



# African Lions

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Prof Lemma W. Senbet

The William E Mayer Chair Professor Finance, University of Maryland

*Former Executive Director, AERC*

*Discussion*

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**@AERCAfrica**



**@LSenbet**

# Africa's Lions

*Ethiopia, Ghana, Kenya, Mozambique, Nigeria, South Africa*

- Africa's Lion: Powerful and majestic; the king of the beasts
  - Inspired by Asian Tiger: *Which is stronger? Lion or Tiger?*
- “As a *group*, the six African Lions will largely shape the continent's future”
- The volume examines the economic growth experiences of the Lions
- Motivation and focus: study the relationship between economic growth and employment outcomes *at the detailed country level*.
- Harnessing country-level household, firm, and national accounts data
  - Better understanding of the structure of the labor market, and growth-employment relations, at a country level: structure of workforce, the vulnerable and working poor
  - Policy agenda



# Key Messages

## *South Africa*

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- Drivers of economic growth: **Service**
  - Finance, construction
- Labor market structure
  - High skills labor demand
  - Rising share of workers in the **public sector**
  - **Wage premium** over the private sector (unionization effect)
  - **Market segmentation**; higher paid/unionized and the rest
- High levels of unemployment and inequality
  - **Basically driven by skills mismatch: human capital deficit and demand for high skills labor demand with the economy driven by service.**



# Key Messages

## *Ghana*

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- Drivers of growth: low employment generating sectors of mining, oil extraction, and finance (*service*) – contrast with South Africa
  - Versus slower growth in high labour absorption sectors, particularly manufacturing and agriculture
  - Combined: jobless growth
- Structure of labor market: shift in employment from agriculture to services [case of underemployment]
  - But jobs mostly informal
  - Low level education and lack of access to the formal market - and low productivity service sector
- Hence, widening earnings differential and rising inequality



# Key Messages

## *Kenya*

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- Growing labor market growth accompanied by **dominance of informal employment**
- Has reduced the capacity of the economy to deliver quality employment and output growth via productivity.
- The **private sector** dominates in employment generation (**contrast with South Africa**)
  - **Low capital accumulation driving employment and self-employment into the informal**
- Kenya at the frontier of **financial inclusion** – enhanced market access and poverty reduction



## Key Messages

### *Mozambique*

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- Labor market activity is dominated by **smallholder farming**.
- **Disconnect** between high growth and poverty reduction
  - Poverty rates remain high despite high growth
- Decomposition exercise – **declining** productivity in those sectors with **faster** employment growth (e.g., service)



# Key Messages

## *Ethiopia*

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- Drivers of growth – **state lead (developmental state)** Public investments in social and economic infrastructure
  - Roads, schools, health facilities, railways and energy
  - Agricultural transformation initiatives - preventive rural health services/facilities, and rural road networks.
  - Urban infrastructure
- **Structural shift** from the agriculture sector to **the services** and construction sectors
- Manufacturing sector in the **upswing** but dominated by construction
- Poverty reduction and sharp rise in life expectancy



# What do Lions Learn from Tigers

## *Comparability*

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- In most the "African lions," economic growth is largely based on exports of natural resources, such as oil.
- **Nigeria:** crude oil accounts for 95 percent of Nigeria's exports
- **Ghana:** Jobless growth
- Limited transformation and value





# What do Lions Learn from Tigers

## *Ethiopia: South Korea and Taiwan*

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- Adoption of the **development state model**.
- Promoting economic growth through a strong state leadership and guidance.
- Sharing **South Korea** experience
  - The establishment of large, family-owned businesses, and politically connected. These came to be known as the **Chaebol**, and dominated the Korean economy for many decades.
  - Joint ventures with foreign corporations in order to acquire indigenously unavailable technology.
  - Many of the Chaebol are global brands today; you'd be hard pressed to **Samsung, Hyundai, or LG**
- **The most critical parts of the economy are still run by large state-owned enterprises (SOEs). Ethio Telecom, Ethiopian Sugar Corporation, Ethiopian Airlines.**
- **Lack of privatization of finance; narrow political space**

# Africa's Lions: The Way Forward

## *Lions Meet Tigers*



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- Service (South Africa vs Others)
  - *Hetrogeneity*
- Transformation and Productivity
  - *Value chain*
- State lead/'democratic' developmental state
  - *Chaebol vs ET Electric Company*
- Finance and Financial Inclusion
  - *Kenya at the frontier*
- Who is financing growth?
  - *The looming debt crisis*



# The Rise of Abiy Ahmed

## *Vision for Liberalization and Modernization*

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- *Financial liberalization*
- *Large scale privatizations*
  - *Telecom, EAL*



# Agenda 2063 (AU) and Agenda 2030 (UN)

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- Long-run and ambitious development agendas
- At the center: *inclusivity and sustainability of development*
- Agenda 2063: *self-reliance*
  - **Science and technology** [*Capacity*]
  - **Self-reliant domestic resource mobilization** [*Finance*]



# Agents of Inclusivity and *Finance for Inclusive Growth*

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- Agents of inclusive growth
  - *Youth, women, small farmers, SMEs, entrepreneurs (digital)*
- Financial entrepreneurs: *Innovating finance for all*
- Bankability and insurability of agents of inclusivity
- “De-risking” instruments and facilities
  - *Private-public partnership, international institutions, development partners*
- Financing large scale projects/programs
  - *Infrastructure, renewable energy, regional value chains, industrial clusters*



# Finance Matters

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- The positive linkage between financial sector development and economic development provides a strong case for the development of a well-functioning financial sector in Africa.
- Supporting evidence in the context of Africa as well (*e.g., Yartey and Adjasi, 2007; follow-up by Senbet and Otchere, 2008*)
- Inclusive finance (incl.DFS) and inclusive growth
  - *[Research Consortium for Inclusive Finance, partnership with AERC ([www.aercafrica.org](http://www.aercafrica.org))]*
- *Capacity and talented financial manpower is key for financial sector development and inclusion*

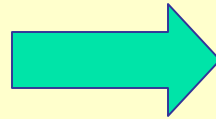


# **Stock Markets and Development**

## *Multiple Functions as a Channel*

- **Stock Market Development**


- Capitalization
- Information Production
- Price Discovery
- Liquidity Provision



- **Economic Development**

- Economic Growth
- Capital Accumulation
- Productivity Growth
- Ownership Diversity

# Privatization through Stock Markets

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- A growing number of African state-owned enterprises using stock markets as a vehicle for privatizations.
  - Share issue privatizations contribute to the depth of the stock markets through increased supply of listed companies.
  - Less obvious benefits:
    - Improved corporate governance
    - Fair pricing through price discovery, and hence depoliticization of the privatization process
    - Wider and more diverse ownership of the economy
    - Increased public awareness about African stock markets





# The Implication for the Region

## *Fundamentals*

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- Suggests a linkage between financial sector development and **poverty alleviation**, as well as **employment creation**.

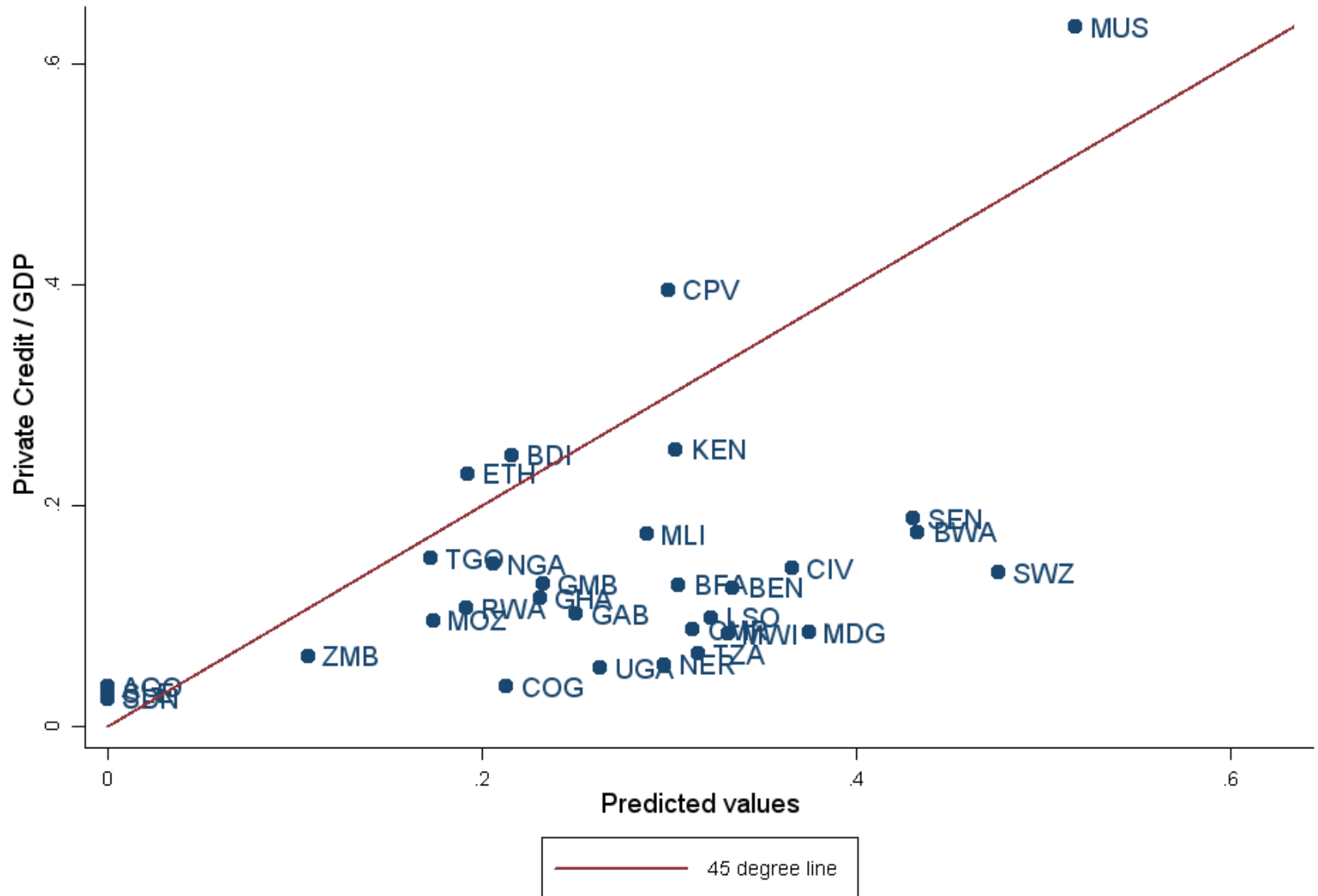
### **The central question**

How to develop a well-functioning financial sector and build its capacity so as to exploit its potential contribution to economic development.

- *Channel:* Capacity of financial systems to perform **multiple functions** and not mere existence of the systems.

# The African Financial Development Gap

## *Actual vs. predicted*



# Explaining the African Financial Development Gap

	Liquid liabilities / GDP					Private credit / GDP		
	All		Without South Africa			All		Without South Africa
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Ln(Population)	-0.035 (0.026)	-0.004 (0.026)	-0.029 (0.031)	-0.011 (0.030)	-0.058** (0.024)	-0.021 (0.023)	-0.007 (0.022)	0.013 (0.021)
Ln(Population Density)	0.074*** (0.019)	0.080*** (0.022)	0.075*** (0.020)	0.077*** (0.024)	0.0314* (0.018)	0.049** (0.020)	0.043*** (0.014)	0.061*** (0.016)
Natural Resources	-0.033 (0.036)	-0.013 (0.047)	-0.032 (0.037)	-0.010 (0.049)	-0.030 (0.033)	-0.001 (0.041)	-0.024 (0.027)	-0.015 (0.034)
Offshore Center	-	-	-	-	-	-	-	-
Ln(Per Capita Income)	0.038 (0.035)	0.022 (0.078)	0.043 (0.037)	0.018 (0.080)	0.009 (0.032)	0.054 (0.068)	0.048* (0.027)	0.073 (0.056)
Population * GDP Per Capita	0.441 (0.520)	-0.281 (0.508)	0.057 (1.12)	0.221 (1.197)	2.941*** (0.477)	2.396*** (0.442)	-0.141 (0.816)	-0.163 (0.834)
Real GDP Growth Rate		-0.447 (1.031)		-0.499 (1.057)		-0.607 (0.898)		-0.343 (0.736)
Inflation Rate		0.060 (0.192)		0.058 (0.196)		-0.076 (0.167)		-0.066 (0.136)
Current Account Balance / GDP		-0.082 (0.587)		-0.207 (0.656)		-0.879* (0.511)		-0.241 (0.457)
KKM Index		0.116* (0.062)		0.119* (0.063)		0.073 (0.054)		0.058 (0.044)
Manufacturing / GDP		-0.376 (0.455)		-0.341 (0.470)		-0.085 (0.396)		-0.265 (0.327)
Secondary/Primary Enrollment		0.372 (0.247)		0.379 (0.252)		0.179 (0.215)		0.144 (0.175)
Constant	0.548*** (0.078)	0.528*** (0.2613)	0.545*** (0.079)	0.518*** (0.3044)	0.297*** (0.071)	0.260* (0.130)	0.275*** (0.058)	0.309*** (0.243)
Adjusted R2	0.36	0.53	0.34	0.52	0.64	0.78	0.24	0.45
Observations/Countries	38	33	37	32	38	33	37	32



# The Looming Debt Crisis in Africa

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- Diffuse credit base
  - China at the center
- *Short-term*: proactive restructuring and coordination
- Long-term: Getting house in order: Financial sector development



# Toward Resolution of the African Financial Development Gap

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- Extensive financial sector reforms over two decades
- At a broader level, a more liberalized financial environment has emerged in Africa.
- Reforms have also been stimulated by rapid improvements in global conditions and advanced technology connecting Africa with the rest of the globe.
- African financial systems on the move
  - Improved depth and intermediation
  - Improved financial access
  - Improved integration of informal/formal
  - Growing evidence for real impact



# Bridging the Development Gap

## *The Way Forward*

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The central question for Africa:

- How to develop a well-functioning financial sector that is **inclusive, dynamic, innovative, and sustainable** to support the development imperatives facing the continent (*e.g., AU Agenda 2063, UN Agenda 2030*)
- The current state of affairs is grossly inadequate in financing the bold transformative agendas for Africa.
- At the center of the Agenda 2063, for instance, is self-reliance, including capacity for domestic resource mobilization. The development of domestic financial systems is key for domestic resource mobilization.



# African Finance

## *Concluding: Key Pillars*

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1. Include
2. Innovate
3. Integrate
4. Regulate
5. Capacitate
6. Privatize
7. Reform (not reverse)