ESSAYS

Six Questions African Policymakers Must Answer Now

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The “Africa rising” story of the past decade, fueled by 5 percent average annual growth, is in danger of faltering, due to the impact of global uncertainty, depressed commodity prices, and weakly performing economies like China. Don’t be lulled by the IMF’s 2016 forecast: yes 4 percent growth will outperform global expectations, but continued commodity price volatility and global uncertainty are giving rise to a fresh bout of Afro-pessimism. To change the narrative, and — more importantly — the reality it describes, African policymakers must urgently answer these six questions.

1. How do we ensure steady financing for our significant needs for sustainable development in an increasingly uncertain global environment?

This is perhaps the fundamental question. Slowing growth and low commodity prices will be around for the next few years, causing an inevitable, but hopefully temporary, macroeconomic setback. This increases vulnerability to a retrenchment in external finance. Several African countries have issued Eurobonds (to the tune of $21 billion during 2013–15) and foreign investors hold a growing share of domestically issued debt. Foreign direct investment, which tends to be concentrated in natural resource sectors, is also likely to pull back. A cutback in external funding will put badly-need infrastructure investment and social programs on hold, dealing a blow to long-run growth. African countries need to work with the donor community to avert such a situation.

Economic diversification, creating jobs and tackling inequality, which are discussed below, are a vital part of the long-run challenge in Africa and also feed into two key global achievements of 2015: the adoption of the Sustainable Development Goals (SDGs) in September and the agreement on climate change at COP21 in Paris in December. But diversification requires well-developed infrastructure, telecommunications, power, roads, rail, water, etc. The World Bank estimates Africa’s infrastructure financing needs alone at US$93 billion annually. Climate-friendly and sustainable infrastructure will cost even more. But Africa offers the best opportunity for low-carbon, resilient, and sustainable infrastructure development because so much is greenfield and still to be built. Directing the necessary financing from international public and private sectors into African infrastructure development can reap important positive externalities for the whole world.

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Africans rightly argue that they are victims, and not perpetrators, of today's climate-related challenges. So will the international community rise to the occasion? The reality is weak global growth, coupled with domestic challenges on unemployment and immigration, makes it unlikely that developed countries will fully honor promises for additional financing to implement the post-2015 development agenda. Africans will have to mobilize the majority of their own resources. In fact the New Climate Economy estimates that 50–80 percent of the resources required for the development of sustainable infrastructure will have to come from countries' own domestic resources.

This means African countries must ensure a quantum leap in domestic resource mobilization (DRM). The opportunity clearly exists to substantially increase tax and other revenue efforts, including limiting tax evasion and illicit financial flows. Across sub-Saharan Africa, tax revenues account for less than a fifth of GDP, while they correspond to over a third in OECD countries. African countries will need to almost double their tax revenues to help finance the SDGs. The good news is that tax revenues on the continent are growing rapidly. Through reforms between 1990 and 2004, Ghana raised tax revenues from 11 to 22 percent of its GDP, for example. Admittedly this is difficult. Raising non-oil tax revenues was something we saw as an opportunity in Nigeria and struggled with.

What is needed is a significant improvement in capacity, systems and processes in these countries — a worthwhile investment for governments and a small fraction of aid budgets that donors can support. In addition, DRM should also involve leveraging public resources innovatively to tap private-sector resources. Estimates indicate approximately US$380 billion in total pension assets under management in just 10 African countries, and these resources are growing rapidly. Between 2008 and 2013, Nigeria's pension industry grew from US$7 to US$25 billion. In Ghana, the pension industry is expected to grow 400 percent between 2014 and 2018.

2. How do we truly diversify our economies?

Diversification has become a slogan. Everyone talks about it but the debate on how to truly diversify is shallow. The discourse reflects lazy thinking as if diversification could happen in just a few years. The vision of what needs to be done is often truncated into the short time frame of politicians, instead of carefully laying out the various stages to achieve a truly diverse economy — notwithstanding the abundance of 10-, 20-, and 30-year-long economic plans that are crafted in almost every country, and then gather dust.

There are plenty of models to follow: Dubai, Singapore, Thailand, Malaysia, Mexico, Indonesia, and South Korea are admired by Africans as economies that have managed to transform themselves. But the discussion often stops there without recognizing that Dubai, for example, started more than three decades ago to ask the question: What should life be like after oil? And it set out to implement a step-by-step vision of a services economy, putting infrastructure and incentives in place to build up financial services, tourism, medical services, real estate, media, arts, and culture. Singapore and South Korean are no less inspiring because they had few or no natural resources to rely on.

What these countries also had was leadership that was relentless decade after decade in pursuing the diversification and transformation of their economies — either through entrenched but benign dictators or democracies in which generations of leaders and citizens agreed on a vision of a broad-based economy.

Sub-Saharan Africa has the foundation for diversified growth that several of these trailblazers did not: value-added agriculture and agro industry, processing and transformation of mineral resources, petrochemical complexes, manufacturing of durable and consumer goods, tourism and entertainment, and an emerging information technology sector.

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For donors, diversification delivers on several critical SDGs:

- Goal 1 to end poverty
- Goal 8 to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Goal 9 to build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- Goal 10 to reduce inequality within and among countries
- Goal 13 to take urgent action to combat climate change and its impacts

The journey toward diversification is long, but policymakers must start down this road now.

3. How do we improve the quality of growth and create jobs?

Recent growth in Africa did not bring a corresponding increase in jobs. Except in a few countries, like Nigeria, where growth actually occurred in the non-oil sectors, growth in most African countries was linked to their commodity sector. And growth benefited only a few, leaving, especially, young people and women behind. In fact inequality, measured by the Gini coefficient (with 0 denoting perfect equality and 100 perfect inequality) rose in several African countries between 2006 and 2013.

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Country	2006	2013
South Africa	57.8	63.1
Nigeria	43.7	48.8
Rwanda	28.9	50.8
Ghana	40.8	42.8
Tanzania	34.6	37.6

Source: UNDP World Development Reports for 2006 and 2013

Policymakers should answer this: is growth occurring in sectors that create jobs such as agriculture, manufacturing, and services? Who is left behind? How can taxation and income redistribution redirect resources better, and include those at the bottom of the ladder via social safety nets?

These were questions we were starting to ask and answer about our own growth story in Nigeria. The idea was not to question whether we needed growth but to improve the quality of growth.

4. What type and quality of human resources do we need to underpin our development aspirations?

Despite MDG progress, many Africans feel that our education and health systems are broken.

As African economies diversify, matching skills to emerging job opportunities will be critical. Many Africans feel that despite the progress made by the continent on health and education indicators under the Millennium Development Goals (MDGs), our education and health systems are broken and need fixing. On a continent where 70 percent of the population is already under 30, and that is home to half the worldwide total of primary-school-aged children not in school, basic reading, writing and technology skills, followed by vocational, technical, and entrepreneurial training, must be priorities. Nigeria, especially, should act decisively here — Africa's most populous country also has the largest number of children out of school, at 8.7 million in 2010.

But we must simultaneously strengthen weak health-care systems to tackle endemic diseases that sap productivity (such as malaria), and to provide preventative care for adults and, especially, for children (through vaccinations and routine immunizations). Stronger health-care systems will also help the world cope with future epidemics: the World Bank estimates the devastation wrought to the economies of Guinea, Liberia, and Sierra Leone by the Ebola virus at US$2.2 billion, or 16 percent of the combined GDP (2014) of the three countries. Sierra Leone's growth rate for 2014, for example, was forecast at 11.3 percent prior to the crisis, but fell to 4 percent. The impact on other African economies due to the neighborhood effect was also significant.

5. How do we trade better with each other?

African goods and services accounted for just 16 percent of trade within Africa in 2013, and just over 3 percent of world trade. One problem is what we are making. Most African countries produce the same type of commodities, and trade them with very little value added. The continent's industrialization drive, very much a part of the African Union's 2063 development agenda, needs to focus on the issue of specialization to enhance inter-African trade. Industrializing through trade was the focus of the Economic Commission for Africa's 2015 Economic Report on Africa. Countries with the requisite manufacturing base should consider what can be processed or manufactured, and traded with others.

> African industrialization has to focus on specialization to enhance inter-African trade.

One encouraging signal is the growing volume of intra-African investment, which rose as a share of the continent's overall foreign direct investment from 8 percent in 2003 to close to 23 percent in 2013. This could be harnessed to achieve greater industrialization and increased trade of differentiated goods and services between African countries. This can be a virtuous circle which adds value and volume to Africa's trade with the world.

But there is another problem to consider: logistics. Policymakers must make it easier to move goods across borders, by improving connectivity between countries, and reducing bureaucratic hurdles and administrative costs. For example, road transport tariffs across Africa are estimated at US$0.05 to US$0.13 per ton-kilometer, compared to the average of US$0.01 to US$0.05 for all developing countries. This must come down so Africans can more easily trade with each other.

There are some examples of significant improvements. The East and Southern African regional blocs , COMESA and SADC, have made some important gains in this area. For example, paved roads along the central corridor connecting the ports of Dar es Salaam, Tanzania, to Bujumbura, Burundi, increased from 57 percent in 2006 to 87 percent in 2010. There have also been efforts to improve rail infrastructure to increase efficiency and reduce costs. The African Development Bank estimates that the ongoing Rift Valley Railway project between Mombasa, Kenya, and Kampala, Uganda, would double the volume of trade while reducing marginal costs by 30 percent.

6. How do we focus on good economic management?

African policymakers should remember that much of the successful growth over the past decade and a half was down to good macroeconomic policies and good economic management. It will be difficult to succeed in all the areas outlined above unless the fundamentals are right. This means that prices in the economy have to be right, starting with the exchange rate. This is a tough call in 2016 for commodity-dependent African economies which have been hit by declining export earnings, but rates that are largely market-determined can ensure a softer landing. Some countries need temporary controls to curb injurious capital outflows and this is understandable. But these countries should have an exit policy and a plan for better management of the exchange rate in order to avoid a hard landing. Inflation rates, debt levels, adequate foreign exchange reserves, current account, and fiscal deficits are all key indicators to keep in reasonable territory to provide the solid framework within which real sector issues, such as the ones outlined above can be tackled and implemented.

Africa offers incredible opportunity for diversified economies based on low-carbon, sustainable infrastructure. We can meet the Sustainable Development Goals and the Paris climate agreement — indeed, we must — and we can change the "Africa failing" narrative. But African leaders must answer these development challenges now.

> Macroeconomic fundamentals like exchange rates have to be right for African economic growth.

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