SPECIAL COVERAGE:
Financing the planet’s future

The changing face of Ethiopia

Borrowing responsibly: Africa’s debt challenge

Africans also investing in China
Cover photo: Sustaining the future. © United Nations/Bo Li

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Address correspondence to:
The Editor, Africa Renewal
Room S-1032
United Nations, NY 10017-2513, USA,
Tel: (212) 963-6857, Fax: (212) 963-4556
E-mail: africarenewal@un.org

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Sanusi Lamido, a former governor of the central bank of Nigeria, once railed against his country for spending “huge resources importing consumer goods from China that should be produced locally.”

Nigeria, Africa’s biggest economy and most populous country, is also the continent’s largest crude oil producer, but imports most of its refined oil. Exporting raw commodities and then spending vast sums of money on manufactured imports is hardly unique to the Nigeria-China trade relationship. Most African countries are in similar situations with China, the European Union, the United States or other overseas trade partners.

Although China has set up mining operations across Africa and is heavily involved in building infrastructure, much of its activities on the continent involve imported equipment and labour and no skill transfers, Mr. Lamido observed. “So China takes our primary goods and sells us manufactured ones,” the former banker wrote in an op-ed for the Financial Times, a UK-based financial daily.

Mr. Lamido’s views are shared by many African experts. Indeed, the case for industrialization in Africa has long been recognized among those specialists who argue that the continent’s economic transformation is unlikely to happen without greater industrialization. The United Nations even dedicated the two decades from 1980 to 2000 to promoting industrialization in Africa. In 1989 the UN General Assembly proclaimed 20 November as Africa Industrialization Day to mobilize “the commitment of the international community to the industrialization of Africa.”

“The lack of competitiveness of African manufacturing and the extent to which the scope for domestic value addition is left untapped are epitomized by the region’s trade in cotton,” says the UN Economic Commission for Africa in its annual Economic Report on Africa publication. For example, while Africa accounted for about 16% of global cotton exports in 2012, only 1% of these exports, or about $400 million, was cotton that had been processed into fabrics. During the same period, the continent imported $0.4 billion worth of cotton and $4 billion of cotton fabrics.

“In other words,” says the report, “The region was trading raw cotton for cotton fabrics, missing a huge opportunity to add value domestically and industrialize.” Some of the main cotton exporters include Benin, Burkina Faso and Mali. Such skewed trade patterns could result in a situation in which whatever revenue Africa generates from exporting raw materials is offset by imports of manufactured goods.

Nigeria offers a classic example of what has been happening to many sub-Saharan African countries that have concentrated on exporting raw commodities while paying scant attention to processing some of the commodities into finished goods as part of a deliberate policy on industrialization. For example, in 2012 Nigeria exported $89 billion of crude oil, according to the ECA report, but imported $5.5 billion of refined oil because its refineries have all but collapsed due to neglect. Deliberate trade policies and practices consistent with African countries’ development goals could lead to industrialization, which in turn could help transform and strengthen their economies.

**Insufficient growth**

Over the past two decades Africa’s economic expansion has been remarkable, with a few countries registering double-digit rises. Because much of the growth is fuelled by high demands for mineral and agricultural resources, the World Bank projects a slowdown in 2015 to about 4.4% due to weaker prices for oil and other commodities. However, growth is expected to pick up again in 2016 and 2017.

Yet as in the past, this growth will likely not be enough to lead to significant changes needed to reduce poverty by creating jobs
Every so often, a speaker at a conference says something provocative or simply voices an opinion that sparks discussions long after the event. At African conferences, brusque comments by Nigerian officials used to dominate conversations. Not anymore. Ethiopians have usurped the role. And there are good reasons to support the Ethiopians’ new assertiveness: they run one of the world’s fastest growing economies; they have done a good job in meeting the Millennium Development Goals; they are building what will soon be Africa’s largest hydroelectric dam; their national airline dominates the continent’s skies; they have achieved an admirable level of political stability in one of the region’s roughest neighbourhoods, and their capital Addis Ababa, whose skyline is dotted with construction cranes, is the continent’s diplomatic capital, thanks to the presence of the African Union’s headquarters.

“Ethiopia is in a hurry to develop,” says Eugene Owusu, who until recently was the head of the United Nations office in Ethiopia, adding: “You might think it’s insane for any country to aspire to grow at such a fast rate. But it reflects the confidence the country has right now. It reflects the bold ambition and the political commitment of the leadership.”

According to the World Bank, Ethiopia’s “strong and broad-based growth over the past decade” has lifted its GDP to an impressive average of 10% per year. The high growth admittedly started from a low base, but it has catapulted Ethiopia from being identified with the infamous famine of the 1980s into a premier club member of the world’s fastest growing economies. The East African nation is pouring billions into, among other things, building basic infrastructure in energy, rail and road transport.

A Chinese-built electrified passenger railway will start operating in the capital during the second half of this year. Several hydroelectric dams now under construction will soon generate enough electricity to meet Ethiopia’s needs plus surplus for export to other African countries. The Grand Renaissance Dam on the Blue Nile is the most famous and has come to symbolize the country’s “bold ambition” and political assertiveness. Ethiopia went ahead with the project despite initial resistance from Egypt, whose economy depends on the Nile’s water downstream, and after donors had refused to fund its construction. Instead, it devised innovative ways to raise the money through local taxes, government bonds, donations from the wealthy and remittances from the diaspora. The $4.7 billion dam is expected to generate 5,520 megawatts of electricity when completed in 2017. According to reports, by 2020 Ethiopia’s electricity production will reach 17GW, up from the 4GW generated in 2011.

As a landlocked country, Ethiopia relies heavily on Djibouti and Kenya for access to the sea. Today, it takes several days for freight trucks to haul containers from the port of Djibouti to Addis Ababa. But when the refurbished electric railroad connecting the two cities opens next year, it will reduce transport costs and cut delivery time from four days to just ten hours.

The aviation story is different. Ethiopia’s geographic location and the success of its national airline give it easy access to many

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When a severe famine hit Ethiopia 30 years ago, the UN intervened with humanitarian assistance. To raise awareness of the famine, it launched a newsletter, *Africa Emergency*, which later turned into a magazine renamed *Africa Recovery* and reporting on Africa’s economic development. Today the magazine – this magazine – is publishing under the name, *Africa Renewal*. Recently Masimba Tafirenyika visited Ethiopia to see how much has changed since the famine. This is the first of a two-part series on a country in transition.
Ethiopian Airlines flies passengers to 83 international destinations, 49 of them in Africa, and hauls cargo to 24 cities around the globe. It is Africa’s fastest growing and most profitable passenger and cargo carrier. Three years ago, the state-owned but privately-managed airline became the second carrier outside Japan to operate the Boeing 787 Dreamliner, a state-of-the-art passenger jet.

Chinese firms not only have a big presence in dam and road construction, but are also investing heavily in manufacturing in export processing zones that have sprouted throughout Addis Ababa. The zones have also become magnets to textile and leather manufacturers from India, Turkey and Bangladesh. Last year, Ethiopia attracted $1.2 billion in foreign direct investments, and this year it expects a record $1.5 billion, according to the Financial Times, a UK business daily. The paper credits the country’s high FDI rates “to increased relocation of factories, attracted by low wages, cheap power and supportive government policies.”

Indeed, business-friendly policies and huge public investments have been the biggest catalyst for Ethiopia’s high growth rates over the past decade. “The government has been pretty clear about what it wants and how it wants to grow the economy,” says Haddis Tadesse, the Bill and Melinda Gates Foundation representative to Ethiopia and to the African Union. “They’ve been very focused on infrastructure: the road and the light rail network is impressive, the power generation that Ethiopia has embarked upon is impressive.”

Experts list countless reasons to explain the economy’s remarkable performance. But top among them is Ethiopia’s pursuit of what economists call a “developmental state model” whereby the government controls, manages and regulates the economy. They note that similar state-led development policies lifted East Asian economies out of poverty during the late 20th century. “The Chinese economic model of success resonates with the Ethiopian current economic situation, given that China has gone through similar growth in recent history,” the Gates Foundation representative said in an interview with Africa Renewal.

So far the approach appears to be working for Ethiopia. Its leaders are cruising ahead with what is evidently a very ambitious development programme and stubbornly refuse to listen to naysayers who warn it cannot be done or it cannot be sustained. The country aspires to be a middle-income nation by 2025. Mr. Owusu of the UN says this aspiration “is what drives everything the government and the people are doing.”

It is indeed sheer tenacity – what Mr. Owusu calls leadership with “bold ambition and a clear vision” – that is credited for Ethiopia’s economic success. However, critics question if such policies can be sustained without active participation from the private sector. The West, in particular multilateral institutions, complain that by not opening up parts of its economy, Ethiopia’s state-led development policies have thwarted private investors. Ethiopia’s laws forbid foreign businesses in sectors considered strategic like telecom, financial, insurance and transport services.

However, despite the impressive economic growth that has lifted millions out of abject poverty, Ethiopia is still a poor country. Its per capita income of $470 is one of the lowest in the world. It ranks 173 out of 186 countries on the 2015 Human Development Index compiled by the UN Development Programme (UNDP), although the government has taken tangible steps to fight poverty. UNDP reckons that in 2004-2005, for example, four in every ten Ethiopians lived in extreme poverty – or on less than $0.60 per day as measured by the country’s poverty standard. By 2012/13, the rate had improved to less than three in every ten citizens.

“This is a huge decline in terms of the proportion of the population that is below the poverty line,” says Mr. Owusu, who until recently was also the head of the UNDP in Ethiopia. “We are not talking about a [small country] with two million people. We are talking about a country with 95 million people [the second most populous in Africa] – and that is a huge quantum leap in poverty reduction.” The UN gives the country high marks for its success in meeting some of the Millennium Development Goals: it cut the child mortality rate by half, more than doubled the number of people with access to clean water and quadrupled primary school enrolments.

Yes, Ethiopia has been successful in growing the economy, but critics say the gains have come at the cost of human rights. They accuse the government of paying scant attention to basic freedoms and democracy. Even the government’s supporters concede the country has a lot of catch-up to do especially, according to UNDP, in areas such as “improved political space, access to media, viability of opposition parties...and civic education.”

“Development is not just a common transformation,” says Mr. Owusu. “It also liberates the energies of the people.” Mr. Tadesse, the Gates Foundation representative, adds: “the late former Prime Minister Meles Zenawi once said human rights were not a precondition for development. ‘You can grow without adequately providing [basic freedoms],’ the prime minister said. ‘But the entire system and your entire survival over time could be questioned because you have to have a democratic society that aspires for a brighter future.’

Still, the prevailing narrative on Ethiopia is the success of its economic policies and the political clout that comes with it, which has generated scepticism among critics and admiration among supporters. African analysts watch with awe and wonder if the success can be sustained or replicated in other African countries. The next decade – the period within which Ethiopia aspires to be a middle-income country – will provide the answers.
Why did the Gates Foundation choose Ethiopia to host its first office in Africa? It’s for a few reasons, but primarily there are two reasons why we have a large concentration of our work here. First, the need is significant. There is a huge population with a heavy poverty and disease burden. Second, we believe in the promise of Ethiopia. We think the government’s commitment and investments to pro-poor sectors, with support from development partners, have enabled our investments to yield positive results. We place high value on partnerships, and since we understand the government’s agenda, we are able to contribute in a way more aligned to their priorities. There are also some logistical reasons why Ethiopia makes sense. It’s the diplomatic capital of Africa; you can reach the rest of Africa because the African Union and the United Nations Economic Commission for Africa are based here.

How did Ethiopia get to be among the top 10 fastest growing economies in the world? The government has been clear about how it wants to grow the economy. It is committed both to growth and to lifting many people out of poverty. This is actually a compelling story. If you look at the government budget, about 65 to 70% of it goes to pro-poor development activities such as agriculture, health, education and infrastructure. They’ve also been very focused on infrastructure: the road and the light rail network is impressive. The power generation work Ethiopia has embarked upon is impressive. In a very short period of time, it is going to be a power hub, generating sufficient power not just for itself but also for export to other countries. Telecom is another example of infrastructure the government has planned quite well. But going forward, I’m not sure all these will be sufficient. Massive and expanded activities from the private sector will need to be coupled with the public sector for continued growth. So far, growth has been heavily dependent on public sector investment.

Are there any specific policies targeted at encouraging private sector investments? The government is going above and beyond to strengthen the capacity of the private sector and also to attract FDI [foreign direct investment] to support development. They are doing that by providing different incentives. There’s a promotional effort to attract investments, depending on the sectors they think are catalytic to growth. The government is planning to invest heavily on industrial zones across the country that will house textile, leather, agro-processing and other labour-intensive factories. The hospitality industry is also eager to attract investments.

Many countries are concerned about high growth rates alongside growing unemployment. How is Ethiopia dealing with jobless growth? I’m not exactly sure how many jobs have been created as a result of the growth in Ethiopia, but there are a couple of things the government is trying to do. First, there is a huge emphasis on building and maintaining small enterprises to feed into the industry. For example, there is a large public housing scheme where many of the products and labour are supplied by small and micro-enterprises. The goal is to grow them into medium and large-size companies. Second, there is a shift of focus to manufacturing. The government has an interest in creating a large employment base. They now have shoe, leather and textile companies that are setting up shop for European and US markets. The likes of H&M, Zara, Tommy Hilfiger and Calvin Klein brands and some big-name shoe companies are now outsourcing towards a huge addition to the employment base.

Another positive story in Ethiopia is agriculture. What has made Ethiopia move from famine 30 years ago to the current success in agriculture? Here again, there are multiple reasons why agriculture has performed well. The sector’s impact on Ethiopia is pretty significant: 45% of the GDP comes from agriculture; 80-85% of employment comes from agriculture and it is also a huge source of the export commodities. Ethiopia has a history of food insecurity, given the weather and management challenges the country has had. There has been a concentrated effort by all the players, governments, donors, farmers and others to change that. If you change
the story of agriculture, you change the story of Ethiopia, given how the two are intertwined.

Productivity has increased significantly, the market structure, while not perfect, has improved and technology is impacting the agriculture sector as well. Compared to 20 years ago, the country now has better seeds, better management techniques, more fertilizer and access to domestic and international markets. In some pockets of the country, farmers have done phenomenally well. There’s a programme where these high-performing farmers can be examples to their community.

Several years ago, Ethiopia created an institution, the Agricultural Transformation Agency, which the UN, through UNDP, has been supporting. It’s a government agency and staffed by highly trained technical people able to drive the transformation agenda. Ethiopia has consistently allocated 10-17% of its budget on agriculture. The other interesting thing that has happened is the resilience built around food insecurity. Because the network of food distribution and early warning systems built, even when there is drought, the number of people impacted is minimal.

Where is Ethiopia getting the money to finance all these projects, like the Grand Renaissance Dam? A portion of the money on infrastructure is coming from the government. But that’s not sufficient for the massive infrastructure that they have undertaken. I would separate the dam from the rest of the other projects because that one is a special project that’s being financed partly by government but mostly by the people of Ethiopia themselves. There are a number of mechanisms that the people are using to contribute to this iconic dam, at least in the context of Ethiopia. People from all walks of life are contributing to the dam through the purchase of bonds. The other projects are financed by the government and external resources, mostly concessional loans.

Are there lessons for other countries from this type of financing scheme? Absolutely, I don’t see any reason why, if there’s a project of significance and national pride, the government and people of any country can’t say, ‘This is us, this is ours, and we’re going to do this ourselves.’ Hopefully the completion of the Grand Renaissance Dam will be a shining example of that. For the other projects, in addition to the government’s own commitment and putting resources it is obviously clear that China has been a very strong partner in developing this infrastructure – namely rail, roads, telecom and power generation projects. A lot of the money has come from China as soft loans. So on infrastructure, I wouldn’t underestimate the role China has played in providing the finance and technical expertise.

Some economic experts are fascinated by the economic model that Ethiopia is following. What can other African countries learn from this model? The lesson for other countries is not so much following Ethiopia’s economic model, because it is tailored for Ethiopia’s current needs and aspirations. I wouldn’t try to say it should be emulated. But what is worth picking up here is the strong role that the state plays in charting the course of the economic model it needs, in consultations with its experts. Generally speaking, I would say Ethiopia’s economic model has worked for Ethiopia. It’s worth looking at the process by which they identified their economic model, and followed through to make it happen. But each country should look at the economic model that best suits its dynamics.

Still, some experts look at what Ethiopia is doing and draw similarities with China’s economic model. Do you think there are some parallels? My sense – and this is my own observation – is that the Chinese economic model of success resonates with the current Ethiopian economic situation, given that China has gone through similar growth in recent history. The model under which they had high economic growth given the base where they started is very relevant to Ethiopia because it is where China was 25 years ago. My hope is that we don’t just do what China or other countries did; you pick and choose what makes sense for you.

China wouldn’t be investing here on a large scale if they didn’t agree with Ethiopia’s economic model, if they didn’t see a return on their investments. I am sure the Chinese have made their calculations about placing this kind of money in Ethiopia. It’s not a gift, it’s with the assumption that the growth model is solid enough that once the country grows and generates revenue, the money will be paid back with interest. The primary drivers of the economic models are the Ethiopians themselves and they have to decide what works best for them. So far, the country’s credit rating is a solid B with fiscal deficit target of 2.9 percent of GDP this year.

Whenever people talk about Ethiopia’s economic success, they also make reference to human rights issues. Do you think there is a sacrifice between economic development and human rights? I would look at them separately. I tend to agree with former Prime Minister Meles Zenawi who said: ‘Democracy and human rights are not necessary prerequisites for economic growth. Ethiopia can grow without having those things attached to it.’ But for a country like Ethiopia that has a multi-ethnic, multi-religious population to survive over a period of time, those basic human rights, democracy, freedom of speech, and other things have to be embedded into society. Without that, your survival cannot be ensured. It is an interesting view. You can grow without adequately providing these things, but the entire system and your entire survival over time could be questioned because you have to have a democratic society that aspires for a brighter future.

(The full interview is available on http://www.un.org/africarenewal)

Haddis Tadesse, middle, with Ethiopian Minister of Foreign Affairs, Tedros Adhanom, left, and Bill Gates.
The delegates at the Third International Conference on Financing for Development in Addis Ababa will discuss how to finance global sustainable development goals, forecast by the UN Conference on Trade and Development (UNCTAD) to cost $2.5 trillion a year over the next 15 years. The biggest challenge humanity faces today is how to achieve a minimal level of prosperity and well-being while protecting the planet at the same time.

The Sustainable Development Goals (SDGs), drafted by the UN General Assembly and up for approval this September, are a 15-year, 17-point plan for achieving what could be described as the Millennium Development Goals (MDGs) plus peaceful and inclusive societies plus economic capacity and infrastructure. In the midst of this swirl of pressing global needs is the ever more present visage of climate change, which has now been allocated its own goal in the SDGs lineup.

This is not the first time that world leaders have convened to consider financing for development (FfD), or how to raise money to fund projects that will improve global welfare. The first UN summit on financing for development took place in Monterrey, Mexico, in 2002. The impetus came from developing countries, many of whom had experienced crippling financial crises only a few years earlier. Moreover, levels of official development assistance (ODA) had stagnated following a sharp slump at the 1992 conclusion of the Cold War. The question these countries raised was: given heart-stopping volatility in financial flows and the paucity of development assistance, exactly where were the resources to finance their development to come from?

The Monterrey answer appears to have worked well. Between 2002 and 2015, ODA increased by two-thirds in real terms in the wake of Monterrey donor pledges; annual levels of foreign direct investment (FDI) have roughly doubled and in some years...
quadrupled, with developing countries now taking the lion’s share of incoming flows; and shored-up finances meant that the next global crisis to occur originated in the developed North, not the developing South. Progress on the MDGs gained momentum, and the rate of extreme poverty in developing countries was cut in half by 2010, five years ahead of schedule, according to the United Nations.

The task before the Addis Ababa gathering, however, looks bigger. For example, three of the eight MDGs addressed health needs: reversing the spread of HIV/AIDS, malaria and other killer diseases; improving maternal health; and reducing child mortality. Yet a single goal out of the 17 SDGs dwarfs these three MDGs combined. SDG 3 is to ensure healthy lives and promote well-being for all at all ages.

Within SDG 3 are 10 targets, of which only one takes on “universal health coverage, including financial risk protection, access to quality essential health care services and...affordable essential medicines and vaccines for all.” Funding such a target, in contrast to concentrating on a single disease or funding vaccination campaigns, almost certainly will require user-financed health insurance schemes. But incomes and the degree of participation in formal work sectors are so low across the developing world that considerable progress on SDG 1 (poverty eradication) and SDG 8 (inclusive and sustained economic growth and decent work for all) would appear to be prerequisites for SDG 3 achievement.

Also to be considered is the sheer extent of the infrastructure required to meet the health goal, in terms of clinics, hospitals, training schools, pharmaceutical production facilities, and others. With health care funding on the decline after an MDG-related string of successes, considerable expansion in investment by large-scale health care companies will be required. Higher average incomes would most likely increase gains by building a more lucrative market.

Fortunately, many health care firms practicing corporate sustainability, which says social and environmental well-being pays off in increased revenue opportunities and business stability, have been developing public-private partnerships. Public partners include but are not limited to global United Nations initiatives on vaccines and on maternal and child mortality.

Nevertheless, examples from the United States indicate the scale of the challenge ahead. If the world’s largest economy is still experiencing challenges in expanding its health insurance coverage, what are the chances of success in countries where, for example, the healthcare infrastructure is severely limited due the lack of resources?

As the health care example illustrates, financing the SDGs is likely to be a multifaceted effort. It will require synergies among the various goals and targets and, in contrast to most of the MDGs effort, depend explicitly on business, civil society, philanthropy and scientific and academic institutions, as well as on governments and ODA.

Rather than setting out a numerical budget of expenditures and seeking to balance it with the same amount of credits, the presence of institutional investors in developing countries is growing, and emerging market pension funds are managing $2.5 trillion in assets.

The UN Intergovernmental Committee of Experts on Sustainable Development Financing, in its August 2014 report, divided the playing field of sources of finance neatly into four areas: public domestic, private domestic, public international and private international. Some of the leading considerations attracting attention within these four categories are:

**Public domestic:** Taxes provide a major base for development. But the levels of tax collection in low-income countries are at about 10–14% of GDP, according to the Committee of Experts report. This is about one-third less than in middle-income countries, and both rates are in contrast to the 20–30% of GDP collected in high-income nations.

**Private domestic:** The presence of institutional investors in developing countries is growing, and emerging market pension funds are managing $2.5 trillion in assets, according to estimates cited in the report. In accessing these funds, the trick will be guiding investments to the right destinations.

**Private international:** Likewise, “There is a realization that profit shifting by multinational corporations is going on,” says the IMF’s Nolan. “These companies are taking advantage of attempts by countries to attract investment with very favourable tax regimes.” Efforts by the G20 and others to crack down on unfair tax regimes could unlock resources from illicit financial flows.

A more positive trend lies in the realm of FDI. Investors and multinationals are increasingly seeking investment destinations with a protected environment, cohesive social relations and good governance. Governments, for their part, are taking social and environmental impacts into account when approving proposals. The result is often a race to the top rather than the bottom in FDI, according to UNCTAD.

**Public international:** The latest report from the Organization for Economic Cooperation and Development shows ODA hovering in the range of $130 billion to $135 billion a year from 2010 to 2014, a record high. Aid did not nose-dive after the global crisis, as was feared. But faltering economies and nationalist sentiment in the developed world may mean that a plateau has been reached. There is the danger that developing countries will feel betrayed that expected increases are not materializing, which would cloud the prospects for implementation.

The report of the committee of experts and the draft FFD document take into account large, often underutilized, resources for development, and possible ways to use them. But bringing the right factors into play will require agile economic and political coordination. Hence experts worry about reports that finance ministers and officials arriving at the spring meeting of the Bretton Woods institutions were seeking out information on the SDGs, indicating they knew scarcely anything about them.
Can Africa fund its own growth?
Mobilizing domestic resources is a key source of finance

By Tonderayi Mukeredzi

Despite witnessing exceptional growth in development finance in recent years, Africa is still faced with the arduous task of mobilizing adequate resources to fund its growth and future transformation agenda. Given the paucity of external development assistance, and low commodity prices for its goods and services, Africa has awakened to the fact that it must rely on its own financial resources for sustainable development.

One of the leading pan-African bodies, the United Nations Economic Commission for Africa (ECA), says infrastructure development in Africa has the potential to raise gross domestic product (GDP) by 2% and develop the backbone for rapid industrialization, which in turn could boost the capacity of the continent to generate more domestic resources.

In its *Innovative Financing for the Economic Transformation of Africa* report, published in March 2015, ECA reckons that Africa’s current infrastructure needs stand at a whopping $93 billion annually, out of which $45 billion is mobilised, leaving an annual deficit of almost $50 billion.

Thus, as Côte d’Ivoire’s President Alassane Ouattara aptly put it, Africa’s greatest challenge is ensuring that its transformation is bolstered by sufficient and innovative sources of funding.

“One solution would be to speed up the development of our financial markets with a view to sparking the transformation of African economies,” President Ouattara told the Ninth African Development Forum in Morocco last year. “To do so, we must come up with innovative financial products and set up effective national and regional financial institutions and services.”

While Africa is fully cognisant of the significant strides it has made since the Monterrey Consensus in March 2002 in mobilizing financial and technical resources for development, it contends that there is a huge gap.

“Current policy, financing and investment patterns are not delivering the future we want. There are enormous unmet financing needs for sustainable development. Estimates vary due to the complexities of quantifying needs, but consistently point to a significant financing shortfall,” African heads of state and governments affirmed in a zero draft of the outcome document of the Third Financing for Development (FFD) Conference, to be held in Addis Ababa, Ethiopia, in July.

What are the options?
Development analysts say Africa has realized that traditional sources of development finance, such as official development assistance and foreign direct investment, which have buoyed the continent’s development efforts over the years, are not sustainable and cannot be relied upon as its main sources of funding, as was shown during the 2007-2008 global financial crisis.

Oswell Binha, president of the Association of SADC (Southern African Development Community) Chambers of Commerce and Industry, says Africa can create a $2 trillion dollar economy if it can simplify rules that govern trade and domestic investment. “When you look at the thread of World Trade Organisation and economic partnership discussions around the continent, Africa has realised that intra-Africa trade is a serious opportunity from which to raise internal resources,” Binha told *Africa Renewal*.

Mateus Magala, African Development Bank (AfDB) resident representative in Zimbabwe, says Africa has the greatest investment potential of all frontier markets globally.

“These include sovereign wealth funds, pension funds, foreign reserves and remittances, among others. In addition, the continent has substantial natural resources and countries with extractive industries can tap into this important source of revenue,” Magala said in an interview with *Africa Renewal*.

He noted that with political determination and leadership to create appropriate governance mechanisms, Africa’s extractive revenues could drive the continent’s transformation by enabling it to invest in competitiveness, diversification and efficient and sustainable use of resources.
At an African Group Perspective Conference on FDI in March, stakeholders said they were committed to funding sustainable development by mobilizing domestic resources, clamping down on corruption and illicit financial flows (IFFs) and addressing issues surrounding good governance.

“To finance its development priorities, Africa has developed a financing framework that prioritizes domestic resource mobilization and trade as main sources of financing structural transformation and sustainable development, with a focus on infrastructure, human capital and sustainable agriculture, which is essential for achieving African Sustainable Development Goals [SDGs],” Adam Elhiraika, the director of macroeconomic policy at the ECA, said at a recent regional meeting in Addis Ababa.

ECA says Africa's resource potential is enormous. The continent can support, develop and implement viable domestic finance instruments such as financial flows from securitizing remittances, earnings from minerals and mineral fuels, international reserves held by central banks and the growing marketplace for private equity funds.

This is bolstered by evidence from the New Partnership for Africa's Development (NEPAD) and other sources, which show that African countries raise more than $527.3 billion annually from domestic taxes, compared to $73.7 billion received in private flows and $51.4 billion in official development assistance.

Mr. Magala says $550 billion can be raised from official foreign reserves, $200 billion from pension funds, $150 billion from sovereign wealth funds, $50 billion from foreign direct investments, $60 billion from remittances and $20 trillion from monetizing natural resources.

**Domestic savings**

Carbon-finance mechanisms can also be explored in greater depth for the implementation of some of the continent's projects. A number of African countries are considering carbon taxation as a form of mobilizing additional financial resources and tackling the challenges posed by climate change.

However, the ECA says that compared to domestic savings in other developing regions, those in Africa remain low largely due to an unbanked population, though the potential exists if the informal sector’s resources are tapped and the sector is given incentives to use formal banking services. Africa’s savings-to-GDP was about 22% between 2005 and 2010, compared to 46% in East Asia and the Pacific and 30% for middle-income countries.

Mr. Binha says African governments should also foster an environment for high-level public-private sector consultations, considering that the private sector has so far played a limited role in implementing Africa's development. “Engaging with the private sector genuinely increases investments internally and also becomes an effective means of attracting external investment. There is no rapport between governments and the private sector. There is a them-and-us syndrome,” notes Mr. Binha.

The ECA estimates the private equity market in Africa to be worth about $30 billion. In 2011 alone, private equity firms raised $1.5 billion for business in Africa.

**Reducing the cost of remittances**

While remittances have increased, averaging $21.8 billion over the past decade, with countries such as Nigeria and Senegal receiving about 10% of their GDP in remittances, experts say the cost of sending remittances to Africa has remained the highest in the world, with the cost of transfers within Africa even higher. For remittances to have an impact, they must be made cheaper and used effectively to spur development.

Sometimes tough anti-money laundering laws and counter-surveillance regulations meant to combat financial terrorism can stifle remittances, thereby negating the continent’s progress. This recently happened when US banks plugged remittance services to Somalia.

Curtailing IFFs remains a major challenge that Africa must vigorously undertake. Such outflows from Africa may have been as high as $854 billion between 1970 and 2008, which amounts to an annual average of close to $22 billion in lost finances—more than half of it coming from the extractive industries sector. The domestic resource mobilization effort will receive a significant boost if IFFs from the continent are curtailed.

Several policy options have been suggested to stem the flows, such as raising awareness and sharing best practices among African policymakers and other stakeholders on the magnitude and development impact of the IFFs.

Some of the key initiatives taken so far include African Union finance ministers’ setting up the High Level Panel on Illicit Financial Flows from Africa, and the establishment of regional initiatives such as the African Regional Anti-Corruption Programme (2011–2016) and the African Tax Administrative Forum.

Mr. Binha says Africa's biggest challenges are confidence, the unfavourable policy matrix, the rigidities of domestic trade and intra-trade and differences across nations. “Confidence is a huge deterrent to attracting sustainable, dependable and credible internal investment. African states have to create a dashboard around which there is proper governance, accountability and dependability with investors. The potential is there but Africa has to first clearly define its priorities in Agenda 2063, their cost and the mechanisms to meet them,” added Mr. Binha. Agenda 2063 is the African Union’s economic development blueprint for the 50 years following 2013, when it was adopted.

**Maintaining growth**

According to the World Bank, to raise enough funds from domestic sources, Africa will need to grow at a rate of 5% of GDP for the next two decades. The bank forecasts that economic growth for African countries will slow to 4.0% in 2015 from 4.5% in 2014, a downturn that largely reflects the sharp fall in global prices for oil and other key commodities.

The World Bank’s chief economist, Francisco Ferreira, told African finance ministers and central banks chiefs during a recent spring (April) meeting in Washington, DC, that the forecast was below the 4.4% average annual growth rate of the past two decades and well short of Africa’s peak growth rates of 6.4% in 2002–2008. Although the boom is over, Ferreira noted, the “Africa Rising” phenomenon predated the boom and should be able to outlive it.

Innovative domestic financing mechanisms such as Africa50, launched by the AfDB last year, are therefore expected to lead or complement other external resources and new financing forces like the BRICS countries (Brazil, Russia, India, China and South Africa) to achieve Africa's ambitious development needs.
it’s been a rough year for the West African countries most affected by the Ebola virus that has ravaged their communities and crippled their economies, disrupting agriculture and trade. Forecast to lose a combined $1.6 billion in predicted economic growth in 2015, the people of Guinea, Liberia and Sierra Leone breathed a collective sigh of relief when the International Monetary Fund (IMF) forgave a combined $100 million in loans, shortly after disbursing $130 million in aid last September. The intention was to free up funds for relief and recovery efforts.

But with the need to overhaul their health systems, these countries are once again accumulating debt—like the $160 million interest-free loan awaiting approval by the IMF executive board. The acquisition of new debt is an emerging pattern among beneficiaries of the world’s most comprehensive debt reduction programme to date. The 1996 Heavily Indebted Poor Countries (HIPC) Initiative, supplemented by the 2005 Multilateral Debt Relief Initiative, has helped 35 sub-Saharan African countries cancel $100 billion in external debt. These internationally coordinated relief programmes, managed by the World Bank, IMF and the African Development Bank, were designed to find a sustainable solution to Africa’s debt burden.

No longer forced to divert scarce resources to repay costly loans amassed during the Cold War period by corrupt and repressive regimes, the poorest and most indebted countries on the continent were able to lower their public debt and increase social spending by almost 3.5% of their gross domestic product between 2001 and 2012, the World Bank and IMF claim. For example, Benin used its savings from debt to invest in rural primary health care and HIV programmes. Tanzania abolished primary school fees and Mozambique began offering free immunization to children.

Freeing up additional resources for development was another aim of the HIPC initiative. However, a lot of the money forgiven was already tied up in arrears, meaning it was owed but had not yet been reimbursed, so there was no new cash flow and no real savings in terms of resources. In some countries the write-off just helped mop up overdue debt. And while the initiative did erase most of the foreign debt of these countries, it did not clear all of it. What the whole process did achieve, according to a Huffington Post article by Marcelo Guigale, a World Bank director, was instilling “discipline” that came in handy when the price of oil, gas and minerals climbed in the mid-2000s and the technologies to look for these natural resources got better. To qualify for a debt cancellation, countries had to be transparent in their operations and open to scrutiny, and they had to monitor and report their poverty reduction strategies, invest savings into social programmes and refrain from accumulating expensive debt. Which is why, according to Mr. Guigale, African governments had “more money to spend and new offers to borrow—this time from private bankers.”
Mr. Walker points to Ghana’s issuance in late 2014 of $1 billion in euro-denominated bonds, although the country is deep in debt and has what he calls Africa’s “worst-performing currency.” The West African nation was one of the first beneficiaries of the HIPC initiative.

Côte d’Ivoire, the Democratic Republic of the Congo, Gabon, Namibia, Nigeria, Rwanda, Senegal and Zambia also beneficiaries of the debt cancellation programme, have also issued similar bonds.

Even with the recent surge in borrowing, most of the post-HIPC countries are not at risk of “debt distress,” a group of economists with the World Bank insists. Dino Moretto, Tihomir Stucka and Tau Huang concede that “some countries may be borrowing too quickly,” but they also specify that “overall, governments have been borrowing responsibly since receiving debt relief.”

The trio explain that one of the objectives of the debt relief programme was to clear debt overhang and allow countries to borrow again, responsibly. Many countries have been careful in taking on loans at commercial terms, and the World Bank and other development banks have been giving grants in lieu of loans to riskier, poorer countries.

Africa’s current debt
Africa’s current debt is the lowest it has been in decades. Oxford University professor Mthuli Ncube and Economic Advisor at the African Development Bank Zuzana Brixiova concur in their review for the European Centre for Development Policy Management. The fastest decline, they stress, is posted by the most indebted countries, because of debt relief and accompanying prudent policies.

Aid has been critical in helping low-income countries lift people out of poverty, but financing to the region has also increased in quality and quantity, spurred by the 2002 Monterrey Consensus and subsequent 2008 Doha Conference. These UN-backed global conferences brought together heads of state and top leaders in finance, business and humanitarian groups to realize a vision called Financing for Development (FFD). The Monterrey Consensus was also the impetus behind the HIPC initiative, since it called for innovative mechanisms to address the debt owed by poor nations.

Meanwhile, the FFD July 2015 conference in Addis Ababa is intended to advance the debate on “responsible lending and borrowing” by tabling issues on improving domestic resource mobilization, including strengthening tax administration, curbing illicit financial flows, scaling up infrastructure investment and attracting private sector financing.

“Despite misgivings about certain countries, Africa is still in a fundamentally different place than it was 20 or 30 years ago when old debts were taken on,” Todd Moss, a senior fellow at the Washington-based Centre for Global Development, told Reuters, adding that taking out loans from private creditors puts a “higher burden” on leaders to be responsible.

To keep from reverting to old ways, analysts say, post-HIPC African countries will have to be smart with their handling of new loans. Borrowing strategies need to be put in place so governments can get a return on their investments in order to service their debts. Governments also need to be prepared to withstand shocks, price fluctuations on the natural resource markets and must reduce their dependency on commodity exports.

Diversifying borrowing sources is another way to sensibly manage public debt, says Citigroup economist David Cowan in the Africa Research Institute publication, Counterpoints, referring to sovereign bonds as an alternative to concessional loans.

While concessional loans come with no strings attached, help raise a country’s debt profile and put it on the radar of international debt markets, Mr. Cowan cautions that they do present currency risks and can expose a defaulting borrower to specific legal risks, notably from hedge funds or private equity funds, also known as “vulture funds.”

Good old-fashioned tax collection, transparency and tapping into local currency debt markets are avenues that should not be ignored. In the end, sound fiscal and complementary monetary policies will prevail. It’s too soon to predict whether the post-HIPC African countries will maintain sustainable levels of public debt while wrangling with bottlenecks such as weak institutions, infrastructure investment gaps, poverty and (in some places) instability. Only time will tell.
Billions now required to save depleted healthcare systems

Ebola’s most affected countries lobby for funding for hospital infrastructure

By Kingsley Ighobor

On 10 May 2015, a day after the World Health Organization declared Liberia Ebola-free, stern-faced health officials were holding marathon meetings in different rooms at the country’s health ministry. Their business-like mood contrasted with the celebratory atmosphere on the streets of the capital, Monrovia.

Newly appointed health minister, Bernice Dahn, Liberia’s former Chief Medical Officer, told Africa Renewal in an interview that Liberia’s healthcare system continued to face dangerous headwinds and her staff was frantically finalizing a blueprint to avert another catastrophe.

To address Liberia’s problematic healthcare system, Dr. Dahn had a long wish list of solutions. They included the building of new health facilities, enhancement of diagnostic services, an emergency preparedness and response structure, the hiring of qualified personnel to work in health facilities and a commitment of more money to the sector. “Our healthcare infrastructure was not built to respond to infectious diseases,” explained the minister. Before Ebola, for example, Liberia had a significant shortfall of medical personnel – only about 50 doctors, which was approximately one doctor per 100,000 persons.

“Before Ebola, we needed about $20 million annually for drugs but we were getting only $2 million,” said Dr. Dahn. Liberia currently needs more than $30 million annually to revamp its health system and the minister is hoping that with Ebola lessons fully learned, future healthcare budgets might not suffer the “under-budgeting” as in earlier times.

Another Marshall Plan

Liberia, Sierra Leone and Guinea—countries most affected by Ebola—share borders but, in large measure, share the same dysfunctional healthcare infrastructure situations. With Liberia now free of the virus and Sierra Leone and Guinea poised to defeat it, presidents Ellen Johnson Sirleaf of Liberia, Ernest Bai Koroma of Sierra Leone and Alpha Condé of Guinea are jointly canvassing for global financial assistance to revamp healthcare infrastructure and restore social services in their countries. Their core message is that quality healthcare enables socioeconomic development.

The three presidents team up at different forums to argue for serious healthcare financing. In March, they attended a summit in Brussels with the European Union and participated in the April meetings in Washington with President Barack Obama and with the World Bank Group that was attended by top UN and International Monetary Fund officials. The UN is also organizing a donor conference in July in New York.

President Johnson Sirleaf told a gathering in Washington that included UN Secretary-General Ban Ki-moon, World Bank Group President Jim Yong Kim and IMF Managing Director Christine Lagarde, as well as representatives of donor countries and international development organizations, that an $8 billion “Marshall Plan” was needed, referring to the huge international effort to rebuild Europe after the Second World War.

It could have been an eyebrow-raising moment in Washington but the Liberian president quickly defended the $8 billion figure saying: “Is this asking for too much? We say no...Our health systems collapsed, investors left our countries, revenues declined and spending increased.”

Why a Marshall Plan? President Condé clarified: “The Marshall Plan was the consequence of a war. Ebola was like a war for our countries.” Their goal is to set up healthcare delivery systems that are strong.
enough to absorb the shocks of any future epidemic.

The trio’s Marshall Plan earmarks $4 billion of the $8 billion for building a sub-regional recovery programme. Additional funds will be channelled to strengthen the health systems and frontline care, and to sectors such as agriculture, education, energy, roads, water and sanitation. The plan also includes the creation of a West African disease surveillance system.

Basketful of goodies

Speaking at the Washington meeting, the UN secretary-general backed the plan but warned: “The full recovery of Ebola-affected countries is only possible when the outbreak has ended and safeguards have been put in place to prevent re-introduction of the disease.”

The three leaders have already received a running start. In April, the World Bank announced a $650 million support programme. Before then, the bank had committed nearly $1 billion for response and recovery efforts and had also announced a $2.17 billion in debt relief, which will save the three countries about $75 million annually. The European Union estimates its financial contribution so far at about $1.37 billion. Other countries and organizations are pledging various amounts.

Further, “funding is already in the hands of implementing partners,” said Liberia’s health minister, adding that the challenge could be “getting them to coordinate it better, to declare what they have used, what is left and what it can be used for.”

Tense relationship

Sierra Leone’s health minister, Dr. Abubakarr Fofanah, called on international partners to be more transparent in their dealings. “I have a letter which was written to the World Bank by Audit Service Sierra Leone,” said Dr. Fofanah, which claims that 30% of internal Ebola funds were not properly accounted for. Both presidents Condé and Koroma had urged accountability for Ebola funds received by international non-government organizations. “As we have done our own part [audit], we are also expecting international accountability. This is accountability through and through,” said President Koroma.

Statements like these from top government officials underscore uneasiness in the relationship between governments and their international partners. Dr. Dahn alluded to the different perspectives that her government and donors have regarding how to use the remainder of Ebola’s resources in Liberia. “We need to align resources that came for Ebola with our health system plan...A lot of resources, financial and material, have come in. Material resources are easier to align; financial resources are tied to emergency response and donor policies may be against moving money into other projects.”

Dr. Dahn implored donors to consider the Ebola response within a broader context. “Immediate restoration of healthcare is also an emergency: Children were not vaccinated during Ebola. Women didn’t have access to basic maternal services – these are like emergencies.” Some healthcare experts are insisting that with the epidemic ended in Liberia and a glut in treatment in Sierra Leone and Guinea, the potential exists to repurpose unused Ebola resources and facilities.

Examples of donor-built physical infrastructure that can support healthcare systems in these countries include 11 treatment units built by the US government in Liberia, the 50-bed treatment centre built by the British in Sierra Leone, the three clinics established by the French government in Guinea as well as health facilities set up by the International Committee of the Red Cross, the Chinese government, the African Union and other humanitarian organizations in the three countries.

Some of these facilities arrived late in the game and were unhelpful. For example, only 28 patients were treated in the centres built by the US government; in fact nine of the 11 centres did not receive a single patient, according to a recent story in the New York Times.

Although the presidents of the three most affected countries are united in their appeals, the World Bank notes that differences exist in their individual countries’ economic situations. The Bank reported earlier in the year that Sierra Leone’s economy will contract at an unprecedented -23.5% in 2015 compared to a pre-Ebola growth of 15.2%, which is effectively a recession; Liberia’s economy will grow at 3% compared to 6.8% pre-Ebola; and Guinea’s will decline by -0.2% compared to a 4.3% before Ebola.

Losses suffered

Also, all three countries have suffered major GDP declines. The total GDP losses for the three countries were estimated by the World Bank at $2.2 billion: $1.4 billion for Sierra Leone, $535 million for Guinea and $240 million for Liberia.

Because Sierra Leone’s mining sector has collapsed as global prices of iron ore, one of its mainstay minerals, have crashed, the country faces acute infrastructure financing needs. What this means is that all three countries will recover at different speeds.

Amidst Ebola’s doom and gloom, there is hope that long-needed improvements will finally take place. “I tell you, it is this [Ebola] outbreak that will transform Sierra Leone’s health system to a robust and functional one,” said Dr. Dong Xiaoqing, director of the Chinese Center for Disease Control in Sierra Leone. Antonio Vigilante, Deputy Special Representative of the Secretary-General in the UN Mission in Liberia says, “There is a golden opportunity to have a different start... It’s a very delicate stage, full of opportunities, which should not be missed.”

Clearly the international community is looking seriously at these health infrastructure financial needs. The Ebola outbreak injected urgency into the need for quality healthcare systems; and the new proposed Sustainable Development Goals (SDGs), which will replace the Millennium Development Goals by year end, also add momentum with SDGs goal number three being to “Ensure healthy lives and promote well-being for all at all ages.”

“Many of us have acknowledged that the international community was slow to react to Ebola,” remarked the World Bank president. “Let’s show that we have learned this lesson.”

$2.2 billion is estimated by World Bank as the total GDP losses for Liberia, Guinea and Sierra Leone.
New bond issue set to help Africa go ‘green’
A way of bankrolling a clean energy revolution

By Jocelyne Sambira

Johannesburg, or Jozi, as it is affectionately known, is the largest commercial hub on the continent, attracting millions of visitors each year, including students, artists and business leaders. Its population of about 4.8 million people is projected to grow to 6.5 million by 2040, according to the World Population Review.

Faced with this record growth and its foreseeable impact on the city’s aging infrastructure and social services, Johannesburg’s Executive Mayor Parks Tau gave a nod to a greener path for development in his 6 May 2015 State of the City address. Among the promised innovations he listed were low-flush toilets and water-saving urinals to become a standard feature in Johannesburg homes, offices and commercial sites, alleviating the pressure on the city’s scarce water reserves.

Organic waste is to be harvested for fuel and energy, and solar heaters and smart metres installed to reduce the consumption of electricity. Furthermore, to lower pollution, he hopes to reduce the commuters’ reliance on private vehicles in favour of walking and biking. The mayor also promised to improve the public transport system and switch to diesel fuel to lower the city’s carbon footprint.

To finance these initiatives, the city auctioned its first ever “green bond” on the Johannesburg Stock Exchange (JSE) last June. The bond, which is worth $143 million and is expected to mature in 2024, was 150% oversubscribed – a success! In a speech delivered shortly after the listing of the bond, Mayor Tau said it was a clear demonstration of “investor confidence in the City of Johannesburg and commitment to environmental stewardship and climate change.”

A bond is a type of loan or an IOU which companies, governments or banks use to finance projects. The issuer is obliged to pay back the debt within a time agreed and with a certain interest. What warrants the “green” label is that the proceeds are allocated to climate and environment-friendly projects. By issuing this type of bond, Johannesburg became not only a pioneer in Africa, but also within the C40 Cities Climate Leadership Group, a network of megacities sharing best practices and feasible solutions to changing weather patterns.

Green bond allure
Green bonds are not different from conventional bonds in their pricing. Much of their allure lies in the fact that investors feel they are being “socially responsible” and that they are having a positive impact on the environment. According to the World Bank’s senior sustainability advisor, Laura Tlaiye, investors are increasingly recognizing the threats environmental degradation and climate change can create for long-term financial value, and are considering it when they choose their investments.

At the same time, investors are also drawn to these fixed-income green loans that promise regular returns and a full refund of the principal amount once the bond has matured. And in the case of the World Bank, one of the largest financiers for climate-smart projects in developing countries, their bonds bring triple “A” ratings, indicating they are extremely safe and low-risk. But as the market expands, so does the need for more clarity on how the capital raised is used. International institutions providing development financing, like the European Investment Bank (EIB), were the first to enter the green bond market in 2007. A year later, the World Bank joined forces with the Swedish financial group, Skandinaviska Enskilda Banken AB (SEB), to respond to a demand by Scandinavian pension funds looking to invest in environmentally friendly fixed-income products. Since then, the World Bank has continued to raise a lot capital for projects that seek to mitigate climate change in developing countries or seek to help affected people adapt to it.

So far, Tunisia has received a loan of over $30 million to promote better water management by using the country’s irrigation and drinking water more efficiently, while Morocco has successful applied for funds to build North Africa’s biggest solar power plant in an effort to curb its reliance on coal and other fossil fuels. To date, the bank has issued the equivalent of $8 billion in green bonds through more than 90 transactions in 18 currencies.

Socially responsible investors
Climate change is presently one of the greatest challenges confronting the developed and the developing world, warns the African Development Bank (AfDB), which set up a green bond programme in 2013. Without a concerted effort to reduce greenhouse gas emissions, echoes the International Finance Corporation, an affiliate of the World Bank, the earth’s temperatures could rise considerably.
within this century. In order to keep global temperatures below 2 degrees Celsius as agreed by negotiators during the United Nations Framework Convention on Climate Change (UNFCCC) negotiations.

Business editor and author Mark Gunther, in the Yale Environment 360 online magazine, questions whether green bonds could “bankroll a clean energy revolution” and is uncertain where the money would come from. In a sense, he argues, green bonds are the latest example of “themed bonds for a specific purpose” pointing to the 1862 civil war bonds that helped finance the US army and World War II bonds sold by celebrities at the time.

With the market raking in billions of dollars a year, it seems the appetite for these new debts is growing as well as the emergence of new types of issuers as evidenced by the case of Johannesburg. In March 2014, corporations like Toyota joined the fray to fund consumer loans for electric and hybrid cars. During the same period, the global consumer goods company Unilever and the French utility company GDF Suez of France issued green bonds to finance their renewable energy and energy efficiency projects.

Although there is no market standard for the definition of green, Marilyn Ceci, managing director and head of Green Bonds at JP Morgan wrote in the global knowledge sharing platform called Meeting of the Minds, in February 2015, that there are the Green Bonds Principles (GBP), which serve as voluntary guidelines on transparency and disclosure and are endorsed by environmental groups, investors and other issuers.

**Transparency**

The four components of the GBP include a description of how the proceeds of the bonds are to be used, an outline of the decision-making process disclosing the criteria used to review and determine the eligibility of the project, as well as tracking the proceeds and reporting on how they are being used at least once a month.

The World Bank initially set the bar high with its rigorous six-stage selection, approval, review and reporting process. The eligibility criteria are verified by experts from the Norway-based Centre for International Climate and Environmental Research (CICERO). Interested investors can check the institution’s website to get detailed updates on the projects, complete with pictures, graphics and summaries.

The World Bank applies a “gold standard” in the selection of its eligible projects. For example, the bank’s green bond portfolio will not include nuclear projects or those that deal with natural gas extraction by fracking. The bulk of the bank’s green bond projects are in middle-income countries like Mexico, China and Africa’s Maghreb region like Egypt, Tunisia and Morocco whose low-carbon projects funded by the World Bank are in full swing.

Projects in sub-Saharan Africa receive support through the International Development Association (IDA), the bank’s fund for the poorest, which doles out “low-interest loans, credits or grants from donors rather than from capital markets”.

However, while African countries south of the Sahara have made a grand debut into the international debt market scene, their presence in the green bond market is nascent. For now it seems, Johannesburg is leading having listed the first “African green city bond” in the region.
Africa Renewal: The objectives entailed in the Financing for Development (FfD) draft document are many and ambitious. But they are non-binding and all address needs generally known to be important. What then is the value added of an Addis agreement?

Wu: The UN member States decided to have this conference before the September summit in New York where they are going to adopt a post-2015 development agenda with Sustainable Development Goals (SDGs) at its core. The purpose of the Addis conference is to develop the financial infrastructure needed to implement the new agenda. There are three major expectations for the Addis conference. First, the final financing framework has to be holistic, comprehensive and ambitious. We are not proposing solutions for one country or one group of countries, but for all 193 UN member countries. That means there’s no one-size-fits-all solution. Second, we need concrete deliverables and political commitments from all member States to provide the finances needed for sustainable development projects. And third, we need strong follow-up action.

In your estimation, are multilateral financial institutions, including the Bretton Woods, ready and able to fulfil a key role in FfD implementation? The multilateral process identified five major institutional stakeholders – the World Bank Group, the International Monetary Fund and the World Trade Organization, the UN Development Programme and the UN Conference on Trade and Development. One of my priorities, and that of the UN Secretary-General, is to mobilize these institutions. You may be aware there was a Spring (March-April) meeting organized by the World Bank and the IMF, in which, for the first time in the history of the UN, Secretary-General Ban Ki-moon participated and got their political commitment to support the FfD conference. I am glad to say that all the five major institutions are on board. Their principals will bring to Addis new initiatives and concrete deliverables. The other support is from players who have become very active at the regional and global levels such as the BRICS [Brazil, Russia, India, China and South Africa], the Asian Infrastructure Bank, the Silk Road Infrastructure Fund and the Asian Development Bank. We will try to bring all of them on board for a common vision and a commitment to take whatever action is needed to support the Addis conference.

The outcome of the first conference on financing for development, the Monterrey Consensus, addressed the role of the private sector in FfD, but largely for objective purposes. The currently-circulating draft FfD text differs in that it assigns and asks for a willing, subjective purpose, especially in areas such as corporate sustainability, sustainable finance, impact investing, etc. Would you agree with this assessment?

I would go along with your assessment. The importance of private sector financing was recognized a long time ago. We need to mobilize private finance for sustainable development. The UN wants to define the roles of the private sector and private resources because we are confronted with unprecedented challenges. In the past, we used to talk about development of a group of countries or of economic growth alone. We are now stepping beyond that. We are talking about economic growth, social development and environmental protection—the three different aspects of one issue—sustainability. So you can imagine the amount of resources needed to support this
Financing for Development Conference.

Wu Hongbo, the UN Under-Secretary-General for Economic and Social Development and the Secretary-General of the UN Photo/Loey Felipe

is the expanded role of South-South cooperation. How do you see that taking shape in the Addis discussions and after? South-South cooperation is becoming increasingly more important. Triangular and South-South cooperation are important new features in the changing global financial system since the Monterrey Consensus. We are very supportive of this development. We believe that in many ways it serves as a good example for all countries. The programmes developed are considered cost-effective. They involve technology transfer, and the cost of personnel overhead is low, hence not much is spent on the cost of experts, their travel and accommodations compared to what is actually spent in host countries.

However, it is important to stress that this kind of mutual assistance will not serve as a substitute for North-South cooperation. Official development assistance is still essential. The two formats can supplement each other. But we often think of South-South as poor countries helping the poor, so it is different in nature than North-South. We would like to see South-South cooperation playing a more important role in the world, just as we urge donor nations to do more – at least to fulfill their own commitments.

The renowned Marshall Plan provided Europe with reconstruction monies in the amount of 0.2% of GDP of the US. The world finance-to-GDP ratio of the SDGs is variously estimated at 2, 3 or 4% and includes economies much less prosperous than the US in the 1950s. Is the new requirement likely to burden low-income regions such as Africa?

We are not in the 1950s, and so a Marshall Plan would not be good for the future of sustainable development. We are trying to mobilize all resources possible – international, domestic, private and public. In addition, we need to encourage technology transfer, tax reforms, efforts to stop illegal financial outflows, reductions in the cost of transferring remittances and strengthen capacity building. If we mobilize these initiatives successfully, we will be able to meet our needs. How much money would be needed? It’s very difficult to predict or quantify because that depends on many uncertainties.

True, many developing countries lack resources. But it’s important to note that there is ownership of financing for sustainable development at the national level. Historically, all economic development has been driven by a country’s own resources mobilized by national governments. That’s why the Member States emphasized the ownership of local resources. In many cases, however, these are not enough. Countries need strong and effective international partnerships. On their part, the national governments need to create an enabling environment; otherwise the money will not be forthcoming. This is precisely why official development assistance will be vital. Further, not all countries will implement all the 169 targets; that is impossible, even for the most developed countries. Countries will choose targets that are best suited to their local conditions. The Addis conference will offer more policy recommendations from which to choose and consider.

The SDGs text says that targets are “aspirational”, with each government setting its own national targets guided by the global level of ambition but taking into account national circumstances.”

Does this qualification provide a safeguard that allows poor countries to implement SDGs without straining their budgets?

The sustainable development agenda not only covers a wider area, but also applies to all countries. Plans are often designed or targeted largely for certain countries or groups of countries. The challenge this time is for all countries to sit down together and produce a comprehensive plan that will accommodate all individual situations. Despite the principle of universality, the reality is one cannot apply uniformly all SDGs to all countries. The U.S. or Switzerland, for example, would not implement the same goals as the least developed countries because the developed countries have already achieved some of the goals. I should emphasize that first we need to change the mind-set of public administrators. Second, we have to tear down all the political and economic silos at ministerial levels. When we start implementing the sustainable development agenda, it will be important for ministers to change their traditional ways of doing business. I urge them and their governments to think in revolutionary ways on how we can work together, how we can make sustainable development work.

Another area that has emerged since the Monterrey conference on FfD is the expanded role of South-South cooperation. We need all types of financial resources—domestic, international, public and private.

Private financial resources are very important, but the challenge is how to mobilize them. We believe public policies will play a central role in creating an enabling environment at the domestic, regional and international levels. And of course, both the quantity and quality of private investment, particularly in infrastructure, is important. I hope the Addis accord will provide a new financing framework that will bring the private sector on board so it can make meaningful contributions to sustainable development.

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The SDGs text says that targets are “aspirational”, with each government setting its own national targets guided by the global level of ambition but taking into account national circumstances.”

Does this qualification provide a safeguard that allows poor countries to implement SDGs without straining their budgets?

The sustainable development agenda not only covers a wider area, but also applies to all countries. Plans are often designed or targeted largely for certain countries or groups of countries. The challenge this time is for all countries to sit down together and produce a comprehensive plan that will accommodate all individual situations. Despite the principle of universality, the reality is one cannot apply uniformly all SDGs to all countries. The U.S. or Switzerland, for example, would not implement the same goals as the least developed countries because the developed countries have already achieved some of the goals. I should emphasize that first we need to change the mind-set of public administrators. Second, we have to tear down all the political and economic silos at ministerial levels. When we start implementing the sustainable development agenda, it will be important for ministers to change their traditional ways of doing business. I urge them and their governments to think in revolutionary ways on how we can work together, how we can make sustainable development work.

The platform for this dialogue is the Addis Ababa Conference on Financing for Development. As we move towards the Addis conference, I want to make sure that we are also encouraging an integrated economic integration. The platform for this dialogue is the Addis Ababa Conference on Financing for Development. As we move towards the Addis conference, I want to make sure that we are also encouraging an integrated economic integration.
"Table banking" may not be a complex financial concept, but it is making a difference in the lives of thousands of women and their families in rural Kenya. It’s a simple idea whereby members gather each month and literally put their money on the table, which then becomes immediately available to members as loans. The practice eliminates bank fees, waiting periods for loan approval and many other obstacles faced by women in Africa who need loans but lack collateral. The loans are used to start revenue-generating projects.

Joyful Women Organization (JoyWo) is one of the most successful table banking groups in Kenya, with a membership of more than 11,500 women’s groups, each group having 15 to 35 members on average. Started by Rachel Ruto, wife of Kenya’s deputy president William Ruto, in 2009, JoyWo had only 80 members, mainly from Ms. Ruto’s Uasin Gishu County, about 270 km northwest of the capital, Nairobi. The group started with a revolving fund of about $800. In six years the group has expanded to 44 of the 47 counties in Kenya. Its revolving fund has grown to $16 million from members’ contributions, loan repayments, grants and donations from fund-raising.

Today, JoyWo is giving loans to support such projects as greenhouse farming, poultry, horticulture, cattle-rearing and overhead irrigation.

In the past five years the average annual income of more than 740 such women’s organizations worldwide was a mere $20,000, according to the Association for Women’s Rights in Development, but JoyWo has set its sights even higher.

Successful beneficiaries

“Successful beneficiaries”

“Table banking has transformed my life for the better... it has given me a plate from which I will be eating. I want to be one of the shining examples of successful persons living with disability in the country,” says Irene, who has shared her story at several JoyWo table banking launches in other counties.
The success of members like Irene and the influence of JoyWo have been such that this year's Committee on the Status of Women conference, which is convened annually by the United Nations, invited Ms. Ruto to New York in March to speak about JoyWo's innovative approach in empowering women through table banking. She shared the groups' successes and challenges, and what other countries could learn from her experience.

Ms. Ruto was honoured by the Centre for Women in Leadership with an Honorary Fellowship Award from Binary University in Malaysia for her outstanding work with women. She has also received the Most Distinguished Alumnus Award from her alma mater—Kenyatta University—for her work with women.

To make running the JoyWo in rural counties easier, members form smaller groups of about 15 to 35 members at the village level. They contribute money based on the ability of each member and the group's constitution. Each group has a minimum and maximum amount each member can contribute, to ensure that all the women are on the same economic level. Each member is given a passbook to record transactions.

From the money placed on the table, a member can borrow up to twice her contribution, referred to as “shares”, for short-term loans to be repaid within three months. A long-term loan, which can be up to three times a member’s shares, has a repayment period of 6 to 36 months. Since loans are processed at the smaller-group level, and because the members meet monthly, it takes a month to process a long-term loan, while short-term loans are given on the spot.

To the smaller groups, JoyWo gives interest-free loans, and collateral is mostly in the form of guarantors. The small groups in turn who re-lend the money, charge their members 10% interest for short-term loans and 12% for long-term loans. The interest forms part of the revolving fund and is paid back to members as dividends at the end of the year. In 2014, for instance, $1.5 million was paid out to the women as dividends.

More than just money
To promote table banking countrywide and make it more effective, Ms. Ruto realized that training should go hand-in-hand with borrowing. Entrepreneurial skills, for example, could help increase profits, so she introduced different types of business training. The courses included training in “agripreneurship” to help turn peasant and small-scale farmers into entrepreneurs, since more than 90% of JoyWo members live in rural areas in a country where three-quarters of the population depends on agriculture for sustenance.

JoyWo has also created market access programmes under which its special-purpose vehicles are available to members so they can market their produce collectively. It has even gone further and now has a housing project that allows members to build and own affordable homes.

Challenges
Like any other organization of this size that is rapidly expanding, JoyWo faces some challenges, such as loan defaults, which currently stand at a rate of 2%.

“This is why we always insist that members should know and be able to vouch for one another,” says Ms. Ruto.

JoyWo encourages membership from diversified fields across a wide socioeconomic spectrum, she says, especially in remote areas where non-reading members have to rely on their more literate colleagues. “We believe in empowering women through education, so we have started an educational initiative known as Jawabu to lift the literacy levels amongst our members.”

JoyWo is an example of how women are mobilizing at the community level against years of discrimination and the structural systems that disadvantage them, particularly in terms of access to financial services.

Poverty and gender inequality go hand-in-hand. UN Secretary-General Ban Ki-moon says the world will never realize 100% of its goals if 50% of its people (women) cannot realize their full potential. “To be truly transformative, the post-2015 development agenda must prioritize gender equality and women’s empowerment,” he said in his message marking this year’s International Women’s Day.

As the Third International Conference on Financing for Development gets under way in Ethiopia, gender rights advocates are hoping that funding for gender equality and the empowerment of women will be given due priority. In the post-2015 development agenda, funding for gender goals will be critical, given that the major obstacle to the fulfilment of Millennium Development Goals on gender was lack of sufficient funds.

In the meantime, the women at JoyWo continue with their expansion plans. Instead of complaining about lack of funding, the organization plans to use their contributions to reach a million women in all the 47 counties in Kenya by 2017, before expanding throughout the rest of the East African region. It also plans to increase its long-term loan portfolio from the current $1.2 million to $12 million by 2016.

Rachel Ruto, founder of Joyful Women Organization (JoyWo).
Think beyond microfinance when talking about businesswomen

Financing for women in Africa has remained stubbornly “micro”

By Ndidi Anyaegbunam and Ecoma Alaga

As the Third International Financing for Development conference kicks off in Addis Ababa, Ethiopia, Africa is set to begin implementing its ambitious 50-year development blueprint, Agenda 2063, bringing into focus the issue of how to finance development plans.

Agenda 2063 will require significant financing from a wide range of sources to fund infrastructure development, industrialization, private sector growth, technology and human capital development if the continent is to achieve the socioeconomic transformation that it is envisioning. True, financing in general is a challenge for Africa, but no group faces more barriers to accessing finance than the women of Africa.

Africa’s economic growth over the past decade has been positive, but the impressive numbers do not tell the whole story. While women own about 48% of all enterprises in Africa, the African Development Bank estimates that they account for only 20% of the continent’s banked population. Roughly four in every five women on the continent lack access to a bank account at a formal financial institution, compared to about one in every four men. The disparity is particularly glaring in agriculture. Although more than 70% of farmers in Africa are women, they benefit from only one-tenth of the credit given to small-scale farmers and less than 1% of total credit to agriculture.

The challenges African women face in accessing finance include women’s lack of collateral, legal and cultural barriers to land and property ownership, discriminatory regulations, limited employment in the formal sector, lack of availability of financial products targeted to their needs and the fact that banks do not fully understand female-run businesses or the market niches they occupy. These barriers have hindered the capacity of women to grow and develop businesses, which as a result, has held back economic growth on the continent.

The widening disparity in access to finance has led to the rising popularity of microfinance for women. In the past decade, microfinance institutions, which include non-profit groups, savings and credit cooperatives, regulated specialized providers and others, have reached many women who were previously excluded from formal financing, through small-scale loans and credit to small enterprises and poor households.

Yet while the discussion about financing for development has widened in scope, the discussion about financing for women has remained stubbornly locked on one scale—micro. Speaking early this year in Addis Ababa at a conference of African finance ministers, Nkosazana Dlamini-Zuma, the chairperson of the African Union Commission, implored participants to think beyond “micro” when discussing finance for projects run by women in Africa.

“We hear micro this, micro that… there is nothing micro about women!” Ms. Dlamini-Zuma told participants.

Similarly, Elizabeth Rasekoala, the co-founder of SET4Women, the Southern African Reference Group on Gender, Science and Technology, urged participants at a conference on the role of women in implementing Agenda 2063 to “start thinking big and stop prefacing everything to do with women with ‘small’ or ‘micro’ but to engage them as entrepreneurs.”

Gender advocates say that as key drivers in implementing Africa’s post-2015 development agenda and Agenda 2063, female business owners must be empowered to go beyond small- and micro-enterprises and get access to the finance needed to create medium- and large-scale businesses. Access to finance on such a scale would be transformative, and empower women to enter productive
Industrializing through trade:...
from page 3

and providing social services. Overall, “the current merchandise export structure, dominated by raw and unprocessed commodities, is not conducive to the envisaged level of development,” says Carlos Lopes, the ECA head, in his foreword to the ECA’s report, the focus of which is “Industrializing through Trade.” By favouring the export of raw materials over processing goods, sub-Saharan Africa denies itself the opportunity to add value through manufacturing, which would provide more jobs and generate additional revenue.

In 2013 the ECA argued that African countries could transform their economies through commodity-based industrialization. A year later, its report “Dynamic Industrial Policy in Africa” concluded that the continent needed to set up stronger institutions and adopt effective measures to enhance structural transformation. This year the commission is saying that deliberate and smart trade policies and practices could lead to the much-delayed industrialization of Africa.

This year’s report is making the case that African countries can use trade to achieve industrial development and structural transformation, but advises against the traditional pattern of trading, which so far has meant exchanging raw commodities for manufactured goods.

“A successful trade-induced industrialization should be interactive and coherent with a country’s national development strategy; it should be evolving and highly selective,” Hopestone Chavula, one of the authors of the report, told Africa Renewal.

Smart protectionism

The notion of “highly selective” trade policies seems to imply that African countries are being asked to implement some kind of protectionism or special treatment for certain sectors that would be justified by the overall need to advance national development goals. To this end, the crafting of national development strategies has to be the starting point towards industrialization, says the report. But unlike in the past, such deliberate trade policies may be difficult to implement under the rules of the World Trade Organization. The WTO is unlikely to give the nod to countries trying to shield selected industries, nascent or fragile, from competition, even when doing so would protect their national interests.

Still, Mr. Lopes from the ECA is convinced “smart protectionism” works, telling Africa Renewal last year that “all countries that have industrialized started with some degree of protectionism.” But he quickly concedes that Africa cannot practice crude protectionism anymore. “If we have to make the rules work for Africa, that basically means smart protectionism.”

In pursuing industrialization through trade, sub-Saharan Africa would not be treading untested paths. Experience from Japan, the East Asian tigers and China all show the effect of deliberate trade policies, including the role of central governments in making the right choices to advance national development goals.

While the role of governments may be important, the report says, policymakers must understand global trade dynamics and use regional and international trade negotiations to pursue their industrialization agenda.

Trade policies alone will not jump-start African industrialization, the report finds, but they will provide “a robust framework for African countries to reassess their trade policy.” This will give those countries the opportunity to identify the best routes to structural transformation and tailor trade policy to achieve the desired goals.
In 2005 the United Nations declared the year the International Year of Microcredit. At a time when the clamour for financial inclusion was gaining momentum, the declaration brought microfinance from the periphery of finance and offered an estimated 2.5 billion people an opportunity to “grow thriving businesses and, in turn, provide for their families, leading to strong and flourishing local economies.”

At that time it was widely believed that reducing extreme poverty would be nearly impossible if the majority of the poor could not save or have access to credit. Small lenders were hardly entering into the mainstream financial sector. Their loans were restricted to under $200 at high interest. The rigidity of commercial banks meant that microfinance institutions (MFIs) offered the only hope for financial inclusion to the world’s poor. Then UN Secretary-General Kofi Annan acknowledged as much when he declared that microfinance could be a “weapon against poverty and hunger.”

A decade later the world has an opportunity to evaluate whether microcredit really “changes peoples’ lives for the better,” as Mr. Annan asserted. In July of this year, the UN will hold the Third International Conference on Financing for Development, in Addis Ababa, Ethiopia. While the conference will discuss the whole spectrum of effective and efficient mechanisms of mobilizing resources for development, microfinance is likely to be one of the key topics.

The timing is critical because the contribution of microcredit in achieving the Millennium Development Goals, a set of global benchmarks for UN Member States that is set to expire in 2015, has been minimal. The MDGs will be replaced by the proposed Sustainable Development Goals (SDGs), to be endorsed at the September 2015 summit of world leaders at UN Headquarters.

Arguably, the microfinance movement is vital to the development agenda. The success of the movement in a country like Bangladesh, where there are a staggering 20 million micro-borrowers, has shown that microfinance can lift millions out of abject poverty.

China, which over a single generation has become the world’s second biggest economy, has also proven that microfinance can help enterprises flourish. Until 2005, China did not allow MFIs. A decade earlier the government had started experimenting with microfinance as
a tool in poverty reduction, and in 2005 it allowed the commercialisation of microfinance. This opened the floodgates for resources that help tackle poverty and spur the growth of enterprises in rural areas, where the majority of the country’s 400 million people who live on less than $2 per day are concentrated. Since the approval of microcredit, the industry has grown exponentially.

In sub-Saharan Africa, governments now appreciate the impact of microfinance and have enacted favourable laws, encouraged investments, opened up the industry to foreign capital and improved policing mechanisms to protect customers. The growth of the industry is a testament to the high demand for microcredit.

“Microcredit is an effective catalyst in alleviating poverty in Africa. People need access to capital to grow their informal and formal businesses that offer them a regular income and enable them to lead decent lives,” says Mads Kjaer, chief executive of MYC4, a Denmark-based platform that helps individuals to loan money to small enterprises in sub-Saharan Africa. The average loan is about $150 per month.

The growth of microfinance in Africa since 2000 has been inspiring. Data by Microfinance Information Exchange, a non-profit organisation that keeps track of the industry, shows that from 2002 to 2012 the industry expanded by more than 1,300%. During this period, gross loan portfolio leapfrogged from $600 million to $8.4 billion. The number of microfinance customers or depositors shot from 3 million to 20 million, with active borrowers increasing from 3 million to 7 million.

In countries like Benin, Rwanda, Senegal and Tanzania, microfinance has become a lifeline for low-income earners, who are largely in informal sectors. In Benin, where a third of the population lives on less than $1.25 a day, peasant farmers, food processors and small-scale traders depend entirely on microcredit for survival. This has even forced the government to join the sector by setting up the National Microfinance Fund, which is designed specifically to tackle poverty in rural areas by extending small loans. In Rwanda the growth of the microfinance sector is outpacing that of the official banking sector.

“Microfinance does not get the credit it deserves, yet it is the lifeline for the people at the bottom of the pyramid,” says James Mugambi, the managing director of Premier Kenya, a micro-lender with customers across East Africa.

Despite the impressive growth of microfinance in Africa, its impact in alleviating poverty remains relatively marginal, some critics say. The industry still serves a small fraction of the population and offers loans that are expensive and short-term. Its impact has thus largely been on basic household units, where small loans offer families opportunities to earn regular income through small enterprises, pay expenses like school fees, invest in livestock or buy solar lighting, among other things.

“Microcredit is not an effective way to reduce poverty,” observes Aneel Karnani of the Ross School of Business at Michigan University in the US. “The best way to reduce poverty is to create significant job opportunities suited for the poor. The best engine for doing that is small and mid-size enterprises, not micro-enterprises.”

Addis conference

The Third International Conference on Financing for Development will thus be faced with the unprecedented challenge of unlocking the stalled potential of microfinance to guarantee sustainable impact. Notably, it comes at a time when the microfinance industry is at a crossroads. Today microfinance risks being annihilated in many sub-Saharan African countries as commercial banks adjust their business models to accommodate small savers and borrowers. But probably the biggest threat to MFIs is from telecommunication companies, which are targeting micro-lenders’ clients with mobile banking.

A new World Bank report says mobile banking has become the panacea in Kenya for financial inclusion. The Measuring Financial Inclusion around the World report shows that a staggering 75% of the Kenyan population is banked, the majority through mobile phones. Mobile banking is now being hailed as more viable than microfinance. “Mobile banking will help the poor transform their lives,” said Bill Gates, one of the world’s richest men, referring to M-Pesa, a mobile banking product in Kenya.

According to Mr. Kjaer of MYC4, the Addis Ababa conference must explore the bottlenecks that have hindered microfinance from realising its full potential in poverty alleviation. “Microfinance is a tool that Africa cannot do without,” he says. “What we need are new and innovative ways and business models to make it more attractive.”

One potential way for microfinance to salvage its fading allure is by capitalisation. In its current setup, the majority of MFIs in Africa are highly undercapitalised. Many are operating just above the threshold demanded by regulators. As a result of undercapitalization, MFIs are forced to spread risk by offering only small loans to many people at absurd interest rates.

Directing capital into microfinance to enable lenders to provide bigger loans at lower rates and with long maturity times would make it easier for the industry to contribute effectively in reducing poverty. While the natural sources of capital are donors and private investors, the industry can also tap into cheap capital being held by sovereign wealth funds and pension funds. By the end of 2013, the total assets of sovereign funds stood at $5 trillion across the globe.

“There are resources that can be made available to MFIs, but there is need for proper policing,” notes Mr. Kjaer.

Another potential strategy is to change the primary goal of microcredit. Traditionally microfinance is perceived as a quick-stop shop for emergency domestic loans. A more sustainable approach would be to change the industry’s mind-set so that it becomes a source of funds for enterprises that have the potential to expand and employ more people.

Pushing microcredit as a development tool to an increasingly sceptical world during the Addis meeting may be a hard sell. However, failing to convince stakeholders of the need for microfinance in poverty alleviation could be suicidal for the industry. It is imperative to note that the growth of microfinance over the past decade has been propelled largely by goodwill, mainly from development partners and the Norwegian Nobel Committee, which awarded the 2006 Nobel Peace Prize to Muhammad Yunus and Grameen Bank for giving loans to entrepreneurs too poor to qualify for traditional bank loans.
Cashing in on the cashew nuts boom

Local processing could boost revenue in Côte d’Ivoire

By Franck Kuwonu

The annual “money-harvesting” season is in full swing in Côte d’Ivoire. For the fortunate cashew nut farmers in the central and northern parts of the country, February through June is harvest time. Here cashew nut growing has improved the lives of these small-scale farmers significantly. They get more money from it than they would make from growing food crops or cotton. The impact has transformed their lives and they now refer to their orchards as places where “money grows on trees.”

“These farmers don’t grow cocoa like elsewhere in the country. Cashew nut is the only cash crop they can rely on all-year-round,” says Ga Kone of the Conseil du Coton et de l’Anacarde (CCA) or the Council of Cotton and Cashew. “So, it is understandable that they would refer to their orchards in this way,” Mr. Kone told Africa Renewal.

Côte d’Ivoire produced 550,000 tonnes of raw cashew nuts in 2014—about 22% of the global production. The figure is expected to hit a record 600,000 tonnes at the end of the 2015 harvesting season, placing the country as one of the world’s top producers. The West African nation’s annual production has been steadily growing at an average rate of 11%, according to CCA, the sector’s marketing board made up of representatives from the government, farmers and banking associations.

CCA is also responsible for making sure farmers are paid decent prices for their crops. For example, for every $10 of raw cashew nuts Côte d’Ivoire exports, $6 is expected to be paid back to the farmers.

To the Ivoirian economy, the cashew boom presents an unexpected but welcome opportunity to diversify agricultural exports beyond cocoa beans and rubber. It will also help develop the country’s agro-industry. However, to realise its full potential, Côte d’Ivoire has to process and add value to its raw cashews. While the country has the capacity to process 65,000 tonnes of raw nut annually, it currently processes 40,000 tonnes, according to CCA. Even then, the processing is usually limited at separating broken nuts from whole nuts and packaging them in sacks for exports. Broken nuts receive lower prices.

Fighting desertification

Cashew trees were first introduced in West Africa from India in the early 1960s to fight desertification and soil erosion through agroforestry and to establish protected forest areas. The evergreen tropical tree can survive in difficult conditions, including sandy soil, and can grow up to 12 metres high and is highly recommended by environmentalists for reforestation programmes.

For the decade ending in 1970, Côte d’Ivoire produced a total of about 300 tonnes of cashew nuts. Its commercial production remained modest for the next 30 years. A milestone was reached in 2002 when production topped 100,000 tonnes. Except for a small dip in 2003, commercial production has been growing steadily since then.

Côte d’Ivoire’s cashew nut boom is remarkable. “The growth is more than impressive. It’s astounding,” Jim Fitzpatrick, a cashew expert told Reuters late last year. “We’ve never seen a country grow its production in the way Côte d’Ivoire has over the past decade.”

The ease with which the trees grow, the reduction in cotton farming – the traditional cash crop of the region – and the growing global demand for processed cashew nuts are some of the reasons behind the country’s impressive performance. India and Vietnam’s rising needs for raw cashew nuts have also fuelled the growth of cashew farming in Côte d’Ivoire. As the top world exporter of
processed cashew, India imports 50% to 60% of raw cashew for processing from Africa and Asia.

African countries produce about 45% or 1.2 million tonnes of global cashew nuts annually. However, only 10% of this is processed locally, according to the African Cashew Initiative, a project backed by the German government, private companies, and the Bill & Melinda Gates Foundation. Members of the initiative include five African producers: Benin, Burkina Faso, Côte d’Ivoire, Ghana and Mozambique.

For all the remarkable cashew nut growth, however, the overall benefits to the cashew growing areas are limited. Only a small number of small-scale farmers are reaping the benefits. In 2014, for example, the Ivorian cashew production relied on 250,000 farmers while its revenues were shared by an estimated 1.5 million. In the Zanzan District in north-eastern Côte d’Ivoire, one of the country’s cashew-growing regions, poverty levels remain among the highest nationwide. Six out of every 10 people live below the poverty line—meaning they cannot afford a daily supply of one kilogramme of rice, the local staple food—and three-quarters of the population have no access to clean water.

Towards industrialisation

Côte d’Ivoire stands to gain up to $127 million in export revenue if it moves from exporting raw cashews, about 500,000 tons currently, to boosting its annual processing capacity to 100,000 tons of cashews by 2020, a study commissioned by the government shows. The windfall could even be greater and spur a real cashew industry capable of competing with India and other cashew nut producers such as Vietnam on international markets.

For a start, beyond guaranteeing a minimum purchase price for farmers, the challenge for Côte d’Ivoire is to invest more in processing plants. Its main processing plant, and the largest in Africa, can handle only 30,000 tonnes of raw cashews per year. Another plant, opened last year with initial processing capacity of 2,000 tonnes, is expected to reach its full capacity of 20,000 tonnes a year soon.

As the cashew sector comes of age, the timing could not have been better for Côte d’Ivoire. Investors reportedly worried by Indian and Vietnamese market dominance might choose to diversify supply and start investing in African cashew production.

If successful, Côte d’Ivoire could be a good example of how locally-generated added value can generate extra government revenue while also creating jobs. According to a study carried out by the CCA, every 100,000 tonnes of processing capacity Cote d’Ivoire develops will create 12,300 factory jobs and another 10,000 elsewhere in the sector.

The global cashew market was valued at up to $7.8 billion last year and is projected to grow by 15% this year. Growing demand from China is expected to sustain the vitality of the market. Then money could just continue to “grow on trees” benefiting more Ivoirians.
African statistics have come of age
— Pali Lehohla

Pali Lehohla, Statistician-General of Statistics South Africa, was recently at UN headquarters in New York attending the annual conference of the Commission on the Status of Women. Africa Renewal’s Masimba Tafirenyika caught up with him to talk about the challenges of statistics in Africa and the progress the continent has made improving the quality of its statistics.

Africa Renewal: Some experts say there is a major problem with how statistics are collected in Africa. What is the problem?
Pali Lehohla: There is a major challenge on the continent with statistics. But in interpreting the problem, there are two major trends. There is one based less on facts and more on hype. This one gets very popular and is widely publicized. There is another that says yes, there might be difficulties, but Africa is getting its act together. There is very little of that being said.

There are many publications like the one by Morten Jerven* on how Africa misleads the world with poor numbers. But when you scratch the surface of these documents, you find that little research has been done to justify what these authors are saying. When you look at African statistics across domestic products, national accounts and the international comparisons programmes, Africa matches quite well with the rest of the world because it couldn’t participate in international statistics programmes if its data were that poor.

Indeed, there are deficiencies. For instance, if Africa wants to understand the future of its population and how it can benefit from statistics, we have to understand labour markets and the results of education. But not many countries run the employment statistics annually or quarterly. In terms of censuses, Africa has got its act together. Though the situation varies, Africa is on an upward trajectory. Its narrative on statistics is positive despite some problems.

But still people ask: can we trust statistics from Africa?
That’s a very interesting question. We are governed by a number of principles – the UN Fundamental Principles for Official Statistics. We now have an African Charter on Statistics. We have a Strategy for the Harmonisation of Statistics in Africa. All these are official documents that govern our production of statistics. And then of course there are global partnerships that ensure that the quality of our data is good. We now compare data and run peer reviews, including those conducted by the African Development Bank. There is a lot activity that looks at our data. Then of course we have the harmonised consumer price indexes. The French-speaking countries are quite organized on this. We have training schools in Côte d’Ivoire. So it’s not a question of whether you can trust African statisticians but whether the training they get generates the kind of people that produce quality statistics. And indeed, we have training institutions that produce statistics equal...
to those produced elsewhere in the world. There may be issues of sources to cover the broad spectrum of statistics, but in as far as the quality of statistics that Africans produce is concerned, it is as good as any you can find elsewhere.

There have been suggestions that rather than relying on occasional efforts, it would be better for national statistical offices to make short and frequent surveys. We have declared 2015 to 2024 as the Decade of Civil Registration and Vital Statistics so that every birth and death can be registered, including the causes of death. It’s a very positive move towards harvesting important data on a continuous basis in a slightly cheaper way.

What can other countries learn from South Africa on collecting statistics?
They can learn how South Africa learned from others. Post-apartheid South Africa was no better than any other country in Africa in collecting statistics, except in economic statistics where we were quite sophisticated, servicing a modern economy and a modern banking sector. But the other statistics were in bad shape. The apartheid government paid very little attention to statistics, except for the key indicators that they wanted, like consumer price indexes.

The UN body on statistics is an asset because everybody who knows something about statistics is there to help you. The International Statistical Institute is also very important. All these were essential communities of practice that helped us move forward faster in statistics. It’s important to put resources into people and train them, and then of course to invest in universities, as for example, the Centre for Regional and Urban Innovation and Statistical Exploration (CRUISE) in Stellenbosch. Statistics South Africa has created a chair at the University of Stellenbosch to focus on intellectual leadership of making statistical geography the driver of the so-called data revolution.

What is the degree of cooperation between African governments and UN agencies who publish statistics on African social and economic issues?
We have done quite a lot in Africa just by identifying and addressing our problems. For instance, it was utter neglect of the importance of statistics when in 2004 the Economic Commission for Africa almost ruined their centre for statistics. When we picked up the pieces, we realized the ECA is about ourselves, not about somebody else. If we have to strengthen the ECA, we have to strengthen ourselves as Africans. In order to strengthen ourselves, we have to build relations with the United Nations Statistics Commission and increase our view on the methods that are emerging from there. With the Africa Symposium for Statistical Development and other initiatives, we found ourselves moving much faster and catching up in our methods. And the civil registration and vital statistics initiative has raised a lot of interest among partners. The revitalization of the ECA has brought in new energy but dark clouds are accumulating, we know the signs because we know what success looks like.

Nigeria has now become Africa’s largest economy since they rebased it. What is involved in the process?
There’s quite a lot that is involved. We talked about the neglect by African governments of statistics and investments. Nigeria is guilty of that too. They have ignored this for years; they never rebased their economy. The structure of their economy changed rapidly and Nigeria was not measuring it accurately. I think they just relied on measuring how much oil they kept pumping, ignoring the formal sector, ignoring Nollywood. They have now got it right.

In rebasing, you know what the contributions of different sectors and structures to the economy are, and you allocate the weight and then do the estimate to see how weak the economy is. Nigeria is the biggest economy in Africa at the moment, both in terms of purchasing power parity as well as nominal GDP numbers. The big challenge is that poverty is still immense and unemployment is still high. Growth has to bring with it benefits to communities. First step, get the statistics right, which I think Nigeria has achieved. Second, see the benefits of growth, which I think policymakers are now grappling with.

Has the failure to rebase been confined to Nigeria only or are there other African countries that have not rebased their economies in a long time?
There is still a lot of catching up to do because we need to capture the structure of the modern economy and get our source information, which is your trade statistics, your agricultural statistics, your wholesale and manufacturing statistics, built into national accounts. Not rebasing has brought us a terrible name in Africa. People say: ‘Oh, look at how much their economies have just grown.’ Then you have to rebase using the best methods and the world turns around and says, ‘Those cannot be the results’. They say, ‘You are not measuring’. When we measure and we show change, they say, ‘This change is incredibly huge.’ They start doubting the methods, because we do not do it regularly. This is how cynical people can be. But we must do it regularly, so we can deal with this cynicism.

Does part of the cynicism come from the fact that a lot of the African economies are dominated by informal sectors which are difficult to measure?
The informal sector is measurable and we come into this system with credible methods as champions of the informal sector. For instance, in the SADC, our informal champion is Tanzania, which has established well-developed methods. In South Africa, the sector is fairly small, but we still have a method to measure it.

Overall, what’s your message to our readers on the importance of statistics?
Africa has come a long way; but it still has more to go. We have a very professional team of African statisticians that are trying to do the right thing and now the political environment allows for that. We have the African Charter which prescribes a code of conduct. African statistical laws have been changed. Statistics offices are being revolutionized and getting better at their work and human capacity is at the top of the agenda. African statistics are really as good as any other statistics. It may well be short in terms of scope of coverage of subjects; but we are not far on that too. I think Afro-pessimists and sceptics have to start thinking twice when looking at African statisticians.

* The title of Morten Jerven’s book is Poor Numbers: How We Are Misled by African Development Statistics and What to Do about It (Cornell Studies in Political Economy).
Africans also investing in China
African countries have poured over $14 billion in investments

By Bo Li

China, the world’s newest economic superpower, surpassed the United States as Africa’s largest trading partner in 2009. Since then, China’s investments in Africa have been growing at a staggering speed. But many people are not aware that the Sino-Africa relationship is not just a one-way street.

Beyond the small businesses that attract Africans in Guangzhou—the so-called ‘Chocolate city’ in China because of the large number of Africans who live there—African companies have made considerable investments in China. By 2012, Africans had invested a cumulative $14.2 billion in China, a 43% increase from the $9.9 billion invested by 2009.

In 2012 alone, the amount of direct investments from Africa to China was about $1.4 billion, mostly in petrochemical, manufacturing, wholesale and retailing industries. Some of the top African investors in China came from Mauritius, South Africa, Seychelles and Nigeria, according to the White Paper on Economic and Trade Cooperation between China and Africa published by the Chinese government.

For example, not many people outside China have heard about Snow beer, the world’s best-selling beer by sales volume, because it is produced and sold only in China. Even fewer are aware that an African company, the South African Breweries (SABMiller), runs Snow beer as a joint venture with a Chinese firm and produces many other popular Chinese beer brands as well.

SABMiller’s winning strategy is to keep on purchasing shares in local brewers and investing in the production of popular Chinese brands without involving itself in daily operations and management of the companies. Today, 30 years after its first investments, SABMiller co-owns more than 90 breweries with Chinese Resources, producing around 30 beer brands with a 23% market share.

Tunisia’s investment in China’s fertilizer production has an even longer history. Initially launched as a key project of China’s 8th Five-Year Plan, the Sino-Arab Chemical Fertilizers Company (SACF) was a joint initiative reached by Tunisia and China when Tunisia’s late Prime Minister Mohammed Mzali visited Beijing in 1984. SACF wisely used the continuous investments in its technical reform and facility expansion in the new millennium, which significantly increased its production and quality control capacities. Widely praised as a successful South-South Cooperation model, the company has grown to become one of the largest compound fertilizer producers in China.

Despite the global recession that jeopardized most countries’ investment plans, the amount of direct investments from Seychelles to China reached the $100 million mark in 2009, compared to $7 million worth of Chinese investments in Seychelles during the same period. The large number of offshore companies anonymously registered in its Indian Ocean islands could possibly be the answer to this puzzle, analysts say. Countries like Mauritius and the Seychelles are magnets for business entities and entrepreneurs around the world because of their relaxed taxation, lighter regulation of corporate activities and greater business flexibility.

On the other hand, their strict preservation of confidentiality for business transactions and individuals has made it almost impossible to track where the investments that are flowing out of these islands actually came from.

Big dreams in ‘Little Africa’
SABMiller and the other large corporations only tell part of the story of Africans seeking economic opportunities in China. Media reports estimate that China is home to more than 200,000 African immigrants. In the first nine months of 2014, Guangzhou, a southern Chinese city hosting the largest African community in Asia, documented 430,000 arrivals and departures at its check points by nationals from African countries. Certain neighborhoods in Guangzhou are virtually all African, often referred to as ‘Chocolate City’ or ‘Little Africa’ by local cab drivers.

The government of Hong Kong allows 90-day visa-free stays for citizens of many African countries, such as Botswana, Egypt, Kenya, Malawi, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe, making the special administrative region the easiest entry point for African traders who make up the majority of the African population in China.
**BOOK REVIEW**

**The Age of Sustainable Development**

*by Jeffrey D. Sachs*


In September 2015, the Millennium Development Goals (MDGs) will expire and the Sustainable Development Goals (SDGs) will set in. Launched by the United Nations at the Millennium Summit in 2000, the eight MDGs sought to eradicate or reduce, among other issues, hunger and poverty, diseases, gender inequality, as well as mother and child mortality. In the post-2015 era, the SDGs are expected to build on the MDGs.

In his book, *The Age of Sustainable Development*, renowned economics professor and author, Jeffrey D. Sachs, who is also a special advisor on the MDGs to UN Secretary-General Ban Ki-moon, elaborates on the SDGs and illustrates how they can be achieved. Through a holistic approach that addresses a topic that can often be overwhelming and complex, Prof. Sachs explains clearly the importance of not just learning theory, but also championing the sustainable development agenda to improve the welfare of humankind.

“Sustainable development is both a way of looking at the world with a focus on the interlinkages of economic, social and environmental change, a way of describing our shared aspirations for a decent life, combining economic development, social inclusion and environmental sustainability,” Prof. Sachs told his audience when he launched his book at UN Headquarters in New York early this year. “It is, in short, both an analytical theory and a ‘normative’ or ethical framework”.

The book is organized into short chapters – including an introduction to sustainable development, food security, biodiversity, urbanization and climate change – and breaks these concepts down into easily digestible segments. The approach ensures that a reader with no prior knowledge of sustainable development can easily understand.

The 521-page book is an inspiring and enlightening read. It shows how much of a difference each global citizen can make towards collective goals. And as Prof. Sachs stated at the book’s launch in New York: “The preservation of the planet is in our hands.”

— Pavithra Rao

**APPOINTMENTS**

**UN Secretary-General Ban Ki-moon** has appointed **Mbaranga Gasarabwe** of Rwanda as his deputy special representative for UN Mission in Mali (MINUSMA), where she will also serve as UN resident coordinator, humanitarian coordinator and resident representative of UNDP. Most recently, she served as assistant secretary-general in the Department of Safety and Security at UN Headquarters. She will succeed David Gressly of the United States.

**Ali H. Al-Za’tari** of Jordan has been appointed as the deputy special representative and deputy head of the UN Support Mission in Libya (UNSMIL). Mr. Al-Za’tari will also serve as UN resident coordinator, humanitarian coordinator and resident representative of UNDP. He succeeds **Ismail Mamadou Diallo** of Guinea, who has been appointed as the deputy special representative for the UN Mission in Democratic Republic of Congo.

**Eugene Owusu** of Ghana has been appointed as the deputy special representative of the Secretary-General in the UN Mission in South Sudan (UNMISS). He will also serve as the UN resident coordinator, humanitarian coordinator and resident representative of UN Development Programme (UNDP). Prior to this appointment, Mr. Owusu held similar positions, except that of special representative, with UNDP in Ethiopia. He succeeds **Toby Lanzer** of the United Kingdom.

**Mourad Wahba** of Egypt has been appointed as the deputy special representative for the UN Stabilization Mission in Haiti (MINUSTAH), where he will also serve as UN resident coordinator, humanitarian coordinator and resident representative of UNDP. Mr. Wahba was the UNDP deputy assistant administrator and deputy regional director for the Regional Bureau for Arab States in New York. He will succeed **Peter de Clercq** of The Netherlands.
Africa is changing and so is Africa Renewal, with a new website, new features and a new commitment to supporting the partnership between Africa and the United Nations.

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