenyan leaders now seem to be making amends. But these bitter politics inevitably weaken economic policy leadership and therefore constrain more growth-friendly policies. Now, insulating policies from such political pressures may be possible with specific measures in some areas—for example through fiscal rules that limit the spending of natural resource wealth or through limits on fiscal deficits in monetary unions. But it is ultimately broader sustained efforts to build stronger institutions that will make the difference. Yet even with that a caveat is in order. And that is because—for example in a place like Washington these days with the recent imposition of steel and aluminum tariffs—we see that economic policy leadership can falter even in advanced countries with strong institutions when leaders appealing to populist sentiments are in the driver's seat. So it is not just building institutions that is the answer but also constantly channeling broad-based political engagement and action from citizens to safeguard and further strengthen them.

Implications for Longer-Term Transformation

As formidable as they are, *the four challenges I've laid out do not necessarily imply long-term doom-and-gloom for sub-Saharan Africa*. That said, the missteps and tardy policy adjustments over the past three years mean that the region is not yet adequately preparing the ground to exploit potential new opportunities in the global economy. Nor is it effectively positioning itself to reap the much-heralded demographic dividend some 20 years hence. So rather than higher economic growth being driven by a large increase in the share of the working age population as a result of the demographic transition, the region—and alas the world—instead risks having massive levels of un-and-under-employment as well as dire social conditions that propel massive migration and political instability.

Ladies and gentlemen, this is clearly an outcome we must all work tirelessly to avert. So, how can these risks be mitigated and this grim scenario be avoided? And what are the responsibilities of sub-Saharan African policymakers?

Let me speak to these questions by commenting on the three sets of policies needed to strengthen the economic recovery in the region: addressing debt vulnerabilities, an emphasis on revenue mobilization, and fostering economic diversification.

Addressing Debt Vulnerabilities

There has rightly been a notable increase in commentary on sub-Saharan Africa's debt vulnerabilities in recent months. *Debt stocks have risen sharply* throughout the region, but especially in oil-exporters. While also inching upwards they have increased less rapidly in other resource-intensive countries and in non-resource-intensive countries. An increase in the level of debt is not in and of itself a bad thing, but *the pace of debt accumulation we've seen in recent years is worrisome*. The sharp rise in debt stocks in the region is being driven by large fiscal deficits. Debt service costs have increased, especially for oil exporters and other natural resource producers. In Zambia for example, in 2011 interest payments on debt were about 20% of the money spent on health and education, and by 2017 they had risen to 50%. And Nigeria's debt service has increased from 22 percent of revenues in 2016 to more than 60 percent in 2017. While there is good news in countries' plans for fiscal consolidation, implementation of such plans is often postponed; stronger recovery and safeguarding debt sustainability will not be possible without implementation.

Emphasis on Revenue Mobilization

Recent research has shown that fiscal consolidation through higher revenues is less damaging to growth in sub-Saharan Africa. There is significant potential for raising tax revenue, especially in oil exporting countries. While the region saw the largest increase world-wide in tax revenue since 2000, at about 18 percent of GDP in 2016 the region's median tax ratio continues to be the lowest. And at only 6 percent of GDP, Nigeria's tax ratio is the lowest in the region. Starting from a low base, *the good progress made in increasing revenues in sub-Saharan Africa will need to be sust*ained if—in the face of limited aid, rising borrowing costs, and debt sustainability considerations—further progress is to be made in filling infrastructure gaps, investing in human capital, and meeting other development needs.

Fostering Economic Diversification

But ladies and gentlemen, returning the region to a durable growth path requires not only corrective macroeconomic policies. Addressing structural reforms in the fiscal area, in the financial sector, and in the business environment is necessary to facilitate the human and infrastructural investments needed for the region's diversification and structural transformation. Diversification offers the region a path to growth and can in turn be propelled by reduced income inequality, access to electricity, credit to the private sector, and ease of doing business. Getting the policy mix right and playing to country strengths is important for fostering diversification.

Given the impact they can have on economic policy leadership, legal and other reforms needed for further strengthening institutions and improving governance are also critical for returning the region to durable growth. Chief Justice Maraga of Kenya spoke to these issues yesterday. Sub-Saharan African leaders and policymakers must resist the temptation to put all of the blame for the region's growth deceleration on external factors like the commodity price shock and instead demonstrate true leadership by doing three things: pushing back on disruptive politics; taking tough decisions in these areas; and abiding by them.

Partner Support

That said, sub-Saharan Africa will need continued policy advice, financial, and capacity building support from its development partners in returning to robust sustained growth with reduced debt vulnerabilities. The international financial institutions—IMF, World Bank, and African Development Bank—and traditional bilateral partners will need to demonstrate agility in responding to the region's evolving needs. As we all know another major partner for sub-Saharan Africa these days is China, which is frequently praised for being responsive to the region's needs—especially infrastructure—in recent years. China's voice could however be more strongly heard in urging continued policy adjustment and reform in sub-Saharan African oil exporters to contain debt to manageable levels in the region. Debt is now unsustainable in several countries where China is the largest creditor and its full engagement with countries on these issues will be critical in finding workable solutions. Beyond this, the broader international community has the important role and responsibility of advocating against the protectionist and inward-looking proclivities we see here in the United States and in some other advanced countries in order to create and safeguard a global environment more supportive of strong sustained sub-Saharan African growth.

Let me end my remarks there and thank you very much for your attention. I look forward to your comments and questions.