

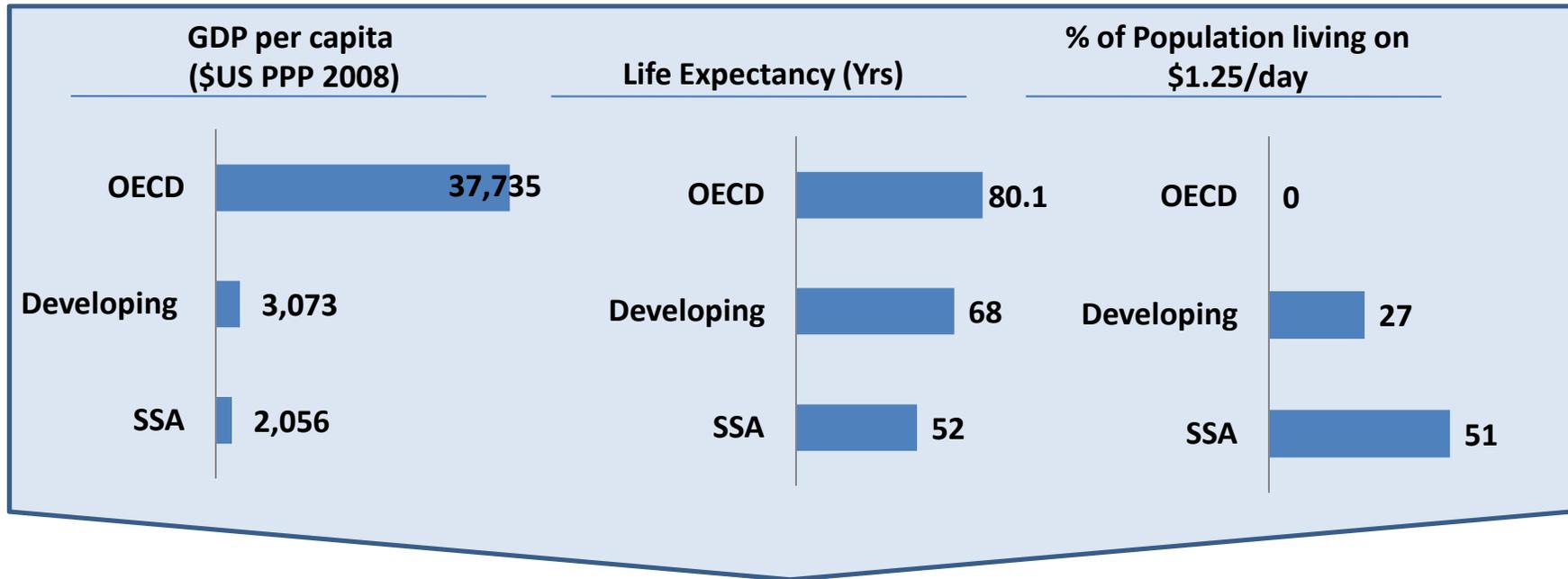
Towards Economic Growth and Transformation in Africa

September, 2010

Overview of Presentation

- **Africa's Economic Challenge**
- **Recent improvements**
- **But Need for Economic Transformation**
- **ACET's approach to Transformation**
- **ACET's mission and value proposition**

Africa Is a Region with Many Challenges



- SSA Africa underperforms all regions in human development
- SSA is the region most unlikely to meet the Millennium Development Goals (MDGs)

Economies in SSA Are Still Commodities Dependent and Vulnerable

Production

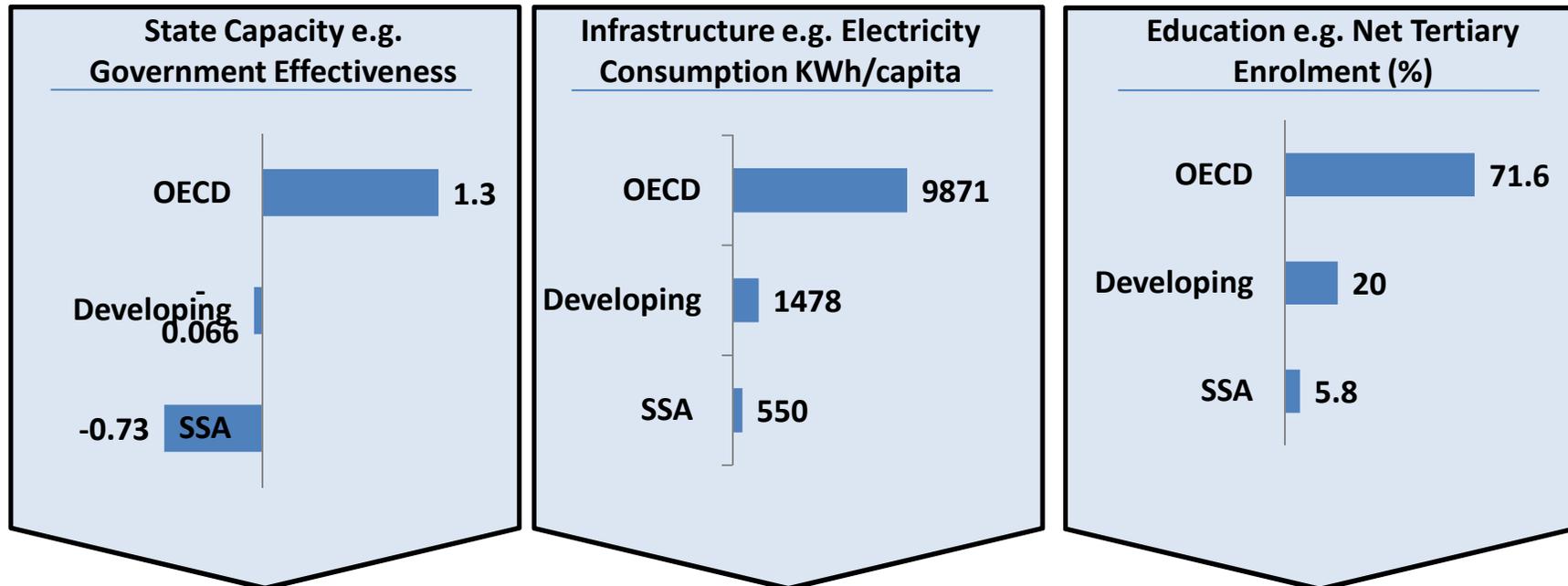
- **Agriculture generates 30% of GDP and employs ~65%**
 - Mostly rain-fed and thus vulnerable especially to climate change
 - Mostly fragmented farms (less than 2 Ha) employing low technology and thus low productivity
 - 80% of land is untitled resulting in underinvestment (US\$ 50 billion p.a. required to modernize SSA agriculture)

Exports

- **Commodities contribute to 70% of the exports**
 - Many countries are still dependent on one commodity e.g. Zambia on copper
 - The bulk of FDI flows to Africa goes to extractive industry

Economies of SSA are still very vulnerable to both weather and vagaries of global commodities demand

And The Key Engines of Growth Are Very Weak



- Africa has yet to build the strong institutions needed to underpin sustainable growth.
- Infrastructure in SSA is still very poor, yet three quarters of SSA countries do not have GDP large enough to sustain projects of more than \$100 million
- A McKinsey study laments that “Despite abundant work opportunities talent remains scarce across Africa”

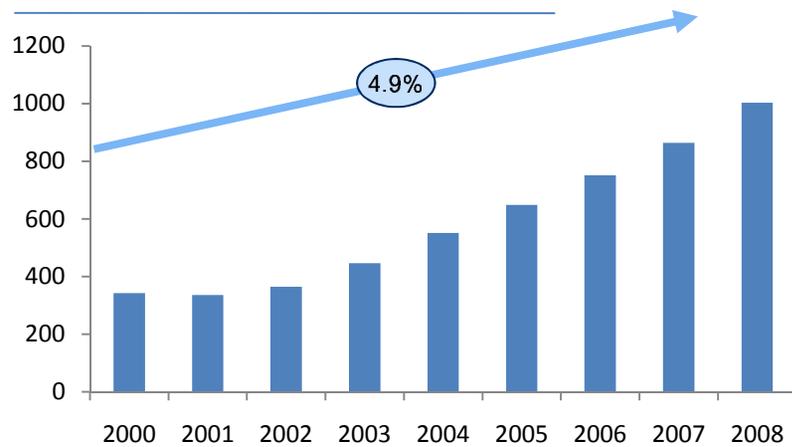
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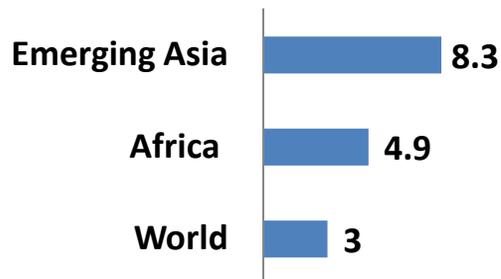
Since 2000 Africa Has Shown Considerable Economic Progress

GDP growth has accelerated...

GDP US\$ Bn (2000-8)**

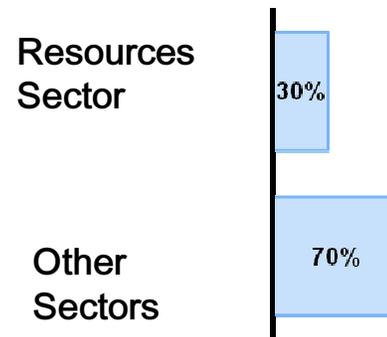


%GDP growth (2000-8)*



..and while high commodity demand has been an important driver growth has also been broad based

Sector Contribution*



Growth has been experienced in both resource rich and resource poor countries

*McKinsey Global Institute research
 ** World Development Indicators

The Growth has been Fueled By Both Commodities Demand and Economic reforms

Globalization

- **Increased demand across the world saw a surge on demand for commodities**
 - E.g. Oil exporters saw price change from US\$40 to US\$ 140
- **FDI flows to Africa increased tremendously ; from \$9 billion in 2000 to over \$62 billion in 2008**
 - Though most went to resources sector other sectors e.g. banking and telecommunication benefited

South-South Trade

- **Asia countries led by China increased their engagement with Africa tremendously**
 - China's trade with Africa rose by over 3000% since the 1995. The trade stands at US\$ 90 Billion (2009)
 - China engagement also increased infrastructure investment tremendously as a new model of economic cooperation emerged

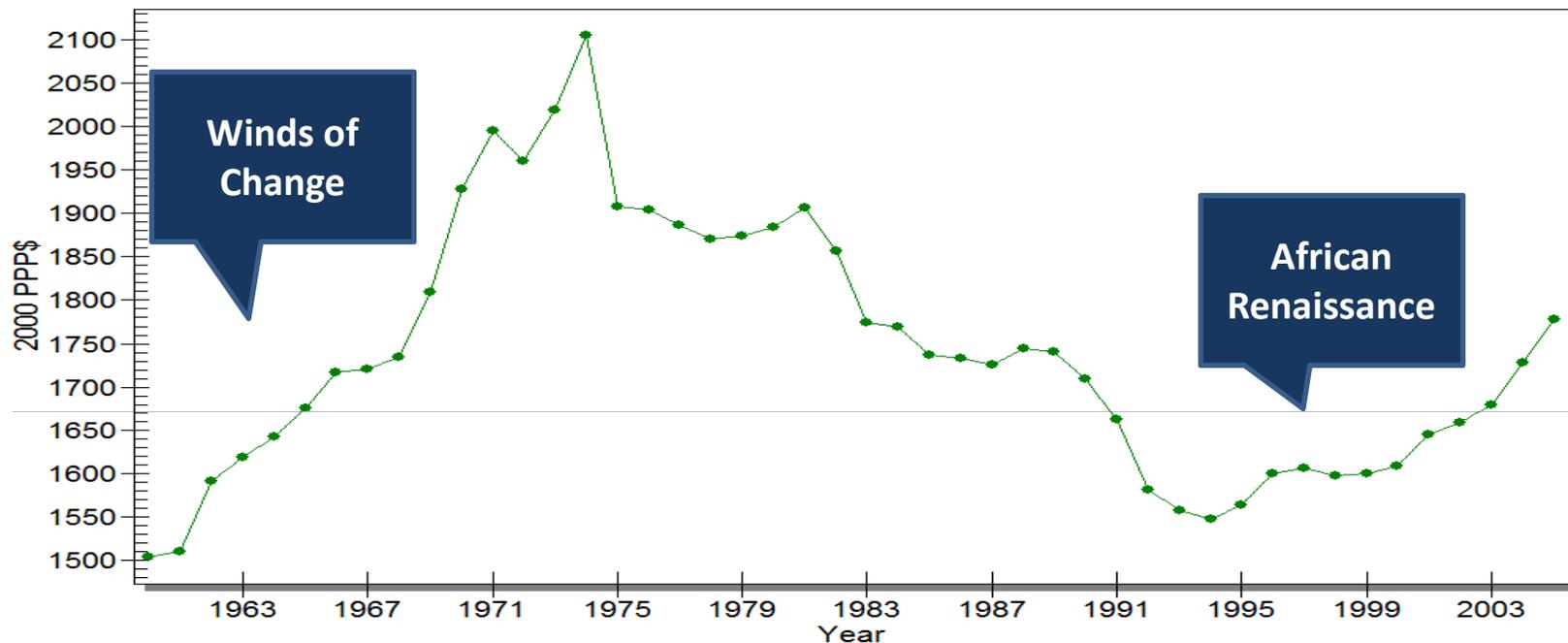
Improved Macroeconomic stability

- **Macroeconomic management has improved:**
 - Inflation moved from an average of 22% in the 1990's to 8% in 2000s
 - Government debt fell by 30% in the same period
 - Budget deficit fell by 60%

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There Is Reason For Caution As We Have Seen Such Growth in The Past



The 1960's and early 1970's displayed similar growth and optimism but it was never sustained as transformation never occurred. Indeed Africa is yet to recover to reach the peak of the past growth spurt.

Compared to East Asia Africa Is Still Underperforming

- **Growth has been Less than stellar**
 - Average GDP per capita growth: 0.15% from 1980 -2008 vs. 6.64% for East Asia
 - Real GDP per Capita Ratio (2008/1980): 1.04 for Africa and 6.60 for East Asia
 - High Poverty: 51% in SSA live under \$1.25 a day compared to 16% for East Asia
- **Manufacturing sector** was only 26% of total exports vs. 92% for East Asia
 - Between 2003 and 2006, SSA's share of global manufacturing exports was < 1%
 - ***Manufacturing Value Added per Capita*** increased by 3% from 2000-2005 vs. 42% for East Asia and the Pacific

Africa needs to grow much faster and sustained over a long period if it is to achieve the transformation that was seen in in East Asia miracle

Africa Needs To Transform Its Economies To Accelerate and Sustain the Current Spurt of Growth

Migrate from subsistence farming...



...to industrialized methods



Shift from commodity exports...



...to manufactured/processed goods



- ↑ Employment
- ↑ Productivity
- ↑ Revenue

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By Economic Transformation ACET Means Primarily:

Accelerated economic and employment growth based on:

- 1. A capable and accountable government working closely with and supporting the private sector**
- 2. Productivity growth**
- 3. Diversification of production and exports**
- 4. Technological upgrading of production and exports**
- 5. Increased international competitiveness**

To Build On The Successes And Strengths Requires Further Improvement On The Macroeconomic and Incentive Framework

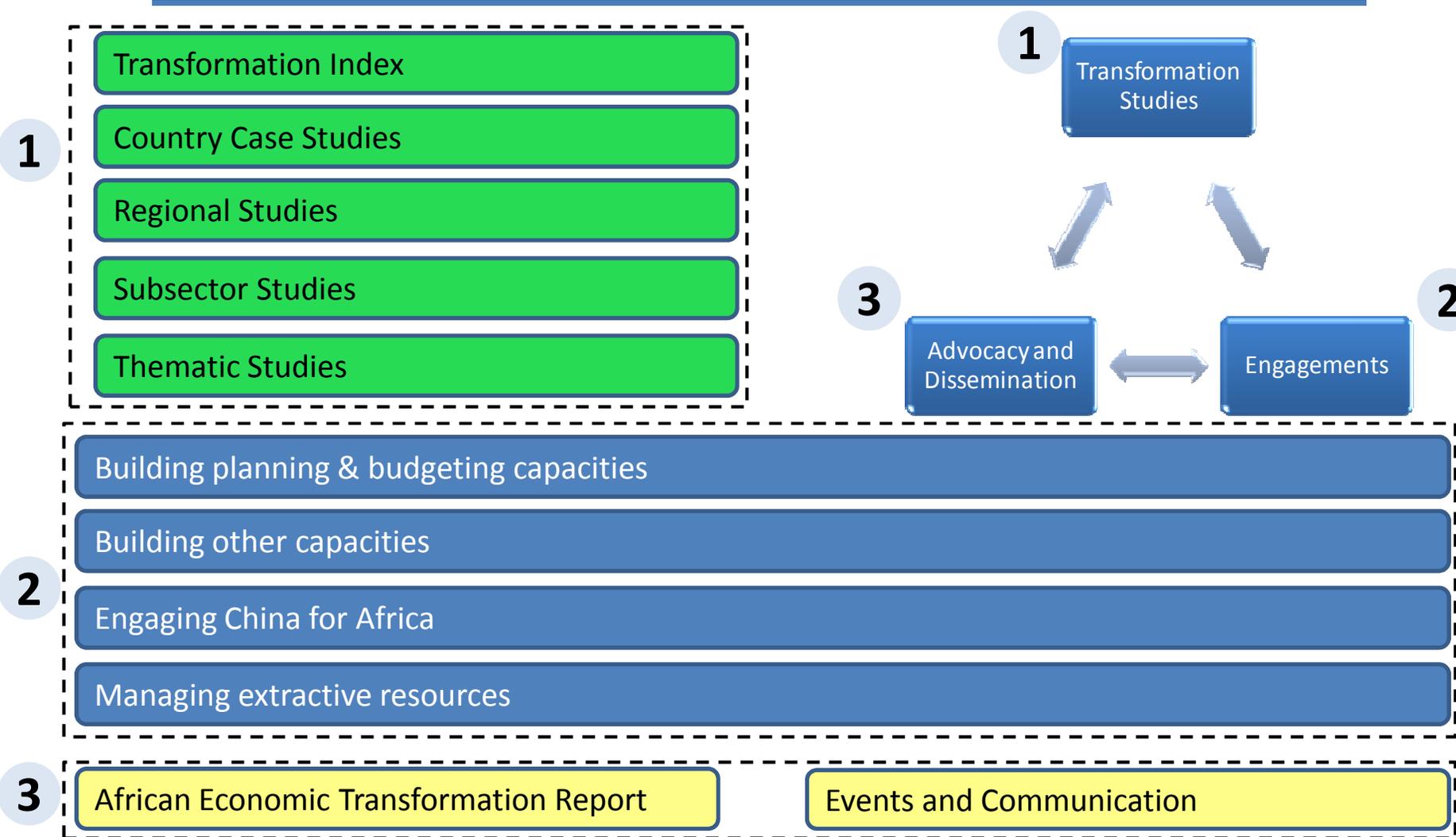
Stronger Economic Management...

- Stronger Govt. support to Private sector
- More Public Private Partnerships (PPPs)
- Greater investment effort by Govt. and Private sector (domestic and foreign)

... creates fertile ground for improved economic fundamentals

- **Better Infrastructure**
 - Improved transportation
 - Reliable energy and water supply
- **Greater Skills Development**
 - Increase enrollment
 - Improve education in science & tech
- **Diversify production and exports**
 - Promote processing of raw materials
 - Migrate up the value chain
 - Introduce new products
- **Upgrade production processes**
 - Modernize agriculture, industry and services
 - Acquire & adapt technology

ACET Aims To Promote These Objectives Through:



1 ACET Research Focuses on Four Key Themes

Country Case Studies

- In depth country case studies will look at past performance and the future prospects for economic transformation in a particular country
- Will conclude with a specific agenda for action incl. institutions, policies, instruments and investments
- Will serve as the basis for ACET's client engagement

Products and Subsector studies

- Studies on products or sub-sectors that have traditionally been the launch pad for industrialization e.g. textiles or those that appear to hold prospects for Africa given global trends e.g. agro-processing and IT enabled services

Regional Integration Studies

- Studies on regional integration to identify the policy, institutional, and infrastructure barriers to transformation and propose measures to tackle them
- Studies will be done in partnership with regional organizations. We are already working with ECOWAS and ADB

Thematic Studies

- Common themes that have been key to transformation. In particular we will focus on Export promotion, skills and technology development, infrastructure and financial sector

2 The Critical Challenges and Lessons Identified By Research Work Is The Basis Of ACETs Client Engagement

Our Approach

- We maintain close contacts with policymakers at the highest levels fostering the trust of governments to address institutional reform issues that are politically sensitive and administratively complex
- We diagnose problems and isolate policy issues, perform rigorous analysis to generate policy options and make recommendations and provide ongoing implementation support including capacity building
- Our analysis is informed by challenges and lessons identified by our research work
- We rely primarily on seasoned and technically competent African staff and consultants

High-Level, demand-driven policy advice that bridges analysis and practice, identifies policy gaps, and addresses implementation constraints

2

Based on Demand, ACET Client Engagement Is Focus On Increasing The Capacities Of Africa Governments



3 **Dissemination and Advocacy: The Africa Transformation Report (ATR)**

- **ATR will aim to put economic transformation at the centre of development debate in Africa**
- **ATR will be published every two years starting 2012**
- **It will track and compare performance across countries and highlight best practices from Africa and elsewhere**
- **A Transformation Index will be at the core of the report. It will compare countries along indicators of transformation and discuss key factors underlying the differences in performance**
- **The report will also highlight the results of ACETs research program**

As ACETs flagship report, ATR will be a vehicle for promoting informed policy debate on economic transformation, spurring policy makers to action

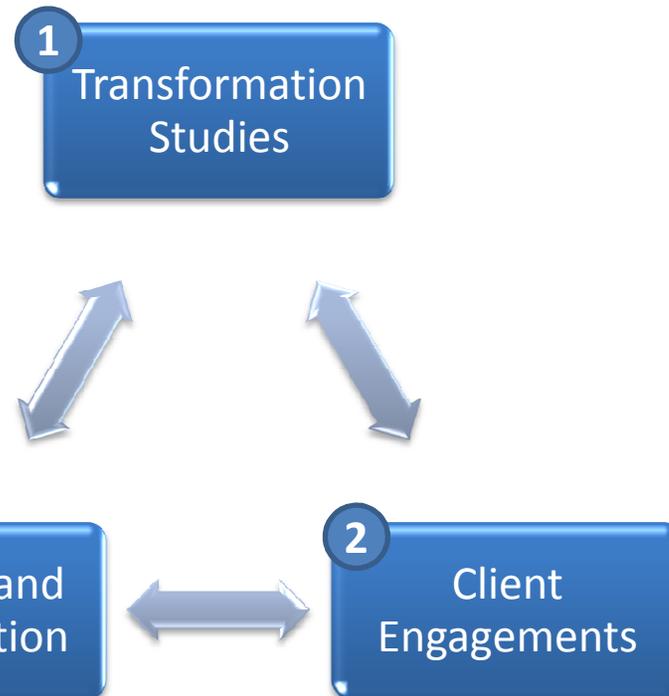
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ACET'S FULFILS IT'S MISSION THROUGH THREE COMPLEMENTARY ACTIVITIES

1 Transformation Studies

- World class research and analysis of economic growth and transformation
- Provide intellectual rigour and insightful policy understanding for our engagement of African governments



3

Advocacy and Dissemination

- Seek to share as widely and freely as possible our findings to accelerate growth and economic transformation
- Primary means to engage the private sector and civil society as key actors
- Feedback from our audience helps shape our focus and refines our work
- Recognised as a thought leader on economic transformation
- * • Engage partners and stakeholders

2 Engagements

- Target our advice to senior leaders within government, to build trust with them and ownership by them
- Focus on critical institutions that will drive the economic agenda in the country
- Engage in implementation to build institutional capacity through transferring skills and knowledge 22