Africa Programme
Meeting Summary

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Growth in Africa: The End of Africa Rising?

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Introduction

Regional growth in sub-Saharan Africa is forecast at its lowest rate in 20 years. Weak commodity prices, reduced appetite for foreign investment, drought in much of east and southern Africa, and inadequate government responses have hampered growth. Rapid and meaningful policies are necessary to reverse this economic contraction. Governments must look to further economic competitiveness and diversification, while delivering more effectively on infrastructure including beyond urban centres and on equitable wealth distribution. At the same time, it remains necessary to caution against broad regional aggregations, which fail to capture individual economic performances and overlook the sustained growth rates seen in many non-commodity exporting countries.

At this event, Abebe Selassie, the director of the IMF's Africa department, discussed Africa's current economic trajectory, highlighting the necessary fiscal and policy responses to ensure inclusive and sustainable recovery.

For more information – including recordings, transcripts, summaries and further resources on this and other related topics – please visit www.chathamhouse.org/research/africa.[1]

Abebe Selassie

Sub-Saharan Africa is diverse and complex, and making sense of the mono-causal explanations and simplistic labels that are often attached to the whole continent can be difficult. We are seeing a huge diversity of outcomes right now. That has always been the case and will continue to be the case. Over the last 15 to 20 years, when the 'Africa rising' narrative was being used, the IMF tried to have a more nuanced take. It viewed the increase in growth that started happening in around 1990 in many sub-Saharan African countries as having several factors underpinning it: the wave of democratization, improvement in the quality of institutions and improvements in macroeconomic policy performance. On top of that, two further factors facilitated growth in the 2000s: increased external capital flows to the region – partly as a result of debt relief provided to some countries and partly as a result of economic growth lowering the debt burden – and higher commodity prices. Only those countries that rely on commodity exports benefited from the second factor.

There has been an increase in mono-causal explanations for the deceleration of growth, couched in terms of the commodity cycle. There is some truth to this, but only if one looks at the aggregate numbers for Africa. It is important to unpack these numbers. During the growth period, high commodity prices were detrimental to the terms of trade of those countries in Africa that do not export commodities. About two-thirds of sub-Saharan African countries do not rely to a significant extent on the export of hard metals or oil, which were the extractives that went through the commodity supercycle. The likes of Angola and Nigeria benefited during the growth period; others did not. The decline in commodity prices that started in 2014 has had a significant impact on the economies of those countries that are heavily reliant on exporting commodities. Two years on, however, it is difficult to continue to attribute the challenges these countries are facing purely to the commodities cycle. Increasingly, the factor holding back growth is policymaking and policies that have not adjusted sufficiently to this situation.

On the other hand, there are a lot of countries that are growing fairly rapidly in the region; the likes of Ethiopia, Côte d'Ivoire, Tanzania, Kenya and Rwanda continue to grow at a rate of six per cent or more. Even as we talk about a fairly difficult period for the region, as reflected by the overall growth aggregate (which last year dipped to 1.5 per cent), the median growth rate has been higher; it was around three per

[1] This summary was written by Andrew G. Smith.

cent last year. There are several countries, particularly in East Africa, that continue to grow well. While it is important to note that the regional aggregate growth rate last year was the lowest in 20 years, this number masks great heterogeneity across the region.

Nevertheless, there are concerns about the evolution of macroeconomic imbalances. The commodity-exporting countries are having a difficult time, having lost export and tax revenue. What has also been striking and concerning is that even those countries that have continued growing are seeing widening fiscal deficits and widening current account deficits. One key reason that these deficits have been widening is because countries have been trying to address development challenges more aggressively than in the past; there has been a lot of spending on infrastructure, health, education and other social-development areas. Increasingly the IMF's advice is to tackle rising debt levels. This is not the case in all countries, but in an increasing number of them deficits need to be restrained while spending is maintained. This can be achieved through more revenue mobilization. Tax collection has fallen behind growth rates and increasingly the IMF's dialogue is focusing on domestic revenue mobilization. Historically, a seminal challenge for poor countries has been capturing the rate of return on projects. It is easy to find projects that have very high rates of return – such as building a road, a clinic or a school – but a challenge for governments has been capturing those rates of return. Much more emphasis is needed here if countries in the region are to avoid another debt build-up.

The IMF thinks there will be some pickup in growth in 2017, even if not a robust one. Hopefully we will see aggregate growth rates closer to three per cent, up on 1.5 per cent in 2016, due to several factors. Growth was depressed last year in Nigeria due to problems in the Niger delta, with oil production significantly affected, but it has rebounded to two million barrels per day. Conditions in other oil-producing countries remain difficult and these are struggling to adjust to the new reality of lower commodity prices.

External conditions remain less than conducive to growth in the region; the cost of financing has gone up markedly, by about 200 basis points for the region's frontier markets. This increase is also large relative to other frontier markets and higher than over the past few years. Financing conditions will therefore also be difficult. Again, this is a generalization; some countries continue to have good access to markets and we are seeing investors offering to lend money.

Another way to put in context the somewhat negative emerging narrative about sub-Saharan Africa is to look ahead 15 to 20 years. The demographic transition playing out in the region is of global significance and something that should, if managed properly, be a source of tremendous growth potential. It is incredible to think that by 2030 half of the annual increase in the global labour force (predicted to be about 100 million) will come from this region. If a company is going to require any kind of labour-intensive activity at that point, it is hard to see how it could have any activity of scale without being in sub-Saharan Africa. Automation and robots will not eliminate all the jobs currently done by humans. However, more opportunities for the labour force will not automatically mean countries get richer; policies will matter in how this potential is tapped.

Recently, we have had the experiences of Latin America and Asia showing how per-capita income can evolve during this transition. In Latin America, during the period of demographic transition per-capita income went up about 15 per cent. In Asia, especially East Asia, the increase in income during the first 20 years of this transition was closer to 25 to 30 per cent. Whether a country ends up at the lower or higher end of increased per-capita income has a lot to do with how well its economy is managed and how its political system manages this process. There is tremendous potential to be tapped and strong increases in per-capita incomes are possible.

Three key things are needed to facilitate higher economic growth: sustained macroeconomic stability; strengthening state capacity, which has already generally been improving across the whole gamut of institutions across sub-Saharan Africa over the past 20 years but needs stronger domestic-revenue mobilization to continue to advance; and the structural transformation of economies. There are some signs of this happening, including increased export diversification and the diversification of production, which policymakers really need to focus on.

Summary of question-and-answer session

Questions

In regard to revenue mobilization, what advice is the IMF giving to governments as to which forms of revenue should be prioritized?

What is the potential for new technologies, such as blockchain, to enable governments to better address tax collection difficulties?

Despite the fact that by 2030 half of the global labour force will come from sub-Saharan Africa, this does not mean that all those people will find jobs. With regard to the wider implications of this demographic trend, what might the implications be for the 'willing-buyer, willing-seller' land-redistribution policies in South Africa and Namibia? With a rise of nativist sentiment around the world, what might happen in regard to land redistribution?

The UNECA High-Level Panel on Illicit Financial Flows led by Thabo Mbeki concluded that billions have been lost to illicit financial flows and that they are a key reason that sub-Saharan Africa is underdeveloped. What is the IMF's view on this and which interventions are seen as the best way to tackle illicit financial flows?

Historically, the IMF's structural adjustment programmes have taken funding away from vital development projects. Has the organization's attitude changed and, if yes, how?

Does the IMF support intra-African trade as an opportunity for growth?

Abebe Selassie

It is important to note that revenue mobilization and tax collection are always country-specific but there are some crosscutting trends. Firstly, a lot of revenue is lost through tax exemptions. These need to be reduced as much as possible, as they could be a source of significant revenue. Another potential source is property taxes, given the large increase in infrastructure construction over the past two decades.

Taxation is at the heart of the social contract and willingness to pay tax is an important issue. With regard to new technology, it therefore cannot just be as simple as finding technical solutions to low tax revenues. Governments must also be able to show that they are doing good with the money, which creates greater acceptance of taxation. This is a deeply political and domestic issue. The IMF offers technical assistance on how tax revenue and administration offices can be structured, and new technology will increasingly be part of that, but getting buy-in from the population is up to governments.

The issue with the demographic transition is less about land and more about how the huge increase in the labour force can be utilized effectively. Historically, Africa has been seen as developing the way it has due to lack of labour intensity relative to landmass. There are pockets of the region where this is not the case, and that is also why we are seeing greater urbanization and industrialization in those areas. The debates about land in South Africa are deeply domestic and political, and the IMF has no purview with regard to that.

Illicit financial flows are an issue of great concern and focus for the IMF. It is a very complex issue involving generous tax exemptions schemes, flight of capital due to poor business environments and money that circumvents the capital restrictions that some countries have in place. Partly it is also criminal flows that are linked to proceeds from corruption, crime or money laundering. To address this effectively, there needs to be a clear delineation of the differing categories of money flows, and each will require a tailored response. Tackling tax exemptions would go a long way to increasing revenues, and there are also big steps that need to be taken by developed countries in regard to tax havens. The IMF is working with the OECD on this.

Were structural adjustment programmes in the 1980s and 1990s detrimental to Africa's economic performance? This is a wide debate and it covers a broad range of questions. In the 1980s and 1990s, there was a mixture of deeply political and economic reasons as well as policy mistakes that explained why growth outcomes were much lower than in recent times. Growth outbreaks emerged when policies started to improve, i.e. when there was some debt relief and when political change occurred in the region. It is a very complex issue. To look at sub-Saharan Africa's issues solely through the IMF and World Bank lens is not appropriate. This is an excessively Western prism, and it denies Africans and their governments' agency. This is a narrative in need of urgent change.

The IMF is highly supportive of intra-African trade but increasingly infrastructure, not policy, is the main barrier. Countries in the region all want to export their products overseas, and to build the relevant infrastructure, rather than to their neighbours. There is a lot of potential in trading with neighbouring countries. For example, when a road was fixed up from Uganda to Juba in South Sudan, many Ugandan businesses took off, exporting everything from cement to flour. Many companies sent a representative to South Sudan. Infrastructure for intra-African trade is crucial.

Questions

How does the IMF monitor debt-relief funding to ensure that it is being used for its intended purpose?

Migration to other continents and within continents is becoming an increasingly controversial issue. Given the current demographic trends in Africa, what will happen if young people cannot find jobs outside the continent?

The speaker has alluded to debt relief as a secondary factor in the 'Africa rising' narrative. Since the mid-2000s, there has been a rapid increase in borrowing and debt levels. What impact does the IMF believe this has had on economic growth and is it worried about the future sustainability of this?

Can Africa learn anything from the growth of China over the last decade? What is the role of remittances in creating growth in the region? And were the policy mistakes resulting in the 'lost decades' of the 1980s and 1990s that the speaker alluded to caused mainly by African states, or by the international financial institutions?

Abebe Selassie

It is always difficult to monitor how every allocation of money is spent, but the IMF has included many clauses in country programmes to try to ensure this happens, as well as floors on social-protection spending to make sure at least a minimum amount is spent on health, education etc. The IMF tries to make sure those floors are adhered to, but at the end of the day it is up to the respective governments. Again, how spending is allocated is a deeply domestic and political issue, and the IMF cannot always interject.

With regard to the demographic transition and the risk of migration, overall countries have tended to come out richer following demographic transitions. There is no reason to expect otherwise in sub-Saharan Africa. Is there migration out of the region? Yes. But it will be doubly harmful if the region's economies are not fixed and if the labour force flees, so it is important to look inwards and implement the right policies.

Africa is currently at a proactive juncture and there is nothing intrinsically important about keeping debt levels low. What is intrinsically important is advancing country development agendas. Governments have been borrowing to invest in infrastructure and other areas, but what is important is capturing that rate of return on the investments. Debt-to-GDP ratios in the region have drifted up to around 40 per cent, from about 28 per cent six or seven years ago. This is not particularly high; a good part of it is concessional and a good part of it is very long term. There are countries with much higher debt levels, and the IMF is concerned about those countries, but it is not appropriate to generalize about a debt problem across the region. It is now important to focus on the revenue-mobilization side.

Perhaps the biggest lesson that sub-Saharan Africa can learn from China is the importance of pragmatism and focusing on what works. When China liberalized and opened up to greater market allocation of resources, its economy grew rapidly, but it has not yet gone the whole way. A pragmatic approach is looking to see if policies are delivering on the structural-transformation and export-diversification agendas everyone is talking about, and if they are not, examining what needs to be adjusted. The other important lesson relates to state capacity and revenue mobilization. The IMF is encouraging countries in the region to examine how China is building roads and railways with an incredible model of user fees for some services. Energy is priced at the right level and there are tolls on some roads. Learning about taxation that is not general but specific to the user is important and one of the ways greater resources can me mobilized.

Structural adjustment in the 1980s and 1990s really is a wide debate and several days could be devoted to discussing it. Policy mistakes were made by the IMF then, and the organization does not have a monopoly on wisdom, then or now. The IMF works with countries in a collaborative way, and is there to serve the interests and needs of those countries. It has no other agenda. But it is important not to underestimate how bad the political environment was in the 1980s and that this contributed to the 'lost decades'.

In terms of what roles the diaspora can play and remittances, that is certainly one way that those who are not living in the region can help.

Questions

There have been a number of programmes recently that have got into trouble, including in Mozambique and Ghana, where governments have misrepresented what they were doing, and at the same time they were doing programmes with the IMF. What will the IMF's response be? Will it re-adjust and accept this, or will it impose stricter conditionality in future programmes as a result?

One factor that could break the logjam in terms of development in Africa is disruptive technology and financial technology, including mobile banking, e-commerce and bitcoin. How is this affecting how the IMF is 'doing Africa' and how your organization gets 'bang for its buck'?

In relation to capital markets, who should bear the cost of imprudent borrowing: the borrowers or the lenders? How does the IMF monitor funds for new borrowing, beyond foreign borrowing limits usually agreed with governments?

The speaker has alluded to large current-account deficits across many sub-Saharan African countries; to what extent is currency devaluation the answer to removing those deficits and promoting growth?

What role could indirect taxes and consumption taxes have in addressing revenue needs across sub-Saharan Africa? This is especially in light of the damaging impact unrecorded, illicit trade has had across the continent.

Abebe Selassie

Mozambique and Ghana are two very different cases. The IMF relies on governments to provide it with accurate data and statistics, and with accurate representations of the policies they are undertaking. In the case of Mozambique, the IMF found out about the country's debts after it had been taken on. This is also something that had circumvented the domestic legal processes. The IMF has set out what it thinks is required to move forward in this case and to re-engage, including transparency around what happened to the money. Again, this is a deeply domestic and political process. In the case of Ghana, it is important to wait until it is clear what has been going on, and why there are larger deficits than had been agreed. This can happen as a result of policy decisions and of exogenous shocks. Wider deficits alone are not a trigger for the IMF to halt its lending.

While new technologies offer significant opportunities and they must be allowed tremendous space to develop, particularly in the area of financial solution, it is important not to see them as a silver bullet for sub-Saharan Africa.

The challenges of countries over-borrowing or of lenders extending a lot more money than countries can afford to pay back are not new, and the IMF is there to assist countries in working through these kinds of sovereign-debt challenges. Ultimately, this issue will be resolved on a case-by-case basis, and an important factor to take into consideration is what countries that are in a situation of debt distress can realistically afford to pay back at particular junctures. The IMF has limited capacity to thoroughly inspect every single avenue of government expenditure; it only really has the capacity to look at government spending at the aggregate level.

There is a tendency to see all of these issues with countries such as Nigeria being related only to one thing, such as exchange rates. We need to move away from this narrative that only one thing needs to be done. It is more important to consider the totality of a country's macroeconomic policy stance. Exchange rates must accurately reflect shocks that countries have been affected by and current account imbalances. This needs to be supported by monetary and fiscal policies, but also needs other policy levers that address these imbalances

On corporate tax versus indirect tax, this is an issue that each government will need to address. There needs to be more pragmatism in thinking about other ways to raise revenues. In some countries, the answer may be more indirect taxation, while in other countries with high VAT rates but with lots of tax exemptions the challenge will be to close those gaps and eliminating the generous tax exemptions provided to international and domestics companies. This revenue can then be used to invest in areas that badly need spending.