



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

Min Zhu

IMF Deputy Managing Director

Grand Palm Hotel, Gaborone, Botswana

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Outline

I. The external environment

II. Successes and Challenges

III. Rethinking growth strategies and policies

Outline

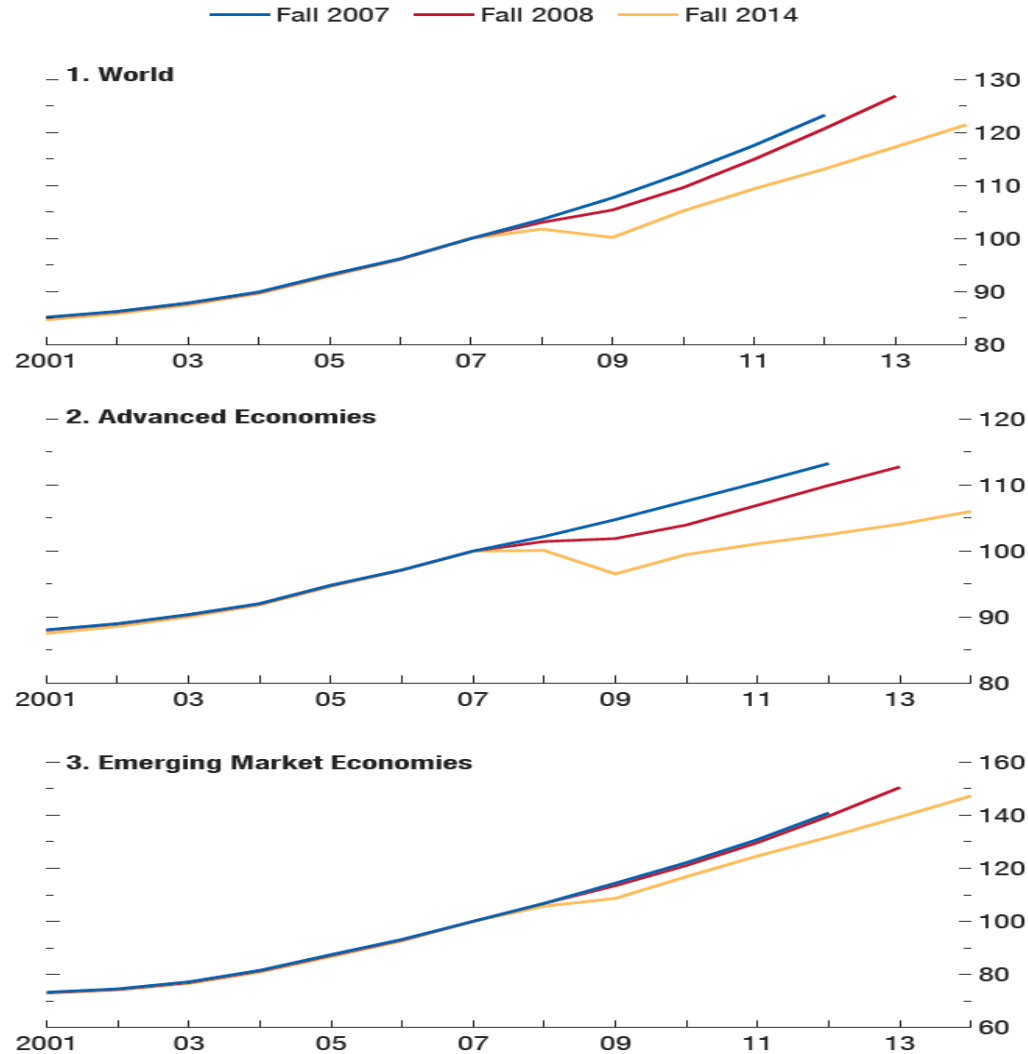
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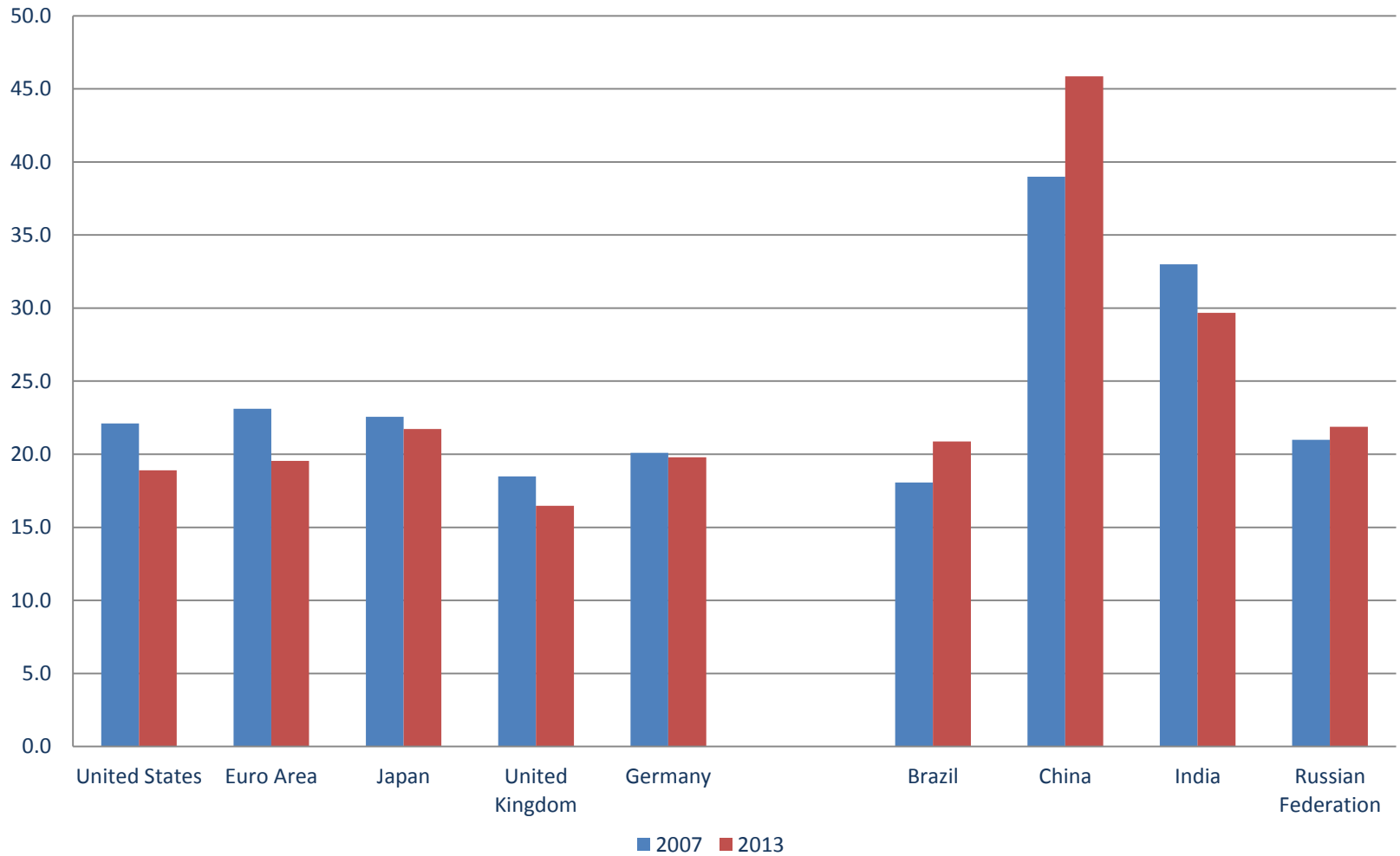
The Legacy of the Crisis: Output Compared to Pre-crisis Expectations

(percent, 2007=100)



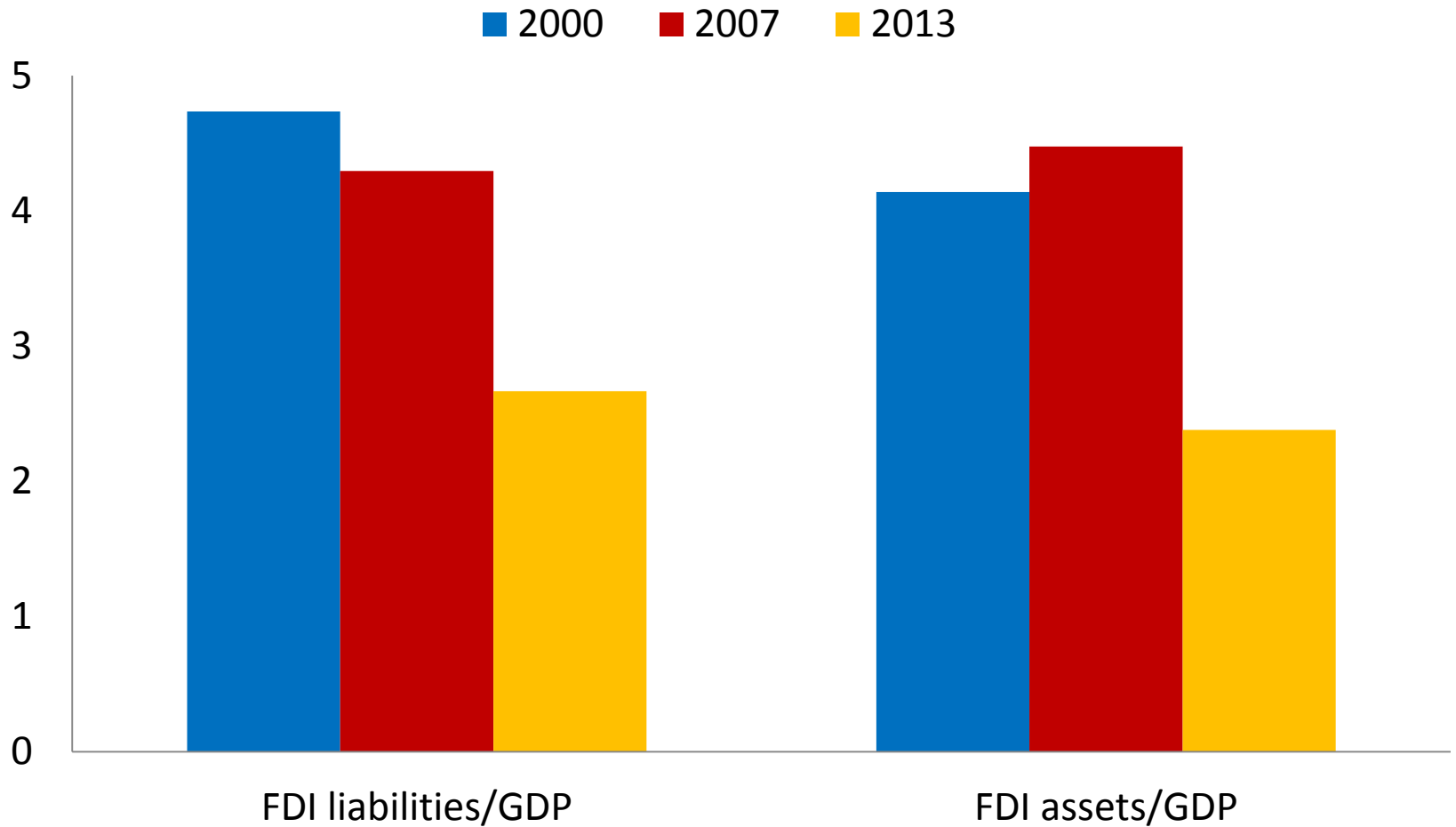
Investment

(Share of GDP)



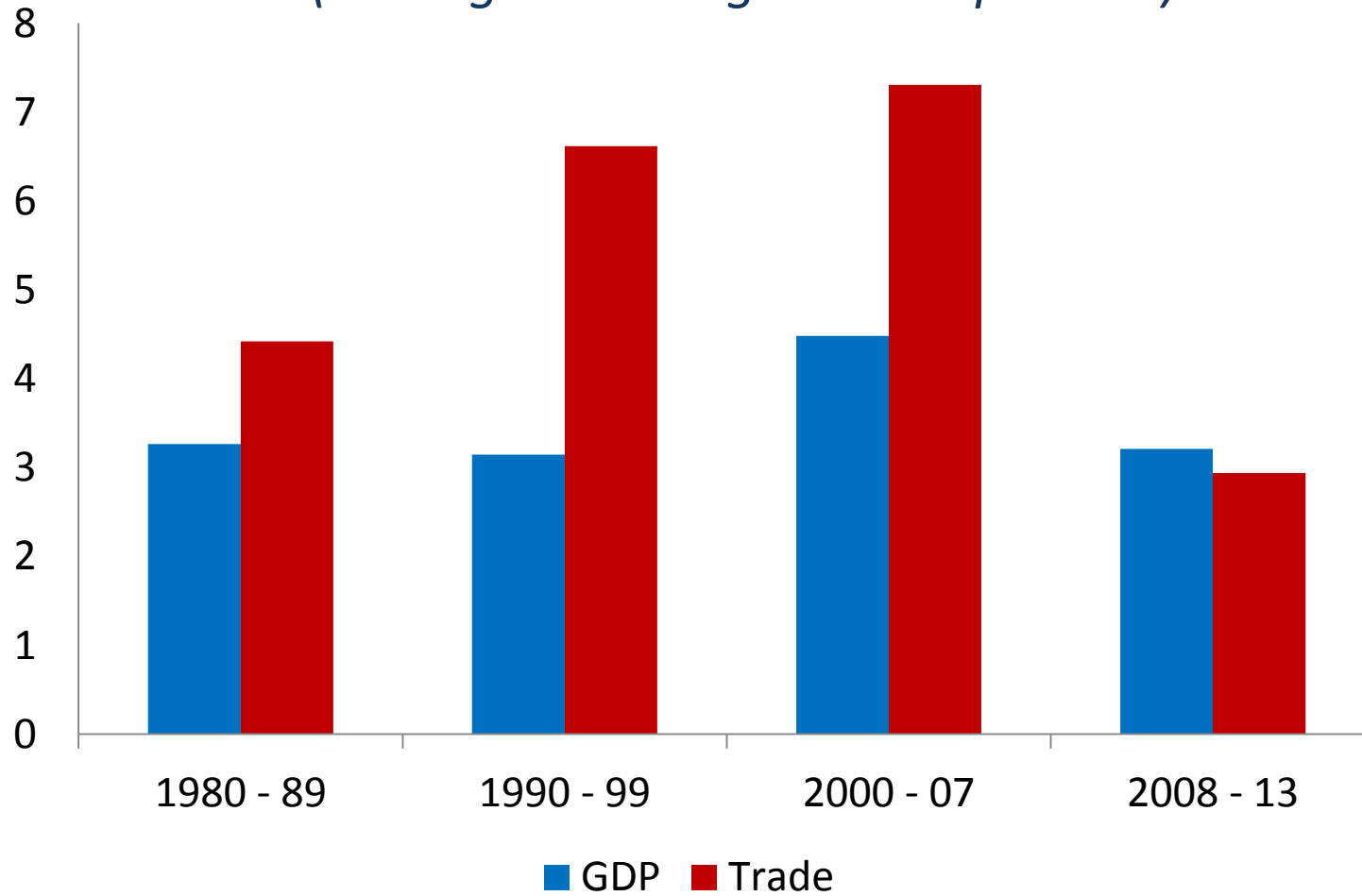
World FDI

(in percent of World GDP)



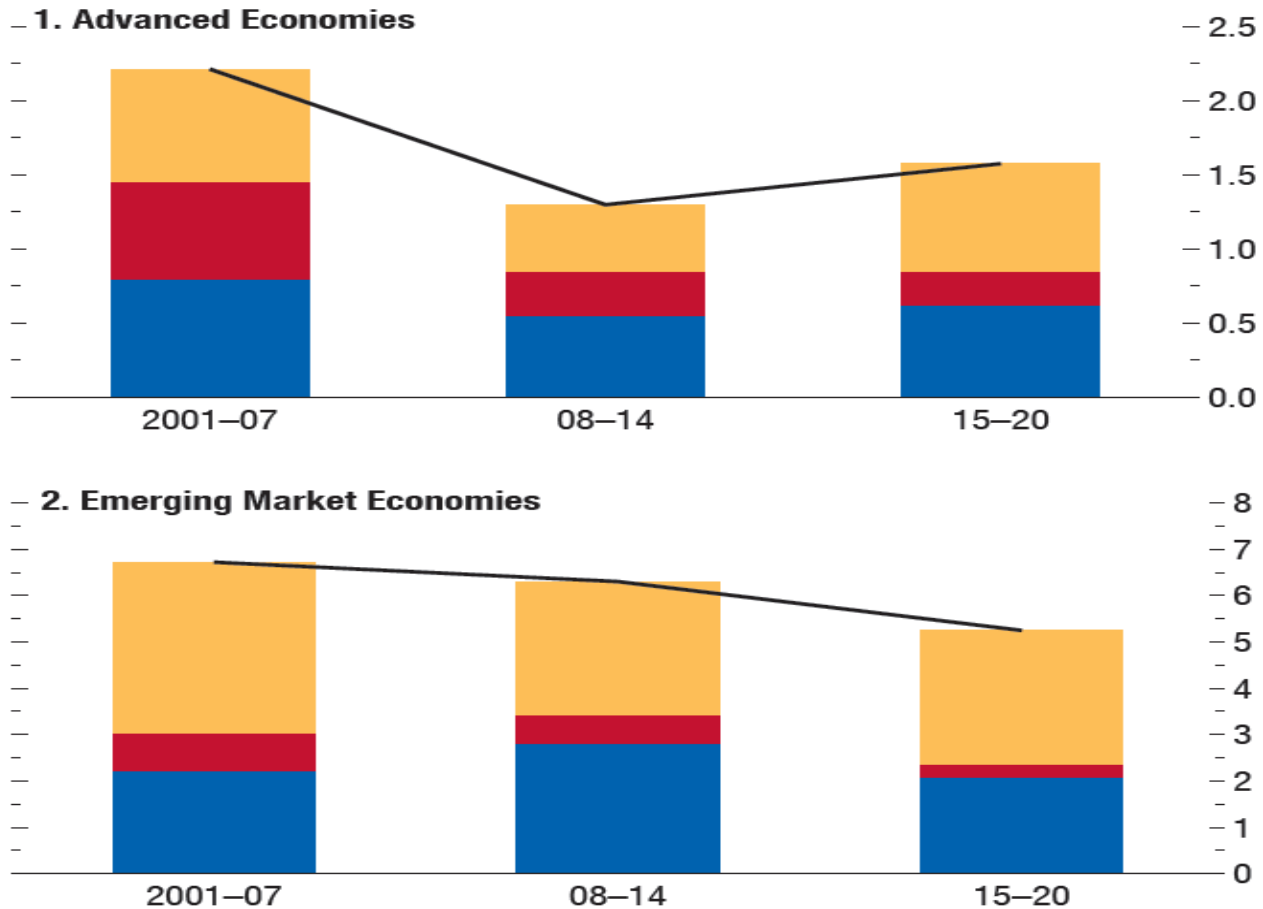
GDP vs. Trade

(average annual growth in percent)



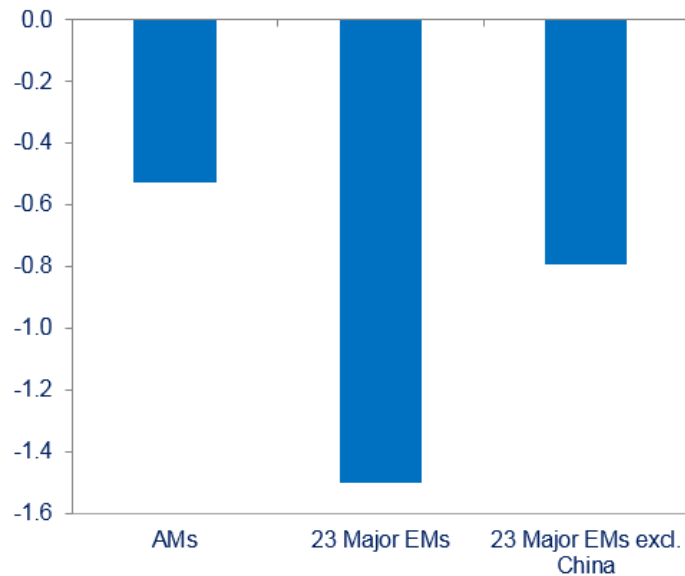
Evolution of Potential Output Growth (percent)

— Potential output growth
■ Potential employment growth
■ Capital growth
■ Total factor productivity growth

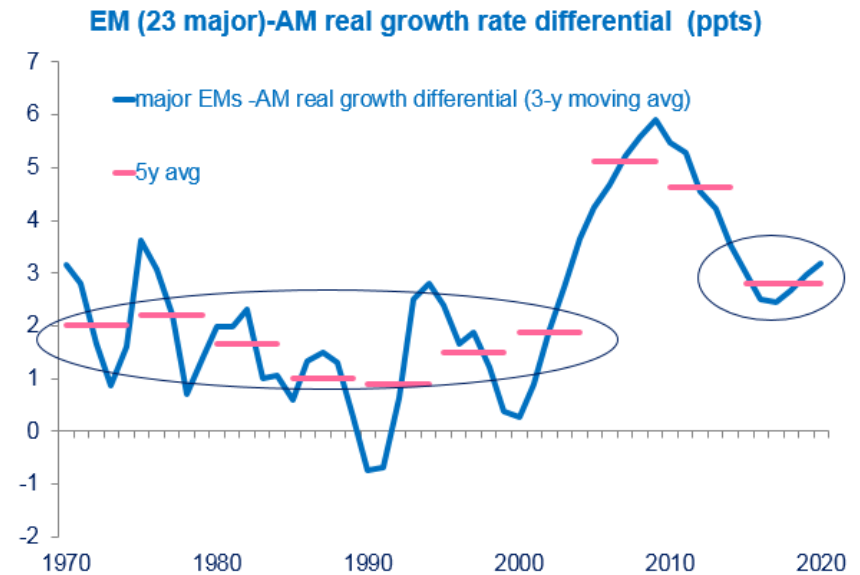


EM Potential Growth

Revisions to potential growth since 2010



Real GDP Growth Differential: EM vs AMs, 1970-2020



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

Commodity Prices Fall

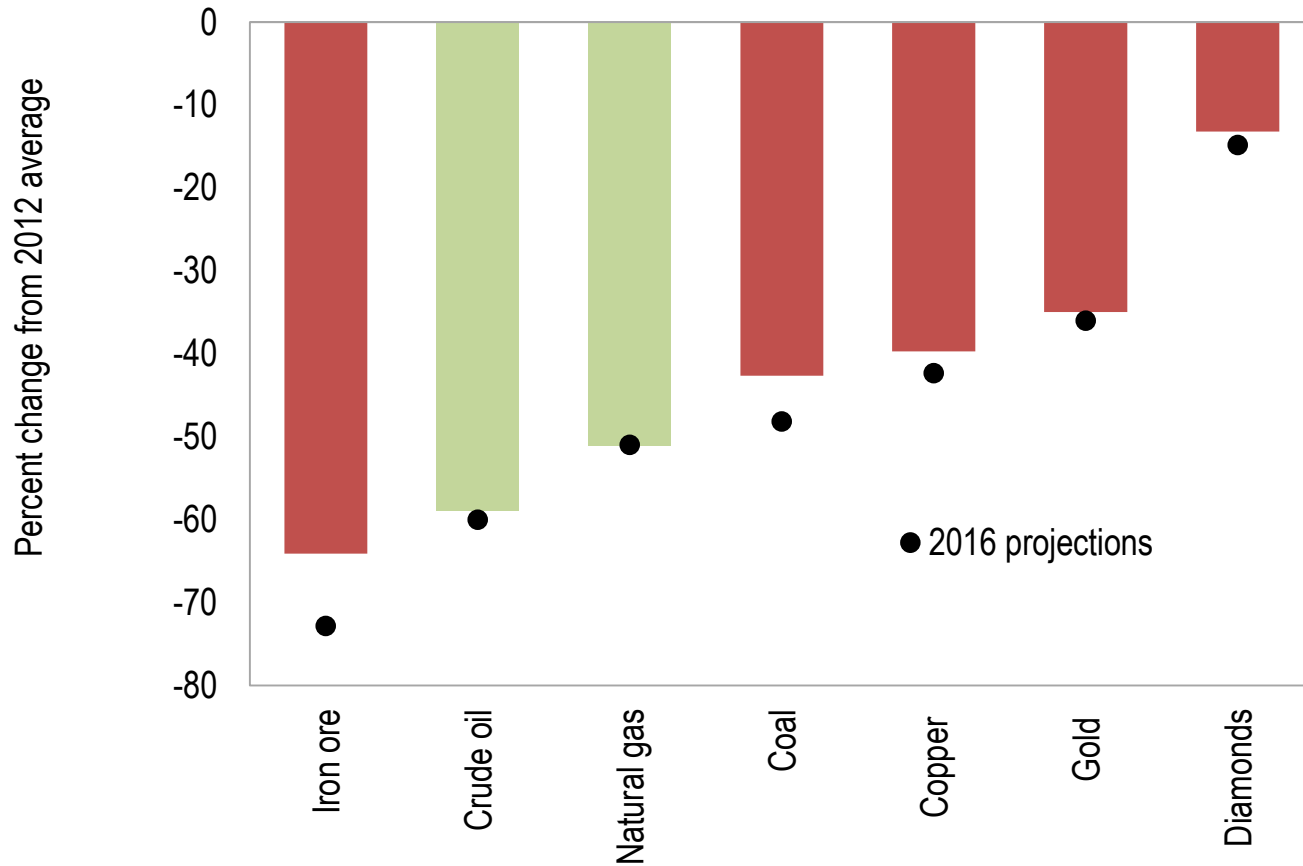
Commodity Prices in USD (Index, Jan 2014=100)



Source: Haver Analytics and Fund Staff calculations.

Commodity Prices Fall

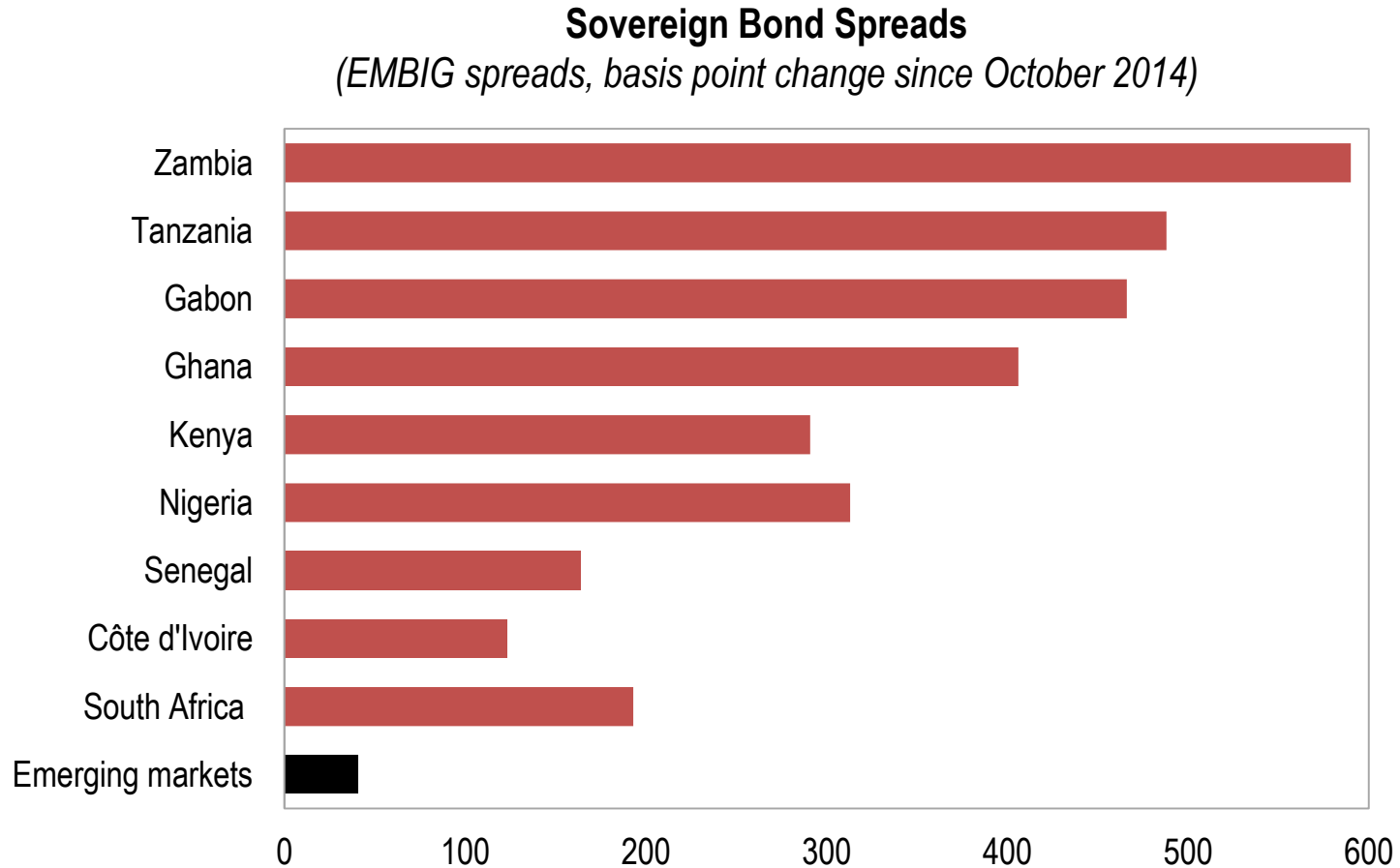
Selected Commodity Prices, 2012–Nov 2015



Source: IMF, Commodity Price System and Global Assumptions.

Source: IMF, World Economic Outlook database.

External financing conditions are tightening

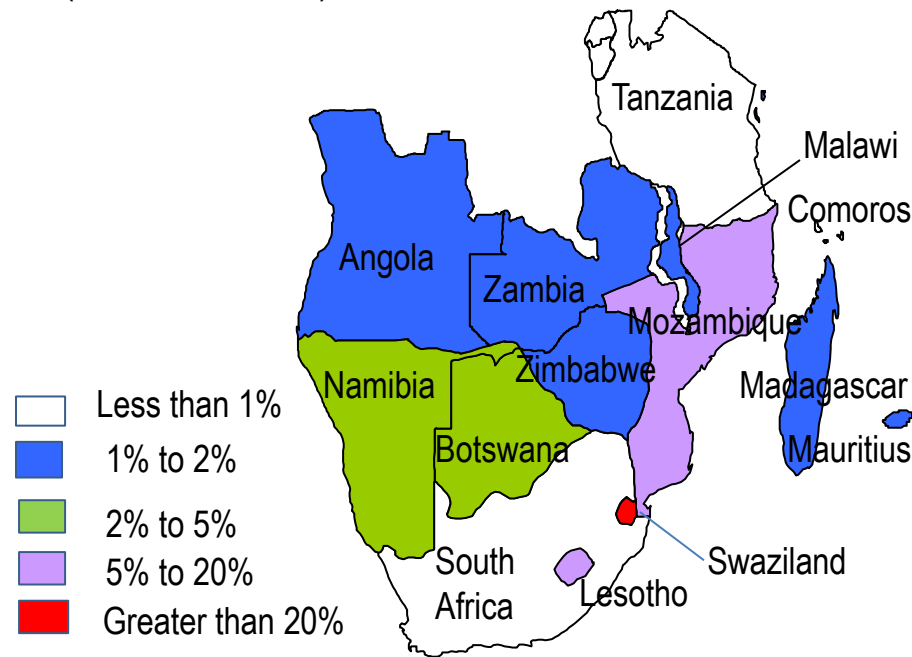


Source: Bloomberg. Note: Data as of January 4, 2016. “Emerging markets” average includes Argentina, Brazil, Bulgaria, Chile, Colombia, Hungary, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, Turkey, and Ukraine.

Magnified for BLNS from spillovers from S. Africa

Exposure from exports to SA

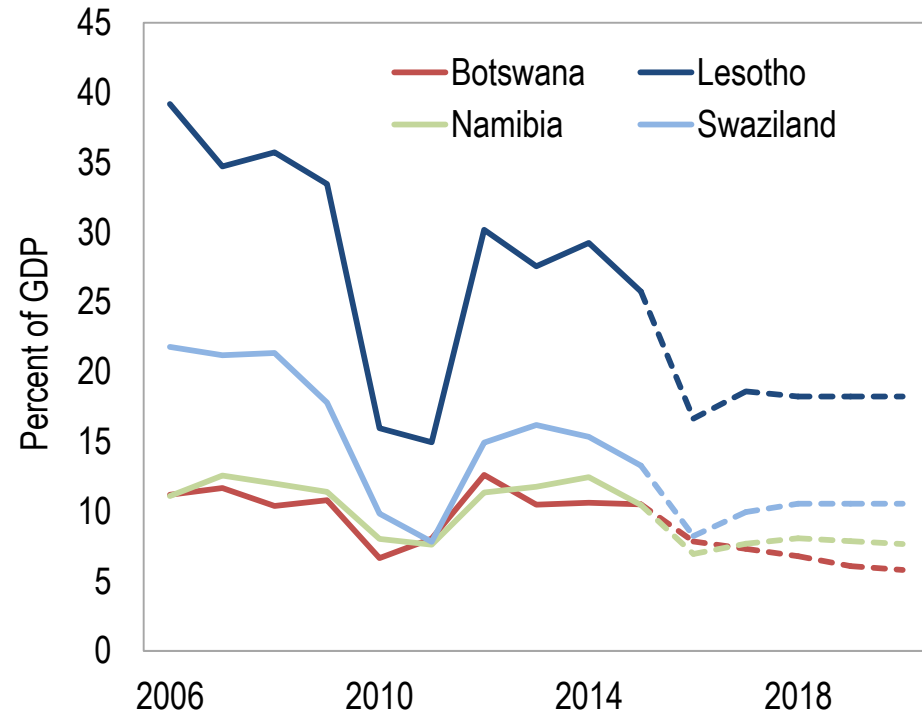
Exports to South Africa from Neighboring Countries, 2014
(Percent of GDP)



Source: IMF, Direction of Trade Statistics.

And lower SACU revenues

BLNS Countries: Customs Revenues Payments.



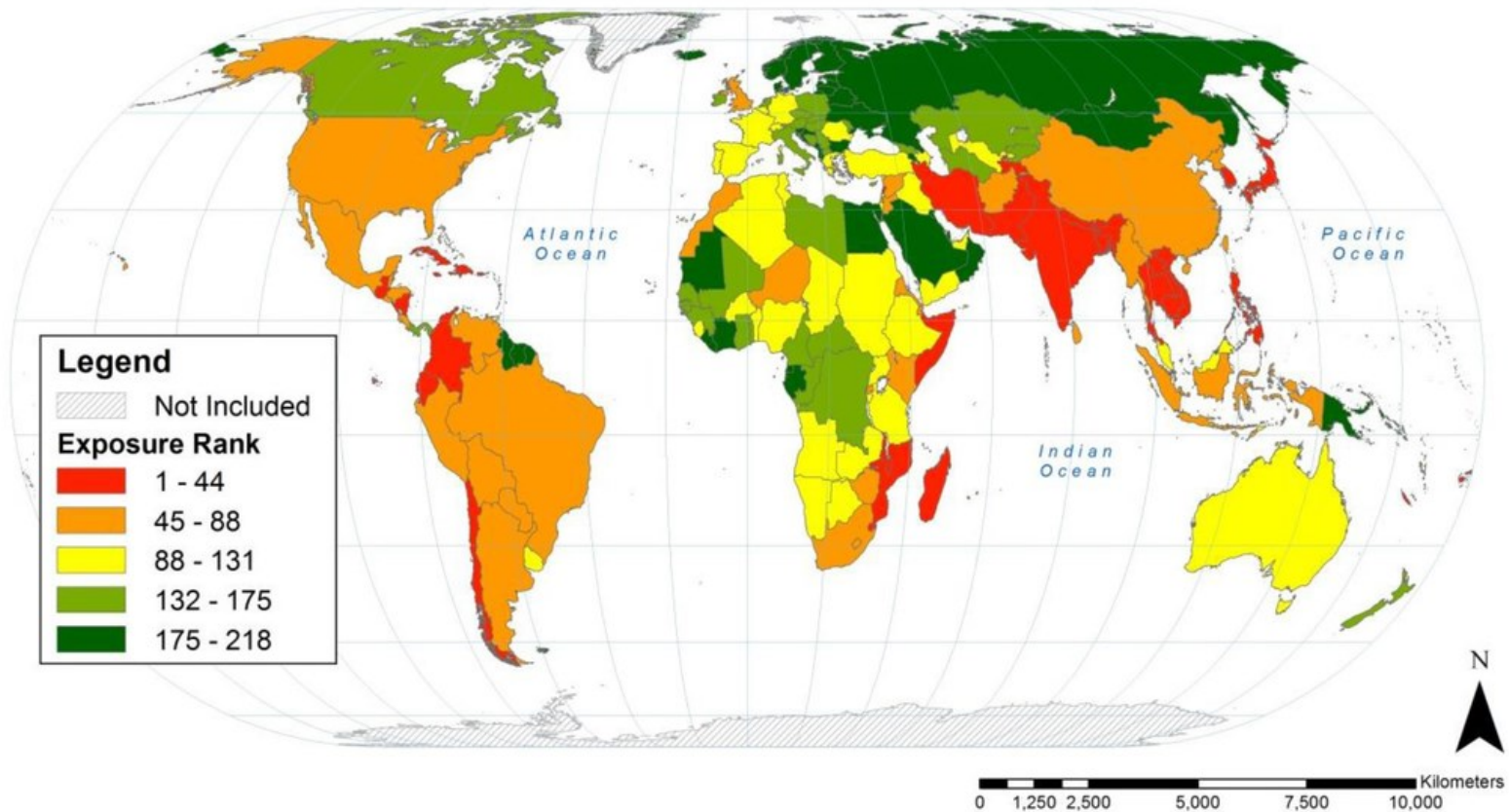
Source: Country authorities.

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

Multi-Hazard Exposure

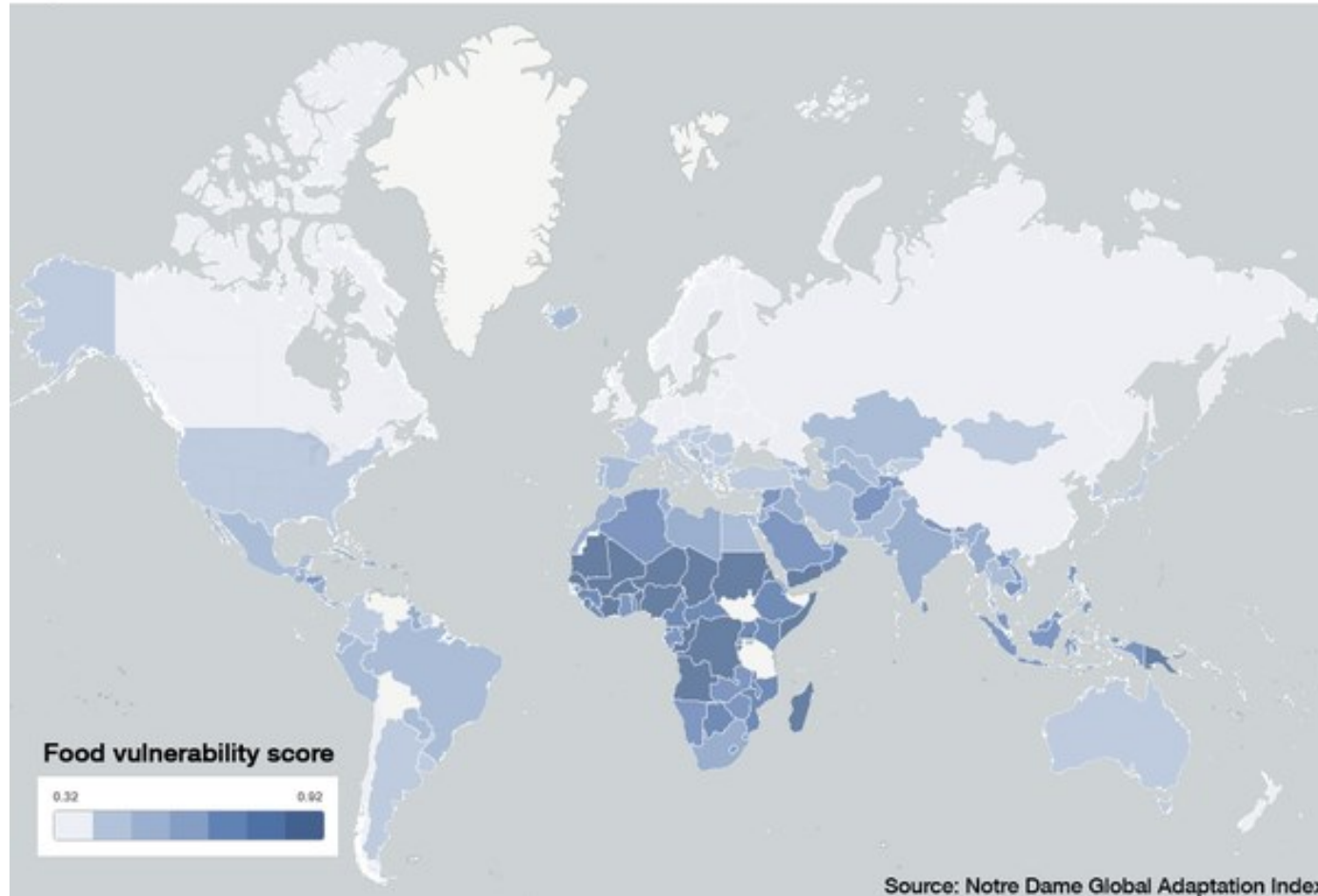


Source: Christenson et al. (2014), Climate-Related Hazards: A Method for Global Assessment of Urban and Rural Population Exposure to Cyclones, Droughts, and Floods, *Int. J. Environ. Res. Public Health* 2014, 11(2)

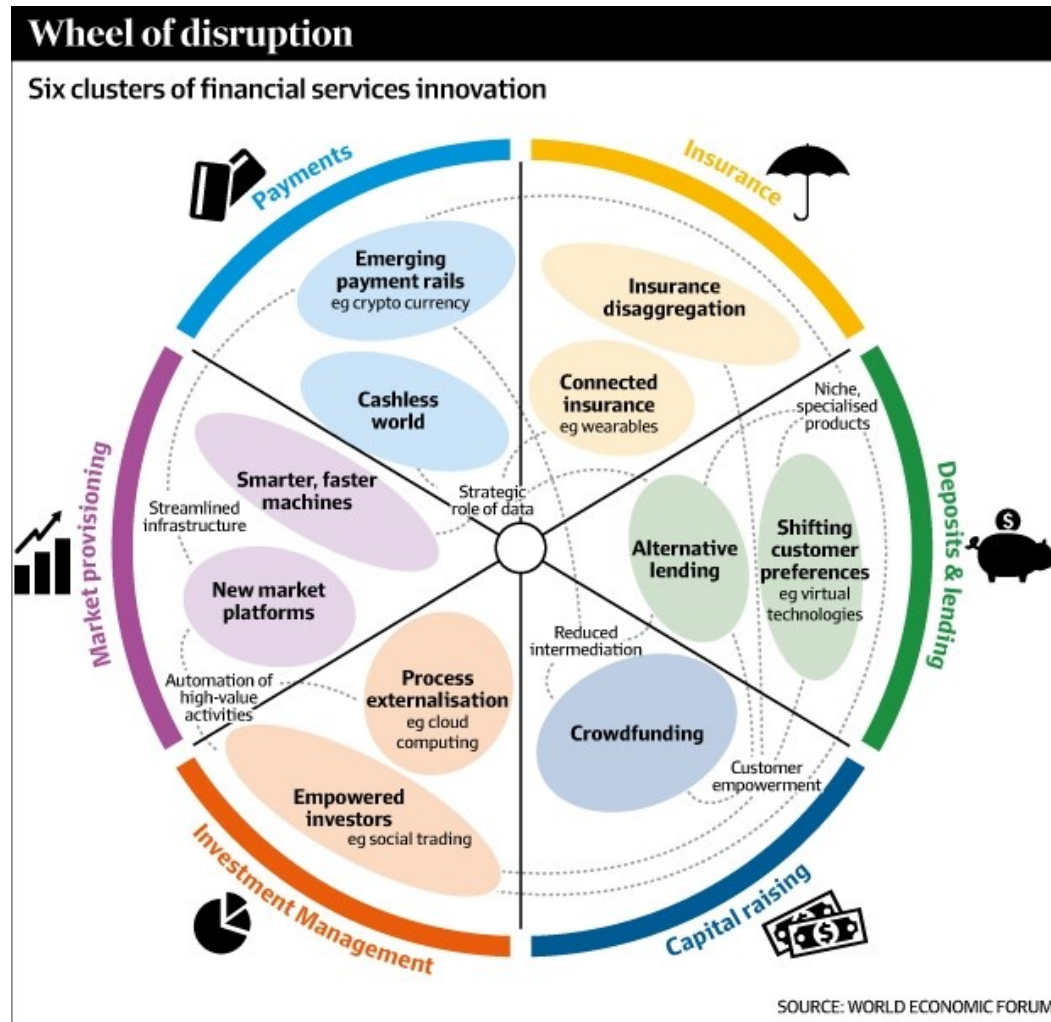
Megatrend (1): Climate: Poor most vulnerable

Where are food supplies most vulnerable to climate change?

Higher score = more vulnerable

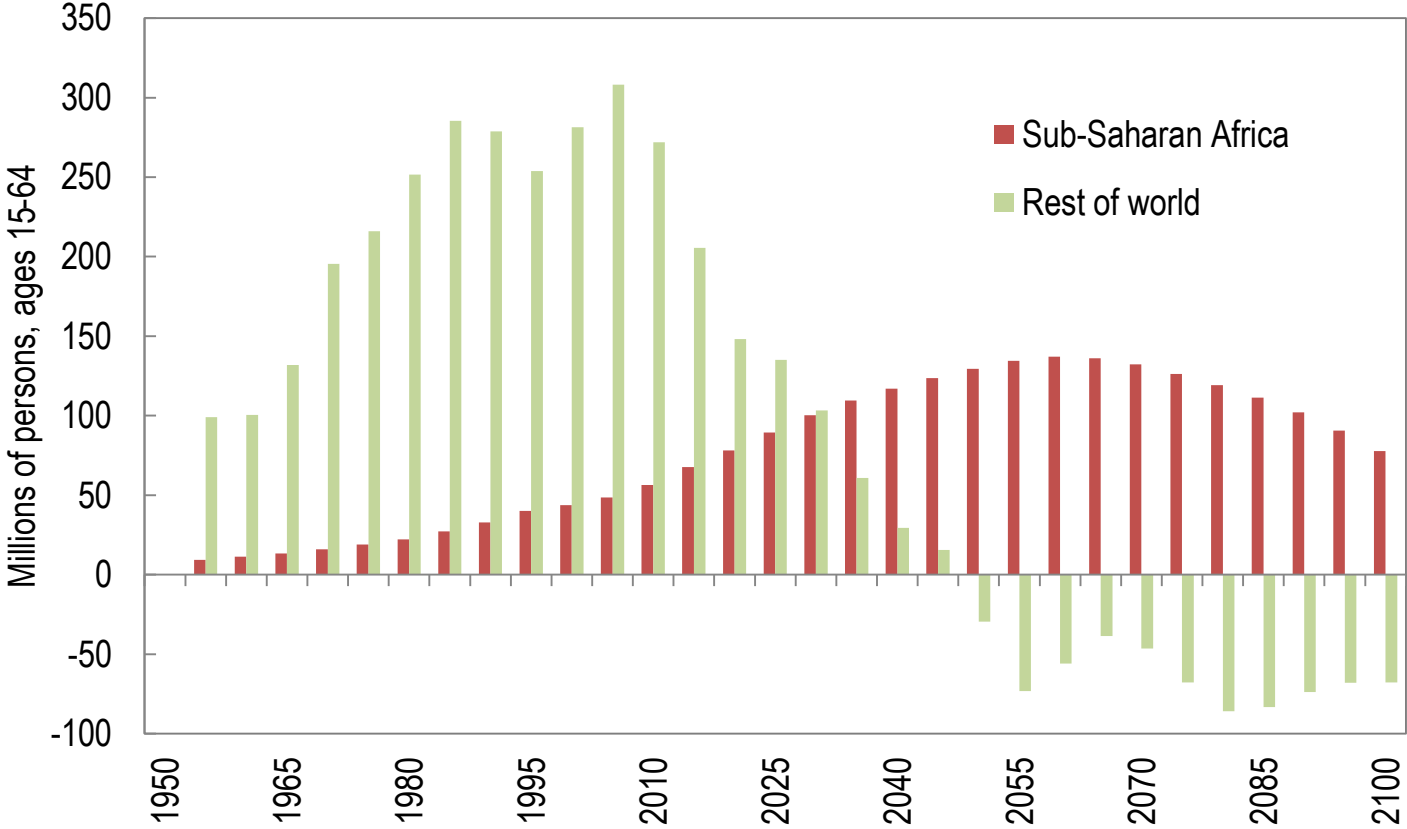


Megatrend (2): Technology will change conventional business practices



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.

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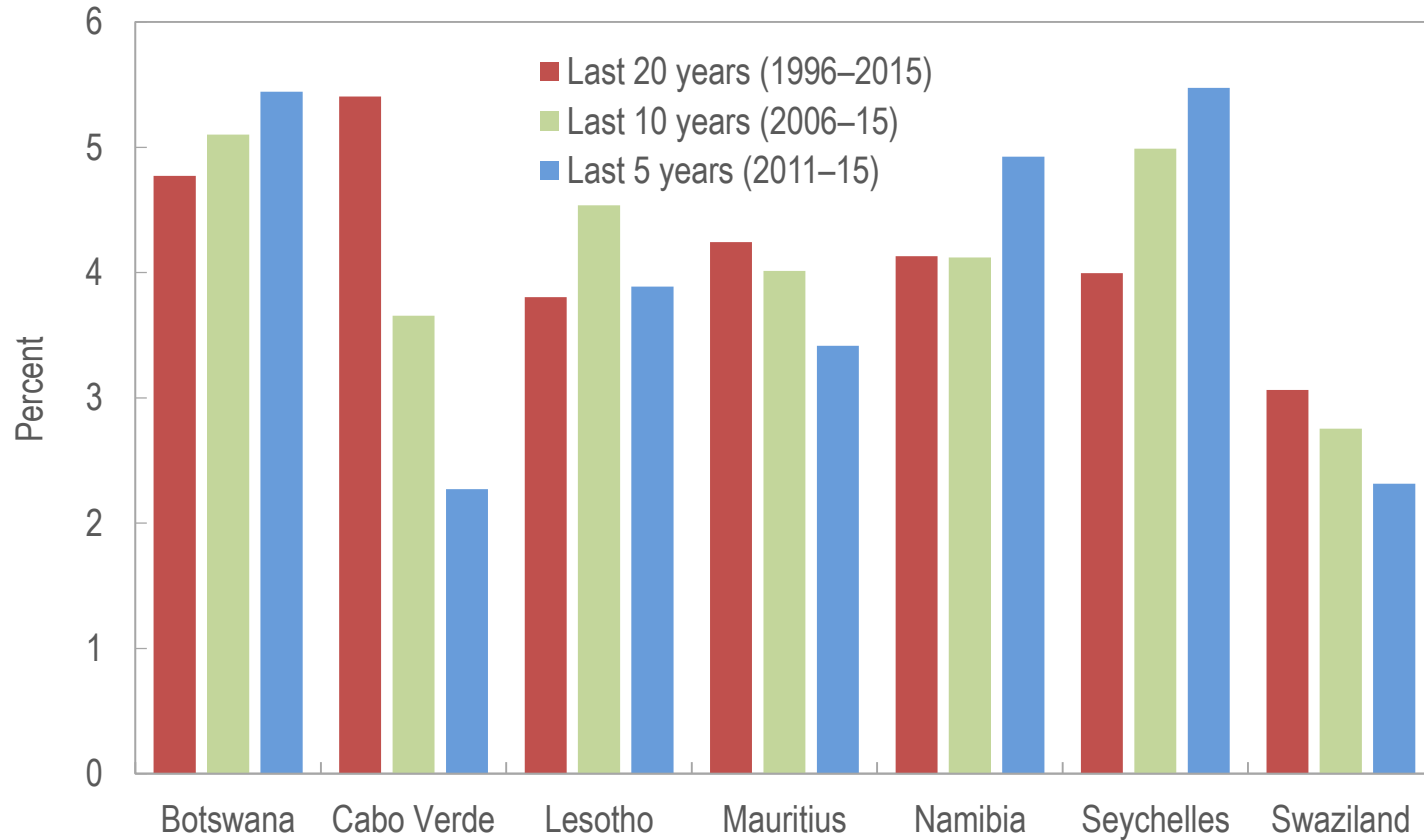
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Sustained growth

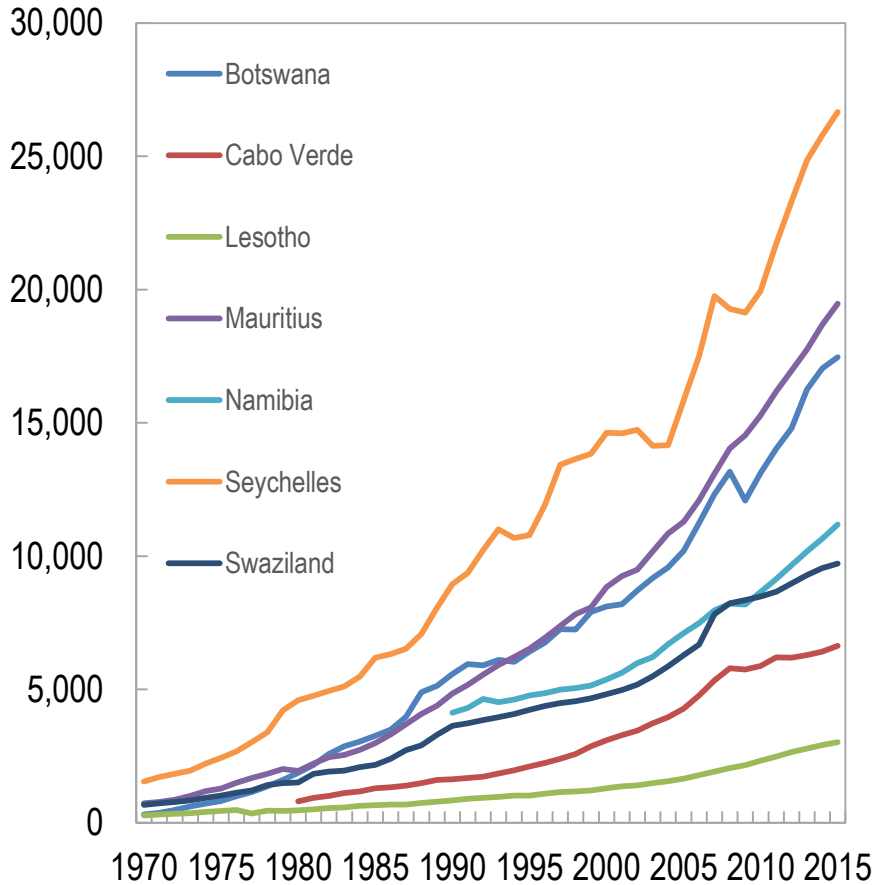
Sub-Saharan African Small Middle Income Countries: Real GDP Growth



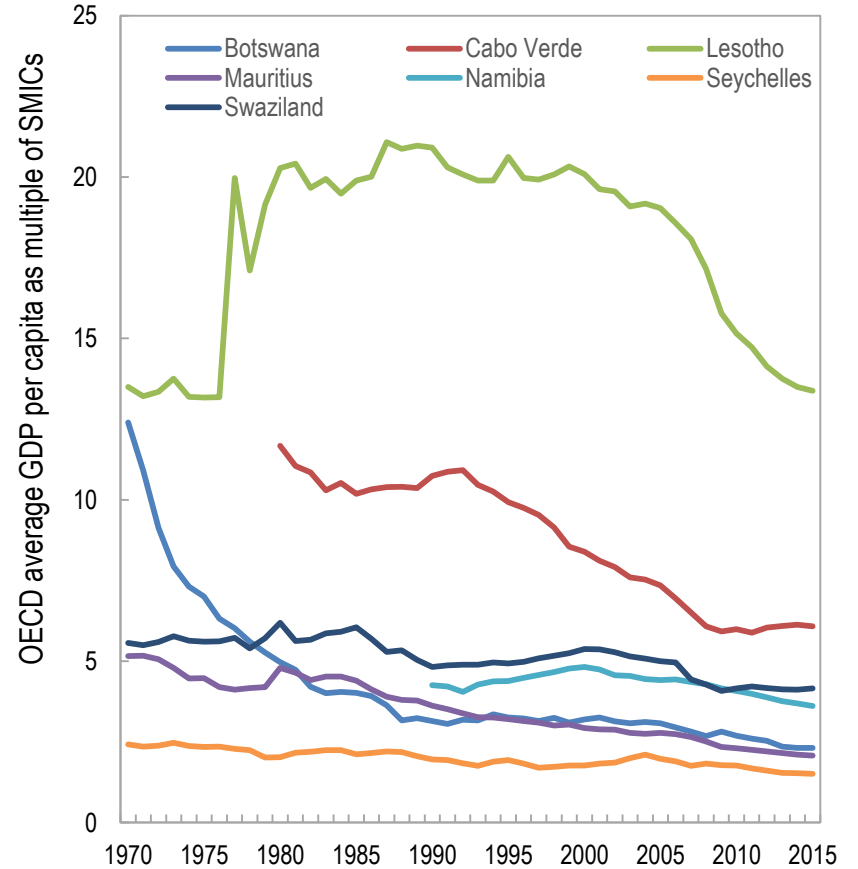
Source: IMF, World Economic Outlook database.

Sustained increase in GDP per capita

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



But growth moderation has stalled convergence

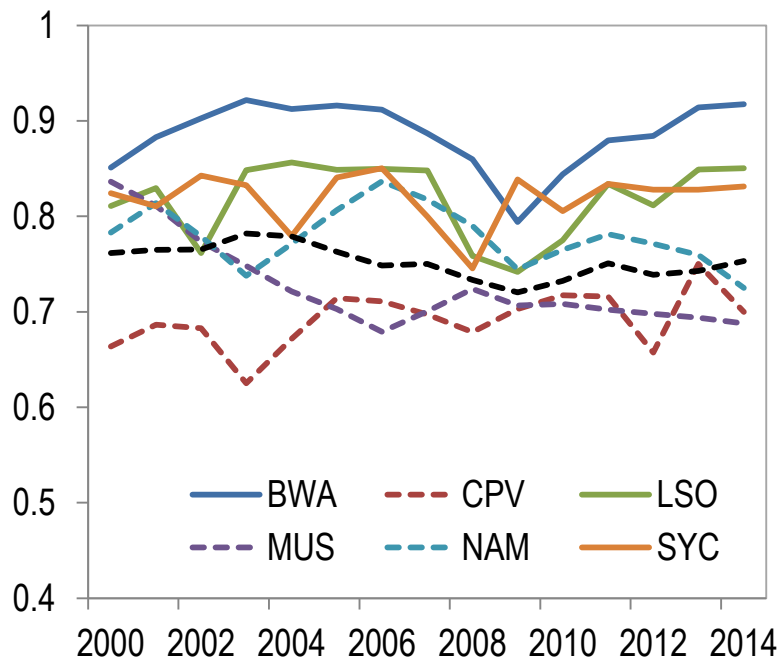


Domestic challenge: Foster economic diversification

Low export diversification

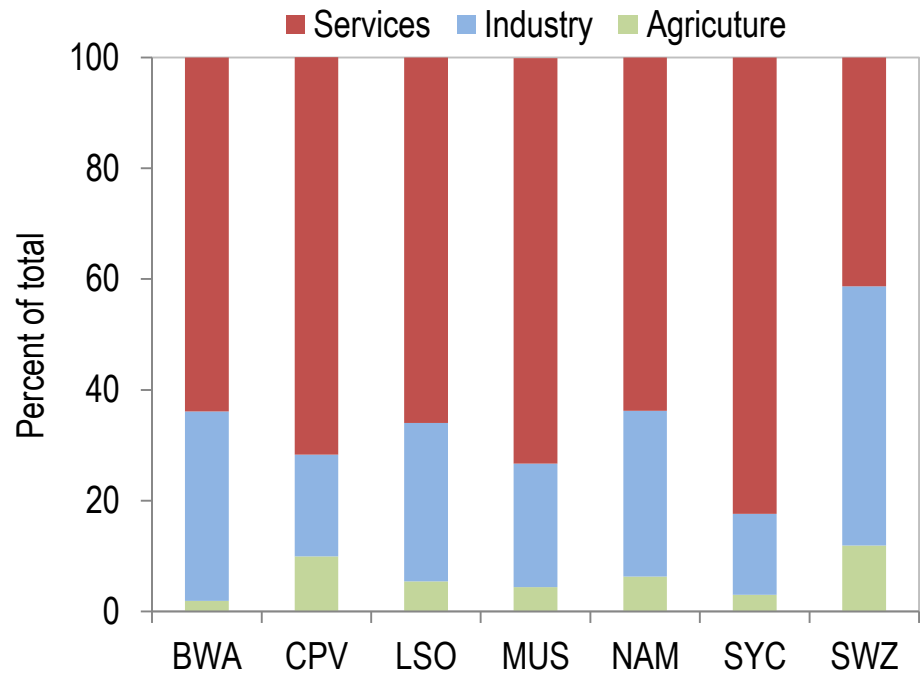
Export Diversification Index

(Lower number = Greater diversification)



High share of services, reflecting government expansion in most cases

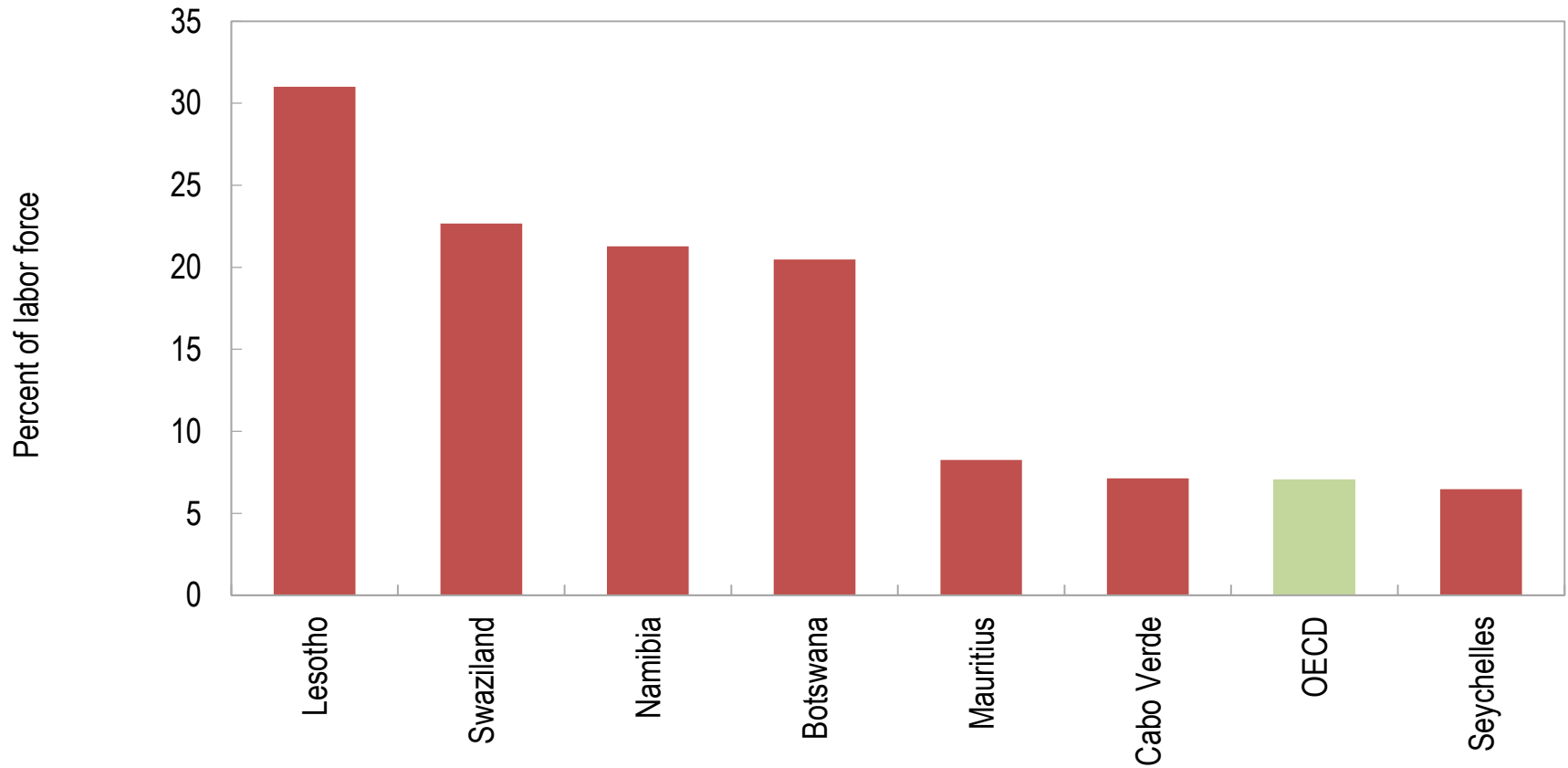
Composition of GDP, 2014



Source: UNCTADstat, World Economic Outlook database.

Domestic challenge: Job creation

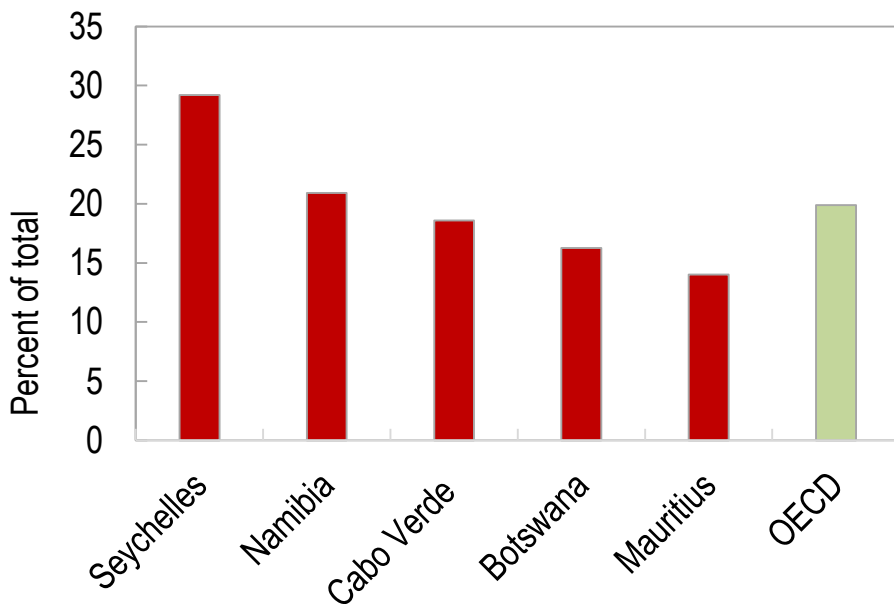
Unemployment Rate, Average 1995–2013



Source: World Bank, World Development Indicators.

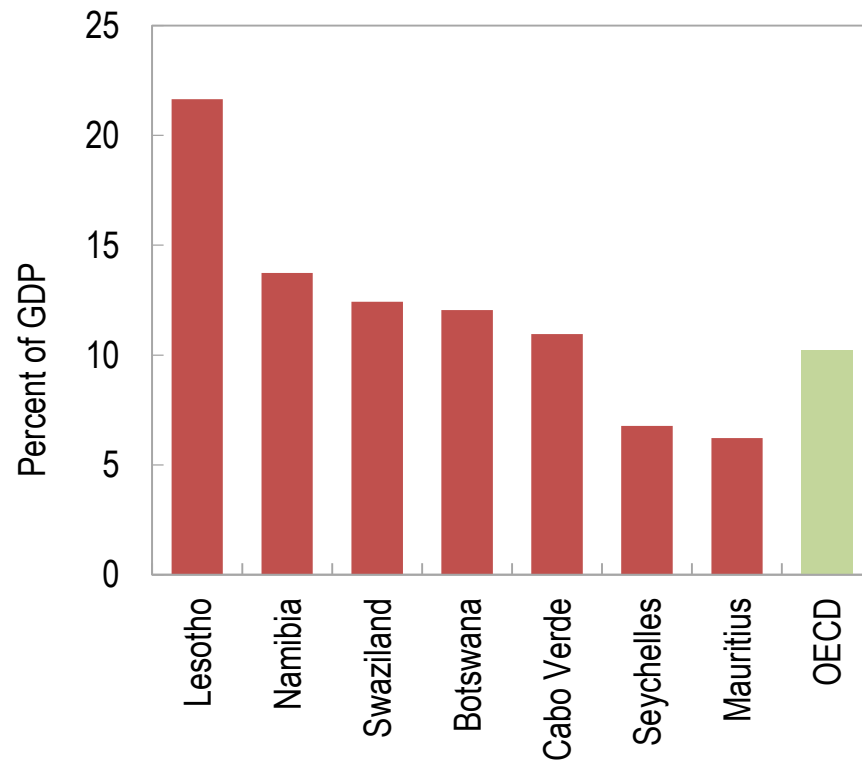
Domestic challenge: Manage public employment and wage bill

Share of Public Employment, Average
1995–2012



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

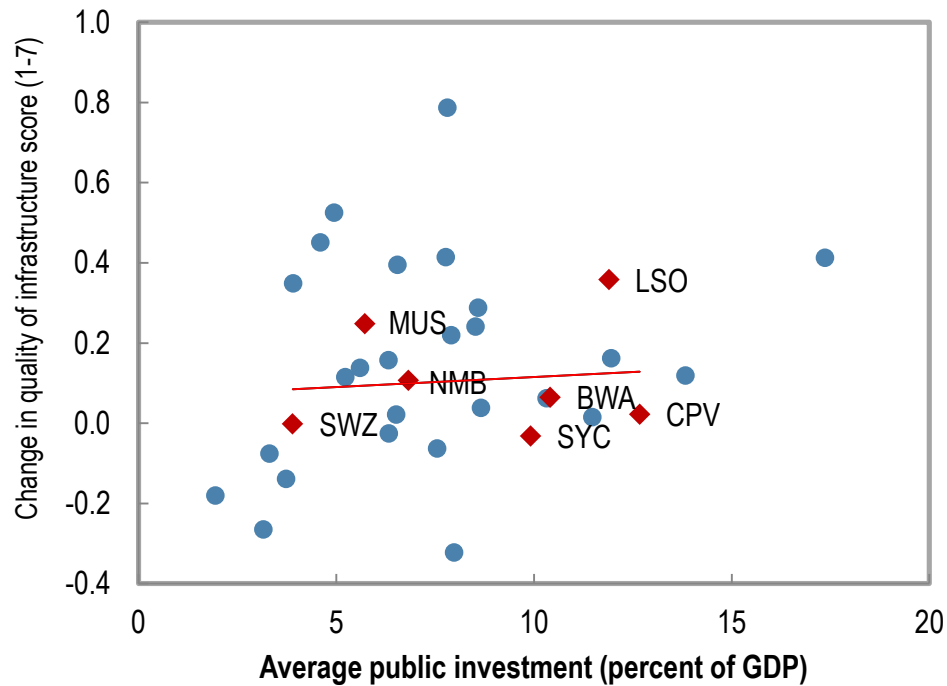
Wage Bill, 2014



Source: IMF, World Economic Outlook database.

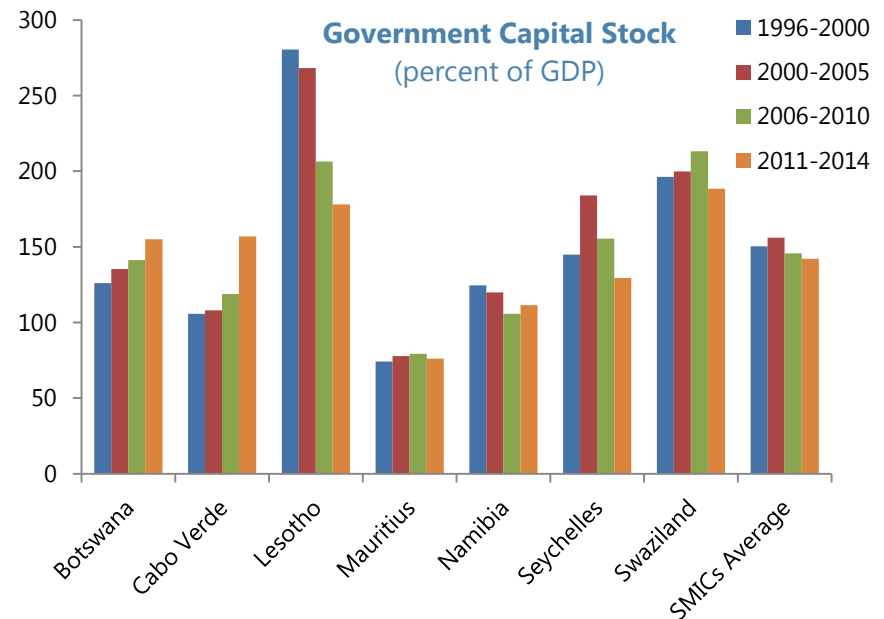
Domestic challenge: Addressing infrastructure gap

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



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).

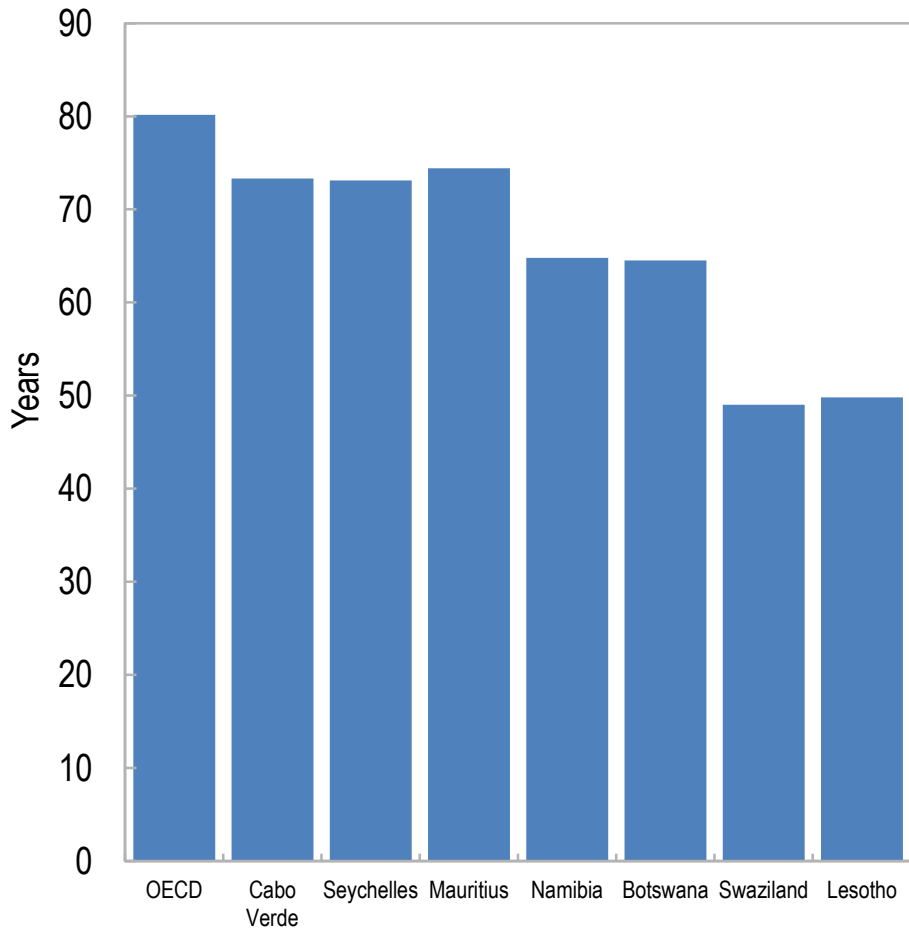
Government capital stocks stagnant in most countries following investment slowdown



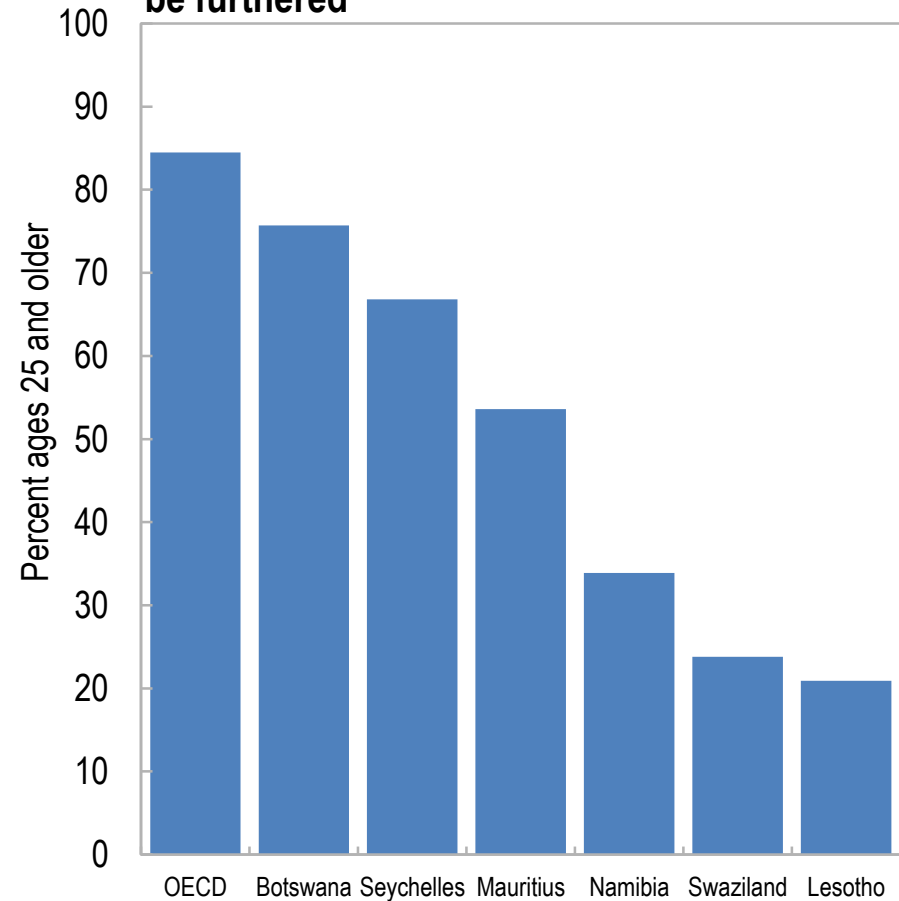
Source: IMF Investment and Capital Stock Dataset, 2015.

Domestic challenge: Improve Human Development

Life Expectancy (2014) still low in some cases

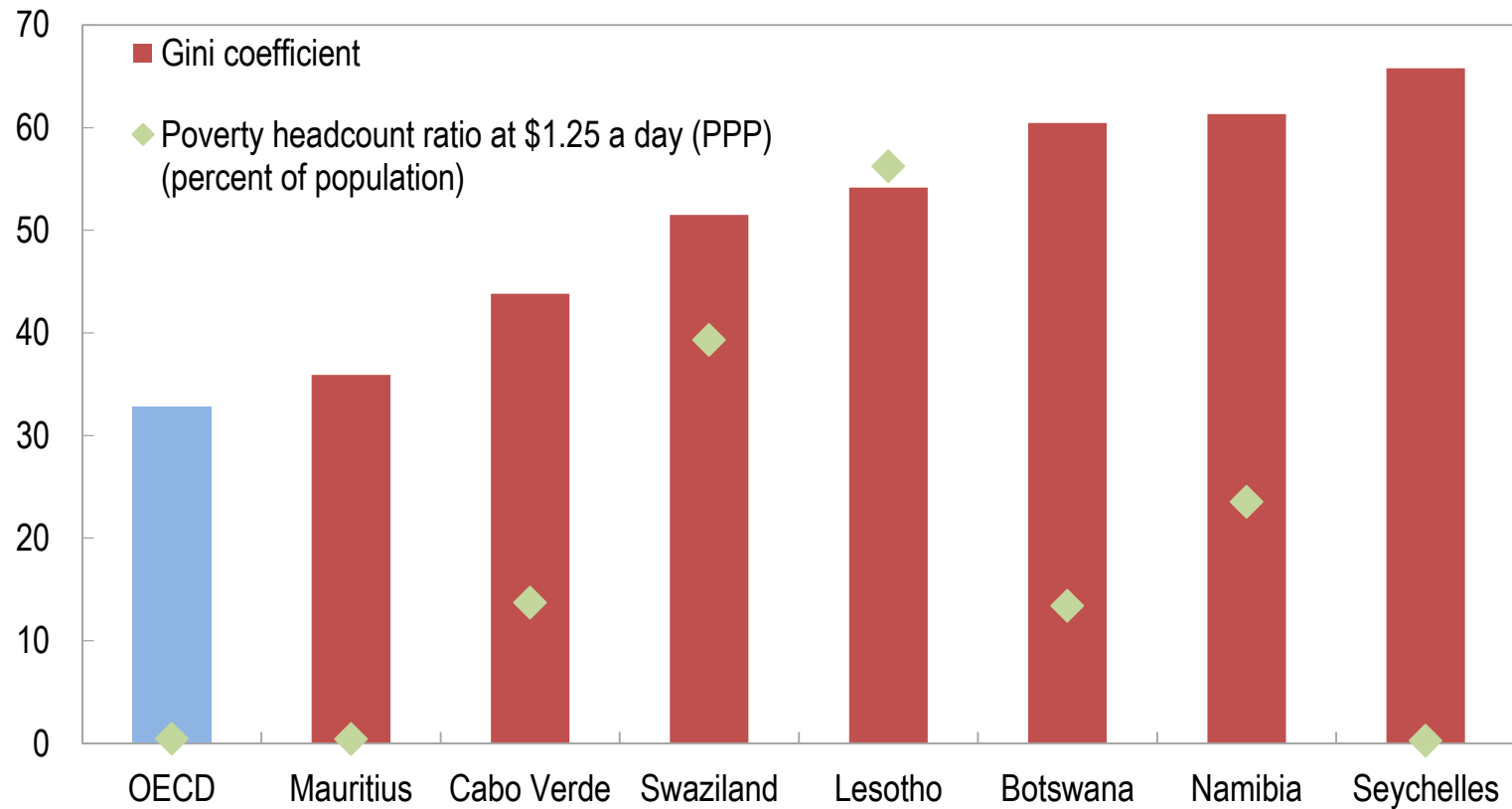


Secondary Education (Latest Available) can be furthered



Domestic challenge: Inclusive growth

Poverty and Income Inequality, Latest Available



Source: World Bank, World Development Indicators.

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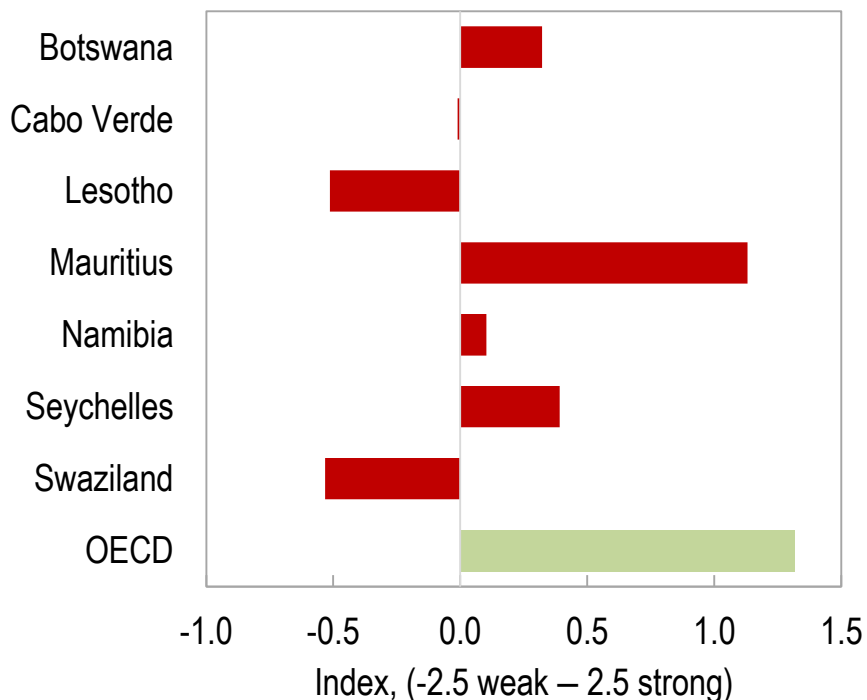
Three key challenges to graduate to advanced economy status



Experiences (1): Countries that graduated to AE status had more effective governments

Government effectiveness varies significantly

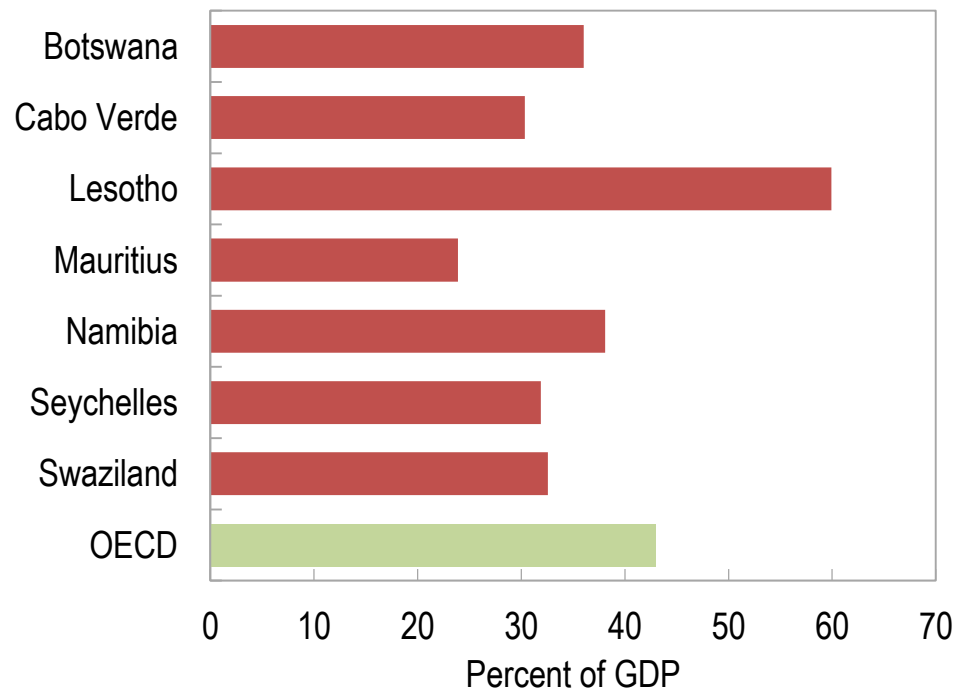
Government Effectiveness Index, 2014



Source: World Bank, Worldwide Government Indicators.

And not necessarily correlated to size of government spending

Government Expenditure, 2014

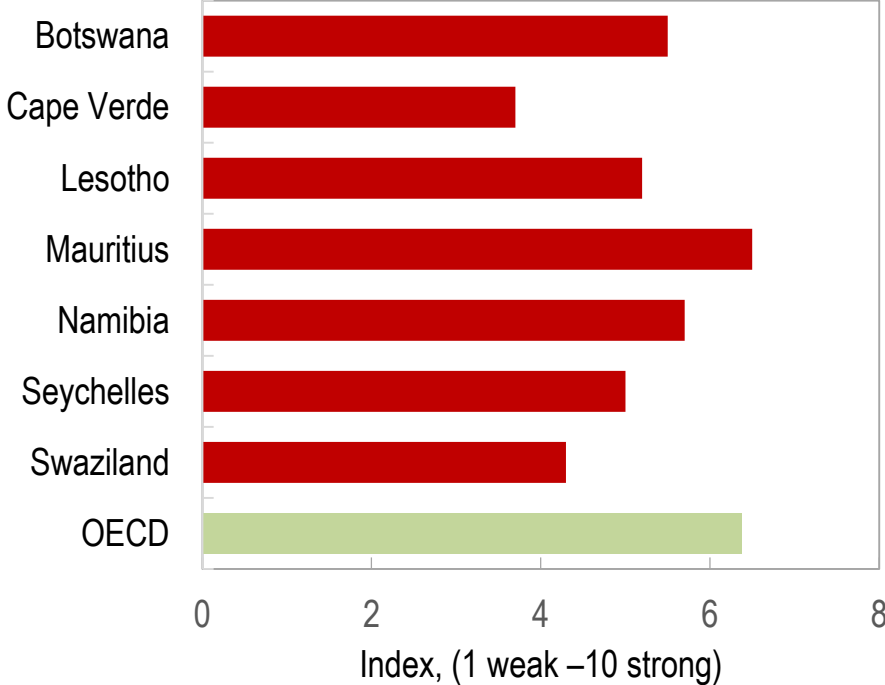


Source: IMF, World Economic Outlook database.

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

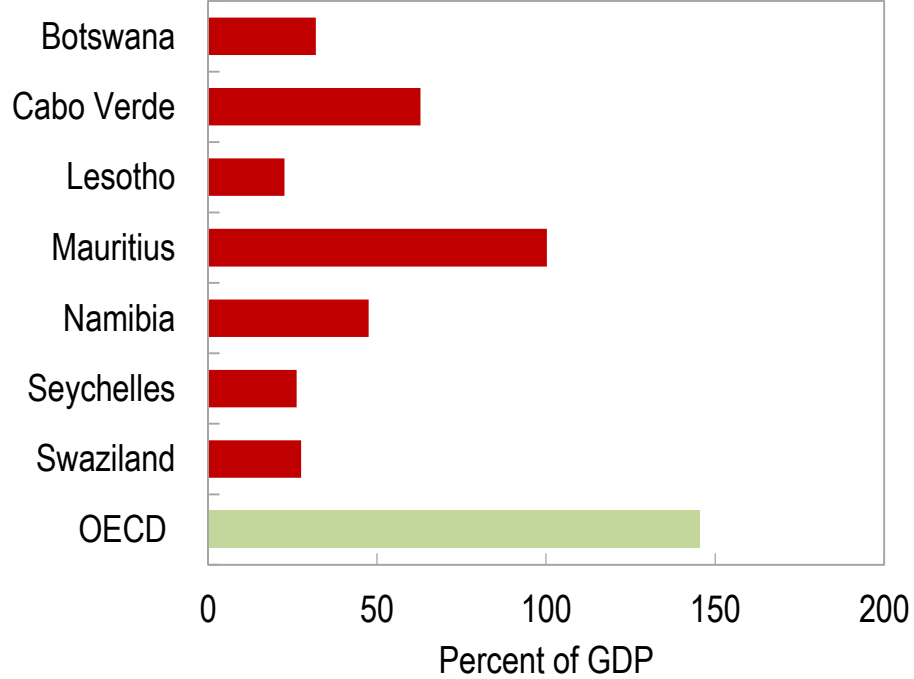
Stronger investor protection in advanced economies

Strength of Investor Protection Index, 2014



As well as more credit to the private sector

Credit to the Private Sector, 2014

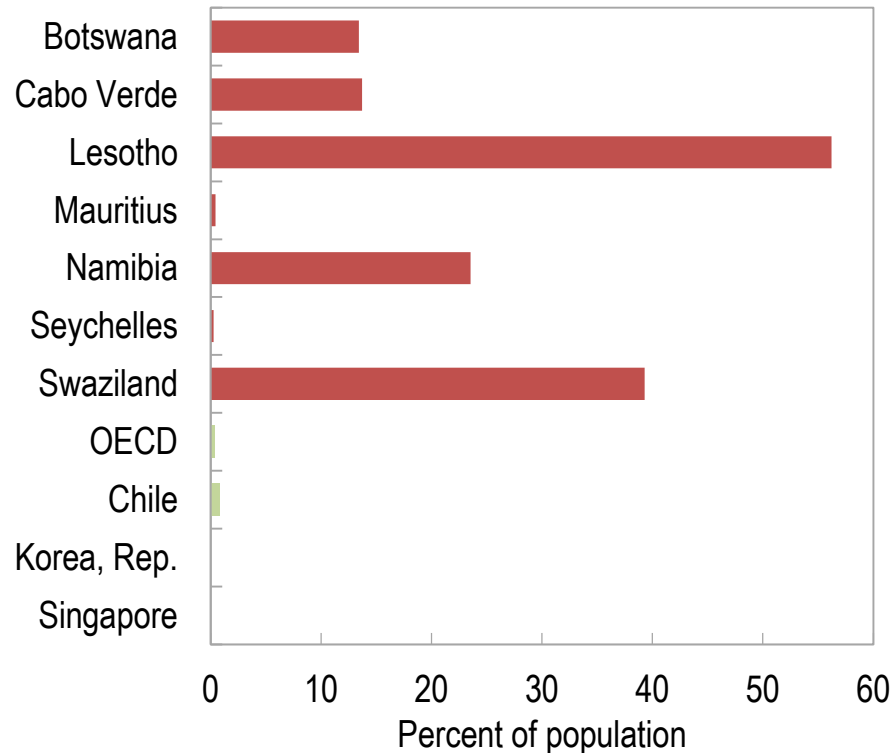


Source: World Bank, Doing Business Indicators.

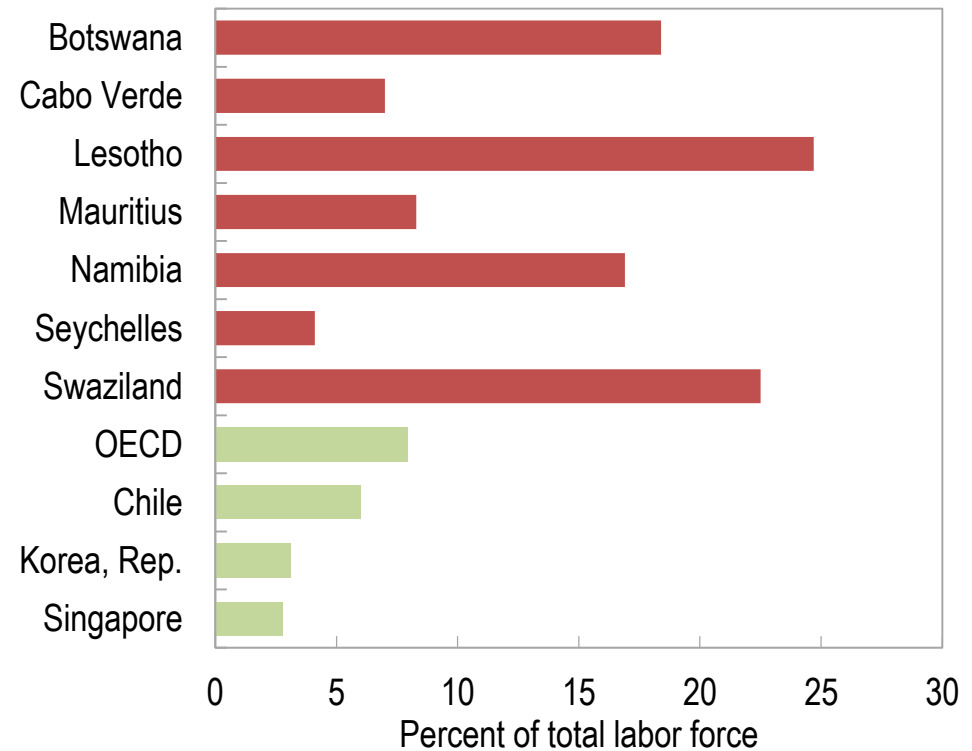
Source: World Bank, World Development Indicators.

Experiences (3): Countries that graduated to AE status had more inclusive growth

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

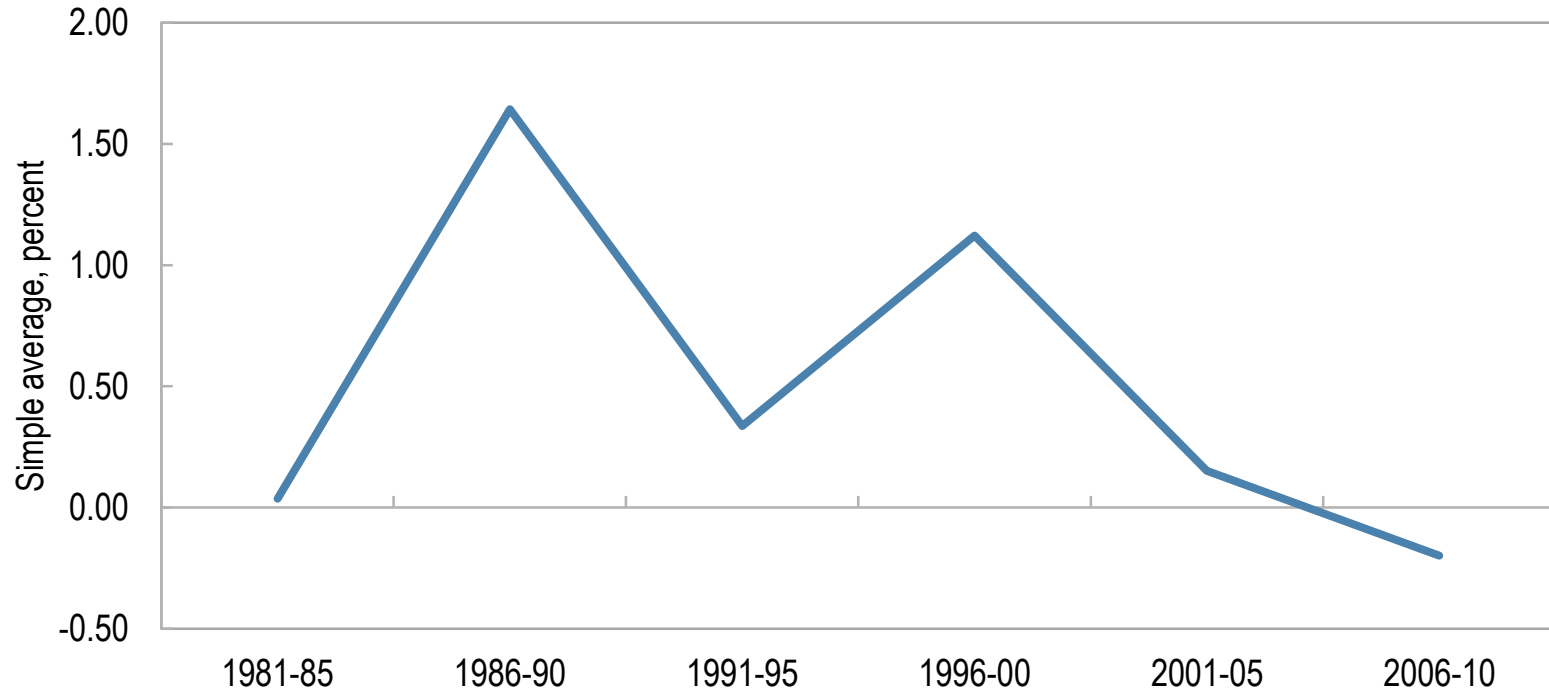


Unemployment Rate, 2013



Rethinking growth strategies and reversing the decline in TFP

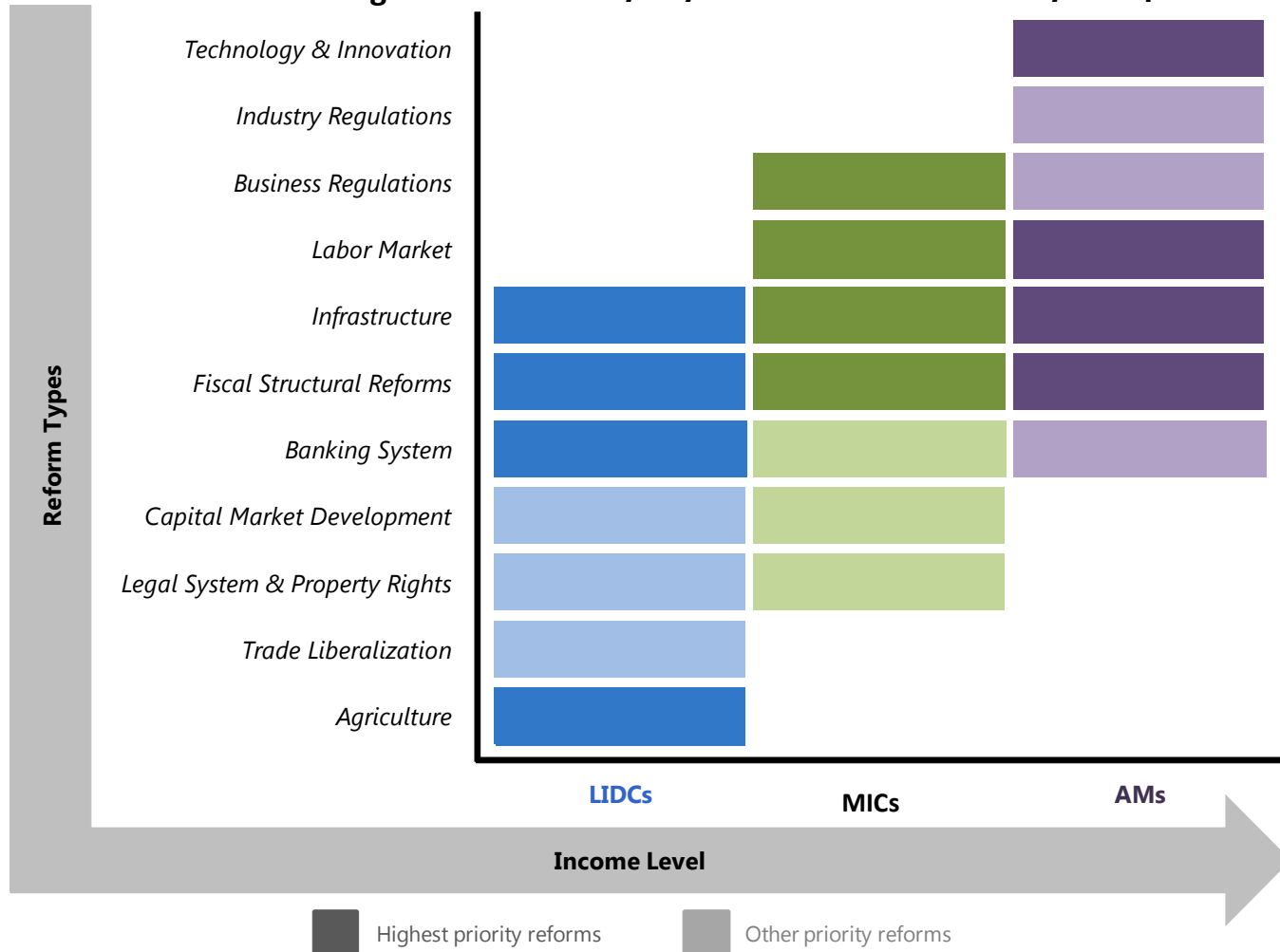
Sub-Saharan African Small Middle-Income Countries: Total Factor Productivity, Contribution to Growth



Sources: Penn World Tables; and IMF staff calculations.

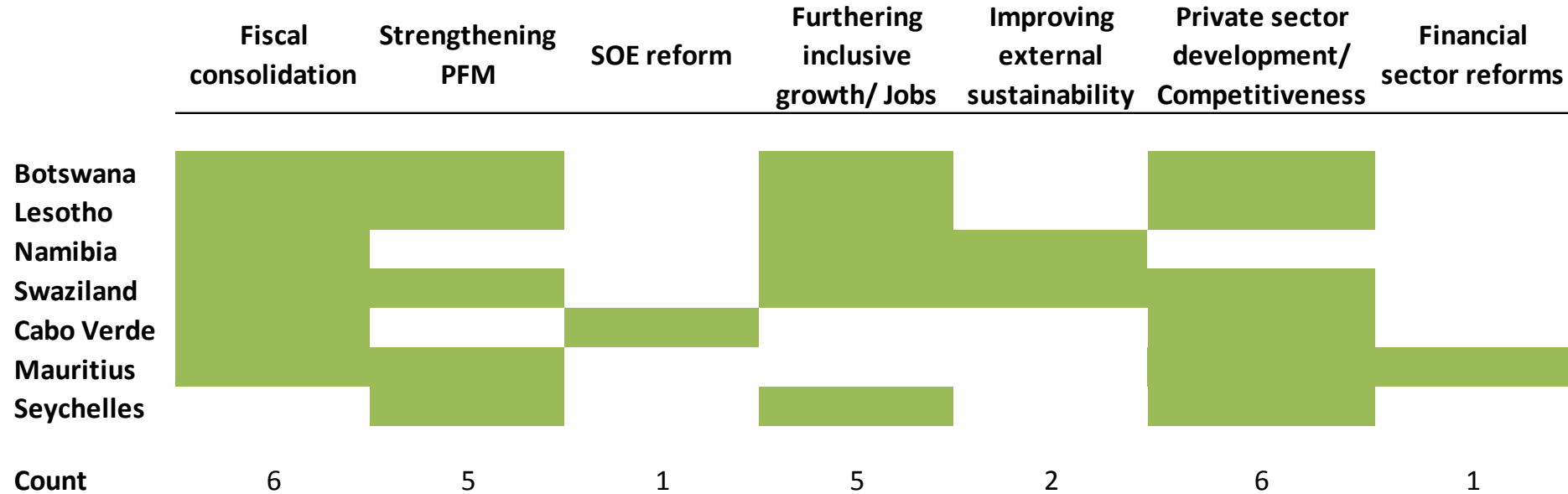
Tailoring reforms to stage of economic development

Structural Reforms with Highest Productivity Payoffs within Each Country Group



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

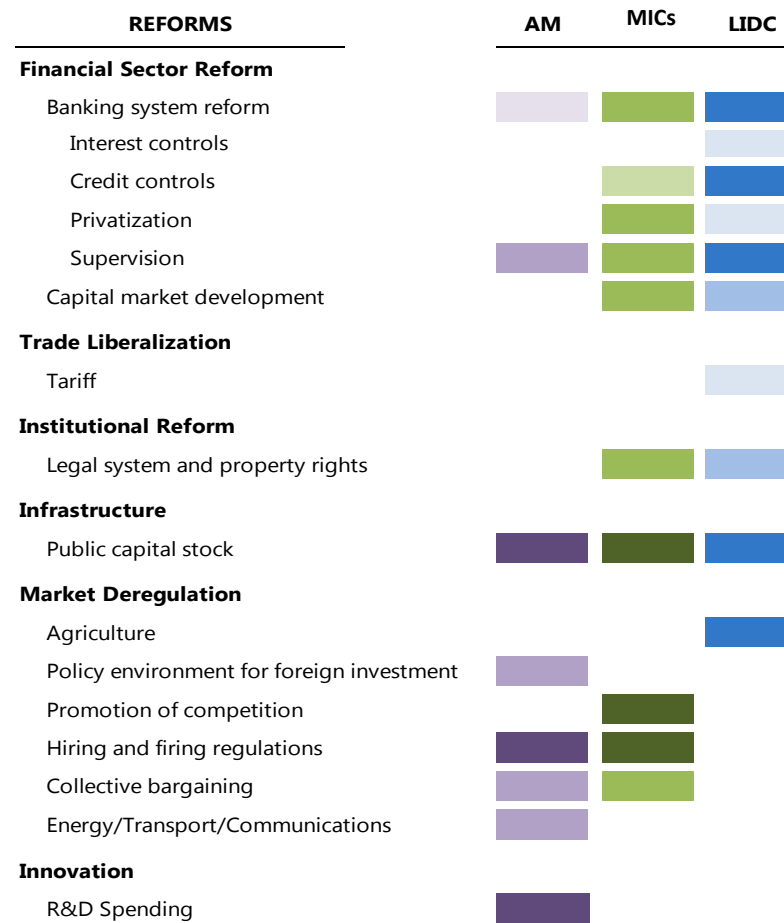
Main reform priorities



Source: Survey of IMF SMICs Mission Chiefs, December 2015.

Targeting reforms with highest pay-offs?

Productivity Gains from Different Types of Structural Reform



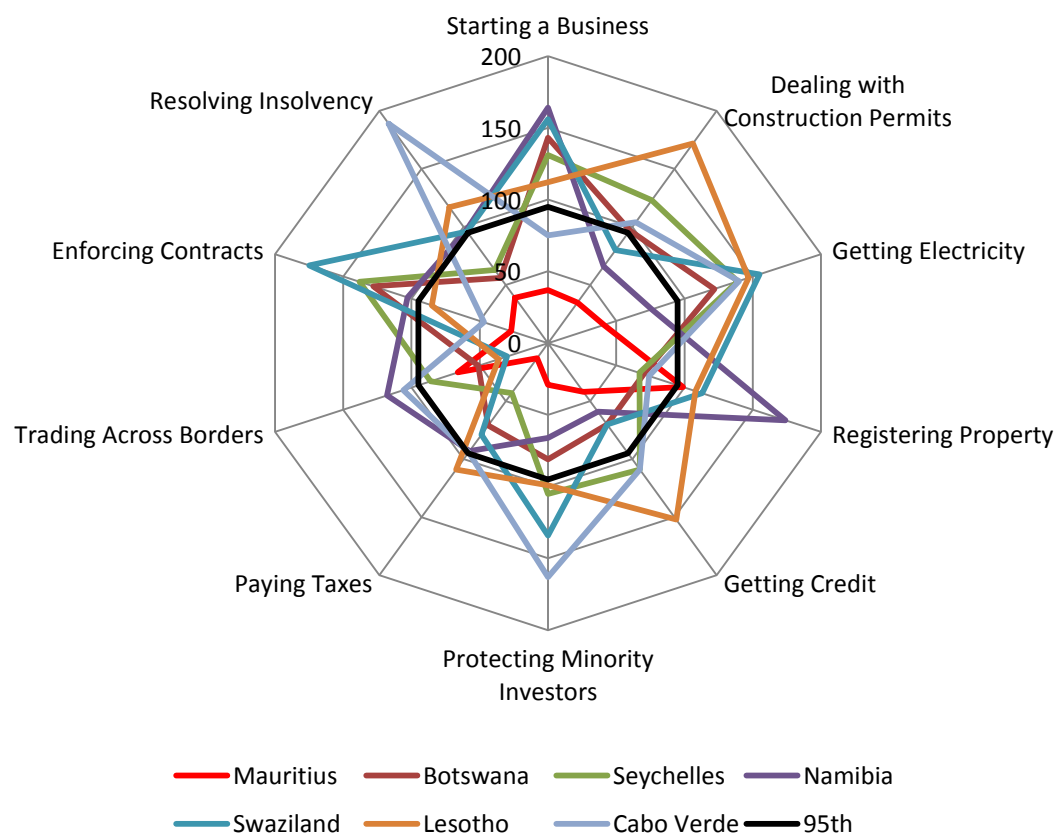
Note: Comparisons **across reforms within each country group**. Darker shades imply larger gains from reforms.

Source: IMF (2015), Structural Reforms and Macroeconomic Performance - Initial Considerations for the Fund, Policy Paper, Washington DC.

Furthering private sector development

Doing Business Indicators Rankings, 2014

Economy	Global Ranking Ease of Doing Business Rank ▲
Mauritius	32
Botswana	72
Seychelles	95
Namibia	101
Swaziland	105
Lesotho	114
Cabo Verde	126



An example in economic diversification

Mauritius as a model of economic transformation

Emerging sectors:

ICT

Real Estate – IRS/ERS

Seafood hub

Knowledge hub

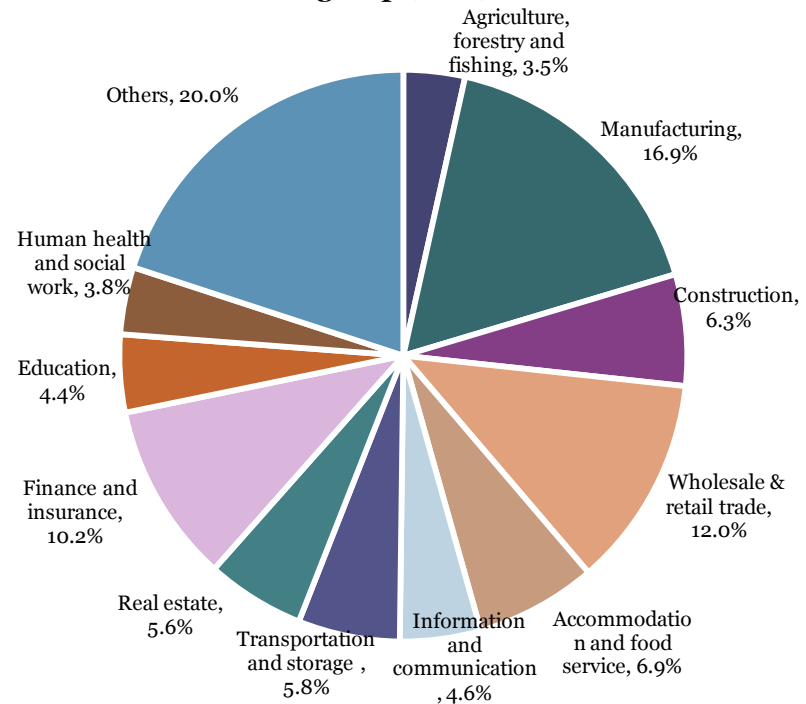
Health hub

Diversification of markets:

Reducing dependence on euro markets

Regional integration

Percent distribution of GDP by industry group (2012)



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