REASSESSING AFRICA'S GLOBAL PARTNERSHIPS:

Approaches for engaging the new world order

CHAPTER 6

China and Africa:

Crouching lion, retreating dragon?

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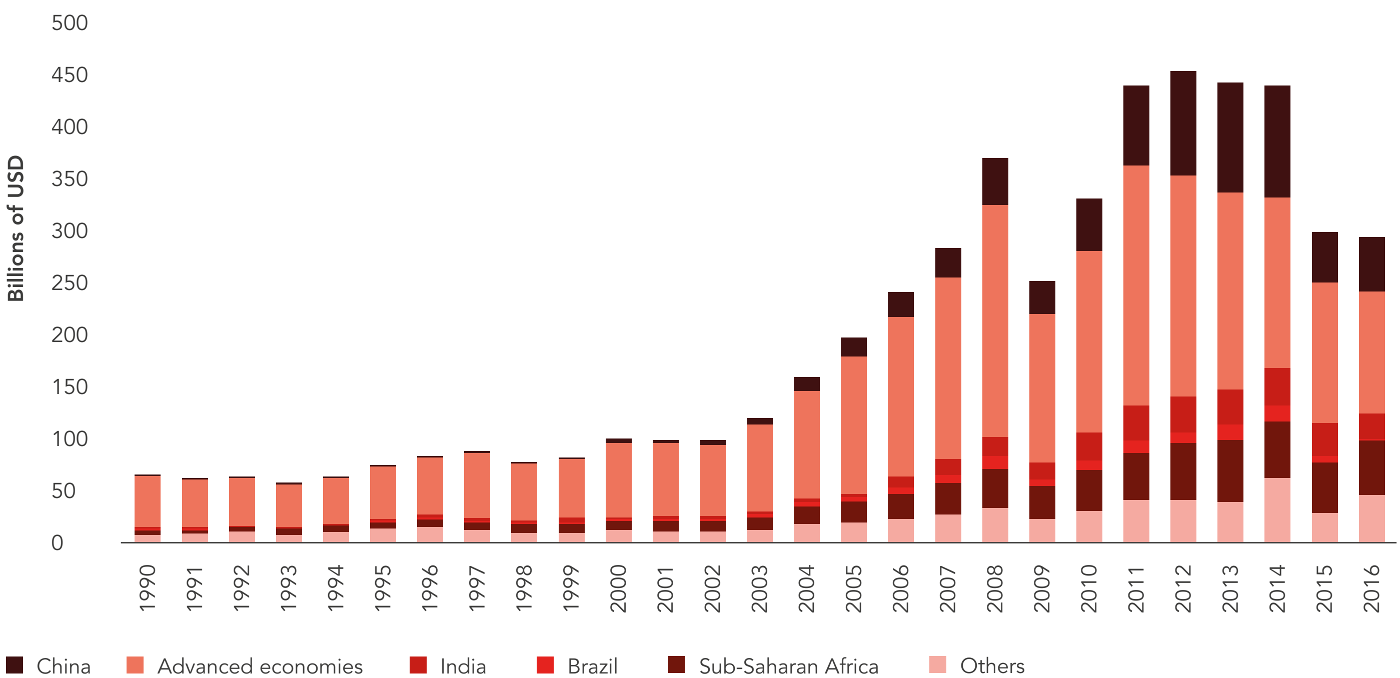
China has become, by far, the largest source of bilateral loans, accounting for about 14 percent of stock of total debt contracted by sub-Saharan African countries, excluding South Africa.

Africa has forged close economic ties with China over the past 20 years. There are two main channels of economic engagement between Africa and China. The main channel, by far, has been through trade, having risen more than 40-fold over the period. Most sub-Saharan African exports to China are fuels, metals, or mineral products. On the other hand, imports from China to sub-Saharan African countries comprise mostly manufactured goods, followed by machinery. The second main channel of engagement between Africa and China is through Chinese lending. China has become, by far, the largest source of bilateral loans, accounting for about 14 percent of stock of total debt contracted by sub-Saharan African countries, excluding South Africa. Contrary to popular perception, Chinese foreign direct investment (FDI) in Africa remains small—accounting for only a little over 5 percent of the total FDI flow in 2015.

FIGURE 6.1. SUB-SAHARAN AFRICA: TOTAL EXPORTS BY PARTNER

Sub-Saharan Africa's exports to China have grown significantly since the mid-2000s, but in recent years has tapered off, largely due to China's turn toward domestic consumption and away from commodity importing.



Source: IMF, Direction of Trade Statistics.

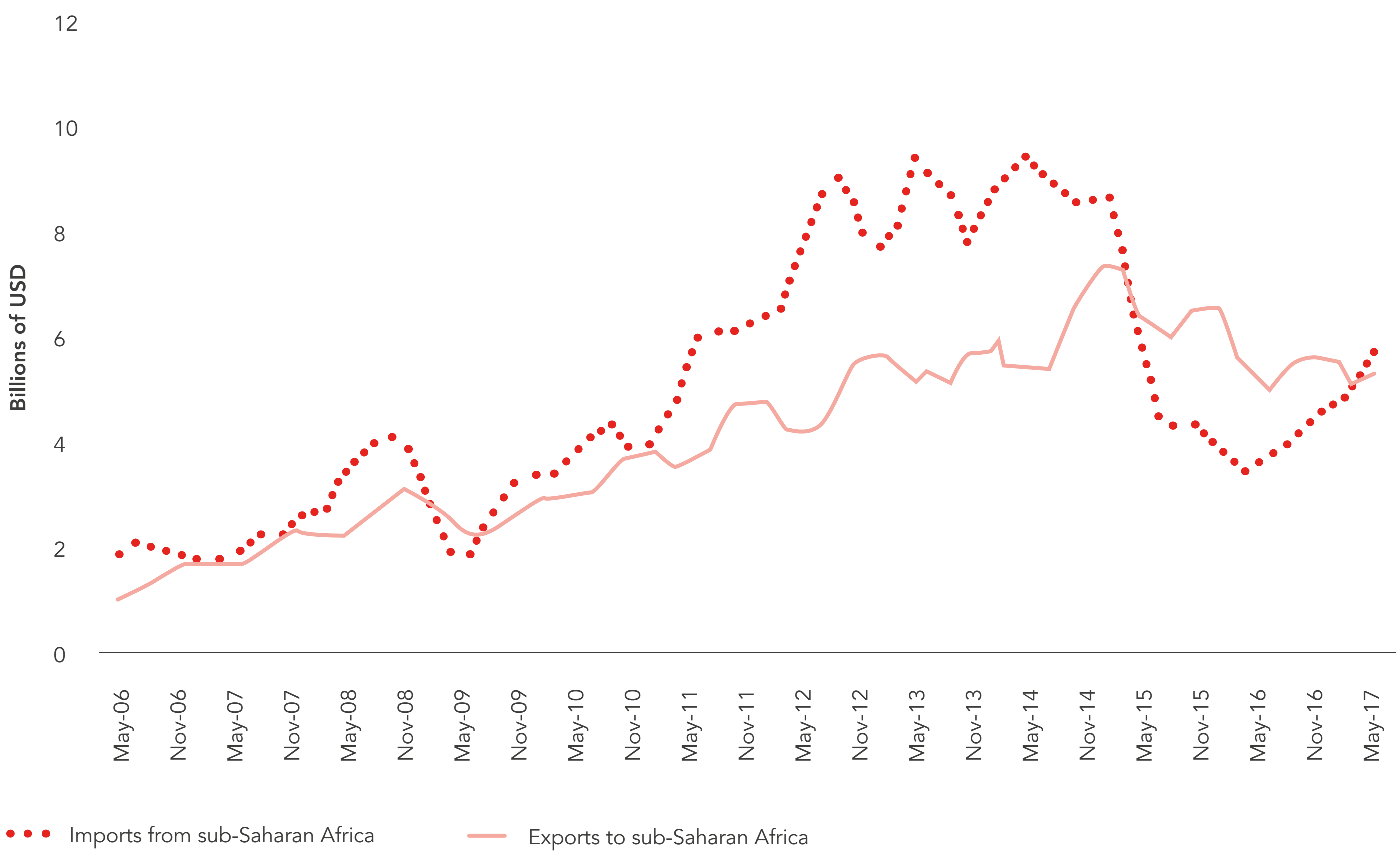
This rapid growth in trade and project financing has served both Africa and China well. For Africa, trade has boosted economic development in many countries, and the financing of infrastructure projects, for which little concessional financing is available, has helped address crucial bottlenecks to industrial development and structural transformation. For China, while trade with Africa remains a small part of its total foreign trade, many of its project loans are tied to Chinese suppliers, and, as a result, about a quarter of all Chinese engineering contracts worldwide by 2013 on a stock basis went to sub-Saharan Africa, with most of these contracts being awarded in energy (hydropower) and transport (roads, railways, ports, or aviation).

Africa's almost decade-old trade surplus with China has now turned into a trade deficit as lower growth in Africa curbs import demand.

Nevertheless, these synergies are coming under severe strain. On the trade side, China's growth is rebalancing away from investment toward relying increasingly on domestic consumption. The resulting drop in China's imports of commodities has hit Africa's commodity exporters hard, especially the oil producers, through sharp declines in both the volume and prices of major commodities (Chen and Nord, 2017). Africa's almost decade-old trade surplus with China has now turned into a trade deficit as lower growth in Africa curbs import demand (IMF, 2017).

FIGURE 6.2. CHINA'S TRADE WITH SUB-SAHARAN AFRICA, MAY 2006-2017

China has recently reduced its aggregate commodity imports, as reflected by the total decline in imports.



Source: IMF, Direction of Trade Statistics.

VIEWPOINT

Africa's partnership with the G-20: Compact with Africa in 2018

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Germany's presidency of the G-20 in 2017 introduced a new initiative for supporting African countries' development: the G-20 Compact with Africa.[1] The compact brings together interested African countries with the World Bank Group, the International Monetary Fund, the African Development Bank, and other multilateral and bilateral partners to develop and support policies and actions that are essential for attracting private investment. To date, 10 countries have signed up for the initiative and outlined their aspirations and reform programs under a framework[2] adopted by the G-20 finance ministers in March 2017.

The compact differs from past initiatives by focusing explicitly on facilitating private investment. Rather than relying on public aid flows, it seeks to create a new dynamic under which African governments work with their partners to target reforms that are essential for attracting private domestic and foreign investment. The compact reflects the reality that public resources are scarce, and only private sector-led growth can meet the aspirations of the continent and its young population for enough well-paying jobs.

The year 2018 will be a critical period during which to make the compact a success. The initial country reform proposals have been encouraging and have galvanized new and additional technical and implementation support from development partners. However, for the Compact countries to meet their objectives, they need to move from processes that are mainly centered on government and traditional donor groups to a deeper dialogue and more dynamic interaction with the private sector. Partner countries, notably G-20 governments, can facilitate this process if they nudge and incentivize their own private sectors to take a closer interest in the opportunities offered by African economies.

What would an eventual success of the Compact with Africa look like? Here are four ingredients:

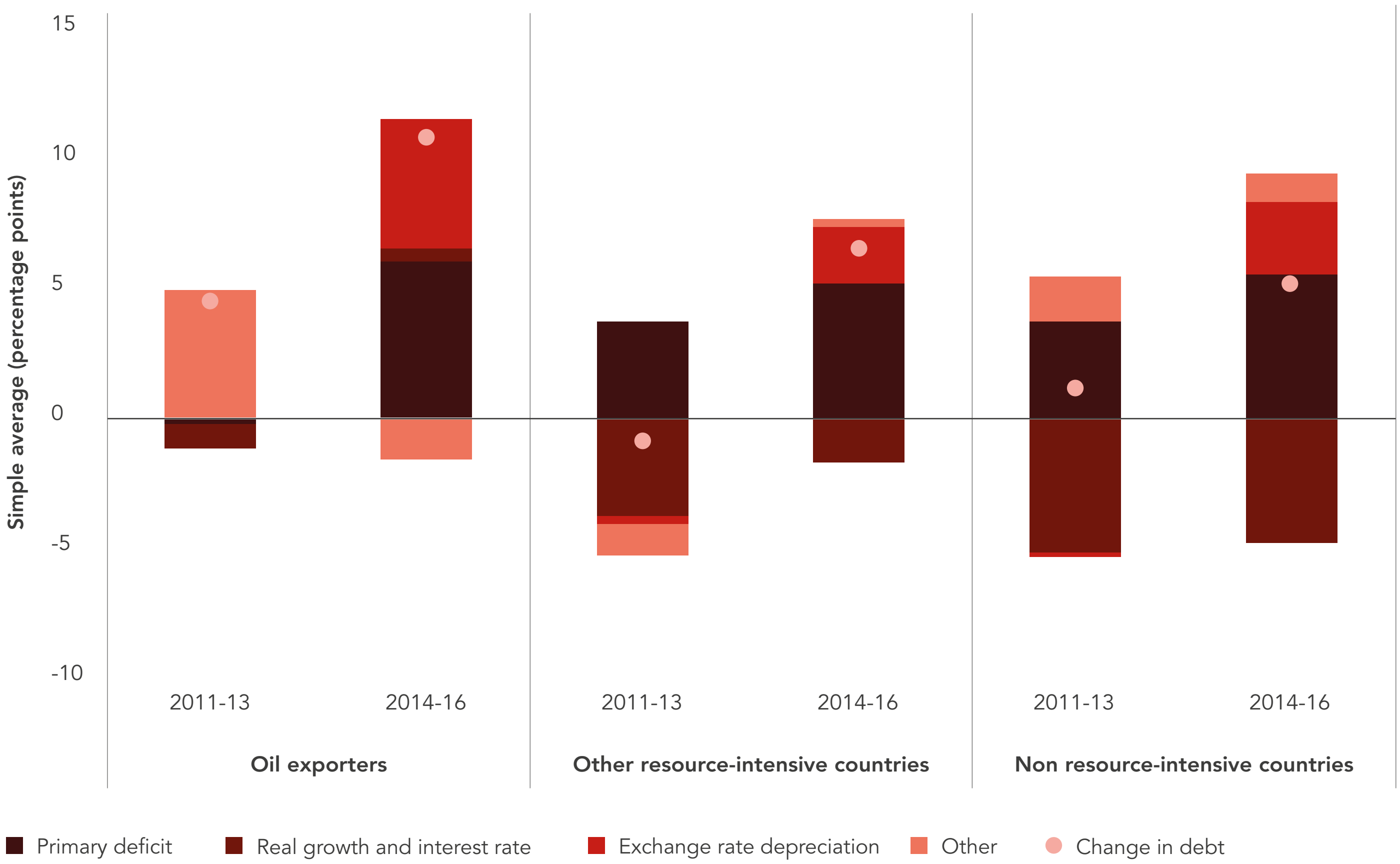
- Compact countries continue to pursue sound macroeconomic policies and invest in state capacity and good governance.
- Countries and their partners invest in deeper diagnostics of private sector constraints including through a systematic, sustained, and open dialogue with domestic and foreign private actors to pinpoint additional reforms that further reduce country risks and remove specific sector bottlenecks.
- G-20 governments encourage close engagement of G-20 private sector actors with Compact countries to help transform risk perceptions and identify new investment opportunities.
- International financial institutions, such as the International Finance Corporation, and other development finance institutions support new investments with their instruments where risks remain too elevated.

The G-20 Compact with Africa supports a new dynamic focused on the private sector. It relies on close interaction of the public and private sectors to open space for private investment. African governments have a unique opportunity in 2018 to leverage the G-20 initiative and build a better future for all Africans.

1. For more information, visit https://www.compactwithafrica.org/content/compactwithafrica/home.html.
2. African Development Bank, International Monetary Fund, The World Bank Group (2017). The G20 Compact with Africa. G-20 Finance Ministers and Central Bank Governors Meeting March 17-18, 2017 Baden-Baden, Germany. Available at https://www.compactwithafrica.org/content/dam/Compact%20with%20Africa/2017-03-30-g20-compact-with-africa-report.pdf.
3. For more information, visit https://www.compactwithafrica.org/content/dam/Compact%20with%20Africa/cwa_report_oct_2017/CwA_ReportMinisters_Final_20171012.pdf.

FIGURE 6.3. PUBLIC SECTOR DEBT ACCUMULATION IN SUB-SAHARAN AFRICA, 2010-2016

Rising debt levels in the region are likely to reduce demand for Chinese project financing.



Source: IMF, Debt Sustainability Analysis database and IMF staff calculations.

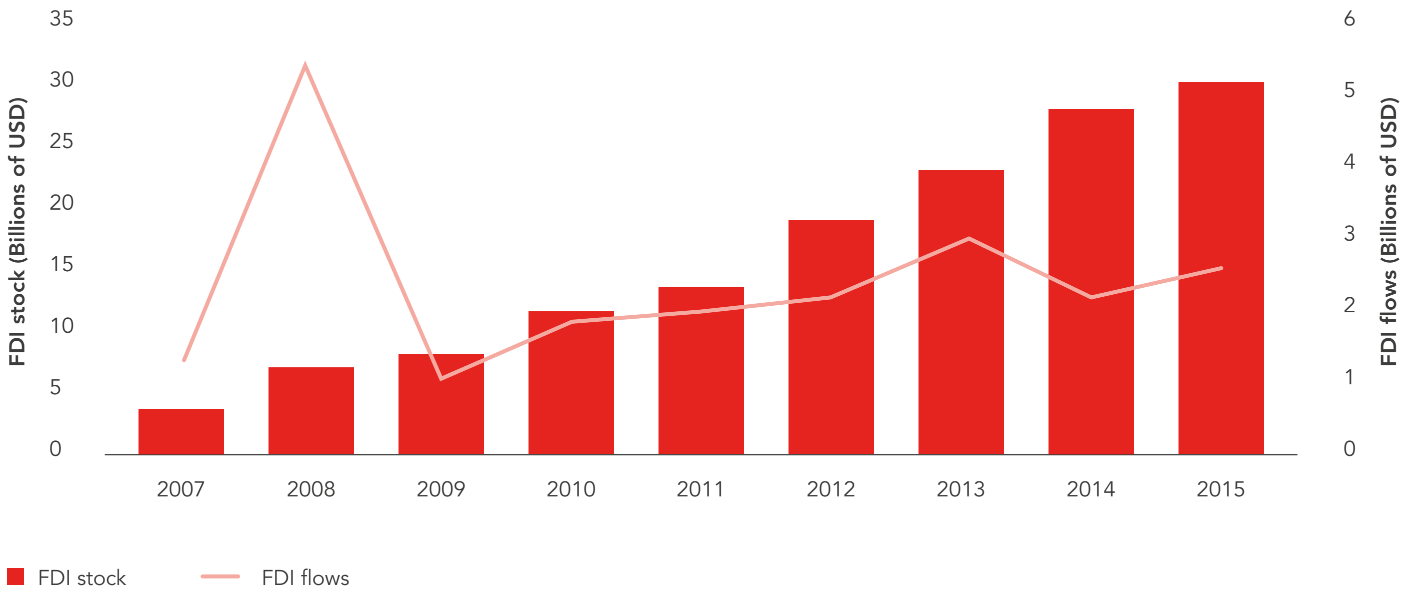
Public debt in the median sub-Saharan African country rose from 34 percent of GDP in 2013 to an estimated 53 percent in 2017, and debt service as a share of revenue has doubled.

Additionally, borrowing space in African countries is shrinking rapidly. Despite the availability of financing, such as under China's One Belt One Road Initiative, the sharp slowdown in growth in commodity exporters is reducing the demand and the feasibility of large infrastructure projects in those countries. Some are already facing difficulty servicing existing loans. Moreover, while growth is holding up in many non-commodity exporters, rising debt levels are likely to curb Chinese appetite for future project financing. Indeed, public debt in the median sub-Saharan African country rose from 34 percent of GDP in 2013 to an estimated 53 percent in 2017, and debt service as a share of revenue has doubled. In some oil-producing countries such as Angola, Gabon, and Nigeria, debt service amounts to more than 60 percent of government revenues. So, with trade and project financing under pressure, can FDI pick up the slack?

Based on official data from China's Ministry of Commerce, FDI flows from China to Africa peaked in 2008 and 2013 and have slowed down markedly since then. Notably, this decline in Chinese FDI to Africa is occurring despite a surge in Chinese outward capital flow, especially by Chinese corporations, signaling investors' continued appetite for investments and high returns outside China. Of course, this trend is only indicative of the short term.

FIGURE 6.4. CHINESE FDI TO SUB-SAHARAN AFRICA, 2007-2015

After peaks in 2008 and 2013, Chinese FDI to Africa has slowed in recent years.



Source: Chinese Ministry of Commerce.

In the longer term, whether and how much Chinese FDI flows to Africa will depend on how African countries, especially those reliant on commodities, weather this period of low growth and fiscal pressures. The non-commodity-dependent frontier economies in East Africa, for example, could be very attractive new growth markets in the medium term. In fact, this area might be particularly attractive to Chinese FDI that extends well beyond the natural resource sector (Chen, Dollar, and Tang, 2016). As China continues to move up to higher-value-added supply chains, wages move up, and its population ages, sub-Saharan Africa has a unique chance to step into this space. However, the structural transformation needed to achieve that will require investment, notably in infrastructure, just as the official borrowing space is shrinking. That will put a premium on careful project selection to ensure maximum impact. It will also require looking beyond debt-financed investment. Attracting more FDI is one option. The other, inevitably, is building stronger domestic revenue bases so that Africa becomes less dependent on foreign sources of capital.

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China's engagement in Africa: What can we learn in 2018 from the $60 billion commitment?

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Since 2000, six FOCAC (Forum on China-Africa Cooperation) summits have been held at three-year intervals, with the next one scheduled for 2018 in Beijing if the tradition is to continue. FOCAC has been the primary institutional platform and mechanism for the economic cooperation between China and African states. Perhaps as a part of President Xi Jinping's prestige diplomacy, the level of commitment China made at the 2015 summit in Johannesburg was surprisingly high: The $60 billion funding promised tripled the previous $20 billion commitment made during the 2012 FOCAC Summit.

These funds are expected to help address the bottleneck in Africa's economic and social development. In 2015 Xi announced 10 comprehensive and ambitious plans covering industrialization, agricultural modernization, trade and investment, and public health, among others. The implementation of the Chinese commitments in the past two years is indicative of the priority and pace of China's engagement in Africa in 2018 if China is to complete them before the next FOCAC Summit.

Three priority areas of China's 2015 FOCAC commitment: industrialization, agricultural modernization, and infrastructure.

China has been ambitious in engaging Africa. In 2018, China will keep promoting the development of industrial parks and attracting investors for them as its feature programs for African industrialization. China has also emphasized industrial partnering and industrial capacity cooperation in Africa—committing to facilitate Chinese private investment, provide technical assistance, and train at least 200,000 local workers.[2] Already, in Ethiopia, China completed the $250 million Hawassa Industrial Park in nine months between 2015 and 2016.[3] According to Chinese officials, the park has attracted 15 leading textile and garment companies and six are already exporting to the international market.[4] The China Civil Engineering Construction Company (CCECC) is building three other industrial parks in the country, also financed by Chinese loans and investment.[5] In Kenya, China's Guangdong New

1. The $60 billion includes $5 billion for grants, $35 billion for concessional loans and export credits, $5 billion each for the China-Africa Development Fund and the Special Loan for the Development of African Small- and Mid-Sized Enterprises, and $10 billion for a China-Africa Industrial Capacity Cooperation Fund.
2. Interpretation on the Ten Cooperation Plans from the FOCAC Johannesburg Summit and Ministerial Meeting," [中非合作论坛约翰内斯堡峰会暨第六届部长级会议'十大合作计划'经贸领域内容解读], December 12, 2015, Chinese Ministry of Commerce, http://www.mofcom.gov.cn/article/ae/ai/2REPORT ON CROP AND LIVESTOCK PRODUCT UTILIZATION01512/20151201208518.shtml.
3. "Hasawwa Industrial Park Attracts First-Tier Companies in the World," [阿瓦萨工业园吸引世界一流公司], June 27, 2017, Afrindex, http://news.afrindex.com/zixun/article9170.html.
4. "Hawassa industrial park model for Africa: Chinese Ambassador," July 19, 2016, Ethiopia Investment Commission, http://www.investethiopia.gov.et/information-center/news-and-events/344-hawassa-industrial-park-model-for-africa-chinese-ambassador; and Ibid.
5. "China Provides 260 M USD for Construction of Industrial Park in Adama,"May 19, 2017, Ethiopian News Agency, http://www.ena.gov.et/en/index.php/economy/item/3216-china-provides-260-m-usd-for-construction-of-industrial-park-in-adama.

South Group started the country's first private industrial park in Uasin Gishu in July 2017 at the cost of $2 billion.[6] This park will be an important component for Kenya's Zhujiang Special Economic Zone (SEZ), which is partially inspired by China's SEZ development model. In 2018, China will keep promoting the development of industrial parks to support Africa's industrialization.

One prominent feature of China's agricultural aid to Africa has been through agricultural technology demonstration centers, which integrate with local agricultural industries, but also aim to create solid footholds for Chinese companies in the new markets.

In terms of Sino-African agricultural modernization cooperation, China has targeted improving African agricultural capacity and productivity primarily through experience-sharing, technology transfer, encouraging Chinese agricultural investments in Africa, and setting up new exchange frameworks and programs to bring Chinese experts to these African countries.[7] One prominent feature of China's agricultural aid to Africa has been through agricultural technology demonstration centers, which integrate with local agricultural industries, but also aim to create solid footholds for Chinese companies in the new markets. As of 2017, 23 demonstration centers are operating across the continent.[8] In addition to demonstration centers,[9] just recently China agreed to give Zambia new concessional loans to improve its agricultural capacity as well as skills training and increased Chinese investment in the sector.[10] With South Africa, China signed new agricultural sector-related agreements that aimed at facilitating the exchange of experts and technology between the two countries. Similar agreements have surfaced with Nigeria as well. It is foreseeable that China will be pushing agricultural development as a key agenda item in 2018, and hopefully across the continent rather than on a few priority countries.

China's interest in infrastructure goes beyond an increase in trade and population flow via traffic, but also in improving civil aviation traffic capacity, power grids, telecommunication networks, and human resources training.[11] Importantly, China's 2015 commitment on infrastructure focuses on the cooperation in railway, highway, and port projects through a variety of financing methods. The successful May 2017 launch of the Chinese-built and financed Mombasa-Nairobi Standard Gauge Railway (the Madaraka Express) in Kenya will only be continued in years to come: If things proceed smoothly, the Mombasa-Nairobi line will eventually link Kenya, Tanzania, Uganda, Rwanda, Burundi, and even South Sudan and Ethiopia.

Looking into 2018, China's infrastructure interests will increasingly diversify into the field of power generation and transmission. Indeed, without electrical power, an industrialization plan will only remain a blueprint. Associated with the power shortage, China seems to echo some African countries' call for the development of renewable energy as the alternative source, which might be counter-intuitive given China's pragmatic and highly cost-conscious approach toward investment in Africa.

Do the numbers add up?

The most intriguing question in assessing China's fulfillment of the 2015 FOCAC commitment lies in the numbers: How much of the committed financing has been disbursed? The answer to that question will determine the level and pace of Chinese financing in 2018. Despite the impressive progress China has made on various fronts, the statistics from the Chinese side are vague and inconclusive. For example, according to *People's Daily*, 243 cooperation agreements were signed between December 2015 and July 2016, with a total amount of $50.7 billion, including $46 billion for direct investments and commercial loans by Chinese companies.[12] When interpreting the numbers, the Chinese vice foreign minister

6. "China firm to build Sh200bn industrial park in Uasin Gishu" Business Daily, http://www.businessdailyafrica.com/news/counties/China-firm-build-Sh200bn-industrial-Uasin-Gishu/4003142-4001688-nnn57w/index.html.
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10. Ibid.
11. Interpretation on the Ten Cooperation Plans from the FOCAC Johannesburg Summit and Ministerial Meeting," [中非合作论坛约翰内斯堡峰会暨第六届部长级会议'十大合作计划'经贸领域内容解读], December 12, 2015, Ministry of Commerce, http://www.mofcom.gov.cn/article/ae/ai/201512/20151201208518.shtml.
12. "Letting the Result of the Cooperation Benefit the 2.4 Billion People in China and Africa Faster and Better," [让合作成果更快更好惠及中非24亿人民], People's Daily, July 31, 2016, http://paper.people.com.cn/rmrb/html/2016-07/31/nw.D110000renmrb_20160731_1-03.htm.

did not explain what percentage of the $50.7 billion came from the $60 billion official commitment of financing from the Chinese government. Instead, the official explanation is that the $60 billion commitment by the Chinese government had achieved a multiplier effect by inspiring private capital and commercial financiers.[13] Positive as that sounds, it does not answer the question.

At the current rate, the China-Africa Industrial Capacity Cooperation Fund is unlikely to achieve the goal of $10 billion financing by the end of 2018.

Some statistics from China are less inspiring. The China-Africa Industrial Capacity Cooperation Fund, swiftly established after Xi's announcement in Johannesburg and with the $10 billion start-up capital from the Chinese government, started operations in January 2016.[14] However, after 18 months of formal operation, the fund only approved six projects with a total investment of $542 million, among which only four received disbursed investment of $248 million.[15] According to its officials, the fund prioritizes risk management and mid- to short-term equity investment over speed and volume of investment.[16] In particular, the fund cited the dropping investment in sub-Saharan Africa and the plummeting interests by Chinese companies due to the domestic economic slowdown as the key factors influencing the pace of the fund. At the current rate, the China-Africa Industrial Capacity Cooperation Fund is unlikely to achieve the goal of $10 billion financing by the end of 2018. China might play the word game by pointing out that the capital is indeed disbursed to the fund, yet that hardly counts as funding provided to Africa.

Statistics on the $35 billion committed concessional loans are even less readily available. In the FOCAC Johannesburg Achievements Implementation Coordinators Conference held in Beijing six month later, it was disclosed that the Chinese Export-Import Bank had approved $4.3 billion concessional loans to Africa after the 2015 FOCAC Summit.[17] At that rate, China should be able to meet the $35 billion threshold by the end of 2018.

One issue worth observing in 2018 is how China applies and accounts for the PPP model (public-private partnership) for new investment in infrastructure projects in Africa. Chinese players have taken note of various African governments' interests in the PPP model to meet the funding gap in infrastructure development. However, beyond pure observation, real participation by Chinese companies in such projects have yet to pick up speed. However, given the popularity of PPP for China's discussion of overseas investment, such as for the One Belt, One Road Initiative, it will be highly interesting whether China will experiment more with PPP in 2018.

Given the popularity of PPP for China's discussion of overseas investment, such as for the One Belt, One Road Initiative, it will be highly interesting whether China will experiment more with PPP in 2018.

2018 will be the last year for China to complete its Johannesburg commitments. China has been making steady progress in meeting its financing promises in areas such as industrialization, agricultural development, and infrastructure. Given its current pace, meeting most of the $60 billion financing commitment should be on track. However, China will have to make substantial progress under specific categories, such as the China-Africa Industrial Capacity Cooperation Fund in 2018, to meet its promise. New focuses, such as power generation/transmission and the PPP model will be interesting areas to observe in 2018 to identify the next steps of China's priority in Africa.

13. "$50 Billion Economic and Trade Agreements Signed between China and Africa in Six Months Does Not Indicate the Official Investment Is over," [中非半年签下500亿美元经贸协议并不等于官方投资告罄], Yicai, July 31, 2016, http://m.yicai.com/news/5053526.html.
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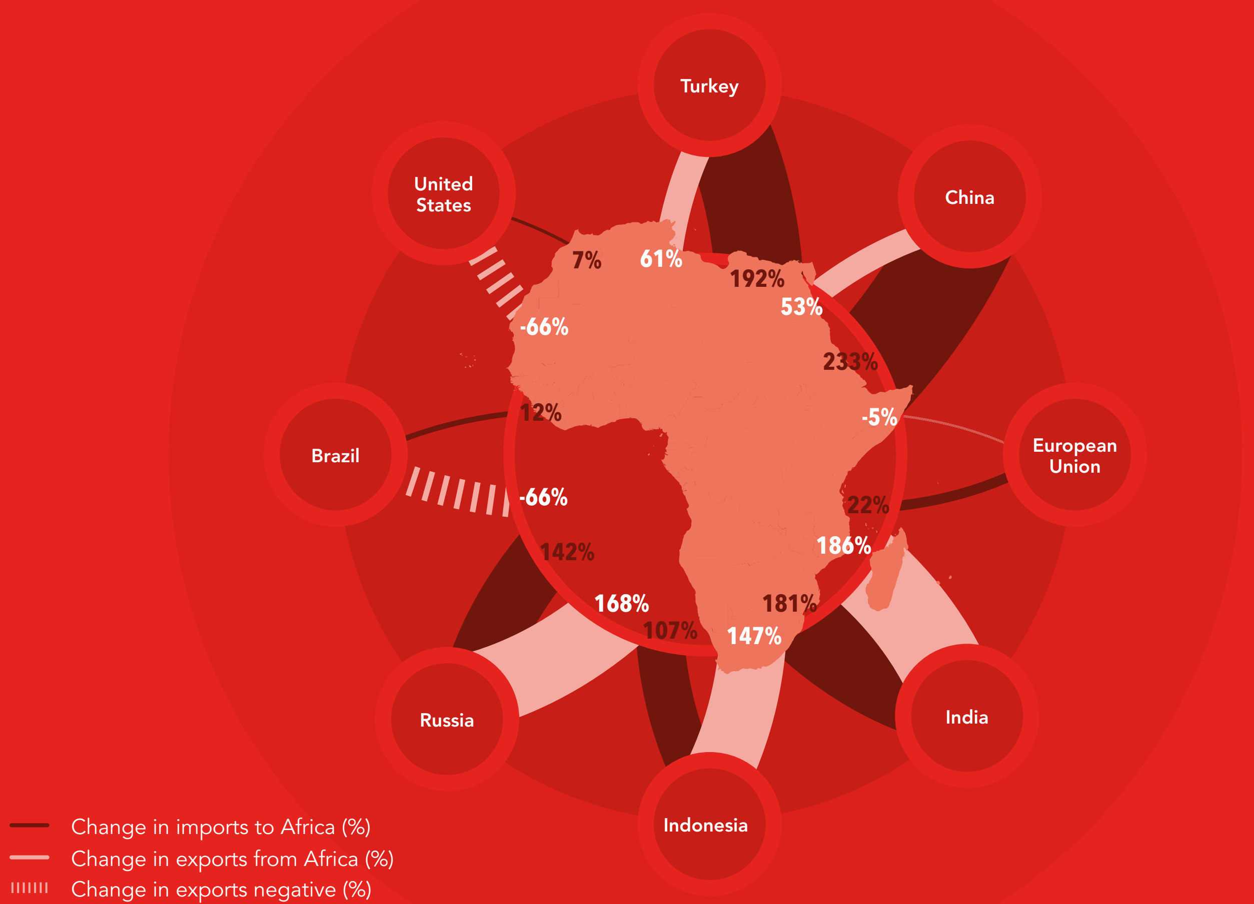
17. "40 Cooperation Agreements Signed between China and Africa Totaling $18 billion," [中非双方共签署40项合作协议 总金额约180亿美元], Jingjicankao, August 1, 2016, http://intl.ce.cn/sjjj/qy/201608/01/t20160801_14356597.shtml.

FIGURE 6.5

Africa's new trading partners

Over the last 10 years, sub-Saharan African trade has slowly trended away from developed countries and toward emerging economies. In fact, since 2006, the region's exports to the United States and the European Union have declined by 66 and 5 percent, respectively. For comparison, exports to India, Indonesia, and Russia have more than doubled, as did imports from these three countries and Turkey. While the share of total exports to traditional trading partners (the EU, U.S., and China) remain considerably higher than that of new partners, this progression paints a new picture for the future of African trade.



Countries	Change in imports (2006-2016)	Total value of imports (in millions of USD)	Share of total imports (%)	Change in exports (2006-2016)	Total value of exports (in millions of USD)	Share of total exports (%)
Brazil	12%	51,849	1.5	-66%	95,516	2.7
India	181%	156,632	4.6	186%	310,787	8.7
Indonesia	107%	30,825	0.9	147%	32,847	0.9
Russia	142%	19,675	0.6	168%	5,241	0.1
Turkey	192%	26,139	0.8	61%	10,023	0.3
China	233%	435,737	12.7	53%	459,206	12.9
European Union	22%	874,981	25.5	-5%	827,417	23.2
United States	7%	219,091	6.4	-66%	482,189	13.5
World	56%	3,432,539	100	18%	3,573,221	100

Source: IMF, Direction of Trade Statistics, 2017.

The U.S. and Africa in 2018

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There has generally been continuity in United States policy toward Africa over the last three administrations, and there is potential for that continuity to be sustained under the Trump administration. However, the lack of key appointments and a growing emphasis on security and counterterrorism so far define the Trump administration's approach to the continent. Key Africa policy positions—most notably the assistant secretary of state for African affairs—have yet to be filled by a Senate-confirmed appointee, and ambassadorships across the continent, including in pivotal countries such as South Africa, Tanzania, and the Democratic Republic of the Congo, remain unoccupied. These vacancies make designing and executing a comprehensive strategy for a diverse, fast-changing continent—a tall task at the best of times—virtually impossible.

A year into the Trump administration, which included two days of meetings in November with the chair of the African Union and 37 foreign ministers from the continent, the U.S. approach to the region is still unclear.

Developments in Africa will not wait for U.S. policy to catch-up, and 2018 promises to be an eventful year. Challenges concerning violence, extremism, governance, and human rights will persist, but at the same time the enormous opportunities in Africa, especially in trade and investment, will continue to expand. In past administrations, the United States has engaged Africa through an array of initiatives, such as the African Growth and Opportunity Act (AGOA), the Millennium Challenge Corporation, the President's Emergency Plan for AIDS Relief, Power Africa, the Young African Leaders Initiative, and the Security Governance Initiative. A year into the Trump administration, which included two days of meetings in November with the chair of the African Union and 37 foreign ministers from the continent, the U.S. approach to the region is still unclear.

Concerning peace and stability challenges, the civil war in South Sudan has displaced more than a third of the population of approximately 12 million. The United States has traditionally played a leadership role with South Sudan, but the Trump administration, in part through the closure of the office of special envoy of Sudan and South Sudan, has demonstrated that it does not embrace these historical obligations. In the Democratic Republic of the Congo, President Joseph Kabila's strategy of glissement—slow-rolling preparations for elections now scheduled for December 2018, in which he is barred from running due to term limits—threatens to throw the country and, possibly the region, into political chaos. No meaningful actions or pressures have been taken against the regime despite a visit by U.S. Ambassador to the United Nations Nikki Haley, the apparent leader of U.S. policy on these issues.

Violent extremism persists in several African countries with al-Shabaab in East Africa and Boko Haram in the Lake Chad basin. In addition, the multitude of extremist groups operating in the Sahel are likely to garner increasing U.S. attention in 2018 following the death of four American soldiers in Niger in October. The growing U.S. military footprint in Africa, highlighted by an estimated 6,000 troops in the region, the attack in Niger, and a stepped-up response to ISIS militants in northeastern Somalia could overshadow other priorities, such as good governance and human rights, especially given the many diplomatic vacancies and reduction in the State Department budget.

Nevertheless, advancing democratic governance should continue to be a top priority for the Trump administration. The greatest potential for democratic progress in 2018 may be found in Zimbabwe, where President Robert Mugabe was dramatically removed from office late in 2017. The United States will face policy decisions concerning how to engage new President Emmerson Mnangagwa (who is closely linked with human rights abuses over decades), whether to remove long-standing sanctions, and how to support elections scheduled for the summer of 2018. Even as Mugabe departs, some of Africa's long-serving leaders, including Ugandan President Yoweri Museveni (a U.S. ally in counterterrorism) and Burundian President Pierre Nkurunziza, are maneuvering to remain in office, which will test the United States' tolerance for leaders to remove term limits and rule indefinitely. In Kenya, another U.S. counterterrorism ally, the political uncertainties resulting from tumultuous 2017 elections may limit democratic and economic progress, and again will test the United States' foreign policy position on democratic governance.

Finally, trade and investment appears to be a second-tier priority for the Trump administration in Africa—even though last year U.S. direct investment in the region grew to $57.5 billion, the highest level ever, according to the State Department. In addition, United States Trade Representative Robert Lighthizer's showed leadership at the AGOA forum in Togo in August. The continuation of the Obama-era Presidential Advisory Committee on Doing Business in Africa housed in the Commerce Department is a positive signal. Commercial opportunities on the continent, especially in infrastructure, power, mobile banking, financial services, and consumer products, will continue to expand, but it remains to be seen whether the administration has the interest or personnel to take advantage of them. There are no indications that the administration plans to transition any time soon to a more reciprocal trade agreement following AGOA to support U.S. exports and investments in the face of the growing dominance throughout Africa of European and Chinese companies.

Commercial opportunities on the continent, especially in infrastructure, power, mobile banking, financial services, and consumer products, will continue to expand, but it remains to be seen whether the administration has the interest or personnel to take advantage of them.

VIEWPOINT

Banking on peace in Africa's conflict-affected African states

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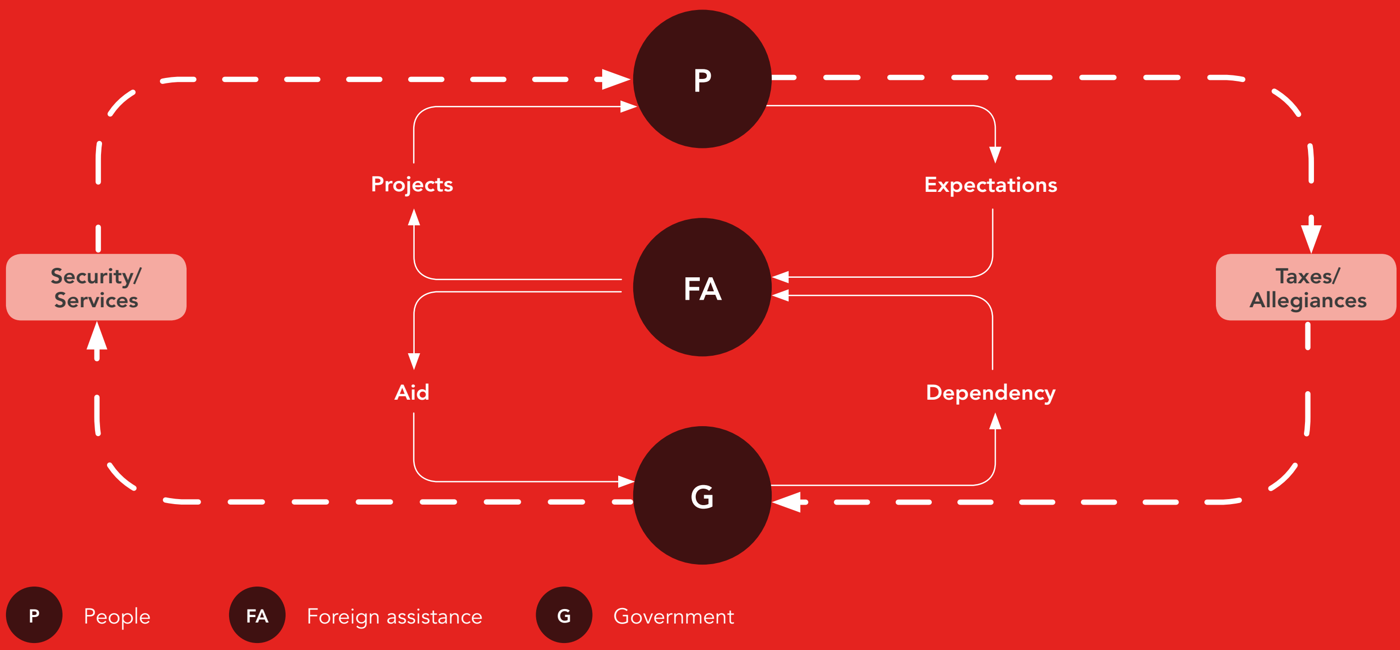
Impressive economic growth rates and increased democratization across Africa are occurring alongside persistent fragility. In some African countries, deep-seated governance challenges remain, low-intensity violent conflict persists, and political volatility threatens to undermine democratic gains. This is particularly true in countries that are currently affected by violent conflict. While violence might abate and peace deals get signed, the mammoth goal of stabilizing these countries, rebuilding communities, and ensuring that every African citizen feels secure continues to elude practitioners and policymakers.

Persistent low-intensity conflict undermines recent progress and amplifies existing challenges. Addressing endemic insecurity in Africa's conflict-affected states requires a lot more than peace accords and peacekeeping troops. Repairing the broken contract between those in government and the governed is crucial, though often neglected. Economic revitalization programs, an important part of reform and recovery, are often led and financed by foreign assistance. Unfortunately, "side effects" of these programs are aid-dependency, elite capture, a protracted war economy, and perverse political economy relationships. There is an urgent need to rethink the nature, design, and application of foreign assistance in this context.

As Figure 6.6 illustrates, the design and delivery of external assistance programs has fostered a generation of aid-dependent democracies, which have a semblance of participatory and representative governance but are

FIGURE 6.6. AID-DEPENDENT COUNTRIES

Post-conflict external aid has, in come cases, cultivated democracies that are neither effective nor accountable as governments focus on relationships with actors outside the country, especially donors.



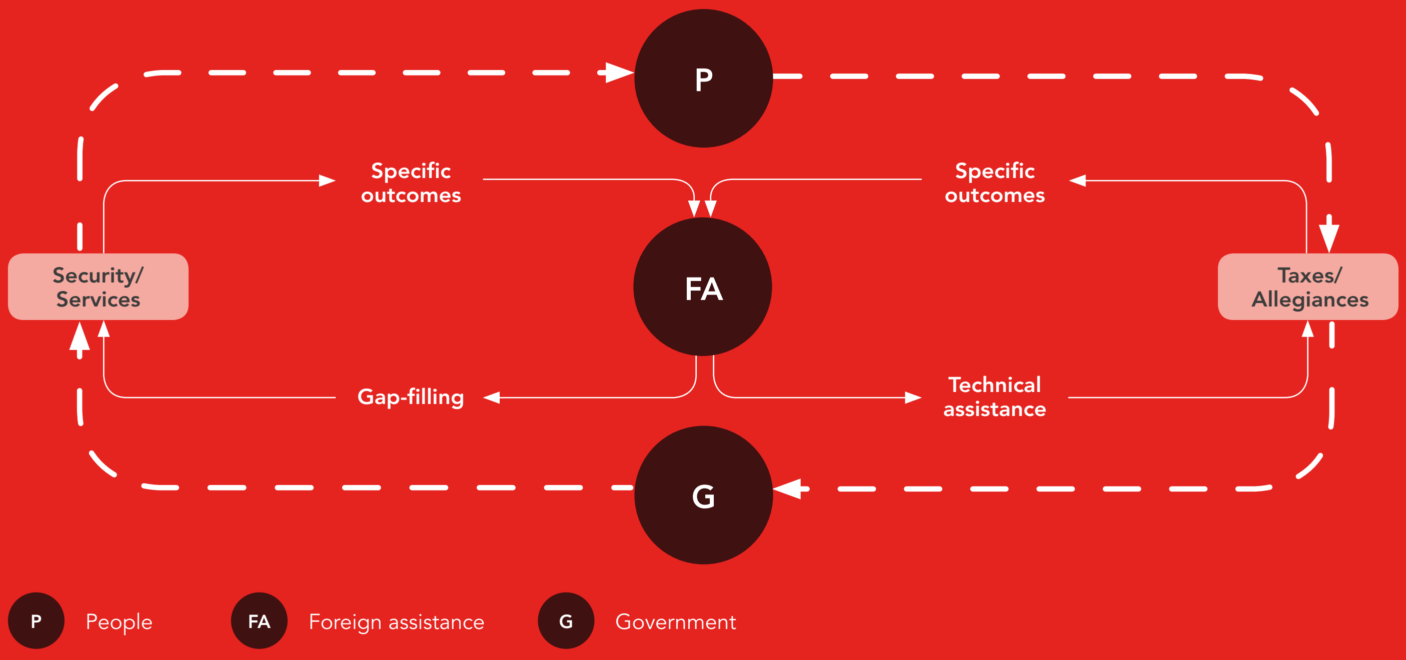
neither effective nor accountable. Matt Andrews et al. (2013) describe this phenomenon as "isomorphic mimicry."[1] While external assistance is necessary in countries recovering from trauma, evidence suggests that by establishing parallel relationships with both the citizens and the governments, such assistance subverts the social contract. Both governments and their citizens invest more time developing relationships with external partners (NGOs, bilateral agencies, and multilateral institutions) than with each other. Consequently, Africa's aid-dependent economies have anemic rates of domestic resource mobilization, weak institutions, entrenched inequality, institutionalized politics of exclusion, and (most importantly) persistent insecurity.

Africa's financial sector could offer a pathway to understanding and addressing this malaise. The government of Poland used foreign assistance differently during its post-Berlin Wall reconstruction phase (Skrobiszewski, 2012).[2] Rather than do "development as usual," the government used foreign assistance from the United States to establish the Polish-American Enterprise Fund in 1989. Foreign assistance, which was routed through the banking sector and managed commercially by Polish expatriates, was used to jump-start the country's private sector and help create conditions for sustained peace. This innovative approach limited the scope of resource-capture, forestalled aid dependence, and bolstered domestic resource mobilization. Post-apartheid South Africa also experimented with an enterprise fund with mixed results, largely because their fund was run like a development project and did not have an independent and technical oversight board.[3]

While external assistance is necessary in countries recovering from trauma, evidence suggests that by establishing parallel relationships with both the citizens and the governments, such assistance subverts the social contract.

FIGURE 6.7. AID-ENABLED COUNTRIES

When external assistance is used to jump-start the financial sector and leverage other financing sources, post-conflict countries can more easily avoid rent capture and support domestic institution building.



1. Andrews, Matt, Lant Pritchett, and Michael Woolcock (2013). Escaping capability traps through problem driven iterative adaptation (PDIA), World Development, Volume 51, pages 234-244. Available at https://doi.org/10.1016/j.worlddev.2013.05.011
2. Francis J. Skrobiszewski (2012) Market Making: How Enterprise Funds Can Jump-Start Stagnant Economies --- Innovations, Volume 7, Number 2, pages 33-61. http://www.mitpressjournals.org/doi/pdf/10.1162/INOV_a_00127
3. For more information, see: the Southern Africa Enterprise Development Fund Implementation Assistance Report from USAID, available at http://pdf.usaid.gov/pdf_docs/PNACC728.pdf and the Huffington Post article End of an Era: Southern Africa Enterprise Fund Inspired By Nelson Mandela Comes to a Close, https://www.huffingtonpost.com/carlton-a-masters/end-of-an-era-southern-af_b_3232440.html

Furthermore, foreign assistance could be leveraged to include resources from corporate social responsibility funds, African government programs, and diaspora remittances. This would broaden the scope and scale of program oversight. Rather than replicating traditional development models, Africa's banking institutions and mobile telephony could provide an ideal conduit for reform. As Figure 6.7 illustrates, channeling post-conflict foreign assistance in this manner could contribute to building peace and security in Africa's conflict-affected states by bolstering domestic institutions and bridging the yawning state-society divide. Evidence suggests that communities and countries whose citizenry have a greater stake in economic prosperity and politics are less likely to perpetrate and reignite violent conflict.

Engendering economic recovery in Africa's conflict-affected states is challenging, in part because vulnerable communities are not easily reached with traditional financial instruments. Many of these communities, by virtue of this exclusion, are more susceptible to extremist radicalization.

First, we need a shift in focus from donor-led economic projects to targeted initiatives promoting private enterprise. After decades of policy-driven foreign assistance, it might be time to consider re-configuring our approach in order to prioritize entrepreneurship and leverage other funding streams. This will require audacious leadership, strong partnerships, and innovative thinking; not necessarily new money.

Prioritizing communities (not political groups) in economic revitalization programs in Africa's conflict-affected states could lead to more effective and sustainable solutions.

Second, Africa's fledgling mobile banking innovations could be leveraged to facilitate domestic resource mobilization, particularly among the unbanked. The availability of financial instruments at household and community levels could build a viable constituency for peace that rewards the innovators and risk-takers. Digital money platforms could be utilized as mechanisms to enhance accountability. Ultimately, supporting digital and financial innovation is paramount.

Third, prioritizing communities (not political groups) in economic revitalization programs in Africa's conflict-affected states could lead to more effective and sustainable solutions. The use of familiar institutions, relationships, and technology is often better than establishing project-driven parallel delivery mechanisms. Investing in the development of resilient local institutions could serve as a bulwark against what sometimes seems to be an inexorable slide toward violent extremism.

Events to watch

January 22-29, 2018

African Union Assembly Meeting

The 30th Ordinary Session of the African Union (AU) Assembly will take place at AU headquarters in Addis Ababa, Ethiopia, under the theme "Winning the Fight against Corruption: A Sustainable Path to Africa's Transformation." During the meetings, heads of state and government will discuss corruption and other important issues, including the adoption of the Protocol to the Treaty Establishing the African Economic Community Relating to the Free Movement of Persons, Right of Residence and Right of Establishment; the launch of the Single African Air Transport Market; and the implementation of decisions from the report of President Paul Kagame of Rwanda on AU reform.

March 2018

The adoption of the Continental Free Trade Area (CFTA)

Meetings by African trade ministers in December 2017, during which a broad framework for the Continental Free Trade Area (CFTA) was agreed upon, have paved the way for African heads of state to sign an agreement creating the CFTA in March 2018. Once established, the CFTA will be one of the largest trade agreements in the world and will encompass a market of 1.2 billion people in 55 countries representing a combined GDP of $3.4 trillion.

Late 2018

The Seventh Forum on China-Africa Cooperation: Beijing, China

China is expected to host the Seventh Forum on China-Africa Cooperation (FOCAC) in 2018, which will serve as a platform for outlining the country's agenda for engagement with Africa until 2021. Since the last FOCAC in 2015, China's partnership with Africa has emphasized investments in industrialization, agricultural modernization, and infrastructure. The seventh FOCAC will take stock of progress in these areas and define new priorities for the three years ahead.