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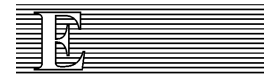


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Unleashing Africa's Potential as a Pole of Global Growth

Issues paper

Acronyms and abbreviations

AfDB	African Development Bank
AGA	African Governance Architecture
APRM	African Peer Review Mechanism
AU	African Union
AUC	African Union Commission
EITI	Extractive Industries Transparency Initiative
FDI	Foreign direct investment
G-20	Group of Twenty
GDP	Gross domestic product
HIPC	Heavily Indebted Poor Countries
HSGOC	NEPAD Heads of State and Government Orientation Committee
IAIDA	Institutional Architecture for Infrastructure Development in Africa
ICT	Information and communications technology
IMF	International Monetary Fund
MDGs	Millennium Development Goals
NEPAD	New Partnership for Africa's Development
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
PIDA	Programme for Infrastructure Development in Africa
R&D	Research and development
RECs	Regional Economic Communities
STI	Science, technology and innovation
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization

I. Introduction

1. After a long period of stagnation in the 1970s and 1980s, Africa has re-emerged in the twenty-first century as a continent alive with opportunities, driven by such key factors as improved governance, better macroeconomic policies, management and business environment, abundant human and natural resources, urbanization and the rise of the middle class, and good economic performance and market potential. These factors are underpinned by steadily improving socio-economic indicators and concrete efforts to bridge gender gaps and promote equality, both of which are essential prerequisites for sustainable economic growth and development. Indeed, Africa, historically a slow-growth continent has now become one of the fastest growing regions in the world, achieving an average growth rate of above 5 per cent per year during 2000-2008. Across the continent, fundamental changes are taking place. The economic, social and political environment is improving and African countries are now expected to become a source of global economic growth.

2. Meanwhile, the global economy continues to struggle to recover from the recent economic and financial crises and generate jobs to address problems of high unemployment. Efforts to spur recovery and generate jobs have been derailed by macroeconomic imbalances that have persisted, driven by high levels of borrowing and sovereign debt in developed economies and high savings in emerging and developing economies, with ineffective global policy coordination and mechanisms to address these imbalances playing a contributory role.

3. Africa has the potential to be part of the solution both to the problem of low global growth and high unemployment, and to that of global imbalances. The continent's current growth momentum and dynamism and the state of the global economy make the time right for Africa to utilize its huge untapped resources and growth potential to become a driver of global growth and rebalancing.

4. However, in order to unleash its potential and become a pole of global growth and a source of global rebalancing, the continent needs to effectively address a number of challenges and binding constraints. Addressing these constraints will require urgent and determined action in many areas, but, as a matter of priority, areas for concerted action should include strengthening governance institutions; reforming agriculture; accelerating technology acquisition and investing in innovation; investing in human and physical capital; promoting exports and accelerating regional integration; addressing gender inequality and the threat of climate change; and mobilizing the required resources.

5. This issues paper identifies important issues and questions for consideration by African ministers, central bank governors and high-level experts, regarding how Africa can be part of the solution to the problem of global recession and imbalances. Following this introduction, the next chapter examines the key institutional and policy factors that have shaped Africa's growth performance in the last four decades and highlights the opportunities and potential for the continent to become a pole of global growth. Chapter III highlights a set of binding constraints that must be addressed, focusing on issues of governance, institutions, leadership and natural resource management, human capital development, gender equality, infrastructure, the business

and investment climate, and promotion of regional integration and partnerships, while chapter IV focuses on the issue of development financing.

II. Africa's potential and challenges as a pole of global growth

A. Africa's recent economic performance and the challenge of generating strong, sustainable and balanced global growth in the current global economic context

6. The world economy expanded at an annual average of 3.2 per cent from 1971 to 1999, while Africa was the second slowest-growing region with an average growth rate of 2.4 per cent during that period. Since then, however, Africa has become the second fastest-growing region after East Asia. Economic recovery in Africa was swift and robust following the 2008 financial and economic crisis and was only dampened in 2011 by the political turmoil in North Africa (figure 1). In addition to achieving relatively high growth rates since 2000, African economies are slowly diversifying in terms of both production and exports while consumer markets are expanding and becoming more sophisticated.

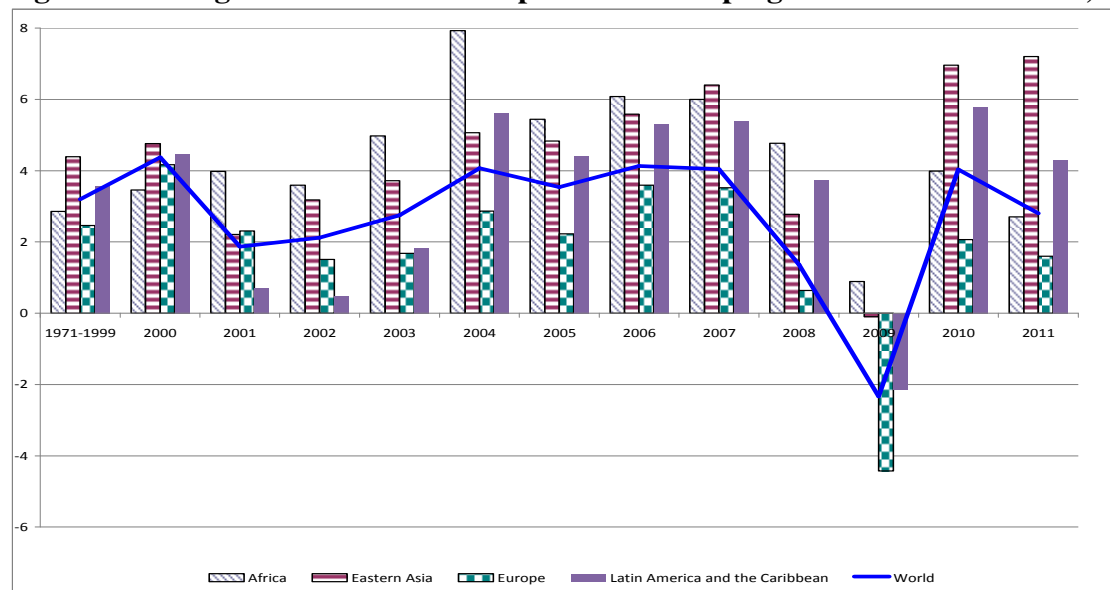
7. In contrast, growth recoveries in the advanced economies remain uncertain and global imbalances and unemployment rates are at historic levels. European Union leaders continue to develop emergency measures to control the contagion of the Eurozone sovereign debt crisis within the region and outside, while the United States of America struggles to manage its national debt, which resulted in the downgrade of its credit rating in 2011. All this leaves the world at high risk of another global recession. In the run-up to the crisis, the world economy was characterized by massive imbalances, including low saving rates in advanced economies, in particular the United States (11.5 per cent of GDP in 2010, down from 14 per cent in 2007), which were matched by high saving rates in emerging and developing economies, such as China (52 per cent in 2010, up from 50.5 per cent in 2007). The bursting of the 2007 asset bubble in the United States led to a protracted and painful global readjustment of aggregate demand that was marked by bank credit constraints, reduced private investment and consumer spending, and rising unemployment. The Eurozone debt crisis has accentuated the effect of the global financial and economic crises.

8. As a result of these imbalances and crises, the volatility of the world economy has increased in recent years. Persistently, high unemployment has threatened medium-term economic prospects in developed economies and contributed to political and social unrest in many developing countries. Many developed economies have recorded double-digit unemployment rates, which may rise further with the evolution of the Eurozone sovereign debt crisis in 2012-13 (OECD, 2011).

9. Progress in generating strong, sustainable and balanced growth across the globe remains limited and the need for global demand rebalancing will continue in the medium term. Indeed, no major improvements in current account imbalances – and by implication savings and investment patterns - were expected across the major global economies in 2011 (IMF, 2011). Global rebalancing requires significant economic adjustments across economies to create adequate and balanced global demand in a sustainable manner. Significant increases in domestic demand in

surplus economies and strong investment demand in Africa will contribute to the absorption of high global savings and accelerate the readjustment process.

Figure 1: GDP growth rates in developed and developing economies and Africa, 1970-2011



Source: Data for 1971 to 2004 comes from the United Nations Statistics Division. Data for 2005 to 2011 comes from World Economic Situation and Prospects 2012.

10. In 2011, the G-20 Framework for Strong, Sustainable and Balanced Growth proposed structural reform in major global economies as the main solution to the unsustainable global imbalances. However, in addition to structural reforms, a development dimension must also be incorporated in global rebalancing to stimulate and/or sustain growth across regions. While countries with large reserves and savings need to boost domestic demand, deficit countries need to increase exports and make other necessary adjustments to reduce their deficits to sustainable levels. Africa’s recent high growth and economic resilience during the crises provides an opportunity for the continent and the global economy to build on its improved economic prospects and huge untapped potential to spur future growth and reduce global macroeconomic imbalances.

11. Indeed, despite mounting challenges, the conditions for Africa’s sustained growth and development are much more favourable today than ever before for five major reasons. First, with the increasing realization that African Governments need to be in the driver’s seat, political and economic governance is improving, resulting in fewer conflicts and an improvement in the general economic outlook, while the business environment and investment climate have improved substantially. For example, in 2011 “a record number of governments in sub-Saharan Africa changed their economy’s regulatory environment to make it easier for domestic firms to start up and operate. In a region where relatively little attention was paid to the regulatory environment only 8 years ago, regulatory reforms making it easier to do business were implemented in 36 of 46 economies between June 2010 and May 2011. That represents 78 per

cent of economies in the region, compared with an average of 56 per cent over the previous 6 years” (World Bank: Doing Business 2012: p.1).

12. Second, on top of high and sustained commodity demand and prices, many African countries have put in place appropriate macroeconomic, structural and social policies, which have contributed to increasing economic diversification, sustained growth rates and some progress towards meeting the Millennium Development Goals (MDGs) and other social development goals. Some of the fastest growing African economies are on course to meet the income poverty target of halving poverty by 2015, as well as most of the other MDGs. Improving political and socio-economic conditions and sustained growth have resulted in rapid urbanization and a growing middle class on the continent, which will provide an additional factor for faster and more sustainable broad-based growth in the future.

13. Third, there is now a greater consensus than ever before among Africans on what needs to be done to accelerate growth, reduce poverty, improve governance and assume leadership and accountability for their own development. The New Partnership for Africa’s Development (NEPAD) not only reflects this consensus but builds on it by identifying key priority areas for action aimed at increasing trade within Africa and the world; enhancing the provision of regional public goods such as cross-country transportation and electricity pooling; and increasing the productivity of agriculture by allocating up to 10 per cent of national budgets to the sector with the aim of achieving 6 per cent annual growth in productivity. Equality is recognized in NEPAD as a driver of growth and a cross-cutting issue, with a strong emphasis on, inter alia, women’s economic empowerment. Increasingly, African Governments have come to recognize that the continent’s great potential for development can only be fully unleashed through increased mobilization of domestic and external financial resources; increased domestic investment; investment in human capital development, including, in particular, training in science and technology, finance and business; development of the required infrastructure; investment in the social sectors and financing of gender equality; proactive development of the rural sector; and promotion of private initiatives and creativity, together with the requisite inculcation of innovation and investment in research and development (R&D) and enhanced intra-Africa trade and regional integration.

14. Fourth, continental initiatives under the African Union and its NEPAD programme are allowing African countries to improve governance. The African Peer Review Mechanism (APRM), under which a country submits to scrutiny by its peers to help identify weaknesses and the actions required to correct them, underscores the push for accountability in political, economic and corporate governance. Moreover, there are encouraging signs that AU and the Regional Economic Communities (RECs) are playing an important role in spurring continued improvements in the investment climate within their regions as well as dealing with current conflicts and major long-standing conflicts on the continent, especially in the Sudan and Somalia.

15. Fifth, while Africa itself deserves the credit for much of what has been achieved since 2000, the response of international partners to Africa’s development financing needs has also been positive. During the period 2000-2008, aid to Africa doubled while a number of donors

took significant measures to write off the outstanding debts of 14 African countries under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative, freeing up resources for socio-economic development activities. Aid flows to the region increased from \$15.6 billion in 2000 to \$44 billion in 2008, equivalent to 35 per cent of global aid flows (IMF, 2009). However, while official development assistance (ODA) can and has played a useful role in promoting Africa's development, particularly in low-income African countries, it is a very volatile and unpredictable form of development finance (Bulir and Hamann, 2006; UNCTAD, 2006). Fortunately, foreign direct investment and remittance flows have recently become the main sources of external capital flows for most African countries, and now exceed ODA flows by far.

16. Although little progress has been made towards completing the Doha Round of trade negotiations, which would have brought enormous benefits to African countries, the European Union and the United States have extended preferential trade arrangements for the poorest African countries, which have allowed growth in African exports to those markets. The positive response by western donors to Africa's financing needs has been complemented by increased trade, investment and aid from the emerging southern Powers, such as China, India and Brazil. Africa has benefited from the recent commodity boom, driven mainly by demand from emerging and developing economies, as well as increased investment in infrastructure and the extractive sector (Cheru and Obi, 2010; McCormick, 2008; Baseda, Wang and Whalley, 2008; Brautigam, 2010). Exports are becoming more diversified and consumer imports are becoming more affordable, benefiting African consumers and producers alike. For example, in 2009, manufactured goods accounted for 18.7 and 27.1 per cent of Africa's total exports to China and South Korea, respectively, but only 8.2 per cent of Africa's exports to the United States (AfDB, OECD, UNDP and UNECA, 2011).

17. In sum, progress in governance and institutional reforms, reduction in armed conflicts, rising commodity prices and increased international support for many African countries have created a much brighter future for the continent and placed it on track for an economic take-off. But more importantly, these are the factors that are positioning Africa as a pole of global growth. The challenge for African leaders and international development partners in the coming decade is how to build on the recent gains and accelerate the process of industrialization and economic transformation from heavy dependence on commodities and minerals to other more diversified sectors including manufacturing, financial and services that have greater potential to foster employment and wealth creation and transform Africa into a major player in solving global economic problems (UNECA, 2007; UNECA and AUC, 2010).

B. Africa as a potential source of global growth and rebalancing: capitalizing on Africa's natural resources and immense economic potential

18. Based on the recent growth momentum highlighted previously, Africa has been projected to become the fastest growing region in the world over the next decade and a major player in the world economy in the long term (IMF, 2010; McKinsey Global Institute, 2010, Radelet; 2010). Africa is among the emerging economic Powers of the global South and its projection as a pole of global growth is based on the fact that in addition to its untapped potential and vast natural

resources, African countries have grown consistently in the past decade and can no longer be neglected. Political and economic conditions, as well as the general economic outlook, business environment and investment outlook are improving, and together with demographic changes, urbanization and an increasing middle class, the continent presents an attractive investment destination that cannot be ignored.

19. Africa can contribute to global economic growth and rebalancing by creating conducive investment conditions for attracting significant amounts of the savings and surpluses of emerging and developing economies and through strategic domestic investments in R&D and technological innovation aimed at increasing value addition and production of non-commodity exports in the global economy. The continent must continue to consolidate and build on the drivers of growth discussed previously. In view of increasing competition from both emerging and developing economies, key unique factors for Africa to become a pole of global growth would be its huge untapped natural resources, population and growing middle class, and untapped regional market.

Improved political and economic governance and management

20. Political and economic governance has improved in many African countries, although some countries are tarnished by long-running conflicts and there is a notable increase in public protests. Government hardening and oppression of peaceful demonstrations has continued its downward trend (AfDB, OECD, UNDP and UNECA, 2011). In 2010, according to the Political Freedom Index (from Freedom House), 9 African countries were free, 24 were partly free and 20 were not free in terms of respect for human rights and liberties.

21. Indeed, African Governments have continued to promote good political governance as an essential prerequisite of development and poverty reduction, as evidenced by the focus on “Shared Values” at the 16th Ordinary Session of the Assembly of the African Union (AU Summit) in January 2011. They have committed to electoral reform and to improving democratic processes and human rights (UNECA and OECD, 2011). AU has adopted a zero-tolerance policy to unconstitutional changes of government. With the African Peer Review Mechanism (APRM), African Governments have also established a continental apparatus to monitor and promote good governance. Building on these commitments, the 16th AU Summit committed to the establishment of a more coherent African Governance Architecture (AGA) and adopted the African Charter on Values and Principles of Public Service and Administration. The commitment to mainstreaming gender in governance processes was reinforced by the 2004 AU Solemn Declaration on Gender Equality in Africa, and more specifically the principle of gender parity in all structures and at all levels of decision-making, including in governance structures.

22. By the end of 2010, 36 African countries had signed and 8 had ratified the African Charter on Democracy, Elections and Governance. Between January 2010 and April 2011, 20 African States held presidential, parliamentary or local elections, and 70 per cent of those elections were considered to be free or partly free and fair (Freedom House, 2010 and 2011). The implementation of the African Peer Review Mechanism (APRM) has accelerated with the accession of a total of 30 countries by 2011, of which 15 countries have undergone a review by

the APRM Forum. Progress has also been made in the area of human rights, including the establishment of the Committee of Experts for the African Charter on the Rights and Welfare of the Child (2003) and the adoption of the 2003 Protocol to the African Charter on Human and Peoples' Rights on the Rights of Women in Africa, which has thus far been ratified by over 30 countries.

23. Meanwhile, development partners have supported initiatives to strengthen the rule of law and improve parliamentary oversight and civil society engagement. They have provided support for upstream stages of the APRM process through a UNDP Trust Fund, and have helped countries conduct self assessments or design national action plans. Development assistance in supporting elections in Africa increased by almost 85 per cent over 2007-2008, reaching \$ 275 million, and has more than tripled since 2000. Development partners have further shown strong support to the AU position on unconstitutional changes in government.

24. In line with the improvements in the political environment noted above, economic governance has also improved remarkably in a number of African countries, as highlighted earlier with reference to improvements in the business environment, investment climate and macroeconomic management, reflected in improved macroeconomic stability and enhanced policy space, sustainable debt levels and better budget processes including gender budgeting in some countries, and more effective public sector management. Also, while corruption remains a serious concern in some African countries, it has recently been viewed as less of a challenge in an increasing number of others.

Natural resources

25. Currently, the continent boasts about 12 per cent of the world's oil reserves, 40 per cent of its gold, and 80 to 90 per cent of chromium and platinum group metals, in addition to vast arable land and timber resources. With the abundance of these resources and the rising demand for raw materials, African Governments are forging new partnerships that are leading to increased infrastructure investments and sharing of skills and technology. Private investors are increasingly taking Africa seriously as a key destination for their direct and portfolio investment. In this regard, foreign direct investment (FDI) flows to Africa increased from \$ 9 billion in 2000 to \$ 62 billion in 2009 and are expected to continue to rise in future (Mckinsey Global Institute, 2010). While portfolio flows to Africa are much smaller than FDI flows, they have grown from \$ 8 billion in 2004 to a peak of \$ 24 billion in 2006 and \$ 22 billion in 2010. Africa should exploit FDI as a channel for technology transfer and technological learning in order to attract and develop firms that will add value to natural resource products and exports. Increased intra-regional trade and trade with emerging partners has provided opportunities for many African countries to diversify production and exports as well as sources of development financing, form R&D partnerships and acquire new technologies (AfDB, OECD, UNDP and UNECA, 2011).

Demographic potential

26. Africa's demographic transition is another important factor in its economic development. Africa boasts the youngest population in the world, and its labour force is rapidly expanding. Today, more than 60 per cent of Africa's population is under 25 years of age (UNECA and AUC, 2010) and it is projected that by 2040 the labour force could reach 1.1 billion, overtaking that of China or India. Moreover, as noted by the Population Division of the United Nations Department of Economic and Social Affairs, the continent will account for 29 per cent of the world's population aged 15-24 by 2050, up from 9 per cent in 1950, whilst the Asia-Pacific and Latin America and Caribbean regions will maintain their 1950 shares of 54 per cent and 7 per cent respectively, in 2050.

27. However, the continent needs a comprehensive and innovative strategy to develop the relevant skills and knowledge of women and men, tackle youth unemployment in a gender sensitive way, and make its burgeoning youth population a real benefit rather than a harbinger of conflict and instability. Indeed, with ageing populations in advanced economies and rising wages in Asia, the demographic transition provides an opportunity for Africa to become the next global centre for manufacturing, information and communications technology (ICT) and service industries.

Urbanization, the rise of the middle class and the untapped regional market

28. With urbanization and the rise of the middle class, African consumers will also play an important role in the continent's growth prospects. Currently, 40 per cent of Africans live in the cities and this portion is projected to increase – "in 2008, 85 million African households earned \$5000 or more – which is the level above which they start spending roughly half of their income on items other than food" (McKinsey Global Institute, 2010). It is expected that in the next 10 years the number of households with discretionary income will rise by 50 per cent, reaching 128 million and that by 2030, the top 18 cities could have combined spending power of \$1.3 trillion. Clearly, Africa has a huge untapped regional market, a factor that could help African countries attract higher levels of domestic and foreign investments.

29. While there are good reasons to be optimistic about the future development prospects of the continent, there are still important challenges that the continent's leaders, in partnership with internal and external partners, must decisively and comprehensively address in order to unleash Africa's productive potential, build the foundations for sustained and inclusive growth, lift millions of their citizens out of poverty and position Africa as a global growth pole. In spite of strong economic performance in recent years, African economies remain vulnerable to exogenous shocks, while the requisite infrastructure, human and financial resources, institutional structures and long-term development vision to bring structural transformation remain weak. The industrial base is weak and largely dependent on imported raw materials and technology, thereby compromising competitiveness and highlighting the urgent need to develop an indigenous technological base (UNCTAD/UNIDO, 2011). With its heavy dependence on the low-

productivity informal sector, progress towards achieving Africa's development goals has been slow and the continent has the highest poverty rate (46 per cent) in the world.

Issues for discussion:

1. Why is it important for the world to see Africa now as a pole of global growth?
2. How can Africa position itself in the prevailing global economic environment to become a pole of global growth and contribute to global rebalancing?
3. What challenges do African countries face in playing this role and how can African countries benefit from the experience of successful African and non-African countries?
4. What would it take to unleash Africa's potential as a pole of global growth and global rebalancing?
5. How could Africa utilize technological innovation to fully exploit its identified growth potential?

III. Unleashing Africa's development potential: building capacity to achieve maximum growth

30. Africa can escape the scourge of poverty, socio-economic inequality and underdevelopment, and embark on the process of industrialization, just as China, India and other emerging and developing countries have done in a relatively 30-year period. This is possible under the guidance of capable and development-oriented States committed to mobilizing men, women and youth around a common national development framework aimed at promoting economic diversification and meeting critical social development goals (UNECA and AUC, 2011). Some countries have been able to generate broad agreements on development goals and strategies using medium-term plans and are producing development results. African policy forums and institutions are beginning to provide strategic directions, operational frameworks and good practices, and a vibrant African policy debate has already emerged.

31. The task for African leadership in the coming decade is to build on the gains of recent years by strengthening democratic governance, invest in people and critical infrastructure, and build effective State institutions at both central and local government levels to support domestic producers so that they can effectively compete in a global market economy. A pragmatic and sustained approach to address Africa's key development challenges will ensure that the continent becomes the next growth frontier.

A. *Promoting visionary leadership, strong institutions and good governance*

32. Africa's share of world GDP is still less than 3 per cent and most African economies continue to rely heavily on primary commodity production and exports which do little to dent poverty rates. The continent needs visionary and gender-sensitive leadership and stronger governance institutions in order to address market failures, promote effective industrial policy and economic transformation and achieve its social development objectives. The role of the State is central for Africa to become a pole of global growth. The State should evolve in such a manner as to enable African countries to adequately respond to emerging challenges and seize opportunities to foster economic and social development.

33. Over many years, the economic transformation process in Japan, Korea, Malaysia and Singapore was inspired by visionary leadership and underpinned by capable States that used disciplined planning frameworks to engineer an economic take-off. In addition to leadership, the tasks for African States include planning the development process, formulating appropriate gender-sensitive policies and implementing the plans and policies. The changes required are substantial and consequently decisions cannot be optimally made by free market forces as most African economies are characterized by pervasive market failures. In this regard, African economies need developmental States that have the capacity to deploy their authority, credibility and legitimacy to design and implement effective and inclusive plans and strategies for promoting economic transformation and social development (UNECA and AUC, 2011). The continent should also strive to maintain and further improve its existing political and economic governance and management, despite the related challenges as indicated in section II.B. above.

34. There is no single model to build a developmental State; countries need to *learn by doing*. However, some key aspects that have been present in previous experiences are: (1) Purposeful leadership and a development-oriented coalition (capable and far-sighted democratic leadership will be central); (2) Transformative institutions underpinned by a bureaucracy recruited based on capabilities and merit rather than on political patronage, ethnic or religious considerations; (3) Focused industrial policy; (4) Investment in research and development; and (5) Enhanced social policy. Undoubtedly, visionary leadership, strong participatory institutions and governance processes are essential for Africa to become a pole of global growth.

B. *Investing in infrastructure*

35. Weak physical infrastructure is a major obstacle to investment, broad-based growth and poverty reduction in Africa. Infrastructure development leads to a reduction in production and transaction costs, which improves the competitiveness of businesses and makes a country more attractive to foreign investors. While infrastructure has played a significant role in Africa's recent economic turnaround, it will need to play a greater role if the continent's development targets are to be met.

36. Less than 10 per cent (in 10 countries) and less than 50 per cent (in 33 countries) of roads in Africa are paved, 40 per cent of the population lacks access to safe water; and the region has

the lowest Internet penetration in the world, 3 per cent compared to the world average of 14 per cent (AUC, 2011). Studies suggest that in most African countries, particularly the low-income countries, infrastructure is a constraint on doing business and is found to depress firm productivity by around 40 per cent (Escribano, Guasch and Pena, 2008). Indeed it has been pointed out that increasing women's access to electricity and roads would lead to greater agricultural output and better food availability in markets, since women comprise 70 to 80 per cent of the agricultural labour force for food production and processing on the continent (World Bank, 2008). If all African countries were to catch up with Mauritius in terms of infrastructure, per capita economic growth in the region would increase by an additional 2.2 per cent per year. Catching up with the level of infrastructure in the Republic of Korea would boost per capita economic growth by 2.6 per cent per year. In a number of countries – including Côte d'Ivoire, Democratic Republic of the Congo and Senegal – the impact would be greater (World Bank, 2008).

37. Infrastructure investments in Africa are low primarily because of consistent under-investment and the lack of attention accorded to the sector during the 1980s and 1990s, as well as fiscal constraints that limit the ability of the public sector to invest in infrastructure. Other important factors include the fact that there is little incentive for the private sector to invest in projects that have characteristics of public goods, a lack of stable long-term finance, high sector-specific risks and high macro risk arising from political instability and poor governance.

38. Estimates show that closing Africa's infrastructure gap would require approximately \$ 93 billion a year over the next decade – including new investments and maintenance of existing infrastructure. Nonetheless, it is encouraging to note that about half of the continent's infrastructure financing needs are currently being met. It is equally encouraging that spending on infrastructure in Africa is higher than previously thought, and that about \$ 35 billion of annual spending is financed by African taxpayers and infrastructure users. A further \$ 13 billion would come from a variety of external sources.

39. Bearing in mind the increasing need for streamlining of ICTs and science, technology and innovation (STI) in order to overcome the identified challenges and achieve the continent's growth potential, there is a need for an improved and well-equipped ICT and STI infrastructure among African countries in order to enhance R&D and innovation activities on the continent. Coupled with the significant increases in mobile penetration, infrastructure investments in these areas will make a significant impact on the continent's growth.

40. In recent years, efforts to improve Africa's infrastructure have intensified at continental, regional, subregional and national levels. African leaders have demonstrated the political will to improve the continent's infrastructure by putting in place the Programme for Infrastructure Development in Africa (PIDA), the Institutional Architecture for Infrastructure Development in Africa (IAIDA), and the NEPAD Infrastructure Champion Initiative, chaired by the Republic of South Africa, as well as setting up the NEPAD Heads of State and Government Orientation Committee (HSGOC) High-level Subcommittee on promoting regional infrastructure development. Regional Economic Communities (RECs) have also implemented comprehensive infrastructure development programmes. At the national level, many countries are implementing

infrastructure sector programmes that are yielding positive results. Countries such as Ethiopia, Kenya and Nigeria, are stepping up efforts to raise domestic resources to finance their infrastructure development.

41. Maximizing the outcomes of ongoing efforts to improve Africa's infrastructure, particularly regional infrastructure, will require particular attention to be given to tackling inefficiencies in terms of collection of revenues and distribution of costs. It is also important to raise additional finance for infrastructure development and to underpin allocations to the sector informed by the differentiated needs of women and men in terms of access and use of infrastructure. Potential internal sources of finance include raising additional tax and harnessing domestic capital markets. Public-private partnerships and other innovative sources of finance should also be explored. External sources of finance such as ODA should be used more effectively. Tapping into global savings for investment in infrastructure development in Africa can help the continent to address its infrastructure needs, increase global aggregate demand and address the problems of low global growth and imbalances.

C. Investing in people

42. Investing in human capital contributes to ensuring that citizens are equipped to earn a livelihood while being part of the productive machinery in their countries and that investors are able to find the skills and talents they need. It also contributes to social inclusion and integration of youth in society whilst playing a critical role in closing gender gaps and promoting the empowerment of women. Education and skills development, especially for young people, is of paramount importance to Africa because of returns to education and the contribution to poverty reduction. The positive, but slow gains made in education and health in Africa represent a first step towards anchoring human capital as a driver of development and as a contributor towards Africa playing a key role in global growth.

43. Nonetheless, Africa lags behind the rest of the world in most areas of human development. The most important issues to address in this area are the continent's high poverty rates (for example 51 per cent in Africa, excluding North Africa, in 2005, and 58 per cent in 1990) and social and gender inequality; limited access to education and low educational quality; and the prevalence of epidemics such as tuberculosis, malaria, HIV/AIDS and malnutrition. The number of deaths due to malaria in Africa is 32 times of those in South-East Asia; the HIV prevalence rate in Africa is about 16 times that of South-East Asia.

44. Whereas primary and secondary school enrolment ratios have improved across Africa, school retention and completion, particularly for girls and low income households, remains a challenge (UNECA, 2011). There are 153 million illiterate adults in Africa, and two-thirds of them are women. There is a dire need to focus on improving equitable access to education, and the quality of education, as well as on the more holistic role that education plays in fostering economic and social development by providing the skills needed by investors and nurturing entrepreneurship. Access to education remains limited in rural areas of many African countries. In the same vein, although progress towards a healthier Africa has continued unabated and recent trends show evidence of further acceleration, health outcomes and the distribution of basic

services exhibit inequities and remain skewed towards higher-income groups and urban areas. Health and education provide the basis for building national capabilities to improve the productivity and competitiveness of countries.

45. Addressing the challenges in these areas requires both supply- and demand-side measures. Bearing in mind that Africa boasts the youngest population in the world, as indicated above, there is a need to equip this demography with the relevant skills needed for the continent to acquire and innovate technologies appropriate for tackling its challenges. Governments must guarantee equitable access to quality educational and health services. It is also important to identify the reasons why people are not using the current services being provided. In the short term, there is a generation that needs retraining to match their skills with the current labour demand. They also need to receive appropriate health care to be able to work. This strategy must be informed by a gender perspective that takes into account the differentiated needs, experiences and interests of women, men and youth. Targeted skills development to reduce youth and female unemployment, underemployment and workers' absenteeism owing to illness is essential in this regard. The Arab Spring and recent conflicts in some African countries illustrate how disgruntled youth can spur change or threaten a nation's peace and security. Developing human capital is therefore linked to reducing conflict in a country. In the long term, there is a generation that needs basic investments in such areas as immunization, nutrition and quality education in order to grow and develop the necessary capabilities to face the increasingly competitive labour market.

D. Transforming agriculture and developing rural economies

46. Agriculture is central to achieving broad-based development in Africa given the abundance of arable land and the importance of agriculture for economic growth and livelihoods across the continent. Africa boasts about 60 per cent of world arable land and the sector employs about 60 per cent of the total labour force. The sector accounts for as much as 40 per cent of total export earnings and provides over 50 per cent of household income (UNECA and AUC, 2009). However, the sector is characterized by low productivity, a deteriorating trade balance, and a stagnant growth rate. The agricultural trade balance, measured by the ratio of the value of total agricultural exports to imports, has been falling continuously and stood at about 0.6 in 2007. Thus, many African countries have become net importers of agricultural products and face food security challenges.

47. The low productivity and growth rates in the agricultural sector result from low levels of investment and limited use of fertilizer and modern technology, as well as low levels of irrigation, inadequate land management, low tractor use, limited access to credit and insurance schemes, poor access to physical infrastructure, limited funding for R&D, and lack of attention to gender inequalities in the sector. In addition, African agriculture continues to suffer from limited value addition and weak linkages with other sectors, including agro-processing and agribusiness, fragmented markets and weak regional integration of commodity chains. In addition, the continent is extremely vulnerable to external shocks attributable, inter alia, to global commodity demand and prices, and climate change (UNECA and AUC, 2009). As a result of all

these constraints, and despite its huge land mass and agricultural potential, the continent continues to be a net food importer.

48. African agricultural transformation should form the basis for accelerated and sustainable shared growth and future economic structural transformation. To address the challenges indicated above, African countries need more comprehensive planning processes, appropriate and gender-sensitive policies, and better capacity to implement plans and policies in all sectors. Agricultural development in Africa requires, inter alia, policies that address the overall constraints to increasing and sustaining agricultural growth and productivity and that strengthen forward and backward linkages between agriculture and other sectors at the national, regional and global levels (UNECA and AUC, 2009 and 2011). A more competitive agricultural sector will be instrumental in Africa becoming a pole of global growth.

E. Promoting technology transfer and innovation for structural transformation and value addition

49. Technology transfer and innovation are key drivers of economic and social development in a knowledge economy as they lead to significant increases in productivity and efficiency, as well as reducing the costs of production and information imperfections. They are key to sustained growth, competitiveness and economic transformation. There is growing evidence that Africa's fast pace of growth is partly supported by the continent's fast pace of acquisition of mature technology in the last two decades. For example, Africa has registered a tremendous increase in royalties and licensing fee payments, and in imports of capital goods and business, professional and technical (BPT) services (UNECA, 2010). Technology transfer has been at the centre of the rapid diffusion of mobile phone and wireless technologies in Africa with a profound impact on market, political, cultural and business participation of individuals, firms and Governments. This development could have a greater impact if Africa participated in the design, manufacture, assembly and export of mobile phone components and units, network infrastructure and telephone exchanges.

50. Trade and FDI have served as the key channels of technology transfer. However, Africa is failing to attract foreign private R&D projects and manufacturing investments due to its limited technology base and intellectual capital, and is falling back in technology production and ownership (UNECA, 2010). As such, radical steps to ensure Africa benefits from global technological knowledge to meet current and emerging challenges, such as unemployment and climate change, are urgently needed.

51. First, countries need to put in place policies and strategies to integrate STI in all sectors and government ministries and agencies. This could facilitate the promotion, coordination and evaluation of a national innovation ecosystem. Second, policymakers should put in place mechanisms to mobilize, invest and manage adequate funds in science, technology and innovation. Third, countries should increase investment in the education sector, particularly in science, engineering and technology, to develop the necessary skills and talent needed to sustain innovation and entrepreneurship in the knowledge economy. Fourth, both soft and hard STI infrastructure is urgently needed to serve as platforms for technology transfer and innovation.

The emerging multi-facility economic zones and industrial districts and parks could be used to attract R&D investment, manufacturing firms and spin-off firms from R&D centres. Finally, the business environment should be strengthened to meet the needs of innovators and innovative firms through supportive financial, intellectual property, competition and procurement policies (Science with Africa Conference, 2010). Such measures would guarantee Africa's future growth, competitiveness and economic transformation.

F. Addressing the daunting challenge of climate change

52. Climate change is one of the most challenging threats to sustainable development in Africa and has a differentiated impact on women and men. It is already having and will continue to have severe consequences for Africa's economic growth, food security, poverty reduction efforts, peace and stability as competition intensifies over scarce resources. Although Africa is the continent least responsible for climate change, it is particularly vulnerable to its effects. Overall, some models suggest that an increase in temperature of about 1.5° C by 2040 could lead to an annual loss in Africa's GDP of 1.7 per cent. Green economy development strategies are therefore essential for promoting high and sustainable growth and for Africa to become a pole of global growth in the future. Harmful impacts of climate change are predicted to hit the poor unduly hard and exacerbate inequalities in health status, education, labour-force participation, and access to adequate food and clean water. Accordingly, financial support to developing countries for mitigation and adaptation is vital to ensure the contribution and participation required to effectively address climate change challenges.

53. Over the last 60 years, the rate of emissions has accelerated enormously, driven by rapid global economic development with little regard for the environment. To keep average temperature rises within "manageable" limits, global emissions must be reduced rapidly. This is a huge challenge because global GDP is currently on course to triple (from \$45 trillion to about \$130 trillion) by 2050. Emissions are likely to follow suit (i.e. to triple as developing economies, including Africa, grow) unless a major technological breakthrough or different incentives that result in radically less energy- and/or carbon-intensive growth patterns.

54. At present, Africa is far from meeting its own development investment needs from domestic resources, let alone managing the risks of climate change. Fortunately, in addition to normal development flows, the "polluter pays" principle prevails and the developed economies have recognized their obligation to support African adaptation and mitigation. In Copenhagen, developed countries committed to contributing \$ 100 billion per year by 2020 to help poorer nations cope with the impacts of climate change, with \$30 billion in financing to be in place by 2012.

55. While funds are essential for climate change adaptation and mitigation, it is also imperative to examine the supply- and demand-side factors that may constitute barriers to resource mobilization for a green economy. While climate change is expected to affect resources and agricultural productivity, thus limiting the options and potential of the poor and vulnerable, including women and youth, in many ways, agriculture is of particular relevance to a green economic transformation in Africa. It is important to ensure that the allocation of climate finance

is balanced between mitigation and adaptation across sectors, and that it favours adaptation activities in countries that are particularly vulnerable to climate change. The main challenges of adaptation involve enabling a large and vulnerable population to adapt to the many changes they will face and develop a better life that is resilient to a more hostile climate.

56. In response to these challenges, African countries should promote economic diversification in order to reduce vulnerability to climate change and extend green investment strategies and the climate risk management approach to all sectors. In this regard, feed-in tariffs are an effective policy instrument to stimulate new investment in renewable energy by guaranteeing the purchase of electricity from renewable energy sources at an attractive predetermined price. Governments can also increase spending on clean technologies and practices and gradually eliminate bad subsidies supporting polluting industries. In general, national development plans should incorporate policies that promote the production and consumption of clean products. The development, diffusion and transfer of technology are critical in this regard. Climate change-related technologies help households, firms and countries to reduce their greenhouse emissions. They can also enable them to withstand permanent climate shocks relatively well.

G. Promoting trade and accelerating regional integration

57. Regional integration is one of the driving forces behind economic development and it has been recognized among the key development strategies for accelerating intra-Africa trade, growth and poverty alleviation on the continent. Its effectiveness is also dependent on the equal participation of women and men in regional integration processes. Economic integration, in particular, has the potential to widen markets and regional value chains, which will in turn help African countries to address supply-side constraints, diversify their productive base, reduce costs through increased economies of scale, and promote technology and knowledge transfer as well as competitiveness in world markets. However, despite increases over time, intra-Africa trade still accounts for only 13 per cent of total trade owing to a multiplicity of factors including weak regional infrastructure as well as other tariff and non-tariff barriers (UNECA, 2010).

58. African countries have established the African Union, created various RECs and maintained the ideals of the Abuja Treaty establishing the African Economic Community and the Constitutive Act of the African Union. A major aim of these efforts is to create a common market and a single trading bloc less exposed to external shocks and capable of supplying its import needs through an expansion of intra-African trade to be achieved by breaking down tariffs and non-tariff barriers through trade liberalization schemes. Recent commitments emphasize the modernization of domestic and regional trading systems and the rationalization of RECs, thereby accelerating and strengthening the pace and coordination of integration at the various levels. Nonetheless, some of the pending challenges to be addressed in order to facilitate regional integration are the need to standardize rules of origin, tariffs and customs procedures, diversify production and increase exports with rising value addition. African countries need to facilitate trade through the development of physical infrastructure and the creation of financial markets for large and small entrepreneurs, as well as by reducing the existing red tape in trade procedures. The promotion of trade and acceleration of regional integration should place emphasis on the

development of e-commerce, harmonization of trade policies and customs procedures and development of infrastructure to address cybersecurity concerns, especially through the African Convention on Cybersecurity, as well as the development and implementation of a compatible and reliable cross-border ICT infrastructure across the continent. Furthermore, trade policies at the national and regional levels need to be coherent with bilateral, regional and multilateral trade agreements in order for them to be implemented and to be effective. They must be gender-sensitive, to ensure equitable access to trade opportunities and outcomes by men and women. There is also a need for sufficient financing of Africa's integration endeavours and for institutions ensuring the effective design, implementation and monitoring of agreed decisions and programmes for the swift establishment of the African Economic Community.

H. Strengthening South-South cooperation and rationalizing African partnerships

59. African countries need to build capacity to enhance, rationalize and maximize gains, in particular from their current relations with the emerging economies of the global South. The most important way in which Africa interacts with the rest of the global South is through trade and investment. The share of emerging partners in Africa's extra-regional trade stood at 32.5 per cent in 2008, 13 percentage points higher than in 1995. The direct effect of this trade is that African economies enjoy lower consumer prices, cheaper machinery and inputs, and higher export revenues, although non-competitive firms may go out of business. Higher export revenue would allow African countries to increase domestic investment and employment creation. The net impact on African economies will depend on the structure of each economy and the specific nature of the interaction (UNECA and AUC, 2011).

60. Other Southern flows occur through FDI, portfolio investments, remittances and aid and have been steadily rising (AfDB, OECD, UNDP and UNECA, 2011). Indeed, FDI into Africa from emerging countries is estimated to have doubled to about 10 per cent of the total in 2005-2010 compared to about 5 per cent in 2000-2004. These investments contribute to the prospects of Africa becoming a pole of global growth, through two main productivity channels: increasing the capital stock and transferring technology. However, the bulk of the demand is still for unprocessed goods with low value addition, which heightens the risk of a lock-in to a primary export trajectory as well as reducing the opportunity to increase value addition and export earnings (UNECA and AUC, 2011).

61. Furthermore, the availability of concessional loans from emerging partners in the South has increased access to finance for several countries in the region and is important for growth and employment. It is, however, crucial to ensure that new loans from such partners are used to finance projects that enhance domestic capacities to repay while generating employment, especially for the youth, given the population structure of Africa.

62. In fact, the central challenge for African countries is to have a unified framework for negotiation and cooperation with both emerging and old partners that will help them maximize gains in terms of trade, FDI and other kinds of capital flows, technology transfer, loans and aid, especially from emerging large economies such as China, India, Brazil, the Republic of Korea and Turkey. This challenge is especially important considering the key differences between

African countries in terms of the size of their economies, governance structures, negotiating capacity and resource endowment.

63. In all areas of interaction, there is a need to harness linkages to ensure that cooperation is directed to sectors where domestic investment, jobs, regional integration and productive capacities are enhanced. This could be done by using strategic incentives and policies that both encourage and obligate foreign investors to use domestic inputs, labour and partnerships in pursuit of their goals. Deliberate efforts to pursue joint ventures with Southern firms should be part of national policy frameworks. This will go a long way toward boosting the diffusion of knowledge for local entrepreneurs and will contribute to the structural transformation of African economies (UNECA and AUC, 2011).

Issues for discussion

1. What is the optimal institutional and policy framework for African countries to effectively address their binding development constraints in order for the continent to build capacity and become a pole of global growth?
2. How can African countries prioritize their development constraints and design and implement effective policy responses to address them?
3. What is the role of the State (leadership and other stakeholders), regional and continental institutions and development partners in this process?
4. How can Governments promote policy coordination and coherence to address common challenges and develop a united/common framework for engagement with old and emerging development partners?

IV. Mobilizing resources for economic transformation and take-off

64. Mobilizing new resources and increasing savings and investment is essential for Africa to meet its potential for economic growth and development and to fulfil its role as a pole of global growth. The global financial crisis underlines the need for Africa to utilize new and innovative sources of financing while working towards the financing goals of the Monterrey Consensus. A financing gap is evident regarding both internal and external sources of financing. Stagnating savings, investment, foreign capital inflows and trade balances relative to GDP are limiting the increase in financing available for Africa to meet its economic and social objectives.

65. The financing gap faced by Africa has been well documented, and was identified when estimating GDP growth requirements for poverty reduction in line with the MDGs. In 1999, it was estimated that a GDP growth rate of 7 per cent per annum would be necessary in order to achieve a 50 per cent reduction in poverty by 2015 in line with Goal 1 of the MDGs. It was established that to reach this level of growth, investment levels of 33 per cent of GDP would be needed (UNECA, 1999). Given the levels of savings and external financial sources at the time, a financing gap of 9 per cent of GDP was identified. In the years since then, Africa's GDP growth

has fluctuated between 3 and 6 per cent (World Bank, 2011). These growth rates remain below the level needed for the continent to achieve the MDGs by 2015 and Africa has to grow at least at the 7 per cent rate, or higher, in order to become a pole of global growth over the next 20 years. Thus, Africa's financing needs today remain as high as they were estimated to be in 1999.

66. Domestic savings and investment will be vital for the mobilization of long-term and sustainable financial resources to fund new projects and realize development goals, including investment in closing gender gaps that inhibit economic growth. However, despite notable improvements in many countries, both gross domestic savings and gross capital formation rates have remained low in Africa in the past two decades relative to other developing regions and Africa's own development needs. Subregions that did see an increase in gross domestic savings recorded a subsequent drop in the wake of the global financial crisis and, as of 2010, the levels of per capita gross domestic savings as a per cent of GDP were 3.0 per cent lower than in 1990, while gross capital formation was 1.78 per cent lower (World Bank, 2011). The stagnation in these two indicators over the past 20 years is both a cause and effect of the relatively slow GDP growth rates. At the same time, financial market deepening and development remains limited and capital markets are fragmented and isolated from the global markets, hampering efforts to mobilize domestic and external private resources. Facilitating the availability of long-term financing in particular is vital for encouraging savings and investment across the continent.

67. Revenue collection and tax administration difficulties further hamper the domestic financing abilities of African Governments. Government revenue as a percentage of GDP fell from 29.2 per cent in 2005 to 27.5 per cent in 2010, indicating a need to enhance taxation capacity (AfDB, OECD, AUC and UNECA, 2011). Also, increased Government spending to combat food and other commodity price increases has put pressure on public deficits. Enhancing the ability to effectively raise taxes while reducing the size of and reliance on trade taxes will be key to unlocking revenue collection. This is essential for enhancing trade competitiveness and growth, which would eventually help broaden the tax base.

68. Regarding the external sector, Africa's current account position improved over the last decade, but turned to a deficit in the wake of the financial crisis. The continent's trade balance as a percentage of GDP, which remained below 8 per cent over the past decade, fell significantly after the crisis, with a subsequent drop in demand for African exports from the Eurozone and North America. Despite growing global demand and prices for Africa's natural resource exports, the possibility of a double dip recession in trade partner economies and a further drop in foreign resources calls for greater utilization of alternative financing sources. Trade with new emerging market partners now represents 36.5 per cent of Africa's total trade, and this, combined with trade between African countries, represents an increasingly significant alternative to trade with traditional partners.

69. FDI flows to Africa increased significantly prior to the global crisis, and fell less sharply than in other regions of the world. However, as a percentage of GDP, the increase has not been significant. Moreover, most of these flows are selective and largely targeted at extractive sectors. North Africa and petroleum-exporting African countries dominate all FDI receipts, with Angola, Egypt, Libya and Nigeria receiving the largest flows of FDI in 2010 (UNCTADstat, 2011).

Guiding FDI towards new sectors such as manufacturing is a clear priority for policymakers in utilizing external financing to increase competitiveness and accelerate economic diversification in Africa.

70. Climate finance should be fully incorporated in efforts to mobilize resources to meet Africa's financing needs. As mentioned earlier, developed countries committed \$ 100 billion per year by 2020 to help poorer nations cope with the impacts of climate change, with \$30 billion in financing to be in place by 2012. Africa might expect to receive 40 per cent of this global commitment. The main questions are whether the climate finance commitments are likely to be sufficient, whether they will be honoured and whether beneficiary countries will utilize them in ways that attract further investments.

71. Africa needs to address several challenges in the context of promoting financing for development. First, limited taxable capacity combined with inefficient tax administration has often hampered domestic resource mobilization, while the tax base in some African countries has been eroded by generous tax incentives intended to attract FDI. Second, weak institutions and poor infrastructure continue to limit financial market development and integration and the mobilization of private savings at a time when illicit capital outflows continue unchecked and deprive the continent of substantial financial resources. Third, from the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action to the Fourth High-Level Forum on Aid Effectiveness held in Busan, commitments to more and predictable ODA remain uncertain. At the same time, stalled trade negotiations and a lack of effective global policy coordination to ensure a stable international financial system and an effective global trading system represent important impediments to promoting development financing in Africa.

72. As the global financial crisis calls into question the reliability of certain external financing sources, Africa faces a major need to maximize its benefits from existing financial sources while also pursuing new and innovative ones. Efforts in this regard must include measures to raise more revenue from natural resources and to address the funds wasted as a result of poor information, mismanagement and sometimes outright corruption. The Extractive Industries Transparency Initiative (EITI) is a step in the right direction, as is the African Mining Vision. In Ghana, for example, it was revealed through EITI that mining companies were paying an average royalty of just 3 per cent. Another major source of revenue is taxation, although it is important to design tax systems that do not interfere with overall economic growth. Simply collecting taxes more efficiently under existing systems would make a big difference. African Governments should also harness private investment so that it has a greater development impact. Focusing on these initiatives and on the goals for resource mobilization outlined by the Monterrey Consensus will assist African countries in utilizing all possible sources of financing for growth and development.

Issues for discussion

1. What strategies could be adopted to improve the mobilization of domestic resources and ensure that the domestic private sector actively participates in development financing at the national, regional and continental levels?
2. What should be done to ensure that natural resource revenue is effectively used to finance long-term projects and promote economic diversification across the continent?
3. How can Africa attract significant amounts of the savings and surpluses of emerging and developing economies and contribute to global macroeconomic rebalancing?
4. What supportive measures should be implemented to move from aid effectiveness to development effectiveness as emphasized in the outcome document of the Fourth High-level Forum on Aid Effectiveness?

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