



United Nations  
Economic Commission for Africa



Ninth  
African  
Development  
Forum

# New forms of partnership

Issues paper







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# New forms of partnerships

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Issues paper



## I. Introduction

1. Since the late 1990s, many African economies have grown significantly, and a number of countries continue to benefit from accelerating growth rates. Between 1995 and 2012, the continent's gross domestic product (GDP) doubled in real terms, from \$656 billion to \$1,369 billion in 2005 dollars, while GDP per capita increased by 40 per cent, from \$917 to \$1,265.<sup>1</sup> Impressive as these figures are, a number of challenges continue to impede Africa's transformation.

2. Growth has been largely underpinned by the sustained expansion of extractive industries and the services sector. However, with a few notable exceptions, growth has largely by-passed the agricultural and manufacturing sectors.<sup>2</sup> In fact, between 1995 and 2012, almost 40 African countries witnessed premature de-industrialization, as evidenced by a decline in the value added by their manufacturing sectors as a percentage of GDP. According to the World Bank's 2014 World Development Indicators, the manufacturing sector's contribution to GDP in sub-Saharan countries fell from 15.3 per cent to 10 per cent between 1990 and 2012. Meanwhile, export revenues have increased rapidly, mainly as a result of the price effect, which has resulted in many countries' economies becoming even more dependent on the export of primary products.<sup>3</sup> In turn, this has made it harder for many people seeking employment outside the agricultural sector to find jobs that will allow them to escape extreme poverty. For this reason, structural transformation, and sustained inclusive growth must lie at the core of the African common position on the post-2015 development agenda.

3. In principle, sustained growth and improved economic fundamentals should be strengthening domestic resource mobilization. However, investment as a share of GDP has increased only slightly (from 17 per cent in 2000 to 21 per cent in 2012). Mobilizing development finance will remain a crucial challenge for the region in the medium term, particularly in view of the region's infrastructural and technological gap.<sup>4</sup> National accounting data reveal that Africa's growth acceleration has been accompanied by an increasing reliance on foreign savings for investment financing, which has widened the resource gap in the region to approximately \$40 billion,<sup>5</sup> and in non-oil exporting African economies to as much as \$100 billion (see figure 1).

4. Against this backdrop, funding Africa's transformation will require innovative development financing mechanisms and major efforts to mobilize additional funds from existing sources of development finance.<sup>6</sup> As recognized in the African common position on the post-2015 development agenda, this will, in turn, require the strengthening of existing partnerships and the forging of new ones. Public-private partnerships and catalytic mechanisms will also be required with a view to tapping new sources of finance, engaging investors as partners and stakeholders in development, and delivering financial solutions to development problems on the ground.<sup>7</sup>

1 UNCTADStat database, (accessed 18 June 2014).

2 African Union and Economic Commission for Africa, *Economic Report on Africa 2013, Making the most of Africa's Commodities: Industrializing for Growth, Jobs and Economic Transformation* (Addis Ababa, 2013). Available from [www.uneca.org/sites/default/files/publications/unera\\_report\\_eng\\_final\\_web.pdf](http://www.uneca.org/sites/default/files/publications/unera_report_eng_final_web.pdf).

3 Ofa, Spence, Mevel and Karingi, *Export Diversification and Intra-Industry Trade in Africa* (Paper presented at the African Economic Conference, Kigali, 2012).

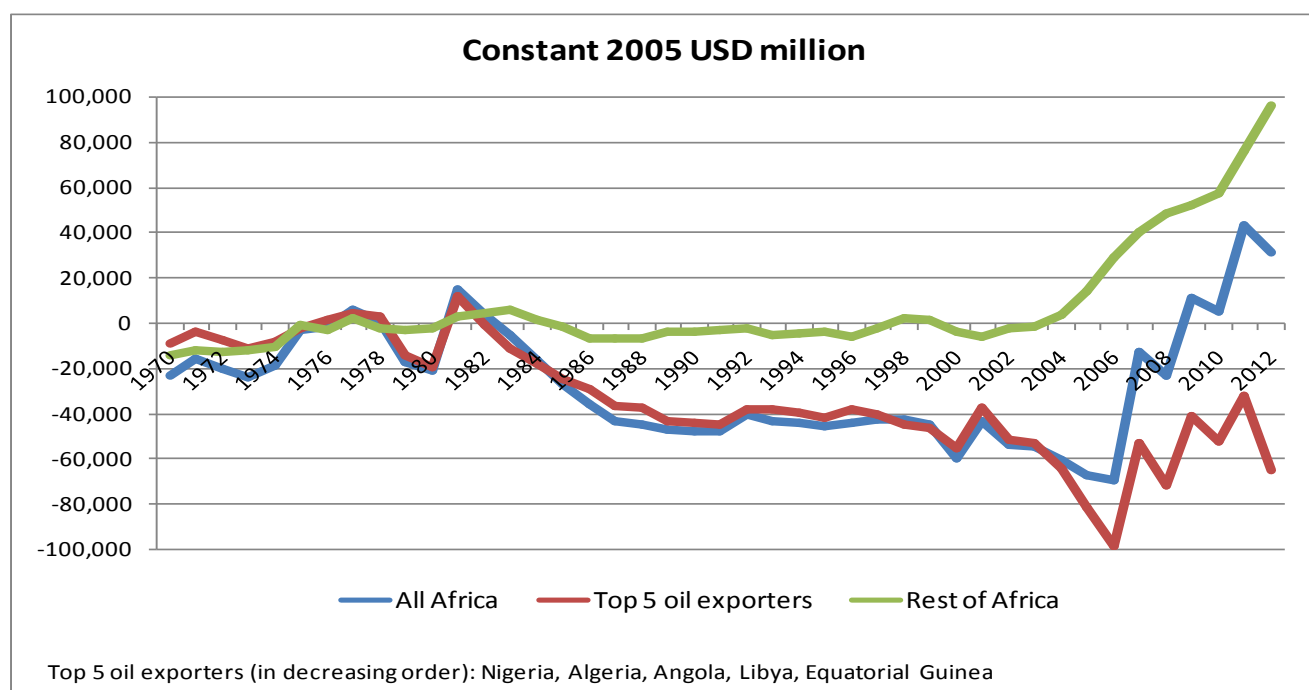
4 In 2010, for example, Foster and others estimated that, even when taking into account potential efficiency gains, Africa would still face an annual infrastructure funding gap of \$31 billion. (See World Bank, *Africa's Infrastructure: A Time for Transformation*, Washington, D.C., 2010).

5 The resource gap is defined as the difference between gross fixed capital formation and gross domestic savings.

6 United Nations Department of Economic and Social Affairs, *World Economic and Social Survey 2012: In Search of New Development Finance* (New York, 2012).

7 World Bank, *Innovating Development Finance: From Financing Sources to Financial Solutions*, 2009.

Figure 1: Resource gap in Africa



Source: UNCTADStat.

## II. Lessons learned from efforts to achieve Goal 8 of the Millennium Development Goals on the development of a global partnership for development

5. New forms of international partnership must build upon lessons learned, including the fact that several of the Millennium Development Goals, while successfully mobilizing the international community around measurable and time-bound development objectives, are unlikely to be achieved by 2015. In efforts to rethink development partnerships, and mobilize adequate financial resources, stakeholders must seek to address the following three factors, which continue to impede development:

- a. The failure of traditional donor-recipient relationships to promote mutual accountability, strengthen ownership of the development agenda, and deliver on Goal 8 promises, particularly with regard to the target of raising official development assistance to 0.7 per cent of a donor's gross national income (GNI);<sup>8</sup>
- b. Persistent imbalances in existing multilateral trade and financial systems: the Doha Round remains deadlocked and, with the notable exception of debt relief, progress in the financial sphere remains limited;

<sup>8</sup> Despite a significant increase in the volume of aid over the last decade, most donors have failed to deliver on the 0.7 per cent aid target, on the 0.15-0.20 per cent target for least developed countries, or on the commitments towards Africa that were made by the Group of Eight at the Gleneagles Summit. In 2011, aid commitments by Development Assistance Committee donors accounted for a mere 0.31 per cent of their GNI, and only five Development Assistance Committee members met the 0.7 per cent target: Denmark, Luxembourg, Netherlands, Norway and Sweden. Official development assistance provided by Development Assistance Committee members to least developed countries stood at 0.11 per cent of those countries' GNI, and only Belgium, Denmark, Finland, Ireland, Luxembourg, Netherlands, Norway, Sweden, and the United Kingdom met the 0.15-0.20 per cent target (see United Nations, *The Global Partnership for Development: Making Rhetoric a Reality*. MDG Gap Task Force Report 2012).

- c. The inability of existing partnerships to address global challenges, including climate change and economic instability, which underscores the importance of upholding the principle of common but differentiated responsibilities.

### III. Adapting to changes on the ground

6. New partnerships must seek to address the factors outlined above and must be able to deal with emerging global economic trends. They should also reflect the ongoing geopolitical and economic rebalancing in favour of developing and emerging economies, particularly Brazil, China and India. Multilateral trade and financial reforms must be enacted so as to give greater focus to development issues and strengthen the voice of developing countries in key forums, including the International Monetary Fund, whose quotas and voting mechanism remain a matter of some contention. At the same time, due consideration must be given to South-South economic relations so as to better exploit opportunities emerging as a result of global trends. In Africa, for example, developing countries' exports and imports have increased in just 15 years from 26 to 43 per cent, and from 33 to 50 per cent respectively.<sup>9</sup> Furthermore, foreign direct investment from the five emerging economies known as the BRICS countries – Brazil, the Russian Federation, India, China and South Africa – reached 25 per cent of total foreign direct investment in Africa in 2010 and continues to increase.<sup>10</sup> There is, moreover, considerable scope to further strengthen Africa's engagement with its southern trade partners in ways that promote structural reform while avoiding the so-called "primary commodity trap" or a "race to the bottom" by countries seeking to attract foreign investment.

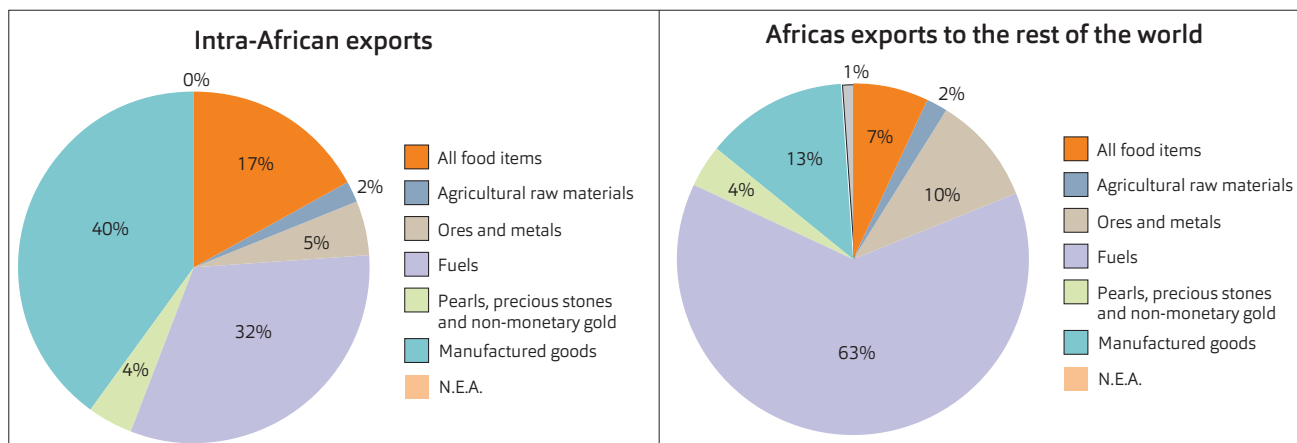
7. New partnerships for development must also devote greater attention to ways in which regional integration in Africa can spur development. Though still limited at approximately 10 to 12 per cent of officially recorded exports, intra-African trade is considerably more diversified than Africa's exports to the rest of the world. Manufactured goods, in particular, accounted for 40 per cent of total intra-African trade in goods from 2010 to 2012, but only 13 per cent of the continent's trade in goods with the rest of the world (Source: Economic Report on Africa 2014).<sup>11</sup> However, regional intra-industry trade and trade in intermediate products remain limited, suggesting that regional production networks are still weak.

8. There is also considerable scope for regional initiatives to boost investment in infrastructure and enhance cross-border cooperation, with a view to mobilizing finance for development.

9 UNCTADStat database (accessed 20 June 2014). Estimates based on three-year averages, 1995-1997 and 2010-2012.

10 United Nations Conference on Trade and Development, *Global Investment Trends Monitor. The Rise of BRICS, FDI and Africa. Special Edition*, Unedited Version (25 March 2013).

11 In other words, one third of Africa's exports of manufactured goods is sold within the continent.

**Figure 2: Composition of African exports by destination, 2010-2012 (source: ERA 2014)**

Source: Economic Report on Africa 2014.

9. New partnerships must also take into account the increasing complexity of development finance. New actors have emerged, including development partners from the global South and private philanthropic foundations, and innovative assistance modalities are now being employed, including debt-conversion mechanisms, which have partially offset the decline in official development assistance that has occurred as traditional donors have come under increasing pressure to cut their aid budgets and insist on “value for money”.<sup>12</sup> The new development finance landscape offers greater opportunities for exploiting synergies between, and complementing, initiatives undertaken by various stakeholders. For example, while traditional donors still tend to allocate most of their aid budgets to initiatives promoting social development, southern development partners tend to focus on infrastructure projects and productive sectors. New partnerships should also support the sustainable management of the global commons, safeguard biodiversity and ecosystems, promote global health, strengthen peace and security, support fair, predictable, non-discriminatory and rule-based multilateral trading and financial systems, and address climate change.<sup>13</sup> Moreover, new partnerships must also be able to address development challenges that have emerged or become increasingly urgent since the adoption of the Millennium Development Goals, including climate change adaptation and mitigation, natural disaster prevention and the financialization of commodity markets.

#### IV. New partnerships and African priorities

10. There is considerable scope for innovative partnerships to support Africa’s transformative agenda, including in the area of trade, where regional integration can undoubtedly underpin Africa’s development. In that regard, it is estimated that the establishment of the proposed continental free trade area could double intra-African trade and stimulate the emergence of more sophisticated trade networks.<sup>14</sup> Promoting regional integration should therefore be made a key medium-term policy priority, and efforts must be made to cut tariffs and remove technical and administrative barriers to trade across the region.<sup>15</sup>

<sup>12</sup> United Nations, *MDG Gap Task Force Report 2013: The Challenge We Face* (New York, 2013).

<sup>13</sup> African Union Commission, *African common position on the post-2015 development agenda* (Addis Ababa, 31 January 2014).

<sup>14</sup> Mevel and Karingi, *Deepening Regional Integration in Africa: A Computable General Equilibrium Assessment of the Establishment of a Continental Free Trade Area Followed by a Continental Customs Union* (Paper presented at the African Economic Conference, Kigali, 30 October-2 November 2012).

<sup>15</sup> Valensisi, Lisinge and Karingi, *Towards an Assessment of the Dividends and Economic Benefits of Successfully Implementing Trade Facilitation Measures at the Level of African RECs* (Paper presented at the Post-Bali Trade Facilitation



11. Rising labour costs in China and other major manufacturing countries could create opportunities to foster Africa's industrialization and economic diversification, thereby generating productive employment for Africa's expanding labour force. On the other hand, however, emerging economies' growing demand for Africa's natural resources could risk reinforcing African countries' dependence on primary commodity exports, especially if developed economies do not provide a vibrant market for other African products. This provides the conceptual basis for engaging Southern partners in a more strategic way, ensuring that South-South trade relations promote value addition and foster the emergence of regional value chains.

12. The emergence of new donors and innovative aid modalities are making it possible to exploit synergies between partners at the national, regional and global levels with a view to mobilizing investments for a range of initiatives, including, in particular, infrastructure projects. In that regard, African countries must assume full ownership of the continent's infrastructural development agenda, as articulated by the Programme for Infrastructure Development in Africa, and must enhance their coordination at regional level and with the donor community so as to best exploit emerging opportunities. South-South cooperation can, moreover, help countries identify common interests, and formulate common positions on the management of the global commons and reforms of the multilateral trade and financial systems.

13. With regard to new partnerships in the area of development finance, the disproportionately high costs of formal remittance services deprive Africa of much-needed funds to finance consumption and physical and human capital investments. Indeed, according to the World Bank, if the cost of remitting funds to sub-Saharan African countries had matched average global costs, sub-Saharan remittance receipts in 2010 would have been \$6 billion higher.<sup>16</sup> It is estimated that over 50 per cent of remittances to the region are sent through informal channels. Enhanced cooperation is therefore needed to cut the costs associated with formal remittance channels and promote their use. Innovative financial instruments, such as diaspora bonds, could also help African countries to mobilize additional remittances from abroad and spur investment.

14. Given the small size of most African financial markets and the high costs associated with establishing robust regulation and oversight mechanisms, regional or subregional financial hubs could be established with a view to creating vibrant and appropriately regulated financial markets that would, among other things, provide for the issuance of debt denominated in local currencies. In that vein, the African Development Bank has already supported the issuance of bonds denominated in local currency at the Uganda Securities Exchange, and is planning to do the same in Kenya, Ghana and the United Republic of Tanzania.<sup>17</sup>

15. Legal loopholes, inefficient revenue collection systems and massive illicit financial flows, which the Economic Commission for Africa estimates may be as high as \$50 billion per year, continue to impede revenue collection by African countries. In that regard, a study of five African countries conducted by Global Financial Integrity in 2014 revealed that trade misinvoicing alone was reducing Government revenue by as much as 11 per cent in Ghana, 8.3 per cent in Kenya, 10.4 per cent in Mozambique, 12.7 per cent in Uganda, and 7.4 per cent in the United Republic

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Symposium for African LDCs, Mwanza, 14-16 May 2014).

16 Ratha and others, *Leveraging Migration for Africa: Remittances, Skills and Investments*, World Bank (Washington, D.C., 2011).

17 Mugwe, *AfDB plans to offer Kenyan currency bonds at the NSE* (Business Daily Africa, 12 December 2012).

of Tanzania.<sup>18</sup> Regional and global cooperation on trade misinvoicing, smuggling, illicit financial flows and other relevant issues is therefore of crucial importance.

16. Africa requires approximately \$200 billion annually to finance sustainable development, promote climate change adaptation and mitigation, and enhance economic resilience and competitiveness. Africa's infrastructure requirements alone are estimated at \$93 billion per year.<sup>19</sup> The costs of safeguarding Africa's natural resources, which continue to underpin most growth in the continent, are also increasing. For example, \$2 billion is needed annually just to mitigate the effects of deforestation and forest degradation and \$22 billion a year is required to promote the sustainable development of Africa's water resources.<sup>20 21</sup> To achieve the Millennium Development Goals and the objectives of the Comprehensive Africa Agriculture Development Programme, approximately \$8.55 billion must be invested annually in African agriculture. That sum is a small fraction of the estimated \$198 billion per year that will be required globally until 2050 for the promotion of environmentally sustainable agriculture,<sup>22</sup> or the \$125 billion that the World Economic Forum forecasts must be invested annually until 2030 in primary agriculture in developing countries.<sup>23</sup> For developing countries to access the funds they require, they must strive to mobilize additional financial resources, including by accessing financial markets, while developed countries must honour the financial commitments they have made in international forums.

17. Furthermore, the impact of the Copenhagen Accord, which calls for \$100 billion to be raised per year by 2020 from a wide variety of sources to help developing countries cut their carbon emissions, could be enhanced if it is implemented in tandem with other mechanisms to address climate change, such as the Global Environment Facility and the United Nations REDD-plus mechanism. Increasingly, the public and private sectors are investing in sustainable development. This is particularly the case in the renewable energy sector, which attracted \$211 billion in new investment in 2010.<sup>24</sup> Since 2006, over \$15 billion has been raised through green bond issuances to finance projects with sizeable environmental gains.<sup>25</sup> In the light of the above, Africa's underdeveloped capital markets and the high costs associated with raising capital across the continent present huge opportunities for regional and subregional collaboration with a view to enhancing African countries' financial sectors and promoting regional integration.

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18 Global Financial Integrity, *Hiding in Plain Sight. Trade Misinvoicing and the Impact of Revenue Loss in Ghana, Kenya, Mozambique, Tanzania, and Uganda: 2002-2011*, May 2014.

19 Economic Commission for Africa, *Managing Africa's Natural Resource Base for Sustainable Growth and Development*, Sustainable Development Report on Africa IV.

20 Gondo, P., *A review of forest financing in Africa. A study prepared for the United Nations Forum on Forests*, United Nations Forum on Forests, 2010.

21 Chanda, O.M., *Financing Africa's water agenda: financing investments in the African water sector*, World Water Week (Stockholm, August 2011).

22 United Nations Environment Programme, *Towards a green economy: Pathways to sustainable development and poverty eradication*, 2011.

23 World Economic Forum, *The green investment report: The ways and means to unlock private finance for green growth*, 2012.

24 United Nations Environment Programme, *Briefing Paper on Finance*, UNEP Green Economy Initiative (Geneva, 2012).

25 Morel, R. and Bordier, C., *Financing the transition to a green economy: their word is their (green) bond?* Climate Brief No. 14- Focus on the economics of climate change, 2012. Available from [www.cdclimat.com/IMG/pdf/12-05\\_climate\\_brief\\_14\\_-\\_financing\\_the\\_transition\\_to\\_a\\_green\\_economy\\_their\\_word\\_is\\_their\\_green\\_bond.pdf](http://www.cdclimat.com/IMG/pdf/12-05_climate_brief_14_-_financing_the_transition_to_a_green_economy_their_word_is_their_green_bond.pdf).

## **V. Issues for discussion**

### **A. Regional value chains, south-south trade and Africa's development prospects**

18. Increasing labour costs in major manufacturing countries could support industrialization in Africa. Nevertheless, growing global demand for Africa's natural resources could reinforce the continent's dependence on primary commodity exports. African countries need to adopt trade and industrial policies that strengthen their competitive advantages, promote value addition and facilitate the creation of regional value chains.

- a. What is the role of regional value chains in Africa, and how can countries promote their development?
- b. How can African countries collaborate with partners from the global South to accelerate the continent's industrialization?
- c. What regional approach should African countries adopt with a view to strengthening their collaboration with countries from the global South and enhancing South-South trade?
- d. How can countries from the global South best collaborate with a view to promoting pro-development reforms of multilateral trade and financial institutions?

### **B. Moving beyond traditional donor-recipient relationships: the role of South-South cooperation in Africa**

19. Considerable South-South cooperation already takes place in Africa and there is real scope for African countries to engage in such collaboration with a view to building on and enhancing the impact of traditional development initiatives.

- a. How can traditional development and South-South cooperation initiatives complement each other?
- b. What lessons can be learned from South-South cooperation by the development community as it seeks to move beyond traditional donor-recipient relationships?
- c. How can complementarities and synergies between traditional and South-South relationships be exploited to promote transformation in Africa?

### **C. New partnerships and emerging sources of development finance**

20. Mobilizing development finance will remain a key priority for African countries in the medium to long term. New partnerships for development should enhance the mobilization of domestic and external resources, among other things, by exploring innovative approaches to development financing.

- a. What steps can be taken at the regional and global levels to reduce financial remittance transaction costs and mobilize the financial resources and skill pools of diasporas?
- b. What policies should be adopted to support the emergence of vibrant and well-regulated financial hubs in Africa?
- c. What collaborative steps can be taken to combat illicit financial flows, and what lessons can African countries learn from developing partners in that regard?
- d. How can Africa best leverage sustainable development financing to accelerate the region's transformation?

