Unleashing Africa's Development Capacity

4 CHAPTER

AFRICAN ECONOMIES HAVE grown impressively over the past decade, but the sources of growth have been mainly agriculture and natural resources (see chapters 2 and 3). Taking advantage of global conditions, Africa must now unleash its potential and grow even faster. To do this, it must diversify its economic foundations, industrialize further, address key development challenges in governance and institutions, human capital, technology, infrastructure and agriculture, and promote regional integration and new development partnerships.

Underlying many of Africa's socio-economic issues is bad governance, and without a stable, predictable and rule-based political order, Africa's productive potential cannot be unlocked. Its development potential cannot be set free unless the intellectual capital of the continent is maintained and developed. In a knowledge-based world, investment in science and innovation is the foundation of a competitive and resilient national economy. African economies are among the least competitive in the world because of the huge underinvestment in critical infrastructure, such as roads, electricity, water and ports. Without modern infrastructure, Africa's development potential cannot be harnessed to its fullest.

The continent's marginal position in the global economy is not "destiny" or "fate". It can be reversed with the right type of political leadership committed to mobilizing all sectors of society in support of a common national development vision. The institutional framework required for this task demands a capable and pragmatic bureaucracy, which can develop clear development objectives and targets as well as a common understanding among all stakeholders, through formal and informal ties with the private sector and civil society.

In turn, building national consensus that supports a common development vision requires a social contract in which the State, private sector and civil society are mutually accountable for realizing the development vision. As one aspect of good governance, the social contract must be cemented in societal structures through well-targeted policy interventions to ensure the legitimacy of the overall growth process.

Taking advantage of global conditions, Africa must now unleash its potential and grow even faster.

4.1 Promoting good governance

MANY OF THE socio-economic challenges confronting Africa are associated with bad governance and lack of a broad-based and inclusive national development vision (UNECA, 2009). Unresolved issues of political leadership, legitimacy and widespread "elite capture" are preventing Africa from developing. Since the 1990s, with the spontaneous growth of people's democratic movements across the continent, African leaders have also acknowledged the results of poor governance. The New Partnership for Africa's Development (NEPAD, 2002) identified the entrenchment of good governance principles and practices as preconditions for Africa's development. More significantly, the APRM provides a framework through which African leaders can hold each other accountable for their commitment to uphold norms of good political, economic and corporate governance in their countries.

There is growing consensus on the key elements of governance reforms in Africa (UNECA, 2005 and 2009). These include: strengthening the institutions of the State in order to foster predictability and accountability, and promoting a free and fair electoral process; fighting corruption; enhancing the capacity of public service delivery systems; and instituting programmes of social protection for those who are too poor or too sick to work. This section reviews some of these elements in a political then economic light.

Encouraging good political governance

Even with the progress in promoting democracy in Africa since the early 1990s, the picture is rather mixed, one of progress and reversals, what Karl Polanyi called "the double movement" (Polanyi, 1957). The fact that undemocratic rulers extend their hold on power through the ballot box with increasing regularity serves as a sobering reminder of how tentative and fragile the experiment with liberal democracy has been. When the basic conditions for democracy (table 4.1) are either non-existent or are too weak, the excesses of the executive branch of government cannot be checked. Yet, despite recent democratic reversals and the resurgence of a seemingly "predatory" so-called democratic State, the thirst of Africans for democracy remains strong (Lynch and Crawford, 2011).

Table 4.1

Top 10 performers on measures in the Ibrahim Index, 2011

Rule of Law	Score	Accountability	Score	Personal Safety	Score	Participation	Score	Rights	Score
Continental Average	48	Continental Average	43	Continental Average	44	Continental Average	42	Continental Average	43
Botswana	97	Botswana	86	Mauritius	80	Cape Verde	83	Cape Verde	86
Mauritius	94	Mauritius	82	Cape Verde	77	Mauritius	80	Mauritius	81
Cape Verde	88	Cape Verde	82	Seychelles	70	Liberia	78	Ghana	75
South Africa	85	Namibia	76	Sao Tome & Principe	69	Benin	78	Namibia	69
Ghana	85	South Africa	72	Botswana	65	South Africa	75	Benin	68
Namibia	81	Seychelles	68	Comoros	65	Seychelles	75	South Africa	67
Seychelles	74	Lesotho	65	Namibia	63	Botswana	75	Mali	67
Lesotho	66	Ghana	61	Djibouti	61	Sao Tome & Principe	73	Sao Tome & Principe	65
Uganda	65	Rwanda	59	Benin	59	Ghana	72	Lesotho	62
Malawi	64	Swaziland	59	Burkina Faso	59	Comoros	68	Zambia	61

Source: *Mo Ibrahim Foundation (2011)*

Moreover, the democratization experience in Africa has focused more on abstract rights and less on achieving concrete economic rights. Rapid economic growth has not translated into improved welfare for the majority of Africans, and the trend is towards wealth concentrating in the hands of small elites.

Despite recent reversals, Africans' thirst for democracy remains strong.

For democracy to succeed, there must be significant social reform and a reduction in socio-economic inequalities. Political freedom and participation cannot be divorced from other kinds of freedom. There is an organic link between political freedom and freedom from hunger, ignorance and disease (Sen, 1999). In the absence of real changes in people's lives, zero-sum mentalities will prevail instead of moderation, thus undermining the chances for democratic consolidation and deepening.

Africa governments must therefore tread carefully to ensure that efforts to reform the economy along free-market lines do not undermine the equally important responsibility of a government to protect and promote the economic and social rights of its citizens. To overcome its democratic deficit, government must address important issues critical for restoring the faith of citizens in the integrity of public institutions, and ensure that the rules governing social and economic interactions are predictable and stable.

Strengthening the institutions of accountability

The task of strengthening democratic governance must, at the very least, include the following enabling mechanisms: the rule of law and constitutional legitimacy; a system of representation, with well-functioning political parties and interest associations; freedom of expression and association; an electoral system that guarantees regular free and fair elections; and a system of checks and balances based on the separation of government powers. Ensuring compliance requires strong institutions of accountability.

Strengthening these institutions, such as the office of the auditor-general, internal revenue service, anti-corruption bureau, electoral commission and relevant parliamentary budget committees, will greatly assist in improving transparency and accountability in government performance. Such strengthening will require enhanced investment in data gathering and analysis, as well as cost-effective computerization and information sharing among government agencies. Doing more with less is not just a matter of efficiency gain. It is also about instilling a culture of responsibility, accountability and service orientation in government institutions.

Strengthening the capacity of non-State actors

Democratic participation becomes meaningful only when individual citizens, through their respective popular organizations, take an active part in shaping public policy, and hold their governments and elected representatives accountable. Meaningful participation also requires grassroots civic education to create more active, self-confident and politically aware citizens. However, many civil society organizations and social movements in Africa suffer from a poverty of ideas, poor leadership and lack of basic resources, hindering them from becoming an effective force in protecting and promoting the democratic system of government, locally and nationally. This institutional weakness makes it hard for civil society to regularly check excesses of State power.

The challenge for African governments in the coming years is how to build strong, vibrant and autonomous organs of civil society across the political spectrum through which citizens can influence public policy, and assert and fight for their social and economic rights. Only by expanding visions and raising consciousness can people participate effectively in the political process and hold public officials accountable. A weak civil society and a

For democracy to succeed there must be significant social reform and a reduction in socio-economic inequalities.

weak state are not good for the practice of democracy. Both have to be strengthened and sustained.

Constructing an inclusive and viable social contract

The crucial challenge for African governments is how to expedite democratization while revitalizing the economy. This dual task demands an effective and competent State capable of mobilizing the population in support of a common national vision to bring about the material emancipation of the poor majority. Economic growth has little meaning unless it is accompanied by complementary policies to reduce inequality, to ensure access of the poor to education and basic social services and to strengthen infrastructure. Growth should lift the ability of the poor to engage in productive employment and some African countries are achieving this, as shown in table 4.2. Since investment in the social sector has a direct impact on the productive efficiency of the economy, social policy should become an integral part of democratization and development (see chapter 2 for a more detailed discussion on social development issues).

Table 4.2

Africa's top 10 performers on human development indicators in the Ibrahim Index, 2011

Human Development	Score	Welfare	Score	Education	Score	Health	Score
Continental Average	56	Continental Average	52	Continental Average	51	Continental Average	66
Tunisia	88	Mauritius	89	Seychelles	96	Seychelles	99
Mauritius	87	Tunisia	83	Tunisia	87	Libya	98
Seychelles	86	Cape Verde	81	Mauritius	84	Cape Verde	95
Cape Verde	83	South Africa	80	Libya	83	Tunisia	95
Libya	82	Botswana	77	South Africa	82	Botswana	91
Botswana	82	Ghana	69	Algeria	81	Namibia	88
Algeria	77	Algeria	68	Egypt	79	Mauritius	87
South Africa	77	Djibouti	68	Botswana	78	Sao Tome & Principe	87
Egypt	76	Egypt	68	Cape Verde	74	Morocco	84
Namibia	72	Rwanda	66	Ghana	66	Swaziland	84

Source: *Mo Ibrahim Foundation (2011)*

For democracy to survive, let alone flourish, it should embody social and economic characteristics that are relevant to the aspirations of the majority and that protect the rights of minorities. This implies a completely different kind of politics in which the social contract between the State, private sector and civil society is renegotiated along equitable, inclusive and emancipatory lines (Ake, 1996). Formalized social contracts are an essential ingredient of a political society. One cannot understand or even begin to theorize governance and accountability without a sense of the nature of the social contract in any given political system (Adesina, 2007). Without the social contract, citizens cannot seek to exert accountability as members of that political community.

Social policy should become an integral part of democracy and development.

African States should therefore strive to build a form of democracy that emphasizes concrete political, social and economic rights as opposed to abstract political rights. There must, as said earlier, be an organic link between political freedom and freedom from hunger, ignorance and disease. The main bases for a more inclusive growth process are access to productive assets, such as land, and expansion of productive employment. Important policies for achieving this goal include agrarian reform and rural development policies, greater access to high-quality education and health services, and stronger critical infrastructure, thus enabling citizens to have equal opportunities for upward mobility.

Expanding national policy space

Part of the challenge for restoring and renewing democracy in Africa is that African policy institutions and the process of policymaking have been captured to a point where rulers exercise power, but the determinants of policy appear to be external to the continent. This process took the form of structural adjustment in the 1980s and has since been extended to core areas of social and economic policy, such as the PRSPs and the MDGs—and even democratization (UNCTAD, 2007).

Many of these donor-driven initiatives have added to erosion of domestic policy space through debt structures, unfair trade practices and endless loan conditions that characterize donor–recipient relationships (Utting, 2006). How to rebuild policy space and reconfigure the politics surrounding policymaking and how to exercise institutional innovations for pursuing autonomous national development are critical issues that African countries must address pragmatically. An effective State with considerable policy space is a prerequisite for consolidating democracy and a well-functioning market (UNECA and AUC, 2011).

Improving economic governance

Alongside the politics runs the economics. Countries with strong institutions and an independent and effective bureaucracy generally have solid economic growth by securing property rights, checking corruption, promoting and protecting individual rights and freedoms, and restraining the government's discretionary power (Evans, 1995; UNCTAD, 2009a). Conversely, the absence of transparent and predictable institutional frameworks allows discretionary interpretations that could give rise to rent seeking and corrupt practices. In countries where strong and effective government institutions are missing, public confidence in the integrity of the policy and regulatory frameworks is diminished and the operation of the market is distorted (Miller and Holms, 2011).

Since promoting democracy is a political process, it cannot exclude the central issue of State power. Although the State in Africa has frequently been the object of popular resistance, it is unrealistic to assume that any society can be put on a democratic footing without an effective and functioning State system (Mkandawire, 2001).

Effective governance of economic development therefore requires a capable State that does two things: maintain macroeconomic stability as the foundation for successful productive development policy; and implement structural and social policies to unleash productive capacity for immediate poverty reduction and for building foundations for long-term growth. Indeed, part of the democratic movement in Africa is precisely how to build such a State, that responds to the concerns of the majority of the population and empowers all to strive to realize their full potential (Edigheji, 2010; Mkandawire, 2001).

Certainly, the policy and institutional environment for doing business in Africa has improved considerably over the past decade. In 2012, for example, 36 out of 46 economies in sub-Saharan Africa improved their business regulations. However, much more remains to be done. The following section outlines some of the elements required to build the foundations for broad-based, sustainable structural economic transformation.

It is wrong to assume that any society can be put on a democratic footing without an effective and functioning State system.

A comprehensive development planning framework and industrialization

African countries need comprehensive development frameworks underpinned by effective development plans and policies, including industrial and other sectoral policies (UNECA and AUC, 2011a). The experience of emerging economies presents three important lessons. The first is that there are discernible common characteristics in the patterns of structural change and economic development processes in general, and industrialization and diversification in particular. The second is that countries that have achieved high growth in recent history are not the ones that implemented the prescriptions of the Washington Consensus such as deregulation, privatization, maintaining a balanced budget, and reducing the role of the State in the economy. This is illustrated by Republic of Korea, Taiwan (Province of China) and China, whose growth policies exhibit significant departures from that approach. The third and overarching lesson is that the State plays a central role in guiding and promoting successful structural transformation. Indeed, the historical evidence shows that all countries that have successfully transformed from agrarian economies to modern advanced economies had governments that played a proactive role in assisting individual firms in the shift.

For the development frameworks adopted by African countries to be effective, States must tackle the weaknesses outlined in box 4.1. In addition to rebuilding and strengthening State capacity, a development framework should focus on promoting high, sustainable and shared economic growth through diversification and transformation. The framework must steer economic and social policies to work in a complementary manner.

Box 4.1: Weaknesses in Africa's structural transformation

Structural transformation involves continuous technological innovation, industrial upgrading and diversification, and improvements in the various types of infrastructure and institutional arrangements that constitute the context for business development and wealth creation.

However, Africa's experience with a range of development approaches (see chapter 3) has not led to genuine transformation, suggesting the need to rethink the role of the State, both in the continent's economic transformation and in country-level planning and policy frameworks. It is essential that African States assume their developmental responsibilities and guide sustainable social and economic development.[1]

Economic transformation in Africa has remained weak for several interacting reasons. First, development strategies have been ineffective in reallocating factors of production from less to more productive sectors as a means of diversifying the economies from primary commodities to industry and services with high value added. This has prevented many countries from fostering the kind of growth that creates decent jobs and reduces poverty. Second, natural-resource abundance is often associated with distorted incentives to diversify; a problem compounded by the continent's challenging environment and geography. Together, these issues lower labour productivity, access to large markets, economies of scale and production efficiency, and raise production costs.

Third, Africa lags behind the rest of the world in the quality of its economic and political institutions as well as its business environment. This weakness in quality feeds through to ineffective resource allocation and lack of incentive systems for innovative long-term investment and private sector development. It also partly accounts for the continent's inadequate provision of public goods and social expenditure. Many African countries suffer from large deficits in the State's ability to enhance the human capacity of its citizens. Therefore, the degree of public participation and ownership of development programmes is often low.

Note: *1. See UNECA and AUC (2011) for a detailed discussion of the role of the State in economic transformation in Africa.*

The impact of these economic policies will create winners and losers among various economic agents, both as producers and consumers. Indeed, all segments of society may be called on to make short-term socio-economic sacrifices for long-term benefits. Hence, the framework must contain incentives and sanctions, so that economic agents who meet targets are rewarded and those who fail are penalized. This system accords the State a large role in designing and implementing appropriate conflict-management arrangements.

Since free-market forces will not drive economic transformation on their own—issues of market failure abound in this area—the State must play a central role in allocating resources and in efficiently coordinating crucial economic activities. This is particularly relevant to infrastructure, agriculture and industry.

Industrial production creates job opportunities at high skill levels, and facilitates dense linkages among service and agricultural sectors, rural and urban economies, and consumer, intermediate and capital-goods industries. In addition, the prices of manufactured exports are less volatile and less susceptible to long-term deterioration than those of primary goods, making industrialization particularly strategic in highly commodity-dependent developing countries. The move to industry is therefore a critical tool in creating jobs, reducing poverty and developing outlying regions. Finally, it can spur technological advances and innovation as well as productivity gains. In short, it can play the leading development role more suitably than any other sector.

Poor delivery of services by State-owned utility companies is a major obstacle to entrepreneurship.

Virtually all today's successful nations supported and protected their industries through specific policies and institutions. They also relied on government policies to promote growth by accelerating structural transformation. China is an example, as its phenomenal manufacturing power rests in large part on public assistance to new industries (Lin et al. 2003). The Chilean Government has also played a crucial role in developing every significant new export (Pietrobelli and Rabellotti, 2006). The United States also owes much of its innovative industrial power to government support (Lazonick, 2011).

Africa, with its rich endowment of natural and mineral resources, is the least industrialized continent. Post-independence industrial strategies were abruptly discontinued in most countries when SAPs were promulgated (see chapter 3). The slow pace of industrialization of the continent may be attributed to numerous factors, among them inappropriate industrial investment policies, and constraints associated with infrastructure, market size and technology. Still, despite the early challenges faced, African governments continue to rate industrialization among their highest policy priorities, as evidenced by Africa-wide initiatives (box 4.2).

Box 4.2: Industrializing Africa

The Lagos Plan of Action of 1980 considered industrialization as the means of attaining self-reliance and self-sustained development. This was strongly reflected in proposals for Industrial Development Decades for Africa. However, despite isolated successes, the effects of these proposals were deemed disappointing by most African countries, as they were hampered by an absence of mechanisms for implementation, coordination and monitoring.

Subsequently, the African Productive Capacity Initiative was adopted by AU and NEPAD in 2004 as the overarching framework for sustainable industrial development in Africa. Further, during the AU Summit in 2008, the Heads of State and Government adopted the Plan of Action for the Accelerated Industrial Development of Africa.

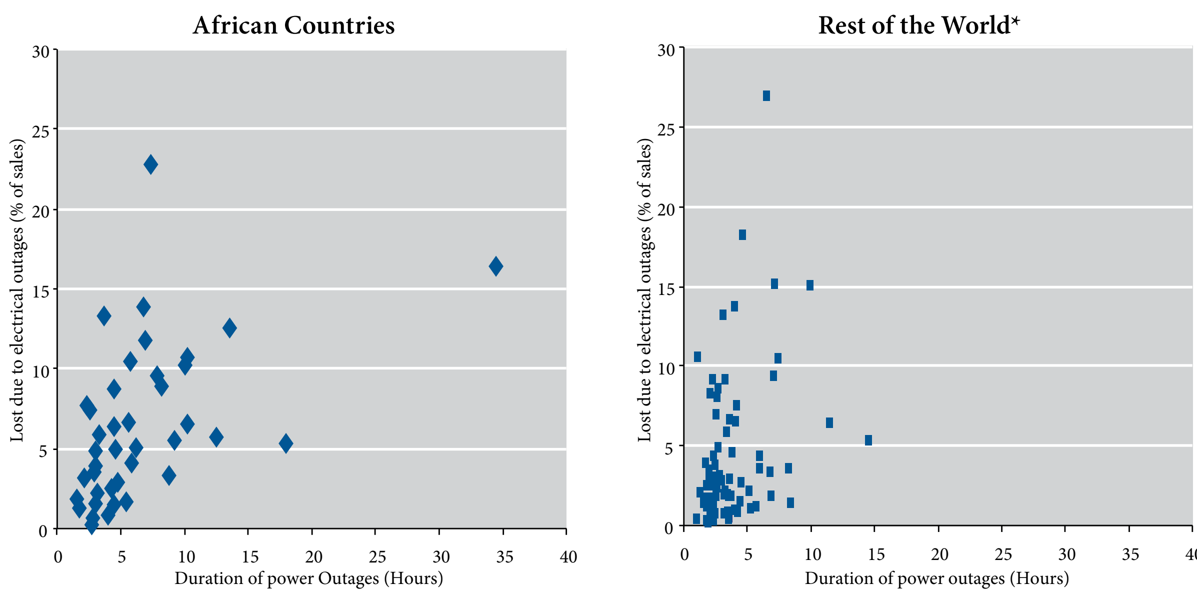
The issue of national industrial policies has been making its way back onto the 'radar screens' of many African governments, with the adoption of new industrial policies in recent years. Some of these policies combine both active industrial instruments and broader macroeconomic measures. In addressing Africa's industrial development challenges in the twenty-first century, consensus is being built on the need to create competitive industries (Africa Union, 2007b). From a technical perspective, it is implicitly recognized that competitiveness can be drawn not only from existing (static) comparative advantages, such as Africa's immense natural resources base, but also from created (dynamic) comparative advantages.

Improving public service delivery and reducing costs

The cumulative effects of unreliable power supply, bad roads and poor communications on competitiveness, overall economic growth and job creation are immense. In many African countries, poor and ineffective delivery of services by State-owned utility companies is a major obstacle to entrepreneurship and the right of citizens to enjoy healthy living. Access to reliable electricity and clean water are two of the most pressing challenges that consumers and private operators face on a daily basis (figure 4.1). Frequent power outages impose a substantial loss on sales and working hours. In Nigeria, for example, almost 40 per cent of electricity is privately provided by generators, and businesses report that outages occur almost every day of the year. The country's main electricity company, the State-owned Nigerian Electric Power Authority, is riddled with inefficiency yet is allowed to continue running at a loss.

Figure 4.1

Power outages and lost sales



Source: *World Bank Enterprise Surveys 2005-2011.*

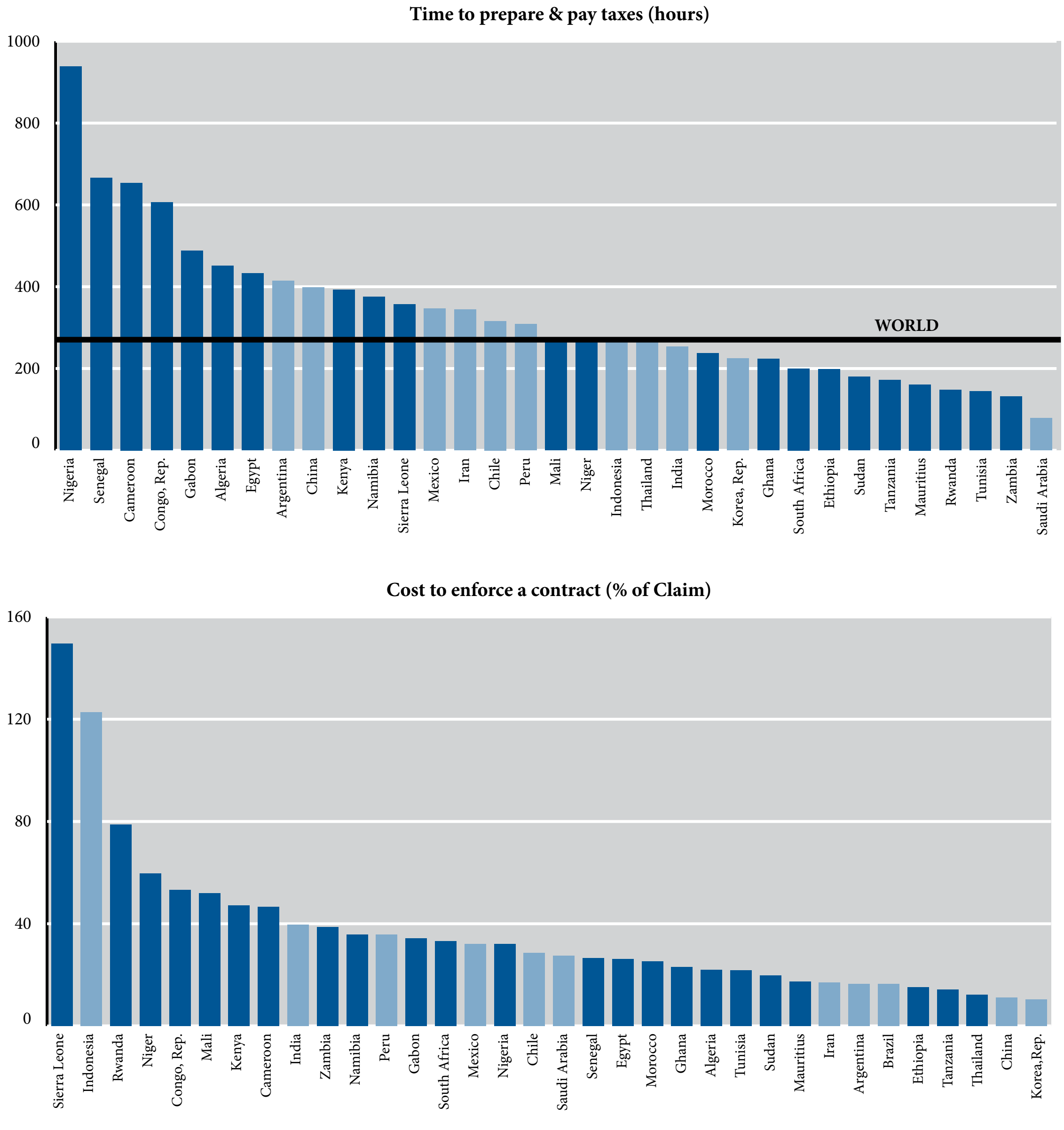
Notes: *the information per country corresponds to the last available year within the period 2005-2011; * African countries not included.*

Nigeria is not alone. The problem of poor service delivery is widespread across the continent. What has been missing in many African countries is decisive political leadership to dismantle inefficient utility companies. The need is often acknowledged, but rarely acted on.

Nevertheless, the situation today is far from hopeless. It also varies widely, as a glance at the indicators shows (figure 4.1). Improving service delivery by State utility companies requires deliberate State action to force them to operate on market principles, and to hold their managers and regulatory agencies accountable. Greater efficiency can be brought into these company operations—provision of electricity and water in particular—by fostering competition through deregulation and privatization, public–private partnerships (PPPs) and various forms of joint ventures, management contracts and other market-driven approaches. Whatever approach is chosen must be based on empirical evidence rather than political bias, and the power of regulators should be strengthened to ensure that utility companies do not cut corners to save money.

Figure 4.2

Costs of doing business



Source: *World Bank Doing Business and Enterprise Surveys 2005-2011.*

Note: *the information per country corresponds to the last available year within the period 2005-2011.*

Creating an enabling business environment

African private sector operators face greater regulatory and administrative burdens, and less protection of property and investor rights, than businesses in any other region (World Bank, 2011b; Okey, 2011). Nevertheless, the situation is ameliorating. Both Doing Business

The war against corruption should be stepped up.

2012 (World Bank, 2011b) and the Africa Competitiveness Report 2011-2012 (WEF, 2011) point out that several African countries have recently made impressive gains in economic governance. Among the top 30 most improved economies between 2001 and 2008, a third is in sub-Saharan Africa. In the top 10 are five sub-Saharan African countries.

These improvements are generally attributed to better regulations and ease of doing business, improved access to credit and better enforcement of contracts. However, much remains to be done to upgrade conditions to international standards. Corruption remains too common, with 27 of 47 African countries classified as having "rampant corruption". In another 17 countries, corruption is regarded as a "serious challenge" by business people. Only in Botswana, Cape Verde and Mauritius is corruption seen as less of a burden (World Bank, 2011b).

In order to unleash the productive potential of Africa's private sector, decisive government actions are needed to cut unnecessary and costly red tape in such areas as accessing electricity or telephone connections, securing building permits and land titles, or an operator's licence to start a business. The war against corruption should be stepped up—and will last a long time. Waging war requires persistence, a balanced approach that combines incentives as well as regulation, and an effective State with the capacity to implement and monitor outcomes and ensure that the benefits far outweigh the costs. In addition, the fight must be broad-based and targeted at all sectors of society—not just political rivals or opponents.

Bridging the informal-formal divide should be central to creating a conducive business environment in Africa.

Then there is the issue of informality. The nature and characteristics of the private sector in Africa, with high and dominant informality, demand a particular approach to getting the most out of it. Informality is pervasive, and accounts for a large share of goods and services produced and consumed. It is responsible for perhaps 78 per cent of urban employment in sub-Saharan Africa, and as much as 93 per cent of new jobs (Xaba, Horn and Motola, 2002).

The International Labour Organization (ILO) estimates that 80 per cent of the non-agricultural workforce in sub-Saharan Africa is in the informal economy, as are 92 per cent of non-agricultural job opportunities for women (ILO, 2009). As a share of gross national income, informality ranges from under 30 per cent in South Africa to nearly 60 per cent in Nigeria, Tanzania and Zimbabwe (Verick, 2006). Yet, informal operators face many challenges, from harassment by authorities to lack of access to credit and basic services such as electricity and water. This can largely be attributed to the absence of a policy framework.

Bridging the informal–formal divide should be central in plans to create a conducive and inclusive African business environment, one that supports various categories of informal operators, especially youth and women, helping them to move up the technological and entrepreneurship ladder through programmes of education and training, skills and technological transfer, and subcontracting possibilities with formal firms and with government procurement (ILO, 2009; Hallward-Driemeier, 2011). In this way, informal enterprises could grow to become more productive formal enterprises, generating jobs and growth, and usefully boosting tax receipts.

Creating an enabling environment for enterprises to leap-frog onto a green growth path

Efforts to improve the business environment have to go beyond increasing efficiency and profits. They also need to promote innovation and the intensive use of science and technology by domestic firms through market mechanisms rather than administrative fiat. National governments should consider creating an enabling business environment to help enterprises to take up new environment friendly technologies in production so as to enable them to make the transition to a green economic future without having to incur huge costs. Through tax incentives and subsidies, and working with the private sector, governments should promote environmentally sustainable models of production among domestic firms.

4.2 Investing in human capital and technology

TAPPING DEEPER INTO Africa's productive potential cannot happen unless the intellectual capital of the continent is at least maintained, and then developed.[1] Education, both basic and tertiary, provides the basis for building national capabilities to improve productivity and competitiveness. Africa has greatly improved access to primary education but still faces a daunting challenge in improving the quality of secondary and tertiary education.

One troubling aspect of the current system is the disconnect between what is taught in the formal system and the demands of public and private employers for graduates with skills in business administration, entrepreneurship, finance, and science and technology (Gyimah-Brempong and Ondiege, 2011). Too many graduates leave secondary school or universities with only a general education qualification while jobs for individuals with technical and management skills remain vacant. Bridging this gap requires a plethora of actions in priority areas.

Prioritizing science and technology, and business development education

In the newly industrialized countries of East Asia, technological advance has been a key driving force, accounting for the major part of productivity growth. The situation in Africa is quite different despite huge government investment in education. While about half or more of students enrolled in tertiary educational institutions in fast-growing economies such as Republic of Korea, Taiwan (Province of China) and China are enrolled in science, engineering, technology or business disciplines, the equivalent figure for Africa is about one fifth. The majority are enrolled in other disciplines, including about one third in the social sciences and slightly less in education (Gyimah-Brempong and Ondiege, 2011). The result is that, while graduates of African tertiary educational institutions go unemployed, African counties continue to face shortages of skilled labour.

The key to sustained growth, competitiveness and economic transformation is a progressive upgrade of national technological capacity, and quality and relevance should be the hallmark of higher education reform in Africa. Greater emphasis must be given to improving scientific and technological skills, business management and other fields that will set the key to unlocking Africa's productive potential (Gyimah-Brempong and Ondiege, 2011). This can largely be achieved through a radical restructuring of the existing tertiary education system via curricular reform, appropriate funding mechanisms and incentives for innovation and high performance.

> *Quality and relevance should be the hallmark of higher education reform in Africa.*

Investing in programmes to retrain and retool unemployed graduates

The mismatch between the skills needed in the labour market and the academic-focused training of graduates is a huge waste of human capital. In the short and medium term, human resource development policy should move to retrain and retool unemployed school graduates from secondary and tertiary educational institutions in order to meet the growing demand for other skills on the labour market. Such skills include ICT, services, and transport and logistics. Governments should also work with the private sector to link potential employees and employers.

Developing national strategies to attract skilled members of diasporas

African governments recognize the contributions of their people living in the diaspora to the economic development of their home countries, both as investors and transmitters of remittances, knowledge and skills (Brinkerhoff, 2006; Kapur, 2001). Some 15 African countries have set up diaspora-related institutions or ministries. In addition, the AUC has created the African Citizens Directorate to deal with overarching issues in the relationship between diasporas and home governments.

Initial interest by African governments in engaging members of their diasporas in developing the homeland may have been motivated by financial or economic considerations, but diasporan communities also transfer non-financial resources—or "social remittances"—such as skills and modern values from the West to Africa. Eventually, these resources may have more profound impact on the attitude of societies to freedom, gender equality, tolerance of differences, human rights, governance and political practices. Skilled diasporans, particularly those in teaching and research at leading Western universities, can play a critical role in transforming African universities through their research, teaching and mentoring of young scholars and future graduate students (box 4.3).

Box 4.3: Tapping into diaspora knowledge: The Migration for Development in Ethiopia programme

The International Organization for Migration (IOM), with the Diaspora Coordinating Office of the Ethiopian Ministry of Capacity Building, administer the Migration for Development in Ethiopia (MidEth) programme, an IOM country-specific programme of its larger initiative—Migration for Development in Africa.

Set up to address skills gaps in Ethiopia, the programme offers several components, including a transfer of knowledge and technology scheme. The objective of such transfer is for skilled diaspora members to return to Ethiopia temporarily, preferably six months or more, to provide support to ministries and public institutions.

The programme is coordinated by Ethiopian embassies, which recruit members of the diaspora, and by he Ministry of Capacity Building, which assesses the needs for skilled workers in Ethiopia. IOM in Ethiopia coordinates logistics. A focus of the programme is universities in Ethiopia seeking skilled professionals, and lists of positions are available on embassy websites. The Ministry of Capacity Building partly funds the programme by paying for the flights and housing costs of temporary returnees. The United Nations Development Programme (UNDP) funds other aspects of the programme, including IOM coordination activities and paying the diasporan member a top-up of a maximum of $300 a month.

A successful programme is that with the Ethiopian North American Health Professionals Association (ENAHPA). Established in 1999, ENAHPA is a network of diasporan and non-diasporan volunteers dedicated to improving health in Ethiopia. Each year, via MidEth, ENAHPA sends health professionals to Ethiopia to train, lecture and run workshops with medical professionals. ENAHPA organizes the health professionals, IOM funds their flights and the Government of Ethiopia approves their mission.

Source: *Kuschminder and Siegel (2010).*

Transforming the university system to become a catalyst for change

No country in the world has managed to join the knowledge-based global economy by investing only in primary education. As Africa prepares to become the next global growth pole, national governments must emphasize post-graduate and university education, with a particular focus on science and technology, business studies, and a strong research culture in African universities. University reform should involve the way knowledge is produced, the nature and content of knowledge, the place of research and knowledge production and how to pay for it, and the kinds of partnerships that universities in Africa should seek to be equal players in the global arena while remaining relevant nationally and locally (Zeleza and Olukoshi, 2004; Aina, 2010). These important issues have major implications for the future of Africa's universities.

Investing in regional centres of excellence

African governments need to support centres of excellence in science and technology. The more proficient countries in this field, such as Egypt, Kenya, Nigeria and South Africa, can become regional incubators to cover smaller countries. National and regional centres of excellence, along the lines of the Indian Institute of Science and Technology and the University of Botswana Business Clinic, should be established.

Such centres aim to promote high-quality research to be shared by geographically dispersed institutions. The African Economic Research Consortium (AERC) has collaborative MA and PhD degrees in economics, as one example. The approach can be replicated for agriculture, business management, engineering and ICT training programmes.

4.3 Investing in physical infrastructure

NO COUNTRY HAS sustained rapid growth without keeping up fairly steep rates of public infrastructure investment. Infrastructure affects growth in two main ways—directly through physical capital accumulation and indirectly through improvements in productivity. At the microeconomic level, investment in infrastructure enhances private activity by lowering the cost of production and opening new markets, and presenting new production and trade opportunities. At the same time, infrastructure investment in power generation, water, sanitation and housing improves the social well-being of citizens.

The inadequate and poor quality of infrastructure in Africa is a major obstacle to unleashing Africa's development potential. Empirical research indicates that Africa's infrastructure deficit is lowering the continent's per capita economic growth by 2 percentage points a year and reducing the productivity of firms by as much as 40 per cent (Foster and Briceño-Garmendia, 2010; Ramachandran, Gelb and Shah, 2009).

The continent faces huge infrastructure challenges, in particular:

- Access to electricity for 30 per cent of the population compared with 70–90 per cent for Asia, Latin America and the Middle East.
- A telecommunications penetration rate of about 6 per cent compared with an average of 40 per cent for other regions of the world. Africa has the lowest Internet penetration—3 per cent.

> *Inadequate and poor infrastructure is a major obstacle to unleashing Africa's development potential.*

- A road access rate of 34 per cent compared with 55 per cent on average for other regions, and some of the highest transport costs in the world.
- Access to water and sanitation (65 per cent urban and 38 per cent rural) compared with water access rates of 80–90 per cent for other regions.

Largely due to this underinvestment (table 4.3), African countries are among the least competitive in the world. Alone, increasing per capita growth in electricity output from 2 per cent to 6 per cent would lead to a one-half percentage point increase in economic growth. Infrastructure in Africa is in dire need of rehabilitation, upgrading and expansion to make up for many years of poor maintenance and even neglect.

Table 4.3

Density of infrastructure

Normalized units	Sub-Saharan low-income countries	Other low-income countries
Paved-road density	31	134
Total road density	137	211
Main-line density	10	78
Mobile density	55	76
Internet density	2	3
Generation capacity	37	326
Electricity coverage	16	41
Improved water	60	72
Improved sanitation	34	51

Source: *Adapted from Foster and Briceño-Garmendia, 2010:3*

Recent initiatives and the financing gap

African leaders have shown renewed commitment to addressing the continent's infrastructure gap through strong partnerships with global and regional institutions. Various planning frameworks developed by NEPAD since its inception[2] were brought together under one umbrella, the Programme for Infrastructure Development in Africa, in July 2010. This covers all four key sectors of transport, energy, trans-boundary water and ICT (AfDB et al., 2011). It will be carried out in two stages—study and implementation—and is therefore work in progress.

Sub-Saharan Africa's infrastructure requires an estimated $93 billion a year, two thirds for capital spending (table 4.4). Actual spending is put at $45 billion a year, and after accounting for potential efficiency gains that could amount to $17 billion, Africa's infrastructure gap remains substantial at close to $31 billion a year, or 12 per cent of its GDP (Foster and Briceño-Garmendia, 2010). About half the total investment needs are for power, followed by transport and water.

As scope for raising additional tax or user fees to fill the financing gap is highly constrained, simultaneous actions on two fronts are required: mobilizing resources and getting more out of current investments.

Table 4.4

Sub-Saharan Africa: infrastructure needs, 2006–2015, ($billion a year)

	Capital expenditure	Operations and maintenance	Total spending
ICT	7.0	2.0	9.0
Irrigation	2.7	0.6	3.3
Power	26.7	14.1	40.8
Transport	8.8	9.4	18.2
Water and sanitation	14.9	7.0	21.9
Total	60.4	33.0	93.3

Source: *Foster and Briceño-Garmendia, 2010, p. 58.*

Mobilizing resources

Efforts to encourage more domestic and external development finance should have high political priority at international and national levels. There is considerable scope for further innovation in mobilizing new sources of development finance if the political will exists. This section looks at the options open to Africa. Chapter 5 discusses matters in more detail.

Developing domestic financial and capital markets

Much effort is going towards attracting investments for infrastructure from external private and official finance for infrastructure development, but harnessing domestic resources has not been sufficiently explored (Inderst, 2009; UNCTAD, 2007). Approaches would include pension funds, sovereign wealth funds (in the case of mineral-rich African countries) and insurance funds. Several countries in Africa, such as Ghana, Kenya, Nigeria and Senegal, have started to tap into pension and insurance funds for infrastructure financing.

Through structural reforms, African governments can also develop long-term local capital markets, which include government and non-government bond markets and equity markets. New instruments, such as diaspora bonds and commodity-linked bonds, are already being used (Ratha and Ketkar, 2007; Kuschminder and Siegel, 2010). A domestic bond market is fundamental to the pricing of credit risk associated with long-term financing. Local stock markets could be strengthened to absorb large public offerings of shares in order to increase availability of long-term financing. Measures could be taken to enhance the role of banks as intermediaries for infrastructure projects by creating instruments and markets to shape risk, maturity and duration.

Encouraging FDI from emerging economies

The increasing importance of emerging and developing countries such as Brazil, China, India and Turkey in global trade, finance and investment has opened up opportunities for closer economic relations between Africa and these players. The contributions of China and India to Africa's infrastructure have been quite visible and very hard to ignore (Foster et al., 2008). These emerging powers have relatively large financial resources as well as appropriate skills and technology that African countries need to address their development needs. China has been the biggest investor in African infrastructure (box 4.4).

Resource-rich African countries should leverage the commodity boom to negotiate "resource-for-infrastructure" deals.

Box 4.4: China and Africa's infrastructure development

Chinese infrastructure financing commitments in Africa surged in 2001–2009 to $14 billion. In 2008 alone, among the top 225 international contractors, Chinese contractors had 42.4 per cent of the African market.

Most Chinese financing commitments are in electricity, ICT and transport. By value, power projects account for approximately half the Chinese-financed projects. Around one third of these financing commitments went to 10 of the 16 landlocked African countries, and about two thirds went to low-income economies. Rehabilitation of projects previously financed by China account for 18 per cent of Chinese-financed projects, most of them in rural areas.

The entry of Chinese construction companies and infrastructure developers into the equity/PPP project market is still in initial stages, but the firms recognize this as a growing market. According to one survey, competitive bidding represents slightly less than 90 per cent of contracts won in Africa by Chinese contractors. They are localizing more, by creating jobs for Africans and investing in training for local employees.

Source: *Chen (2010).*

African countries should therefore make all efforts to attract FDI from these countries into physical infrastructure development. Not only do the Chinese have the financial resources but also the proven expertise and know-how. Resource-rich African countries should leverage the commodities boom to negotiate "resource-for-infrastructure" deals from a better informed platform.

Accelerating institutional and governance reform

Essential for mobilizing the necessary domestic and external private finance for infrastructure development is designing and establishing the relevant policies, laws and regulations that provide predictable and accountable rules, mechanisms, and procedures on tendering and bidding, and that enforce contracts between the public and private sectors (Shendy, Kaplan and Mousley, 2011). This also entails improving regulatory performance and applying more explicit competition rules and procedures.

Getting more out of current infrastructure investment through efficiency gains

Achieving greater efficiency in service delivery and ensuring value for money are essential in their own right, as well as complementary to mobilizing finance. By accelerating reform in the infrastructure sector, Governments can reap huge savings through efficiency gains. The World Bank estimates that some $17 billion can be saved through greater efficiency in infrastructure (Foster and Briceño-Garmendia, 2010). Some key approaches are outlined in the following section.

Promoting PPPs through a transparent engagement framework

Infrastructure investment in Africa has remained low for so long for several reasons. First, infrastructure investments have the characteristics of a public good (i.e., they are non-exclusive in consumption), which gives the private sector very little incentive to invest. Second, the lack of long-term stable finance, high sector-specific risks, political instability and poor governance limit private participation. Third, the public sector has too few resources to provide infrastructure financing.

In recent years, the idea of PPPs for infrastructure has gained acceptance in African policymaking circles. Given the fiscal crisis of African countries and the shortage of long-term locally denominated debt, several African countries are encouraging PPPs, including joint ventures, build-operate-transfer schemes and similar arrangements, which could help to upgrade and expand the infrastructure base (Shendy, Kaplan and Mousley, 2011; Foster and

Briceño-Garmendia, 2010). For PPPs to succeed, however, governments have to develop clear and transparent institutional frameworks that cover many sides of PPP transactions, from project development to contract compliance. PPPs also need strong bodies to monitor implementation, evaluate results and ensure overall compliance in meeting performance targets (UNECA, 2011b).

Transforming agriculture is a precondition for unleashing the continent's development potential.

Dismantling monopolies and encouraging competition

Operational inefficiencies and corruption are widespread problems in publicly run utilities. Such inefficiencies in power cost Africa $2.7 billion a year, or around 0.8 per cent of GDP (Foster and Briceño-Garmendia, 2010).[3] It is estimated that the continent's average power distribution losses are 23.3 per cent, more than twice the norm of 10 per cent for developing countries. Although this affects all countries to some degree, these inefficiencies reduce the pace of electrification, drain the public purse and undermine the performance of utilities. The problem is not just limited to poor network coverage, but comes through in the exceptionally high price of infrastructure services in Africa (table 4.5).

Table 4.5

High-cost of African infrastructure

Sector	Africa	Other developing regions
Power tariffs ($ per kilowatt-hour)	0.02–0.46	0.05–0.1
Water tariffs ($ per cubic metre)	0.86–6.56	0.03–0.6
Road freight tariffs($ per ton-kilometre)	0.04–0.14	0.01–0.04
Mobile telephony ($ per basket per month)	2.6–21.0	9.9
International telephony ($, 3 minutes to US)	0.44–12.5	2.0
Internet dial-up ($ per month)	6.7–148.0	11

Source: *Foster and Briceño-Garmendia, 2010, p. 50.*

Note: *Ranges reflect prices in different countries and consumption levels.*

Governments can secure greater efficiency and lower costs in electricity and water by fostering competition through deregulating and privatizing. The best example in Africa in recent years is telecommunications. Deregulating the sector, which allowed competition among private providers, was responsible for the rapid expansion of mobile telephony in many parts of the continent. Similar efforts should be made to foster competition in energy, transport, banking and finance. Privatization has to be complemented with enabling regulation to ensure that private monopolies do not arise.

The problem of corruption and inefficiency in operating and managing State utilities in Africa is part of the broader unfinished economic governance agenda. Africa's State utilities embody only about 40 per cent of good governance practices for such enterprises (Vagliasindi and Nellis, 2009), despite the substantial sums spent on, for example, management training, internal accounting and auditing, as well as regulatory agencies. Some efforts have led to successful outcomes—the Botswana Power Corporation and the Kenya Power and Lighting Company, for instance—but results generally have disappointed (Nellis, 2005). The best laid plans for institutional reform can be stymied unless Governments make a commitment to hold ministries, regulatory agencies, contractors and the management of utilities accountable.

4.4 Unleashing Africa's agricultural potential

AGRICULTURE REMAINS THE mainstay of Africa's economies. It employs 90 per cent of the rural workforce, 60 per cent of the total (urban plus rural) labour force, accounts for as much as 40 per cent of export earnings and provides over 50 per cent of household needs and income (UNECA, 2007a). Yet, the sector received the least attention from national governments until 2003 when African leaders adopted the Comprehensive African Agriculture Development Programme (CAADP). Failure to transform agriculture has kept millions of rural Africans trapped in a cycle of underproduction, underemployment, low incomes and chronic poverty (UNECA and AUC, 2009).

The sector's poor performance is largely due to the lack of critical rural and interregional infrastructure, limited access by farmers to credit, the low skills base of small farmers, absence of security of land tenure and pervasive taxation of smallholding farmers by national governments (World Bank, 2007). Value chains and innovative small-farming systems are embryonic, while irrigation and fertilizers are underdeveloped. Thus, food production per capita has fallen as agricultural output has stagnated, and the demographic transition remains delayed (UNECA and AUC, 2009b).

The persistent and widespread anti-rural bias in Africa is in sharp contrast to the successfully industrialized economies of East Asia, such as Korea and Taiwan (China), where agrarian reform and the green revolution were major channels of wealth creation and income distribution in the early phase of development. A critical force in transforming agriculture in countries such as China and Korea was an activist and development-oriented State that invested heavily in transport and communications infrastructure, agricultural research and extension, irrigation systems and storage facilities—all essential factors for raising productivity and increasing income for the poor.

East Asia's agrarian transformation served as the basis for economies to industrialize, paving the way for a more diversified base to emerge. Increased incomes for farmers created buoyant demand in rural areas for farm inputs, for processing and marketing services as well as for consumer goods and services. This was followed by the switch to export-led industrialization strategies, which sparked rapid growth in industry and in urban centres. This in turn resulted in major spillover benefits for rural areas, generating remittances from workers who had migrated to urban areas and bringing non-farm opportunities to rural areas. Furthermore, urban-based industries have sought to locate some of their labour-intensive activities (such as food processing and metal fabrication) to lower-wage rural areas. The final push came from market liberalization in the late 1990s, which unleashed the full force of the market and brought international competition and FDI into these economies, including rural areas.

The successful experience of Asia and Latin America in transforming agriculture is known to many African policymakers, who increasingly recognize, along with their development partners, that transforming agriculture is a precondition for unleashing the continent's development potential (UNECA and AUC, 2009b; UNECA, 2007b). The priority tasks ¬¬of Africa's agricultural revolution are complicated and multifaceted, and involve technological, macroeconomic, institutional and ecological dimensions—purposes for which AU formulated CAADP (box 4.5).

Box 4.5: Transforming African agriculture: new opportunities

The prospects for agricultural transformation, which would propel industrialization and social development, have never been better in Africa (UNECA and AUC, 2009b). The emergence of the continental and regional policymaking machinery alongside national policies in recent years has been a major turning point. CAADP is now the basic reference point for African governments to improve agricultural productivity and reduce hunger on the continent (AUC, 2003 and 2006).

Development partners, private foundations and the international private sector are showing increasing interest in raising Africa's productivity in agriculture, so as to ensure food security and to use agricultural transformation as the foundation for industrializing Africa. Some of the most notable examples are the Africa Food Security Initiative launched by the G-8 at the L'Aquila Summit in 2009, with the commitment of $22 billion over two years; US President Barack Obama's Feed the Future Program; the Alliance for a Green Revolution in Africa, a private initiative headed by former UN Secretary-General Kofi Annan; and the New Vision for Agriculture, an initiative of the World Economic Forum, whose aim is to expand partnerships, catalysing investment and integrating best practices in the way private actors from outside Africa should support agriculture on the continent.

Progress in implementing the CAADP framework

CAADP as a framework has continental reach but envisages that a thorough assessment of country-level agricultural and food security programmes, policy frameworks and institutional arrangements has to precede any credible investment planning. CAADP also uses key analytics, such as critical review of constraints and policy gaps, economic modelling, growth-option analysis, and external review of investment plans. The latter is supported by the Regional Strategic Analysis and Knowledge Support System, an Africa-wide network of regional nodes supporting the implementation of CAADP.

The roadmap for CAADP focuses on expanding areas under cultivation, managing land and water sustainably, improving market access and infrastructure, increasing food supplies, improving responses to food emergencies, and improving dissemination and adoption of agricultural research and technology. In the Maputo Declaration on Agriculture and Food Security in Africa, adopted by the AU Conference of Ministers of Agriculture in July 2003, African countries were urged to allocate 10 per cent of their national budgets to agriculture within five years. Only four countries have done so, however: Ethiopia (13 per cent), Ghana (10 per cent), Malawi (14 per cent) and Mali (17 per cent). Many countries hardly reach 4 per cent of GDP and have to depend on ODA for funding agriculture and other sectors (Benin et al., 2010).

Implementation of the CAADP framework is in its early phases—some 40 countries are at different stages, from formally recognizing CAADP as having value addition to efforts to formulate CAADP-aligned programmes and projects. As of September 2011, 27 countries had completed the CAADP roundtable process and signed their compacts. Of these, around 20 had developed CAADP-based Agriculture and Food Security Investment Plans and were subjected to AUC and NPCA-led independent technical reviews. Fourteen countries have organized CAADP business meetings that showcase the outcome of the independent technical review that aims to garner domestic support and mobilize international assistance. These moves are taken as a demonstration of a strong joint commitment by government, private sector, civil society, farmers and development partners. ECOWAS has also signed a regional compact (Benin et al., 2010).

As CAADP implementation moves forward, experimenting, piloting and capturing best practices for wider application should be the manner of operation. Policy reforms should begin with modest and pragmatic interventions that bring small farmers, the State and markets together, and progressively unlock agriculture's potential. Experimentation and piloting can help to reduce risks and improve the success rate of reforms through scaling up pilot projects that worked and eliminating unsuccessful policy options that could potentially produce disastrous spillover effects (Hoffman and Wu, 2009).

Among the many priority issues identified by CAADP for transforming African agriculture, four stand out:

Increasing land under cultivation

It is estimated that 60 per cent of cultivable land in Africa is not under production, which gives considerable room for increasing agricultural production, both for staple foods as well as exports (McKinsey Global Institute, 2010;). A comprehensive review of archaic tenure systems is needed, as are different types of property ownership and use. Reforms on land tenure can be initiated either top down, or bottom up from small, local experiments. Such approaches can bring huge tracts of unused land into production. Particularly important in Africa is the need to rehabilitate large tracts of degraded land using soil and water conservation measures, and through sustainable use of modern technology and inputs (UNECA and AUC, 2009).

New modalities of land ownership and use would provide an opportunity to attract FDI in agriculture through joint ventures of lease arrangements, though they must not be permitted if they displace communities already using the land for production (AUC, AfDB and UNECA, 2010).

Raising yields of staple foods

High rates of population growth, urbanization and high global food prices are putting pressure on governments to increase the yields of staple foods. This remains a particular challenge for Africa where investment in infrastructure, technology and agricultural research is weak, and use of yield-enhancing practices (such as fertilizers and pesticides, mechanical tools and irrigation) is very low relative to other developing regions.

Improving the productivity of small farmers should be a key policy target over the next two decades. This demands high and sustained levels of investment in key public goods for the rural sector, such as roads and irrigation infrastructure, as well as support for innovative farming technologies and learning systems for small farmers. Experience from countries that have undergone a successful green revolution shows that access to science and technology for small farmers, via research institutes and demonstration centres, is crucial for fully realizing their potential. Such an approach, along with agricultural extension centres and access to credit and seeds, should be expanded (OECD-DAC/IPRCC, 2010).

Linking farmers to markets

Most African farmers produce for subsistence, yet with help they have considerable scope to farm more profitably by producing high-value products. Beyond capacity building and improved access to inputs, farmers need to be linked to markets through regional value chains (UNECA and AUC, 2009). This requires development of small- and medium-sized rural industries—the vital links to global and regional markets.[1] More FDI is also needed in agriculture, with well-defined forward and backward linkages, spawning new manufacturing and service sectors (UNECA and AUC, 2009).

Expanding opportunities for non-farm rural employment

Beside increasing productivity in agriculture and linking farmers to global value chains, it is vital to generate non-farm jobs by diversifying the rural economy—arguably an even greater challenge than the technical rehabilitation of agriculture. Despite the preponderance of smallholder agriculture, the rural population is becoming less agrarian. This process, which started in the final days of colonialism, has been accelerating as a result of environmental degradation, population growth and land subdivision, which make it hard for large numbers of small farmers to rely only on subsistence agriculture.

Expanding non-farm rural jobs should be an integral part of an agriculture-led rural industrialization strategy. Rural productivity increases can be achieved through public works programmes such as secondary roads, reforestation and soil conservation, clean water supplies, rural electrification, and construction or rehabilitation of rural schools and health centres. Such non-farm employment activities, while providing additional incomes for the rural poor, would also strengthen the internal working of the rural economy by stimulating production and consumption of local goods and services.

Note: *1. Such as agro-processing and packaging industries; providers of agricultural inputs and cold storage; marketing agents; clearing agents and freight handlers at ports; and quality assurance and certification agents.*

For the first time in many decades, African policymakers are looking to smallholder farming as an option for sparking a successful rural transformation. This hope feeds on the successful rural transformation in China, where smallholder-focused land and price reforms triggered a massive increase in agricultural production. Rural manufacturing and allied activities now account for the largest share of income and employment in rural China. In Africa's own contexts, the following options require the most serious attention.

Improving access to land through tenure reform

Although Africa has some 60 per cent of the world's arable land, access to land—particularly by women—remains a huge problem, and insecure tenure prevents farmers from investing their labour and meagre resources in technology to improve the land's productivity. The need for land reform is recognized, but rarely acted on (Chambers, 1991; Pausewang et al., 1990). This problem still persists although countries such as Ethiopia are experimenting with new land-use practices to reduce uncertainty among farmers. Ethiopia's community-driven land certification has been an effective way to improve land-use practices to reduce encroachment and improve soil conservation (Deininger et al., 2007).

There is no single universal model of land reform that countries should follow. Land ownership patterns in each country are historically and culturally determined and each country must pursue a land reform policy that takes into account the local ecological, social and cultural contexts. Neither the old system of communal land ownership nor the modern form of private ownership can adequately address the problem of land scarcity, which has been accentuated by rapid population growth, decades of land degradation and new threats from climate change.

There is no universal model of land reform that countries should follow.

State control of land, as in Ethiopia at present, hampers investment and productivity since smallholders feel insecure and fear expropriation by the State at a stroke of a pen (Cheru, 2002). Equally, the shift towards private ownership concentrates land in the hands of a few and often excludes poor farmers and women. Thus, any strategy to address land scarcity must strike a balance between the interests of landless peasants and those of private land owners who want to engage in commercial production for profit.

Investing in research and technology

Crucial means to transform African agriculture are research and technological innovation. Increasing yields, adding value to products, raising the efficiency of resource use—from water to land—will not happen without determined efforts to devote resources in these areas. Yet as seen, spending on agriculture usually falls far short of the 10 per cent of national budgets agreed at the 2003 Maputo Summit.

The amount spent on research and technology is also very low, even though its economic rate of return is very high (Ehui and Tsigas, 2006). Many analysts consider public spending as a share of GDP adequate at 2 per cent or more—the figure for the continent stands at 0.7 per cent, lower than the global average of about 1 per cent. Southern Africa shows 2.3 per cent, and South Africa 3.0 per cent (UNECA and AUC, 2009).

Huge investments in innovations are needed to enhance food production and accelerate economic transformation (partly because of agriculture's strong multiplier effect). African governments should therefore spend more on agricultural research and technology if they are going to improve the sector's productivity.

Reaching rural areas with financial services

The demand for financial services in rural Africa is huge, but providers are too few or are absent. In countries where microfinance institutions exist, their coverage is low owing to insufficient capital or high collateral requirements discourage potential borrowers. Moreover, microfinance institutions are focused more on lending to, rather than mobilizing savings from, the rural population. The underdeveloped status of rural banks is now a major impediment to generating savings and to providing essential financial services in rural areas.

African governments should spend more on agricultural research and technology if they are going to improve the sector's productivity.

A key task for governments is therefore to broaden financial intermediation in rural areas by liberalizing the financial and banking sector and to encourage competition among different providers, including credit unions, savings and loan associations and domestic commercial banks. This would encourage competition and the spread of banking services (box 4.6).

Box 4.6: Financial inclusion in Tanzania: The National Microfinance Bank

The National Microfinance Bank (NMB) in Tanzania makes financial inclusion—extending banking services to previously "unbankable" communities—a priority. According to a survey conducted in 2009 by FinScop, a pan-African market research company, the proportion of the country's adult population that was using banks and other formal institutions was just 12.4 per cent. The large segment of the unbanked population thus represented a huge opportunity for NMB, and it has been making good progress. Over the past five years, customer numbers have more than doubled from 600,000 to 1.4 million in 2011.

This rapid expansion has been possible for two reasons: the expansion of its branch network from 100 to 140, giving NMB an on-ground presence in 80 per cent of the country's administrative districts; and the bank's enthusiasm for new technology, which has enabled it to reach out to remote rural clients who do not have easy access to a bank branch. NMB is the first bank in Tanzania to offer mobile banking, enabling customers to check balances, transfer funds and buy top-ups for their electricity accounts via their mobile phones. With the launch of its PeasaFasta cardless ATM service in April 2011, NMB customers are now able to send money to people who do not have a bank account. Unbanked Tanzanians can withdraw funds sent to them via any of the NMB 400 cash machines nationwide, using a code sent to their mobile phone, rather than the traditional card.

For unbanked customers, it is a matter of convenience and security—a vast improvement on keeping money under the mattress. In addition, interest on savings provides an incentive to start saving in the first place. Once previously unbanked customers have acquired a record with their bank, they can access other services, such as insurance against crop failure and, over time, micro-loans.

Source: *Twentyman (2011).*

Building a climate-resilient economy

Efforts to release the potential of African agriculture will be incomplete without attention to the ill effects of climate change. Unchecked, climate change will alter rainfall patterns, decrease the areas suitable for agriculture, the length of growing seasons and crop yield potential, and potentially force millions to migrate to urban areas (Low, 2006). The continent has opportunities to profit from its vast carbon sinks, leap-frog dirty technologies and embark on a path of low-carbon growth and clean development. Along with innovations in research and technology, as well as sustainable management of land and water resources, Africa will be able to make the transition to a green economy growth model in transforming agriculture (UNECA and AUC, 2009). This will require African governments to take decisions on mainstreaming climate change adaptation and mitigation policies, and to institute policies and incentives in assisting farmers to adopt clean technology and production practices.

Taking bold steps to empower women farmers

In sub-Saharan Africa, women produce up to 80 per cent of all basic food products and constitute a sizeable part of the agricultural labour force. Yet they have less access than men to agricultural assets, inputs and services, credit, education and training, and rural jobs. The gender gap imposes real costs on society through lost agricultural output, food security and economic growth (World Bank, 2011a).

Promoting gender equality is not only good for women—it is also good for agricultural development.

Policies need to be directed to empowering women farmers, particularly through better access to the above elements, in order to raise their incomes (World Bank, 2011a). Promoting gender equality is not only good for women—it is also good for agricultural development.

Industrializing through agriculture

Productivity growth in agriculture on its own is unable to solve the problem of chronic food insecurity, underemployment and poverty in rural Africa. Agriculture has to be sufficiently harnessed to serve as the foundation for wider industrialization. This requires a wide range of experiments to channel local productive endowments, capture best practices and scale them up nationally and regionally (Fan, Nestorova and Olofiniyi, 2010).

Agriculture-led rural industrialization can enhance the dynamism of rural economies—generating non-farm employment in industrial clusters in value addition, packaging, processing, shipping and ensuring vital inputs and services to make agriculture itself more productive. It can produce local and regional spillovers by increasing access to dynamic markets and by strengthening links between farmers, industry and services (World Bank, 2007).

African countries can learn from the experience of new development partners (AfDB et al., 2011). Each new partner has a comparative advantage—China in infrastructure development and rural-based special economic zones, India in the green revolution and skills-intensive learning, and Brazil in agriculture and agro-processing.

In particular, the lesson from China and East Asia generally is that rural transformation requires pragmatic and hands-on leadership from the top, supported by a goal-oriented and competent bureaucracy committed to building the country's unique strengths rather than concentrating on removing general "negatives" (box 4.7). This implies the need for selectivity, innovation in new institutional arrangements at central and local levels, experimentation and pilot testing, and a public–private alliance to identify and act on concrete constraints (Bruce and Li, 2009). State and local governments have to be given the power to attain concrete goals, grounded in the local context. New organizations may have to be created. Pragmatism also implies flexibility in moving limited human and financial resources to where they are needed most.

Box 4.7: Lessons from China's agriculture-led industrialization

Agricultural liberalization and gradual international integration were fundamental to Deng Xiaoping's "going out" policy of China's economic transformation. A grass-roots originated experimental reform of land ownership, along with price reform for agricultural products and inputs, sparked an agricultural revolution. New special economic zones played a key role for testing economic reforms, attracting FDI, catalysing industrial clusters, learning new technologies and incubating new management practices.

The Chinese enabling environment for enterprise development involved: job creation through rural and micro-enterprises; labour and wage policies; training and capacity building through joint ventures and aid programmes; local autonomy and decision-making; competition between regions and cities; bureaucracy and regulatory reform; access to financing; and creation of appropriate technology and infrastructure. This in turn contributed to a massive flow of people from rural areas into more productive employment in manufacturing and services in the towns, and out of poverty (Fan, Nestorova and Olofiniyi, 2010).

Chinese political leadership was supported in these reforms by research institutions such as the China Development Research Group, the Chinese Academy of Social Sciences, and the Development Research Centre of the State Council. The gradualism of the reform process and its reliance on evidence from local experiments helped to secure political support and reinforced its credibility.

Source: *Extracted from notes of the China-DAC Study Group Bamako Meeting, April 2010.*

Harnessing South–South cooperation

As well as the lessons of industrializing through agriculture, South–South cooperation offers opportunities for transferring policy experiences, technologies and finance to boost agricultural productivity (UNCTAD, 2009d). These new development partners can bring a commercial approach to cooperation, in which agro-industry enterprises play an important role, creating management and technical know-how with inputs such as "high-tech seeds". Strong cooperation with new development partners could therefore contribute to an African green revolution if the relationship is managed strategically (Cheru and Modi, 2012).

Among the new development partners, China's engagement has been the most extensive. Agriculture is a top priority, involving over 40 countries and over 200 projects, with a strong focus on land management, breeding technologies, food security, and machinery and processing. In recent years, China has intensified its technology cooperation, organizing training courses in practical technologies and carrying out experimental agricultural technology projects. It has sent more than 10,000 agro-technicians to Africa to train local farmers and provide technical support (Cheru and Obi, 2010).The Action Plan 2007–2009 of the Third Forum for China-Africa Cooperation (FOCAC, 2006) included setting up 14 centres for agricultural research in Africa.

India—through the Africa-India Forum Summit launched in April 2008—has sought to reinforce cooperation, especially by transferring agricultural technologies that meet the needs of Africa's smallholders. Indian companies,

South-South cooperation offers opportunities for transferring policy experiences, technologies and finance to boost agricultural productivity.

> *A fresh and pragmatic approach is needed to reinvigorate regional integration in Africa.*

such as Karturi Global and Karluskor, have become major investors in agriculture. India is also active in interregional initiatives for Africa, involving India, Brazil and South Africa (IBSA), which established the IBSA Facility Fund for the Alleviation of Poverty and Hunger in Africa in 2003. South Africa, itself a leader on the continent in agricultural technology, is a key player in technology transfer to other African countries (Arkhangelskaya, 2010).

Within IBSA, the establishment of Embrapa in 2008 in Ghana points to a new phase in Brazil's deeper engagement in African agriculture. Embrapa is a Brazilian agricultural research and training institution and is a driving force in agricultural development. Several African countries have signed technical cooperation agreements and begun implementing joint projects with Embrapa and[4] the Forum for Agricultural Research in Africa (FARA) also has regular dialogue and joint research with this institution.

In addition, the Brazil–Africa Dialogue on Food Security, Fight Against Hunger and Rural Development, which gathered more than 40 African Ministers of Agriculture in Brasilia in 2010, highlights cooperation on sharing expertise in policies and best practices aimed at family farming, such as public-purchase schemes linked to domestic food aid and school feeding programmes, concessional loans for importing Brazilian farming machinery, and investment and technology transfer in producing bio-fuels on African soil (Government of Brazil, 2010). Such initiatives can help to release Africa's agricultural potential, by increasing smallholder productivity as well as expanding large-scale commercial farming for export.

Countries such as China, India and Brazil are championing new technologies and production systems in an attempt to move away from the old resource-intensive method of production to one in which agricultural productivity is boosted by using and managing natural resources (both land and water) more efficiently. Tapping into their vast knowledge and expertise should be a major priority for African States, while developing appropriate land policies to ensure that foreign investments in African agriculture do not compromise the land rights of local populations (AfDB et al., 2011).

Forging non-State strategic partnerships

In addition to establishing stronger relationships with governments, African governments need to maximize inputs from bilateral and multilateral donors, philanthropic foundations, universities, agricultural research consortia and agri-businesses.

In recent years, several philanthropic bodies have invested in green revolution experiments to boost the productivity of small farmers. The Alliance for a Green Revolution in Africa, with financial support from the Bill & Melinda Gates Foundation and the Alliance for a Green Revolution in Africa, a private initiative headed by former UN Secretary-General Kofi Annan, among others, are leading the way in smallholder farming by applying yield-enhancing technology and inputs, and offering training. Measures such as linking farmers to research and technology so that they can raise their outputs, enabling them to get their products to the market quickly along better roads, and providing them with real-time information on market conditions and commodity prices will help to raise the incomes of small farmers.

In summary, if Africa's small farmers are to improve productivity and develop profitable niches in agricultural value chains, the State must be active in two main ways: investing in agricultural research and extension, technological innovation, and transport and communication; and ensuring that credit is available and essential inputs are provided This would play a pivotal role in spawning rural industrialization through raising farmers' incomes.

4.5 Intra-African economic integration

CONTINENTAL INTEGRATION HAS enormous potential for promoting growth and unleashing the development potential of African countries by easing the binding constraints to growth (such as poor transport networks) and by lowering direct and indirect costs of doing business (Ramachandran, Gelb and Shah, 2009). Integrating Africa's fragmented markets can therefore help to attract the required investment—from Africa and the rest of the world—and to build competitive and more diversified economies. This requires better links between countries—from paved roads to banking cooperation—to spur economic growth mutually, which in turn should strengthen integration of African countries into the global economy.

Africa has more regional organizations than any other continent, and most African countries are members of more than one. Yet, they have failed to set free the continent's development potential and ensure sustainable growth and liberalization, mainly because of institutional and economic impediments to intra-African trade. The policy and regulatory environment, the transparency and predictability of trade and business administration, and the business climate for promoting intra-African trade remain weak and complicated. Other institutional challenges include bureaucratic and physical hindrances, such as road charges, transit fees and administrative delays at borders and ports. The economic obstacles include the high dependence of most countries on exports of primary commodities, strict rules of origin emanating from trade liberalization schemes and poor infrastructure (UNECA, 2011).

Africa's RECs—the key pillars for carrying out the economic integration agenda—face numerous challenges, including inadequate financial and human resources, weak institutional infrastructure, multi-membership of countries, duplication of mandates, poor policy coordination and harmonization, and lack of political will among member States to push through the packages of agreed-on protocols (UNECA, 2010). Although some RECS such as the Economic and Monetary Community of Central Africa) (CEMAC) and COMESA have made some progress in specific sectors, the performance of many others has been quite disappointing. Consequently, the level of intra-African trade remains low compared with trade within other global regions, both developed and developing.

Changing tack: a modest proposal for intra-African integration

A fresh and pragmatic approach is needed to reinvigorate regional integration in Africa, promote entrepreneurship, increase the international competitiveness of African firms and remove supply-side constraints. An ambitious market integration approach along the lines of the EU is many years away. Given the diversity, institutional weaknesses and huge infrastructure gap of African economies, more flexible institutional arrangements to promote regional integration may have more potential because of their responsiveness to immediate national priorities and interests.

The most recent AU initiative in this area—the Minimum Integration Programme (MIP) — is an important first step. It attempts to identify priority sectors and sub-sectors that would produce immediate benefits to cooperating countries within RECs. The MIP is divided into three 4-year phases until 2020, aligned with the AU Strategic Plan. The first phase (2009–2012) has a long list of initiatives.

The cost of implementing the MIP is not specified, although collaboration with the RECs is likely to cost over $100 million. This implies that, if Africa is to properly own and accelerate its integration agenda, sustainable financing must be sought for the MIP as well as for the implementation plan for the priority sectors identified by the Action Plan for Boosting Intra-African Trade (Africa

> *The African consumer market holds great potential for trade and investment.*

Union, 2011a). This plan aims to strengthen productive capacity, trade policy, trade finance and trade-related regional infrastructure, agriculture and integration of factor markets (Africa Union, 2011a). The MIP has the potential to improve coordination and harmonization between the AUC and the RECs as well as among the RECs, to implement the 1990 Abuja Treaty for establishing an African Economic Community in a timely manner and to strengthen the leadership and coordination role of the AUC (Africa Union, 2011a).

Eliminating supply-side constraints and weak productive capacities

The most important binding constraint to raising productive capacity in Africa is poor infrastructure. Unreliable power supply and poor roads in particular, along with red tape, stifle private sector productivity—an acute problem for trade among African countries.

The Action Plan for Boosting Intra-African Trade is a pragmatic and focused approach to tackling the interlocking problems of infrastructure, along with radical measures to improve the business environment (AUC, 2011a). More specifically, governments have to make significant public investment in both "hard" and "soft" infrastructure (box 4.8), invest in human capital formation, provide credit and maintain a growth-oriented macroeconomic environment—all within a sustainable fiscal environment.

Such measures to remove supply-side constraints must be joined by efforts to reduce demand-side constraints through, for example, forming trade promotion councils, subregional credit and insurance systems and subregional banks to finance production and trade, as well as by developing a common framework for financing regional infrastructure.

Box 4.8: Hard and soft infrastructure

Crucial as improvements in hard infrastructure are for economic growth, they represent only a part of the solution to the constraints limiting intra-Africa trade. Many others issues—together termed "soft" infrastructure—impose heavy costs on intra-Africa trade.

These include the policy and regulatory environment, transparency and predictability of trade and business administration, and the quality of the business environment more generally. Other institutional challenges include administrative delays, overly zealous inspection of goods at borders, poor coordination of inspection between different actors, short opening times at the points of entry, corruption at border crossing points, and cumbersome and time-consuming customs procedures (box table 1).

Box table 1: Export and import procedures, time and cost for selected global regions, 2012

Region	Number of documents for exporting	Time for export (days)	Number of documents for importing	Time for import (days)
OECD average	4.4 (4.5)	10.5 (11)	4.8 (5.1)	10.7 (11.5)
East Asia & Pacific	6.5 (6.8)	21.9 (24.3)	7 (7.6)	23 (25.9)
Latin America Caribbean	6.4 (6.4)	17.8 (21.7)	6.9 (7.2)	19.6 (26.6)
Middle East & North Africa	6.3 (7.3)	19.7 (24.9)	7.6 (8.8)	23.6 (31.1)
Eastern Europe & Central Asia	6.9 (7.6)	27 (32.6)	7.8 (8.7)	28.8 (35.3)
Sub-Saharan Africa	7.7 (8.2)	32.5 (36.7)	8.8 (9.3)	37.1 (45.3)

Source: *World Bank (2011b).*

Note: *Data in parentheses are for 2011.*

Capturing growing trade and services opportunities

African countries have made real progress in liberalizing since the early 1980s to open themselves up to the world economy, but the scope and pace of such moves for intra-African trade and investment have been disappointing. Tariff and non-tariff barriers, complicated customs procedures and documentation, poor infrastructure, and poor trade information and finance are some of the obstacles to intra-African trade and investment (UNECA, 2010).

The African consumer market holds great potential for trade and investment. Although Africa has low per capita incomes, the situation is changing fast. Over the past decade, several African countries have recorded per capita income higher than that of the BRIC countries (AfDB et al., 2011). Recent projections indicate that consumer spending in Africa will rise from $860 million in 2008 to $1.4 trillion in 2020. The share of African households with discretionary income is projected to rise from 35 per cent in 2000 to 52 per cent in 2020, to 128 million (McKinsey Global Institute, 2010).

African governments should note this untapped consumer market right on their doorstep and begin to put enabling policies in place and the institutional framework to increase intra-African trade and investment, and to open up new market opportunities for domestic producers and retailers (Africa Union, 2011a). Increased consumer demand could help spawn small- and medium-sized firms specializing in consumer goods.

Services must not be forgotten. The current approach focuses on trade in goods and has only recently started to focus on the untapped opportunities for trade in services, which have the potential to become substantial sources of export earnings for many African economies. Prime examples are tourism, trade logistics services such as transport and harbours, and construction.

In the next decade, the national and African markets in consumer goods and services will represent ever-rising shares of Africa's trade and investment opportunities. As countries urbanize and a middle class forms, demand for basic consumer goods and services will grow quickly—spurring economic development—yet capacity is not growing to be ready to meet this demand (Boston Consulting Group, 2010). Continental trade in services is only slowly liberalizing (Africa Union, 2011a), hampering the ability of private service providers to exploit Africa-wide opportunities. Governments therefore need to liberalize such trade faster, as progress nationally is a precondition for progress throughout Africa.

Achieving intra-African integration

Regional economic integration—when designed and carried out with a broader development strategy to promote economic diversification, structural transformation and technological development—could enhance the productive capacities of African economies, realize economies of scale, improve competitiveness and serve as a launching pad to make Africa a global growth pole (see chapter 3).

Some major obstacles—and ways to remove them so as to unleash Africa's productive potential are discussed below. Policymakers should not look at any of them in isolation, but should strike the right balance between developing the hard and soft infrastructure necessary for the private sector to thrive in a business-friendly, enabling environment.

Closing the infrastructure gap

Infrastructure in Africa needs work on many fronts—mobilizing additional resources for investment, getting more out of current spending, tackling inefficiency, expanding private sector participation and promoting good governance.

Transport costs are arguably the most important impediment to intra-African trade (Ndulu, 2006). One estimate has put transport costs in Africa to be 136 per cent higher than those on other continents (Foster and Briceño-Garmendia, 2011). For landlocked African countries, freight costs are roughly 10–25 per cent of the total value of their imports, against a global average of 5 per cent (UNCTAD, 2007). The potential gains that should accrue to African countries from worldwide tariff reductions are offset by high transport costs that impose higher effective protection than tariffs (Foster and Briceño-Garmendia, 2010).

Better physical infrastructure is therefore crucial in raising intra-African trade, particularly for landlocked countries, thus exploiting unused productive capital to the fullest (Foster and Briceño-Garmendia, 2010). One study estimates that improving the main intra-African road network alone could generate trade expansion of around $250 billion over a period of 15 years for an investment of $32 billion, including maintenance (Buys et al., 2006). The same study estimated that landlocked African countries could increase their trade five-fold—Chad 507 per cent, Uganda 741 per cent and Sudan 1,027 per cent, for the same investment. Other studies estimate a five-fold trade increase from halving transport costs in a typical landlocked country (Limao and Venables, 2001).

Building a strong regional financial market

Expanded investment in infrastructure has to be complemented with a well-functioning banking and financial sector for private operators to have reliable access to credit and payment arrangements. Recent surveys of African firms indicate that access to credit is a major obstacle to investment in the region. Moreover, without a continental guaranteed payments system, African firms are increasingly dependent on international letters of credit and other forms of guaranteed payments, which entail onerous transaction costs. Many resources that should be used in productive economic activity are tied up as payment guarantees (Ramachandran, Gelb and Shah, 2009).

Liberalizing the financial sector is the first step towards developing an Africa-wide network of banking services. Such a network will foster trade, mobilize savings and facilitate payments (UNCTAD, 2009c). Two of the most successful examples are in West Africa (box 4.9).

Box 4.9: Spreading banking services in West Africa

Aided by a more open and liberal environment, Ecobank (Togo) and Nigerian banks have expanded their operations across West Africa, step by step, through mergers and acquisitions. These banks have also ventured outside West Africa and have established a presence in Burundi, Cameroon, Democratic Republic of the Congo, Rwanda, South Africa, Uganda and Zambia (UNCTAD, 2009c).

In 2008, nine of the 20 largest banks in Africa were Nigerian. Banks from that country accounted for over 25 per cent of African bank capital, and seven Nigerian banks had capital of well more than $1 billion (*Africa Business*, 2008).

The expansion of banks across Africa would boost investment and trade, for several reasons. First, it would inject capital in the economy, offer employment to locals and introduce new products as well as managerial and technical skills. Second, it would help to increase economic activity through lending and mobilizing savings. Third, increasing competition among banks would reduce the cost of their services (UNCTAD, 2009b).

Reinforcing political will for wider gain

Despite developing broad regional agreements to expedite the process of liberalization and institutional reforms in order to promote intra-Africa trade, little progress has been made in enforcing the agreements. The political commitment must be found to go beyond narrow national interests and create conditions for larger economies of scale that would benefit all the member States in RECs and, ultimately, the African continent. Individual economies are too small on their own to take advantage of the opportunities available on the global market. Moreover, the lack of compensatory mechanisms to assist the poorest member countries in a regional community further discourage their effective participation in enforcing regional agreements as these would entail immediate costs.

Reducing the information gap

Africa's ability to participate in the global economy and negotiate with trade partners from a strong and well-informed base depends on the access that negotiators for African countries have to trade information, knowledge of trading systems and their skills in trade and contract negotiations. Although the rapid spread of the Internet and mobile telephony has started to break down such "information apartheid", national governments need to do much more in easing access to vital economic information. One approach would be to harness the knowledge and research capacity of African universities, research institutes and think-tanks.

In addition, private sector agents need up-to-date information on what other REC member States can offer to substitute for the products imported from developed countries. They also need access to the latest information on the rules and regulations, products in development, tariffs, and opportunities for co-financing in partner countries. Establishing a subregional trade information platform along the lines of the COMESA Trade Information Network would improve direct communication among private sector agents within RECs.

Strengthening entrepreneurship

The need to strengthen State capacity is well acknowledged by national governments and donor partners, equally important is the need to strengthen the capacity of the indigenous private sector in Africa.

Africa's entrepreneurial capacity in many sectors is constrained by the absence of a broad-based, competing business network, which further limits the ability of domestic

> *Better physical infrastructure is crucial in raising intra-Africa trade, particularly for landlocked countries.*

investors to grow and thrive. Many African countries lack the institutional capacity to provide the necessary support services to producers and exporters, highlighting again the great competitive disadvantages the continent labours under compared with other developing regions (Ramachandran, Gelb and Shah, 2009; WEF, 2011). The State's underdevelopment has contributed to that in the private sector. Simply drafting a national competition policy does not automatically render the private sector competitive.

A big part of the reform agenda to liberate Africa's productive potential must therefore focus on strengthening the capacity of the domestic private sector to compete effectively in global markets. Special efforts are needed that would bring together universities, research centres and bodies representing the private sector to develop continuing education and training programmes that offer customized skills development for entrepreneurs. Such steps can help entrepreneurs to adopt the latest technologies and management systems, and to link up with regional and global firms. One of the lessons from East Asia is that entrepreneurial capacities are built during industrialization—they were not prepared before as a precondition for growth (Ohno and Shimamura, 2007).

4.6 Harnessing new partnerships

THE INCREASING ROLE of new global economic powers such as China, India and Brazil in world trade, finance and investment has opened opportunities for economic cooperation with Africa. Not only do they have large financial resources—they also have the skills and technology that African countries need. Infrastructure is one area where Africa's new development partners, particularly China, are making sterling contributions.

These new development partners with increasing global clout present opportunities and challenges for Africa—as well as questions: How best can Africa benefit from their rise? What are the risks to economic diversification and transformation? How can these risks be contained? What can be done to ensure that Africa–South cooperation does not replicate the current unequal pattern of economic relations with the rest of the world?

These are important questions that African policymakers must carefully examine before jumping into partnership arrangements (Cheru and Obi, 2010). The ultimate impact of South–South cooperation on African development will depend on the extent to which African countries can maximize the benefits, while minimizing potential risks, through well thought-out national and regional strategic measures. The benefits of South–South cooperation are most likely to accrue to those countries that have taken adequate steps to exploit the complementarities between trade, investment and ODA to promote structural change. Those countries may well have focused on the following three priority areas.

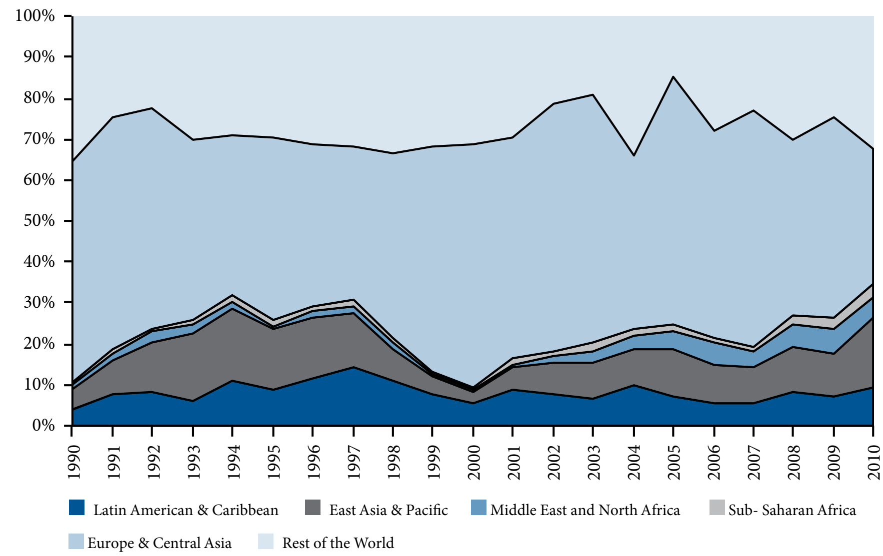
Attracting Southern FDI to develop productive potential

FDI is an important source of private capital for developing countries. It has the potential to increase national income and promote economic growth and diversification. It can do this through creating jobs, enhancing skills development, facilitating transfer of technology and access to foreign markets, enhancing competitiveness of local firms by creating capacity for value addition, and encouraging new manufacturing and service sectors (Ajayi, 2006; UNCTAD, 2005). FDI also contributes by removing constraints to productivity and growth. Both Malaysia and Mauritius, for example, have used FDI successfully in this way, attracting FDI into sectors producing goods and services with a high value-added element.

Africa has never been the most popular destination for FDI (figure 4.3), even though profitability from FDI is higher in Africa than elsewhere. Some reasons advanced for this conundrum include political instability, the information deficit, poor infrastructure and a general perception of Africa as a riskier investment environment than other developing regions

Figure 4.3

FDI inflows by region, 1990–2010 (%)



Source: *Calculations based on data from the World Bank (2011)*

The last reason is exaggerated. The crisis period of the 1980s and 1990s has passed, the political landscape in Africa is changing and the process of economic policymaking has improved greatly. One of the most important regional frameworks for this is NEPAD, which has not only identified FDI as a crucial source of financing for the continent's development, but has also clearly outlined steps to be taken, including governance reforms inspired and monitored by the APRM (UNECA, 2006).

African countries must ensure that FDI is channelled into priority sectors that are critical for unlocking the continent's productive potential.

Creating an enabling policy environment to attract FDI will not on its own produce the desired results—structural change and industrialization. These will very much depend on three factors.

First, the host country must have a strategic vision of how FDI fits into its overall development. African countries must ensure that FDI is channelled into priority sectors—agriculture, natural resource extraction, infrastructure and manufacturing—which are critical to unlocking the continent's productive potential. Second, FDI promotion should not be at the expense of the domestic private sector. FDI should be a means for developing the domestic technological base by encouraging joint ventures, and so create linkages between FDI and domestic enterprises. Third, as the quality of the host country's human capital and infrastructure stock strongly influences the type and quantity of FDI flows, African countries need to make concerted efforts to improve this stock—a leitmotif running through this document.

Prioritizing FDI in infrastructure

The new Southern powers—China in particular—with huge financial resources and proven experience in major infrastructure development can become important sources of infrastructure finance and expertise to address Africa's infrastructure gap. Resource-rich African countries in particular should leverage the commodities boom to negotiate the supply of infrastructure with China, India and Brazil. Resource-for-infrastructure deals must, however, be based on deep analysis of the costs and benefits for the host country, underlining the need for African governments to build their research and analytical base as well as their negotiation skills, in order to extract the most benefits from FDI (AfDB et al., 2011).

Building strong governance frameworks for natural resources

Mineral-rich African countries face difficult challenges in managing FDI in natural resources, particularly mining and energy. Large-scale corruption remains a serious problem, where a significant portion of economic rents from resources do not make it to the central treasury or the local community. Many resource-rich African countries do not have transparent plans for how wealth from the extractive sector is to be used, whether for poverty reduction or for investment to diversify the economy (Transparency International, 2008; Standing, 2007).

The pervasive corruption in Africa's extractive industries has brought growing international pressure to stamp out corruption and allow revenues to go to development and poverty reduction. The three most recognized anti-corruption initiatives—the Kimberley Process (for diamonds), the Extractive Industries Transparency Initiative (EITI), and the Publish What You Pay Initiative—aim to increase revenue accountability through full corporate and government disclosure (table 4.6). Although these are voluntary measures, several African countries—sponsored by the APRM—have signed up to one or more initiatives (UNECA, 2009a).

Table 4.6

International initiatives against corruption in the extractive industries, African signatories

	Kimberley Process	Publish What You Pay	EITI
Objectives	Launched in 2000, the Kimberley Process promotes transparency and accountability in the diamond trade, specifically stopping the illicit trade used by rebel movements. The certification scheme requires member States to certify that diamonds mined within their borders are conflict free	An initiative launched in 2006 by Global Witness, the Catholic Agency for Overseas Development, the Open Society Institute and Oxfam, the aim is to improve transparency and accountability for revenue generated from natural resource rents	Launched in 2002, EITI is an independent, internationally agreed voluntary standard for creating transparency in the payments made by companies and revenues received by governments related to exploitation of extractive resources, such as oil, gas and minerals
Member countries	Of the 48 members, 17 are African: Angola, Botswana, Central African Republic, Democratic Republic of the Congo, Côte d'Ivoire, Namibia, Sierra Leone, South Africa, Tanzania, Togo and Zimbabwe	Chad, Republic of Congo, Democratic Republic of the Congo, Côte d'Ivoire, Gabon, Guinea, Liberia, Mali, Niger, Nigeria, Sierra Leone and Zambia	Cameroon, Chad, Republic of Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Ghana, Guinea, Liberia, Madagascar, Mali, Mauritania, Niger, Nigeria, Sao Tome and Principe and Sierra Leone

Source: *Compiled from UNECA (2009).*

The responsibility for putting the necessary governance framework for natural resources into place rests with African governments. Their laws must ensure that concessions are awarded on merit in a transparent way, and that activities undertaken do not undermine environmental sustainability, or lead to instability and conflict (African Union, 2007). In the case of non-renewable resources, such as minerals, the framework should ensure that up- and downstream development activities ensure sustainability and protect the interests of local communities.

Moreover, governments must also ensure that the stream of revenues produced by such investment is properly accounted for in national budgets (Global Witness, 2007). If revenues are channelled into investment in infrastructure, education and social programmes, they are likely to play a major part in inducing structural change and laying the foundations for high and robust growth.

The key challenge for governments is how to put a transparent system in place for managing and using resource wealth, with the full participation of community groups and other stakeholders (Revenue Watch Institute & Publish What You Pay, 2006; Transparency International, 2008). This is primarily an issue of governance. If resource-rich countries are governed properly, and if they invest the windfall from resource rents into sovereign wealth funds, they could become important sources of development finance for their resource-poor neighbours.

4.7 Conclusions and policy recommendations

SUSTAINING THE CURRENT growth momentum in Africa and unleashing the continent's productive capacity requires innovative and bold actions on the following fronts.

Improving political and economic governance

Entrenching good governance principles and practices is a precondition for Africa's development. African governments should therefore continue their efforts to deepen democratic governance by improving people's participation in the political process, promoting free and fair elections, and strengthening accountability and transparency in decision-making. Combating corruption and inefficiency should be accorded top priority by governments. It is particularly crucial that they create a policy environment supportive of entrepreneurship and private sector development by reducing the cost of doing business.

Repurposing education for development

The educational system in Africa should assign greater emphasis to science and technology and to entrepreneurship training, which will help to unlock Africa's productive potential. African universities must be placed centre stage to become catalysts for technological change.

Reversing underinvestment in infrastructure

Investment in critical infrastructure is a necessary condition for unlocking productive capacity. Given the financing gap though, African governments should take extra measures to galvanize the domestic banking and insurance sector, the stock market and pension funds in order to mobilize the necessary resources for infrastructure development. Such measures should be complemented by efforts to attract FDI from emerging economies, such as China and India. Governments should also take measures to get more out of existing infrastructure investments through efficiency gains.

Boosting productivity in agriculture

No country has moved up the technological ladder without first developing agriculture. It is therefore imperative that African governments invest more in agricultural research and farm technology to increase productivity and enable farmers to move into producing more remunerative, high-valued products. These steps must be backed by policies to expand non-agricultural employment through public works programmes and rural industrialization in food processing and packaging.

Accelerating regional integration and intra-African trade

Regional integration is an important first step towards global integration, and requires better links between countries—from paved roads to banking cooperation—to spur mutual economic growth. African governments should therefore give a push to developing trade-related regional infrastructure by encouraging private sector participation (domestic and foreign) in infrastructure—while not omitting to strengthen the skills of their negotiators. They should also upgrade regional banking services to facilitate payment mechanisms. Finally, governments must redouble their efforts to simplify procedures and harmonize policies in a wide range of areas such as customs, border control and cargo inspection.

Harnessing new development partnerships

African governments should ensure that the emerging powers' trade, investment and financial flows support Africa's structural transformation, capital accumulation and technological progress. They should particularly encourage investments in infrastructure and agri-businesses. Moreover, the governments of resource-rich African countries should develop strong governance frameworks for extractive industries to stamp out corruption and avoid the problem of the "resource curse"—a theme of the next chapter.

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Notes

1 See chapter 2 on other aspects of investment in people including health and other MDG and social development targets.

2 The NEPAD Short-Term Action Plan, the NEPAD Medium-to-Long Term Strategic Framework and the AU Infrastructure Master Plan.

3 This includes costs associated with under-collection of revenues and uncounted distribution losses.

4 Including Benin, Democratic Republic of the Congo, Ethiopia, Ghana, Guinea and Kenya.

5 As well as the value added of the associated technology transfer (Wade, 2004).