CHAPTER 1: INTRODUCTION AND OVERVIEW

Africa is at a critical turning point. After decades of disappointing performance, growth has been strong over the last decade and offers the foundation for transforming the continent over the next two generations. The recent improved performance has also raised the aspirations of Africans across the continent and renewed global interest in Africa, including FDI. What Africa, its leaders, and its partners do now will determine whether the rising aspirations of Africans and global expectations are met or not.

This report lays out a broad Africa 2050 scenario in which Africa catches up (or converges) with the rest of the world to narrow the gap in terms of living standards and productivity. It describes a future for Africa of individual prosperity in cohesive societies, competitive economies, and strong regional-global interaction. Under such a scenario, by 2050 per capita incomes would grow six-fold, moving from one quarter of the global average to one half. The number of poor would be reduced ten-fold to fewer than 50 million. The majority of Africans would join the middle class. Africa's share of global GDP would triple to 9 percent. This is a vision of what could be but it is not a prediction. It is only one of several possible scenarios and actions taken today will be key to determining which is realized.

Action will be required in many domains to realize the Africa 2050 convergence scenario described in Chapter 3. Complementing JICA's flagship report *Inclusive and Dynamic Development in Sub-Saharan Africa*[2], this report examines five issues that are important for turning such a scenario into reality: macroeconomics, poverty and inequality, demography, urbanization, and natural resources.

The first two chapters set the macroeconomic framework and 2050 scenarios which underlie the entire report. The subsequent four chapters examine specific issues (demography, poverty and inequality, urbanization, and natural resource revenues) that are incorporated into the scenarios and which cut across the sector issues addressed in other work.[3]

Macroeconomics (Chapter 2)

The chapter on macroeconomics provides both an assessment of Africa's economic performance since the independence of much of Africa in the 1950s and 1960s, and the macro-economic policy framework that would provide the foundation for its robust development in the next forty years. In the broadest terms, Africa's economic performance since the 1960s can be divided into three periods. The first decade after independence showed a strong but short-lived rebound in growth rates. Then from 1970 to 1995, a combination of unsustainable economic policies, external shocks, failure to adjust to changing economic conditions, and increasingly exclusionary politics produced 25 years of decelerating growth, which culminated in a stagnation of progress in most social indicators. Since the mid-90s, painful economic adjustment, stronger macroeconomic management, and greater openness to trade and private sector activity, substantially aided by the dramatic improvement in commodity prices in the last decade, have led to a steady acceleration of per capita growth rates. In addition to growing faster over

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[2] The JICA Flagship report coverage includes agriculture, industrial development, infrastructure, health and education, state building and conflict prevention, and climate change.

[3] In addition to the above-mentioned JICA report, see the Emerging Markets Forum's "Africa 2050: Realizing the Continent's Full Potential."

the last decade, most African economies were also relatively resilient to the 2008 global financial crisis—some because of large external reserves generated by natural resource exports, others because of little integration with the global economy—which also makes them poor, and for a leading few because of strong macro management, banking reforms, and export diversification.

Over the same 50 years, many other developing regions—especially Asia—showed uninterrupted, higher economic growth and slowing population growth. As a result, Asia's per capita GDP has soared relative to the world average while Africa's has stagnated. The Asian performance beginning with the sustained high growth of Japan, followed by that of the newly industrialized Asian tigers, and now of China and India, shows that sustained high growth is possible, even in countries that are strikingly different in size, resource endowment, initial human capital, culture, and political regimes. Based on this Asian experience and also both the successes and difficulties faced by Lain America over the past 40 years, the macroeconomic chapter puts forth a macroeconomic policy framework that would be the foundation of a higher and more sustained growth of African economies between now and 2050, including by ensuring macro-economic balances, higher savings and investment rates as well as a much more conducive business environment that will make Africa a haven for private investment and ensure continuous growth in productivity. This framework guides the work on all elements of this study and underlies the scenarios for Africa in 2050.

2050 Scenarios (Chapter 3)

Three scenarios of Africa's future economic trajectory through 2050 are presented in Chapter 3: the "Convergence" scenario, the "Business as Usual" scenario, and the "Downside" scenario. The scenarios were developed with Centennial Group International's Global Economy Model which was also used in the Asia 2050 and Latin America 2040 studies. The convergence scenario assumes strong reform action, including in the five areas addressed in this report. Under such a scenario per capita incomes in Africa could grow by 4.6 percent annually over the next 40 years and exceed US$17,000 (2010 PPP US dollars) in 2050. Africa-wide per capita income would be higher than that of Russia, Malaysia or Turkey today. Under such a scenario, Africa's average per capita income would rise from 27 percent of the world average today to 52 percent. Such sustained growth would set in motion many changes which would genuinely transform the lives of Africans and Africa's role in the world. The size of the middle class would increase more than 100-fold and increase to 69 percent of the population from 12 percent today. The number of poor would decline to 53 million (or under 3 percent of the population) from 384 million (or 36 percent) today. In global terms Africa's share of world GDP would more than triple from less than 3 percent today to 9 percent in 2050.

The business-as-usual scenario assumes that Africa's higher investment rates of recent years continue, its labor force continues to grow, commodity prices remain high, and the generally improved policies of the last 10-15 years are maintained—but there is no sustained action on the remaining policy and institutional reform agenda and therefore these determinates of growth would not improve further. As a result, on the productivity front nothing much changes. The opportunity cost borne by average Africans would be enormous if the African economies fail to realize the convergence scenario and remain stuck in the business-as-usual scenario -- per capita income lower by more than US$10,000, some 40 percent of the population (895 million) unable to reach middle class status, and an additional 15 percent of the population (325 million) mired in poverty.

The business-as-usual scenario is, however, by no means a low-case scenario. A much more dire or "downside" scenario is also plausible and could be triggered by an increase in fragility and conflict, growing inequality, a failure to slow population growth, or commodity price swings. Under the downside scenario per capita income would grow by less than one percent a year, reaching only US$4,000 (2010 US dollars PPP) in 2050. But, given faster growth in the rest of the world, it would fall to only 15 percent of the world average. One in three Africans would still be in poverty. On the global stage Africa would have only 2 percent of world GDP. Such a scenario must be avoided at all cost.

The convergence scenario is feasible but will be realized only if there is vigorous and sustained implementation of policy and institutional reforms. This scenario requires sustained, higher productivity growth for most countries over the next 40 years. Countries in other regions (particularly many in East Asia) have achieved such sustained productivity growth, but not many. African leaders therefore must focus on realizing the convergence scenario.

Demography (Chapter 4)

Chapter 4 highlights both the major demographic changes that will shape the continent and the importance of accelerating the demographic transition. Over the next 40 years, Africa's population is likely to at least double, reaching 1.9 to 2.5 billion, and the number of youth will increase from 205 million today to anywhere from 330 to 450 million. These demographic shifts can lead to higher productivity and per capita incomes or to unmanageable social tensions, violence, and conflict. The chapter thus assesses one of the key parameters for the macroeconomic modeling, the prospects for poverty reduction, and the dimensions of urban growth dealt with in other chapters

The potential for a demographic dividend is clear. Africa's share of the world labor force will grow and, if fertility declines, its dependency ratio will fall. This creates the potential for a rapid rise in per capita incomes—a demographic dividend—as both worker productivity and the share of the population that is employed increase.

In the simplest terms, realizing the potential depends on people finding higher productivity jobs. One key question is jobs for how many people? Under the UN's low-fertility variant, Africa's working age population would increase by 630 million—from 470 million today to 1.1 billion by 2050—and its dependency ratio would fall from 119 today to 76 in 2050. Even with no change in productivity this would yield nearly a 25 percent increase in per capita incomes as a result of the greater number of workers for every child or elderly person, and a virtuous circle of increased income to increased savings to increased investment to even higher income.

In sharp contrast, under the UN's high-fertility variant, the working age population would increase by 780 million by 2050 and the dependency ratio would fall only to 98 from 119 today. With no other changes, the result would be only around a 10 percent increase in per capita incomes. Under the high-fertility variant, which already assumes a decline in fertility from today's levels, it is highly unlikely that Africa would be able to increase jobs and productivity enough to raise per capita incomes substantially.

Similarly, the increase in the number of children to be cared for is directly related to the pace of fertility decline. Under the UN's low fertility variant, in 2050 Africa would have roughly 100 million more children than today to be educated, kept healthy, and housed. Under its high fertility variant, there would be more than 400 million more. Providing quality and health, education, and other services to 100 million more children may be a challenge but is doable. Trying to provide them for more than 400 million more is likely to put an unbearable strain on both institutional and fiscal capacity and hence deprive these children of the skills needed to create and prosper in a dynamic Africa of 2050. Fertility issues are also directly related to poverty and inequality as the poorest segments of society frequently have the highest fertility and suffer most from the lack of quality education and other services.

The population will continue to increase but the pace of fertility decline is a key determinant of the number children to be educated, the number of jobs needed, and the number of young and old supported by every working adult. The difference in these numbers across fertility scenarios is very large. If fertility were to stay at today's levels or even decrease to the UN's high-fertility variant, it is very unlikely that Africa could produce either the required access to quality education or jobs.

How many jobs and what kind of jobs? Job creation is both more uncertain and more amenable to big changes than population growth. Even the low-fertility scenario implies a need for 12-15 million new jobs every year just to absorb the increase in the working age population. Big increases in jobs will have to come from the private sector. Given rudimentary social protection systems, unemployment is not an option for most and household enterprises are likely to stay the residual source of employment. It is very likely that people will be employed; the question is whether they will be employed in low-productivity traditional agriculture and household enterprises (survival jobs) or in higher-productivity agriculture, manufacturing, and services jobs that are transformational. The answer depends on whether workers have the needed skills and private investors have the confidence to invest.

Poverty and Inequality (Chapter 5)

The poverty and inequality chapter argues that Africa's sustained growth both requires the mobilization of the totality of the society's human resources and provides the only effective means for social mobility and reduced outcome disparities. Such a reduction in disparities is key for realizing the 2050 convergence scenario developed in Chapter 3.

While poverty rates have declined over the last decade in much of Africa, inequities and disparities are still growing nationally, regionally, and with respect to the rest of the world. At the national level, inequality, as measured by Gini coefficients, increased over the last decade in two-thirds of the African countries for which data are available. As a result, income inequality in Africa is now higher than in any other region of the world except Latin America (where income inequality is finally declining). The earnings of the richest 20 percent of the population are 11 times those of the poorest 20 percent in Africa compared to only 7 times greater in Asia. At the regional level, per capita incomes in the five richest African countries are 30 times those of the poorest five countries today, compared to 16 times greater twenty years ago. Finally, African per capita incomes are a smaller share of the world average than they were at independence and this share has remained stagnant over the last decade. Thus even as concerns about the number of people living in absolute poverty are alleviated over time, inequities and disparities will and must remain a major concern to economic policy makers and political leaders alike throughout Africa.

Access to basic services, such as education, health and sanitation, has again improved considerably over the last decade. Like reductions in poverty, however, the overall improvement in access masks large and sometimes growing disparities in access based on gender, rural or urban location, and family income level. They deserve much greater attention.

The Africa Progress Panel has clearly stated the implications of inequities and disparities: “Not all inequalities are unjust, but the levels of inequality across much of Africa are unjustified and profoundly unfair. Extreme disparities in income are slowing the pace of poverty reduction and hampering the development of broad-based economic growth. Disparities in basic life chances— for health, education and participation in society—are preventing millions of Africans from realizing their potential, holding back social and economic development in the process.” Any further growth in inequities would likely spur social unrest, ranging from possible collapse in fragile countries to increased social tension in more stable countries to large population movements across borders.

Sustained high growth as envisioned in the convergence scenario for 2050 would make a significant impact on poverty and on the share of Africa’s population moving into the middle class. Given the dimensions of the problem, increasing the opportunities for the most vulnerable is the only way to both sustain overall growth and reduce disparities. Jobs may be the vehicle for people to move out of poverty, but disparities in access to quality education, health, and other services must be reduced dramatically for the poor to board this vehicle. Current disparities of opportunity range from unequal access to health and education services almost everywhere to dualistic labor markets in richer countries. These concerns and their resolution are reflected throughout the report which focuses particularly on inclusive growth and the challenge of creating millions of well-paying jobs each year and of training Africa’s young and fast growing labor force to meet the requirements of these jobs.

Urbanization (Chapter 6)

Chapter 6 highlights that if people have skills, if cities function well, and if economies are open to competition, then Africa’s cities—which will triple in size from a population of 400 million today to at least 1.1 billion in 2050—will be the loci of job creation. The size of urban markets, rising income of urban residents, and concentration of economic activity could make cities dynamic centers for higher productivity jobs—offering the prospects of a better life to more than one billion people. On the other hand, if people are illiterate and unskilled, cities dysfunctional, and economies trapped in extractive activities and/or crony capitalism, urban areas would be poor and violent— offering only the desperation of hopelessness to residents.

All the prospective health gains, all the potential for a dramatically expanded and enhanced skills base, and the possibilities for generating jobs and attracting investment in Africa, will depend on how effectively cities function—how well, and to what level of quality, services are sustainably delivered—since it is the urban areas where most of the future population will live and where the jobs will have to be created. African cities are already the fastest growing in the world, and by 2050, the continent could be home to fifteen mega-cities of more than 10 million inhabitants.

Larger urban populations also mean that cities will occupy more land to accommodate businesses, housing, public spaces, and circulation. Physical expansion will require increased capacities of the associated water and sewerage systems, sanitation and solid waste management, roads and drainage, parks and recreation, electricity supply—all of which are to be provided on a massive scale by cities which, for the most part, have failed to meet much less pressing service demands to date. Recent studies have shown that despite the economic gains made by Africa over the past decade, and unlike Asia, there has been a significant increase in urban slums and a worsening of urban poverty levels.

Moreover, experience worldwide shows that urban service demands cannot be sustainably delivered from the center, but have to be driven and managed by city government. This is a significant challenge in Africa where most political environments do not provide the enabling policy, fiscal frameworks, and legal and regulatory regimes necessary for cities to function effectively. In addition, city governments only operate effectively if there are clear lines of accountability and consequences between them and their constituents.

Cities may be the locus of most economic activity but it is private sector firms that will drive growth and job creation. Cities must not only provide traditional urban services to their residents but be very focused on creating the environment required to attract and grow private businesses.

The most critical area for action over the next ten years will be institutional—introducing and making operational key systems of local government that are essential to effective city management. Establishing such systems requires action on five broad fronts. First, there must be clear definition of the functional responsibilities assigned to urban government. Second, sound legal and regulatory frameworks for functional and fiscal operations must be established. Third, predictable sources of local revenue need to be identified, including a transparent architecture for central-local fiscal transfers. Fourth, effective social contracts between urban local government officials and their communities must be built to support good governance and strengthened accountability. Finally, urban local government capacity needs to be strengthened through a process of "learning by doing".

Natural Resources (Chapter 7)

Chapter 7 addresses three main issues related to natural resources. First, how Africa can sustain, and even raise, the growth rates it has experienced recently by increasing the share of revenues accruing to the country from the production and export of natural resources. Second, how best to preserve and invest these revenues. And finally, how best to diversify the economies over time in order not to rely too heavily on natural resources to continue its growth.

Africa is well-endowed with mineral resources. It accounts for more than 5 percent of both production and reserves of oil, gas, bauxite, titanium, copper, and gold. In addition, many of its reserves are of particularly high quality. As a result, natural resources play a big part in the regional economy. Hydrocarbon and metals exports account for more than 50 percent of exports in 14 African countries that are home to 39 percent of the continent's total population. Similarly, resource extraction rents represent more than 2 percent of GDP in 27 countries that account for 72 percent of the population. Commodity prices have historically played a big role in growth. Roughly one-quarter of African GDP growth over the last decade is attributable to commodity price increases.

Hydrocarbon and mineral wealth is intrinsically a blessing but one that can easily become a curse. Africa has examples of such resources being managed efficiently and thus contributing to dramatic improvements in wellbeing, such as in Botswana. But there are also examples where these resources have fueled wars, such as in Sierra Leone or the Democratic Republic of the Congo (DRC), or led to widespread corruption and poverty, such as in Nigeria.

Extracting non-renewable resources is, by definition, not a sustainable source of growth over the long run and creates few jobs. The source of either the blessing or the curse is that natural resource extraction generates revenues that are much greater than the cost of extraction, what economists would refer to as "rents". Everything depends on who gets the rent and how they use it. They can be stolen (and frequently sent abroad), consumed, or invested.

Countries can get more (or less) of the rent depending on the risks and costs of doing business in their country, the extent of transparency to reduce corruption, and the expertise they mobilize in contract and taxation matters. The risk is that even then such rents can lead to boom and bust cycles in the economy linked to fluctuations in commodity prices, to an overvalued exchange rate that makes diversification and the associated job creation difficult, or to unsustainable consumption that ends when the resources are depleted. The opportunity is to transform mineral assets into human, physical, and financial capital that could transform the continent and its people. The chapter offers specific recommendations as to how resource rich African countries can do so. The recommendations cover both, measures related to natural resource rents and their management, and broader economic management to enable inclusive development and private sector-led diversification of the economies.