Africa's New Economic Landscape

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The August 2014 U.S.–African Leaders Summit served as a recognition of the dynamism of African economies and their growing interconnectedness with the global economy.[1] For those who have been studying Africa's economic development, the rise of the region has been evident for several years. Beginning in the mid-1990s, Africa has seen a remarkable turnaround in economic performance. Nearly two decades of robust growth and a better policy environment have made the region an increasingly attractive place to do business. Looking ahead, the more relevant issue is whether the region's growth momentum will last. There are several deeper trends, especially natural resource wealth and demographic changes, which hold the promise of sustaining Africa's growth take-off and enhancing the region's importance in the global economy. Unleashing this potential, however, will require countries to adopt appropriate reforms of policies and institutions.

This article examines various dimensions of Africa's economic emergence. It assesses the quality of Africa's growth, whether this growth has translated into improved well-being for the region's citizens, and how this growth has affected the region's position in the global economy. The article also explores the sustainability of Africa's rise and identifies several deep-running trends that could be important drivers of growth. "Africa" refers to sub-Saharan Africa throughout this article.

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Africa's Growth Turnaround Has Been Impressive

Sub-Saharan Africa is enjoying nearly two decades of sustained, strong economic growth, the longest in the region's recent history. After years of dismal economic performance, the region saw a rebound in growth beginning in the mid-1990s. Real output growth, as measured by the gross domestic product (GDP), averaged 4.5 percent a year from 1995–2013, three-and-a-half times the pace of expansion enjoyed in the previous 15 years.[2] Analyses show that since 1995 growth spurts in the region have become more frequent, longer-lasting, and characterized by a higher pace of growth.[3] This growth stands in contrast with the preceding period wherein sharp and deep recessions were more common. As a result of the economic turnaround, Africa's growth has been comparable to that of the rest of the developing world, behind only East Asia and the Pacific region.

Equally remarkable is the fact that Africa's growth rebound has been broadly based, with both resource-rich (extractive resources) and non-resource-rich countries enjoying faster economic growth. Admittedly, the pace of growth in the former has generally outstripped that in the latter, but even non-resource-rich countries such as Ethiopia, Rwanda, and Uganda have averaged GDP growth rates of 7 percent or better since 1995. Indeed, African countries are now routinely among the fastest growing countries in the world.

The acceleration in Africa's growth has led to more than a doubling of its GDP in real terms between 1995 and 2013 and dramatically changed the economic landscape of the region. Out of 48 African countries, 22 have already attained middle- or high-income status, and the collective size of these economies is well over $1 trillion, representing around 80 percent of the region's output and a consumer base of 400 million people.[4] An additional 10 countries, and possibly 17 under optimistic assumptions, could attain middle-income status by 2025.[5] There is, of course, considerable heterogeneity across middle-income countries in terms of economic size and structure, as well as income level. Among the more established middle-income countries are South Africa—which has a large, diversified economy and is well integrated in global markets—and Mauritius—which is approaching high-income status. Newcomers to the middle-income country category are typically resource-rich, such as Ghana and Nigeria, the latter of which has recently overtaken South Africa as the largest economy in sub-Saharan Africa. Fast growth and strong prospects have propelled several African countries, such as Ghana, Kenya, Nigeria, Senegal, and Zambia, into the ranks of the so-called frontier economies—that is, the next set of emerging markets. These countries are developing and deepening their nascent domestic bond markets and are turning to international capital markets to meet financing needs. Just this year, Zambia tapped international capital markets in April with a $1 billion bond issue, Kenya issued $2 billion in eurobonds in June (a first for the country), Senegal issued a $500 million bond in July, and Ghana issued a $1 billion bond in September.[6] All issues were heavily oversubscribed. The potential for high returns, albeit with high risks, is increasingly attracting international investors to Africa's frontier economies.

While the collective size of the region's economies was $1.6 trillion in 2013, and its per capita income $1,015, the true economic size might be much larger. Available evidence suggests that the size of Africa's GDP is underreported by a substantial margin. The problems with African statistics, which span methodological and capacity issues, are well documented. [7] A common measurement problem with reported national output numbers is the use of outdated base years, which results in underestimation and even omission of newer activities and sectors of the economy. Over time, these errors in calculation can became very large. For example, the 2014 rebasing of national accounts in Nigeria from a base year of 1990 to 2010 shows that the reported GDP substantially under-recorded the size of newer sectors like telecommunications and motion pictures. The rebasing has yielded an upward revision in the size of the economy by 60 percent in 2010 (and even larger adjustments in nominal GDP terms in more recent years), making Nigeria a half–trillion dollar economy, the largest in the region.[8] Ghana's rebasing in 2010 revised the country's GDP upward by 60 percent as well.[9] As other countries rebase their national accounts, upward revisions are likely, which will add to Africa's size in the global economy.

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But the Improvement in Livelihoods is Less Remarkable

A careful examination of Africa's growth turnaround shows modest performance in improving livelihoods, reducing poverty, and strengthening human-development outcomes. First, population dynamics have muted improvement in livelihoods. Faster economic growth in the region since the mid-1990s has lifted per capita income in real terms to levels above those of 1980, reversing the prolonged decline experienced in the 1980s and early 1990s (an average annual contraction of 1.5 percent in 1980–1994). Nonetheless, in contrast to overall economic growth, per capita GDP performance in 1995–2013 was less impressive. This is because Africa's population continued to grow rapidly during this period, averaging 2.7 growth percent a year. The region has a higher total fertility rate (5.1 total births per women in 2012) than any other developing region of the world, which meant that per capita income grew at an average rate of only 1.8 percent a year, an appreciably slower rate than output; it is also slower than the pace of per capita expansion in the rest of the developing world.[10] Thus, per capita income expanded by less than 40 percent during this period. There was some divergence in country performance, with resource-rich countries posting per capita GDP growth rates that were nearly twice that of non-resource-rich countries.

Second, and equally importantly, even as Africa's economy is catching up with the rest of the developing world, not enough people are sharing in this growth. Poverty remains unacceptably high in Africa. Undoubtedly, economic expansion has helped to lift millions of people out of extreme poverty, but progress in the fight against income poverty has been slow. Available household survey data show that between 1996 and 2010, the percent of Africans living in extreme poverty—that is, under $1.25 per day (2005 purchasing power parity basis), which is the international poverty line used by the World Bank for monitoring global poverty—fell from an estimated 57 percent to 48 percent; the decline in the poverty rate was faster in more recent years.[11] Despite this decline, population growth has swelled the ranks of the extremely poor in sub-Saharan Africa from 350 million in 1996 to 414 million in 2010. However, there is much variation in country performance. Some countries such as Ethiopia and Rwanda have seen high economic growth coupled with strong progress in reducing poverty and some decline in inequality (as measured by the Gini coefficient). Other countries such as Mozambique and Zambia have experienced slow and uneven progress in lowering the prevalence of poverty, despite sustained high economic growth, and inequality is high as well. Overall, the incidence of extreme poverty remains unacceptably high in Africa. The region is lagging on achieving the poverty reduction target—that is, halving between 1990 and 2015 the proportion of people whose income is below $1.25 a day—of the UN's Millennium Development Goals (MDGs).

Sub-Saharan Africa's overall slow progress on reducing poverty contrasts sharply with the experiences of other developing regions. For the rest of the developing world, the poverty rate was halved well before the 2015 deadline of the MDGs, falling to 16 percent in 2010. One reason for this lagging performance is the previously mentioned high population growth rate of the region. Analysis also shows that high initial inequality and economic dependency on extractive resources weigh on the conversion of economic growth into poverty reduction. A recent study estimates that the conversion of growth into poverty reduction in Africa is one-third of that in the rest of the developing world, excluding China. In other words, the growth elasticity of poverty (percent change in the poverty rate associated with a 1 percent change in per capita income) is -0.7 in Africa, compared to -2 elsewhere.[12] Clearly, Africa needs to move faster in reducing poverty. Faster progress is possible, but sustained growth alone will not be sufficient to accelerate the decline in poverty. For this, the pattern of growth will need to be more inclusive; that is, growth will need to be in the sectors and places where the poor are. Recent analysis of the link between poverty and sectoral composition of growth in Africa shows that growth in agriculture and services sectors has been more poverty-reducing than growth in industry.[13] This relationship is not surprising, given that an overwhelming majority of the poor continue to rely on agriculture and the informal (nonwage) services sector for their livelihoods. Moreover, inequality in opportunities will need to be addressed. This means reducing inequalities in access to education, training, health services, infrastructure, physical assets, and finance and credit so that the poor can participate in and benefit from the opportunities opened up by economic growth.

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Gains in other areas of human well-being have been uneven in Africa. Tangible progress has been recorded in education and health, with a recent acceleration in gains. Yet there is considerable divergence in the progress across the MDGs across countries, as well as across spatial disparities within countries.[14] More African children are in school, as the net primary enrollment rate has risen from 52 percent in 1995 to 70 percent in 2010, and the gender gap in schooling is closing (the ratio of girls to boys in primary and secondary education has edged up from 83 percent in 1995 to 90 percent in 2012). But weak public capacity to deliver services—as evidenced by high teacher absenteeism, weak teacher quality, and inefficient use and diversion of funds—is translating into severely low learning achievements. For example, in Southern African Development Community countries, the share of 6th grade students achieving the minimum learning level in international assessments (SACMEQ) in math and reading was 35.6 percent and 63.7 percent, respectively, in 2011. In Economic Community of West African States countries, only 42.6 percent of 5th graders achieved the minimum (PASEC) level in math and 35 percent achieved the minimum level in reading.[15] On the health front, substantial strides have been made in vaccinating children against deadly childhood diseases and in reducing stunting and malnutrition: the under-five mortality rate has fallen from 175 per 1,000 live births in 1995 to under 100 in 2012. At the same time, maternal mortality rates remain unacceptably high at 500 deaths per 100,000 live births; in Burundi, Chad, and Sierra Leone the rate is 800, 890, and 1100, respectively. The region also has the highest prevalence of HIV/AIDS, although the prevalence rate continues to fall as more people with HIV/AIDS, are receiving retroviral treatment.[16] Unsurprisingly, most of the region's countries place in the bottom third of the UN's Human Development Index, which is comprised of life expectancy, years of schooling, and per capita income. Indeed, controlling for income levels, human development indicators are lower in Africa than in the rest of the developing world. Furthermore, the region's resource-rich countries, which typically have higher income levels, have worse outcomes on average in these indicators than the region's non-resource-rich countries.

Third, Africa's growth has not resulted in structural transformation. In dual economy models of growth, structural transformation in developing countries is characterized by the reallocation of labor and other resources from low-productivity sectors, typically agriculture, to modern, high-productivity sectors such as manufacturing. These shifts underpinned East Asia's growth takeoff. In Africa, rapid economic growth has shifted sectoral shares, but not in favor of modern, high-productivity sector activities. Thus, although the relative size of agriculture has declined, so has that of manufacturing. This decline means that the relative size of Africa's manufacturing sector in total output is now less than half of that of other developing countries.[17] Overall, economic transformation characterized by a reallocation of resources from the traditional to modern sectors has been lacking in Africa's boom.[18] In Africa's structural change, the services sector has been absorbing workers and capital in most countries, and its share in economic activity is on the rise broadly across the continent.[19] Much of the growth in services, however, has been in low-productivity activities that are in the informal sector. Services such as distribution and retail have seen a particularly sharp rise in employment share. The relative size of the resources sector has also grown, but, in spite of its rising share in GDP, this sector has limited potential to create jobs. This limitation is due to the fact

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that high-productivity extractive industries are very capital-intensive. In addition, the extractive sector typically has small backward linkage—spillover in terms of supply chain or demand for locally produced goods and services—with other sectors. Thus, Africa's growth takeoff has not yielded a rapid growth in high-productivity jobs.

The current economic structure of most African countries means that the majority of new entrants in the labor force are likely to be absorbed in the informal sector—jobs on family farms or in household enterprises that provide low earnings. The formal or wage sector in Africa accounts for only 16 percent of total employment. Because of a small initial base, the share of the formal sector in total employment will remain modest, even under optimistic growth scenarios. A recent report estimates that over the next 10 years, three in four African youth (that is, those between 15 to 24 years old) will end up working in a non-wage job.[20] Therefore, the job challenge in Africa is not just to create employment in the formal sector, but also to lift the productivity of jobs in the informal sector.

Africa's Rise in the Global Economy

Africa's economic ascent has raised the issue of what this means for Africa's position in the global economy. As noted earlier, nearly two decades of growth have lifted the collective size of Africa's economy to over $1.6 trillion (about the size of the Australian economy). Yet even faster growth in other emerging market countries, notably China, and more recently India and Vietnam, means that Africa's relative size remains small at 6.5 percent of developing country GDP or 2.1 percent of world GDP. In 1994, the size of sub-Saharan Africa's economy was half that of China's. By 2013, the region's economy was less than one-fifth the size of China's. Likewise, the size of sub-Saharan Africa's economy continues to trail that of India by about 15 percent.

The picture is largely the same on the trade front. The global economy saw double-digit expansion in trade starting in the 1990s and up to the global financial crisis of 2008, far outpacing global growth. Africa's trade receipts rose in tandem with the global trend, posting an average rate of 11 percent per year in 1995–2012; the region's share in world exports remains at close to 2 percent. Overall, the value of goods exports rose from $68 billion in 1995 to over $400 billion in 2012.[21] The rising importance of the resources sector in Africa is reflected in the pattern of exports, with hydrocarbons, metals, and other mineral exports contributing to well over two-thirds of the increase in exports. This specialization in extractives is not surprising and reflects the region's endowments, or change in endowments resulting from natural resource discoveries and, hence, comparative advantage. At the same time, the region has made few inroads in diversifying its exports in favor of improved quality of existing products or non-traditional exports such as manufacturing. This contrasts with the pattern of a growing basket of export products that is observed with rising income levels in developing countries. Indeed, manufacturing exports actually lost share in the region's total goods exports, falling from an average value of 21 percent in 1990–2000 to 15 percent in 2012. The low reliance of African countries on manufacturing exports contrasts sharply with the experience of East Asian economies, where the shift to manufacturing exports provided the engine of growth. The region also lags other developing regions in terms of the relative size of manufacturing in exports. For example, in 2012 this share was over 80 percent in the East Asia and Pacific region, close to 70 percent in South Asia, and over 40 percent in Latin America and the Caribbean.[22]

This lack of export diversification is especially evident in Africa's major oil exporters: for example, in Angola, Chad, Gabon, and Nigeria the share of oil in goods exports is over 90 percent. Moreover, the export-concentration ratio in oil exporters has trended up between 1995 and 2012, indicating a growing reliance of these countries on a small number of exports and on few trading partners.[23] Export-concentration ratios are much lower in countries that are not rich in oil resources, but even in countries like Botswana, Guinea, and Mauritania, mineral exploitation accounts for over 50 percent of goods export.[24] While the export-concentration ratio for non-resource countries is considerably lower than that of resource-rich countries, it has declined very little since 1995.

In sharp contrast to the lack of diversification in export products, the region has seen a rapid diversification in its trading partners. This shift reflects the rising importance of emerging markets in the global economy, notably China, India, and Brazil. Historically, the European Union was the single largest destination market for African goods exports. At the turn of the century, the EU absorbed over a third (36 percent) of the region's exports, followed by the United States with nearly a quarter of exports. Brazil, Russia, India, and China (the BRIC countries) accounted for less than 10 percent of the region's exports, with China's share being 5 percent.[25] All this changed dramatically in the 2000s, on the back of the boom in commodity demand from BRICs. By the end of the decade, exports to BRICs outstripped those to the EU. The latest data (for 2012) shows that China's share of Africa's exports has risen to 23 percent, and the total for all BRICs is now at 34 percent. The EU's export share has dropped to 26 percent.[26] A decomposition of exports reveals that primary commodities dominate the basket of exports to BRICs. Trade composition data also shows that the EU and the United States remain important destination markets for Africa's manufactured goods and that the region has had little success in penetrating BRIC countries' markets for manufactured goods.

The broad shift in trading partners is also mirrored in Africa's growing size and importance as a destination market for exports from BRICs. Africa's imports from these countries to Africa have ballooned from $4 billion in 1995 to over $100 billion today, overtaking imports from the EU. Imports from China have grown the fastest compared to imports from other trading partners—from under $2 billion to nearly $70 billion over this period. The rapid growth of Chinese imports in Africa is reflective of the fast expansion of China's overall exports, but it also is indicative of the region's growing trade and investment ties with China. Indeed, Africa's share of China's exports has more than doubled since 1995, rising from 1.2 percent to over 3 percent.

Rapid economic expansion and buoyant growth prospects are attracting investor interest in the region. Foreign direct investment (FDI) flows to the region were $32 billion in 2013 and, combined with portfolio equity flows, are larger than aid flows. Reflecting these trends, Africa's traditional aid recipient–donor relationship with rich countries is changing to one of economic partnership. Not surprisingly, the recent U.S.–African Leaders Summit had a prominent focus on strengthening investment and trade ties. Admittedly, the bulk of FDI to the region has been in the oil, natural gas, and minerals sectors. However, investment to support domestic activity is also growing; for example, in the services, telecommunications, construction, power, and transportation sectors. This is a welcome trend because of the huge unmet needs in infrastructure. Using data for 2010, the World Investment Report estimates that the return on U.S. FDI, measured as the size of FDI income relative to the stock of FDI, was substantially higher in Africa than in Asia and Latin America and the Caribbean: 20 percent in Africa compared to around 15 percent in the other two regions.[27] Although these are average returns and not marginal returns (that is, returns for an additional dollar of investment) they do point to the potential for relatively favorable returns to investment in the region.[28]

Investment in the consumer sector—retail and banking—is growing in countries with a sizable consumer class. Across the region, the proportion of the population with discretionary spending power is rising. While there is no agreed definition of middle class in Africa, those living on $4 or more a day can be viewed as having the capacity to purchase non-essential goods.[29] Using this criterion, Africa's consumer class has doubled in the period 1996–2010—from 44 million to 88 million—and is fairly comparable in size to that of India's (with 111 million).[30] With growth prospects for the region remaining strong, the collective purchasing power of this group is expected to strengthen. Africa's burgeoning consumer class is fueling demand for consumer goods, which is good news for businesses that are looking for investment opportunities in the region.

Will Africa's Growth Momentum Last?

No single factor explains Africa's dynamism. Instead, a number of proximate causes for Africa's unprecedented turnaround are identified in recent literature.[31] On the external front, a favorable global environment of rising industrial commodity prices, spurred by the rapid growth in emerging markets such as China, has played an important role. Buoyant commodity prices, including an almost six-fold increase in oil prices and a near doubling of metal prices from 1995–2013, have contributed to Africa's boom in mineral wealth and to a spate of new mineral discoveries in the region. Another favorable global trend has been a low-interest rate environment—thanks to accommodative monetary policies in advanced countries—that has boosted private capital flows to developing countries.

On the domestic front, improvements across a range of factors have supported Africa's growth performance. Better macroeconomic management—that is, monetary and fiscal policies consistent with economic stability and growth—combined with a sharply lower debt burden (because of debt relief under the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative), has helped to lower inflation, improve fiscal outcomes, and reduce growth volatility. Regulatory reforms have lowered the complexity and cost of starting a business, made it easier to register property, and eased trade across borders. According to the 2014 *Doing Business* report, nine sub-Saharan countries are among the 20 economies narrowing the gap with the regulatory frontier the most since 2009; Rwanda leads all countries in advancing furthest toward the regulatory frontier since 2005. Additionally, there has been progress in strengthening institutions and improving accountability, as well as in building technical capacity of the public sector. More countries are seeing free elections and a peaceful transfer of power. Of course, much remains to be done in terms of strengthening property rights, making judiciaries more independent, promoting transparency, and making governments more responsive to the needs of their citizens. There also is no denying that many African countries remain fragile—due to the weak quality of policies and institutions that underpin development—and that escaping that fragility can be difficult. Security concerns remain an issue as well. Although the frequency of major civil conflicts has declined in the region, the conflicts in the Central African Republic, Somalia, and South Sudan and the insurgency of Boko Haram in northern Nigeria are reminders of the lingering security challenges in the region. By and large, however, there has been tangible improvement in the region's economic climate, and Africa is more business-friendly today than it was two decades ago.

Overall, Africa's medium-term prospects remain favorable, despite a less benign global environment. Moving forward, two global trends are of particular importance to the region: weaker commodity prices and tighter global financial conditions. Weaker growth in major emerging markets, especially China, could affect commodity prices. The rebalancing of the Chinese economy away from a heavy reliance on investment- and export-led growth and toward consumption-driven growth could weigh down commodity prices, especially metal prices, with negative consequences for Africa's metal-producing countries. It could also pull down Chinese investment flows to the region. The eventual normalization of monetary policy in advanced countries, after several years of cheap money policies, will push up the cost of capital for African countries, especially countries that are more integrated with global financial markets. Higher financing costs could lead to lower investment and growth in these countries. Global shocks will have differentiated (and in some instances sharply adverse) impacts on countries, but sensitivity analysis shows that Africa's growth is fairly resilient to slowdown in global growth and in financial flows. By contrast, the region's growth is more sensitive to internal factors such as widespread drought and civil conflict.[32] Droughts are common occurrences in the region. Along with adversely affecting agricultural activity and rural incomes, droughts can exacerbate food shortages and contribute to hunger and malnutrition across wide swathes of population. There are concerns that climate change could worsen the frequency and impact of droughts. Depending on severity and duration, conflicts can have devastating human, social, and economic consequences. Evidence shows that conflicts have contributed to growth collapses in the region. The importance of internal factors on economic prospects is also well highlighted by the 2014 outbreak of the deadly Ebola virus in West Africa. A recent report by the World Bank estimates that in the three countries that are at the center of the Ebola epidemic, output growth in 2014 will be lower by over 3 percentage points in Liberia and Sierra Leone and by over 2 percentage points in Guinea.[33] If not rapidly contained, the economic cost to the sub-region could run in the billions.

The pattern of Africa's growth, which has been characterized by a lack of structural transformation, has also raised some concerns over its sustainability. There is no consensus on whether a sustainable development path in Africa will require a shift toward manufacturing (as in the case of fast-growing East Asian economies) or whether the region can bypass manufacturing into modern, high-productivity services such as software design, outsourced business processes, and call centers (as in the case of India).[34] Nevertheless, there is evidence to suggest that reforms that resolve market failure—such as in the provision of infrastructure, financial access, and development of trade networks—and that address government failure—especially in building human capital, strengthening property rights, reducing regulatory complexity and barriers to market entry, and promoting geographic defragmentation—can facilitate diversification and growth.[35] Such reforms would enhance competitiveness and efficiency. By improving fundamentals, these types of reforms should prove beneficial in the African context, considering that economic transformation in much of the region is constrained by high costs stemming from infrastructure gaps (notably in power, transport, and water), skills shortages, geographic fragmentation, and limited competition.

Africa's infrastructure gap is especially severe. A recent report estimates the financing gap for infrastructure to be at least \$31 billion a year.[36] The deficit is particularly acute in the power sector: the region's power generation is less than that of South Korea's (with about one-twentieth the population size of the region), and power consumption per capita is substantially lower than that in the rest of the developing world. Road density is low as well, with only one-third of Africa's rural inhabitants living within 2 kilometers of an all-season road. Availability of irrigation systems for agriculture use is severely limited, and less than 5 percent of the region's cultivated land is irrigated. Inadequate infrastructure imposes a major constraint on business productivity. Addressing Africa's infrastructure gap will require innovative ways of crowding in private investments, including public–private partnerships (PPPs) such as the Cape Verde Wind Power project (€65 million), the expansion of Togo's Centrale Thermique de Lomé (\$196 million), and the Chiansi Irrigation Infrastructure project in Zambia (\$30 million).[37]

Deep Running Trends Favor Africa's Rise

There are several deeper trends that hold the promise of unleashing Africa's potential and enhancing its importance in the global economy. Among these underlying trends are abundant natural wealth and resource discoveries, demographic change, urbanization, and demand for good governance. Not all trends will automatically yield favorable outcomes, and appropriate policy efforts will be needed to support and speed Africa's rise. Resource abundance will continue to be especially important to Africa's growth prospects in the near- and medium-term, and effectively harnessing this wealth will be central to Africa's development. Global demand for extractives is likely to remain strong, keeping prices elevated enough to support the exploration and exploitation of mineral resources in the region. Despite a spate of recent resource discoveries—natural gas in Mozambique and Tanzania, oil in Uganda and Kenya, and iron ore in Sierra Leone—much of Africa's mineral wealth is untapped and remains to be discovered. Mineral wealth presents a tremendous opportunity to transform resource windfalls into sustained growth and human welfare. For this, the fiscal channel will be key. Extractive activities are an important source of government revenue (royalties, licensing fees, and direct and indirect taxes). To support development, revenues from natural resource taxation will need to be invested by governments in building both human capital (education and health) and productive physical capital. Policies to better manage wealth, including transparency regarding terms of contract and more effective public spending, will need to underpin efforts to transform resources into sustained development. This is of course easier in environments of good governance, where adequate checks and balances prevent resource rents from being easily appropriated by powerful elites, politicians, or other groups. On the other hand, in environments of weak accountability rent-seeking, corruption, and conflict can intensify—resulting in deterioration in policies and institutions and poor development outcomes (that is, the so-called natural resource curse). In short, institutions matter in effectively transforming resource wealth into development.

While the natural resource curse (working through political economy channels) is by no means inevitable, and depends on the quality of institutions, it remains to be seen whether newly mineral-rich African countries will be able to avoid this phenomenon. The good news is that governments in Africa and elsewhere are under increasing pressure to be more transparent and accountable to their citizens. The Extractive Industries Transparency Initiative (EITI), where governments publish what they receive from extractive companies and companies publish what they pay governments, is providing a framework for enhanced transparency regarding revenues from resources. Currently, 18 African countries are compliant with the Extractive Industries Transparency Initiative.[38] Along with multi-stakeholder initiatives like the EITI, the demand for good governance has been facilitated and spurred by the revolution in information technology, which has connected people to each other, given citizens a voice, and facilitated collective action. Building greater accountability of governments to their citizens will be central to good policymaking.

Africa also has the potential to benefit from a demographic dividend. The demographic dividend is essentially an acceleration in growth resulting from a shift in the population age structure toward a higher proportion of working-age people and, consequently, a lower dependency rate (ratio of people aged 0 to 14 years and over 64 years to those aged 15–64 years).[39] Evidence suggests that such a demographic transition underpinned East Asia's rapid growth, and Africa is seeing demographic changes that also could have positive implications for growth.[40] Although infant and child mortality rates have fallen across the board, the decline in total fertility rate (TFR) has been slow, with much variation across countries. Some countries such as South Africa have made substantial progress in reducing this rate, while others such as Niger and Uganda have yet to see any appreciable decline in their TFR, and in some countries (e.g., Kenya) progress has stalled. Overall, at 5.1 average number of births per woman, Africa's TFR is the highest in the world and more than twice as high as that of South Asia. These demographic trends have created a youth bulge, where half of the region's population is under 25 years.[41] Lower child mortality rates combined with still high fertility rates have kept the dependency ratio in Africa high for now. This could dampen Africa's development prospects. Policies that provide better access to family planning services, raise girls' educational levels, and provide better economic opportunities for women will be needed to facilitate the transition to lower fertility rates.

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In order to benefit from the ensuing decline in the dependency ratio and to capture the demographic dividend for growth, there also have to be well-paying—that is, high-productivity—jobs to absorb the swelling ranks of the workforce. As mentioned earlier, the large majority of entrants into Africa's labor force are likely to be absorbed by the informal sector: agriculture and nonfarm household enterprises. Raising the productivity of the informal sector is a priority. In order to raise productivity in this sector, urgent attention must be paid to developing the relevant human capital and technical skills, especially for Africa's youth, and to provide workers access to financial services, such as credit, savings, and insurance, and access to land (including ownership). In addition, as people move out of agriculture and into urban areas (both small towns and large cities), issues of spatial transformation will need to be addressed. Africa has the fastest pace of urbanization of all developing regions. Growing population in urban areas can overwhelm local services and infrastructure, but it may also yield productivity gains from a clustering of economic activity—that is, agglomeration economies. Understanding the links between urbanization and development will be important in designing policies for accelerating inclusive growth.

Conclusion

Africa's economic rise is undeniable. Two decades of largely uninterrupted progress, fueled by a resource boom, have propelled Africa's emergence in the global economy. Even as the region's growth is catching up with the rest of the developing world, and investor interest in the region is rising, much remains to be done in terms of improving the welfare of the region's citizens. Nearly half of all Africans still live in extreme poverty, and the region trails in education and health outcomes. Growth has often been in the areas or sectors where the poor do not participate, and poor people often lack access to education services, land, and financial assets, which makes it difficult for them to benefit from the opportunities created by growth. The result is that most Africans continue to rely on low-productivity, low-paying jobs in the informal sector for their livelihood. Thus, the challenge for Africa is to make growth more inclusive, so that more people can participate in the opportunities arising from growth, while continuing to sustain the growth momentum.

The region's prospects appear broadly favorable, with deep running trends holding the promise of boosting Africa's rise. Key amongst these trends is the region's vast untapped resource wealth, which presents an important potential source of revenues for building human and physical capital to support development. Another trend is Africa's demographic transition, which holds the potential of accelerating growth as the labor supply rises and the dependency ratio declines. These underlying structural trends provide much reason for optimism over Africa's future. But the benefits from these favorable trends are by no means assured, and complacency would be misplaced. To unleash the region's potential, and to sustain Africa's rise, sufficient attention ought to be paid to formulating and implementing appropriate reforms of policies and institutions.

Notes

1. The author would like to thank Vijdan Korman and Aly Sanoh for excellent research assistance. The

views expressed are those of the author and do not necessarily reflect those of the World Bank Group, its Board of Directors, or the countries they represent.

2. All output—GDP size and growth—and population data in this article are from the World Bank, World Development Indicators database, 2014.

3. Jorge Saba Arbache and John Page, "How Fragile is Africa's Recent Growth?" *Journal of African Economies* 19, no. 1 (2009): 1–24; World Bank, *Africa's Pulse* 9 (April 2014).

4. For fiscal year 2015, the World Bank defines middle-income economies as those with a per-capita income of more than $1,045 and less than $12,746 and high-income economies as those with a per-capita income above $12,746.

5. Shantayanan Devarajan and Wolfgang Fengler, "Africa's Economic Boom: Why the Pessimists and Optimists Are Both Right," *Foreign Affairs* (May/June 2013).

6. World Bank, *Africa's Pulse* 10 (October 2014).

7. See: Shantayanan Devarajan, "Africa's Statistical Tragedy," *Review of Income and Wealth* 59 (January 2013): S1, S9–S15; Morton Jerven, *Poor Numbers—How We are Misled by African Development Statistics and What to Do About It* (Ithaca, NY: Cornell University Press, 2013).

8. The Federal Republic of Nigeria, National Bureau of Statistics.

9. Ghana Statistical Service.

10. World Bank, World Development Indicators database.

11. All poverty data are from The World Bank Group, PovcalNet. For an overview of global poverty measures, see: World Bank, *A Measured Approach to Ending Poverty and Boosting Shared Prosperity: Concepts, Data, and the Twin Goals*, Policy Research Report (2015).

12. Luc Christiaesen, Punam Chuhan-Pole, and Aly Sanoh, *Africa's Growth, Poverty and Inequality Nexus—Fostering Shared Prosperity* (unpublished, World Bank, 2013).

13. World Bank, *Africa's Pulse* 10.

14. *Global Monitoring Report* (Washington, DC: World Bank, 2013), and World Bank, World Development Indicators database.

15. *Sub-Saharan Africa 2012 EFA Report* (UNESCO, 2012). The Southern and Eastern Africa Consortium for Monitoring Educational Quality (SACMEQ) and Programme d'Analyse des Systemes Educatifs de la CONFEMEN (PASEC) are standardized international learning assessments in the region.

16. *World Development Indicators* (World Bank, 2014).

17. John Page, *Structural Change and Africa's Poverty Puzzle* (Washington, DC: The Brookings Institution, 2014).

18. Margaret M. McMillian and Dani Rodrik, "Globalization, Structural Change and Productivity Growth" (NBER Working Paper 171453, National Bureau of Economic Research, Cambridge, MA, 2011); Dani Rodrik, "The Past Present, and Future of Economic Growth" (Working Papper 1, Global Citizen Foundation, 2013); *African Transformation Report: Growth with Depth* (Accra, Ghana: African Center for Economic Transformation, 2014).

19. Gaitzen de Vries, Marcel Timmer, and Klass de Vries, *Structural transformation in Africa: Static gains, dynamic losses* (GGDC Research Memorandum #136, University of Groningen, 2013).

20. Deon Filmer and Louise Fox, *Youth Employment in Sub-Saharan Africa* (World Bank, 2013).

21. Trade data are nominal values from the World Integrated Trade Solutions database.

22. Filmer and Fox, *Youth Employment in Sub-Saharan Africa*.

23. World Bank, *Africa's Pulse* 8, October 2013; World Bank, *Africa's Pulse* 9.

24. Filmer and Fox, *Youth Employment in Sub-Saharan Africa*.

25. Ibid.

26. Ibid.

27. *World Investment Report 2012* (Washington, DC: World Bank, 2013).

28. One reason for these high returns is the region's relatively low level of capital stock.

29. The World Bank defines the extreme poor as those who live on less than $1.25 a day and moderate poor as those living on $1.25 to $4 a day; see also: Francisco H. G. Ferreira et al., *Economic Mobility and the Rise of the Latin American Middle Class* (Washington, DC: World Bank, 2013); Steven Kapsos and Evangelina Bourmpoula, "Employment and Economic Class in the Developing World" (ILO Research

Paper no. 6, International Labour Office, June 2013).

30. Population data by poverty lines—$1.25, $2, and $4—are from PovcalNet.

31. For a review of the literature, see: Douglas Hostland and Marcelo Giugale, "Africa's Macroeconomic Story" (Policy Research Working Paper 6635, World Bank, 2013); for lists of five fundamental factors that have transformed 17 countries, see: Steven Radelet, *Emerging Africa* (Washington, DC: Center for Global Development, 2010); Punam Chuhan-Pole and Shantayanan Devarajan, "Overview," in *Yes, Africa Can: Success Stories from a Dynamic Continent,* ed. Punam Chuhan-Pole and Manka Angwafo (Washington, DC: World Bank, 2011). Chuhan-Pole and Devarajan find that resolving market and government failures underpin many of Africa's success stories.

32. Shantayanan Devarajan et al., "Stress-Testing Africa's Recent Growth" (Policy Research Working Paper 6517, World Bank, 2013).

33. "The Economic Impact of the 2014 Ebola Epidemic: Short- and Medium-Term Estimates for West Africa," World Bank, September 17, 2014.

34. McMillan and Rodrik, *Globalization, Structural Change and Productivity Growth*; *African Economic Outlook 2014* (African Development Bank, OECD, and UNDP, 2013); Ejaz Ghani, Arti Grover Goswami, and Homi Kharas, *Service with a Smile: A new growth engine for poor countries* (London: Vox Centre for Economic Policy Research, 2011); Arti Grover Goswami and Sebastien Saez, "Trade in Services competitiveness: An assessment methodology," *Journal of International Commerce, Economics and Policy* 5, no. 1 (2014).

35. See: Chuhan-Pole and Devarajan, "Overview"; Daniel Lederman and William F. Maloney, *Does What You Export Matter? In Search of Empirical Guidance for Industrial Policies* (Washington, DC: World Bank, 2012).

36. Vivien Foster and Cecilia Briceno-Garmendia, eds., *Africa's Infrastructure: A Time for Transformation* (Washington, DC: World Bank, 2010).

37. James Kenny and Rene Lavanchy, *Emerging Partnerships: Top 40 PPPs in Emerging Markets* (Washington, DC: World Bank, 2013).

38. Extractive Industries Transparency Initiative website.

39. The impact of demographic change on growth is due to growth in labor supply and higher savings and investment as a result of a declining dependency ratio.

40. The size of the dividend is estimated to be about 0.37 to 0.42 percentage points of average annual GDP per capita growth for the period 2011–2030. See: Ahmed S. Amer et al., *How Significant Is Africa's Demographic Dividend for Its Future Growth and Poverty Reduction?* (Washington, DC: World Bank, 2014).

41. Filmer and Fox, *Youth Employment in Sub-Saharan Africa*.