Renewing the World Bank Strategy for Africa

Consultations Note

May - 2010

This note has been prepared as background information for people willing to share their views on a new strategy to guide the World Bank’s efforts in Africa.
Introduction:

Since 2005, the World Bank Group's engagement in Africa has been guided by the Africa Action Plan (AAP.) The AAP was designed to help African countries meet the Millennium Development goals (MDGs).

Even though the AAP has been updated periodically to reflect the needs of a changing continent, recent developments in the global economy, and in Africa itself, call for a renewal of the World Bank strategy for engaging with Africa, that best reflect current challenges, priorities, and opportunities.

The AAP was conceived when the global economy was buoyant and aid to Africa was sharply increasing. Circumstances have changed dramatically since then, especially after the 2008-9 global economic crises. The worst of the global financial crisis might be behind us, but the world economy is likely to remain volatile for some time. Even though some African countries are beginning to show signs of recovery, the post-crisis strategy may have to be different, to ensure that Africa benefits from a rebound in the global economy.

While the continent has witnessed some political setbacks, the last two decades of democratic elections and, in some countries, multiparty systems have created a greater demand for pro-poor reforms. A vibrant civil society has become increasingly vocal on policy issues. With variations across countries, African citizens are stepping up efforts to hold their leaders accountable for their actions. And regional institutions such as AU/NEPAD are applying peer pressure on national leaders to improve their performance.

Africa is also a young region. The continent's youth - those between 15 and 24 years - comprise around 200 million people (more than 20% of the population) and is expected to double by 2045. In the medium and long term, the number of young Africans positions the continent as a strategic market for the future. In the short run, it further increases the urgency of job creation. Each year an estimated 7-10 million African youth enter the labor force, often directly from school. The majority lives in rural areas and is mostly employed in agriculture, for which they account for 65% of total employment. Youth unemployment and underemployment on the continent is steadily worsening, particularly in the wake of the current global economic recession.

The past few years have also seen important changes inside the World Bank. A new knowledge strategy, changes in the way operations are designed and implemented, greater decentralization of staff, and an increased emphasis on global public goods are creating space to pursue some bold initiatives to tackle Africa’s problems.

The World Bank’s Africa Region is poised to seize this unprecedented opportunity and adjust its strategy to best support Africa’s development challenges.
Background

Impact of the global financial crisis

Although Africa is the least integrated region in the world, it was not able to escape the effects of the global financial crisis. Up until the crisis hit, the region’s per capita GDP was growing at an average annual rate of over 2 percent.

The sources of this growth were three-fold: (i) external resources—aid, debt relief, private capital flows and remittances were all increasing; (ii) strong commodity prices and a buoyant global economy; and (iii) improved macroeconomic policies, reflected for instance in the fact that the median inflation rate in the mid-2000s was about half that in the mid-1990s.

The combination of weak export demand, lower commodity prices, declining private capital flows (which had exceeded foreign aid in 2007), slowdown in remittances, lower tourism revenues, and weaker government revenues all conspired to reduce Africa’s economic growth rate by close to four percent points in 2009.

The region’s middle income countries, which are more integrated in global markets, were the hardest hit with growth slipping by about 4.5 percent in 2009. Slumping energy prices decreased the earnings of oil-exporting countries, contributing to their weak economic performance.

Source: Global Economic Prospects, 2010
**Africa’s Response:**

Despite the severity of the global financial crisis, the response of African policymakers helped to dampen its impact and set the stage for the continent to benefit from a global recovery.

Many countries maintained and, in some cases, even increased social spending. Safety nets were boosted several countries. Attempts to protect the poor by scaling up existing safety net programs appear to be functioning well—Ethiopia, for instance, increased the wages paid in its public works program.

Countries also focused on supporting capital spending to finance much-needed infrastructure.

Overall, African countries saw a widening of fiscal deficits by about 3 percent of GDP in 2009, as countries used fiscal policies to counter the effect of the slowdown in economic activity. Fiscal deficits rose by over 9 percent of GDP for the group of oil-exporting countries and by nearly 7 percent of GDP for middle-income countries. Among low-income countries, those that had fiscal space, such as Tanzania and Zambia, ran modest fiscal deficits; those that did not, such as Ghana, contracted their deficits.

The international financial institutions supported African countries’ efforts to limit the impact of the economic slowdown on the wellbeing of their populations, strengthen the private sector, and assist the poor.

The World Bank lent $7.8 billion to Africa last fiscal year, including International Development Association (IDA) funds (mostly as budget-support operations) to some 17 countries to cushion them from the global financial crisis.

![Figure 2: GDP and GDP per capita growth in Sub-Saharan Africa](image)

**Source:** Development Prospects Group, World Bank

**Note:** 2009 data are estimates; 2010 and 2011 data are projections
**Economic turnaround**

Amid a global recovery, sub-Saharan Africa is seeing a rebound in economic activity.

After growing at an estimated 1.6 percent in 2009, output is projected to expand by around 4.2 percent in 2010—a faster turnaround than Africa registered in previous crises.

Growth is expected to accelerate to 4.9 percent in 2011, but will remain below the 6 percent growth rate recorded in the pre-crisis period. Per capita income, which fell by nearly 1 percent in 2009—the first such contraction in a decade—will also post an upward trend.

**Risks to Africa’s growth prospects**

**Food Prices:** The recent upward trend in price of staples in domestic markets poses a significant threat to both food security and nutrition in the region. Global food prices rose by 24 percent between December 2008 and December 2009 (and by 16.7 percent between December 2008 and March 2010), according to the World Bank food benchmark index.\(^1\)

**Debt Sustainability:** The global financial crisis has raised anew concerns about debt sustainability and underscored the need for prudent borrowing policies.

Results from recent debt-sustainability analyses show that the present value (PV) of the public-debt-to-GDP ratio is estimated to be about 5 percentage points higher in 2009 than 2008. A similar pattern is observed in public external debt ratios. The deterioration is short term: the uptick in public debt to GDP tapers off in the long term and debt ratios are expected to return to a downward trend by 2011-12.

**Aid Flows:** The global financial crisis has brought to the fore the question of aid commitments to Africa. At the Gleneagles summit in 2005, Africa’s partners agreed that for Africa to reach the MDGs, official development aid would have to double by 2010. As of 2009, aid to Africa was $20 billion short of the Gleneagles commitment.\(^2\)

**Africa and the MDGs**

While macroeconomic and many structural policies continue to improve—and progress on some of Africa’s seemingly intractable problems, such as agriculture, private-sector development and

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2. \(\text{http://www.oecd.org/document/11/0,3343,en_2649_34487_44981579_1_1_1_1,00.html}\).
energy, has been good during the past five years—there are several areas where developments are falling short.

Even though there have been important gains, African countries are off-track on most of the MDGs. Moreover, the impact of the global food and financial crises on poverty and human development outcomes could stall the hard-won progress of the last years, making it harder to sustain the gains.

For example, the global financial crisis has slowed progress on poverty reduction in Africa: the poverty rate on current trends is now expected to fall to 38 percent by 2015, as opposed to the pre-crisis projected rate of 36 percent. The crisis will leave an additional 20 million people in extreme poverty by 2015.

![Figure 3: Sub-Saharan Africa MDG 1 Percentage of population living under $1.25/day](source)

Source: World Bank staff calculations using the Povcal database

But even with these setbacks, it is important to note that Africa has been making substantial progress towards the MDGs during the past decade.

Before the crisis, Africa had the fastest progress in primary school completion with the average primary completion rate increasing from 53 percent to 65 percent between 2000 and 2008.

Among low income countries, several had 50 percent or higher improvement in completion rates, including Mozambique, Rwanda, Ethiopia, and Burundi—admittedly, starting from a low base.

African countries have also made progress in closing the gender gap in primary school enrollment ratios. More and more girls have been enrolling in primary schools. Improvement varied between a 5 to 40 percent increase for low income countries in Africa: Benin, Burkina Faso, Ethiopia, Guinea, and Liberia saw a 20 percent increase in their gender parity index between 2000-08; changes were less for Zambia and Rwanda, which had much higher initial values in 2000.
If the experience of past crises is a guide, many more children, most of them girls, will not be able to complete primary school. This would be another costly setback in the continent’s quest to reach the MDGs.

**Challenges to hard-won progress on MDGs**

Sustained growth and faster progress on the MDGs will depend on how well African countries address longer term challenges, particularly the following:

**Infrastructure deficits:** A recent study (Africa’s Infrastructure: A time for Transformation[^3]) shows that: (i) infrastructure services are twice as expensive as elsewhere, partly because of the large infrastructure gap compared to other regions; (ii) addressing Africa’s infrastructure needs will cost about $93 billion a year: about 40 percent of this spending is needed for power which is

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by far the largest challenge; and (iii) further institutional, regulatory, and administrative reforms are needed to realize potential efficiency gains and reduce the financing gap for these services.

**Lagging agricultural productivity:** In Africa, targeting the poor and vulnerable translates into increasing agricultural productivity because 70 percent of the poor earn their income from agriculture. Agricultural GDP growth has been accelerating from 2.3 percent a year in the first half of this decade to close to 4 percent in the latter half. From 2003-2007, 13 countries registered better-than-three-percent growth in agricultural output per worker. The improvements have been the result of reform of agricultural policies, increased donor and government attention, and increases in food prices. However, African agriculture remains extremely vulnerable to the effects of global climate change—more frequent floods and droughts, as well as a drying trend in large parts of the continent.

**Poor service delivery:** In Africa, improving health and education means not just pouring money into these sectors, but strengthening the systems that deliver these services, because it is these systems that are often failing poor people. Absentee teachers and leakage of public funds are two examples of this system failure. For example, 20 percent of teachers in rural western Kenyan primary schools could not be found during school hours, while in Uganda, two surveys found teacher absentee rates of 27 percent in 2002 and 20 percent in 2007.

**Weak governance:** Weak governance and low capacity remain a reality for many African countries. Some countries such as Ghana, Mozambique and Nigeria have made significant progress in institutional quality. Post-conflict countries such as Rwanda have also seen gains in this area. Overall, however, the World Bank’s CPIA (Country Policy and Institutional Assessment) scores on public sector management and institutions for IDA-eligible countries show oil exporting countries registering much lower scores on average than non-oil exporting countries. Also, the quality of public sector management and institutions tend to be lower in Africa than in other regions.

**Difficult investment climate:** There have been recent improvements in Africa’s business climate, reflected for instance in the 2010 Doing Business Indicators—for the first time an African country (Rwanda) was ranked as the “top global reformer”; two African countries—Liberia and Rwanda—were among the top 10 reformers; and Mauritius moved into the ranks of the top 20 economies on the Overall Ease of Doing Business.

Nevertheless, Africa’s private investment rate is still below 15 percent of GDP, and eight of the ten countries judged as having the most difficult environment in the world for starting a business are in Africa.

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5 The World Bank, *African Development Indicators*, 2010
A Diverse Region

Around 600 million people live in countries affected by fragility and conflict. 'Fragile states' are defined as those facing particularly severe development challenges: weak institutional capacity, poor governance, political instability, and often ongoing violence or the legacy of past conflict. There are 20 countries considered "fragile" under this definition in Africa.

These countries constitute a protracted development challenge where results are hard to achieve. They have lower per-capita incomes and growth rates than other countries, and many of them have been in this state for a long time. As the Global Monitoring Report shows, achieving the Millennium Development Goals remains a distant hope for many fragile and conflict-affected countries.

On the other side of the aid spectrum are the middle-income countries (MICs)—where the challenge is to assist them achieve their full potential. There are currently nine MICs in Africa: South Africa, Botswana, Mauritius, Namibia, Cape Verde, Swaziland, Seychelles, Gabon and Equatorial Guinea.

Even though Africa’s MICs are the engine of growth in the continent, they were significantly affected by the global financial crisis, mainly through declining export prices and reduced demand for exported goods and services (tourism), and the drying up of credit markets and investment (portfolio) funds.

A new World Bank strategy will need to target not just today’s MICs, but also countries such as Kenya, Zambia and Ghana, which are likely to become MICs During the next 5-10 years.

The importance of Regional Integration

Limited regional integration has been a binding constraint on Africa’s ability to accelerate export-led growth. Closer regional integration would help tackle the region’s most stubborn supply-side constraints by enlarging markets, generating economies of scale in infrastructure and public goods provision, and facilitating greater global trade integration. It is particularly important for Africa’s 15 land-locked countries, which typically face 50 percent higher transport costs and 60 percent lower trade volumes than coastal economies.

Regional integration and the creation of a pan-African common market is a central vision for African leaders. The Africa Union (AU) is increasingly focused on accelerating the economic and political integration of the continent. Despite some progress on the development of free trade areas, key challenges remain – particularly the limited technical and regulatory capacity of regional institutions, overlapping membership, and variable political commitment to implement critical integration agreements at the national level.
**Implications for Policy Options**

Even without the crisis, and despite the progress made in a number of areas, Africa still faces many development challenges, given its relatively weak starting point. The continent's private investment rate is still around 15 percent due to an infrastructure deficit and constraining business regulations. Economic growth has not been accompanied by an increase in productive employment, particularly troubling since 7 to 10 million young Africans enter the labor force every year.

Though crucial to reducing poverty, agriculture is not increasing its productivity fast enough. Because of its high dependence on rain-fed agriculture, Africa is vulnerable to extreme weather events such as desertification, rising sea levels and more frequent droughts. Africa may be the continent worse hit by climate change.

The delivery of basic services continues to fail poor people with high degrees of teacher absenteeism in schools and money often failing to reach frontline service providers.

Cutting across all these factors is perhaps Africa's fundamental problem, namely weak governance and public-sector capacity, reflected not just in the large number of fragile and conflict-affected countries but also in difficulties in securing political consensus for "second-generation" pro-poor reforms and their implementation in areas such as infrastructure, business regulation, agriculture, and basic service delivery.

The challenge is to ensure that the World Bank strategy to assist Africa is guided by some priority areas while at the same time there is enough space to achieve greater selectivity across middle-income countries, low-income countries, oil exporters, and fragile states.

**Conclusions**

- Africa’s growth and poverty reduction before the crisis, and quick turnaround after the crisis, means that the continent is poised to benefit from a global recovery
- Since policies that had been improving before the crisis continued to improve during the crisis, the policy environment in Africa has never been better
- This means, in turn, that external resources have never been more productive
- We have an opportunity to invest in Africa’s growth, help tackle the problems of infrastructure, business climate, agriculture and governance, and end poverty in the continent.
Towards a Renewed World Bank Strategy for Africa

Because so much has changed and is changing on the continent, the World Bank is reviewing its strategy for Africa. We need to reconsider how to be most effective in supporting the progress taking place and the long-term development challenges still remaining in the continent. In preparing the renewed strategy, we will begin on-line and face-to-face consultations to seek views and input from a variety of stakeholders on the whole range of challenges and opportunities facing Africa today, as well as on how the World Bank can better help to build a better future for the African people. In soliciting comment and views from stakeholders, we are asking questions such as the following:

Proposed Questions for Discussion

- What do you see as Africa’s development challenges and what role do you see the World Bank playing in helping African countries, especially post-conflict and fragile states, build more resilient and globally competitive economies in the 21st century?

- How can the World Bank help build skills for African workers, promote job creation, especially for young people in post-conflict and fragile states, and empower African women to create and run successful businesses?

- What do you think the World Bank should do to improve intra-African trade, foster regional solutions especially for infrastructure such as energy, while ensuring that climate change issues are taken into account and Africa’s competitiveness with the rest of the world improved?

- How can the World Bank foster social protection mechanisms that protect the most vulnerable Africans from economic and health shocks (HIV/AIDS, malaria, and maternal mortality, amongst others)?

- What can the World Bank do to boost demand by citizens, by journalists, media outlets and civil society organizations for good governance and accountability?