United Nations
Economic Commission for Africa

TOWARDS AFRICA'S PROSPERITY

Creating the Conditions for a Socially Inclusive, Environmentally Sustainable and Well-Governed Continent

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ABBREVIATIONS

AfCFTA	African Continental Free Trade Agreement
AfDB	Africa Development Bank
APRM	African Peer Review Mechanism
AU	African Union
AUC	African Union Commission
CAADP	Comprehensive African Agricultural Development Plan
CAPP	Central Africa Power Pool
CAR	Central African Republic
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CGE	Computable General Equilibrium
COMELEC	Commité Maghrébin de l'Electricé
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of Congo
DSSI	Debt Suspension Service Initiative
EAPP	Eastern Africa Power Pool
ECA	Economic Commission for Africa
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EIPSD	Economic Integration and Private Sector Development
ESIA	Environmental and Social Impact Assessment
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GERD	the Grand Ethiopian Renaissance Dame
GEWE	Gender Equality and Women's Empowerment
GHG	Green House Gas
GNI	Gross National Income
GW	Giga Watt
HCI	Human Capital Index
ICBT	Informal cross-border trade
ICT	Information and Communication Technology
IFF(s)	Illicit Financial Flows
ILO	International Labour Organization
IP	Intellectual Property
LAO	limited Access Order
LTE	Long Term Evolution
MNC	Multinational Corporation
MSMEs	Micro, Small and Medium Enterprises
NEPAD	New Partnership for Africa's Development
NTB	Non-Tariff Barriers
OAO	Open access order
ODA	Official Development Assistance
PAPSS	the Pan-African Payment and Settlement System
PASGR	Partnership for African Social and Governance Research
PIDA	Programme for Infrastructure Development in Africa
PPP	Public-Private Partnerships
RECs	Regional Economic Communities
SADC	the Southern Africa Development Community
SAPP	the Southern Africa Power Pool
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
SSCBT	Small-scale cross-border traders
STEM	Short-Term Electricity Market
STEM	Science, Technology, Engineering and Mathematics
STR	Simplified Trade Regimes
TAH	Trans-African Highways
TVET	Technical and vocational education training
UMA	Union of Maghreb Arab
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNFCCC	United Nations Framework Convention on Climate Change
USA	the United States of America
USD	United States dollar
WAPP	the West Africa Power Pool
WSSD	World Summit on Social Development

FOREWORD

The COVID 19 pandemic had devastating effects on Africa with a rollback in the achievements made in several sectors, including in education, health care services, reducing poverty and inequality, job creation and the sustained growth of African economies. The pandemic stretched the capacity and resources of the Continent to their extreme limits. The consequences of this on the realization of the key goals of the SDGs and Agenda 2063 have been dire. The United Nations System has therefore sought to reposition itself in ensuring that there are concerted efforts in rescuing the SDGs and accelerated actions towards it. Hence, 'Our Common Agenda' was initiated by the Secretary General of the UN, Mr. Antonio Guterres, to rally global support and solidarity for the key element of Agenda 2030. In addition, the 'Summit of the Future' will be held in 2024 in which member-states have agreed on the critical issues that will form the planks of that global summit. The scope to be covered by the Summit include (i) Sustainable development and financing for development (ii) International peace and security (iii) Science, technology and innovation and digital cooperation; (iv) Youth and future generations; and (v) Transforming global governance. The Summit of the Future promises to renew hope and galvanize momentum for global and equitable development in a post-COVID 19 era.

A key element of 'Our Common Agenda' is on foresight analysis; the ability to project into the future and analyze how transformative change could be achieved. This is quite important for Africa as unforeseen regional and global circumstances continuously distort the growth and development trajectory of the Continent. This report is a major contribution in leapfrogging into the future by identifying what are the critical 'game changers' for Africa to achieve accelerated growth, development, and prosperity by 2030. The notion of prosperity as conceptualized by the report is quite novel and goes beyond the economic benchmark for doing so. The report adopts a right-based and people-oriented approach to prosperity and argues that "prosperity is not all about money and material wealth; it is more than that. A broader definition of prosperity should allow policymakers to use a variety of policy tools beyond fiscal and monetary policies to achieve broader welfare gains in social, economic, and environmental issues". It refocuses our attention to a people-centred development approach in Africa. In addition, the 'game changers' identified by the report will be crucial for Africa's accelerated transformation and development.

I would like to commend all those who have contributed to making this report a reality. The former Executive Secretary of ECA, Vera Songwe, who initiated the project; the project lead, Said Adejumobi, the project task team members, consultants, especially the lead Consultant - Fantu Cheru, and staff who supported the preparation of the report in one way or the other.

The goal of achieving a stable, democratic, and prosperous Africa is a task that must be accomplished and quite earnestly too. This report is a major contribution to that effort.

Claver Gatete,

Under-Secretary General of the United Nations and
Executive Secretary of the Economic Commission for Africa

ACKNOWLEDGEMENTS

Preparation of this report involved two years of in-depth internal brainstorming and consultations. A task team shepherded the report, deciding on its outline and key issues to be addressed. Former Executive Secretary of the United Nations Economic Commission for Africa (ECA) Vera Songwe initiated the undertaking, and her continuing interest and involvement held work on the report to the highest standards of exploration and inquiry. The ECA would like to thank her for her foresight in initiating the project and her continuing dedication to it.

Said Adejumobi, Director of the Strategic Planning, Oversight and Results Division (SPORD) of ECA, chaired the Task Team that supervised the writing of the report. Task Team members included Joseph Attah-Mensah, Tinifissi-Yohannes Hailu, Nadia Hasham, Joseph Iluboudo, Robert Lisinge, Daivd Luke, Naasim Oulmane, Saurabh Sinha, John Sloan and Edlam Abera Yemeru. Atkeyelsh Persson was the secretary of the Task Team.

The initial draft was prepared by Melvin Ayogu (consultant). Fantu Cheru (consultant) led the writing team that prepared the final version of the report. Joe Attah-Mensah, Francis Ikome and Allan Mukungu contributed to the report. Special thanks to all of them for their hard work, diligence, and commitment to bring the report to fruition. Valuable data and updates on infrastructure, energy, digitization and climate action were provided by Robert Lisinge, Anthony Monganeli Mehlwana, Simon Mevel, Charles Muraya and Mactar Seck, for which we are grateful.

Finally, we are thankful for the support provided by Mercy Wambui, formerly of SPORD and now Chief of the Communication and External Media Relations Section in the Office of the Executive Secretary, along with the work of Mahelet Guoshe and Sofia Moges of SPORD and the ECA publications team.

INTRODUCTION

The 17 Sustainable Development Goals (SDGs) set in 2015 under the 2030 Agenda on Sustainable Development serve as a global compass guiding efforts to promote shared prosperity in a world where all people are enabled to pursue productive, vibrant and peaceful lives on a healthy planet. With less than seven years left until 2030, the global effort to improve people's lives in every country by achieving the 17 SDGs is off track. Progress has been made in some areas but has stalled or regressed in others, falling short of the scale and pace required to achieve targets by 2030.[2] Eliminating extreme poverty by 2030 appears to be unachievable, as half the world's population still lacks access to essential health care, 200 million children are likely to remain undereducated by 2030 and prospects for securing equal rights for women are daunting.[3]

Calls for a "Decade of Action"

It was in this context of SDG shortfalls that world leaders gathered in January 2020 and called for a "Decade of Action" to achieve the SDGs by 2030. Leaders called for accelerated implementation of sustainable solutions to tackle global challenges that were being exacerbated by the COVID-19 pandemic, a worsening climate crisis and a worldwide economic crisis set off by Russia's invasion of Ukraine. The pandemic has plunged 71 million people into extreme poverty, placed 1.6 billion informal sector workers at risk of losing their livelihood and slowed economic growth by an estimated 4.2%.

UN Secretary-General Antonio Guterres, in his call for a Decade of Action in January 2020, urged all nations to increase their efforts in addressing the obstacles to achievement of the SDGs. At the time of the call, global hunger was on the ascent and at least half of the world's population lacked access to essential health services. Achieving education quality targets may be in jeopardy as more than half of the world's children did not meet standards in reading and mathematics. The world was also far from achieving gender equality as women in all parts of the world continue to face structural disadvantages and discrimination. Furthermore, violent conflicts and vulnerabilities to natural disasters were not easing, threatening the goal of ending extreme poverty by 2030. Global climate change was also threatening lives and livelihoods, with rising sea levels, accelerating acidification of oceans, rising global temperatures, intensifying land degradation, and a million plant and animal species at risk of extinction.

The outbreak of the COVID-19 pandemic added to the challenges of achieving the SDGs. The pandemic has not only exacted a toll on national health systems but has also disrupted economic activities, including supply chains and travel, in many cases reversing gains made towards achieving the SDGs. The pandemic has negatively affected rich and poor countries, big and small businesses, rich and poor people. The adverse socioeconomic effects in Africa have been both direct and indirect.[4] They range from children unable to attend school to families unable to visit elderly loved ones for fear of exposing them to COVID-19 to businesses that have had to lay off employees. All sectors of the economy were exposed to new risks.

Achieving prosperity by accelerating progress towards the goals of Agenda 2063 and Agenda 2030 is not a choice but a necessity for Africa. As Malawian economist Thandika Mkandawire noted in 2011, Africa as a latecomer in global development "must run, while others walk."[5] The challenges of development for the continent are mammoth, and overcoming them through accelerated economic and social transformation is an imperative.

The 2030 deadline is seven years away. What does Africa need to do to achieve the goals of Agenda 2030 and Agenda 2063 in light of the severe socioeconomic setbacks from the COVID-19 pandemic? What are the critical "game changers" that can enable this transformative change? Africa needs a much more ambitious strategy to achieve the goals by the end of 2030. Overcoming severe challenges—economic crisis, climate change, growing inequalities, peace and security—exacerbated by the pandemic, requires both fundamental reforms and unconventional methods.

Building on the momentum generated by the declaration of the African Regional Forum on Sustainable Development on the UN Decade of Action and Delivery for Sustainable Development in Africa, as well as a summary report and key messages on Africa's priorities,[6] this study identifies the game changers needed to accelerate progress towards achieving prosperity within this decade. It envisages that by 2030, the region will have moved closer to Agenda 2063's vision of "an integrated, prosperous and peaceful Africa, driven by its citizens and representing a dynamic force in the global arena." As a strategy document, it is intended as a roadmap for citizens, policymakers, and development partners to deliver prosperity by 2030 to the 1.07 billion inhabitants of the region. It offers a set of limited but crucial objectives achievable at the regional and the national levels of policy implementation. Most important, its realistic tone challenges governments to forge ahead to 2030 and beyond, confident in the regional support they will receive from the community of states that constitute the Africa Union and united in the common purpose of prosperity reimagined.

Scope and organization of the report

This report is organized around four themes. Chapter 1 describes Africa's economic and social conditions in 2022. Chapter 2 offers a comprehensive definition of the economic, political and social dimensions of a prosperity in which everyone on the continent can realize their full potential in an environment of peace and security. Drawing from the literature on a human rights approach to development and the lessons from the Scandinavian model of social democracy, the chapter proposes a definition of prosperity that encompasses more than the narrow and conventional definition as GDP growth. In this altered perspective, prosperity is based on social cohesion, individual freedom and equality. Chapter 3 assesses the game changers (accelerators) needed to unleash Africa's development potential and achieve an inclusive prosperity that enables everyone to realize their full potential without discrimination. In this vision of "the Africa We Want,"[7] economies are integrated, citizens live in an environment of peace and security, and the full potential of women and youth is realized. Chapter 4 looks at governance institutions and their role in economic transformation. It identifies the institutions that are critical to achieving the sustainable growth, stable and predictable market culture and environment, social stability, and cohesive and good governance necessary for promoting sustainable economic development and prosperity. Chapter 5 presents the key recommendations from the study.

CHAPTER 1.

ECONOMIC AND SOCIAL CONDITIONS IN AFRICA

Economies are reeling from the impacts of the triple global crises of the COVID-19 pandemic, the war in Ukraine and global climate change, and African economies are no exception. The triple crises have slowed the region's economic growth, from 4.7% in 2021 to an estimated 3.9% in 2022.

Before the war in Ukraine, the global economy had been slowly recovering from the effects of the COVID-19 pandemic. The pandemic had forced an estimated 55 million people into extreme poverty in 2020, reversing the considerable progress made in social development over the previous two decades.[8] Government-mandated lockdowns, imposed to slow the spread of the virus and mitigate its impacts, put some 30–35 million formal sector workers at risk from reductions in wages and working hours and swelled the ranks of informal and vulnerable workers.[9] Government spending to buffer the effects of the pandemic exacerbated fiscal deficits and debt levels. Interest rate hikes in the United States and other developed economies to fight inflation have led to a strengthening of the US dollar, increasing the cost of servicing Africa's external debt and shrinking fiscal space. The war in Ukraine has disrupted global commodities markets and trade flows, causing food prices to rise. African economies are also dealing with the effects of climate change, which is reducing agricultural yields.

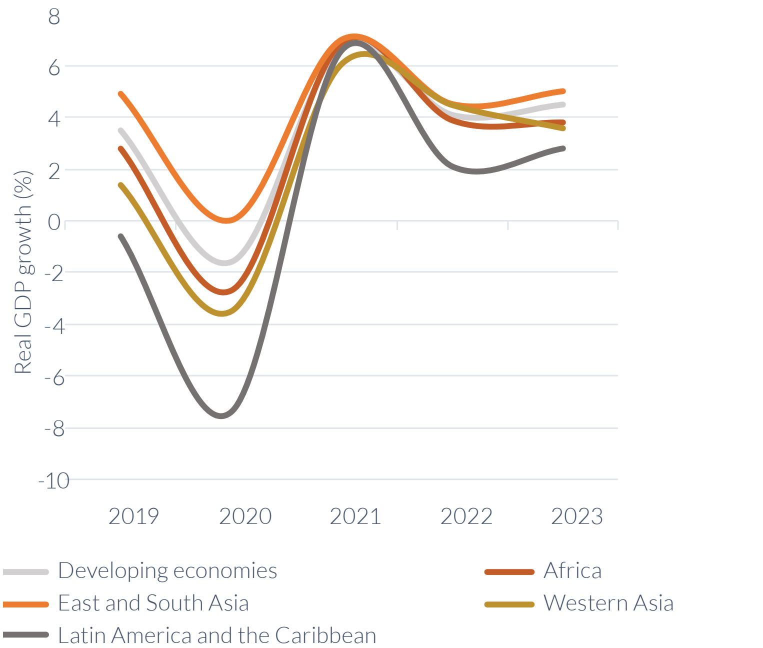
Economic performance

The COVID-19 pandemic slowed African GDP growth to 2.7% in 2020. The economy rebounded in 2021, with annual GDP growth of 4.7% reflecting the release of pent-up demand following the relaxation of the COVID-19 restrictions, better global economic conditions and an upturn in commodity prices. However, the recovery in Africa lagged that in other regions of the world (figure 1.1). GDP growth is expected to be lower in 2022, at 3.9%, because of the war in Ukraine and in 2023, at 3.8%, because of the overlapping and lasting effects of the current shocks, as estimated by the United Nations Economic Commission for Africa's (ECA) macromodel.

The war in Ukraine has compounded economic uncertainties and led to rising food and energy prices (figure 1.2). The Russian Federation is the second largest exporter of crude oil globally and among the largest exporters of natural gas. Since December 2021, the global price of crude oil has risen 25% and that of natural gas 138%. Prior to the war, Russia and Ukraine accounted for approximately 55% of the global sunflower oil market, 32% of the barley market, 30% of the wheat market and 20% of the maize market.[10] In March 2022, the Food and

Agriculture Organization (FAO) food price index reached an all-time high.[11] Rising energy prices have choked the construction, petrochemical and transportation industries, while rising food prices are fuelling global inflation. African economies are particularly vulnerable to disruptions in the production and transport of grains and seeds from Russia and Ukraine, which coupled with higher food prices, could worsen hunger and food insecurity.

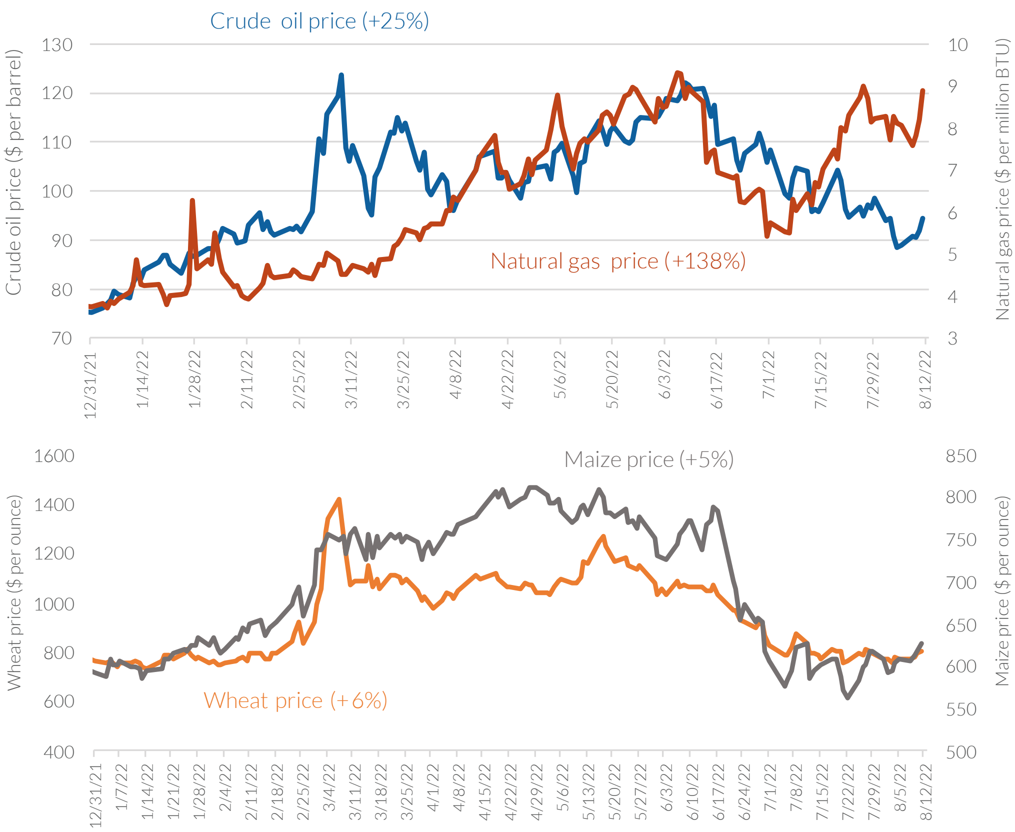
Figure 1.1 Real GDP growth in developing regions, 2019–2023 (%)



Note: Data are estimates for 2021 and forecasts for 2022 and 2023. The forecasts for 2022 and 2023 account for preliminary estimates of the impact of war in Ukraine.

Source: UNDESA (2022) and ECA (2021).

Figure 1.2 Global energy and agriculture prices, December 2021–August 2022



Source: Bloomberg.

The war in Ukraine has also resulted in volatility in financial markets, prompting a selloff in equity and capital markets across the globe. A rise in investor risk aversion in response to the war coupled with tightening global financial conditions as central banks increased their policy rates to control inflation has induced capital outflows from developing economies, triggered currency depreciation, reduced equity prices and raised risk premiums for both domestic and foreign currency–denominated debt. These financial pressures are exacerbating the fiscal situation in many African countries, especially where debt levels were already high.

Fiscal vulnerabilities and shrinking fiscal space

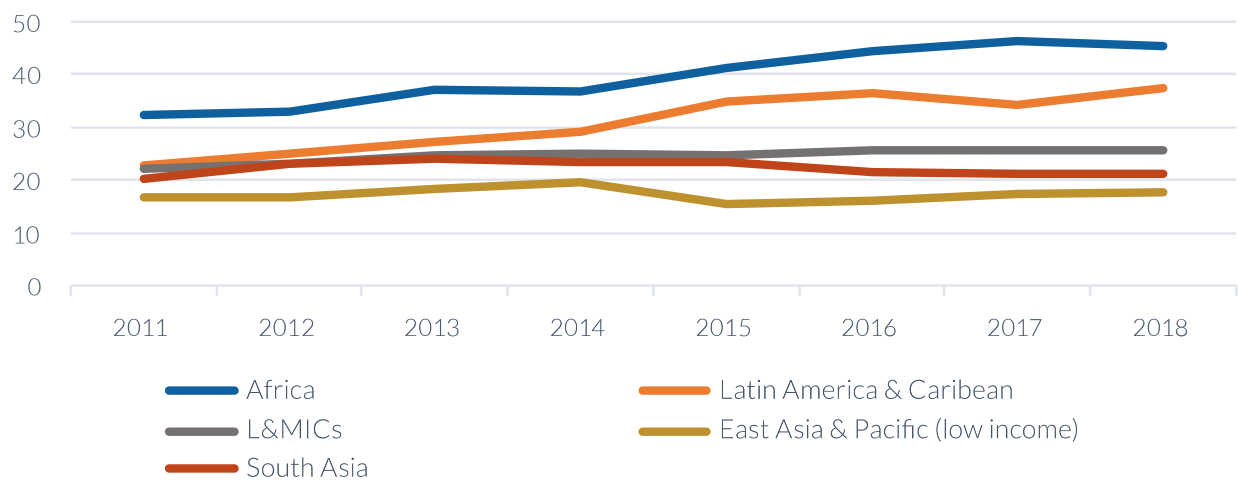
External debt is a serious problem for many developing countries, especially foreign currency–denominated debt. The volume of foreign currency–denominated debt, particularly among emerging market economies, is a root cause of financial crises. Mounting debt servicing obligations and arrears in debt repayments create solvency risks ("debt overhang"), blocking access to further borrowing even when expected net returns are positive.

To continue servicing heavy general obligation debt, countries generally raise taxes, which discourages investment by reducing projected net returns and can lead to social instability as fiscal constraints result in unmet social expectations. Both domestic and foreign investors require a higher return on investment to commit to new investments. High debt repayment arrears close countries off from international finance at competitive rates and often provoke capital flight. Africa has been down this path before. Historically, 33 of the 41 developing countries (80%) classified as highly indebted in the 1990s were in Sub-Saharan Africa.[12]

From 2011 to 2018, Africa's external debt rose from 32.4% of gross national income (GNI) to 39.6%, a 22.2% increase over seven years (3.2% a year) (figure 1.3). Over the same period, the annual debt accumulation rate rose moderately in South Asia (from 20.2% of GNI to 21.1%, a 4.5% increase), in East Asia and the Pacific (from 16.8% to 17.6%, a 4.8% increase), and in low- and middle-income island countries (from 22.2% to 25.6%, a 5.2% increase).

Figure 1.3 Annual accumulation rate of external debt, by country region or group, 2011–2018

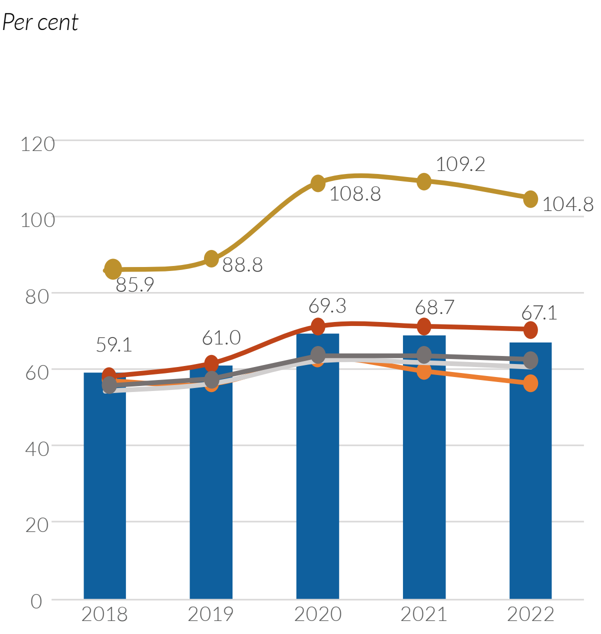
Per cent of GNI



Source: AUC, ECA and UNDP (2021) based on data from World Development Indicators 2020.

Africa, therefore, needs substantial financial resources to support its development agenda. Because mobilizing internal resources has often been a challenge, Africa has resorted to external borrowing to fund its development projects. Africa's debt as a share of GDP has been rising since 2018, peaking at an average of 69.3% in 2020 (figure 1.4). Debt as a share of GDP is exceptionally high in North Africa, considerably exceeding the mean debt ratio for the region.

Figure 1.4 Africa's debt as share of GDP, by region, 2018–2022

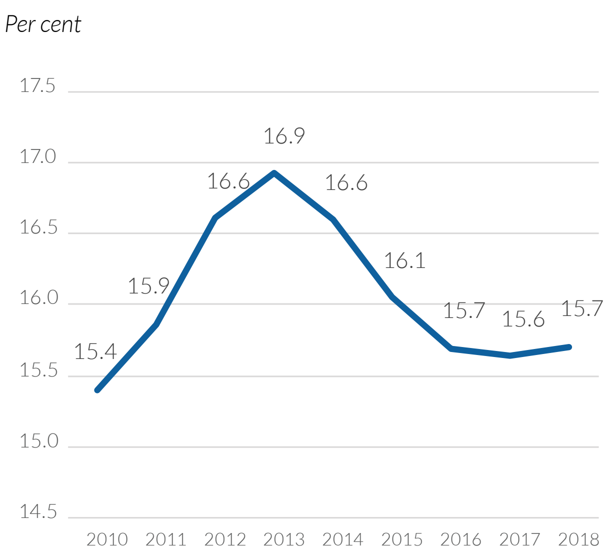


Source: ECA calculations.

Compounding the resource challenge is the parallel decline in tax revenue as a share of GDP (figure 1.5). Africa has lost its tax buoyancy since 2013. This means that even when borrowing is used to engineer growth, the resulting growth episodes do not yield enough increased revenue to retire the debt or meet other public spending needs. The economic slowdown of African economies during the COVID-19 pandemic has dried up the revenue needed for development projects, which is in turn severely constraining the spending needed to combat the pandemic and enhance economic activities. Nonetheless, as of the end of June 2020, African countries had injected $104.54 billion of their own resources into fiscal stimulus packages to mitigate the adverse impact of the pandemic.

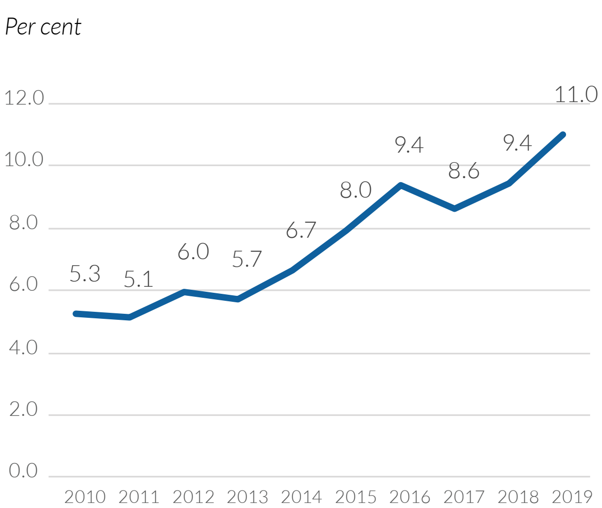
The loss of tax buoyancy is concerning in its implications for long-run public solvency. Dwindling tax revenues threaten countries' ability to service the rising cost of their debt. Adding further to Africa's finance challenges, debt service as a share of export revenue is also rising (figure 1.6).

Figure 1.5 Africa's tax revenue as a share of GDP, 2010–2018



Source: ECA calculations using World Bank databases.

Figure 1.6 Total debt service as a share of export revenue, 2010–2019



Source: ECA calculations based on International Monetary Fund, World Economic Outlook databases, April 2022.

Part of Africa's debt management challenge arises from the changing structure of Africa's debt. The share of commercial non-concessional and domestic debt, at higher interest rates, in overall debt is rising, ballooning the debt service burden. The government's easier access to and greater control over the domestic debt market is contributing to excessive public debt accumulation and macroeconomic instability. Most African countries' debts are either in or fast approaching distress. In 2019, the public and publicly guaranteed long-term external debt of African countries excluding North Africa was about 40% of GNI. These creditors are unwilling to offer debt relief to countries on the terms offered by the G-20. Besides the high cost and debt-servicing burdens, governments' growing appetite for domestic debt denies the private sector the credit needed to support economic activities and job creation.

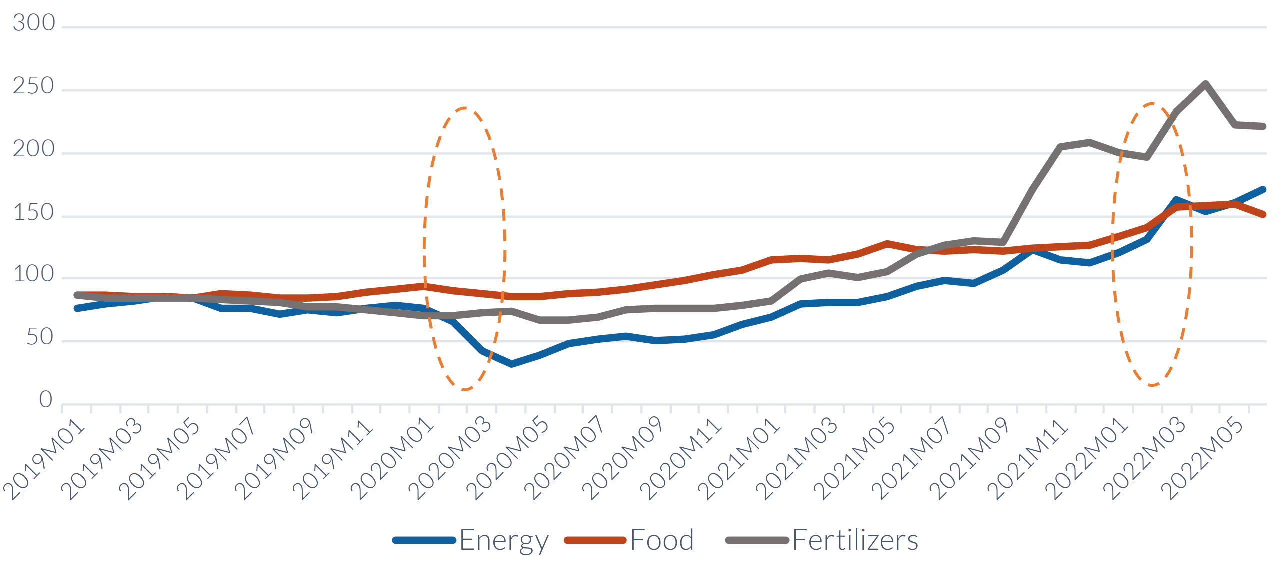
Africa will need an estimated additional $345 billion in development financing through 2023.[13] To help African countries mitigate the negative impact of the pandemic, G-20 lenders created the Debt Service Standstill Initiative. Under this initiative, sovereign debt repayments for least developed countries, including several African countries, can be suspended on a case-by-case basis.[14]

Inflation, the strong dollar and monetary policy

Rising inflation in Africa is wiping out hard-earned income gains and worsening food insecurity. Inflation is being fuelled by disruptions in global supply chains and rising oil and food prices due to the war in Ukraine. Food accounts for 40% of the region's consumption basket. Global price indices for energy, food and fertilizer have been trending upward since the beginning of 2020, when the COVID-19 pandemic began, and peaked after the outbreak of the war in Ukraine in February 2022 (figure 1.7). Inflation, about double pre-pandemic rates, is reducing standards of living, especially for the most vulnerable; degrading the region's economic outlook; and creating social and political instability.

Figure 1.7 Global monthly price index for food, energy and fertilizers, January 2019–June 2022

Price index (2010 = 100)



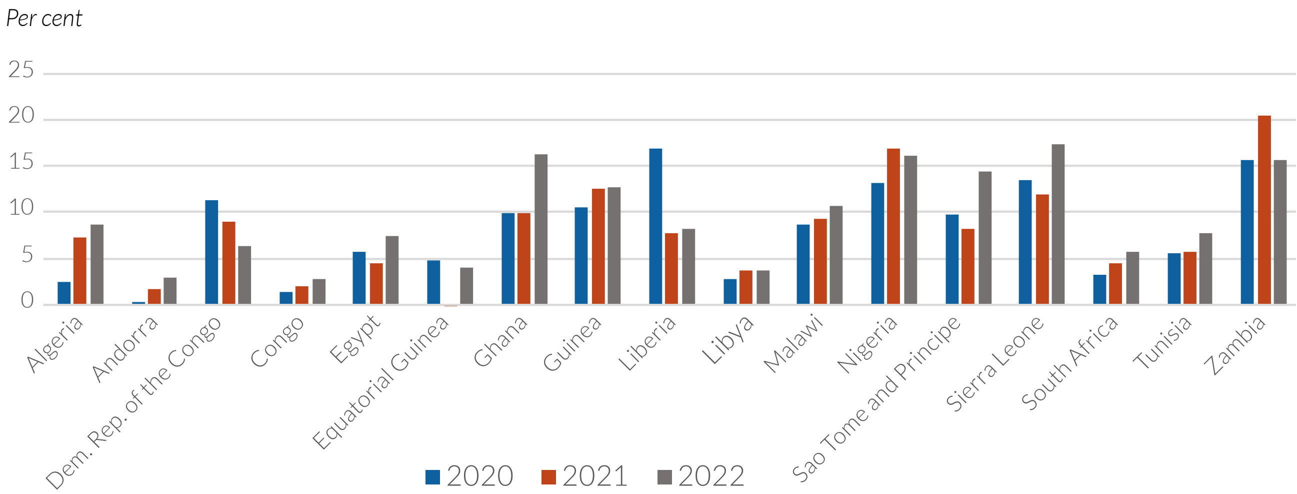
Note: the first circle demarcates the downward trend, and the second circle demarcates as upward trend.

Source: World Bank, Commodity Markets, July 2022.

Inflation in Africa is projected to average 12.3% in 2022, much higher than the world average of 6.7%. Inflation has remained elevated in Africa since the onset of the COVID-19 pandemic, staying above 10% since 2020,[15] though rates in individual countries vary widely (figure 1.8). Inflation is projected to decline to 9.5% in Africa and 4.1% globally in 2023.[16]

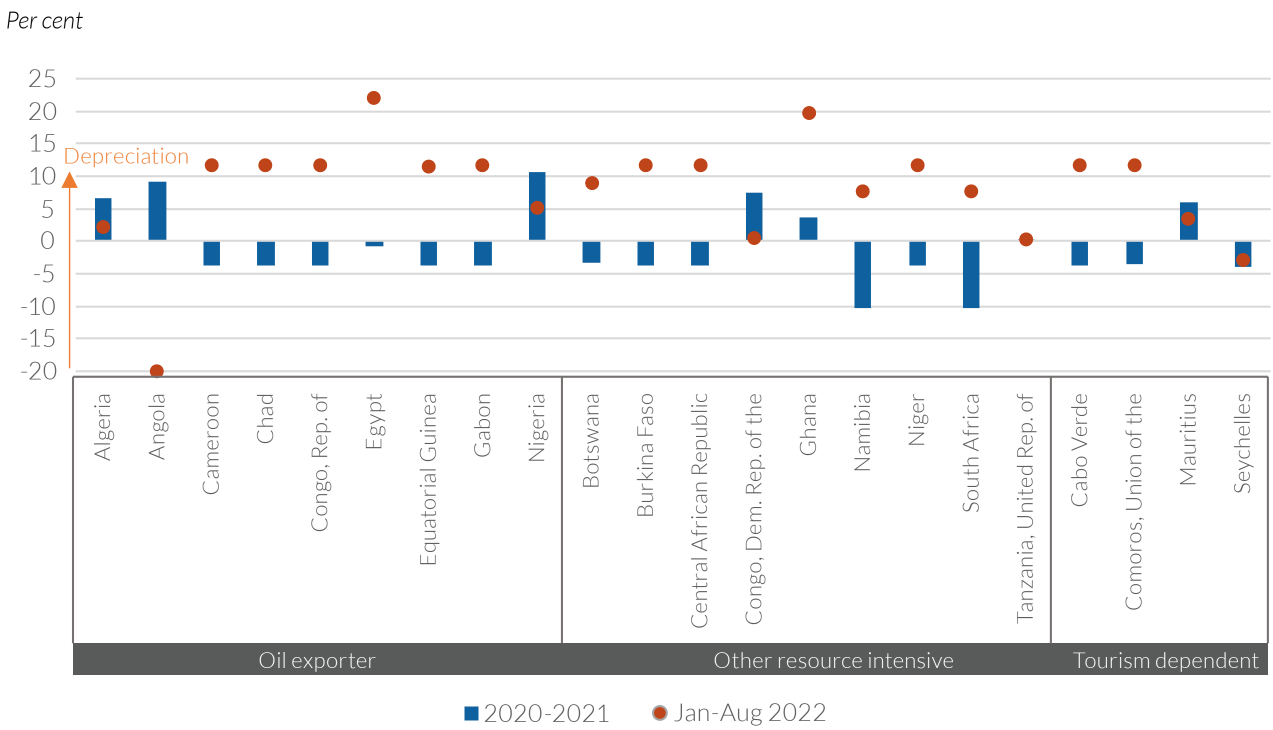
The strong US dollar is hurting African economies. Because of the dollar's role as the preferred currency in international trade and finance, its current strength has macroeconomic implications for all countries. Since 2000, the dollar has appreciated 22% against the yen, 13% against the euro and 6% against emerging market currencies.[17] The dollar has appreciated against the currency of 22 of 23 selected African economies since 2020 (figure 1.9).

Figure 1.8 Inflation rate in selected African countries, 2020–2022



Source: International Monetary Fund, World Economic Outlook database, April 2022.

Figure 1.9 Change in exchange rate against the US dollar for the currency of selected African countries, 2020–2022



Source: Based on data from the IMF International Financial Statistics database, 2022.

The depreciation of African currencies against a strong dollar has multiple adverse implications. It adds inflationary pressure by making dollar-invoiced imports more expensive in an environment in which energy and food prices are already rising. It also increases the cost of external debt servicing, contributing to financial distress, which if left unchecked could result in a sovereign debt crisis that derails the weak economic recovery from the COVID-19 pandemic. The strong dollar could also increase financial stability risks and disrupt central banks' ability to stabilize prices.

Most African countries have tightened monetary policy to counteract their depreciating currencies and rising inflation. And some countries have used their dwindling foreign exchange reserves to intervene in currency markets. These actions have been taken in response to global headwinds that have driven inflation, capital outflows and depreciation, as well as to anchor inflation expectations. However, an optimum policy response to depreciation requires addressing the fundamental drivers of the exchange rate change. Before the economic crisis precipitated by the war in Ukraine, most African central banks had kept their policy rate unchanged as price movements remained within their inflation targets (figure 1.10).

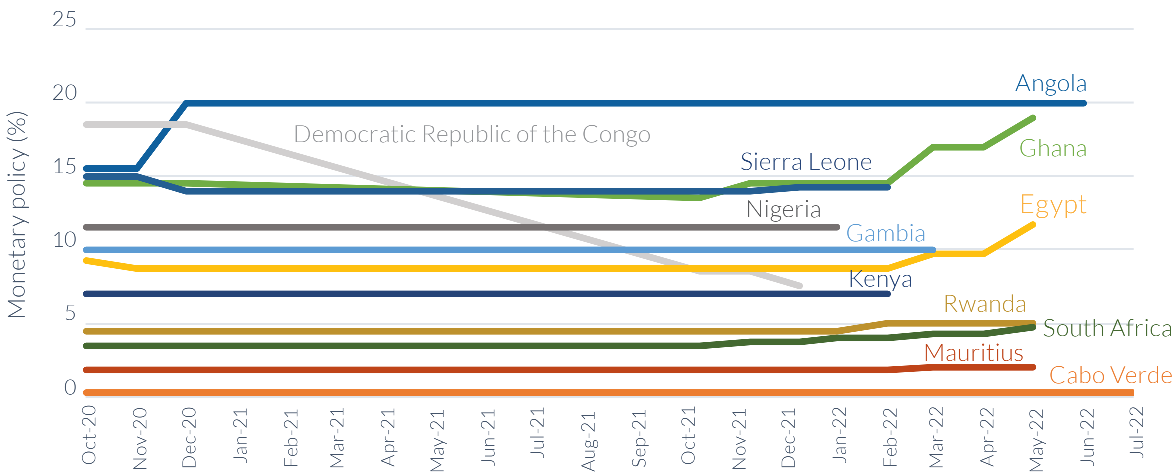
Trade

Global exports fell in 2020 because of pandemic-related restrictions but rebounded in 2021 as restrictions were eased (figure 1.11). Africa's share of global exports has fallen a full percentage point since 2010[18] and remains small, at 2.5% in 2021. As net suppliers of consumer goods, Asia and Europe dominate world trade, together accounting for almost 80% of global trade (average of imports and exports).

Africa's trade value rose 26% in 2021, from $494 billion in 2020 to $619 billion in 2021. Imports rose 25%, and exports rose 39% (from $395 billion to $55 billion).[19] This rebound, which was expected to continue into 2022, could be affected by global headwinds.

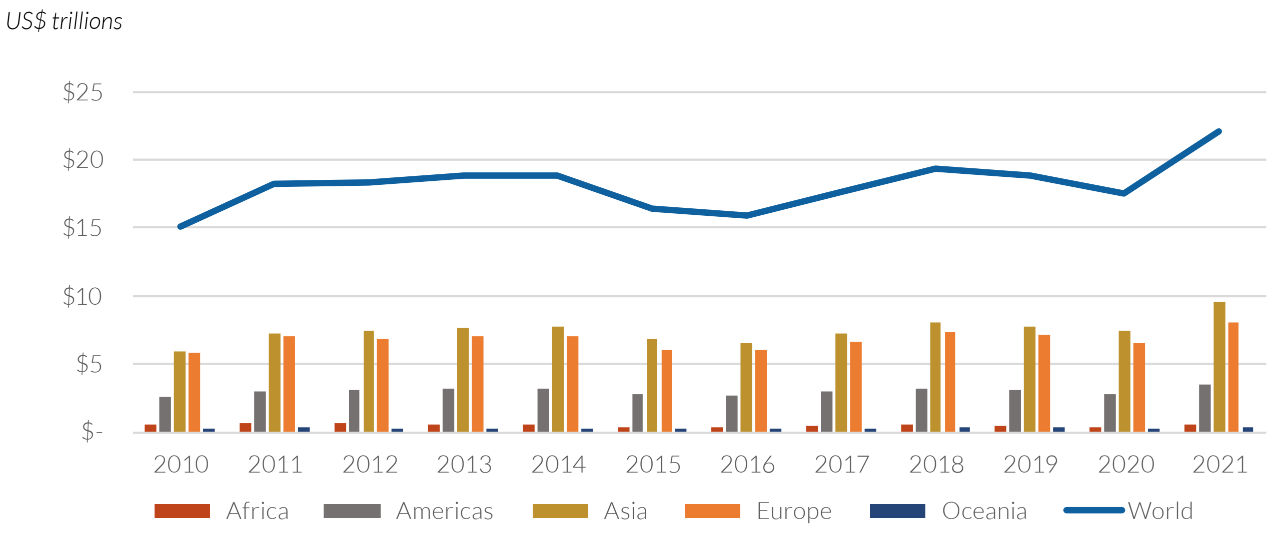
Figure 1.10 Central bank policy rate in selected African countries, October 2020–July 2021

Per cent



Source: International Monetary Fund International Financial Statistics database, 2022.

Figure 1.11 Merchandise exports, by global region, 2010–2021

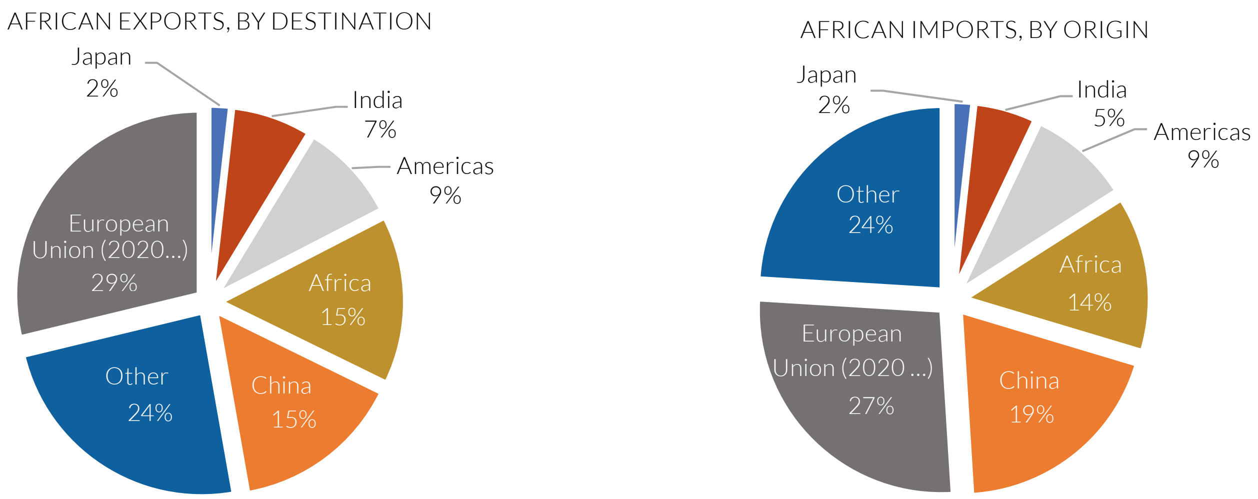


Source: ECA calculations based on data from UNCTADstat, accessed August 2022.

Intra-Africa trade flows remain low, with intra-Africa exports averaging 15% of Africa's total trade over 2019–2021 and imports averaging 14% (figure 1.12). This means that African countries' main trade relationships are outside the region. The European Union accounted for 29% of Africa's exports and 27% of its imports, and China accounted for 15% of Africa's exports and 19% of its imports. This high dependence on trading partners from outside the region increases African countries' vulnerability to external shocks such as the COVID-19 pandemic and the war in Ukraine.

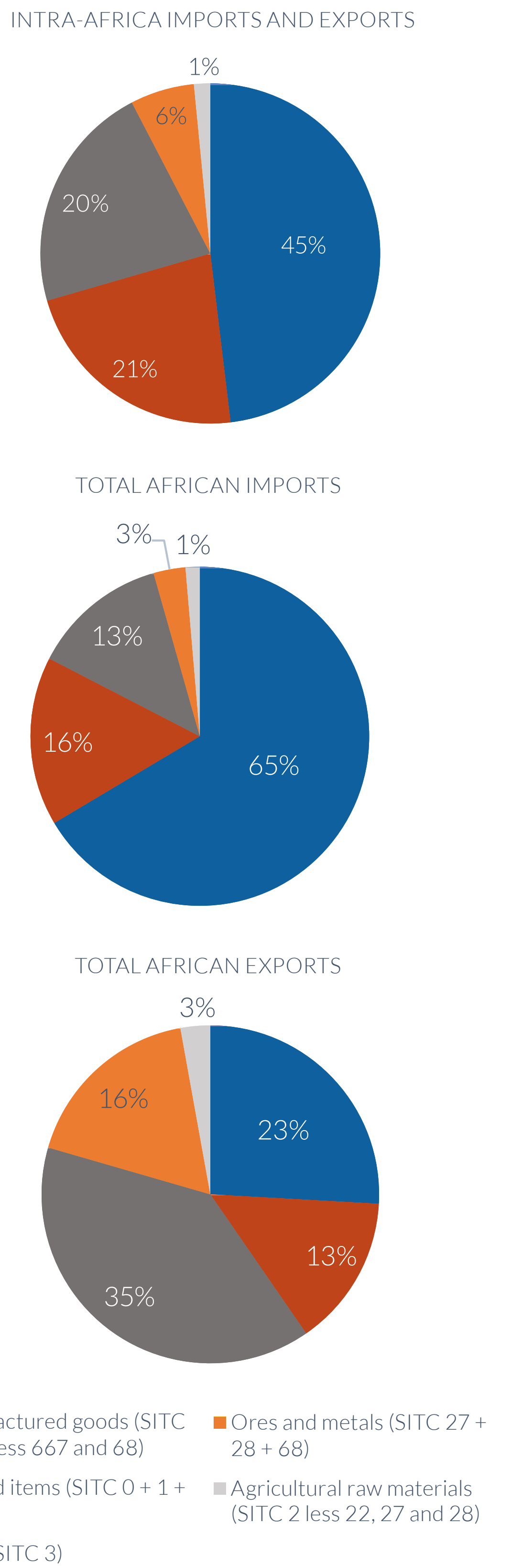
The composition of intra-Africa trade underscores the potential for industrialization and economic diversification across Africa (figure 1.13). Intra-Africa trade consists primarily of manufactured goods (45%), followed by food items (21%), fuels (20%), ores and metals (7%) and agricultural raw materials (1%).[20]

Figure 1.12 African exports and imports, by destination, 2019–2021 average



Source: ECA calculations based on data from UNCTADstat, accessed August 2022.

Figure 1.13 Composition of intra-Africa exports and imports and of imports to and exports from the rest of the world, 2019–2021 average

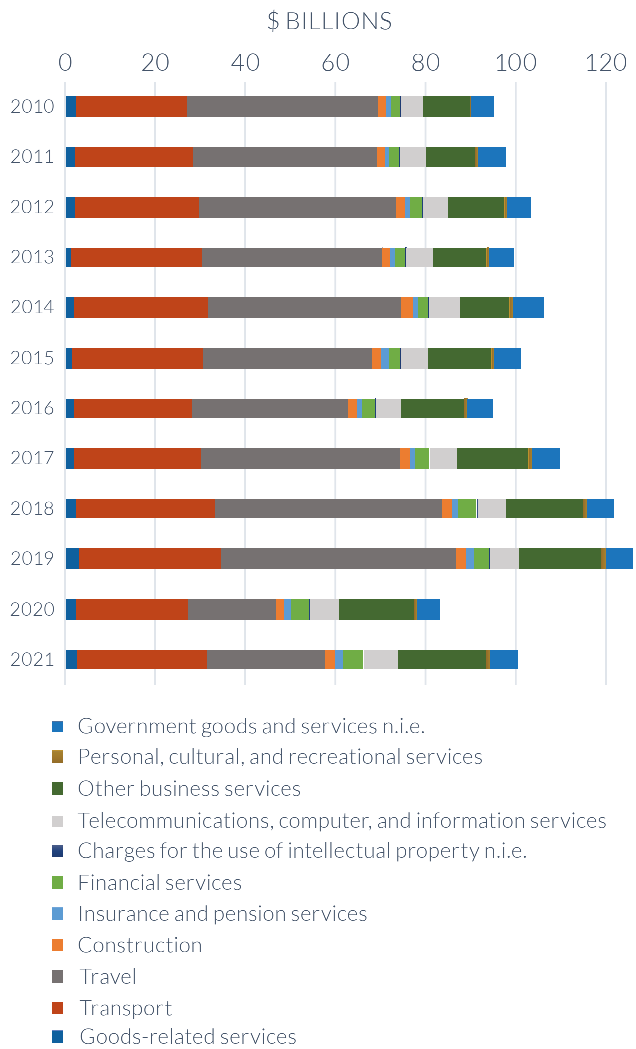


SITC = Standard International Trade Classification.

Source: ECA calculations based on data from UNCTADstat, accessed August 2022.

The services sector has been severely affected by the COVID-19 pandemic, particularly services related to travel.[21] African exports of services rose from $95.1 billion in 2010 to $124.4 billion in 2019 but fell to $82.7 billion in 2020 because of the pandemic (figure 1.15). Travel services decreased the most from 2019 to 2020 (by 61%), followed by personal, cultural and recreational services (25%), transport services (21.4%), goods-related services (19.9%), government goods and services (17.4%) and financial services (12.9%).

Figure 1.15 African services exports, by sector, 2010–2020

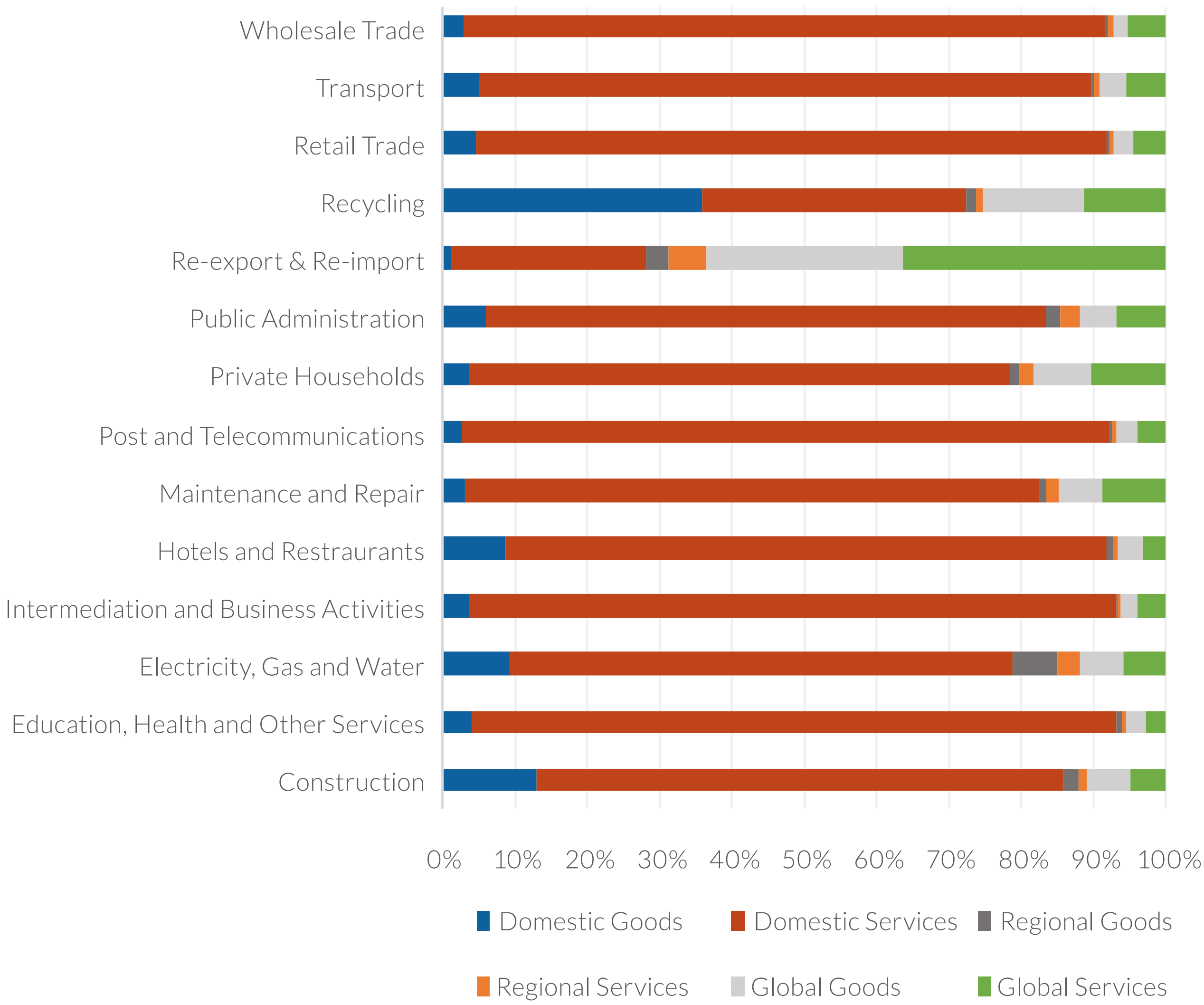


Source: ECA calculations based on data from UNCTADstat, accessed 17 November 2021.

Services constitute a large share of Africa countries' economies. However, services are rarely traded and remain mostly domestic (figure 1.16). Energy stands out, accounting for 21.1% of total services, construction for 14.1% and transport for 10.4%. But only a small part of value added for these services is sourced regionally. African services value chains are even less internationalized than goods value chains.

Prior to the COVID-19 pandemic, Africa's tourism sector was on the rise. In 2020, the region recorded its highest monthly count of international tourists in January, at over 5.3 million, up slightly from January 2019.[22] As of May 2021, 1.04 million tourists had arrived in Africa from overseas—many more than the 533,000 at the same point in 2020.[23]

Figure 1.16 Value added of gross services exports from Africa, by sector, 2015 (% of total)



Source: Eora database and ECA calculations.

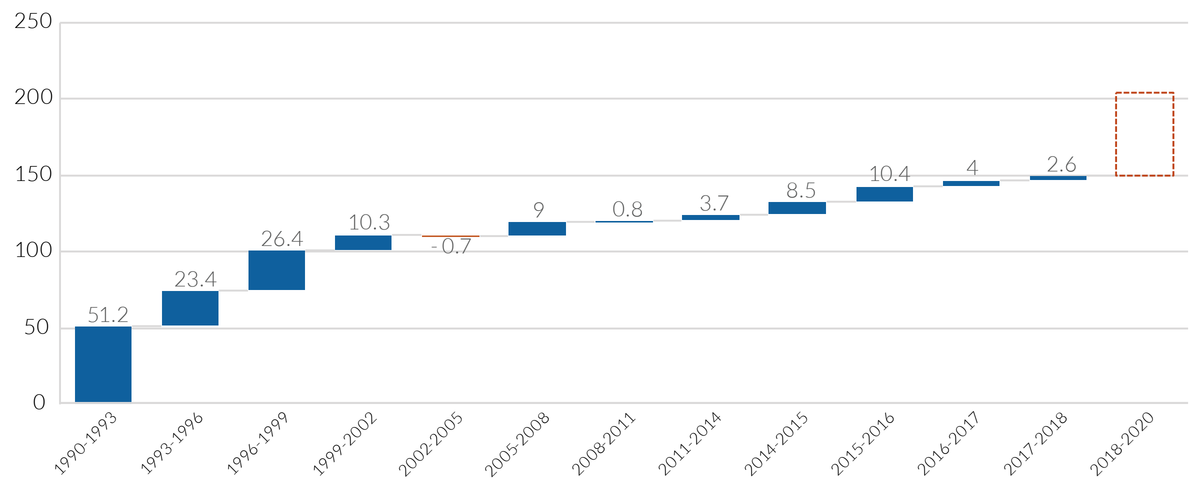
Socioeconomic conditions

Poverty rates were declining in Africa before the COVID-19 pandemic. The proportion of people living below the $1.90 a day poverty line, or the headcount ratio, fell to 41% in 2019 from 50% in 2000, driven by 5% average annual economic growth during that period.[24] This represented a major improvement in livelihoods, given that the headcount ratio had risen from 54.3% in 1990 to 55.6% in 2002. The headcount ratio actually went up from 2000 to 2002. However, much of the recent progress in health, education and employment has been halted or reversed by the pandemic, stalling Africa's achievement of many of the Sustainable Development Goals.

About 60% of poor people in Africa are chronically poor (experiencing poverty as the result of low income or spending, and over a longer period, household resources are insufficient to keep the household above the poverty line), and 40% are transient poor (experiencing poverty as a result of a temporary drop in income or spending, although over a longer period, household resources are sufficient to keep the household above the poverty line). In the United Republic of Tanzania, between 2008 and 2012, 27% of poor people transitioned in and out of poverty, while 12% remained poor, indicating that poverty in that country is largely transient.[25] Vulnerable people in society who live just above the poverty line are likely to fall into poverty when a shock, such as the COVID-19 pandemic, occurs. Non-vulnerable but poor people hover around the poverty line.

Africa's 3.2 percentage point economic contraction in 2020 drove an additional 55 million non-poor people into poverty.[26] While the number of people in extreme poverty has increased since 1990, the rate of increase has declined considerably since 2002 (figure 1.17). Between 1990 and 2002, more than 9 million people a year became poor, compared with slightly more than 1 million a year between 2002 and 2014 and 6.4 million a year between 2014 and 2018. This trend has ended because of the COVID-19 pandemic. The 55 million people pushed into poverty in 2020 during the pandemic is 12.6% more than the total number of people pushed into poverty since 1999. In 2019, 478 million people in Africa lived in extreme poverty, and rose to an estimated 490 million in 2021, or 37 million more people than projected without the pandemic.[27]

Figure 1.17 Number of additional poor people in Africa, 1990–1993 to 2018–2020 (millions)



Note: Data refer to Sub-Saharan Africa but can apply to the entire region, as the number of poor people in North Africa is very low. ECA estimates an increase of 54.7 million poor people because of the COVID-19 pandemic. Most of the increase likely took place in 2020.

Source: ECA calculations based on data from World Bank (2020a).

Africa has made much progress in health outcomes, with life expectancy increasing nearly five years in each decade since 2000. This has been accompanied by equally encouraging improvements in mortality indicators. The mortality rate for children under age 5 declined between 1990 and 2020, from 179 deaths per 1,000 live births to 73.[28] However, in most countries, national health systems struggle with insufficient and inequitably distributed resources. Poor countries bear a disproportionately high share of the burden of disease and injury yet have fewer resources for financing health care. This situation worsened during the COVID-19 pandemic.[29]

Furthermore, private household spending remains the largest component of total health spending (36% in 2018, the most recent year with data), constraining accessibility and affordability in low-income households. In 2020, spending on health care rose in response to the COVID-19 pandemic. In the 2020/2021 financial year, African countries allocated $63 billion, or 2.3% of GDP, to fight the pandemic.[30] Although substantial, this amount was considerably less than allocations in other regions and countries.

Progress in education has been mixed in Africa. Enrolment in preschool to tertiary education has been increasing but not at the same rate. Primary school enrolment rose from 54.2% in 1970 to more than 98% in 2019. Girls' enrolment was above 96% in 2019.[31] Yet, for most young Africans, education still ends at primary school. Secondary school enrolment has increased only moderately: in 2018, the enrolment rate was 32% for lower secondary education and 22% for upper secondary education.[32]

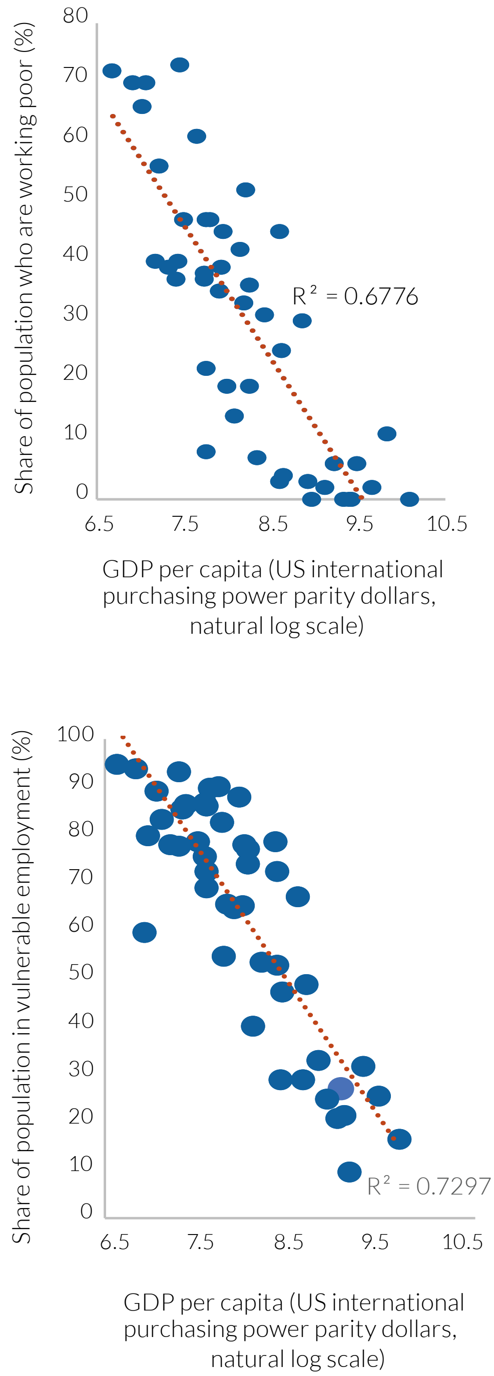
The region suffers from vast within- and across-country differences in access to secondary education. For example, 80% of pupils in Botswana, Cabo Verde and South Africa attend secondary school, compared with approximately 20% in Central African Republic, Chad and Niger. Completion rates in Africa stand at 42% for lower secondary pupils and 30% for upper secondary pupils.[33] Overall, household spending accounts for 29% of education spending, which tends to exclude pupils from poorer quintiles, girls, internally displaced pupils and refugees, and pupils with disabilities.[34]

The temporary closure of schools during the COVID-19 pandemic will have long-term consequences. The opportunities provided through online learning substitutes are often unavailable to children from low-income households because of limited access to digital technology and poor connectivity in rural and remote areas. School closures could also have serious medium-term impacts on workforce education and productivity. In addition, girls will be especially hard hit, as they are more likely to face abuse, less likely to have access to online learning and less likely to return to school. For some girls, schooling is a much-needed form of protection against early marriage and pregnancy.[35] Lack of access to nutrition and food may also affect the many children from poor households who rely on school feeding programmes for their only nutritious meal. Thus, the pandemic has likely further exacerbated existing development deficits in Africa. African governments will have to spend more to address the negative impacts on education.

Africa's rapid and sustained growth over the past two decades has not resulted in commensurate employment creation. Over 2000–2014, 1 percentage point of GDP growth was associated with only 0.41% employment growth, meaning that employment increased by less than 1.8 percentage points a year, far below the nearly 3% annual increase in the labour force. Between 2000 and 2019, Africa's labour force participation rate stood at 63.1%, above the global average of 60.1%.[36] Over the same period, employment grew 2.5%–3% a year, driven by more people taking jobs because they could not afford to not work. Agriculture employs the largest share of people in Africa, an estimated 50.5% in 2020, down from 53.5% in 2011.[37] The share of employment in services rose to 36.1% in 2019 from 34% in 2011. About 34 million people were unemployed in Africa in 2019.[38] However, the employment rate was higher for women (7.5%) than for men (6.3%). Owing to supply and demand shocks related to the COVID-19 pandemic, annual formal job creation (currently at 3.7 million) is forecast to be 1.4%–5.8% below the 2020 baseline growth scenario. Informal and vulnerable employment is expected to increase.

The informal sector is the main source of employment in Africa, accounting for more than 80% of jobs. Employment in the urban informal economy is particularly widespread among young people (95.8% among individuals ages 15–24) and women (92.1%). The informal sector is heterogeneous and has limited but varying capacity to cope with economic shocks (figure 1.18). Those working in it who are below the poverty line—the working poor—depend on social protection transfers from the government. At the same time, only 18% of informal and poor workers in Africa have access to any social protection benefit. Moreover, informal sector workers typically use their accumulated savings to smooth the path of consumption.

Figure 1.18 Gross domestic product (GDP) per capita versus the shares of population who are working poor and in vulnerable employment, 2019

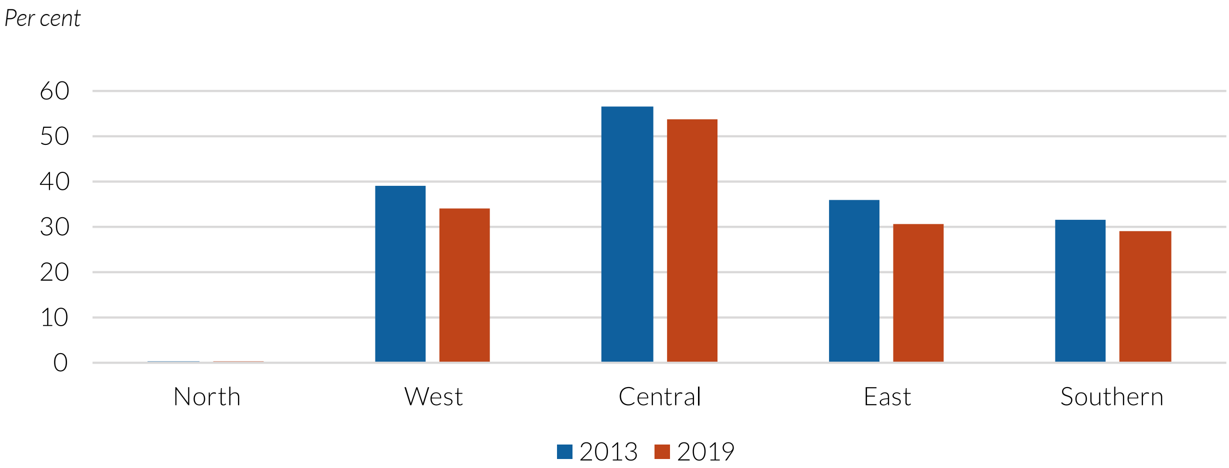


Note: Smaller dots on the top graph denote low-income countries and larger dots on the bottom graph middle- and high-income countries, based on World Bank classifications.

Source: ECA calculations using International Labour Organization and World Bank databases.

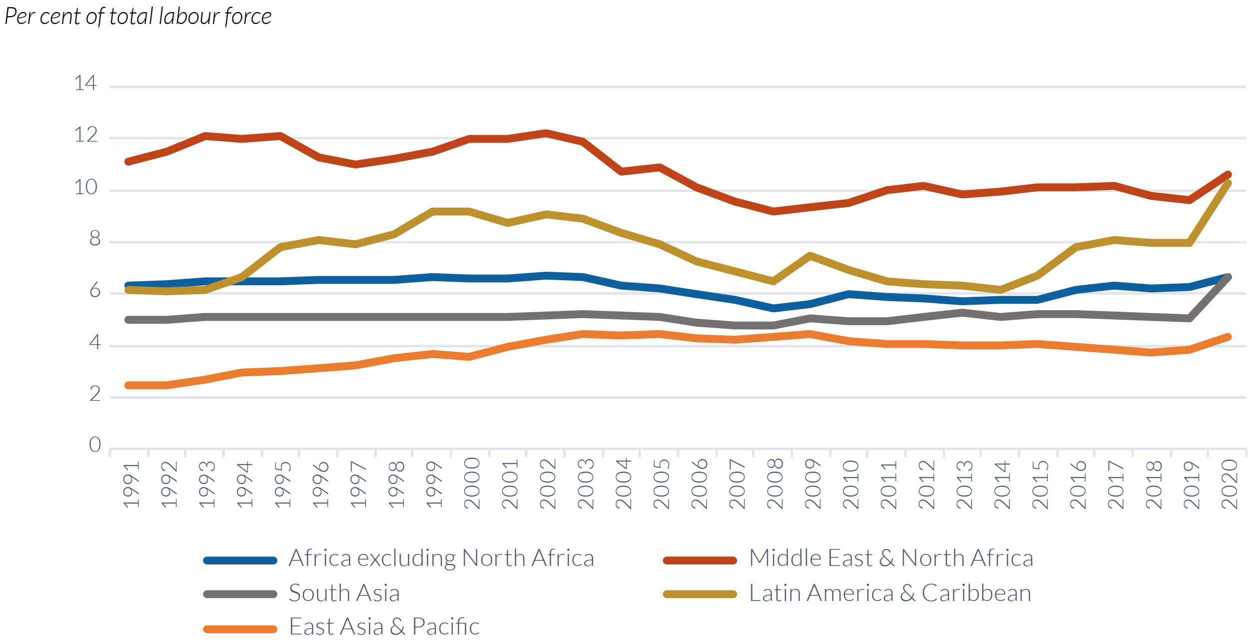
Many young people are seemingly employed but not gainfully so because their labour income is not a living wage. On the one hand, the share of employed people living below the international poverty line declined between 2013 and 2019 (figure 1.19). On the other hand, in 2018, about 32% of workers lived in extreme poverty, while 22% lived in moderate poverty (figure 1.20).[39]

Figure 1.19 Proportion of employed people living below the international poverty line of $1.90 a day in purchasing power parity terms, by African subregion, 2013 and 2019



Source: AUC, ECA, AfDB and UNDP (2021) based on data from World Development Indicators 2020.

Figure 1.20 Unemployment, by region, 1991–2020



Source: World Bank World Development Indicators database.

Is there a relationship between economic growth and the nature of available jobs? Put differently, is unemployment falling and productivity rising? When workers are more productive, employers should find them more attractive to hire—if job opportunities exist. Analysing increases in value-added in agriculture, manufacturing, industry and services from 1981–2019 can help in assessing productivity changes. Although many countries experienced growth across the four sectors, a few recorded contraction in all but the services sector, where no country recorded contraction (table 1.1). West Africa and Southern Africa were the regional leaders in value addition.

From 2001 to 2019, growth in average labour productivity declined from 2.32% to 0.49% (figure 1.21). This trend is not conducive to attracting decent jobs, nor is it a force for expanding decent job opportunities at the rate required to match the increase in labour force participation. Because the unemployment rate was flat in the face of rising labour force participation, the rate at which new job opportunities are created must be close to the growth in labour force participation. That is, people who want jobs find something to occupy them, but most of the jobs they find are of the subsistence type, leaving many people in extreme working poverty.

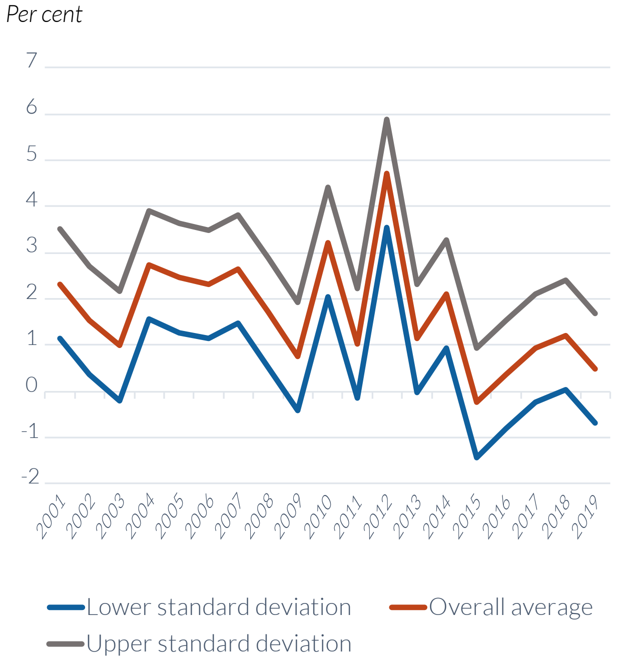
Table 1.1 Assessment of value-added (output growth) across Africa, by sector

	Agriculture	Manufacturing	Industrial	Services
Economies with contraction in value-added	Central African Republic Seychelles	Democratic Republic of the Congo	Central African Republic Equatorial Guinea South Sudan	None
Economies with outstanding positive performance	Value-added growth rate of at least 5% Algeria Angola Djibouti Libya Morocco Niger Nigeria	Value-added growth rate of more than 10% Djibouti Equatorial Guinea	Value-added growth rate of more than 10% Djibouti Liberia	None

Note: Only extreme cases (the best- and the worst-performing countries in each sector) are shown with their associated percentage of value-added growth. Djibouti is a unique case because it is growing from a small base of value-added growth. Its growth is driven primary by heavy investment in the construction and servicing of military bases by China and North Atlantic Treaty Organization countries. Central African countries dominate the low-performance clusters across all sectors. The services sector appears to be the economic sanctuary or safety niche.

Source: ECA calculations based on World Bank World Development indicators database.

Figure 1.21 Trends in the growth rate of average labour productivity in Africa, 2001–2019



Note: The standard deviation is a standardized measure of how individual country average productivity growth experiences differ from the average for the region.

Source: Based on data from the International Labour Organization ILOSTAT database (https://www.ilo.org/shinyapps/bulkexplorer0/?lang=en&segment=indicator&id=EAP_2WAP_SEX_AGE_RT_A).

Finally, among the pressing challenges for Africa is climate change. Africa contributes little to global climate change—only 3.8% of global greenhouse gas emissions—but is particularly vulnerable to the effects of extreme climatic events such as droughts and floods.[40] Climate change already has a negative impact of 3%–5% of GDP on African countries—and up to 10% in some cases. With 45% of the region affected by desertification and annual net forest loss of 3.9 million hectares during 2010–2030, the region is endangered and relentlessly experiencing land degradation, with 22.4% of the land in jeopardy. Pollution on land, leading to acidification of oceans and loss of aquatic biodiversity, is equally problematic. The rising incidence of weather-related disasters such as drought and floods, also a consequence of environmental degradation, signals the urgent need for functional disaster preparedness.

African countries are signatories and parties to the United Nations Framework Convention on Climate Change, the Kyoto Protocol and the Copenhagen and Paris Accords. Indeed, the environment is central to Africa's economic prosperity, whether through agriculture, which accounts for 20%–40% of the region's GDP, or renewable energy as a primary source of electricity.[41] Thus, commitments to sustainability and environmental protection are inherently linked to jobs and livelihoods. The discussions on the perceived costs of greening the economy must recognize the sizable costs of a "business as usual" extractives- and fossil fuel–driven economic model.

In summary, African economic and social conditions in 2022 have progressed and retrogressed on many fronts. The triple crisis that year has not had as catastrophic an effect on economic and social conditions as one might have thought. Africa's structural transformation requires thinking "outside the box" and reimagining prosperity beyond income growth to build a cohesive, egalitarian and democratic society.

BEYOND ECONOMIC GROWTH: CONCEPTUALIZING INCLUSIVE GROWTH AND TRUE PROSPERITY

CHAPTER 2.

Africa had made substantial gains in reducing poverty over the past decade, but the triple crises of the Covid-19 pandemic, climate change and Russia's invasion of Ukraine have reversed those gains. The outlook is bleak in the light of the current global economic crisis. African economies will need more time just to recover to their level in 2017. The World Bank estimates that in 2018, 40 percent of the population in Sub-Saharan Africa lived below the $1.90 a day extreme poverty line, accounting for two-thirds of the global population of the extreme poor. While the poverty rate declined from 56% in 1990 to 40% in 2018,[42] it has not fallen fast enough to keep up with population growth. Some 433 million people in Sub-Saharan African were estimated to live in extreme poverty in 2018, rising from 284 million in 1990. Moreover, inequality is growing despite rapid GDP growth.

Conceptual definition of inclusive growth

The conventional definition of inclusive growth, which focusses on income growth, cannot explain why poverty and inequality persist in the face of high GDP growth in many countries. Since the introduction of the concept of human development by the United National Development Programme (UNDP) in 1990, our understanding of what constitutes inclusive growth and human welfare has changed dramatically. We now realize that prosperity is about the creation of an inclusive and democratic society with strong institutions, an open economy and empowered people who are healthy, educated and safe.[43]

For policymakers to take appropriate measures to raise the standard of living of Africans, they need a clear sense of what a prosperous Africa would look like. The sixth session of the Africa Regional Forum on Sustainable Development: "2020–2030: A Decade to Deliver a Transformed and Prosperous Africa through the 2030 Agenda and Agenda 2063" called for redefining prosperity for Africa and urged member states to develop ambitious national development plans reflective of individual country circumstances and to adopt a people-centred and human rights-based approach to prosperity in order to achieve the goals of the 2030 Agenda and Agenda 2063.[44]

For the World Bank, shared prosperity focusses on the poorest 40% of the population and is defined on the basis of the annualized growth rate of mean household consumption. The Bank's estimation of shared prosperity considers three indicators of inclusion and well-being: monetary poverty, access to education and basic infrastructure. However, this definition of shared prosperity is too narrow and does not go far enough beyond the financial aspect of well-being. It excludes the political, social, judicial and environmental dimensions that are central to human well-being.

Expanding the definition of growth to make it more inclusive and sustainable requires moving away from the narrow definition of GDP growth. At the very least, economic growth must address people's basic right to food, education, shelter, and health and their right to live in a healthy environment.

The Legatum Institute Africa Prosperity Index

The Legatum Institute, based in London, conducts research and advocacy on measuring inclusive growth and prosperity. Its mission is to create pathways from poverty to prosperity by understanding how to create and perpetuate prosperity and to identify best practices for achieving it. The institute has developed its own methodology to define the domains of prosperity that accounts for much more than wealth. The Legatum Prosperity Index consists of three domains—inclusive society, open economies and empowered people—supported by 12 substantive pillars of prosperity built on 65 actionable policy elements and underpinned by 294 indicators (table 2.1).

Table 2.1 Domains, pillars and elements of prosperity in the Legatum Institute Prosperity Index

Domain	Pillars	Elements/ variables (total = 65)
Inclusive society	• Safety and security • Personal freedom • Governance • Social capital	5 5 5 6
Open economies	• Investment environment • Enterprise conditions • Infrastructure and markets • Economic quality	5 4 7 5
Empowered people	• Living conditions • Health • Education • Nature of employment	6 6 5 6

Note: Each domain contains the enabling institutions and specific interventions necessary for achieving the goals specified under each pillar.

Source: Compiled from Legatum Institute (2019).

The 2019/20 African Prosperity Index, based on the Legatum Prosperity Index methodology, ranked the 54 African countries on how they performed on the 12 pillars of prosperity.[45] Although prosperity on the continent has been steadily improving since 2009, the index reveals wide disparities between high-performing and low-performing countries. Progress in poverty reduction has been slow and uneven across countries, and inequalities have grown faster than poverty rates have declined. The top 10 performing countries on the index in 2019/20 were Mauritius, Seychelles, Botswana, Cabo Verde, South Africa, Namibia, São Tomé and Príncipe, Tunisia, Morocco and Ghana. However, being ranked at the top on some indicators does not mean that a country has shown significant improvements across all indicators. For example, while living conditions in Guinea have improved significantly, and health in Comoros was better than it was in 2009, performance in governance and safety and security have lagged.

Southern Africa has improved its prosperity ranking over the last 10 years and is now ranked first among African regions. North Africa is ranked second despite the loss of momentum after the Arab Spring. East Africa, ranked third, is the most improved region and is improving four times faster than North Africa. Central Africa and the Horn of Africa have traditionally been the poorest performing regions and are likely to remain so if conflict persists and climate change is not reversed. In addition to assessing prosperity, the report analyses the strength, weaknesses, opportunities and threats for each region.

The human rights–based approach to inclusive growth and prosperity

In many ways, the approach used for the Africa Prosperity Index resembles the methodology applied in the annual Human Development Report, with some modifications. The basic principles and policy interventions required for promoting human-centred development have been discussed widely in several flagship studies released by the UNDP Human Development Report Office since 1990 and in other UN knowledge products since the adoption of the 1986 UN Declaration on the Right to Development.[47] Prosperity under the human rights–based approach means that no individual lacks the resources to acquire the necessities of life—food, clean water, shelter, health care and education. These rights are enshrined in key international human rights instruments.[48]

The United Nations has advanced the understanding of prosperity and has mobilized global consensus on addressing the most intractable economic and political impediments to true prosperity, particularly on measures to address human deprivation.[49] In the mid-1980s, the UN General Assembly adopted the Declaration on the Right to Development, which acknowledges long-held grievances by developing countries on the unequal nature of global economic relations and the demand for a new international economic order (box 2.1).[50] The human rights standards contained in the Universal Declaration of Human Rights and in other international human rights instruments should guide development programs. Numerous global conferences and summits held under UN auspices have addressed various dimensions of the right to development: education, health, environment, women's empowerment, human rights, social development and financing.

Box 2.1 The key elements of the 1986 UN Declaration on the Right to Development

People-centred development. The "human person" is the central subject, participant and beneficiary of development (art. 2).

A human rights–based approach. Development should be conducted in a manner "in which all human rights and fundamental freedoms can be fully realized" (art. 1).

Participation. Development requires the "active, free and meaningful participation" of individuals and populations (art. 2).

Equity. Development requires the "fair distribution of the benefits" (art. 2).

Non-discrimination. There should be no "distinction as to race, sex, language or religion" (art. 6).

Self-determination. Development requires the full realization of the right of peoples to self-determination, including full sovereignty over their natural wealth and resources (art. 1).

These UN conferences culminated in World Summit for Social Development (WSSD) held in Copenhagen in 1995. The WSSD identified five priority areas for national and international action: creating an enabling environment for people-centred sustainable development, eradicating poverty, empowering people through social services for all, ensuring sustainable livelihood and full employment, and enhancing social integration and human security.[51] These priority areas constitute important building blocks for the progressive realization of the right to development.[52]

The human rights–based approach to development aims to end multidimensional poverty and oppression and identify the actors and institutions that are responsible for respecting, promoting and protecting those human rights while preserving cohesive societies.[53] Because human rights are universal, indivisible and interdependent, if even one right is being denied, it can reasonably be said that a person's rights are not being properly respected. According to Human Development Report 1990:[54]

[T]he process of development should at least create a conducive environment for people, individually and collectively, to develop their full potential and to have a reasonable chance of leading productive and creative lives in accord with their needs and interests.

The broadening of the definition of prosperity ensures that sustainable economic growth is inclusive and attained by creating employment and providing equal opportunities for all citizens while preserving cohesive societies. Thus, income growth and poverty reduction are not enough to ensure prosperity.[55] Prosperity focusses on key characteristics that drive the inclusivity of society, openness of economies and empowerment of people. Working towards this broader definition allows policymakers to use more than fiscal and monetary policies to achieve social, economic and environmental welfare gains.

Translating growth into rights

Because attaining true prosperity through inclusive growth requires achieving political, judicial, environmental and overall well-being as well as financial well-being, it requires creating an environment in which individuals can reach their full potential without discrimination. This view is also in line with the central message of the 1986 UN Declaration on the Right to Development (see box 2.1). Inclusive growth must have the following two attributes:

- Full participation without discrimination: This attribute reflects the Sustainable Development Goals' (SDGs) emphasis on leaving no one behind. Prosperity becomes meaningful in countries that are democratically governed and where governments have successfully devised an inclusive and viable social contract (art. 2 and art. 6 of the Declaration on the Right to Development).
- Equitable sharing of the benefits of development: Economic growth is not an end in itself. Sharing the benefits of economic growth to improve the well-being of individuals and their communities is a vital component of the social contract between the state and citizens. In this regard, a human right–based approach to development embodies principles of equality, non-discrimination, participation, transparency and accountability (art. 2 of the Declaration on the Right to Development).

At a practical level, the human rights–based approach to development and poverty reduction recognizes the centrality of economic growth since the realization of rights involves resources.[56] Growth makes it easier to progressively realize the right to development by lessening the pain of unavoidable trade-offs. Prosperous societies are committed to channelling economic growth towards the progressive realization of economic, social and political rights. For growth to be put to the service of human rights, it must be embedded in a comprehensive framework of policies and institutions that are consciously designed to convert resources into rights (see chapter 3). Thus, translating growth into rights requires other foundational conditions:

Open economies: Achieving a prosperous Africa requires the creation of an enabling environment in which the private sector can thrive and create decent jobs. For the private sector to thrive, policymakers must ensure macroeconomic stability, property rights and rule of law. These conditions are essential to healthy competition and to the reallocation of resources to the most productive and efficient operators. The private sector also requires access to reliable, affordable and efficient infrastructure services, including transport logistics and electric power.

Democratic governance: Many of the socioeconomic challenges confronting Africa are associated with bad governance and the absence of broad-based, inclusive national development.[57] Renewing and restoring democratic governance in Africa is a precondition for achieving inclusive growth and prosperity. Democratic governance helps to guarantee political rights, protect economic freedom and foster an environment in which peace and development can flourish. Democratic governance gives people a stake in society. Strengthening democratic governance requires buttressing the following enabling mechanisms: rule of law and constitutional legitimacy, an active civil society, respect for the rights of all nationalities, a climate of political reconciliation and a commitment to an open and equitable economic regime of growth.

Peaceful societies and freedom from fear: Attaining prosperity will require a substantial reduction in violent conflict on the continent. The persistence of deadly conflicts diverts scare resources from development. To live peacefully citizens need good leadership and sound governance structures supported by credible institutions that are accountable to citizens. For sustained peace, conflict resolution in Africa must move beyond military responses and focus on the root causes of conflict.[58] At a most fundamental level, the absence of justice is frequently the principal reason for the absence of peace. Ethnic discrimination, denial of basic rights, extreme economic inequality and other manifestations of injustice are forms of "structural violence" that plant the seeds of physical violence and, in many cases, deadly conflict.[59]

A broader concept of prosperity: Learning from the Scandinavian model of inclusive social democracy

The successes and failures of the "Scandinavian or Nordic model" in politics and social policy continue to receive attention and generate debate.[60] The Scandinavian model of social democracy refers to the economic and social policies common to the Nordic countries (Denmark, Finland, Norway, Iceland and Sweden). Although there are differences among them, the countries all share some traits: support for a "universalist" welfare state aimed at enhancing individual autonomy and promoting social mobility; a corporatist economic system involving a tripartite arrangement in which representatives of labour and employers negotiate wage and labour market policies, mediated by the government; and a commitment to widespread private ownership, free markets and free trade.[61]

The Nordic countries' exemplary history of social democracy should not mask their past failures in nation building. For example, in the 18th and 19th centuries, Sweden was an imperial power that ruled over large swaths of land in Northern Europe. But in the latter part of the 19th century, cognizant of the costs that its imperial adventures imposed on Sweden and the areas it colonized, Swedish rulers took steps to build a secular national consciousness and a common sense of purpose based on the principles of democracy, inclusiveness, equality and individual freedom. In thinking about inclusive societies, history matters.[62]

At the heart of the Scandinavian model of social democracy is a set of value systems emanating from a specific protestant ethic that emphasizes social cohesion, individual freedom, equality and trust of governments (box 2.2).[63] This value orientation contributes to the development and sustainability of some of the most democratic and egalitarian societies in Northern Europe. The historical transition from empire to social democracy took place long before the global adoption of the Universal Declaration of Human Rights and subsequent international human rights instruments.[64] Coincidentally, the values embedded in the Scandinavian model of social democracy complement the six basic principles of human rights: dignity, non-discrimination, equality, individual autonomy, participation and accountability.

It is important to recognize that the Scandinavian model of social democracy is not easily replicated. While the model can teach a lot about inclusivity, it is culturally specific, and the value orientation influenced by the protestant ethic is foundational to the model.

Box 2.2 Basic principles and value orientation of the Scandinavian model of social democracy

Social rights and citizenship: There is broad recognition within Scandinavian countries that society cannot function smoothly if some people are marginalized and socially excluded. Political freedom and participation cannot be divorced from other kinds of freedom. An organic link between political freedom and freedom from hunger, ignorance and diseases is widely accepted.[1] The role of the welfare state is, therefore, to eradicate social injustice and exclusion through viable social contracts. Through these social contracts, citizens seek to exercise their citizenship rights and demand accountability from those who govern. A social bargain is the glue that keeps a political community together.[2]

Social cohesion, individual freedom and equality: National cohesion was a precondition for development of the welfare state. Though much has changed in the social makeup of the Nordic countries with the influx of immigrants from other parts of the world, Denmark, Norway and Sweden still strive to achieve nation-building within a multicultural setting. Every citizen has the same rights and the same duties and is subject to the same laws regardless of race, religion or socioeconomic status.

Rights and duties: Reciprocal rights and duties have been the core philosophy of the Scandinavian welfare state in an ongoing narrative on the relationship between the collective and the individual. The collective confers on the individual certain duties for the benefit of the group. In return, the individual is reaffirmed by the collective, strengthened in his or her bond to the group and given the possibility of acquiring goods or rights. The state's main job is to promote individual autonomy and social autonomy.

Social trust in government and institutions: Citizens take pride in the honesty and transparency of their government and believe that only a strong and centralized state can credibly guarantee equality. In the social contract between citizens and government, citizens pay their taxes and play by the rules, while governments are subject to rigorous scrutiny to ensure transparency and accountability. Trust in government also means that high-quality people join the civil service.

1. Sen, 1999.
2. Cheru, 2012.

Conclusion: Two scenarios for achieving prosperity by 2030

As this chapter has revealed, income growth and poverty reduction are not enough to achieve broad-based prosperity. The Scandinavian model of social democracy shows that prosperity must be viewed holistically, focussing on key characteristics that drive inclusivity in political, economic and social realms; openness of economies; and empowerment of people to realize their full potential. A formalized social contract is an essential part of political society. Through the social contract, individuals can exercise their citizenship rights and demand accountability from those who govern.

What does it mean to be an African today, and how does being a member of a political community apply to ordinary Africans?[65] In practice, do most Africans consider themselves as "subjects" rather than citizens living in a free, democratic and egalitarian society?[66] Renewing and restoring democratic governance in Africa are preconditions for achieving inclusive growth and prosperity. Many of the socioeconomic challenges confronting Africa are associated with bad governance and the lack of broad-based, inclusive national development.[67] Effective governance requires a capable state that maintains macroeconomic stability, builds up the domestic private sector by providing critical incentives for it to grow, invests in human capital and infrastructure, nurtures the investment climate to unleash productive capacity, and establishes the foundations for long-term growth and prosperity so that citizens can realize their full potential. Having a broader definition of prosperity that goes beyond material wealth would allow policymakers to use a variety of policy tools besides fiscal and monetary policies to achieve welfare gains on social, economic and environmental fronts. (Chapter 3 examines the key "game changers" or accelerators needed to enable African countries to achieve broad-based prosperity more rapidly.)

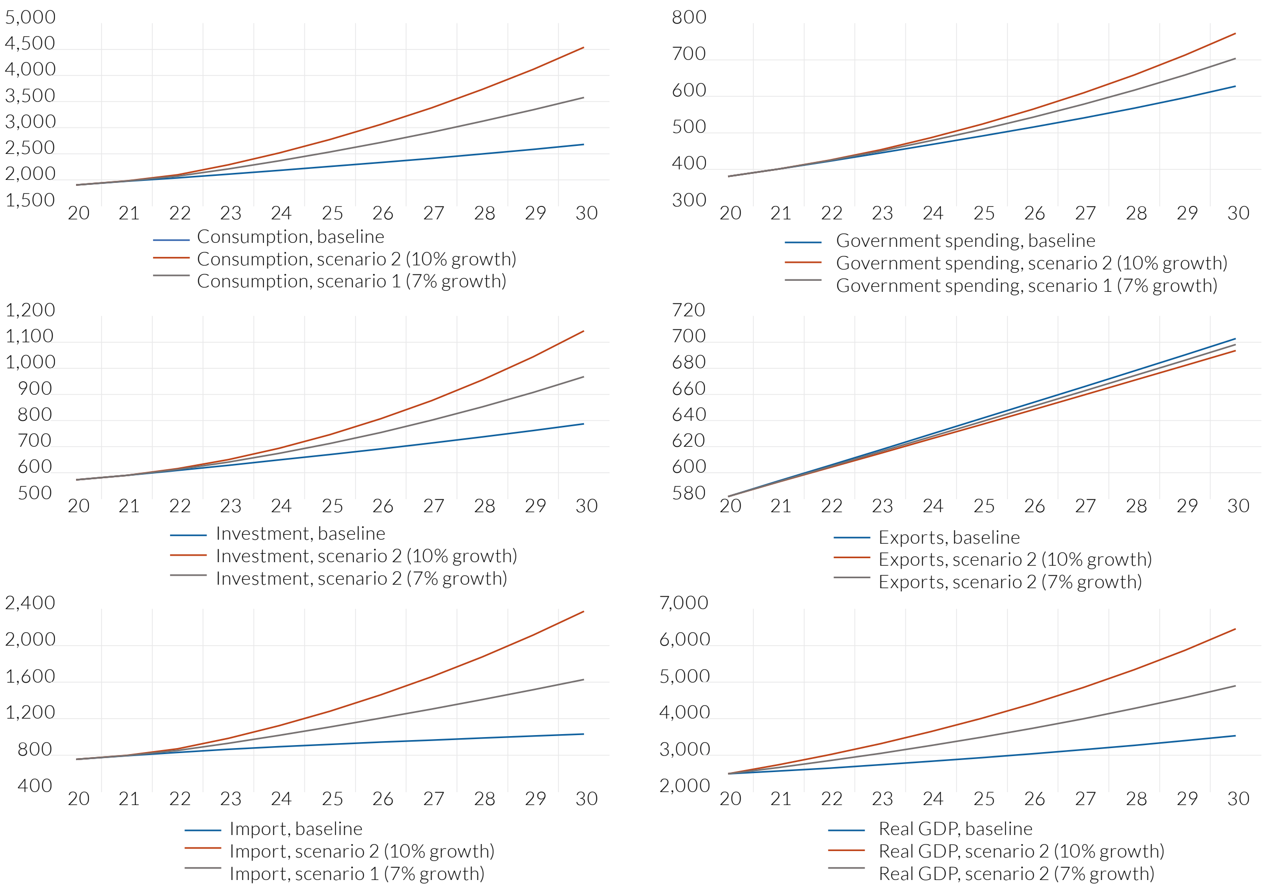
In looking at what it will take for Africa to achieve prosperity in its multiple dimensions by 2030, ECA conducted scenario analyses using its macroeconomic model to explore two questions: what will it take to double GDP to 7% a year each year from 2021 to 2030, and what will it take to double per capita GDP by 2030.[68] A 7% annual growth rate is required to achieve the targets of the SGDs between now and 2030. Figure 2.1 shows the projections of real GDP and the components of aggregate demand and the baseline (current projections under business-as-usual assumptions) under the two scenarios.

Baseline: average GDP is projected to grow at 3.6% a year from 2021 to 2030. Poverty declines by just 2.2 to 2.7% a year over the period.

Scenario 1: In this scenario, real GDP grows at a rate of 7 percent annually from 2021 to 2030, which would require a doubling of Africa's real GDP from \$2.5 trillion in 2020 to \$4.9 trillion in 2030. The model simulations suggest that to achieve 7% annual GDP growth each year until 2030 would require average annual increases of 6.5% in private sector consumption, 5.4% in private investment, 6.4% in government spending, 1.8% in exports and 8 percent in imports. To achieve these gains, policymakers need to take measures to stimulate aggregate demand.

Scenario 2: Doubling per capita GDP by 2030 requires increasing real GDP growth by 10% a year from 2021 to 2030, with real GDP rising from \$2.5 trillion in 2020 to \$6.5 trillion by 2030. The model simulations suggest that doubling per capita GDP by 2030 would require average annual growth of 9% in private consumption, 7.2% in private investment,7.4% in government spending, 1.8% in exports and 12.2% in imports.

Figure 2.1 Projections of real GDP and components of expenditure, by baseline and two scenarios, 2021 to 2030



Note: Baseline projections are based on business-as-usual assumptions.
Source: ECA staff projections using ECA's macroeconomic model.

Table 2.2 Projections of real GDP per capita and real GDP, by baseline and two scenarios, 2020 to 2030

	Real GDP per capita growth (US$ billions, 2010 = 100)			Real GDP growth and poverty rate (%)					
				Baseline[1]		Scenario 1 (7% GDP growth)		Scenario 2 (10% GDP growth)	
Year	Baseline[a]	Scenario 1 (7% GDP growth)	Scenario 2 (10% GDP growth)	GDP growth rate	Poverty rate	GDP growth rate	Poverty rate	GDP growth rate	Poverty rate
2020	1,859.3	1,859.3	1,859.3	–3.4	2.3	–3.4	2.3	–3.4	2.3
2021	1,873.5	1,942.8	1,997.3	3.2	–2.2	7	–4.8	10	–6.8
2022	1,884.7	2,030.1	2,145.5	3.0	–2.0	7	–4.8	10	–6.8
2023	1,903.6	2,121.3	2,304.8	3.4	–2.3	7	–4.8	10	–6.8
2024	1,922.7	2,216.6	2,475.8	3.4	–2.3	7	–4.8	10	–6.8
2025	1,944.2	2,316.2	2,659.6	3.5	–2.4	7	–4.8	10	–6.8
2026	1,967.3	2,420.2	2,857.0	3.6	–2.4	7	–4.8	10	–6.8
2027	1,992.6	2,528.9	3,069.0	3.7	–2.5	7	–4.8	10	–6.8
2028	2,020.0	2,642.5	3,296.8	3.8	–2.6	7	–4.8	10	–6.8
2029	2,049.7	2,761.3	3,541.5	3.9	–2.7	7	–4.8	10	–6.8
2030	2,081.8	2,885.3	3,804.3	4.0	–2.7	7	–4.8	10	–6.8

a. Based on business-as-usual assumptions.
Source: ECA staff projections using ECA's macroeconomic model.

In the baseline projections based on business-as-usual assumptions, per capita income rises from $1,859.3 in 2020 to $2,081.8 in 2030 (table 2.2), an average annual growth rate of 1.14 percent. In scenario 1, per capita income rises from $1859.3 in 2020 to $2885.3 in 2030, an average annual growth rate of 4.5%. In scenario 2, per capita income almost doubles, from $1,859.3 in 2020 to $,3804.3 by 2030, an average annual growth rate of 7.4%. Thus policymakers would need more than business-as-usual policies (baseline scenario) to achieve prosperity. Policymakers would need to be much more ambitious and target double-digit GDP growth rates to double per capita real GDP for Africans and deliver prosperity. If Africa could achieve prosperity by doubling its per capita annual income, poverty would be cut by 6.8% each year up to 2030.

Previous economic growth on the continent did not result in structural changes. Consequently, African economies remain vulnerable to external shocks and internal disruptions that threaten the growth trajectory. Achieving desired prosperity requires resilient economies. Resilience is the ability of people, households, communities, countries and systems to mitigate, adapt to and recover from shocks and stresses in a manner that reduces chronic vulnerability and facilitates inclusive growth. Resilience implies that Africa's growth process must be organic, adaptable and robust to guarantee steady and stable development outcomes. Chapter 3 explores the key transformative enablers or accelerators that would help Africa become prosperous, create the conditions for empowering all citizens to realize their full economic, social and political potential and rights. The key transformation accelerators presented in this report are not new. They have, however, been re-examined from a human rights-based perspective on development, demonstrating that prosperity stretches beyond financial improvement to encompass political, social, legal and other important dimensions of a nation's character.

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CHAPTER 3.

ACCELERATORS OF PROSPERITY AND INCLUSIVE GROWTH

This chapter assesses the "game changers" or accelerators needed to unleash Africa's development potential and, by 2030, achieve prosperity that is inclusive and enables individuals to realize their full potential. Implementing these game changers, which build on the comprehensive definition of prosperity discussed in chapter 2, with all its economic, political and social dimensions, would contribute to fulfilling the vision of "the Africa we want."[69] That vision encompasses shared and inclusive prosperity, integrated economies, free citizens within an environment of peace and security, and realization of the full potential of women and youth.

The accelerators of development and inclusive prosperity

Ten accelerators for achieving inclusive prosperity were identified and are described in this chapter:

- Agricultural revolution.
- Human capital development.
- Infrastructure and logistics.
- Entrepreneurship and private sector development.

- Gender equality.
- Digital technology and innovation.
- The urban advantage.
- Regional integration and trade.
- Development finance.
- Climate change and environmental sustainability.

These accelerators are not sufficient to achieve prosperity, however. They must be implemented within an enabling policy environment of good governance by committed political leaders. Nor are they entirely new. But this report brings a new perspective on how they can transform African development[70] within a human rights–based approach that sees development and its attendant principles for achieving prosperity as a human right. The principles of non-discrimination and equality are among the most fundamental elements of international human rights law and are elaborated in numerous human rights instruments.[71]

The working definition of "prosperity" that is applied in this report encompasses economic, social and political factors that must be translated into concrete policy interventions:

> *The fundamental focus of economic growth and prosperity must be the empowerment of people to realize their full potentials and to live in societies that are democratically governed and that prioritize egalitarianism and social cohesion. The quest for prosperity and inclusive growth in Africa must be grounded in democratic governance, people's participation in the political process, accountability and transparency in decision-making, rule of law and the promotion and protection of human rights.*

This holistic definition of prosperity allows policymakers to use policy tools besides fiscal and monetary policies to achieve broader welfare gains in social, economic and environmental spheres. Chapter 5 presents policy recommendations for operationalizing this concept of prosperity.

The path that each country will follow to achieve prosperity, the mix of policies and strategies that will be adopted and how they are sequenced will vary from country to country according to local conditions. However, for growth to be put to the service of human rights, it must be embedded in a comprehensive framework of policies and institutions that are consciously designed to convert resources into rights. The key accelerators described below can assist governments to achieve "prosperity" and inclusive growth within a compressed timeframe.

Kick-starting an agricultural revolution

Most Africans still reside in rural areas and earn their livelihoods from subsistence agriculture. While urban areas generate the lion's share of national GDP, few efforts have been made to realize the potential for increasing national wealth by modernizing agriculture and increasing agricultural value-addition. Kick-starting an agricultural revolution that could propel industrialization through value-addition should be a top priority for African governments and their development partners.[73]

ECA has been a leading advocate for developing African agriculture through regional agricultural value chains since 2009. In a report on developing African agriculture through regional value chains, ECA recommended that the state play an active role by investing in agricultural research, irrigation systems, extension, transport and storage facilities.[74] These investments are essential for boosting productivity, increasing income and creating jobs in agriculture and for strengthening rural–urban linkages to stimulate economic activity across sectors and industries. Investing in new technology and knowledge to add value to agricultural products and commodities is the surest way of kick-starting rural industrialization and job creation.[75]

Transforming African agriculture and moving up the value chain will require a complex set of actions. These include introducing new technologies and inputs on a massive scale, training people in new skills, strengthening research and development (R&D), building vital infrastructure, transparently expanding access to land and creating a growth-supporting macroeconomic policy environment.[76] Increased investment in technologies, infrastructure and R&D will not only significantly increase yields but will also create additional economic opportunities in value-addition, paving the way for rural industrialization and the growth of related sectors, such as input supply, transport, storage and marketing.[77] Creating important linkages for the development of secondary cities and small towns by expanding transport and communication infrastructure and establishing appropriate political and administrative structures should be an important priority for unleashing agricultural potential.[78]

Over the past two decades, there has been increasing interest from Africa's development partners, private foundations and international private sector actors to tackle the interlocking factors that have undermined agricultural productivity in African and the potential for agriculture to become the foundation for the continent's industrialization. The Comprehensive African Agricultural Development Plan (CAADP) of 2003, developed under the African Unioin, is the basic reference point for African governments seeking to improve agricultural productivity, engage in value-addition and reduce hunger.[79] The Forum for Agricultural Research in Africa (FARA), based in Ghana, is a focal point for the development of the knowledge components of CAADP through integrated national, sub-regional and continental agricultural research systems. CAADP calls for expanding areas under cultivation, ensuring sustainable land and water management, improving market access and infrastructure, increasing food supply, strengthening responses to food emergencies and improving dissemination and adoption of agricultural research and technology.

In summary, if agriculture is to become the foundation for Africa's structural transformation, governments must invest heavily in agricultural research, extension and technological innovation and improve transport and communication networks. They must also ensure the availability of credit and the timely delivery of essential agricultural inputs so that farmers can increase their productivity and develop profitable niches in the agricultural value-chain.[80] Also, efforts must be made to train a new cadre of young African agri-entrepreneurs whose focus will be on agricultural value chains, including storage, processing, packaging, transportation, distribution and marketing at the national and international levels.

The African Union Extra-Ordinary Summit on Industrialization, which convened in Niamey, Niger, in November 2022, resolved to pursue a resource-based industrialization process in Africa. Land is Africa's most abundant resource, and agricultural transformation is a viable path to industrialization.

Developing human capital

Education is the cornerstone of human development. Education expands people's awareness of their environment and of the social and economic options available to them. Despite the real strides made in expanding educational opportunities in post-independence Africa, the continent still lags far behind other developing regions in education quantity (average years of schooling) and quality (investment in education). In 2018, Africans averaged five years of schooling, but the range of schooling was wide.[81] In Burkina Faso, Mali and Niger, the average was just two years—much lower than the average for low-income countries in other regions[82]—while in Botswana, Gabon, Mauritius and South Africa the average was more than eight years—comparable to average schooling in upper-middle-income countries in Asia, Latin America and the rest of the world (table 3.1).

Notwithstanding the large expansion in access to education achieved since independence, African education systems are in deep crisis.[83] Expansion has been achieved at the expense of quality and relevance. Dropout rates are high at every level, education quality is poor, regional and gender disparities in access to education are wide, unemployment among graduates is high and education budgets are unsustainable.

Africa's ability to seize the opportunities available in the global economy also depends on improving higher education, particularly in science and technology and in research and analytical skills.[84] Investment in education should emphasize climbing the technological ladder and tapping into global information and knowledge systems. The number of post-secondary students enrolled in natural sciences, engineering and medical science disciplines is extremely low compared with other regions of the world. Much more investment is required to reverse these negative trends. Moreover, investment in science and technology education must be complemented with scientific R&D.

Table 3.1 Trends in school enrolment rates across regions, 2000–2016 (%)

	Primary education		Secondary education		Tertiary education	
Region	2000	2016	2000	2016	2000	2016
World	85	91	64	77	27	48
Africa	66	82	32	44	6	16
Central Africa	58	84	7	32	3	10
East Africa	54	79	35	41	2	9
North Africa	82	91		54	26	29
Southern Africa	78	90	39	47	4	18
West Africa	59	77	20	44	6	12
Asia	88	93	61	77	23	43
Europe	95	95	86	92	45	68
Latin America & Caribbean	92	92	63	78	28	53

Source: AfDB, 2020; World Bank, 2020a; World Bank, World Development Indicators database.

As the world transitions to knowledge-based economies, automation, robotics and artificial intelligence (AI) will result in the disappearance of many traditional occupations in agriculture and manufacturing, often dominated by unskilled and low-skilled labour, resulting in widening productivity gaps. As the demand for machine learning rises, new inequalities will emerge in labour demand and wage differentials will widen. At the same time, the prospects for other jobs in the knowledge economy are bright. Countries that have prioritized science and technology education and have invested in innovation and R&D are more likely to benefit from this transition.[85] In Africa, a large share of the labour force must transition to more creative, specialized or technology-based work. Meaningful changes and policy reforms in the education sector are urgently needed if the continent is to transition to a knowledge-based economy.

Expanding and upgrading infrastructure and logistics

National infrastructure systems have a direct impact on the cost of living and doing business and implicitly on the social and economic development of the continent. They are also a vital ingredient for successfully implementing an array of high-priority policies and strategies identified by African countries in their development agendas over the years, though not always pursued steadfastly. These development strategies include promoting industrialization, enhancing trade within Africa and with the rest of the world, and fast-tracking regional integration (box 3.1).

Inadequate and high-cost infrastructure increases production and transaction costs, raising the cost of living and doing business in Africa and undermining Africa's competitiveness in the global market. Transport service costs are almost twice as high in Africa (12.6 per cent of costs) as the world average (6.1 per cent). Transport costs for landlocked countries are as much as 50 per cent higher than those for coastal countries.[86]

In terms of wider economic and social impact, the poor quality and inadequate quantity of Africa's infrastructure are major obstacles to unleashing the continent's development potential. Empirical research reveals that Africa's infrastructure deficit may be lowering the continent's per capita economic growth by 2 per cent a year and reducing business productivity by as much as 40 per cent.[87]

In 2012, African heads of state and government adopted the Programme for Infrastructure Development in Africa (PIDA), a continental master plan for infrastructure development over 2012–2040. PIDA is a strategic framework for priority projects aimed at transforming Africa by strengthening its competitiveness and integration into the global economy through the construction of modern infrastructure. In 2021, African heads of state and government adopted the second PIDA Priority Action Plan (PIDA PAP 2), with 69 projects to be implemented over 2021–2030 at an estimated cost of $160.8 billion: 28 in transport, 18 in energy, 12 in water and 11 in information and communication technologies (ICT). PIDA PAP 2 is accompanied by an implementation strategy, a financing strategy and a partnership strategy.[88]

Box 3.1 Infrastructure development and the African Continental Free Trade Area

Infrastructure development is key to promoting regional integration and industrialization and to fully harnessing the potential of the African Continental Free Trade Area (AfCFTA). ECA estimates that implementing the AfCFTA would lead to a 28 per cent increase in intra-African freight demand compared with a scenario without AfCFTA. The study's analysis of investment opportunities found that:

Implementation of the AfCFTA will increase demand for transport by sea (up 62 per cent), air (28 per cent), roads (22 per cent) and rail (8 per cent).

The modal share of rail would increase from 0.3 per cent to about 7 per cent, but road transport will continue to move the greatest share of freight (70 per cent).

Africa would require close to 2 million additional trucks, over 100,000 rail wagons, 250 aircraft and more than 100 ships by 2030 if the AfCFTA is fully implemented. Demand for aircraft to support trade flows would increase by 13.2 per cent by 2030 within West Africa and by 12.2 per cent within Southern Africa, while trade between North and West Africa would boost demand for aircraft by 12.9 per cent.

Up to 61,540 kilometres of regional roads in Africa require upgrading to accommodate the anticipated increase in traffic flows as a result of the AfCFTA. This calls for implementation of continental programmes and instruments such as the Programme for Infrastructure Development in Africa (PIDA) and the intergovernmental agreement on the harmonization of norms and standards of the Trans African Highway network. It also offers an opportunity for investment in the construction industry.

Source: ECA, 2022a.

The challenge of mobilizing infrastructure finance

The key challenge in expanding infrastructure has been mobilizing adequate financing. The Infrastructure Consortium for Africa (ICA) estimates that commitments to infrastructure investment were 10 per cent lower in 2020 than in 2019, largely because of COVID-19 and more restrained financing by China.[89] The decline in commitments has resulted in a widening gap ($59–$96 billion) between commitments and the annual investment needed to provide basic infrastructure services in Africa ($137–$177 billion).[90]

African governments continued to provide the largest share of commitments to infrastructure investment ($37 billion].[91] Commitments from the private sector were $19 billion in 2020, up from $10.8 billion in 2019. Public-private partnerships (PPPs) also contributed to infrastructure investment, with 27 PPP projects closing annually in 2019 and 2020. Financing commitments to transport registered a small decline, from $18.7 billion in 2019 to $18.6 billion in 2020. As in previous years, the largest share of infrastructure budgets supported transport operations, 54% in 2019 and 56% in 2020.

Financing gaps remain substantial in all sectors except ICT and increased markedly in water and sanitation between 2018 and 2020 (table 3.2).

Table 3.2 Infrastructure financing gaps by sector, 2017–2020 (US$ billion)

Sector	2017	2018	2019	2020
Transport	3–15	4–16	3–15	4–16
Water	45–55	43–53	46–56	49–59
Energy	8–23	5–20	4–19	6–21
Information and communication technologies	2–5	0–3	Zero	Negative

Source: ICA, 2022.

Although transport was the only infrastructure sector in which commitments rose between 2019 and 2020, its financing gap widened from $3–$15 billion in 2019 to $4–$16 billion in 2020. In water, the annual financing gap widened from $46–$56 billion in 2019 to $49–$59 billion in 2020. After significant investment in the power sector in the second half of the previous decade, access to electricity expanded and the energy sector financing gap was at its lowest point in 2019, at $4–$19 billion. This progress was reversed in 2020, as the gap widened to $6–$21 billion, and the rate of access to electricity declined for the first time in more than a decade.[92]

Priority infrastructures

Two key aspects of the infrastructure bundle are highlighted here: the provision of reliable, clean, sustainable and affordable energy, chiefly electricity, and improved transport and logistics. Both can have a huge impact on productivity, income growth and social welfare. Widespread reductions in energy costs can increase the availability of food and access to transportation.

Access to sustainable and affordable energy lags

The globally agreed on Sustainable Development Goals (SDG) acknowledge that the adequate provision of reliable, clean and affordable energy is critical for advancing economic productivity and human welfare and thus for creating prosperity. However, at the recent rate of growth in electricity access, Africa will not meet SDG target 7 by 2030. More than 600 million people in Africa lacked access to electricity in 2020, or about 43 per cent of the population.[93] That share ranged from a high of 98 per cent in North Africa, to 53 per cent in East Africa, 51 per cent in Southern Africa, and 47 per cent in West Africa, and a low of 30 per cent in Central Africa.[94] Apart from North Africa, the figures on access to electricity fall far short of target 7.

Disparities in access to electricity between rural and urban areas are large

There are huge disparities in access to electricity between urban and rural areas. Small farmers and others residing in rural areas in Africa have limited access to electricity or other forms of energy and rely on burning fuel wood and fodder to meet their energy needs. This heavy dependence has contributed to deforestation and soil erosion. While there are variations across countries, and the divide is larger in post-conflict countries, the Africa-wide average for electricity access is about 71 per cent in urban areas and 22 per cent in rural areas.[95] In addition to access to electricity, policy needs to consider the affordability and reliability of the power supply, such as the number of brownouts and unplanned grid outages.[96]

Regional power pooling can increase access

Africa needs to develop electricity grids, oil and gas pipelines and other energy infrastructure that will facilitate cross-border economic activities and thereby enhance the security and reliability of energy supply. Regional power pools (box 3.2) can help achieve energy security and reliability through an integrated energy system with a complementary mix of energy sources that match the varying endowments of countries in the power pool. Power pools can also reduce the negative environmental impact of energy infrastructure by providing renewable energy options. Power pools can be deployed to achieve competitiveness in the generation segment of large systems by adopting a merit order in which the cheapest power is wheeled out first in excess capacity systems. Interconnecting generating and transmission systems of different countries, by keeping adequate reserve margins, makes it easier and more feasible to increase power generation to meet temporary surges in power demand.

Box 3.2 Regional power pools in Africa

There are five power pools in Africa that act as specialized agencies for their respective regional economic community:

1. Central Africa Power Pool (CAPP), created by the Economic Community of Central African States (ECCAS).
2. Comité Maghrébin de l'Electricité (COMELEC), created by the Arab Maghreb Union (AMU).
3. Eastern Africa Power Pool (EAPP), created by the Common Market for Eastern and Southern Africa (COMESA).
4. Southern Africa Power Pool (SAPP), created by the Southern Africa Development Community (SADC).
5. West Africa Power Pool (WAPP), created by the Economic Community of West African States (ECOWAS).

Power trading through power pools is still quite limited: 0.2 per cent in 2009 through the Central Africa Power Pool (CAPP), 0.4 per cent in 2008 through the Eastern Africa Power Pool (EAPP), 6.2 per cent in 2009 through the Comité Maghrébin de l'Electricité (COMELEC), 6.9 per cent in 2010 through the West Africa Power Pool and 7.5 per cent in 2010 through the Southern Africa Power Pool (SAPP).[97] Institutional arrangements, market rules and regulations have already been implemented in SAPP, are starting to be implemented in WAPP and are under design in EAPP. CAPP and COMELEC have yet to design and develop electricity market rules and institutions. For SAPP, 28 bilateral agreements have been signed among the member countries; COMELAC does not yet have a regional master plan. CAPP, EAPP, SAPP and WAPP have current regional master plans, have formally adopted priority projects at the regional level and have started to mobilize funds.

The large scale of the financing required to bring ongoing mega-projects to their optimal size makes the number and size of expected electricity wholesale markets a concern for the long-run sustainability of the ventures. Important considerations include transmission infrastructure, cross-border interconnection facilities and bilateral agreements.

Efficient transport and logistics corridors are needed

Inadequate transport and logistics can lead to higher food prices regardless of the competitiveness of farmgate prices. Thus building efficient transport and logistic corridors is critical for effective regional integration and for reducing transaction costs. Logistics refers to the overall management of resource acquisition, storage and transport to their destination along the supply chain. Logistics management covers inbound and outbound transportation, fleet management, warehousing, materials handling, order fulfilment, inventory management and demand planning. Effectively managed logistics can lower transaction costs and make goods more competitive.

Improving the efficiency of transportation and logistics channels also significantly lowers the cost of living because these costs are key cost components of the supply chain. Reducing the cost of living and inflation has a wealth effect by increasing the purchasing power of money. Implementing a regional transportation and logistics initiative (including air, ground and rail transport, ports and dry docks) will also improve prospects for growing and sustaining the AfCFTA. Logistics are crucial to the success of the AfCFTA by facilitating the rapid movement of goods, services and people across countries and regions in Africa and increasing the volume and speed of trade. Efforts are needed to create logistics hubs, especially modern, well equipped and technologically automated ports and transportation networks.

Unleashing entrepreneurship and private sector development

Thriving local entrepreneurship is the optimal path to long-term inclusive growth and broad prosperity. Entrepreneurial genius flourishes when sound institutions and good governance provide risk-takers with an environment that nurtures creativity and innovation. Entrepreneurs expand frontiers and have strong incentives to increase efficiency, which leads to growth in labour income. Local entrepreneurs, if sufficiently dynamic, find ways to compete even in the face of global competition. Conversely, a lack of entrepreneurial ability lowers the returns to physical and human capital.[98] Today, however, entrepreneurial capacity in many sectors in Africa is constrained by the absence of the business-friendly environment and broad-based business networks needed for domestic investors to grow and thrive.[99]

To realize entrepreneurial potential, low-income countries must focus on liberalization, entrepreneurship and innovation. Aggressively opening the economy to offer equal opportunities to all citizens; bolstering financial institutions, especially development finance institutions; and addressing infrastructure and logistics gaps are necessary for entrepreneurship to thrive. Governments must implement good policies, create strong institutions and provide efficient public goods and services so that the private sector can function efficiently and the benefits of growth can be shared equitably among all citizens. A flourishing private sector gives Africa the best chance of improving living standards and achieving prosperity.

Policy uncertainty is a major disincentive for private sector growth. For the private sector to become an engine of growth and prosperity, the overall policy environment must be predictable, reliable and stable. Governments must create these business-friendly conditions to foster the emergence of dynamic competitive firms with a learning culture and capacity for continuous upgrading and innovation across all sectors.[100] Private entrepreneurs needs reliable access to credit and payment arrangements through a well-functioning banking and financial sector. Countries that opened markets witnessed many forms of innovation across sectors, from manufacturing to business services.

Thus an ambitious and comprehensive approach is needed to tackle the interlocking problems impeding growth of entrepreneurship. That involves improving the investment climate, developing skills and human resources, modernizing technology and infrastructure, establishing robust financial markets, re-engineering business processes and creating incentives for small and medium-size enterprises to grow and move up the technology ladder so that they can compete in global markets. In East Asia, these entrepreneurial capacities were built during industrialization, not before it as a precondition for growth.[101]

Finally, entrepreneurship should become a field of study in Africa's higher education institutions, and government should encourage the development of the practical skills and capacity needed for young people to become entrepreneurs.

Ensuring gender equality and equal opportunities

Gender equality and human rights are foundational to the pursuit of prosperity. International conventions, continental agreements and frameworks on gender equality and women's empowerment have lifted gender and women's rights to a central position in the discourse on sustainable development. According to UN Women, gender equality means that women and men and girls and boys should have equal rights, responsibilities and opportunities.[102]

The 2030 Agenda for Sustainable Development mandates that UN Member States to "promote gender equality and the empowerment of women and girls," clearly stating that gender equality and women's empowerment must be part of an ongoing strategy for achieving the SDGs:

> *"…. the achievement of full human potential and of sustainable development is not possible if one half of humanity continues to be denied its full human rights and opportunities."* UNGA Res. A/RES/70/1 on Agenda 2030

The equal participation of women and men in decision-making processes can contribute to ending poverty (SDG 1), improving nutrition (SDG 2), ensuring healthy lives (SDG 3), providing quality education (SDG 4) and improving access to clean water and sanitation (SDG 6). Equal access to education opportunities and health care contributes positively to child welfare as well as to women's welfare. The equitable distribution of unpaid care duties among women and men leads to women's increased labour force participation, higher average income levels and improvements in household welfare.

Viewing a prosperous Africa through a gender lens

Despite the progress that many countries have made, a major challenge facing Africa is the continuing existence of gender inequalities in many spheres of life.[103] For example, while women's participation in political decision-making has increased in countries that have instituted quotas for political positions, women's political representation is still very low in many other countries.[104]

The 2021 report on gender equality in Africa by the Organisation for Economic Co-operation and Development (OECD) reveals hidden gender-based discrimination in employment, entrepreneurship, health and political representation, among others.[105] The report also finds that violence against women and girls has increased since the start of the COVID-19 pandemic. The report estimates that discriminatory social institutions cost Africa the equivalent of 7.5 per cent of GDP in 2019.

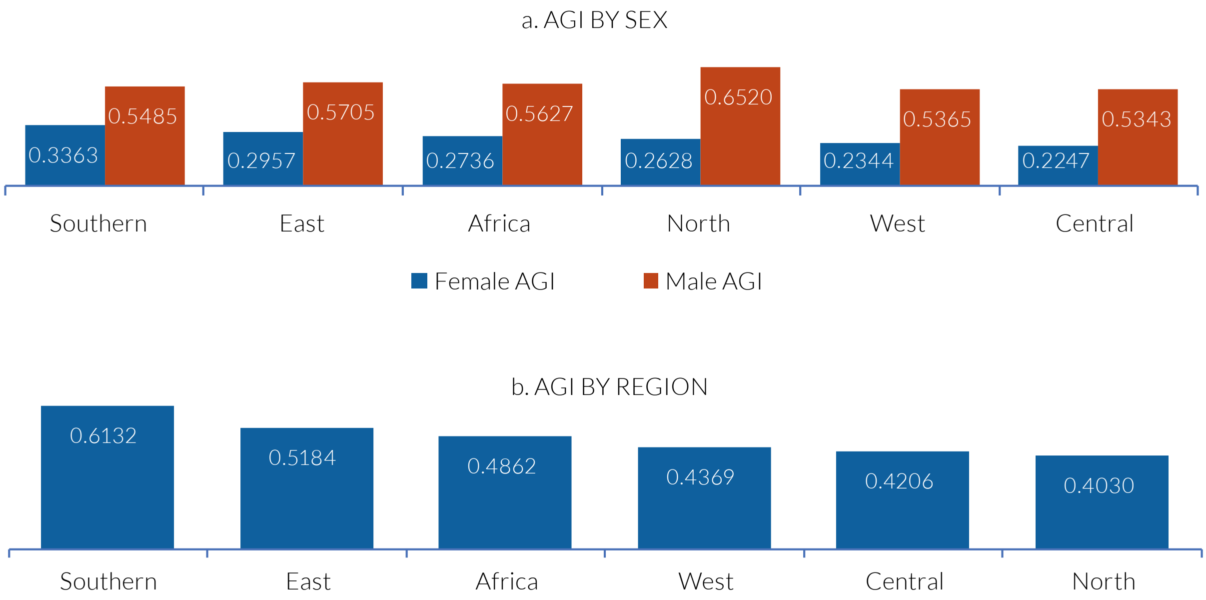
ECA has done extensive work uncovering gender disparities in Africa. ECA developed the African Gender and Development Index (AGDI) in 2004 to measure gaps between the status of African men and women and assess the progress made by African governments in implementing gender equity policies. AGDI scores are higher for men than for women (figure 3.1).[106] While Southern Africa's AGDI score is 0.6132 (on a scale of 0, worst, to 1, best) and East Africa's is 0.5184, West, Central and North Africa's cores are below 0.5. Similarly, a joint report by the African Development Bank and ECA notes wide gender gaps in asset ownership, political leadership and management.[107]

Viewed through a gender lens, a prosperous Africa is one in which all people, men and women, youth, children and all those living in vulnerable situations enjoy full human rights and equal opportunities for a healthy and prosperous life.[108]

Closing channels of exclusion

Several studies find a significant negative correlation between gender inequality and economic growth and employment.[109] The *Africa Human Development Report 2016* estimates that gender inequality costs the region (excluding North Africa) about $95 billion a year, or 6 per cent of the region's GDP.[110] An ECA study found that inequality in educational attainment is a major contributor to women's lack of access to finance and economic opportunity.[111]

Figure 3.1 African Gender Index (AGI) by sex and region in Africa, 2017



Source: ECA, 2017.

Sector studies also find a negative correlation between gender inequality and economic growth. A UN Women analysis of the gender gap in agricultural productivity in Ethiopia, Malawi, Rwanda, Tanzania and Uganda found lower agricultural productivity for female farmers than for male farmers.[112] The study attributed this productivity differential to unequal opportunities for women, who have less access to land and other productive resources and less knowledge of agricultural technology than men and thus have lower skills. Governments must work to close the main transmission channels that sustain gender inequality:

Participation in the labour market. The International Labour Organisation estimates that reducing gender gaps in the labour market could increase the global labour force by 204 million people globally and by 11.1 million people (2.2 per cent) in Sub-Saharan Africa by 2025 (table 3.3).[113] For Sub-Saharan Africa, employment would rise by 10.1 million (2.1 per cent) and GDP by 2.2 per cent. In Northern Africa, where the gender gap in labour markets is widest, labour force growth is projected to be greater (11.4 million). Another study found that African countries could increase their GDP between 1 per cent (Senegal) and nearly 50 per cent (Niger) by increasing gender equality in the labour market (table 3.4).[114]

Table 3.3 Global and regional effects of reducing gender gaps in the labour market by 2025

Country/region	Change in labour force participation		Change in employment		Change in GDP
	Number (millions)	Per cent	Number (millions)	Per cent	(per cent)
• World	203.9	5.4	188.8	5.3	3.9
• Developed countries	20.6	3.3	19.0	3.3	2.6
• Emerging market countries	175.5	6.3	162.4	6.2	4.8
• Developing countries	7.8	2.1	7.1	2.0	2.0
Northern Africa	11.4	13.0	9.1	11.8	9.5
Sub-Saharan Africa	11.1	2.2	10.1	2.1	2.2
Latin America and Caribbean	17.1	5.0	15.8	4.9	4.0
Northern America	4.8	2.5	4.5	2.5	2.0
Arab States	7.8	11.8	6.0	10.2	7.1
Eastern Asia	27.3	3.0	26.2	3.0	2.5
Southern Eastern Asia and Pacific	15.9	4.1	15.0	4.0	3.5
Southern Asia	92.7	11.3	87.7	11.0	9.2
Northern, Southern Europe	5.7	5.7	5.1	2.6	2.0
Eastern Europe	4.5	3.3	4.2	3.3	2.6
Central and Western Asia	5.3	6.6	4.8	6.5	5.7

Source: ILO, 2017.

Table 3.4 Potential gains in GDP from women's increased participation in the labour market in selected African countries

Country	Potential GDP gain (per cent)
Niger	49
Egypt	35
Sudan	33
Comoros	31
Morocco	30
Tunisia	29
Algeria	28
Libya	27
Mali	21
Cabo Verde	15
Cote D'Ivoire	13
Mauritania	12
Equatorial Guinea	11
Burkina Faso	8
Mauritius	7
Ethiopia	3
Senegal	1

Source: Woldemichael, 2020. Calculated using World Bank data.

Countries need gender-responsive labour market policies that reduce wage/salary gender gaps, end occupational segregation in the workplace and establish social protection systems, especially for women in the informal sector who are not covered by formal social protection systems.[115]

Access to education at all levels. Gender disparities in access to education are a major impediment to women's economic empowerment. Closing the gender gap in access to education will increase women's earning capacity and improve their well-being and will have a positive impact on inclusive growth and prosperity. Returns to schooling are higher for women than for men, and returns for both sexes are highest for Sub-Saharan Africa (14.5 per cent for women and 11.3 per cent for men).[116] Returns were higher for women than for men at all levels of education: 17.5 versus 12.5 per cent at the primary school level, 12.7 per cent versus 10.2 per cent at the secondary school level and 21.3 per cent versus 21.0 per cent at the tertiary school level. Box 3.2 describes and ECA initiative called Connected African Girls Coding Camp to prepare African girls and young women to participate fully in the digital economy.

Access to productive resources. Bridging the gender gap in access to productive resources will have a huge impact on economic growth and prosperity.[117] Countries must accelerate their implementation of continental commitments to support women in agriculture. This could involve preferential entry for women and youth in gainful and attractive agro-business opportunities and implementation of gender-responsive measures to enhance the productivity of women farmers.

Participation in political processes and decision-making. Removing laws and regulations that impede women's representation in politics, leadership and management will have significant impacts on women's economic and political empowerment. Reform of political parties will be essential in guaranteeing equal access to women in elected offices.[118] Measures such as quotas for women in political positions could also boos their participation.

Transforming discriminatory social institutions

Discriminatory social institutions and norms, such as formal and informal laws that favour men over women and stereotypical gender roles, continue to constrain women's empowerment and restrict their access to opportunities and the exercise of their rights. Such constraints result in underrepresentation of women in all spheres of life, public and private, economic, political, legal, social and educational. Until gender equality becomes a cultural reality, women will not be able to achieve full economic empowerment. A deeper understanding of why outmoded cultural beliefs persist is critical for designing a change strategy to reverse them. Closing the gender gap in access to justice is especially important for ensuring women's full exercise of their rights to productive choices, family planning and healthcare services.

Potential GDP growth from closing gender gaps is immense. A scenario building exercise by McKinsey Global Institute in 2019 found that, in a "best case" scenario, Africa could add $316 billion to GDP growth by 2025 (or 10 percent of GDP). In a "full potential" scenario, in which women and men play identical roles in the labour market, Africa could potentially add $1 trillion, or 34 percent, to its collective GDP in the period up to 2025.[119]

Box 3.3 Connected African Girls Hybrid Coding Camp

The ECA initiative Connected African Girls Coding Camp aims to prepare girls and young women ages 12–25 to become fully involved in the African digital economy and narrow the gender digital divide by empowering them to find long-term success in education, employment and entrepreneurship. Through a hybrid format combining in-person and virtual learning, the initiative trained more than 25,000 African girls and young women over 2000–2022. Hybrid coding camps have been held in Cameroon, Ethiopia, Guinea, Namibia, Senegal and Tanzania. Through partnerships with host governments, UN agencies, private companies and civil society organizations, plans are to organize coding camps in African cities until 2025. The initiative expects to train 100,000 young women from all five African regions. Of these women, 40 per cent are expected to pursue education at the university level in science, technology, engineering, math and arts and 10 per cent are expected to be involved in information and communication technology (ICT)–enabled entrepreneurship by 2025.

The Coding Camp is dedicated to preparing trainees in the following areas:

- *Technical skills/main workshops:* 3d printing; animation; gaming and web development; robotics and internet of things; and basic classes in design thinking, artificial intelligence, computational thinking, programming, turtle stitch, fashion design, graphic design and cybersecurity.
- *Soft skills:* confidence building, Agenda 2063, UN Sustainable Development Goals (SDGs), human rights, business canvas model, public speaking, and so on.

ECA's Connected African Girls initiative seeks to produce future scientists who can contribute to the 4th Industrial Revolution and to turn out confident women who are self-aware, eager to learn about their communities and capable of leading change in their communities.

Instruction at the 7- to 10-day coding camp is provided by local and international experts. The first two days focus on basic coding, ICT courses and an introduction to the main workshops. This allows trainees to select a training focus and specialization for the next several intensive coding camp days. Trainees form groups within their chosen workshops to develop their own prototypes targeting SDG focus areas.

On the final day of the camp, an Innovation Fair and Project Exhibition allows trainees to showcase projects developed during the camp that target solution-oriented plans for meeting their community's socio-economic challenges. These innovative plans offer practical solutions to a range of issues including health care, climate change, violence again women, job creation, education, e-commerce, road traffic management, arranged marriage, accessibility and inclusion of people with disabilities within the context of Africa's expanding and integrating economy. Trainees have developed around 250 innovative projects, 49 of which won awards for their contributions to the community.

Expanding the use of digital technology and innovation

Technology and innovation are important to Africa's quest for prosperity. Digitalization is transforming almost every industry, with especially profound effects on the manufacturing and service sectors. It is reshaping the way that small and medium-size enterprises interact with their customers and value chains, how goods and services are produced and delivered, how trade is conducted and how people work and relate to each other.[120] Digitalization is eliminating barriers and enabling firms to access new markets. The use of new digital platforms and algorithms is facilitating the exchange of goods and services and boosting labour efficiency. Digitalization has also expanded activities in the service sector, reducing transaction costs, increasing trading volumes and helping match demand and supply.

The global digital economy accounts for about 15.5 per cent ($11.5 trillion) of the global economy and is growing about 2.5 times faster than the overall global economy.[121] The digital economy will account for an estimated 24 per cent of the global economy by 2025 and for as much as a third ($300 billion) by 2030 because of a fivefold increase in digitalization and internet use.[122] Investment in digital technologies is growing especially fast in traditional industries such as mining, agriculture, real estate and public utilities as they become increasingly technology and data driven.

The use of digital technology is still low in Africa but growing fast. The signs of digital transformation are visible everywhere: thousands of mobile money merchants, online ordering and delivery businesses, car-hailing services, online registration of voters, online health and education services and hundreds of innovation hubs teeming with young digital innovators and entrepreneurs.[123] Digital technologies and innovations have permeated and influenced every aspect of life. At the end of 2019, Africa was home to 299 million internet subscribers (28.6 subscribers per 100 inhabitants), with subscribers growing at an annual rate of 11.6 per cent. The number of mobile phone subscribers grew from around 87 million in 2005 to roughly 882 million in 2020.[124]

One visible impact of the digital transformation in Africa is the phenomenal growth in mobile money transfer services. There are 481 million registered mobile money users in Africa, which is about 46 per cent of all global mobile accounts (higher than the number of adults with a bank account, estimated at 456 million in 2022).[125] Mobile money has been a driving force for financial inclusion for the most vulnerable members of society, particularly women, youth and rural residents. The case of the Kenya based money transfer firm, M-PESA is worth noting.[126] MPESA's success highlights how Africa can use digital technologies to drive innovation to overcome bottlenecks and become a global leader.

Despite the rapid growth in digital technology and mobile money transfer services in Africa, not everyone has benefited or benefited equally. Women have largely been excluded.[127] While the share of women with digital finance skills doubled from 12.5 per cent in 2014 to 25.7 per cent in 2018 in North Africa, it remains at 12 per cent for the continent. A 2021 ECA report found that women's access to digital services, mobile phones and the internet in Africa has been impeded by low literacy rates, high cost and skill gaps.[128] Social norms and inherent biases in financial practices, products and services have also adversely affected women. Only 33 per cent of African women have a formal bank account compared with 43 per cent of men. This gap, together with women's more limited access to economic assets, deepens women's vulnerability and exclusion from profitable sectors and formal jobs. National governments must implement gender-sensitive digitalization policies and take decisive actions to address the numerous connectivity barriers facing women, including digital literacy, cost, laws and customs.

Harnessing the urban advantage

Urbanization is necessary for accelerated growth and shared prosperity. Long-run growth needs an efficient system of urban centres producing industrial goods and high-value services, along with transportation networks linking national economies with regional and global markets.[129] Africa is the least urbanized, but fastest urbanizing region. Properly managed, urbanization can bring wealth and prosperity to Africa. Africa's urban population is projected to reach 60 per cent by 2050, with 1.23 billion people living in cities. This will radically change the profile of the continent and challenge policymakers to manage urbanization in a sustainable direction for the continent's structural transformation.[130] Unplanned urbanization, on the other hand, brings many risks, creating slums and pockets of extreme deprivation with unsustainable social, environmental and territorial development patterns.

Urbanization is closely linked with structural transformation.[131] Cities are where the work of globalization gets done. They are the most productive areas in many African countries and offer the greatest potential for economic growth, job creation and prosperity. Cities, through agglomeration economies, enable firms to cluster and benefit from the positive externalities of shared inputs and facilities, larger product and labour markets, and learning spillovers. Boosting the competitiveness of African cities by building the necessary hard and soft infrastructure can enable innovation systems to open enormous opportunities for promoting prosperity. Cities can provide the impetus for the development of industrial clusters with backward and forward linkages and that produce for national and global markets. Urbanization is both an outcome and an enabler of economic structural change.[132]

In many economies that have successfully achieved structural transformation, such as China, Taiwan, South Korea and Malaysia, urbanization has been a key precipitating factor. For example, China's economic transformation, which began as a rural experiment, soon turned to urban areas, involving first a string of coastal cities then larger urban centres and then island cities. These innovative cities soon attracted vast quantities of global capital together with low-wage workers from China's agricultural regions. The central government progressively loosened controls on private investment within cities and on temporary rural migration into the cities. Economic powerhouses arose incrementally from locally driven but centrally sanctioned urban experimentation. City governments were given increasing powers and put under enormous pressure to boost economic production.[133]

But while urbanization is necessary for structural transformation, it is not sufficient. The productive potential of African cities is curbed by severe infrastructure deficits (transport, electricity and other vital services); skill shortages; weak institutional and regulatory environments; inefficient trade logistics; poor internal and external connectivity; inefficient distribution systems and constricted access to credit. African firms lose an estimated 13 per cent of their gross income because of shortfalls and inefficiencies in infrastructure, lack of access to credit markets, and unconducive regulatory environments.[134] These constraints act as a brake on growth and competitiveness.

For African cities to achieve their productive and welfare-enhancing potential will require increasing infrastructure investment, strengthening planning capacity at national and municipal levels, managing and governing cities well, properly skilling and educating the labour force, and fostering an enabling business environment for economic actors to produce, save and invest across sectors and regions.[135] Underinvestment in the face of rapid urbanizatioin can reduce the productive potential of cities in Africa. The continued success of African cities is fundamental to job creation, revenue generation and improved services.

Accelerating regional integration and trade

Africa's prosperity hinges on deeper integration of the continent's 55 fragmented economies. The creation of a larger market through economic integration would enhance competition, improve efficiency and encourage innovation. Integration would also spur existing firms to grow, become more productive or exit the market and would stimulate new firms to emerge.

A vital component of regional integration that will accelerate development is the African Continental Free Trade Area (AfCFTA), a project under Agenda 2063. The AfCFTA agreement covers trade in goods and services, investment, intellectual property rights and competition. The agreement has five major operational instruments: rules of origin, negotiating forums, monitoring and elimination of non-tariff barriers, digital payments system and the African trade observatory and adjustment facility.

The AfCFTA agreement creates a single market connecting over 1 billion people across 55 countries with a GDP of $2.5 trillion. The agreement calls for eliminating tariffs on 90 per cent of tradable goods and for eliminating all non-tariff barriers (NTBs).[136] A simulation exercise by a French research institute finds that Africa's GDP would be $55 billion higher, exports $110 billion higher, imports $110 billion higher and welfare $3 billion higher with the AfCFTA than without it.[137] The model projects that the value of intra-African trade will rise from $100 billion in 2020 to $400 billion in 2045 with implementation of the AfCFTA.[138] Under the most likely scenario, two-thirds of the expected gain is predicted to occur in the manufacturing sector.[139] Exports to the rest of the world are projected to drop by about $10 billion, indicating that a substantial expansion of intra-African trade would drive trade-related gains. The World Bank projects that the AfCFTA could raise income by 7 per cent, or $450 billion, by 2035; increase exports by $560 billion, mostly in manufacturing; achieve $292 billion in gains from trade facilitation; and lift 30 million people out of extreme poverty while raising the income of 68 million others who live on less than $5.5 per day.[140]

Implementation of the AfCFTA would accelerate industrialization and diversification away from energy and mining (table 3.5). It would also reduce Africa's trade dependence on its external partners. Intra-African trade would rise from about 15 per cent of total trade in 2020 to more than 26 per cent in 2045, exceeding Africa's trade with the rest of the world. Africa's trade as a share of global trade would rise from about 3 per cent to nearly 5 per cent. The greatest gains in intra-Africa trade are predicted for vehicle and transport equipment, metals, machinery, chemical products, wood and paper products, textiles, processed food, sugar, and milk and dairy products.

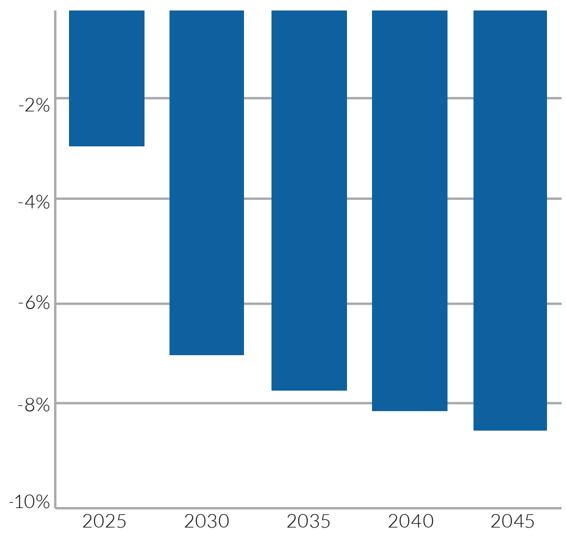
Table 3.5 The value, share and composition of intra-African trade in 2020 and 2045, with and without the African Continental Free Trade Area (AfCFTA) in place

Category	2020	2045 compared with 2020: Without AfCFTA	2045 compared with 2020: With AfCFTA
Value	$100 billion	+270%	+400%
Share of total trade (%)	15	20 (+37%)	26 (+75%)
Composition (% of total)			
Services	26.0	2.8	2.9
Agri-food	19.6	16.9	17.8
Industry	44.8	56.2	58.4
Energy/mining	33	24	20.9

Source: ECA/CIRM-CEPIIs calculation based on MIRAGE-e.

As expected, the removal of tariffs under the AfCFTA agreement will result in a loss of revenues for African countries. However, the rate of decline in tariff revenues would be moderate in the early years before accelerating between 2025 and 2030 and then slowing (figure 3.2). Some countries will be more affected by the loss in revenue than others.[141] Governments may need to increase other sources of revenues to compensate for these losses.[142] The African Export–Import Bank has set up the African Continental Free Trade Area Adjustment Facility to provide short- to medium-term financing to vulnerable countries for the loss of tariff revenues.[143]

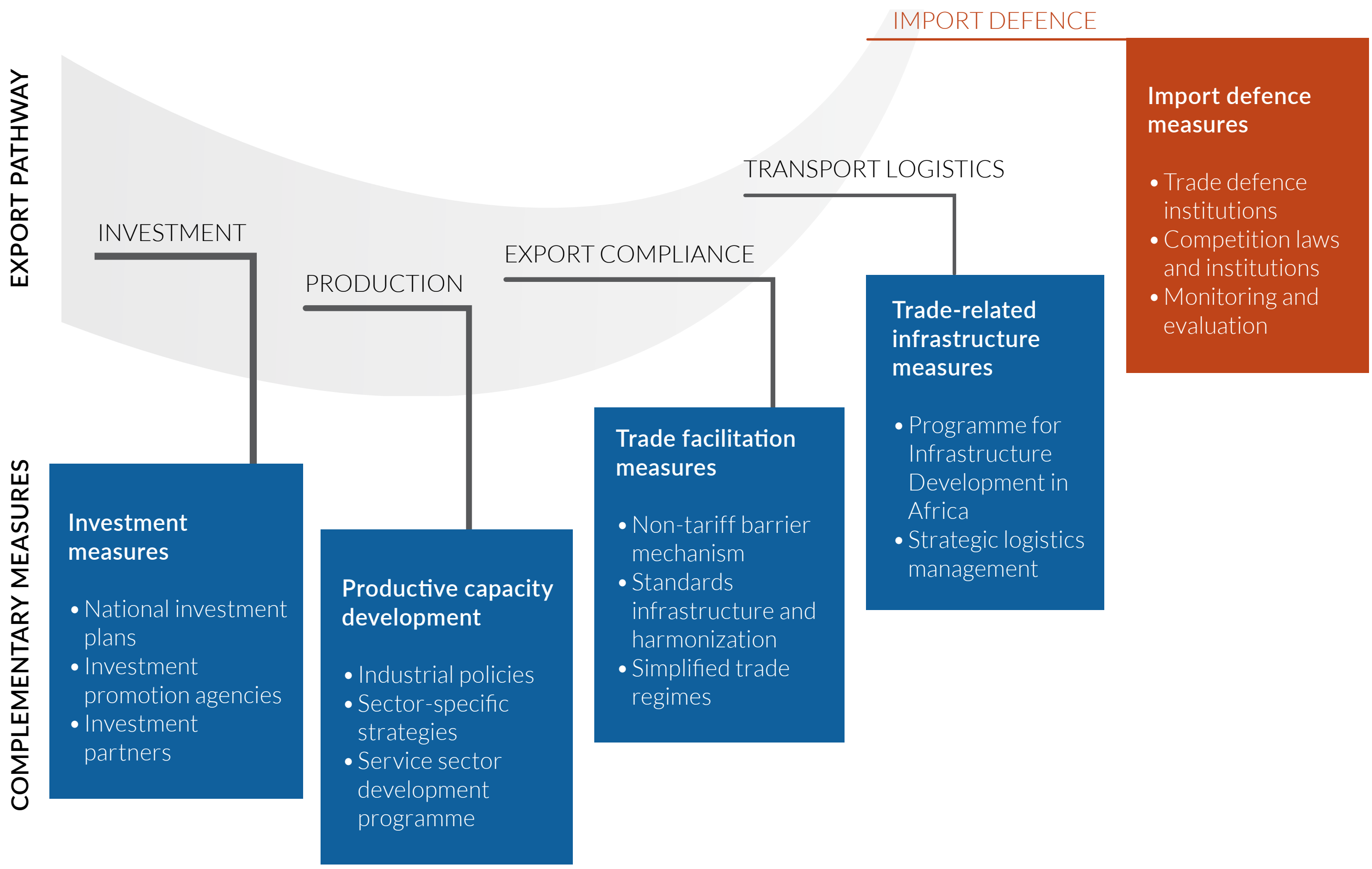
Figure 3.2 Loss in tariff revenues in Africa under the African Continental Free Trade Area, 2025–2045



The AfCFTA would also affect transport infrastructure. The increase in inter-Africa demand would require increases in the fleet of cargo vehicles, including trucks, rail wagons, ships and planes. Africa would require close to 2 million more trucks, more than 100,000 more rail wagons, 100 more ships and 250 more aircraft by 2030.

A host of complementary measures will be needed to support inclusive implementation of the AfCFTA, particularly higher investments and development of productive capacity, trade facilitation, trade-related infrastructure and import defence (figure 3.3).[144] These measures are needed if AfCFTA is to achieve its full potential for poverty reduction, economic development and accelerated prosperity across the continent.

Figure 3.3 Complementary measures for AfCFTA implementation along the export pathway



Source: Authors.

Mobilizing financial resources

A key challenge in achieving the SDGs and prosperity in Africa over the next decade will be mobilizing large sums of development finance. For many years, the continent has funded development through natural resource rents and external assistance. In 2019, natural resource rents from crude oil, minerals and metals accounted for 7.5 per cent of GDP, while official development assistance has been an important source of development finance for many poor African countries. However, development assistance flows are unpredictable and vary from year to year. In 2019, net bilateral official development assistance flows from Development Assistance Committee countries to Africa totalled $49 billion, or 34 per cent of net official development assistance.[145] Flows plunged in 2020 because of the COVID-19 pandemic and then rose by 3.4 per cent in 2021, to $35 billion. To address the financing gap, governments have relied on external borrowing. Government debt as a share of GDP in Africa rose from an average of 34.5 per cent in 2010-2017 to 58 per cent in 2020.[146]

Foreign direct investment (FDI) to Africa has also fluctuated. FDI reached a record $83 billion in 2021, rebounding strongly after the fall in 2020 caused by the COVID-19 pandemic.[147] While most African countries saw a moderate rise in FDI in 2021, around 45 per cent of the increase was a result of an intrafirm financial transaction in South Africa. FDI could shrink in the future due to the triple shocks of the coronavirus pandemic, low commodity prices and uncertain global economic conditions exacerbated by Russian–Ukraine conflict. Remittances, meanwhile, have remained steady, at around $45 billion.[148]

Changing course: Strategies for revenue mobilization

To meet the widening financing gaps of the continent resulting from unfavourable global conditions, Africa needs to rethink its financing strategies and consider innovative alternative sources of finance, including greater domestic resource mobilization. Aid and external borrowing should be additional, not the primary source of development finance in Africa.

Africa requires a blend of financial resource inflows in addition to official development assistance: domestic savings, private investment (FDI) and remittances.[149] Each revenue source has its own challenges. Mobilizing each of them will require devising innovative policies and institutional arrangement. African governments need to accelerate development of innovative financing mechanisms. They also need to reduce illicit financial flows.

Increasing domestic resource mobilization

African countries have been unable to mobilize adequate tax revenue to finance their development needs. In 2018, tax revenue as a share of GDP was 16.6 per cent in Africa, well below the 23.1 per cent rate in Latin America and the Caribbean and 33.9 per cent in OECD countries.[150] Tax collection and administrative capacity are weak in many African countries. High tax evasion reflecting dissatisfaction with the quality of services and capital flight contribute to poor resource mobilization. In addition, the large informal sectors in African economies are beyond the reach of tax authorities. Besides weak tax collection, saving mobilization is low because of low per capita income, together with underdeveloped banking systems and a lack of attractive saving schemes in rural areas, with most financial institutions offering very low interest rates to savers.[151]

Domestic resource mobilization efforts will fail without systems of prudent public finance management and accountability. Institutional reforms are needed to improve tax collection and expenditure management.[152] In addition, pension funds, insurance schemes and stock markets remain underutilized.[153] Strategies for domestic resource mobilization include improving tax collection and administration, implementing sound expenditure management and harnessing the potential of domestic financial institutions.[154] African countries can release the potential of domestic financial institutions by removing laws and regulations that inhibit domestic lending and borrowing.[155]

Attracting foreign direct investment and tapping international capital markets

FDI is an important source of private capital for developing countries. It has the potential to increase national incomes and promote economic growth by generating new jobs, developing skills, transferring technology, facilitating access to foreign markets and enhancing the productivity and competitiveness of domestic firms, among other benefits.[156] FDI is potentially capable of addressing two of Africa's major investment-related problems: the savings gap and the shortage of technology and skills. However, attracting FDI should be strategic, channelled into priority sectors such as agriculture, infrastructure, natural resource and manufacturing, which are critical for unleashing Africa's productive potential. FDI should also create backward linkages in the economy that bring small businesses into the production value chain, thus creating jobs and enhancing local productive capacity.

There are also opportunities for mobilizing additional finance through international capital markets, although the current global economic climate of low growth and high inflation makes tapping into capital markets more difficult. In addition, financial innovations such as diaspora bonds and a global lottery can be explored for narrowing the financing gap for development.[157] Many of these options require strong leadership by African governments to develop innovative policies and the institutional arrangements needed to realize them.

Harnessing remittances

Over the past decade, remittances sent to Africa by its diaspora have grown rapidly and have become a major source of foreign exchange.[158] Remittances are estimated at $45 billion a year, an amount far greater than official development assistance. However, remittances to Africa dropped by 8.8 per cent in 2020 and 2021 as large numbers of African migrants lost their jobs because of the economic impact of the COVID-19 pandemic. The global economic crisis caused by the Russian war in Ukraine, which has led to high inflation and interest rates in OECD countries, is expected to keep remittance flows modest.

Actual remittance flows are much larger than the official record shows, however, since many migrants use unofficial channels to avoid the transaction cost of sending money through formal channels such as Western Union. In addition, diaspora bonds are a new instrument for mobilizing finance. For example, the Ethiopian government used diaspora bonds to mobilize resources to build the Grand Ethiopian Renaissance Dam on the Blue Nile River.[159]

Curbing illicit financial flows

Illicit financial flows reduce tax revenues and undermine the domestic resource mobilization needed to finance development projects (box 3.4). Africa loses an estimated $60–$75 billion dollars a year through illicit financial flows, such as trade mispricing.[160] These estimates are very conservative as they do not consider many other illegal activities, such as corruption and tax avoidance. The resources siphoned off into illicit activities could have been used to finance public services. While stopping illicit financial flows requires both national and global action,[161] African countries should focus on building their capacity to detect and punish mispricing of trade in goods and services and dishonest contracts in the extractive sector.[162]

Box 3.4 The Economic Commission for Africa's long journey to stop illicit financial flows from Africa to improve the financing of sustainable development

In 2010, the African Union Commission (AUC)–Economic Commission for Africa (ECA) Ministers of Finance appointed ECA as the Secretariat of the High-Level Panel (HLP) on illicit financial flows (IFFs) from Africa. Led by former South African President Thabo Mbeki, the HLP focussed on assessing the magnitude and development impact of IFFs. The HLP's report, submitted to the AUC and ECA in February 2015, contained 21 recommendations, which included identifying methodologies for stopping IFFs and asking ECA to produce operational measures against IFFs. The AU Heads of State and Government adopted the recommendations, and the Common African Position on the Sustainable Development Goals (SDGs) included the goal of curtailing IFFs. The Addis Ababa Action Agenda, developed at the Third International Conference on Financing for Development, referenced the work of the HLP and encouraged other regions to carry out similar exercises. Two months later, curtailing IFFs was included as one of the targets of goal 16 of the SDGs. The importance of measuring and quantifying the total value of IFFs, whose exact level and scale are unknown, was identified in SDG target 16.4 as a priority for achieving the 2030 Agenda.

In line with the HLP's recommendations, ECA and the United Nations Conference on Trade and Development (UNCTAD), with the cooperation of the United Nations Office on Drugs and Crime (UNODC), inaugurated the UN Development Account project "Defining, estimating and disseminating statistics on illicit financial flows in Africa" in 2018.[1] The project seeks to consolidate methodological guidelines for the measurement of indicator 16.4.1 and to build statistical capacity by providing technical assistance and guidance to the pilot countries.

Once the Conceptual Framework for the Statistical Measurement of Illicit Financial Flows was developed (and endorsed by the UN Statistical Commission in March 2022), 12 African countries (Angola, Benin, Burkina Faso, Egypt, Gabon, Ghana, Mozambique, Namibia, Nigeria, Senegal, South Africa, and Zambia) that had expressed interest in pilot testing efforts to measure IFFs received technical assistance through regional training workshops conducted by UNCTAD, ECA and UNODC. These countries embarked on activities to measure and estimate IFFs using available country data. An inter-agency mechanism, the Technical Working Groups (TWGs), brought together government agencies that were working on halting IFFs (ministries of finance, revenue and customs agencies, central banks, financial intelligence units, anti-corruption agencies) to establish the foundations for the statistical measurement of IFFs, led by national statistics offices. The TWGs also included representatives of the UN Resident Coordinators' Offices to benefit from the UN's in-country technical knowledge, experience and support.

The 12 African pilots have produced the first estimates of IFFs using methods focussing on tax and commercial activities related to IFFs. The countries also developed medium-term action plans to continue their efforts. The 45th Session of the Conference of African Ministers of Finance, Planning and Economic Development in May 2022 called on ECA and development partners to build country capacity in tax-related matters and to establish the necessary institutional architecture, with a view to developing the ability to track, measure, report on and curb IFF flows.

SDG indicator 16.4.1 has been classified as tier II, meaning that the indicator is conceptually clear and has an internationally established methodology. However, countries are not yet regularly reporting the necessary data. A great effort is still required by more countries and statisticians to continue this work before the indicator review process in 2025. Considerable resources will be needed to support efforts to stop IFFs and recover stolen assets through a whole-government and whole-society approach. ECA is committed to supporting African countries in their fight against IFFs and to strengthen economic governance and public financial architecture.

1. UNCTAD, 2018.

Expanding and diversifying the banking sector

Commercial banks are the main source of private business credit in Africa. Credit unions, agricultural banks and banks for small and medium-size businesses, with limited capitalization and less restrictive collateral requirements, provide service to smaller business operators. Informal businesses generally cannot access funds from the big commercial banks because of high costs and collateral requirements. In many poor communities, residents rely mainly on self-help rotating credit associations to finance economic activities.

Even though most formal private banking institutions are profitable and growing fast in Africa, large firms are their main customers. Their outreach to small and medium-size businesses has been very limited, and their collateral requirements are high. In 2019, large companies obtained 40 percent of their credit from financial institutions, medium-size companies received 26 per cent and small companies received 13 per cent.[163]

A large proportion of private sector operators in Africa are in the informal sector. Because of high collateral requirements and borrowing costs, they rarely seek loans from formal financial institutions. In addition, many Africans are subsistence farmers and have no access to credit to purchase necessary inputs, such as chemical fertilizer. Many financial institutions are simply not set up to serve peasant farmers and urban informal sector operators. Improving financial inclusion will require deliberate government efforts to diversify financial institutions to reach a range of potential clients with diverse needs.

In Ethiopia, for example, only 1.9 per cent of small enterprises and 6 per cent of microenterprises had access to a bank loan in 2019, compared with 36 per cent of large enterprises and 21 per cent of medium-size enterprises. To help microenterprises, small enterprises and start-ups meet their need for credit, the government partnered with the United Nations Development Programme–Ethiopia to set up an Innovative Financing Lab in October 2022. Hosted by the National Bank of Ethiopia, the lab will test, innovate and grow new financing services, products and inclusive instruments that will unlock financing for rapidly growing microenterprises and small enterprises.[164] The lab plans to do this by mobilizing capital, building demand for capital and bridging the gap for growth-oriented and job-creating small and medium-size firms. The lab will also pilot an Enterprise Financing Facility to address supply constraints by mobilizing capital and investing in small and medium-size enterprises.[165]

Deepening capital markets

Capital markets, which complement banking institutions, are also important for mobilizing finance to support private sector development and other essential investment projects. Currently, 29 African countries have stock exchanges. With the exception of the Johannesburg Stock Exchange, capital markets in Africa remain underdeveloped, with small market capitalization among listed companies and less liquidity than exchanges in other emerging market economies. Between 2014 and 2019, initial public offerings (IPOs) raised in Africa were about $27.1 billion, about 1.4 percent of the value of global IPOs.[166] The capitalization value of IPOs rose to around $920 million in 2021.[167] Transaction costs and fees for equity markets are relatively expensive in Africa, mainly because of high brokerage commissions.

Bond markets, consisting mainly of government and corporate bonds, are growing in Africa but remain very small compared with those in other regions. In 2019, African governments issued more than $200 billion in sovereign bonds; in contrast, China alone issued more than $700 billion, in the largest bond market among emerging market economies and the third largest bond market globally.[168] Local currency bonds make up 78 per cent of debt issued in Africa. Most are medium-term bonds with an average maturity of 5.1 years. Local investors, such as banks, private self-administered funds and pension funds, are the major participants in local bond markets.

African governments should continue to implement regulatory reforms that will deepen financial markets. A well-developed system of financial markets would benefit the private sector, investors and government and allow sovereign bonds to be issued in the local currency. Governments need to create an enabling environment for developing well-structured capital markets that promote the participation of asset managers, insurance companies, investment banks, sovereign wealth and pension funds, and other institutional investors.

Ensuring environmental sustainability as a foundation for prosperity

Africa is the region most affected by the negative impacts of climate change even though its carbon footprint is tiny compared with that of developed countries.[169] Climate change has already reduced the GDP of African countries by 3–5 per cent—by as much as 10 per cent for some countries. Among the most pressing climate-related challenges for the region are desertification, invasions of non-native insect species, loss of forest cover, shrinking arable lands and the associated tension over natural resource control to accommodate rapidly increasing populations.

Sustainable management and protection of the environment are central to the continent's economic prosperity (see box 3.5 for ECA initiatives on climate action in Africa). Recent assessments by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services reveal that more than 62 per cent of Africa's rural population depends directly on ecosystem services, with marine and coastal resources accounting for more than 35 per cent of the continent's GDP.[170] Thus, commitments to sustainability and environmental protection are linked to jobs and livelihoods.

Box. 3.5 Climate action in Africa

ECA has established numerous frameworks to support climate policy and governance in African countries. These include annual dialogue spaces, such as the Africa Climate Talks, which precede the Climate Change and Development in Africa conference (CCDA). CCDA provides a forum for policymakers, researchers and non-state actors to discuss regional climate change issues and solutions on a technical level and to prepare participants for presentations at subsequent events, such as the annual Conference of Parties to the United Nations Framework Convention on Climate Change (COP). The 11th CCDA conference was convened in 2023 as a technical pre-meeting, which complemented and dove-tailed into the Africa Climate Summit in September 2023. The inaugural summit teemed with African ideas that facilitated pledges of approximately $26 billion for climate investments from donor nations and multilateral organizations, including the United Arab Emirates' "non-binding letter of intent" for $4.5 billion towards clean energy and $450 million for carbon credits.

The African leaders in attendance at the summit called for accelerating ongoing initiatives to reform the multilateral financial system and global financial architecture. They called for investments to promote the sustainable use of Africa's natural assets for the continent's transition to low-carbon development, urgent action by developed countries to reduce carbon emissions and establishment of a new financing mechanism to restructure Africa's crippling debt and unlock climate funding.

On climate resilience, ECA has an ongoing programme to support African governments, the private sector and communities to respond to climate change by enhancing the integrated implementation of Nationally Determined Contributions that address vulnerabilities and managing climate-induced insecurity.

The attainment of Africa's development objectives depends on achieving energy security and access because of the region's increasing need for energy to industrialize, trade, improve health and education services, reduce poverty, increase inclusion and boost economic growth. ECA established the Sustainable Development Goal 7 initiative to support African countries in formulating appropriate policies and ensuring that the transition to modern energy is just and equitable. And because climate information from national meteorological and hydrological services and regional climate centres is critical for buttressing sectors that are vulnerable to climate disasters, ECA supports governments and communities in strengthening policies and governance along the climate information services value chain.

The rising incidence of weather-related disasters signals the urgent need to pursue a green growth strategy. This is particularly true for two important economic sectors in Africa: agriculture and the extractive sector.

Greening agriculture

Agriculture is vital to Africa's rural livelihoods, food security, economic activity and foreign exchange earnings. Yet the sector is responsible for 90 per cent of deforestation in the region, while transporting crops and livestock, fertilizers and other links in the production chain creates substantial emissions. Further, food insecurity and undernourishment have been rising since 2014, driven primarily by conflict, climate shocks and economic downturns.[171]

Enabling the growth and development of agriculture through innovative green methods can help the region sustainably address its growing food security threats and ensure that future agricultural growth and development are ecologically friendly.

Greening the agriculture sector would involve a host of interventions beneficial to farmers, consumers and the environment, including making more efficient use of inputs, recycling waste materials, adopting technologies for climate-smart agriculture, conducting soil mapping and increasing agricultural value-addition fuelled by new green energy sources.[172] Box 3.6 describes the adoption of smart agricultural practices in the livestock sector in Botswana.

Box. 3.6 Smart agriculture in Botswana

The Lobu Smallstock Farm in Botswana was established in 1978 to assist farmers in the Kgalagadi District adopt the best breeds of Karakul sheep. More recently, with ECA's support, the government of Botswana has decided to revive the farm and transform it into a centre of excellence for the development of the smallstock industry, leveraging the latest smart agriculture technologies.

With the aim of creating jobs and increasing the supply of smallstock products locally and internationally, the technologies being introduced by ECA include a smart classroom (with a learning management system that will be developed locally) for training and increasing the capacity of smallstock farmers, a mobile crush pen, digital scale, radio frequency identification reader, software for maintaining records and generating reports, ultrasonic scanning, an internet-of-things–based smallstock health monitoring system and an online animal auctioning system.

The Lobu Smallstock Farm will also focus on improving stud genetics for smallstock, establishing a national registration system for goats and sheep, creating awareness of the importance of protecting local genetic resources and establishing rangeland management practices. The expected results include improved smallstock numbers and genetics, establishment of a national livestock registration system, and expanded awareness of local genetic resources.

Greening the extractive sector

Africa has a wealth of extractive resources, including minerals, oil and gas, and agricultural products. Despite the boom and bust cycles in commodity markets, Africa will remain a major global supplier of energy and mineral resources for the near future. Minerals account for a considerably higher share of the export concentration index in Africa than in other comparable regions or than the global average (figure 3.4). Most of its minerals are extracted and exported in their raw state. The processing of its minerals into higher-value output and products is done elsewhere. Thus, a majority of Africa's mineral-rich countries are earning less than they could be from their resources and are losing out on opportunities to diversify their economies, leaving them vulnerable to the fluctuations in global natural resource markets.

Besides increasing value-addition in commodities and natural resources, using Africa's resource bonanza to advance the economic transformation of the continent remains the greatest challenge.[173] Resource rents must be invested and managed properly, and countries need to acquire the technology and knowledge to engage in more efficient extraction, processing and value-addition. These natural resource endowments, if managed properly within a broader economic framework, can propel the continent's growth and development, advance industrialization, foster inter-generational equity and realize inclusive prosperity.

The necessary linkages to achieve these outcomes are outlined in the African Union's Africa Mining Vision of 2019 for pursuing higher-value mineral-based activities.[174] For example, as the world transitions towards green resources, green minerals are increasingly recognized as essential to an evolving energy system, replacing the central role of oil. There is a surge in demand for strategic minerals that are vital components of lithium-ion batteries (cobalt, lithium, manganese, graphite and copper) and with which Africa is well endowed (table 3.6). Box 3.7 describes plans in the Democratic Republic of the Congo to develop a value chain for the production of cathode precursor materials for lithium-ion batteries.

Table 3.6 Percentage of world reserves of strategic minerals in selected African countries and projected demand increase to 2050

Mineral	Democratic Republic of the Congo	Gabon	Ghana	Madagascar	Morocco	Mozambique	South Africa	Tanzania	Zambia	Zimbabwe	Projected global annual demand by 2050 (% of 2018 global annual production)
Cobalt	50.7			1.4	0.2		0.5				460
Copper	2.2								2.4		7
Graphite				8.1		7.8		5.3			494
Lithium										1.0	488
Manganese		4.7	1.0				40.0				4

Source: Adapted from Columbia Center on Sustainable Investment (2021).

Box 3.7 Plans in the Democratic Republic of the Congo to establish a value chain for precursor materials for lithium-ion batteries

In November 2021, the government of the Democratic Republic of the Congo (DRC) made plans to leverage its cobalt and hydroelectric power resources to establish a lithium-ion battery value chain in the DRC and beyond.[1] The value chain will initially focus on the production of nickel, manganese, and cobalt battery precursors in the Kishwisi Special Economic Zone, in Haute Katanga, DRC. If successful, DRC could become a cost and emissions competitive producer of cathode precursor materials for lithium-ion batteries.[2]

In 2021, the mining sector in DRC accounted for 98 per cent of exports, 18 per cent of GDP and 11 per cent of jobs. DRC will capture only an estimated $11billion in market value in 2025 if it continues to export mainly raw minerals. However, if it captures 20 per cent of the market value for battery precursors, which is estimated at $271 billion for 2025, it will add around $54 billion to current revenue of $50 billion and its GDP will pass the trillion dollar mark.

This is a significant development that will transform the economy and society of DRC if the dividend from mineral exploitation is managed properly to benefit the population. The transformative potential of the mining sector can be enhanced immensely if the other accelerators of prosperity are in place, including good governance, equal access to education and infrastructure development.

1. ECA is currently supporting the DRC in its battery initiative.

2. BloombergNEF, 2021.

Conclusion

This report argues that prosperity must be defined holistically. Focussing on a narrow agenda of either poverty reduction or income growth will not result in optimum development policies for achieving inclusive prosperity, a point well recognized in the SDGs. To be put to the service of human rights, growth must be embedded in a comprehensive framework of policies and institutions that are designed to convert resources into rights. This chapter has identified the key enablers for Africa to become prosperous. Greater effort is needed to understand and examine the holistic drivers of prosperity and to assess their strength on the continent to guide the actions of policymakers.

Promoting democracy and good governance is fundamental to transforming Africa into a prosperous continent. Unresolved issues of political leadership and legitimacy, along with widespread state capture by elites, prevent Africa from embarking on an inclusive development path. Democracy in Africa must go beyond the ritualism of elections and must emphasize quality and substance, especially in delivering public goods and services.[175] Therefore, renewing democracy and improving economic and political governance are preconditions for the promotion and protection of civil, political and economic rights.[176]

INSTITUTIONS FOR ECONOMIC TRANSFORMATION

CHAPTER 4.

This chapter discusses the role of institutions as the foundations that support the key accelerators and game changers for rapid economic growth and transformation in Africa. The discussion is predicated in part on the nexus between governance and economic growth, stretching beyond the good governance paradigm, which has been shown to be necessary but not sufficient for sustainable development that leaves no one behind.

Government and institutions

Government, broadly defined, is an institution that provides public goods and services and designs the societal rules and regulations that allow markets to flourish. It puts in place the policies needed to efficiently distribute and allocate resources that enhance people's welfare. Government also provides critical institutional infrastructure, such as laws that protect property rights, and maintains public order, without which long-term investment, sustainable socioeconomic development and overall societal welfare and prosperity would be impossible.[177]

Institutions promote an orderly, predictable, transparent and credible regulatory and transactional environment for markets and the economic system to function efficiently and effectively. They provide the rules, procedures, norms, values and human capital that facilitate economic interactions and ensure a rules-based market environment. They are central to building trust and credibility in the market. Institutions matter for economic performance because they affect transaction costs and are more salient than other factors commonly ascribed vital roles, such as changes in technology or relative prices.[178] Institutional quality is a key determinant of development outcomes, including prosperity.[179]

Governance comprises the traditions and institutions through which authority in a country is exercised, including the process through which government is selected, monitored and replaced; the government's capacity to formulate and implement sound policies; and citizens' and the state's respect for the institutions that govern economic and social interactions aimed at bringing about growth, economic transformation and inclusive sustainable development.[180]

Table 4.1 Correlation between real gross domestic product (GDP) per capita and governance indicators, 1996–2021

	Control of corruption	Rule of law	Regulatory quality	Government effectiveness	Political stability	Voice and accountability	Real GDP per capita
Rule of law	0.872						
Regulatory quality	0.776	0.883					
Government effectiveness	0.847	0.912	0.880				
Political stability	0.69	0.747	0.631	0.655			
Voice and accountability	0.691	0.758	0.734	0.672	0.601		
Real GDP per capita	0.275	0.314	0.218	0.400	0.366	0.064	

Source: Compiled based on the 2022 update of the World Bank's Worldwide Governance Indicators for 1996–2021, accessed at http://www.govindicators.org.

Real gross domestic product (GDP) per capita between 1996 and 2021, a period of unprecedented economic performance in Africa, is positively correlated most strongly with the government effectiveness component of governance, followed by political stability, rule of law, control of corruption and regulatory quality, and positively correlated weakly with voice and accountability (table 4.1). Government effectiveness measures the quality of public services, the quality of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to its stated policies.

Africa's development has long been hindered by the slow evolution of robust institutions capable of withstanding stress. Modelling the performance of GDP per capita in Africa between 1996 and 2021 using fixed effects shows a strong role for governance in economic growth. Among the components of governance, control of corruption, rule of law and government effectiveness have positive coefficients, while regulatory quality, political stability, and voice and accountability have unexpected negative coefficients (table 4.2). Only regulatory quality, government effectiveness, and voice and accountability show an association at the highest level of significance, making government effectiveness the only component of governance with a clear positive relationship to economic growth. In addition, foreign direct investment and government expenditure have unexpected negative coefficients through all equations, perhaps reflecting their lagged effect on growth. Therefore, institutions that ensure government effectiveness are critical for growth of GDP per capita beginning in the short term.

Table 4.2 Modelling of economic growth in Africa using fixed effects

	1	2	3	4	5	6
Control of corruption	0.0528 (0.0402)					
Rule of law		0.0390 (0.0580)				
Regulatory quality			−0.1413*** (0.0482)			
Government effectiveness				0.2915*** (0.0617)		
Political stability					−0.0662* (0.0369)	
Voice and accountability						−0.1049*** (0.0313)
Exports	1.1873*** (0.0597)	1.1834*** (0.0594)	1.2127*** (0.0583)	1.1312*** (0.0571)	1.1963*** (0.0586)	1.1875*** (0.0560)
Imports	−1.3578*** (0.0620)	−1.3532*** (0.0619)	−1.3780*** (0.0600)	−1.3026*** (0.0603)	−1.3622*** (0.0600)	−1.3441*** (0.0564)
Foreign direct investment	−0.0153 (0.0167)	−0.0144 (0.0170)	−0.0079 (0.0173)	−0.0247 (0.0152)	−0.0064 (0.0174)	−0.0119 (0.0167)
Government spending	−0.0320 (0.0440)	−0.0235 (0.0433)	−0.04215 (0.0433)	−0.0194 (0.0427)	−0.0276 (0.0456)	−0.0485 (0.0432)
Gross fixed capital formation	0.4127*** (0.0957)	0.4136*** (0.0984)	0.4289*** (0.0909)	0.3715*** (0.0979)	0.4273*** (0.0892)	0.4347*** (0.0911)
Labour	0.2318*** (0.0160)	0.2338*** (0.0173)	0.2449*** (0.0125)	0.2186*** (0.0152)	0.2548*** (0.0170)	0.2412*** (0.0126)
Domestic credit	0.5455*** (0.0217)	0.5467*** (0.0247)	0.6269*** (0.0322)	0.4209*** (0.0277)	0.5880*** (0.0212)	0.6068*** (0.0241)
Inflation	−0.0735 (0.0837)	−0.0600 (0.0801)	−0.0433 (0.0731)	−0.1123 (0.0958)	−0.0208 (0.0769)	−0.0594 (0.0713)
Constant	9.6354 (0.5063)	9.5681 (0.4909)	9.3295 (0.4478)	10.1959 (0.6178)	9.5037 (0.4330)	9.3849 (0.4153)
Diagnostics						
Hausman test	Prob. > $\chi2$ = 0.4731					
Number of observations	589	589	589	589	589	589
R-squared	0.6802	0.6797	0.6823	0.6951	0.6800	0.6839
Prob > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Number of countries	53	53	53	53	53	53

*Note: Numbers in parentheses are robust standard errors. *** significant at p < .01; ** significant at p < .05; * significant at p < .1.*

Source: ECA Modelling of the nexus between governance and economic growth, 1996-2021.

Modelling using random effects model also results in positive coefficients for control of corruption, rule of law and government effectiveness and unexpected negative coefficients for regulatory quality, political stability, and voice and accountability (table 4.3). Foreign direct investment and government expenditure again have unexpected negative coefficients through all equations.

Table 4.3 Modelling of economic growth in Africa using random effects

	1	2	3	4	5	6
Control of corruption	0.0734** (0.0336)					
Rule of law		0.0523 (0.0524)				
Regulatory quality			−0.1244*** (0.0465)			
Government effectiveness				0.2895*** (0.0519)		
Political stability					−0.0502 (0.0348)	
Voice and accountability						−0.1026*** (0.0310)
Exports	1.1907*** (0.0541)	1.1861*** (0.0544)	1.2173*** (0.0540)	1.1248*** (0.0535)	1.2016*** (0.0538)	1.1941*** (0.0516)
Imports	−1.3541*** (0.0584)	−1.3480*** (0.0589)	−1.3738*** (0.0575)	−1.2956*** (0.0575)	−1.3600*** (0.0569)	−1.3429*** (0.0535)
Foreign direct investment	−0.0209 (0.0155)	−0.0200 (0.0158)	−0.0154 (0.0164)	−0.0239* (0.0140)	−0.0147 (0.0164)	−0.0184 (0.0161)
Government spending	−0.0388 (0.0430)	−0.0275 (0.0424)	−0.0437 (0.0423)	−0.0256 (0.0420)	−0.0316 (0.0445)	−0.0518 (0.0426)
Gross fixed capital formation	0.4004*** (0.0904)	0.4008*** (0.0919)	0.4117*** (0.0862)	0.3756*** (0.0908)	0.4101*** (0.0844)	0.4199*** (0.0872)
Labour	0.2303*** (0.0156)	0.2337*** (0.0171)	0.2464*** (0.0125)	0.2175*** (0.0151)	0.2530*** (0.0172)	0.2430*** (0.0125)
Domestic credit	0.5307*** (0.0203)	0.5323*** (0.0217)	0.6074*** (0.0310)	0.4241*** (0.0224)	0.5711*** (0.0206)	0.5955*** (0.0233)
Inflation	−0.1043 (0.0769)	−0.0876 (0.0740)	−0.0837 (0.0694)	−0.1068 (0.0862)	−0.0662 (0.0717)	−0.0939 (0.0690)
Constant	9.8421 (0.4353)	9.7674 (0.4191)	9.6369 (0.3891)	10.1416 (0.5279)	9.7841 (0.3703)	9.6396 (0.3654)
Diagnostics						
Country effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	589	589	589	589	589	589
R-squared	0.6804	0.6799	0.6827	0.6951	0.6804	0.6841
Prob > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Number of countries	53	53	53	53	53	53

*Note: Numbers in parentheses are robust standard errors. *** significant at p < .01. ** significant at p < .05. * significant at p < .1.*

Source: ECA modelling of the nexus between governance and economic growth, 1996-2021.

Modelling using fixed effects and controlling for resource rents and subregion result in negative coefficients only for regulatory quality (table 4.4). So, once resource rents are controlled for, an increase in any of the governance components except regulatory quality would lead to an increase in GDP per capita. Furthermore, only control of corruption and government effectiveness show an association at the highest level of significance. The coefficients for government spending and resource rents have negative signs in all equations, with varying but acceptable significance.

Table 4.4 Modelling of economic growth in Africa using fixed effects and controlling for resource rents and subregion

	1	2	3	4	5	6
Control of corruption	0.2071*** (0.0400)					
Rule of law		0.1551** (0.0590)				
Regulatory quality			−0.0676*** (0.0522)			
Government effectiveness				0.3638*** (0.0540)		
Political stability					0.0157 (0.0372)	
Voice and accountability						0.0293 (0.0413)
Exports	1.0135*** (0.0622)	1.0041*** (0.0621)	1.0437*** (0.0655)	0.9482*** (0.0590)	1.0224*** (0.0602)	1.0222*** (0.0625)
Imports	−1.0878*** (0.0711)	−1.0795*** (0.0724)	−1.1305*** (0.0763)	−1.0354*** (0.0691)	−1.1099*** (0.0710)	−1.1103*** (0.0727)
Foreign direct investment	−0.0438** (0.0155)	−0.0400** (0.0172)	−0.0327* (0.0171)	−0.0439** (0.0159)	−0.0353* (0.0177)	−0.0337* (0.0167)
Government spending	−0.1592** (0.0552)	−0.1383** (0.0538)	−0.1320** (0.0533)	−0.1593*** (0.0515)	−0.1346** (0.0537)	−0.1335** (0.0536)
Gross fixed capital formation	0.3014*** (0.0867)	0.3087*** (0.0903)	0.3722*** (0.0772)	0.2556*** (0.0860)	0.3516*** (0.0816)	0.3434*** (0.0856)
Labour	0.1902*** (0.0235)	0.2045*** (0.0231)	0.2106*** (0.0204)	0.2161 (0.0192)	0.2096*** (0.0237)	0.2146*** (0.0199)
Domestic credit	0.3274*** (0.0288)	0.3408*** (0.0360)	0.4117*** (0.0322)	0.2751*** (0.0341)	0.3871*** (0.0271)	0.3834*** (0.0290)
Inflation	−0.1880* (0.1027)	−0.1517 (0.1015)	−0.0740 (0.0901)	−0.2430** (0.1138)	−0.1081 (0.1043)	−0.1084 (0.0943)
Resource rents	−0.0742*** (0.0167)	−0.0633*** (0.0158)	−0.0890*** (0.0167)	−0.0297* (0.0155)	−0.0793*** (0.0166)	−0.0767*** (0.0149)
Central Africa	−0.4758*** (0.0800)	−0.4927*** (0.0791)	−0.5002*** (0.0830)	−0.4855*** (0.0809)	−0.5149*** (0.0834)	−0.5244*** (0.0875)
East Africa	−0.6978*** (0.0924)	−0.6703*** (0.0917)	−0.6386*** (0.0957)	−0.6528*** (0.0885)	−0.6618*** (0.0949)	−0.6709*** (0.0986)
Southern Africa	−0.4172*** (0.0488)	−0.3857*** (0.0438)	−0.3248*** (0.0583)	−0.4060*** (0.0435)	−0.3626*** (0.0507)	−0.3781*** (0.0621)
West Africa	−0.8464*** (0.0692)	−0.8286*** (0.0683)	−0.7347*** (0.0772)	−0.8383*** (0.0639)	−0.7810*** (0.0763)	−0.8031*** (0.0875)
Constant	11.1660 (0.6062)	11.0587 (0.6307)	10.3036 (0.5697)	12.1772 (0.7184)	10.6393 (0.6098)	10.7713 (0.6043)
Diagnostics						
Observations	589	589	589	589	589	589
R-squared	0.7506	0.7476	0.7453	0.7585	0.7448	0.7449
Prob > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Number of countries	53	53	53	53	53	53

*Note: Numbers in parentheses are robust standard errors. North Africa is the reference category for the subregion dummy variables. *** significant at p < .01; ** significant at p < .05; * significant at p < .1.*

Source: ECA modelling of the nexus between governance and economic growth, 1996-2021.

Strengthening institutions and entrenching transparency in government operations are critical to Africa capitalizing on diverse indigenous development initiatives such as the African Continental Free Trade Area and achieving the Sustainable Development Goals and Agenda 2063 aspirations. However, Africa's development continues to be hampered by external forces whose influence has previously derailed the development trajectory from pathways capable of promoting prosperity.[181] Many scholars have pointed to the nature of the state to explain Africa's development performance. Robert Bates argues that "Nowhere is development so deeply desired than in Africa, and nowhere does political order more forcefully check its attainment."[182]

The enablers articulated in chapter 3 raise concern over the practical aspects of transforming practices and methods and diversifying the economic base. One lesson from the development discourse of the last 50 years is that it is not a matter of state versus markets but market and states working together.[183] So, transformation and diversification plans still require capable states and markets to materialize despite being homebred. Thriving markets require not only appropriately designed economic systems but also secure political foundations that limit the ability of the state, individuals or groups to unlawfully or arbitrarily confiscate wealth or encroach individual freedoms and liberties.[184]

This implies a persistent need for political and economic institutions that credibly commit state and non-state actors to honour contracts and respect political and civil rights and liberties with a view of minimizing violent conflict. Economies cannot develop sustainably in the shadow of violence and insecurity. States need to establish and nurture institutions that are strong enough to mediate conflict and minimize violence. Doing so will allow enterprises to focus on creating wealth and prosperity.

Cognizant of the centrality of institutions for development and guided by awareness of differences in governance structures, national realities, capacities and levels of development, as well as the need to respect national policies and priorities, the UN Committee of Experts on Public Administration articulated 11 basic principles for building institutions as part of efforts to clarify the governance agenda. Grouped under the overarching themes of effectiveness, accountability and inclusiveness, these 11 principles make three main arguments:

- For institutions to be effective, they need to be competent, have sound policymaking capabilities and be open to collaboration to achieve a common development purpose.
- For institutions to be accountable, they need to have integrity and transparency and be subject to independent oversight.
- For institutions to be inclusive, they should be committed to leaving no one behind, be non-discriminatory and participatory, and allow for subsidiarity and intergenerational equity.

Countries the world over, including in Africa, are expected to build effective, accountable and inclusive institutions at all levels, with a view to achieving the shared vision for the people and the planet embodied in the 2030 Agenda for Sustainable Development. Ideally, these basic principles should apply to all public institutions, including executive and legislative organs, the security and justice sectors, independent constitutional bodies and state-owned enterprises.[185]

A wide range of public institutions need to be strengthened and aligned to the principles articulated by the UN Committee of Experts on Public Administration in pursuit of development and prosperity in Africa. However, political and economic governance institutions need to be prioritized, given their huge potential to support and compliment the enablers and game changers identified in this report and given their status as prerequisites or foundations for the region's sustainable development and transformation.

Political governance institutions

From a political governance perspective, it is worth exploring three types of institutions:

- Those that enhance constitutionalism and the rule of law.
- Those that promote participation and inclusivity and manage diversity in light of the plural character of many African states and societies, whose poor management has been a source of instability and even violent conflict.
- Those that enhance service delivery and efficiency, particularly through decentralization, which brings government closer to the people.

Constitutionalism and the rule of law

Stronger constitutionalism should be prioritized in African countries, including upholding the core principle of separation of powers and associated checks and balances and the primacy of the rule of law. Laws prescribe rules of conduct and standards of behaviour aimed at ensuring an orderly society. The legislative arm of government enacts laws, whereas the executive arm ensures their implementation. The judicial arm provides essential checks on the other two arms and associated public institutions by interpreting and applying laws and adjudicating disputes that arise among individuals or entities. It is charged with countering both private and public corruption, reducing political manipulation and increasing public confidence in government integrity. It protects individual rights and ensures the security of people and their property. The judiciary also decides what constitutes appropriate sanctions or punishment for conduct that goes against established laws, including on pervasive conduct such as abuse of power.[186]

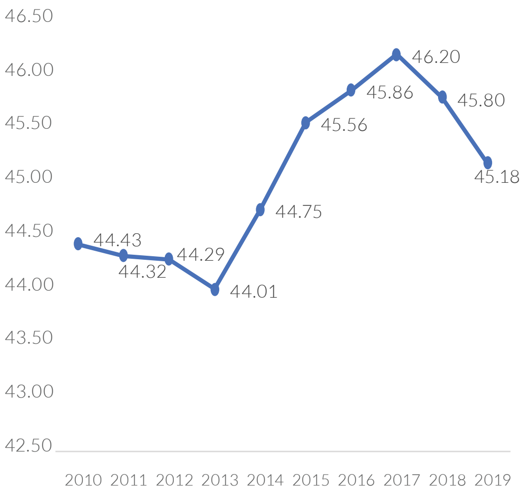
An effective and efficient judicial system is a prerequisite for good governance and development. To fulfil its role, the judiciary must always uphold the rule of law, act with integrity and maintain independence while remaining accountable. The rule of law and the dispensing of justice are key in promoting peaceful and inclusive societies for sustainable development.[187]

The record of the judiciary as an instrument for fostering development and prosperity has been chequered in many African countries because, as an institution, it struggles to promote constitutionalism, uphold the rule of law and maintain independence, integrity and accountability (figure 4.1). In many African countries, the judiciary depends heavily on the discretionary powers of the executive and legislative arms of government for enabling laws and obtaining the requisite material, financial and human resources to operate (including the appointment, promotion and termination of personnel).

Many African judicial authorities at various levels remain vulnerable to corruption or have been found to be corrupt, thereby robbing the institution of its integrity, which is critical for building and sustaining public confidence and trust—not just in the judiciary but in government more broadly. Additionally, the judiciary and judicial authorities in many African countries have been characterized as disconnected or detached from the population and broader society, partly accounting for high perceived or real unaccountability and ineffectiveness (figure 4.2).[188]

Figure 4.1 Trends in rule of law and justice in Africa over 2010-2019 uphold the rule of law and maintain independence, integrity and accountability

Ibrahim Index of African Governance

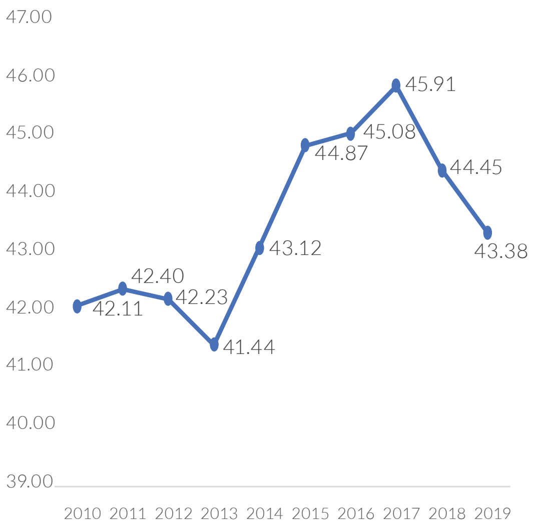


Note: Potential index scores range from 0, worst, to 100, best.

Source: Mo Ibrahim Foundation, 2020.

Figure 4.2 Trends in judicial independence in Africa in 2010-2019, integrity and independence

Ibrahim Index of African Governance



Note: Potential index scores range from 0, worst, to 100, best.

Source: Mo Ibrahim Foundation, 2020.

For the judiciary in Africa to fulfil its mandate and meaningfully contribute to development and prosperity, Africa's governance reform agenda should include interventions that:

- Uphold the separation of powers and enhance judicial independence.
- Provide the judiciary adequate human, material and financial resources to render it more effective and efficient, reduce its vulnerability to corruption and enhance its integrity.
- Institutionalize training in ethics and codes of conduct for all levels and categories of judicial officials and provide continuing legal education for judges, magistrates and lawyers.
- Enhance institutional links and cooperation among law enforcement agencies, prosecutors' offices, prison systems, probation officers, social workers, doctors and other experts in criminology and penology to solve interrelated problems.
- Develop and deploy proper interactive mechanisms between the judiciary and the citizenry to raise citizens' awareness of the services, procedures and operations of the judiciary system, with a view to curbing exploitation of the citizenry and thus enhancing the prospects of the judiciary, truly contributing to their wellbeing.[189]

Participation, inclusivity and diversity management institutions

Entrenching inclusive and participatory governance processes and institutions at all levels of the state in Africa is a critical first political step towards addressing some of the root causes of violent conflict and ensuring transparency and accountability, including by allowing civil society and other non-state actors the requisite operating space. Rather than treating citizens as the subjects of policies, African governments should proactively involve citizens in political and development policymaking, thereby building trust between society and the state. Managing diversity requires addressing issues related to alternating political power through the electoral process, including the thorny issue of term limits for political offices.[190] This would help reverse the resurgence of coups d'états in Africa, which coup plotters have justified by pointing to constricted avenues for peaceful transfer of power because of constitutional manipulation and the questionable legitimacy of many electoral processes.[191]

Expanding participation and inclusion of stakeholders in political and governance processes (including taking government and governance processes closer to the people through decentralization) provides a strong foundation for stable and prosperous states to emerge because it directs energies towards wealth creation rather than the conflicts arising from poorly managed diversity and perceptions of exclusion.

Public service institutions and institutions to promote decentralization

In some sense, the state is an abstract construct, which acquires practical existence or visibility only through the institutions and processes of public service (sometimes referred to as public administration). Public services connect the state with the people and are therefore widely recognized as indispensable for responsive and accountable governance and development. They serve as the bedrock of the rule of law. Effective delivery of essential public services is the foundation of human security, development and prosperity. For public services and public service institutions to create wealth, enhance development and generate prosperity, they must respond to public demands and serve as incubators of public trust in government.

Public service institutions and processes the world over have been the subject of distinct phases of reform, aimed at making them more effective. Africa has seen decentralization reforms, pay and employment reforms, integrity and anti-corruption reforms, and "bottom-up" reforms designed to improve the development effectiveness of government agencies. For many years, the old public service system, with a command-and-control approach, was the reference point for the bureaucracy in many African countries. Though the approach worked well in some countries, the quality of governance and the effectiveness of public services declined in many post-colonial states in subsequent years as neo-patrimonial pressures asserted themselves and state resources and public appointments became increasingly subject to the personal influence of political leaders and their cronies.

Responsiveness of public institutions. Having citizens at the centre of the frame of reference for public service institutions and processes invariably requires taking citizen expectations into consideration and recognizing the diversity and specifics of various citizen groups and formations. The diverse, and at times contradictory, needs of various social groups constitute a governance and service delivery challenge for all governments. One-size-fits-all solutions (particularly when formulated by a central administration) may not be able to respond to some realities and circumstances. Rather, understanding country differences and designing public service institutions that are country-, subnational- or community-specific and that consider historical, cultural and political contexts are key to ensuring greater accountability and effective interventions.

Decentralization of public service institutions. Decentralization and associated decentralized public service institutions and processes continue to be considered practical if imperfect ways to address context by taking government closer to the people. Decentralization transfers authority and responsibilities for public functions from the central government to subordinate or quasi-independent government entities or private sector formations.[192] According to the United Nations Development Programme, this can involve political, economic and administrative functions and responsibilities.[193] Powers and functions (as well as resources) are assigned to subnational bodies and actors with some political autonomy. Broadly speaking, decentralization is premised on the desire to establish closer links between the administration and the administered within the framework of bringing government closer to the people. Decentralization is a widespread and international phenomenon in public services. It takes two main forms—deconcentration and devolution—with different impacts on policy and management capacities at the local level, as well as in the relation between decentralized entities and the central administration.[194]

Decentralization has been characterized as a double-edged sword. On the one hand, it has the potential to create soft budget constraints, macroeconomic instability and clientelism, to enlarge bureaucracies,[195] to increase disparities and to jeopardize stability—even to undermine efficiency and decentralize corruption and associated predatory behaviour.[196] On the other hand, a large body of literature has established a correlation between decentralization and democratization, participation, and enhanced efficiency, effectiveness and transparency—with an overall impact of better service delivery,[197] lower costs to government, higher cost recovery and greater acceptability—all of which boost prosperity. Decentralization is also associated with reduced corruption,[198] poverty[199] and conflict,[200] leading to significant improvements in people's welfare at the local level[201] and empowering communities.[202]

In the 21st century, public service is rooted in democratic theory and emphasizes accountability to citizens, whereby officials serve and respond to citizens rather than steering society. It is based on the principle that public officials serve because of their commitment to the public interest and respond to citizens' expectations of a healthy and responsive public service.[203] Therefore, African countries need to undertake serious institutional reform policies to improve the state's capacity to enforce laws, collect taxes and provide public services and to enable all social groups to participate in the development process.

Economic governance institutions

The principles of good governance for Africa are explicitly articulated in the New Partnership for Africa's Development's Declaration on Democracy, Political, Economic and Corporate Governance.[204] In this context, economic governance focuses on transparency in monetary and financial policies, fiscal transparency, budget transparency, public debt management, and effective banking supervision and auditing practices that conform to international standards. Core elements include public financial management and accountability, integrity of the monetary and financial system and an adequate regulatory framework. To transform, African countries will need strong performances in all these areas.[205]

Economic governance is the structure and practice of economic policymaking and management. In concrete terms, good economic governance is about government institutions having the capacity to manage resources efficiently; formulate, implement and enforce sound policies and regulations; monitor and be held accountable; enforce respect for rules and norms of economic interaction; and ensure that economic activity is unimpeded by corruption and other activities inconsistent with public trust.[206]

Successful growth strategies have consistently been preceded or accompanied by the creation of political and economic institutions, which are critical for ensuring good governance. Functional and effective institutions, alongside well-articulated policies focused on enhancing productivity, accelerate economic growth and structural transformation.[207] The need for institutions is also highlighted by Agenda 2063: The Africa We Want, which states that: "Africa will be a continent where the institutions are at the service of its people. Competent, professional, rules and merit-based public institutions will serve the continent and deliver effective and efficient services. Institutions at all levels of government will be developmental, democratic and accountable."[208]

Economic governance institutions are a specific set of institutions whose performance has an overall effect and influence on the quality of economic governance and ultimately on structural transformation outcomes. In the African context, targeted interventions are still needed to strengthen institutions in key sectors and areas of policymaking, including development planning, private sector development and macroeconomic management. From an economic governance perspective, the following merit prioritization: national planning and budgetary institutions, national resources mobilization and management institutions, and national accounting institutions.

National planning and budgetary institutions

Since the beginning of the 21st century, many African countries have embraced development planning to prioritize public interventions and rally partners to promote growth and development. As of 2018, at least 50 African countries had a medium-term development plan or strategy and 42 had a long-term vision.[209] African countries are grappling with aligning and harmonizing the 2030 Agenda for Sustainable Development and Agenda 2063 with national development plans and mobilizing resources for implementation. Alignment of development plans with international and regional development frameworks also needs to consider the financial and technical resource requirements for their implementation.

To achieve development objectives, countries need to establish systems that allow the government and other actors to link resource allocations with the performance and policy objectives in national development plans. Such systems should enable governments to measure shifts in public resource allocations across goals and the impact of those shifts on development outcomes in the short to long term.[210]

Public financial management. Public financial management is the framework that ties these systems together by facilitating efficiency, planning, prioritization and accountability in service provision and public resource allocation. It typically includes accounting of government funds, allocation of resources to specific goals and objectives in the national development agenda, and spending and accountability measures. Effective public financial management is an indispensable tool for African countries because it provides the policy and institutional frameworks to identify, fund and implement programmes in a climate of competing needs and scarce resources to achieve the required results.

The state of public financial management across Africa is generally considered in need of reform, though many experts recognize that this process is difficult even for the most advanced economies. Nonetheless, several dimensions of public financial management—taxpayer management, fiscal forecasting, and central budget planning and credibility—have improved. Some countries have also made progress in sector planning, internal financial reporting and the timely submission of audit reports to parliament. However, the links among public sector planning, spending and results measurement remain weak, despite heavy investment.[211] For example, capturing the timing and volume of various national financial flows in the planning to spending process is often riddled with challenges, particularly for flows that are unpredictable or better suited to specific development objectives, despite political agendas.

Planning and budgeting. At the sector level, gaps are common between planning and budgeting (pre-spending) in African countries (table 4.5). They are the result of poor sequencing, lack of capacity considerations, overriding focus on development partner–oriented plans and weaknesses in analysing and costing policies and priorities.[212] These factors can delay or prevent the mobilization and allocation of adequate resources for development programmes and can lead to budgeting that fails to reflect planned priorities within constrained macroeconomic conditions, that lacks management controls and that is poorly integrated into medium-term expenditure frameworks. Such factors can harm budget credibility, programme implementation and expected outcomes. Failure to link policy, planning and budgeting may be the most important factor contributing to poor budgeting outcomes at the macro, strategic and operational levels in developing countries.[213]

Table 4.5 Critical gaps in countries' development planning and accountability frameworks for sustainable development

Gap area	Response
Capacity to effectively design, implement and monitor planning and accountability frameworks	Build inclusive (consultative and participatory) processes to determine the key priorities and formulate development planning and accountability strategies that lead to structural transformation, job creation, and inclusive implementation and sustainable economic growth.
Administrative capacity to implement planning and accountability frameworks	Build systems to regularly train development planners and practitioners from the public, private and voluntary sectors and academia to leverage their skills and capabilities to adapt to changing and emerging development priorities, including bringing them up to speed with new planning techniques and methodologies.
Statistics ecosystem capacity	Given the importance of evidence-based planning and accountability frameworks, devote adequate resources in building the statistical ecosystem to provide high-quality data and ensure data availability and accessibility for the effectiveness of national planning and accountability systems. Consolidate the statistical ecosystem from multiple data-producing institutions and provide adequate resources and capacities to harmonize and coordinate data production, processing and dissemination.
Planners' community of practice to support peer-learning mechanisms and experience sharing at various levels of government	Strengthen the planning and accountability capacities at all levels of government through enabling opportunities for development planners to exchange ideas and experience related to all aspects of planning and accountability.
Participation of often excluded stakeholders in planning and accountability frameworks	Provide for the participation of often excluded groups in the consultative, formulation, implementation, monitoring and evaluation processes of development planning and accountability frameworks and imbue in them capacities for gender planning, budgeting, monitoring and reporting. With countries at different thresholds of initial conditions, conduct research to better understand the relations between the needs of the often-excluded stakeholders (such as ethnic minorities, people with disabilities, women and young. people) and conditions to empower them and promote gender-based resource allocation, implementation, monitoring and reporting.
Digitalizing planning and accountability processes for more efficiency, timeliness and effectiveness	Institute e-governance capacities for automation and efficiency and help countries fix gaps in public administration, help them internalize lessons from previous development and accountability plans to inform successors and help national institutions and processes be more efficient and effective in planning, implementing, monitoring and accountability.
Strengthen national planning, implementation, reporting, monitoring and evaluation, and accountability systems at all levels of government to increase countries' resource absorption capacity	To counter the mismatch of great resource need to finance development plans and weak resource absorption capacity, strengthen country capacity and interlinkages among planning processes, budgeting, plan and budget implementation, and activity and financial monitoring and evaluation, as well as national audits on plans and human and budgetary resources. Strengthening these systems will improve countries' resource absorption capacity and facilitate meeting the objectives articulated in the national development plans effectively and efficiently.

Source: Compiled from World Bank (2012); ESCAP (2018).

National resource mobilization and management institutions

Domestic resource mobilization refers to policies and activities for mobilizing resources within national boundaries with the objective of a financing national development agenda. It refers to the savings and investment generated by households, domestic firms and government.[214] It includes fiscal policies such as taxation and financial sector development to take advantage of liquidity to finance development activities in the country. The span of institutions encompasses the public and private sectors and, in many countries, the voluntary sector. Taxation covers all sources of revenue collected to fund government action, such as income (personal and enterprises), fees on natural resource extraction, rents, tariffs and other levies on the trade of goods. But domestic resource mobilization also includes developing deeper local capital (financial) markets to increase liquidity, leading to lower lending rates and greater access to local currency–denominated bonds.

National resource mobilization and management institutions therefore include those mandated to formulate fiscal policy (ministries of finance), collect revenue (customs, revenue authorities and, in a few countries, ministries of finance) and regulate and intermediate the domestic financial sector (capital market authorities, central banks) to provide the liquidity required to finance development activities. They also include institutions mandated to curb the leakage of resources from the economy—for instance, through illicit financial flows (financial intelligence units, anti-corruption and anti-smuggling authorities)—as well as institutions that ensure integrity in public resource management (debt management departments in ministries of finance) to facilitate the achievement of the nationally agreed development agenda.

Domestic resource mobilization can dramatically increase government revenue, allowing governments to fund priority development objectives and projects. The 17 Sustainable Development Goals and their 169 associated targets require prioritization and planning according to country context, which varies across member states. While foreign direct investment and official development assistance may help developing countries partially finance these goals, the recent trend of volatile foreign direct investment markets and flat official development assistance budgets means that countries need a more stable source of long-term financing. A country's own resources mobilized through domestic resource mobilization should fill the gap to boost the possibility of achieving the national development agenda.

National accountability institutions

Transparency and accountability are key priorities for country success. Accountability institutions include information commissions, ombuds and supreme audit institutions. They play a fundamental role in advancing government openness, particularly in resource mobilization, resource use and service delivery. Accountability ensures that public funds are used for their intended purpose and that public officials exercise their authority in ways that respect the rule of law and are consistent with public values.

Information commissions play a crucial role in guaranteeing the right to information. Ombuds handle citizen complaints about public administration and protect citizen rights and the social contract through mediation, which fosters reciprocal engagement of citizens and the state. Supreme audit institutions are a critical part of the national accountability architecture, with a mandate to watch over government accounts, operations and performance through external auditing.

Transparency and citizen participation need to be incorporated within accountability institutions' structures to ensure their effectiveness. Distinct and unique mandates are needed for accountability institutions and their position between citizens and the state. For instance, supreme audit institutions should leverage civil society organizations to increase the effectiveness of external audits in the public financial management system. However, this requires building the technical capacity of supreme audit institutions and civil society organizations so that they can co-create and implement participatory audits.

It is also crucial to uphold and strengthen the independence of accountability institutions without diminishing citizens' participation as the main stakeholders of their work. This ensures additional channels for citizens' opinions on state performance to meet agreed development objectives. Moreover, independence also requires transparent and open processes for appointing the heads of accountability institutions to limit political interference and possible co-option, particularly as parliaments often vote on such appointments and on the legal frameworks that create and regulate accountability institutions. Accountability institutions are an essential link in the government accountability chain and open up governments to citizens to ensure a shared path to inclusive prosperity.

The above analysis of political and economic governance institutions clearly demonstrates their potential to serve as foundations for sustainable development and transformation, if properly strengthened and nurtured. The rest of this section demonstrates how stronger institutions could be leveraged to support and compliment the enablers and game changers identified in this report.

The World Bank's Independence of Supreme Audit Institutions (InSAI) assessment is a new but straightforward tool providing insights into supreme audit institution independence. It complements other tools, such as the International Standards of Supreme Audit Institutions (ISSAI) and the International Organization of Supreme Audit Institutions' Supreme Audit Institutions Performance Measurement Framework (SAI PMF) tool. Results from this tool are used to enforce accountability in the use of government resources and to fight corruption.

The InSAI assessment consists of 10 indicators identified through consideration of ISSAI deemed critical for supreme audit institution independence and informed by experience with other diagnostic tools, such as the Public Expenditure and Financial Accountability framework and the SAI PMF (table 4.6). The indicators are framed as simple yes or no questions on each issue, with a written justification provided for quality assurance purposes. A "yes" response yields a score of 1, and a "no" response yields a score of 0. The aggregate score indicates the assessed level of supreme audit institution independence, with 0 being the lowest and 10 being the highest. The scores are converted to a letter grade with a qualitative description, as discussed in table 4.7.

Table 4.6 Indicators and data-generating questions in the Independence of Supreme Audit Institutions assessment

Indicator	Data-generating question
Constitutional and legal framework	Is the establishment of the SAI [Supreme Audit Institution] as well as the term, removal and independence of the head of SAI (and members in the case of collegiate bodies) enshrined in appropriate constitutional provisions and implemented?
Transparency in the process for appointing the SAI head	Is the head of the SAI appointed in a transparent and objective manner consistent with the requirements of the legal framework?
Financial autonomy	Do the legal framework and operational practices ensure that the SAI is free to propose its budget requirements to the public body deciding the national budget, and is the SAI able to make use of the allocated budget without any constraints imposed by the ministry of finance or another body (except those that are generally applicable to all the ministries)?
Types of audits	Does the SAI in practice conduct financial audits, compliance audits and performance audits?
Operational autonomy	Do the legal framework and operational practices ensure that SAI is operationally independent of the legislature and executive in the performance of its functions and management of offices?
Staffing autonomy	Is the SAI free to decide on all the human resources matters required for its effective functioning within the available budget, and does it have the power to engage external experts and pay for their services?
Audit mandate	Do the legal framework and operational practices ensure that SAI has the mandate to audit all revenues and expenses in the country's budget, including all central government activities?
Audit scope autonomy	Does the SAI have full and unrestricted authority to decide on the nature, scope and extent of audit and the selection of entities for audit in a particular time period?
Access to records and information	Does the SAI have unrestricted access, established in law and practice, to all information, records and explanations necessary in the conduct of an audit, supported by appropriate recourse if denied legitimate requests for access?
Right and obligation on audit reporting	Does the SAI have the constitutional right and obligation to report to the legislature, at least annually, its findings in an audit report; the content, form and timing of which is entirely determined by SAI (except to the extent laid down in law)? Does SAI make the audit reports public?

Source: https://insai.worldbank.org/node/10, accessed 10 July 2022.

Among African countries, only Seychelles and South Africa have supreme audit institutions with the capacity to exercise full independence, though Sudan and Uganda follow them closely and Botswana, Ghana, Kenya, Malawi, Mauritius, Morocco, Rwanda, Tunisia and Zimbabwe are on their way to exercising full independence (table 4.7). In 13 countries, the supreme audit institutions need structural and performance improvements to be able to exercise independence, while in 18 countries, the supreme audit institutions need very substantial improvement in most areas to be able to exercise independence.

Table 4.7 Independence of Supreme Audit Institutions assessment results for African countries, by region

Assessment score	Number of countries	Central Africa	East Africa	North Africa	Southern Africa	West Africa
10: Capacity to fully exercise independence	2		Seychelles		South Africa	
9–9.5: Well on the way to being independent	2		Uganda	Sudan		
8–8.5: Well on the way to being independent	9		Kenya Rwanda	Morocco Tunisia	Botswana Malawi Mauritius Zimbabwe	Ghana
6–7.5: Need for structural and performance improvements to fully exercise independence	13	Gabon Sao Tome and Príncipe	Djibouti Ethiopia United Republic of Tanzania		Angola Eswatini Mozambique Zambia	Liberia Nigeria Senegal Sierra Leone
0–5.5: Need very substantial improvement in most areas of independence	18	Central African Republic Chad	Burundi Comoros Democratic Republic of the Congo Madagascar South Sudan	Egypt	Lesotho	Benin Burkina Faso Cabo Verde Cote d'Ivoire Gambia Guinea Mali Niger Togo
No data	10	Cameroon Congo Equatorial Guinea	Eritrea Somalia	Algeria Libya Mauritania	Namibia	Guinea-Bissau

Source: https://insai.worldbank.org/regional-data, accessed 10 July 2022.

Conclusion

Successful growth strategies have consistently been preceded or accompanied by the creation of strong and effective political and economic institutions and anchored in strong legal frameworks, which are critical to ensuring good governance. Elected officials who are vested with very weak government institutions and courts will be unable to carry out their mandate. Functional and effective institutions, alongside well-articulated policies focused on enhancing productivity and building an egalitarian social system, accelerate economic growth and structural transformation.[215] It is thus difficult to conceive of development and democratization without a viable, accountable and active state.

An analysis of the nexus between governance and economic growth in Africa between 1996 and 2021 shows that real GDP per capita positively correlates most strongly with the government effectiveness component of governance, followed by political stability, rule of law, control of corruption and regulatory quality and positively correlates weakly with voice and accountability (see table 4.1). Government effectiveness measures the quality of public services, the quality of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to its stated policies. Moreover, democracy depends on certain core values such as tolerance, trust and honesty, which cannot be secured by a constitution.

CHAPTER 5.

CONCLUSIONS AND RECOMMENDATIONS

The challenges of inclusive development in Africa are mammoth, but overcoming them through accelerated economic and social transformation is imperative. The region's positive social and economic progress since 2000 has come against the backdrop of a global financial crisis, recurrent natural disasters due to worsening climate change, civil strife in handful of countries and fluctuations in the value of mineral and commodity exports. To overcome the numerous challenges, African governments have taken a pragmatic approach, including fiscal stimulus, targeted sectoral assistance, capital and exchange controls, government borrowing and expansionary fiscal policy. These measures clearly show how far development policy management and practices have come in the past two to three decades.

Despite Africa's enormous economic potential, challenges remain that could stifle the prospects of prosperity, democracy and equality. First, poverty and inequality remain huge problems. Growth has not been accompanied by expanded opportunities for employment and social inclusion. Second, the continent is experiencing democratic regression, and the gains in democratization since the early 1990s have largely disappeared. Third, the sources of Africa's growth have changed very little; agriculture and natural resources remain the main drivers. Finally, climate change is already devastating African economies and livelihoods.

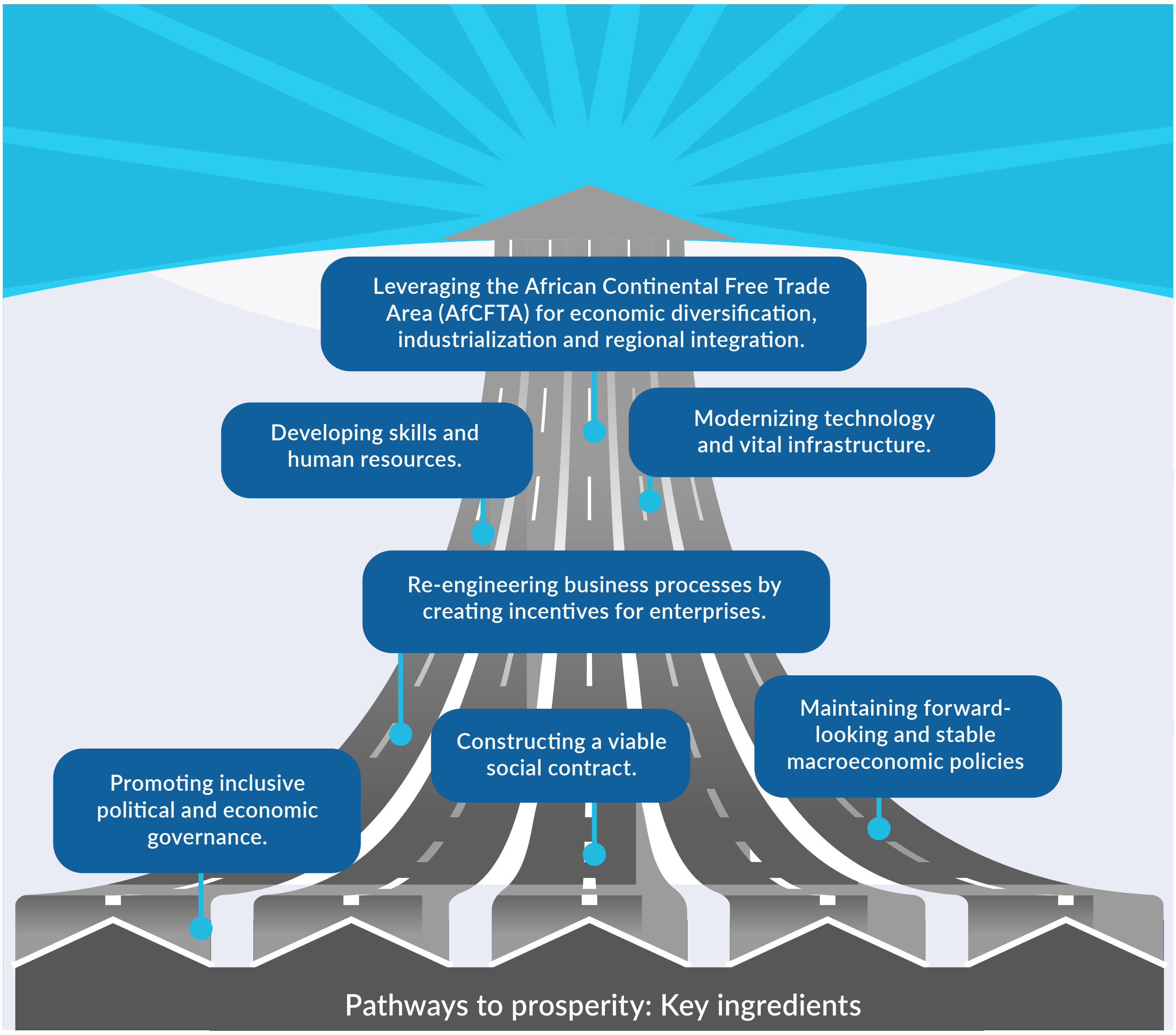
The current triple crisis provides policymakers a compelling occasion to rethink the development approach to creating an inclusive and prosperous Africa. In the new context, prosperity is about empowering people to realize their full potential and to live in democratically governed societies and open economies that prioritize egalitarianism and social cohesion. Moreover, prosperity and inclusive growth must be grounded in democratic governance and the rule of law, people's participation in the political process, and accountability and transparency in decisionmaking. This holistic definition of prosperity allows policymakers to use other tools beyond fiscal and monetary policies to achieve broader welfare gains in the social, economic and environmental spheres.

Pathways to prosperity: Key ingredients

Sustaining growth that emphasizes social cohesion, individual freedom and equality demands action on several fronts. The key policy levers are:

- *Promoting inclusive political and economic governance*. The path out of the current political crisis in Africa lies in strengthening democratic governance, which constitutes the foundation for society's prosperity. An atmosphere of instability, fear, insecurity and unpredictable governance cannot facilitate prosperity. While not a precondition for development, democracy is often good for its long-term sustainability. But democracy must be inclusive, participatory and empowering for citizens.[216] The democratic system of governance guarantees political rights, protects economic freedom and fosters an environment where peace and development can flourish. Democratization gives people a stake in society. Only when ordinary Africans have a political voice will their needs be properly addressed by governments. Strengthening democratic governance requires several enabling mechanisms:

  - The rule of law and constitutional legitimacy.
  - A functioning and active civil society.
  - Recognition of and respect for the rights of different nationalities.
  - A climate of political reconciliation.
  - Commitment to an open and equitable economic regime of growth.



An important aspect of democracy is accountable and visionary leadership that motivates and inspires the population towards a common national goal.

- *Constructing a viable social contract.* Huge disparities between rich and poor people; inequality in access to education, health and other basic services; and high unemployment among young people have created a time bomb in much of Africa. This is bound to lead to social tensions and could threaten political stability. For a prosperous and democratic society to emerge and thrive, substantial social reform and reduced socioeconomic inequality are needed. Political freedom and participation cannot be divorced from other kinds of freedoms. There is an organic link between political freedom and freedom from hunger, ignorance and disease.[217] Every political system requires a bargain to be a member of the political community. A social bargain is the glue that keeps a political community together. It is within the social bargain that citizens exert accountability.[218] A society cannot function smoothly if many people are marginalized and socially excluded. The role of the welfare state is thus to ensure individual freedom by eradicating social injustice and exclusion.

- *Maintaining forward-looking and stable macroeconomic policies.* A forward-looking macroeconomic policy for structural transformation must go beyond preset nominal inflation targets and small budget deficits to raising productivity, social equity and sustainability. Judicious use of macroeconomic policies (that is, fiscal, monetary and exchange rate policies and capital flow management) can enhance their developmental role without compromising macroeconomic stability.[219] Governments must shy away from policies that give undue emphasis to short-term stabilization of single-digit inflation and small budget deficits, which can lead to a vicious circle of marginal productivity, low tax revenue and higher deficits and inflation that further reduce productive public investment.

  Achieving inclusive development and prosperity thus requires thinking differently about macroeconomic policy. It means upholding the principles of "reasonable" price stability and fiscal and financial sustainability using a country-specific approach in line with Article IV of the International Monetary Fund's Articles of Agreement.[220,221] The focus should be the quality and composition of public spending rather than aggregate budget deficits and public debts. It also means protecting people from the vagaries of business cycles and other exogenous shocks through sustainable countercyclical policies that mix automatic stabilizers and discretionary interventions.

- *Re-engineering business processes by creating incentives for enterprises.* Entrepreneurial capacity across many sectors in Africa is constrained by the absence of broad-based, competing business networks, which further limits domestic investors' ability to thrive. The private sector needs ideas for developing new products, acquiring new technology and managerial skills, connecting to new markets and adopting new ways of doing business.[222] The state must therefore create business-friendly conditions to foster dynamic competitive firms with a learning culture and capacity for continuous upgrading and innovation across all sectors.[223]

- *Modernizing technology and vital infrastructure.* Poor local infrastructure and lack of real-time information on market opportunities make it difficult for African firms to participate in the global production network.[224] Transport costs are arguably the most important impediment to doing business in Africa. In many countries, the potential gains that should accrue to African countries from worldwide tariff reductions are being offset by high transport costs, which impose greater effective protection than tariffs do. So, improving physical infrastructure can boost intra-Africa trade, particularly for landlocked countries, thus unleashing the potential of unused productive capital.[225]

- *Developing skills and human resources.* As African economies expand in size and complexity, they require workers with the technical and cognitive skills to assimilate ideas, adapt new technologies, open new frontiers in science and innovation, generate new knowledge and manage complex institutions and systems.[226] At present, however, the gap in skills and technology has made African industries uncompetitive in the global marketplace. So, reversing the poor state of the African higher education system, particularly science and technology education, should be at the top of the reform agenda. Public investment should emphasize climbing the technological ladder and tapping into the global system of information and knowledge. The private sector can also play a critical role in these endeavours by accessing existing technology through foreign direct investment, licensing or equipment purchase.

- *Leveraging the African Continental Free Trade Area (AfCFTA) for economic diversification, industrialization and regional integration.* The AfCFTA has enormous potential to be a game changer in Africa's development trajectory. It could be leveraged to promote intraregional trade and economic integration, enhance the productive capacity of the industrial sector, develop the private sector, create jobs and enhance livelihoods for millions of Africans. However, for this to happen, the binding constraints to growth and regional trade—such as poor infrastructure and logistics, the high cost of doing business, non-tariff barriers and the lack of free movement of people, goods and services must be addressed. Furthermore, there may be need to review some bilateral trade agreements that countries have signed, which could impede the realization of the AfCFTA goals.

  It is expected that the AfCFTA will bring new energy for promoting intra-Africa trade. Efforts must be made to focus on select sectors that hold the greatest promise, such as regional infrastructure, aimed at unlocking productive capacity and eliminating supply-side constraints for the private sector. Successful cooperation in one sector is likely to open more opportunities for cooperative behaviour in other sectors as member states begin to see tangible benefits from integration. The guided trading currently taking place under the AfCFTA as a pilot scheme is a good test of the viability of the trading bloc, which must be considerably expanded.

In conclusion, prosperity entails much more than wealth. It stretches beyond the financial arena into the political and the judicial ones, the wellbeing of all citizens and the democratic character of a nation. More concretely, income growth and poverty reduction are not enough to bring about prosperity. As demonstrated in the case study of the Scandinavian model of social democracy, prosperity must be seen holistically and broadly beyond gross domestic product growth and must focus on key characteristics that drive inclusivity in the political, economic and social realms; open economies; and empower people to realize their full potential. In this regard, a formalized social contract is essential for a prosperous political society. It is within the social contract that individuals exercise their citizenship and demand accountability from those who govern.

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