

Jobs, Justice and Equity

Seizing opportunities in times of global change



Africa Progress Report 2012



ABOUT THE AFRICA PROGRESS PANEL

The Africa Progress Panel (APP) consists of ten distinguished individuals from the private and public sector, who advocate on global issues of importance to Africa and the world. Mr Kofi Annan, former Secretary-General of the United Nations and Nobel laureate, chairs the APP and is closely involved in its day-to-day work.

The Panel's unique convening power allows it to focus on complex and high-impact issues such as global governance, peace and security, climate change, food security, sustainable economic development, and the Millennium Development Goals (MDGs). While these problems have immediate ramifications for Africa, their solutions require the coming together of a wide range of stakeholders within and outside Africa.

The life experiences of Panel members give them a formidable ability to access a wide and deep cross-section of society. This means they are well placed to affect change on issues that require the engagement of multiple stakeholders. The Panel's primary objective is to advocate for shared responsibility between African leaders and their international partners to ensure sustainable and equitable development in Africa.



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ABOUT THE AFRICA PROGRESS REPORT

The Africa Progress Report is the Africa Progress Panel's flagship publication. Its purpose is to provide an overview of the progress Africa has made over the previous year. The report draws on the best research and analysis available on Africa and compiles it in a refreshing and provocative manner. Through the report, the Panel recommends a series of policy choices and actions for African policy makers who have primary responsibility for Africa's progress, as well as vested international partners and civil society organisations.

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FOREWORD

BY KOFI ANNAN



Annual reports often begin with the observation that the year in question has been a particularly eventful one, but rarely has it been as fitting as this year. We have seen enormous change across Africa and the world. We have witnessed the spread of revolutions, the end of autocratic regimes and the birth of new democracies. We all held our breath as countries and currencies narrowly escaped collapse and towering debt burdens threatened to choke the world economy. Once again, the world as we know it has changed dramatically in the course of months.

The “Arab Awakening”, combined with the rise of new social movements across the world in 2011, caught everyone by surprise. The common thread linking these movements is the shared sense of frustration and anger over unresponsive governments, and the lack of jobs, justice and equity. For societies to function and prosper, I have always argued that we need three inter-related conditions: economic and social development; peace and security; and, the rule of law and respect for human rights. In the countries affected by the “Arab Awakening”, there has been a longstanding and near-total absence of the third condition.

To the surprise of many, Africa has mostly stood tall through all of this. The majority of its 54 countries have weathered the recurrent financial and economic storms and have continued to impress as they traverse the road to recovery. A few have even been able to take their place among the world's top performers in the economic growth league. There has also been encouraging progress towards some of the Millennium Development Goals (MDGs). Many countries have

registered gains in education, child survival and the fights against killer diseases like HIV/AIDS and malaria. None of this is cause for complacency.

It cannot be said often enough, that overall progress remains too slow and too uneven; that too many Africans remain caught in downward spirals of poverty, insecurity and marginalisation; that too few people benefit from the continent's growth trend and rising geo-strategic importance; that too much of Africa's enormous resource wealth remains in the hands of narrow elites and, increasingly, foreign investors without being turned into tangible benefits for its people. When assessing nations, we tend to focus too much on political stability and economic growth at the expense of social development, rule of law and respect for human rights.

We at the Africa Progress Panel are convinced that the time has come to rethink Africa's development path. Not all inequalities are unjust, but the levels of inequality across much of Africa are unjustified and profoundly unfair. Extreme disparities in income are slowing the pace of poverty reduction and hampering the development of broad-based economic growth. Disparities in basic life-chances – for health, education and participation in society – are preventing millions of Africans from realising their potential, holding back social and economic progress in the process. Growing inequality and the twin problems of marginalisation and disenfranchisement are threatening the continent's prospects and undermining the very foundations of its recent success.

Justice and equity are certainly not new concepts. Here we use them in their broadest sense. By looking at the triangle of jobs, justice and equity, we underline the role of empowerment and equality of opportunity as indispensable for progress and thus particularly powerful focal points for domestic policy initiatives and international development assistance. We highlight jobs because it is through their livelihoods that people achieve social progress, for themselves and for others, and because the need to create jobs for the continent's rapidly growing youth population stands out as among the most pertinent challenges for Africa's policymakers. Failure to create jobs and opportunity for a growing and increasingly urbanised and educated youth will have grave consequences. And we highlight justice and equity because in the eyes of hundreds of millions of Africans both are so conspicuously absent from their lives.

Against this backdrop, our report sets out some proposals for change. With the 2015 deadline for the MDGs fast approaching, we urge every government in Africa to draw up a plan of action for a “big push” towards the targets. These plans should include provisions to reduce inequalities in child survival, maternal health and education. Given the critical place of education in poverty reduction and job creation, we urge governments to deliver on the commitment to provide education for all by 2015 – and to strengthen their focus on learning achievement. We also urge governments to focus on including women and girls in education, which is essential for creating more just, prosperous and fair societies.

Food security and nutrition is another pressing concern. We must never again witness the human tragedy that unfolded in the Horn of Africa. It is time for African governments and the international community to come together and build more robust defences against the scourge of Africa. Raising the productivity of smallholder farmers is critical. That is why we call on governments to bring these farmers from the periphery to the centre of national strategies for growth and poverty reduction. Climate change poses a profound threat to African agriculture. Countering that threat will require international cooperation. It is imperative that Northern governments act swiftly to finance adaptation to climate change, not least because early investments in infrastructure, water management and soil conservation will yield high returns. And an effective food and nutrition security strategy has to include safety net provisions both nationally, through social protection programmes, and internationally through a more effective humanitarian-response architecture.

In this report we highlight a number of global trends that will shape Africa’s future. There is a strong likelihood that the world is moving into an era of higher food prices. One effect of that prospect has been to drive a “land grab” in Africa. While foreign investment in productive farming can be enormously beneficial, governments need to remain vigilant in guarding against speculative activity and the risk of displacement of smallholder African farmers. As the economic growth pole of the world economy moves East, Africa stands to gain from strengthened trade links with China and other emerging markets. But it is vital that governments establish trade and investment policies that create incentives for entry into higher value-added areas of production.

Despite growing domestic resources and improved governance and administrative systems, African leaders cannot do it alone. They need to be able to count on the sustained commitment of the international community and the fulfilment of its many outstanding promises. At a time in which many donors view their development assistance as expendable budget items, African leaders need to remind their partners of the intrinsic value of seeing it as an investment in a common future. Donors also need to honour and act upon the aid commitments that they made in 2005.

Naturally, the empowerment of Africans in their societies and economies is only one side of the coin. The empowerment of Africa in the global society and economy is the other, and seemingly no less challenging. Despite repeated promises to the contrary, the continent remains as marginalised in the world as many of its people remain in their countries. It remains heavily underrepresented in global institutions and constrained by unfair rules it does not have the power to change. The failure of the G20 to articulate a vision for supporting Africa’s development, or to provide the region’s poorest nations with a place at the table, is a disappointment. There are numerous qualified leaders in Africa.

Both in Africa and internationally we must intensify the focus on fairness, democracy, the rule of law and respect for human rights. For there can be no long-term security without development, and no long-term development without security. And both have to be rooted in the rule of law and respect for human rights. Events of the last year have underlined this message, which is understood by citizens in Africa and around the world.

Times are uncertain. But what is increasingly evident is that Africa is on its way to becoming a preferred investment destination, a potential pole of global growth, and a place of immense innovation and creativity. If we respond with courage and in the right way, building on the continent’s many successes, African societies will become more prosperous, fair and equal. This is a prize which we all, wherever we live, will share.



Kofi A. Annan

INTRODUCTION

Commentary on Africa has suffered from extreme mood swings, with the pendulum moving from episodes of pessimism to bouts of euphoria. Twelve years ago, *The Economist* wrote off Africa, describing it as “the hopeless continent”¹. That assessment was not atypical. After a decade of slow economic growth and even slower human development in the 1990s, few observers saw a bright future. How times change. Last year, *The Economist* ran with a very different cover headline: “Africa rising: the hopeful continent”². According to the title of one widely cited report, Africa has now become a continent of economic “lions on the move,”³ blazing a pathway to prosperity. The commentariat spotlight, to quote a few more reports, is now fixed on Africa’s “rising middle class,”⁴ the “dynamic African consumer market”⁵ and “growth opportunities for investors”⁶.

The extreme pessimism surrounding Africa a decade ago was unwarranted. So, too, is the current wave of blinkered optimism. Real gains have been made, but governments and their development partners need to reflect on the weaknesses, as well as the strengths, of the recent record – and assess both the risks and the opportunities that lie ahead.

A mixed balance sheet

Africa’s economies are consistently growing faster than those of almost any other region – and at twice the rate of the 1990s⁷. Improved economic management has contributed to the growth surge. Exports are booming and export markets have become more diversified. Foreign direct investment has increased by a factor of six over the past decade. Private entrepreneurs have emerged as a dynamic force for change, driving innovation and transforming outdated business models. There is an emergent middle class, although its size is often exaggerated. For the first time in over a generation, the number of people living in poverty has fallen. Fewer children are dying before their fifth birthday and more are getting into school. Young and not-

so-young Africans are embracing new technologies that provide information, expand opportunities and connect people to one another and to the outside world. There have been setbacks and episodes of political violence, but democracy is growing deeper roots. Governance standards are improving.

Yet there is another side to the balance sheet. Countries across Africa are becoming richer but whole sections of society are being left behind. After a decade of buoyant growth, almost half of Africans still live on less than \$1.25 a day⁸. Wealth disparities are increasingly visible. The current pattern of trickle-down growth is leaving too many people in poverty, too many children hungry and too many young people without jobs. Governments are failing to convert the rising tide of wealth into opportunities for their most marginalised citizens. Unequal access to health, education, water and sanitation is reinforcing wider inequalities. Smallholder agriculture has not been part of the growth surge, leaving rural populations trapped in poverty and vulnerability.

The deep, persistent and enduring inequalities in evidence across Africa have consequences. They weaken the bonds of trust and solidarity that hold societies together. Over the long run, they will undermine economic growth, productivity and the development of markets. They weaken confidence in governments and institutions. And they leave many Africans feeling that their societies are fundamentally unjust and their governments unresponsive. Economic growth alone is not enough.

In this year’s report, we look at three of the most critical ingredients for transforming a promising economic upturn into a sustained recovery and lasting human development – jobs, justice and equity. We highlight jobs because livelihoods play such a fundamental role in people’s life-chances – and because Africa urgently needs to create jobs for a growing youth population. We highlight justice and equity because they are missing from the lives of too many Africans, making the present growth socially unsustainable.

A growing demand for equity and justice

We live in a world of rapid and unpredictable transformations. Changes in demography and human geography are re-making societies, not least in Africa. Climate change is interacting with other pressures to reconfigure agricultural markets. Economic power is gravitating from West to East and North to South. The pace of technological innovation is accelerating and the face of social protest is changing.

The Arab revolutions of 2011 caught the world by surprise, as social movements challenged and toppled autocratic rulers across North Africa, the Middle East and the Arabian Peninsula. In Europe and the United States, the financial crisis has spawned new forms of social protest. In India, a mass social movement is demanding action to combat corruption. Villagers in a remote area of southern

China successfully mobilised against autocratic officials responsible for overseeing land grabs. A shared sense of frustration and discontent with unresponsive governments, inequality and injustice links these movements.

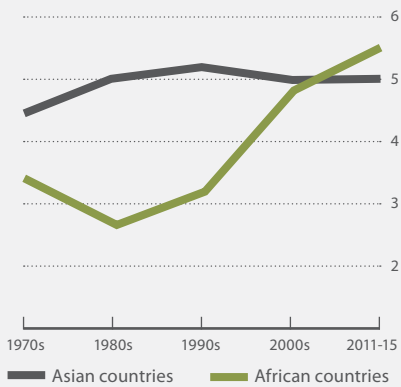
Africa is not immune to the economic and political currents that are reconfiguring globalisation. Its leaders need to find a place in the global economic governance architecture of a multipolar world. Africa's own demography and human geography are changing. Failure to create jobs and opportunity for a growing and increasingly urbanised and educated youth population would have catastrophic consequences, socially, economically and politically. Having played a minimal role in creating dangerous climate change, Africa's farmers face some of the gravest risks. And the Arab Spring has not gone unnoticed by Africa's youth. The circumstances may be different, but young people in Africa also care about jobs, justice and equality – and governments ignore them at their peril.

Figure 1:

AFRICA: SUCCESSES AND SETBACKS

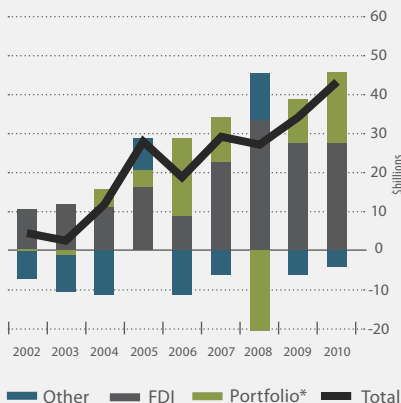
ECONOMIC SUCCESS

AFRICA'S GDP GROWTH IS STEADILY ON THE RISE*



* Excluding countries with less than 10m population, Iraq and Afghanistan
Source: The Economist, 2011 (IMF data).

FDI TO AFRICA IS ALSO INCREASING



Source: IMF, 2011.

AFRICAN COUNTRIES ARE TOPPING THE LIST OF FASTEST GROWING ECONOMIES

Annual average GDP growth, %

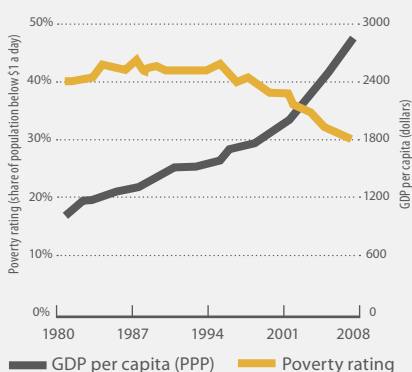
2001-2010	2011-2015
Angola 11.1	China 9.5
China 10.5	India 8.2
Myanmar 10.3	Ethiopia 8.1
Niger 8.9	Mozambique 7.7
Ethiopia 8.4	Tanzania 7.2
Kazakhstan 8.2	Vietnam 7.2
Chad 7.9	Congo 7.0
Mozambique 7.9	Ghana 7.0
Cambodia 7.7	Zambia 6.9
Rwanda 7.6	Nigeria 6.8

Source: The Economist, 2011 (IMF data).

* Portfolio investment is the category of international investment that covers investment in equity and debt securities, excluding any such instruments that are classified as direct investment or reserve assets.

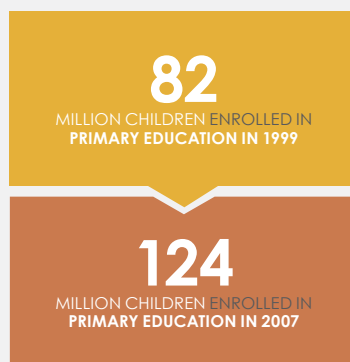
SOCIAL SUCCESS

POVERTY IS DECLINING



Source: Pinkovskiy, MIT, Sala-i-Martin, Columbia University and NBER, 2010.

MORE CHILDREN ARE GOING TO SCHOOL



Source: UNESCO, 2010.

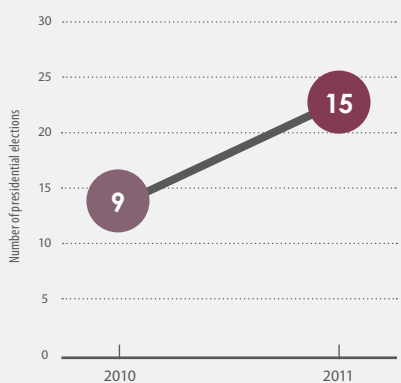
HIV INCIDENCE RATES HAVE DROPPED



Source: UNAIDS 2010

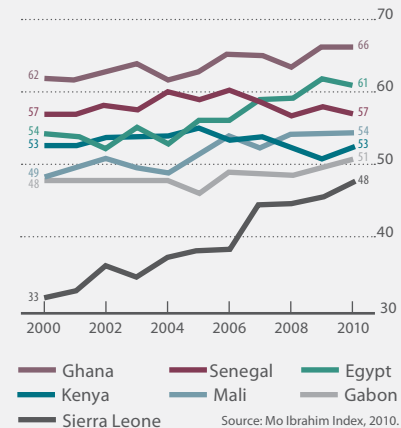
POLITICAL SUCCESS

DEMOCRACY IS SPREADING THE NUMBER OF ELECTIONS IS UP



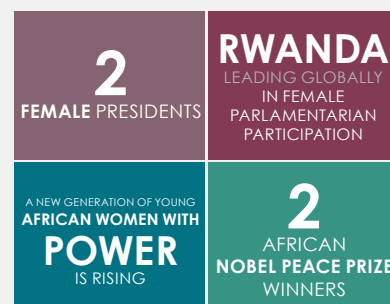
Data Source: IFES Election Guide and EISA websites.

OVERALL GOVERNANCE IS IMPROVING



Source: Mo Ibrahim Index, 2010.

THE POLITICAL EMPOWERMENT OF WOMEN IS GROWING



Source: APP

*"Labour productivity" refers to GDP in 2005 PPP US\$ per person employed. Ore and metal exporters refers to countries in which ore and metal exports accounted for at least 50 per cent of all merchandise exports in 2005. Oil exporters refers to countries in which fuel exports accounted for at least 50 per cent of all merchandise exports. Export data are from World Bank, African Development Indicators

ILLICIT FINANCIAL FLOWS ARE TAKING A TOLL ON ECONOMIC DEVELOPMENT

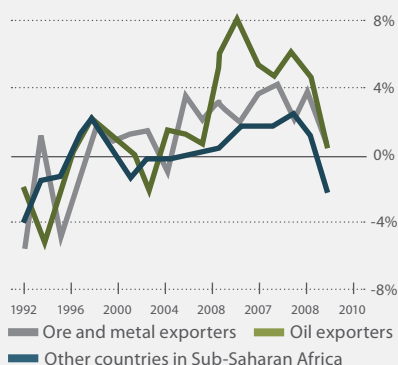
1.8
trillion USD
ARE ESTIMATED TO
HAVE BEEN LOST
TO ILLICIT FLOWS

FROM 1970 TO 2008

Illicit flows create a shadow financial system that "drains hard currency reserves, heightens inflation, reduces tax collection, cancels investment, and undermines free trade."

Source: Global Financial Integrity, 2009.

LABOUR PRODUCTIVITY* GROWTH IN SSA BY EXPORT STRUCTURE 1992-2009



Source: ILO, 2011.

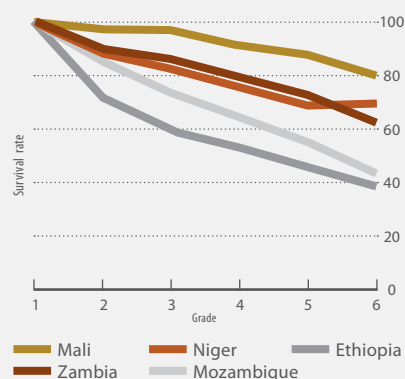
RESOURCE-RICH COUNTRIES RELY TOO MUCH ON VOLATILE REVENUE FLOWS



Source: African Economic Outlook 2012

ECONOMIC SETBACKS

SURVIVAL RATE BY GRADE OF PRIMARY EDUCATION 2008



Source: UNESCO, 2011.

NATIONAL AVERAGES CONCEAL STRIKING INEQUALITIES

On average, Nigerian children receive close to 7 years of education. The richest 20% school for almost 10 years (more like Cuba or Bolivia) while the poorest 20% don't even complete 4 years of education which is closer to the national average of Chad.

Urban/rural and boy/girl differences are also striking

AVERAGE NUMBER OF YEARS OF EDUCATION	BOY		GIRL	
	URBAN	RURAL	URBAN	RURAL
Poorest 20%	6.5	4	11	2.5
Richest 20%	6	10	9.5	9

Source: UNESCO, 2010.

MATERNAL MORTALITY REMAINS UNACCEPTABLY HIGH

Lifetime risk of maternal death *

* The MMR and lifetime risk have been rounded according to the following scheme: <100, no rounding; 100-999, rounded to nearest 10; and >1000, rounded to nearest 100. The numbers of maternal deaths have been rounded as follows: <100, no rounding; 100-999 rounded to nearest 10; 1000-9999, rounded to nearest 100; and >10 000, rounded to nearest 1000.

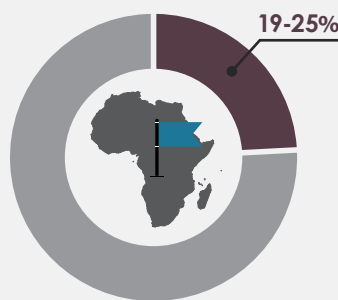
Chad and Somalia	1 in 14
Liberia	1 in 20
South Africa	1 in 100
AFRICA	1 in 36
ASIA	1 in 230
EUROPE	1 in 4 200

Source: WHO, World Bank, Unicef and UNFPA (2010) and The Lancet (2011).

SOCIAL SETBACKS

ELECTORAL PROCESSES ARE DELICATE

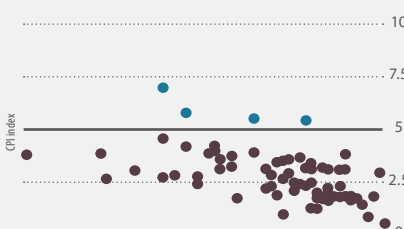
Between 19 and 25 percent of elections in Africa are affected by violence.



Source: USIP, 2010.

GOOD GOVERNANCE IS HAMPERED BY CORRUPTION

All Sub-Saharan countries with the exception of Botswana, Cape Verde, Mauritius and Rwanda (which score over 5 on the CPI index) rank in the lower half of the 2011 Corruption Perception Index



Source: Transparency International, 2011.

STILL A LONG WAY TO GO TO SECURE GENDER EQUALITY AT LEGAL AND POLITICAL LEVELS

Post conflict countries fare better in legal and constitutional protection for women's political participation.

Non-Post-Conflict	Post-Conflict	
14%	27%	Women's representation in parliament
61%	93%	Constitution includes anti-discrimination clause on gender
10%	21%	Constitution mentions violence against women
39%	50%	Gender-responsive budgeting initiative

Source: UNWOMEN Website

POLITICAL SETBACKS

Source: APP with data from IMF, Africa Economic Outlook, Social Indicators, World Bank, Transparency International





PART I

AFRICA RISING – BUT WHILE SOME AFRICANS ARE RISING, OTHERS ARE NOT

Africa in 2012 has an unprecedented opportunity to set a course for sustained economic growth, shared prosperity and a breakthrough in poverty reduction. But this journey will not happen without determined action and crucial changes to make growth much more equitable.

1. ECONOMIC GROWTH MOVING TO THE PREMIER LEAGUE

In the world economic growth league, Africa has moved from the lower echelons to the premier division. After a downturn in 2008, recovery from the global economic crisis has continued (Figure 2).

Some of the fastest-growing economies in the world are in Africa (Figure 3). Seven in every 10 people in the region live in countries that have averaged economic growth rates in excess of 4 per cent for the past decade. From 2005 to 2009, Ethiopia recorded higher growth than China, and Uganda outperformed India⁹. In 1996, there were 13 countries with inflation rates above 20 per cent; since the mid-2000s, there have been no more than two. Much of this growth and rebound is due to improved policies. Box 1 outlines regional patterns of economic growth.

Figure 2: GROWTH RATES OF AFRICAN GDP, 2000–2013

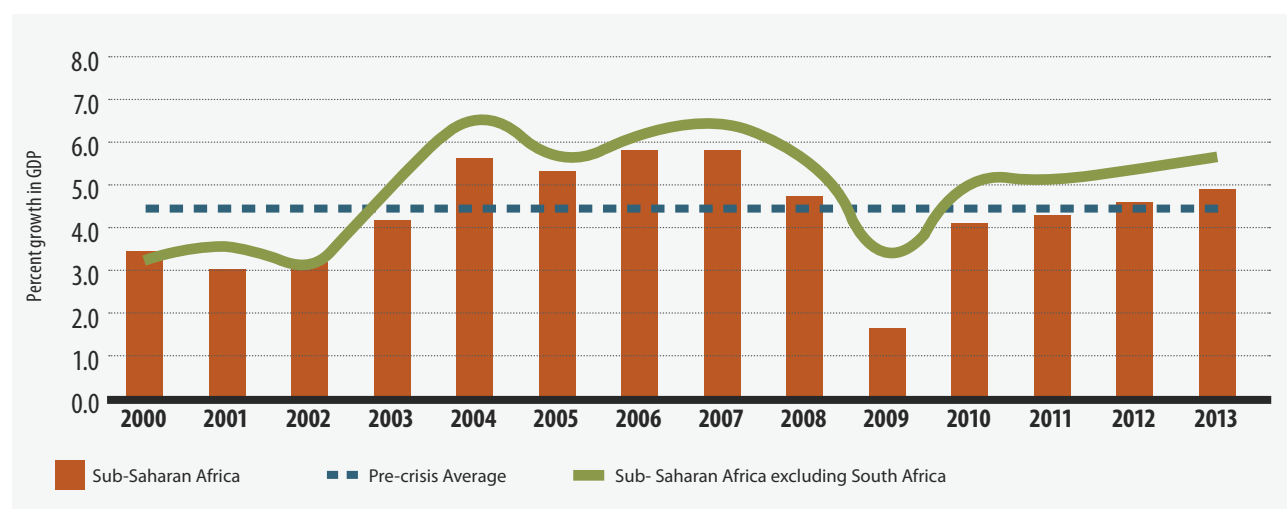
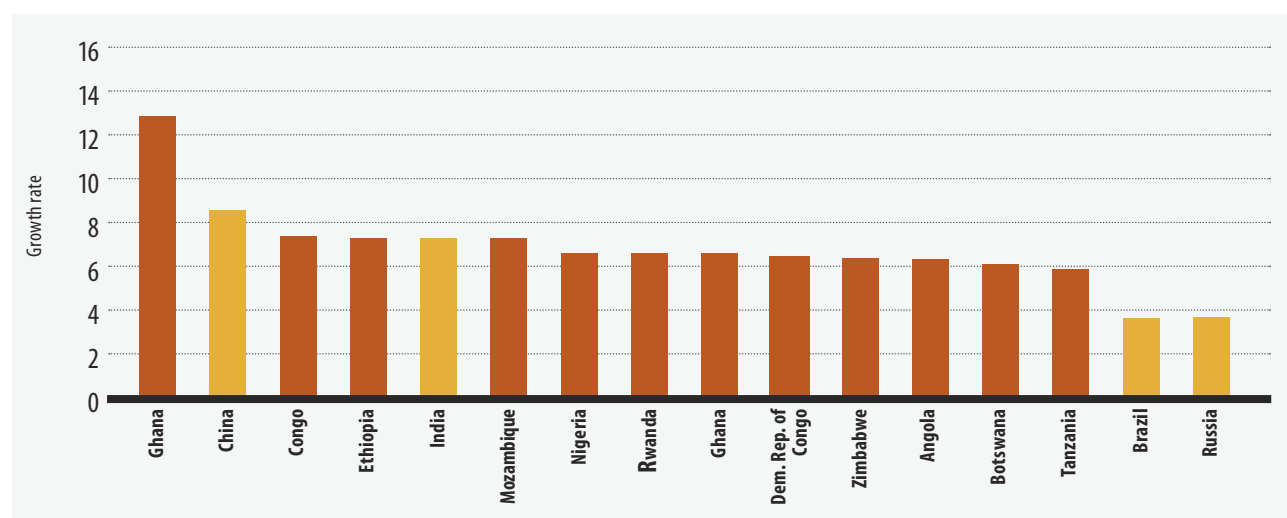


Figure 3: FASTEST-GROWING AFRICAN ECONOMIES IN 2011



BOX 1: Across Sub-Saharan Africa: strong but uneven growth

The economic picture within Sub-Saharan Africa is highly varied. Despite the effects of drought and famine in 2011, *East Africa* grew at a rate of 5.8 per cent in 2011, as sustained public investment in infrastructure (Ethiopia and Tanzania), rising mining output (Tanzania), increased foreign investment in energy (Uganda) and higher agricultural output (Ethiopia) supported recovery.

In *West Africa*, economic growth slowed from 6.9 per cent in 2010 to 5.6 per cent in 2011. This was largely because Côte d'Ivoire's economy contracted by 0.4 per cent after post-election violence and a collapse of exports and the financial sector, but a solid process of recovery started as soon as the political situation normalised. Lower oil production by Nigeria also contributed to the slowdown. Faster growth in Ghana (12.2 per cent), boosted by the start of commercial oil exploitation and strong growth in agriculture, mining and services, counterbalanced the regional picture.

Central Africa's economic activity remained robust although average GDP growth declined from 5.2 per cent in 2010 to 4.2 per cent in 2011. Growth was underpinned by public investment in infrastructure, the strong performance of service sectors, and increased timber exports. The overall performance covered a lacklustre showing by Chad, where oil production declined because of labour disputes and remittances fell when many Chadians in Libya lost their jobs at the outbreak of conflict.

In *Southern Africa*, output expanded by 3.8 per cent in 2011, up from 3.5 per cent in 2010, with considerable variations. South Africa recovered slowly, with growth of 3.1 per cent in 2011, up only slightly from 2.8 per cent in 2010. Performance was lifted by a recovery in consumer spending, fuelled in turn by cheap credit and low inflation. Many other countries, however, achieved solid growth. Botswana, Mozambique and Zambia posted growth rates above 6 per cent, reflecting rising mining output and strong global demand for minerals (as well as a bumper harvest in Zambia). Increased oil output and investment in Angola and an improved political and economic climate in Zimbabwe pushed growth in both countries over 4.0 per cent.

Africa's economic prospects remain promising. Growth in Sub-Saharan Africa is expected to recover to 5.3 per cent in 2012 and 5.6 per cent in 2013¹⁰, underpinned by strong export demand, rising commodity prices and firm domestic demand, and buttressed by government infrastructure spending.

It is not just the headline numbers that are impressive. GDP per capita is also rising. Growth is more diversified, more resilient – and in some countries less dependent on exports of primary commodities. Revenues from natural resources account for no more than one-third of Africa's growth over the past decade. While the price boom in global commodities has certainly contributed to Africa's recovery and the regional terms of trade improved sharply in 2010 and 2011,

domestic consumer markets are also growing and Africa's private sector is an increasingly powerful engine for growth.

Export diversification has also played a vital role in supporting strong growth. Before 2000, Africa's fortunes were strongly tied to those of Europe and the United States. These are still critically important markets. But deepening ties with Brazil, Russia, India and China – the BRICs – as well as Gulf countries and Turkey, helped first to insulate Africa partially from the global economic downturn, and then to drive recovery. The bulk of the “BRIC effect” has operated through trade (see Part II, Section 3). But the economic linkages go beyond trade. Chinese foreign direct investment into Africa has grown rapidly over the past decade.

2. THE RECORD ON POVERTY CONSTRAINED BY INEQUALITY

Economic recovery has been accompanied by accelerated progress towards most of the Millennium Development Goal (MDG) targets. Africa has started to turn the corner on reducing poverty. Between 1999 and 2008, the last year for which data are available, the share of Africans living on less than \$1.25 a day fell from 58 to 48 per cent. More encouraging still, the rate at which poverty is falling appears to have gathered pace. The World Bank's most recent estimates suggest that the number of poor people in the Sub-Sahara region fell by around nine million between 2005 and 2008¹¹.

Other social indicators have also improved. Compared with a decade ago, Africa's children are less likely to die before their fifth birthday, women are less likely to die from complications of pregnancy or in childbirth, and more children are getting into school. The average annual rate of reduction in under-five mortality has accelerated, doubling between 1990–2000 and 2000–2010¹². Measured by the rate of reduction, 6 of the 14 best-performing countries in the world – including Ethiopia, Ghana, Malawi and Niger – are in Africa. The number of out-of-school children has fallen by 13 million.

The overall record on poverty, however, does not match Africa's economic growth. There are still 386 million Africans struggling to survive on less than \$1.25 a day and Africa accounts for a rising share of world poverty. At the start of its growth surge in 1999, Africa accounted for 21 per cent of the world's poverty. By 2008, that share had reached 29 per cent. And while much has been made of the

growth of Africa's middle class, this group remains small (Box 2).

Some of the countries with the strongest economic growth have a mixed record on reducing poverty. In Mozambique, for example, household survey evidence showed no decrease in national poverty from 2002 to 2008 and in the Central regions there was a marked increase in poverty¹³. Tanzania has been one of the world's fastest-growing economies. Yet from 2000 to 2007 income poverty fell only from 35 to 33 per cent, according to household budget surveys. Taking into account population growth, this amounts to an additional one million Tanzanians living below the poverty line. Economic growth reduced poverty in Africa, but less than might have been anticipated, with Africa's poor receiving too small a slice of the expanding wealth cake.

Africa's wealth disparities are among the biggest in the world. One widely used measure of inequality, the Gini index, captures the concentration of household income or expenditure (the higher the index, the greater the inequality). In China, where political leaders have identified rising inequality as a threat to social stability and future growth, the Gini index is 42. There are 24 countries in Africa with higher inequality scores than China. In Mozambique, Kenya and Zambia, the Gini index is between 45 and 55, while in Botswana and South Africa it is over 60¹⁴.

The poorest 20 per cent in Sub-Saharan Africa typically receive 6 per cent or less of national income; and the poorest 40 per cent in most cases receive less than 15 per cent (Figure 6). In many countries, the pattern of economic growth is reinforcing these inequalities. One recent poverty assessment for Lesotho, which has one of the world's highest levels of income inequality, concluded: "The main reason for the high poverty rate is not slow economic growth but high inequality."¹⁵ That verdict has a far wider application in Africa.

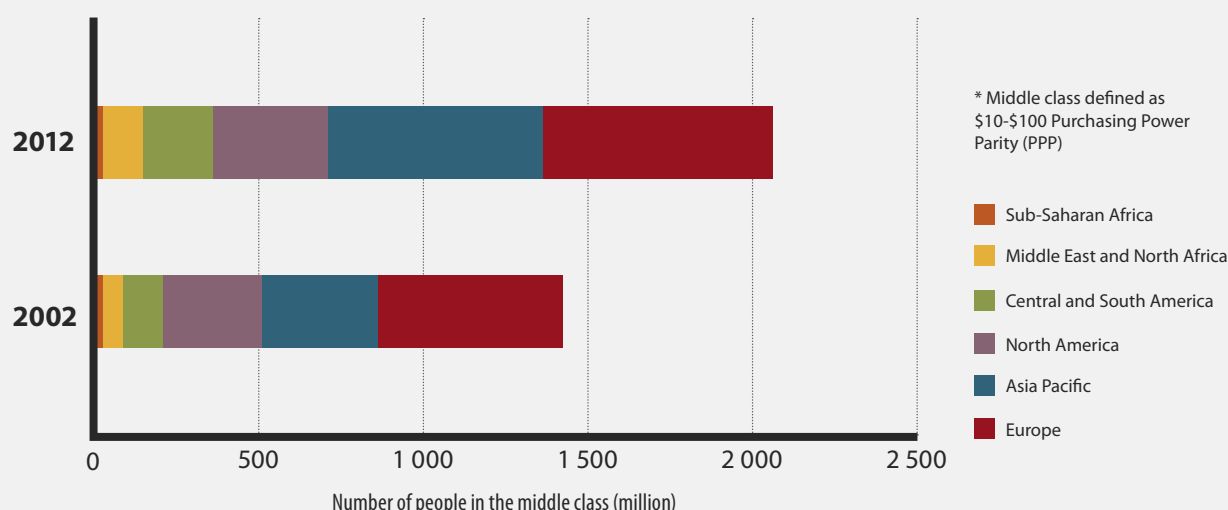
BOX 2: Rising slowly – an African middle class

As even a brief visit to any major African city confirms, retail sectors and higher-income housing markets are booming. According to the World Bank, economic growth “is creating an emerging African middle class of hundreds of millions of consumers.”¹⁶ The African Development Bank claims that one-third of Africans are already middle class. Major consultancy firms like McKinsey and Accenture have also celebrated the rise of middle-class consumer markets in Africa¹⁷.

Such conclusions are premature. After a decade of high growth, almost half of all Africans still live below the \$1.25 a day poverty line. Another 30 per cent – 246 million people – live in the poverty grey area, on between \$1.25 and \$2.50 a day. Only 4 per cent of Africans have an income in excess of \$10 a day (Figure 4). In other words, the vast majority of what commentators describe as Africa’s middle class has either moved just across the \$1.25 threshold, or is living well within the gravitational pull of the poverty zone.

Analytical work by the Brookings Institution provides another view. Using a range of \$10–\$100 per day for membership of a “global middle class,”¹⁸ Brookings finds that Africa accounts for just 2 per cent of the world’s middle-class population, and 1 per cent of purchasing power.

Figure 4: AFRICA’S SMALL MIDDLE-CLASS*



Source: Brookings Institution.

The lesson to be drawn is not that growth is unimportant. The challenge is to harness economic growth to a more equitable distribution of opportunity and income. Meeting this challenge requires public policy action on two fronts. First, governments need to mobilise revenues from growth and invest those revenues in the basic services and economic infrastructure that offer poor people greater opportunities (see Part V). Second, governments need to foster an environment that enables the creation of jobs and more resilient livelihoods, so that poor people can contribute to economic growth, "produce" their way out of poverty and secure a greater share of the benefits from growth.

The two goals of growth and equity are not mutually exclusive. The central objective should be economic growth that increases equity and creates jobs. Indeed, a wealth of evidence is now showing that greater equity can boost growth and strengthen the rate at which growth converts into less poverty.

Conversely, high levels of inequality act as a brake on growth, limiting the potential for development of markets and investment.

The recent experience of Rwanda is instructive. The 2011 Household Living Conditions Survey documents a triple win of high growth in income, falling inequality and a steep decline in poverty¹⁹. From 2005 to 2010, average incomes rose from US\$333 to US\$540, inequality fell (the Gini coefficient dropped from 0.52 to 0.49) and poverty declined from 57 to 45 per cent, resulting in one million people lifted out of poverty²⁰. African governments might also look to wider international experience. One country with most-reduced poverty since 2000 is Brazil – and here, too, success has been built on strong growth and improved income distribution. Inequality constrains poverty reduction, and, as highlighted later in this section, social disparities are also acting as a brake on progress toward other MDGs.

BOX 3: The eurozone crisis is harming many African economies

The sovereign debt crisis in the euro area resulted in a global economic slowdown in 2011 that is likely to harm African economies in several ways should it continue in 2012 and beyond. However, the eurozone crisis also creates some opportunities. The 14 countries that use the CFA franc, which is pegged to the euro, have experienced significant depreciation of their currency, making their exports more competitive in global markets.

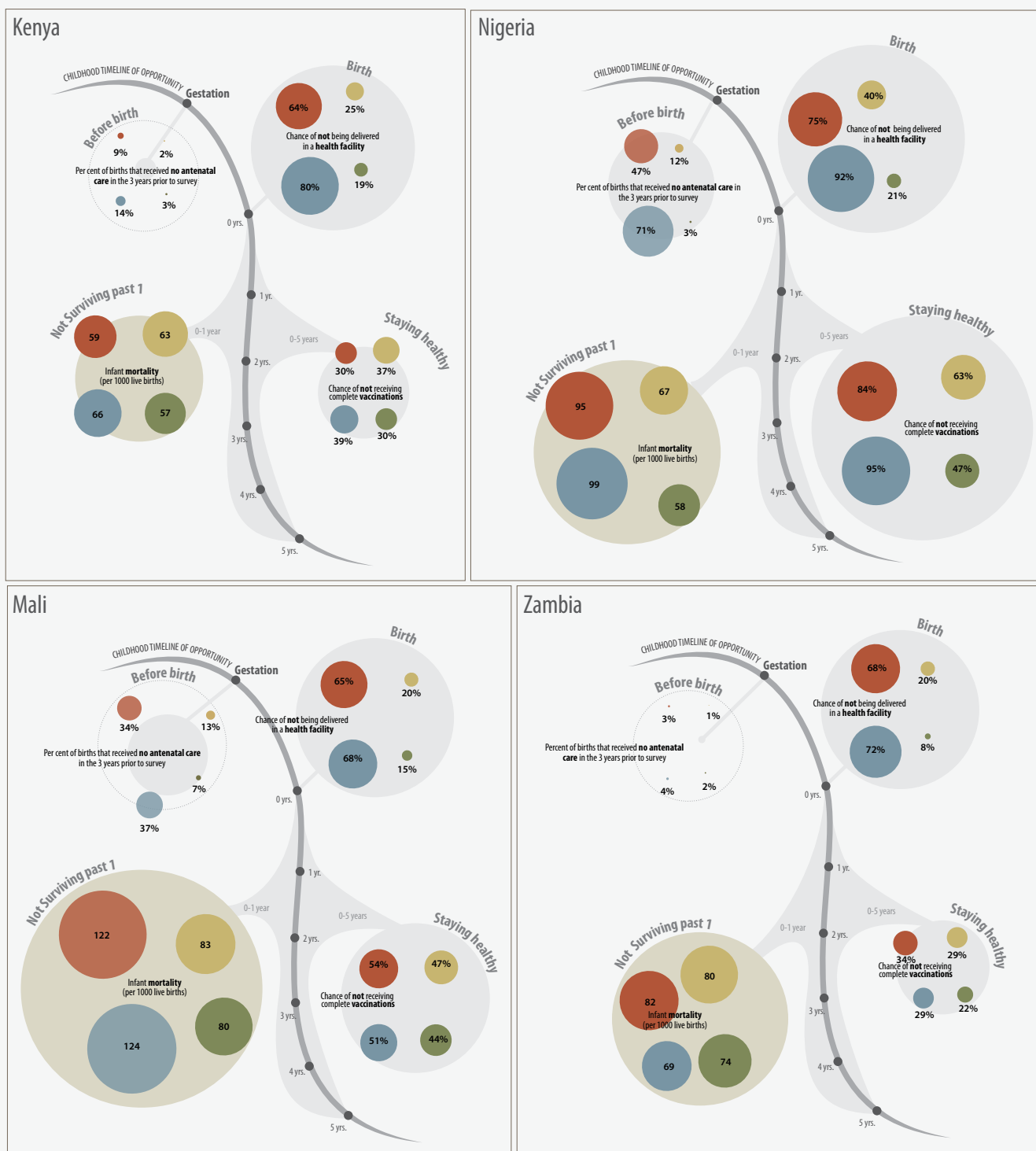
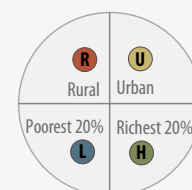
Europe has traditionally been Africa's most important export destination and source of capital, so trade is expected to be the most significant channel of harm from the debt crisis. Africa may also receive less foreign direct investment (FDI) from the EU and other parts of the world in the short term, but it has recently diversified its sources of FDI, which may mitigate the worst effects of the eurozone crisis. For example, China's FDI to Africa reached about 7.5 per cent of the continent's total receipts in 2008.

The eurozone crisis is expected to have significant effects on official development assistance (ODA) to Africa because the EU is the largest aid provider to the continent. A few countries, including France and Italy, have already reduced bilateral assistance to Africa because of the global economic crisis. The expected slowdown of ODA to Africa could put pressure on social sectors, especially health, education and population programmes as well as water and sanitation, undermining poverty reduction efforts, especially in low-income and fragile states.

Figure 5:

INEQUALITY: CHANCES TO SURVIVE BIRTH AND EARLY CHILDHOOD

INEQUALITY BEGINS BEFORE BIRTH. ACCESS TO BASIC HEALTHCARE AND THE CHANCES TO SURVIVE PAST THE AGE OF FIVE VARY FROM COUNTRY TO COUNTRY. BUT INEQUALITY IS EVEN MORE STRIKING WITHIN COUNTRIES THEMSELVES - BETWEEN THE RICHEST AND THE POOREST AND BETWEEN THE URBAN AND THE RURAL.



Note: Please note that the data presented here is strictly as provided in the DHS Survey and corresponds to different surveys taken in different years.

Source: APP with data from the Demographic and Health Surveys (DHS), Kenya (DHS 2008-09); Mali (DHS 2006); Nigeria (DHS 2008); and Zambia (DHS 2007).

3. LOOKING FOR WORK THE EMPLOYMENT CHALLENGE

Employment is the engine of social development. It is through their jobs that people generate income, plan for the future, and contribute to wealth creation, social cohesion and share in national prosperity²¹. Economic growth in Africa is creating employment, but not on the required scale. As demographic pressures mount, it is imperative that governments across Africa develop more employment-intensive patterns of growth at higher levels of skills and productivity.

Every year, 8 million to 10 million young Africans make the difficult transition from school to work. While youth unemployment is a concern, African participation rates in the labour market are among the highest in the world. This is for the simple reason that, in the absence of functioning social welfare systems, young people have no alternative but to work. Not that employment is an automatic escape from poverty. Most Africans work in insecure, low-wage and often hazardous employment, with no prospect of developing their skills. In Nigeria, Mozambique and Burundi, for example, over 60 per cent of young people in employment earn less than \$1.25 a day.

Employment creation in the formal sector falls far below the level required to absorb new market entrants. Moreover, most new entrants lack the skills they need to enter firms operating at higher levels of productivity and wages. As a result, the overwhelming majority of young people are destined for employment on farms, rural enterprises or in the informal sector.

Despite growth, labour markets remain informal

Africa's decade of growth has done little to alter underlying labour market conditions. Agriculture still accounts for almost two-thirds of livelihoods. Across most of the region, livelihoods are dominated by smallholder farming, off-farm employment in rural areas, and informal-sector enterprises, including household businesses and micro-enterprise. Small companies and the informal sectors dominate manufacturing. In Ethiopia, for example, only 5 per cent of people engaged in manufacturing activities work in firms with 10 or more employees.

To make progress, governments need to provide the conditions that enable formal-sector wage employment, predominately in the private sector,

to grow rapidly. Even in fast-growing economies like Ghana, Rwanda, Tanzania and Uganda, formal-sector employment is starting from such a low base that it has failed to keep pace with the growth of new entrants to the workforce. In Uganda, waged jobs grew at 13 per cent a year between 2003 and 2006, but this absorbed less than one in five of new labour-market entrants.

As estimates by the World Bank underline, even on the most optimistic assumptions about the growth rate of wage jobs, the majority of Africans will remain in informal jobs until well after 2020. Given Africa's underlying demography, the structural transformation to a labour market dominated by private wage employment will take several decades. While more must be done to facilitate the growth of private wage employment, this should not divert attention from three key sectors for labour-intensive growth:

- smallholder agriculture and the scope for raising productivity and employment through a Green Revolution (we highlight the critical role of agriculture in Part II);
- rural household enterprise, which represents the fastest-growing livelihood sector in most low-income countries;
- the urban informal sector, which will need to absorb a growing share of Africa's young people as human geography changes.

Creating jobs: Sectors for labour-intensive growth

- 1 private wage employment
- 2 smallholder agriculture
- 3 rural household enterprises
- 4 informal sector

Strategies for promoting formal private-sector employment

Small firms are at the heart of private-sector job creation. In Ghana, for example, the overwhelming majority of new jobs have been created in new firms rather than through the expansion of existing enterprises²². These new jobs have reduced poverty because they successfully employed the skills of poor people²³. The jobs created in small firms have been more pro-poor than many programmes in the past that have relied on a top-down development of a capital-intensive formal sector.

Policy makers need to create an environment where small and medium-scale businesses can flourish to allow them to be competitive in domestic and global markets. This requires attention to everything from improving physical infrastructure (estimates by the African Development Bank suggest that a shortage of infrastructure reduces business productivity in Sub-Saharan Africa by approximately 40 per cent²⁴), access to finance (research shows that the availability of local banks leads to faster growth of small and medium-size firms and more investment, for example in Morocco²⁵), appropriate tax policies, transparent and fair procedures for dispute settlement, and removal of unnecessary (and often illegal) barriers to the movement of goods within and across jurisdictions. We note elsewhere the importance of both further regional economic integration in Africa and of policies in Africa's main trading partners that can facilitate Africa's development as an exporter of processed and manufactured goods, and the need to create an environment where foreign firms want to set up operations to exploit the abundance of under-employed labour in Africa.

Off-farm enterprise – a growth pole for jobs

In South Asia and East Asia, off-farm household enterprises have played a central part in creating opportunities for investment and employment. Yet African governments – and aid donors – have tended to neglect the sector. Evidence from Uganda illustrates why the neglect is misplaced. Over the past two decades, Uganda's record on economic growth and poverty reduction has been impressive – including achieving the MDG target of halving extreme poverty. While farming remains a source of income for 77 per cent of households in Uganda, by 2009/10 about 40 per cent of rural households were operating a non-farm enterprise, compared with 24 per cent in 1992/93. Rural poverty in Uganda fell from 60 per cent in 1992 to 27 per cent in 2009/10, with the poverty rate among households with an off-farm enterprise 6 percentage points lower than among those without²⁶.

Uganda's growth has been driven from below, as smallholders facing a shortage of land have sought opportunities for investment in newly liberalised markets. However, non-farm enterprises barely figure in Uganda's economic development strategy, except as a source of revenue from licence fees. The growth of very small, informal enterprises operating beyond

the farm has played a pivotal role in employment creation and poverty reduction. The same is true of other countries. Depending on the underlying pattern of economic growth, 30–60 per cent of rural households in Africa operate some form of off-farm enterprise.

Too often, household enterprises are seen as irrelevant on the contentious grounds that they make a weak contribution to government revenues, operate at low levels of technology and have low levels of productivity. While productivity levels are low in many cases, that is a case for raising productivity – not for neglect. There is considerable potential for building linkages between household enterprises and higher value-chains in production and distribution, as illustrated by the practices of mobile phone companies operating through petty traders.

The urban informal sector

Household businesses in the urban informal sector face many of the same problems as those in rural areas. With limited capital and restricted access to new technologies, these enterprises face major barriers to growth. Evidence from countries such as Ghana, Kenya and Tanzania shows that small companies have a far higher rate of failure than large ones. Yet, they are a source of employment. In Ghana, the overwhelming majority of new jobs has been created in the small businesses that have emerged with economic growth.

Viewed through the prism of employment markets, jobs created in the informal sector do more to reduce poverty than those in the formal wage sector because they create demand for relatively unskilled labour. Moreover, it is sometimes forgotten that most young people entering employment markets receive training not through formal government institutions, or through large companies, but through on-the-job apprenticeships and training with experienced craftspeople.

Across the region, governments and their partners discuss how best to create formal-sector jobs at higher levels of wages and productivity, overlooking where most Africans are starting from in terms of education levels and employment opportunities. Looking to the future, Africa needs to develop through education the skills and capabilities that hold the key to increased productivity. But looking to the future is not a substitute for policies that can help to generate employment today.

4. UNJUST DISPARITIES A BRAKE ON PROGRESS TOWARDS THE MDGS

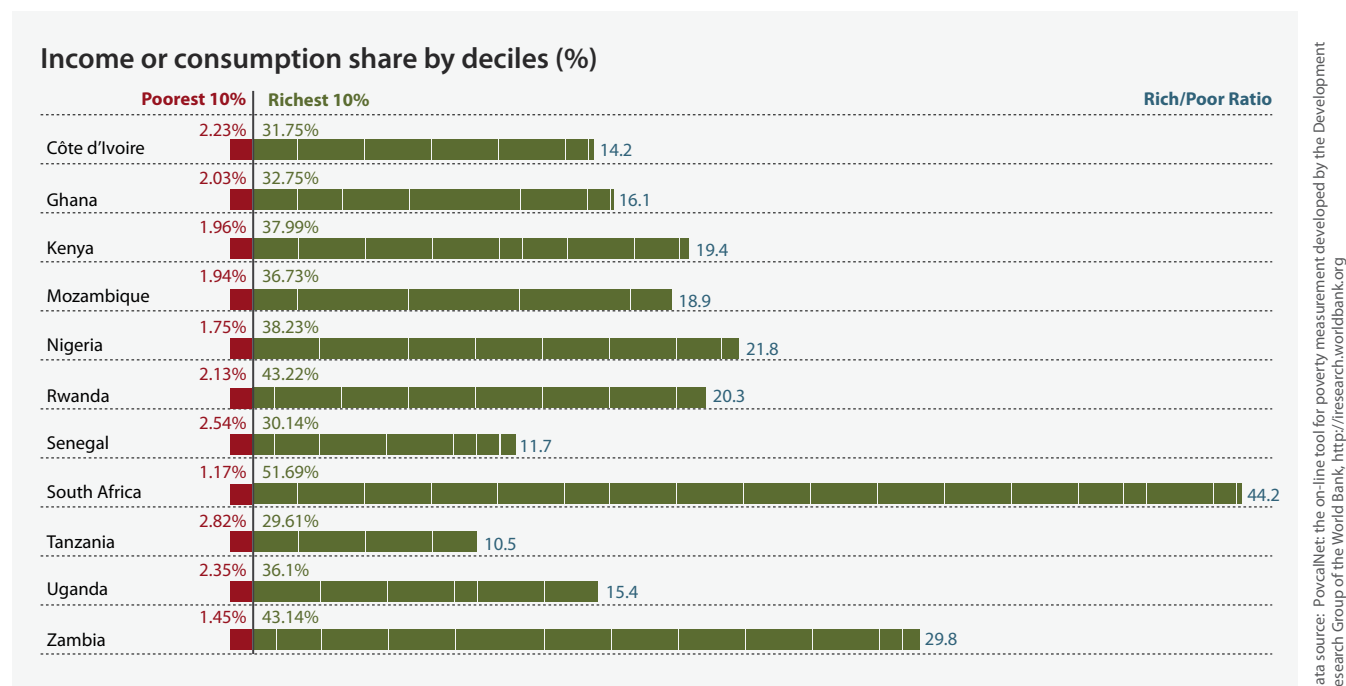
As the 2015 deadline for achieving the Millennium Development Goals approaches, governments, non-government organisations, UN agencies and others are turning their attention to the post-2015 agenda. Dialogue on this issue is critical so that the international community can build on the momentum of the past decade. But it should not deflect political attention from the importance of honouring the MDG pledge to create a more equitable world. Governments need to focus on the unfinished business in hand. Failure to accelerate progress towards the MDGs would diminish the credibility of any post-2015 commitments. That is why Africa's governments and their development partners should initiate as a matter of urgency a "big push" towards the 2015 goals, starting this year. Not every country in Africa can reach every target – but every country can go further and faster.

This year's report does not provide a detailed goal-by-goal assessment of where Africa stands. Instead, we look at some of the major challenges to be addressed. There have been some remarkable achievements. Many countries have registered advances that would have been unimaginable a decade ago.

Such achievements demonstrate what is possible when good policies combine with effective political leadership and consistent international partnerships. At the same time, it is vital to reflect on how much further there is to go – because the ultimate test of performance is how close we get to the 2015 targets.

Poverty and inequality

Progress towards the twin goal of halving extreme poverty and hunger reflects the mixed MDG record of the past decade. It also draws attention to a concern that has received insufficient attention: the very large data gaps that weaken MDG reporting. Household survey evidence suggests that some countries – such as Kenya and Tanzania – have reduced poverty only modestly, despite the strong economic growth reported in national income accounts. Other countries – including Ethiopia and Senegal – have a stronger track record. The evidence from Rwanda illustrates that a combination of robust economic growth and reduced inequalities can act as a powerful accelerant for poverty reduction. However, the trends in Nigeria, the country with Africa's largest population, are unclear: two-thirds of Nigerians are estimated to live below the poverty line. Sometimes the weak trickle-down effect helps to explain extreme income disparities. In Nigeria, the poorest 20 per cent receive only 4 per cent of national income, while the wealthiest 20 per cent receive 53 per cent.

Figure 6: INCOME INEQUALITY

The evidence base for tracking poverty and inequality remains partial and incomplete. Only 18 of the 42 countries covered in World Bank estimates have survey data available from 2007 or beyond – and 30 per cent of the region's population is not covered in the 2008 estimate. Researchers at the Brookings Institution have pointed out that while 43 of 49 Sub-Saharan African countries have at least one household survey, half were carried out more than six years ago²⁷. Moreover, a lack of comparability across surveys makes any attempt at tracking trends or making comparisons across countries a hazardous exercise. Even with the high level of technical expertise that the Living Standard Measurement Survey team of the World Bank brings to poverty analysis, the quality and coverage of the data create large margins of error. Another concern is that the bundle of goods covered in consumption surveys may not reflect the changing consumption patterns of poor households. This may help to explain the very large discrepancy in poverty estimates based on household surveys and national income accounts.

Uncertainties of such magnitude have consequences for policymakers. Effective anti-poverty policies have to be built on a clear picture of the numbers affected, the depth of poverty, and shifts in the

national poverty profile. That is why in Latin America, partnerships between governments, the Inter-American Development Bank, and the UN's Economic Commission for Latin America and the Caribbean (ECLAC) sought with some success to improve both the quality and timeliness of household surveys. Similar partnerships are urgently needed in Africa as well as elsewhere.

Weak progress on hunger

Progress on hunger has fallen disturbingly short of the 2015 target. From 1990–1992 to 2006–2008, the estimated prevalence of undernourishment in Africa fell only from 31 to 27 per cent. Progress on reducing childhood malnutrition has been painfully slow. Over a period of two decades to 2009, the proportion of children registered as underweight fell from 27 to 22 per cent. The best available evidence also points to minimal progress on stunting. An estimated 35 per cent of Africa's children are stunted (short for their age). That figure is worrying for many reasons, not least because malnutrition is associated with over one-third of child deaths. Moreover, stunting by the age of two years appears to be largely irreversible.

Despite the dismal picture on malnutrition, there are some success stories. Both Ghana and Mozambique were able to reduce child malnutrition significantly, in part through targeted programmes and the introduction of more nutritious crop strains. Vitamin-A-rich cassava and maize have been introduced into Mozambique and Zambia, and Rwanda has introduced iron-rich beans²⁸. The elements of effective intervention are well known. Vitamin supplements and micronutrients can be delivered cheaply and efficiently through primary health care systems. Scaling up maternal and child health programmes, teaching good feeding practices, identifying vulnerable households, and measuring and monitoring the problem can deliver early and significant gains. The problem is that effective intervention requires simultaneous action on many fronts. Brazil's successful Zero Hunger model operates through 90 separate programmes run by 19 ministries. In contrast, national policy approaches in many African countries are often fragmented, poorly coordinated and lacking in political leadership.

The ongoing hunger crisis in Africa is linked to the inequalities discussed in this report. Perhaps unsurprisingly, children from poor households are far more likely to be stunted than those from wealthy households. But there are also marked rural/urban disparities. Rural children in Africa are 50 per cent more likely to be stunted than their urban counterparts. This draws attention to the two-way interaction between malnutrition and the ongoing neglect of agriculture. Save the Children estimates that three-quarters of Africa's malnourished children live on small farms. It follows that investment in these farms, raising their productivity, and creating the conditions for off-farm employment are critical requirements for more equitable growth and for driving down levels of child malnutrition.

Education and health – progress and disparities matter

Africa has registered strong progress towards the MDG goals on education, child survival, HIV/AIDS, malaria and tuberculosis and – to a lesser extent – on maternal survival. Yet in each case, most countries will fail to reach most targets because they are being held back by deeply entrenched inequalities.

Some very significant achievements have been registered. After the “lost decade”²⁹ of the 1990s, when enrolment levels stagnated and out-of-school numbers increased, Africa has dramatically increased access to primary education (see Part IV). The number of under-5 deaths fell from 4 million in 2000 to 3.7 million in 2010,

with the annualised rate of decline in child mortality accelerating from 1 per cent in the decade to 2000 to 2.5 per cent over the past decade. Recent estimates for maternal mortality point to significant reductions since 2000, reversing the trend of the previous decade. In East and Southern Africa, the estimated rates of decline are 4 per cent and 9 per cent.

Advances in combating major infectious diseases have been even more impressive. Ten years ago, Africa was unequivocally losing the battle against HIV/AIDS. The region is far from winning that battle; 23 million people are still living with HIV, with women disproportionately affected. Yet the coverage rate of anti-retroviral therapy (ART), which was less than two per cent a decade ago, stood at 49 per cent at the end of 2010. Approximately half of pregnant women living with HIV receive treatment to prevent mother-to-child transmission. And 21 per cent of children in need are able to get paediatric HIV treatments³⁰. On some estimates, progress in tackling malaria has been even more remarkable. In 2011, the World Health Organization reported a decline of one-third in the number of malaria deaths since the end of the 1990s³¹.

Over the last 10 years there has been a massive increase in global investment for malaria, tuberculosis and HIV/AIDS. This has helped African countries scale up interventions to prevent and treat the three diseases. For example, Senegal's effective malaria programme distributed nearly 6 million insecticide-treated nets between 2005 and 2010. In 2009, 86 per cent of patients presenting with suspected malaria were tested using rapid diagnostic tests. Expanding coverage of key malaria interventions has led to a reduction in malaria illness and death and contributed to a 30 per cent reduction in Senegal's under-5 mortality between 2005 and 2009.

As with extreme poverty and hunger, data limitations mean these progress reports have to be treated with caution. Regional estimates of maternal mortality for Africa are based largely on extrapolations from a range of often-dated surveys. There are also large gaps in the data on child mortality.

Whatever post-2015 targets are adopted, governments must urgently strengthen the national reporting systems through which progress is tracked. MDG monitoring has been one of the growth industries of the past decades, with dozens of UN agencies, international financial institutions, regional development banks, non-government organisations and academic research institutions involved. Yet we still lack the basic tool-kit required to develop a timely and accurate picture of the changes in the lives and circumstances of the very people the MDGs were created to support.

5. THE GLASS “HALF-EMPTY” PERSPECTIVE

Leaving aside the data constraints, even the most positive interpretation of the MDG progress report leaves no room for complacency. Here, we consider that report from the vantage point not of progress made but of distance from the 2015 targets.

- *Child survival:* The regional child mortality rate in Africa has fallen from 174 to 121 deaths for every 1,000 live births since 1990 – far short of the MDG target of a two-thirds reduction. Whereas Africa accounted for one in every three under-5 deaths worldwide 20 years ago, that figure has now risen to one in two. At current rates of progress, only one country (Madagascar) is on track to achieve the MDG goal by 2015, another eight are on a trajectory that will take them to the goal by 2025, while 23 countries will not get there until after 2040. Of the 31 countries in the world with under-5 mortality rates above 100 deaths per 1,000 live births, all but one are in Sub-Saharan Africa. Accelerated progress is possible, but this will require concerted action to tackle malnutrition and the three major killer diseases – malaria, diarrhoea and pneumonia – that account for half of child deaths.
- *Maternal health:* Maternal death rates appear to be falling in Sub-Saharan Africa – but far more slowly than in other developing regions. The UN estimates that the maternal mortality rate decreased by 26 per cent in Africa from 1990 to 2008, compared with a 53 per cent reduction in South Asia³². And WHO estimates that the number of maternal deaths in Sub-

Saharan Africa increased from 200,000 per annum in 1990 to 204,000 in 2008. The majority of these deaths are caused by obstetric haemorrhage, eclampsia, sepsis, complications from unsafe abortions, and indirect factors such as malaria and HIV/AIDS. Not one country in Africa is on target to achieve the MDG target on maternal mortality.

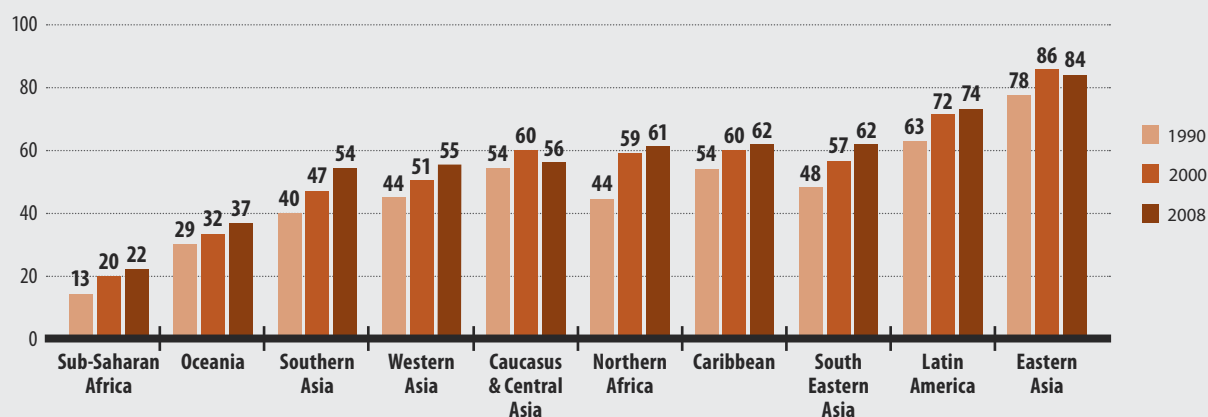
- *Killer diseases:* Every element of the progress report for HIV/AIDS and malaria has a negative side. Half of Africans living with HIV do not have access to ART; and half of pregnant women with HIV do not have access to drugs for preventing mother-to-child transmission. Sub-Saharan Africa is home to 1.3 million pregnant women in need of treatment. Similarly, the vast majority of the one million people killed each year by malaria live in Africa – and pregnant women and children account for most of the victims. The disease costs the region an estimated US\$30 billion annually³³. HIV prevention must be a top priority (without which treatment costs will become even more unaffordable). Responses will need to tackle cultural and behavioural drivers such as gender inequality and women's disempowerment. Gains in malaria control remain fragile and will need continual investments to prevent a resurgence of the disease.
- *Education:* Despite the increase in enrolment over the past decade, Africa still has 30 million children out of school. To make matters worse, progress in cutting out-of-school numbers has slowed. Moreover, far too many of Africa's children are unable to meet the most basic learning achievement standards – even after spending four years or more in primary school. We look at education in detail in Part IV.

Figure 7:

MATERNAL AND CHILD HEALTH AT THE HEART OF MDG PROGRESS

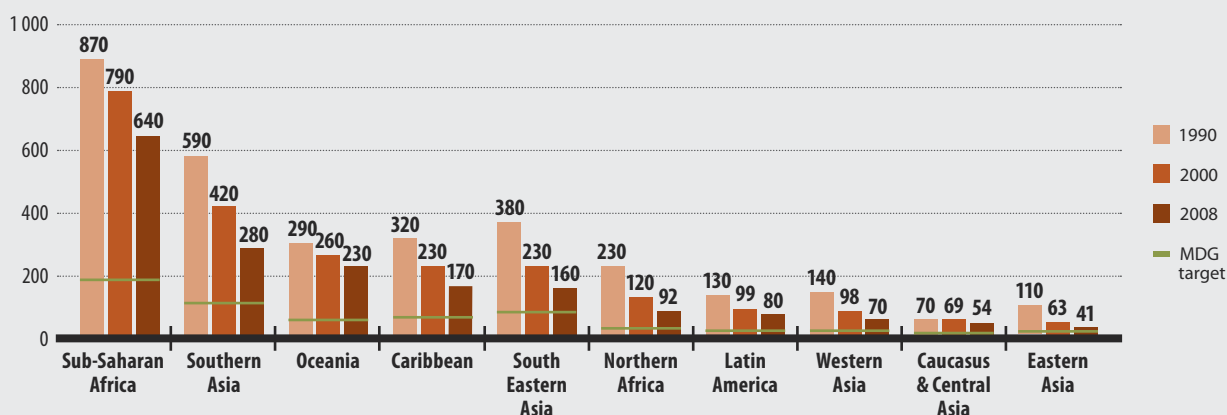
1. PREVENTING UNWANTED PREGNANCIES

Proportion of women who are using any method of contraception among women aged 15-49, married or in a union, 1990, 2000 and 2008 (Percentage)



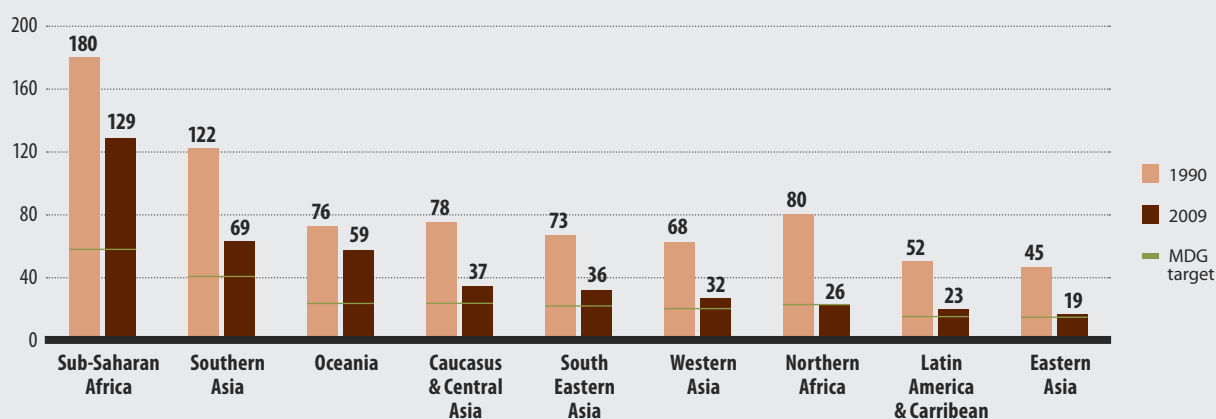
2. ENSURING SAFE PREGNANCIES AND CHILDBIRTH

Maternal deaths per 100,000 live births, 1990, 2000, 2008



3. KEEPING BABIES AND SMALL CHILDREN ALIVE

Under-five mortality rate, 1990 and 2009 (Deaths per 1000 live births)



What does inequality have to do with this state of affairs? Figure 5 provides part of the answer. Consider the evidence on infant survival. Infant mortality rates for the poorest 20 per cent in Nigeria are more than 50 per cent higher than for the richest 20 per cent, and in many countries, living in rural areas magnifies risk of infant death.

The unequal outcomes reflected in Figure 5 are symptomatic of wider disparities in access to basic services. Poor women are less likely to receive antenatal care and less likely to give birth under skilled attendance at a health facility. In Ethiopia, women in urban areas are twice as likely to receive antenatal care as those in rural areas. And children from poor households are less likely to be fully immunised against infectious diseases. In Nigeria, the poorest children (who are most at risk) have vaccination rates less than 10 per cent of the coverage levels for children from the wealthiest households (Figure 5). Narrowing inequalities in health and education would create a win-win scenario – it would be good for equity and would act as a catalyst for more rapid progress towards the MDG targets.

To overcome disparities such as these, governments must identify failures of policy and provision and target policy interventions accordingly. In some cases, unequal patterns of public expenditure mean that basic health facilities are not accessible. In other cases, the services may be there, but poor women may be unable to afford the fees charged for child and maternal health care; or the quality of services may be so poor that they are unwilling to use them. The pattern of health services is often unresponsive to the needs of women. To take one example, Sub-Saharan Africa is the region with the highest level of

unmet demand for family planning. One quarter of women aged between 15 and 49 express a desire to delay or avoid pregnancy but are not using any form of contraception – and that figure has not changed since 1990. Apart from denying women the right to control their fertility and manage their reproductive health, restricted access to family planning exposes many to the risks associated with unsafe abortion, HIV/AIDS, and insufficient birth spacing³⁴.

A more positive story in maternal mortality is unlikely without extending quality health services to people in need, particularly the poorest, most marginalised and those living in hard to reach and fragile contexts. Skilled and motivated health workers appropriately armed with the tools of their trade (drugs, diagnostics, and medical equipment) are needed across Africa. It will require political commitment to reallocate resources to reach all those in need and tackle the structural and social causes of inequity that adversely affect people's health and wellbeing.

Uncertainty of international financing for health has prompted African leaders, such as Ellen Johnson Sirleaf to commit to weaning their countries off foreign aid. She calls for sound policies, genuine leadership, and reliable partnership from the world, so that Africa can be free of the need for development assistance in a generation. That requires a collective commitment to implement credible national health plans that deliver results in Africa. A strong evidence base will help achieve better value for money, by: identifying cost-effective interventions; improving the delivery of services; facilitating positive behavioural change (e.g. increased use of bed nets and decreased sexual risk-taking); and managing emerging risks, such as drug resistance.

Figure 8:

WATER: A CRITICAL CHALLENGE NOT ONLY FOR THE MDGS

WITH SOME 340 MILLION PEOPLE LACKING ACCESS TO SAFE DRINKING WATER, AFRICA IS THE ONLY REGION NOT ON TRACK TO MEET THE MDG 7 TARGET.

Rapid urbanization plus the effects of climate change are putting increased stress on access to water and sanitation. Approximately forty per cent of Africans do not have adequate access to sanitation or water supplies. By 2020, between 75 and 250 million people in Africa may experience increased water stress.

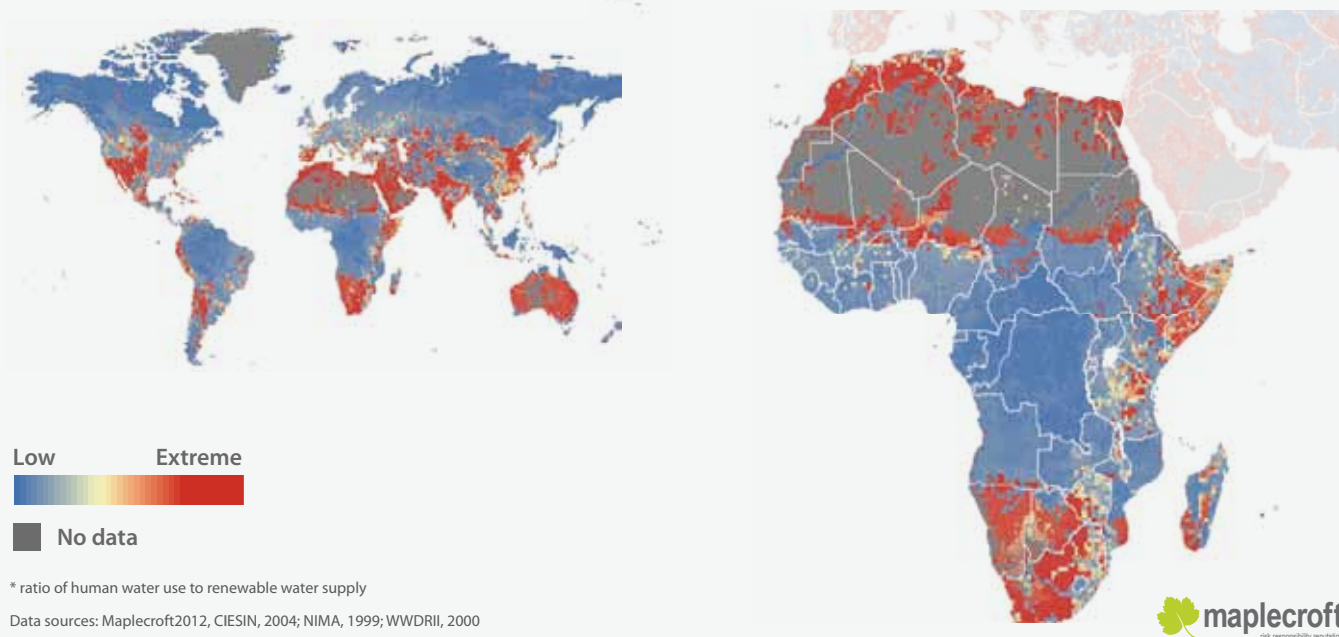
Water insecurity also reduces agriculture output and increases the incidence of disease. In Africa, around 750,000 children under 5 years of age die every year from unsafe water.

It is estimated that Africa loses US\$28 billion a year due to a lack of access to safe drinking water and adequate sanitation.

The gender implications of water stress are profound. Women are more likely to be responsible for water collection. In parts of Africa, it takes 8 hours a day to find water leaving little time for education and paid employment.

Mean Annual Relative Water Stress Index *

WATER STRESS INDEX



* ratio of human water use to renewable water supply

Data sources: Maplecroft2012, CIESIN, 2004; NIMA, 1999; WWDR11, 2000

Water Stress Index: The Water Stress Index evaluates the ratio of total water use (sum of domestic, industrial and agricultural demand) to renewable water supply, which is the available local runoff (precipitation less evaporation) as delivered through streams, rivers and shallow groundwater. It does not include access to deep subterranean aquifers of water accumulated over centuries and millennia.

ACTION AREAS

- Need for concerted effort on the part of all stakeholders for a new approach to provide improved infrastructure, strengthened management of water resources and universal access
- Mobilise resources to reduce existing disparities between rural and urban settings and between different social groups
- Incorporate water improvements into economic development agendas
- Develop trans boundary water agreements to reduce the probability of water-related conflicts
- Donors should swiftly replenish the Rural Water Supply and Sanitation Initiative (RWSSI) and the African Water Facility (AWF)

6. BUILDING ON THE GLOBAL PARTNERSHIP

The MDGs are part of a two-way compact between developing- and developed-country governments. In Africa that compact has delivered tangible results. But there are areas in which donors have failed to honour their part of the MDG pledge.

International aid is a critical part of the MDG compact. In 2005, at the G8 summit in Gleneagles and elsewhere, donors made specific commitments to increase aid. When quantified by the OECD Secretariat, the pledges implied raising ODA from about \$80 billion to nearly \$130 billion (in 2004 prices). At Gleneagles, G8 donors also envisaged an increase in total ODA to Africa of \$25 billion. However, preliminary estimates for 2010 show that Africa received only an additional \$11 billion. The main reason is the poor performance of several of the donors that provide large shares of their aid to Africa. As we highlight in Part V, there is little evidence of aid to Africa rising significantly in the near future. While greater self-reliance in Africa is highly welcome, it is regrettable that many donors have failed to deliver what they promised – particularly at a time when it seems evident that the potential for aid to be used effectively in Africa is particularly high.

Partnerships in health have played a major role in supporting the gains outlined in the previous section. The Global Fund to Fight AIDS, Tuberculosis and Malaria is a focal point for international efforts, enabling donors, philanthropic foundations and private companies to pool resources and coordinate efforts to support national strategies. The Global Fund provided \$12 billion to Africa between 2002 and the end of 2010, supporting anti-retroviral therapy (ART) for 2.3 million people living with HIV and supporting the treatment of 140 million malaria cases by the end of 2010, including 53 million cases in 2010 alone.

Other health partnerships have also made a difference. The Stop TB Partnership has played a role in the diagnosis and treatment of 41 million

tuberculosis cases between 2005 and 2009, saving up to 6 million lives. The Roll Back Malaria Partnership and the Global Fund have contributed to a surge in providing and locally producing insecticide-treated mosquito nets. Between 2008 and 2010, 290 million nets were distributed in Sub-Saharan Africa, enough to cover up to three-quarters of people at risk.

The GAVI Alliance (formerly the Global Alliance for Vaccines and Immunisation) has demonstrated that even during periods of fiscal stress, high-impact aid partnerships can galvanise resources and political support. In 2011, the GAVI secured a donor commitment of an additional US\$4.3 billion for the period up to 2015, considerably exceeding the initial target of US\$3.7 billion. This was an example of donors, non-government organisations, philanthropists and the private sector coming together with governments from Africa and other developing regions to secure development financing aimed at achieving well-defined shared goals – in this case immunisation for another 243 million children by 2015 on top of the 326 million they had already helped by 2011.

While the global partnerships on health have delivered results, other critical areas such as water, sanitation and education have faced problems in mobilising support. For example, the aid financing gap for achieving the education MDGs is estimated by UNESCO's Education for All Global Monitoring Report at around \$16 billion annually in the poorest countries, while aid levels have stagnated at around \$3 billion. In contrast with the GAVI Alliance, the financial replenishment of the Global Partnership for Education (GPE) – a multilateral facility – resulted in commitments of just \$1.5 billion over three to four years, compared with an initial request for \$2.5 billion. Conflict-affected countries in particular have been poorly served by the international aid architecture for education (Box 4). Of course, the difficulties for donors operating in countries emerging from long-running conflicts are well known. Challenges associated with weak public financial management systems, limited capacity and governance problems have to be addressed. But this should not preclude innovative and flexible strategies aimed at delivering results in areas such as basic health care and education.

BOX 4: South Sudan – still awaiting an education peace dividend

Six years after the comprehensive peace agreement that brought an end to Sudan's long-running civil war, South Sudan's children are still waiting for the education peace dividend that could transform their lives.

South Sudan has embarked on independence anchored to the bottom of the world rankings for education and gender equity. Over half of the country's primary-school-age children – one million in total – are out of school. In a country of 10 million, there are fewer than 400 girls in the final grade of secondary school. On the balance of risk and opportunity, young girls are less likely to reach the last grade of primary school than they are to die as a result of pregnancy and childbirth. There are desperate shortages of trained teachers, classrooms and books.

Education is vital not just for creating jobs and cutting poverty, but also for cultivating attitudes that help develop a more peaceful society. To its credit, the government of South Sudan has made education a national priority. And the people of South Sudan have demonstrated an extraordinary level of resilience, innovation and courage in keeping alive the hope of education. Unfortunately, education has attracted limited donor financing, and aid effectiveness has suffered as a result of weak coordination. The Global Partnership for Education (GPE), has yet to provide either financial assistance or technical support.

A recent report has proposed international support for an emergency "education catch-up plan" for South Sudan that would expand learning opportunities for three million South Sudan children and young people. Financing requirements estimated at around \$400 million annually would be mobilised through the World Bank, the GPE, the African Development Bank and bilateral donors, with support channelled through a pooled fund³⁵.

For all of the problems that they have faced, the global health funds have a strong record of achievement. Transforming the GPE into an independent global fund modelled on the best practices of the health funds could create renewed momentum for progress

towards the education goals. The GPE could focus its efforts explicitly on a "big push" towards the 2015 targets, focusing on the most disadvantaged countries, children who are being left behind and the need to improve learning achievement.



PART II

FIVE GLOBAL TRENDS THAT ARE SHAPING AFRICA

Africa's future will be shaped by its people and by the policies of its governments. But no country or region can insulate itself from the wider forces of globalisation. And no government can afford to ignore how these forces might interact with the social and economic currents that are redefining their countries.

This section looks at five global trends that are influencing Africa's future:

1. Demography and human geography

preparing for the youth surge

2. Global food security

more people on a warming planet

3. Tectonic shifts in economics and politics

the rise of the emerging powers

4. Science, technology and innovation

fuelling growth and development

5. The rising tide of citizen action

None of these trends operates in isolation. Each comes with risks and opportunities and each interacts with the others. How Africa's people, governments and development partners manage the risks and respond to the opportunities will determine how each trend plays out.

1. DEMOGRAPHY AND HUMAN GEOGRAPHY PREPARING FOR THE YOUTH SURGE

Some broad trends are more predictable than others. Demography is one area in which the face of the future can be anticipated with some degree of confidence. In the case of Africa, that face is increasingly youthful.

The power of demography

Africa is in the midst of a profound demographic shift. Population is growing faster than in any other region. Over the next few decades, there will be a surge in the number of young people living in the region. With fertility rates beginning to decline, Africa could be on the brink of the type of demographic revolution that Asia experienced three decades ago. As the ratio of working-age people to dependants rises, economic growth could get a boost – a demographic dividend.

That is the opportunity. The risk is that the potential dividend will become a demographic disaster marked by rising levels of youth unemployment, social dislocation and hunger. Outcomes will depend on whether or not the current generation of young Africans makes the transition to adulthood equipped with the education and skills they need to realise their potential – and on whether job creation takes off.

Anyone doubting the power of population growth should consider Africa's basic demographic arithmetic. When economic recovery took root a decade ago, the region had a population of 670 million people. By 2025 that figure will have doubled – and population will continue rising into the second half of the 21st century.

Youth is already one of the defining features of Africa's demography (Figure 10). The median-aged African is just 18. That is 7 years younger than their counterpart in South Asia, and 16 years younger than in China. The base of Africa's age pyramid is widening. Today, there are 70 million more Africans aged under 14 than there were a decade ago. Over the next decade, that number will rise by another 76 million. These trends have consequences across all areas of public policy. Consider the case of education. Just to hold primary-school enrolment rates constant, governments will have to provide the classrooms and teachers needed to raise school participation by another 14 per cent. Assuming that Africa continues to progress in education, many of these children will make the transition to secondary school before making the transition to employment markets.

That transition is already a difficult one – and in the absence of job creation on a very large scale, it will become more difficult. Over the last 10 years, the number of 15–24-year-olds in Africa has increased from 133 million to 172 million. By 2020 that figure will rise to 246 million. Consequently, another 74 million jobs will have to be created over the next decade simply in order to prevent youth unemployment from rising.

To understand how demography is changing the face of nations, you just have to glance at a population road map for countries at different stages of the demographic transition. One way of measuring where countries stand is to compare "dependency ratio" indicators. The ratio of those aged 0–14 to those aged 15–64 is one such indicator. As countries age, the dependency ratio falls. For developed countries, the current ratio is around 24 per cent. It rises to 47 for South Asia. In Africa, it is 77.

The infographic on demographic trends (Figure 10) illustrates the 0–14 age group in some African countries and compares the population-change trajectories of Brazil, China and India. China's demographic turning point started four decades ago. By 2020 the

number of those aged 0–14 will be one third lower than in 2000. In Brazil, the number of children aged 0–14 started to decline 20 years ago. India is just at the tipping point of a demographic transition. The size of the 0–14-year-old population is flattening out. The trajectories for Africa look very different. Consider the case of Nigeria, which is on the lower slopes of a population growth curve trending strongly upwards. Over the next decade, the number of those aged 0–14 will increase by over 25 million. With the country already struggling to generate jobs for the previous generation of 0–14-year-olds, the youth employment challenge is set to intensify.

Urbanisation is reshaping human geography

Africa's human geography is also undergoing profound changes. Pushed by rural poverty and pulled by the hope of employment, more and more of the region's people are migrating to cities.

Today, around one-third of Africans live in urban centres – more than double the share two decades ago. By 2025, the UN estimates that urban centres will be home to 45 per cent of the population³⁶. Africa's mega-cities are already growing at a prolific rate. The population of Kinshasa, the capital of the Democratic Republic of Congo, grew by 2 million between 2005 and 2010, putting it into the “10 million plus” league³⁷.

Lagos, Nigeria, could be a city of 14 million by 2020³⁸. There are two sides to the urbanisation story. Urban centres have emerged as hubs of innovation, employment and human networking, acting as magnets for entrepreneurs and job seekers. But they are also centres of acute deprivation. Sprawling slums like Makoko, on the outskirts of Lagos, or Kibera in Nairobi, Kenya, have some of the world's highest population densities, with their residents living in appalling conditions.

Informal settlements are growing rapidly. According to UN Habitat, the number of slum dwellers in Africa has doubled over the past decade to more than 200 million³⁹. There is no shortage of innovation and entrepreneurial activity in slums. On the contrary, innovation is an urban survival strategy. Yet conditions in many of Africa's slums are unacceptable. All too often, basic public services and public goods – clean water, sanitation, health, education and security – are scarce or non-existent and the state is practically absent.

Future patterns of urbanisation will be superimposed on a backdrop of already widespread urban squalor. If the UN's projections are right, population growth and rural–urban migration will lead to another 145 million Africans living in towns and cities by 2020 – a 50 per cent increase in population⁴⁰. If past trends continue, the majority will be living in informal settlements where the housing and basic service infrastructure is already hopelessly overstretched, and where more overcrowding will create new public health risks.

Figure 9:

URBANISATION FACTS AND TRENDS

- Today **1/3 of Africans** live in urban centres
- By 2025, the UN estimates **45% of the population** will be living in urban areas
- This will mean that an additional **145 million people** will move to cities, many of which will end up living in urban slums
- According to UN Habitat, the number of slum dwellers in Africa has doubled over the past decade to more than **200 million**

CITIES CONTINUE TO EXPAND AND CONCENTRATE



- innovation
- economic opportunities
- jobs and education
- access to goods and services



- crime
- over-population
- public health hazards
- segregation and inequality

THESE TRENDS POSE A SERIES OF IMPORTANT CHALLENGES

- Managing informal settlements (expansion and population)
- Providing basic services (in particular education, improving security and social housing)
- Expanding infrastructure (access to water, sanitation, electricity and transportation networks)
- Job creation (economic and social integration of the growing population)

Figure 10:

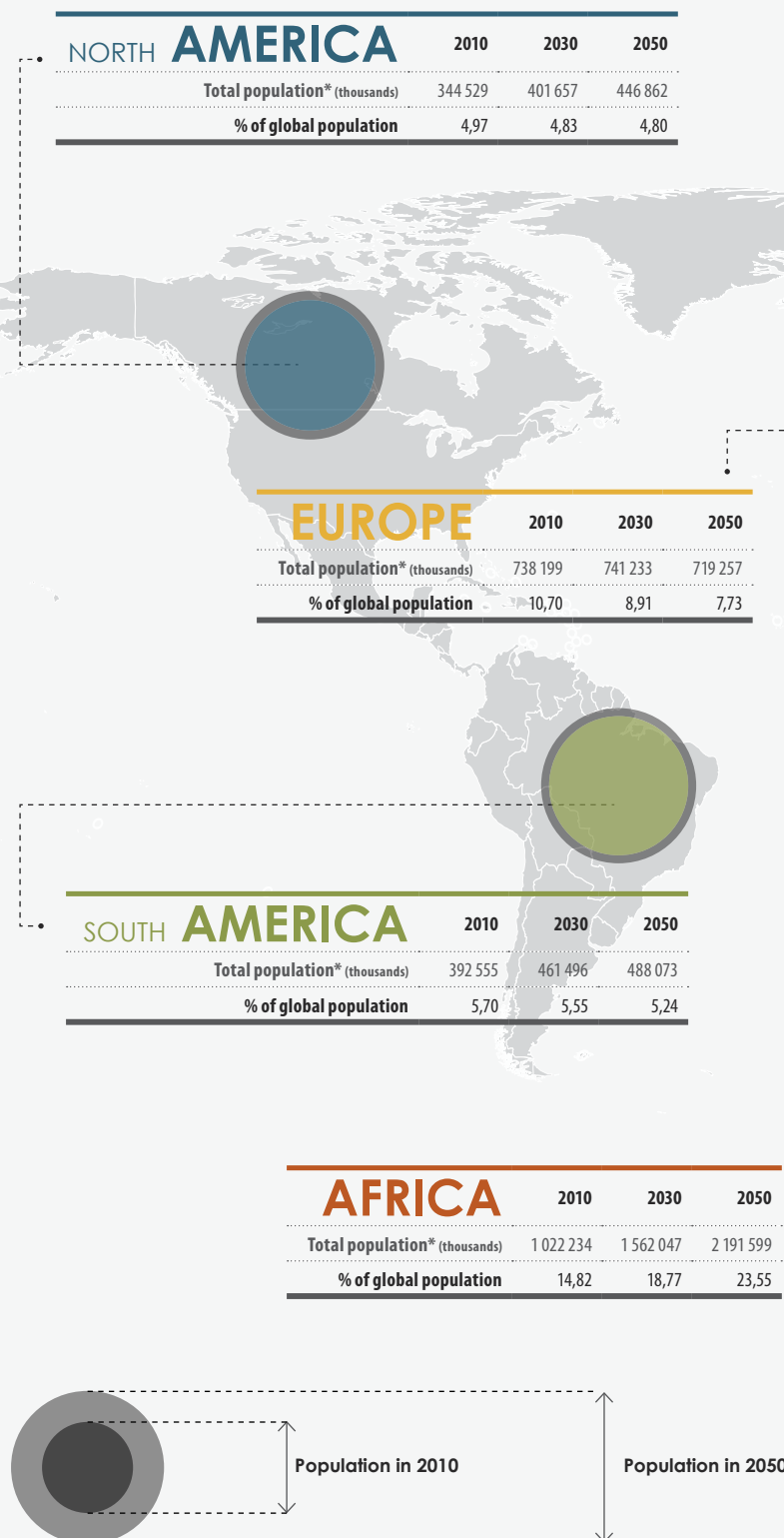
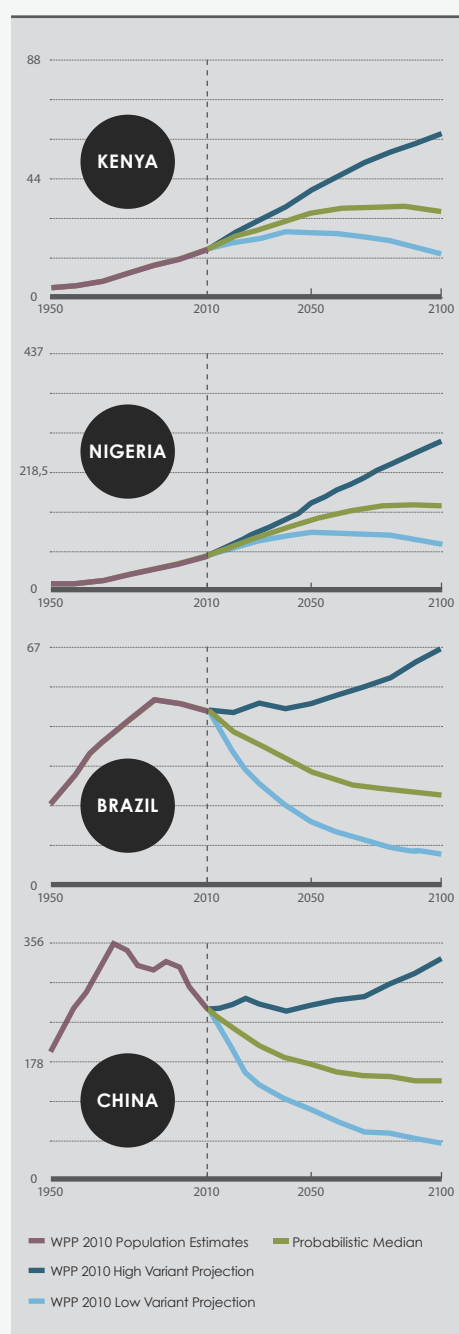
DEMOGRAPHICS

THE MEDIAN ESTIMATE FOR WORLD POPULATION IN 2050 IS 9 BILLION

THE POPULATION OF ASIA AND AFRICA IS EXPECTED TO DOUBLE BY 2050

ANTICIPATING A YOUTH SURGE

Over the next few decades, there will be a surge in the number of young people living in Africa. With fertility rates dropping, Africa could be on the brink of the type of demographic revolution that Asia experienced three decades ago.



ASIA EXCLUDING CHINA	2010	2030	2050
Total population* (thousands)	2 822 917	3 474 665	3 846 616
% of global population	40,94	41,76	41,33

CHINA	2010	2030	2050
Total population* (thousands)	1 341 335	1 393 076	1 295 604
% of global population	19,45	16,74	13,92

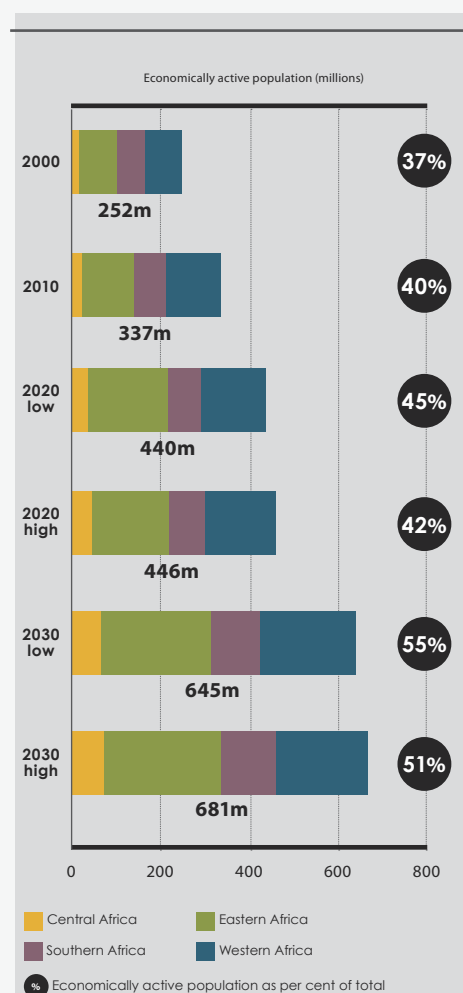
OCEANIA	2010	2030	2050
Total population* (thousands)	36 593	47 096	55 233
% of global population	0,53	0,57	0,59

* Median variant

Source: APP with data from United Nations, Department of Economic and Social Affairs, Population Division, Population Estimates and Projections Section

THE JOB CREATION CHALLENGE

WITHIN SUB-SAHARAN AFRICA, THE ECONOMICALLY ACTIVE POPULATION IS EXPECTED TO CONTINUE TO INCREASE ACROSS ALL SUB-REGIONS, ESPECIALLY IN EASTERN AFRICA



Source: AfDB, 2011.

Africa is in the midst of a profound demographic shift. Population is growing faster than in any other region. As the ratio of working age people to dependents rises, economic growth could get a boost – a demographic dividend.

The poor are too often relegated to informal settlements on the outskirts of cities, without the footholds they need to improve their lives in urban economies. Many may still suffer from the isolation, distance and lack of access that characterise rural areas, while eking out precarious livelihoods traversing rural, peri-urban and urban settlements. As well as preventing Africa from harnessing the benefits of urban agglomeration, a failure to build inclusive cities has considerable welfare consequences for those living in informal settlements and slums on the edges of cities.

Predictions about urbanisation patterns that have serious implications for Africa have not received the attention they deserve. Around the world 25 cities will emerge as centres of economic growth⁴¹. None of them is in Africa. However, the world's city with the largest number of children in 2025 will be Kinshasa. On the same measure, Lagos will rank sixth and Luanda, Angola, will also be in the top 25. This raises the spectre of a growing number of Africa's children being brought up in urban environments that pose life-threatening health risks while providing scant opportunities for education and jobs.

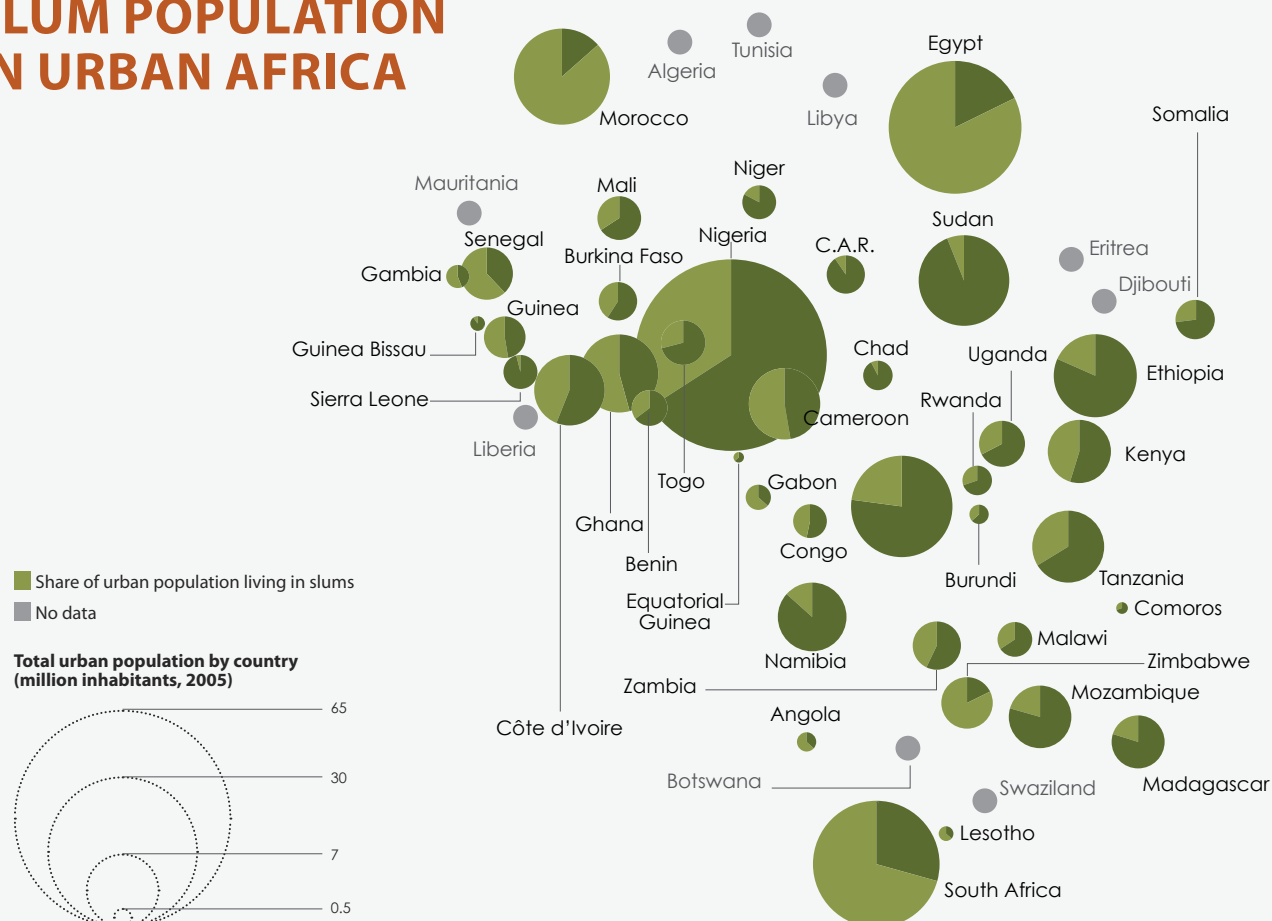
Scenarios for urbanisation confront Africa with stark choices. Growing cities could become centres of innovation and labour-intensive employment, with governments and municipal authorities stepping up investment in infrastructure and homes for ordinary citizens. This will take policies that combine job creation with approaches to planning that avoid pushing the poor into illegal or peripheral settlements, and the development of public-private partnerships to finance the development infrastructure, with water, sanitation and housing the top priorities.

These are win-win scenarios, with public investment in upgrading slums, creating jobs and reducing health risks. The danger is that slums will continue to expand with limited job creation and continued under-investment – creating risks not just for public health but also for public order.

These broad shifts in demography and human geography will not emerge uniformly. But to varying degrees they will affect every country in the region – and every African government needs to grapple with the implications.

Figure 11:

SLUM POPULATION IN URBAN AFRICA



2. GLOBAL FOOD SECURITY MORE PEOPLE ON A WARMING PLANET

The global food system is under acute and rising pressure. Population growth, economic growth and the search for low-carbon energy sources are driving up demand for food, while climate change, ecological constraints and lower levels of productivity growth in agriculture are limiting supply. For much of the 20th century, the price of food fell in real terms, confounding the predictions of many commentators. There is still more than enough food in the world to feed everyone. Yet there is a growing – and justified – concern that agriculture, demography, economy and ecology are set on a collision course.

What do the emerging strains in the global food system mean for Africa? There are some opportunities that also carry large risks. Higher food prices could create incentives for governments to invest in agriculture and raise productivity, or they could lead to a dramatic worsening of poverty and malnutrition among vulnerable populations. Africa's vast untapped potential in agriculture could become a source of rural prosperity and more balanced economic growth, or it could act as a magnet for more speculative investments, land grabs and the displacement of local communities. Carbon markets might open up opportunities for small farmers to benefit from climate change mitigation efforts in rich countries, though the benefits have so far proven limited and the future of these markets remains uncertain. What is certain is that Africa's farmers will bear the brunt of dangerous climate change, with drought and unpredictable rainfall patterns reinforcing rural poverty and undermining food systems.

World agriculture – a new era of scarcity

The first decade of the 21st century brought with it early warning signs of deepening stress in the global food system. Food-price hikes in 2008 resulted in hunger and riots in many countries, including several in Africa. Another price rise in 2010 and the depletion

of cereals stocks appeared to signal the onset of tightening markets. While prices have now fallen, the medium-term trend is unequivocally heading upwards as demography, climate change and rising demand in emerging economies reconfigure global food markets.

Population growth is increasing the number of people who have to be fed – and it is not just the number of people that is growing. As incomes rise in emerging markets, diets are switching towards protein-intensive foods – dairy and meat products – that require more cereals for their production. Even in 2011/12, as price pressures moderated, the IMF estimated that global demand for major crops would rise by just over 2 per cent. This is well above the 20-year average, with emerging markets accounting for the bulk of the increase⁴². By 2050, consumption will be 70 per cent above today's level. The International Food Policy Research Institute (IFPRI) estimates that by 2050, international prices for maize will double, while wheat and rice prices will increase by around 60 per cent.

Agricultural policies in rich countries are adding to pressures on the global food system. Driven by concerns over rising oil prices, energy security and climate change, governments have increased support for the production and distribution of bio-fuels. The United States has been directing subsidies of \$5.5 billion to \$7.3 billion annually towards corn-based ethanol – raising world prices by 10 per cent to 17 per cent in 2008. The European Union's Renewable Energy Roadmap includes policies to promote bio-fuels for transport and targets that will drive up import demand. Rising EU demand is increasing demand for production and land in developing regions, including Africa. The net effect of the EU and US policies is that more of their agricultural production will be directed to domestic markets while import demand will rise.

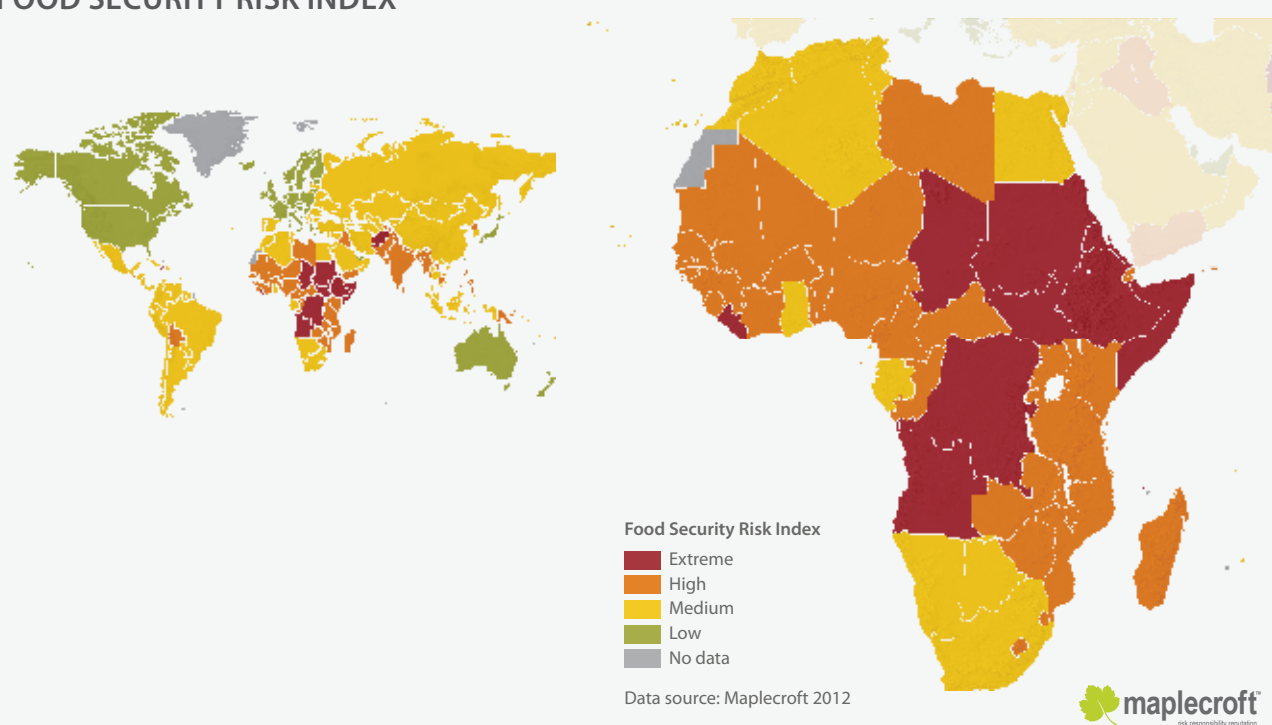
In the face of these growing demands, constraints on supply are tightening. Agricultural yield in emerging markets is slowing in the face of surging demand. Ecological constraints are contributing to the pressure on agriculture. Large areas of China and South Asia are facing acute water scarcity. According to UNEP, up to one-quarter of world food production may be “lost” during the current century as a direct result of escalating environmental degradation, including a loss of biodiversity and soil erosion⁴³.

Figure 12:

FOOD SECURITY

THE RISK OF FOOD INSECURITY IS HIGHER IN AFRICA THAN IN ANY OTHER REGION DESPITE DIFFERENCES WITHIN THE REGION. THERE IS NOT A SINGLE COUNTRY WHICH IS RATED AS LOW RISK. IN SUB-SAHARAN AFRICA, OVER 200 MILLION PEOPLE ARE FOOD INSECURE.

FOOD SECURITY RISK INDEX



Maplecroft's Food Security Risk Index assesses the risk of food insecurity, providing quantitative assessments of access and availability of food and the stability of food production systems. The FSRI also comprises indicators to measure the nutritional outcomes of each country's relative food security.

ACTION AREAS

- Put smallholder farmers and agriculture productivity at the centre of national food security and nutrition strategies, with a focus on women farmers. Encourage youth engagement in agriculture throughout the value chain and work closely with the private sector
- Focus on social protection by providing cash or food during periods of stress, to enable rural producers to cope without compromising their long-term productivity or withdrawing their children from school
- Focus policies on household enterprises to reduce poverty and dependence on agriculture
- Ensure that Africa's land and water resources are sustainably managed to provide food and nutrition security and livelihoods
- Protect Africa's farmers against large-scale speculative land purchases
- Strengthen early warning and response systems for food security crises
- Renew and intensify commitment to improving food security and nutrition in Africa at the meetings of the G8 in the United States in 2012 and in the United Kingdom in 2013
- Develop risk management and adaptation systems to prepare for climate change. OECD-DAC donor countries should clarify how they will mobilise resources for the Green Climate Fund, with specific provisions for adaptation

On the front line – African food security

The dramatic changes that are recasting world agricultural markets will have far-reaching consequences for Africa. Countries across the region are becoming increasingly vulnerable to food insecurity. Governments – and their development partners – need to act now to develop strategies for risk reduction and management.

Unstable international food prices represent one area of risk. As the events of 2007/2008 and 2010 so powerfully demonstrated, many countries in the region are poorly equipped to respond to global price surges. Countries that are large net importers of food staples – such as Ethiopia, Guinea, Sierra Leone, Madagascar, Mozambique, Niger and Mali – quickly feel the impact of higher import prices. So, too do countries that experience drought or adverse weather conditions during periods of higher world prices, as illustrated by the experience of Benin and Kenya in 2011.

As global price pressures mount, Africa's governments need to put in place policies that will mitigate the risks facing vulnerable people. Social protection programmes – such as Ethiopia's Productive Safety Net Programme – can help shield poor households from food-inflation by providing a source of income or food during periods of stress. Governments can also regulate domestic markets by building up reserves during periods of low prices, and releasing stocks as prices rise; Cameroon has created an agency to address the task. Trade policies are also important in responding to price shifts. Misplaced policies should be avoided. In mid-2011, Kenya maintained maize prices 70 per cent higher than already high world prices – during a major drought – to protect the prices paid to predominantly large-scale commercial farmers. Yet it ended up exacerbating underlying food security problems. A key policy lesson from the 2011 drought is that consistent food importers should reduce food-price inflation through regional and international trade.

Coordinated international assistance is also required. The food crisis in the Horn of Africa during 2011 graphically illustrated some of the problems with the current food-aid system. Agencies were warning of an emerging crisis in August 2010. Yet it was not until the rains failed for a second time, in 2011, that a concerted response developed. By the time aid started to arrive in sufficient quantities, people had already started to die⁴⁴. As the threats posed by climate change and rising world prices mount, African governments and international agencies need to put in place a more robust, responsive and predictable

emergency response system. Food aid has to be part of that system. Here too, though, there are problems to be addressed. Food aid becomes less available as prices rise and supplies tighten, and there are indications that food aid is becoming more difficult to mobilise on a predictable basis. In 2006, on the eve of the price hike, there was 40 per cent less food aid available than in 2000.

As the food crisis in the Horn of Africa and the 2008 price surge powerfully demonstrated, food security is an area in which prevention is more effective – and cheaper – than emergency aid after the fact. With the prospect of higher and more volatile prices, African governments need to give urgent attention to what is likely to prove the single most effective way of preventing food shocks: the development of sustainable smallholder agriculture (Box 5).

Climate change will make this task more difficult. Dependent on rain-fed agriculture, operating in drought-prone and flood-prone areas, and working on ecologically fragile soils with limited fertiliser and other inputs, farmers in Africa are acutely vulnerable to climate change. A survey carried out by Oxfam⁴⁵ among farmers in Kenya, Malawi, Mali, Mozambique and Uganda showed a consistent pattern of concern over more erratic and variable rainfall, the effects of heat stress on plants, shorter growing seasons, and in some cases more intense and protracted drought.

Sophisticated crop-modelling exercises point to worse to come. The Intergovernmental Panel on Climate Change (IPCC) identified Sub-Saharan Africa as the region facing the greatest food-security risks as a result of climate change. Higher temperatures, increased water evaporation, less predictable rainfall, increased water stress and an expansion of drought zones could undermine agricultural production. Yields for staple food crops such as cassava, sweet potatoes and yams could fall by up to 15 per cent by 2050, and for maize by up to 30 per cent. Put these projections alongside scenarios for rising population and higher food-import prices, and you have perfect storm conditions for increased hunger. Research by IFPRI suggests that climate change effects alone will push an additional 1 million children into malnutrition by 2030⁴⁶.

Successful adaptation by smallholder farmer could dramatically reduce the risks posed by climate change. Innovations in water management and irrigation, drought-resistant seed strains, soil conservation, and new tillage and climate-resilient cropping patterns could all make a difference. Africa's farmers are innovative, resourceful and used to managing climate risks but will not be able to adapt consistently and to sustainable effect on their

own. They need help from their governments and the international community in scaling up adaptation.

That help has been slow in arriving. Looking at the circumstances of Africa's farmers it is difficult to escape a sense of injustice. Rich countries have not been slow to invest in adaptation at home. They are investing billions of dollars in flood control systems. To take one example, the United Kingdom spends \$1.2bn annually on flood defences⁴⁷. Farmers in the European Union are receiving \$120bn in subsidies that help reduce risks. Compare this with the \$100-200 million channelled to support climate adaptation in the poorest countries through the specialised multilateral funds created for this purpose⁴⁸. This amounts to what Desmond Tutu has aptly described as "adaptation apartheid"⁴⁹.

Support for climate change adaptation could substantially reduce the risks facing Africa's smallholders. Even relatively small investments could generate high returns by preventing far greater financial losses, as well as the loss of livelihoods. One recent study for Tanzania concluded that an annual investment of US\$100 million in adaptation for smallholders – encompassing support for small-scale irrigation, terracing, rural roads and research – would prevent annual losses of several hundreds of millions of dollars⁵⁰. Social protection is another priority area for adaptation support. When crops fail, smallholder farmers often have no choice but to adopt coping strategies that involve selling off productive assets, and cutting spending on health, education and food. This is part of the rural poverty trap. By providing cash or food during periods of stress, social safety nets can enable rural producers to cope without compromising their long-term productivity, or withdrawing their children from school.

Considerations of human solidarity, natural justice and economic efficiency provide a compelling case for international action. Africa's farmers and governments alike cannot meet the lion's share of the costs of successful adaptation, and nor should they have to. Women farmers in Malawi, Ethiopia and other parts of Africa have among the world's smallest carbon footprints. They are not responsible for dangerous climate change and they have a right to expect support from the countries that carry the bulk of that responsibility. Delaying investments in adaptation will not only result in avoidable human suffering and the unnecessary loss of productive potential, but also raise the cost of adaptation over the long run. That is why developed countries must now deliver on the commitment made at successive climate change summits in Copenhagen, Cancun and Durban to mobilise \$100 billion by 2020 for the Green Climate Fund, with half of that amount earmarked

for adaptation. In the meantime, it is essential swiftly to replenish the Rural Water Supply and Sanitation Initiative (RWSSI) and the African Water Facility (AWF) of the African Bank for Development, as they are the most effective instruments to finance access to water and sanitation in urban and remote rural areas of Africa and to develop adaptation initiatives even before the Green Fund becomes operational.

The great African land grab

For communities across Africa, land is more than just an economic asset. It is a source of life and an essential part of livelihoods, culture and identity. To others in the increasingly interconnected global marketplace for trade and finance, Africa's land looks very different. Foreign governments concerned about future food supplies, agribusiness companies seeking production sites for bio-fuels, and assorted foreign investors and speculators, have joined the race to secure access to what, in their eyes, looks like the world's last great unexploited agricultural frontier – African farmland and water resources. One influential report, directed towards the global investment community, announced that Africa was home to 600 million hectares of uncultivated arable land – 60 per cent of the world total⁵¹.

Foreign investors have not been slow to act. Recent years have seen a proliferation of large-scale land deals across the world, many of them concluded in secret and unreported. The most extensively researched recent analysis puts the number of reported deals concluded worldwide between 2000 and 2011 at around 2,000, covering 203 million hectares⁵². Africa accounted for 948 acquisitions covering 134 million hectares – an area larger than France, Germany and the United Kingdom combined. As in other parts of the world, the scramble for Africa's land was triggered initially by the sharp rise in food prices in 2007. Other factors include increases in the price of oil and growing EU demand for bio-fuels.

Outright speculation has also played a role. The recent global fragility in bond and equity markets may have encouraged investment fund managers to seek rights to African land in anticipation of rising values. As the most comprehensive survey on global land deals states: "The high level of interest in acquiring land in Africa appears to be driven by a perception that large tracts can be acquired from governments with little or no payment."⁵³ There is a parallel perception that very high returns are on offer. One of the largest agricultural funds operating in Africa has informed investors that it is targeting an average return on its activities in the region of 25

per cent. Even discounting for exaggeration, this is a remarkable claim.

The rush to procure Africa's land involves a broad cast of characters, including government agencies and sovereign wealth funds from China, Saudi Arabia and Qatar; private companies from India, South Korea, the United States and Europe; and assorted hedge funds and investors. The only motivation missing on the part of these investors has been the most important of all, namely the imperative of raising the productivity of smallholder agriculture, building rural prosperity and developing Africa's land resources to meet the needs of African people.

Land-grabbing has emerged as a region-wide growth industry. The sheer scale of the deals made is a cause for concern. In the space of just four years to the end of 2010, foreign investors secured rights to 5.1 million hectares of land in South Sudan. According to the Oakland Institute, investors have included a Texas-based financial investment company, Egyptian private equity firms, and development funds associated with the governments of the United Kingdom and Finland⁵⁴. Mozambique has granted concessions amounting to more than 2.5 million hectares, with bio-fuels a major activity. Tanzania, Ethiopia and Zambia have all provided concessions on extensive land areas.

For Africans, the benefits of large-scale land acquisitions are questionable. That is especially true for the many thousands of smallholder farmers who have been evicted from their land, sometimes by force and typically with minimal compensation, to make way for foreign investors. In one recent case taken up by non-government organisations and communities in Uganda, the International Finance Corporation's ombudsman decided to investigate charges that 20,000 farmers in western Uganda were evicted with no compensation. In a landmark case, the Ombudsman of the International Finance Corporation (IFC) is now investigating a complaint brought by Oxfam and the Uganda Land Alliance against an IFC-supported private equity fund. The fund invested in a company alleged to have forcibly displaced people from land in Uganda to make way for pine and eucalyptus plantations⁵⁵.

Many governments promoting land acquisition appear to view it as part of a wider strategy to encourage large-scale agriculture. Under the right conditions, there is no question that foreign investment in commercial farming can be of benefit. As well as linking smallholders to regional and global markets, commercial farms can provide the capital, technologies, infrastructure, and knowledge needed to raise yields, revenue and employment. Unfortunately, land acquisition in Africa

has often been managed in a way that secures none of these benefits.

Detailed analysis of the contracts for land acquisition helps to explain why. Leases are typically provided at very low levels of rent and extensive tax exemptions. Investors are seldom required to provide employment opportunities for local communities or to contract with smallholder farmers. The contracts are usually drawn up and negotiated behind closed doors without social and environmental assessments, consultations with affected communities or subsequent requirements for audits. There are no food-security safeguards requiring leaseholders to sell food products in local markets during periods of high food prices.

Against this backdrop, it is unsurprising that the results of large-scale land acquisition have often proved disappointing. Lacking the legal and technical capacity to scrutinise the detail of land deals, African governments have often found themselves hostage to inequitable agreements. The lack of transparency around land deals and contracts opens the door to corruption and forced evictions. Although patterns of land ownership vary across Africa, many farmers – especially female farmers – in Africa lack a codified legal basis to back their land claims, so the rich and powerful can secure their displacement even if their families have lived on the land for generations. In many cases investors have secured leases but left the land idle, holding it as a speculative asset to be exploited – or traded – under the right market conditions. Oxfam and other international non-government organisations, working with partners in Africa, have successfully challenged powerful commercial interest groups and drawn the attention of governments and the wider public to the threat posed by land grabs.

Several governments in Africa have now taken bold steps to address the problems associated with large-scale land deals. At the end of 2009, Mozambique declared a moratorium on new large-scale land concessions and several projects were cancelled. Two years later, under a new agricultural policy, a process of community land registration was introduced to protect smallholder rights. Liberia renegotiated the contract for a large-scale rubber plantation to secure increased revenues and enforceable commitments on employment and business opportunities for local communities.

There is no question that Africa needs investment – private and public – in agriculture. What Africa does not need, and cannot afford, is policies that transfer land to investors motivated principally by a concern to feed populations in other countries, supply bio-fuel markets across the globe, or to secure speculative profit.

Figure 13:

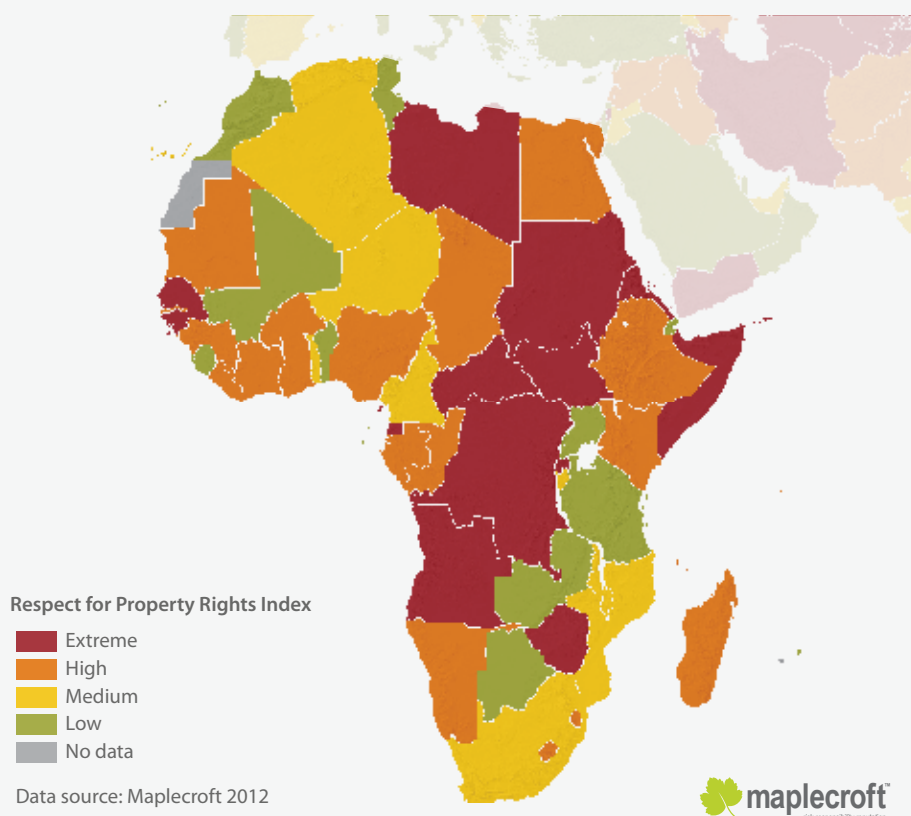
LAND GRABS AND PROPERTY RIGHTS

IN AFRICA IT IS ESTIMATED THAT BETWEEN 2000 AND 2011 THERE WERE 948 ACQUISITIONS COVERING 134 MILLION HECTARES – AN AREA LARGER THAN FRANCE, GERMANY AND THE UNITED KINGDOM COMBINED.

RESPECT FOR PROPERTY RIGHTS INDEX

The challenge with land acquisition contracts in Africa:

- Leases are typically provided at very low levels of rent with extensive tax exemptions.
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- The contracts are usually drawn up and negotiated behind closed doors without social and environmental assessments, consultations with affected communities, or subsequent requirements for audits.
- There are no food-security safeguards requiring leaseholders to sell food products in local markets during periods of high food prices.



ACTION AREAS

- Protect Africa's farmers against large-scale speculative land purchases
- Carefully assess large-scale land deals and consider a moratorium pending legislation to protect smallholder farmers and communities
- The African Union should develop a framework for managing foreign investment in agriculture
- Since African governments have limited capacity to manage foreign investment in land, the African Development Bank's new African Legal Support Facility could consider developing further expertise in land management
- Strengthen legislation to give women farmers equal land rights

BOX 5: The 'forgotten class' – Africa's farmers

One reason for Africa's modest progress in cutting poverty and malnutrition is the ongoing neglect of smallholder agriculture. This is an issue taken up in some detail in the United Nations Development Programme's first African Human Development Report⁵⁶. Urbanisation may be gathering pace and new growth sectors emerging in manufacturing, mining and services. Yet the livelihoods of two out of every three Africans continue to depend on farming. Agriculture is the primary source of livelihood and income for Africa's women. Apart from providing jobs and food for rural populations, Africa's farms also supply urban areas with food. Yet many of Africa's farmers are being left behind.

Unlocking the productive potential of Africa's farmers would strengthen economic recovery. It would raise incomes, create jobs, create new markets, open new opportunities for investment, and link the farm and the rural non-farm economy with other growth centres. Because most of Africa's poor live and work in rural areas, productivity gains would strengthen the two-way interaction between growth and poverty reduction. In countries such as Ethiopia and Kenya, every percentage point of agricultural growth reduces the incidence of poverty at twice the rate of growth in other sectors. And at a time when Africa has the world's fastest-growing population, when more people are moving to cities, and when there are growing concerns over world food prices, a more vibrant agriculture would provide a secure foundation for food security.

Agriculture has not been a central part of the African growth story. Cereal yields are just over one-third of the average for the developing world – and have barely increased in 30 years. The obstacles to increased productivity in smallholder agriculture are well known. In marked contrast to Asia, where irrigated agriculture dominates, around 80 per cent of African farms operate under rain-fed conditions, often in drought-prone environments (Irrigation is important but the lack of it does not necessarily mean that productivity cannot be increased, as was shown in Brazil). Fertiliser use per hectare is the lowest in the world. Lacking inputs of improved seeds, new technologies and pesticides, farmers struggle to raise yields. The end result is that most smallholders are unable to produce enough food to meet household needs, let alone respond to the market opportunities created by rising urban demand.

Rather than address these problems directly, some governments have reached the conclusion that only large-scale commercial farms can achieve a productivity breakthrough. Such farms do have a critical role to play, especially when they act as hubs linking producers to improved inputs and farming systems, new markets and higher value chains. Yet Africa will not increase food production, create jobs or reduce poverty at the scale required without unlocking the potential of smallholder agriculture.

Smallholder agriculture must be placed at the centre of a green revolution for Africa, as highlighted in the work of the Alliance for a Green Revolution in Africa (AGRA). Unlocking productivity gains will require new thinking, new approaches to public spending and strong political leadership. Governments will need to invest in the infrastructure that makes it possible for smallholders to compete in markets. They will need to invest more in research and development that is relevant to farmers working with low levels of inputs in rain-fed conditions, so that new seeds, fertilisers and technologies become available. They will need to strengthen soil and water management. And, as indicated earlier in this section, more needs to be done to stop speculators buying up large tracts of land.

3. TECTONIC SHIFTS IN ECONOMICS AND POLITICS

THE RISE OF THE EMERGING POWERS

In the past two decades, globalisation has transformed the balance of economic power. Emerging markets like Brazil, Russia, India, China and South Africa – the BRICS – are increasing their shares of world income, trade and investment, and their influence in global economic governance.

What do these changes mean for Africa? The region has benefited from its deepening ties with emerging markets. Trade with China helped insulate African countries from the full impact of the 2008 financial crisis and was instrumental in fostering a strong recovery. The European Union, still Africa's largest market, is locked into a cycle of austerity and low growth. Recovery in the United States remains fragile. So the BRICS are likely to figure with growing prominence in Africa's economic renaissance.

Deepening interdependence with emerging markets comes with risks attached. The economies of emerging markets are themselves intertwined with those of Europe and the United States, so Africa is still vulnerable to the effects of a slowdown in the advanced economies.

But above all, the global economic shifts offer Africa enormous opportunities for economic transformation and a more resilient pattern of economic growth, as long as the region can enter higher value-added areas of trade. For that to happen, African governments and companies need to broaden and deepen the region's links to economic markets beyond China, and beyond the unprocessed minerals that dominate current trade with the BRICS. Governments will need to do more to create an enabling environment for companies and agricultural producers, by focusing on infrastructure, regional integration and productivity. And they will need to encourage forms of investment that transfer the skills, technology and know-how that enhance competitiveness (Box 6).

The trade policies of emerging markets – including China – may be reinforcing dependence on the export of low value-added products. Africa continues to face significant tariff and non-tariff

barriers in these markets. The IMF estimates the average import tariff faced by low-income countries in Africa and elsewhere in the BRICs at 13 per cent – around three times the level in the United States and the European Union (which also operate a range of non-tariff barriers)⁵⁷. Tariff escalation, whereby duties rise with the degree of processing undertaken, is also a constraint on the export of higher value-added products to the BRICs, including in categories such as coffee, other agricultural produce, knitwear and footwear. This is a practice that actively discourages exports of higher value-added products. Reforming trade preferences to allow comprehensive tariff-free export, more flexible provisions on rules of origin, and the elimination of tariff escalation as well as of non-tariff barriers could generate significant benefits, supporting efforts to strengthen the employment-generating effects of economic growth.

As Africa's main trading partner, the European Union (EU) has a critical role to play in making trade a more powerful engine of development. While there are some residual market-access issues to be addressed – notably concerning Europe's cumbersome rules-of-origin arrangements – these are not the primary problem. The EU already allows duty-free market access for 'everything but arms' for 33 countries. Where Europe has been less effective is in using development assistance to strengthen the capacity of African producers – especially smallholder farmers – to take advantage of export opportunities, notably by supporting the development of transport and marketing infrastructure.

Another concern is the EU's approach to negotiations on 'economic partnership agreements' (EPAs). With the expiry of existing World Trade Organization waivers allowing for preferential trade, the EU is seeking to make preferential access conditional on reciprocal liberalisation measures in Africa itself. This is a new departure – and one that has the potential to do considerable damage. Some of the areas in which the EU is pressing for liberalisation through the EPA negotiations – including investment, competition and public procurement – go beyond WTO rules, and have been rejected by developing countries in the Doha Round of trade negotiations. More broadly, Africa is being asked to eliminate or lower tariffs on 80 per cent of imports from the EU. Leaving aside the case for and against trade liberalisation in general, there are legitimate concerns on the part of African governments that premature liberalisation through the EPAs could result in small firms and smallholder farmers facing competition from far more developed industries and heavily subsidised farmers in Europe.

BOX 6: Global economic governance in flux

The rise of the BRICs and emerging markets is fundamentally changing global economic governance. These changes matter for Africa because they will have a bearing on the region's voice in global dialogue, on issues ranging from reform of the IMF and the World Bank, to trade and climate change.

Despite recent reforms, advanced economies continue to dominate the governance of the IMF and World Bank. The G8 provides a forum for dialogue and is the main source of international aid, and its members are major players in world trade, but G8 summits carry less weight and authority than they did 10 years ago. While the BRICs lack an institution, dialogue between their governments has intensified and the G20 has emerged as the more representative global economic forum.

These changes have not been entirely positive for Africa. Whatever its wider shortcomings, the G8 played a role in launching and mobilising new resources for global health funds, reducing Africa's debt, and – notably at the Gleneagles summit – securing increased commitments of aid. Several African leaders played an important role in shaping a distinctive G8 development agenda. Indeed, a case could be made that international development was the one area in which the G8 made a real difference. While the G20 is a more representative and, in the eyes of many, more relevant body, it has yet to articulate a compelling, autonomous and strategic development agenda. South Africa is the only African country with a place at the table.

If Africa is to avoid marginalisation in the emerging G20 processes, the region's leaders will have to make the case for broad-based participation (rather than elevated observer status) and articulate an African agenda. It may be that the African Union should be delegated a representative role, along the lines of arrangements for the European Union. One area in which the G20 could make a difference is in approaches to infrastructure financing through public-private partnerships.

African governments need to review their strategies for engagement in other areas of global economic governance. As President Jacob Zuma of South Africa pointed out at the 2011 G20 summit, the voice and participation of Africa in the affairs of the IMF remains muted⁵⁸. This is a matter of great concern. Following the financial crisis, the IMF has expanded its programmes in low-income countries – resource flows could double by 2014 to \$14 billion. Africa has already received significant increases in IMF financing through facilities created after the crisis. Yet African governments have little voice in shaping these programmes, or in auditing their effectiveness and results. Reforms are long overdue. Following a precedent set by the World Bank, many African governments want the region to be given a third chair on the Executive Board. They have also called for independent auditing and accountability mechanisms.

The international trading system poses a different set of governance challenges. While the WTO has a more representative governance structure than the IMF, many African countries lack the capacity to operate effectively in the system. No African country has to date had recourse to the WTO's Dispute Settlement Mechanism. The protracted Doha Round of negotiations has delivered at best marginal benefits for Africa. Part of the problem is a lack of capacity. With small trade missions and limited access to legal and technical expertise, African countries are often poorly placed to advance their trade interests.

Climate change negotiations represent another area in which the emerging balance of power in global governance has not brought obvious advantages for Africa. Before the Conference of the Parties (COP-17) dialogue in Durban, South Africa, in December 2011, there was little progress towards what most African governments see as the twin requirements for any meaningful agreement: a legally binding framework on mitigation; and financing for adaptation. The meeting in Durban galvanised African governments to develop coalitions spanning the traditional "North versus emerging market" divide on mitigation. They also achieved some success in pushing adaptation up the agenda, though the results remain uncertain. One way in which Africa could strengthen its voice might be by developing regional plans for adaptation – building on national priorities – that can be submitted for early financing.

This explains why only around 10 out of 47 Sub-Saharan African countries have so far signed EPAs, and why trade ministries across the region have urged the EU to adopt a more flexible stance.

Looking beyond the policies of the region's trade partners, African governments themselves need to attach greater priority to trade policy. Exploiting the opportunities created by increased demand and higher prices for unprocessed agricultural commodities and minerals is not a trade policy. Successful developing countries in East Asia and elsewhere have sought actively to promote entry into higher value-added export markets, and to build dynamic linkages between the export sector and domestic markets. In the case of Africa, there is an urgent need to integrate trade policy into wider strategies aimed at raising productivity, expanding market opportunities for smallholder farmers and small firms, and creating jobs.

Managing integration with emerging markets

Emerging markets have figured with increasing prominence in Africa's economic recovery. The value of Africa-BRIC trade has grown nine-fold over the past decade. China's share of Africa's exports has increased from a mere 1 per cent to about 15 per cent in just one decade⁵⁹. The latest figures show that trade between China and Africa reached \$160 billion in 2011, up by 28 per cent from the previous year (figure 14).

In 2011 South Africa exported R90.2 billion to China, R42.7 billion to Germany, R29 billion to the UK, R12.9 billion to Italy, and R6.3 billion to France⁶⁰. While the EU and the United States remain important markets, the BRICs now account for an increasing percentage of Africa's exports, with China alone accounting for 18 per cent. The share of the region's exports going to OECD countries fell from 70 to 50 per cent over the past decade – a trend that shows no sign of slowing.

Africa has also attracted significant amounts of inward investment from the BRICs. Most of this originates in China, though India has also grown in importance. Chinese investment flows have been highly volatile, reflecting the timing of large-scale projects. They rose

from around \$70 million in 2003 to \$5.5 billion in 2008 – around one-third of China's global foreign direct investment (FDI) outflows in that year – before falling back to \$1.1 billion in 2009. Most of the 2008 spike was attributable to the purchase of a stake in the Standard Bank in South Africa. Apart from South Africa, in descending order of scale the largest recipients of Chinese investments have been Nigeria, Zambia, the Democratic Republic of Congo, Niger, Madagascar and Ethiopia.

Oil, ores and minerals account for 90 per cent of exports to China. Imports are dominated by manufactured goods, with machinery and transport equipment topping the list. Most Chinese FDI is geared towards extractive industries, with the oil sector accounting for about 70 per cent of cumulative commitments, or \$7 billion. According to IMF-World Bank data, between 2003 and 2007 Chinese companies were involved in 81 projects in 25 African countries⁶¹.

With the rise of emerging markets set to continue, governments and companies across Africa need to consider carefully how best to build on the foundations of what has been achieved. They need to identify strategies to increase the benefits that come with deeper integration while managing the accompanying risks.

One of these risks is a simple by-product of greater interdependence. Today, Africa's growth prospects are so closely correlated with exports of raw material to China that any downturn in demand from that source will have strong spillover effects. For all the strength of the Chinese economy, a significant slowdown cannot be ruled out. China's own export dependence makes the economy susceptible to conditions in the United States and Europe, which together account for nearly half of its total exports. China's vulnerability to external shocks was underlined during the financial crisis, when only a huge credit and fiscal stimulus sustained growth. It is not clear that Chinese policymakers would have the same tools at their disposal in the event of another downturn.

None of this is to suggest that Africa should weaken its ties with China. But governments should be seeking further to diversify trade and add value, and to cooperate with Chinese companies and investors in establishing linkages to wider markets. There may be lessons for Africa in the pattern of Chinese economic development (Box 7).

Whatever their past benefits for economic growth and employment creation, current patterns of trade could trap Africa in areas of low value-added production with limited scope for the productivity gains needed to sustain high growth, generate employment and raise living standards. Current patterns of FDI are focused on quick-profit-yielding mining industries, especially oil, in countries such as Angola. Unless FDI can be directed also into the processing of primary products into exportable manufactures, the persistent enclave-type development of the mining and other extractive industries will persist in the foreseeable future. It is well known that these "island economic activities" have very little forward and backward linkages with the rest of the economic sectors of host countries. Exports to China and other emerging markets are even more overwhelmingly dominated by minerals

and primary commodities than exports to traditional markets. Africa needs to grow out of this exchange model.

In general, trade policy should occupy a more prominent place on Africa's economic agenda as part of a wider strategy aimed at raising productivity, generating employment and creating the conditions under which Africa's companies and farmers can enter higher value-added markets. The growth of industrialisation and related tertiary activities will require removal of the discriminatory trade arrangements under the Partnership Agreements with the European Union and the African Growth and Opportunity Act (AGOA) with the United States. Furthermore, a more balanced trade relationship between African countries and the emerging markets is critical.

BOX 7: Can Africa replicate China's transformation?

What elements of China's successful economic strategy over the past 30 years might be relevant to Africa's development? That was the main question posed by the China–DAC Study Group on Poverty Reduction and Growth – established in 2009 by the International Poverty Reduction Centre in China and the Development Assistance Committee of the OECD – in its 2011 report, *Economic Transformation and Poverty Reduction: How it happened in China, Helping it happen in Africa*.

The basis of China's success, the study concluded, has been a vision of economic and social transformation within a generation, backed by political leaders ready to support reform and make decisions on a pragmatic, performance-oriented basis. Economic transformation has been driven by incremental policies, responding to evidence on what works, to changing capacities, and to opportunities in the global economy.

The African context is very different from that in China. The global context has also shifted dramatically, not least because of China's emergence into the global economy. An African transformation in the early 21st century will not look like the Chinese transformation. Rising commodity prices and affordable new communications technologies are working in Africa's favour, but generate new demands for accountable governance and open societies in Africa. At the same time, key generic features of China's success are replicable in Africa. These include the scope for the development of a strategic vision backed by political leadership and pursued through practical policies. There are also lessons to be drawn from China's focus on smallholder agriculture and rural enterprise as the foundation for a wider development process.

Chinese participants noted that China's transformation process should not be idealised. Many problems have surfaced over time, as the acknowledged need now for corrective rebalancing across economic, social and environmental fields indicates.

Integrating Chinese finance with development goals

The role of the BRICs in investment activity and development finance is another area that merits consideration. Unfortunately, debate on this issue is sometimes clouded by the adoption of highly polarized positions, notably with respect to the role of development finance from China.

OECD donors often maintain that China's approach to aid and investment in Africa is guided solely by commercial self-interest. Unlike traditional donors who are concerned to alleviate poverty, so the argument runs, Chinese financing is used to promote commercial advantage. China's retort is that its policies are geared towards creating growth as opposed to building aid dependency – and that it is responding to the priorities set by African governments. Indeed, the USA has publicly stated that aid is a tool of foreign policy.

Some of the confusion surrounding the role of Chinese development finance in Africa derives from a misunderstanding of how support is delivered. Chinese agencies do not draw hard and fast distinctions between aid, concessional loans and foreign investment. Most of their development finance in Africa is delivered in the form of a mixed package, with aid forming a small component. By comparison with OECD-DAC donors, China has a small aid programme in Africa. The major sources of finance are not these grant and interest-free loan programmes, but Chinese companies and banks, notably the Export-Import (EXIM) Bank and the China Development Bank (CDB), which also manages the China–Africa Development Fund (CADF) that supports Chinese companies doing business in Africa.

This elaborate financing architecture has created a complex patchwork of arrangements. In Zambia, there are 60 Chinese companies involved in an economic zone facility on the copper belt, anchored by a range of financing arrangements linked to the development of new smelting facilities. Infrastructure loans to Ethiopia and Angola have included concessional financing secured against future export earnings. In the Democratic Republic of Congo, aid for social projects – such as the construction of schools and hospitals – has been part of a complex financing arrangement for infrastructure development and the development of mines.

Even though Chinese development finance for Africa has a strong focus on mineral extraction,

other activities figure. Infrastructure is a case in point. Chinese rehabilitation of the Benguela railway line should help to facilitate trade between Angola, the Democratic Republic of Congo and Zambia. Rail and port facilities in Liberia will facilitate iron-ore exports. Roads financed by China have reduced journey times from Ethiopia to the port of Djibouti, facilitating the growth of livestock exports; and they have reduced journey times across East Africa to the port of Mombasa. Commercial interest may have played a role in specific financing decisions. At the same time, infrastructural weaknesses are an economic-growth bottleneck in Africa. Africa's traditional development partners have tended to neglect infrastructure financing, and have found it difficult to develop good models of aid-supported public–private financing arrangements.

Without understating the very real gains that have come with Chinese development financing, the stream of benefits could be increased in several areas by forging a stronger integration between finance and development. For example, efforts should be made to strengthen the linkages between Chinese investors and local companies. African governments and Chinese financing agencies could create incentives for Chinese companies to increase the share of goods and services sourced locally, and to provide training and employment for African workers. In some cases, this has started to happen. In Zambia there are now some 300 Chinese companies employing around 25,000 people. The growth of the footwear sector in Ethiopia is another example of Chinese investment creating jobs and exports. Nonetheless, and despite the scale of investment, the linkages between Chinese and other foreign investment and local economies remain weak.

This is an area in which constructive dialogue between China and African governments could create new opportunities. Like other countries in East Asia, China has been very successful in governing foreign investment to secure technology transfer, skills development and strong backward linkages to local companies. The same is true of several countries in Latin America, including Brazil and Chile. In all of these cases, foreign investment has been managed to facilitate entry into higher value-added areas of production, while at the same time supporting employment. In the case of Africa, there is little attempt to integrate foreign investment into wider strategies for the development of industries and higher value-added manufacturing. This is true even for procurement policy. In Chile, local procurement by foreign investors has reached almost 80 per cent

in some mines. Compare this with Ghana, where local procurement is just 46 per cent – and Ghana has a far higher level of local procurement than countries like Nigeria.

The governance of financial flows is another area of concern. It is in the best interests of African governments and Chinese authorities to maximize transparency surrounding project arrangements, particularly in the minerals sector because of the large volume of financing involved. Limited transparency is by no means the sole preserve of Chinese companies and agencies working in the minerals sector, but current transparency initiatives would benefit from Chinese participation.

While China may have a strong record in constructing schools and health centres, little is known about whether these facilities are then served by skilled teachers and health workers. Similarly, traditional OECD donors and multilateral institutions clearly have a great deal to learn from China on infrastructure development and financing. In both areas, a joined-up approach would deliver stronger results.

Creating the wider conditions for growth

The balance of opportunity and risk associated with ties to the BRICs cannot be viewed in isolation. African governments need to create the wider conditions for the sustained growth and entry into higher value-added markets upon which success in international trade has to be based. This is not a matter of “picking winners” on a company-by-company basis, but of creating the incentives and support systems through which companies and farmers can establish a competitive foothold.

As discussed in detail in our annual report last year⁶², poor infrastructure development remains a huge barrier and a major constraint to investment and international competitiveness, required for rapid and sustained economic growth and social transformation with equity. Shortages of power and high transport costs far outweigh the effects of trade barriers in other countries. The infrastructure gap between Africa and emerging markets is growing, creating cost disadvantages for African exporters and hampering market development for Africa's farmers.

Transport costs in eastern Africa are estimated to be six times higher than in India; and almost 60 per cent of businesses surveyed in one recent assessment identified inadequate supply of electricity as a major constraint to business operations⁶³. Africa will need an investment in infrastructure of around \$98 billion per year over the next decade.

Some countries are starting to address the infrastructure deficit. Senegal is upgrading its energy and road infrastructure with a view to becoming a regional hub. The government of Kenya has issued infrastructure bonds on a pilot basis aimed at financing the large up-front costs of investment while spreading repayment over time. The African Development Bank (AfDB) is playing a more active role in leveraging infrastructure finance. Yet this remains an area in which broader and deeper public-private partnerships are needed to mobilise resources on the required scale.

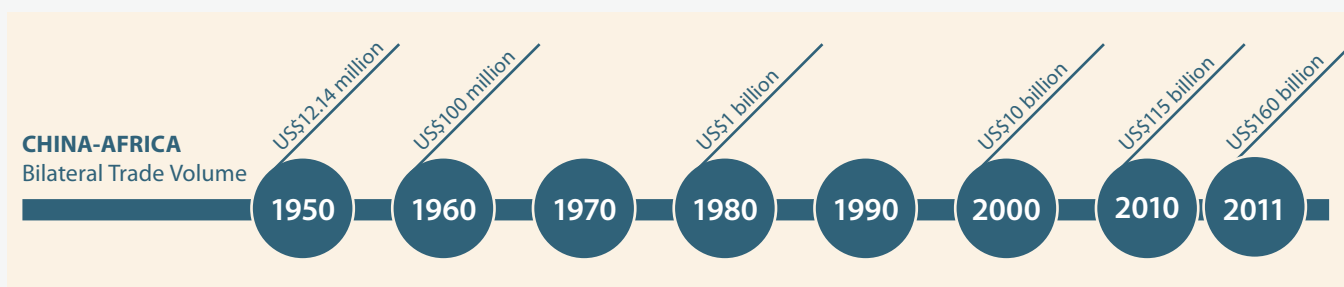
Fostering regional integration would enhance broader prospects for trade. Larger trade groupings offer advantages in terms of market size, specialisation and linkages to wider markets. One encouraging example is the East African Community (EAC). The five member countries – Burundi, Kenya, Rwanda, Tanzania and Uganda – represent a market of 135 million people, with a total GDP of \$80 billion. Intra-regional trade more than doubled between 2004 and 2008, reaching \$1.8 billion⁶⁴. Governments are currently exploring the potential for developing a monetary union to facilitate trade integration. There are plans to establish a Continental Free Trade Area by 2017, endorsed at the January 2012 African Union summit.

The experience of the EAC is instructive because it highlights the potential for intra-regional trade to support wider trade growth. In contrast to the rest of Africa, where the main driver of export growth has been China, some of the fastest-growing markets for EAC members have been in the Middle East and North Africa, with semi-processed goods figuring more prominently.

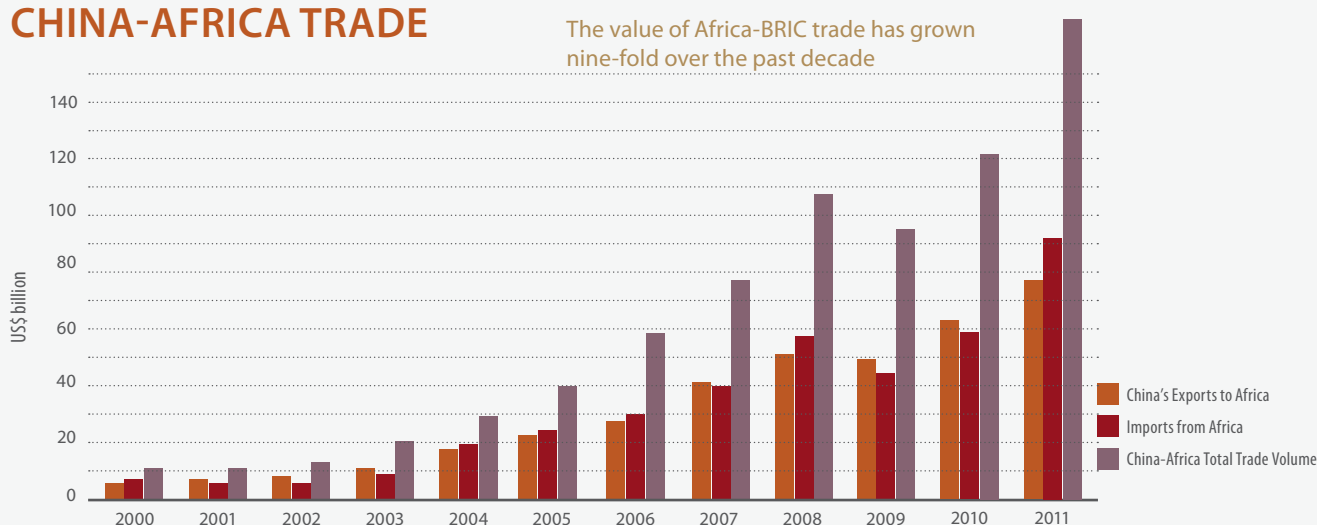
Increased productivity is a first-order requirement for entry into higher value-added markets. Investing in a better-educated and more skilled workforce can create the human capital base needed to penetrate these markets, attract the right type of foreign investment and fuel innovation.

Figure 14:

AFRICA AND CHINA'S GROWING PARTNERSHIP



CHINA-AFRICA TRADE



Source: Ministry of Commerce PRC website, Standard Bank and Standard Chartered 2012.

MORE FACTS

China has bilateral trade agreements with **45 African countries**

LDCs of Africa that have diplomatic relations with China have **zero tariffs** on some of their exports to China since 2005

By July 2010, zero-tariff African products increased to **4,700 taxable items** (covering 95% of the total taxable items mentioned in Chinese Import and Export Regulations)

Last year, China accounted for **18% of Africa's trade** (up from 10% in 2008)

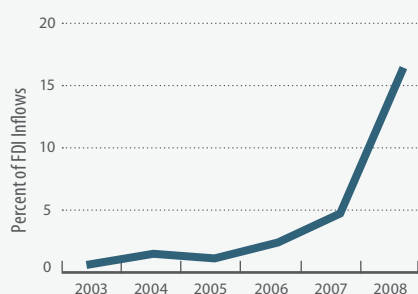
Last year, Africa sourced nearly **17% of its imports from China** (up from 4.5% in 2002)

China is set to become Africa's **largest export destination** in 2012

Source: Ministry of Commerce PRC website, Standard Bank and Standard Chartered 2012.

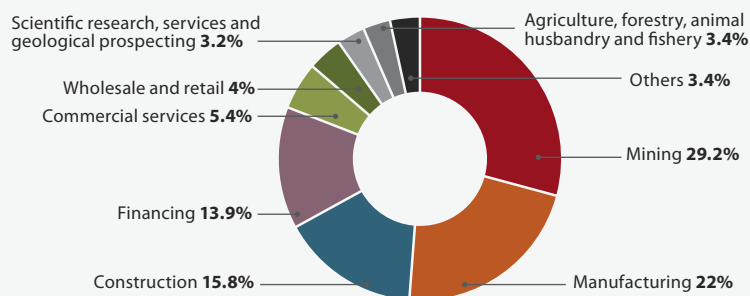
CHINA'S INVESTMENT IN AFRICA

INFLOWS OF FDI FROM CHINA TO SSA



Source: IMF, 'Regional Economic Outlook, 2011

SECTOR COMPOSITION OF CHINA'S INVESTMENT IN AFRICA BY END OF 2009



Source: IMF, Regional Economic Outlook 2011 (data, Chinese authorities)
Note: The figure covers both Sub-Saharan and North Africa

4. SCIENCE, TECHNOLOGY AND INNOVATION FUELLING GROWTH AND DEVELOPMENT

Africa is increasingly being seen as the new frontier for information and communications technologies (ICTs). The exponential growth of mobile telephony has opened up new possibilities for entrepreneurship, giving citizens more say and making public service delivery more responsive, improving the lives of millions of people. Because technology is associated with high foreign direct investment, many countries consider it an essential component of any growth and development strategy.

ICTs hold huge potential to help Africa leapfrog over infrastructure insufficiencies and other barriers that rich nations had to overcome on the path to development. At the same time, the potential of technology should be set in the context of wider challenges facing Africa. This section highlights promising trends and examples of successful use of technology in different sectors.

Towards an African agenda for science, technology and innovation

Africa needs to define and pursue an agenda for harnessing the power of science, technology and innovation (STI) to transform societies and economies. ICTs will figure prominently in this agenda, but form by no means the only sector in which innovation is needed. Others include: biodiversity, biotechnology

and indigenous knowledge; energy, water and desertification; material sciences, manufacturing, laser and post-harvest technologies; mathematical sciences; and information, communication and space-science technologies⁶⁵.

There are signs that Africa's leaders are committed to grappling with the innovation challenge. In 2008, President Ellen Johnson Sirleaf of Liberia told delegates at a Science in Africa summit: "No country on earth has developed without deploying, harnessing and utilizing S&T, whether through technology transfer or home-grown solutions."⁶⁶ In January 2007, the African Union adopted an African Science and Technology Consolidated Plan of Action, while in 2010 the African Technology Policy Studies Network, a group of experts, launched an African Manifesto for Science, Technology and Innovation. Tanzania recently announced that a new science and technology policy would soon be passed into law. Yet recognition of the link between STI and Africa's transformation has not been matched by the required investment, and the institutional infrastructure needed to develop and implement national STI strategies remains woefully weak.

A related challenge is to build the necessary capacity. As President Paul Kagame of Rwanda has emphasised, unless Africa invests in building its scientific and technological training capabilities it will "remain an impoverished appendage to the global economy."⁶⁷

Africa must not simply replicate technologies developed elsewhere and hope that they will work – or become a dumping ground for redundant technologies. Africa's decision-makers must put in place policies that will enable their citizens to ride the next wave of technological change, and not be submerged by it.

ICTs continue to exceed expectations

Over the last decade, internet usage in Africa has increased by over 2,000 per cent. Sub-Saharan Africa has progressed from having one undersea fibre optic cable in 2000 – connecting just one country, Djibouti to another continent – to having 12, with 6 more planned⁶⁸. As a result, according to the International Telecommunications Union (ITU), between 2005 and 2010 international internet bandwidth in Africa increased more than 20-fold, with the biggest growth spurt registered between 2009 and 2010. Even more impressive is the rate at which mobile telecommunications are growing. In 2011, Africa became the world's second-largest mobile market behind Asia – and the fastest growing. There are over 500 million mobile phone subscribers on the continent, more than double the 246 million

subscribers in 2008. By 2015, more people in Sub-Saharan Africa will have access to mobile networks than to electricity in their homes⁶⁹.

Mobile access is particularly significant because its advantages compared with fixed lines extend to broadband connections. New fourth-generation technologies, including Long-Term Evolution (LTE), part of the GSM family, can transmit much more data, much faster, than current 3G broadband technologies – and exceed many fixed broadband technologies, with a simple architecture that lowers operating costs⁷⁰. Given the penetration of mobile telephony in Africa, mobile broadband subscriptions have significant scope to grow from a low base today, meaning that with basic smartphones more and more Africans will be able to access and use a range of internet applications, including cloud computing (Box 8).

BOX 8: Can cloud computing serve development?

Cloud computing, which has emerged as a major trend in ICT over the last two years, offers Africa significant opportunities to improve business, government and social services. In particular, it allows ubiquitous access to applications and services from low-cost internet devices. Cloud computing was first targeted at consumers, enabling them to access email, pictures and social networks from any internet device. As security improved, cloud-based systems provided new ways to deploy business and government services, such as the M-Pesa banking service in Kenya. A cloud-based system can significantly lower the cost and technical expertise required to operate an internet service, as the software and much of the hardware is deployed and maintained by the system provider rather than the enterprise⁷¹. Cloud computing also shifts the need for computing power and storage from the device to the network, lowering the cost of access devices. As a result, the benefits of cloud services may be particularly pronounced in helping developing countries to overcome challenges in connectivity.

Figure 15:

ICTS FOR SOCIAL AND ECONOMIC DEVELOPMENT

IMPROVING SOCIAL ACCOUNTABILITY AND SERVICE DELIVERY

By lowering costs, improving quality and facilitating access, ICTs can contribute to economic growth and social progress by fundamentally transforming industries such as banking, agriculture, education and health care. ICTs are also increasingly being used to push for improved service delivery, social accountability, transparency, and governance.

HUDUMA

Independent monitoring organisations have collaborated with ICT experts to develop HUDUMA, a web- and mobile-based platform that helps citizens to push for better social accountability and service delivery by channeling their concerns directly to authorities for redress using SMS, voice messaging and video.

GHANA DECIDES

Ghana's general elections are coming up this December and for the first time ever, the country is implementing biometric voter registration. To help publicize the process, correct misconceptions and increase overall attention about the elections, the non-partisan project Ghana Decides has turned to social media.

DEVELOPING MOBILE BANKING

Exclusion from formal financial services is very high in Africa but with the rapid growth of mobile phones on the continent, mobile banking is regarded as a great opportunity to provide the unbanked with such services. Branchless mobile banking services enable households to save, pay bills, and transfer money through their mobile phones.

M-PESA

One of the most talked-about ICT success stories in Africa is Safaricom's mobile money transfer service, M-Pesa, in Kenya. In 2006, only 19 per cent of Kenya's 35 million people had access to bank accounts. In the five years since M-Pesa was launched in 2007, over 40 per cent of Kenyans have used the service. In 2010, an estimated \$7 billion (the equivalent of 20 per cent of Kenya's GDP) was transferred through M-Pesa. According to a 2011 Standard Bank report, the incomes of rural households in Kenya have increased by five to 30 per cent since they began using mobile banking.

ENABLING FARMERS TO INTERACT WITH MARKET INFORMATION

African farmers face numerous challenges on a daily basis, most of which have been aggravated by changes in the climate. Ever resourceful, many farmers have embraced ICTs as a way of improving their productivity by accessing timely, comprehensive agricultural information.

ESOKO COMMODITY INDEX

Ghana's Esoko Ghana Commodity Index (EGCI) is a cash market price index composed of data on physical commodities. The index, which is published weekly by the company, tracks prices at wholesale and retail levels and enables consumers to get prices of agricultural products in real time by texting through SMS codes.

IMPROVING ACCESS TO LEARNING

In the education sector, ICTs can contribute to universal access, equity, the delivery of quality learning and teaching, teachers' professional development and more efficient management, governance and administration. ICTs are also enabling education providers to compete with traditional education institutions by reducing the importance of geographical distance as a barrier, lowering overheads and logistical requirements, and expanding cheap access to information resources.

NEPAD E-SCHOOLS INITIATIVE

The NEPAD e-Schools Initiative is a multi-country, multi-stakeholder, continental initiative, which intends to impart ICT skills to young Africans in primary and secondary schools and to use ICT to improve the provision of education in schools. The initiative aims to ensure that African youth graduate from African schools with the skills they will need to participate effectively in the global information society.

BOLSTERING HEALTH SYSTEMS

According to the World Bank, ICTs could be a "game changer" in health in Africa, helping to increase the availability of equipment and supplies, skilled healthcare workers, health system infrastructure, as well as communication between rural and urban centres. ICTs can also facilitate efforts to educate communities and populations about the prevention and treatment of diseases.

MPEDIGREE

mPedigree is a platform that combines mobile technology and cloud computing to fight counterfeit medicines by providing free access to an instant drug quality verification system via text messaging in Africa and South Asia.

PESINET

Pesinet is a system that combines local resources and mobile technology to increase care and reduce child mortality in Mali.

Source: APP 2012.

5. THE RISING TIDE OF CITIZEN ACTION

Last year the world was swept by a widespread and fast-moving wave of social protest. Our map on page 56-57 shows the breadth of causes that are drawing people into the streets – but also highlights what unites many social protests. Shared anger over inequalities seen as unfair and unjust, concern over youth unemployment, and frustration with corrupt and unresponsive governments are pushing people to look beyond traditional politics. What drives them to act is a conviction that change from below is possible.

It is unclear whether social protests are transforming the relationship between citizens and states across the world. There is, however, another side to this story. Citizens' action and engagement can promote more sustainable development outcomes. Across Africa, there is growing evidence that citizens are demanding more accountability from their governments⁷². In this section, we examine whether global social protests are resonating in Sub-Saharan Africa and how citizens are participating in enhancing transparency and democratic governance.

Global social protests

In the developed world, the fall-out from the global financial crisis has fanned the flames of social protest. Protestors tapped into a deep reservoir of public anger over disparities of wealth, the salaries of financiers and the failure of governments to regulate the financial sector. In the United States, the Occupy Wall Street movement captured public anger over the bailout of banks and rising inequality with a simple phrase: "We are the 99 per cent." Young Spanish indignados marched against austerity measures, spending cuts and youth unemployment behind banners emblazoned with the words "A Europe for its citizens." Having studied hard, they see no prospect of finding fulfilling employment themselves – while the bankers who caused the crisis enjoy bonus packages that remain at pre-crisis levels.

The protests of last year often reflected the importance of culturally driven notions of fairness and justice. Protestors in Tahrir Square borrowed the slogan "bread, jobs and social justice" from their counterparts in Tunisia. In China's southern Guangdong province, it was a response to perceived injustice that led the villagers of Wukan to demonstrate against local government officials orchestrating land theft. And it was anger over government inaction in the face of corruption,

a pervasive source of injustice, which led millions of people to demonstrate in India. Across the world, social protest emerged in countries where the political system and electoral processes were seen as serving vested interests rather than the public interest in fairness.

The Arab Spring changed a region. As Eugene Rogan commented in the postscript to his 2010 book, *The Arabs*: "With the revolutions of 2010, the Arab world entered a new age of citizen action for human and political rights that endowed the region with a newfound sense of dignity and common purpose." But what does the rise of citizen protest in an era of mass communications mean for Africa? How will the social media – text messaging, email, social networking, tweeting and streaming – play out in African political processes and service delivery?

Citizens' participation in enhancing democratic governance

Africa will not duplicate the Arab Spring but as the region's networked population expands, there will be more opportunities to engage in politics, take collective action and challenge authoritarian governments. Africa's citizens are finding many ways to be heard, but with mixed results. Movements for social and political accountability are gaining ground through demands for better service delivery and democratic leadership. Evidence across Africa shows that citizens' engagement in policy-making can lead to better diagnosis of problems and improved design and implementation of solutions⁷³. Many tools and methods now exist that enable citizens to hold their governments accountable and governments to engage citizens, including citizens' report cards, open budget processes, community monitoring of service delivery and expenditure tracking surveys.

The evolving picture of democratic leadership in Africa, however, is not always positive. New constitution-making initiatives present an opportunity to correct electoral systems and create a foundation for inclusive and democratic governance but there is often a failure to identify what gives meaning to a "national identity" or the notion of "citizenship" and equity (see Part III).

Social media, which can facilitate both accountability and protest, have played a smaller role in Africa than in other regions. The networked population is smaller, the communications landscape is less dense and – in a major contrast with the Arab world – unemployment is less widespread among educated youth. But civil society across Africa is heading up the social-media learning curve (Box 9).

BOX 9: Social media – the new tools of democracy?

The street protests that rocked Nigeria in January 2012 could be the face of the future. One day after the government announced plans to withdraw subsidies on fuel, youth groups from all over Nigeria formed an online coalition called Enough is Enough, which mobilised, organised and shared information about protests. The Occupy Nigeria Facebook page provided a focal point for thousands of activists using Twitter and other social media, with its “citizen journalists” recording and reporting on alleged human rights violations. The speed and spontaneity of the emergence of online activism by networked youth took the government, opposition parties and labour unions by surprise. Furthermore, one of the most striking features of the movement was its make-up. Enough is Enough draws support across all regions, language groups, religions and ethnic groups.

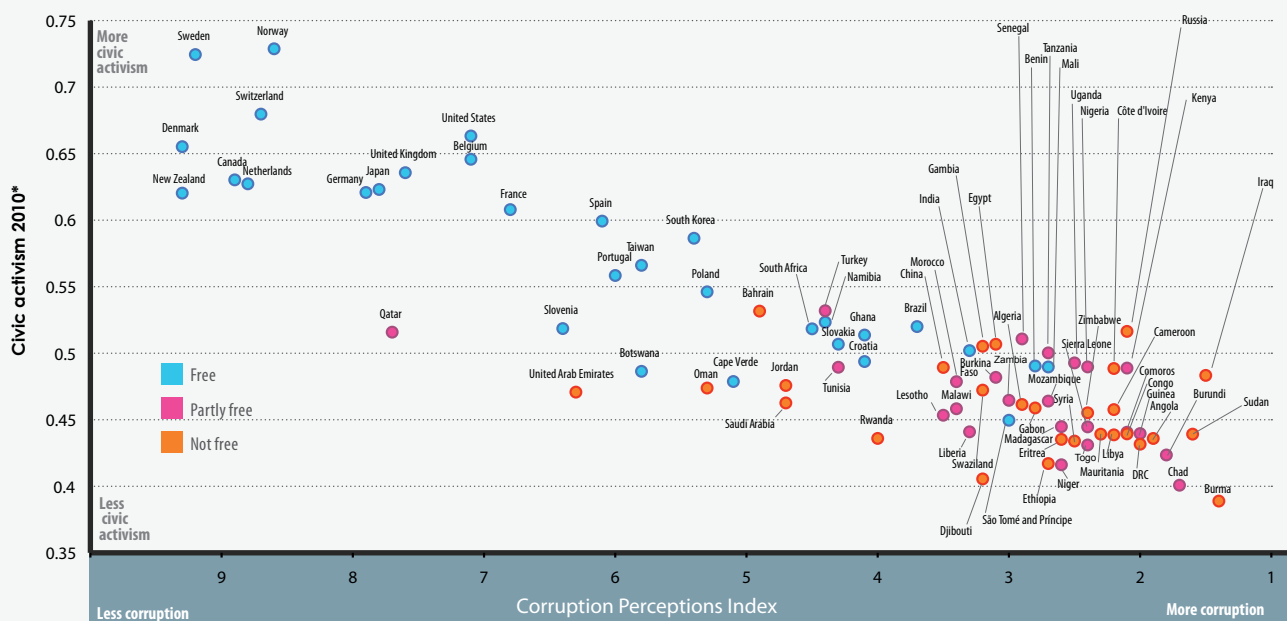
If Twitter is a measure of networking, there are signs that Africa is coming of age. A recent survey found that Sub-Saharan Africa registered over 9 million tweets in 2011. Just over half of the total was recorded in South Africa, but Kenya registered 2.4 million and Nigeria 1.6 million tweets, and tweeters were also very active in Mali, Rwanda and Cameroon. Africa's tweeters are predominantly young and middle class, with over 60 per cent aged 21 to 29. More than two-thirds of connected Africans use Twitter to monitor news. The two biggest hashtag trends: “revolution” and “elections”.

In some cases, youth groups have sought to use social media to combat group-based violence. After the 2007 election, some Kenyans used mobile technology, mainly SMS, to spread fear, incite violence and organise attacks. Sisi Ni Amani (“We are Peace” in Swahili) was founded in July 2010 to use mobile phones to promote peace. Subscribing community members receive free text messages on civic engagement and peace promotion. All of the messages that go out are moderated and created by local civic leaders and peace groups. The network in Kenya is now almost 20,000 strong. One of its aims is to prevent violence in the run-up to the 2013 elections.

Figure 16:

CIVIC ACTIVISM, FREEDOM AND CORRUPTION

HIGHER LEVELS OF CIVIC ACTIVISM ARE STRONGLY CORRELATED WITH BETTER CONTROL OF CORRUPTION. COUNTRIES WITH THE HIGHEST LEVELS OF CIVIC ACTIVISM ARE ALL CONSIDERED ‘FREE’ BY FREEDOM HOUSE, MEANING THAT THEY HAVE DEMOCRATIC INSTITUTIONS AND THE PROTECTION OF CIVIL LIBERTIES.



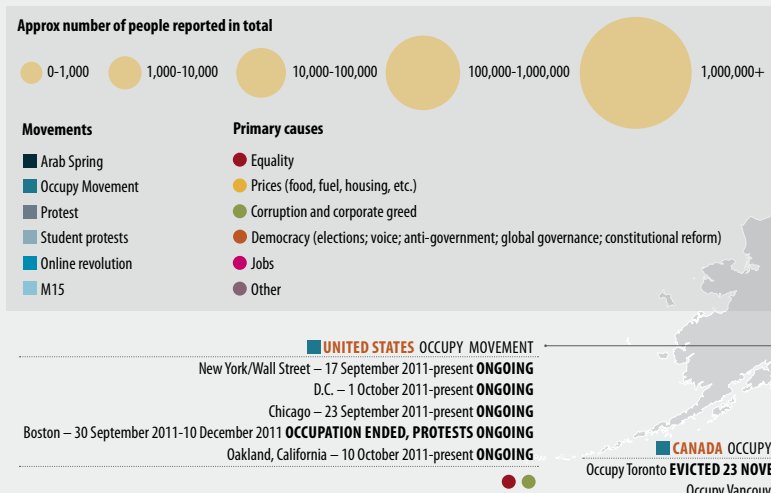
*Civic activism is measured using an index published by the Institute for Social Studies (www.indsocdev.org), which takes a range of items that tap the strength of civil society, including: surveyed levels of participation in boycotts, demonstrations, and petitions; newspaper circulation; and membership of international NGOs.

Source: APP data from the Institute for Social Studies, the Freedom House 2011 Report and the Transparency International Report 2011.

Figure 17:

SOCIAL UPRISING

This map shows a selection of social uprisings that took place across the globe in 2011 and highlights some of the main triggers to social unrest.



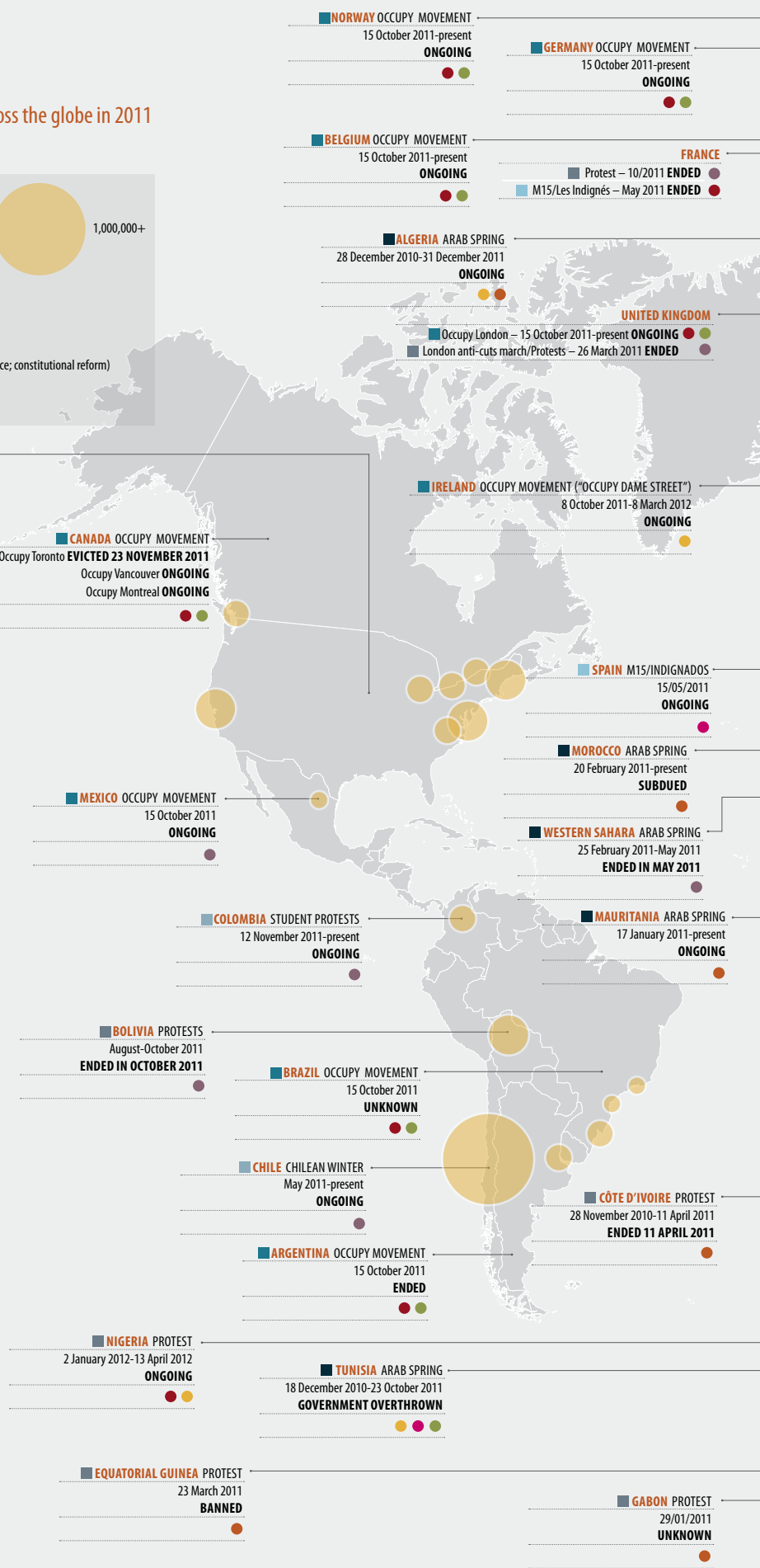
TRIGGERS TO SOCIAL UNREST

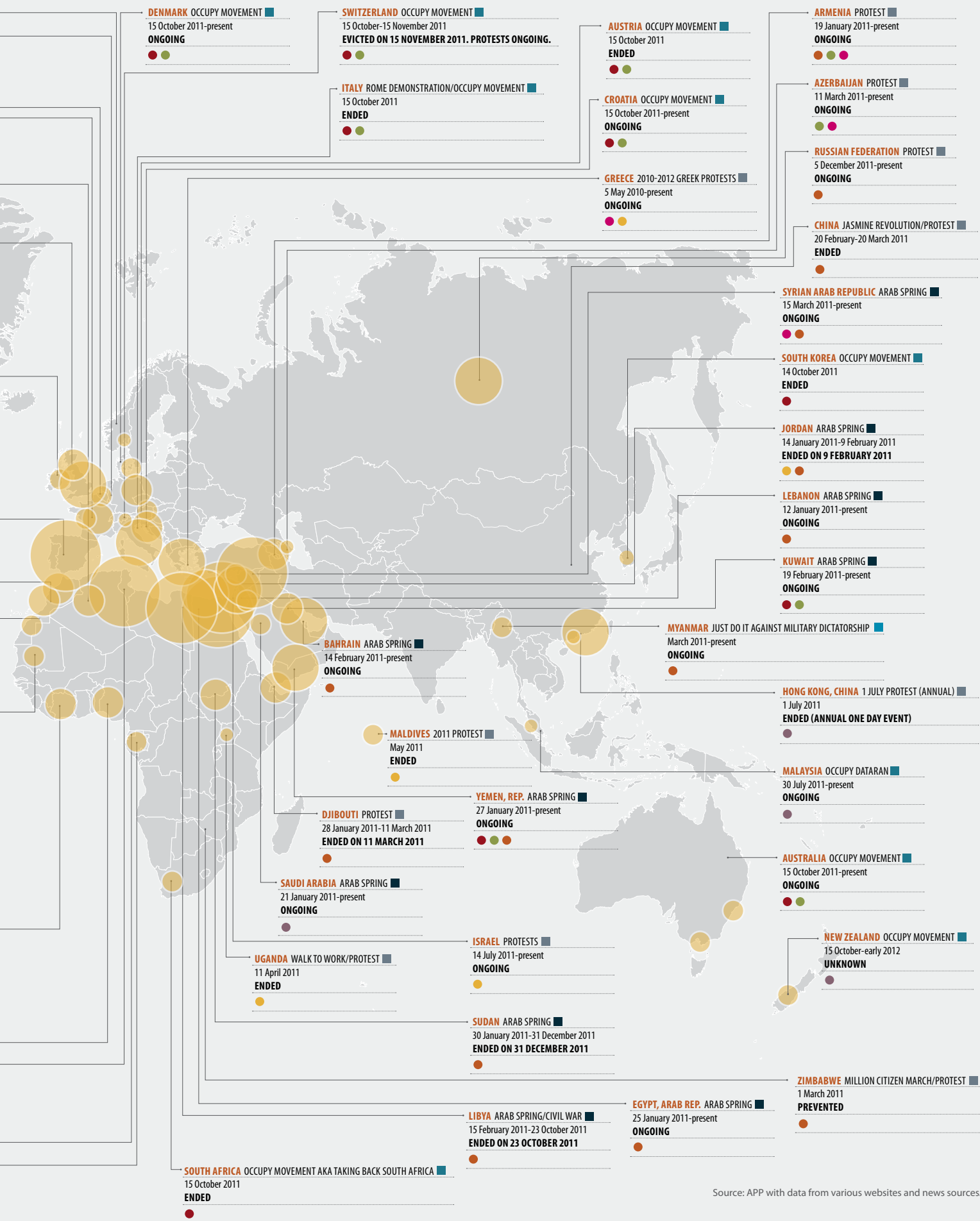


MOHAMED BOUAZIZI

THE MAN WHO SPARKED A REVOLUTION

Mohamed Bouazizi was born and raised in the central Tunisian town of Sidi Bouzid [*]. He earned a precarious living, and helped support his mother and siblings with the proceeds of his vegetable cart. Unable to afford the bribes needed to secure a permit on December 17, 2010, Mohamed Bouazizi had his stock confiscated. When he protested he was beaten by officials and refused an audience with the municipal governor. Confronted by corruption, injustice, and public humiliation, Mohamed Bouazizi doused himself with paint thinner outside the gates of the governor's office and set himself on fire. He suffered burns over 90 percent of his body. He died from his burns on 4 January, 2011. The wave of public protests that followed his death saw President Ben Ali swept from power ten days later and fuelled the uprising in Egypt. *These details on the life and death of Mohamed Bouazizi were reported by journalist Kareem Fahim after extensive interviews in Sidi Bouzid. "Slap to a Man's Pride Set Off Tumult in Tunisia," New York Times, January 21, 2011.





Source: APP with data from various websites and news sources.

Today's patterns of social protest in Africa defy simple classification. In some cases, young people are mobilised to support the demands, claims and counter-claims of competing parties. The youth riots that followed the 2010 elections in Côte d'Ivoire were one extreme manifestation. In Ghana and Senegal, politicians have drawn youth into sometimes-violent political activities. South Africa has seen a surge of social protest since 2009. The focal point has been service delivery, though the underlying issues go far deeper. Some commentators take the view that a growing number of South Africans – especially the young – feel that conventional ways of engaging in politics are failing, and that alternatives may be more effective.

Just as the Arab revolutions took the world by surprise in 2011, there will be unexpected and unpredictable developments in Africa. Like the Arab states, Africa has a demographic bulge. But the differences are also important. Sub-Saharan Africa does not have a vast pool of educated unemployed. Another difference is that Africa has established multiparty democracies, albeit fragile, with most countries routinely holding elections since the 1990s.

None of this diminishes the potential for protest. Like youth across the world, young Africans have hopes and ambitions. And like any youth, they will respond to political systems that deny them a voice by finding other forms of expression.



PART III

GOVERNANCE FOR A BETTER FUTURE

In governance, as in economics, the story of the past decade has been one of steady progress in Africa. Multiparty elections are now firmly established, there have been moves towards greater transparency, and in the most part, armies have stayed out of politics. Many countries have also become more peaceful.

There have been many reminders that the roots of democracy have to be protected with vigilance, including the March 2012 coup in Mali and the protracted dispute and violence that followed the 2010 election in Côte d'Ivoire. Large pockets of low-intensity conflict are perpetuating instability, and the region has continued to witness political violence, natural resource conflicts, terrorism, separatism and high levels of crime, including drug trafficking and organised crime. And some old political habits die hard, as the responses to the Arab Spring demonstrated.

News of that uprising was censored in some countries, with state-controlled or state-influenced media playing down its significance. Some governments responded to the Arab Spring by restricting the activities of civil society organisations – an approach that is likely to prove ineffective and counterproductive.

This section looks at four key governance issues:

1. **Multiparty democracy – playing by the rules**
2. **The changing map of African conflict and instability**
3. **Improving business governance**
4. **Managing natural resources for the public good**

1. MULTIPARTY DEMOCRACY

PLAYING BY THE RULES

Multiparty democracy is now firmly established across Africa, where there were more elections held in 2011 than in any previous year. Some elections have been free and fair; however, many campaigns and voting processes were marred by sporadic violence and intimidation (Box 10).

There have been some less positive developments. Several leaders in Africa have sought and attained legislative approval to extend the number of terms in office permitted under constitutional rules. While there is no age limit on political leadership, the reluctance of some long-serving leaders to leave office is a matter of concern. The world's most youthful region has some of its oldest leaders, many of whom have served for well over a decade. This is not a sign of political health, especially in countries where there are public concerns about a lack of respect for the rule of law, corruption and the management of mineral wealth.

The infographic here provides an overview of the two sides of emerging democracy in Africa. It situates the multiparty elections that took place in 2011, and identifies countries whose presidents have been in office longer than might be seen as healthy in a functioning democracy.

Learning from flawed elections

Multiparty elections are an imperfect measure of democracy and adherence to the rule of law – but they are a necessary condition for both. African citizens have fought hard to secure their right to participate in free and fair multiparty elections – and they have cause to remain vigilant.

In 2011 the quality of elections in Africa was mixed. In Zambia, the opposition candidate, Michael Sata, won an unlikely victory in the presidential elections, ending the 20-year dominance of the Movement for Multiparty Democracy. The Nigerian elections of 2011 were heralded as an advance for democracy, and the process was seen as a dramatic improvement on the polls of 2007. However, the election itself fell far short of international standards. Similarly, although election monitors declared the first round of voting in the Senegalese presidential election largely free and fair, many people saw the elections as illegitimate because the incumbent, Abdoulaye Wade, had ignored mass demonstrations against his decision to run for a third term in office. Wade conceded defeat after being convincingly beaten in a second round run-off by a former associate, Macky Sall – ensuring a transition and sparing Senegal further episodes of violence and instability.

In Uganda, after clearing the way by changing the constitution, President Yoweri Museveni held on to power by a large margin, but the election campaign was marred by intimidation, harassment of opposition figures and the arrest of leading opposition

BOX 10: Taking the pulse of African democracy

Beyond the sphere of elections, several countries had their governance tested during 2011. The decision of the International Criminal Court (ICC) to indict six prominent public figures in Kenya for their alleged roles in the post-election violence in 2008, including two prospective presidential candidates, has far-reaching consequences. Leaving aside the gravity of the charges, it is a matter of concern that, according to opinion polls, Kenyans have more confidence in the ICC's judicial processes than in their own country's courts. On a more positive note, Kenya has adopted a new constitution that will give its citizens a far stronger voice and more deeply entrenched protection for a wide range of civil, political, social and economic rights. The constitution's provisions on "equitable sharing" as a guide for public spending address many of the concerns over inequality raised earlier in this report – and these provisions merit review by other governments across Africa.

Reflecting the fallout from the Arab Spring, the annual survey of political rights and civil liberties conducted by Freedom House found a decline in both dimensions in 2011 for Sub-Saharan Africa, especially in "countries where members of the opposition and civil society made pleas for change in emulation of protests in the Arab world."⁷⁴ More positively, eight Sub-Saharan African countries were among the 87 countries in the world rated free with respect to political rights and civil liberties.

The *Press Freedom Index* 2011–12 by Reporters Without Borders also suggests a widening gap between good and bad performers in Africa⁷⁵. There was a marked deterioration in the standing of countries that cracked down on mass unrest, including Malawi and Uganda. At the opposite end, Niger is being credited with a sharp improvement in its media freedom, underpinned by favourable legislation and a public commitment by its president. Other measurement exercises have been more positive. The *NGO Sustainability Index for Sub-Saharan Africa*, compiled by USAID, found that there had been "more improvement than deterioration" in 2010 (the latest available index) across the seven dimensions assessed, which include the legal and advocacy environment and financial sustainability⁷⁶.

In its latest *Global Trends in NGO Law* (June 2011), the International Center for Not-for-Profit Law (ICNL) found that "the number of restrictive laws is on the rise"⁷⁷. Onerous registration requirements, restrictions on activities, and limits on foreign-sourced financing are cited as evidence of this backlash against civil society in several countries, including Ethiopia, Zambia, Uganda and Zimbabwe.

candidates. Even in Liberia, where the Nobel Prize winner Ellen Johnson Sirleaf won a convincing victory in the presidential election, the campaign process was dogged by controversy. The main opposition candidates accused the government of vote-rigging and boycotted the second round of voting.

Recent history cautions against the view that elections are an automatic source of political stability. In some cases, including Côte d'Ivoire (2000, 2010), DRC (2011), Kenya (2007/08), Zimbabwe (2007) and Uganda (2011), elections have been associated with a breakdown of institutional rules and processes. Political competition in these and other cases has sought to mobilise people around the cleavages that divide society. The winner-takes-all political systems can exacerbate underlying social tensions since the losers may expect to receive little from the state. Power sharing can serve as a welcome pacifier after divisive electoral processes. In Kenya, the creation

of a unity government quickly ended a bloody period of civil conflict and led to the introduction of a new constitution. In certain contexts, however, power sharing can be manipulated to reinforce hard-line positions, coerce oppositional elements into no-win situations and postpone conflicts that are inevitable.

There are good reasons to be concerned about the impact of multiparty elections on countries with fragile states and diverse societies. By definition, elections increase the level of political uncertainty. The danger is that incumbents fearing defeat may seek to retain power by any means. In some countries this has led to higher levels of corruption, as ruling parties seek to generate funds for election campaigns. In others, it has precipitated electoral violence and the repression of opposition parties and their supporters. In most countries, leaders are less closely connected to military forces (Box 11).

Does the emerging evidence confirm the view of pessimists who claim that Africa is not ready for multiparty democracy? The answer to that question is no – but high-stakes elections can magnify social tensions. Afrobarometer opinion surveys have revealed that ethnic identification tends to peak around election time, reflecting the appeals to identity and language used during campaigns⁷⁸. Direct competition between parties that represent particular groups, regions or religions can certainly exacerbate underlying tensions over issues ranging from land to religious expression. But the social and political costs of restricting multiparty democracy far outweigh the risks of holding elections. To the extent that a broad lesson can be drawn from recent experience in Africa, this is that governments and opposition leaders need to exercise far greater restraint in their campaigning. Political parties need to extend their appeal beyond the narrow identities that divide people, to address the problems that people share and build a sense of common identity.

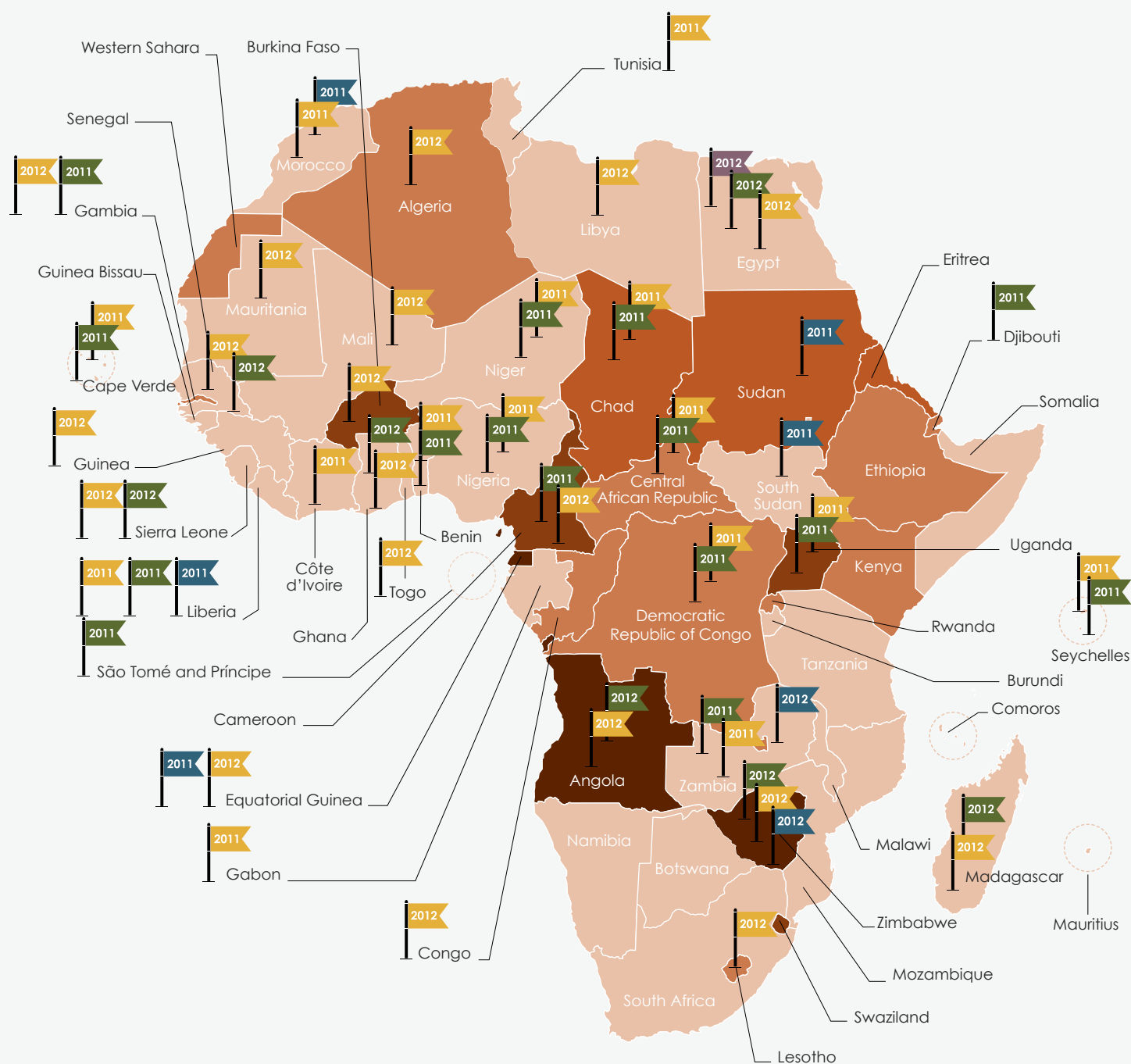
The bottom line is that rules-based competition between parties offering different visions and policies is the life-blood of democracy. That is why competition has played such an important role in political liberalisation – and in democratic reform in Africa. Making sure that the opposition's legal status is recognized and protected is vital. Whether or not they are genuine democrats, opposition parties are likely to push for political liberalisation because a more level political playing field is in their own interests. In this way, political competition can encourage those excluded from power to invest in strengthening democratic processes, whatever their normative beliefs and personal ethics. In Ghana, for example, the main opposition party campaigned on a number of issues relating to the design of the electoral and political system, pressuring the government into a series of concessions which, along with a gradual strengthening of the opposition itself, gave rise to a freer, fairer and more competitive political landscape.

BOX 11: When military figures hold on to power

Since independence, the military has played a major role in shaping the prospects for stability and democracy in Africa. By 1980, more than two-thirds of Sub-Saharan African countries had experienced some form of military rule. Following the reintroduction of multiparty politics, however, the political role of the military has become less obvious. Almost all governments in Africa are now officially civilian. In the 1970s, the majority of African leaders left power through violent means, such as coups or assassinations; today most transfers of power occur constitutionally, through elections or term limits. In many countries, however, civilian governments are actually staffed by military figures who have taken off their uniforms but not severed their military ties. In Angola, Burundi, Namibia, Mozambique, Rwanda, Uganda and Zimbabwe, parties came to power that had previously been liberation armies or military forces, and appointed cabinets that reflected their roots.

In many countries, the dividing line between the armed forces and the government has yet to be established. And while some governments have engaged in democratic backsliding, those run by military figures are more likely to respond to criticism by limiting freedoms, because they come from strongly hierarchical organisations.

Figure 18:
ELECTORAL MAP



Head of State/Government, years in office

0- 8 years 9 - 15 years 16- 22 years 23- 30 years > 30 years

Presidential election Parliamentary election Referendum Senate election

Source: APP with data from Election Guide (www.electionguide.org) and from the Electoral Institute for Sustainable Democracy in Africa (www.eisa.org.za)

2. THE CHANGING MAP OF AFRICAN CONFLICT AND INSTABILITY

The Arab Spring has profoundly changed how governments, analysts and civil society view social protest, as outlined in Part II above. Both the parallels and the differences with Africa are instructive. As the events of the Arab Spring unfolded in early 2011, protests in Sub-Saharan Africa barely registered with the international media, yet demonstrations took place in 26 countries. None developed into comparable mass uprisings, despite clear similarities in grievances: repressive regimes with long-serving leaders, restricted civil liberties, widespread corruption, high poverty levels and youth unemployment, and rising food and fuel prices.

So why didn't the Arab Spring spark a more telling revolt south of the Sahara? In part, because the underlying political conditions are very different. Democracy, multiparty elections and political freedom are more deeply embedded in Sub-Saharan Africa. In North Africa, where elections were carefully stage-managed to secure the re-election of autocrats, the absence of free and fair polling became a focal point for popular mobilisation. Levels of education may also have been significant. Unlike Tunisia and Egypt, countries in Sub-Saharan Africa do not yet have the large social mass of educated, unemployed youth that shaped the Arab Spring –

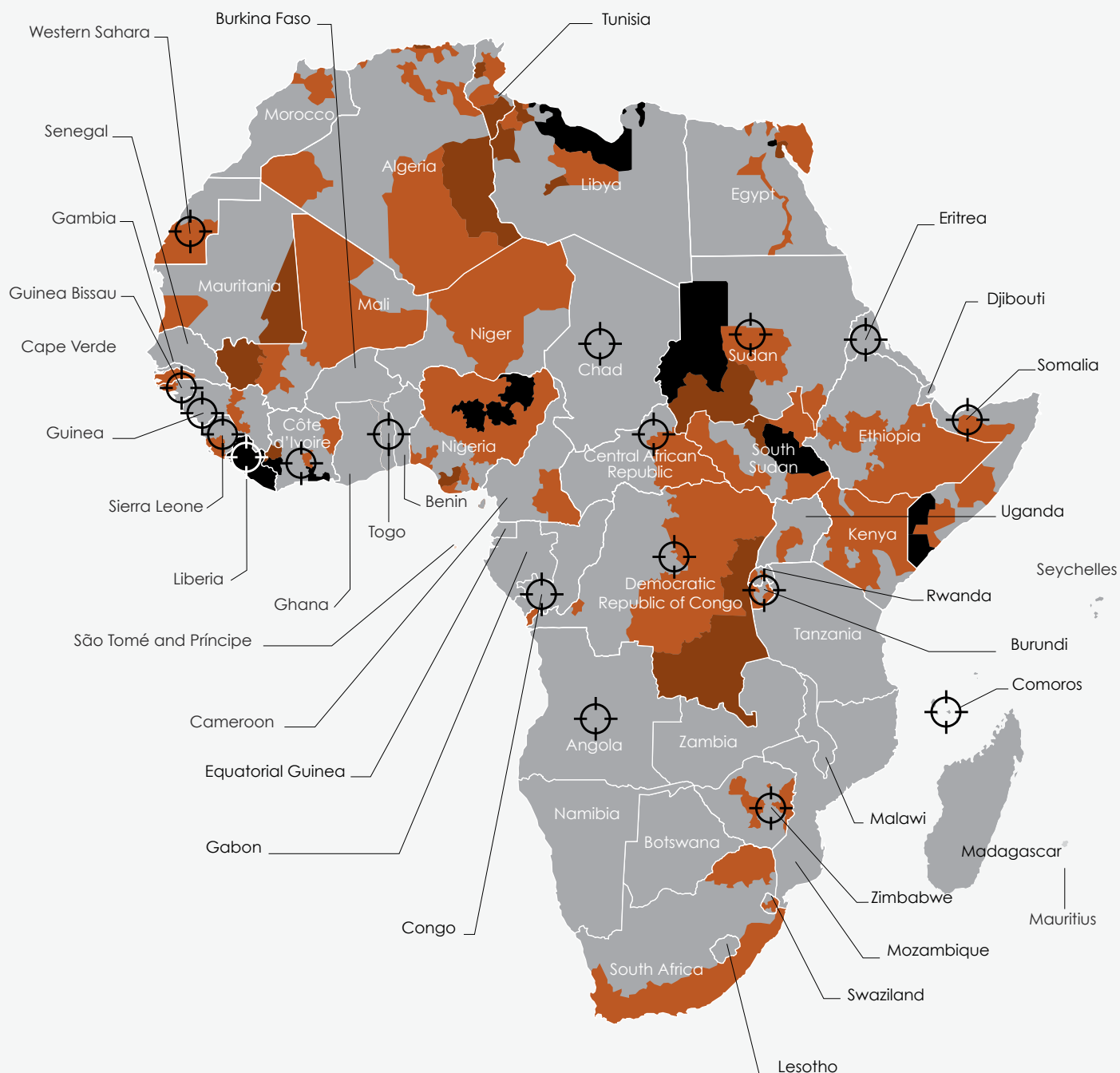
and social media campaigning is still in its infancy (see Part II).

Social protest and violence in Sub-Saharan Africa have taken different forms. While some conflicts continue to be caused by clashes over resources, an alarming new trend is the rise in conflict surrounding electoral processes (as in Côte d'Ivoire), failed peace agreements (such as between Sudan and South Sudan), and ethnic or sectarian violence (as in Nigeria and Somalia)⁷⁹.

There is good news and bad news on conflict. The good news is that the level of armed violence is diminishing, with Africa's share of the world's violent conflicts falling from 55 per cent in 2002 to 24 per cent in 2011. The bad news is that Africa still accounts for 23 per cent of refugees and 42 per cent of internally displaced people worldwide⁸⁰. Pockets of low-intensity conflict are perpetuating instability in the region. Meanwhile, people face threats to their security from political violence and coups d'état (Niger, Madagascar, Mali, Mauritania, Libya, Zimbabwe), over the conflicts related to control of natural resources (DRC, Ethiopia, Nigeria), high levels of crime (South Africa, Egypt), drugs trafficking and organized crime (West Africa), terrorism (Algeria, Somalia, Kenya, Mali, Mauritania, Niger, Nigeria), and separatism (Somalia, Mali, DRC, Nigeria, Senegal, Sudan, Uganda). Children and women are particularly vulnerable – for example, Africa accounts for two-thirds of the world's estimated 300,000 child soldiers, and sexual violence predominately against women and girls accompanies armed conflict.

Figure 19:

CONFLICT AND FRAGILITY



VIOLENT CONFLICTS IN AFRICA

In 2002 55% of worldwide violent conflict took place in Sub-Saharan Africa, in 2011 the share had dropped to 24%. Countries emerging from violent conflict have shown some of the most encouraging examples of development gains. Large parts of Sub-Saharan Africa have become more peaceful, including West Africa and parts of the Great Lakes. Many peaceful regions have consolidated even in countries with persisting patches of violent conflict.

Source: APP with data from the Conflict Barometer 2011 published by the Heidelberg Institute for International Conflict Research (HIIK)

Escaping conflict

Armed conflict is a major reason for the slow pace of progress towards the Millennium Development Goals. People in fragile and conflict-affected states are more than twice as likely to be undernourished as those in other developing countries, and less than half as likely to have access to clean water. Children are three times less likely to be in school and twice as likely to die before they reach the age of 5 years. The average cost of civil war is equivalent to more than 30 years of GDP growth for a medium-size developing country, with civil wars reducing growth by about 2.3 per cent a year. So it is not surprising that so far, no low-income fragile or conflict-affected country has achieved a single MDG⁸¹. Violent conflict and civil war are “development in reverse”⁸².

While conflict makes countries and people poorer, the relationship works in the opposite direction also: countries with lower GDP per capita tend to experience both large-scale political conflict and high rates of homicide. Slow growth, stagnation or economic decline also makes a country more prone to civil war. Youth unemployment is consistently cited in citizen perception surveys as a motive for joining both rebel movements and urban gangs⁸³.

Recent economic growth performance suggests that parts of Africa may be pulling out of the conflict trap as governments and development partners

tackle one of the greatest challenges facing the region: capitalising on the opportunity created by rising income. Experience has shown that targeted post-conflict interventions can provide further leverage for peace, especially when they restore confidence in state institutions. In post-conflict situations, when it is unlikely that the private sector will create jobs quickly, public works programmes can absorb some of the unemployed and restore basic services. Aid has a vital role to play. Throughout Africa, official development assistance is one part of an increasingly complex resource equation in which domestic revenues, foreign direct investment, trade, remittances, peacekeeping expenditures and illicit outflows play pivotal roles, and the modalities of aid delivery have yet to adapt to this. However, aid remains a crucial injection in countries emerging from conflict: it saves lives, counterbalances economic swings, and can help set a crisis-affected country on the road to recovery.

That is why donors' failure to seize the opportunity to deliver an education peace dividend in South Sudan has been so disappointing (see Box 4). One of the problems with development assistance in conflict- and post-conflict environments is that it is often governed by unpredictable and short-term humanitarian aid budgets. Turning a fragile peace into reforms that raise institutional performance and mitigate the risk of a return to violent conflict requires long-term predictable support⁸⁴.

3. IMPROVING BUSINESS GOVERNANCE

Good business governance is critical not just as a goal in its own right but also as a tool for economic growth and job creation. Africa needs good-quality domestic and foreign investment in order to enter higher value-added, employment-intensive areas of production. Poor business governance discourages long-term investment. It contributes to a culture of short-termism, in which the investment community responds to perceived risk by seeking high profit margins and avoiding the re-investment of profit in local enterprises.

Most observers continue to view business-environment trends in a positive light. The World

Bank/IFC's latest Doing Business analysis found that 36 of 46 governments in Sub-Saharan Africa improved their economy's regulatory environment for domestic businesses in 2010/2011⁸⁵. Business indicators cannot be viewed in isolation, however. The wider governance environment also matters.

The Ibrahim Index of African Governance underlines the need for a more rounded set of measurement tools and a balanced approach to governance. Summarising the evidence on the four high-level categories covered by the index, the 2011 report commented: "the majority of countries have improved in both *Sustainable Economic Opportunity* and *Human Development*, but this progress is not mirrored in *Safety and Rule of Law* and *Participation and Human Rights*."⁸⁶ The record shows that sustainable gains in overall governance require even and balanced progress in all four categories.

BOX 12: Regional governance initiatives show promise

Several encouraging regional initiatives promise to improve governance in Africa. A renewed pan-African pride is also stirring, as the African Union (AU) approaches the 50th anniversary next year of the establishment of the Organisation for African Unity. The hope is that these developments will produce meaningful benefits for Africa's people beyond the inevitable declarations and communiqués.

The most important homegrown governance initiative in Africa is the New Partnership for Africa's Development (NEPAD), which is now under the umbrella of the AU, and which is based on the Declaration on Democracy, Political, Economic and Corporate Governance adopted by the AU in 2001. Adherence to this Declaration is monitored through the African Peer Review Mechanism (APRM); 33 countries have now acceded to the APRM, of which 13 have been peer-reviewed⁸⁷. At its summit in January 2012, the Committee of Participating Heads of State and Government took several steps that gave a new impetus to the APRM, including filling several vacancies on the APR Panel of Eminent Persons who lead country reviews.

Two new initiatives by African institutions aim to improve financial governance. First, the African Development Bank (AfDB) and the African Capacity Building Foundation jointly launched the African Governance Outlook, a diagnostic tool for financial governance — in particular, public financial management — on a regional scale⁸⁸. The outlook is being piloted in selected African countries that participate in the APRM but no country analysis has yet been issued. Second, in February 2012, the UN Economic Commission for Africa established a High Level Panel on Illicit Financial Flows from Africa, chaired by former president Thabo Mbeki of South Africa, to raise awareness of illicit financial flows and recommend policies to curb them. The importance of this work can hardly be overstated. As well as being linked to criminality and violence, illicit financial flows can generate exchange rate instability, inflation, speculative bubbles in property markets and wider economic contagion effects.

At the end of 2010, the Organisation for the Harmonization of Business Law in Africa, which groups 16 countries in West and Central Africa, adopted a common law governing credit guarantees, thus addressing a significant obstacle to doing business⁸⁹. In 2011, the AfDB's new African Legal Support Facility (AFLS) started operations, including a capacity-building project and advice on the development of contracts in the natural resource sector. One area in which the AFLS could consider developing further expertise is land management. As we highlighted in Part II, the post-2007 surge in land grabs across Africa has drawn attention to the limited capacity of African governments to manage foreign investment in this vital area.

Corruption and lack of transparency remain pervasive concerns, undermining social, economic and political progress at many levels. For ordinary Africans who are obliged to pay illegal charges for education, health or the marketing of goods, corruption is a source of diminished opportunity. For investors, corruption raises the costs of doing business, with damaging consequences for economic efficiency and jobs creation. And corruption has corrosive effects on political systems, making it possible for leaders to use their office in the pursuit of private gain rather than the public good. A lack of transparency leads to inefficient and inequitable use of natural resources. It is ultimately up to African citizens and governments to combat corruption through their national political systems. However, global initiatives and measurement tools can provide support.

The Open Government Partnership (OGP) is a promising new multilateral initiative that aims to secure concrete commitments from governments to promote transparency, empower citizens, fight corruption and harness new technologies to strengthen governance⁹⁰. Jointly spearheaded by the United States and Brazil, the OGP was formally launched in September 2011 by eight founding governments – including South Africa – that endorsed an Open Government Declaration and announced their country action plans. Since September 2011, 43 additional governments have committed to join the partnership, including Ghana, Kenya, Liberia and Tanzania. In the spirit of collaboration, the OGP is overseen by a steering committee of governments and civil society organisations, and performance will be independently assessed against action plans.

According to the most recent Corruption Perceptions Index produced by Transparency International (TI), the best-ranked African country in 2011 remains Botswana, followed by Cape Verde, Mauritius and Rwanda. In many other countries, corruption remains a barrier to investment and efficiency.

Multilateral efforts to combat corruption have a mixed record. The UN Convention Against Corruption (UNCAC) entered into force at the end of 2005, but was only recently equipped with an implementation review mechanism. Terms of reference for this mechanism were adopted in November 2009, calling for a combination of self-assessments and peer review. The mechanism started up in July 2010, with 27 countries selected for review in Year 1 of the first five-year cycle. There were eight African countries in this first group, among which Rwanda was the first to present its self-assessment. Regrettably, the terms of reference stipulate that the “country review reports shall remain confidential”, although executive summaries of a few reports have been published. Also regrettably, an earlier decision to exclude civil society representatives from review meetings was maintained, despite lobbying by several country governments on behalf of the UNCAC Coalition of Civil Society.

Corruption is not just an African problem. For every corrupt African government or official engaged in siphoning off a “rent” from contracts with foreign investors, there is a counterpart –mostly in the foreign investment community. Monitoring of the 1997 OECD Convention Against Bribery, which addresses the “supply side” of corruption, entered a new phase in 2011. While Phases 1 and 2 focused on the adequacy and effective application of anti-bribery legislation by countries that have signed the convention, the present Phase 3 focuses on the actual enforcement of the convention. Recognized by the relevant OECD Working Party, civil society –led by Transparency International foremost – has played a key role in pushing for effective enforcement of this important convention.

Some African leaders fall far short of expectations but there is growing awareness that they often work with multinational corporations and/or governments of developed countries that pursue their own geo-political agenda. Therefore, the various conventions against corruption, drug trafficking and other transnational crime as well as geo-political expediency by some governments are critical.

4. MANAGING NATURAL RESOURCES FOR THE PUBLIC GOOD

The governance of natural resources is of vital importance for Africa's development. Minerals and oil can represent over 40 per cent of national budget revenues – rising to 98 per cent in the case of oil in South Sudan. In this sector, good governance is about harnessing the financial capital embedded in natural resources and converting it into the physical infrastructure and human capital on which dynamic growth, employment creation and shared prosperity depend. Effectively utilized, the revenues from natural resources could close some of the glaring inequalities and justice gaps identified in this report. Optimizing other aspects of mineral development, such as environmental protection, labour conditions, local processing and other linkages depends very much on good governance of all actors.

Governments are now much more aware of the high stakes involved in managing natural resources, and civil society is increasingly well organized and effective in highlighting violations of good practices. While many governments lack either the political will or the technical capacity – or, more commonly, both – to manage natural resources effectively in the public interest, several resource-rich countries in Africa have stepped up efforts to improve natural resource governance, combining national programmes with participation in global and regional initiatives.

At the global level, the Extractive Industries Transparency Initiative (EITI) has made further strides in Africa, with 22 African countries implementing the initiative, of which seven are already deemed to comply with its standards⁹¹. Reform discussions are underway at the EITI on making the reconciliation reports pertaining to government revenue from oil, gas, and mining more informative and accessible, and on tackling the transparency challenges of payments in kind and of barter transactions. It has also been proposed to broaden the mandate of the EITI to other components of the value chain, especially contracting. Barter and contracting are particularly relevant to Africa, including from the perspective of capacity building and legal support, as now being offered by the AfDB (see Box 12).

Operating under the umbrella of the EITI (where 21 African governments are publishing all revenues from their oil, gas and mining sectors), some countries have chosen to extend their revenue transparency programmes to non-traditional resource sectors – in Liberia's case, for example, forestry and commercial agriculture. Nigeria is implementing a broad-based Facility for Oil Sector Transparency. Taking their cue from the Kimberley Process certification of diamonds (see below), other countries are experimenting with the certification of mineral and forestry products.

At the regional level, the adoption of the African Mining Vision in 2008, and of an accompanying Action Plan in December 2011, represent potentially important steps towards beneficial and sustainable natural resource exploitation in Africa. A Mineral Development Centre, soon to be established at the AU/ECA, will guide implementation of the vision and plan.

The momentum created by the EITI and its civil society supporters has been strengthened through recent legislation by the United States Congress, the Dodd-Franks Act, requiring US-listed extractive companies (even if not domiciled but in the United States) to disclose their extractive industries payments by country and by project. The US Securities and Exchange Commission has still not issued regulations to flesh out this new disclosure requirement, however, amid intense lobbying on both sides of this transparency effort. The EU is at a similar stage of introducing comparable rules for EU-domiciled companies. Mandatory disclosure requirements of this detail and reach could transform the resource governance landscape in Africa.

In addition, the OECD has recently developed the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, which provides the first comprehensive set of government-backed recommendations to help companies respect human rights and avoid contributing to conflict through their mineral purchasing decisions and practices. In cooperation with partner countries of Africa's Great Lakes region, the World Bank and the United Nations, the OECD is coordinating a project to ensure use of the Guidance and its Supplement on Tin, Tantalum and Tungsten by companies sourcing minerals from the region. Currently 82 companies and industry associations have volunteered to take part in the project. In the second half of 2012, the OECD will launch an implementation programme for the recently completed Supplement on Gold.

Another initiative that has gained considerable traction is the Natural Resource Charter (NRC), drafted by an independent group of experts in economically sustainable resource extraction and organized around twelve precepts of natural resource governance⁹². Having won the endorsement of the AfDB and NEPAD, with which it is beginning a promising programme of work at country level, the NRC is now developing and piloting a Charter-based benchmarking methodology in several countries. In Nigeria, NRC scores are to serve as goal-level indicators for the ambitious multiyear Facility for Oil Sector Transparency. Meanwhile, the Kimberley Process Certification Scheme for rough diamonds, currently in its tenth year, is seeking to restore its credibility, with Botswana chairing a working group to review the effectiveness of the process⁹³.

Figure 20: RESOURCES

NEW DISCOVERIES

DISCOVERIES IN Q1 2011	
Natural Resource	Country
Oil	Ghana (West Cape Three points)
Gold	Tanzania (Handeni region)
Iron Ore	Liberia (Bopulu and Timbo)
Manganese	Gabon (Ndjole)
Diamond	Sierra Leone (Tongo)
Natural gas	Tanzania (offshore)

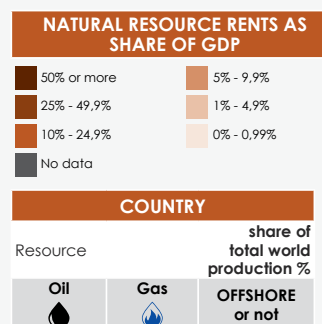
NEW PRODUCTION TO COME ON STREAM IN 2011	
Natural Resource	Country
Coal	Mozambique
Oil	Ghana
Copper	Zambia (Kankola North)
Manganese	Gabon

Source: Africa Mining, various issues

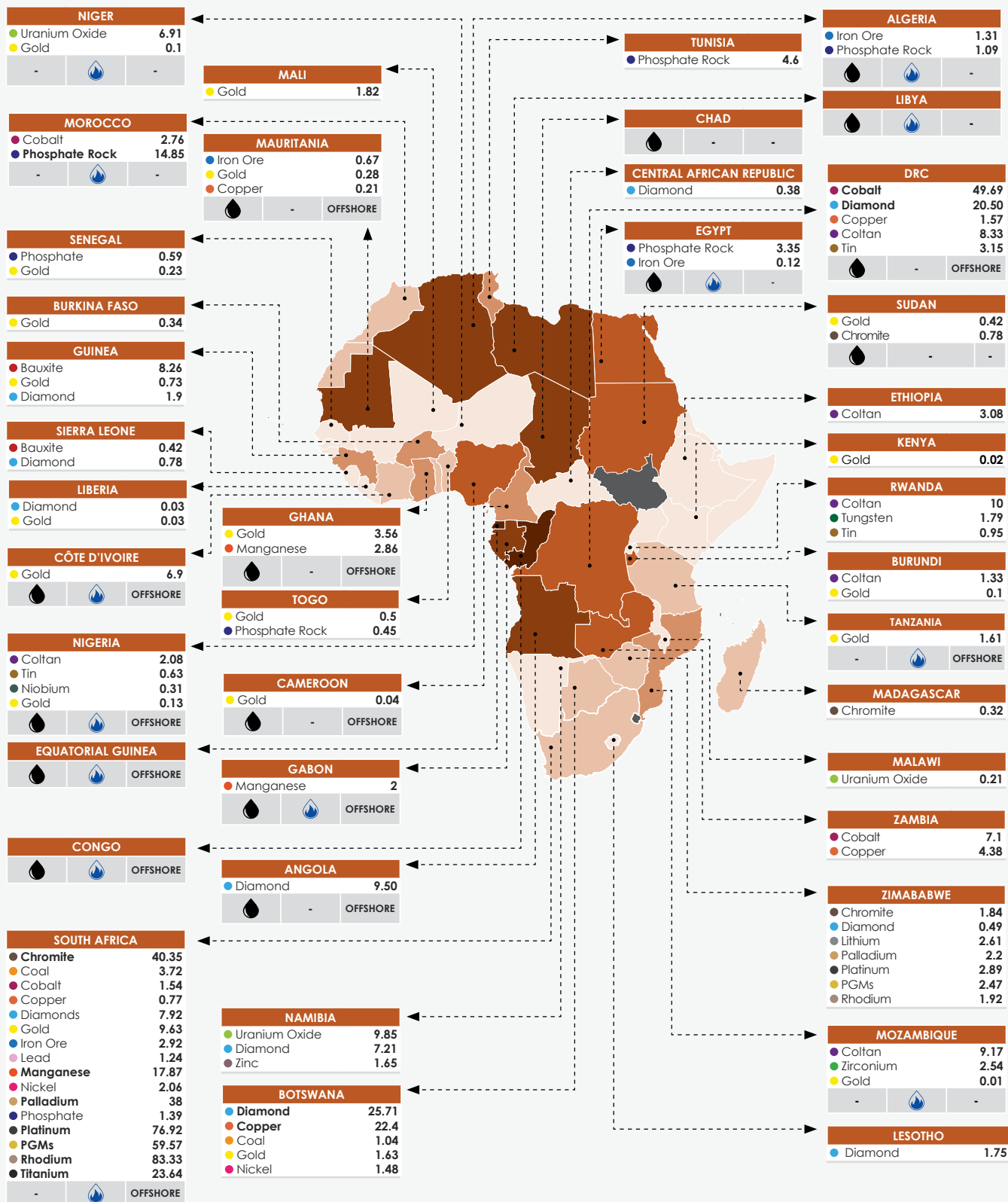
WHAT RESOURCES ARE FOR

- **Bauxite:** Aluminum for packaging and transport (aircraft, cars)
- **Chromite:** Stainless steel
- **Coal:** Power generation
- **Cobalt:** Batteries, metal alloys
- **Coltan:** Electronic devices; mobile phones
- **Copper:** Electrical wires and telecommunications cables
- **Diamond:** Jewellery
- **Iron Ore:** Steel for construction etc
- **Gold:** Jewellery (and as a store of value)
- **Lead:** Car batteries
- **Lithium:** Batteries for electronic devices
- **Nickel:** Stainless steel, magnets
- **Niobium:** Steel production and alloys
- **Manganese:** Steel production
- **Palladium:** Catalysts, electronics
- **Phosphate Rock:** Fertiliser
- **Platinum:** Catalytic converters (for cars)
- **Platinum group metals (PGM):** Catalytic converters (for cars)
- **Rhodium:** Catalysts, electronics
- **Tungsten:** Alloys and other industrial uses
- **Uranium Oxide:** Power generation
- **Zirconium:** Ceramics
- **Tin:** Solder and alloys
- **Zinc:** Alloys and batteries
- **Titanium:** Pigments, alloys and aerospace

In bold: Resources that account for over 10% of global production



Data Source: Raw Materials Group Database, 2012







PART IV EDUCATION – A TWIN CRISIS IN ACCESS AND LEARNING

Learning is the engine that drives economic growth, fuels innovation and creates jobs. It is what equips countries – and people – with the skills they need to escape the gravitational pull of poverty and build shared prosperity. And it is what empowers people, enabling them to build more secure livelihoods, enjoy better health and participate in political processes that affect their lives. For all of these reasons, Africa's ongoing education crisis demands the urgent attention of political leaders and aid partners.

We do not use the word "crisis" lightly. In education, as in other areas, much has been achieved over the past decade. Enrolment levels have soared. More children are making it through primary education into secondary school. Gender gaps have narrowed. Many countries have registered a pace of advance that would have been inconceivable when the MDG commitments were made. Yet, on current trends, the target of universal primary education by 2015 will be missed by a wide margin, leaving millions of children out of school – and there are worrying indications that progress may be slowing. Meanwhile, many of the children in school are receiving an education of such abysmal quality that they are learning very little. Far from accumulating "21st-century learning" skills, millions of Africa's children are emerging from primary school lacking basic literacy and numeracy.

The twin education deficits in access to school and learning in school have far-reaching consequences. They are undermining the potential of a whole generation of children and young people, reinforcing social divisions and damaging prospects for sustained and shared economic growth. Africa's governments have placed considerable emphasis over the past 10 years on putting in place the macroeconomic policies needed to support growth – and rightly so. But the kind of broad-based growth that Africa needs is simply not possible if its people lack the necessary skills and capabilities on which dynamic and broad-based growth depend.

Left unattended, this imbalance in priorities will have damaging consequences for Africa's future. In an increasingly interconnected and knowledge-based global economy, today's disparities in education are tomorrow's inequalities in income, trade and investment. More than ever, the prosperity of nations hinges less on what countries have (their natural

resource capital) than on what their citizens are able to learn (their human capital). And what is true for countries is also true for people. Those denied an opportunity to develop their potential through education face the prospect of marginalisation, poverty and insecure employment.

Education has the potential to transform Africa's social and economic development. Unlocking that potential will require governments to act with urgency on three fronts. First, every government needs to redouble its efforts to ensure that all children are in school by 2015. Second, far greater attention must be directed towards the quality of education and learning achievement. Africa needs to embrace what researchers at the Brookings Institution have described as a "global compact on learning" – a compact that puts a premium on results. Shortly after Ghana's independence, its first president, Kwame Nkrumah, said: "We shall measure progress by the number of children in school, and by the quality of their education."⁹⁴ Too many governments – and donors – have forgotten the quality part of the equation.

The third priority goes to the heart of the wider agenda for jobs, justice and equity. Both in access and education quality, Africa has some of the world's most glaring education inequalities. Most countries have constitutional provisions that enshrine the right of all citizens to an education, without regard to their circumstances. Yet all too often being born into a poor family, living in a rural area, being female or coming from a conflict-affected region is a marker for extreme disadvantage in education. These inequalities are acting as a brake on progress towards the MDGs, reinforcing wider social disparities and undermining economic growth. That is why governments need to put equity at the centre of their education strategies.

1. THE EDUCATION PROGRESS REPORT

Measured by the number of children sitting in classrooms, Africa has registered some remarkable achievements. The net enrolment rate, which measures the proportion of primary-school-age children registered for school, increased from 60 per cent in 2000 to 76 per cent in 2009. Over the same period, out-of-school numbers fell from 42 million to 30 million⁷⁵. Given that Africa has the world's fastest-growing primary-school-age population, these outcomes are even more impressive than the headline data suggest. Gender disparities have also declined. And there has been a marked increase in secondary-school participation, with the enrolment rate increasing from 24 to 34 per cent.

When the MDG commitments were made in 2000, few observers would have predicted the achievements registered by many countries. Tanzania had over 3 million children out of school and enrolment was declining. Today the country is within touching distance of universal primary enrolment. From Burkina Faso to Ethiopia, Mozambique, Senegal and Zambia, one country after another has made a breakthrough in enrolment. From a far lower base, Niger has increased enrolment rates by 50 per cent. Just six years ago, the region that is now South Sudan was emerging from a brutal civil war. Since then, enrolment levels have doubled – a remarkable testimony to the importance that the new country's parents attach to the education of their children.

Impressive as the growth in school participation may be, Africa is not on track to achieve the MDG targets. If the trend from 2004 to 2009 is continued, there will still be 17 million out of school in 2025 – two primary-school generations after the 2015 target date for universal education⁷⁶. Disconcerting as these figures are, they tell only a partial story. Another 12 million African children enter school only to drop out before completing a full primary-school cycle, many of them in the early grades of education. In Mali, only one in three children who enter school make it to the last grade.

Why do so many of Africa's children drop out of primary school? The reasons vary across and within countries. For poor households, formal and informal fees, and charges associated with textbooks, can create cost barriers. The poor quality of education is another factor (see below).

Young girls face distinctive barriers. Many start school late, and early marriage often cuts short their school years. In Niger and Chad, over 30 per cent of young girls are married before the age of 15, and for a far wider group of countries – including Mali, Mozambique, Ethiopia and Burkina Faso – over half marry by 18⁷⁷. In the vast majority of cases, early marriage signals the end of education. At the same time, keeping young girls in primary school is one of the most effective sources of protection against early marriage.

Africa's education deficits do not end with primary education. There are 19 million adolescents out of school, many of them making the transition to work without having completed a basic education⁷⁸. Compared with Sub-Saharan Africa, teenagers in South Asia are 50 per cent more likely to be in secondary school; and those in East Asia are twice as likely to get a secondary education. Stated bluntly, Africa's human capital foundations are too weak to sustain dynamic economic growth and shared prosperity.

Inequalities are hampering progress

Regional aggregates mask underlying inequalities in access to education. Disparities linked to wealth, gender, ethnicity, the rural-urban divide and other markers for disadvantage create social fault-lines running through the region's education systems. As countries have moved closer to universal access, the challenge of combating these disparities has been brought into sharper focus. Continued progress towards the goal of universal primary education by 2015 will require interventions that reach those who have been left behind.

Gender inequalities remain endemic. While the disparities are narrowing, girls still account for a disproportionate share of out-of-school children. There are just 8 girls for every 10 boys in secondary school⁷⁹.

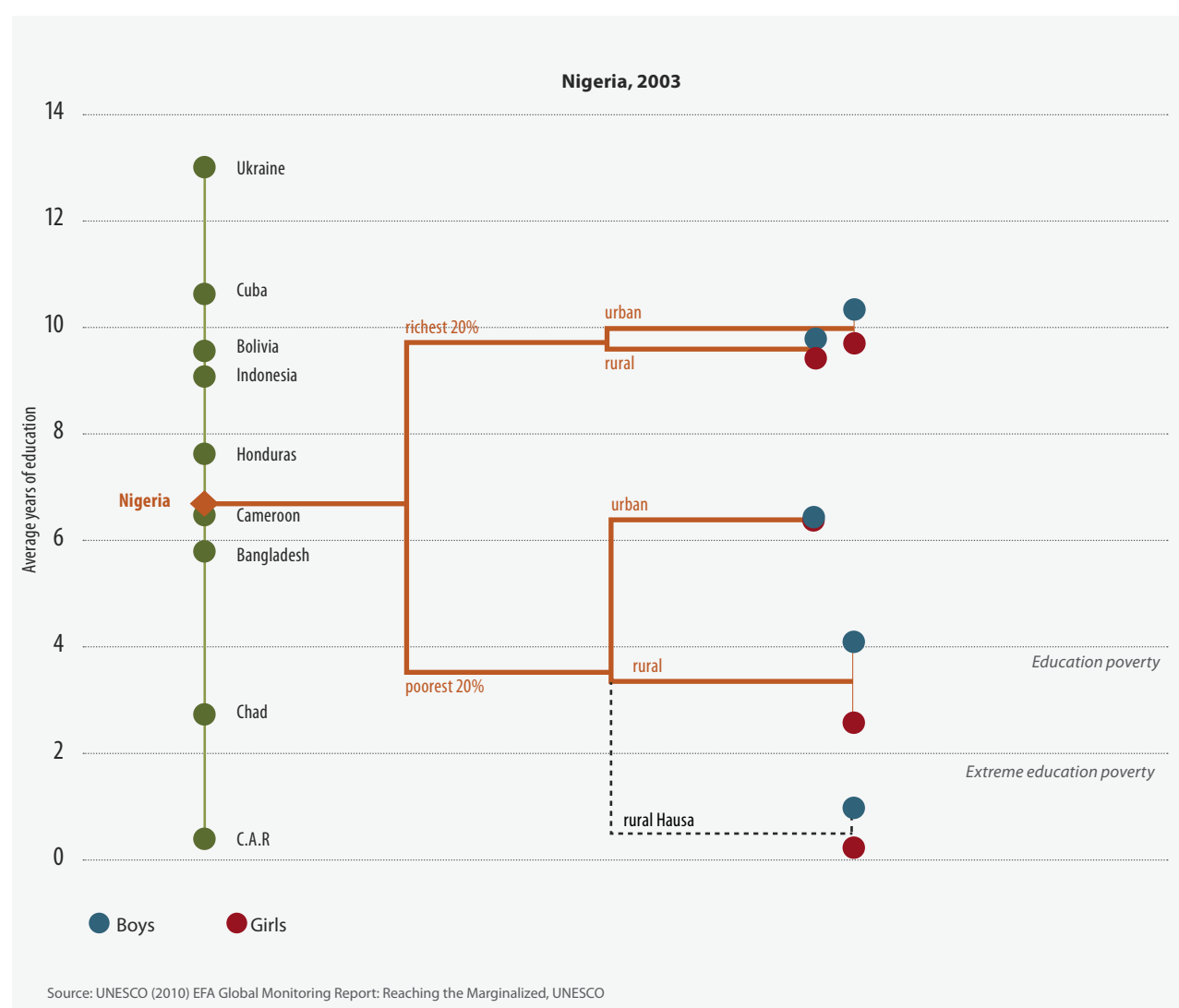
Wealth gaps and regional disparities are equally marked. Children from the poorest households are less likely to get into school, and those who do enter are more likely to drop out. In Mali, young adults from the poorest 20 per cent of households have received on average five years less education than those from the wealthiest households – and this is not atypical. In Kenya, a group of 12 counties in the arid and semi-arid northern region accounts for around 20 per cent of the country's population, but 46 per cent of the out-of-school population.

None of these inequalities operates in isolation. Disadvantages linked to wealth, gender and location have mutually reinforcing effects. UNESCO's Education for All Global Monitoring Report developed a measurement tool – the Deprivation and Marginalisation in Education indicator – that charts the impact of overlapping inequalities in limiting opportunities for education. One illustration comes from Nigeria, where poor rural Hausa women aged 17 to 22 average less than one year in school. The comparable figure for urban males from wealthy households is over nine years in school (Figure 21). Africa's pastoralist communities provide another illustration of the region's overlapping inequalities. Among those aged 17 to 22 in Senegal, 57 per cent of women report having less than two years of education¹⁰⁰. For women from the pastoralist Poular community, that figure rises to 80 per cent. Similar

patterns of disadvantage occur in Ethiopia, Uganda and Kenya (Figure 22).

Accelerated progress towards universal access to education will require a far stronger focus on the most marginalised children. Governments across much of Africa face a common challenge. The surge in enrolment over the past decade reflects the success of policies that have made education more accessible, such as the withdrawal of school fees and large-scale school construction. But reaching the last 10–20 per cent will require additional measures targeting the most marginalised and hardest to reach – including child labourers, girls forced into early marriage, children living in urban slums and remote rural areas, disadvantaged ethnic groups and the disabled.

Figure 21: THE EDUCATION INEQUALITY TREE



Learning outcomes – a weak record

If getting more children into school has been a partial success story, the evidence on learning points in a different direction. That evidence remains fragmented and partial, in part because policymakers have attached insufficient weight to collecting data and developing learning-assessment systems. Even so, it is apparent that Africa's schools are failing millions of children.

Learning-assessment exercises provide a window onto the state of education. Zambia has made rapid progress towards universal primary school enrolment, with over 90 per cent of primary-school-age children in school. But half of the children in the last grade are unable to meet basic literacy standards. It has to be emphasized that such outcomes are the rule, not the exception.

This is a state of affairs that merits consideration outside the confines of education ministries. Governments across the region invest heavily in education. Public spending on education averages over 5 per cent of GDP, one of the highest levels for any region in the world. Since 2009, average annual spending has increased by 6 per cent a year. Yet learning outcomes fall far short of the levels needed to unlock the potential of education to act as a force for sustained growth, innovation and accelerated poverty reduction.

Skills deficits among Africa's youth

There are 173 million young Africans aged 15 to 24. The majority have made the transition from childhood to the world of work with limited education. Only a minority went to secondary school, and the majority did not complete primary education.

These education deficits are reflected in labour markets. Youth unemployment rates in Sub-Saharan Africa are second only to those in the Middle East and North Africa, with one in five affected. Those in employment often face lives of working poverty. In Malawi, Mozambique and the Democratic Republic

of Congo, more than 70 per cent of working youth live on less than \$1.25 a day. With Africa's youth population set to grow by 73 million to 2025, no country can afford to ignore the challenge of providing decent jobs.

Youth unemployment and working poverty are two symptoms of wider learning deficits. Having entered labour markets with limited education assets, Africa's youth face restricted pathways for skills development. One survey of youth in Kigali, the capital of Rwanda, found that a lack of access to opportunities for education was seen by young people themselves as the biggest barrier to employment and a better life. Deprived of the chance to develop their skills, young people are left to scramble for employment in insecure, low-wage activities. The sense of helplessness and thwarted ambition experienced by the millions of young people unable to find work inevitably fuels criminality, the threat of violence and instability.

There is a two-way interaction between education and employment. Increasing the general level of education without creating jobs is a prescription for high levels of unemployment and lower wages at higher skill levels. Thwarted youth ambition and frustration over the lack of employment opportunities was a major force behind the Arab revolutions. These revolutions underline the critical importance of aligning enhanced education with job creation. One of the challenges for Africa in this context is to make the transition to more labour-intensive growth patterns.

African governments have been slow to address the skill deficits facing the region's youth. These deficits represent an enormous cost to society in terms of lost potential for economic growth and social cohesion. Yet few countries have put in place, on the scale required, strategies for providing "second-chance" education programmes for young people who missed out in their earlier years, technical and vocational education and training, and support for training in the informal sectors where the vast majority of Africa's young people work. In the absence of a breakthrough in education, even the most effective policies will deliver modest results.

Education inequalities in global perspective

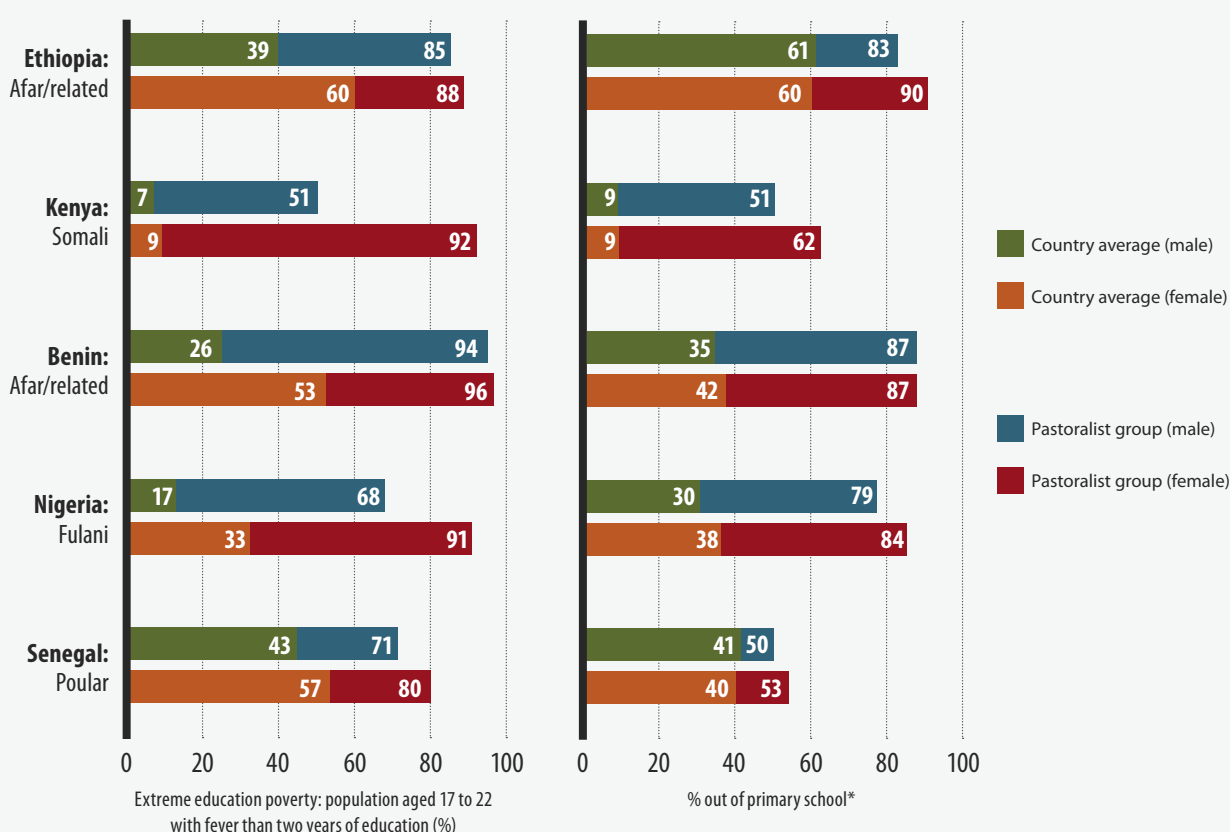
The scale of the education divide that separates Sub-Saharan Africa from other regions is not sufficiently recognized. In the United States and much of Europe, a typical child reaching primary-school-age can anticipate 15 to 18 years in full-time education. Around 70 per cent will go beyond secondary school and into tertiary education – the gateway to the higher levels of knowledge development.

Africa is at the other end of the global distribution. Research by UNESCO's Education for All Global

Monitoring Report has used survey evidence to document the number of years spent in education by those aged 20 to 24 across Africa. In Mozambique, 40 per cent reported less than four years of schooling, rising to 50 per cent or more in Senegal, Ethiopia, Chad and Mali¹⁰¹. Today, a child entering the primary school system in Burkina Faso has less chance of reaching the last grade than a counterpart in Europe has of making it to university. The enrolment rate for tertiary education is just 6 per cent, which is half the level in South Asia and one quarter of the level in East Asia or Latin America. Measured on the standard criteria for participation in education, Sub-Saharan African children and youth have been cut adrift from the rise of opportunity.

Figure 22: PASTORALISTS FACE EXTREME EDUCATION DEPRIVATION

% of the population aged 17 to 22 with fewer than two years of education and % of primary school age children not attending primary school, by gender and membership of selected pastoralist groups, latest available year.



Notes: *% out of primary school: proportion of children of primary school age not attending primary school. Sources: UNESCO-DME (2009); census, calculations by Harttgen and Klasen (2009).

Source: UNESCO, 2011.

2. AN AGENDA FOR ADDRESSING AFRICA'S EDUCATION CRISIS

Education is where sound economics and ethical imperatives come together to make an overwhelming case for action in favour of jobs and of justice. Good-quality education is a solid investment with high rates of return in terms of economic growth and employment creation. And learning is the birthright of all African children, irrespective of their circumstances.

The early years

Efforts to tackle the crisis in education have to start long before children enter school. Good health and nutrition is critical. Learning outcomes in education are strongly affected by the nutritional status of children in their early years, especially the first two years of life. With one in every three of Africa's children experiencing chronic malnutrition in their early years, there is an unfortunate interaction between the education crisis and child hunger. Breaking that interaction must be a priority.

Undernutrition affects cognitive development by causing structural damage to the brain and impairing motor development. Stunting by the age of two, one of the most sensitive indicators of undernutrition during foetal and post-natal life, is strongly associated with weakened cognitive development, especially when combined with household poverty. Evidence from middle-income developing countries suggests that children who are stunted lose the equivalent of two grades in education, and another two grades as a result of diminished learning. That evidence goes some way towards explaining the high dropout rates and abysmal learning outcomes that characterise education systems across Africa. With around half of children in eastern Africa and one-third in western Africa stunted, and malnutrition levels falling very slowly over time, governments need to recognize that hunger is an education policy issue.

Governments across Africa need to do far more to join up early childhood and education policies. Every country should have a "first 1,000 days" strategy covering the critical period from conception to age two, when much of the brain's architecture is formed. There should also be a concerted effort to

expand pre-schooling, with centres linked to schools delivering both early learning and nutritional support. Recent evidence from Africa confirms that early childhood provision is one of the best investments that can be made for education. A randomized control trial in Mozambique found that children who had attended pre-school were 24 per cent more likely to be enrolled in primary school. Participation in pre-school was associated with consistent improvements in cognitive and problem-solving abilities, and higher levels of learning achievement.

Access and learning – delivering on the MDG promise

Looking towards 2015, there is an unfortunate air of resignation hanging over much of the region. Many governments and donors appear to view a large shortfall against the MDG targets in education as an inevitable outcome. Indeed, much of the debate surrounding the MDGs in education has moved on to dialogue on the "post-2015" agenda.

Without discounting the importance of this dialogue, the shift in priorities is premature. As many countries across the region have demonstrated, rapid progress towards the 2015 goals is possible. Both Tanzania and Ethiopia reduced out-of-school numbers by over 3 million in the first half of the decade after 2000. The immediate challenge for governments and their development partners is to identify strategies aimed at getting more children into school, reducing dropout rates and improving learning achievement levels.

Some of the barriers to participation in education can be swiftly removed through well-designed policies. Classrooms can be constructed closer to the communities they serve. Cost barriers can be lowered by eliminating fees and targeting support to disadvantaged regions and students. Bursaries can be used to create incentives for parents to keep girls in school and out of early marriage.

Overcoming the learning achievement deficits will require deeper institutional reforms. Overcrowded classrooms, shortages of textbooks and a dilapidated school infrastructure are part of the problem in many countries – but it is the easier part to fix. The more difficult part revolves around teaching. Ultimately, no education system is better than its teachers. With a deficit of around 1 million teachers, Africa urgently needs to step up recruitment¹⁰². However, far more needs to be done to raise the quality of teaching.

Many of Africa's teachers enter classrooms with limited subject knowledge. One survey found that fewer than half of grade 6 teachers in Mozambique, Uganda and Malawi were able to score at the top of the competency level for the pupils¹⁰³. Teaching is typically delivered in rote fashion, reflecting training systems that regard "child-centred learning" as an alien concept. In-service support systems are weak. And whether as a result of low morale, poor pay or a lack of accountability, Africa's schools are plagued by an epidemic of teacher absenteeism.

Governments can do far more to raise the bar of ambition in learning. Basic learning-assessment tools can be used to identify failing schools and pupils. Teacher deployment and education financing can be geared towards the most disadvantaged schools rather than, as is currently the case in most countries, towards the more advantaged. Critically, far more emphasis needs to be placed on ensuring that the school curriculum, teachers, and teaching materials are geared towards equipping children with the early-grade reading and numeracy skills that they need to progress.

In retrospect, the MDG framework may have inadvertently deflected attention away from learning and created an incentive for governments – and donors – to concentrate their efforts on getting more children into school. The debate on the post-2015 development goals provides an opportunity to correct this failing. Whatever the framework that emerges from the ongoing dialogue, it should include a meaningful goal for learning achievement, and provide for effective monitoring of progress towards that goal. As a minimum, the post-2015 learning goal should include the twin target of getting all children into school, while at the same time ensuring

that no child is unable to perform basic literacy and numeracy tasks after three years.

Aligning education, skills development and employment

Many young people entering labour markets in Africa have not completed primary education. One survey covering Senegal, Kenya, Tanzania and Zambia found that over half of informal-sector workers had only a primary school education, or less¹⁰⁴. By far the most important source of skills development for workers in the informal sector is traditional apprenticeship and on-the-job training. In Ghana, it is estimated that 80–90 per cent of basic skills training comes from traditional apprenticeships, compared with 5–10 per cent from public training institutions, which for the most part have not been very effective in addressing the needs of youth in the informal sector and in reaching the most marginalised youth¹⁰⁵.

There are encouraging signs to suggest that governments in Africa are starting to address the skill deficits among youth populations. The African Development Bank has identified several countries – including Cameroon, Ethiopia, Rwanda and Mozambique – that have moved to strengthen coordination between different skills development agencies. Members of the African Union are developing a new framework for technical and vocational education and training, linked to tools for assessing the skills that young people will need to gain employment. For example, the Kenyan government has developed a public–private partnership to train 20,000 skilled information technology workers. Several donors – including Japan and Germany – have scaled up aid for vocational programmes.

3. THE KEY ROLE OF AID DONORS

African governments themselves have to provide leadership in tackling the twin crisis in access and learning. At the same time, the MDGs and the Education for All compact commit to providing support for national efforts. When donors signed the plan of action for achieving Education for All in 2000, they pledged that “no countries seriously committed to education for all will be thwarted in their achievement of this goal by lack of resources.”¹⁰⁶

It is difficult to square that pledge with the record on aid delivery, as outlined above. Best estimates suggest that, even with a strengthened domestic resource-mobilisation effort, the poorest countries in Africa and elsewhere will need around \$16 billion annually in aid. However, aid levels have stagnated at around \$3 billion a year. While the overall aid envelope for education did expand in 2010, Sub-Saharan Africa – with the partial exception of Ethiopia – was bypassed.

Aid donors have justifiably pressed African governments to increase levels of support for education – and they, too, must hold to the MDG promise. The Global Campaign for Education has called on the donor community to allocate 10 per cent of overall aid to basic education in the poorest countries. This is a target that most could reach – in some cases, as in France and Germany, by reallocating aid to primary basic education in Africa that is currently diverted to domestic education providers. The World Bank has pledged to increase support to basic education by \$750 million from now to 2015.

Education should be a central element in the renewal of the MDG compact proposed earlier in this report. Governments in Africa should undertake to put in place policies aimed explicitly at reaching children who are being left behind, and raising their learning achievement levels. For their part, donors should pledge to support these policies through more flexible and responsive financing. Converting the Global Partnership for Education (GPE) into an independent global fund could help to galvanise the support and mobilise the financing needed to underpin the compact that we envisage.





PART V

MOBILISING AND MANAGING FINANCES FOR DEVELOPMENT

To meet its young people's aspirations for better lives, Africa needs to diversify the sources of growth from natural resources and other commodities to sectors such as manufacturing and services that have greater potential to create jobs and prosperity. Such an agenda requires mobilising and strengthening the sources of domestic finance, as well as managing development assistance.

1. DOMESTIC RESOURCES ARE THE KEY TO SUSTAINABLE GROWTH

There is a widespread public perception in many rich countries that international aid remains the dominant form of development financing for Africa. That perception is wide of the mark. Africa is more dependent on aid than other regions, but domestic resource mobilisation – the public and private finance raised within countries, through taxes and savings – far outweighs levels of development assistance. This part of the report provides an overview of the pattern of resource mobilisation for Sub-Saharan Africa, focusing on four types of finance.

1. **Domestic resource mobilisation** (or taxation) is rising but needs to increase faster in order to reduce aid dependence.
2. **Foreign direct investment** is also rising.
3. **Development assistance**, in the form of aid grants and highly concessional loans, seems likely to flatten out after the growth of the past decade, and indeed fell in 2011 for the first time this century, once distortions from debt write-off are taken into account.
4. **Semi-concessional loans** and **market-based finance** from official or private sources are financial flows with terms that place them somewhere between aid and commercial flows. These have potential for growth but could raise concerns over debt.

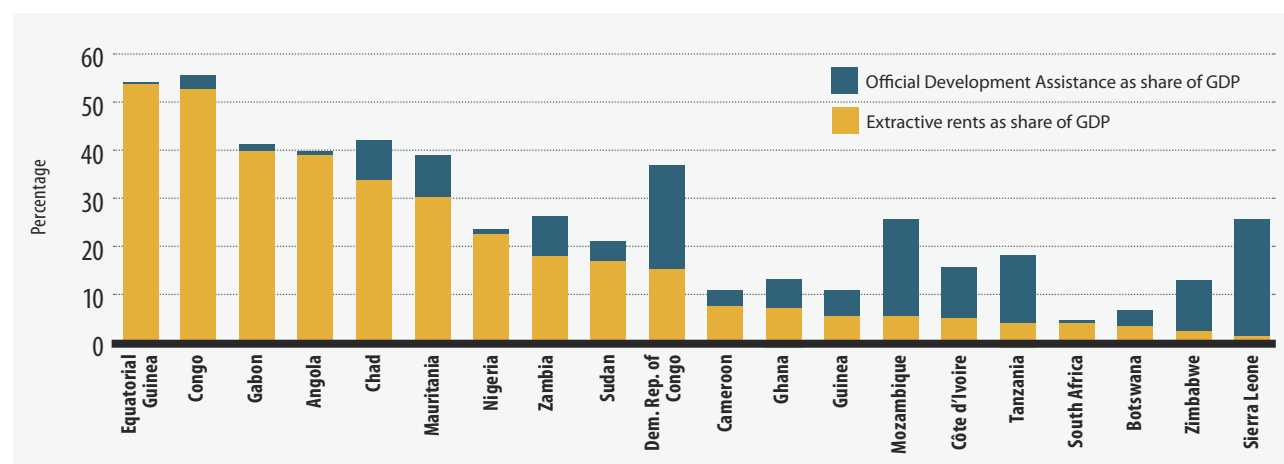
The part concludes by examining how African countries and the providers of official assistance can ensure that such finance is used effectively. With low average incomes, high poverty and a narrow tax base,

many African countries have struggled to increase government revenues as a share of gross national income (GNI). That picture is starting to change – and mineral exports are widening the revenue base. Continued progress is critical if governments are to finance the social and economic infrastructure needed to create jobs, sustain growth and improve the quality and reach of basic services.

Over the period 2004–2008, government revenue in Sub-Saharan Africa averaged 27.0 per cent of GNI, while grants from aid donors added only 1.6 per cent of GNI. Even in low-income countries, domestic revenue is on average nearly three times the contribution of grant aid¹⁰⁷. It follows that domestic resource mobilisation holds the key to development financing.

While tax revenues are gradually increasing as a share of the economy, they remain lower in Africa than in other regions – and the rate of increase varies widely across countries. From 2004 to 2010, Malawi increased its revenue share of GDP from 16.8 to 24.9 per cent, and Mozambique from 13.1 to 20.3 per cent. In Ethiopia, the comparable figure fell from 16.1 to 14.0 per cent. There are no rules for determining the “right” tax/GNI ratio. However, increasing savings and taxation is vital if Africa is to sustain higher levels of investment, provide basic services and manage the increase in fiscal deficits projected by the International Monetary Fund.

Natural resource wealth is now the single largest source of potential government revenues in the region. Between 2000 and 2008, ODA flows to Sub-Saharan Africa increased from \$12 billion to \$36 billion per year. In contrast, the value of natural resource rents rose from \$39.2 billion to \$240 billion. If governments could increase the share of rents captured by extraction, they could reduce aid dependence and increase domestic resource mobilisation dramatically.

Figure 23: SHARE OF GDP FROM EXTRACTIVE RESOURCE RENTS AND OFFICIAL DEVELOPMENT ASSISTANCE, 2009

Source: APP calculations based on WDI 2012

New discoveries across the region are creating newly resource-rich countries. This trend is set to continue with rising investments in exploration both around existing deposits and into new areas. But the record of turning this wealth into revenue and improved living conditions remains poor in many resource-rich countries. In 2008, the DRC collected only \$92 million in minerals taxes and tariffs¹⁰⁸ on estimated mineral exports of \$2 billion. In 2006 Equatorial Guinea had a GDP per capita of \$15,000, similar to Portugal, while 76 per cent of the population were living below the national poverty line – the highest proportion recorded that year in the World Bank database¹⁰⁹.

But there is also progress to record. The list of resource-rich countries that have successfully navigated these choices is growing: from Norway to Malaysia to Brazil. In Sub-Saharan Africa, Botswana has demonstrated that the journey from resource-wealth to sustained prosperity is possible.

The adoption of good governance practices, characterised by a wave of mining code revisions, offers promise for the coming decade. Major revisions to the mining code in Guinea, for example, could yield increased government revenues of up to \$3.15 billion by 2017, compared to revenues of only \$123 million between 1995 and 2010. These “best practice” provisions included in the revised mining code are becoming more widespread across the continent, and include public contract disclosure and reporting of payments.

How should governments strengthen their tax base more generally? A report released in March 2011 by the Collaborative Africa Budget Reform Initiative (CABRI)¹¹⁰ identifies priorities for improving tax governance, including: efficient management of the tax system; avoiding overly generous tax breaks

for investors; building capacity for negotiations with extractive industries; and addressing problems such as tax evasion, illicit capital flows, transfer pricing and fiscal corruption.

The CABRI report cautions against narrowly technocratic approaches to tax. It points out that effective tax policies require a degree of social consensus. If society in general and taxpayers in particular view the overall system of public finance as inefficient and unfair, tax evasion and the transaction costs for preventing it inevitably rise. Societies with a strong sense of shared social interest and collective responsibility are also likely to have more efficient and equitable tax systems. So, while African governments need to improve revenue mobilisation, they also need to recognize that deficiencies in the tax collection system – evasion, corruption, abuse and misapplication of provisions for tax exemption, political interference and the low capacity of tax administrations – are symptomatic of broader problems.

There are wider issues at stake in tax reform. Taxation is part of the social contract between states and citizens. Indeed, dependence on revenue from public taxation can act as a lever for accountability. Conversely, when governments have large alternative sources of revenue – from oil revenues or foreign aid, for example – this can weaken accountability. Taxation stimulates demands for representation, and an effective revenue authority is the central pillar of state capacity¹¹¹.

In a globalised economy, regions and countries with weak institutions face, in a magnified form, problems that many of the more advanced economies are dealing with. Multinational companies minimize their tax exposure in “high-tax” jurisdictions by shifting their reported profits towards “low-tax” havens, for example by transfer pricing. Over the past two decades, the

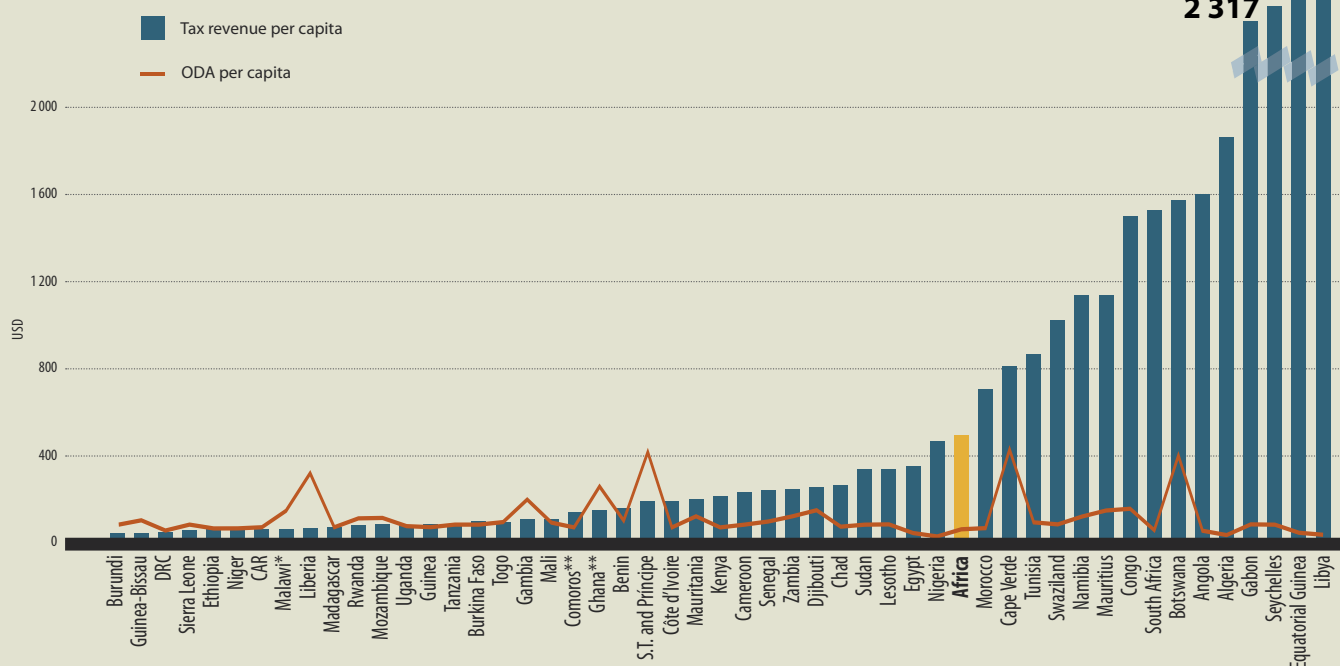
Figure 24:

MANAGING FUNDS FOR DEVELOPMENT

DOMESTIC RESOURCE MOBILISATION

AID AND TAX REVENUE PER CAPITA (2008)

Domestic resource mobilisation is rising but needs to increase faster in order to reduce aid dependence.



Notes: (*) 2007, (**) 2006.

Source: AFDB/OECD 2010 - African Economic Outlook

FOREIGN DIRECT INVESTMENT

Foreign direct investment is rising but needs to be encouraged beyond the natural resource sector.

GRANT & HIGHLY-CONCESSIONAL LOANS FROM OFFICIAL SOURCES

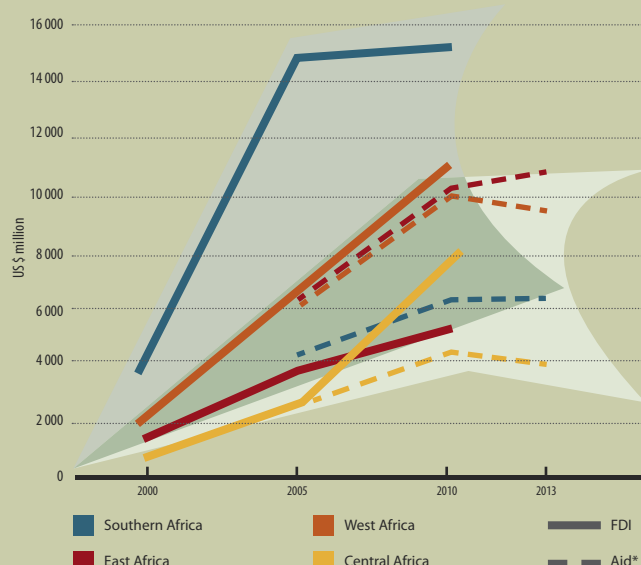
Development assistance is likely to flatten out after the growth of the past decade, and indeed fell in 2011 for the first time this century.

SEMI-CONCESSIONAL AND NON-CONCESSIONAL FLOWS FROM OFFICIAL AND MARKET SOURCES

Semi-concessional loans and market-based finance have potential for growth but could raise concerns over debt

FOREIGN DIRECT INVESTMENT VS AID*

* Aid data is from the OECD report on Aid Predictability, 2011, and refers to gross Country Programmable Aid as defined by the OECD



RECOMMENDATIONS

DOMESTIC RESOURCE MOBILISATION

African states should

- Encourage domestic savings and increased levels of revenue collection
- Strengthen tax administration efforts. Address the problem of tax avoidance and ensure a fairer share from the exploitation of natural resources
- Give higher priority to facilitating savings, for example through the development of financial markets and microcredit institutions

Development partners should

- Enhance their cooperation in support of tax administrations
- Promote stronger dialogue between tax jurisdictions in Sub-Saharan Africa and its major trading partners on issues such as tax havens, transfer pricing, and greater transparency in areas such as extractive industries

Major financial centres should

- Take more decisive steps to address recovery of stolen assets

FOREIGN DIRECT INVESTMENT

African states should

- Continue to improve the legal and administrative environment for all businesses both local and foreign
- Address infrastructural constraints and encourage cross-border movement of goods
- Encourage investment in export-oriented processing and manufacturing with a view of creating jobs
- Maintain competitive exchange rates

Development partners should

- Further increase their support for infrastructure where it is not feasible for the private sector to invest
- Increase “aid for trade” measures

GRANT & HIGHLY-CONCESSIONAL LOANS FROM OFFICIAL SOURCES

Traditional donors should

- Recognize that aid has the potential to become more effective as African economies grow and capacity gradually increases
- Increase “triangular cooperation” where traditional donors provide finance and emerging economies supply expertise

Multilateral Development Banks and bilateral donors should

- Take measures to smooth the impact of graduation policies on countries that graduate from access to multilateral development banks soft funds

SEMI-CONCESSIONAL AND NON-CONCESSIONAL FLOWS FROM OFFICIAL AND MARKET SOURCES

- Ensure that less concessional loans are devoted to well-considered and well-executed activities that enhance creditworthiness in the long run to avoid the dangers of debt overload in the medium term

share of world trade conducted between subsidiaries and affiliates of the same multinational company has increased, creating scope for the overpricing of imports by the parts of companies in higher-tax countries (a practice that reduces tax liability by lowering reported profits). These are issues of concern to tax authorities from the United States to France and Japan – and it appears likely that Africa suffers considerable losses because of such practices. The use of bribes by foreign companies can also subvert tax administration.

These problems have increased the need for a stronger multilateral system. There have been some positive developments in this area, but more needs to be done. The G20 has taken several steps that could benefit Sub-Saharan Africa. It has agreed to sign the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, which allows for exchange of tax information between countries, and to help developing countries counter abusive transfer pricing. It has also called for multinational companies to be fully compliant and transparent in their dealings with poor countries, and welcomed a call from Bill Gates to impose legally binding transparency requirements on mining and oil companies, as exists in the United States under the Dodd-Frank Act. The G20 has also encouraged all countries to join the Global Forum on Transparency and Exchange of Information in Tax Purposes. While this is a voluntary mechanism, information is critical to greater transparency.

In addition, the Financial Action Task Force – an international agency that combats money laundering – agreed in February 2011 that those who facilitate money laundering linked to tax crime may be charged. These initiatives need to be followed through.

The principal responsibility for mobilising more domestic resources, however, lies with African countries themselves. They should further encourage domestic savings, which they can facilitate through the development of financial markets and microcredit institutions. Levels of revenue collection should be increased, with an emphasis on broadening coverage, for example by tackling inappropriate tax preferences and exemptions. Governments should strengthen tax administration efforts, including addressing the problem of tax avoidance and getting a fair share from the exploitation of natural resources.

At the international level, donors should enhance their cooperation in support of tax administrations. There should be a stronger dialogue between tax jurisdictions in Sub-Saharan Africa and its major trading partners on issues such as tax havens, transfer pricing and greater transparency in key areas such as extractive industries. Major financial centres, for their part, should take more decisive steps to address recovery of stolen assets.

2. CREATING A BETTER CLIMATE FOR FOREIGN DIRECT INVESTMENT

Foreign direct investment to Africa has increased considerably over the past decade. FDI grew from about \$10 billion in 2000 to over \$50 billion by 2006, and has remained at or above that level ever since, with a peak of over \$70 billion in 2008. Africa's share of global FDI increased over the same period from 0.7 to 4.5 per cent, North Africa typically accounting for about a third of this figure. For Sub-Saharan Africa, absolute amounts exceeded \$30 billion in 2006 and have remained at or above that level in each succeeding year¹¹². There is scope to attract even more FDI, however. Excluding Angola, where hydrocarbon-based FDI has been exceptionally high, FDI has averaged only 2.6 per cent of GDP in the Sub-Saharan African markets classified by the IMF as "Frontier Markets," compared with 4 per cent of GDP in other Frontier Markets during 1991–2009¹¹³.

As in previous years, direct investment in Africa in 2010 was mostly from developed countries. Among developing countries, China, India and the United Arab Emirates were the main source countries in 2010. By contrast, FDI from one Sub-Saharan country to another is low, according to UNCTAD, accounting in 2010 for only 5 per cent of the total in terms of value and 12 per cent in terms of number of investments¹¹⁴. South African investors apart, intraregional FDI is particularly underdeveloped. Some African telecommunications and banking companies have nonetheless expanded investment within Africa at an impressive rate from a very low base¹¹⁵.

The balance between aid and FDI varies considerably across Sub-Saharan Africa. In 2010, there were 11 countries, including Mauritius and the Seychelles and a clutch of resource-rich mainland states, where FDI was more than twice as much as country programmable aid¹¹⁶. In 25 countries, mostly low-income countries that are either not rich

in resources or are emerging from conflict, country programmable aid was over twice FDI; 11 were in an intermediate position.

Although FDI in 2010 was below the 2008 peak, and there are instances of disinvestment¹¹⁷, there seems every reason to expect robust growth over the medium term, for at least three reasons. African governments have significantly improved the business climate, even though there is still much to do. Strong demand seems likely to drive substantial further foreign investment in minerals and hydrocarbons (and maybe also renewable resources such as timber and food crops). And Africa's own growth will provide increasing opportunities for foreign investors across a widening range of economic sectors.

While this is a broadly encouraging picture, FDI could be increased if governments take action in several areas. In this section, we examine two: further enhancing the business environment and encouraging investment outside the natural resource sector.

Improving the business environment

Foreign direct investment is vital both for the financial resources that it brings and for the skills, technology and access to markets that it offers. But domestic private investment is also extremely important, and there are usually no good reasons to offer foreign investors better treatment than local businesses. A business environment that is good for local business is also going to be attractive to foreign investors.

Nor is it desirable to offer extreme tax breaks to stimulate foreign investment. As CABRI notes, "revenues foregone by virtue of tax incentives for investment tend to exceed by a wide margin the revenue costs expected before the concession is put in place."¹¹⁸ In providing an attractive tax system for investors, African governments should aim for transparency, certainty and predictability of tax treatment before exempting international investors from all or part of their fiscal obligations.

Stimulating investment outside the natural resource sector

The huge appetite for investment in Africa's hydrocarbons sector is shown by the inflows to Angola over the past decade and by rapidly growing investments by foreign companies in Ghana. UNCTAD figures show that in terms of industry distribution, the primary sector – mainly coal, oil and gas – accounted for 43 per cent of all FDI to Africa in 2010, with manufacturing receiving 29 per cent (of which almost half was in the metal industry), and services (mainly communications and real estate) 28 per cent¹¹⁹.

While foreign investment is essential in the vital and technologically challenging natural resource sector, the long-term economic health of Africa requires a more diversified pattern, increasing investment especially in manufacturing, which could create many more jobs per dollar invested than the capital-intensive minerals and hydrocarbon sectors.

Some argue that the time is particularly propitious for attracting FDI from Chinese and other Asian companies looking to outsource production as their labour costs rise¹²⁰. Adding value to agricultural production is also important, as we note in Part II.

Given the small size of most African markets, only export-oriented industry can achieve significant scale in much of the region. Securing foreign direct investment in export-oriented processing and manufacturing will require action by both Africa and its principal markets. African governments need to maintain competitive exchange rates (a particular challenge for resource-rich economies) and address infrastructure constraints, both nationally and regionally¹²¹, skill shortages, and administrative constraints, including on cross-border movement of goods and the proliferation of checkpoints on transport routes¹²². Africa's partners need to do more through "aid for trade" measures to help governments improve infrastructure and skills and remove unnecessary bureaucratic restrictions.

3. PROSPECTS FOR CONCESSIONAL FINANCE

As noted above, Sub-Saharan Africa has made real progress not only in growth but also in poverty reduction and human development more generally. The increases in aid have flowed not least to these areas – areas that remain important given that the growth pattern in many African

countries is not spreading its benefits to the poorest and the marginalised. Future levels of aid and its effective management continue therefore to be vital issues for many Sub-Saharan African countries, where many countries are still relatively dependent on aid. Worldwide, most aid-dependent countries are small islands and states emerging from major conflicts. In Africa, however, some countries that fit neither of these categories were still receiving aid in 2009/10 that represented over 10 per cent of GNI (Figure 25).

Figure 25: OFFICIAL DEVELOPMENT ASSISTANCE AS A SHARE OF GROSS NATIONAL INCOME

COUNTRY	1999-2000	2004-2005	2009-2010
MOZAMBIQUE	21	22	21
MALAWI	26	20	19
RWANDA	19	23	18
ETHIOPIA	10	12	13
BURKINA FASO	10	13	13
TANZANIA	8	17	12
UGANDA	13	13	12
MALI	10	17	11
NIGER	12	14	11
ZAMBIA	23	20	8

Source: OECD-DAC, 2012

Future levels of aid from traditional donors

The latest figures for official development assistance are for 2011. They show a decline of almost 3 per cent in ODA from members of the OECD Development Assistance Committee (DAC) from the figure for 2010 – the first decline in ODA this century once distortions from debt relief are excluded. Bilateral aid to Sub-Saharan Africa was US\$28.0 billion, representing a fall of 0.9 per cent in real terms compared to 2010. By contrast, aid to the African continent increased by 0.9 per cent to US\$31.4 billion, as donors provided more aid to North Africa after the revolutions in the region. Looking forward, the OECD's figures for country programmable aid¹²³ currently provide the only basis for assessing future aid levels¹²⁴, although as the International Aid Transparency Initiative develops¹²⁵, transparency of data on forward-looking flows should improve.

After relatively rapid increases in gross country programmable aid from traditional donors (8 per

cent annually worldwide and 12 per cent annually in Africa from 2007 to 2009), its growth will be modest from 2010 to 2013: 2 per cent worldwide and only 1 per cent in Africa, with multilateral agencies providing most of the increase. This is not unexpected, given the constraints many donors are facing, but it is nevertheless regrettable. In most countries aid is 1 per cent of public expenditure or less, and countries like Sweden and the United Kingdom have shown that this can be maintained or even expanded in times of austerity. Traditional donors should also take note that aid to Sub-Saharan Africa is likely to be more productive than in any recent period as African economies grow and capacity gradually increases.

What happens after 2013 is of course uncertain, but aid from the traditional bilateral and multilateral system seems bound to decline significantly relative to domestic taxation and most other international financial flows. Continent-wide, country programmable aid for Africa increased as a proportion of African GNI from 2.1 per cent in 2005

to 2.4 per cent in 2010 but is expected to fall by 2013 to 2.3 per cent, and there seems every reason to expect this downward trend in aid dependence to continue. One signal is that the European Commission has proposed an increase of only 13 per cent in the European Development Fund (one of the main sources of grant aid to Africa) for the period 2014–2020 over the previous seven years, a very modest annual growth rate that is unlikely to exceed inflation. On the other hand, as thriving Asian economies become ineligible for help from the World Bank's soft-loan arm, the International Development Association (IDA), Sub-Saharan African countries that are still eligible should receive a stronger financial contribution from this key source of grants and highly concessional credits, even if traditional contributors are under fiscal pressure. However, countries such as Ghana, the Republic of Congo, Cameroon and Nigeria may also become ineligible in the future¹²⁷. When this happens, it is vital that they receive good access to "harder" loans from multilateral institutions.

While it is a matter for regret that assistance to Sub-Saharan Africa from traditional official sources is flattening off, the picture of African growth outpacing the inflow of concessional resources is very encouraging, and of course parallels what took place in Asia from the 1980s¹²⁸. But the tax base of many poorer African countries will not be able to substitute fully for aid for a generation or more. Sustaining levels of aid to Africa from traditional suppliers is essential to maintain social and economic progress, particularly in the poorer countries, which are facing additional challenges imposed by climate change.

Emerging support for Africa rises

By contrast with the traditional donor sources, it seems probable that grants and highly concessional loans¹²⁹ from emerging economies have good potential for growth over the coming decade. Africa has long experience in receiving official funds from countries outside the "traditional" bilateral donors that belong to the OECD Development Assistance Committee and the established multilateral agencies. Countries as varied as Saudi Arabia, Libya, China and Russia have financed activities in Sub-Saharan Africa. The number of sources of such assistance has grown significantly in the past decade or so and the overall amounts have increased dramatically. Brazil, India and Turkey, for example, have all developed substantial programmes in a range of African countries. By a very large margin, however, China is the most significant of these donors.

Recent growth in grants and highly concessional funds started from a modest base. It is estimated that China, for example, disbursed about US\$1.4 billion in these types of assistance in 2009¹³⁰. These contributions finance significant amounts of technical assistance – reflecting the strong institutions of the emerging economies and the relevance of their skills to African conditions – as well as capital projects in both infrastructure and social sectors (e.g., hospitals and schools)¹³¹. These South–South funding channels have value and potential for Africa, particularly where vital recurrent funding can be assured. There is also potential for increasing "triangular cooperation," in which traditional donors provide finance and emerging economies supply expertise to African projects.

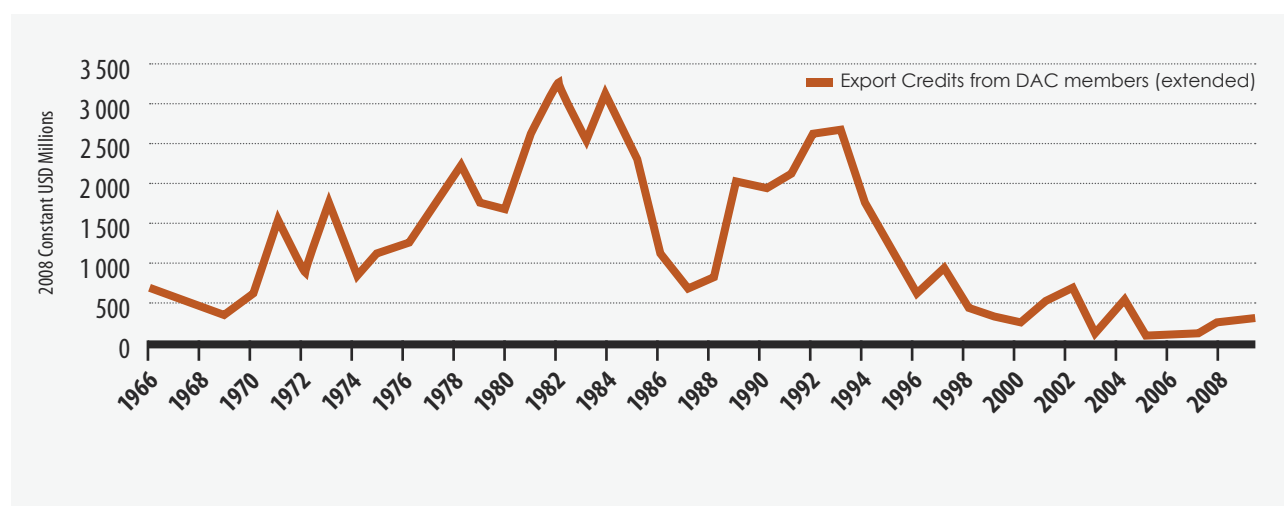
4. GROWING AFRICAN ECONOMIES AND ACCESS TO 'HARDER' LOANS

As African economies expand, the share of semi-concessional and market-based (or non-concessional) loans to African governments may also be expected to increase. These loans already meet some important funding needs, especially for economic infrastructure. The main types of finance in this category are export credits, with or without some form of subsidy, and loans from state development banks and other development financing institutions,

though these are often focused on the private sector; and loans from the "hard windows" of the multilateral development banks.

Many export credit agencies of DAC members lost large amounts of money through inappropriate lending in the 1970s and 1980s, so they have pursued very cautious approaches in Africa ever since (Figure 26). Most of their development finance institutions, with some exceptions such as the German KfW and the European Investment Bank, are modest lenders to the public sector in Africa. It will be interesting to see whether export credit agencies from DAC countries begin prudently to re-engage with Sub-Saharan Africa, and if so, whether they can avoid the mistakes of the past.

Figure 26: OECD EXPORT CREDITS TO AFRICA, 1966–2009



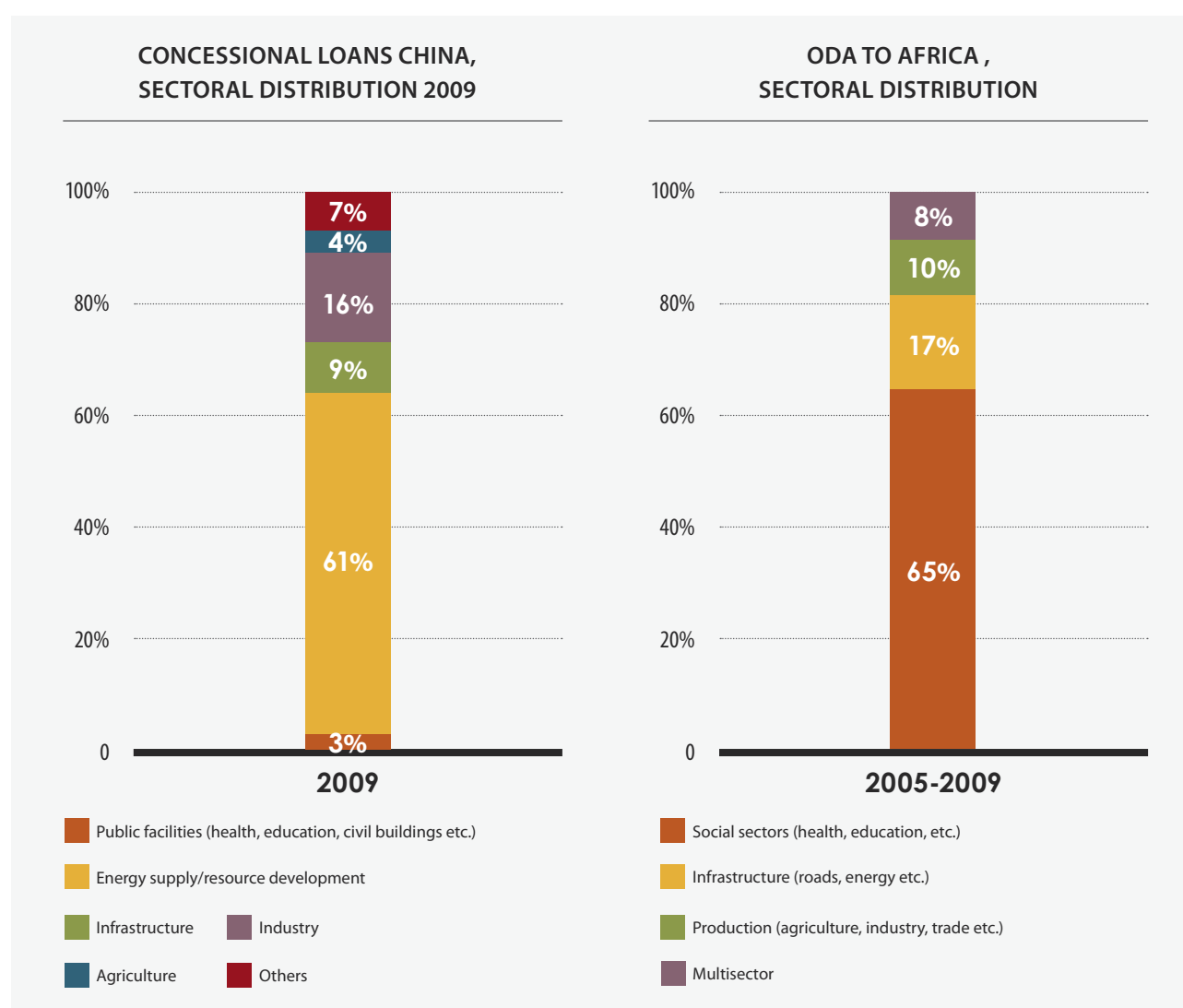
Source: OECD Development Centre (2011) Recalibrating Development Co-operation: How Can African Countries Benefit from Emerging Partners?

Meanwhile, countries including India and China are evidently willing to make available larger volumes of export credit and other non-subsidised lending to Sub-Saharan Africa. China, in particular, has developed a very large concessional credit programme through its EXIMBANK, under which export credits benefit from a government subsidy, while the China Development Bank, as well as managing the China–Africa Development Fund, which supports Chinese enterprises in Africa, provides a growing number of unsubsidised loans from its own account. As a result, emerging economy providers,

and China in particular, are much more significant as providers of semi-concessional and non-concessional funds than of grants and highly concessional funds.

This leads to a strong complementarity between donors from traditional and from emerging economies. Traditional donors are using their relatively large grant and near-grant funds particularly for the social sectors, while African countries are accessing less concessional emerging-economy finance for infrastructure and the productive sector (Figure 27).

Figure 27: COMPLEMENTARY FINANCING FROM AID AND LOANS TO AFRICA



Official flows from emerging-economy donors resemble European mixed credits and unsubsidised lending before Africa's debt crises of the mid-1980s. Many of the capital assets financed by such aid were poorly conceived and poorly maintained, however, and lending for such projects was a leading cause of Africa's debt problems. Most Sub-Saharan African countries now have historically low debt-service ratios (though stock-of-debt figures have risen significantly in some countries in the years following debt cancellation), and a measure of borrowing is therefore an appropriate source of development finance – as long as overall levels are prudent and borrowing is invested in well-designed activities of genuinely high priority.

In this connection, Africa stands to benefit from the agreement¹³² between President Barack Obama of the United States and Vice-President Xi Jinping of China in February 2012 to establish an international working group that will include other major providers of government-backed loan guarantees, with the goal of concluding an agreement by 2014 on guidelines for export credit financing. Meanwhile, the World Bank and the African Development Bank currently offer loans from their "hard windows" to only a very small number of Sub-Saharan countries. In the 2011 financial year, for example, the World Bank provided \$7.4 billion of new commitments to Sub-Saharan Africa from its soft

window (the IDA), but a mere \$56 million from its hard window, while the African Development Bank lists only Cape Verde, Nigeria, Seychelles, Mauritius, Botswana, Namibia, South Africa and Swaziland as eligible for its hard-window lending to the public sector. This reflects the limited creditworthiness of African borrowers, many of which remain extremely poor and very dependent on volatile export commodity prices. But the situation is going to have to evolve as Sub-Saharan countries lose their eligibility for soft funds and improve their creditworthiness. The World Bank, which has arguably been too cautious in making its IBRD funding available to creditworthy former IDA borrowers – and indeed to IDA borrowers that could benefit from a blend of IDA and IBRD resources – should look positively at investing in such countries.


The less concessional the funds, however, the more important it becomes to ensure that they are devoted to well-considered and well-executed projects that enhance creditworthiness in the long run. Without this, the dangers of debt overload in the medium term are obvious. There are also concerns about arrangements that involve repayments in commodities, the price of which is not known in advance, and where the advantages to lender and borrower are unclear. In this final section, we therefore turn to the key issue of the effective management of inflows.

5. MANAGEMENT OF OFFICIAL SUPPORT

Before the 4th High Level Forum on Aid Effectiveness (29 November to 1 December 2011) in Busan, South Korea, African governments, parliamentarians and civil society set out an impressive statement of Africa's approach to working with its international partners¹³³. This marked a determination in Africa to move away from dependence on aid, and called upon Africa's partners to align their support with the continent's priorities, thereby ensuring that aid complements domestic financing and other alternative sources for effective development. It also called on African countries to scale up policies that look beyond aid through effective and innovative use of domestic resources and development of appropriate implementing capacities, with the private sector playing a key role. The statement also

reiterated that dialogue on global development cooperation should shift from aid effectiveness to development effectiveness, focusing on inclusiveness, equity, gender equality, environmental sustainability and better development results.

Aid pessimism and its close cousin, aid cynicism, have grown in recent years. Some of the concerns raised over aid effectiveness have been well placed but the strong effort of DAC to respond to them must be recognized as well as the important conclusion of the last Busan conference. For example, the Busan meeting resulted in a commitment to "work to improve the availability and public accessibility of information on development cooperation and other development resources." If donors stick to the detail of the commitments they made in Busan, this would radically improve the availability of information, not least at country level, and largely deal with the concerns expressed about both traditional donors and emerging-economy providers.



PART VI

RECOMMENDATIONS AND CONCLUSIONS

Priority area: **KEEPING THE MDG PROMISE**

GUIDING PRINCIPLES	SELECTED POLICY ACTIONS
<p>African governments should develop action plans for a “big push” towards the 2015 MDG targets, including:</p> <ul style="list-style-type: none"> • goals for narrowing social disparities linked to wealth, gender, rural/urban divides and other factors in areas such as child survival, nutrition, maternal health, water and sanitation, and education; • economic growth policies that reduce poverty by reducing income inequality. <p>Data and reporting systems that monitor and redefine action for achieving national development goals and the MDGs should be strengthened and open government and open data policies should be adopted.</p> <p>African governments and civil society should take the lead in developing the post-MDG agenda, including a time frame for eradicating extreme poverty.</p>	<p>MDG 1 – Extreme poverty Set a course for eradicating hunger and reducing extreme income poverty to 10 per cent by 2025.</p> <p>MDG 2 – Education Build on the achievements of the Global Partnership for Education by converting it into an independent multilateral financing mechanism. Focus its remit on accelerating progress towards the 2015 goals, with an emphasis on helping disadvantaged groups and improving learning achievement.</p> <p>MDG 3 – Gender equity Set out government strategies for equalizing opportunity for young girls and women. Empower women by promoting their active participation in social, economic and political issues and specifically by enabling them to have access to family planning choices.</p> <p>MDGs 4 and 5 – Child and maternal mortality Put child survival and maternal mortality at the center of 2015 action plans and include non-health interventions, such as access to safe water and sanitation, girls’ education, and women and girls empowerment. African leaders should take greater responsibility, learning from the effective Africa Leaders Malaria Alliance.</p> <p>Roll out new vaccines against deadly strains of diarrhea and pneumonia.</p> <p>MDG 6 – Infectious diseases Build up health systems, support health workers (by providing drugs, diagnostics and medical equipment) and make treatment accessible and affordable.</p> <p>Promote sustainable, predictable financing for health (from domestic resources, where possible, and from development partners) to prevent diseases (including the possible resurgence of malaria), promote effective and efficient use of resources, and increase accountability and transparency.</p> <p>MDG 7 – Access to water and sanitation Donors should swiftly replenish the Rural Water Supply and Sanitation Initiative (RWSSI) and the African Water Facility (AWF).</p> <p>MDG 8 – International partnerships Development partners should act on longstanding aid commitments including the EU commitments to make progress on reaching aid target of 0.7%, G8 commitments made in Gleneagles in 2005, and those of a wider range of development partners at Busan in 2011. Facilitating private-sector investments should be a focus.</p> <p>Aid architecture should be strengthened to support conflict-affected and fragile states.</p> <p>The UN, World Bank and African Development Bank should develop more effective systems for analyzing trends in poverty, and other social development outcomes, with a stronger emphasis on measuring equity. Building national statistical capacity should be a top priority.</p>

Priority area: **AGRICULTURE AND FOOD SECURITY**

GUIDING PRINCIPLES	SELECTED POLICY ACTIONS
<p>Put smallholder farmers and agriculture productivity at the centre of national food security and nutrition strategies, with a focus on women farmers.</p> <p>Strengthen social protection and food safety nets.</p> <p>Develop risk management and adaptation systems to prepare for climate change.</p> <p>Ensure that Africa's land and water resources are sustainably managed to provide food and nutrition security and livelihoods.</p> <p>Protect Africa's farmers against large-scale speculative land purchases.</p> <p>Focus policies on household enterprises to reduce poverty and dependence on agriculture.</p> <p>Strengthen early warning and response systems for food security crises.</p>	<p>Focus on smallholder farmers by investing in:</p> <ul style="list-style-type: none"> • research and extension systems that address agro-ecological problems in several countries rather than individual countries, to increase cost effectiveness and regional integration; • new seeds, fertilisers and technologies for rain-fed agriculture; • rural infrastructure; • post-harvest technologies to minimize wastage, improve produce quality and resolve labour bottlenecks; • youth engagement in agriculture throughout the value chain. <p>Land: Strengthen legislation to give women farmers equal land rights.</p> <p>Carefully assess large-scale land deals and consider a moratorium pending legislation to protect smallholder farmers and communities. The African Union should develop a framework for managing foreign investment in agriculture.</p> <p>Risk management: Focus on social protection by providing cash or food during periods of stress, to enable rural producers to cope without compromising their long-term productivity or withdrawing their children from school.</p> <p>Development partners: The meetings of the G8 in the United States in 2012 and in the United Kingdom in 2013 should renew and intensify commitment to improving food security and nutrition in Africa.</p> <p>Climate change: Developed countries should step up support for adaptation financing in Africa through the \$30 billion "fast start" provision (2010-2012) and the \$100 billion in overall financing agreed in Copenhagen (2009) and Durban (2011).</p>

Priority area: **EDUCATION AND SKILLS**

GUIDING PRINCIPLES	SELECTED POLICY ACTIONS
<p>Set targets for expanding early childhood care and education by 2015.</p> <p>Accelerate progress towards universal primary education by focusing on marginalised groups.</p> <p>Improve education quality and learning outcomes so that all children can read, write and meet basic numeracy standards after three years in school.</p> <p>Raise the quality of teacher training and in-service support.</p> <p>Strengthen second-chance education and accelerated learning programs.</p> <p>Ensure post-primary education to offers the skills needed for secure livelihoods and jobs.</p>	<p>Develop equitable education strategies that:</p> <ul style="list-style-type: none"> • expand early childhood care and education under an integrated health and education framework; • accelerate progress towards universal primary education by 2015, with specific targets for hard-to-reach children; • strengthen equity in public spending by targeting disadvantaged regions, schools and pupils, including girls and marginalised groups; • put in place a national learning assessment system, reform teacher training and develop a curriculum to facilitate effective child-centered learning. <p>Development partners: Development partners should honor commitments made in 2000 by providing \$16 billion a year in aid for basic education in low-income countries.</p> <p>The World Bank has committed to increase IDA lending to basic education by \$750 million over the period 2011 to 2015. Creating a baseline that reflects actual lending over the past 3-5 years, this commitment implies that IDA loans for basic education should average \$1.1-1.3bn annually.</p> <p>Development partners should strengthen support for education in countries affected by conflict or embarking on post-conflict reconstruction, including \$400 million annually for an “education catch-up” plan in South Sudan.</p>

Priority area: **GOOD GOVERNANCE AND DEMOCRACY**

GUIDING PRINCIPLES	SELECTED POLICY ACTIONS
<p>African regional institutions should take the lead in consolidating democracy and promoting good governance.</p> <p>Reform the security sector to reduce the incentives for drug trafficking and organized crime.</p> <p>Strengthen transparency and accountability in politics and economic management.</p> <p>Strengthen management of natural resources to maximize economic growth and employment, and to reduce poverty.</p> <p>Reinforce the requirement for leaders to respect term limits, and increase investment in the institutions that hold governments to account (parliaments, audit bodies, free media, think tanks, civil society).</p> <p>Promote Africa's global position and voice.</p>	<p>Democracy: With the support of the AU and UN, ECOWAS should intensify efforts to resolve the crises in Mali and Guinea-Bissau and prevent regional spillover effects. The international community should adequately finance the ECOWAS Standby Force and support diplomatic efforts.</p> <p>The AU should hold leaders of member states to account, drawing on the groundbreaking norms and standards it has developed and ensuring that these are backed by credible sanctions.</p> <p>Governance: Prosecute companies for bribing African leaders. Expand the application of the Extractive Industries Transparency Initiative (for example, by requiring extractive companies to publish payments) and the Natural Resource Charter.</p> <p>The EU should adopt the principles in the Dodd-Frank Amendment.</p> <p>Voice: To avoid marginalisation in the emerging G20 processes, African leaders should make the case for broad-based participation (rather than elevated observer status) and articulate an African agenda.</p>

Priority area: **JOBS, GROWTH AND TRADE**

GUIDING PRINCIPLES	SELECTED POLICY ACTIONS
<p>Make employment creation an explicit objective of economic policy.</p> <p>Develop the skills base for sustained economic growth through training, second-chance education for youth, and better alignment of education with employment.</p> <p>Strengthen moves towards regional economic integration.</p> <p>Integrate trade and investment policies into wider strategies aimed at raising productivity, facilitating entry into higher added-value areas of production, and expanding opportunities for African companies and their workers.</p> <p>Develop economic infrastructure to strengthen competitiveness and expand opportunities.</p>	<p>Provide a supportive environment for the four major sources of employment: small and medium-sized companies, the informal sector, off-farm rural enterprises and smallholder agriculture</p> <p>African governments should:</p> <ul style="list-style-type: none"> • increase investment in skills development for the informal sector, with a special focus on learning opportunities for youth; • urge China and other partners to improve market access for African goods and investment that supports local companies and employment of Africans, and technology and skills transfer; • accelerate plans for regional integration; • work collectively in the WTO and other fora to address shared concerns in areas such as market access, with the African Union supporting measures aimed at strengthening capacity to negotiate with foreign investors. <p>Trade and investment partners:</p> <ul style="list-style-type: none"> • The EU should withdraw demands for reciprocal liberalisation under the economic partnership agreements for Africa, and use development assistance to promote Africa's export capabilities. • Africa's trading partners should reconsider in a post-Doha environment how trade access for African agricultural, processed and manufactured products can be enhanced, including by reducing/eliminating tariff escalation.

Priority area: **RESOURCE MOBILISATION**

GUIDING PRINCIPLES	SELECTED POLICY ACTIONS
<p>While Africa should and will gradually reduce the dependence of some countries on aid, providers of aid should not be pulling back just when the productivity of aid to a growing continent is at a peak.</p>	<p>All development partners and other providers should implement their promises to Africa and support a “big push” to maximize achievement of the MDGs.</p> <p>African governments should:</p> <ul style="list-style-type: none"> • continue to improve the mobilisation of domestic resources, where possible through broadening coverage and by tackling inappropriate exemptions. • work to attract FDI, particularly for labour-intensive activities, not by offering inappropriate special incentives but by creating a positive environment for all business including domestic, predictable conditions for investors, and transparent enforcement of contracts. • ensure that all financial transactions that involve commitments by the state (e.g. loan repayments and guarantees) are published, centrally approved and managed prudently within foreseeable resources. All official borrowing on semi-concessional or market terms should be allocated to specific activities with a high economic return. <p>Lenders should respect the policies in the African Consensus and Position on Development Effectiveness set out ahead of the Busan forum.</p> <p>African governments, parliaments and civil society should take further steps to encourage the productive and transparent use of all inflows, whether concessional or not; and providers should support improvements in transparency as agreed at Busan and outlined in the International Aid Transparency Initiative (IATI).</p>

CONCLUSION

We started this report by cautioning against highly polarised perspectives on Africa's prospects. Perhaps more than at any time in recent years, there is cause for cautious optimism. The region has registered a decade of strong economic growth and has recovered strongly from the global recessions. The private sector is emerging as a vibrant and innovative force for change. Domestic and foreign investment is rising. For the first time in a generation, poverty levels are falling – and many countries have witnessed strong progress towards the MDGs. Democracy is throwing down deeper roots, with multi-party elections now the firmly established rule rather than the exception. Inevitably in a region as diverse as Africa, there are many national exceptions to this big picture canvas. Yet the favourable constellation of strong economic growth, improving human development, and more accountable governance means that African leaders could set the scene for a breakthrough that transforms the lives of the current generation and the prospects of future generations.

That outcome is not automatic. Trend is not destiny – and Africa's future will be shaped by how effectively the region's governments and development partners respond to the great challenges that lie ahead. In this report, we have identified a number of concerns that, in our view, merit urgent consideration. Across the world, we have seen the rise of social movements and the spread of public attitudes contesting what are viewed as unacceptable levels of inequality. We are of the strong view that inequalities across much of Africa are ethically indefensible, economically inefficient and politically destabilising. That is why we call upon Africa's leaders to put equity and the development of more inclusive societies at the heart of their planning for the future.

This message should not be interpreted as part of an anti-growth agenda. Consistently high growth is unquestionably a condition for sustained – and sustainable – progress in Africa. Similarly, it is important that Africa's leaders not be mesmerised by economic growth in and of itself. They must also consider the quality of growth, the distribution of benefits from wealth creation, the opportunities that poor people and women have to participate in growth, and the relationship between growth and progress towards the MDGs. It is clear from

the experience of several high-growth economies around the world that growth alone will not automatically deliver accelerated progress towards the international development goals in maternal health, child survival or hunger.

The 2015 target date for the MDGs provides an opportunity to focus national and international attention on parts of society that have been left behind. The Africa Progress Panel welcomes the emerging debate on the post-MDG framework. However, we are concerned that governments are losing sight of the 2015 promise enshrined in the original MDG targets. The value of any future commitments will be diminished by a failure to accelerate progress towards these targets. That is why we call for a 'big push' towards the MDGs, with every government setting out a best endeavour strategy for getting as close as possible to the goals – and donors backing their efforts by acting on their aid commitments.

In our view, both the current and future MDG frameworks should attach far more weight to equity targets. The MDG promise was made for everyone. Yet in many countries, people who are poor, female and rural face acute disadvantages. And because of inequitable patterns of public spending they have the last call on public spending. We are convinced that it is time to integrate equity targets into the MDG framework. These targets could take the form of specific goals aimed at reducing gaps in, say, child mortality, maternal health, and education based on wealth, gender, rural-urban divisions and wider markers for disadvantage. Reducing inequalities in basic life-chances is a moral imperative. But it would also spur prospects for economic growth and accelerate progress towards the MDG targets themselves.

Looking ahead, there are immense opportunities. African economies are becoming more integrated with high-growth emerging markets. The region's vast mineral wealth is driving growth and acting as a magnet for foreign investment. With population growth and rising wealth driving up demand for food, Africa's farmers could benefit from opportunities in global markets. As the centre of gravity in the world economy moves south and east, the emerging forms

of global economic governance could provide Africa with a greater voice. Meanwhile, the revolution in information and communication technology has created an opportunity for Africa to leapfrog old, outmoded technologies and adapt new innovations.

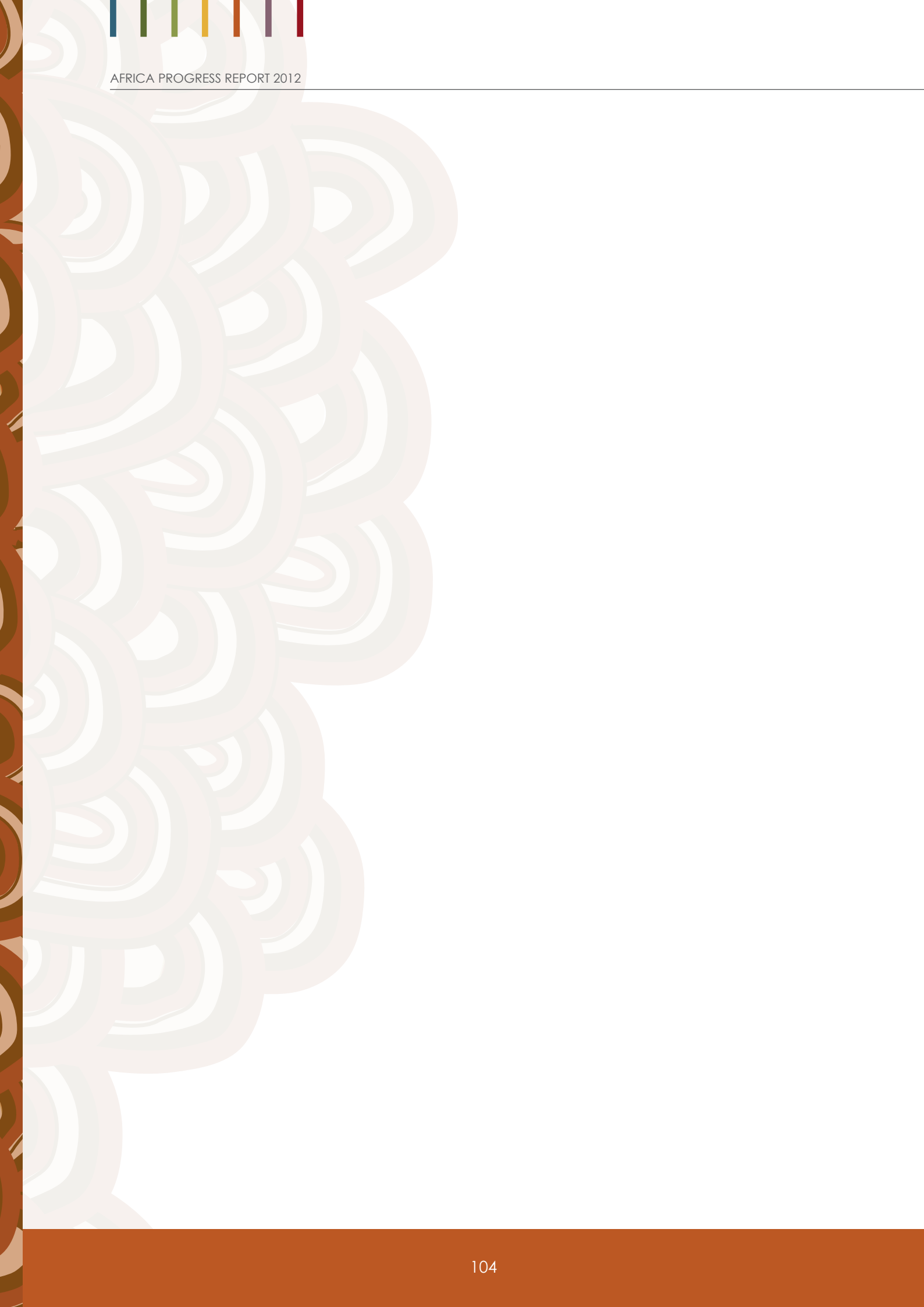
For each of these opportunities there is a corresponding risk. In the absence of strategies aimed at facilitating entry to higher value-added areas of production, there is a danger that Africa's mineral wealth and integration with emerging markets will reinforce dependence on the export activities that generate modest levels of employment, have weak linkages to local markets, and leave the region vulnerable to adverse price trends. Rising global demand for food could generate incentives for a new wave of speculative land-grabbing, with the profit margins of hedge funds and other investors overriding national and regional food security. Paradoxically, the rise of the BRICS and the G20 could leave Africa more, not less, marginalised in global economic governance. And failure to lower the cost of Internet access could limit the democratising and leapfrogging potential of ICTs. In all of these areas, governments will need to develop proactive policies aimed at seizing opportunity and mitigating risk. Laissez-faire is unlikely to deliver results. That is why we call for more active policies in agriculture, manufacturing and trade aimed at strengthening competitiveness, supporting technological innovation, and protecting the land rights of Africa's farmers.

The future is never entirely predictable – but there are two areas in which policy failure today will have highly predictable, and damaging, consequences for the future. The first is youth employment. Africa's youth bulge could create a large demographic dividend. Young Africans have extraordinary levels of energy and creativity. They also have hopes, ambitions and

dreams. What they are lacking is the opportunity to develop the skills they need to realise their potential. Stated bluntly, the region's education and training systems are not currently fit for the purpose of providing decent quality education for all. Failure to tackle the twin crisis in access to school and learning in school will not just limit the right to education, undermine prospects for economic growth, and waste human potential. It will also render countries all the more vulnerable to the political and social instabilities that inevitably accompany urbanisation and youth unemployment.

The second area that requires urgent policy attention is smallholder agriculture. It is sometimes forgotten that farming is the primary source of employment and food security for most Africans. Yet for far too long, smallholder farmers have suffered from a combination of indifference and actively damaging policies. With the right incentives, institutional reforms and public spending policies in place, we are convinced that it is possible to dramatically increase the productivity of smallholder agriculture, to expand opportunities for rural employment, and strengthen the economic interaction between urban and rural economies. By contrast, continued neglect of smallholder farming will undermine economic growth, reinforce inequalities, and increase the region's exposure to the risks that come with over-dependence on food imports.

Africa was never a 'hopeless continent'. It was – and remains – a region of immense potential, much of it unfulfilled. With decisive leadership at home and sustained support from development partners, there is now an opportunity to unlock that potential and to set course for a future of shared prosperity, more equal opportunity, and political stability. The journey will not be easy. But the prize is great and it is within reach – and we must collectively seize the moment.



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ANNEXES

LIST OF ACRONYMS

AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
AGRA	Alliance for a Green Revolution in Africa
APRM	African Peer Review Mechanism
ART	Anti-Retroviral Therapy
AU	African Union
AWF	African Water Facility
CABRI	Collaborative Africa Budget Reform Initiative
CADF	China – Africa Development Fund
CDB	China Development Bank
COP	Conference of Parties
DAC	Development Assistance Committee
EAC	East African Community
ECLAC	Economic Commission for Latin America and the Caribbean (UN)
EISA	Electoral Institute for Sustainable Democracy in Africa
EITI	Extractive Industries Transparency Initiative
EU	European Union
EXIM	Export – Import Bank
FAO	Food and Agriculture Organization (UN)
FDI	Foreign Direct Investment
GAVI	Global Alliance for Vaccines and Immunization
GDP	Gross Domestic Product
GNI	Gross National Income
GPE	Global Partnership for Education
HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
ICC	International Criminal Court
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
IFES	International Foundation for Electoral Systems
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
ITU	International Telecommunication Union
MDG	Millennium Development Goal
NBER	National Bureau of Economic Research
NEPAD	New Partnership for Africa's Development
NRC	Natural Resource Charter
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OGP	Open Government Partnership
RWSSI	Rural Water Supply and Sanitation Initiative
STI	Science, Technology and Innovation
UNCTAD	UN Conference on Trade and Development
UNEP	UN Environment Programme
UNESCO	UN Educational, Scientific and Cultural Organization
USIP	United States Institute of Peace
WDR	World Development Report
WHO	World Health Organization
WTO	World Trade Organization

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113. The IMF lists Angola, Ghana, Kenya, Mauritius, Mozambique, Nigeria, Senegal, Tanzania, Uganda, Zambia and Zimbabwe as African "Frontier Markets", and the comparator "Frontier Markets" are Bangladesh, Bulgaria, Jordan, Kazakhstan, Pakistan, Romania, Sri Lanka, Tunisia and Vietnam.
114. UNCTAD (2011). Global Investment Report. UNCTAD
115. According to Ernst and Young's Africa Attractiveness Report, 2011, intra-regional FDI increased by 21 per cent annually from 2003 to 2010. Accessed in April 2012. Available from www.ey.com/...Africa_Attractiveness_Survey/.../11EDA187_attractiv
116. Country Programmable Aid refers to those elements of Official Development Assistance that are programmed at country level – thus omitting for example emergency and humanitarian aid, expenses incurred in the donor country (for example student subsidies) and the cost of aid administration.
117. For example, in April 2010, Shell announced its plan to withdraw from downstream oil and gas markets – considered "low-margin" – in 21 African countries. Similarly, BP announced plans to divest from five Southern African countries (UNCTAD (2011) Global Investment Report).
118. See 110
119. See 114

120. Lin J. (2011). From flying geese to leading dragons: new opportunities and strategies for structural transformation in developing countries. World Bank Policy Research Working Paper No. 5702 . Accessed on 20 April, 2012 . Available from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1871599#
121. The World Bank/IFC Doing Business Report (2012) notes, for example, that 'Getting an electricity connection [...] costs more on average in Sub-Saharan Africa than in any other part of the world—more than 5,400% of income per capita (the average in OECD high-income economies is 93% of income per capita).'
122. World Bank (2011) Light Manufacturing in Africa. The report addresses constraints to developing light manufacturing industries in Ethiopia, Tanzania and Zambia, and comes up with a similar list of areas to be addressed: input industries, trade logistics, access to finance, access to industrial land, worker skills, and entrepreneurial skills.
123. Country Programmable Aid refers to those elements of Official Development Assistance that are programmed at country level – thus omitting for example emergency and humanitarian aid, expenses incurred in the donor country (for example student subsidies) and the cost of aid administration.
124. These figures are gross, unlike ODA figures, which are defined as net of loan repayments.
125. International Aid Transparency Initiative. n.d. Accessed in April 2012. Available from <http://www.aidtransparency.net>
126. For Sub-Saharan Africa, the absolute amounts are: for 2010, \$32.9 billion; for 2013, \$34.0 billion.
127. Currently, the operational threshold for IDA eligibility is set at a GNI per capita of \$1,165 in real 2009 dollars. See Moss, T. and Leo, B. (2011). IDA at 65: Heading Toward Retirement or a Fragile Lease on Life? Centre for Global Development.
128. As an example, Bangladesh, where aid disbursements exceeded tax revenue in 1980/91, tax revenues are now about six times their level (Flow of External Resources into Bangladesh, External Resources Division, Ministry of Finance, Table 14).
129. Defined here as loans at zero or near-zero interest. This is a more restrictive definition than applied for Official Development Assistance provided by DAC members, but in practice there is at present very little DAC aid to Africa except on very soft terms.
130. Brautigam, D. (2009). The Dragon's gift: The Real Story of China in Africa, Oxford University Press. London
131. It is rare for these providers to fund recurrent expenditure.
132. Palmer, D. (February 2012) US, China agree to negotiate export credit deal. Accessed in April, 2012. Available from <http://www.reuters.com/article/2012/02/14/us-usa-china-exportcredits-idUSTRE81D1YV20120214>
133. African Consensus and Position on Development Effectiveness

The Africa Progress Panel promotes Africa's development by tracking progress, drawing attention to opportunities and catalyzing action.

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