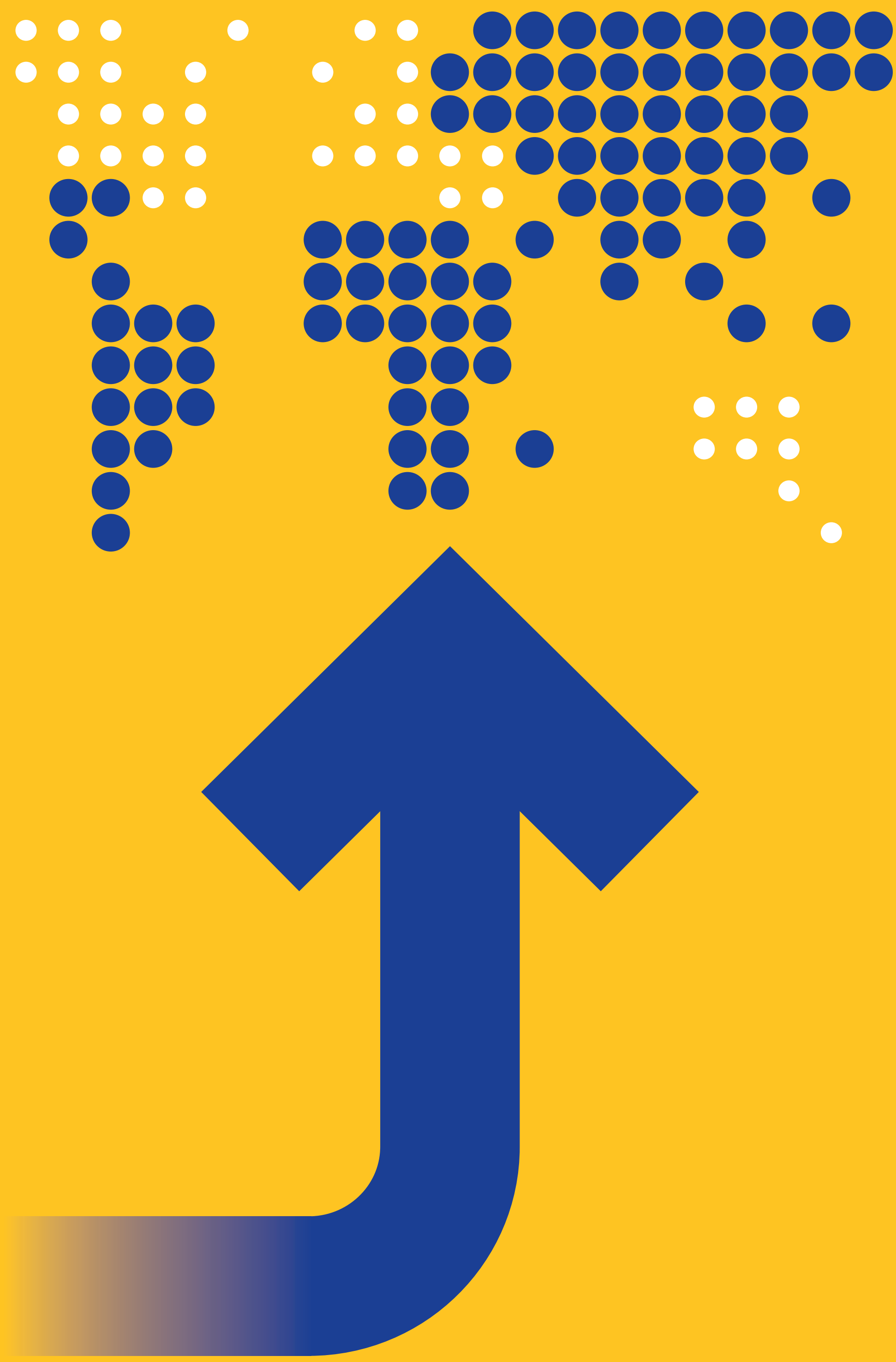

July 2016

JAPAN INTERNATIONAL COOPERATION AGENCY

JICA TICAD VI
Policy Papers

African 2050 update

Prepared by:
Theodore Ahlers
Centennial Group International

CENTENNIAL GROUP INTERNATIONAL

policy and strategic advisors

Preface

The global economic environment at the time of TICAD VI (2016) is much less favorable than that prevailing at TICAD V (2013) when JICA presented a long-term vision—*Africa 2050: Realizing the Continent's Full Potential*—based on Africa's increasing convergence with the rest of the world. These changed circumstances have major implications for African policy makers.

This paper is one of six commissioned by JICA for TICAD VI to draw out these implications and suggest ways to move forward. The other five are:

- *Regional economic integration in Africa*
- *The impact of commodity terms of trade in Africa: Curse, blessing, or manageable reality*
- *Africa's inclusive growth challenge: Reducing deprivation and creating jobs*
- *Infrastructure in Africa*
- *Economic diversification of African economies*

We are confident that the papers will contribute to a fruitful dialogue among the Heads of State at TICAD VI. In addition, we hope that they will foster the concerted action by African policy makers needed to assure that Africa continues to converge with the rest of the world and, in doing so, meets the aspirations of its people.

Hiroshi Kato
Vice President
Japan International Cooperation Agency

Harinder Kohli
President & CEO
Centennial Group International

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This paper was prepared by Theodore Ahlers with research assistance from Alden LeClair. Harpaul Kohli prepared the global model scenarios. The paper benefited from comments from Hiroshi Kato, Harinder Kohli, Anil Sood, and Claudio Loser.

Executive summary

At TICAD V JICA presented a long-term vision--*Africa 2050: Realizing the Continent's Full Potential*[1]--based on Africa's improved growth performance and increasing convergence with the rest of the world in terms of income and productivity. The global economic environment at the time of TICAD VI is much less favorable and has major implications for African policy makers. This paper looks at actual performance in the three years since TICAD V, presents updated scenarios to 2050, and identifies the big policy issues to be addressed if Africa is to catch up with the rest of the world.

Africa is growing, per capita incomes are rising, and many socio-economic indicators are improving. It is, however, no longer catching up with the rest of the world—converging. As a result, it is not meeting the aspirations of Africans. Policy reforms are urgent if Africa is to converge with the rest of the world and meet the aspirations of its people. Country performance, of course, remains highly variable, and 17 countries have averaged per capita income growth above 3 percent for the last decade. But, in the aggregate, Africa is slipping—its per capita GDP growth has been below the world average since 2010, and it is no longer on track to realize the results laid out in *Africa 2050: Realizing the Continent's Full Potential*. To the extent that inequality is increasing across the continent, it is largely due to diverging country performance—some countries are catching up with the rest of the world but many are falling further behind. The performance of the first group shows that convergence is possible in Africa. The challenge is to extend African best practice to more of the continent's countries.

Africa's growth and convergence in the first decade of the century was real and built on solid reforms in many countries. It was also greatly facilitated by exceptional external circumstances: ever-increasing commodity prices, strong global growth, and highly liquid global capital markets. These three exceptional external circumstances have now ended—and are very unlikely to return soon. This is neither unexpected (although the specific timing was difficult to predict) nor necessarily the end to Africa's quest for convergence. Restarting such convergence does, however, mean a return to the fundamentals--more investment and more reform to enhance productivity growth with a focus on inclusion.

Africa's response to these changed circumstances reveals four challenges that loom larger than originally assessed in Africa 2050: commodity dependence, demographics and jobs, savings and investment, and education quality. Commodity exports contributed to fast growth of African countries through 2011 but, as commodity prices have declined, urgent adjustment to macro policy frameworks is now required. The demographic transition is proceeding even more slowly than envisioned three years ago and requires both urgent attention to fertility trends and measures to address the implications for job creation. Both savings and investment levels remain too low to sustain convergence with the rest of the world. Finally, Africa may be winning the school enrolment battle but losing the learning outcome war, which would doom efforts to converge with the rest of the world. If countries do not respond rapidly to these challenges, the gains of the last decade will be lost.

The policy implications are clear. Some countries have managed commodity dependence, accelerated their demographic transition, raised investment levels, and improved the quality of education. Urgent action is needed to generalize these African best practices across the continent. The policy implications may be clear, but success in implementation is not. Capable states and strong, pragmatic leadership will determine the outcome.

1. Ahlers, T., Kato, H., Kohli, H., Madavo, C., and Sood, A. (eds.) (2014). *Africa 2050: Realizing the Continent's Full Potential*, Oxford University Press. A preliminary version was discussed at TICAD V in Yokohama in May 2013. Hereafter referred to as Africa 2050 in this paper.

Africa 2050 update

Theodore Ahlers

Growing but not converging

Africa 2050: Realizing the Continent's Full Potential laid out an ambitious but plausible vision of Africa in 2050 based on its increasing convergence with the rest of the world in terms of income and productivity. Under such a scenario, by 2050 per capita incomes in Africa would quadruple, poverty would be reduced ten-fold, two-thirds of the population would be middle class, and Africa's share of world GDP would nearly triple. This paper looks at actual performance in the three years since the Africa 2050 convergence scenario was defined, presents updated scenarios to 2050, and identifies the big policy issues to be addressed if the convergence scenario is to be realized.

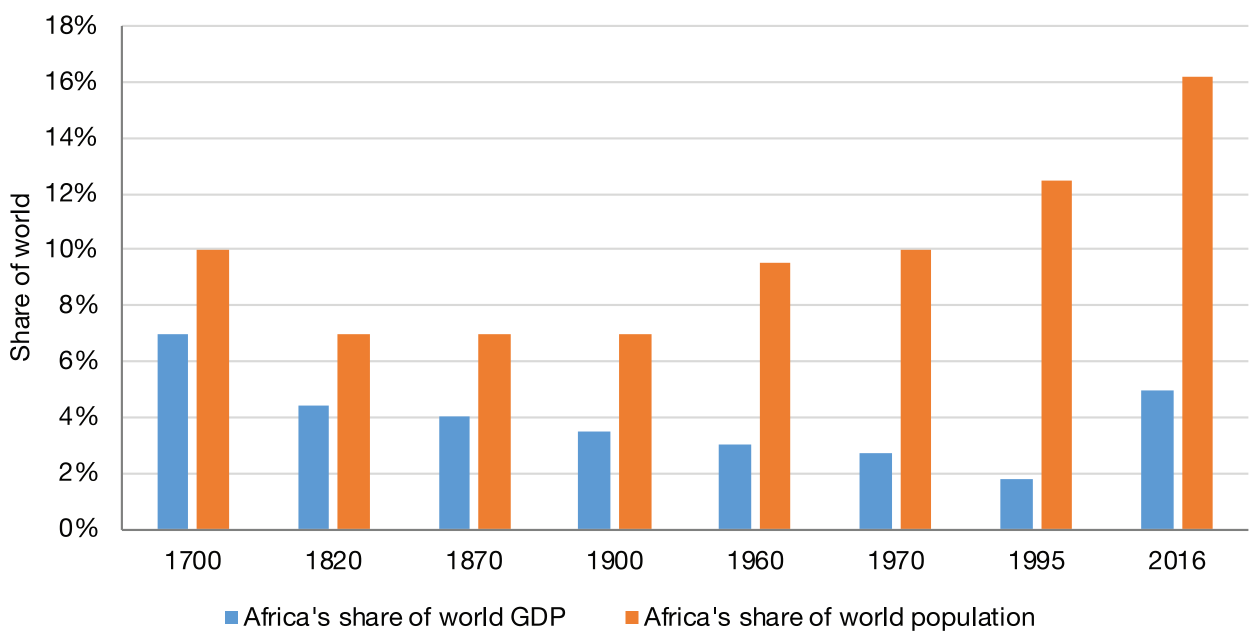
Share of world GDP

The relative economic prospects of Africa for the next thirty-five years can be summarized in one simple but powerful measure: its share of world GDP.[1] From this perspective, its performance over the past 15 years was strong and it has the potential to converge with the rest of the world. Africa's share of the world population has been rising since the early 1900s but its share of world GDP continued to decline until the mid-1990s (Figure 1). Since then it has risen from less than 2 percent of world GDP to a projected 5 percent in 2016.

Recent performance varies widely by country, but numerous indicators show that, as a whole, Africa has not been

1. Unless, otherwise indicated all GDP references are in PPP terms.

Figure 1: Africa's share of world GDP has risen since 1900, but its share of GDP declined until 1995



Source: Maddison (2013) for 1700-1900; Centennial Group International (2016) for 1960-2016

For the first time in more than a decade GDP growth in Africa in 2016 (3.0 percent) is projected to be below global GDP growth (3.2 percent), i.e., Africa's share of global GDP will shrink.

on track to realize the convergence scenario. In particular, growth has slowed around the world over the last three years but more so in Africa than elsewhere (Figure 2). For the first time in more than a decade GDP growth in Africa in 2016 (3.0 percent) is projected to be below global GDP growth (3.2 percent),[2] i.e., Africa's share of global GDP will shrink. Africa's growth is also below that of other emerging markets and developing economies. This is in striking contrast to the previous decade where GDP growth in Africa averaged 5.2 percent per year, or more than 25 percent higher than average annual world growth, and its share of global GDP was thus rising.

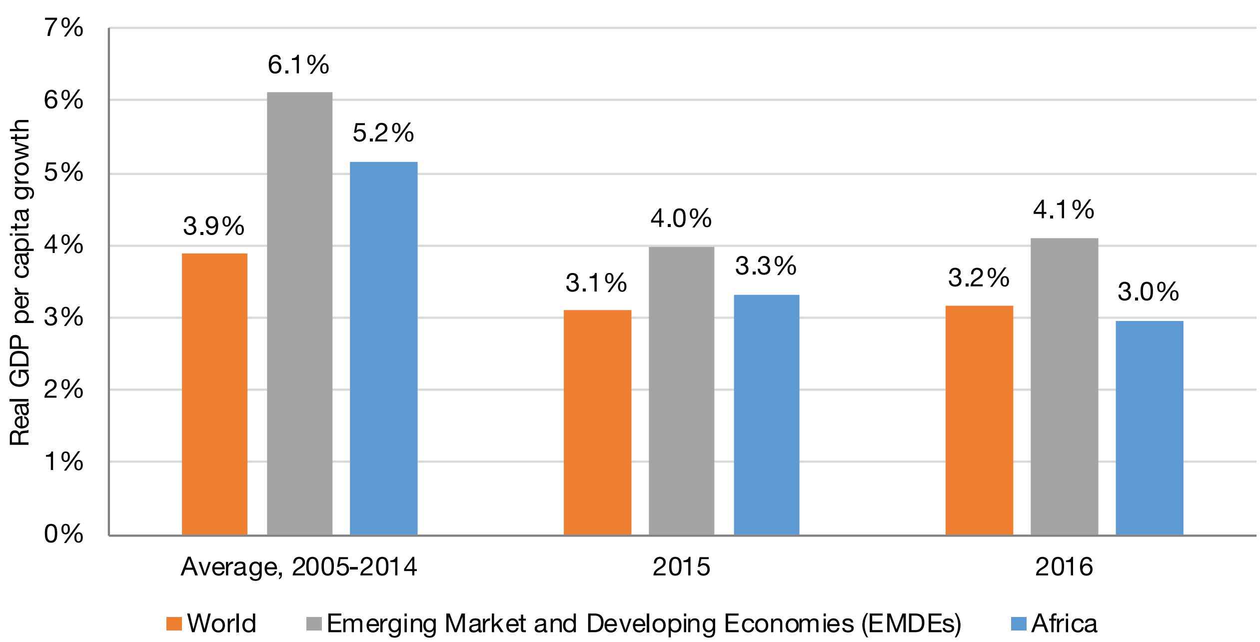
In terms of meeting people's aspirations and converging with the rest of the world, however, trend GDP growth figures give a mistaken sense of security given that Africa's population is growing much faster than that of the rest of the world. The per capita growth figures in Figure 3 provide a wake-up call. Per capita incomes continue to grow in Africa but they are growing more slowly than per capita incomes elsewhere in the world, which in 2016 will grow 5 times faster than in Africa.

In the global central scenario of the latest Centennial Group economic model[3] (hereafter referred to as the global central scenario), Africa's share of global GDP would increase to around 8 percent over the next thirty-five years after averaging only around 4 percent for the last thirty-five (Figure 4).

2. IMF World Economic Outlook (WEO) (2016)

3. See Kohli, H. (ed.). *The World in 2050: Striving for a more just, prosperous, and harmonious global community*, Oxford University Press, for a discussion of the global central scenario.

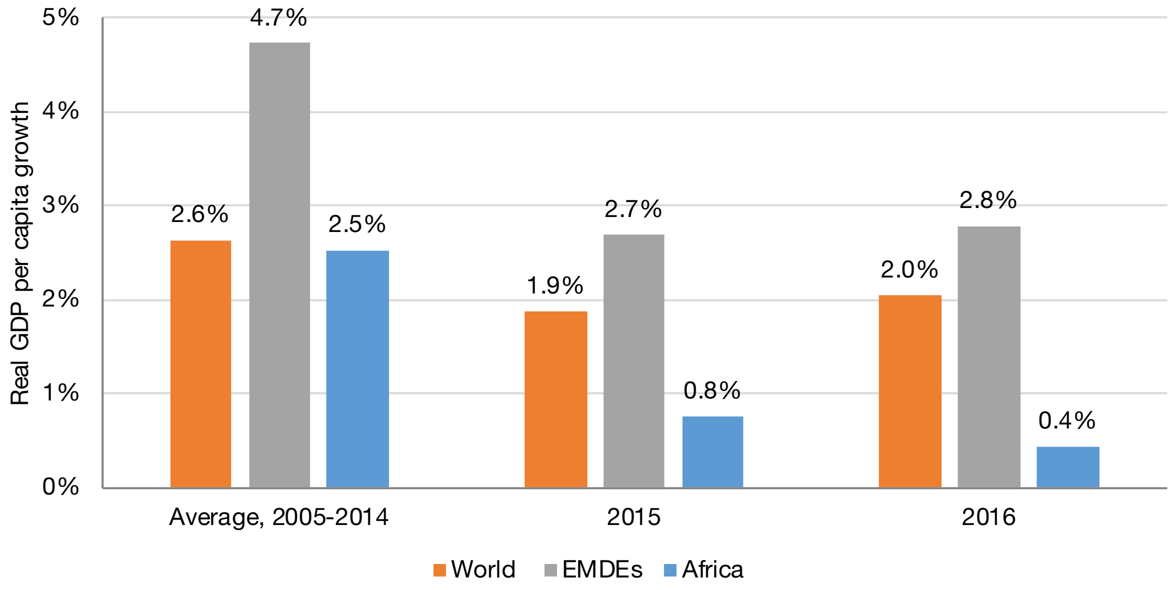
Figure 2: Real GDP growth, 2004-16 (%)



Source: IMF WEO (2016)

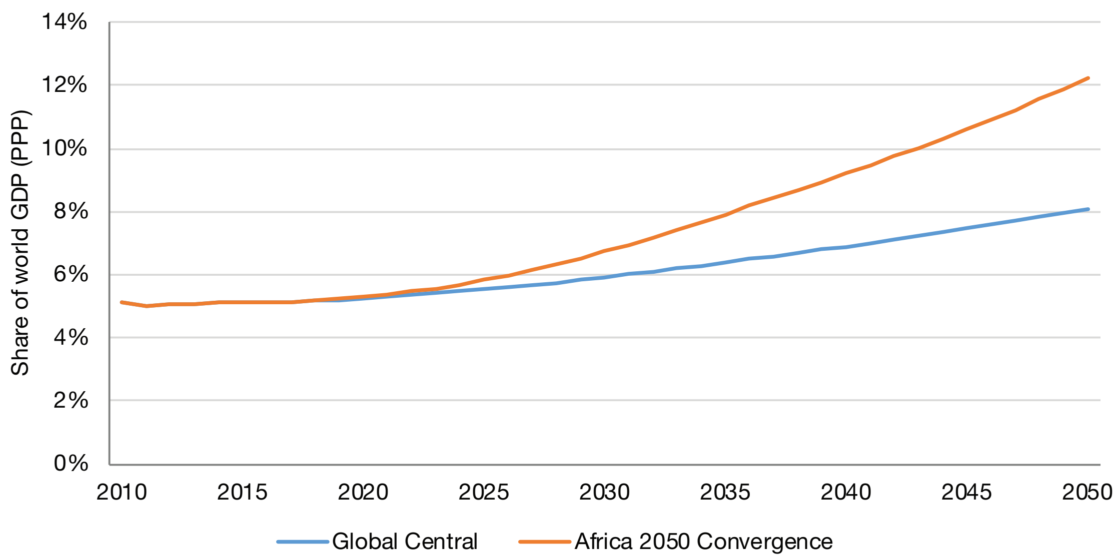
In terms of meeting people's aspirations and converging with the rest of the world, however, trend GDP growth figures give a mistaken sense of security given that Africa's population is growing much faster than that of the rest of the world.

Figure 3: Real GDP per capita growth, 2004-16 (%)



Source: Author's calculations based on IMF WEO (2016)

Figure 4: Africa's share of world GDP (PPP), 2015-50



Source: Centennial Group International (2016)

Even if its share of world GDP increased to 8 percent by 2050, Africa would not be catching up with the rest of the world because of how fast its population is growing.

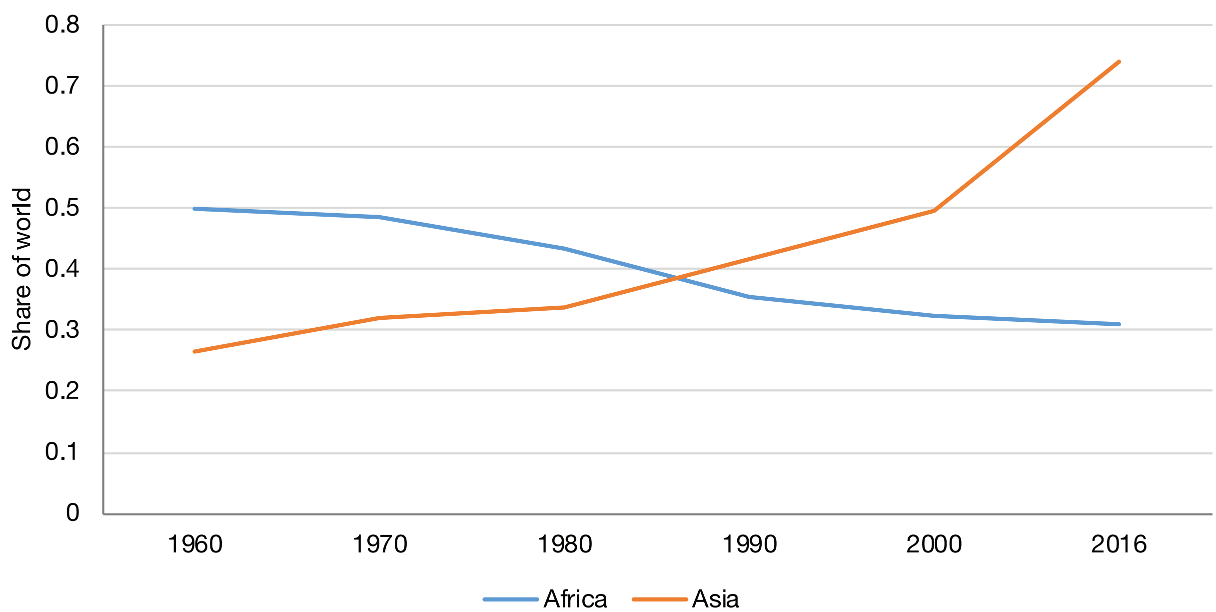
Under such a scenario, Africa would be economically more important and its people better off. It would not, however, be catching up with the rest of the world. Africa's share of world GDP under the global central scenario is considerably less than envisaged in the Africa 2050 convergence scenario,[4] under which Africa's share would rise to more than 12 percent by 2050. As discussed in greater detail below, the difference between the two scenarios is driven by differences in the level of investment in Africa and in the pace at which structural reforms are undertaken to increase productivity.

4. The Africa 2050 convergence scenario in this paper is an update of the convergence scenario that originally appeared in Africa 2050. It applies the original Africa convergence parameters (increasing investment and accelerated productivity growth in Africa) to the updated Centennial global model.

Per capita income

Even if its share of world GDP increased to 8 percent by 2050, Africa would not be catching up with the rest of the world because of how fast its population is growing. Faster growth since the mid-1990s halted the long slide in Africa's per capita GDP as a percentage of the global average, but it has remained at about one third of the average for the last 15 years (Figure 5) while that for Asia has continued to grow rapidly. The Africa averages, of course, mask a high level of variation among countries, but individual country performance also shows the slowdown of recent years. The number of countries in Africa with GDP per capita growth rates above 3 percent declined from 22 in 2010-12 to only 11 in 2013-15. Some African countries continue to have strong economic performance. The issue is not that all African

Figure 5: **African GDP per capita relative to global GDP per cpaita is lower today than at independence**



Source: Centennial Group(International (2016)

For Africa to converge with the rest of the world, a much larger number of countries will need to pursue African best practice policies.

countries are slipping but that divergence in performance across Africa is growing. For Africa to converge with the rest of the world, a much larger number of countries will need to pursue African best practice policies.

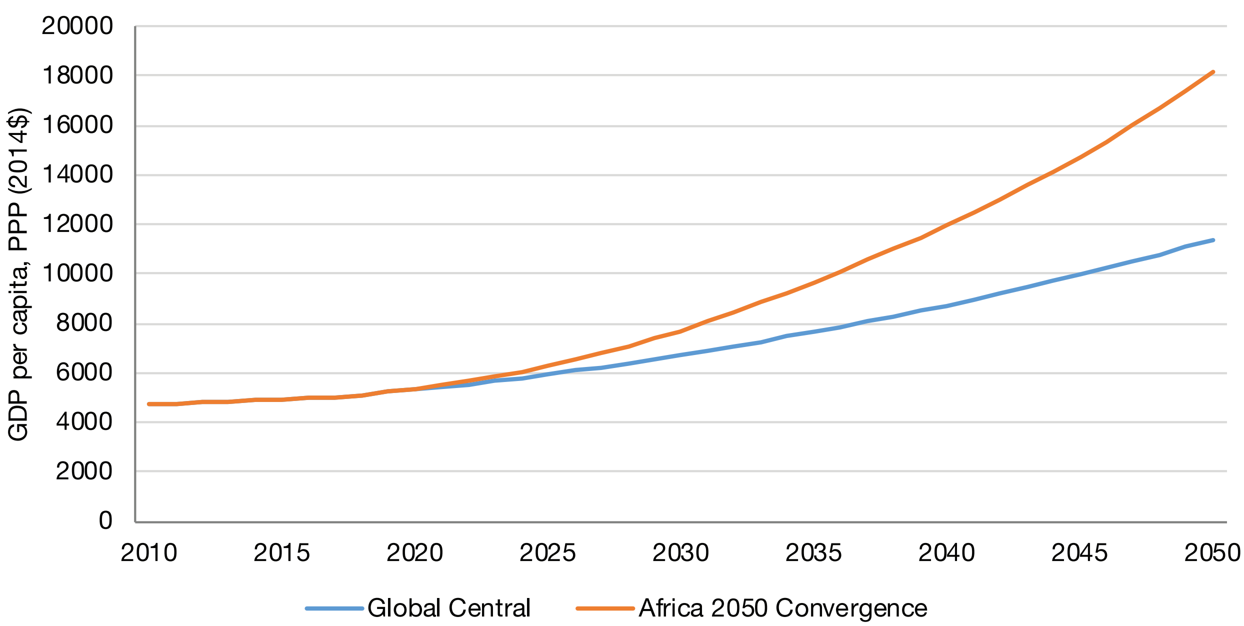
In the global central scenario, Africa's share of global GDP would grow and per capita incomes would more than double (Figure 6). Still, per capita incomes would remain only a third of the global average even in 2050 (Figure 7); again, Africans would not be catching up with the rest of the world. This seeming anomaly is the result of growth based on periodic commodity booms and a growing labor force rather than increases in productivity or a consistent growth in relative per capita incomes compared to the well-performing emerging regions like Asia or the world as a whole. Such an increase in per capita incomes is much less than that envisaged under the Africa 2050 convergence scenario where by 2050 per capita incomes would almost quadruple relative to today's level and increase from one-third of the global average to one-half.

Poverty reduction and middle class growth

The evolution in GDP and per capita incomes described above and derived from the global central scenario would, in turn, have major implications for poverty and for the size of the middle class. Under the global central scenario, the poverty headcount ratio in Africa would decline from 34 percent in 2015 to around 15 percent in 2050 (Figure 8). The number of poor in Africa would be more than 200 million higher than under the convergence scenario where poverty falls to 6 percent.

The global central scenario has parallel implications for the share of the middle class in Africa. Under this scenario,

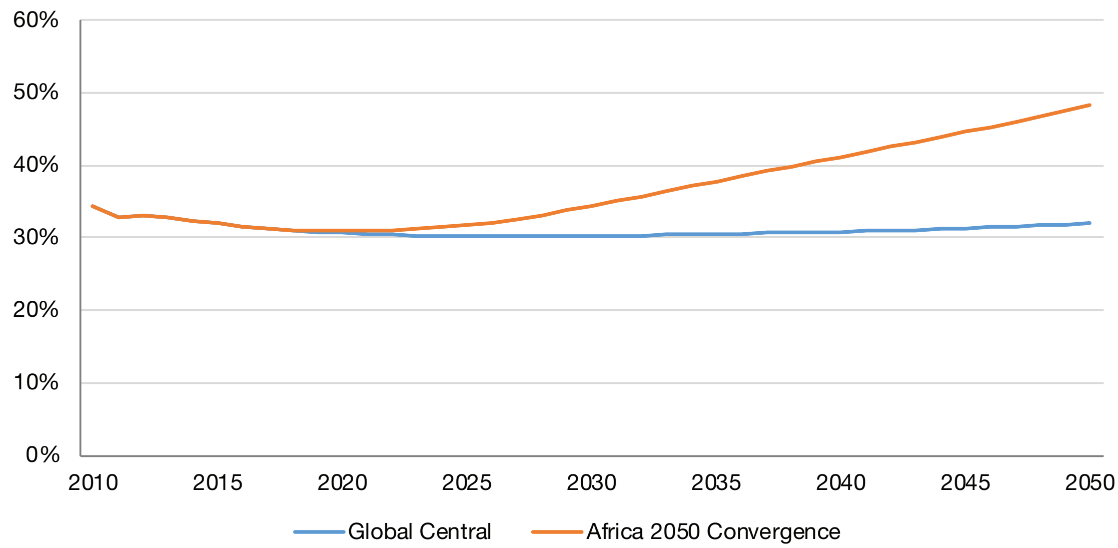
Figure 6: GDP per capita (PPP), 2015-50



Source: Centennial Group International (2016)

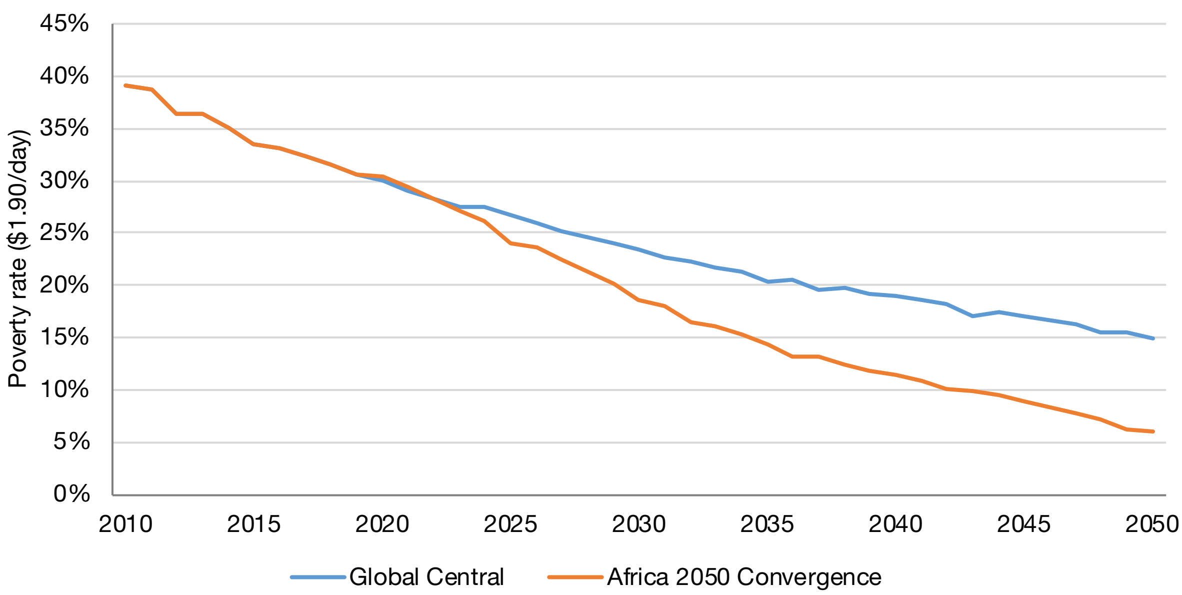
Global growth, having averaged more than 4 percent over the previous decade, slowed to 3.1 percent in 2015 and is projected to remain below 4 percent over the next decade, with many downside risks.

Figure 7: Africa's GDP per capita as a share of global average (PPP), 2015-50



Source: Centennial Group International (2016)

Figure 8: Poverty level in Africa, 2015-50 (% of population)



Source: Centennial Group International (2016)

The super-cycle of commodity price increases has ended. Commodity prices more than tripled from 2002 to 2013 but have since fallen by half.

the proportion of Africans in the middle class rises from some 20 percent today to about 47 percent in 2050 (Figure 9).[5] This is far below the more than 60 percent middle class envisioned in the Africa 2050 convergence scenario. Again, the difference in human terms is large—almost half a billion fewer Africans in the middle class.

More challenging environment

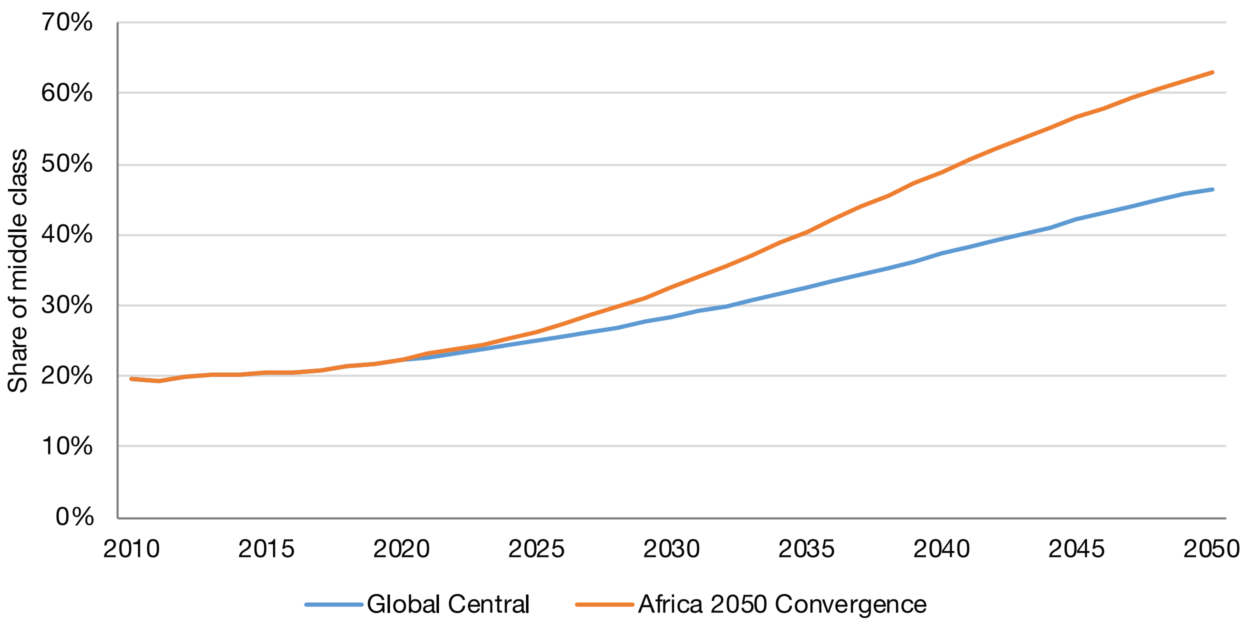
External environment

Three aspects of the global economic environment have changed substantially in recent years and present a more challenging environment for African countries to converge with the rest of the world.

- First, global growth, having averaged more than 4 percent over the previous decade, slowed to 3.1 percent in 2015 and is projected to remain below 4 percent over the next decade, with many downside risks. Among other things, this means that markets for African exports will grow more slowly.
- Second, the super-cycle of commodity price increases has ended. Commodity prices more than tripled from 2002 to 2013 but have since fallen by half. Commodity prices are still higher than they were in 2000 but are not projected to return to the levels of 2006-13 in the next decade.

5. Middle class is defined as per capita income between $10 and $100 per day in 2005 PPP$ as set out in Homi Kharas, "The Emerging Middle Class in Developing Countries", *OECD Development Center Working Paper* 285, 2010. In 2011 PPP$ this corresponds to per capita income between $12 and $108 per day.

Figure 9: Share of middle class in Africa, 2015-50 (% of population)



Source: Centennial Group International (2016)

Capital markets have tightened and the very low interest rates and high liquidity of recent years, which facilitated a surge in African sovereign debt issuance, are gone.

- Finally, capital markets have tightened and the very low interest rates and high liquidity of recent years, which facilitated a surge in African sovereign debt issuance, are gone. The Africa frontier markets[6] spread hovered around 400 basis points for most of 2014 but is now over 700 basis points (Figure 10). In addition, the spread between the Emerging Markets Bond Index (EMBIG) and that for African frontier markets has more than tripled moving from around 100 basis point in 2014 to more than 300 in 2016.[7]

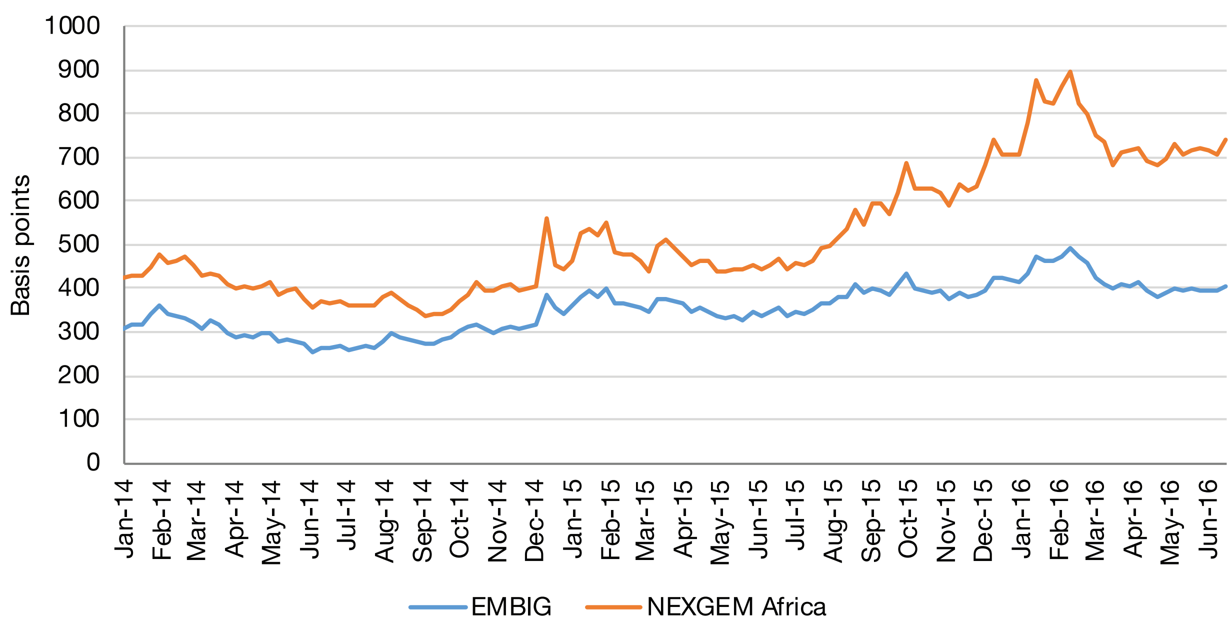
African response and new challenges

The three changes in the external environment discussed above are not a surprise. While their exact timing and magnitude could not easily be foreseen, all three were identified in Africa 2050, and it was clear to most observers that the exceptional conditions of the first decade of the century could not last. The important questions are (a) how effectively countries used the exceptional circumstances to invest in physical and human capital for future growth and to increase their resiliency and (b) how quickly they adjust to the new circumstances. Country performance on these points is highly variable across Africa but in the aggregate

6. The J.P. Morgan Next Generation Markets index (NEXGEM) includes the smaller, less liquid emerging market economies where investment opportunities in external debt markets are limited relative to the larger BRIC countries and other emerging economies where external debt issuance is frequent and large. NEXGEM Africa includes Cote d'Ivoire, Kenya, Ghana, Zambia, Egypt, Nigeria, Gabon, Senegal, Angola, Ethiopia, Mozambique and Tanzania.

7. The J.P. Morgan Emerging Market Bond Index Global Diversified (EMBIG index) is a uniquely weighted USD-denominated emerging markets sovereign index and is the most widely followed benchmark in its class.

Figure 10: Emerging market and Africa sovereign spreads, January 2014-June 2016



Source: J.P. Morgan EMBIG and NEXGEM indices

Some countries have made progress but, as a continent, Africa has not reduced its vulnerability to commodity price swings.

is weak. If countries do not respond rapidly to these new circumstances, the gains of the last decade will be lost.

The ten areas for action elaborated in *Africa 2050: Realizing the Continent's Full Potential* remain valid (see Box 1) but four areas now appear particularly important to enable a return to a convergence path: commodity dependence, savings and investment levels, demography and jobs, and the quality of education.

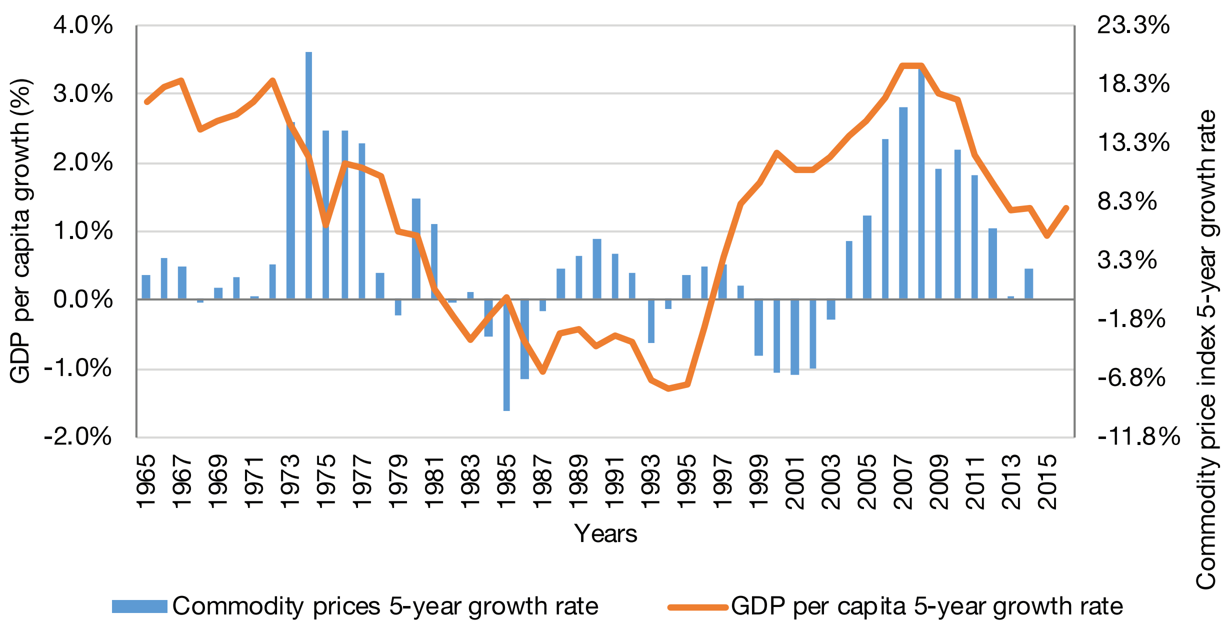
Commodity dependence

Commodity dependence is an important element of Africa's vulnerability and limited resilience to external shocks. Per capita income growth in Africa, which rose rapidly from the mid-90s until around 2012 but has decelerated dramatically since then, has been due to many factors but remains very closely linked to commodity prices, as shown in Figure 11. Some countries have made progress but, as a continent, Africa has not reduced its vulnerability to commodity price swings. Building resilience to such shocks, including through economic diversification, is essential.

Unfortunately, by many measures, Africa's commodity dependence has increased rather than decreased over the last 20 years. As pointed out in the companion TICAD VI policy paper, The Impact of Commodity Terms-of-Trade in Africa[8], the share of commodities in African exports increased from around 71 percent in 1995 to 76 percent in 2014, having peaked at 82 percent in 2011. As a result,

8. Loser, C. et al., (2016) "The impact of commodity terms of trade in Africa: Curse, blessing, or manageable reality?" *TICAD IV Policy Papers*, Centennial Group International. The following paragraphs are based primarily on this paper.

Figure 11: Africa GDP per capita growth & commodity price growth, 1965-2015



Source: IMF WEO (2016) and IMF Pr

The substantial decline in commodity prices since 2013-14 has, and will continue to have, substantial repercussions on African economies, particularly among countries with a high concentration of oil and mineral exports.

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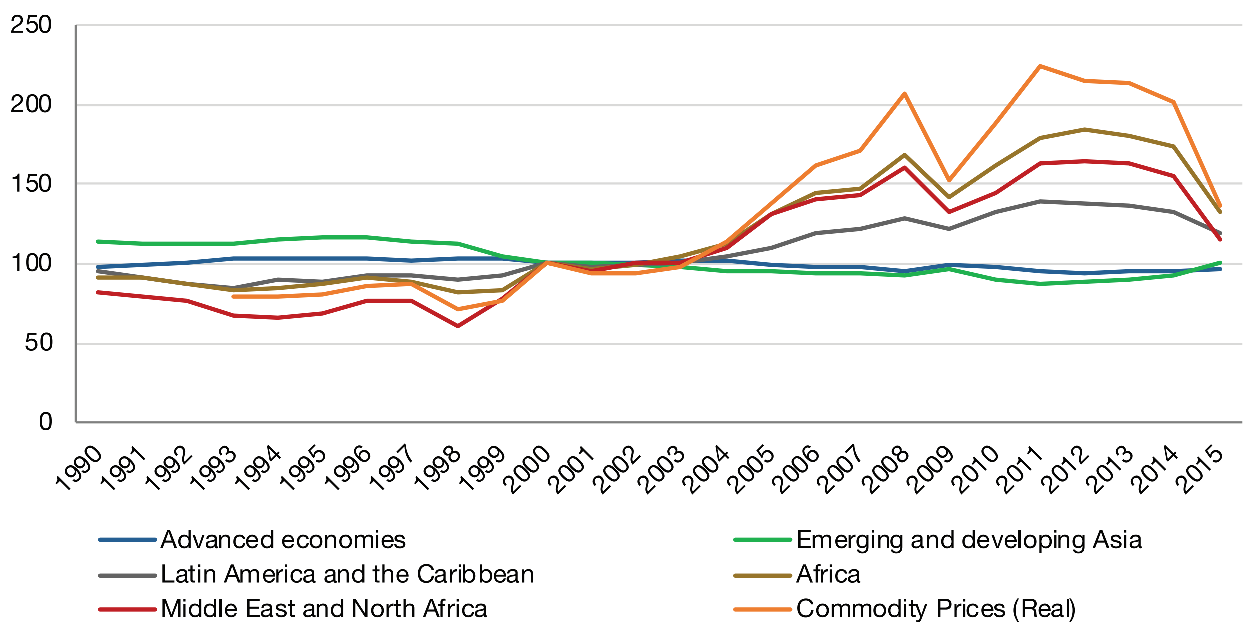
Commodity prices more than doubled from 2000 to 2012 and even with the subsequent fall are still more than one third higher than they were in 2000 (Figure 12). The high concentration of commodities in African exports means that Africa's terms-of-trade also increased substantially after 2000 and the increase was greater than that in any other region. The terms-of-trade peaked at an increase of more than 80 percent by 2012 and are still a third higher in 2015 than their level in 2000.

As a result of these large terms-of-trade gains, the annual increase in real disposable income (6.3 percent), or gross domestic income, was much greater in 2000-12 than the increase in GDP (5 percent). Correspondingly, the deceleration in real incomes since commodity prices peaked (from 6.3 percent annual growth in 2000-12 to 1.8 percent in 2013-15) is much larger than the deceleration in GDP (from 5 percent to 3 percent).

In addition to the direct increase in income from the terms-of-trade improvement from 2000 to 2013, the expected multiplier effect also led to an estimated annual increase of GDP of 1.3 percent. Thus, over this period, more than one quarter of real GDP growth in Africa can be attributed to rising commodity prices. If the terms-of-trade were to stabilize at

Figure 12: World commosity prices and terms-of-trade for selected regions (2000=100)



Source: UNCTADSTAT and IMF Primary Commodity Prices

In the aggregate Africa has responded to the decline in the terms-of-trade, which most projections suggest will be long-lived, by drawing down reserves and increasing borrowing rather than adjusting.

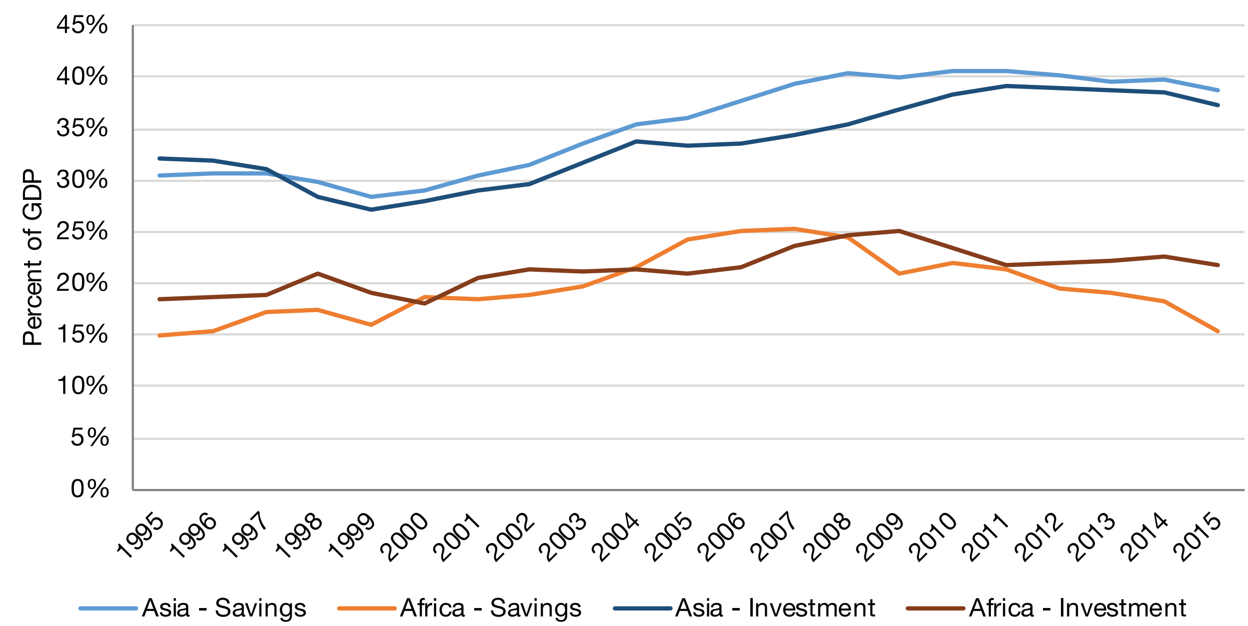
current levels, then future trend GDP growth in Africa would be only around 3.6 percent of GDP.

In the aggregate, African economies not only did not reduce their commodity dependence (admittedly difficult) but for the most part neither created buffers to commodity price shocks nor adjusted to the new circumstances. Although individual country performance is again highly variable, in the aggregate Africa has responded to the decline in the terms-of-trade, which most projections suggest will be long-lived, by drawing down reserves and increasing borrowing rather than adjusting. As discussed in the next section, this creates an urgent need to adjust economies to a sustainable path.

Savings and investment

Savings and investment levels provide an indication of how well countries used the highly favorable environment of 2000-12 to lay the basis for continued growth in leaner times. Although individual country performance varies greatly, Africa-wide investment increased from around 20 percent of GDP at the beginning of the century to 22 percent in 2012 and has stayed at this level since (Figure 13). Over the same period, however, investment levels in Asian low- and middle-income countries increased much faster. As a result, the gap between African and Asian investment levels increased from 10 percent of GDP in 2000 to some 15 percent today. Despite the highly advantageous terms-of-trade developments, gross national savings in Africa increased even less than investment between 2000 and 2012 and have since

Figure 13: Gross national savings and investment, Africa and Asia, 1995-2015 (% GDP)



Source: IMF WEO (2016)

The problem is that an increasing proportion of African school-age children are enrolled in school but their learning outcomes are very poor.

declined to their lowest level in two decades (15.3 percent of GDP in 2015). By contrast, savings in Asia continued to increase through 2008 and have remained stable since then. As a result, the gap in gross national savings between low- and middle-income countries in Africa and Asia has risen to a striking 23 percent of GDP.

Demography and jobs

According to the latest UN projections,[9] Africa's demographic transition to a modern profile of low fertility and low infant mortality is moving even more slowly than foreseen three years ago. The slow transition has a very large cumulative effect. Africa's dependency ratio is projected to decline through 2050 creating the possibility of a large demographic dividend. The slow demographic transition, however, makes both the human capital formation and job creation challenges, and hence realization of a demographic dividend, orders of magnitude more challenging in Africa than elsewhere.

Given the challenges of providing access to a quality education to today's school-age population in Africa, the speed at which that population increases is critically important. Today there are some 600 million children aged 5-19 in Africa. Under the UN's "medium fertility" scenario this would increase by 420 million by 2050, which is 34 million more than foreseen when Africa 2050 was prepared just three years ago. Under the "high fertility" scenario the increase would be 620 million and at current fertility levels would be a staggering 1.0 billion. The institutional, as well as fiscal, capacity to provide quality education to such increased numbers of students is at best questionable.

Africa's slow demographic transition has even bigger implications for its jobs agenda. Because of the slow transition, Africa's working-age population (15-64 years) has grown by more than 10 percent per year for the last 60 years and is projected to do so for another 35 years (Figure 14). This is a totally different phenomenon than that experienced in Asia, for example, where the working-age population grew by more than 10 percent per year for only 30 years (and only 25 years for China) and stopped doing so 30 years ago. It is not a question of a large increase (>10 percent) over one generation but for nearly a century.

Quality of education

The fourth issue that stands out for African convergence, is the quality of education. Like many other studies, Africa 2050 highlighted the importance of human capital development and, particularly, not just improving but catching up with the rest of the world. In this respect, as shown in the parallel TICAD VI policy paper Africa's Inclusive Growth Challenge,[10] Africa has made and continues to make considerable progress. Although access to education remains a challenge in a number of low-income African countries, at the continental level access has risen dramatically. There is not parallel progress, and perhaps even regression, in the area of education quality.

The problem is that an increasing proportion of African school-age children are enrolled in school but their learning outcomes are very poor. Relatively few African countries participate in the international student performance assessments such as TIMMS[11] or PISA[12] but those that do, including the upper-middle income countries, all fall in the bottom quartile of results. Even more revealing, African learning assessment efforts, such as SACMEQ[13] and PASEC[14],

9. UN Population Division, World Population Prospects: 2015 Revision, http://www.un.org/en/development/desa/population/events/other/10/index.shtml.

10. Fox, L. (2016). "Africa's inclusive growth challenge: Reducing deprivation and creating jobs," *TICAD VI Policy Papers*, Centennial Group International.

11. Trends in International Mathematics and Science Study, timssandpirls.bc.edu/

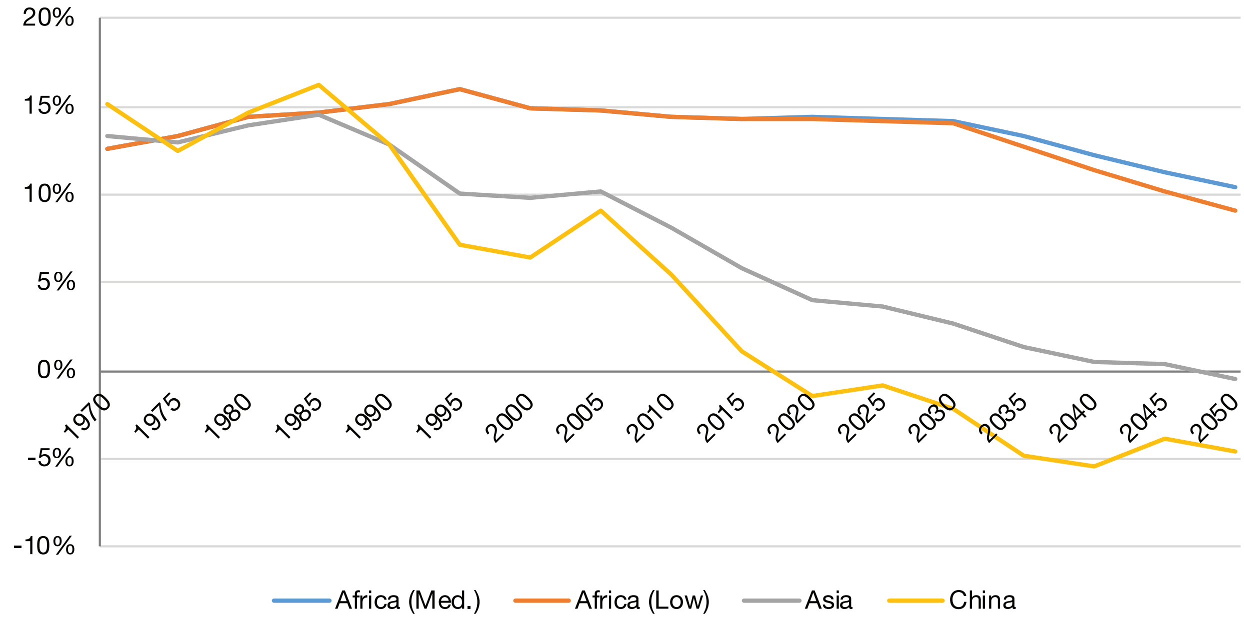
12. OECD, Program of International Student Assessment, www.oecd.org/pisa/

13. The Southern and Eastern Africa Consortium for Measuring Education Quality, www.sacmeq.org/

14. Program for the Analysis of Education Systems of the Conference des Ministres de l'Education des Etats et Gouvernements de la Francophonie.

Africa's advantages—strong resource base, growing labor force, growing consumer base—remain but convergence is faltering.

Figure 14: Working age population growth rate (%): Africa, Asia, China, 1965-2050



Source: UN Population Division (2015)

show that a majority of African students have not mastered beginning-level skills even after 6 years of school (Figure 15). As quality improves in other regions, Africa is falling further behind in quality or learning outcomes.

In Sub-Saharan Africa, the learning deficit is aggravated by highly skewed participation (Figure 16). In almost all African countries more than half of the 15-19 year olds in the highest income quartile complete 6 years of education but in roughly half the countries fewer than a quarter of 15-19 year-olds in the lowest income quartile do so. This disparity is much more pronounced in Africa than in other regions of the world (Figure 17).

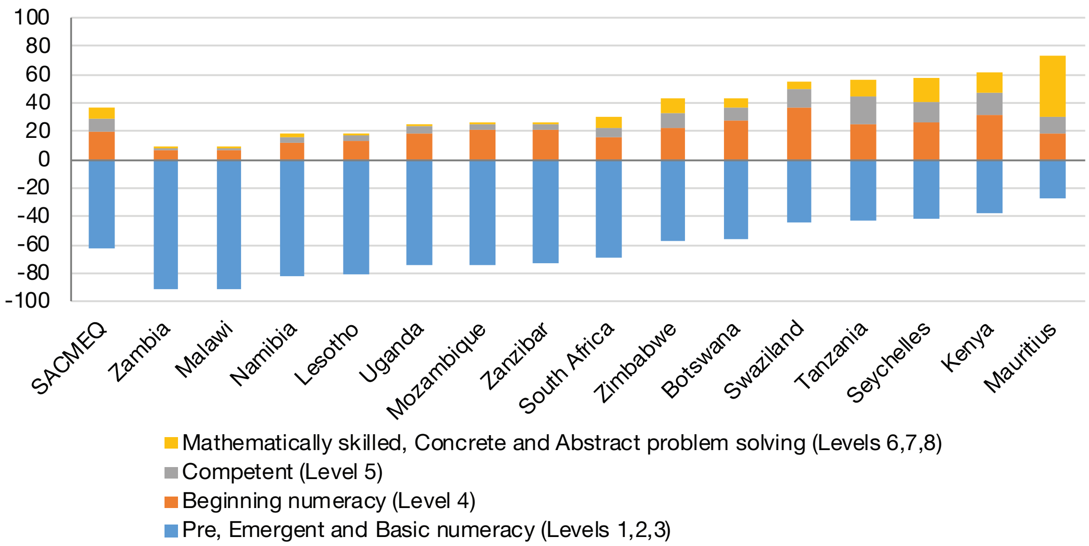
Convergence requires more concerted action

Generalizing African best practice

Africa's advantages—strong resource base, growing labor force, growing consumer base—remain but convergence is faltering. Realizing its potential and the rising aspirations of its people requires more concerted action. The agenda summarized below is intentionally long on issues and approaches and short on specific measures for two reasons. The first is simply, as often observed, that Africa is very diverse and detailed action plans must be country-specific. The second, and more important, reason is that solutions that do not emerge from some form of national debate about the what exactly is the problem to be solved and what needs to be done are very unlikely to succeed. Countries can benefit enormously from the experience of others but they need to

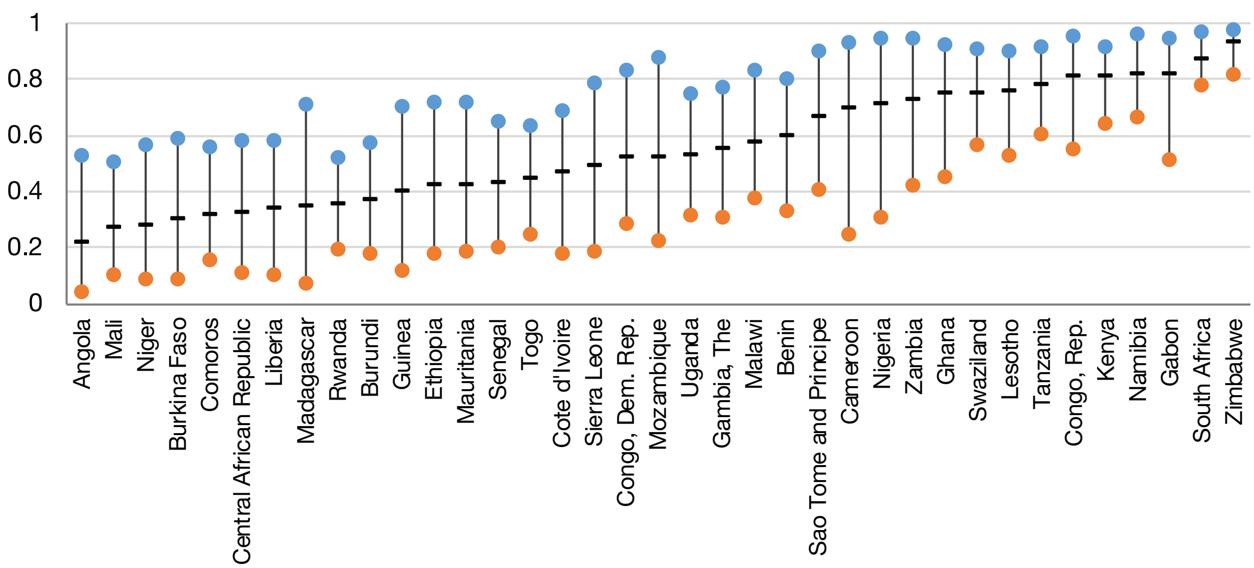
Solutions that do not emerge from some form of national debate about the what exactly is the problem to be solved and what needs to be done are very unlikely to succeed.

Figure 15: SACMEQ math scores, selected countries



Source: Hungi, et al. (2010)

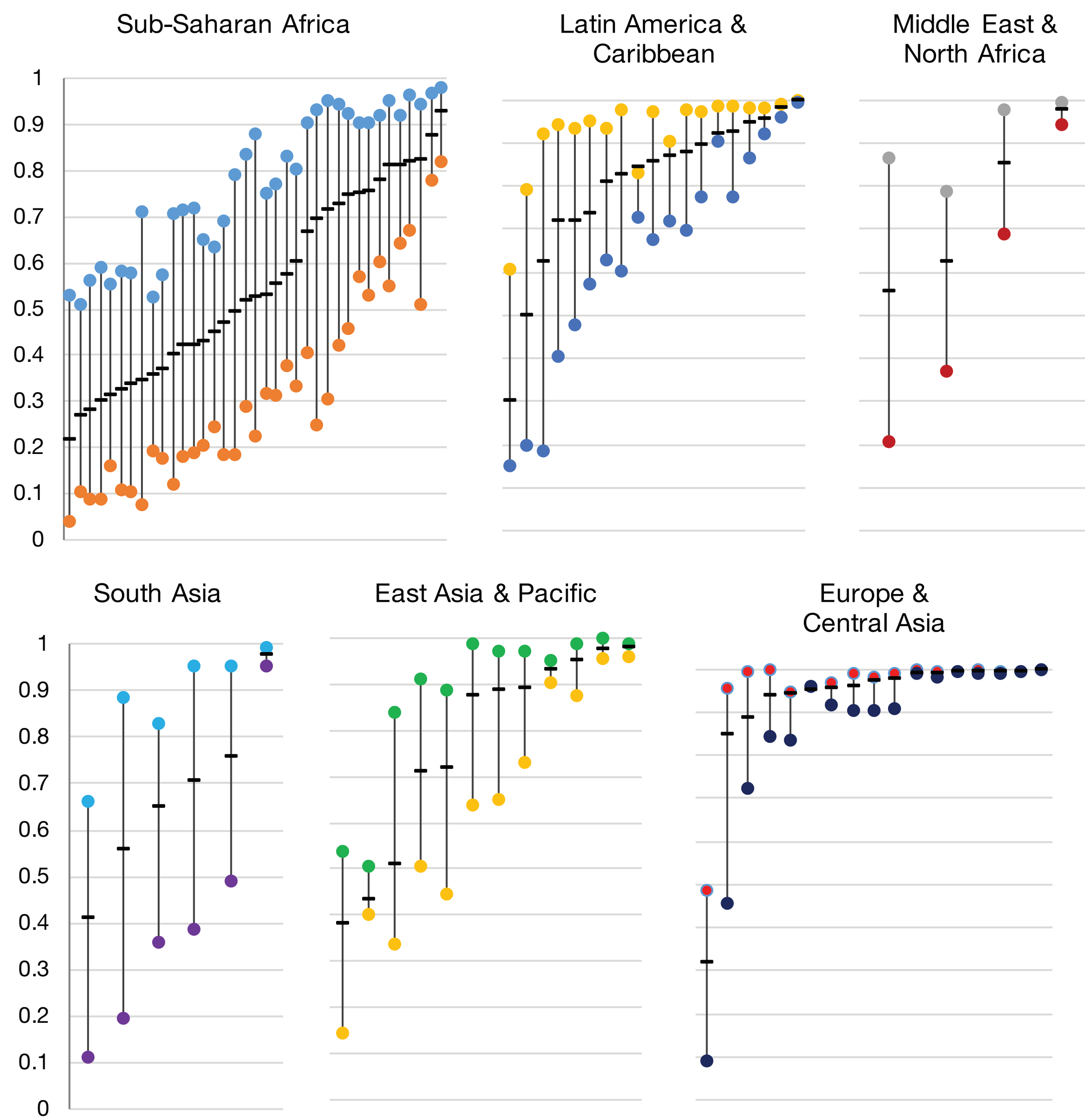
Figure 16: Grade 6 completion rates in the richest and poorest quintiles, Sub-Saharan Africa



*Source:*Filmer (2010)

Countries can benefit enormously from the experience of others but they need to develop a minimum societal consensus on what needs to be done if they are to achieve the concerted and sustained action required for success.

Figure 17: Grade 6 completion rates in the richest and poorest quintiles by region



Source: Filmer (2010)

If African best practice—whether in macroeconomic, investment, demographic, or education policies—were generalized across the continent, Africa would be transformed.

develop a minimum societal consensus on what needs to be done if they are to achieve the concerted and sustained action required for success.

As presented above, from a continental perspective Africa is not on track to converge with the rest of the world. The good news is, however, that a number of African countries do continue to converge. Seventeen countries have managed to deliver average annual per capital income growth above 3 percent for the last ten years, a period that encompasses both the 2008-09 global financial crisis and the recent fall in commodity prices. Eleven have even maintained such per capita income growth over the last three years even as commodity prices declines have led to large term-of-trade losses. The message here is that "it can be done in Africa." If African best practice—whether in macroeconomic, investment, demographic, or education policies—were generalized across the continent, Africa would be transformed. And the Africa of 2050 would indeed meet the aspirations of its people.

Four areas for concerted action

Convergence or meeting people's aspirations will require more sustained action across the areas identified in Africa 2050 (see Box 1).[15] But four challenges—commodity dependence, investment and savings, demographics and jobs, and education quality—now loom larger than foreseen in Africa 2050 and require concerted action across the continent.

Reduce commodity price vulnerability

The importance of commodities in African exports contributed to faster growth of both disposable incomes and GDP during the commodity price super-cycle from 2000 to 2012. This long cycle of increasing commodity prices has ended and most projections foresee slow, if any, real growth in commodity prices over the next decade.[16] This has contributed to keeping per capital income growth in Africa below global per capita income growth since 2010, and has two big implications for African policy makers. First, there is an immediate and urgent need to adjust macroeconomic policies to return to a sustainable path. Second, returning to a convergence path will require much more aggressive action on structural reforms to diversify and increase productivity.

It is generally recognized that for economic activity to expand equitably and on a sustainable basis, macroeconomic policies need to ensure stability and predictability. The response of many African countries, including those most reliant on commodity exports, to the commodity terms-of-trade decline has been to draw down reserves and increase international borrowing. In many cases this has been accompanied by the maintenance of unrealistic exchange rates and real exchange rate appreciation. This path is not sustainable. The choice is not between continued per capita income increases and painful (in the short-term) adjustment but between orderly, managed adjustment and disorderly adjustment. Urgent action is needed to restore sustainable macroeconomic frameworks if the high economic and social cost of disorderly adjustment is to be avoided.

Broadly, orderly, managed adjustment requires sound fiscal policies along with sound monetary policies, consistent with debt and balance of payments sustainability. Ideally, these policies would be supported by a flexible exchange rate regime, which would allow for an independent monetary policy and would provide countries with a critical policy instrument to help absorb external shocks. Reducing commodity price vulnerability would, in many cases, involve adoption of structural fiscal rules and sovereign wealth/stabilization funds.[17] Reducing commodity price vulnerability also

15. See Ahlers et al. (2014) for a more detailed discussion of the policy agenda outlined here.

16. See Loser et al. (2016)

17. See Loser et al. (2016) and the macroeconomic (Chapter 9) and natural resource (Chapter 12) chapters in Ahlers et al. (2014).

Africa will neither realize its full potential nor avoid social conflict if it does not equalize opportunity for its people.

Box 1: Africa 2050: Ten areas for action

1. Promote inclusion. Africa will neither realize its full potential nor avoid social conflict if it does not equalize opportunity for its people. This means assuring that those at the bottom of the income distribution have access to quality basic services but also greater political openness and inclusion of groups traditionally marginalized for ethnic, religious, or other reasons.
2. Accelerate the demographic transition. The pace of fertility decline will determine the magnitude of countries' task to educate their young and give them productive livelihoods. Educating girls and giving couples access to modern contraception is essential.
3. Build human capital. Building human capital is the cornerstone of Africa's future economic growth. Education, in particular, is the most powerful tool to accelerate growth, improve competitiveness, and foster inclusion. Africa must transform is depletable natural resource wealth into the human capital wealth required to grow and remain competitive.
4. Reduce conflict and fragility. Conflict affects people's lives very directly, not just their economic prospects. Today a quarter of the population of Sub-Saharan Africa lives in countries directly affected by conflict, and many more are vulnerable to spill over from their neighbors' conflicts.
5. Foster competition to promote competitiveness. The key to competitiveness in regional and global markets is fostering competition among local firms through openness to trade and curbs on both state capture and anti-competitive behavior by monopolies (whether public or private) and strong vested interests.
6. Transform agriculture. Agriculture employs more people in Sub-Saharan Africa than any other sector—but mostly in low productivity jobs. Productivity increases will depend on efficient use of water, the use of new technologies, and governments' success in addressing land rights.
7. Mobilize and invest natural resource rents. Africa is rich in hydrocarbon and mineral resources but their extraction creates few jobs. To catch up with the rest of the world, the region must mobilize a larger share of the resource rents (including through greater transparency in resource extraction contracts) and transform them into human, physical, and financial wealth.
8. Manage urbanization for growth. Cities are the locus of most economic activity but it is firms that will drive economic growth and job creation. The most critical action over the next decade will be institutional—introducing and making operational the systems of local government that are essential for effective city management.
9. Promote regional integration and trade. For firms in small markets—like most African ones--to grow, specialize, and increase productivity, and thus create jobs, they need access to larger markets. Regional economic organizations and their members must identify and aggressively remove the obstacles to goods and people crossing borders.
10. Reposition Africa globally—replace aid with trade and FDI. Africa can only converge with the rest of the world if it has the bigger markets and market discipline offered by global trade. Market access and joining supply chains through FDI need to be the focus for the future

requires diversification. Diversification is frequently thought of in terms of economic activities, e.g., manufacturing or services, but diversification of assets is even more important. Rich countries hold the vast bulk of their assets in the form of intangible capital (human and institutional capital) rather than natural resources or produced capital (e.g., roads, power

Given its high population growth, Africa needs GDP growth of at least 6 percent to converge with the rest of the world.

systems, factories). From a continental perspective, one of Africa's biggest challenges is to transform its natural resource wealth into human capital, produced capital, and financial assets, i.e., to diversify its asset base. Only with a diversified asset base can incomes be de-linked from commodity price fluctuations.

A diversified asset base would also imply diversification in economic activities but of a very different nature in resource-rich countries than in others. The activity diversification agenda is discussed in the parallel TICAD VI policy paper Economic Diversification of African Economies[18] and focuses on overcoming the small size of African markets, weak infrastructure,[19] blockages to regional trade,[20] poor business environment, weak skills base, and the special challenges of resource-rich countries. This is precisely the "competitive economies" agenda of Africa 2050 (items 5-9 in Box 1).

Increase savings and investment

Given its high population growth, Africa needs GDP growth of at least 6 percent to converge with the rest of the world. Such growth is highly unlikely with investment rates hovering just above 20 percent of GDP.

Public savings should be a key part of raising national savings rates. Unfortunately, in the aggregate, African countries have used the boom times to increase current expenditure even more than revenue, so that savings as a share of GDP have fallen. Part of the macroeconomic adjustment discussed above will require in many countries reduced, but more effective, current expenditure in order to generate the savings for increased investment.

Public investment is an important but small part of the solution. Countries undoubtedly need to increase domestic resource mobilization, as discussed in the 2015 Addis Summit on Financing for Development, and the African Development Bank and other multilaterals need to be able to mobilize additional financial resources. Under the best of circumstances, however, given tighter capital markets and fiscal sustainability concerns, even with better managed current spending, increases in public investment will be small relative to the need. The most critical use of public funds may be, in combination with policy reforms, the reduction of risk for private sector investors in order to mobilize much larger private investment from both domestic and foreign sources.

The bulk of any increase in investment in Africa must come from private sources. This is not happening today. The reasons are broadly two. First, investors in general recognize the potential in African countries but neither domestic nor external investors have the confidence to invest, because of concerns about macro stability, the rule of law, the stability of the policy framework, or the power of insiders and vested interests. Whatever the cause, until countries identify, debate, and resolve the reasons for low investor confidence, including by their own citizens, private investment is unlikely to increase significantly. Second, and relatedly, many countries in Africa in reality have self-contradictory views of the private sector. On the one hand, they acknowledge in principle that job creation and growth will only come from private sector investment. On the other hand, they view the private sector as almost predatory, interested only in extracting rents and exploiting workers, or as a source for financing party or ethnic politics. The latter view is probably related to the crony capitalism found in many countries. Whatever their origins, these views are incompatible. Governments (and societies) need to have a much clearer view of what they want. If it is a dynamic, competitive, job-creating private sector, then the de facto policies of the recent past will not do. It is not simply

18. See Bond, J. (2016). "Economic diversification of African economies," *TICAD VI Policy Papers*, Centennial Group International.
19. See Bond, J. (2016). "Infrastructure in Africa," *TICAD VI Policy Papers*, Centennial Group International.
20. Tuluy, H. (2016). "Regional Economic Integration in Africa," *TICAD VI Policy Papers*, Centennial Group International.

Given the prospect of another 35 years of extraordinary growth of the working-age population and the current low share of formal wage employment, even if such employment were to grow spectacularly it could not absorb today's underemployed and the inevitable increase in the labor force.

a question of fixing a regulation here and there, however necessary that may be, but of changing mentalities.

Accelerate demographic transition and create jobs

The demographic prospects discussed in Section 2 have three important implications for African governments and policy makers. First, it is even more urgent to accelerate Africa's move to a modern demographic profile of low infant mortality and low fertility, as discussed in Africa 2050. The highly heterogeneous experience of African countries in transitioning to a modern demographic profile is illustrated in Figure 18. Fifty years ago total fertility was above 6 children in almost all African countries but it has fallen below 4 in a large and disparate (whether by income level, sub-region, or dominant religion) group of countries. Ten countries now have total fertility rates below 3. The important message is that African countries have shown that it can be done and there is an urgent need for the others to catch up.

The second implication is that, even with a heightened effort to reduce fertility, the job creation challenge in Africa is structurally different than in other regions (see Figure 13). For Africa, it is not a question of rapid job creation for one generation to reap a demographic dividend; it is a question of keeping ahead of a century of extraordinary growth in the working-age population. Recognizing that only private firms, rather than governments, can possibly create the needed jobs, implies a much more ambitious agenda across the continent to create the conditions for firms to be competitive and to grow.[21] The third implication is a corollary of the second. Given the prospect of another 35 years of extraordinary growth of the working-age population and the current low share of formal wage employment, even if such employment were to grow spectacularly it could not absorb today's underemployed and the inevitable increase in the labor force.

21. Bond, J. (2016). "Economic Diversification in Africa," *TICAD VI Policy Papers*, Centennial Group International.

As noted above, firms, not governments, create jobs but the modal size of a firm in Africa is one person (frequently self-employed in agriculture or services). Thus employment in agriculture and in traditional services will grow, and increased attention needs to be put on raising productivity of workers in the informal sector.[22] Focus on service delivery to raise learning outcomes

If Africa wins the battle on enrolment rates but loses the war of learning outcomes it will not realize the productivity growth needed to converge with the rest of the world. The key message for policy makers is that education quality matters greatly and it requires urgent attention. The good news in this regard is that learning outcomes are only weakly associated with education spending (Figure 19). The question is much less "how much is spent on education?" than "on what are education funds spent?".

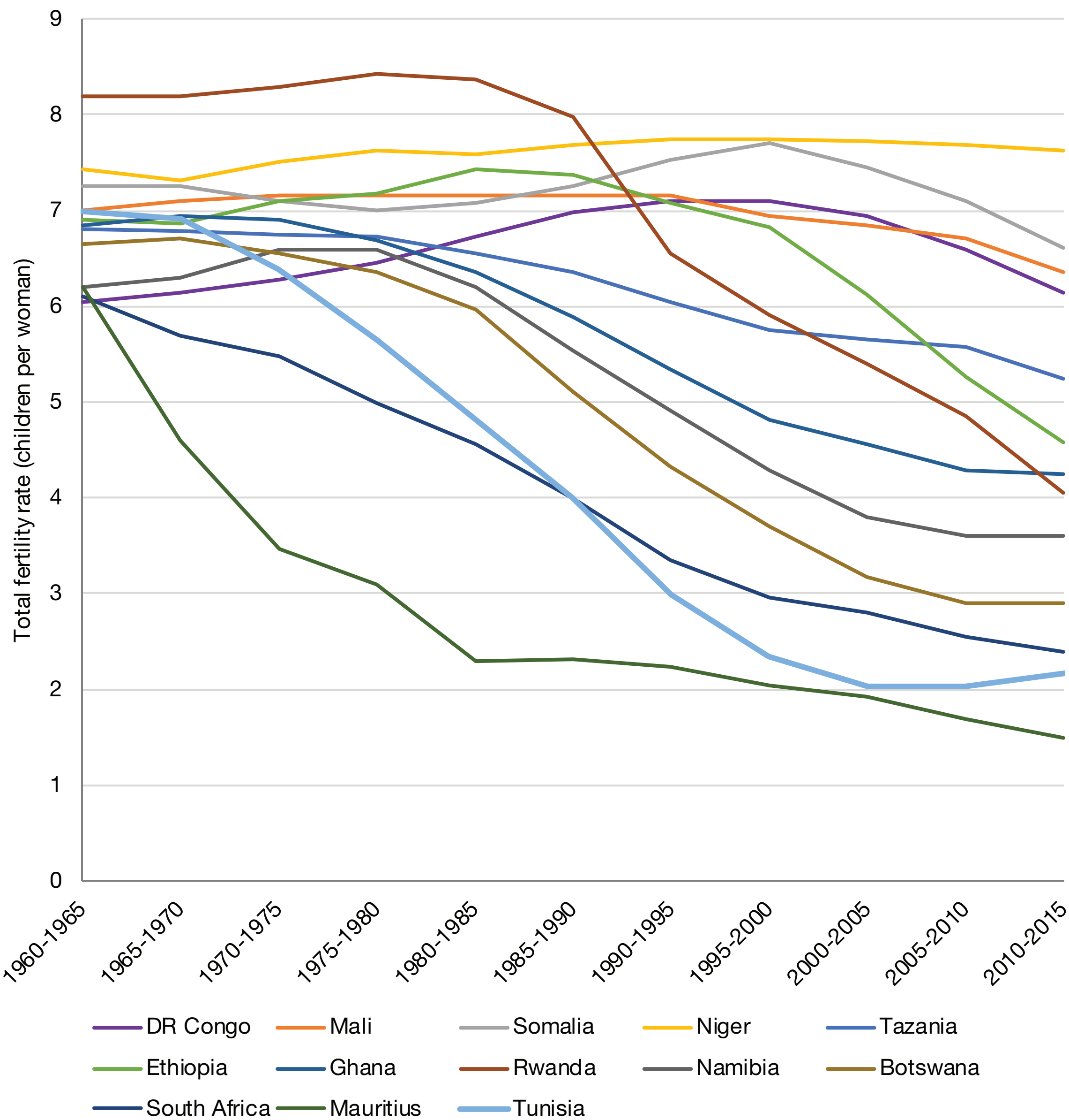
If education spending levels make only a small difference in learning outcomes, what the money is spent on makes a big difference, and the deployment of educational funds is highly amenable to change if there is political will to do so. Recent research shows that a focus on service delivery—such as hours of teaching, teacher skills, student/teacher ratio--rather than on inputs--schools built, teachers hired, or budget allocations (which may or may not arrive)--is key to improving learning outcomes.

Service delivery surveys from seven countries[23] show that the teacher is key to learning.[24] To better understand the quality issue, the surveys collect information on what teachers do, what teachers know, and what teachers have to work with. Combining teacher absence from school, teacher absence from the classroom, and non-teaching time in the

22. See Fox, L. (2016). "Africa's inclusive growth challenge: Reducing deprivation and creating jobs," *TICAD VI Policy Papers*, Centennial Group International.
23. World Bank. (2013). Service Delivery Indicators. http://datatopics.worldbank.org/sdi/.
24. See "How to make a good teacher", *The Economist*, June 11-19, 2016.

Combining teacher absence from school, teacher absence from the classroom, and non-teaching time in the classroom suggests that the typical child experiences a very small number of hours per day of actual teaching and learning time.

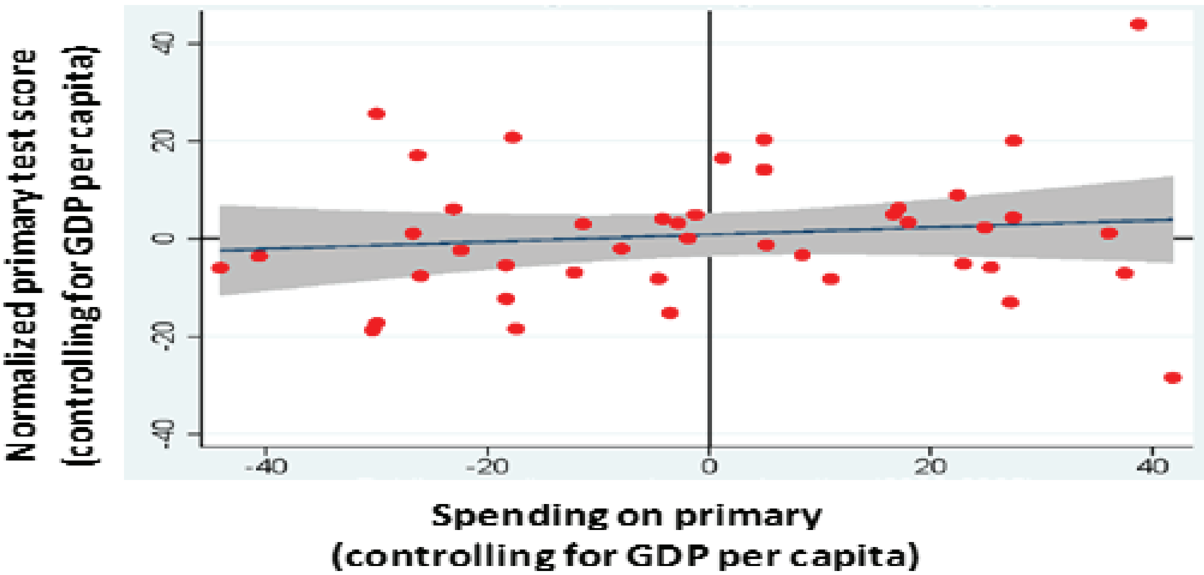
Figure 18: **Total fertility for selected African countries, 1960-2015**



Source: UN Population Division (2015)

Countries need to shift from financing inputs to monitoring learning outcomes and what actually happens in the classroom.

Figure 19: Learning outcomes by spending on primary education



Source: Bruns, et al. (2011)

classroom suggests that the typical child experiences a very small number of hours per day of actual teaching and learning time. The range is from below 2 hours per day in some countries to more than 3 hours in others—but actual teaching time is substantially lower than scheduled teaching time in all countries. Increasing teaching and learning time will not require more public funds or inputs but rather a focus on the performance of education systems and especially a focus on the teacher.

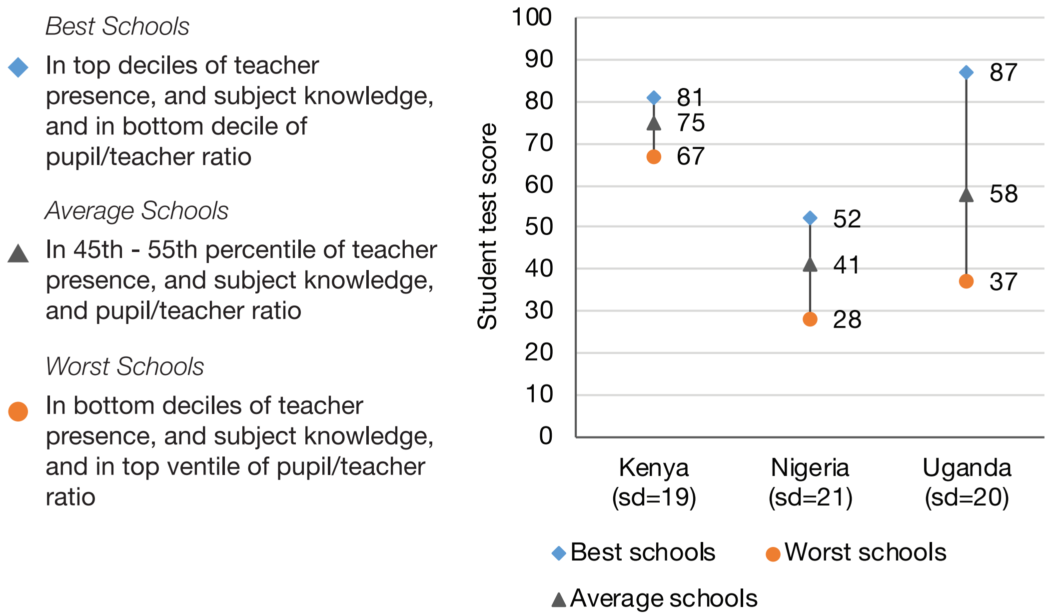
The surveys also reveal great variability within and across countries and suggest that service delivery matters and can be changed (Figure 20). Language learning outcomes varied, for example, by more than 60 percentage points between Kenya's best (in terms of service delivery) and worst public schools. Similarly, on math learning outcomes, Kenya's worst public schools did better than Nigeria's best schools. Such variability shows again that service delivery quality matters and that African best practices exist in this sector as well. Countries need to shift from financing inputs to monitoring learning outcomes and what actually happens in the classroom.

Conclusion—Capable states and pragmatic leadership

Neither the action agenda elaborated in Africa 2050 nor the four areas identified for concerted action in this paper are new. Hence, it is reasonable to ask why calls for action would be any more successful now than in the past. Experience in Africa (and elsewhere) over the last two decades suggests that greater success this time will depend on progress on two overarching issues—capable states and pragmatic leadership.

The challenge is less what to do than how to implement the chosen course of action and how to sustain a "do whatever it takes" mentality to get results.

Figure 20: Within and between-country differences in math learning



*Source:*Filmer (2010); Service Delivery Indicators

A thriving Africa needs capable states that can deliver security, rule of law, and key social services to all their citizens. Capability is largely a question of governance--of how institutions work. Capable states are not created overnight but are the result of sustained efforts to strengthen capacity and build credibility and accountability. Capable states can encompass a wide variety of political systems but ultimately they need to be accountable to their citizens for delivering results.

A thriving Africa also needs leaders with a single-minded focus on results, sufficient foresight to evolve in order to face tomorrow's challenges, and willingness to be held accountable. Strong, pragmatic leadership is needed (a) to maintain a sharp focus on long-term results despite the relentless pressures of day-to-day concerns, (b) to pursue a pragmatic, rather than ideological, approach to policymaking and (c) to have the courage to be held accountable. The biggest threats to success are complacency and inadequate political resolve to tackle the big problems. The challenge is less what to do than how to implement the chosen course of action and how to sustain a "do whatever it takes" mentality to get results. Institutions and leadership matter!

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Hasan Tuluy

Regional economic integration in Africa

Centennial Group International
The Watergate Office Building, 2600 Virginia Avenue, NW, Suite 201
Washington, DC 20037, USA
Tel: (1) 202 393 6663 Fax: (1) 202 393 6556
Email: info@centennial-group.com