

» TOP PRIORITIES FOR THE CONTINENT IN 2014

FORESIGHT AFRICA

HAROON BHORAT › TEMESGEN TADESSE DERESSA
VANDA FELBAB-BROWN › KATHERINE GORDON › CALESTOUS JUMA
MWANGI S. KIMENYI › JOHN W. MCARTHUR › JOHN MUKUM MBAKU
JOHN PAGE › VERA SONGWE › AMADOU SY › LESLEY ANNE WARNER

JANUARY 2014

B | Africa Growth
Initiative
at BROOKINGS

About the Brookings Africa Growth Initiative

For Africa to achieve transformative progress, policy solutions must come from African sources. The Africa Growth Initiative brings together African scholars to provide policymakers with high-quality research, expertise and innovative solutions that promote Africa's economic development. The Initiative also collaborates with research partners in the region to raise the African voice in global policy debates on Africa. Our mission is to deliver research from an African perspective that informs sound policy, creating sustained economic growth and development for the people of Africa.

Acknowledgments: The Africa Growth Initiative would like to thank Jessica Pugliese, Jennifer Potvin and Bryce Campbell for their invaluable coordination efforts on this publication. We would also like to thank the Brookings Global Economy and Development program for its continued guidance and support for the Initiative, as well as Christina Golubski and Mao-Lin Shen for their editorial assistance.

Cover photos courtesy of © Arne Hoel/The World Bank

CONTENTS

Introduction.....	i
Pushing the Employment Frontiers for Africa's Rural and Urban Youth <i>John W. McArthur</i>	1
The Not-So-Jolly Roger: Dealing with Piracy off the Coast of Somalia and in the Gulf of Guinea..... <i>Vanda Felbab-Brown</i>	5
International Justice: The International Criminal Court and Africa..... <i>John Mukum Mbaku</i>	9
Africa's Capital Market Appetite: Challenges and Opportunities for Financing Rapid and Sustained Growth..... <i>Vera Songwe</i>	13
The Post-2015 Development Agenda: What Are the Priorities For Africa? <i>Haroon Borat</i>	16
Leap-frogging in African Agriculture: The Case of Genetically Modified Crops..... <i>Calestous Juma and Katherine Gordon</i>	19
Meeting the Demand for African-led, Internationally Supported Peace Interventions..... <i>Lesley Anne Warner</i>	22
Shifts in Financing Sustainable Development: How Should Africa Adapt in 2014?..... <i>Amadou Sy</i>	25
Climate Change and Growth in Africa: Challenges and the Way Forward..... <i>Temesgen Tadesse Deressa</i>	29
Harnessing Africa's Emerging Partnerships..... <i>Mwangi S. Kimenyi</i>	32
Three Myths about African Industry..... <i>John Page</i>	36

INTRODUCTION

Africa's position in the world is changing and will continue to evolve in 2014 and beyond. With new development and commercial partners like China and India, recent discoveries of additional natural resources, and millions of young people entering the labor force, Africa has the opportunity to take charge of its own development path. Despite these opportunities, African countries still face several challenges to sustainable growth and development. African countries continue to play a marginal role in international climate change negotiations, parts of the region continue to grapple with conflict, violence and instability, and tensions between the International Criminal Court and the African Union have recently increased.

As the story of Africa's growth continues to shift the narrative of its trajectory, the Brookings Africa Growth Initiative (AGI) aims to stay ahead of the trends to help African and global policymakers leverage opportunities to promote the region's development and stability. Since 2010, AGI has asked its scholars to assess the top priorities for Africa in the coming year. This year, AGI experts and colleagues continue the tradition in identifying what they consider to be the key issues for Africa in 2014. The following briefs in the *Foresight Africa* collection are meant to create a dialogue on what critical issues Africa must pay attention to in the coming 12 months, and it is our hope that this dialogue will continue throughout the year.

Pushing the Employment Frontiers for Africa's Rural and Urban Youth

John McArthur argues that a top priority for African policymakers should be to leverage the continent's growing youth population since the absolute number of working age Africans will grow by around 14 million next year alone, leaving many low- and high-skilled workers without any source of income on an increasingly difficult labor market.

The Not-So-Jolly Roger: Dealing with Piracy off the Coast of Somalia and in the Gulf of Guinea

Vanda Felbab-Brown explores policy solutions to the dangerous and costly threat of maritime piracy and its root causes, which include government failure and widespread poverty.

International Justice: The International Criminal Court and Africa

John Mukum Mbaku examines the role of the International Criminal Court in Africa as the African Union asks its member countries to implement a policy of non-compliance and non-cooperation with the court.

Africa's Capital Market Appetite: Challenges and Opportunities for Financing Rapid and Sustained Growth

Vera Songwe contends that access to international capital markets shows great potential for Africa's growth, but big obstacles such as growing deficits and a lack of transparency could stand in the way.

The Post-2015 Development Agenda: What Are the Priorities For Africa?

Haroon Borat discusses the post-2015 global development agenda as it relates to Africa, and emphasizes the importance of job creation, good governance and private sector engagement to promote development in the region.

Leap-frogging in African Agriculture: The Case of Genetically Modified Crops

Calestous Juma and **Katherine Gordon** argue that biotechnology has the potential to exponentially raise Africa's agricultural production, increase food security, drive economic growth and save African farmers millions of dollars.

Meeting the Demand for African-led, Internationally Supported Peace Interventions

Lesley Anne Warner calls for regional and sub-regional organizations in Africa to better prepare their troops for rapid deployment in responding to escalating conflicts, such as those in Mali and the Central African Republic.

Shifts in Financing Sustainable Development: How Should Africa Adapt in 2014?

Amadou Sy recommends policies for how Africa can best harness rapidly growing private capital flows for sustainable development as these funds overtake official development assistance.

Climate Change and Growth in Africa: Challenges and the Way Forward

Temesgen Deressa discusses the devastating effects of climate change in Africa and recommends policies for climate change mitigation and adaption in sub-Saharan Africa, a region heavily dependent on subsistence and rain-fed agriculture for food security and prosperity.

Harnessing Africa's Emerging Partnerships

Mwangi Kimenyi examines the role of emerging economies such as India and China in the African development agenda and argues that African countries need to be more proactive in engaging with these new partners.

Three Myths about African Industry

John Page addresses three major misconceptions about the nature of industry in Africa that may be holding the continent back from its industrial transformation.

PUSHING THE EMPLOYMENT FRONTIERS FOR AFRICA'S RURAL AND URBAN YOUTH

John W. McArthur, Visiting Fellow, Global Economy and Development

The Priority

Sub-Saharan Africa's population is growing at more than twice the pace of any other region. Although the overall *rate* of population expansion has been gradually declining for decades, the absolute number of working-age people will grow by approximately 14 million next year alone (Lam and Leibbrandt 2013). By 2030, when children born this year reach their 16th birthdays, the corresponding labor pool will have grown by 21 million people annually (Ibid.).

Private sector job numbers have recently been growing across Africa, but not enough to keep pace with this tremendous population growth. In 2014 and beyond, African policymakers should make the creation and implementation of strategies to improve employment outcomes for its enormous youth cohorts a major priority. To succeed, these strategies will need to be tailored across the practical environments in which young Africans live.

Why Is It Important?

A Typology of Rural and Urban Challenges

Perhaps the most important element of variation across African labor forces is the spread between rural and urban areas, even though all economies in the region are urbanizing. At one end of the spectrum, nearly 90 percent of Burundi's population lives in rural areas, where the economy is dominated by subsistence agriculture (World Bank 2013). At the other end, 86 percent of Gabon's citizens live in urban areas amidst an economy fueled by hydrocarbon exports.

Sub-Saharan Africa's youth employment challenges can therefore be segmented across three categories of economies: (1) those that remain predominantly rural; (2) those that are predominantly urban; and (3) those that are roughly mixed between rural and urban areas.

- **Rural economies:** There are 29 countries in Africa that remain less than 40 percent urbanized. Most of these are low-income economies. As of 2012, they had an aggregate population of 558 million people, with a

(weighted average) population growth rate of 2.8 percent per year (World Bank 2013). In seven of these countries (Burundi, Ethiopia, Malawi, Niger, Rwanda, South Sudan and Uganda), more than 80 percent of people still live in rural areas. Fifteen rural countries are also currently designated as “fragile situations” by the World Bank and African Development Bank based on their assessments of public institutions and the presence of peacekeeping or peace building missions.

- **Urban economies:** Only six sub-Saharan African countries (Botswana, Cape Verde, Gabon, Republic of the Congo, São Tomé and Príncipe, and South Africa) are at least 60 percent urbanized. Approximately 60 million people live in these countries with roughly only 10 million of them outside South Africa. Population growth rates range from 0.9 percent annually in Botswana to 2.7 percent in São Tomé and Príncipe.
- **Mixed economies:** These can be considered hybrids that are 40 to 59 percent urbanized. There are 13 such countries in sub-Saharan Africa with a cumulative population of nearly 300 million people, two-thirds of whom are in the emerging lower-middle-income economies of Ghana and Nigeria, both of which are nearly evenly split between rural and urban. Population growth in most of these countries remains high, on the order of 2 to 3 percent annually.

The Development–Employment Paradox

Promoting youth employment entails dramatically different approaches across such diverse circumstances. In low-income, farm-based economies, few people can afford not to work and the foremost challenge is low compensation for labor on small, family-based farms. For rural youth, “improved employment outcomes” typically imply either better farm income or better off-farm opportunities to earn income. As economies develop and urbanize, increasing the number of better paid non-farm wage jobs becomes more relevant. Skills become more important and young people face steeper challenges in finding wage-based jobs, whether formal or informal. Women tend to face particular disadvantages with persistent wage gaps compared to men (Nordman et al. 2011).

As average incomes continue to grow and a greater share of enterprises becomes formalized, tackling *unemployment* becomes a foremost challenge as it is in South Africa. And while there is significant evidence of increasing returns to education in Africa, the most educated people often confront a mismatch between their training and available jobs (Teal 2011). This gap might be why Africa’s urban youth often aspire to jobs in the informal rather than formal sector (Roubaud and Torelli 2013).

Against that backdrop, Fox and colleagues (2013) estimate that, between 2005 and 2010, nearly 70 percent of the region’s new labor force entrants took jobs in the non-farm sector, including 23 percent in wage employment and 47 percent in informal household enterprises. Most of these enterprises are focused on local rural services and their informal or self-employed nature is not necessarily a problem. There is evidence to suggest that self-employment pays as much as wage employment at least for enterprises of similar size (Falco et al. 2011). What matters is that informal firms are less likely to grow and larger firms tend to pay better wages (Fox and Sohneson 2012).

What Should Be Done in 2014

Looking ahead, Africa’s employment strategies need to segment and promote both urban and rural outcomes in parallel. As a general rule, successful approaches will include people-centric investments that help match vocational skills to the jobs of the future. They will also include efforts to ease access to start-up capital, to promote firm growth and in some cases to launch labor-intensive government projects (e.g., AfDB 2011, AfDB et al. 2012). There is some evidence to suggest that job growth should be promoted across all sizes of firms since small firms might be more likely to hire workers but they are less likely than large firms to survive (Page and Söderbom 2012). Nonetheless, Blattman and colleagues (2013) find that unsupervised grants can support significant growth in smaller firms’ earnings even in highly fragile post-conflict environments.

At the same time, some of the biggest employment gains can come through indirect macro measures that will boost the results of direct labor market interventions.

- **Boosting staple crop productivity:** Most prominently, Africa's rural and mixed economies need an African green revolution to boost staple crop productivity. At a practical level, this requires scaled support for irrigation, modern variety seeds and fertilizer in line with Asia's 20th century successes and Malawi's approach since 2005 (McArthur 2013). The recent Grow Africa initiative of the African Union, the New Partnership for Africa's Development and the World Economic Forum is a promising initiative to bridge relevant private and public capital around country-specific agricultural strategies.

A green revolution can also advance a country's overall competitiveness. It can promote rural savings, enable diversification into higher-earning crops, free up workers to launch service enterprises, and in turn bolster local consumer demand for agricultural products. The productivity improvements can also lead to a decline in the local price of food, which helps promote competitive real wages for export-oriented industries, countering the high relative cost of African labor that currently hinders industrial job growth (Gelb et al. 2013). Indeed, one key to Africa's industrial labor competitiveness might lie in the farm sector.

- **Girls' secondary education:** Africa needs major investments in promoting universal access to girls' secondary education. As with boys, this is crucial for building employable skills. But girls who complete secondary school are also much more likely to voluntarily delay the timing of their first child and choose lower lifetime fertility. Coupled with expanded access to family planning and improved child survival, a major push for girls' secondary education can play a special role in scaling back the underlying demographic pressures of Africa's youth bulge.
- **Major infrastructure scale up:** Africa urgently needs massive increases in investment for energy and transport. Employers need reliable energy to produce goods and services, and reliable roads to compete in product markets. The region's infrastructure financing gap is currently estimated on the order of \$65 billion to \$70 billion per year, roughly 2.5 times its current spending. The African Development Bank estimates a current leverage ratio of 1:6 so approximately \$11 billion to \$12 billion

of public capital is needed to mobilize the corresponding private investment. The returns to both growth and employment can be extraordinary. As just one example, South Africa's post-apartheid rural electrification program helped boost female employment alone by more than 9 percentage points (Dinkelman 2011). In Africa's more remote rural economies, such huge leaps in economic connectivity can undoubtedly yield equal or greater employment gains for generations to come.

- **An employment data revolution:** To make faster progress, policymakers and analysts also need vastly better information. The recent United Nations High-Level Panel of Eminent Persons on the Post-2015 Development Agenda (2013) called for a data revolution for sustainable development. Nowhere is this more pressing than in the realm of labor force surveys and employment outcome data (e.g., Fox and Pimhidzai 2013). Nearly half the low-income countries in sub-Saharan Africa have not published data on the composition of employment over the 2000 to 2010 period (Fox et al. 2013). A post-2015 global development agenda will likely include goals for employment. There is an urgent need to conduct region-wide labor force surveys and industrial censuses that establish baseline assessments for all African countries. Measurement helps drive performance. Throughout the region, hundreds of millions of youth livelihoods depend on it.

References

- African Development Bank. (2011). Accelerating the AfDB's Response to the Youth Unemployment Crisis in Africa. OSHD/EDRE Working Paper.
- African Development Bank, OECD Development Centre, United Nations Development Programme, and United Nations Economic Commission for Africa. (2012). *African Economic Outlook 2012*.
- Blattman, C., Fiala, N., and Martinez, S. (2013). "Generating skilled self-employment in developing countries: Experimental evidence from Uganda." <http://ssrn.com/abstract=2268552> or <http://dx.doi.org/10.2139/ssrn.2268552>

- Dinkelman, T. (2011). The effects of rural electrification on employment: new evidence from South Africa. *American Economic Review*. Vol 101. 3078-3108.
- Falco, P., Kerr, A., Rankin, N., Sandefur, J., and Teal, F. (2011). "The returns to formality and informality in urban Africa." *Labour Economics*. 18: S23-S31.
- Fox, L., Haines, C., Huerta Muñoz, J., and Thomas, A. (2013). "Africa's got work to do: Employment prospects in the new century." IMF Working Paper 13/201.
- Fox, L. and Pimhidzai, O. (2013). "Different dreams, same bed: Collecting, using and interpreting employment statistics in sub-Saharan Africa." World Bank Policy Research Working Paper 6436.
- Fox, L. and Sohneson, T. P. (2012). "Household enterprises in Sub-Saharan Africa: Why they matter for growth, jobs, and livelihoods." World Bank Policy Research Paper 6184.
- Gelb, A., Meyer, C., and Ramachandran, V. (2013). "Does poor mean cheap? A comparative look at Africa's industrial labor costs." Center for Global Development Working Paper 325.
- Lam, D., and Leibbrandt, M. (2013). Global demographic trends and their implications for employment. Background research paper submitted to the High Level Panel on the Post-2015 Development Agenda.
- McArthur, J. W. (2013). "Good things grow in scaled packages: Africa's agricultural challenge in historical context." Brookings Africa Growth Initiative Working Paper 11.
- Nordman, C. J., Robbiliard, A., and Roubaud, F. (2011). "Gender and ethnic earnings gaps in seven West African cities." *Labour Economics*. 18: S132-S145.
- Page, J. and Söderman, M. (2012). Is Small Beautiful? Small Enterprise, Aid and Employment in Africa. UNU-WIDER Working Paper No 2012/94.
- Roubaud, F., and Torelli, C. (2013). "Employment, unemployment, and working conditions in the urban labor markets of sub-Saharan Africa: Main stylized facts." In De Vreyer, P. and Roubaud, F. (eds.) *Urban labor markets in sub-Saharan Africa*. World Bank: Washington. pp. 37-79.
- Teal, F. (2011). Higher education and economic development in Africa: A review of channels and interactions. *Journal of African Economies*. Vol 20, AERC Supplement 4, pp. iii50-iii79.
- U.N. High-Level Panel of Eminent Persons on the post-2015 Development Agenda. (2013). *A new global partnership: Eradicate poverty and transform economies through sustainable development*. Report to UN Secretary-General Ban Ki-Moon.
- World Bank. (2013). World Development Indicators online database (accessed November 14, 2013). <http://databank.worldbank.org/data/>.

THE NOT-SO-JOLLY ROGER: DEALING WITH PIRACY OFF THE COAST OF SOMALIA AND IN THE GULF OF GUINEA

Vanda Felbab-Brown, Senior Fellow, Center for 21st Century Security and Intelligence

The Priority

For several years, Africa has surpassed Southeast Asia as the world's number one hotspot of maritime piracy. Approximately one-half of the world's reported pirate attacks now take place either off the coast of Somalia or in the Gulf of Guinea, principally off the coast of Nigeria. Although during 2012 and 2013 the incidence of piracy off of the Horn of Africa declined considerably compared to the peak years of 2009 and 2010, the incidence of piracy in the Gulf of Guinea has continued to grow. Between 2010 and 2012, the number of Somali pirate attacks has dropped by 80 percent, with 851 seafarers fired upon in 2013, compared to 4,185 in 2010; and 1,090 taken hostage in 2010, with many fewer—349—taken hostage in 2012 (Hurlburt et al. 2013).

Nonetheless, Somali pirates have extended their reach beyond the Gulf of Aden and Somalia into the southern part of the Red Sea, the east coast of Oman, the Bab el Mandeb Straits, and increasingly deep into the Indian Ocean.

Moreover, incidences of piracy off the Somali coast have merely been suppressed, but the root causes of piracy—poor state control of land, the lack of legal economic opportunities and the absence of the rule of law—have not been resolved. Thus, piracy off the coast of Somalia could easily escalate again should the naval patrolling lessen.

Meanwhile, the incidence of piracy has been visibly increasing in the waters off of West Africa over the past three years. In 2012, pirates in the Gulf of Guinea attacked 966 sailors (Hurlburt et al. 2013). As of August 2013, 28 reported armed incidents took place off the coast of Nigeria, including two hijackings, compared with 10 armed incidents with two hijackings off the coast of Somalia (ICC 2013). Although often underreported, piracy in the waters of West Africa is now capturing attention and piracy in this region dates back decades. It exists in the context of widespread criminality, including oil theft on land in which poor local populations, militants, law enforcement and top-level politicians all participate.

Indeed, the expansion of maritime piracy off the coasts of West Africa and the Horn of Africa has been enabled by profound governance deficiencies on land. Although most West African countries have not experienced as profound a collapse of the central government as Somalia, the presence of the state in most coastal areas has been inadequate, failing to achieve a monopoly of violence. Local populations often experience state presence only as repression. For decades, governing elites in West Africa have underfunded, and systematically politicized and corrupted land and maritime law enforcement. Widespread corruption, deep involvement of elites in many criminal enterprises and illicit economies, and a general attitude that running a government is a key mechanism for personal enrichment rather than a public service have created a pervasive culture of the lack of rule of law.

Marginalization of large segments of the population, deep and persisting poverty and unemployment, lack of legal options for social mobility, social alienation, and threats to personal safety from rival tribal and clan groups, criminal gangs, and the state itself have produced great social acceptance of criminality and illicit economies, and widespread participation by both well-positioned elites and the marginalized population. To the extent that powerful actors have mobilized against piracy—such as some tribal elders in Puntland, Somalia—it is often only when young pirates wield enough economic and political power in their bases of operation on land that they threaten the preeminence of clan elders. Often, however, clan elders have been implicated in and often support and benefit from maritime piracy. At the same time, local populations often embrace the pirates who bring in otherwise-lacking money, increase consumption, grow local economic activity and even create job opportunities.

Why Is It Important?

Maritime piracy poses multiple threats to global and state security and human safety. The maritime domain—which includes defense, commerce, fishing, seabed mineral resources, laws governing navigation and sea-based transportation constitutes—is the backbone of the globalized world. Disruption of maritime transportation and access can reduce economic investment in particular regions, constrict energy

flows, global trade, critical infrastructure, and the protection of marine resources as well as hamper security, law enforcement and humanitarian operations. Both the Gulf of Aden and the Gulf of Guinea lay on crucial energy transportation routes and the Gulf of Guinea is not only a large source of fossil fuels, but also the region's major consumer market. Via the Gulf of Guinea, West Africa also exports minerals (such as diamonds), timber and agricultural products (such as cacao and sorghum), which underlie its economic output. Crises in the maritime realm can also hamper access to undersea domains and resources, such as fiber optic cables, and energy and mineral reserves such as oil and gas.

Conceivably, profits from maritime piracy can also increase the physical resources of militant groups, international terrorists, and highly destabilizing and potent criminal groups. Although the extent to which Somalia's jihadist al-Shabab or Nigeria's Movement for the Emancipation of the Niger Delta, an insurgent group based in the south, have benefited from maritime piracy is frequently exaggerated, in both cases connections and linkages between pirates and militants appear to be somewhat on the increase. Not least, pirate attacks also critically endanger the human security of seafarers and cause psychological distress to their families.

What Should Be Done in 2014

Options for suppressing piracy in the Gulf of Guinea are more constrained than policy options available off of Somalia. Nonetheless, some important short-term measures are available and need to be deployed in conjunction with determined efforts to address some of the long-term and deeply rooted causes of piracy and the lack of rule of law off the coast of West Africa.

Several factors explain the drop in the incidence of piracy off the coast of Somalia. The expansion of international naval patrols, such as NATO's Operation Ocean Shield, the European Union's Operation Atalanta, and naval deployments by Russia, China, India and other countries have both increased situational awareness and radically shortened the response time of anti-pirate naval forces. The use of best management practices and layers of defenses, such as citadels and barriers against pirates boarding ships, makes attacks considerably more difficult. The highly controversial presence of armed guards on ships has further

increased the capacity of ships to resist attacks and have increased the deterrent effects of these various measures. European and U.S. naval deployments have also become more effective at collecting legal evidence on captured pirates, facilitating their effective prosecution in special courts established in the region and again enhancing deterrence. For a variety of reasons, actions by land forces against pirates—such as those by the Putland Maritime Force (PMF) or by Kenyan law enforcement units against pirates in hiding or enjoying recreation in Kenya—have been limited for the most part. As a result, many areas of safe haven and hiding remain. Moreover, the PMF now principally functions as a praetorian guard of the president of Puntland. Arresting and prosecuting pirate financiers and enablers in Kenya, the United Arab Emirates and among the Somali diaspora in Europe and other regions have also remained an elusive and largely unfulfilled promise.

The combination of the above factors has created an atmosphere of far greater fear among pirates that they will face punitive action. Many pirates have thus switched to working as protection guards for illegal fishing and other vessels off the coast of Somalia, which until recently would have been the targets for their attacks. But while the number of piracy incidences have dropped dramatically, the level of violence against hostages has increased considerably since pirates fear and resent military actions by armed guards and naval forces.¹

Deploying some of these same methods in the Gulf of Guinea is not easy. First of all, there are finite resources that countries can devote to far-flung naval patrolling. Thus, re-deploying international naval patrols from the Gulf of Aden to the Gulf of Guinea risks an escalation of pirate activity off the Horn, undermining whatever deterrent effect has been created among Somali pirates.

Nonetheless, expanding international naval presence in the Gulf of Guinea would help suppress the incidence of piracy off the coast of West Africa. For many of West Africa's trading partners outside the region, such as the United States and Western European countries, the economic benefits of unhampered trade may well justify the substantial costs of such an expensive, far-flung naval presence in the Gulf of

Guinea. The development of capable and uncorrupted naval patrol capacities among West African countries would ultimately be far more effective from both economic and security perspectives than foreign patrolling. However, while outside assistance to build up local naval assets should continue to be provided, all such efforts need to be undertaken very cautiously. Outside partners and donors need to expect that at least some of the units trained and equipped from outside will end up corrupt and rogue. Hence, diligent outside monitoring and rollback capacity need to be in place as a condition of any assistance.

Second and even more problematic is the fact that most piracy off the Horn has taken place in international waters where both international naval patrols and armed guards on ships are legally permitted to operate. In the Gulf of Guinea, in contrast, most pirate attacks take place within territorial waters, often close to harbor. Local laws and political and sovereignty sensitivities often prohibit or complicate the deployment of armed guards or international naval forces. Moreover, as the region is a major area of drug and human smuggling, wildlife trafficking and illegal arms shipping—often involving local law enforcement and top politicians and government officials—local governing elites will likely not welcome an intensive presence of international navies. The fear of exposure of corrupt practices and government complicity in criminality in the Gulf of Guinea is unlikely to be assuaged by the fact that, as a matter of policy, international naval forces off the Horn of Africa do not interfere with the trafficking of humans, drugs, charcoal, and wildlife or illegal fishing, and solely focus on anti-piracy efforts.

While entailing real costs in terms of deterrence, the inability of ships to deploy armed guards may also provide some benefits. Most notably, it may prevent a further escalation of violence against ship crews in the Gulf of Guinea, an escalation that has occurred off the coast of Somalia. Avoiding further triggers of violence against ship crews in the Gulf of Guinea is all the more important given that pirates off the coast of West Africa have not focused on hostage taking. They already place small value on crews' lives and exhibit little restraint in the use of violence against captured crews. The widespread established illicit transshipment networks used for bunkered crude and illegally refined oil have been

¹ Author's interviews with captured pirates, Hergeisa, Somaliland, April 2013 and pirate interlocutors, Mombasa, Kenya, May 2013.

of great use to pirates. Thus, unlike off the Horn of Africa, the pirates' *modus operandi* in the Gulf of Guinea has been different, focusing less on long-term hostage taking and ransom seeking and more on theft of oil and other valuables. This dominant method has had complex implications for the safety of captured crews. On the one hand, hostages have rarely been held more than a few days. On the other hand, pirates have exhibited little restraint in the use of violence against captured crew members as they do not value their lives as a bargaining chip and source of income.

The significant rise of insurance costs for shipping companies, the recent capture of two U.S. sailors in the Gulf of Guinea, and the untrustworthiness of West African navies are all likely to generate strong international pressure on individual West African countries—particularly Nigeria, where most pirate attacks in the region emanate—to allow armed security guards. Just like off the Horn of Africa, the trade-off may once again be a reduced incidence of attacks but greater violence by pirates against their targets and hostages.

Just like building formal specialized drug interdiction units in West Africa, standing up anti-pirate militia forces on land—if at all permitted by local governments—carries great risks in the region. In the context of pervasive corruption, highly contested and unstable political systems, and weak institutions, such militia forces have a high chance of going rogue and preying on local communities and rival ethnic and tribal groups as well as falling into cahoots with particular pirate gangs.

The policy options most readily available to suppress piracy in the Gulf of Guinea thus include developing better situational awareness, more extensively employing best management practices learned from the Horn of Africa, and increasing ship defenses, particularly while ships are in or close to harbor. Enhancing situational awareness includes both encouraging intelligence sharing among West African countries (historically averse to such a practice) and with international partners as well as intensifying the use of automatic identification systems, which are used for live vessel position tracking. A potential side benefit of ships diligently and accurately deploying automatic identification systems could be a drop in illegal fishing in the region, as greater automatic identification system transparency would expose

such criminal behavior even as West African navies would still lack response capacities against illegal fishing. Currently, many ships in the Gulf of Guinea spoof automatic identification system databases or do not deploy automatic identification systems at all to avoid having their illegal fishing and smuggling ventures exposed.

Ultimately, policy responses to maritime piracy in the Gulf of Guinea will only be truly effective and lasting if West African countries undertake a determined, systematic effort to redress the profound deficiencies of state presence in their coastal territories and the marginalization of the peoples there. Carrying out this effort includes deploying effective, uncorrupt, non-abusive land police forces that are actually focused on crime suppression in those areas and not misused as political tools. Without the elimination of pirate safe havens on land, there are great constraints on what naval patrols can accomplish. But extending such a legitimate and effective state presence also requires expanding legal economic opportunities for the marginalized coastal populations in West Africa and building up their human capital. Both policy elements are ultimately dependent on the willingness and capacity of West African states and societies to purge pervasive corruption from their political systems and institutions and break the intense intermeshing of crime and state that for decades has characterized governance in West Africa.

References

- International Chamber of Commerce, ICC Commercial Crime Services—Piracy and Armed Robbery News and Figures. (2013). <http://www.icc-ccs.org/piracy-reporting-centre/piracynewsfigures>.
- Hurlburt, K., Conor Seyle, D., et al. (2013). "The Human Cost of Maritime Piracy 2012," Working Paper, Oceans Beyond Piracy, One Earth Future, International Maritime Bureau, and Maritime Piracy—Humanitarian Response, 2013, <http://oceansbeyondpiracy.org/sites/default/files/hcop2012forweb.pdf>: 3-4.

INTERNATIONAL JUSTICE: THE INTERNATIONAL CRIMINAL COURT AND AFRICA

John Mukum Mbaku, Nonresident Senior Fellow, Africa Growth Initiative

The Priority

On July 17, 1998, 120 countries adopted the Rome Statute which established the International Criminal Court (ICC). The ICC, which came into being in July 2002, is “a permanent institution and shall have the power to exercise its jurisdiction over persons for the most serious crimes of international concern,” which include “genocide; crimes against humanity; war crimes; and the crime of aggression.” These countries believed that global justice would benefit from and be greatly enhanced by the creation of an “international criminal justice regime empowered to prosecute individuals guilty of gross atrocities and human rights violations, including war crimes, crimes against humanity and genocide,” (Boell 2012).

Two realities gave impetus to Africa’s strong support for the establishment of the ICC: the carnage that gripped Rwanda in 1994 and the need to find ways to prevent powerful countries from preying on weaker ones. There was urgent need in Africa to squarely confront impunity and the mass violation of human rights, as well as prevent militarily, politically and economically stronger countries from invading weaker ones.

In terms of the latter, the inclusion of “crimes of aggression”—“the planning, preparation, initiation or execution of an act of using armed force by a state against the sovereignty, territorial integrity or political independence of another state,”—was especially attractive to African countries (ICC 2012). Today, 43 African countries are signatories to the Rome State and, of these, 31 are states parties.

Increasingly, however, African countries have come to be critical of the ICC and relations between Africa and the court are currently severely strained. In fact, the African Union has asked its members to implement a policy of non-compliance and non-cooperation with the ICC. For the court to remain a credible institution for the execution of international justice, it is important that there be reforms on how the ICC operates. However, there is also a need to strengthen African judicial systems.

Why Is It Important?

While a careful examination of each African case before the ICC may “yield a rational explanation for its remittance to the ICC, it would seem that there is a combina-

tion of domestic and international factors that lie behind the court's current exclusive focus on African cases. The same appears to apply to the U.N. Security Council referrals to the ICC, which are similarly biased," (Boell 2012). One may wonder if crimes that fall within the ICC's jurisdiction have only been committed in Africa. Certainly not. Throughout the world, "serious crimes of concern to the international community as a whole" are being committed, yet the ICC has devoted its resources to prosecuting mostly African cases. African governments argue that the ICC is practicing a form of "selective justice" and that it is avoiding diplomatically, economically, financially and politically strong countries, such as the United States, the United Kingdom, Russia and China, because these countries can threaten the ICC's existence. Today, opposition against the ICC is growing. For the ICC to function effectively, especially within an increasingly politicized global environment, it must secure the cooperation and compliance of national governments, including those in Africa.

Many Africans are now joining their leaders to challenge the moral integrity of the ICC, with some arguing that the court is opting for political expediency instead of the universal justice spelled out in the Rome Statute. Unfortunately, the ICC is yet to adequately and effectively allay the fears of Africans and convince them that the court's work is based exclusively on the belief that "the most serious crimes of concern to the international community as a whole must not go unpunished" and not on political and other unrelated considerations.

At a recent summit in Addis Ababa, the AU resolved that no sitting African head of state should be required to appear before an international tribunal and demanded that the ICC not proceed with the trial of President Uhuru Kenyatta of Kenya. The AU, however, has not been successful in passing a motion to withdraw African countries from the ICC (BBC 2013).

On the other hand, some African countries like Botswana have disagreed publicly with the AU's decision against cooperation and compliance with the ICC and have argued that African countries ought to keep their obligations under the Rome Statute (VOA 2013). In addition, former U.N. Secretary-General Kofi Annan and Nobel Peace Laureate

Archbishop Desmond Tutu have urged African countries to remain with the ICC (BBC 2013).

While both the AU and the ICC share a common interest in dealing with crimes of impunity, the AU argues that it does not agree with externally imposed strategies to fight these crimes on the continent. Perhaps more important is the fact that while the ICC is simply an international judicial instrument and hence can be apolitical in its decisions, the AU as a political body will address impunity by opting for a political approach, which necessarily calls for "peacemaking and political reconciliation," (Boell 2012).

What Should Be Done in 2014

Restoring trust in the ICC among Africans is a monumental task that will require the type of robust dialogue, which is currently not taking place between the ICC and African countries. Supporters of the ICC believe that the appointment of former Gambian justice minister, Fatou Bensouda, as chief prosecutor of the ICC should provide an opportunity for the latter to amend its relationship with Africa.

Regardless of how the conflict between African countries and the ICC is eventually resolved, each country must develop the capacity to effectively investigate and prosecute international crimes committed within its borders. Where necessary, the AU can help such prosecutions, especially in the case where accused individuals have left the country where the crime was committed to avoid prosecution. It is important for the administration of justice that accused persons be prosecuted in the communities where the crimes were committed. Allowing each African country to retain a significant level of sovereignty on criminal jurisdiction, instead of ceding it to the ICC, would ensure that "justice would be administered and delivered at the national level" and that "victims would be closer to the legal proceedings," (ICC 2011). For example, while the successful prosecution of Charles Taylor by the Sierra Leone Special Court in The Hague for aiding and abetting war crimes augurs well for justice in Africa, it is important to note that it also reveals the fact that even after so many years of independence, African countries have still not developed domestic legal and ju-

dicial systems capable of effectively administering justice and safeguarding the fundamental rights of their citizens.

The Taylor affair as well as the situations in Sudan and Kenya reveal serious deficiencies with the administration of justice in Africa. The fact that the ICC has to be called upon to deal with legal issues that ought to be handled effectively by African governments is a sign of African states' collective failure to properly govern themselves and administer justice fairly and timely. Thus, the AU should help its members undertake necessary institutional reforms to create locally focused and culturally relevant legal and judicial systems that can effectively prosecute those accused of impunity and hence minimize the need to call upon the ICC to intervene. Of course, domestic legal systems are better able to deal with critical issues, such as peace and reconciliation; safeguarding the rights and meeting the needs of victims of crime; and making adequate and effective use of traditional mechanisms for conflict resolution. Unfortunately, the AU has had very limited success imposing its will on its members.

Kenya exploded in ethnic-induced violence following the presidential election of 2007. The carnage, which was "perpetrated by actors on both sides of the political and ethnic divide, and included arson, rape, torture and murder," left more than 1000 people dead and over 600,000 homeless (Boell 2012). The Waki Commission, which was established following the AU intervention and was charged with investigating the violence, made several recommendations, including asking the government of Kenya to establish a special tribunal to fully and fairly dispense justice with respect to the post-election violence. The commission further recommended that the Kenyan government consider referring the matter to the ICC in case it failed to render justice through its domestic institutions. However, the government neither established the tribunal nor referred the matter to the ICC. Luis Moreno Ocampo, the ICC prosecutor at the time, subsequently intervened under powers granted to his office by Article 15 of the Rome Statute and effectively initiated an investigation into the Kenyan situation without referral either

from the Kenyan government or the U.N. Security Council. Why did the Kenyan legal system fail to dispense the necessary justice associated with the post-election violence? George Kegoro, executive director of the Kenyan Section of the International Commission of Jurists, has suggested that it was the "lack of political will and weakness on the part of those public institutions responsible for law enforcement" that contributed to the failure by the government to dispense justice in relation to the post-election violence (Ibid.).

Making arguments similar to those advanced by the AU, the government of Kenya recently asked the U.N. Security Council to defer the cases against President Kenyatta and Deputy President Ruto so that the two could devote their efforts to dealing with security issues facing the country and the greater East Africa region. Meanwhile, former chief prosecutor of the Special Court for Sierra Leone and the person who built the case against Charles Taylor, American lawyer David Crane, has argued that in pursuing indictments against Kenyatta and Ruto, the ICC ignored political realities both at the domestic and international level. Mr. Crane suggested that the ICC should have used the "threat of its intervention to nudge for reform rather than launching prosecutions that the Kenyan elite would never support," (Howden 2013).

The people of Kenya elected Uhuru Kenyatta as their president, and it is to them that he should be accountable. The three-judge panel at the ICC, an unelected body, appears to be determining when and the extent to which Kenya's legitimate leaders can govern the country. No matter how the conflict between African countries and the ICC is eventually resolved, all these countries must improve their domestic legal and judicial systems so that they can deliver justice fully, fairly, effectively and timely. Such institutional reconstruction should not only be undertaken because of the need to prevent ICC intervention in domestic affairs but also because it is the duty of each country's government to protect the person and property of its citizens. Hence, state reconstruction should be the preoccupation of African countries instead of the ICC.

References

- BBC. (2013). "African Union Urges ICC to Defer Uhuru Kenyatta Case," <http://www.bbc.co.uk/news/world-africa-24506006>.
- Boell. (2012). "Perspectives: Political Analysis and Commentary from Africa," p. 21, http://www.boell.de/downloads/2012-08-Perspectives_Africa_1_12.pdf.
- Howden, D. (October 18, 2013). "US Prosecutor Condemns Hague Trials of Kenyan Leaders," *The Guardian*, <http://www.theguardian.com/law/2013/oct/18/david-crane-condemns-hague-trials-kenya>.
- ICC. (2011). "The ICC and Community-Level Reconciliation: In-Country Perspectives—Regional Consultation Report," p. 11, http://www.iccnw.org/documents/IJR_ICC_Regional_Consultation_Report_Final_2011.pdf.
- ICC. (2012). *Understanding the International Criminal Court*, p. 12, <http://www.icc-cpi.int/iccdocs/PIDS/publications/UICCEng.pdf>.
- Voice of America. (2013). "Botswana, African Union Disagree Over International Criminal Court Warrants," <http://www.voanews.com/content/botswana-african-union-disagree-over-international-criminal-court-warrants-125451843/158470.html>.

AFRICA'S CAPITAL MARKET APPETITE: CHALLENGES AND OPPORTUNITIES FOR FINANCING RAPID AND SUSTAINED GROWTH

Vera Songwe, Nonresident Senior Fellow, Africa Growth Initiative

The Priority

Development financing continues to be a big challenge, but some hope is emerging for African countries. The size of the resources needed to lift countries out of poverty by 2020 or 2030 continues to increase. Some estimates put the resources needed at over \$200 billion a year for energy, irrigation, roads and rail; while there are also similar figures required for improvements in health, education and social protection.¹ Countries will need to make progress on all these fronts to reduce poverty and improve the standard of living of their populations. Eleven African countries have grown sustainably at 6 percent or above since 2009. These countries, including Nigeria, Rwanda, Tanzania, Mozambique and Sierra Leone, are now attempting to protect this growth, fast track it and make up for lost time. African countries are looking for ways to accelerate development and meet the expectations of their populations. Financial institutions are making great strides

in developing a range of products to match the demands of these countries. Innovation in development financing has the potential to be a determining factor for rapid, sustainable and inclusive growth over the medium term.

Access to capital markets is one recent phenomenon on the African continent that is being facilitated by the Federal Reserve's quantitative easing policy of injecting money into the U.S. economy, and this phenomenon is gaining steam. Between November 2008 and September 2013, the Fed purchased approximately \$3.5 trillion in bank debt, mortgage-backed securities and Treasury notes (Evans 2013). As a result, the market was flooded with excess liquidity and unprecedented low interest rates suppressing returns in the U.S. and other developed markets. Investors have turned to emerging and frontier markets for better yields. The response has been strong from sub-Saharan African countries.

¹ This figure is based on the author's own calculations using the World Bank and International Energy Agency estimates.

Why Is It Important?

African countries need to develop stronger capital market access. In the short to medium term, the challenge will be to find new ways of protecting this market access and increasing eligibility to capital markets for sub-Saharan African countries in an economically sustainable way. The international community has an important role to play here. On a continent where access to markets is a novel phenomenon and where it is still difficult to attract investors due to legacy issues of poor macroeconomic management and fiscal discipline as well as persistent corruption and weak institutions, attempts to raise capital from the markets is a laudable goal. The discipline required by the process has no doubt helped countries who have been successful in recognizing the importance of market perceptions and the need for better macro-fiscal discipline.

The number of international bond issuances by sub-Saharan African countries in recent years has accelerated from only three issues in 2006 and 2007 to over six issues so far in 2013, and these issues are set to continue in 2014 (Moody's Analytics 2013). In addition to South Africa, eight countries in the region have tapped the international capital markets in recent years, including first-time issuers Ghana, Gabon, Senegal, Namibia, Nigeria, Tanzania, Zambia and Rwanda. Furthermore, market intelligence suggests that other sub-Saharan African countries may tap international markets in the near future. For instance, Cape Verde is looking to issue its first international bond, while Kenya is looking to issue its inaugural euro bonds in 2014.

As the reality of tapering—a reduction of the Fed's quantitative easing policy—sets in, African countries now face two important questions. Will the tapering squeeze out capital and will the markets be more discerning? Quantitative easing clearly made investors that were previously less interested in Africa take a second look, and some will stay even when tapering occurs. They will stay because investment opportunities exist and on average country macro-fiscal balances remain sound. However, there will most likely be an increase in the average cost of capital for most investors. For example, Nigeria, Rwanda and Mozambique, who all went to market with below-investment grade sovereign ratings, will likely experience higher rates as higher risks are incorporated in the prices. This will be costly. The trade-offs

between access to capital and costs will be more important and countries need to manage this transition.

What Should Be Done in 2014

To protect and grow market access, countries will first have to continue to maintain sound macro-fiscal positions. While growth has been robust, in many sub-Saharan countries deficits have been ticking up and, in countries like Zambia, Ghana and Cape Verde, are reaching worrisome levels. Both Zambia and Ghana have recently been downgraded by Fitch from B+ to B due to their high deficit levels. High deficits are also fueling high debts. To improve market and credit agency ratings, countries will need to pay more attention to this.

Second, for countries entering the market, investments financed by international bond issues must help produce correspondingly high economic growth. This is important so that these countries can use the returns on investment over the medium term to pay off the costs associated with the bonds. This is important for debt sustainability.

Structured finance products to help diversify the offerings available to countries will be critical. Recently, Mozambique issued a product that has provided substantial investment capital to a state-owned fishing company to upgrade its capacity. This type of investment-linked offering could be replicated more often. Investors clearly are more willing to take risks on tangibly tested, project-related offers because of the ease with which risks can be assessed and mitigated. The South Africa Eskom issuance is another example of the increasing attractiveness of project and corporate issues. Eskom is well-known and investors are confident that they will have a good investment with such an established entity. The securitization of future revenue flows linked to natural resource exports is an asset class that was used in Latin America in the 1980s, which African countries are also beginning to explore. There are other attractive securities that could be developed without the complexity of sophisticated engineering to meet the needs of countries and corporates on the continent.

A more unified and transparent approach to the process is needed to help facilitate investor and country understanding of the nature and risks of their investments. It is important

that perverse incentives are watched and avoided, such as those that allow countries to raise more resources than they can absorb. The same will be true for credit rating agencies. “Successful” bond issues do not necessarily mean optimal financing for borrowers or returns for investors. Although recent international bond issues by sub-Saharan African countries met strong investor demand, were oversubscribed, and were regarded as highly successful transactions, in-country capacity constraints have led to higher-than-expected carry costs in some cases.

Even as many more countries go to the market, there is a general lack of capital market expertise in many African countries. International capital market access is still relatively new to most sub-Saharan African countries. Local financial markets are underdeveloped and consequently the in-country knowledge and expertise needed to make informed decisions are often weak and lacking. Global investment banks have a role to play. As part of their market penetration strategy, they will need to do more capacity building and client education. In addition to playing the role of solicitor, firms must be more transparent and provide active development training to countries.

International finance institutions like the IMF and other multilateral and regional development banks like the World Bank and African Development Bank have an important role to play. They should increasingly reorient their support toward capital market access. Very few sub-Saharan African countries that have accessed capital markets in the last two years received any support from international finance institutions. As this method of financing becomes more significant, international development agencies will have to play a bigger role in supporting countries’ access to markets. In addition, these agencies will have to continue to offer new and more financial products, such as political risk guarantees, that complement this access and increase the attractiveness of the countries’ issuances.

At the global level, the Financial Stability Board will have to take into account this emerging trend in Africa and involve more African central banks in the discussions on the new financial regulatory framework. As African countries increasingly access capital markets, they will become more closely linked to world financial systems. Issues of market misconduct, information asymmetry, and anticompetitive behavior will emerge as the continent develops and attracts more investors. Regional institutions will have to work with their global partners to ensure that prudent market regulations are put in place in a timely manner without undermining the development of the sector and markets.

Much more needs to be done to improve access of sub-Saharan African countries to affordable investment grade capital market financing for development. However, the trend is clearly rising and the more African countries that seek global capital, the easier it will be to price the offers, deepen the market, provide the liquidity needed for development and widen the sphere of interest. Tapping these markets is arguably the only certain path to rapid transformative change for the countries on the continent willing and able to live up to the market discipline required to sustainably access capital markets.

References

- Evans, C. (2013). Are we there yet? A speech by Charles Evans, president and CEO of the Federal Reserve Board of Chicago, September 6, 2013. https://www.chicagofed.org/webpages/publications/speeches/2013/09_06_13_agfirst.cfm
- Moody’s Analytics. (2013). International sovereign Issuance in Africa. Accessed November 19, 2013. <http://www.moody.com/research>.

THE POST-2015 DEVELOPMENT AGENDA: WHAT ARE THE PRIORITIES FOR AFRICA?

Haroon Borat, Nonresident Senior Fellow, Africa Growth Initiative

As 2015 and the conclusion of the Millennium Development Goals (MDGs) draws near, attention has increasingly turned within the United Nations to the post-2015 development agenda. In particular, a High-Level Panel of Eminent Persons (HLP) was recently convened to advise on the global development framework beyond 2015 and construct the next development agenda. The panel was co-chaired by President Susilo Bambang Yudhoyono of Indonesia, President Ellen Johnson Sirleaf of Liberia and Prime Minister David Cameron of the United Kingdom. The panel included leaders from civil society, the private sector and government.

Through its report, *A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development*, delivered to U.N. Secretary-General Ban Ki-moon in May 2013,¹ the HLP argues for a series of “transformative shifts,”² which are viewed as essential to the post-2015 development agenda.

The elements of the HLP report provide the basis for thinking more carefully around the key post-2015 areas of economic and social policies for African governments. In reflecting on some of the main contributions, suggestions and criticisms of the HLP report, a range of important topics and existing gaps have emerged for future policy-relevant research in Africa. For African development, moving forward in 2014 and beyond includes reflection on some of these major themes as well as an elaboration on how African countries and the world plan to address the next set of goals.

The Priority

Accordingly, the key priorities for the year ahead are the transformative shifts that must: underpin the new agenda; drive the illustrative goals and related national targets; cover themes of inclusive and sustainable growth, job creation, strategic development finance and cooperation; and

¹ The report, including the background papers to the final report can be downloaded at <http://www.post2015hlp.org/the-report/>

² The five transformative shifts in the report are: 1. Leave no one behind; 2. Put sustainable development at the core; 3. Transform economies for jobs and inclusive growth; 4. Build peace and effective, open and accountable institutions; 5. Forge a new global partnership.

strengthen good governance. These focus areas should be at the top of the list for African countries in preparation for the post-2015 agenda.

When it comes to growth, the panel identifies one particular priority for the post-2015 agenda: merging the economic growth and sustainable development agendas. According to the HLP, not only should economic growth focus on generating jobs, but it should also place “sustainable development at the core.” In this way, the notion that sustainability and economic growth in the African context are complements in the growth process is in part a future challenge to source innovative and cheap technologies in order to achieve both efficiency in resource use and economic development. The pressure on the environment—not of any less concern in sub-Saharan Africa than in other regions of the world—renders this linkage between poverty reduction and sustainable development crucial to pursue.

In addition, an important part of the goal to enhance economic growth is its job creation component. Some of the fastest growing economies at present are African, including Mozambique, Angola and Ethiopia, but it remains an open question whether this growth can and will be sustained and translated into an expansion of the jobs market. Growth has been concentrated in a few sectors and many of these sectors have not seen an increase in jobs, which could be the result of increasing mechanization and demand for more highly-skilled labor. Yet, an enabling environment is critical to job creation.

Why Is It Important?

Global population projections show that the working-age population is projected to be 600 million larger in 2030 relative to 2015, representing a 20 percent increase. Despite this rapid growth, it is important to note that a larger expansion (of 1 billion individuals) in the working-age population was witnessed for the earlier 1995-2010 period. Crucially, however, the data also reveal that the most prominent jobs challenge for the next 15 years is to be faced by sub-Saharan Africa. Specifically, the net addition to the working-age population for sub-Saharan Africa will reach 21 million per year by 2030 as the number of entrants grows much faster than the number of exits.

Among other regions, Africa is unique in that it is facing a demographic dividend. As the HLP notes, the rapid growth

of the continent’s youth labor force brings an especially difficult challenge—preventing unemployment for these millions of young Africans: “As more young people enter the work force.....Africa is set to experience (a) ‘demographic dividend’..... But young people in Africa, and around the world, will need jobs—jobs with security and fair pay—so they can build their lives and prepare for the future” (U.N. High-Level Panel of Eminent Persons on the Post-2015 Development Agenda 2013).

The African youth labor force (ages 15-24) is currently reaching a peak in many countries that have had rapid fertility decline. While these youth populations are large, these populations have stopped growing in many countries with annual growth rates having fallen from peaks of around 4 percent in the 1970s to roughly 0 today. In Africa, youth labor force growth rates will remain close to 2 percent for several decades. This relatively high growth in the youth labor force in Africa reinforces the urgency of creating country-level growth paths that are job generating.

In terms of strategic development finance and cooperation, the panel points strongly to the excess levels of global savings currently in the global economy, which is set to reach about \$18 trillion in 2013. The most important source of long-term finance will therefore be private capital coming from major pension and mutual funds, sovereign wealth funds, private corporations and other investors, including those in middle-income countries where most of the world’s new savings will emanate from by 2030. African countries need to be cognizant of these trends in global finance.

A final major concern focuses on the strengthening of good—and more importantly effective—governance. A number of African countries are plagued with financial mismanagement. Governance has a serious impact on a country’s budget and has implications for where funds are channeled as well as how those funds are spent. In a number of countries, there is often a large budget that is not well spent, and a sizeable proportion is returned to the fiscus due to mismanagement of funds. Governance therefore requires careful monitoring, evaluation and guidance, while the approach followed must take account of the particular country context.

What Should Be Done in 2014

The development community has been trying to address the aforementioned and many other obstacles to growth for decades with varied results. So, looking ahead, the panel calls for a new global partnership incorporating governments, civil society and the private sector to think *collectively* and *differently* about ending poverty (U.N. High-Level Panel of Eminent Persons on the Post-2015 Development Agenda 2013). In order to address unemployment, enhance sustainable development and tackle social development challenges, the HLP's call for a global partnership is unique.

As noted above, another key challenge for African governments will be their ability to optimally mobilize foreign private savings in a manner that funds local economic development initiatives. Particularly for those fast-growing African economies such as Angola, Mozambique, Ethiopia, Ghana and so on, there is a unique window of opportunity—as African optimism is at an all-time high in global markets—to access these foreign capital markets around the world. Emerging market capital in particular, with an appetite for slightly higher risk premiums, should be targeted by African governments seeking to pursue an investment-led growth path. As explored in more detail elsewhere in *Foresight Africa 2014*, more proactive engagement between African governments and African firms with emerging market financial institutions is essential in unlocking nontraditional portals of finance for economic growth and development.

The notion that other sustainable development decisions, ideas and actions should be incorporated into one worldwide agenda is embedded within the notion of a global partnership. As a subset of this notion, the HLP argues for the continuation of external funding to developing countries with aid targets and goals to remain intact. Within the African context, this is crucial given that the majority of recipients within the ODA and development finance space are low-income economies or those countries classified as “fragile states.”

In addition to approaching development from a global partnership perspective, the HLP recognizes and puts particular emphasis on the fact that the complex obstacles countries face vary from those of their neighbors. Thus, in terms of an inclusive economic growth agenda, discussions within the post-2015 milieu have argued that economic growth chal-

lenges, constraints and opportunities differ by country depending on initial conditions. Within the continent, the pursuit of an inclusive economic growth agenda could involve a contrasting set of interventions, ranging, for example, from a more optimal industrial policy agenda to productivity-enhancing measures in agriculture or even the pursuit of a modern service sector. However, the fundamentals—in the form of an adequate supply of skilled workers, support for small firms, the capacity to innovate, investment in research and development, a well-developed infrastructure and so on—must underpin an African agenda for inclusive and sustainable economic growth.

Finally, Africa needs to capitalize on its demographic dividend. Policies for creating jobs and inclusive and sustainable growth must be a part of the economic agenda in Africa. If Africa can properly mobilize its young workforce, it can also enjoy the benefits of its new mass consumer market potentially consuming goods and services at scale. This consumer market should be concentrated in those fast-growing and large-population economies such as Nigeria, Kenya and Ethiopia, but this opportunity is partly African and partly global. The challenge, however, remains the ability of these various economies to generate a growth and development path that is sufficiently job creating. Put differently, the rise of the mass consumer market in Africa over the next 15 years is conditional on the ability of governments to generate a sufficient quantum of job opportunities for these individuals.

References

- U.N. High-Level Panel of Eminent Persons on the post-2015 Development Agenda. (2013). *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development*. Report to U.N. Secretary-General Ban Ki-Moon.

LEAP-FROGGING IN AFRICAN AGRICULTURE: THE CASE OF GENETICALLY MODIFIED CROPS

Calestous Juma, Professor of the Practice of International Development, Harvard Kennedy School

Katherine Gordon, Program Coordinator, Agricultural Innovation in Africa Project, Belfer Center for Science and International Affairs, Harvard Kennedy School

The Priority

Agricultural transformation is high on the agenda for African countries. In fact, agriculture is expected to be a major priority for the July 2014 summit of the African Union. This interest is building on a mood of economic optimism with the International Monetary Fund estimating that Africa's growth rate will rise to 5.4 percent in 2013 and 5.7 percent in 2014, whereas the global growth rate is expected to average only 3.3 percent in 2013 (IMF 2013).

African policymakers are starting to focus on agricultural innovation as a way to sustain this growth and help spread prosperity. On average, agriculture accounts for 30-40 percent of sub-Saharan Africa's overall GDP and employs 64 percent of the workforce (Juma 2011). The examples of leap-frogging through mobile technology provide African countries with inspirational models for leveraging agricultural biotechnology.

One misconception is that biotechnology is simply about the importation of genetically modified foods; rather, it is

about "building up the requisite capacity to diversify the technological options needed for long-term agricultural adaptation," (Juma 2012b). Biotechnology on its own will have little impact unless it is viewed in the context of system-wide improvements in agriculture. Now is the time for African governments to capitalize on the renewed interest in agriculture and invest in infrastructure, higher technical training and creation of larger markets.

A good place to start is with crops such as insect-resistant transgenic cotton as part of a larger goal to turn African agriculture into a knowledge-based entrepreneurial activity. The crop carries genes from the bacterium *Bacillus thuringiensis* (*Bt*) that enables it to resist pests, requiring fewer or no insecticides.

So far only four African countries—Burkina Faso, Egypt, South Africa and Sudan—grow transgenic crops out of a total of 29 worldwide. In 2014, it is expected that more African countries will announce plans to grow transgenic crops,

especially *Bt* cotton. Countries such as Cameroon, Ghana, Kenya, Nigeria and Uganda have ongoing biotechnology research and development programs (Adenle, Morris and Parayil 2013). They view entry into biotechnology as a way to expand their technological options for long-term agricultural transformation.

Why Is It Important?

In 2012, emerging economies overtook industrialized countries as the main adopters of transgenic crops by area. They are benefitting from income and environmental effects such as increased yields, fewer costs associated with reduced chemical inputs, and better soil quality due to no-till cultivation methods.

The potential for leap-frogging through biotechnology lies in its capacity to address specific local problems. One obvious example is the role of *Bt* cotton in suppressing pests while reducing insecticide use, leading to increased agricultural productivity. In Burkina Faso, for example, which grew 125,000 hectares of *Bt* cotton in 2009, rural households saw 18.2 percent yield increase over conventional cotton. Although the seeds were more expensive, farmers saved money on inputs and labor, resulting in net profits (Vitale 2010).¹

Another example is in Uganda, where researchers are using biotechnology to reverse the trend of *Xanthomonas* wilt, a bacterial disease that costs the Great Lakes region approximately \$500 million annually. By transferring two genes from green peppers, scientists developed *Xanthomonas*-resistant bananas (Namukawaya 2012). Work is also underway to develop vitamin A-enriched golden bananas.

In Nigeria, the insect *Maruca vitrata* destroys nearly \$300 million worth of blackeyed peas—a major staple crop—and forces farmers to import pesticides worth \$500 million annually. To solve the problem, scientists at the Institute for Agricultural Research at Nigeria's Ahmadu Bello University have developed a pest-resistant, transgenic blackeyed pea variety using *Bt* genes.

These examples illustrate how African countries can harness emerging technology to leap-frog into new agricultural production methods. The main barriers now lie in the existence of rigid regulatory systems and uncertainty over public acceptance of transgenic foods. The latter point can be addressed by focusing initially on industrial crops such as *Bt* cotton.

What Should Be Done in 2014

- **Encourage biotechnology champions:** The 2014 African Union summit offers an opportunity to galvanize political commitment to agricultural biotechnology. Leaders from countries that already grow transgenic crops could play a role in rallying more champions among their peers. Such high-level champions would play key roles in improving local and international policy environments for biotechnology (Juma and Serageldin 2007).
- **Promote agricultural innovation:** Biotechnology is only a starting point. The introduction of *Bt* cotton, for example, requires system-wide investments along the entire cotton value chain. This means that the adoption of biotechnology can serve as a trigger for investments in R&D, rural infrastructure, technical training and entrepreneurship.

There are two ways to foster institutional innovation. One is to strengthen research in existing agricultural universities and their linkages to farming communities directly. The other is to add a teaching component to existing agricultural research institutes focusing on the value chains of specific commodities. This would lead to the creation of agricultural research universities that can work closely with the private sector (Juma 2012a).

- **Create presidential offices for science and technology:** Too often the biotechnology decisions made in African countries are politically motivated and do not reflect the balance of scientific evidence. Creating offices of science and technology advisors to presidents or prime ministers would allow African leaders to act strategically and analytically, adopting agricultural biotechnologies when and where it makes sense to do so.

¹ For a more detailed analysis, see Vitale (2010).

Biotechnology on its own will have little impact unless it is viewed in the context of system-wide improvements in agriculture. Such offices would provide advice on how to capitalize on the renewed interest in agriculture and invest in infrastructure, higher technical training and the creation of larger markets. Preparations for the 2014 African Union summit are a unique opportunity for African agricultural sectors to embrace the catch-up in the adoption of agricultural biotechnology.

References

- Adenle, A.A., Morris, E.J., and Parayil. G. (2013). "Status of development, regulation and adoption of Gm agriculture in Africa: Views and positions of stakeholder groups." *Food Policy* 43: 159-166.
- International Monetary Fund. (2013). *Regional Economic Outlook: Sub-Saharan Africa: Building Momentum in a Multispeed World*. Washington, D.C.
- Juma, C. (2012). "Building New Agricultural Universities in Africa." HKS Faculty Research Working Paper Series RWP12-026.
- Juma, C. (2011). *The New Harvest: Agricultural Innovation in Africa* (New York: Oxford University Press).
- Juma, C. and Serageldin, I. (August 2007). *Freedom to Innovate: Biotechnology in Africa's Development*. Report of the High-Level African Panel on Modern Biotechnology. Addis Ababa: New Partnership for Africa's Economic Development, African Union.
- Juma, C. (December 2012). "Commentary: Biotechnology and Africa's Strategic Interests," *Global Food for Thought*, Chicago Council on Global Affairs.
- Namukawaya, N. Tripathi, L., Tripathi, J.N., Arinaitwe, G., Mukasa, S.B., and Tushemereirwe, W.K. (2012). "Transgenic banana expressing Pflp gene confers enhanced resistance to *Xanthomonas* wilt disease." *Transgenic Research* 21(4): 855-65.
- Vitale, J.D. (2010). "The Commercial Application of GMO Crops in Africa: Burkina Faso's Decade of Experience with Bt Cotton." *AgBioForum* 13(4): 320-332.

MEETING THE DEMAND FOR AFRICAN-LED, INTERNATIONALLY SUPPORTED PEACE INTERVENTIONS

Lesley Anne Warner, Research Fellow, Center for Complex Operations, National Defense University

The Priority

Since peaking in the early 1990s, instances of armed conflict have been waning across sub-Saharan Africa. In spite of this trend, there remains a persistent demand on the African continent for peacekeeping missions—led by the United Nations, African Union or sub-regional organizations such as the Economic Community of West African States. With 15 U.N. peacekeeping missions worldwide, 78 percent of U.N. peacekeepers are serving in the eight ongoing missions in Africa. In terms of African countries' ability to provide collective responses to regional crises, the AU's African Standby Force (ASF), which has regional brigades in each of the continent's five regions, was supposed serve this function. However, the timelines for the ASF to become fully operational have been delayed several times and not all of the regional brigades are expected to be combat ready until at least 2015. With recurring demands for peace interventions, most recently in Mali, Guinea-Bissau and the Central African Republic

(CAR), African regional and sub-regional organizations should continue to prioritize establishing a more robust crisis response capability.

Why Is It Important?

In theory, AU and sub-regional peacekeeping missions that are well planned, funded, manned and executed ostensibly limit the need for eventual U.N. or foreign power intervention. Yet, recent responses on the part of the AU and sub-regional organizations have been compromised by a lack of combat readiness, insufficient manpower and funding for the scope and scale of intervention, and limited bandwidth to address concurrent crises. Indeed, the AU Mission in Somalia (AMISOM) is often touted as a model for African-led, internationally supported military intervention. However, the mission's relative progress came after five years of stagnation and on the heels of concentrated diplomatic pressure on the transitional government.

More recently, it took nine months after the collapse of the Malian state for the African-led International Support Mission to Mali (AFISMA) to get boots on the ground—a deployment that was in reality accelerated by the jihadists’ push south and the ensuing French intervention in January 2013. In addition, the African-led International Support Mission in the Central African Republic (MISCA) has not been able to prevent Séléka forces that now purport to rule the country from continuing to commit serious human rights abuses against civilian populations as the U.N. Security Council deliberates a possible transition to a U.N. mission. In sum, even if such interventions rely on support from the U.N. or the international donor community, there is no doubt that African regional and sub-regional organizations increasingly seek to take the lead in responding to crises on the continent. Nonetheless, significant progress needs to be made in Africa to close the gap between the demand for crisis response and the actual ability for these entities to respond in an effective manner.

In this context, the AU has been deliberating the establishment of a rapid reaction force, an African Capacity for Immediate Response to Crises (ACIRC), which will serve as an interim measure until the aforementioned ASF becomes fully operational. Originally, the concept of the ASF was to include a rapid deployment capability (RDC), which would allow for early intervention (within 14 days of an authorized mandate) to respond to “grave circumstances” such as mass atrocities and war crimes. Yet, the fact that the ASF and the RDC are well behind their readiness timelines raises the question of whether the new concept of the ACIRC will face similar operationalization delays, or could even detract focus from the development of the original ASF framework.

Aside from concepts of operation for crisis response, insufficient funding for such interventions has also been an obstacle to the deployment of AU and sub-regional peacekeeping missions. Established by the European Union in 2004, the African Peace Facility was intended to provide a reliable stream of funding to cover some of the peacekeeping deployment costs for African countries. Yet, while this arrangement should have facilitated the development of African capacity to plan and sustain peacekeeping missions, the AU and sub-regional organizations continue to struggle with funding potential interventions.

What Should Be Done in 2014

The current mechanisms for AU and sub-regional organizations to address conflicts and unconstitutional changes of government have proven ad hoc, slow-moving, and at times unreliable, as demonstrated by recent events in Mali and the CAR. Indeed, with Africa as a focus for international peacekeeping operations, the fact that the ASF and the RDC remain more concepts on paper than reliable crisis response capabilities will continue to impede African agency in providing “African solutions to African problems.” Regardless, the reality is that support from the U.N. and the international donor community will continue to be necessary to meet the demand for peace interventions in Africa. Therefore, in order to close the gap between conception and reality, the AU, sub-regional organizations and the international community should take the following steps:

- In an effort to prevent the creation of the ACIRC from usurping the momentum for the much-needed ASF framework, the AU’s Peace and Security Council and sub-regional planning elements should demand greater accountability for the combat-readiness standards of regional brigades so that the ASF can eventually constitute credible and viable crisis response force.
- It is in the interest of the international community for African countries and regional organizations to be capable of responding to regional crises. Thus, there should be greater donor coordination to address the systemic challenges that may preclude African militaries from responding more readily to crises. Areas of emphasis should include: increasing regional capacity to plan multilateral interventions; training and equipping African troops to operate (even in situations where there is no peace to keep), while mitigating civilian casualties; and continuing to provide force multipliers and combat enablers.
- The international donor community should augment previous utilization of the EU’s African Peace Facility to coordinate a reliable funding stream for U.N.-mandated African peace interventions.

References

- African Union Peace and Security Council 387th Meeting at Ministerial Level. (29 July 2013). Press Statement. <http://www.peaceau.org/uploads/psc-387-com-egypt-29-07-2013.pdf>.
- Cilliers, J. (March 2008). "The African Standby Force: An Update on Progress," Institute for Security Studies Paper 160. <http://africacenter.org/wp-content/uploads/2009/07/The-African-Standby-Force-An-Update-on-Progress.pdf>.
- Kinzel, W. Wolf (November 2008). "The African Standby Force of the African Union—Ambitious Plans, Wide Regional Disparities: An Intermediate Appraisal," SWP Research Paper. http://www.swp-berlin.org/fileadmin/contents/products/research_papers/2008_RP08_kzl_ks.pdf.
- Roux, A. (June 13, 2013). "New 'super' combat brigade: creation of an African elite?" Institute for Security Studies. <http://www.issafrica.org/iss-today/new-super-combat-brigade-creation-of-an-african-elite>.
- Théroux-Bénoni, L. (June 3, 2013). "Enhancing Africa's Responsiveness to Crisis Situations," Institute for Security Studies. <http://www.issafrica.org/iss-today/enhancing-africas-responsiveness-to-crisis-situations>.

SHIFTS IN FINANCING SUSTAINABLE DEVELOPMENT: HOW SHOULD AFRICA ADAPT IN 2014?

Amadou Sy, Senior Fellow, Africa Growth Initiative

The Priority

Africa has a large financing gap to not only sustain its current rapid rate of economic growth but also fund its transformation. The continent's infrastructure spending needs alone stand at about \$93 billion per year. Over the last decade, the flow of external financing to Africa—an important supplement to fiscal revenues—has increased and the relative importance of its components has changed. Private capital flows to sub-Saharan Africa—driven by investment from the BRICS (Brazil, Russia, India, China and South Africa) countries and portfolio flows—as well as remittances have overtaken aid flows. As a result, it is important to explore policy options to ensure that these external flows are efficiently utilized to achieve economic, social and environmental sustainable development.

Why Is It Important?

A decade after the 2002 Monterrey Consensus, the private sector is leading investments to sub-Saharan Africa as pri-

mate capital flows overtake official development assistance (ODA). Private capital flows to sub-Saharan Africa—foreign direct investment (FDI), portfolio flows and loan flows—reached \$67 billion in 2012, up from \$14 billion in 2002. In comparison, ODA increased to only \$42.5 billion in 2012 from \$18.1 billion in 2002. Since 2002, private capital flows to sub-Saharan Africa have grown at a robust pace of 19.4 percent per year in spite of the global financial crisis. In contrast, ODA grew at 12.1 percent over the period, but was more stable.

South-South investment from the BRICS countries is becoming an engine of growth for private capital flows to sub-Saharan Africa. From 2002-2012, FDI averaged about three-quarters of total private capital flows. While most FDI to sub-Saharan Africa still originates from OECD countries, in particular from France and the United States, BRICS countries have over the years increased their presence in the continent. According to UNCTAD (2013), the BRICS countries' share in the continent's FDI flows reached 25 percent in 2010 and this trend is strengthening.

While negligible in 2002, portfolio flows have become an important component of financial flows to sub-Saharan Africa. Portfolio flows averaged \$9.5 billion over the decade and have grown faster since 2006. In contrast to FDI, portfolio flows from BRICS countries remain negligible. In addition to traditional investments in equity markets, especially in South Africa, and domestic bond markets like in Ghana, Nigeria and South Africa, foreign investors have recently purchased euro bonds as a number of sub-Saharan African countries have been able to raise funds in international debt markets for the first time. Indeed, Angola, Côte d'Ivoire, Gabon, Ghana, Namibia, Nigeria, Rwanda, Senegal, Seychelles and Zambia have all issued euro bonds, and Kenya, Tanzania and Uganda are expected to follow their example.

Beyond capital flows, remittances have also become important sources of external financial flows to sub-Saharan African countries. Remittances have averaged about \$21.8 billion over the 2002-2012 decade—more than twice the average portfolio flows to the region over that time. During 2005-2011, at least five sub-Saharan African countries received remittance flows accounting for more than 10 percent of their GDP, with Lesotho even receiving 35 percent of its GDP from remittances.

As a result, when remittances are added to private capital flows, the subsequent non-ODA flows have become the main source of external funding to sub-Saharan Africa. Over 2002-2012, non-ODA flows have grown to account for more than two-thirds of total external flows (ODA and non-ODA) from about half of that total in 2002. The relative importance of non-ODA flows is likely to increase, especially as ODA growth is expected to stagnate for the poorest countries with the largest Millennium Development Goals implementation gaps.

What Should Be Done in 2014

The growth in external resources has the potential to complement domestic resources to achieve sub-Saharan Africa's ambitious transformational strategy. Deepening domestic financial sectors and developing local capital markets remain high on the policy agenda. Sub-Saharan African countries need to continue making more efficient use of their existing financial systems and improve their mobilization and allocation of resources to growth-en-

hancing investments. One benefit of deeper financial sectors and more developed local capital markets is that they should help strengthen the tenuous link between external financial flows and macroeconomic growth. One important starting point will be to continue to build an appropriate financial infrastructure—including the payments systems, and the legal and regulatory framework for financial services—and promote financial literacy. Of course, policy efforts to strengthen *pull* factors are still relevant. Raising the necessary fiscal revenues together with appropriate macroeconomic policies remains a priority. Sequencing the liberalization of the capital account, ensuring debt sustainability, and appropriately managing sovereign debt and external flows should also be a part of the policy toolkit.

Ten years after Monterrey, five priorities emerge for the policy agenda on innovative and sustainable finance:

1. Getting more transfer of knowledge and skills from

FDI: Over the last decade, about three-quarters of FDI to sub-Saharan Africa went to resource-rich countries and into extractive industries. The prospects for increased investment in this sector look strong given the discovery of new resources on the continent. Yet, in most sub-Saharan African countries, the linkages between extractive industries, local firms and employment markets, and domestic financial systems are tenuous. Instead of creating economic enclaves, FDI flows will benefit more long-term economic growth in sub-Saharan Africa if they are associated with a transfer of knowledge and skills from multinational companies to the domestic private sector. In the medium to long term, sub-Saharan African policymakers can anticipate the type of FDI their countries will attract and build a strategy in advance to develop the future technology and skills that will be needed for the expected investments. In the short term, policymakers can provide incentives for investors to include local businesses in the value chain and invest in education and training. This trend is increasing, for instance, in the information and communications technology sector in sub-Saharan Africa.

2. Reducing illicit financial flows: Although it is difficult to estimate, FDI in the resource sector often results in large financial outflows from tax evasion, the underpricing of concessions and trade mispricing. As stressed by the

2013 Africa Progress Report, policymakers will need to ensure that revenues are collected, accounted for, and allocated efficiently and equitably in order to advance public policy goals. International initiatives include the U.S. Dodd-Frank legislation, which requires public disclosure of payments at the project level from listed companies involved in extractive industries. Policymakers need to build national capacity to understand the natural resource sectors better so as to obtain better contract terms. They should work with developed countries and require full public disclosure of the beneficial ownership of companies as well as strengthen multilateral rules on taxation to reduce transfer pricing practices that result in lost fiscal revenues.

3. Strengthening South-South partnerships: BRICS countries are playing an important role in sub-Saharan Africa's ongoing integration in the global economy. UNCTAD (2013) data indicate the share of BRICS countries in Africa's total value of greenfield projects—the main mode of investment in Africa—rose to more than 25 percent in 2012 from 19 percent in 2003. Four of the BRICS—South Africa, China, India and Russia—are now among the top investing countries in Africa. One policy priority will be to find ways to attract investment in the primary sector as well as in services and manufacturing sectors, while engaging different types of partners, including state-owned enterprises. Beyond BRICS countries, the regional trade and financial integration agenda offers a platform to come up with creative solutions. By strengthening common institutions, the governments in the West African Economic and Monetary Union (WAEMU) have been increasingly able to mobilize domestic savings from banks and other investors in the eight WAEMU countries and issue Treasury bills and bonds separately from each other. The NEPAD-OECD Africa Investment Initiative aims at raising the profile of Africa as an investment destination while facilitating regional cooperation and has led to a number of investment policy reviews in four South African Development Community countries (Mozambique, Botswana, Tanzania and Mauritius). Going forward, it will be important to garner the political will to accelerate the transition from *de jure* to *de facto* regional integration in sub-Saharan Africa by further reducing non-tariff barriers to trade.

4. Engaging the diaspora: Estimates of remittance flows do not capture unrecorded flows and, given their size, policymakers will have to seriously engage the diaspora and find the proper incentives to do so. Since 2008, Africa has been the most costly region in the world to which to send remittances. Two policy questions come to mind. First, how can the cost of sending remittances to the region be lowered? And second, how can remittance flows—which mainly go to education and health expenses, and consumption—be used to finance growth-enhancing investments? Current research points to a number of policy options such as increasing competition among remittance service providers (especially banks), elaborating well-balanced regulation for cheaper alternatives and encouraging technologies such as mobile money transfers. For example, Kenyans can use mobile money transfers to send money from the U.S. and the nationals of some WAEMU countries can now do the same within the Union. Efforts to improve transfer methods to make them cheaper, more efficient and safe should continue. Banks and microfinance institutions could also develop credit products for their customers that benefit from a stable track record of remittance flows. The use of diaspora bonds like those issued by Ethiopia or the placement of infrastructure bonds to the diaspora such as those issued by Kenya are options already being explored by other countries.

5. Redefining and rethinking the role of aid: Aggregate numbers mask the disparities in the dependence on ODA by sub-Saharan African countries. While some poorer, post-conflict and/or fragile countries still rely heavily on aid, others have been able to diversify their external resources. The OECD is working to improve the quality and policy relevance of its statistics on resource flows to developing countries beyond ODA. One policy challenge will be to find ways to leverage aid flows so as to attract the private investment necessary to implement the sub-Saharan African policy agenda. African countries will need to have a clear idea of their projects pipeline and associated funding needs. The infrastructure sector offers a number of opportunities in this regard. The large and long-term financing needs of infrastructure projects can require

different types of financiers, including private sector, bilateral and multilateral partners. A recently completed toll road in Senegal used such a model. Islamic financial instruments have been used to finance infrastructure projects in Malaysia, Indonesia and countries in the Middle East, and could attract investors from similar countries. In project finance, solutions to mitigate credit risk could involve multilateral partners. Berne Union data show that medium- and long-term credit guarantees in sub-Saharan Africa reached \$9.1 billion in 2012 and were highly concentrated in Angola, Ethiopia, Ghana, Nigeria, Republic of the Congo, South Africa and Zambia.

The evolution of external flows to sub-Saharan Africa indicates that engaging the private sector and the diaspora and at the same time complementing ODA with more diverse and complex sources of funding is becoming more important for African policymakers. They will need to engage and coordinate the different partners and find innovative solutions along the way. While attempting to raise more innovative capital, policymakers should start by asking themselves a simple but important question: What is the money for? For financing to be *sustainable development financing*, it will need to fund the strategies leading to a vision of what Africa should be in the next 10-20 years. Finance should follow, not lead.

References

- African Development Bank, ECA, OECD, and UNDP. (2013). "African Economic Outlook", www.africaneconomicoutlook.org
- Africa Progress Panel. (2013). "Equity in Extractives—Stewarding Africa's Natural Resources for All," Africa Progress Report 2013
- Berne Union. (2013). "Medium and Long-term Credit Risk Guarantees in Africa: Potential for Expansion of Support for Energy Projects." 2013 Africa Energy Yearbook: Policies for Progress. http://www.berneunion.org/wp-content/uploads/2013/05/AFRICAENERGY_2013_LAYOUT_MASSE.pdf
- Masse, Jean-Marie. (2013). "Medium and Long-Term Credit Risk Guarantees in Africa: Potential for Expansion of Support for Energy Projects," Africa Energy Yearbook
- United Nations. (2013). "Follow-up to and Implementation of the Monterrey Consensus and Doha Declarations on Financing for Development—Report of the Secretary General," August
- Hou Zhenbo, J. Keane, J. Kennan, I. Massa, and D. W. te Velde, "The Changing Nature of Private Capital Flows to sub-Saharan Africa," Working Paper 376, ODI

CLIMATE CHANGE AND GROWTH IN AFRICA: CHALLENGES AND THE WAY FORWARD

Temesgen Tadesse Deressa, Guest Scholar, Africa Growth Initiative

The Priority

The recent trends of increasing global temperatures and incidences of extreme climate events in Africa—mainly droughts and floods—are likely to continue. These severe climate events demonstrate the level and depth of the impact that climate change has on African economies. African policymakers should prioritize climate change adaptation and mitigation strategies in the development agenda of 2014 and beyond in order to continue and sustain its current growth. Furthermore, despite the fact that Africa is the continent most affected by—and perhaps because it is also the smallest contributor to the man-made effects of—climate change, Africa’s voice in international climate change negotiations is very limited. To successfully minimize the effects of climate change, Africans must strategize in order to increase their voice in these negotiations.

Why Is It Important?

In 2012, 70 percent of major global droughts occurred in Africa. Kenya, Somalia, Sudan, Malawi, Angola, Chad and Ethiopia were particularly hit hard, and more than 16 mil-

lion people in those countries were affected (Emergency Events Database [EM-DAT] 2013). In the same year, floods claimed 363 lives in Nigeria (Andrew 2013) and 65 lives in Niger (BBC News 2012). In 2013, heavy rains continued with major flooding in Sudan, South Sudan, Mali, South Africa, Zimbabwe, Botswana and Mozambique. The macroeconomic impact of these episodes of extreme drought and flooding is significant. For instance, climate-related shocks have reduced Mozambique’s GDP growth by more than 1 percent per year. In Zambia, rainfall variability will lower agricultural growth by 1 percent each year and cost the country \$4.3 billion in GDP over 10 years (ADBG 2013).

Climate change poses a significant and unique challenge to Africa because so much of its economy depends on a climate-sensitive natural resource base like rain-fed, subsistence agriculture. Dependence on such resources exposes the continent to the risks of reduction in agricultural production, municipal water supply for home use and sanitation services, industrial water use and hydroelectric power generation. Unfavorable changes in temperature and rainfall patterns also increase the risk of insect-borne

diseases, create conflict over water and grazing resources, and threaten the lives and property of citizens across the continent. Because of the challenges of climate change and variability, Africa appears ill prepared to adapt to or mitigate the powerful effects of climate change. With no adaptation strategies in place, the U.N. Intergovernmental Panel on Climate Change (2007) projects that, by the year 2020, 75 to 250 million people in Africa will be exposed to high water stress conditions with some countries experiencing up to a 50 percent reduction in yields from rain-fed agriculture.

Finally, Africans must play a more prominent role in the global governance of climate change issues. Africa's voice in international climate change negotiations has been very limited and the continent has struggled to influence global policies to tackle its particular challenges. For instance, in the annual Conference of Parties (COP) organized by United Nations Framework Convention on Climate Change (UNFCCC), African delegates are often marginalized, underrepresented, uncoordinated and ineffective in influencing policies favoring the continent (Anesu 2013). The implication is that African interests are not adequately taken into account. Moving into 2014 and beyond, effective African voices on matters of climate change are critically important.

What Should Be Done in 2014

Four major policy areas can help make Africa climate-change resilient in 2014 and beyond.

The first is adaptation. Policymakers in Africa need to prioritize investment on research for the development of improved agronomic practices, agricultural enterprises and enterprise mixes that can thrive under moisture stress, and better water and soil conservation techniques. African governments should also invest more in irrigation facilities and upgrade the skills of native workforces and institutional capacities in climate forecasting, early warning and disaster management. Moreover, policies for developing new infrastructure such as roads, houses, canals and dams should include strategies for climate resilience in the planning and implementation stages.

The second policy area is mitigation. Mitigation in Africa can be achieved through many means. The major alternatives include reducing emissions from deforestation and forest degradation (REDD+) and promoting green energy. Local

and international financial sources should be tapped to assist with the reclamation of degraded lands, reforestation, afforestation and agro-forestry practices that can play the triple roles of providing adaptation, mitigation and income generation for the poor (Tannis and Henry 2012). Given the potential benefits of REDD+, policymakers should focus on tackling the political, institutional, technical, social and economic challenges associated with its implementation (Cheikh et al. 2012). Moreover, as one of the significant outcomes of COP19 in Warsaw was an agreement on a framework to financially support REDD+ in developing nations, African countries need to be prepared to benefit from this framework. To this effect, African policymakers should prepare national regulations on the delineation of local property rights, convenient governance mechanisms for payments of carbon benefits, and efficient emission accounting systems. Policies that increase technical capacities needed at the community level on effective systems of monitoring, reporting and verifying through education can reduce the challenges associated with implementation of REDD+ in Africa. Moreover, incentives such as tax reductions or soft loans can encourage the participation of the private sector.

The third policy area for improving climate change resiliency is the design of social safety nets and greater empowerment of the poor. African governments and international donors need to devise ways through which the most vulnerable members of society—children, the elderly and women—are better protected from climate change and climate-related disasters. Policymakers should identify the most vulnerable segments of society, coordinate efforts among relevant institutions, and set aside the necessary resources to reach out to these vulnerable groups. So far, little has been done to reduce vulnerability to climate change by increasing the asset holdings of the poor. One way of addressing this challenge is through the integration of the poor into national or regional commodity value chains. This integration enables the poor to take advantage of the increasing demand for agricultural and manufactured products induced by population growth and the expansion of the middle class. To this end, policies that establish pro-poor savings and credit cooperative societies; financial service reforms that enable lending to the poor (e.g., remove entry barriers); tax reductions or subsidies for private banking institutions that reach out to

the poor (especially women); and rural microfinance institutions can empower the poor and reduce their vulnerability to climate change. Moreover, the promotion of bottom-up and participatory community development approaches through local and donor funds can enhance asset building and increase the climate change resilience of the poor.

The fourth policy area is to empower Africa to better position itself in international climate change negotiations. Although the Kyoto Protocol has come to an end and the new framework is expected to take effect after 2015, Africa should be better prepared to set its agenda for the upcoming COP20 meeting in Lima in late 2014 as well as future negotiations to help shape the post-2015 climate change regime. As a first step, Africa needs to invest in increasing the number and capacity of its delegates involved in the negotiations to effectively address and represent African priorities in this important international forum. To this effect, African governments should organize a training and capacity-building forum for the current and potential future delegates/negotiators (Africa group).

At the same time, as Africa strategizes both climate change mitigation and adaptation strategies, it is important to balance green energy and other traditional sources to meet the continent's growing energy needs. Africa generates a very low share of global greenhouse gases and therefore should not be unduly criticized by the international community for its choice to exploit all of its abundant resources—including fossil fuels—to help foster its development. In particular, the United States' Power Africa initiative should equally promote the use of fossil fuels as well as focus investment on the region's significant potential to develop clean energy such as geothermal, hydropower, wind and solar. Ultimately, the decisions on how best to define Africa's desired energy mix, development goals and response to climate change should be left in the hands of Africans themselves.

References

Africa Development Bank Group (AFDB). (2013). Africa's economic development is held back by episodes of extreme drought and flooding that hydro-climatic variability will only get worse with climate change. Accessed: 20 November 2013. <http://infrastructureafrica.org/key-msg/sector/africa%E2%80%99s-economic-development-held-back-episodes-extreme-drought-and-flooding-hydro-c>.

- Ajjah, A. (2013). "Nigeria: 363 People Killed in 2012 Flood, 2.3 Million Others Displaced – NEMA". 20 June 2013. Premium Times, Nigeria, Abuja.
- Anesu, M. 2013. Managing Climate Change: The Africa Group in Multilateral Environmental Negotiations. http://www.journal-iostudies.org/sites/journal-iostudies.org/files/JIOSfinal_4_2.pdf
- BBC News. (2012). Niger floods cause widespread devastation. Accessed: 30 September 2013. <http://www.bbc.co.uk/news/world-africa-19384377>.
- Mbow, C., Skole, D., Dieng, M., Justice, C., Kwesha, D., Mane, L., El Gamri, M., Von Vordzogbe, V., Virji, H. (2012). Challenges and Prospects for REDD+ in Africa: Desk Review of REDD+ Implementation in Africa: The Global Land Project Report No. 3 of IGDP and IHDP. Accessed November 2013. http://www.start.org/Publications/REDD_Report.pdf.
- Emergency Events Database [EM-DAT]. (2013). International Disaster Data Base .Center For Research on the Epidemiology of Disasters- CRED. Accessed: 30 September 2013. [http://www.emdat.be/result-disaster-profiles?disgroup=natural&dis_type=Drought&period=2012\\$2012](http://www.emdat.be/result-disaster-profiles?disgroup=natural&dis_type=Drought&period=2012$2012).
- Tannis, T. and Henry, N. (2012). Reducing subsistence farmers' vulnerability to climate change: evaluating the potential contributions of agroforestry in western Kenya. *Agriculture and Food Security*, 1:15.
- U.N. Intergovernmental Panel on Climate Change. (2007). Summary for Policymakers. In: *Climate Change 2007: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change*, M.L. Parry, O.F. Canziani, J.P. Palutikof, P.J. van der Linden and C.E. Hanson, Eds., Cambridge University Press, Cambridge, UK, 7-22.

HARNESSING AFRICA'S EMERGING PARTNERSHIPS

Mwangi S. Kimenyi, Senior Fellow and Director, Africa Growth Initiative

The Priority

For most of the post-independence period, Africa's commercial and development partnerships have been largely dominated by Western Europe, the United States and Canada. For many African countries, colonial ties have tended to be the single most important factor determining such partnerships. During the last two decades, however, many other countries have taken a keen interest in trade, investment, and other types of commercial and strategic relations with Africa. This new interest in Africa has significantly reduced the relative importance of traditional partnerships to Africa's development agenda. Notably, among countries that have taken an interest in Africa during the last two decades are emerging economies such as China, Brazil, Russia and India. Other countries that have ratcheted up their commercial ties with Africa over the last decade include Turkey, South Korea, Iran, Malaysia and a few others. These emerging partnerships involve a wide range of activities, including trade and foreign direct investment in various sectors of several African economies—particularly, natural resource exploitation, manufacturing, agriculture and construction. The new partnerships have also evolved to include development

cooperation in the form of aid, loans and grants. Although these emerging partnerships have been very supportive of development efforts in African countries, there is concern that some of these new arrangements could actually be exploitative—in other words, they may not be mutually beneficial. Instead, they may create opportunities for these new foreign partners to plunder Africa's resources and leave the continent essentially underdeveloped.

There is no doubt that the increased interest in the continent by many countries presents African governments with a lot of opportunities, which could support and advance the continent's development goals, especially in respect to the effective transformation of Africa's economies. However, there are also many risks and challenges that come with these partnerships—in fact, if the challenges are not properly managed, the outcome could be exploitation and underdevelopment. As the new “scramble for Africa” continues to gather momentum, it is critically important that Africans rethink their relations—both with emerging and traditional partners—with a view to maximize the benefits from the partnerships and minimize the costs or negative aspects.

Why Is It Important?

Over the last decade, Africa's interactions with foreign actors—nations and businesses—have grown rapidly both in scope and complexity. Although it has become commonplace to refer to some of these interactions as involving new partners such as China and India, this is not strictly correct because these countries have been involved with Africa for many years. China, for example, has been involved with Africa for many decades, helping some colonies fight for independence and participating in the construction of infrastructure in newly independent countries, such as the transboundary infrastructure project called the Tazara Railway, which extends from Tanzania to Zambia. In addition, Russia, whose predecessor the Soviet Union was heavily involved with various African countries during the Cold War, continues to provide many countries on the continent with military aid as well as help educate their citizens at its universities. Nevertheless, the scale and scope of engagement between Russia and African countries have changed significantly since the heyday of the Cold War.

Although Africa generally receives a very low share of global foreign direct investment (FDI) flows, there has been a marked increase in FDI flows from emerging economies during the last few decades. For example, Brazil, Russia, China and India have in recent years significantly increased their investments in Africa, effectively joining the ranks of top investing countries in the continent. Similarly, many other developing countries have also increased their investments in Africa, indicating the growing importance of the continent to the global economy.

Although there has been a fair amount of diversification of FDI flows to different sectors of African economies, extractive industries remain the most important destination for investments from both traditional and emerging partners. Recent discoveries of natural resources, especially oil and natural gas, have been catalysts for increasing FDI flows. For example, both Chinese and Indian firms have expressed interest in investing in the natural gas block off of the Mozambique coastline. Although Chinese investments in the exploitation of natural resources can be found in practically all African countries, there is significant concentration in South Africa followed by Sudan, Nigeria, Zambia and Algeria. Russian companies, whose FDI to Africa topped \$1

billion in 2011, have operations in aluminum extraction in Angola, Guinea, Nigeria and South Africa. Traditional partners such as the United States, Britain and France have also increased their investments in the continent's natural resource sector (UNCTAD 2013).

There has also been an increased interest in recent years from non-traditional partners in land-for-agriculture. According to the Land Matrix Project data, India and China are among the top 10 countries investing in the agricultural sectors of many African countries and companies from both countries have significant investments in biofuels, soy and timber production at various stages of completion (Anseeuw et al. 2013). For example, the Indian floriculture company, Karuturi, a major producer of cut roses, is now a significant investor in Ethiopia's agricultural sector. Karuturi's combined investments from 2007-2012 totaled 411,000 hectares of land for biofuel, palm oil and rice production (Rahamoto 2013). Although levels of production by Karuturi have not yet met the company's or Ethiopia's expectations due to severe flooding, the company has projected a tripling of food exports from Ethiopia by 2015 (Davison 2013).

The other indicator of growing commercial relationships between Africa and other countries is the volume of trade, which reflects at least in part the increase in commodity trade. Although Africa's share of global trade remains low, it has nevertheless been increasing. For example, the volume of trade between India and Africa has been growing: 32.2 percent per year for African exports to India and 23.6 percent per year for Indian exports to Africa (WTO 2013). China's value of total African trade was \$8.9 billion in 2000 and reached an estimated \$220 billion in 2012 (Jones and Williams 2012; Yuanyuan 2012). According to U.S. COMTRADE data, mineral fuels make up the majority of Africa's exports to Brazil, China and India—85 percent, 80 percent and 70 percent respectively of imports from Africa (WTO 2013).

The increased interest in Africa by investors—both new and old—represents a great opportunity for African countries to solidify the growth experienced in recent years and to invest in the transformation of their economies. However, there are many concerns about the new interest in Africa by countries such as China, Brazil, India and others. One of the most important of these concerns is the view that many of the contracts to exploit natural resources agreed upon between Af-

rican countries and these new investors are not entered into openly and transparently. In addition, there is fear that some of these new development partners are engaging in practices that are degrading Africa's environment and its fragile ecosystems. There are also concerns that investment in agriculture involving what are referred to as "land grabs" poses a serious threat to Africa's precarious food security situation. Other criticisms have been directed at the failure of some investing countries to create jobs for local labor. In fact, many of these countries bring their own workers to their African projects, effectively minimizing their use of domestic labor resources. Finally, some of these investments, especially those made in the exploitation of natural resources, are seen as not contributing to a positive transformation of African economies.

During U.S. President Barack Obama's 2013 trip to Senegal, South Africa and Tanzania, the president on various occasions raised concerns over Africa's engagement with some foreign states. Without mentioning any specific countries, President Obama warned of nations that have now increased their interest in Africa but whose main interest is the exploitation of the continent's natural resources and not the development of its economies. He also observed that some of those partners brought their own labor resources for projects that they were undertaking on the continent instead of supporting and enhancing job creation for Africans. The U.S. president's statement echoed similar sentiments by former U.S. Secretary of State Hillary Clinton who warned of "a creeping new colonialism in Africa from foreign investors and governments only interested in extracting natural resources to enrich themselves" (Lee 2011). Secretary Clinton also suggested that some of these new development partners were undermining governance in Africa.

The statements by both President Obama and Secretary Clinton reflect the United States' growing unease with Africa's new partners. To some, the views could reflect concern on the part of U.S. officials about the increasing dominance of China and other countries in Africa. However, concerns about these new partnerships are not limited to officials in the United States or other developed countries. Earlier in 2013, the governor of the Central Bank of Nigeria, Lamido Sanusi, wrote a scathing article in the *Financial Times* (March 11, 2013) that criticized China's operations in Africa as unbalanced and largely benefiting China.

What Should Be Done in 2014

The concerns about the potential negatives of Africa's engagement with external actors—traditional and nontraditional—are real and demand clear strategies to confront them. The starting point is for policymakers on the African continent to appreciate and understand the fact that any country or business seeking to engage in commercial activities or transactions is first and foremost doing so to maximize some well-defined objective—businesses seek to maximize profit and countries want to maximize national development. Rarely will a business enterprise's motives of engagement be to develop the countries in which they operate—economic development is a task that is reserved almost exclusively for national governments. Thus, it is incumbent upon African policymakers and members of civil society to ensure that any engagement with external actors yields maximum possible benefits to the citizens of their countries. As the interest of various external actors in Africa continues to increase, a number of actions should be at the top of the list of critical development issues that Africa needs to tackle in 2014 if it is to benefit from these partnerships.

The first action required of African governments is to take a more proactive stance in negotiations with all partners. Natural resource contracts and lease agreements that are not entered into transparently remain the most serious source of losses of Africa's wealth. The beneficiaries of these opaque transactions are foreign investors and a few corrupt African political and bureaucratic elites charged with negotiating and concluding these contracts. There is no evidence to support the proposition that non-transparency in natural resource exploitation is more prevalent with non-traditional as compared to traditional partners. Hence, there is need to review all new agreements very carefully—and probably renegotiate old ones—in order to make sure that their provisions do not contravene national laws (as well as international conventions, especially those dealing with human rights, environmental protection and the rights of indigenous groups). In addition, there is need for all countries to sign on to the Extractive Industries Transparency Initiative (EITI) and also for all firms engaged in the extractive sectors to "publish what they pay." Performing the latter could help significantly in the fight against bureaucratic corruption, as well as make certain that each African country maximizes royalties from the exploitation of its natural resources.

es. It is important to emphasize that the task of ensuring transparency in natural resource contracting cannot be left to governments alone. Civil society must take an active part in making certain that the negotiations leading to the signing of natural resource contracts are open and transparent, and undertaken through a participatory process. The African Union should also scale up its involvement to ensure that all member countries abide by generally acceptable standards of transparency.

Second, adequately constraining the behavior of external actors—whether in terms of the extent to which they import labor from their home countries or how well they treat the physical environments in which they operate—must be the responsibility of Africans themselves. Again, external actors will tend to have little regard for the well-being of citizens of the African countries in which they operate unless the host governments have established clear operational frameworks and are willing and able to enforce various codes of conduct.

Third, African policymakers must also have a clear vision about development and provide strategies for economic transformation that can be used to guide the pattern of investments. For many countries in Africa, external actors are driving and defining investment agendas, which often do not align with national economic transformation strategies. In particular, natural resource exploitation has been undertaken with little regard to value addition. With the discoveries of more natural resources, such as oil and gas, it is critically important that Africans prioritize not just investments to extract their resources but also ways to add value to those natural resources—for example, through the establishment of petrochemical and fertilizer industries.

Finally, while Africans must seek to transform their agricultural sectors and encourage foreign investors to participate in this endeavor, the recent trend toward leasing out large tracts of land to foreign investors, most of which have little or no linkages with local economies, does not augur well for robust economic growth and development in African countries. African policymakers must redirect national policies toward more openness and transparency, especially in the natural resources sectors, as well as significantly improve their regulatory frameworks so that they can effectively minimize activities that degrade the environment, reduce opportunities for job creation, and gener-

ally inhibit the type of economic growth that enhances poverty alleviation and human development.

References

- Anseeuw, W., Lay, J., Messerli, P., Giger, M., and Taylor, M. (2013). Creating a public tool to assess and promote transparency in global land deals: the experience of the Land Matrix. *Journal of Peasant Studies*, 40(3), 521-530.
- Davison, W. (2013). Ethiopia's farm investment plans falter on flood plain. *Bloomberg*. <http://www.bloomberg.com/news/2013-11-24/ethiopian-drive-to-lure-farm-investment-founders-on-flood-plain.html>.
- Jones, V. and Williams, C. (2012). U.S. Trade and investment relations with sub-Saharan Africa and the African Growth and Opportunity Act. Congressional Research Service Report RL31772
- Land Data Matrix. (2013). Global map of investments. Accessed November 26, 2013. <http://www.landmatrix.org/>.
- Lee, M. (2011, June 11). Clinton warns Africa of 'new colonialism'. *Seattle Times*. http://seattletimes.com/html/nationworld/2015290680_apafclinton.html
- Sanusi, L. (2013, March 11). Africa must get real about Chinese ties. *Financial Times*. <http://www.ft.com/intl/cms/s/0/562692b0-898c-11e2-ad3f-00144feabdc0.html#axzz2nOH6QD9G>
- Rahamato, D. (2013) Agricultural development and food security in Africa: The impact of Chinese, Indian, and Brazilian investments. (Cheru, F. and Modi, R. Eds.) Zed Books: London
- UNCTAD. (March 25, 2013). The rise of BRICS FDI and Africa. UNCTAD Global Investment Trends Monitor.
- WTO. (2013). India Africa: South-South trade and investment for development.
- Yuanyuan, H. (October 13, 2012). African trade to surpass EU, US. *China Daily*. http://usa.chinadaily.com.cn/business/2012-10/13/content_15814767.htm

THREE MYTHS ABOUT AFRICAN INDUSTRY

John Page, Senior Fellow, Africa Growth Initiative

The Priority

In January 2008, the African Union Summit focused on industry. Declaring that “no country or region in the world has achieved prosperity and a decent socio-economic life for its citizens without the development of a robust industrial sector” (AU, 2008), African Union heads of state adopted the Action Plan for the Accelerated Industrial Development of Africa (AIDA). To monitor implementation of the plan, regional high-level panels on industrial development—representing heads of state and governments—were established and required to report to the AU Summit every two years.

January 2014 will mark the third time that these panels have reported back. There will not be much to report. In 2010, Africa’s average share of manufacturing value added in GDP was 10 percent, unchanged from the 1970s. The share of medium and high technology goods in manufacturing production is low and has been falling since the mid-1990s. Per capita manufactured exports are less than 10 percent of the developing country average. Primary commodities and natural resources still account for

the bulk of the region’s exports as they have since independence. Africa’s industrial transformation has yet to take place.

At about the same time that the AU heads of state were drafting their action plan, the African Development Bank, Brookings Institution and United Nations University—World Institute for Development Economics Research embarked on a joint research project, *Learning to Compete*, aimed at understanding why there is so little industry in Africa. The results of that research, mainly the work of African scholars, are now becoming available.¹ As the AU meets to consider progress under the AIDA, it may want to reexamine three myths about industrialization in Africa that *Learning to Compete* has found have little basis in fact.

Why Is It Important?

These myths are not merely of academic interest. They have guided the policies of Africa’s governments and their bilateral and multilateral development partners for more than a decade. If in the words of the AIDA declaration it is

¹ Since 2008 the research department of the World Bank has undertaken a series of comparative studies of “Light Manufacturing in Africa” and the International Growth Centre has sponsored an “Enterprise Mapping” project in five African countries. The results of this work are also now becoming available.

ever to be “Africa’s turn” to industrialize, policymakers and development partners will need to abandon these comfortable but misleading fables and adopt new strategies for industrial development.

Myth one: African firms are “uncompetitive”

One widely held myth is that, despite very low real wages, productivity in African firms is so low that unit labor costs exceed those of competitors in the global market for low-end manufactures. Because technology in low-end manufacturing is globally available, this claim is much the same as saying that African firms are poorly managed and African workers are unskilled and unmotivated. Not true. Plant-level analysis—much of it conducted by the World Bank—shows that while manufacturing value added per worker in many light manufacturing activities in sub-Saharan Africa is lower than in competing countries, unit labor costs are largely the same. Africa can compete on the shop floor.

Myth two: Deregulation is the “magic bullet”

But, if African firms are productive enough to exploit the region’s low-wage advantage, why hasn’t labor intensive manufacturing moved to Africa? The easy answer—excessive regulation holds industry back—is a second myth. As this myth, largely driven by the World Bank’s *Doing Business* publicity machine, goes, if only stroke-of-the-pen reforms such as reducing the time and cost of opening a business were pursued with vigor, Africa’s economies would be transformed. Also not true.² More careful research highlights problems with power and trade logistics as accounting for much of the difference in competitiveness between Africa and other parts of the developing world. Moreover, the new industrializers in Southeast Asia and Central America score as badly on the *Doing Business* surveys as many African economies (Page 2012).

Myth three: Small firms are Africa’s “job creators”

Small and medium enterprises (SMEs) are big business for donors in Africa. Why? The myth is that they are “job creators.” The European Union tells us: “For developing countries, the expansion of ... SMEs is a *powerful engine of economic growth and the main source of job creation* [emphasis in original],” (EU 2012). This myth is not

just heard in low-income countries; it regularly appears in the political discourse in the OECD. Recent research suggests that it is untrue in advanced economies (Haltiwanger, Jarvin and Miranda 2010), and work done under *Learning to Compete* finds it equally untrue in Africa. Not surprisingly, growing firms are the “job creators.” In Africa, although small firms employ a larger share of workers than large firms, they also fail at a much higher rate. When we take into account the significantly lower survival rates of small firms, expected job growth for large and small firms is essentially the same (Page and Soderbom 2012).

What Should Be Done in 2014

It is unlikely that the AU heads of state will be pleased with progress under the AIDA. Perhaps then 2014 is the year to start doing something serious about African industrialization. A good start would be to recognize that:

- African enterprises have the potential to succeed in the global market for manufactures, but they are often constrained by the institutional and physical environment within which they must operate. Governments and donors need to recognize that business people are much better than policymakers at identifying opportunities and constraints. Rather than grasping at easy answers, close coordination between the public and private sectors will be needed to make effective public policy.
- Too much effort has been expended on achieving easily measured but low-impact regulatory reforms and too little on relieving an important physical constraint to industrial growth: lack of infrastructure. *Learning to Compete* consistently finds expensive and unreliable power and transport limit the growth of firms. The international community needs to step up and help close Africa’s infrastructure gap.
- As Africa becomes increasingly successful at industrialization, lack of skills will become a constraint. Given the long lag between educational reforms and outputs, new thinking about how to educate Africa’s young people for global competitiveness needs to be

² For a surprisingly balanced and self-critical evaluation of *Doing Business*, see World Bank (2008).

embodied in the post-2015 development goals. An obvious start is improving educational quality.

- It is time to rethink support to small and medium enterprises. Public policy should target those firms that are successful at creating “good” jobs. These are growing firms. Thus, policies and programs that reduce constraints to the growth of *all* firms, regardless of size, must be developed.

Africa can industrialize, but it will not succeed until both governments and donors reject the myths and confront the realities.

References

- African Union. (2008). Strategy for the implementation of the Plan of Action for the Accelerated Industrial Development of Africa Addis Ababa, Ethiopia: AU.
- European Union. (2012). Accountability Report 2012: Review of Progress of the EU and its Member States Financing for Development Brussels: EU.
- Haltiwanger, John C., Jarmin, R. and Miranda, J. (2010). “Who Creates Jobs? Small vs. Large vs. Young” NBER Working Paper No. 16300 Cambridge, MA: NBER.
- Page, J. (2012) “Aid, the Private Sector and Structural Transformation in Africa”. UNU-WIDER Working Paper, 2012/21 Helsinki: UNU-WIDER.
- Page, J. and Söderbom, M. (2012). Is Small Beautiful? Small Enterprise, Aid and Employment in Africa UNU-WIDER Working Paper, 2012/94 Helsinki: UNU-WIDER.
- World Bank. (2008). Doing Business: An Independent Evaluation Washington, DC: Independent Evaluation Group, World Bank.

BROOKINGS

1775 Massachusetts Avenue, NW
Washington, DC 20036
202.797.6000
www.brookings.edu/africagrowth