The State of African Development

Dr. Akinwumi A. Adesina
President, African Development Bank Group

Executive Summary

African economies have exhibited stronger growth in the past two decades due to underlying strengths, and remain broadly resilient in the face of tough global and domestic challenges.

The continuous increase in per capita incomes, driven mainly by several factors, including strong domestic consumption, an emerging middle class and a young workforce, gives the continent a genuine and significant opportunity for economic transformation.

There are important ingredients still missing in the development story – energy and infrastructure, industrialization, deeper regional integration, youth employment, among others, which restrain the continent from fully harnessing its transformational potential.

Now is a unique time to address these gaps and constraints, given the unprecedented level of global savings and low interest rates, especially through determined implementation of the Bank's High 5s for Africa's transformation.

The State of Africa's Development

In 1990 Africa was experiencing very low levels of economic development and very high levels of poverty. A contemporary edition of The Economist entitled Africa "the hopeless continent". Since 2000, Africa has been growing steadily, with an average GDP of well over 5%. Although Africa's average growth rates have slowed to below 5% since 2011, and in 2016 to 2.2%, the continent's ongoing performance remains broadly above world averages. In 2011 The Economist wrote about "Africa on the rise: the hopeful continent".

The positive growth continued through 2011 over a difficult period for other global economies. But regionally aggregated GDP figures for Africa hide the true story. Despite the weaker average growth in 2016, 32 African countries recorded growth higher than the world average of 3%, with 14 African countries higher than 5%. The Bank's projection is that aggregate growth will rebound strongly in 2017 to 3.4%, and 32 African countries are expected to grow at over 4%, all well above the global growth average.

It has been suggested that Africa is becoming dangerously indebted. During 2013-2015, African countries issued a total of about $21 billion worth of sovereign bonds, over three times higher than in 2009-2012. But African countries are not in a debt crisis. Some may have liquidity challenges, but with a debt to GDP ratio of 21% in 2015, the risk of debt distress in Africa is still low and broadly manageable. The level of foreign direct investment shot up from around $2 billion in 1990 to $56.5 billion in 2016 and may hit $57.5 billion in 2017. The number of African countries with sovereign credit rating has increased from 10 in 2013 to 26 in 2017. The evidence of underlying strength is clear: African economies generally are and remain resilient.

The key challenge for Africa is the generation of power. Power consumption per capita in Africa is the lowest of all continents, currently estimated at 613 kWh per annum, compared to 6,500 kWh in Europe and 13,000 kWh in the United States. Much of rural and suburban Africa remains in the dark, and it is difficult to start a business or teach or provide healthcare without power and light. Power is the overriding priority.

The experience of other industrializing economies around the world shows that Africa can realistically more than double its overall GDP per capita by substantially increasing its industrial GDP in the next ten years. This could generate up to 14 million jobs by 2025 through accelerating infrastructure investments, adopting sound industrial development policies, creating opportunities for entrepreneurship, and enhancing intra-regional trade.

The potential of agriculture for economic revival and job creation also remains largely untapped. With a shift in demographic trends – population growth and rapid urbanization – the food and agribusiness industry in Africa is projected to grow to $1 trillion by 2030. The African continent holds over 65% of all the uncultivated arable land left in the world, which potentially makes it uniquely positioned to feed not only itself but the world.

At present, the continent spends $35 billion each year on food imports, and this amount is projected to rise to $110 billion by 2030 if present trends continue. Therefore there are massive business opportunities within Africa to be harnessed in the agribusiness sector.

Africa has also made some progress over the past 20 years in poverty reduction, although the reductions are not as fast as in other regions. Extreme poverty in Sub-Saharan Africa has declined by 28% and the under-five mortality rate by 52%. Since 2000, the number of children dying from malaria has been reduced by 40%. The prevalence of undernourishment in sub-Saharan Africa has declined from 33.2 % in 1990–92 to 23.2 % in 2014–16.

Productive employment is essential for inclusive growth. Yet recent growth has failed to translate into increased job opportunities. Indeed, jobs are becoming more critical now with the fast increase in the continent's youth population, expected to double to 830 million by 2050, and two-thirds of the youth population are currently unemployed.

This crisis of youth employment has triggered another: the crisis of migration. We are witnessing today the tragic but voluntary migration of our youth to an uncertain future in Europe. Faced with the potential loss of the very factors that could enable it to move to a successful future, Africa must confront its most critical challenges head on and urgently.

African companies are also emerging and growing in a wide range of sectors across the continent. Governments are making significant improvements in business reforms to attract more private sector investments. The World Bank's "Doing Business 2016 Report" showed that Sub-Saharan Africa accounted for more than 30% of the regulatory reforms in the world during 2014 and 2015, well ahead of Europe and Central Asia.

But entrepreneurship in Africa is still far from reaching its full potential. African businesses are hampered by a skills mismatch, resulting from a failure to reform curricula in African universities and other institutions to match with international skills requirements. The private sector's focus has shifted towards new skills in sciences, engineering, mathematics, and others related to the "Fourth Industrial Revolution". Yet today, 70% of enrolments in African universities are in social science fields, and less than 2% in engineering.

The African Development Bank has dedicated itself to these challenges by financing programmes and measures designed to stimulate growth and rejuvenation in key areas. In 2015 the Bank defined its High 5 priorities for supporting African development: Light-up and Power Africa, Feed Africa, Industrialize Africa, Integrate Africa, Improve the quality of life for the people of Africa

Financing Africa's Development

The African Development Bank has methodically developed commitments and financing plans in support of each of the High 5s and has even changed its own structure to respond more effectively to the challenges of its new priorities.

Africa's strikingly low level of power generation compared to the rest of the world is largely why the Bank prioritized its first High 5: Lighting up and powering Africa, and launched the New Deal on Energy for Africa in 2016 with specific measures aimed at achieving universal access by 2025.

In addressing the energy problem, the Bank is investing $12 billion in the power sector and seeks to mobilize $45-$50 billion from other private and public partners. In 2016, the Bank approved $1.7 billion for power projects and launched a new $500 million energy inclusion facility to ramp-up off-grid investments. In 2017, the Bank plans to invest $2 billion in the sector. The Africa Renewable Energy Initiative, jointly developed by the African Union Commission and the G7, is also now up and running, and hosted by the Bank. It will mobilize up to $10 billion for renewable energy projects.

The Bank is encouraging governments to increase tenfold their current budget commitments to the energy sector, and to improve the political support they give to transformative energy projects. There are also ongoing efforts to consolidate different initiatives in the energy sector, including the Transformative Partnership on Energy in Africa.

Industrialization entails accelerating intra-regional trade beyond the current 15% share, and removing the barriers that separate and isolate African markets. Although Africa's physical regional infrastructure is improving, the improvement is from a very low base and remains largely fragmented.

The Bank is improving the access of African countries to infrastructure financing via its financial instruments and private finance catalysis, directed by its High 5 strategies. These include its Private Sector Credit Enhancement Facility (PSF) which can support up to $500m investments through Risk Participation Agreements (RPAs). There is also a $500m Private Equity Fund for the acceleration of energy access in Africa, and climate finance support to energy and climate mitigation projects

Other instruments include bi-lateral co-financing programs and Trust Funds, for example the Africa Growing Together Fund – an initial $2bn 10-year co-financing partnership with the People's Republic of China, and a $3bn 3-year co-financing partnership with the Government of Japan. The Bank also offers credit enhancement/risk mitigation products for large scale projects, such as at the Lake Turkana project in Kenya, and strategic partnerships in venture capital, the Africa CEO Forum, and the Action Plan for Agricultural Transformation.

There are already several regional initiatives aimed at improving the stock and quality of regional infrastructure and at leveraging the benefits of financial markets integration in Africa. Recent efforts also include supporting financial integration. Through the African Financial Market Initiative (AFMI), we are stimulating the development of domestic bond markets, regional stock exchanges, and regional commodity markets on the continent. Later this year, the Bank will be launching the Africa Investment Forum, a transactional investment platform matching bankable projects with capital funds.

Experience suggests that creating opportunities for entrepreneurship and through the private sector is the most important driver of industrialization and job creation. More African entrepreneurs are becoming innovators, driven by the ability to capitalize on domestic market gaps and failures. This reflects a step change in the character of entrepreneurship in Africa. The Bank is determined to offer a better future for today's youth through concrete measures to improve their futures here in Africa as an alternative to fleeing the continent to an uncertain future elsewhere. Under our jobs initiative, the Bank will help to mobilize $3 billion to support young entrepreneurs in Africa. In partnership with the European Investment Bank, we launched the Boost Africa Initiative, a funding mechanism that will channel €150 million to 2,000 young entrepreneurs, and create 75,000 direct jobs and 500,000 indirect jobs.

We must also take advantage of the huge commercial possibilities inherent in the modernisation of agriculture. Africa must become a global powerhouse in food and agriculture. With 65% of all the arable land left in the world to feed 9 billion people by 2050, it can be confidently predicted that when Africa feeds itself it can also feed the world.

And we must get agriculture understood and appreciated as a business and not as subsistence. To help unlock Africa's potential in agriculture, the African Development Bank will invest $24 billion in the agriculture sector over the next 10 years. That is 440% above our current level of investment in the sector. We will focus our support on promoting agro-allied industrialization, value-addition and export diversification. To transform agriculture, African countries must also recognise the critical role women have and invest in measures that target the needs of women farmers. Through its Affirmative Finance Action for Women in Africa (AFAWA) initiative, the Bank will contribute to improving availability, accessibility and affordability of financial services to women in business. We are also working with our partners to leverage $3 billion in financing for women farmers, agribusinesses and other women-owned enterprises.

Over the next 10 years, the African Development Bank will facilitate cumulative investment of $56 billion toward implementing six flagship industrialization programs. The Bank's ambition is to help double the industrial GDP of African economies to $1.72 trillion by 2025 and to over 30% of overall GDP.

To boost regional trade, the African Development Bank is investing more in cross-border infrastructure and taking actions to stimulate the integration of financial markets across the continent. In 2015, regional operations accounted for about 23% of the Bank's lending, a 34% increase from the previous year. The Bank is also devoting greater attention to the needs of fragile states. At the beginning of January 2017, we launched the Africa Resilience Forum, with a target of reaching 10,000 vulnerable communities in 1,000 days, and to accelerate the High 5s in fragile states.

Can Africa really mobilize financing at this scale? The answer is yes. We are living in an era of unprecedented global savings, and these, coupled with the low international interest rates, present a unique opportunity for Africa to tap global capital markets to finance its development. Reserves in China have grown nearly 20-fold since 2000, Saudi Arabia's nearly 30-fold. China alone has over $3 trillion in reserves. The Norwegian Sovereign Wealth Fund is holding nearly $900 billion worth of assets.

Africa can also look to itself for finance. Sovereign wealth fund assets under management in Africa have risen from $114 billion in 2009 to $162 billion in 2014. Pension fund assets in Africa currently stand at $334 billion. African countries should seek to access these resources to finance development programs at the same time as they create a positive business environment for the private sector, innovators, and entrepreneurs.

Conclusion

African economies have remained broadly resilient in the face of severe global and domestic challenges, with their rapid pace of growth in per capita incomes, an emerging middle class and a young labour force, and improved investment opportunities from local and international sources. This is therefore a brilliant and historic opportunity for the continent, and it should not be spurned.

The African Development Bank's High 5 priorities have been established at the right time especially since their scope covers 90% of the area of Agenda 2063 and the Sustainable Development Goals (SDGs).

The Bank's optimism about the African economy stems not from a blind assumption that all will be well whatever happens. There are clearly some challenges but there are none that have no realistic mitigation or solution.

The Bank deals in the currency of solutions, not of problems, and we are Africa's premier development bank, the only bank with an exclusively African focus. The High 5s priorities are based upon a realistic and grounded view of Africa's potential to become a powerhouse of global manufacturing by 2030, with good transport infrastructure, agro-aligned industry, regional integration, high energy generation, full employment, and an improved standard of living for Africans.

African policy makers and development partners have to ensure that the current perfect storm of opportunity for collective transformation throughout the continent via the High 5s are not ignored.

It is Africa's time to stand up, rise up and achieve its long delayed transformation.

References

Schmidt-Traub G (2015), Investment needs to achieve the Sustainable Development Goals – understanding the billions and trillions, Sustainable Development Solutions Network Working Paper, version 2.

UNCTAD (2016), Economic Development in Africa Report 2016: Debt Dynamics and Development Finance in Africa, UNCTAD, New York and Geneva.

McKinsey Global Institute (2016), Lions on the Move II: Realizing the Potential of Africa's Economies.

