Small Middle-Income Countries in Sub-Saharan Africa: Taking Development to the Next Level

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Grand Palm Hotel, Gaborone, Botswana
January 29, 2016
Outline

I. The external environment
II. Successes and Challenges
III. Rethinking growth strategies and policies
Outline

I. The external environment

II. Successes and Challenges

III. Rethinking growth strategies and policies
The Legacy of the Crisis: Output Compared to Pre-crisis Expectations

(\textit{percent, 2007}=100)
Investment
(Share of GDP)

Legend:
- Blue: 2007
- Red: 2013
World FDI
(in percent of World GDP)

2000  2007  2013

FDI liabilities/GDP

FDI assets/GDP
GDP vs. Trade

(average annual growth in percent)
Evolution of Potential Output Growth
(\textit{percent})

1. Advanced Economies

2. Emerging Market Economies
EM Potential Growth

Revisions to potential growth since 2010

Source: WEO and IMF staff calculation. Note: Where unavailable, potential growth is proxied by 5-year ahead forecasted real GDP growth.
Commodity Prices Fall

Commodity Prices in USD (Index, Jan 2014=100)

Source: Haver Analytics and Fund Staff calculations.
Commodity Prices Fall

Selected Commodity Prices, 2012–Nov 2015

Percent change from 2012 average

- Iron ore
- Crude oil
- Natural gas
- Coal
- Copper
- Gold
- Diamonds

Source: IMF, Commodity Price System and Global Assumptions.

Source: IMF, World Economic Outlook database.
External financing conditions are tightening

Sovereign Bond Spreads
(EMBIG spreads, basis point change since October 2014)

Source: Bloomberg. Note: Data as of January 4, 2016. “Emerging markets” average includes Argentina, Brazil, Bulgaria, Chile, Colombia, Hungary, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, Turkey, and Ukraine.
Magnified for BLNS from spillovers from S. Africa

Exposure from exports to SA

Exports to South Africa from Neighboring Countries, 2014
(Percent of GDP)

And lower SACU revenues

BLNS Countries: Customs Revenues Payments.

Source: IMF, Direction of Trade Statistics.

Source: Country authorities.
Three specific megatrends to impact on SMICs

- Climate change
- Technology
- Demographics
Megatrend (1): Climate change emphasizes the need to enhance resilience, particularly for island states

Megatrend (1): Climate: Poor most vulnerable

Where are food supplies most vulnerable to climate change?
Higher score = more vulnerable

Source: Notre Dame Global Adaptation Index
Megatrend (2): Technology will change conventional business practices
Megatrend (3): Properly harnessed, SSA’s demographic potential can be transformative

Change in Global Working-Age Population

Source: IMF (2015), Harnessing the demographic dividend in sub-Saharan Africa, Regional Economic Outlook, Spring 2015.
Outline

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Sustained growth

Sub-Saharan African Small Middle Income Countries: Real GDP Growth

Source: IMF, World Economic Outlook database.
Sustained increase in GDP per capita

Sub-Saharan African SMICs: GDP per capita (US$, PPP)

But growth moderation has stalled convergence

Source: IMF, World Economic Outlook database.
Domestic challenge:
Foster economic diversification

Low export diversification

High share of services, reflecting government expansion in most cases

Export Diversification Index
(Lower number = Greater diversification)

Composition of GDP, 2014

Source: UNCTADstat, World Economic Outlook database.
Domestic challenge: Job creation

Unemployment Rate, Average 1995–2013

Source: World Bank, World Development Indicators.
Domestic challenge: Manage public employment and wage bill

**Share of Public Employment, Average 1995–2012**

Source: ILOPE. Note: Cabo Verde data is for 2014 only.

**Wage Bill, 2014**

Source: IMF, World Economic Outlook database.
Domestic challenge: Addressing infrastructure gap

Big increases in public investment not necessarily translating in improved infrastructure quality

Government capital stocks stagnant in most countries following investment slowdown

Source: IMF, World Economic Forum. Note: Each point corresponds to the average of four time periods (1996-00; 01-05; 06-10; and 11-13).

Domestic challenge: Improve Human Development

Life Expectancy (2014) still low in some cases

Secondary Education (Latest Available) can be furthered

Domestic challenge: Inclusive growth

Poverty and Income Inequality, Latest Available

- Gini coefficient
- Poverty headcount ratio at $1.25 a day (PPP) (percent of population)

Source: World Bank, World Development Indicators.
Outline

I. Successes and Challenges
II. The changing external environment
III. Rethinking growth strategies and policies
Three key challenges to graduate to advanced economy status

- Overcoming domestic challenges
- Adapting to global trends
- Dealing with external headwinds
Experiences (1): Countries that graduated to AE status had more effective governments

Government effectiveness varies significantly

And not necessarily correlated to size of government spending

Source: IMF, World Economic Outlook database.

Experiences (2): Countries that graduated to AE status created a more enabling environment for the private sector.

Stronger investor protection in advanced economies

<table>
<thead>
<tr>
<th>Country</th>
<th>Index (1 weak –10 strong)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>6</td>
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<tr>
<td>Cape Verde</td>
<td>5</td>
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<tr>
<td>Lesotho</td>
<td>5</td>
</tr>
<tr>
<td>Mauritius</td>
<td>6</td>
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<tr>
<td>Namibia</td>
<td>6</td>
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<tr>
<td>Seychelles</td>
<td>4</td>
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<tr>
<td>Swaziland</td>
<td>4</td>
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<tr>
<td>OECD</td>
<td>7</td>
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</tbody>
</table>

Source: World Bank, Doing Business Indicators.

As well as more credit to the private sector

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent of GDP</th>
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</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>45</td>
</tr>
<tr>
<td>Cabo Verde</td>
<td>55</td>
</tr>
<tr>
<td>Lesotho</td>
<td>15</td>
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<tr>
<td>Mauritius</td>
<td>100</td>
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<tr>
<td>Namibia</td>
<td>50</td>
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<tr>
<td>Seychelles</td>
<td>10</td>
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<td>Swaziland</td>
<td>10</td>
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<tr>
<td>OECD</td>
<td>150</td>
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</tbody>
</table>

Source: World Bank, World Development Indicators.
Experiences (3): Countries that graduated to AE status had more inclusive growth

Poverty Headcount at $1.25 a Day (PPP), Latest Available

Unemployment Rate, 2013

Source: World Bank, World Development Indicators.
Rethinking growth strategies and reversing the decline in TFP

Sub-Saharan African Small Middle-Income Countries: Total Factor Productivity, Contribution to Growth

Sources: Penn World Tables; and IMF staff calculations.
Tailoring reforms to stage of economic development

Structural Reforms with Highest Productivity Payoffs within Each Country Group

- Technology & Innovation
- Industry Regulations
- Business Regulations
- Labor Market
- Infrastructure
- Fiscal Structural Reforms
- Banking System
- Capital Market Development
- Legal System & Property Rights
- Trade Liberalization
- Agriculture

Income Level: LIDCs, MICs, AMs

Note: Comparisons across reforms within each country group. Darker shades imply larger gains from reforms.

Main reform priorities

Targeting reforms with highest pay-offs?

Productivity Gains from Different Types of Structural Reform

<table>
<thead>
<tr>
<th>REFORMS</th>
<th>AM</th>
<th>MICs</th>
<th>LIDC</th>
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</thead>
<tbody>
<tr>
<td><strong>Financial Sector Reform</strong></td>
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<td>Banking system reform</td>
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<td>Interest controls</td>
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<td>Credit controls</td>
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<td>Privatization</td>
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<td>Supervision</td>
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<tr>
<td>Capital market development</td>
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<td><strong>Trade Liberalization</strong></td>
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<td>Tariff</td>
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<td><strong>Institutional Reform</strong></td>
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<tr>
<td>Legal system and property rights</td>
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<td><strong>Infrastructure</strong></td>
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<td>Public capital stock</td>
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<td><strong>Market Deregulation</strong></td>
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<tr>
<td>Agriculture</td>
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<tr>
<td>Policy environment for foreign investment</td>
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<tr>
<td>Promotion of competition</td>
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<tr>
<td>Hiring and firing regulations</td>
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<td>Collective bargaining</td>
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<tr>
<td>Energy/Transport/Communications</td>
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<tr>
<td><strong>Innovation</strong></td>
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<tr>
<td>R&amp;D Spending</td>
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Note: Comparisons across reforms within each country group. Darker shades imply larger gains from reforms.

Furthering private sector development

<table>
<thead>
<tr>
<th>Economy</th>
<th>Global Ranking</th>
<th>Ease of Doing Business Rank ▲</th>
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</thead>
<tbody>
<tr>
<td>Mauritius</td>
<td>32</td>
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<tr>
<td>Botswana</td>
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<td>Seychelles</td>
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<td>Namibia</td>
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<td>Swaziland</td>
<td>105</td>
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<tr>
<td>Lesotho</td>
<td>114</td>
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</tr>
<tr>
<td>Cabo Verde</td>
<td>126</td>
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</tbody>
</table>

Source: World Bank, Doing Business Indicators.
An example in economic diversification

Mauritius as a model of economic transformation

Emerging sectors:
- ICT
- Real Estate – IRS/ERS
- Seafood hub
- Knowledge hub
- Health hub

Diversification of markets:
- Reducing dependence on euro markets
- Regional integration

Percent distribution of GDP by industry group (2012)

- Agriculture, forestry and fishing, 3.5%
- Manufacturing, 16.9%
- Construction, 6.3%
- Wholesale & retail trade, 12.0%
- Accommodation and food service, 6.9%
- Information and communication, 4.6%
- Transportation and storage, 5.8%
- Real estate, 5.6%
- Finance and insurance, 10.2%
- Education, 4.4%
- Human health and social work, 3.8%
- Others, 20.0%

Source: Country authorities.
Issues for discussion

• What is the “right” growth model?
• How do SMICs adapt to the megatrends?
• What is the role of the state?
• How to support private sector development?
• How to prioritize reforms and build coalitions supporting change?
• How to make growth more inclusive?
Thank You