



FORESIGHT AFRICA

Top Priorities for the
Continent in 2019

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Top Priorities for the Continent in 2019

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LETTER FROM THE DIRECTOR



Brahima S. Coulibaly

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As 2019 begins, reasons for optimism about Africa's ability to capitalize on the progress achieved in recent years and to advance the region's economic potential abound. The 2014 terms of trade shock from the commodities slump that hit many countries in the region hard has largely dissipated. Across the continent, economic growth is projected to expand at the fastest pace in five years. Nearly half of the world's fastest growing economies this year will be African. Business environments are improving, thanks to widespread reform efforts, and Africa's leadership and institutions are more assertive in advancing the continent's agenda.

Under the leadership of the African Union, regional integration is advancing, specifically through the African Continental Free Trade Agreement (AfCFTA) and through policies in support of the free movement of Africans across the continent, bucking global protectionist trends. Unprecedented dynamism across the continent is creating trade and investment opportunities and is drawing interest from an increasingly diverse group of external partners. Democracy is consolidating, although the prevalence of tensions and, in some countries, violence during elections point to areas for improvement. The demographic tidal wave looms closer, and job creation has not yet been able to catch up. Finally, despite continued progress on governance, more efforts are needed to eradicate corruption and to elevate the voice of women and young people in decisionmaking.

I am hopeful that Africa will rise to these challenges in 2019 through renewed determination and a great sense of urgency. *Foresight Africa 2019* highlights the triumphs of the past years as well as strategies from our experts to tackle the remaining obstacles.

In Chapter 1, authors examine how **good governance, elections, and institutions of democracy** are advancing across countries. Much of Africa's economic development depends on governance that serves the interest of ordinary citizens, advances democratic values, and quashes corruption. The wide age gap between leaders and populations, and the underrepresentation of women and young people underscore the need for inclusivity. In 2019, good governance with these goals in mind offers a path forward. Upcoming elections in countries like **Nigeria** and **South Africa** could strengthen

“The global development agenda is daunting, but practical reforms and interventions promise a meaningful path forward. If the international community can navigate wisely and hold to a rational, positive outlook, then the African continent can achieve great things for itself and for the world. The Africa Growth Initiative at Brookings will continue to be immersed in studying the most important issues for the continent and in offering hopeful and constructive policy options for the future.”

John R. Allen, President, Brookings Institution

democracy and governance systems, but only if inclusive and supported by civil society and the rule of law.

These elections could pave the way for reforms to revive Africa’s two largest economies. In Chapter 2, the leadership of South Africa and Nigeria share their respective approaches to achieving this feat. One key risk threatening the regional outlook is what many fear is a **looming debt** crisis. To sustain growth, many governments must balance between **mobilizing financial resources** for economic development and **controlling indebtedness**. The authors implore governments to update debt management frameworks and strategies accordingly and strengthen governance around tax revenue collection.

Africa’s working age population is growing rapidly, with estimations that the number of young people entering the region’s workforce will exceed that of the rest of the world by 2050. While this **youth bulge** is a potential economic boon, a stagnant industrial sector and the increasing adoption of labor-saving technologies in production present a massive hurdle to overcome before dividends can be realized. In Chapter 3, authors offer strategies for countries to secure large-scale **employment opportunities** for youth and for realizing the demographic dividend.

Although economic growth prospects bring hope, **extreme poverty and state fragility** prevails in parts of Africa. This year, the World Data Lab estimates that 70 percent of the world’s poor will live in Africa—mostly in Nigeria and the Democratic Republic of Congo. By 2030, 13 African countries will see an increase in the number of those living in extreme poverty. Based on these forecasts, poverty will continue to strain government institutions and threaten stability. **Climate change** will exacerbate the challenge, with disproportionate effects on the Sahel and other unstable areas. In Chapter 4, authors argue for institutional changes and new approaches to eliminate poverty and fragility so **no country is left behind**. One recurring recommendation is for solutions anchored in private sector development.

Though progress toward ending poverty remains frustratingly slow, massive **opportunities exist for the private sector in African markets**, and if seized wisely, could help many climb the income ladder toward greater prosperity. The middle class is expanding, with businesses jumping at the chance to meet their consumption needs. Africa's population is young, fast growing, and increasingly urbanized, with rapid technology adoption making the continent fertile for innovation. Economic dynamism in many parts of the region is generating business opportunities in infrastructure, housing, health, financial services, and other areas. In Chapter 5, authors document why Africa is the world's next big growth market and recommend strategies for successfully navigating the region's business landscape.

On the **trade and investment** front, the AfCFTA stands to knock down barriers to intra-continental trade and investment, thus accelerating industrialization, and facilitating economic diversification and inclusion. Globally, Africa continues to attract interest from the likes of the U.S. and China. In Chapter 6, authors assess the potential of the AfCFTA and look at the implications of the new free trade agreement.

This edition of *Foresight Africa* illuminates the priorities of the continent in the coming year, with recommendations for tackling the challenges that lie ahead. Africa is brimming with promise, and, in some places, peril. With its array of contributions, this year's edition reflects both the diversity of the continent and the common threads that bind it together. With that aim, we set out to promote and inform a dialogue that will generate sound practical strategies for achieving shared prosperity across the continent.

This compendium is the culmination of the in-depth, quality work we strive to provide to African, international, and U.S. policy communities throughout the year.

We look forward to further exploring Africa's priorities through high-profile events at Brookings and across the continent, informed by our research, commentary, engagement, and action.

Many thanks to you, our donors, and the leadership of the Brookings Institution for the continued support and commitment to the Africa Growth Initiative.

A handwritten signature in black ink that reads "Brookings Center for Africa". The signature is written in a cursive, flowing style.



BOLSTERING GOOD GOVERNANCE:

The imperative of inclusion and efficiency

Governance lags behind youth expectations and needs

Mo Ibrahim

@Mo_IbrahimFdn - Founder and Chair, Mo Ibrahim Foundation

The 2018 Ibrahim Index of African Governance (IIAG) measures performance of the provision of political, social, and economic public goods and services that every citizen has the right to expect from their state, and that a state has the responsibility to deliver to its citizens. In the IIAG, country performance in delivering governance is measured across key dimensions that effectively assess a country's *Overall Governance* performance (see Figure 1.1).

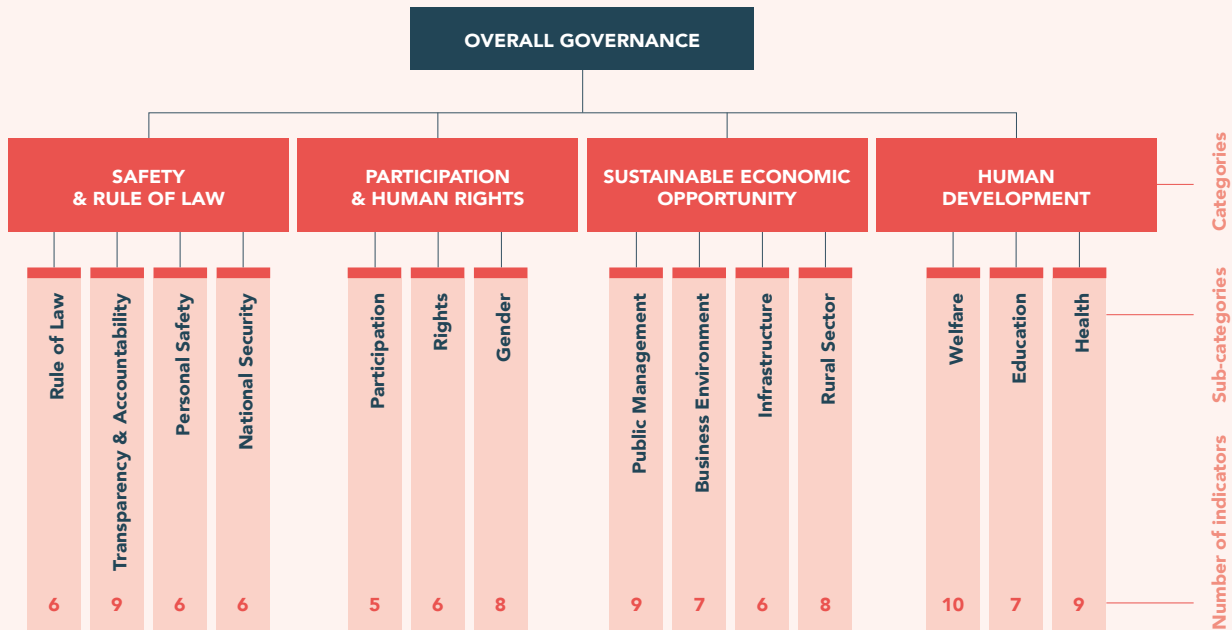
Over the past decade, public governance in Africa remains on average on a moderate upward trajectory, mainly driven by progress in *Gender, Health, and Infrastructure*. The 2018 IIAG shows that approximately 3 out of 4 African citizens live in a country where public governance has improved over the past 10 years. Many positive trends emerge from this year's index. Thirty-four out of 54 African countries have improved in *Overall Governance* over the past decade, with 15 of these having accelerated their pace of improvement in the past five years. Among those, Côte d'Ivoire, Morocco, and Kenya display the most impressive

Approximately 3 out of 4 African citizens live in a country where public governance has improved over the past 10 years.

progression, stepping up from 41st, 25th, and 19th ranks out of 54 countries to 22nd, 15th, and 11th over the past decade, respectively. On the continent, improvements stand out in indicators related to *Health*, the most improved of the 14 sub-categories of the IIAG over the past decade, as well as in *Gender and Infrastructure*. There are also recent and welcome improvements in *Rule of Law and Transparency & Accountability*, even if scores in the latter are still low.

But despite these improvements, needs and expectations of the continent's youth are not met. Faced with unprecedented demographic growth, key governance areas are not progressing fast enough to keep up with rising demands, and more specifically to answer the growing expectations of

Figure 1.1 Ibrahim Index Of African Governance structure



Source: 2018 Ibrahim Index of African Governance, Mo Ibrahim Foundation. <https://mo.ibrahim.foundation/iiaag/>

Africa's youth (under 25 years old), who now represent more than 60 percent of our continent's population and are still expected to increase their number by almost 20 percent in the next decade.

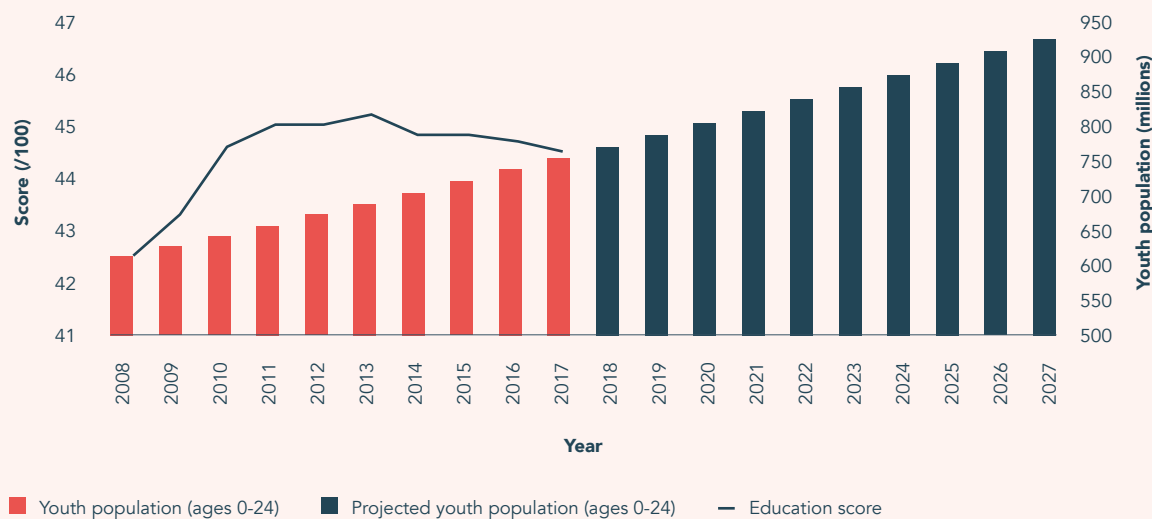
Considering Africa's youth population growth, it is concerning to see the recent downturn of the African average score for *Education*. For 27 countries—half of African countries—*Education* scores registered deterioration in the past five years, meaning that education outcomes are worsening for more than half (52.8 percent) of Africa's youth.

Though enrollment levels are higher, this concerning drop is driven by a fall in the indicators measuring whether education is meeting the needs of the economy, as well as education quality and citizens' expectations of education provision.

For 27 African countries Education scores registered deterioration in the past five years.

Figure 1.2 Education score and youth population (2008-2027)

Average education scores have been declining since 2013 and have not kept up with youth population growth.



Source: 2018 Ibrahim Index of African Governance, Mo Ibrahim Foundation. <https://mo.ibrahim.foundation/iag/>

In a world of globalized information and multiplying social networks, Africa's growing number of young citizens also ask for better rights and participation.

Progress in *Participation & Human Rights* has been registered, and almost 4 out of 5 of Africa's citizens (79.6 percent) live in countries that have progressed in this dimension over the past decade.

However, the increased number of free and fair executive elections does not necessarily translate into a better participatory environment. Alarming, citizens' political and civic space in Africa is shrinking, with worsening trends in indicators measuring civil society participation, civil rights and liberties, freedom of expression, and freedom of association and assembly.

Also, strong macroeconomic growth over the past decade has failed to translate

into progress in *Sustainable Economic Opportunity* for citizens, namely the extent to which governments enable their citizens to pursue economic goals and provide the opportunity to prosper. While Africa's combined GDP has increased by almost 40 percent over the past decade, average progress has been almost null for citizens in *Sustainable Economic Opportunity*. Even if some countries do manage to register progress, almost half (43.2 percent) of Africa's citizens live in one of the 25 countries where *Sustainable Economic Opportunity* has declined over the past 10 years.

The almost stagnant trend then strikes a concerning contrast with demographic growth and youth expectations. Africa's population has increased by 26 percent over the past 10 years and 60 percent of the continent's 1.25 billion people are now under the age of 25 years old. A deteriorating business environment and

high unemployment, among others, are a huge missed opportunity that could become a recipe for disaster even for the largest African economies. Large unemployed populations are bound to fuel further migration flows or political unrest and shake the stability of countries for years to come.

The IAG results confirm that governance must be citizen-centered. Common factors among the best-performing countries in *Overall Governance* are relatively higher scores in the provision of property rights, civil rights and liberties, government accountability, and social welfare policies to their citizens.

The index also confirms that *Rule of Law* and *Transparency & Accountability* are key pillars of good governance. These two sub-categories show the strongest

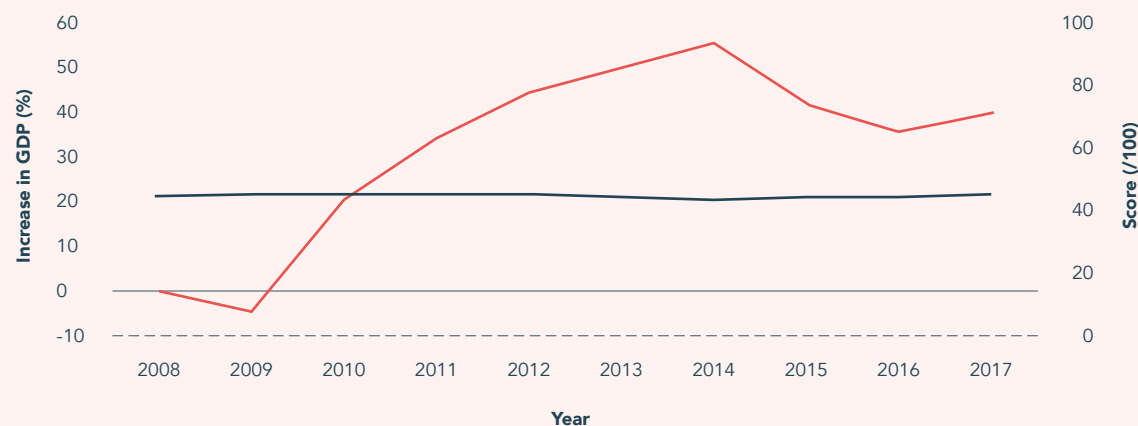
relationships with *Overall Governance* scores. *Transparency & Accountability* is also key for progress in economic opportunity, being strongly correlated to the *Sustainable Economic Opportunity* category and the *Business Environment* sub-category. However, even if recent improvements here are encouraging, *Transparency & Accountability* performance is still low and needs to be further strengthened.

Africa is at a tipping point. We welcome progress in *Overall Governance*, but the lost opportunity of the past decade is deeply concerning. Africa has a huge

Young citizens of Africa currently lack hope, prospects, and opportunities.

Figure 1.3 Sustainable Economic Opportunity and GDP growth

While Africa's combined GDP has increased by almost 40 percent over the past decade, average progress has been almost null for Africa's citizens in Sustainable Economic Opportunity.



— Increase in GDP (%) — Sustainable Economic Opportunity African Average Score
 Source: 2018 Ibrahim Index of African Governance, Mo Ibrahim Foundation. <https://mo.ibrahim.foundation/iiag/>

challenge ahead: Its large and youthful potential workforce could transform the continent for the better, but this opportunity is now close to being squandered. Young citizens of Africa currently lack hope, prospects, and opportunities. Their leaders

need to invest in education and speed up job creation to sustain progress and stave off potential deterioration, as well as to make sure the voice and expectations of the youth are included in policymaking. The time to act is now.

VIEWPOINT

Raising the voice of young people in governance

Thione Niang

@thioneniang - Co-Founder, Akon Lighting Africa

01.

Youth in Africa are isolated and underrepresented in governance across the continent. This is often the case in most parts of the world, but the ratio of under-representation of youth in Africa is alarmingly high. They are left out from key decisionmaking processes. In many cases, the younger generation is more knowledgeable, equipped, and prepared to address the fast moving issues of today than the establishment leadership.

With 60 percent of its 1.25 billion people under the age of 25 years old, Africa has the youngest population in the world. But this young majority is not being represented in government. This fundamental disconnect between policymakers and youth amplifies problems and causes African society in general to digress and feel dated.

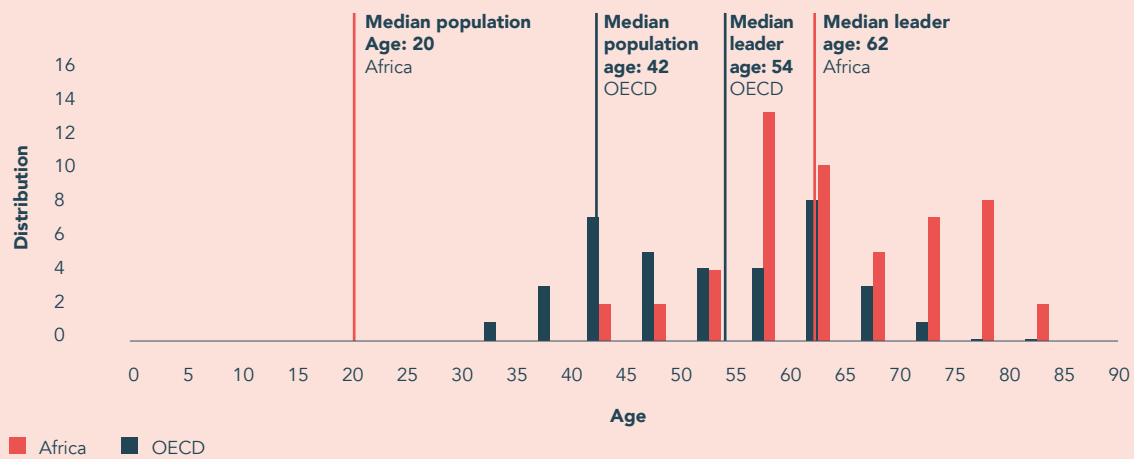
The cries for change from Africa's youth have mostly been ignored. Policymakers pay lip service to the issue, but rarely do anything to correct it. There is no awareness of youth inclusion in the electoral or administrative process. Sadly, this leaves us with old leadership and institutions that are unable to take any meaningful action to address the issues most relevant to young people. If instead governments focused on inclusion, the youth could have tremendous potential to positively affect change and economic growth.

Youth are the most important human capital of any economy. Not only are they agile, adaptable, and receptive, but the modern youth also understand employment in the millennial age. They are tuned in to opportunities of the gig economy, constantly aware of and ready to seize upon the newest and latest trends.

Unfortunately, senior leadership often views the aspirations of the youth as cultural invasion and imperialist influence, nothing to be taken seriously.

Figure 1.4 Old leaders, young population

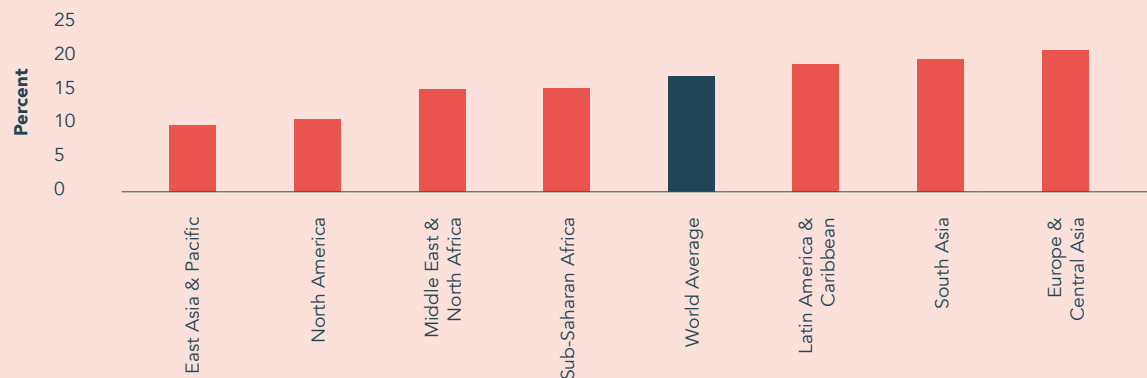
Africa has the youngest population globally but some of the world's oldest leaders. The median African leader at 62 years old is 8 years older than the median OECD leader. Furthermore, the age gap between the region's population and leaders is 42 years compared to only 12 for the OECD.



Source: Brookings calculations.

Members of Parliament under 40 years of age

The younger population is also not as well represented in African parliaments. On average, only 14 percent of the region's parliamentarians are younger than 40, which is below the world average. It should be expected to be much higher given that 70 percent of the region's population is under 30 years old.



Source: Inter-Parliamentary Union. data.ipu.org

However, there are promising pathways to boost youth empowerment and employment. As I have traveled the continent and worked among young people in over 34 countries, I have seen ways to enhance their social position for better economic and personal well-being.

Senior leadership often views the aspirations of the youth as cultural invasion and imperialist influence.

Above all else, we need to rethink our educational systems in Africa. The majority of our universities teach from curriculums dated to colonization, especially the Francophone countries. We graduate too many students with education in only the classic studies, like history, philosophy, and sociology. While these are no doubt important subjects, our new educational system needs to train young people for the jobs of the 21st century. We need better training in the sciences as well as soft skills that will help students prepare to be lifelong learners.

What is more, the governments of Africa must wake up and address the brain drain issue. We need to not only create highly skilled youth, but also create the economic environment in Africa for them to want to stay and prosper.

Africa's youth need to be able to take hold of their own destinies in order to provide the continent with a better tomorrow. For the sake of the continent, let us hope that 2019 will be the year to elevate the voice and representation of young people in governance.

We need better training in the sciences as well as soft skills that will help students prepare to be lifelong learners.

Strategies for winning the fight against corruption

Ngozi Okonjo-Iweala

@NOIweala - Chair of the Board, Gavi, the Vaccine Alliance
Former Minister of Finance, Federal Republic of Nigeria

02.

That corruption and poor governance are key factors holding back Africa's development are notions deeply embedded in the literature and thought on Africa's socioeconomic development. What is not so common is discourse and success stories about how to systematically fight this corruption. Though this may sound discouraging, I can tell you, from my experience, that it is indeed possible to fight corruption successfully with the right knowledge, patience, and commitment to transparency.

To fight corruption, we must first understand it. Underlying the various forms of corruption—grand, political, and administrative, which include public resource transfers to private entities, allocation of public resources to political allies, and misuse of public funds—are three important factors. The first is a lack of transparency of critical financial and other information central to economic development, in particular revenues and budgets. Second is the weakness or total absence of institutions, systems, and processes that block leakages. Third is the pervasiveness of impunity—limited political will to hold accountable and punish those found guilty of such corruption.

Between the three, the tougher problem is how to build strong and enduring institutions. Building institutions takes time and does not deliver the quick results that typically attract politicians or donors. But it is essential if Africa is to fight corruption systematically and ensure long-term stability. We are fortunate to now have technology that enables us to build electronic platforms to manage government finances, biometric systems to bring integrity to our personnel and government payment systems, and web-based platforms to provide transparency of government finances. We need to go even further to see how we can deploy blockchain and other emerging technologies to underpin our contract negotiations and procurement systems, a huge source of corruption and leakage in many countries.

We should combine these efforts with building strong and independent audit and justice systems, including a well-resourced judiciary and an oversight office to field complaints. We also need to create an environment that enables strong and accountable civil society organizations that provide oversight of government. Such strong and independent institutions have a salutary effect on political will as they exert the necessary pressure on politicians, even at the highest levels, to act. Such initiatives take patience and determination though, since building these institutions, systems, and processes may take a decade or more.

My experience in Nigeria showed that a decade spanning three administrations was necessary to build well-functioning technology platforms for managing the country's finances. The savings in terms of blocked leakages, amounting to over a billion dollars, made it worthwhile.

Africa needs to focus its anti-corruption fight on long-term, high-return institution building activities, coupled with the justice infrastructure and political will to hold those who transgress accountable.

We found that supporting institution building with openness and transparency of revenue and budgetary data provides a win that can be implemented quickly. The increasing accessibility of the internet via mobile phones and various analytic apps makes it easier now more than ever to share with citizens information on revenues and expenditures. Publishing monthly data in national newspapers on local, state, and federal government revenues was unprecedented in Nigeria when we started in 2004, but it helped us gain public support for our initiatives going forward. It laid the basis for much more sophisticated analytics on the budget shared widely via the internet today.

Africa needs to focus its anti-corruption fight on long-term, high-return institution building activities, coupled with the justice infrastructure and political will to hold those who transgress accountable. This process should start by making key government statistics open and transparent, enabling citizens to keep on top of important information and build trust in their governments. Only with these pragmatic approaches can the continent record wins against corruption.

From the electoral processes to democracy in Africa: Avenues to bridge the gap

John Mukum Mbaku

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Brookings Institution

Brady Presidential Distinguished Professor of Economics, Weber State University

03.

In 2019, general elections will be held in many African countries, offering them an opportunity to deepen, consolidate, and institutionalize democracy and strengthen their governance systems. Nevertheless, as the 2018 presidential elections in several African countries have shown, without a governing process supported by true separation of powers, effective checks and balances, an independent judiciary, a free press, and a robust and politically active civil society, the 2019 elections will most likely have limited impact on freedom and equality across the continent.

Priorities for the declared winners of the 2018 elections

In **Cameroon**, President Paul Biya emerged victorious, unsurprisingly, having supposedly captured 71.28 percent of the vote.¹ Several opposition candidates and ordinary Cameroonians pointed to massive fraud. In addition, the election was marred by high levels of insecurity and violent extremism in at least three of the country's 10 regions—the Far North, Northwest, and Southwest regions. The violent response by the security forces to peaceful protests by teachers and

1 Maclean, Ruth. 2018. "Biya Wins Again in Cameroon as Crackdown Disrupts Anglophone Vote." The Guardian. Guardian News and Media. October 22, 2018. <https://www.theguardian.com/world/2018/oct/22/paul-biya-cameroon-85-year-old-president-wins-re-election-landslide>.

lawyers against the political and economic marginalization of the Anglophones by the Francophone-dominated central government has morphed into what is being described by the international community as genocide.² The “re-election” of Biya for another seven-year term has all but killed any prospects that the 2018 election would lead to the deepening and institutionalization of democracy in the country, as well as significantly improve the security situation in the country, one of Cameroon’s top priorities.

In **Mali**, incumbent President Ibrahim Boubacar Keïta was reelected for a second term with 67 percent of the votes cast.³ Although there were allegations of irregularities,⁴ the African Union adjudged the elections credible and transparent. Other observers argued that the elections were credible but raised concerns. This election was supposed to dispel Malians’ chronic mistrust of their political institutions, which emanates from the government’s failure to deal with human rights violations, corruption, and nepotism. President Keïta’s regime must now deal fully with corruption and impunity, as well as address pervasive poverty, high levels of material deprivation, and political and economic marginalization. It must also be understood that the foundation of an effective way to fight terrorism and other security threats in Mali and the broader Sahel region is to promote political and economic inclusiveness, as well as the protection of human rights.

An effective way to fight terrorism and other security threats in Mali and the broader Sahel region is to promote political and economic inclusiveness.

In the **Democratic Republic of Congo (DRC)**, the term of President Kabila expired in 2016. After postponing the elections for two years, they were finally held last December, but excluded Moïse Katumbi, the popular former governor of the Katanga Province. The focus for the new regime must be nation building and the effective elimination of threats to peace and security. To accomplish this goal, the new government must be inclusive and must pre-occupy itself primarily with state reconstruction to provide the country, through a participatory, inclusive, and people-driven process, with institutional arrangements that are capable of promoting peaceful coexistence and enhancing inclusive economic growth.

2 Zongo, Peter. 2018. “‘This Is a Genocide’: Villages Burn as War Rages in Blood-Soaked Cameroon | Peter Zongo.” The Guardian. Guardian News and Media. May 30, 2018. <https://www.theguardian.com/global-development/2018/may/30/cameroon-killings-escalate-anglophone-crisis>.

3 Macdougall, Clair. 2018. “Keïta Gets 2nd Term as Mali President With Runoff Victory.” The New York Times. The New York Times. August 16, 2018. <https://www.nytimes.com/2018/08/16/world/africa/keita-mali-election.html>.

4 Ibid.

Key elections to watch in 2019 are those in Nigeria and South Africa

Nigeria will hold general elections on February 16, 2019, to elect a president and members of the National Assembly. Muhammadu Buhari, who was elected president in 2015, is seeking re-election. The 2019 elections will be the sixth national electoral exercise since transition to democracy in 1999 and an opportunity for Nigerians to undertake peaceful change of government as they had done in 2015. As many as 16 other individuals have declared their intention to contest the presidential race. As candidates prepare to articulate and bring their platforms to the electorate, there is fear that the elections will be marred by violence.

While many observers see Boko Haram as the greatest threat to peace and security in Nigeria, and hence, to the 2019 general elections, it is important to also recognize the various structural and institutional problems that plague the country. These include, but are not limited to, severe inequalities in wealth and income distribution, religious and ethnocultural divisions, and weaknesses in the political, administrative, and judicial foundations of the state, which have produced high levels of bureaucratic and political corruption, including public financial malfeasance.

While many observers see Boko Haram as the greatest threat... it is important to also recognize the various structural and institutional problems that plague the country.

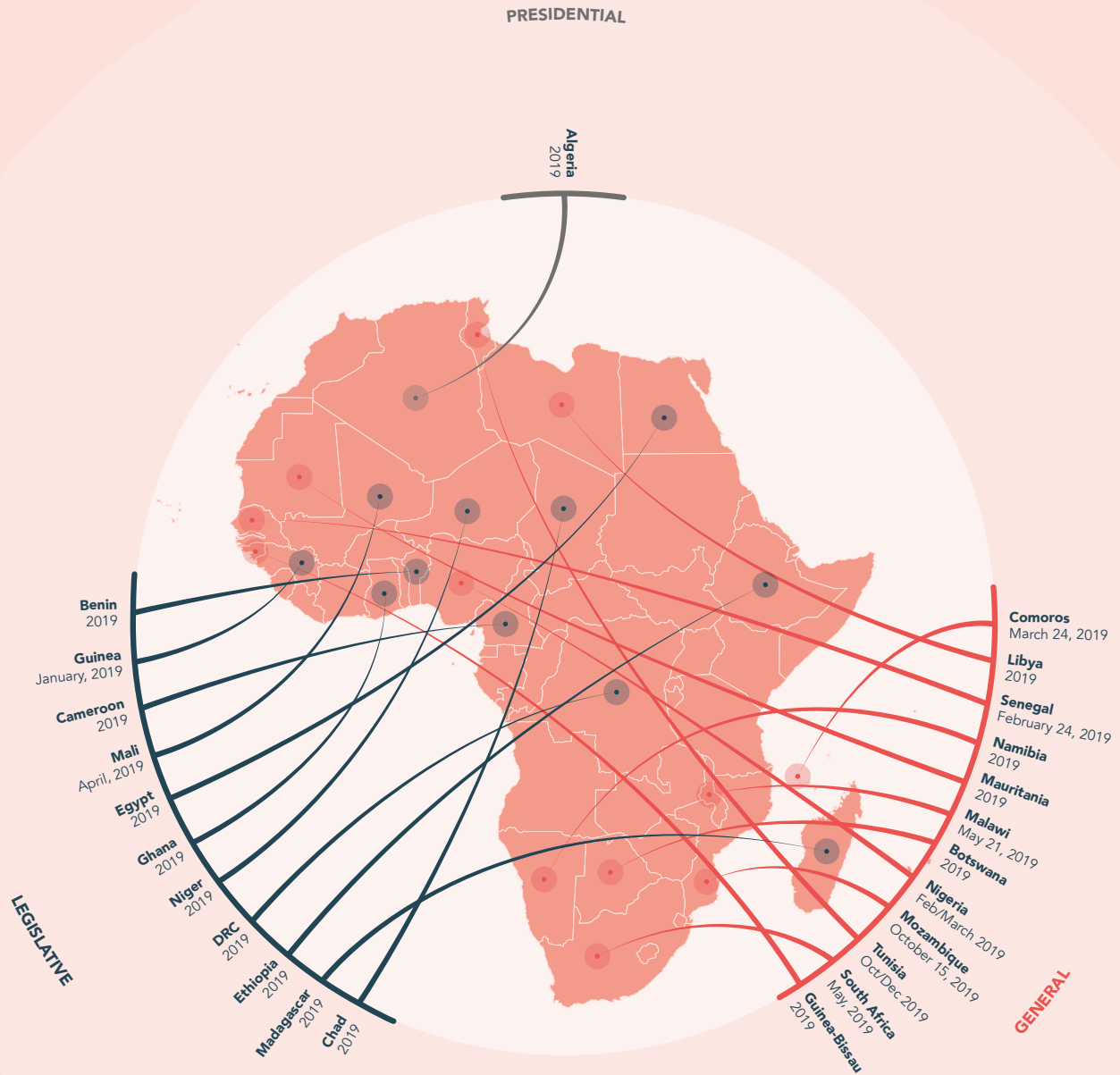
An emerging and important threat to peace and, in particular, the election, is the violent conflict between farmers and herders over land- and water-use rights (see Ahmadou Aly Mbaye's Viewpoint on Page 62). In fact, in some states in northern Nigeria, many of these clashes have become deadly. Government, at both national and local levels, remains incapable of dealing effectively with extreme poverty and providing all Nigerians with effective mechanisms for self-actualization.

Finally, Nigeria's political parties continue to suffer from in-fighting and are proving incapable of improving the state of democracy in the country. Despite the tremendous improvements that have been made since transition to democracy in 1999, Nigeria has not been able to provide itself with a governance system capable of adequately constraining the state and, hence, preventing civil servants and politicians from acting with impunity.

South Africa will also hold general elections in 2019 to choose members of the National Assembly and new provincial legislatures in each of the country's provinces. The 2019 elections will be South Africa's sixth since 1994 when apartheid was abolished. Since the National Assembly chooses the president after the election, the

Figure 1.5 Elections in 2019

In 2019, the continent will have a number of local and national elections. Both Nigeria and South Africa, the region's two largest economies, will host national elections. Nigeria's presidential elections are set for February 16 and elections for South Africa's National Assembly will occur in May.



Source: Electoral Institute for Sustainable Democracy in Africa. Data as of January 7, 2019.

next president is likely to be a member of the political party that captures most of the parliamentary seats. The incumbent president, Cyril Ramaphosa, who was elected to a five-year term as president of the African National Congress (ANC), will lead the party to this year's elections.

While corruption and state capture are likely to be key issues in the 2019 elections, inequality in the distribution of wealth and income, most of it made possible by apartheid-era policies, will definitely be an important issue for candidates to address. In addition to the continued lack of opportunities for the country's majority black population, political parties are likely to be asked to address the issue of inequality, including the redistribution of land, a problem that has made South Africa one of the most unequal countries in the world.

Despite South Africa having the continent's most progressive constitution and a governing process characterized by separation of powers, with an independent judiciary, many citizens remain trapped in poverty and suffer from high levels of material deprivation. Thus, for the country's main opposition political party, the Democratic Alliance, to be competitive against the ruling ANC, it must provide voters with a platform that adequately addresses issues such as wealth and income inequality, including land reform. Of course, the ANC remains burdened by its leadership problems, corruption, and the belief, by many of its supporters, that it has abandoned the ideals and values that gave impetus to the struggle against apartheid.

The importance of holding fair and freely contested democratic elections in Africa

Elections are a critical part of each country's democratic system. Elections can provide vulnerable and marginalized groups (such as, ethnic and religious minorities) with the opportunity to fully articulate their concerns or interests, make them part of the national discourse, and possibly have them included in the national agenda. But this is most likely to happen only when the elections are fair, free, regular, and credible and undertaken in countries with strong democratic institutions.

Hence, a critical lesson from African elections in 2018 is that, while they are an important part of the process of deepening and institutionalizing democracy, they can only play this role within countries whose institutional arrangements are undergirded by the rule of law. Only then can elections help consolidate democracy.

Is there a tension between democracy and economic development in Africa?

Ernest Aryeetey

Secretary-General, African Research Universities Alliance, United Nations University

04.

Over the past two decades, as African countries have transitioned from significantly autocratic regimes to increasingly open arrangements of governance, there have been questions about the effectiveness of democratic institutions and practices in supporting the necessary policy and organizational environment for meaningful economic development. Debates have emerged over whether true democracies can be found in the region or not.

The issue of whether Africa has true democracies or not is generally discussed in relation to what freedoms are associated with holding elections. Many countries are generally seen as not embedding political and civil rights in their new institutions even though they organize regular elections. The 2018 ranking of free countries by the watchdog organization Freedom House is quite revealing in this regard, having ranked Angola, Cameroon, and Chad as not free, even though they host regular elections. The degree of accountability in these oil-producing economies is considered to be limited.

Debates have emerged over whether true democracies can be found in the region or not.

A large and growing number of African countries have steadily improved the organization of elections over the years and introduced institutional reforms that provide more liberties for citizens. What remains doubtful is the extent to which the new institutions are used to pursue development and structural transformation. A number of studies make reference to the “conflict view” of democracy and development, suggesting that decisionmaking

in several new democracies is shortsighted. Elected officials approach policymaking with their eyes fixed on the ballot box. They are able to construct new roads, schools, and hospitals just before elections—with a lot of debt accumulated in the process—but they are unable to develop a link between new infrastructure and the modernization of agriculture or the growth of the manufacturing sector.

Many countries see unemployment as an organizational challenge. Ghana, since 1992, is a classic case in point. When the government of Ghana promised “one district, one factory” during the past election campaign, no one believed that they could build more than 200 factories in 4-8 years. Today the discussion has moved to how one defines a factory! No wonder, promises beyond these are not taken very seriously.

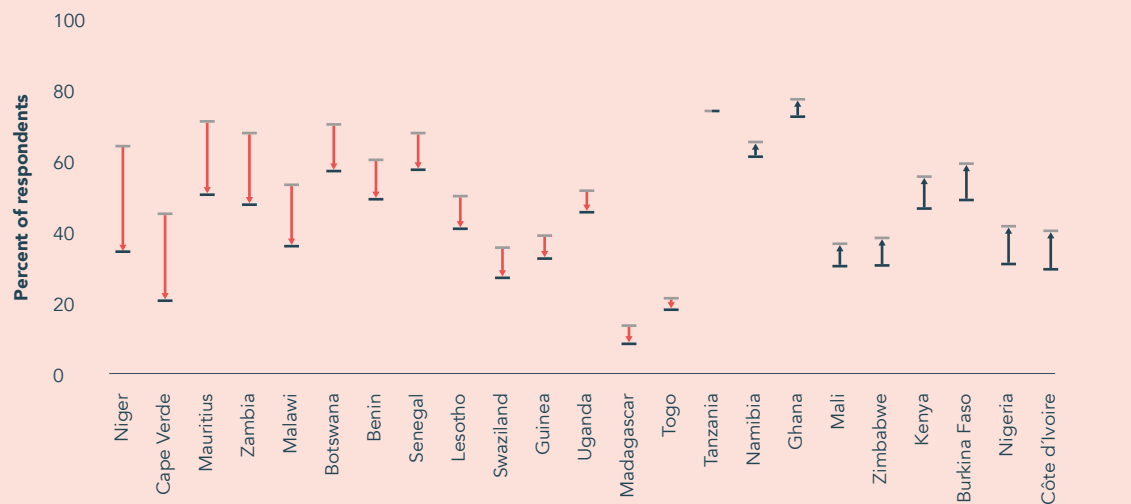
For the principles of democracy to be completely embraced in Africa, governments need a long-term perspective of effective institution building for structural transformation. Deferring some public consumption is necessary in long-term planning. But, with better government accountability and transparency, African democracies can replace the facade of freedom with real liberty and economic development.

Figure 1.6 Satisfaction with democracy in Africa

Satisfaction with democracy fell in almost two-thirds of countries between surveys in 2011-13 and 2016-18. On average only 45 percent of respondents were fairly or very satisfied with democracy in their countries in the 2016-18 round compared to 50 percent of respondents in 2011-13.

Survey question: Overall, how satisfied are you with the way democracy works in [country]?

Note: Responses included below reflect those who say there are fairly or very happy with how democracy works in their country.



— 2011-13 — 2016-18

Source: Afrobarometer Data. Rounds 5 & 7. Available at <http://www.afrobarometer.org>.



MANAGING DEBT AND MOBILIZING RESOURCES:

A delicate balance to sustain
economic growth

Reconciling financing needs and rising debt levels

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Global Economy and Development, Brookings Institution

In 2019, the economic outlook of sub-Saharan Africa will strengthen, due largely to a combination of higher commodity prices, a stronger global economy, and supportive domestic policies. The latest projections have the region's aggregate gross domestic product (GDP) growth stepping up to 3.8 percent this year, up significantly from the 2.6 percent average growth rate of the past four years.¹ Thereafter, growth will rise to just over 4 percent by 2023.

The aggregate contour masks significant differences across countries. Importantly, despite notable improvements, economic growth remains weak in **Angola, Nigeria,** and **South Africa**, the continent's largest economies,² with growth averaging under 2.5 percent—which is comparable to the rate of population growth—over the next five years. These large economies remain at risk of a lost decade (flat per capita GDP) unless policymakers implement significant reforms to reduce dependence

on oil in Angola and Nigeria and, in the case of South Africa, to overcome structural problems—many inherited from the apartheid era. In this regard, priorities of President Cyril Ramaphosa and Vice President Yemi Osinbajo (see Viewpoints on pages 35 and 42) suggest strategies that are encouraging.

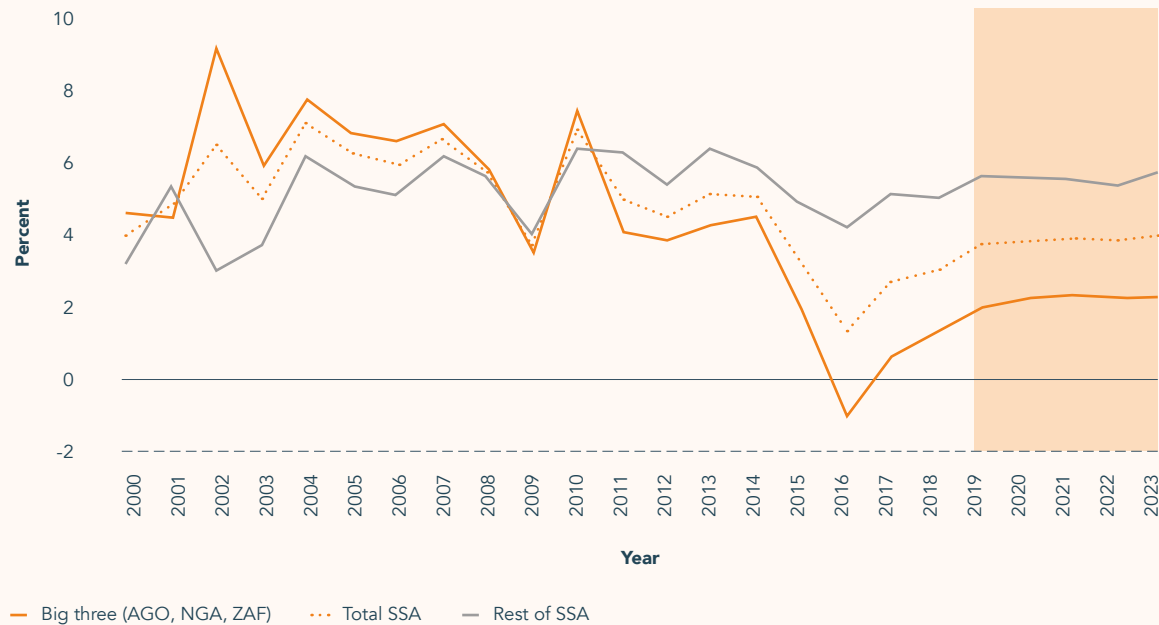
Excluding these large economies or focusing on the country-level growth rates reveals an even brighter outlook for the region. Aggregate growth for the region rises to 5.7 percent in 2019 and remains at around this rate through 2023 (Figure 2.1). About half of the world's fastest-growing economies will be located on the continent, with 20 economies expanding at an average rate of 5 percent or higher over the next five years, faster than the 3.6 percent rate for the global economy. **Ethiopia, Rwanda, Ghana, Côte d'Ivoire, Senegal, Benin, Kenya, Uganda, and Burkina Faso** continue to be among the top-10

¹ International Monetary Fund, World Economic Outlook, October 2018.

² Angola, Nigeria, and South Africa make up 55 percent of the region's aggregate GDP estimated at market exchange rates.

Figure 2.1 Real GDP growth in sub-Saharan Africa 2000-2023

GDP growth will pick-up in 2019 aided by a growth rebound in the region's three largest economies, Angola, Nigeria, and South Africa.



Source: International Monetary Fund, World Economic Outlook, October 2018.

Figure 2.2 Top African economic performers of 2018-2019

Nine out of the top 10 countries in 2018 will also be the top 10 economic growth performers in 2019. Tanzania will make it into the top 10 this year, displacing Guinea. Ethiopia is predicted to top the group. In addition, these estimates are higher than in 2018 for all countries except Côte d'Ivoire and Senegal.

Top performers based on 2018 growth estimates		Top performers based on 2019 growth estimates	
Country	GDP growth in 2018	Country	GDP growth in 2018
Ethiopia	7.5	Ethiopia	8.5
Côte d'Ivoire	7.4	Rwanda	7.8
Rwanda	7.2	Ghana	7.6
Senegal	7	Côte d'Ivoire	7
Ghana	6.3	Senegal	6.7
Benin	6	Tanzania	6.6
Kenya	6	Benin	6.3
Uganda	5.9	Kenya	6.1
Burkina Faso	5.9	Uganda	6.1
Guinea	5.8	Burkina Faso	6

Source: International Monetary Fund, World Economic Outlook, October 2018.

performers this year, and **Tanzania** moves up into the top 10, displacing **Guinea**.

The relatively bright economic prospects in several countries face important downside risks both external and domestic. Among the external risks are the possibilities of market stepdown in global growth or an escalation in trade protectionism, which could result in a drop in commodity prices and in demand for Africa's exports and push up borrowing costs. Key among the domestic risks is the rising level of government debt and concerns about debt sustainability in several countries. A top priority for policymakers in 2019 is to ensure that their debt management frameworks and strategies are updated to the new structures of the debt, and to take bold steps to strengthen governance around tax revenue collection.

Rising debt and debt servicing cost have several countries in, or at risk of, debt distress

Government debt, which has been an important source of financing, along with debt servicing cost has risen rapidly in recent years. As a result, at least 14 countries—one-third of all countries in the region—are judged to be either in debt distress or at high risk of debt

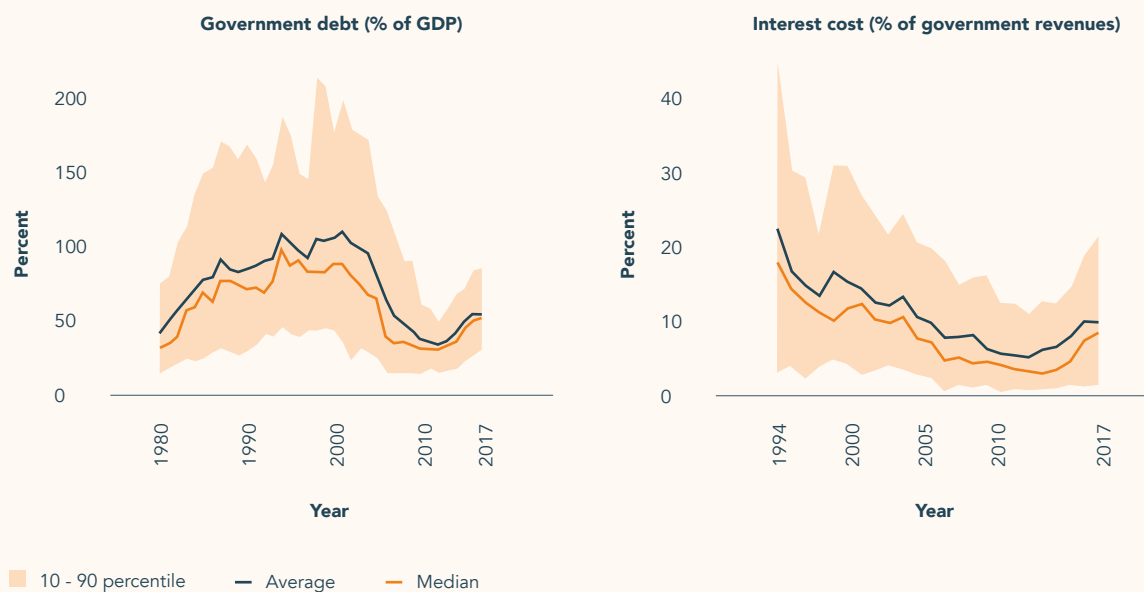
distress, up from only six countries in 2013. Total debt and external debt for these countries is estimated at \$160 billion and \$90 billion, respectively.

This observation has raised concerns that the region might be on course for another broad-based debt distress situation reminiscent to that which led to the Heavily Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI). Following the implementation of HIPC/MDRI, the average public debt as a percent of GDP for all sub-Saharan countries receiving relief fell from 110 percent in 2001 to 35 percent in 2012, and the interest-revenue ratio fell from 13 percent to 5 percent. Since 2013, both indicators of debt sustainability have deteriorated significantly. The average debt ratio has risen to an estimated 57 percent in 2017, particularly in Cabo Verde, Eritrea, Republic of Congo, and Mozambique where it exceeds 100 percent of GDP. Similarly, the average interest-to-revenues ratio increased from 5 percent in 2012 to an estimated 10 percent. The interest cost exceeds 20 percent of revenues in Burundi, Gambia, Ghana, Nigeria, and Zambia.

Compared with the pre-HIPC/MDRI period, debt levels are still generally lower, but interest payments as a share of government revenues are close for several countries. This contrast points to the poorer quality of the debt in the recent debt buildup.

Figure 2.3 Government debt and interest cost

Debt sustainability has deteriorated in sub-Saharan Africa with both debt and interest costs rising.



Source: International Monetary Fund, World Economic Outlook, October 2018; Sub-Saharan Africa Regional Economic Outlook, October 2018; International Monetary Fund, Historical Debt Database.

Changing structure of the debt requires updated debt management frameworks and strategies

External debt remains predominant, as in pre-HIPC/MDRI build up, accounting for 57 percent of total debt in 2017. However, the share of commercial—and more costly—debt has increased. The share of private debt has risen from

9 percent of external debt in 2000 to 17 percent in 2017, owing partly to the issuances of eurobonds by several countries since 2006. Meanwhile, the share of multilateral and bilateral debt has declined.

Another important development in the structure of debt is the more diffuse creditor base. In addition to the growing importance of private lenders, the number of official creditors has also increased. Among bilateral lenders, the share of Paris Club members has fallen from over 40 percent in 2008 to below 23 percent in 2017, while that of non-Paris club members—notably Chinese lending—has increased significantly.

Finally, some countries have also issued commodity-linked debt. These changes in the structure of debt require that governments and their development partners adapt their debt management approaches and frameworks to reflect the new environment, including ensuring that the debts are sufficiently hedged against global market risks. A strategy for the near term that can help countries balance the need for financing while controlling indebtedness is to strengthen governance around tax revenue collection.

Strengthening governance around tax revenue collection can help

The debate around the sustainability of Africa's debt lays bare the fact that the challenge of sustainable financing for Africa's development has not yet been fundamentally addressed. The region continues to suffer from perennially low domestic saving rates, which are projected to average just 18 percent of GDP³ over the next five—among the lowest in the world, and significantly below the desired investment rate of close to 30 percent. The resulting 12 percentage points of GDP financing gap amounts to about \$230 billion annually, and partly explains the increase in external indebtedness.

Tax revenues are the most important component of domestic resources, and

raising them has been at the center of many domestic reforms and regional and international initiatives.⁴ These efforts helped to boost revenue collection from 11 percent in the early 2000s to 15 percent recently. Even so, the region's tax ratios are still among the lowest in the world, below that of Organization for Economic Cooperation and Development (OECD) countries (24 percent) and other emerging and developing countries.

These changes in the structure of debt require that governments and their development partners adapt their debt management approaches and frameworks to reflect the new environment.

The region's low tax revenues are due to both low taxation capacities—about 20 percent of GDP on average (compared with 30 in OECD countries)—and to inefficiencies in revenue collection.⁵

The debate around the sustainability of Africa's debt lays bare the fact that the challenge of sustainable financing for Africa's development has not yet been fundamentally addressed.

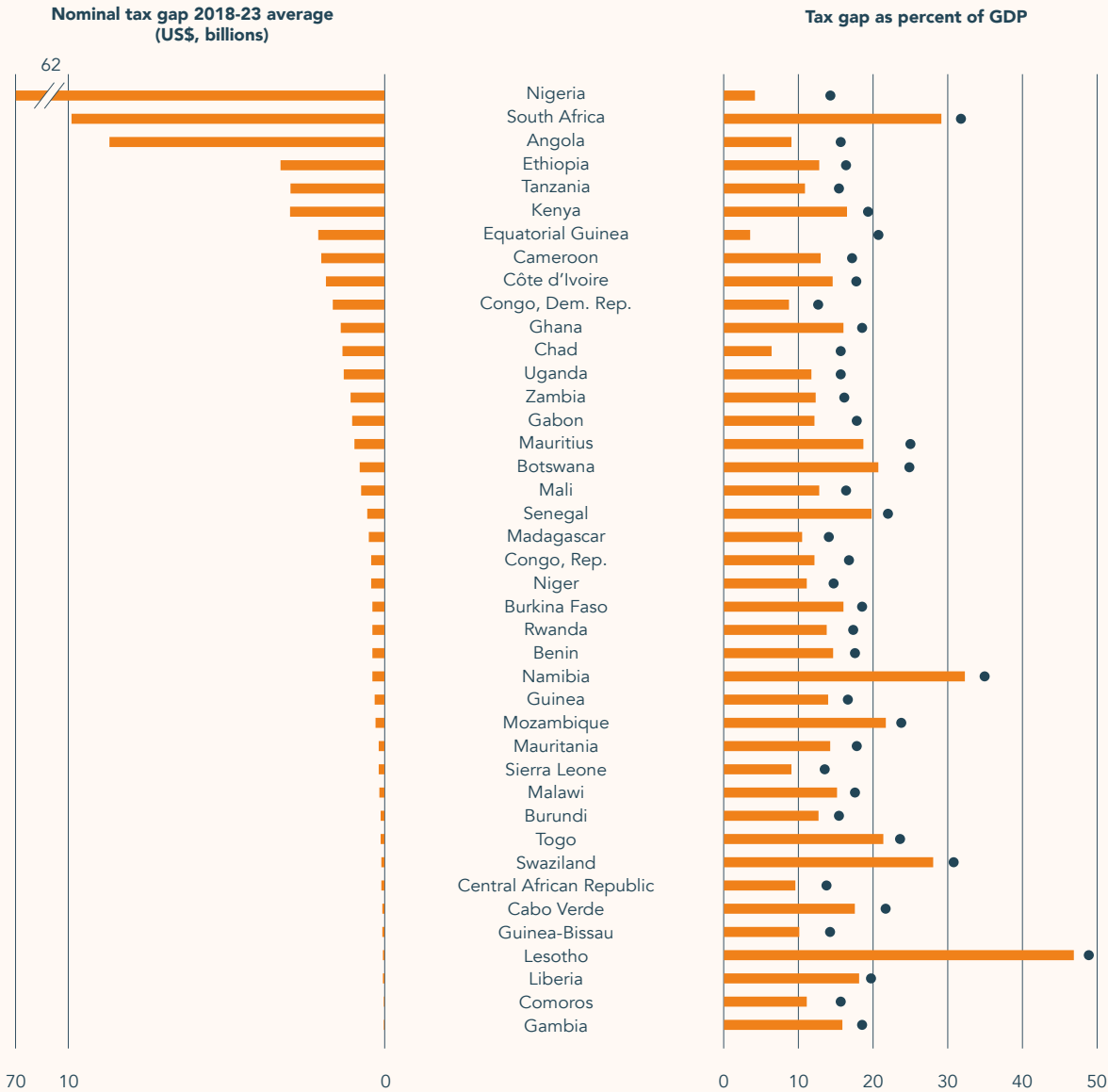
³ Based on projections in the October 2018 edition of the World Economic Outlook database.

⁴ Some of these initiatives include the 2002 Monterrey Consensus, the 2011 Busan Agreement, the Addis Tax Initiative launched in 2015, and the Platform for Collaboration on Tax launched in 2016.

⁵ Coulibaly, Brahim and Dhruv Gandhi. 2018. "Mobilization of tax revenues in Africa: State of play and policy options." Brookings Institution.

Figure 2.4 Non-resource tax gap in African countries (excluding social contributions)

The size of Nigeria's economy and its large tax gap due to low non-resource tax revenues (below 5 percent of GDP) means that it accounts for more than half the region's average nominal tax gap of \$110 billion a year. South Africa and Angola follow in second and third with average tax gaps of \$10 billion and \$8 billion respectively.



● Tax Capacity
 Source: Coulibaly and Gandhi, 2018.

The good news is that there is scope to raise tax revenues above current levels by further strengthening tax capacity and improving governance in revenue collection. Strengthening tax capacity should remain a medium- to long-term policy objective, given that capacity is largely determined by entrenched structural factors such as the stage of economic development, the size of the informal sector, and the sectoral composition of economic activity, among others. Improving governance, on the other hand, can yield near-term results and help close the gap—4 percentage points of GDP—between current tax revenues and tax capacity. Significant heterogeneity in tax gaps exists across the region. At the country level, the gaps are largest for Equatorial Guinea, Nigeria, Chad (9 percentage points of

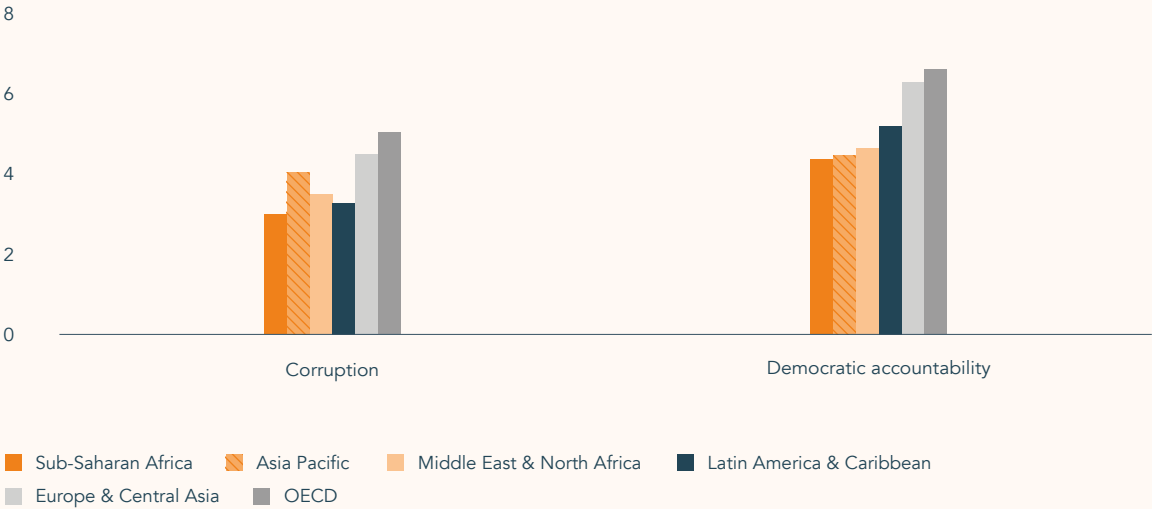
GDP or higher) and smallest for Liberia, Mozambique, and Togo (2 percentage points or less).

Governance indicators for the region, including corruption and accountability, remain the worst in the world.

A recent study by the Africa Growth Initiative at Brookings estimates that an improvement in the region’s corruption and democratic accountability scores to the global median, which is still below those of the OECD countries, can help mobilize up to \$110 billion annually over the next five years.⁶ This amount is more than double the \$44 billion in official development assistance to the region in 2016, and almost one-half of the estimated \$230 billion average financing gap. Policymakers should prioritize taking

Figure 2.5 Average governance scores by region

Sub-Saharan Africa performs poorly on both governance indicators, with the lowest average scores.



Source: International Country Risk Guide; Coulibaly and Gandhi, 2018.

⁶ Ibid.

bold steps to strengthen governance around revenue collection in 2019 to help balance indebtedness and the needs for financing. Enhancing public financial management, including efficiency and equity of public spending, will also help. Citizens are more likely to comply with tax collection when they trust that tax revenues are managed well.⁷

Although the debt situation is not yet at the pre-HIPC/MDRI level overall, the pace of increase along with some fundamental changes in the structure of the debt, notably the higher share of commercial debt, is concerning. The relatively short tenures of commercial debts and their higher interest rates make them ill adapted to finance long-term economic development projects, particularly infrastructure. The access of African countries to global financial markets is a welcome and inevitable phase in economic development. Along with access to global financial markets comes increased scrutiny of the fundamentals of the local economies and of domestic policies, which, in turn, imposes more discipline and accountability on policymakers.

Finally, the wider range of creditors allows for a more diversified creditor base and likely attests to greater confidence in the region's economic prospects. However, these new features of the debt come also with new challenges. Importantly, debt management frameworks and approaches need to be adapted to the new structures of the debt and global market risks. In addition, the more diffuse creditor

base makes eventual debt resolutions more complex. International financial institutions can help by revisiting rules on access to concessional funding, and by laying the groundwork for a uniform and orderly debt resolution mechanism that reflects the new environment.

Although the debt situation is not yet at the pre-HIPC/MDRI level overall, the pace of increase along with some fundamental changes in the structure of the debt, notably the higher share of commercial debt, is concerning.

The debate around debt sustainability is a reminder that the challenge of sustainable financing for Africa's development remains a work in progress. Strengthening governance around tax collection offers a near-term solution to mobilize additional resources to finance the development agenda and slow indebtedness. Moreover, where appropriate, governments should resort more to innovative financing mechanisms such as blended finance or public-private partnerships and other risk mitigation mechanisms to crowd in more private sector investment and help preserve the solvency of public sector balance sheets. Taking these steps will sustain economic progress throughout 2019 and beyond.

7 Barone, Guglielmo and Sauro Mocetti. 2011. "Tax morale and public spending inefficiency." *International Tax and Public Finance*. Vol 18, Issue 6.

South Africa's plan to revive its economy

H.E. Cyril Ramaphosa

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01.

The dawn of 2019 brings new possibilities for advancing human progress in an inclusive and sustainable world.

As our information society expands and new technologies with the potential to advance human development emerge, we are still confronted by deepening inequality within and across national boundaries. In parts of the world, technological progress is taking place in the midst of social and political regression. Nationalism, xenophobia, and unilateral action are undermining established institutions of global governance.

Despite this turbulence, African governments, civil society organizations, and citizens will remain focused in 2019 on the realization of “the Africa we want,” as outlined in the African Union’s Agenda 2063. As part of advancing this agenda, the African Union is engaged in an institutional reform process that seeks to create a self-sufficient, independent, and effective organization that promotes peace and stability, industrial growth, infrastructure development, universal health care, and skills development.

This reform process will complement the establishment of the African Continental Free Trade Area, which promises to significantly increase intra-African trade and investment and enhance the integration of African markets into the global economy. (see Vera Songwe’s Essay on Page 97 and Albert Muchanga’s Viewpoint on Page 110).

South Africa’s contribution to Africa’s march forward will be enabled by our own efforts to end a decade of economic stagnation, which include a drive to raise \$100 billion in new investment in our economy. Such investment is needed if we are to make meaningful progress in reducing poverty, unemployment, and inequality in a society that still bears the scars of apartheid.

To enable this shift in our economy, we are working to improve the ease of doing business and undertaking policy reform in key growth sectors. We are implementing an economic stimulus package to reignite growth and create jobs, and we have taken the fight against corruption to individuals, companies, and institutions implicated in plundering public assets in recent years.

During 2019, our focus on economic renewal and the restoration of ethical conduct in government and business will coincide with our celebration of 25 years of freedom and democracy. This anniversary will serve as inspiration for all South Africans to build the inclusive, peaceful, prosperous, and stable South Africa envisioned in our Constitution and will keep us focused on our efforts to create a better South Africa, a better Africa, and a better world.

VIEWPOINT

Could taxation of mobile banking in Africa stall financial inclusion?

Njuguna Ndung'u

Executive Director, African Economic Research Consortium
Former Governor, Central Bank of Kenya

| 02.

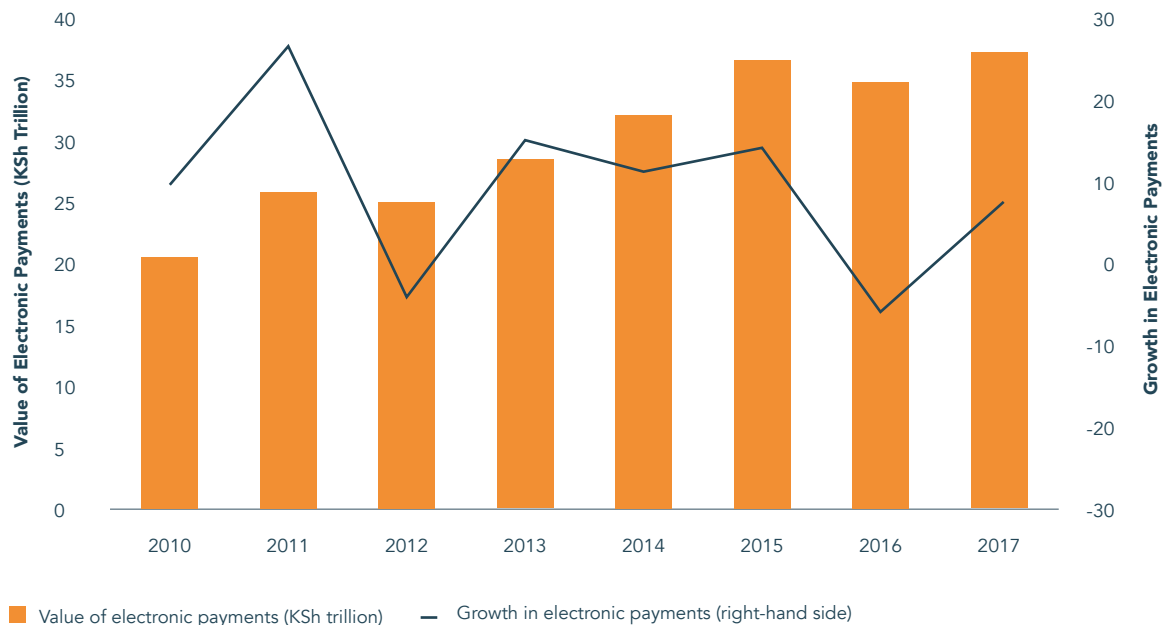
Mobile phone-based financial services have produced celebrated economic outcomes for Kenya and other African countries, enabling completely cashless transactions across entire market segments of Kenya's economy. The need to raise additional tax revenues to finance economic development has motivated governments to begin taxing mobile transactions. As mobile banking now takes hold in Africa, the consequences of this policy are concerning.

Raising taxes and broadening tax bases is necessary for governments, but they must also evaluate the negatives of such actions. As tax rates increase beyond the optimal rate, tax revenue declines and the potential for distortion in the market is raised. Excessive taxation on mobile phone-based transactions could potentially reverse the gains for financial inclusion and create an incentive for cash transactions that escape taxation.

Figure 2.6 shows that the growth in electronic payments in Kenya seems to follow economic cycles but has generally slowed from an annual average of 12.2 percent from 2010 to 2013 to an annual average of 7 percent from 2014 to 2017 after the introduction of the excise tax on financial services.

Figure 2.6 Growth in electronic payments in Kenya

Growth in electronic payments slowed from an average of 12.2 percent from 2010 to 2013 to an average of 7.0 percent from 2014 to 2017.



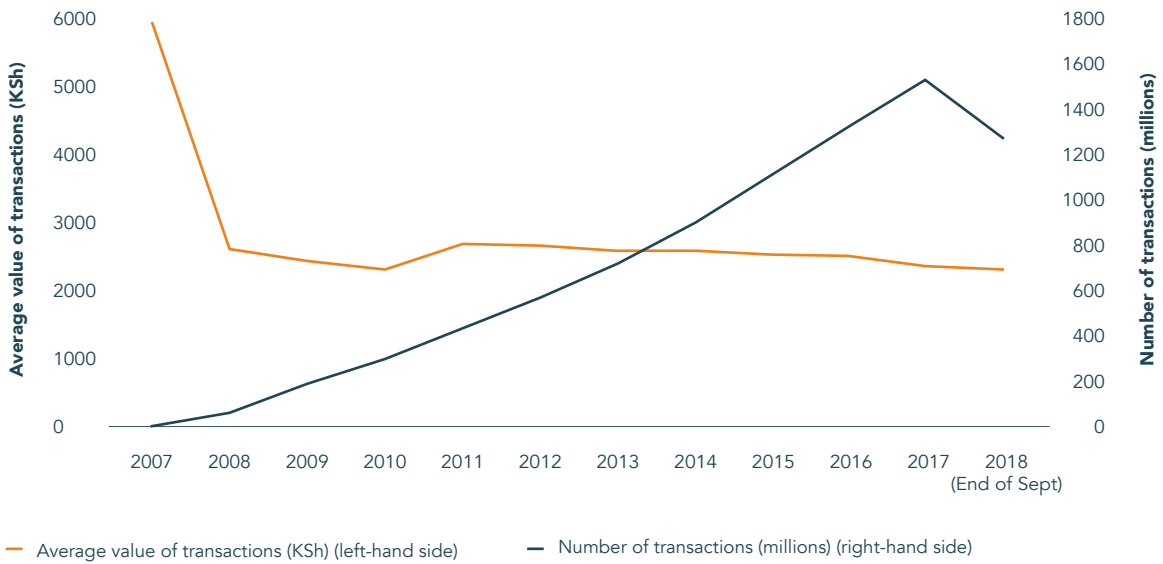
Source: Central Bank of Kenya.

The number of mobile phone transaction accounts have been steadily increasing, rising from 1.4 million in December 2007 to 44.3 million in September 2018. Figure 2.7 shows that the number of mobile phone transactions has increased correspondingly over the same period. However, the average value of mobile phone transactions has remained stagnant after the sharp decline noted between 2007 and 2008. The high volume but low average values of mobile phone transactions shows that the platform is largely used by low-income earners who mostly transact in small values and are sensitive to transaction costs.

Figure 2.8 shows that mobile phone payments are actually a very small proportion of total electronic payments, meaning that they offer limited scope for significantly expanding the tax base. Instead, increasing the rate of taxation on retail transactions coming from low-income earners, who are sensitive to transaction costs, may result in less tax revenue in the future as these earners revert to cash transactions to avoid taxation.

Figure 2.7 Mobile phone transactions in Kenya

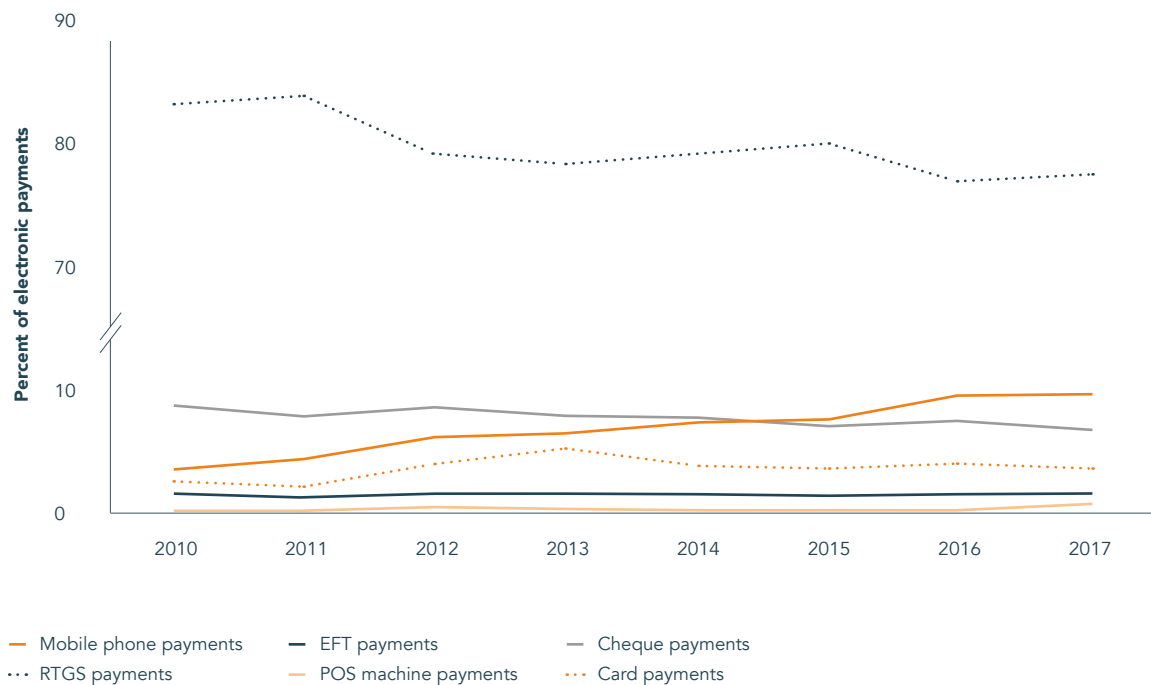
The number of mobile phone transactions have increased steadily since 2007.



Source: Central Bank of Kenya.

Figure 2.8 Composition of electronic payments in Kenya

Mobile phone transactions make up a very small percent of total electronic transactions in Kenya. In 2017, they accounted for about 10 percent of electronic transactions.



Source: Central Bank of Kenya.

A tax on mobile phone-based transactions was first introduced in 2013 via an excise tax at a 10 percent rate. In 2018, the Finance Act increased the excise tax on money transfer services through mobile phones and banks from 10 percent to 12 percent and from 10 percent to 20 percent, respectively. Additionally, the excise tax on telephone services (airtime) was increased from 10 percent to 15 percent.

Levying an excise tax is premised on the assumption that demand elasticities will not change after the tax and so may raise the government's targeted tax revenue. In most cases, excise taxes are imposed on the strong belief that the product in question is price inelastic. However, time and technological changes show that price can only be inelastic in the very short term. In the medium- to long-term, the structure of demand is likely to change, as will the nature of tax revenue anticipated; as a result, governments may receive less tax revenue and there will be a cost of price distortion in the economy.

For this reason, excessive tax increases beyond the optimal rate may push taxpayers to prefer alternatives to escape taxation, resulting in lower tax revenue for the government. To avoid such effects, analysis of optimal taxation for an excisable product should precede such tax policies.

Altering the demand structure for mobile phone-based transactions through suboptimal taxation policy has the potential to reverse gains made in the financial sector, such as the decline in cash outside the banking system. Kenya was moving into a cashless economy, but the incidence of tax on micro-transactions that use mobile phones has the potential to increase the incentive to use cash.

I have argued elsewhere that poorly designed tax policy will have negative outcomes. The living example in Kenya is excise tax on beer. When beer was taxed beyond the optimal tax rate, the rich upgraded consumption to other alcoholic beverages, and the poor downgraded consumption and created a market for illicit alcoholic beverages without standards or controls. This problem has plagued Kenya over the past 15 years with devastating consequences on the youth and rural populations who use these illicit drinks. It is a lesson that poorly designed tax policy can not only have bad outcomes for tax revenues, but can also introduce market distortions that can drive consumption behavior on undesired paths.

Poorly designed tax policy when applied to retail electronic transactions as well as bank transactions can potentially reverse the economic gains from mobile banking, especially for low-income earners who rely heavily on these services. African countries wishing to tax mobile transactions should undertake careful cost-benefit analyses in the short and long term. The future of digitization and financial inclusion and inclusive growth in Africa may depend on these digital spaces. If tax policies are not properly implemented, the incentive to use cash when mobile phone transactions are deemed high-cost will reverse advances in cashless economy and in financial inclusion achieved by Kenya, and other economies that have followed this path.

Debt management in a challenging environment: Lessons from Côte d'Ivoire

H.E. Adama Koné

Minister of Economy and Finance, Republic of Côte d'Ivoire

03.

Côte d'Ivoire's objective is to reach the status of an emerging country by 2020, a goal that will require a debt management strategy that enhances economic performance over the coming years while preserving macroeconomic stability. While debt issuance is necessary to help finance capital expenditure and the broader economic agenda, the government is intent on controlling the costs and risks of debt as well as minimizing reliance on external financing by strengthening capacity for domestic resource mobilization.

The government is intent on controlling the costs and risks of debt as well as minimizing reliance on external financing.

In 2019 and through 2023, the government plans to mobilize new external financing, prioritizing concessional and semi-concessional sources and only considering commercial loans as a last resort. With the normalization of monetary policy in the advanced economies, notably the United States and, to a lesser extent, Europe, we expect funding conditions on international capital markets to tighten and the cost of external debt for Côte d'Ivoire to rise. Accordingly, the government will continue to favor Treasury bond issuances in the regional market where the outlook for funding conditions is more favorable. However, the regional bond market is not well developed, limiting funding from this source. Potential additional sources include local-currency denominated eurobonds and Global Depository Notes.¹

Côte d'Ivoire's approach to debt management is consistent with the Guidelines for Public Debt Management published by the World Bank and the International

¹ A Global Depository Note is a debt instrument by a depository bank that evidences ownership of a local currency-denominated debt security.

Monetary Fund, which includes, importantly, the need for coordination among relevant branches of the government. To this effect, the government set up a National Public Debt Committee (NPDC)—an inter-ministerial committee chaired by the Minister of Finance—as a coordinating entity to ensure consistency of public debt policy with fiscal and monetary policies.

The NPDC ensures, among other things, that the level of debt is compatible with that of tax revenues, that the increase in the stock of debt is sustainable, and that the dynamics of export earnings are strong enough to support foreign currency-denominated debt. Finally, the NPDC takes the necessary steps to ensure that all public debt indicators meet set standards including remaining below debt sustainability thresholds.

To further ensure that the overall debt strategy is consistent with macroeconomic stability, the NPDC draws on the government's medium-term (five years) debt management strategy (MTDS) set up since 2012. Annual adjustments to the MTDS require governmental approval to consider the medium-term macroeconomic and fiscal framework, financing needs, financial market conditions, and other relevant factors. The MTDS is subject to a debt sustainability analysis that indicates that the risk of debt distress in Côte d'Ivoire is moderate.

Even so, Côte d'Ivoire continues to implement budget reforms, enhance tax revenue collection, and improve the business environment—the country is among the top-10 improvers in the most recent Doing Business report of the World Bank. The government has also implemented additional measures to reduce procurement deadlines, to promote good governance and eradicate corruption, to boost the competitiveness of the economy, and to manage risks in public-private partnerships, among others.

With respect to public debt management, Côte d'Ivoire has favored financing that helps reduce rollover risks of domestic debt as well as currency risk of external debt. For example, new issuances of external debt will prioritize those denominated in euro, given the peg of the local currency to the euro, and new dollar-denominated debt will be hedged against exchange rate risks through euro-U.S. dollar swaps.

The government is also alert to the risks of debt accrued by public enterprises and other public sector entities. A centralized and comprehensive debt database has been set up to facilitate the monitoring of public enterprise debt and to ensure that these debts are taken into account in the national debt strategy.

At the institutional level, the government continues to bolster the capacity of the Public Debt Department and the capacity for tax revenue collection.

These strategies have allowed Côte d'Ivoire to maintain a sustainable debt level (47 percent of GDP), to finance its economic agenda, and achieve a robust economic growth rate averaging 8.7 percent over the past seven years.

Reviving Nigeria's economy through economic diversification

H.E. Yemi Osinbajo

@ProfOsinbajo - Vice President, Federal Republic of Nigeria

04.

With a population and gross domestic product projected at 399 million people and \$3.3 trillion by 2050,¹ the gulf between the reality of Africa's largest economy and its undisputed potential remains wide—but achievable. Indeed, our major task has been to systematically implement strategies that will deliver the future we wish to see. This daunting responsibility has not been lost on the Buhari administration, and serves as the impetus for its sustained "Change" agenda.

The past three and a half years have been challenging both at home and abroad. Commodity prices, both oil and non-oil, have been volatile. Global trends, be it security, trade, or politics, have also been unpredictable. In Nigeria, we have had to cope with disruptions in oil production and exports, security challenges, and devastating floods. We have weathered these storms and made progress on many fronts, which is why we have cause to be optimistic about the future.

This administration has now set the country on the path to stability, growth, and prosperity. This government is doing more to diversify and grow a productive and competitive economy with far fewer resources. Notably, it secured the territorial integrity of the nation by reclaiming territory in the Northeast and has tackled grand corruption, introducing and improving transparency and accountability in the management of public funds.

The economy has recovered from recession and we have had six quarters of growth. Nigeria's real gross domestic product growth stood at 1.81 percent in the third quarter of 2018 compared to 1.17 percent in the third quarter of 2017.

1 PricewaterhouseCoopers. 2017. "The World in 2050." <https://www.pwc.com/gx/en/issues/economy/the-world-in-2050.html>.

Foreign exchange reserves grew from \$28.57 billion in May 2015 to \$42.92 billion by mid-December 2018. This contributed to exchange rate stability and provided a buffer against unanticipated external shocks. Inflation has also declined from a peak of 18.72 percent in January 2017 to 11.28 percent in November 2018. Nigeria has moved from a deficit to a surplus of 681.27 billion Nigerian naira in our trade balance as of the third quarter of 2018, representing a significant improvement from the deficit of 290.1 billion naira in 2016. This reflects an increase in non-oil exports and a reduction in the importation of food and items that can be produced locally.

We also committed to unprecedented investments to start and finish critical infrastructure projects in power, roads, and rail across the country, as well as direct investments in people to lift them up—the largest social investment program in Africa.

By allocating over 3 trillion naira (\$8.3 billion) toward reducing our infrastructure deficit over the past three years—the largest capital spending in Nigeria’s history—we have jump-started the construction of power, road, and rail projects, which will be catalytic in connecting people, goods, and opportunities. One example, the Lagos-Kano rail, will help move freight over a more than 1,000-kilometer network of rail from the country’s busiest port in Lagos to the northern city of Kano. For effective delivery of power to critical areas, such as industries and large markets, we have decentralized the power supply by leveraging off-grid solutions, especially solar-based systems, and are enabling the deployment of broadband across the country.

We continue to focus on creating an enabling business environment for our small and medium-sized enterprises to thrive by making Nigeria a progressively easier place to do business, delivering several reforms, as evidenced by our moving up 24 places in the World Bank’s Doing Business report over the past three years.

In 2019 and beyond, we are confident that by driving agriculture and agro-based industries, technology and innovation, solid minerals, and our vibrant creative sector, Nigeria will harness the energies of our entrepreneurial youth to deliver the promise of our future.



HARNESSING AFRICA'S YOUTH DIVIDEND:

A new approach for large-scale
job creation

How industries without smokestacks can address Africa's youth unemployment crisis

John Page

Senior Fellow, Africa Growth Initiative, Global Economy and Development, Brookings Institution

By some estimates, Africa's working-age population will grow by approximately 450 million people—about 3 percent per annum—between 2015 and 2035. By 2050, Africa will have 362 million young people between the ages of 15 and 24 years old.¹ Where will the region find the jobs for such a rapidly growing young population? In the past, the answer has been industry. Historically, industry has led to structural change—the movement of workers from lower to higher productivity employment. In East Asia, large numbers of workers leaving agriculture moved into manufacturing, driving growth, job creation, and poverty reduction.

In contrast, Africa has deindustrialized. Today, its share of global manufacturing is smaller than in 1980 and the share of manufacturing in GDP is less than half of the average for all developing countries. As a result, structural change in Africa looks very different from East Asia. In Africa, three-quarters of new entrants to the labor market will work in

self-employment or in microenterprises. Some 20 percent will work for wages in the service sector, and only about 4 to 5 percent will find a wage-paying job in industry. If these trends continue, only about 100 million of the 450 million Africans expected to reach working age over the next two decades can hope to find decent work. The growing population of more educated and urbanized youth encountering few jobs is a crisis in the making.

Why has Africa failed to industrialize? First, the success of East Asia as a manufacturing center means that—unlike when that region broke into global markets—African industry faces a highly productive, relatively low wage competitor. Second, industry has declined as a share of output and employment at all levels of development over the past four decades, suggesting that Africa may not be able to rely on industry to lead structural change to the extent that it did in East Asia. Third, the growth of

¹ Brooks, Karen McConnell, P. Deon Filmer, M. Louise Fox, Aparajita Goyal, A. Taye Mengistae, Patrick Premand, Dena Ringold, Siddharth Sharma, and Sergiy Zorya. 2014. *Youth employment in Sub-Saharan Africa (Vol. 2): Full report (English)*. Africa development forum. Washington D.C.: World Bank Group.

global value chains (GVCs) brings both opportunities and challenges. GVCs offer the opportunity to specialize in a limited set of tasks suited to a country's capabilities, but they place a strong premium on trade logistics, an area in which Africa's economies have not excelled. Finally, the share of natural capital in Africa's aggregate wealth is the second-highest in the world, and resource-abundant economies face strong headwinds in industrializing.

The same forces that limit Africa's opportunities in industry, however, are also creating a growing number of tradable services—such as tourism and remote office services—and agri-businesses—including horticulture—that share many characteristics with manufacturing, especially the capacity to create better jobs. Like manufacturing, they benefit from productivity growth, scale, and agglomeration economies. These “industries without smokestacks” are among Africa's most dynamic sectors of economies. Information and communications technology (ICT) based services, tourism, and transport are outpacing the growth of manufacturing in many African countries. Between 1998 and 2015, Africa's services exports grew more than six times faster than merchandise exports. Tourism alone accounts for at least 3 percent of sub-Saharan Africa's GDP.

Between 2002 and 2015 exports of tradable services and agri-business increased as a share of non-mineral exports by an average of 58 percent. High-value agricultural exports account for an increasing share of Africa's overall exports, and Ethiopia, Ghana, Senegal, and South Africa have succeeded in breaking into GVCs in horticulture. Horticultural exports from Senegal to Europe have grown rapidly, averaging 20 percent per year. Kenya, Rwanda, Senegal, and South Africa

have growing ICT-based services sectors, while transit trade is Tanzania's second-largest foreign exchange earner.

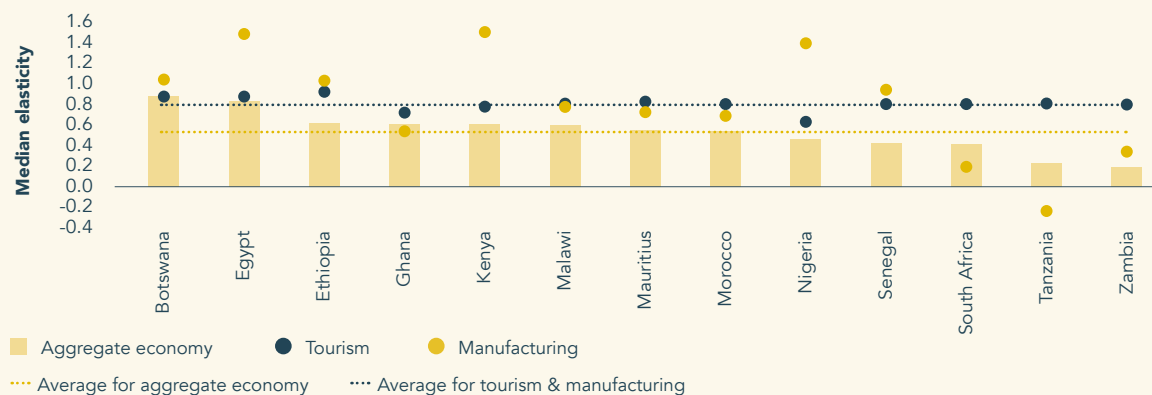
Changing prospects for manufacturing and the growing relevance of industries without smokestacks may make us rethink the sources of structural change in Africa.

Research by Brookings and the United Nations University World Institute for Development Economics Research gives some, but not full, insight into the role industries without smokestacks can play in generating better jobs for Africans. That is largely because our statistics are not well adapted to the task. For example, the tourism sector is made up of several different industries including but not limited to accommodation, food and beverage, transportation, and culture, sports, and recreational services. Thus, while it is possible to track tourist arrivals, estimates of their direct and indirect effect on output and employment are necessarily imprecise. Similar considerations apply to agri-business, horticulture, and tradable services. Better statistics on these industries without smokestacks are a must.

Nevertheless, country-level data suggest that the employment impact of industries without smokestacks can be considerable. In South Africa, tourism creates 680,000 jobs, including 36 percent of jobs in the food and beverage industry. In Tanzania, tourism accounts for approximately 14

Figure 3.1 Employment potential of tourism

Growth in tourism is outpacing manufacturing in many African countries. Like manufacturing, it benefits from productivity growth, scale, and agglomeration economies. It has the potential to create some of the millions of formal sector jobs Africa needs each year to employ youth entering the labor force. As the figure shows, tourism has the same average employment elasticity as manufacturing and much higher than that for the aggregate economy, highlighting its job creation potential.



Note: Each country's elasticity measure is the median value of annual elasticities between 2005 & most recently available data. Aggregate Economy Elasticity is the percent change in total employment divided by the percent change in total value added to the economy. Tourism is percent change in tourism employment divided by percent change in direct tourism value added. Manufacturing is percent change in manufacturing employment divided by percent change in manufacturing value added.

Source: Brookings calculations using World Tourism and Travel Council Data and Groningen Growth and Development Centre 10-Sector Database.

percent of GDP, and about 3.2 percent of total employment, and in Ethiopia, the travel and tourism sector contributes about 11.3 percent of GDP and 9.8 percent of employment. Horticulture generates jobs for rural laborers and unskilled or semi-skilled processing factory workers. Kenya's cut flower industry employs between 40,000 and 70,000 workers, while in Ethiopia flower exports generate more than 180,000 jobs. In South Africa fruit packing alone employs about 300,000 workers.

Changing prospects for manufacturing and the growing relevance of industries

without smokestacks may make us rethink the sources of structural change in Africa. The region's resource endowments suggest that many of the region's internationally competitive industries are likely to be industries without smokestacks. The good news is that because tradable services, agro-industry, and horticulture share many firm characteristics with manufacturing, policies designed to promote the growth of manufacturing—such as improving trade logistics, investing in infrastructure and skills, and promoting exports—apply equally to tradable services and agri-business. The key to solving the employment problem is to develop an

effective strategy for structural change that spans industries with and without smokestacks. We set out some elements of that strategy in a new book, *Industries Without Smokestacks: Industrialization in Africa Reconsidered* (OUP, 2018), available on open access.² While much

of the discussion has focused on the supply side of the labor market in Africa, less emphasis has been given to the demand side. Promoting industries without smokestacks offers a complementary demand-side approach to address the continent's jobs crisis.

VIEWPOINT

The urgency of securing employment for youth in Africa

Lindsay Wallace

Director, Strategy and Learning, Mastercard Foundation

01.

At the Mastercard Foundation, we believe youth employment in Africa is the issue of our time. For every four young people entering the labor market, only one formal sector job is being created, leaving a large fraction, over 3 million, scrambling to find employment opportunities.¹ Our research² has shown what a challenge this can be for young people. The lack of a steady income makes it extremely difficult to move out of poverty.

Our new strategy, Young Africa Works,³ has set an ambitious goal: to enable 30 million young people, especially young women, to secure work they see as dignified and fulfilling by 2030. Our strategy is based on our decade of work in financial inclusion, education, and skills development, and we believe that we can move the needle on youth employment in Africa.

1 African Development Bank, *Jobs for Youth in Africa*, https://www.afdb.org/fileadmin/uploads/afdb/Images/high_5s/Job_youth_Africa_Job_youth_Africa.pdf.

2 Williams, Tricia and Claudia Pompa, *Invisible Lives: Understanding Youth Livelihoods in Ghana and Uganda*, The Mastercard Foundation: Toronto, February 2017. https://mastercardfdn.org/wp-content/uploads/2018/05/Report_YouthLivelihoods_Feb2017v2-Accessible-3-1-accessible.pdf.

3 *Young Africa Works Strategy: Finding solutions to youth unemployment in Africa*. The Mastercard Foundation. <https://mastercardfdn.org/our-strategy/young-africa-works/>.

The scale and complexity of this challenge means that no one organization can solve it alone. Young people need to drive the change, and we need everyone to work together to solve this problem, including governments, the private sector, and civil society.

Here's what we believe needs to be done across all sectors.

Support the growing and innovative youth entrepreneurs with leadership development opportunities, finance, and links to wider markets.

Include leadership, soft skills, and digital skills in training and education systems to increase the success of young job seekers. A number of our case studies⁴ highlight the importance of this work.

Encourage greater links between the private sector and education and training institutions. Young people must have access to education and training that equips them with the skills employers need. Employers need to find ways to inform curriculums and support early employment opportunities as the first job often sets the path for a young person's career.

Make financing small businesses and entrepreneurs easier by eliminating risk through digitization, alternative forms of finance, guarantees, and changing perceptions. Youth entrepreneurs in some of our programs perform just as well if not better than adult entrepreneurs—but they find it much harder to find financing.

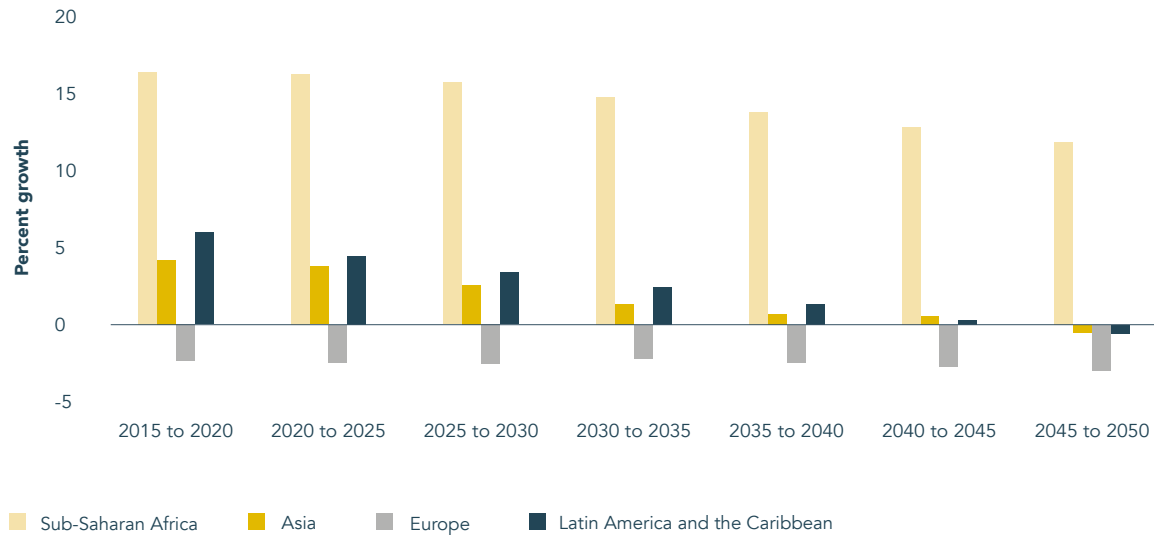
Leverage technology to drive impact and scale. We have found that education, training, employment job matching, and financing can be done effectively and affordably by leveraging technology as a delivery channel.

Over the next decade, we will partner with young people and dynamic organizations to change systems. How will you contribute to this change?

⁴ Novy Marx, Milena and African Institute for Development Policy, *Skills at Scale: Transferable Skills in Secondary and Vocational Education in Africa*. Mastercard Foundation: Toronto, March, 2017 <https://mastercardfdn.org/research/skills-at-scale/>.

Figure 3.2 Global workforce growth projections

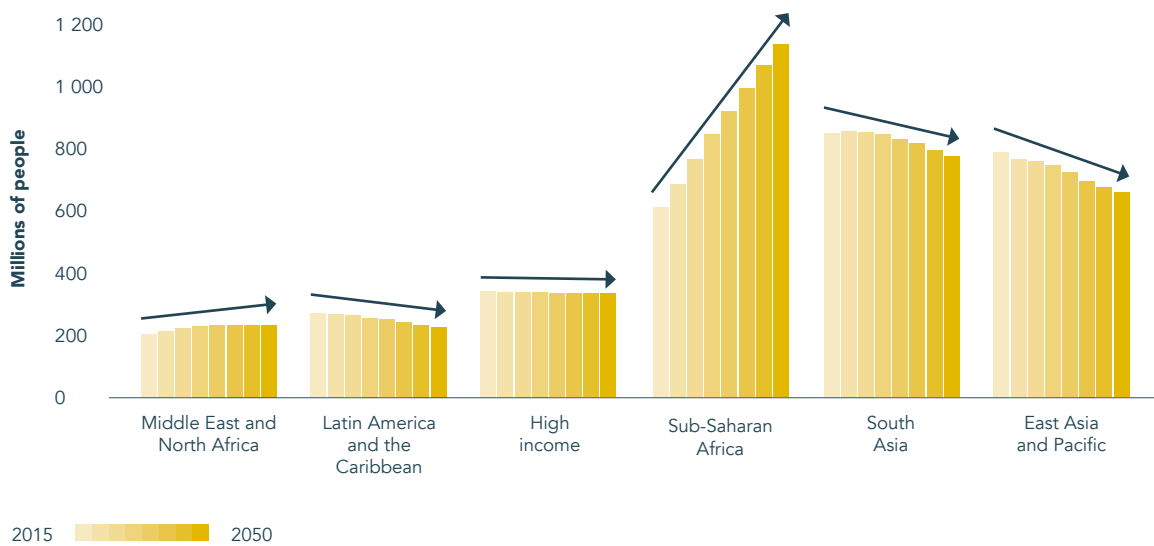
Over the next three decades, sub-Saharan Africa's working age population will grow by about 14 percent every five years.



Note: Country groups follow World Bank classifications. Working age population defined as population 15 - 64 years old.
 Source: U.N. World Population Prospects 2017 Revision, Medium Variant Projections.

Figure 3.3 Global youth population projections

Over the next three decades, sub-Saharan Africa's youth population will grow faster than any other region. By 2050, sub-Saharan Africa will make up 33 percent of the world youth population, up from 19 percent in 2015. During this period, sub-Saharan Africa's youth population will increase by 522 million while the rest of the world's youth population declines by 220 million.



Note: Country groups follow World Bank classifications. Youth defined as population age 0 - 24 years old.
 Source: U.N. World Population Prospects 2017 Revision, Medium Variant Projections.

Migration of Chinese manufacturing jobs to Africa: Myth or reality?

Tilman Altenburg

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02.

Since the 1970s, China has emerged as the main hub of global manufacturing. Production from early-industrialized countries—like European countries and the United States—has increasingly been relocated to China to take advantage of the enormous size of China’s low-wage labor force as well as economies of scale in production and transport. China’s manufacturing boom is still unbroken—growing almost six fold between 2004 and 2017 (from \$625 billion to \$3,591 billion¹) and reaching one-quarter of the world’s manufacturing value-added.²

Yet, China’s manufacturing industry is changing. As real wages increased by around 10 percent annually³ between 2005 and 2014, the skills base improved and internal demand became a major driver of industrial development. China is now moving from light manufacturing for exports toward diversification and higher technology.

For many years, China was so competitive in light manufacturing—garments, shoes, toys, and electronics assembly, for example—that very few other countries managed to compete in such labor-intensive industries. However, this competitive advantage is now eroding, as industrial labor costs are skyrocketing. In fact, Chinese garment and footwear firms see rising labor costs as their main challenge. This could offer great opportunities for other developing regions, notably Africa, which has labor costs that are lower than China’s. Justin Lin, the World Bank’s former chief economist, calculated that if only 1 percent of China’s production of apparel was shifted to Africa

1 *China: manufacturing value added*. The Global Economy: 2017. https://www.theglobaleconomy.com/China/manufacturing_value_added/.

2 UNIDO database.

3 Lin J. (2011). From flying geese to leading dragons. New opportunities and strategies for structural transformation in developing countries (Policy Research Working Paper 5702). Washington DC: World Bank.

“it would boost African production and exports of apparel by 47 percent. A 5 percent shift of Chinese export-related investments in the industry could translate into \$5.4 billion in additional exports—a 233 percent increase.”⁴

To take advantage of this shift, Ethiopia started an ambitious industrial parks development program to provide the infrastructure and incentives for investors in light manufacturing industries. Four parks are already operational, with many others in the pipeline. By 2020, Ethiopia intends to have built 30 industrial parks. So far, parks have successfully attracted foreign investment. Official sources say about 28,000 jobs have been created so far.

Whether this is the beginning of a large wave of industry relocation from China to Africa, however, is far from clear. There are three reasons for skepticism:

First, labor costs in most African countries are not low (Ethiopia being one of the exceptions), especially when looking at unit labor costs. Various Asian countries undercut African unit labor costs.

Second, African countries rank low on a number of other factors that influence investment, such as the overall cost of doing business affected by the quality of roads and ports, the reliability of electricity infrastructure, the degree of political stability, and the level of excessive bureaucracy and corruption. For example, in Ethiopia, high labor turnover and public protests are already challenging the success of the new export industries.

Third, most light manufacturing jobs are likely to be substituted by machines in the near future. Robots are nowadays able to produce garments and other products that could not be fully automated a few years ago. Not everything that is technically feasible, however, is also cost-competitive; but with technological progress and scale economies in deployment, costs of robots are decreasing rapidly. In a decade or so, unit costs from fully automated factories will probably fall below those from traditional labor-intensive manufacturing. Two recent surveys suggest that the vast majority of Chinese garment and other light industry firms⁵ prefer to invest in technology upgrades at home or to close down rather than to relocate abroad.

Yet, about 10 percent of firms do see relocation abroad as an option. Even if most of them prefer Asian countries, following Lin’s argument, the remaining small share of Chinese firms can make a big difference to Africa. African policymakers are, therefore, well advised to closely observe the Ethiopian experiment as well as the ongoing trends in factory automation and, above all, undertake steadfast reforms to reduce the cost of doing business.

4 Xu, J., Gelb, S., Li, J., & Zhao, Z. (2017). Adjusting to rising costs in Chinese light manufacturing. What opportunities for developing countries?. SET (Supporting Economic Transformation) Programme. ODI: London.

5 Xu et al (2017) as well as a survey by China Center for International Knowledge on Development and the German Development Institute (forthcoming).

A gig economy solution to boost employment in Africa

Adam Grunewald

@Lynk_Kenya - CEO and Co-Founder, Lynk

03.

Africa's rapidly growing employment gap has become an emotionally charged issue for economists and policymakers. The issue is exacerbated by a quickly rising youth population, for whom the lack of formal sector jobs means that most turn to informal sector jobs such as domestic work, casual labor, or smallholder farming. As a technology platform for informal sector workers in Kenya, Lynk has harnessed the growth potential of this trend to create one of the largest gig-work platforms (an online resource to match people's skills with needed work) on the continent. Innovative efforts like ours are just the tip of the iceberg. In Africa, gig platforms have the potential to provide a source of consistent work and, with centralized governance and support, a pathway to reduce informality and boost productivity by leapfrogging informal economies.

As the name suggests, the informal economy is marred by uncertainty, a lack of social protections, and massive inefficiencies around productivity and income growth. In Kenya, for example, where hundreds of thousands of people work in carpentry and joinery, most workers only have access to and training in manual hand tools. Rather than investing to make the sector competitive, the government's most notable interventions in the past year have been to cripple the sector with a ban on logging and a substantial tax on alternative materials. In spite of their growing importance as an engine of employment, most informal activities are still seen as an adversary by national governments.

Meanwhile, in other parts of the world, technology platforms that operate as non-traditional "employers" are rapidly growing. In the United States, where a proliferation of platforms like Uber, Lyft, and Airbnb has led to the rise of the gig economy, a

growing population of U.S. workers are choosing flexible gig work instead of formal contracted employment. In China, Alibaba boasts millions of participating small and medium businesses—for many of which Alibaba represents their only sales channel. Beyond simply linking them to consumer demand, the platform also provides loans, access to logistics and warehousing, and even business formalization and tax filing support. The potential for gig platforms to provide a source of consistent work and centralized governance and support is even more exciting in Africa where platforms can leapfrog informal economies.

The potential for gig platforms to provide a source of consistent work and centralized governance and support is even more exciting in Africa where platforms can leapfrog informal economies.

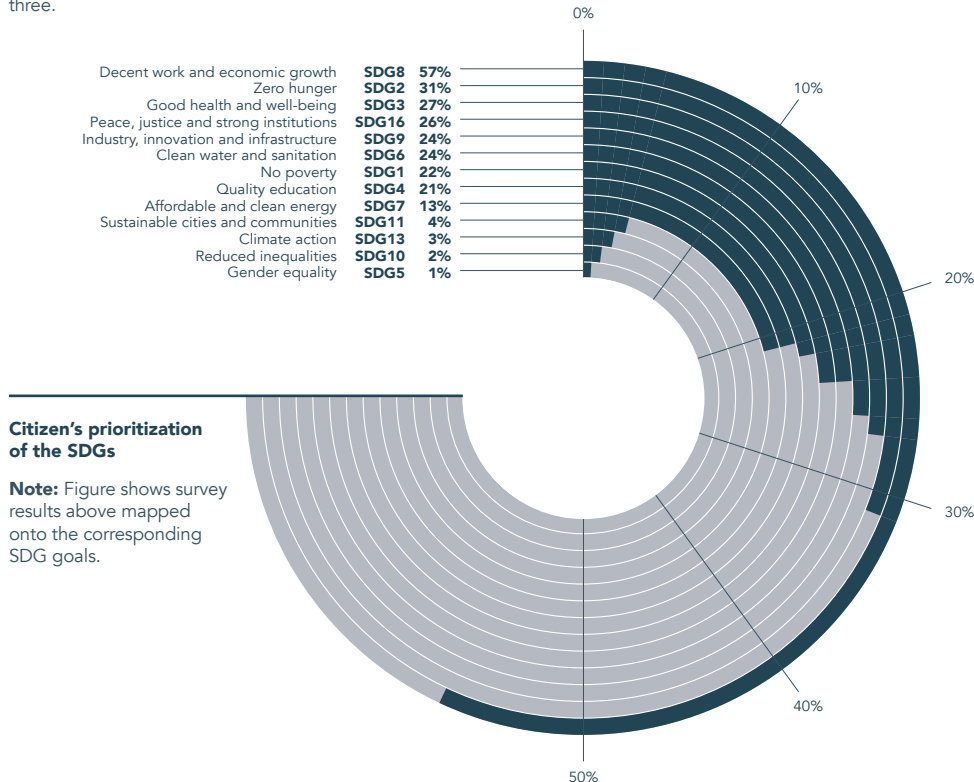
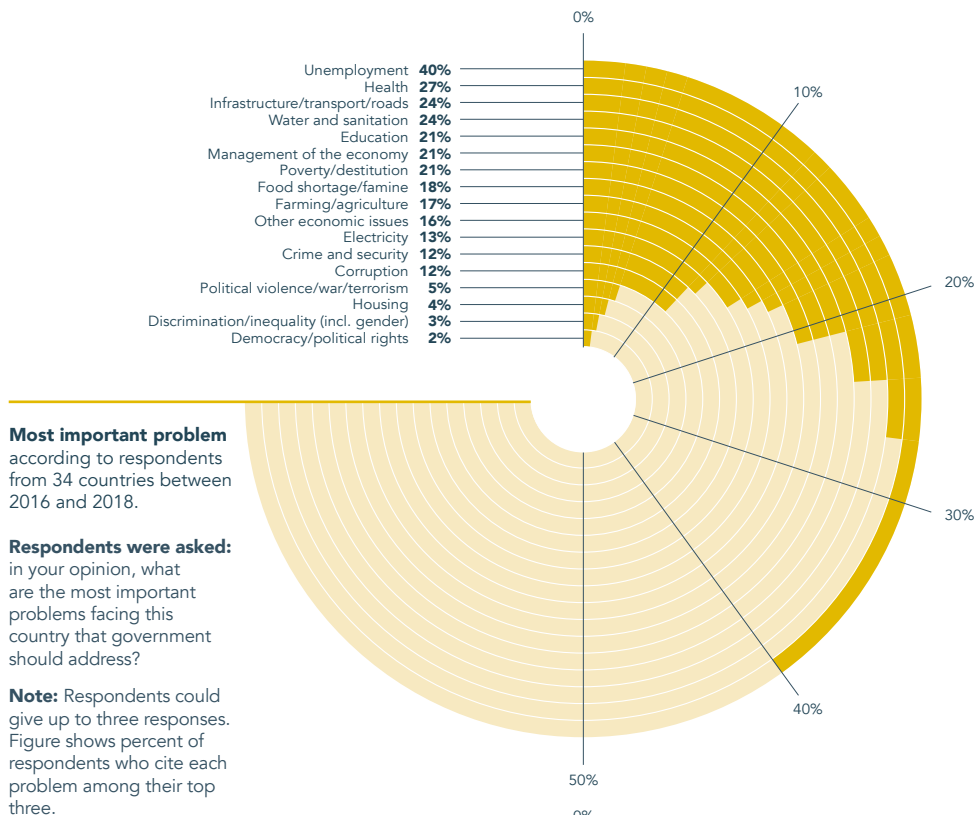
Lynk is a platform that matches thousands of jobs each month in categories ranging from plumbing and electrical works to yoga lessons and hair care. While the technology is similar to platforms like Uber or TaskRabbit, Lynk takes a more hands-on approach to worker vetting and quality management. Unlike in developed countries, where gig workers often have college degrees or formal sector experience, most informal sector workers in Africa lack this educational foundation and soft skills. Lynk addresses this gap by investing in onboarding and upskilling. So far, the investment is paying off, with most participating workers seeing a two- to three-fold increase in monthly income. Lynk also provides services that are often unavailable like logistics and warehousing support, material wholesaling, and ongoing skill training.

For many workers on Lynk, the platform is building their first actionable digital identity. By accruing data on jobs completed, income earned, and other efficiency metrics, platforms like Lynk are poised to offer advanced services such as loans or skill accreditation, areas where traditional institutions have struggled to engage. As job platforms grow, they become an increasingly valuable source of data and service delivery for enormous populations of hard-to-reach and historically underutilized workers. As we see in the case of Lynk, indigenous platforms that are customized to the needs of a local ecosystem can serve as both a compelling source of jobs and income, as well as an effective channel for formalization, inclusion, and economic development.

Platforms like Lynk are poised to offer advanced services such as loans or skill accreditation, areas where traditional institutions have struggled to engage.

Figure 3.4 Voices of Africa: Priorities for the region

Be it in job availability, quality, or growth, survey data from a diverse group of countries all over Africa shows that people are chiefly concerned about the future of work.



Note: Both are surveys according to respondents from 34 countries between 2016 and 2018.

Source: Coulibaly, Silwé, and Logan. "Taking stock: Citizen priorities and assessments three years into the SDGs." Afrobarometer Policy Paper No. 51. 2018.

3 myths about youth employment in Africa and strategies to realize the demographic dividend

Louise Fox

Chief Economist, United States Agency for International Development

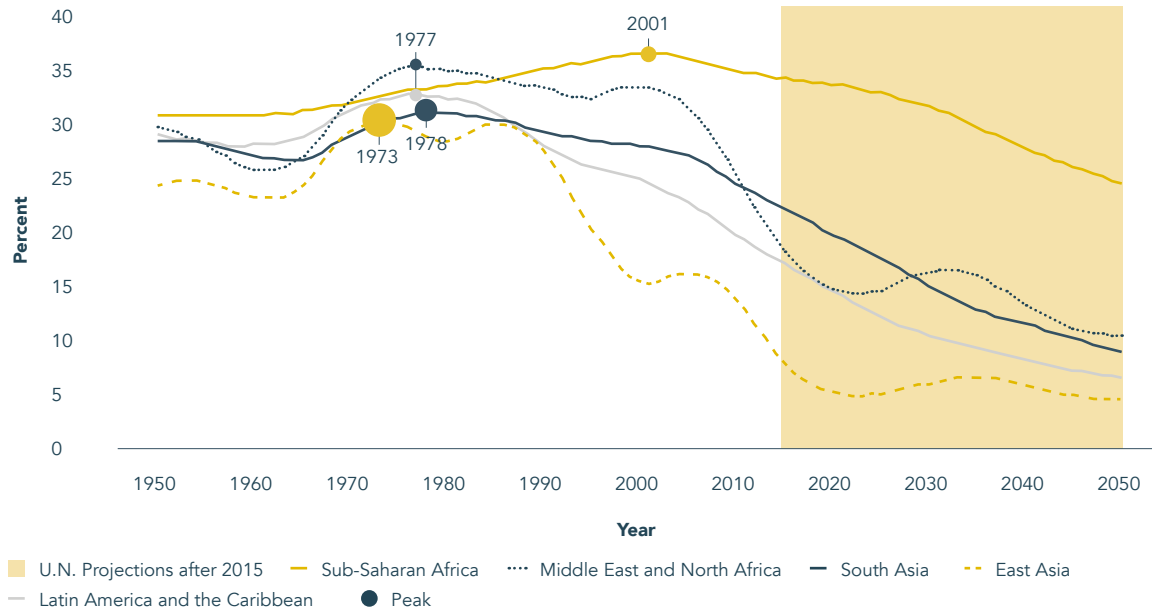
04.

Myth 1: Sub-Saharan Africa faces a unique demographic challenge

Most commentators on employment in Africa believe it faces an unprecedented youth employment challenge. Facts to back this up include that Africa is demographically the world's youngest continent, and that by 2050, the estimated number of young people entering the labor force there will exceed that of the rest of the world combined.

Historical data tell a different story. It is true that Africa's demographic and economic transformations are well behind the rest of the world—in part because most African countries started these processes later, with less developed economic, social, and political institutions. But Africa's youth as a share of their working age population, at its maximum, was about half the size of the peak youth populations of East Asia, and 20 percent less than the South Asia peak (Figure 3.5). Actually, Africa's youth bulge in the labor force peaked at the turn of this century, at 38 percent (only 4 percentage points higher than the Asian peaks), and is now on the decline. All other regions made it through this period of peak youth share of the labor force without facing a crisis. Africa should be able to as well. Opportunities for higher per capita growth should be on the horizon. Why are they not?

Figure 3.5 Youth (ages 15-24) share of working age population



Note: Size of bubble indicates the subregion or region's share of the world working age population at its peak. Youth is the estimated population at ages 15-24 years old. Working age population is estimated population ages 15-64 years old. After 2015, all data represent U.N. projections. Produced by USAID Data Services.

Source: U.N. Population Prospects.

Myth 2: Africa's youth bulge will create a demographic dividend

What is unique about Africa is how slowly the youth share of the working age population is expected to decline. While some are promising that this high youth share in the labor force will generate a demographic dividend for Africa that will help boost economic growth,¹ again the historical data tell a different story. Crucially, the size of the dividend depends on the rate of demographic transition,² and Africa's transition is proceeding very slowly. The world's 10 highest fertility countries are now in Africa, and these countries, which have not even started the transition, will keep the regional fertility averages and youth shares up at least until mid-century.³ This will be a drag on economic growth.

In Kenya and Ghana, for example, fertility has been declining steadily as life expectancy increases (the essence of the demographic transition), and now the total expected births per woman has just moved below four. Even in these countries, though, the transition will not make the fast progress we saw in other regions owing in part to the stubbornly high share of young women having children before the age of 18 (8 percent in Kenya and 7 percent in Ghana, compared with only 4 percent in South Asia and 2

1 Paulo Drummond, Vimal Thakoor, and Shu Yu (2014). "Africa Rising: Harnessing the Demographic Dividend," IMF Working Paper. <https://www.imf.org/external/pubs/ft/wp/2014/wp14143.pdf>.

2 Andrew Mason, Ronald Lee, Michael Abrigo and Sang-Hyop Lee (2017). "Support Ratios and Demographic Dividends: Estimates for the World," technical paper. <http://www.un.org/en/development/desa/population/publications/pdf/technical/TP2017-1.pdf>.

3 Population Reference Bureau. 2018. "2018 World Population Data Sheet With Focus on Changing Age Structures." <https://www.prb.org/2018-world-population-data-sheet-with-focus-on-changing-age-structures/>.

percent in East Asia). The regional average is an abominable 10 percent. When women marry and have children early, they tend to be less educated and have more children. Unmet demand for contraception among women who are married or in a union is also stubbornly high—30 percent in Ghana and 17 percent in Kenya, compared to just 4 percent in East Asia. To reduce fertility rates and realize any demographic dividend, Africa will have to aggressively expand contraceptive access, and support young women’s health and development through adulthood.

Myth 3: Skills training is the solution to Africa’s youth unemployment situation

Youth is widely recognized as an important skills-building period, with education being a crucial part. Africa’s education systems could do a lot better at building the foundational skills for the future labor force. However, educational and skill-building institutions do not create jobs. Firms and people do. Wage employment is created when new firms are created and existing firms expand production, finding new markets. This takes time, probably decades before most employment will be in modern firms in the case of African countries. Indeed, it could be argued that owing to better education policy than economic policy, young Africans are over-skilled for their economies, which is one reason why unemployment is highest among the most educated youth. Lacking opportunities to use their skills, they are frustrated and vocal.

The majority of African youth, of all skills levels, will have to seize opportunities and create their own living through self-employment, often with family members, on farms or in nonfarm sectors. A few people, typically 2-5 percent of the labor force, will be able to create a growth-oriented business and employ five or more people. This challenges the massive push toward youth entrepreneurship as the solution to the region’s unemployment challenge. Sadly, youth businesses—operating in an unfriendly economic environment, with limited capital, networks, and knowhow—tend to remain small, livelihood-sustaining ones, serving local markets.⁴ More training does not solve this problem, unfortunately.

The focus on Africa’s youth as an instrument of development, and the subsequent explosion of youth training and development programs, is misplaced. Education is needed for more than earning money—it enables all aspects of youth transition from dependence to independence. But education is not enough, as youth need jobs and an opportunity at decent work; so do their parents, and so will their children.

All the attention on the perceived deficiencies of youth, and the interventions targeting them, do not create jobs or increase opportunities in self-employment. Put simply, there is no silver bullet. Imagine instead if all the money being spent now on tiny youth projects with tiny results were spent instead on improved infrastructure, connectivity of information flows, trade facilitation, and better management in the public and private sector to facilitate formal sector job creation? Hard to do, but it is what youth really need.

4 OECD Development Centre. 2018. “Better Policies for Better Youth Livelihoods: A Guidance Note for Development Practitioners.” EU-OECD Youth Inclusion Project: Paris.



FIXING FRAGILITY:

The role of the private sector
and local institutions

A new approach to state fragility

Paul Collier

Professor of Economics and Public Policy,
Blavatnik School of Government, University of Oxford

The future of development aid is in helping the least successful countries to catch up with the rest of mankind. India, Indonesia, Brazil, and most other developing countries are broadly on track to catch up, but a minority of countries are not. The Report of the Commission on State Fragility, Growth and Development, co-directed by Tim Besley and myself, issued in April 2018 as *Escaping the Fragility Trap*, was highly critical of international policies. That Somaliland, debarred from all assistance by the anomaly of non-recognition, has outperformed Somalia should concentrate minds: A reset of policies is long overdue.

The report argues that fragility is a syndrome of characteristics: fractured identities, a lack of state legitimacy and capacity, insecurity, a dearth of formal enterprises, and proneness to shocks. These reinforce each other, creating a trap. That fragility is a syndrome challenges both the conventional diagnosis of a “root cause” (typically some presumed past injustice) and the conventional “solution,” which starts from some future vision of an OECD-style society and deduces an agenda from the differences between that vision and current reality. Foreign troops keep the peace; an election “solves” the legitimacy problem; and in return for aid,

the new government “agrees” to a donor wish list of reforms. This approach denies the condition from which the society starts. Foreign troops rapidly become intrusive; an election further divides the society rather than solving the lack of legitimacy; an ambitious reform package cannot be implemented by a state with little capacity. The society is hit by adverse shocks before anything has time to work.

Our alternative approach emphasizes the importance of national sovereignty, and pivotal moments of opportunities. As to sovereignty, states, not foreign entities, must manifestly be in charge of public policy: They must not be bullied or bribed into a policy agenda in which they do not believe. Such attempts turn governance into theater, in which governments sign up for undertakings that they have neither the capacity nor the intention to deliver. Cumulatively, the resulting failures have deepened the problem. If states and their intentions are fundamental to successful change, in many fragile situations for long periods there will be little that the international community can realistically do. This must be recognized: The alternative is repeated failures deepening despair. But precisely because such states are fragile, crises and changes of leadership periodically create pivotal moments when change is

possible. International support needs to be sufficiently quick that it can seize on such moments. Not all can be well identified, but the cost of missing an infrequent opportunity is likely to be far higher than intervening in situations that turn out to be unpromising.

During a pivotal moment, the international community should support, but not set, policies. Citizens must recognize without ambiguity that the government is choosing its course of action without undue external influence. Our suggestion to such governments is to adopt a two-pronged approach. The first prong is a series of step-by-step changes that are simple to do and result in quick, visible improvements: This gradually builds confidence and practical legitimacy. The second prong is a medium-term agenda that is highly focused on strengthening the process by which jobs are generated: Productive jobs will gradually stabilize the society and enable living standards to catch up. This process of job generation depends on the private sector of the economy, as fragile states need many more formal firms. But firms need the services provided by the key sinews of the state: security, infrastructure, the rule of law, and effective checks and balances on abuse of power. Since they each cost money, they all rest on the state's capacity to tax. Hence, strengthening these five sinews of the state constitutes the priority both for government and for donor support.

Catalyzing firms in conditions of fragility is intrinsically difficult because domestic firms typically remain informal to hide from government and consequently cannot reap economies of scale and specialization. Foreign firms see few opportunities and are fearful of their reputation, especially as business-hostile nongovernmental organizations patrol like sharks. The public institutions that can be most helpful in

The future of development assistance is to use public money to offset the costs and risks of firms that pioneer new activities in poor and fragile societies.

attracting proper firms to places where they are sorely needed are the development finance institutions since, by design, they are the interface between development assistance and business. The future of development assistance is to use public money to offset the costs and risks of firms that pioneer new activities in poor and fragile societies. The \$30 billion Bangladeshi garment industry, which has transformed the lives and status of young women, was ignited by a pioneer foreign firm that was imitated by local entrepreneurs. The benefits of pioneer firms can be huge, but they themselves do not capture the gains and so there are far too few of them. The use of aid to bring firms to where they are most needed is starting to happen. For example, the World Bank Group, the United States, and the United Kingdom are all scaling up, reforming, or putting into action their respective development finance organizations. (See Jim Yong Kim's Viewpoint on Page 70)

International discourse on state fragility is steeped in high-sounding pious moralization. In the language of my 2007 book *The Bottom Billion*, the conversation has been dominated by the headless heart. Yet the problem of the continued fragility of many of the poorest countries, and their resulting divergence from the rest of mankind, is too serious for such responses. Alongside warm hearts, we need cool heads.

Local institutions can mitigate climate related conflict in the Sahel

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01.

Climate change acts as a conflict multiplier by amplifying existing environmental stresses, creating new ones, and thus exacerbating resource scarcities and water and food insecurity. Governance and institution weaknesses amplify the effect of climate change on conflict.^{1,2} Based on recent research on farmer-herder conflicts in Niger, my team and I argue that increased reliance on local institutions through deeper decentralization of governance could mitigate conflicts.

Niger is a landlocked country in the Sahel region of West Africa, with a semi-desertic environment and low and variable rainfall. Niger's economy is heavily dependent on farming and herding. Population growth, which is among the fastest in Africa, and climate change are squeezing access to freshwater, leading to conflicts over control of scarce resources. In the latest outbreak of violence in November 2016 in the Tahoua region, 20 people were killed and 43 injured in a battle between farmers and herders. Likewise, 10 people were killed and 13 injured in November 2014 in the town of Birni-N'Konni in the Tahoua region. In the Tillabery region during 2010, more than 50 herders were killed when conflict broke out between herders from Mali and Niger.

While population growth and climate change are major contributors to rising tensions, institutional failures are also a factor, such as government failure in defining and

1 Kevane, M., & Gray, L. 2008. Darfur: rainfall and conflict. *Environmental Research Letters*, 3(3), 034006. <https://doi.org/10.1088/1748-9326/3/3/034006>.

2 Barnett, J., & Adger, W. N. 2007. Climate change, human security and violent conflict. *Political Geography*, 26(6), 639-655. <https://doi.org/10.1016/j.polgeo.2007.03.003>.

protecting property rights and providing justice and security. Institutions are known as the formal and informal rules and norms that organize social, political, and economic relations.³ Informal institutions, which consist of unwritten norms, customs, and traditions, such as the ones governing kinship and religious networks in West Africa,⁴ overlap with and usually overwhelm formal institutions in some areas like land rights. In many instances, they undermine formal ones; in others, they substitute for them.^{5, 6}

In Africa, formal institutions, such as the central government and related bodies, are characterized by an over-centralization of governance, leading to burdensome rules and regulations and corruption, and, more importantly, weak decentralization schemes. Management of such local issues as education, health, reliable policing, and land rights is dealt with by the formal institutions at central government. Farmer-herder conflicts usually arise out of the inability of this system of governance to resolve disputes.

Empowering local informal institutions, which are more trusted and respected, could bring greater effectiveness in conflict prevention and resolution. Moreover, informal institutions often seek civil solutions in addressing conflicts, such as mediation, adjudication, reconciliation, and negotiation, which are found to yield superior outcomes compared to dysfunctional formal institutions such as courts and police that often cultivate further resentment.

As climate change puts more pressure on already fragile areas in the Sahel, it will become ever more important to find ways to nurture cooperation and peaceful resolutions to disputes over resources. From our research, stronger local governance through the power of informal institutions proves promising as a path forward.

3 North, D. C. 1990. Institutions and Economic Growth: An Historical Introduction. *World Development*, 17(9), 131–1332.

4 Golub, S.S. and A.A. Mbaye. 2009. National Trade Policies and Smuggling in Africa: The Case of The Gambia and Senegal. *World Development* Vol. 37, No. 3, pp. 595–606, 2009.

5 Leftwich A. and Sen K. 2010. *Beyond institutions: Institutions and organizations in the politics and economics of poverty reduction – Thematic synthesis of research evidence.*

6 Jütting, J., D. Drechsler, S. B. and I. D. S. 2007. *Informal Institutions and Development : How they matter and what makes them change.* OECD, Development Centre studies.

Figure 4.1 Hydro-political conflict in Africa

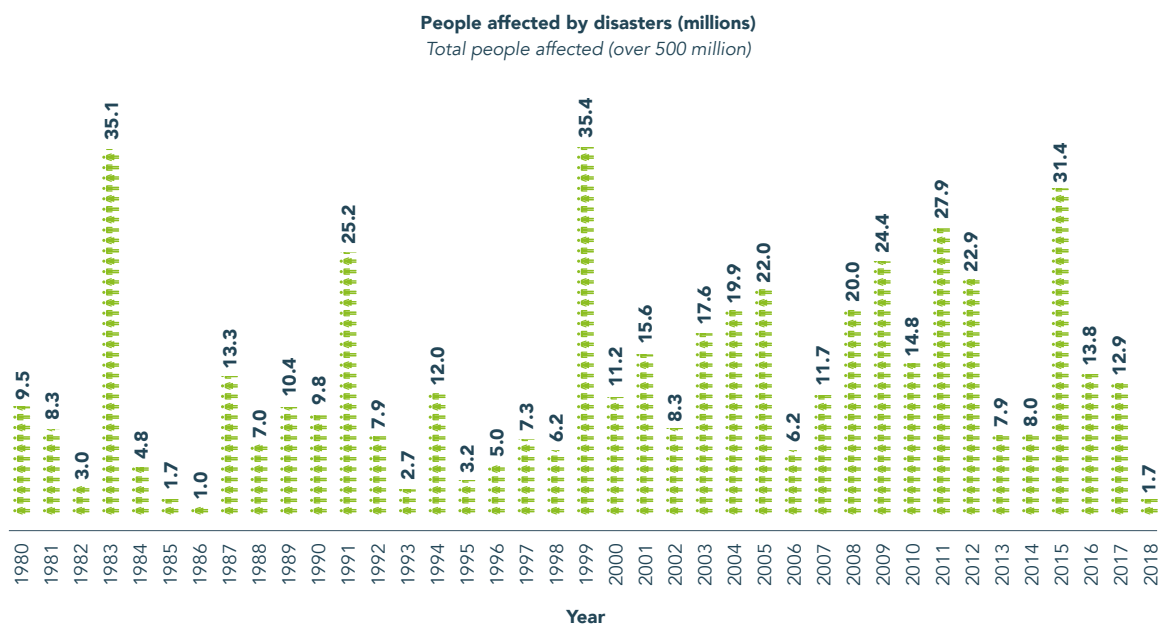
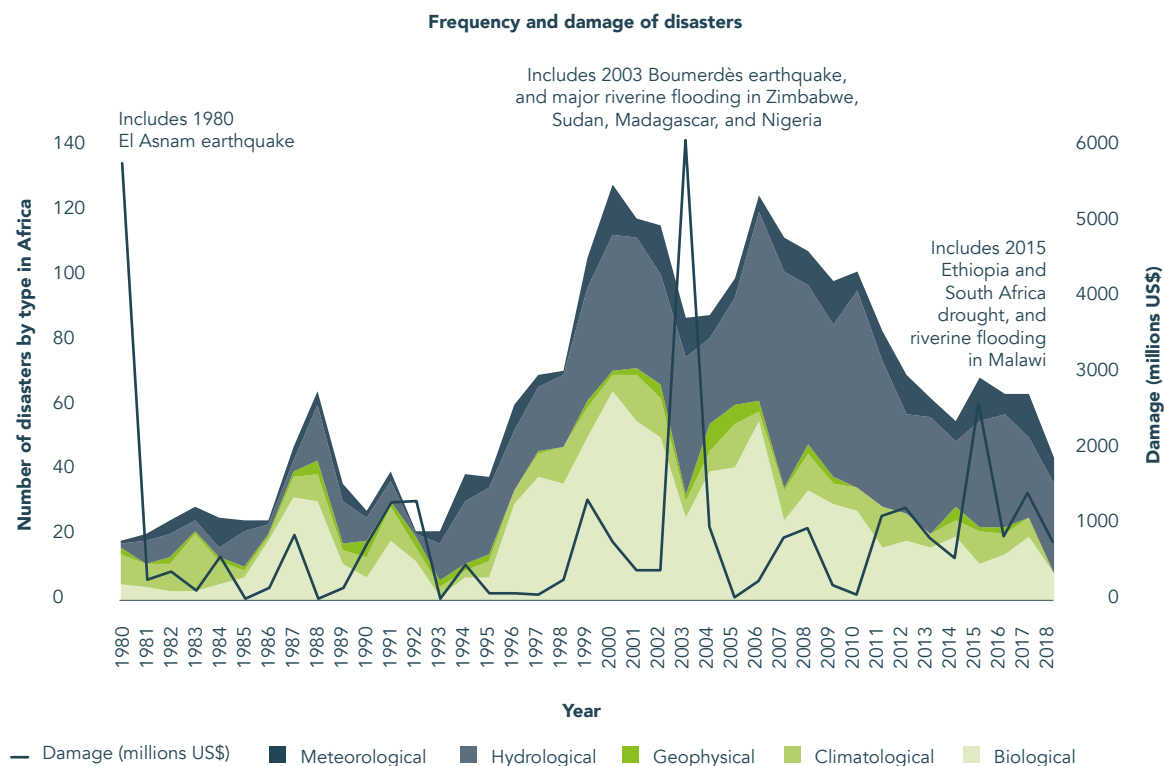
By 2050, under moderate climate change projections, Africa will have some of the world's most contested conflicts over water. In places like the Nile river basin, there is more than a 50 percent chance that the various countries that rely on that basin will engage in some sort of conflict or political interaction over fresh water.



Source: F. Farinosa, C. Giupponic, A. Reynaud, G. Ceccherini, C. Carmona-Moreno, A. De Roo, D. Gonzalez-Sanchez, & G. Bidoglio. "An innovative approach to the assessment of hydro-political risk: A spatially explicit, data driven indicator of hydro-political issues" (2018). Volume 52. Global Environmental Change.

Figure 4.2 Natural disasters in Africa: Cost, impact, and frequency

A crucial element of resilience is a region's ability to deal with natural disasters. In the last three decades, Africa has faced some of the world's most detrimental disasters, resulting in billions of dollars of damage, and millions of people affected.



Note: People affected is defined as people requiring immediate assistance during a period of emergency, i.e. requiring basic survival needs such as food, water, shelter, sanitation and immediate medical assistance. People affected also includes people killed. Estimated damage is the amount of damage to property, crops, and livestock. For each disaster, the value of estimated damage corresponds to the damage value at the moment of the event, i.e., the figures are shown true to the year of the event.

Source: Emergency Events Database (EM-DAT).

An African-owned initiative to manage natural disaster and climate risks

Mohamed Beavogui

Director General, African Risk Capacity
Assistant Secretary-General, United Nations

02.

Africa is one of the most vulnerable regions to natural disasters and the impact of climate change despite contributing the least to global warming. Africa faces major hurdles, including fiscal constraints and lack of appropriate policy and institutional framework, to prepare for, manage, and respond to disaster risks that are increasing because of climate change. For example, the agriculture system on the continent, mostly rain-fed, is likely to suffer from a reduction in crop yields, which will increase rural-to-urban migration. As a result, more than 85 million people (4 percent of the overall population) are estimated to have to relocate within their own countries by 2050.¹ This internal movement could exacerbate the impact of events like disease outbreak, flooding, and food price hikes.²

In response, the African Union established the African Risk Capacity (ARC) in 2012 to provide African sovereigns with capacity building, technical, and institutional support for early warning, contingency planning and management, and risk finance. The agency enables governments to build resilience and better plan, prepare for, and respond to extreme weather events such as drought. ARC Insurance Company Limited (ARC Ltd)—a specialist hybrid mutual insurance company established as an affiliate to the agency in late 2014—transfers weather risk away from governments, and the vulnerable households they protect, to ARC Ltd.

¹ World Bank, 2018, Groundswell: Preparing for Internal Climate Migration.

² Serdeczny et al. 2016. "Climate change impacts in Sub-Saharan Africa: from physical changes to their social repercussions." *Regional Environmental Change* 15, no. 8, pp 1585-1601.

The early response interventions in the critical three months after harvest, one of the key value propositions of ARC, could result in economic gains of over \$1,200 per household assisted.³

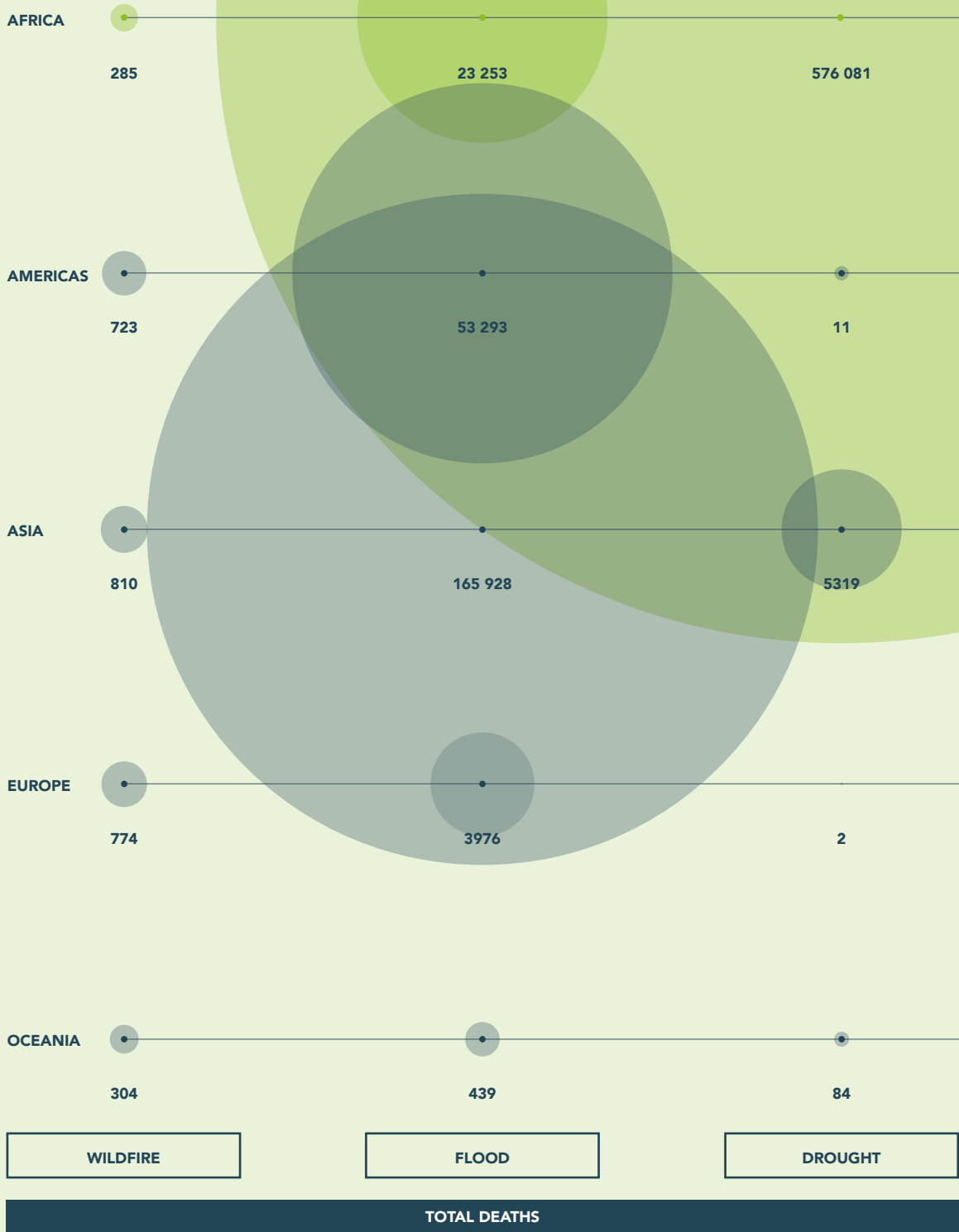
From 2014 to date, ARC has provided support to more than 16 out the 34 African countries that have signed the ARC treaty. ARC and its insurance affiliate have underwritten over \$400 million of drought insurance policies and provided indirect insurance coverage to more than 9.7 million Africans. So far, the sovereign pool insurance has disbursed cumulatively \$36.8 million in payout to drought-affected countries in Africa, used for rapid response and assistance to over 2.1 million vulnerable people and over 1 million livestock. Governments of ARC Member States have used ARC funding to scale up cash transfers, subsidize livestock feed, replenish depleted food reserves, and distribute emergency food supplies.

While risk transfer mechanisms such as ARC insurance are appropriate for low frequency and high impact disasters, they are less effective as instruments to respond to frequent disasters. Thus, it is paramount for African governments, policymakers, and partners to develop various but complementary instruments to protect from disaster events of various frequency and severity. Layering these risks and identifying the appropriate mechanisms (risk retention versus risk transfer) along with an adequate investment in disaster risk reduction measures and preparedness will provide more comprehensive protection to the African countries. This is the aim of ARC.

³ Cost-Benefit Analysis of ARC, 2012.

Figure 4.3 Aggregate impact of climatological disasters between 1980 and 2018

Over the past three decades, drought in Africa was the most deadly climatological disaster in the world. More people died from droughts in Africa than all the climatological disaster related deaths combined from the rest of the world. If the past is a lesson for the future, Africa will be disproportionately affected by climate change, especially as its severity increases.





29

916

243

148

998

137

65

1819

131

111

581

43

33

129

25

WILDFIRE

FLOOD

DROUGHT

NUMBER OF OCCURENCES

Source: Emergency Events Database (EM-DAT).

The World Bank's strategy for addressing fragility in sub-Saharan Africa

Jim Yong Kim

@JimYongKim - President, The World Bank Group

03.

Of the many challenges facing sub-Saharan Africa, one of the most critical is the number of areas suffering from fragility, conflict, and violence (FCV). These conditions are not new; they have posed a formidable challenge to efforts to end poverty for several decades.

Today, however, we need a new approach—and a fierce sense of urgency—to tackle FCV. The share of global poor living in fragile and conflict-affected countries has risen from 14 percent in 2008 to 23 percent in 2015. As violent conflicts continue to surge, that number will likely increase. We need a stronger focus on the underlying drivers of fragility to have any hope of achieving our goals: to end extreme poverty by 2030, and to boost shared prosperity around the world.

That is why we are changing the way we do business in African countries affected by fragility, conflict, and violence. We are scaling up our support. Over the past two years, we have invested \$4 billion to support private sector solutions, and we are developing a tailored approach to maximize our impact and build hope and opportunity for those living in some of Africa's most fragile areas.

A four-pronged approach

Pivoting to prevention

The key to addressing fragility, conflict, and violence in Africa is prevention: addressing risks and grievances before they turn into full-blown crises. Through the International Development Association's 18 Risk Mitigation Regime, we are providing more resources for countries such as Niger and Guinea to mitigate the drivers of FCV.

The World Bank Group is also working with the United Nations, the International Committee of the Red Cross, and global technology firms to develop the Famine Action Mechanism,¹ a new initiative that harnesses state-of-the-art technologies such as artificial intelligence and machine learning to strengthen our ability to forecast famine risks and ensure that financial resources are released before famines begin.

Remaining engaged

When conflicts do occur, however, the support that countries receive can make the difference between lives lost and lives saved. That requires close cooperation between humanitarian, development, and security institutions.

One example of that cooperation is the Sahel Alliance.² Members of the alliance, including the European Union and several European countries, the U.N., and the World Bank Group are supporting Mauritania, Mali, Niger, Burkina Faso, and Chad with a package of over 500 projects totaling more than \$8 billion through 2022. Twelve flagship programs adopt a spatial, multi-sectoral approach, which is targeted to help vulnerable populations in fragile regions.

Escaping fragility

Several countries in sub-Saharan Africa suffer from protracted conflicts that have resulted in a fragility trap. Helping them escape will require a new approach.

For example, in countries such as the Central African Republic and Somalia, we are focusing our efforts on building the capacity and legitimacy of the governments, strengthening accountability and inclusive institutions, and ultimately building the necessary trust between citizens and the state for long-term peace and stability to take hold.

Mitigating the impact of FCV

Finally, in countries impacted by forced displacement crises, we are supporting both refugees and communities that provide a global public good by hosting migrants. We are providing \$2 billion³ to help low-income countries that are hosting large numbers of refugees—such as Cameroon, Chad, Ethiopia, Niger, Republic of Congo, and Uganda—through programs that create jobs and opportunities, build the resilience of local institutions, promote pro-refugee policies, and foster social cohesion.

¹ The World Bank, United Nations, ICRC and other global partners are developing the Famine Action Mechanism (FAM)—the first global mechanism dedicated to supporting upstream interventions in famine prevention, preparedness and early action. The FAM seeks to formalize links between early warnings, financing and implementation arrangements. For more information visit: <http://www.worldbank.org/en/programs/famine-early-action-mechanism>.

² The Sahel Alliance is bringing together development partners and large international organizations to respond to the double-edged challenge of security and development in the Sahel. Learn more about the partnership: <https://www.alliance-sahel.org/en/sahel-alliance/>

³ This funding is being provided through the International Development Association's (IDA18) regional sub-window for refugees and host communities. Learn more about the regional sub-window: <http://ida.worldbank.org/financing/replenishments/ida-18replenishments/ida18-regional-sub-window-for-refugees-host-communities>.

We are also exploring ways to leverage the private sector to provide solutions to the forced displacement crisis. One example is the “Kakuma as a Marketplace” report that the International Finance Corporation conducted in Kenya along with the U.N.’s High Commissioner for Refugees to assess the economic potential of the camp. This study provides a foundation for a business competition to attract and support firms that will engage in Kakuma to support the provision of goods and services at the camp.

Ultimately, to address drivers of fragility, conflict, and violence we have to do things differently. We must systematically address the core drivers of fragility; work across the full spectrum of FCV; and forge partnerships with security, development, humanitarian, and private sector organizations. That is the only way we can prevent violence and suffering throughout Africa and give the continent’s countries—and their people—a chance to achieve their highest aspirations.

VIEWPOINT

Life in fragile states: A young girl’s journey

Victoria Nassera

Young African Leaders Initiative Fellow (2018)

Visiting Researcher, Africa Growth Initiative, Global Economy and Development, Brookings Institution

04.

The first time I opened my eyes, I was in a refugee camp. I thought the camp was my country, only to learn later that it was not. I was told that South Sudan is my home, a country swallowed by an aimless civil war and severe famine. Then, like any refugee, I hoped of one day seeing my homeland, however dangerous it may be.

It was the hardships I endured at the camp that inspired me to help girls and women in South Sudan. Out of the 30 girls that I started pre-primary education with in the camp, only three of us made it to university. Many of the girls faced insurmountable challenges like early childhood marriages—often a source of family income—and lack of parental support toward their education because of the financial restrictions of poverty. It was heartbreaking to watch my classmates encounter such devastating roadblocks.

On my own journey, I found strength in the words of Nelson Mandela: “Everyone can rise above their circumstances and achieve success if they are dedicated to and passionate about what they do.” My education from Uganda Christian University in the field of economics was obtained through my hard work and determination to defy all the odds in the refugee camp. The support from my parents and the access to a few limited resources and services enabled me to go to university and become one of the few educated and empowered young girls from the camp.

My experience in the refugee camp gave me the strength to endure the challenges and the desire to help others.

On January 9, 2005, the civil war in South Sudan ended and we headed back home. Upon arrival, the home we had been looking forward to seeing was not much of a house. Everything was in ruins; we had to start rebuilding our lives. To our dismay, after a few years of rebuilding another war broke out—but this time we stayed.

People have often asked me what it means to live in South Sudan, a country that has been drastically affected by violent conflicts, a so-called fragile state. Imagine feeling that you can die at any time. Imagine being surrounded by guns, bitterness and agony, massive loss of lives and property, poor health care and education, inaccessible infrastructure, systematic violations of human rights, and severe famine. I would not wish it on anyone. But my experience in the refugee camp gave me the strength to endure the challenges and the desire to help others.

Having spent my entire life as a refugee in a foreign country, and after seeing the abuse that young girls face in fragile states, I decided to develop an initiative to empower and give hope to young girls in South Sudan. In November 2017, I created the Nasvick Initiative, with the primary objective to promote women’s soccer in South Sudan. The initiative uses women’s sports as a platform to promote peace and reconciliation during this recovery period, with the theme “shoot to score, not to kill.” We currently work with 924 girls, and the turnout for games per team has increased from 22 girls to more than 30 across the country. We now have 42 teams and are expanding to engage more girls.

Though there are initiatives like mine to improve life in fragile states, there is still a need for the government and policymakers to promote local youth initiatives and interventions that focus on peacebuilding as we strive toward rebuilding South Sudan. Civil society should speak for the voiceless, like the young girls I knew in the refugee camp. Surrounding countries and the African Union should treat refugees and foreigners as fellow Africans with love and the spirit of “Ubuntu,” meaning humanity toward others. Countries must also stop funding and fueling conflicts in neighboring countries.

I feel fortunate to have been a recipient of the 2018 Young African Leadership Initiative Fellowship, which allowed me to travel and study in the United States and

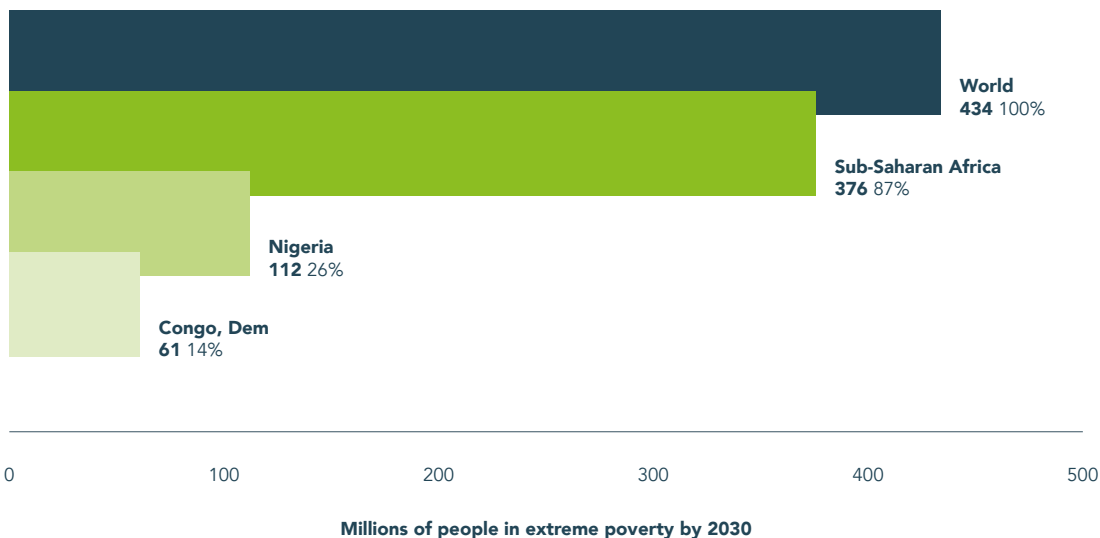
to meet many other talented young Africans. The European Union and United States should channel their financial aid and support to similar education and human capital development programs, like the Mandela Washington Fellowship, whose impact can be felt through their activities, rather than sending grants or giving loans that end up in the pockets of a few corrupt officials. It may also be useful to use other implementing partners to run their programs in the country, rather than the government, where it is hard to hold individuals accountable.

Through all of this, we must give hope to those who have been marginalized so that they too can “rise above their circumstances and achieve success.”

There is still a need for the government and policymakers to promote local youth initiatives and interventions that focus on peacebuilding.

Figure 4.4 Projected extreme poverty in Africa compared to the world

The weight of the SDG on Ending Extreme Poverty by 2030 will fall on sub-Saharan Africa’s shoulders. In particular, Nigeria and the Democratic Republic of Congo together will account for 40 percent of the world’s extremely poor.

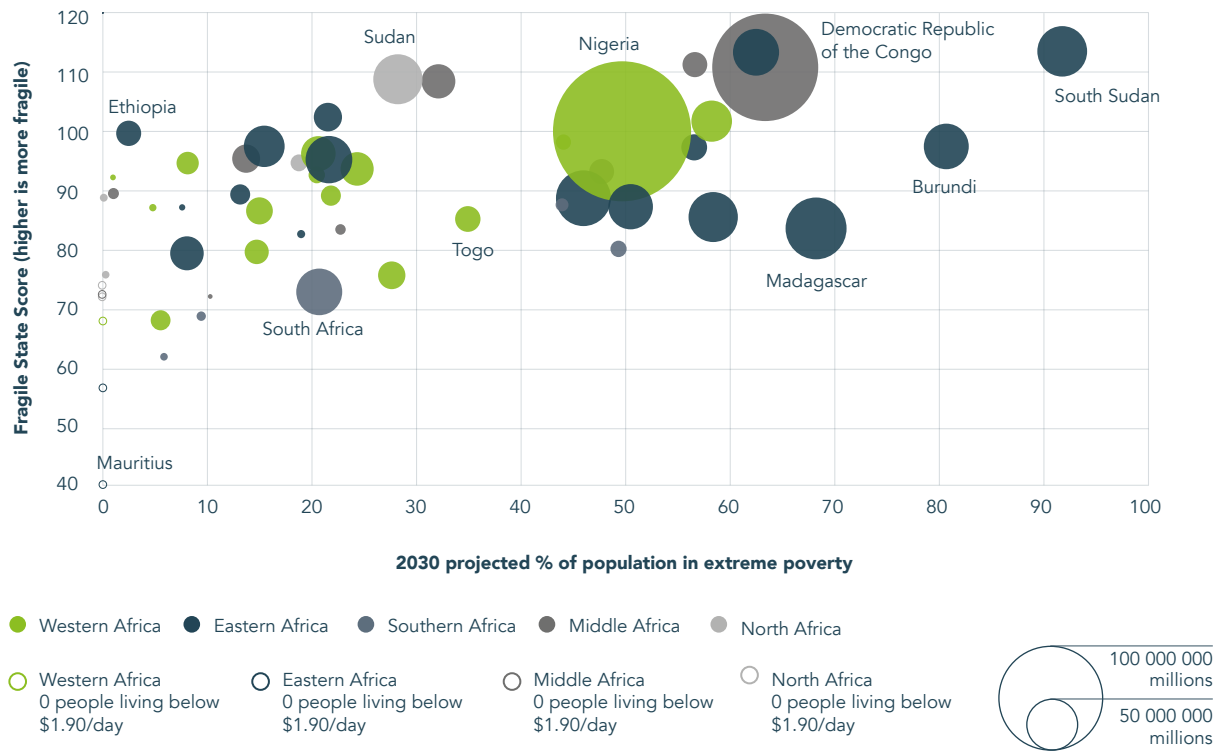


Note: Percentage for each bar reflects percent of global total. Extreme poverty is defined as the population living below \$1.90/day in 2011 PPP.

Source: World Poverty Clock by World Data Lab, data as of January 2019.

Figure 4.5 The relationship between current fragility and projected extreme poverty

The most fragile African states today subsequently risk having among the highest percentage of people living in extreme poverty by 2030.



Note: Extreme poverty is defined as the population living below \$1.90/day in 2011 PPP.

Source: Brookings calculations using Fund for Peace 2018 Fragile States Index



AFRICA'S UNTAPPED BUSINESS POTENTIAL:

Countries, sectors, and strategies

Spotlighting opportunities for business in Africa and strategies to succeed in the world's next big growth market

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Chairman, Global Network for Africa's Prosperity

Africa's potential as a growth market for business remains both underestimated and misunderstood—as does the potential for business to play a transformative role in solving the continent's biggest challenges.

Consider one question: How many companies in Africa earn annual revenues of \$1 billion or more? Most global executives and academics we speak with guess there are fewer than a hundred. Many answer “zero.” The reality? More than 400 such companies exist—and they are, on average, both faster growing and more profitable than their global peers.

Africa's fast-growing population and markets present important opportunities for business in an environment of slowing

global growth. At the same time, greater innovation and investment from business is essential to meet Africa's unfulfilled demand for goods and services, close the gaps in its infrastructure, create jobs, and decrease poverty. Here, we describe the extent of the African business opportunities in key sectors and suggest steps investors can take to translate that opportunity into profitable, sustainable enterprises.¹

Five bold business opportunities

Africa's real GDP grew at an average annual rate of 5.4 percent in 2000–2010,

1 Acha Leke et al., “Africa's Business Revolution: How to Succeed in the World's Next Big Growth Market” (Harvard Business Review Press, 2018), Landry Signé, “Capturing Africa's High Return” (Brookings Institution, March 14, 2018), and Landry Signé, “Africa Booming: Winning during the Fourth Industrial Revolution” (tentative title) (forthcoming, Brookings Institution Press, 2019).

driven in nearly equal measures by labor force growth and productivity growth. After a slowdown prompted by the shocks of the Arab Spring in 2011 and the collapse of oil prices in 2014, Africa's growth has recovered and its future prospects look buoyant. Two indicators from the World Bank underline the continent's promise. First, of the 10 fastest-growing economies in the world in 2018, six were in Africa—with Ghana at the top of the world ranking. Secondly, in the World Bank's 2019 Doing Business index, five of the 10 most improved countries are in Africa, and one-third of all reforms recorded globally were in sub-Saharan Africa.

The economic acceleration and improving business environment are underpinned by five long-term trends, each of which is unlocking transformative growth in key economic sectors.

Opportunity 1. A population that is fast growing and urbanizing

Africa's current population of around 1.2 billion people is projected to reach 1.7 billion by 2030. More than 80 percent of Africa's population growth over the next few decades will occur in cities, making it the fastest-urbanizing region in the world. At the same time, incomes are rising across much of the continent, generating new business opportunities in the consumer market.² In total, we expect annual spending by African consumers and businesses to reach \$6.66 trillion by 2030, up from \$4 trillion in 2015. These

trends are spurring growing markets in a range of sectors where Africans have unmet needs, including food, beverages, pharmaceuticals, financial services, healthcare, and education.

Opportunity 2. Africa is industrializing

An African industrial revolution is underway as manufacturers ramp up production of everything from processed food to automobiles.³ We calculate that African industries have the opportunity to double production to nearly \$1 trillion within a decade (Figure 5.1). Three-quarters of that growth is likely to come from manufacturing to substitute imports and meet burgeoning local demand. But there is also an important opportunity to grow manufacturing exports and make Africa the world's next great manufacturing center as industries shift away from China to lower-cost regions. The ongoing revolution among industries without smokestacks, such as tourism,⁴ agro-industry, and some information and communications technology based services, can serve as a development escalator as these industries share three key characteristics of traditional manufacturing—exportability, higher productivity, and high labor intensity (See John Page's Essay on Page 45).⁵

Africa's current population of around 1.2 billion people is projected to reach 1.7 billion by 2030.

2 Landry Signé, "Africa's Consumer Market's Potential: Trends, Drivers, Opportunities, and Strategies." 2018. Brookings Institutions' Africa Growth Initiative Report.

3 Landry Signé, "The Potential of Manufacturing and Industrialization in Africa - Trends, Opportunities, and Strategies." 2018. Brookings Institutions' Africa Growth Initiative Report.

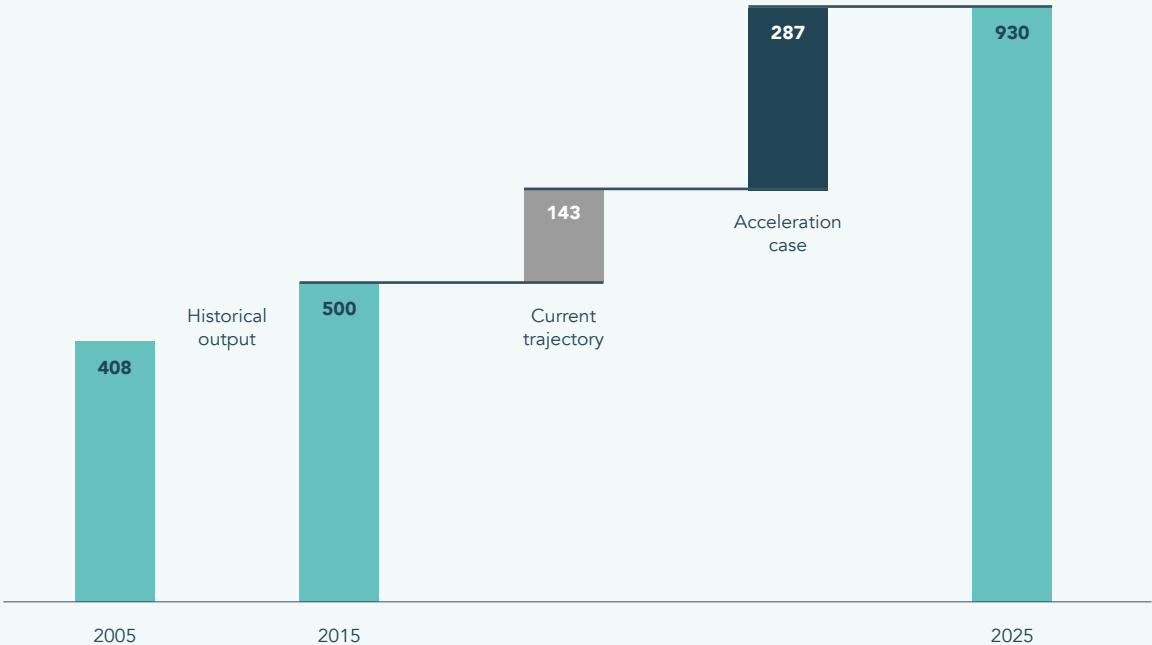
4 Landry Signé, "Africa's Tourism Potential: Trends, Drivers, Opportunities, and Strategies." 2018. Brookings Institutions' Africa Growth Initiative Report.

5 John Page, 2018 and Brahim Coulibaly, 2018.

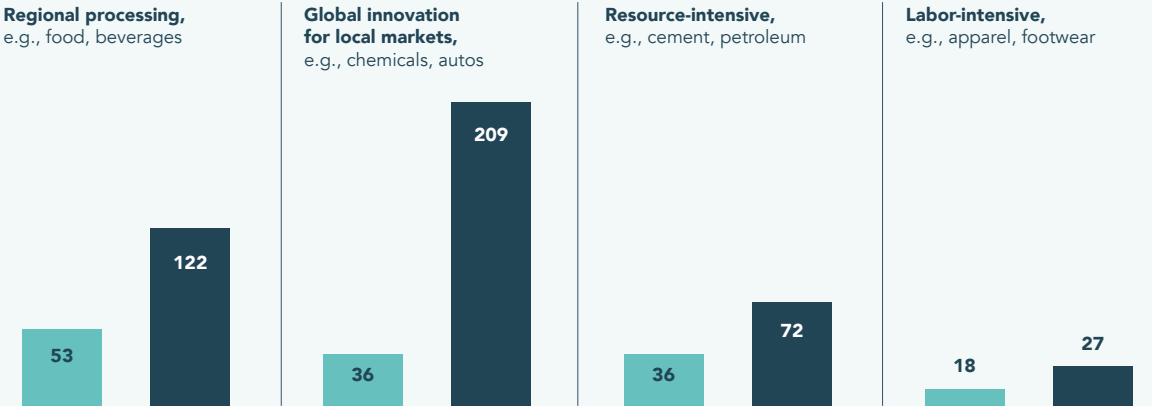
Figure 5.1 Africa has an opportunity to triple historical manufacturing output growth rates, and to double output, in 10 years

Potential revenue growth from African manufacturers by 2025.

Africa revenue output, \$ billion, 2015 prices



Current trajectory vs. acceleration case, by key sector, \$ billion, 2015 prices



Note: Figures may not sum, because of rounding.
 Source: IHS; UNCTAD; McKinsey Global Institute analysis.

Opportunity 3. Africa is pushing to close its infrastructure gap

Poor infrastructure is one of the key impediments to investment and growth in Africa. For example, nearly 600 million Africans lack access to the electricity grid. But while Africa's infrastructure still lags behind that of other developing regions, significant progress has been made: Africa's annual investment in infrastructure has doubled to around \$80 billion a year since the beginning of this century. That represents a big opportunity for investors and entrepreneurs with the imagination to help solve Africa's infrastructure challenges.

Opportunity 4. Innovations to unleash agricultural and resource wealth

Africa has long been known for its resource abundance in both agriculture and mineral resources. To date, though, Africa has struggled to translate these resources into shared wealth and sustained economic development. New innovations and investments promise to change that picture and create exciting growth opportunities for business. For example, in oil and gas, Africa is rich in unexplored, high-potential regions, and the continent has huge unmet demand for energy. We estimate that the domestic gas market in Africa will grow by 9 percent a year to 2025, by which time the continent could use up to 70 percent of its own gas.

Opportunity 5. The potential of increasing digital and mobile access

Sub-Saharan Africa saw the world's fastest rate of new broadband connections between 2008 and 2015, and mobile data traffic across Africa is expected to increase sevenfold between 2017 and

2022. Africa has more than 120 million active mobile money accounts, over 50 percent of the global total; this has leapfrogged many people over traditional banking products (See Njuguna Ndung'u's Viewpoint on Page 36). This trend will allow companies to improve productivity, speed up transactions, and access wider markets, and could add \$300 billion to the continent's GDP by 2025.

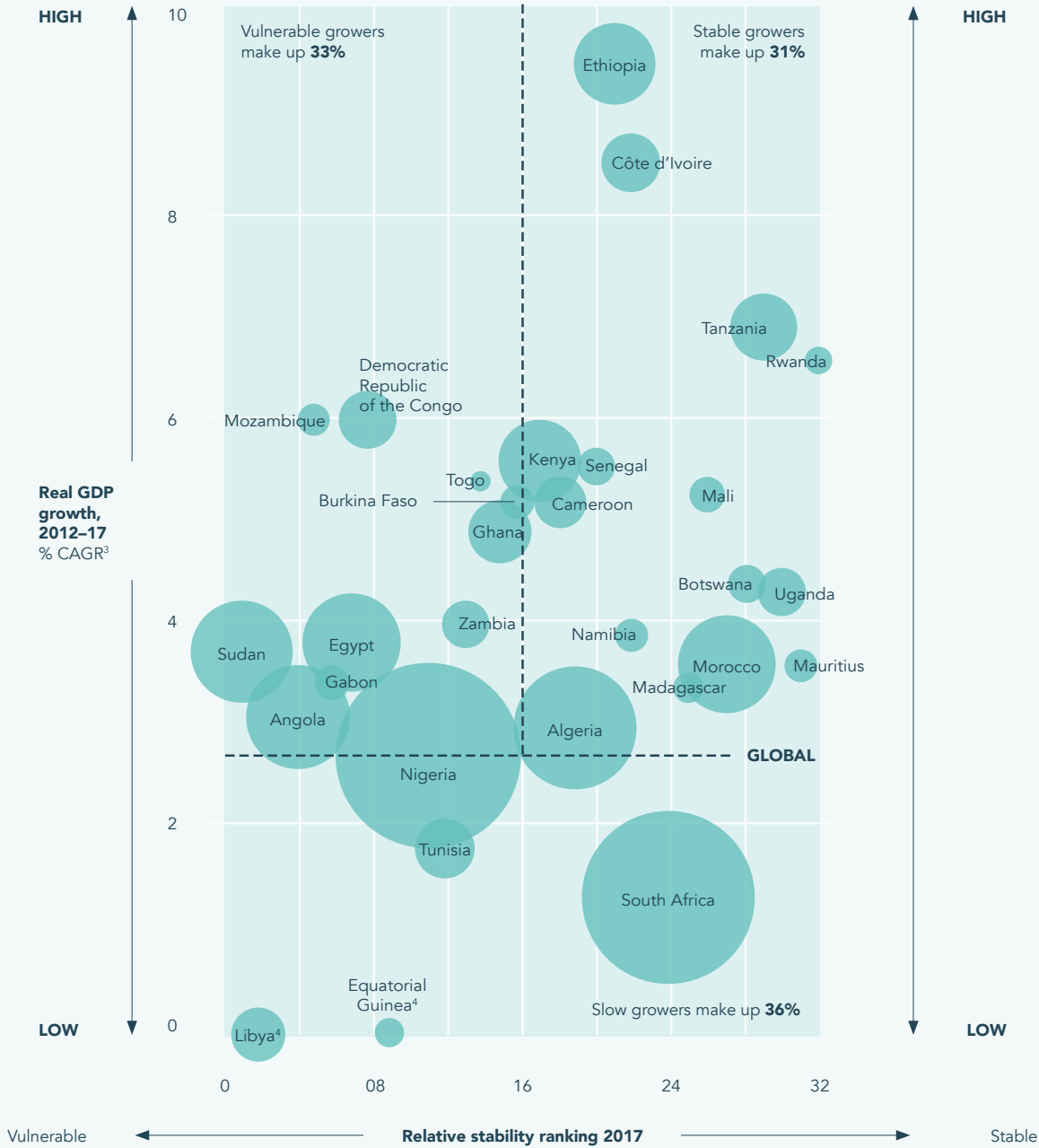
Africa's annual investment in infrastructure has doubled to around \$80 billion a year since the beginning of this century.

Mapping the opportunities across Africa's diverse countries and cities

Africa's 54 countries are diverse in terms of population, development levels, growth rates, and stability. While Nigeria has nearly 190 million people and Ethiopia and Egypt have over 90 million people each, most African nations have populations below 20 million. Likewise, nine countries make up three-quarters of Africa's GDP, and in 2030 three countries will represent almost half of the household consumption on the continent: Nigeria (20 percent), Egypt (17 percent), and South Africa (11 percent). Many smaller countries, however, are growing quickly and increasing their share of continental GDP and consumption. We expect East

Figure 5.2 McKinsey's African Stability Index pinpoints countries' growth and risk profiles

Comparison of historical GDP growth rates to country stability rankings.¹



1 Bubble size represents country GDP estimate, 2016.

2 The index covers 30 economies accounting for 97% of GDP.

3 Compound annual growth rate.

4 Equatorial Guinea and Libya are plotted manually because of negative growth rates over this period.

Source: MGI African companies database; McKinsey Global Institute analysis.

Africa and Francophone Central and West Africa to increase their share of Africa's overall consumption significantly.

To serve a sizeable market, companies must therefore shape a coherent geographic portfolio with prioritized countries and cities of operation. We designed one tool, McKinsey's African Stability Index, to support businesses and investors to balance their portfolios (Figure 5.2).

Three distinct groups of countries emerge from this analysis, each accounting for around a third of Africa's GDP:

Stable growers. These economies are relatively less dependent on resources for growth and are progressing with economic reforms and increasing their competitiveness.

Vulnerable growers. These countries each have at least one of three types of vulnerability. Some, such as Angola and Nigeria, are heavily dependent on resource exports. Other countries, such as the Democratic Republic of the Congo, face security or governance challenges. Finally, countries such as Mozambique are vulnerable to macroeconomic difficulties. For investors, vulnerable growers offer promising growth potential, but they also pose risks that need to be properly assessed and understood.

Slow growers. This group includes Libya and Tunisia, countries affected by the Arab Spring, and Africa's second-largest economy, South Africa. Investors will need to assess growth opportunities at the sector level or use their activities as a base from which to expand into other parts of the region.

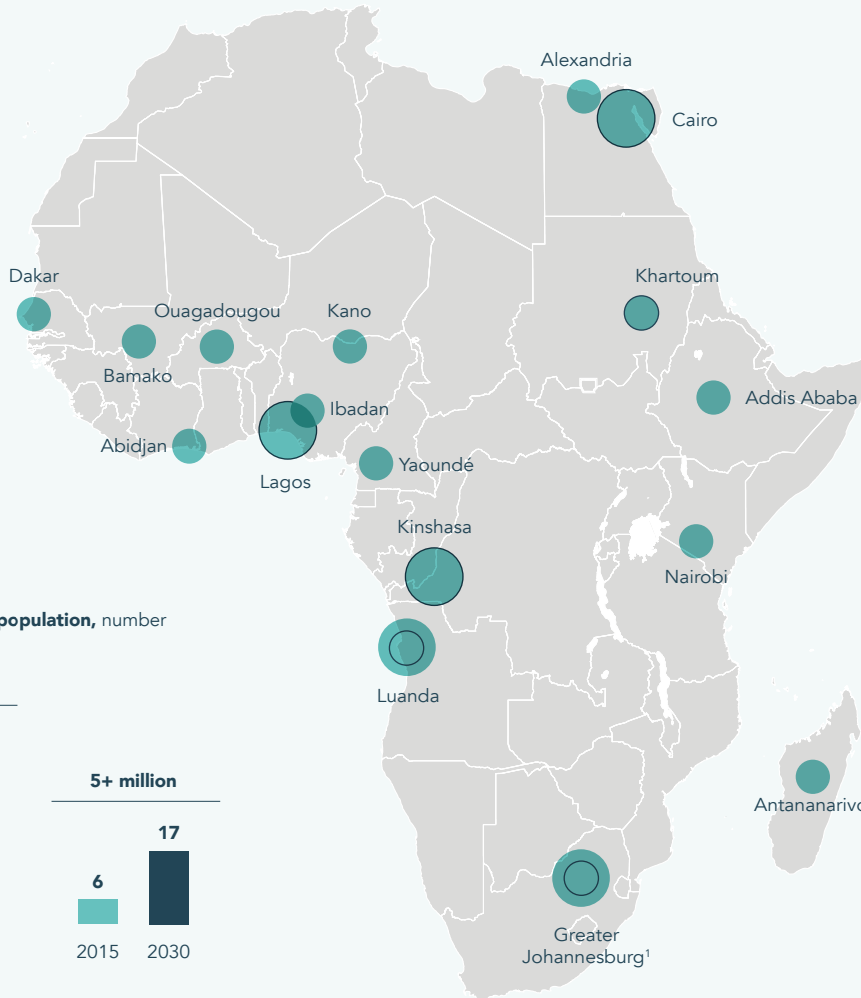
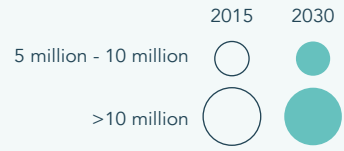
We also encourage investors to think about Africa's cities, not just its countries, as they construct their African portfolios. By the end of the next decade, Africa will have nearly 90 cities with at least a million inhabitants (Figure 5.3). Rapid urbanization⁶ is one good reason why companies should make cities a central focus of their African growth strategies. Just as important, though, is the fact that per capita consumption in Africa's large cities is nearly double the average of these cities' host countries.

By the end of the next decade, Africa will have nearly 90 cities with at least a million inhabitants.

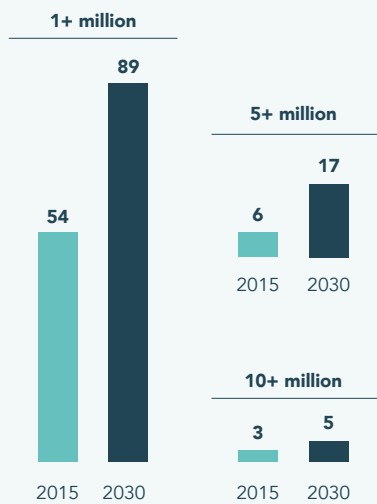
⁶ Eyerusalem Siba, "The New Urban Agenda and Demographic Dividend: Investments for Africa's Youth (Brookings Institution: 2018)."

Figure 5.3 By 2030, Africa will have 17 cities with more than 5 million inhabitants

African cities by population in 2030, millions of people



African cities by population, number



1 Greater Johannesburg includes the City of Johannesburg, Ekurhuleni, and the West Rand.

Source: United Nations World Population Prospect, June 2014 revision, U.N. population division; MGI Cityscope; McKinsey Global Institute analysis.

Winning in Africa

Although Africa's successful firms differ widely in their geographic and sector focus, what they have in common is the imagination to see the continent's unmet needs as opportunities for entrepreneurship, and the long-term commitment required to build businesses of meaningful scale. Indeed, the fastest-growing and most profitable businesses in Africa typically see challenges as a spur for innovation.

Successful African innovators are also deeply conscious of the barriers to their businesses' success, and careful to build long-term resilience into their business models. Consider the example of Nigeria-based Dangote Industries, which manufactures commodities in massive volumes, and has made founder Aliko Dangote Africa's richest person. Dangote has built a shock-proof manufacturing model through vertical integration of the supply chain, on-site power generation, robust engagement with government, and an internal manufacturing academy (see his viewpoint on his experience on Page 86).

African innovators are often driven by a deeper purpose. They look at Africa's high levels of poverty and its gaps in infrastructure, education, and healthcare,

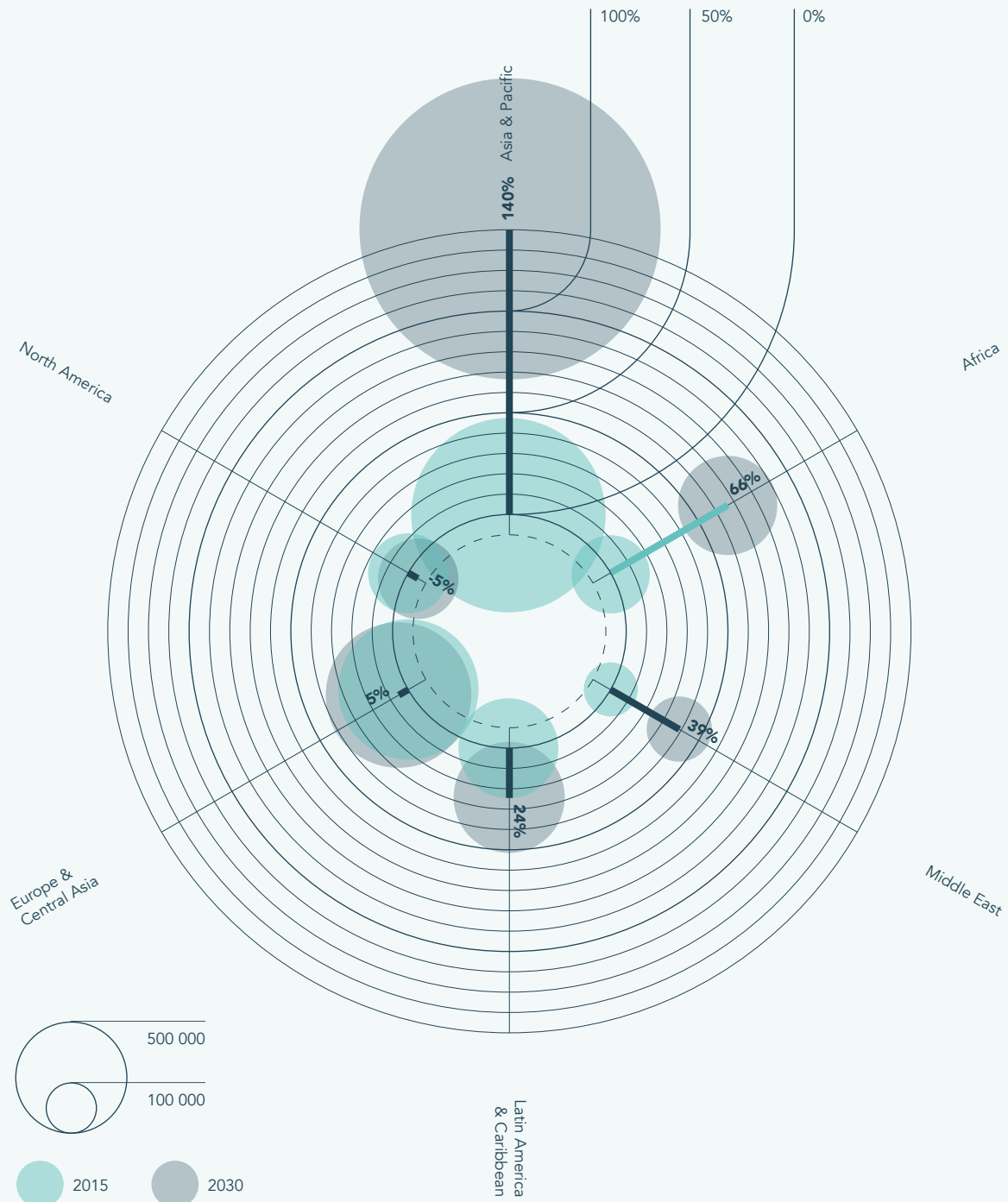
and they do not see barriers to business, but human issues they feel responsible for solving. Strive Masiyiwa, chairman of the pan-African company Econet Group, remarked: "Africa is a continent with extraordinary challenges, and it's a cop-out just to wait for governments to deal with them. If you see a problem, then think about how you can solve a piece of it."

For entrepreneurs ready to solve problems and innovate to meet Africa's unmet needs there is tremendous opportunity for growth. One example is Paga, a Nigerian mobile money startup that has signed up more than 8 million users in less than a decade—and today, processes \$2 billion a year in payments. Other innovative problem solvers include Viola Llewellyn (see Viewpoint on Page 88), Joe Huxley (see Viewpoint on Page 91), and Adam Grunewald (see Viewpoint on Page 53). Africa has room for many more such entrepreneurs and investors. We hope you will be one of them.

For entrepreneurs ready to solve problems and innovate to meet Africa's unmet needs there is tremendous opportunity for growth.

Figure 5.4 Global middle class growth

Africa is poised to be the next frontier for a thriving middle class with the region experiencing a 66 percent growth in its middle class by 2030, only falling behind to Asia's tremendous 140 percent growth fueled by South Asia.



Source: Brookings calculations.

Doing business in Africa: My experience

Aliko Dangote

@AlikoDangote - President, Dangote Group

01.

As an entrepreneur, I have traversed the length and breadth of Africa from Cape Town, South Africa, to Cairo, Egypt, exploring the huge potential often hidden throughout the continent.

The business potential of the continent is tremendous in various sectors, including energy, infrastructure, agriculture, natural resources, and information and communications, offering opportunities for entrepreneurs. For example, with about 65 percent of the world's uncultivated arable land, Africa has the potential to ensure its own food sufficiency and be a major supplier in global food markets. Similarly, the continent has the world's largest reserves of vanadium, diamonds, manganese, phosphate, platinum-group metals, cobalt, gold, aluminum, and chromium, offering opportunities for entrepreneurs in the mining sector.

Africa presents many challenges to doing business, but to those who are willing to learn and understand the intricacy of the region, there are massive opportunities for growth and success. For example, while infrastructural deficits look despairingly challenging to many, I am inspired by opportunities and not discouraged by the challenges. The \$30 billion of annual investment in power and energy needed in Africa may seem like a half-empty, risky situation, but I see a glass half-full of opportunity to meet unmet needs. Similarly, the energy of youth bursting at its seams portends a binary action for good or for bad. I see a ray of hope in the former.

The perception of risk often exceeds real risk and the doing business environment is improving rapidly in several countries. Real opportunity is based on how you perceive the risk as a half-full or half-empty glass. Understanding the local context will help to better realign actual and perceived risk. There is also progress on reforms to improve the business environment with countries such as Mauritius, Rwanda, Botswana, Nigeria, South Africa, and Kenya all offering ease in doing business through conducive environments and incentives.

Mauritius now ranks 25th in the Doing Business rankings compared to its former 49th rank, and remains the highest ranked economy in sub-Saharan Africa. Rwanda ranks 41st, Kenya 80th, Botswana 81st, and South Africa 82nd. According to the World Bank, Rwanda ranks among the best globally in the Doing Business areas of Registering

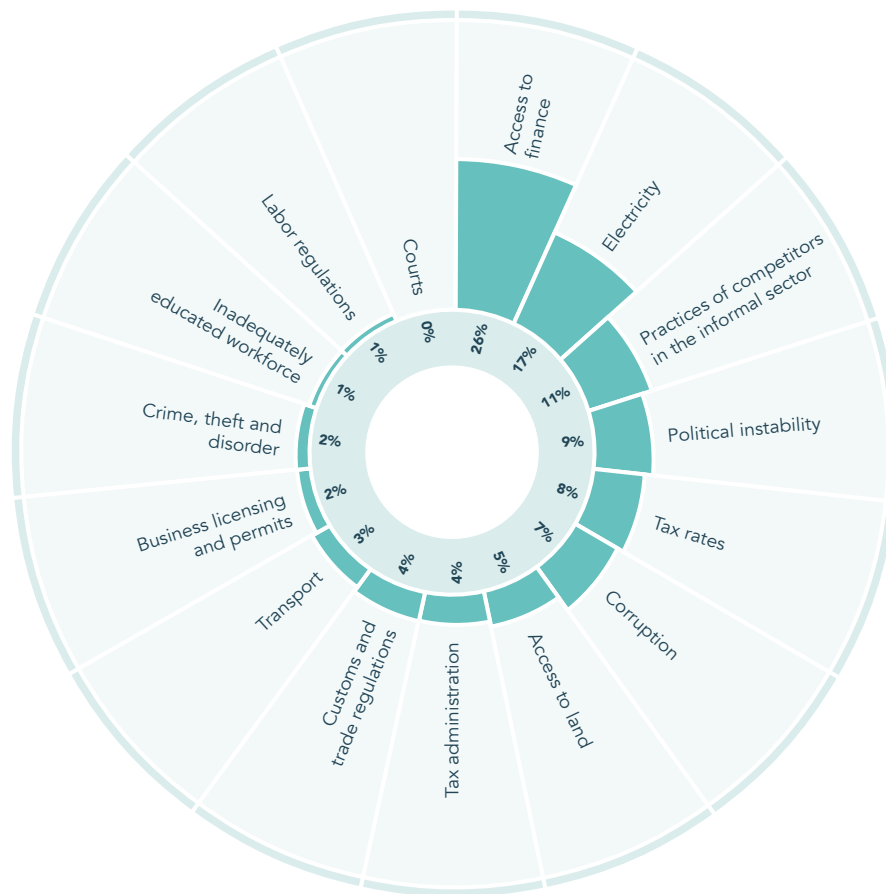
Property (ranking second) and Getting Credit (ranking sixth). In registering property, Rwanda has an efficient land registry where it takes seven days to transfer property and costs only 0.1 percent of the property value, the same as in New Zealand. Mauritius has among the least cumbersome business regulations in two Doing Business areas: Dealing with Construction Permits (ranking ninth) and Paying Taxes (ranking 10th).

That said, policy uncertainty and regulatory inconsistency must give way to transparency and accountability in governance, backed by political will to ensure and promote regional integration and backward integration.

In sum, Africa offers the world the biggest deal now and the continent is open for business, but the mindset of entrepreneurs and businesses is important to appreciate and seize opportunities. It is time to refocus the lens through which we see the continent.

Figure 5.5 Biggest business obstacles for small and medium-sized enterprises in sub-Saharan Africa

Access to finance remains the largest obstacle for small and medium-sized enterprises in sub-Saharan Africa. Among these, almost 75 percent of the SMEs surveyed were financed by internal funds and only 10 percent used traditional banking loans.



Note: Survey size N=13,722 (number of enterprise-years). Survey years: 2011-2017 in sub-Saharan Africa.

Source: European Investment Bank. 2018. "Banking in Africa: Delivering on financial inclusion, supporting financial stability."

Winning in Africa's fintech: The Ovamba way

Viola Llewellyn

@VALlewellyn - Co-Founder & President, Ovamba

02.

All businesses need capital to grow. This is especially true in most of Africa. Ovamba, which is often referred to as a “fintech” platform, specializes in trade and technology. It was founded in 2013 and launched a successful pilot in Cameroon in 2014. Ovamba's strategic focus is to offer businesses in the formal and informal sector short-term capital for the importation of wholesale/retail goods and to support exportation of commodities such as coffee, cocoa, and cashews. The inspiration came to us when we observed how the under-developed business ecosystem was compounding the problem of access to capital. Applied technology, especially in the finance and trade sectors, brings the creative freedom of innovation to markets and demographics where traditional solutions are restricted by regulation, leadership, or understanding of the changing needs of businesses.

Having noticed that banks and microfinance institutions were not closing the credit gap nor creating sustainable wealth, we were inspired to take a multi-track approach and offer a combination of capital and business support (such as logistics and warehousing), deep analytics, and alternative risk assessment algorithms. Ovamba specializes in culturally attuned innovations that respond to Africa's varied ecosystem to fund businesses with the capital they desperately need to grow. We do this via mobile apps and online platforms that efficiently meet the demands of fast-moving small and medium-sized enterprises in ways that banks cannot. As one of the few providers of what we refer to as “tradetech” solutions in the market, we have had a long honeymoon and have now expanded beyond Cameroon into Côte d'Ivoire, with more markets coming online.

To date, Ovamba has funded approximately 270 small businesses with over 22 million euros (\$25.4 million). Some of Ovamba's customers are on their seventh transaction. Some customers have seen their businesses grow almost 450 percent over an 18-month period. Access to global suppliers has brought new diversity of products to the wholesale space. Demand for cocoa financing is up by more than 25 percent. New funding partners have been identified to satisfy this pipeline. Looking ahead, 2019 and 2020 look very promising indeed.

We have great optimism that small and medium-sized enterprise development in commodities exportation will continue to grow, requiring banks to provide more than basic services. At present, banks do not seem to be able to keep pace with the needs of these businesses. Ovamba believes this is an opportunity to innovate alternative risk models and financial services, such as sharia-compliant financing. These innovations are key to unlocking this new asset class. New asset classes along with capital velocity will go a long way to closing Africa's business credit gap, which by some World Bank reports has continued to increase past \$360 billion.

An improved investment environment and private sector performance will attract foreign direct investment into regions with a thriving trade economy. Excited as Ovamba is about having a head start in this new asset class, we realize that ill-informed policies, heavy-handed regulation, and prohibitive taxation could slow our progress and quell the inflow of much needed capital from external investors.

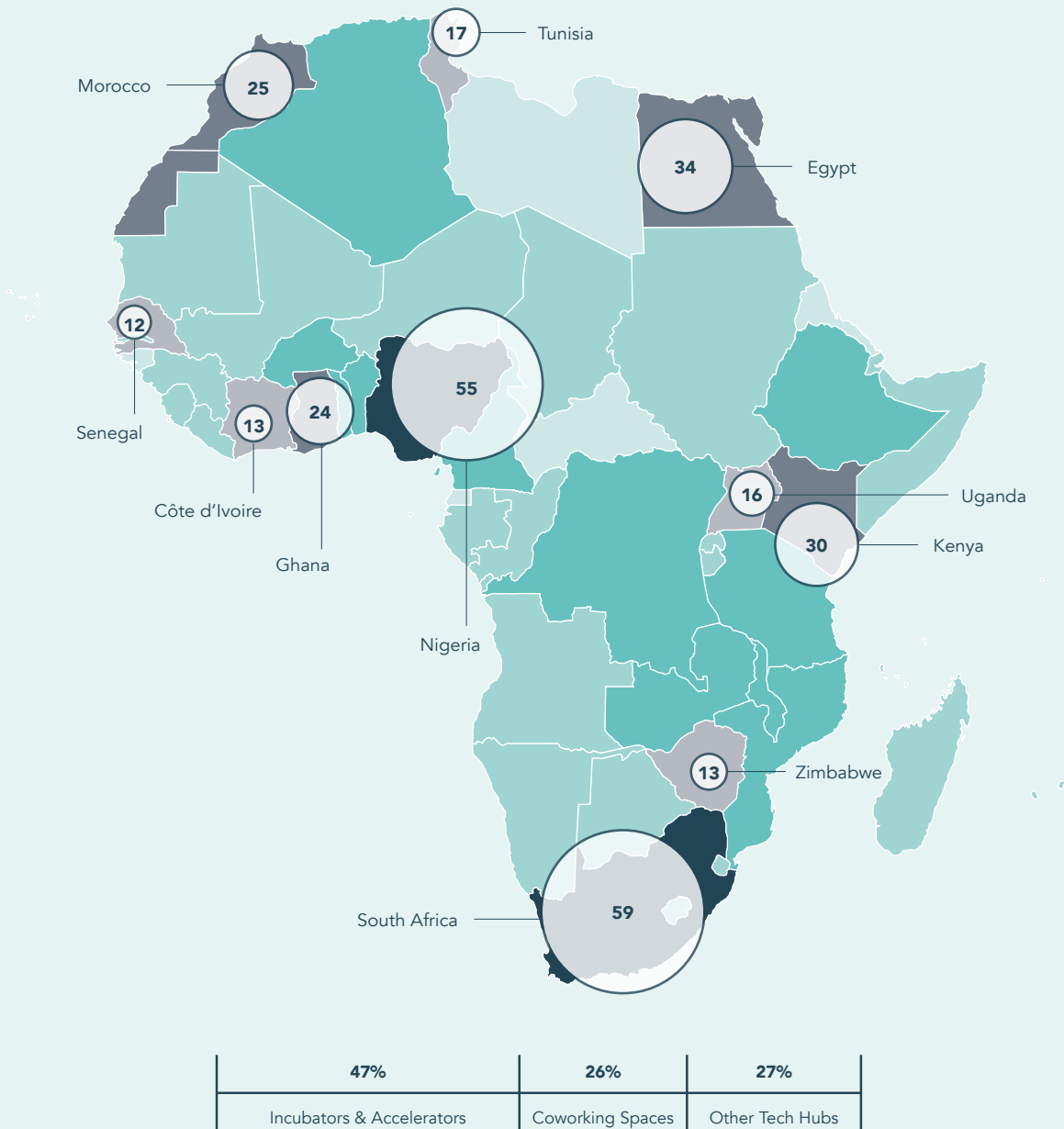
Over the next few years, we will focus on improving literacy and financial awareness in the informal sector because better-educated business owners are a better investment risk. We have created a natural language chatbot that uses African languages to teach business efficiencies to customers who are not "classically" trained in business in order to drive financial inclusion. Designing a paradigm shift for Africans to see finance as a tool for success is the prize and promise of fintech. Solutions such as ours that use artificial intelligence and behavioral metrics will have the most impact.

In considering areas of risk, instability in Central Africa is of great concern. Cyber security and corruption in Cameroon and its bordering neighbors such as Gabon will require constant vigilance. Also, access to a steady source of blended capital will be required. Our main challenge is and always will be politics and the governments that are afraid of technology, afraid of change, and lack appreciation of the value of Africa's private sector and growing middle class.

We credit our success to our business philosophy. We do not view Africa's business challenges as a capital problem, but instead as an ecosystem development opportunity. We answer the problem that is rarely articulated: How can we build wealth and financial freedom for all Africans? The answer: By combining investment, trade, culture, and financial awareness into supply chains and the collective business consciousness.

Figure 5.6 Africa tech hubs landscape

In 2018 there were 442 active tech hubs in Africa. This represents a 41 percent jump from 2017 estimate of 314 tech hubs.



Fastest growing ecosystems (2016-2018)

- **Democratic Republic of the Congo** +200%
- **Zambia** +200%
- **Côte d'Ivoire** +160%
- **Togo** +150%
- **Nigeria** +139%

Top 5 ecosystem cities by number of Active Tech Hubs

- **Lagos** - 31 Hubs
- **Cape Town** - 26 Hubs
- **Nairobi** - 25 Hubs
- **Cairo** - 23 Hubs
- **Accra** - 16 Hubs

>50 Tech Hubs
 20-49 Tech Hubs
 10-19 Tech Hubs
 5-9 Tech Hubs
 1-4 Tech Hubs
 No active hub

Source: Global System for Mobile Communications.

Financing the frontier: Risk, reward, and reality in Africa's fragile states

Joe Huxley

@JoeHuxley - Director, Regional Strategies, FSD Africa

03.

Like most bankers, Patrick Kiiru did not imagine Congolese refugees as his ideal clients, seen by most as simply hungry, homeless, and transient. But after three days with FSD Africa in Gihembe Refugee Settlement—a bumpy one-hour journey north of Rwanda's capital Kigali—the head of diaspora banking at Kenya's Equity Bank Group began to change his mind.¹

"You just have to get your boots on the ground, you have to roll your sleeves up, you have to walk into a camp, you have to talk to a few people."

Patrick Kiiru, Equity Bank Group

After having experienced the refugee finance business case firsthand, Kiiru describes reaching an "aha" moment: "I can solve this problem. It is possible to serve... refugees profitably." Refugees need more than food and shelter; they, too, can benefit from financial services.

With targeted financial and technical support from two United Kingdom aid-supported agencies—FSD Africa and Access to Finance Rwanda—Kiiru's bank is preparing to offer its Eazzy Banking mobile money product to Rwanda's adult refugee population of more than 89,000, with plans to expand in other countries. With a footprint in Kenya, Uganda, Rwanda, and the Democratic Republic of the Congo (DRC), this may be the early days of a region-wide approach by Kiiru and his team.

¹ <https://www.youtube.com/watch?v=t3vCiUJIRv0>.

This risk perception versus reality gap is not distinct to banking refugees. The theme persists across all 26 fragile and conflict-affected states in sub-Saharan Africa, as defined by U.K. aid. There are two big picture consequences.

First, development agencies and their partners with a focus on private sector development can neglect to deliver services where they are needed most. According to a 2016 CGAP survey of 19 financial inclusion donors in sub-Saharan Africa, the highly fragile states of Chad, Central African Republic, and Somalia had only one active donor each.² This means some countries, regions, and communities remain trapped within a humanitarian crisis paradigm.

Second, development financiers, commercial investors, and business leaders can misprice risk—adding a premium based on perception rather than the reality. This means capital is not being efficiently allocated. According to World Bank figures in 2017, excluding Ethiopia, Kenya, and Nigeria, just 3.23 percent of all foreign direct investment in sub-Saharan Africa reached fragile states.³ This means that, in fragile states, many investment-ready firms are left without the long-term finance they need to survive and grow.

This is not to say fragile states are not difficult places to invest and do business. Since 2016, FSD Africa's own increasing fragile states footprint in the DRC, Sierra Leone, Zimbabwe, and for forcibly displaced people has had to weather a cycle of instability: political (e.g., military coups, new central bank governors), environmental (e.g., Ebola outbreaks, mudslides), and economic (e.g., currency depreciation, inflation).

But the people, entrepreneurs, and investors in Africa's fragile states are resilient and resourceful. The FSD Africa team has witnessed numerous examples of smart practices which help to mitigate risk.

On the investor side, locally born nationals, who are better able to price risk accurately, are particularly active; many accept that there will be arid periods when deploying capital is too risky, and so switch to running their own enterprises; and many deals rely on financial innovation to hedge against risks.

On the donor side, some build a presence—people and platforms—which lays dormant when things are difficult, but which springs into action when pockets of opportunity present themselves. Others complement their fly-in, fly-out model with a permanent local lead, who provides a depth of relationships and market intelligence to build and maintain momentum in good times and bad.

As the world grows more prosperous, international development practices will only increase in concentration in the left-behind nations, regions, and communities. As a result, the fragility agenda may slowly become the international development agenda.

² *Interactive Data on International Funding for Financial Inclusion in 2016*. CGAP: 2018. <http://www.cgap.org/research/data/interactive-data-international-funding-financial-inclusion-2016>.

³ *Foreign direct investment, net inflows (BoP, current US\$)*. The World Bank. <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>.

As the world grows more prosperous, international development practices will only increase in concentration in the left-behind nations, regions, and communities.

We need to continue to challenge the prevailing humanitarian discourse that predominates in fragile states—that food, shelter, and security must be directly delivered by donors, and that there is little room for private sector enterprise to deliver welfare-enhancing products and services. By challenging perceptions of risk in fragile states, we can start to build a more balanced approach to aid delivery for those people and places most in need.

VIEWPOINT

Discovering a more inclusive private sector development where least expected

Eyerusalem Siba

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04.

Small and medium-sized enterprises (SMEs) have the lowest rates of business survival worldwide, and it is generally difficult to grow employment in SMEs. Africa is no different.¹ Viable businesses struggle with typical growth challenges around lack of access to capital and markets and the skills gap. Finding sustained solutions

¹ See for instance, Siba and Söderbom (2011), "The Performance of New Firms: Evidence from Ethiopia's manufacturing sector", University of Gothenburg, Mimeo.

to these core private sector development challenges requires exploring territories beyond providing targeted support to SMEs, including building a more inclusive entrepreneurial ecosystem and embracing a more effective labor market and social protection policies.

Entrepreneurship needs to be nurtured, which should start with diagnosing the “scarcest resource” for enterprise development to maximize impact. Reliable funding is the lifeblood of any startup, yet in-depth knowledge of and experience in both domestic and international markets and managerial capability to run a firm of substantial size may well be far more important success factors than basic technical production knowledge.² So how are the continent’s young populations and underrepresented groups supposed to acquire these much-needed entrepreneurial skills?

Africa is also home to one of the highest rates of necessity entrepreneurs in the world.³ Views on how to support necessity entrepreneurs are varied, ranging from giving the poor money to make use of their existing skills, to building firm capability, to overcoming sectoral and spatial mismatches to help necessity entrepreneurs transition out of existing enterprises or change the sector and location of current employment.⁴ The chosen tactic needs to be based on effective diagnosis of the scarcest resource and the market failures to be addressed. In many cases, microcredit and the provision of basic business trainings on technical skills can fail to generate meaningful impact on business performance of SMEs, notably for women-owned businesses.

While SMEs may have helped lift millions out of poverty through employment, provided first time employment to youth, and improved the wellbeing of SME owners, they have failed to create the large-scale and high quality jobs that Africa needs.⁵ At the core of the challenge to SME development in Africa lies failed labor market policies and skill investment strategies to match the skill needs of growing industries. If growth of small firms into medium- or large-scale enterprises is a measure of success, most of these targeted micro-interventions would best be viewed as extensions of livelihood support programs. Within these programs, Africa needs the right mix of private sector development and labor market and social protection policies with clarity on which objectives are being promoted to improve targeting.

2 Based on in depth interviews with successfully large companies in Ethiopia, Ghana, Mozambique, Tanzania, and Zambia. See for instance Sutton, John and Kellow, Nebil (2010), An enterprise map of Ethiopia. International Growth Centre, London, UK.

3 Global Entrepreneurship Monitor (2018), Global Report 2017/2018.

4 Banerjee, A. V., & Duflo, E. (2011). *Poor economics: A radical rethinking of the way to fight global poverty*. New York: Public Affairs.; McKenzie, David J. 2017. *How effective are active labor market policies in developing countries? a critical review of recent evidence (English)*. Policy Research working paper; no. WPS 8011; Impact Evaluation series. Washington, D.C.: World Bank Group.

5 Page and Söderbom (2015): “Is small beautiful? Small Enterprise, aid and Employment in Africa”, *African Development Review* 27(S1):44-55; Page and Shimeles (2015), “Aid, Employment and Poverty Reduction in Africa”, *African Development Review* 27(S1):17-30; David McKenzie (2018) Marginal changes for the many or focusing on the few? Trade-offs in firm support policies and jobs, Development Impact blog, The World Bank.

Beyond smart policies, inclusivity must be actively pursued by a range of stakeholders. This priority should be reflected in governments' procurement policies, budgeting, and engagement with social entrepreneurs and innovators, as well as in the private sector's participation in inclusive business models to advance both economic and social returns to investment.

Notably, for communities of stakeholders who chose to support a segment of underrepresented populations such as women and youth, a focus on the entrepreneur helps to identify binding constraints, leverage key strengths, and direct effective support. It is worth noting that women bring different sets of skills to labor markets; face different challenges within and outside their enterprises; and thrive in settings where a web of institutions and range of stakeholders promoting inclusion, forming an essential component of women's "empowerment capital," safeguard and promote their interests and address their specific challenges. The crucial ability here lies in identifying which skills and resources a woman needs to thrive in her given empowerment capital, and in expanding and enriching the latter.

Emerging evidence from psychology and experimental economics has advanced our understanding of effective pathways to best support women-owned SMEs. Notably, for successful interventions to be transformative, they need to move beyond basic access to financial and human capital and address central psychological, social, and skills constraints that women entrepreneurs face. Interventions which saw more transformative effects for female entrepreneurs have expanded capital and skill-centric programs with the provision of softer skills; agency, leadership, and mind-set considerations; market-focused programs, such as training to identify new market opportunities; and gender-lens investing to accommodate women participants' schedules and provided free or affordable child care.

Finding lasting solutions to development challenges and creating a generation of entrepreneurs requires tapping into existing capabilities while filling gaps and scaling up successful pathways.⁶ Identifying cost-effective pathways should be an agenda of high priority to guide policies and inclusive and sustainable investments.

⁶ Ndidi Okonkwo Nwuneli (2016). *Social Innovation in Africa: A practical guide for scaling impact*. Routledge, New York.

The background is a dark blue gradient with a complex, abstract pattern of overlapping, semi-transparent geometric shapes in various shades of blue and grey. These shapes form a circular, crystalline structure that resembles a globe or a network. In the center of this structure is a solid dark blue circle containing white text.

BOOSTING TRADE AND INVESTMENT:

A new agenda for regional and
international engagement

Intra-African trade: A path to economic diversification and inclusion

Vera Songwe

@ECA_Official - Executive Secretary, U.N. Economic Commission for Africa
Nonresident Fellow, Africa Growth Initiative, Global Economy and Development Program,
Brookings Institution

The debate on the benefits of trade has dominated this decade, and Africa has cast its vote for more and better trade with itself. In March 2018, African countries signed a landmark trade agreement, the African Continental Free Trade Area Agreement (AfCFTA), which commits countries to remove tariffs on 90 percent of goods, progressively liberalize trade in services, and address a host of other non-tariff barrier. If successfully implemented, the agreement will create a single African market of over a billion consumers with a total GDP of over \$3 trillion. This will make Africa the largest free trade area in the world.

What is less known about the AfCFTA is that its scope exceeds that of a traditional free trade area, which generally focus on trade in goods, to include trade in services, investment, intellectual property rights and competition policy, and possibly

e-commerce. The AfCFTA is complemented by other continental initiatives, including the Protocol on Free Movement of Persons, Right to Residence and Right to Establishment, and the Single African Air Transport Market (SAATM). The scale of AfCFTA's potential impact makes it vital to understand the main drivers of the agreement and the best methods to harness its opportunities and overcome its risks and challenges.

The signing of the AfCFTA in Kigali comes at a time when the benefits of trade are actively contested, and global powers that traditionally promoted trade as a

AfCFTA will be a game changer for stimulating intra-African trade.

crucial driver of growth are now calling into question its very tenets. This apprehension is not without cause. It is broadly recognized that, while globalization and trade produced the impressive economic expansion of the past three decades, the gains have not been fairly distributed. The World Bank population-weighted Gini index shows that inequality rose steeply between 1988 and 1998 and declined only moderately by 2013. Although global poverty has fallen, prosperity has not been fully shared.

Can Africa do better with trade? The share of intra-African exports as a percentage of total African exports has increased from about 10 percent in 1995 to around 17 percent in 2017, but it remains low compared to levels in Europe (69 percent), Asia (59 percent), and North America (31 percent). This is an important reason to expect that trade will be a key driver of growth in Africa. According to modeling results by the Economic Commission for Africa (ECA),¹ the AfCFTA is projected to increase the value of intra-African exports. AfCFTA will be a game changer for stimulating intra-African trade. It is projected, through the sole removal of tariffs on goods, to increase the value of intra-African trade by between 15 percent (or \$50 billion) and 25 percent (or \$70 billion), depending on liberalization efforts, in 2040, compared to a situation with no AfCFTA in place. Alternatively, the share of intra-African trade would increase by nearly 40 percent to over 50 percent, depending on the ambition of the liberalization, between the start of the implementation of the reform (2020) and 2040.²

Recent evidence by ECA shows that when African countries trade with themselves they exchange more manufactured and processed goods, have more knowledge transfer, and create more value. In fact, manufactured goods make up a much higher proportion of regional exports than those leaving the continent—41.9 compared to 14.8 percent in 2014. The real test of the AfCFTA, however, will be how quickly African countries can accelerate export diversification and product sophistication and make trade more inclusive.

When African countries trade with themselves they exchange more manufactured and processed goods, have more knowledge transfer, and create more value.

Trade diversification of exports is important as it allows countries to build resilience to movements in demand, due to economic downturns in importing countries but also price dips. In the case of commodity exporting countries it supports a shift from an over dependence on commodities to higher-value added products and services.³ Economic diversification allows for more inclusion of small and medium-sized enterprises and helps encourage innovation as more markets open. It is also productivity enhancing.

1 United Nations Economic Commission for Africa. 2018. "An Empirical assessment of AfCFTA Modalities on Goods." UNECA.

2 United Nations Economic Commission for Africa. 2015. "Industrializing through Trade: Economic Report on Africa 2015." UNECA.

3 Songwe, Vera, and Deborah Winkler. 2012. "Exports and Export Diversification in Sub-Saharan Africa: A Strategy for Post-Crisis Growth." Brookings Institution.

Between 1990 and 2014, as most fast-growing countries in the world diversified their economies, most African countries instead relied on rents from extractive industries. Figure 6.1 shows that, except for Rwanda, Senegal, and Sudan, African economies did not diversify their exports. Export diversification for the continent improved only marginally between 1990 and 2014. Exports from Central and Northern Africa became increasingly more concentrated, and even countries with diversified exports like Morocco and South Africa lost ground. In contrast, most East Asian economies were able to diversify exports at a rapid pace and converge to the levels of China and Korea (Figure 6.2). Against this backdrop, the AfCFTA is expected to enable countries to break into new African markets as they both diversify by export destination and type of goods produced.

The AfCFTA offers particular potential for agricultural products. In 2015, African countries spent about \$63 billion on food imports,⁴ largely from outside the continent. ECA's modeling projects that by 2040, the AfCFTA will increase intra-African trade in agricultural products by between 20 and 30 percent, with the highest gains in sugar, vegetables, fruit, nuts, beverages, and dairy products.⁵ The agreement is expected to expand access to markets at the regional and international levels, thus generating state revenue, increasing farmer income, and expanding both farmer and country capacity to invest in modernizing the agricultural sector through processing and mechanization. The AfCFTA as a result should stimulate demand for intra-African

food imports, supporting a predominantly women-led sector.

Diversification should also lead to increased sophistication of export products. Product sophistication refers to the share of value addition in a product, or product upgrading. Increased value addition and sophistication increases productivity and increases the overall value of exports.⁶

The AfCFTA will improve export sophistication across the continent by enabling more countries to integrate regional and global value chains.

Over the past three decades, exports from East Asia have increased in both diversity and quality. Within Asia, several countries, namely Korea, China, Vietnam, and Thailand, have converged toward the world's quality frontier largely as a result of integration in regional and global value chains (see Figure 6.3). The quality growth has been especially substantial in manufacturing, although the quality of commodities has also increased due to the development of vertically integrated industries. On the diversity criteria, African exports have generally lagged behind, and there is no evidence of quality convergence. The AfCFTA will improve export sophistication across the continent by enabling more countries to integrate regional and global value chains and consequently increase the quality of exports.

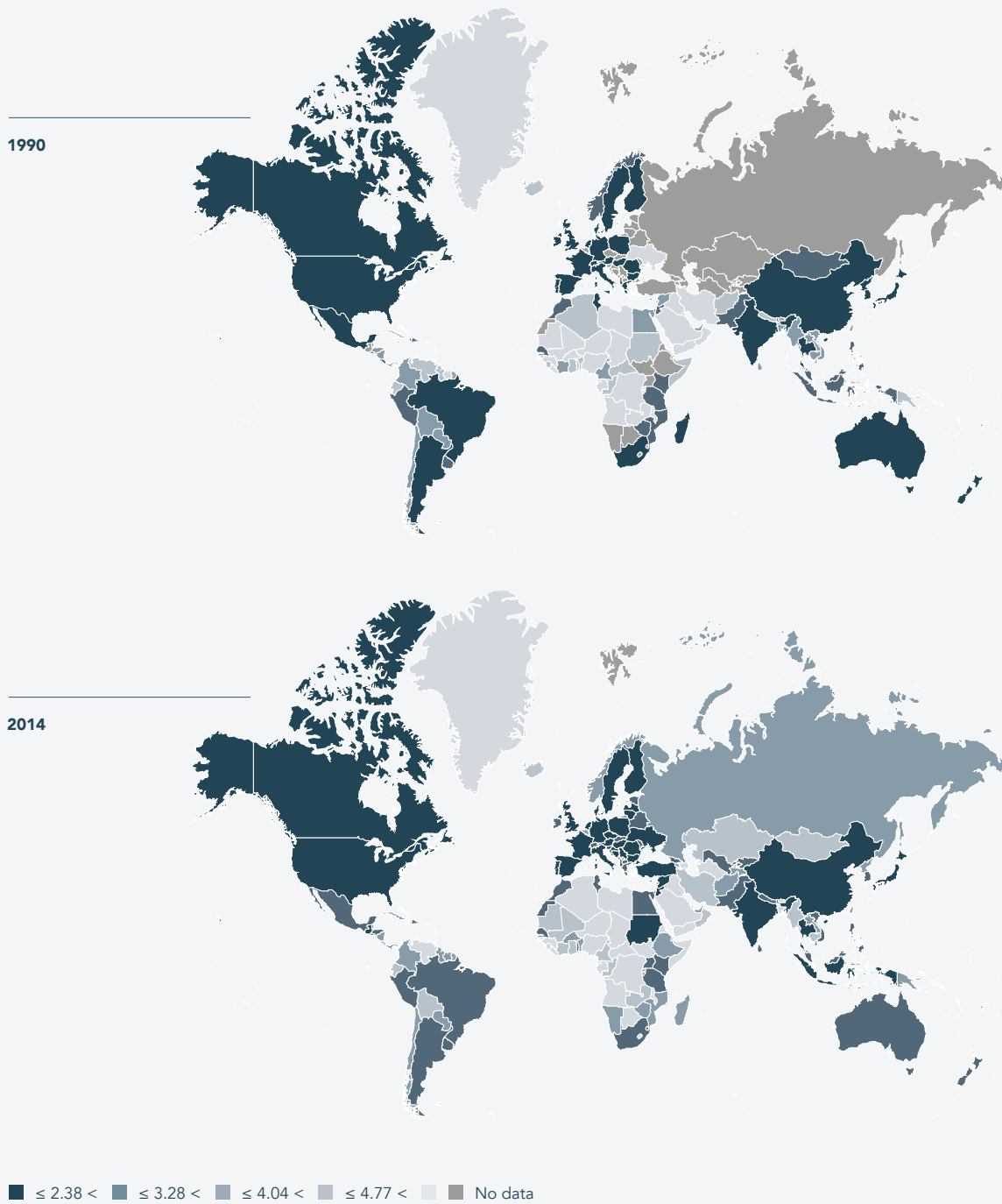
4 Agra. 2017. "Doubling Productivity and Incomes of Smallholder Farmers in Africa." AGRA: Growing Africa's Agriculture. August 23, 2017. <https://agra.org/doubling-productivity-and-incomes-of-smallholder-farmers-in-africa/>.

5 United Nations Economic Commission for Africa. 2018. "An Empirical assessment of the African Continental Free Trade Area Modalities on Goods." UNECA.

6 Hausmann, Ricardo, Jason Hwang, and Dani Rodrik. 2006. "What You Export Matters." *Journal of Economic Growth* 12 (1): 1–25. <https://doi.org/10.1007/s10887-006-9009-4>.

Figure 6.1 Export Diversification Index

Between 1990 and 2014, export diversification in Africa improved only marginally. Only Rwanda, Senegal, and Sudan increased export diversification during this period while diversified exporters like Morocco and South Africa lost ground.

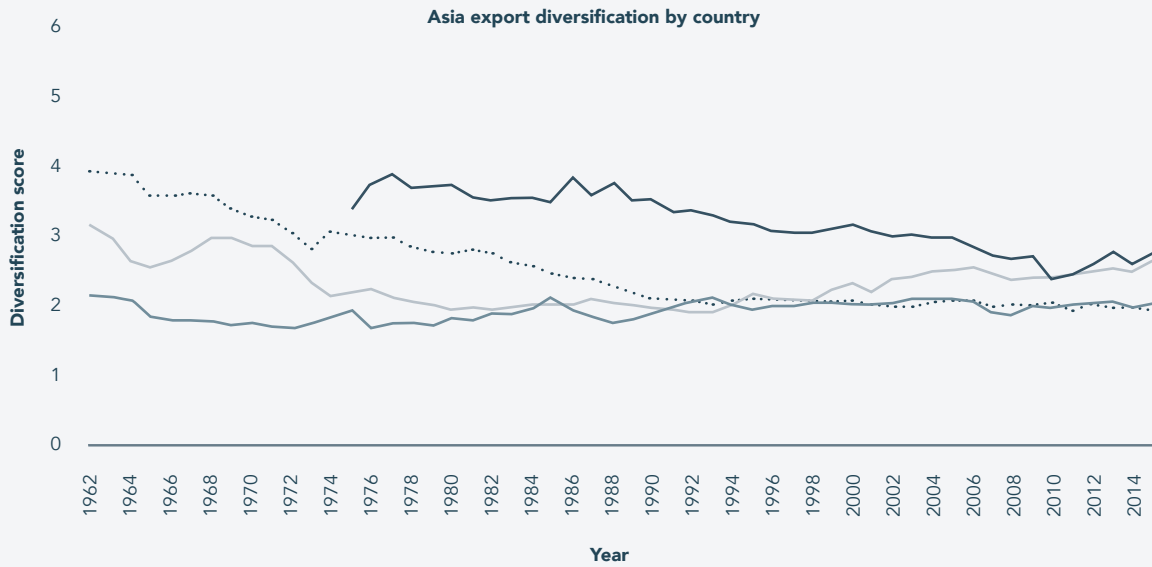


Note: Lower numbers (darker colors) indicate more diversified exports.

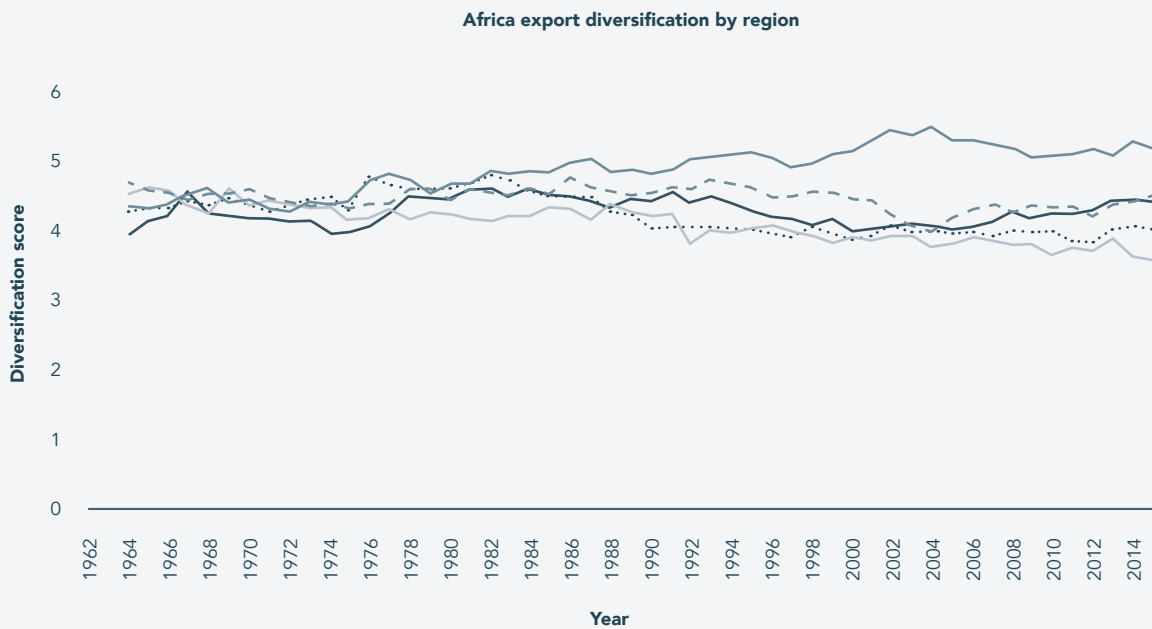
Source: IMF data and author's calculation

Figure 6.2 Export diversification in Asia versus Africa

African countries lag behind Asian countries in export diversification and have made limited progress in increasing diversification in recent years.



— China — Korea, Rep. ... Thailand — Vietnam



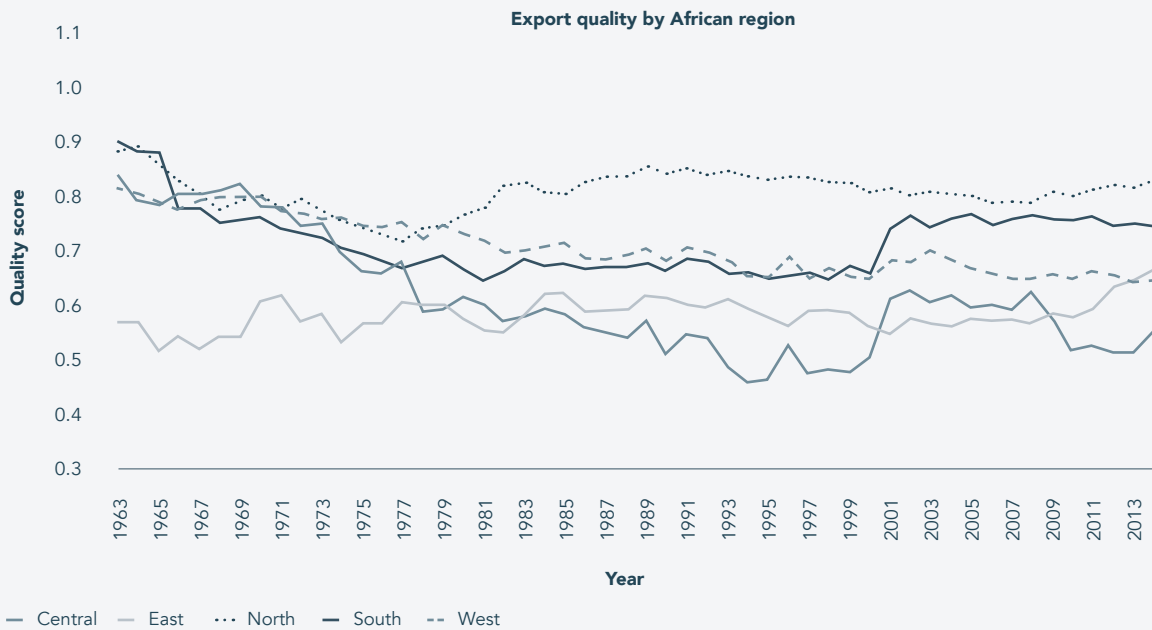
— Central — East ... North — South -- West

Note: Lower numbers indicate more diversified exports.

Source: IMF data and author's calculation.

Figure 6.3 Export quality in Asia versus Africa

Over the past three decades, the quality of exports from East Asia has improved. Within Asia, several countries, namely Korea, China, Vietnam, and Thailand, have converged toward the world's quality frontier. In comparison, there is no evidence of quality convergence for African countries.



Note: Higher numbers indicate higher quality exports.
 Source: IMF data and author's calculation.

At the regional level, Southern African economies have, on average, the most sophisticated exports. Botswana and South Africa export the most sophisticated goods while Rwanda and Uganda have made the greatest improvements over the past three decades. However, quality improvement of the export basket has been sluggish elsewhere, with some reversals, and there is considerable cross-country heterogeneity within regions.

Analysis of sectoral quality shows that some richer and more open countries have well-established manufacturing exports, such as South Africa and Morocco. Like the East Asian economies, they may have reached a saturation point to quality improvement within existing sectors and may need to target new geographic markets that can provide greater scope for growth and innovation to improve their competitive advantage. Other countries, such as Botswana and Mali, have successfully moved up the value chain within their natural resource sectors. In these countries, knowledge transfers to other export sectors can unlock the potential of established or emerging industries.

Differences in export performance and product sophistication demonstrate that across the continent there is potential for increased diversification, the creation of regional vertically integrated industries, and the development of globally competitive regional value chains.

If the AfCFTA is to fulfill its potential in diversifying and transforming African economies in an inclusive manner, however, African countries must develop effective policies and strategies for exports, and identify new opportunities for diversification, industrialization, and value chain development. Furthermore, although the AfCFTA can address many important

African countries must develop effective policies and strategies for exports, and identify new opportunities for diversification, industrialization, and value chain development.

demand-side constraints to trade, particularly those linked to market size, supply-side constraints must also be addressed.

ECA's report on *Bringing the AfCFTA About* highlights that the AfCFTA potentially embodies a "win-win" approach such that all countries across Africa and vulnerable communities within these countries receive benefits from the agreement. However, to achieve this, the AfCFTA will require flanking policies and a strong focus on achieving tangible outcomes from its sister initiative, the Boosting Intra-African Trade (BIAT) Action Plan. BIAT offers a framework for addressing key constraints to intra-Africa trade and diversification under seven clusters: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information, and factor market integration. Particular attention should be attached to trade facilitation and building productive capacities. Trade facilitation is key to reducing non-tariff trade costs, and is important for ensuring inclusive benefits since landlocked countries and small, informal, and female traders are usually more burdened by inadequate trade facilitation. Additionally, building productive capacities through re-skilling programs will be crucial to ensuring that displaced workers and vulnerable persons are able to participate in welfare-enhancing

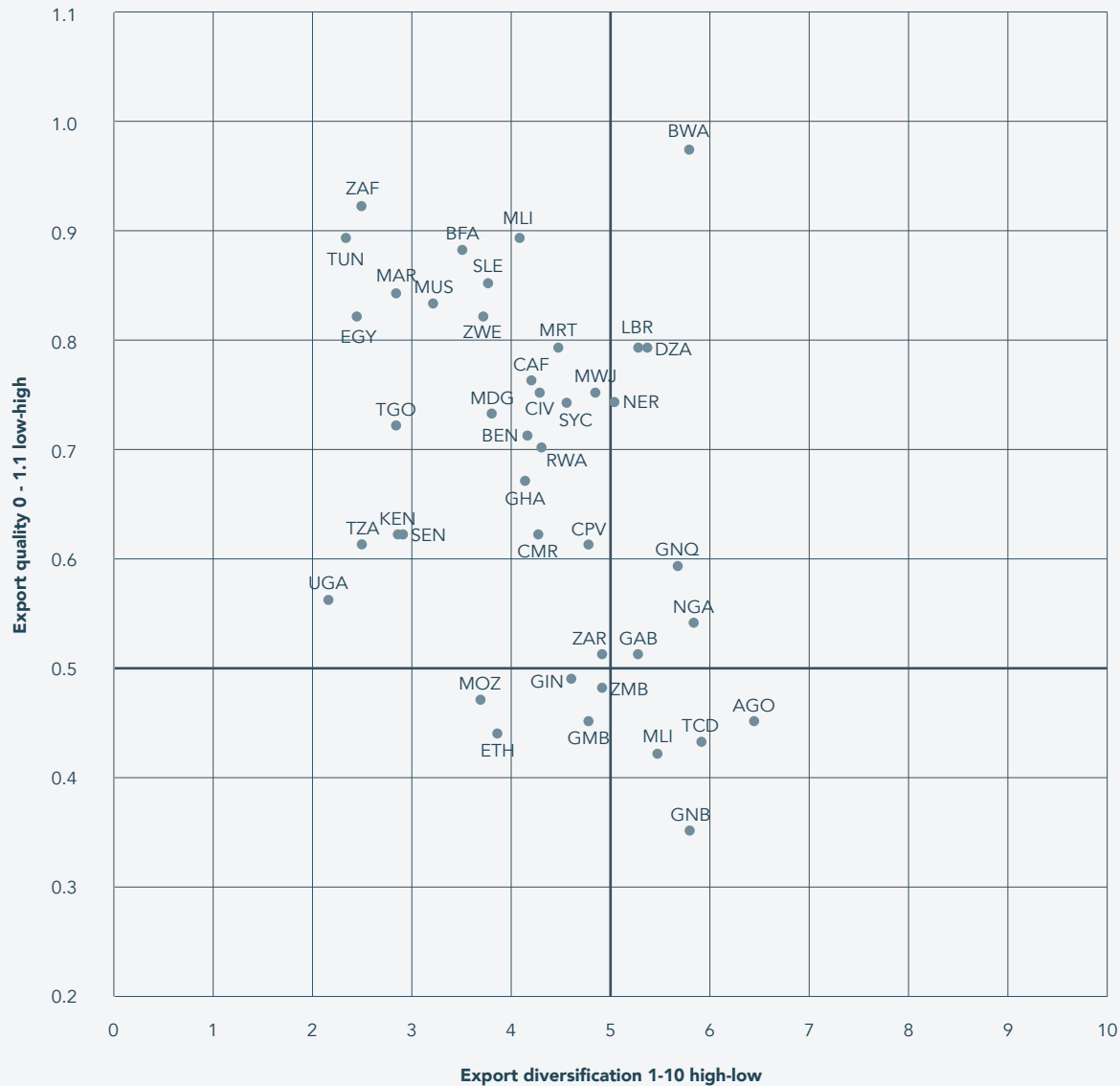
opportunities under the AfCFTA. In particular, Africans must be equipped with the skills needed to engage in skill-intensive manufacturing industries such as apparel and machinery.

It is promising that African countries are already strategizing on how to benefit

from the agreement and developing clear plans of action to take advantage of national, regional, and global markets in the AfCFTA context. The AfCFTA can play a game-changing role in Africa's economic diversification and inclusion. This is not an opportunity to be missed and 2019 will be a defining year.

Figure 6.4 Africa export quality versus diversification

Within Africa, more diversified exporters also rank higher in the export quality index as seen by the cluster of countries in the top left quadrant of the graph below.



Source: IMF data and author's calculations.

China's changing approach to Africa

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01.

The 2018 Beijing Forum on China–Africa Cooperation (FOCAC) Summit was the signature event that determined China's priorities toward Africa for the next three years. Deviating from its tradition of doubling or tripling its financial pledges, China's commitment remained the same as in 2015, \$60 billion. Judging from its volume and composition, China's commitment remains strong, but appears to be more cautious and calculating than its past pledges. The concessionality of the Chinese financing is being moderated, while China has grown visibly more focused on the commercial and viability aspects. From the traditional model of "resources for infrastructure," China appears to be morphing toward the next stage: equity investment by a more diverse group of investors supported by state development finance. Meanwhile, Africa still has major catching up to do to gain more Chinese investment and to diversify its trade relations with China.

What China offers Africa is not a blank check and a guaranteed result.

The Chinese narrative about its development efforts toward Africa is undergoing significant changes. Indeed, China has demonstrated an increasing interest in identifying its financial contribution as development finance, rather than development assistance. First, this is because China has failed to meet the prevailing criteria for official development assistance. Second, the reduced emphasis on the aid aspects also helps to square the circle between the self-serving, commercial aspects of the Chinese financing and the presumably altruistic intention of China as a responsible stakeholder.

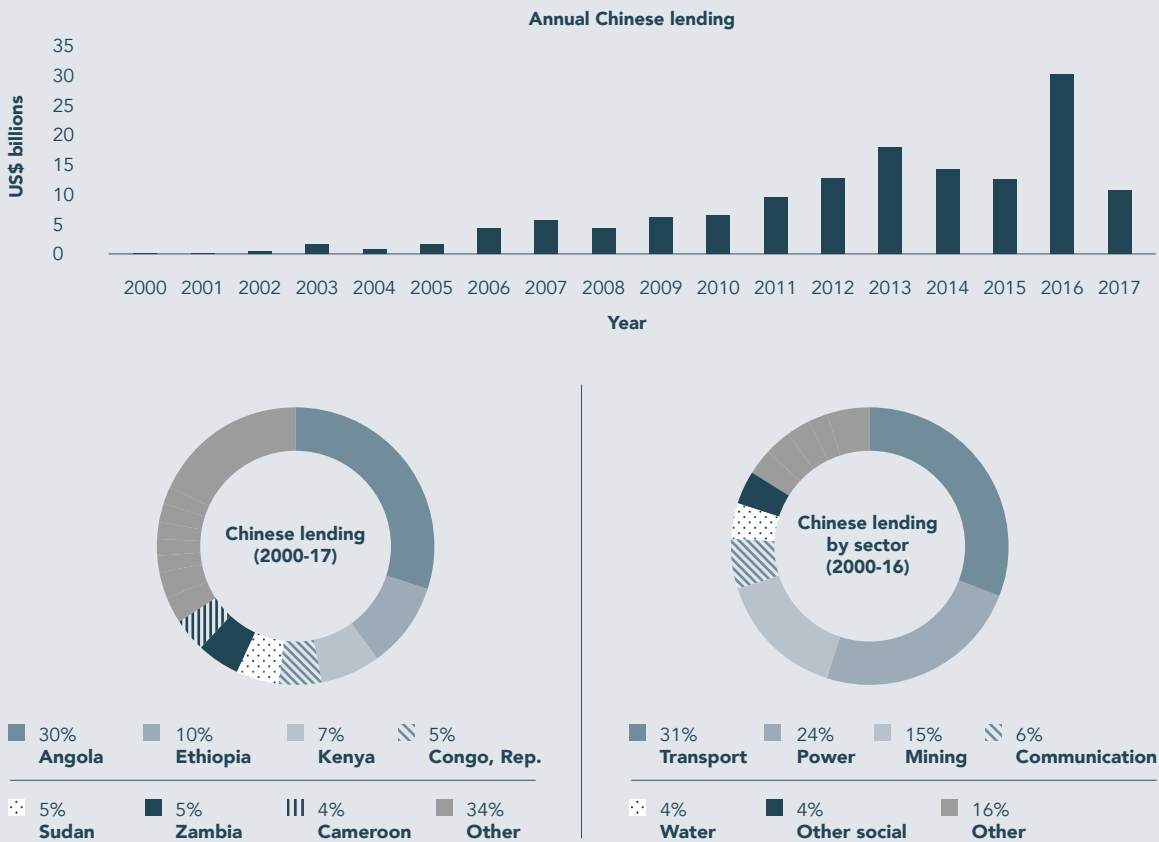
Indeed, what China offers Africa is not a blank check and a guaranteed result. Instead, Beijing offers Africa the opportunity to speed up its economic development based on the infrastructure China develops, to utilize the technologies, employment, and market opportunities China creates, and to stimulate the desire and competition

for growth through market-based rather than assistance-based approach. The Chinese financing is neither free nor altruistic. But that is not the point. The real point is: How can Africa better utilize the opportunities China creates and avoid the traps it brings? The answer to that question has not been China's priority, but instead it has focused on better decisionmaking, more disciplined domestic policy, and, most importantly, better governance.

As China expands its Belt and Road Initiative in Africa, government-level U.S.-China cooperation in Africa continues to be scarce. However, this trend contrasts sharply with the growing collaboration between Chinese and American companies in infrastructure projects on the continent. Indeed, although the Chinese projects and financing have the tradition of favoring Chinese contractors and providers, the technical advantages of some American companies have made them the beneficiary of the Chinese campaign.

Figure 6.5 Chinese lending in Africa

Chinese lending in Africa has increased significantly since 2010. Overall, between 2000 and 2017, China disbursed \$143 billion in loans to African countries. Further, at FOCAC 2018, China pledged an additional \$60 billion in aid, credit and loans to African countries over the next 3 years. Most of China's lending in Africa has been concentrated in a few countries including resource-rich countries such as Angola, Republic of Congo, Sudan, and Zambia.



Source: Johns Hopkins SAIS China-Africa Research Initiative.

Is the US keeping pace in Africa?

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02.

What do India, Turkey, Japan, China, and the European Union have in common with Africa that the United States does not? Each country and the EU have held two or more summits with African heads of state. While there were positive aspects in the Trump administration's Africa strategy that was released late last year, there was no mention of a U.S.-Africa summit. Does this matter?

Frequently mistaken for little more than photo opportunities, summits foster regular interaction between governments, business, civil society, and other interested parties at various levels. Summits also signal a clear policy priority of participating governments. As a result, they are an important vehicle for advancing national interests.

Ongoing senior U.S. engagement with African leaders has been minimal at best during the current administration.

For example, over the course of six Africa-EU summits (the most recent being in Côte d'Ivoire in November 2017), European and African leaders have addressed a number of issues including trade, migration, peace and security, and technological innovation. The summit process has also brought together leaders from civil society, business, youth, and female entrepreneurs.

The results have been substantive: (1) The EU has developed a trade strategy that gives European companies and products preferential access to the region's market. (2) On the priority issue of immigration, the European Commission will soon build a \$5.8 million facility to improve the relationship between African diaspora organizations and their

country of origin. (3) Endorsing the recently concluded African Continental Free Trade Agreement, European Commission chief Jean-Claude Juncker said that he envisions the creation of a “continent-to-continent free trade agreement between the EU and Africa.”

The China story has generated even more substantial headlines. After sustained high-level engagement starting in 2000, the first formal summit, the Forum for China-Africa Cooperation (FOCAC), took place in 2006 in Beijing where President Hu Jintao pledged \$5 billion of concessionary loans to Africa. Over the course of five FOCAC summits in which virtually every African head of state has participated, China has become Africa’s largest trading partner and, at each of the past two summits, Chinese President Xi Jinping has pledged \$60 billion in financing. There are also a number of related meetings, such as between Chinese and African foreign ministers on the margins of the U.N. General Assembly and in the first ever China-Africa Defense and Security Forum.

In contrast to the EU and China, the U.S. held its first ministerial in 1999, when former Secretary of State Madeleine Albright and nine U.S. cabinet officials hosted 180 ministers from 43 African countries to discuss a “Partnership for the 21st Century.” While there were several subsequent meetings, the only summit occurred in 2014 when former President Barack Obama hosted leaders from 50 African states, resulting in \$14 billion worth of commitments from U.S. companies to invest in Africa. President Obama also convened a U.S.-Africa Business Forum several months before leaving office.

Apart from former Secretary of State Rex Tillerson’s meeting in Washington with 37 foreign ministers in 2017, President Donald Trump’s lunch for a group of Africa leaders on the margins of the U.N. General Assembly in 2017, and White House meetings with President Muhammadu Buhari of Nigeria and President Uhuru Kenyatta of Kenya, ongoing senior U.S. engagement with African leaders has been minimal at best during the current administration.

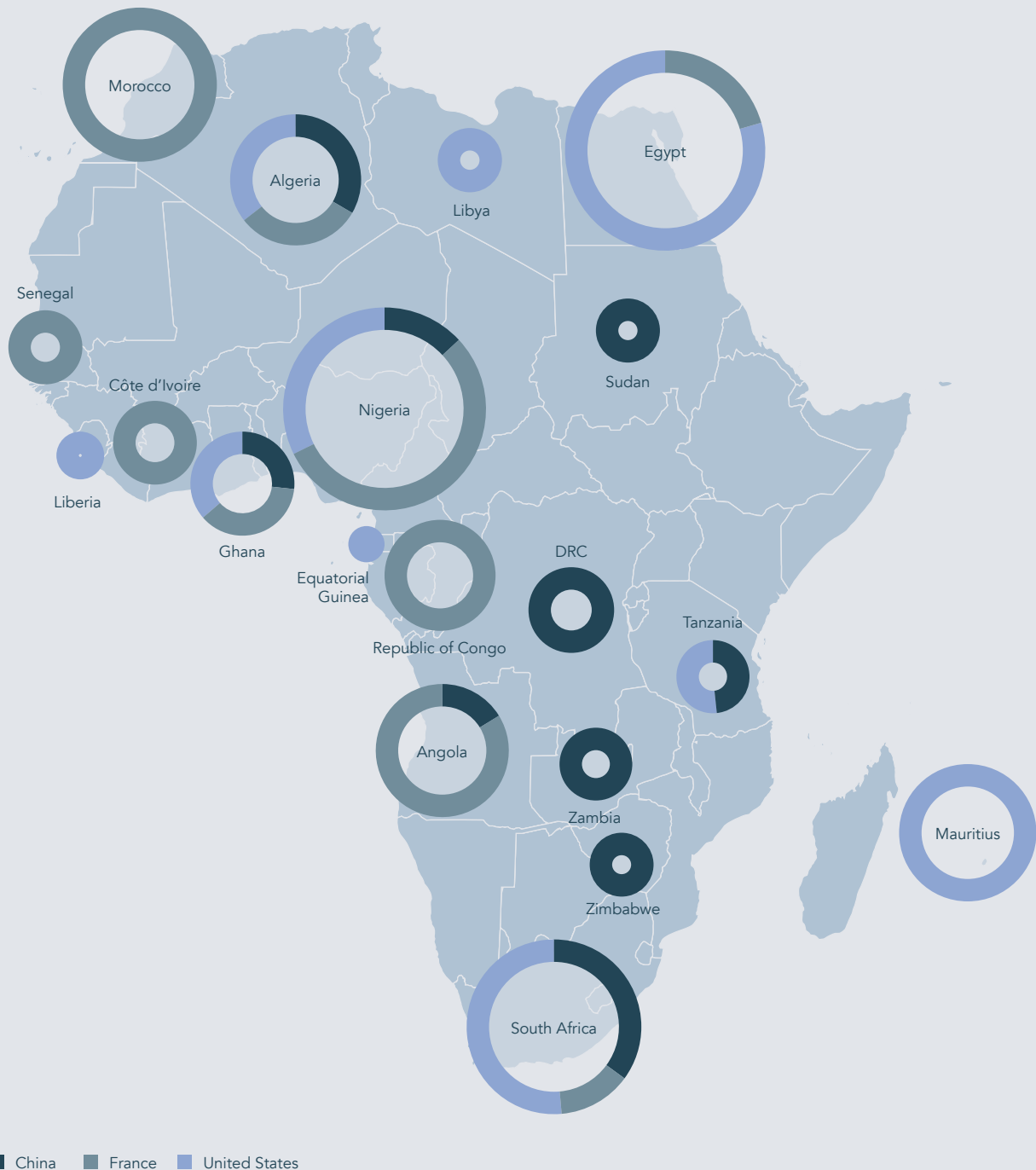
There is no question that the architecture of U.S. Africa policy is impactful. This includes the African Growth and Opportunity Act, the President’s Program for Emergency AIDS Relief, the President’s Malaria Initiative, the Young African Leaders Initiative, Power Africa, Feed the Future, the Trade and Investment Hubs, and the Millennium Challenge Corporation.

With the passage of the Better Utilization of Investments Leading to Development Act in October last year, which provides for the establishment of the \$60 billion U.S. Development Finance Corporation, the Trump administration has supported the emergence of an important new agency that is likely to boost U.S. investment in Africa. USAID’s Private Sector Engagement Policy is likely to further increase U.S. commercial engagement on the continent.

However, without the active engagement of the most senior levels of the U.S. government on a regular and sustained basis, the U.S.-African relationship will not achieve its full potential.

Figure 6.6 Top foreign direct investment host countries

The map below highlights the top 10 FDI destinations for China, France, and the United States. Four destinations (Algeria, Ghana, Nigeria, and South Africa) show up in the top 10 for all three countries. Chinese FDI in Africa is dispersed across more markets, with less than half its FDI stock in the top 10 countries compared to about 60 and 70 percent for France and the U.S., respectively. Resource-rich countries figure prominently in China's top 10 with Democratic Republic of Congo, Sudan, Zambia, and Zimbabwe. For France, Morocco (largest destination), Côte d'Ivoire, and Senegal highlight the influence of the country's historical ties on investment decisions. On the other hand, most U.S. FDI is located in established investment markets such as Algeria, Egypt, Mauritius, Nigeria, and South Africa.



Note: FDI data as of end 2015. Data is only shown for countries when they are in the top 10. For example, French and U.S. FDI in DRC is non-zero but is not shown as it is not a top 10 FDI destination in Africa for these countries.

Source: Johns Hopkins SAIS China-Africa Research Initiative; U.S. Bureau of Economic Analysis; OECD FDI Statistics.

Creating one market under the African Free Trade Area: Progress and challenges

H.E. Albert Muchanga

Commissioner for Trade and Industry, African Union Commission

03.

On March 21, 2018, in Kigali, Rwanda, Africa took the giant step of creating a large and integrated market by establishing the African Continental Free Trade Area (AfCFTA). As of November 2018, the agreement had 49 signatures and 12 ratifications (Chad, Côte D'Ivoire, eSwatini, Ghana, Guinea, Kenya, Mali, Niger, Rwanda, Sierra Leone, South Africa, and Uganda). Although a minimum of 22 ratifications are required for the agreement to enter into force, advocacy continues to push to have all African Union member-states onboard so that we can have a truly integrated market that completely removes the historical pattern of smallness, isolation, and fragmentation of our economies and the consequential lack of competitiveness. The stakeholders for the agreement are wide, including women, youth, private sector, civil society, academia, parliamentarians, and cooperating partners. A business guide and handbook to the AfCFTA have been published to assist in advocacy.

Preparatory work to make the market operate continues in areas like rules of origin, liberalization of trade in goods and services, and establishment of a digital payments and settlements systems. We are also developing regional value chains to supply the market and competitively link Africa to global value chains.

The African Union is taking action to break down barriers and improve the flow of goods, people, and capital.

The most critical challenge we face is to bring the AfCFTA into operation in 2019 and double intra-African trade by 2022 once tariff and non-tariff barriers are removed. We also face the challenge of bringing about win-win outcomes given that the AfCFTA will be a diverse membership of least-developed, landlocked, small-island, and lower and upper-middle countries, as well as countries in conflict.

There is the added political challenge. Some of our interlocutors who were skeptical that we would succeed in negotiating the agreement are now saying we lack the collective capacity to implement it. Strong political and popular will, focus, and resilience to generate tangible outcomes will enable us to meet these and other challenges.

Mandela once said, "It always seems impossible until it is done." In that spirit, we will make the AfCFTA work.

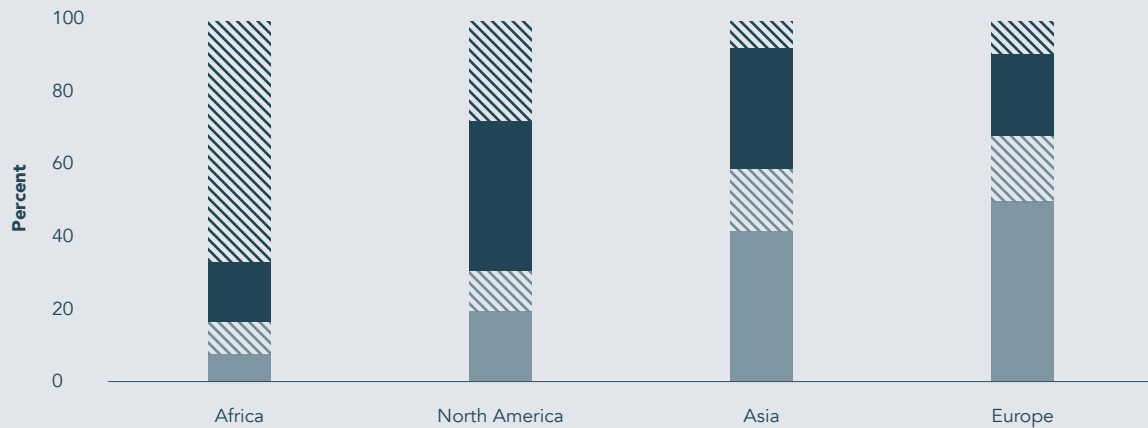
The AfCFTA is already moving toward an internal market free of physical, technical, or fiscal barriers.

Some of our plans for the implementation of the AfCFTA are as follows. Member states will formulate and implement national AfCFTA strategies. At the regional level, the African Union is taking action to break down barriers and improve the flow of goods, people, and capital. For instance, we are implementing the World Trade Organization's Trade Facilitation Agreement through our Trade Facilitation Strategy to make Africa a better global competitor. Further, in January 2018, the AU launched the Single African Air Transport Market and opened for signature the Protocol to the Treaty Establishing the African Economic Community Relating to Free Movement of Persons, and Right of Residence and Right of Establishment. Work is underway to conclude by 2020 the negotiation of Protocols on Investment, Competition and Intellectual Property Rights. Through these, the AfCFTA is already moving toward an internal market free of physical, technical, or fiscal barriers.

What is more, the AfCFTA is on a historical fast track. We expect the AfCFTA to take effect faster than the five-year average for AU legal instruments to enter into force. With that, states will benefit sooner from the pooled and expanded sovereignty. We are confident that this landmark agreement will deliver decent livelihoods for all Africans in line with Agenda 2063.

Figure 6.7 Intra-regional trade and manufacturing exports in Africa

In 2017, intra-regional trade made up 17 percent of Africa's exports, far lower than the 59 percent in Asia and 69 percent in Europe. This indicates an absence of regional value chains and challenges of cross-border trade in Africa. Intra-regional trade is expected to increase with the upcoming implementation of the Continental Free Trade Agreement. Also, manufactured goods make up a smaller share of Africa's intra- and extra-regional exports. This reflects the region's limited integration into global value chains.



Intra-region trade

■ Manufacturing

▨ Non-manufacturing

Extra-region trade

■ Manufacturing

▨ Non-manufacturing

Source: UNCTAD.

EVENTS TO WATCH 2019

February
10-11

32nd Ordinary Session of the African Union

Addis Ababa, Ethiopia

The 32nd Ordinary Session of the Assembly of Heads of State and Government of the African Union will convene African heads of states and governments in Addis Ababa, Ethiopia to discuss the regional organization's priorities, including those under the 2019 theme: "Refugees, Returnees and Internally Displaced Persons: Towards Durable Solutions to Forced Displacement in Africa."

March
18-22

Africa Climate Week 2019

Accra, Ghana

Africa Climate Week 2019 will convene in the lead up to the U.N. Secretary-General's Climate Summit in September 2019, bringing together diverse actors from the public and private sectors.

March
20-26

52nd Session of the Economic Commission for Africa: Conference of African Ministers of Finance, Planning and Economic Development

Marrakech, Morocco

The 52nd session of the Economic Commission for Africa will focus on the theme of "fiscal policy, trade and the private sector in the digital era: a strategy for Africa."



Seventh Tokyo International Conference on African Development

Yokohama, Japan

The Seventh Tokyo International Conference on African Development (TICAD7) is an international conference on the topic of Africa's development led by the government of Japan in cooperation with the U.N., the U.N. Development Program, the World Bank, and the African Union Commission.



High-level Dialogue on Financing for Development

New York, United States

The U.N. General Assembly will hold a high-level dialogue on financing for development the day after the meeting of the U.N. High-level Political Forum on Sustainable Development under the General Assembly auspices.

ABOUT THE AFRICA GROWTH INITIATIVE

WHO WE ARE

The Africa Growth Initiative (AGI) at Brookings conducts high-quality, independent research, which helps establish long-term strategies for economic growth and strong policies for development in Africa.

OUR WORK & APPROACH

Our interdisciplinary team of experts draws on the core strengths of Brookings—authoritative and nonpartisan research, a depth of practical expertise, and unparalleled convening power—to develop effective solutions that maintain the momentum and broaden the benefits of growth in Africa. AGI distinguishes itself by ensuring that the analysis it produces is:

- **Quantitative:** AGI uses data analysis and empirical research to inform its findings, providing an “economic lens” that is applicable to all discussions on Africa and can help pull together disparate narratives on security, humanitarian crises, geopolitics, and extractive industries.
- **High Quality:** AGI delivers research conducted with the most rigorous academic discipline and subjected to thorough peer review.
- **Collaborative:** AGI partners with experts throughout Brookings and the academic community, as well as with stakeholders around the world to draw on perspectives from business, government, and practitioners in the field.

OUR PRIORITIES

Pillar I: Sustainable Financing for Economic Development

AGI explores mechanisms for African governments to fill the gaps in their domestic resource mobilization policies and thus create more sustainable development financing overall through two main themes:

- Domestic resource mobilization (looking inward)
- Financial innovation (doing more with less)

Pillar II: Structural Economic Transformation

In order to build resilience against shocks and looming challenges linked to rapid population growth and high unemployment on the continent, AGI is committed to exploring pathways for structural economic transformation in Africa to achieve sustainable and inclusive growth.

- Maintaining the growth momentum (economic diversification and management of risks)
- Broadening the benefits (no one left behind)

Cross-cutting Pillar: Innovative Technologies for Economic Development (leapfrogging)

The potential for technology to leapfrog in African development cannot be overstated. Under this theme, AGI explores where the next technological innovation can be transformational and how they can be leveraged to deliver on development challenges in various areas.

Pillar III: US-Africa Relations (fit for the 21st century?)

AGI's relationships on the continent and strategic placement in Washington D.C. create opportunities for AGI to engage U.S. and multilateral policymakers on recommendations for an updated and mutually beneficial U.S.-Africa relationship.

- U.S.-Africa and China-Africa relations
- Nexus of economic development, security challenges, and humanitarian issues

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