Financing Innovation and Sustainable Development in Africa

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Financing Innovation and Sustainable Development in Africa

Edited by

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ACRONYMS

ADIA Abu Dhabi Investment Authority

AfDB African Development Bank

AFI Alliance for Financial Inclusion

AGOA African Growth and Opportunity Act

ANC African National Congress

AOCC Africa Orphaned Crops Consortium

APR Annual Percentage Rate

APRM African Peer Review Mechanism

ASTII African Science, Technology, and Innovation Indicator

BoU Bank of Uganda

BRIC Brazil, Russian Federation, India, and China BRICS Brazil, Russia, India, China, and South Africa

CAADP Comprehensive African Agriculture Development

Program

CBK Central Bank of Kenya
CBN Central Bank of Nigeria

CBR Central Bank Rate

CDSF Capacity Development Strategic Framework (AU-

NEPAD)

CECA Commission for East and Central Africa

CEMAC Economic and Monetary Community of Central Africa

CFI Capital Flow Initiative

CGAP Consultative Group to Assist the Poorest

CGAP-MIX Consultative Group to Assist the Poorest–Microfinance

Information Exchange

COHRED Council on Health Research for Development
COMESA Common Market for East, Central, and Southern

Africa

COSATU Congress of South African Trade Unions

xx Acronyms

CRA Contingency Reserve Arrangement

CRR Cash Reserve Ratio

CSAE Center for the Study of African Economies

DAC Development Assistance Committee

DDF District Development Facility (Ghana)

EAC East African Community
EAP East Asia and the Pacific
ECA Europe and Central Asia

ECE Economic Commission for Europe ECF Extended Credit Facility (Kenya)

ECOWAS Economic Community of West African States
EMDCs Emerging Markets and Developing Countries

ERS Economic Recovery Strategy

ESF Exogenous Shock Facility (Kenya)

EU European Union

FDI Foreign Direct Investment

FEDUSA Federation of Unions of South Africa

FIDIC Federation Internationale des Ingenieurs Conseils

FOCAC Forum on China-Africa Cooperation

GCC Gulf Cooperation Council (Bahrain, Kuwait, Oman,

Qatar, Saudi Arabia and the United Arab Emirates)

GDP Gross Domestic Product

GIC Government of Singapore Investment Corporation

GLC Government-Linked Companies

GNI Gross National Income
GSA General Social Assistance
HHI Hirschman-Herfindahl Index
HIPC Heavily Indebted Poor Countries
IAD Institute for African Development
ICC International Chamber of Commerce

ICRAF World Agroforestry Centre

ICT Information and Communication Technology

IDG International Development Goal

IFF Illicit Financial Flows
ILF Intraday Loan Facility

ILO International Labour Organization
IMF International Monetary Fund

IPFF Infrastructure Project Preparation Facility (NEPAD)

IPO Initial Public Offering

JICA Japan International Cooperation Agency
KenGen Kenya Electric Generating Company
KEPSS Kenya Payments and Settlement System

KIA Kuwait Investment Authority

LAC Latin America and the Caribbean

MAI Market Access Initiative

MCC Millennium Challenge Corporation

MDGs United Nations Millennium Development Goals

MDRI Multilateral Debt Relief Initiative
MENA Middle East and North Africa
MFI Microfinance Institution

MPAC Monetary Policy Advisory Committee (Kenya)

MPC Monetary Policy Committee

MPOC Monetary Policy Operations Committee

NACTU National Council of Trade Unions

NAFSIP National Agriculture and Food Security Investment

Plan

NAM Non-Aligned Movement NDA Net Domestic Assets NDB New Development Bank

NEPAD New Partnership For Africa's Development

NFA Net Foreign Assets

NGOs Non-Governmental Organizations

NGP New Growth Path (South Africa) also called National

Growth Plan

xxii Acronyms

NPCA NEPAD Planning and Coordinating Agency

NPL Non-Performing Loan NPoA National Plan of Action

NSE Nairobi Securities Exchange, Nairobi Stock Exchange

ODA Overseas Development Assistance

OECD Organisation for Economic Cooperation and

Development

OFID OPEC Fund for International Development

OHADA Organization for the Harmonization of Business Law

in Africa

OSAA Office of the Special Adviser on Africa

PALMS Public Administration Leadership and Management

Academy

PAYE Pay as You Earn

PHCE Public Health Care Expenditure

PIDA Programme for Infrastructure Development in Africa

(NEPAD)

PPP Public-Private Partnership

PRGF Poverty Reduction and Growth Facility (Kenya)
PRSP Poverty Reduction Strategy Paper Learning Group

PSI Policy Support Instrument (IMF)

PSPEA Public Social Protection Expenditure of Persons of

Active Age

PSPEC Public Social Protection Expenditure for Children

QIA Qatar Investment Authority

RBA Results-Based Aid

REC Regional Economic Community

RRT Resource Rent Tax

RTGS Real-Time Gross Settlement System

SADC Southern African Development Community
SBPA Social Benefits For Persons Of Active Age

SDGs Sustainable Development Goals

SGRF State General Reserve Fund (Oman)

SIG Special Interest Group

SIMS State Intervention in the Minerals Sector SME Small- and Medium-Sized Enterprises

SPF Social Protection Floor SSA Sub-Saharan Africa

STAP Infrastructure Short-Term Action Plan (NEPAD)

SWF Sovereign Wealth Fund

TAD Term Auction Deposit Facility

TSPE Total Social Protection Expenditure

UAE United Arab Emirates

ULGSP Urban Local Government Strengthening Program

UN United Nations

UNCITRAL UN Commission on International Trade Law

UNCTAD United Nations Conference on Trade and Development

UNDP United Nations Development Programme

UNECA United Nations Economic Commission for Africa
UNFCCC Nations Framework Convention on Climate Change
UN-NADAF UN New Agenda for the Development of Africa

VAT Value Added Tax

WAEMU West African Economic and Monetary Union

WTO World Trade Organization

SECTION 1:

FINANCING MODALITIES AT NATIONAL AND REGIONAL LEVELS FOR POVERTY REDUCTION AND SUSTAINABLE DEVELOPMENT

CHAPTER ONE

FINANCING INNOVATION AND SUSTAINABLE DEVELOPMENT IN AFRICA: AN INTRODUCTION

Muna B. Ndulo and Steve Kayızzı-Mugerwa

Introduction

In April 2014, a group of economists, political scientists, policy analysts, experts in international law, and various practitioners met at Cornell University for a symposium on the topic *Financing Innovation and Sustainable Development in Africa*. Sponsored by the Cornell Institute for African Development (IAD) and the African Development Bank, the conference attracted participants from many parts of the world and from areas including academia, think tanks, and development cooperation institutions, all gathered to discuss how best to capitalize on the recent, multi-faceted innovations and developments in the financial sector to help propel Africa's development forward. The conference took a broad sweep of the issues, allowing a number of development finance challenges to come to the fore, including those of political economy, globalization, and geopolitics.

Africa's recent high growth numbers—at about 6 percent on average since the early 2000s—and their implications for the continent and indeed the world have elicited accolades and headlines in equal measure in the international media and among investment consultants, with a number of accompanying catchphrases: "Africa rising," "African lions," "the world's last development frontier," "continent of promise," etc. Indeed, the sense of regime shift is reminiscent of the 1960s post-independence era, when African growth numbers were high and populations were optimistic about the future. The difference is that Africa today is a much changed place, with a large and rapidly growing population that is also shifting rapidly toward urbanization; within the next two decades, a majority of the population will live mainly in urban centers.

Africa's high growth has been happening during a time when the global economy is experiencing unprecedented changes, both in structure and in the sources and quality of that growth. The continent as a whole continues to be a notable recipient of overseas development assistance (ODA), but the amounts are dwindling, as donor countries experience tightened fiscal conditions and economic convulsions of their own; and aid flows have in any case been surpassed on an annual basis by foreign direct investment and even remittances from Africans living abroad.

In the past decades, the global growth pendulum has shifted markedly toward countries in Asia, notably India and China, with important implications for Africa and the world. In the media and in many academic debates, the rise of China has been ascribed a large role in the shaping of Africa's recent fortunes. Although China's resurgence has been important, however, Africa is only a small player in China's global trade links. In terms of African exports to China, the focus is on oil, natural gas, and other natural resources drawn from a handful of countries. On the other hand, China's finished products reach many African countries, with some deals based on barter trade. Ironically, the European Union, an area troubled by anemic growth and near deflation in the past decade, is still Africa's largest trade partner.

In explaining Africa's recent growth and its overall resilience in the face of external shocks, it is important to underline the role that good domestic policies have played, including the provision of better infrastructure, a more attractive business environment, and notably, much improved performance of the financial sector. Policies have become more predictable, the cost of doing business has fallen in some countries, and the attraction of foreign investors has not been at the expense of domestic ones. The decade and a half of high growth has begun to have real impacts on the ground: the average incomes of African households have risen, and in many countries the size of the middle class is growing, with implications for the provision of goods and modern services. Indeed, growing domestic consumer demand has become a major spur toward growth in many countries.

Even as Africa's unprecedentedly long growth period has become the source of much optimism, with many observers seeing the beginning of economic transformation, there are still a number of impediments to sustainable development on the continent to which attention must turn. These constraints are in some ways not Africa-specific, as the seventeen goals (and 169 targets) of the newly launched Sustainable Development Goals (SDGs)—covering issues of poverty, hunger, gender inequality, and environmental degradation—would testify. However, given the starting condi-

tions in most of Africa, the climb is steeper there. Indeed it can be noted that if the SDGs fail in Africa, they will not have succeeded at all, given that they are squarely targeted on Africa's needs and challenges.

This volume takes the view that while the SDGs provide a powerful statement on what needs to be done to eliminate poverty and put developing regions of the world, notably Africa, on the path of sustainable development, financing will be a key constraint. The Financing for Development Conference, held in Addis in July 2015, concluded that the global development agenda required trillions of dollars of financing to be implemented. The international development community was prepared to play its part, but would certainly not be the major source of the funds. The discussions converged on two sources: the domestic and foreign private sectors, and domestic resource mobilization. These two sources would also create further synergies through private-public partnerships. Even here, though, the presumption was that a well-functioning financial sector must be in place to mediate effectively among parties. A secure financial sector would enable the financing of new interventions to ensure that Africa's development was sustainable and led to economic transformation. In discussing the global arena, the volume also touches on Africa's perennial "urge to merge" and the obstacles—legal and physical—to its regional integration and trade.

The rest of this chapter provides summaries of the presentations in this volume, which are grouped into three sections: The first set of papers discusses financial modalities at national and regional levels for poverty reduction and sustainable development; the second set looks at institutional and policy prerequisites for innovative financing; and the third set discusses responses to challenges from the global arena.

Financing Modalities at National and Regional Levels for Poverty Reduction and Sustainable Development

The first set of papers looks at various forms of aid delivery and how best to assess whether the assistance is having an impact on the ground. Although development financing is often conceived at the national level, a number of development projects in Africa require a multinational approach, with implications for financing and project implementation.

Chapter 2 by Eric Thorbecke, on structural transformation and intersectoral flows in Africa's development, is a rendition of his plenary address. He stated at the outset that he had been rather pessimistic about Africa's prospects, having worked on the region for some twenty-five years. Thorbecke argues that intersectoral flows, particularly between agriculture

and other sectors, are the main sources of finance, capital, and labor at an early stage of economic development. In his view, at least until the beginning of the new millennium, Africa's structural transformation was flawed. Only in recent years are we beginning to see some structural transformation on the continent, although, according to Thorbecke, it is still too early to know whether this is sustainable. Still, it is now more the case of the glass being half full than half empty.

In Chapter 3, Stephan Klingebiel and Heiner Janus discuss how the assessment of results-based aid for financing development in sub-Saharan Africa could become an effective tool for assessing the impact of aid. The emphasis on technical rather than political conditionality is thought to be more attractive to recipients and donors alike. As stated repeatedly within the donor community, results are the raison d'être of development financing. In conceptual terms, results-based aid links to several academic debates on aid and can clearly contribute to discussions on aid impact, allocation and conditionality, and aid modalities. However, identifying explicit results from aid financing at the output or outcome level that can be measured and directly linked to development activities is cumbersome. Moreover, there are many factors in a modern economy that could weigh in on the final results. There are, therefore, serious issues of causality and attribution when attempting to determine results. Still, Klingebiel and Janus argue that results-based aid can, with appropriate methodology, be used to advance donor interest in influencing domestic policies. The difference would be that "technical triggers," i.e., devoid of politics, would be the drivers. They provide two case studies: Ghana and Tanzania, chosen because they are "donor darlings." They argue that it is important to ensure that there is domestic ownership to ensure sustainability, and that the thrust is not entirely from the donor side. This requires in turn a high degree of alignment and harmonization among the donor community. They warn, however, that even technical triggers could become political in the absence of sufficient domestic ownership of the process.

In Chapter 4, Letlhokwa Mpendi discusses the future of aid as a financing mechanism for social protection in Africa. Social protection is a vast subject, but Mpendi focuses on the following features: unemployment, sickness and disability, family cohesion, health, education, housing, and food provision. He argues that not enough attention has been paid to these areas with respect to social security and the provision of social services that are so crucial for human welfare in each African country. He shows clearly that without much needed aid, many destitute individuals and their families would be worse off. However, donors and governments must address a number of challenges before aid is able to contribute suffi-

ciently to social protection in Africa. These challenges include the need to ensure aid predictability and sustainability; lack of alignment of donor approaches with those of the government; and closely related absence of harmonization of aid policies and programs to reduce the administrative burdens on governments. On the part of governments, social protection institutions are fragmented and often compete for the same pool of funds from the donor community, who then exercise a divide-and-rule approach. Moreover, poor macro and sector policies do not make matters easier. In looking ahead, governments should not leave the task of funding the implementation of social protection programs entirely to donors. Enhancing domestic resources through tax reforms will greatly boost the capacity for financing social protection when drawing up national budgets. Mpendi argues that the financing of social protection is a long-term project to which donors and governments should contribute progressively.

In Chapter 5, Landry Signé switches the discussion to the financing of The New Partnership for Africa's Development (NEPAD), which is the flagship example of African integration ambitions and also a central pillar of Africa's development blueprint, "Africa 2063," launched by the African Union in 2014. Since its creation, NEPAD's biggest accomplishments have been its recognition as a development partner by African regional institutions and international organizations, and its integration as a program of the African Union. The partnership aims to integrate Africa within a globalized world, close the gap between developing and developed countries, eradicate poverty, and put the continent on the path of sustainable growth and development. The program has identified a number of infrastructure corridors to be prioritized throughout the continent, including rails, roads, and seaports. Despite notable efforts that have contributed to increasing financial flows to Africa, NEPAD has not been able to reach its financial targets of some U\$64 billion per year. The chapter concludes that NEPAD was unable to fully implement its resource mobilization strategy, given the complex political-economic context and the behavior of selfinterested actors. The failure can be attributed further to the difficulty of establishing strong coalitions to address the high level of policy ambiguity associated with such multinational efforts. The latter is exacerbated by insufficient ownership at national and subregional levels. Moreover, the international community sometimes prefers to support a clearly national rather than multinational agenda. Under these circumstances, lowering the degree of ambiguity and conflict while refining the resource mobilization strategy in the post-2015 development context appears to be the best strategy to result in an improved implementation process and ultimately, success.