# FORESIGHT AFRICA

## TOP PRIORITIES FOR THE CONTINENT IN 2012

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Africa Growth Initiative
at BROOKINGS

## ABOUT THE BROOKINGS AFRICA GROWTH INITIATIVE

For Africa to achieve transformative progress, policy solutions must come from African sources. The Africa Growth Initiative brings together African scholars to provide policymakers with high-quality research, expertise and innovative solutions that promote Africa's economic development. The Initiative also collaborates with research partners in the region to raise the African voice in global policy debates on Africa. Our mission is to deliver research from an African perspective that informs sound policy, creating sustained economic growth and development for the people of Africa.

### The Following AGI Partner Think Tanks Also Contributed to this Publication:

- Center for Social and Economic Research in Senegal (CRES)
- Development Policy Research Unit at the University of Cape Town in South Africa (DPRU)
- Nigerian Institute for Social and Economic Research (NISER)

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# **FOREWORD:** 2011 IN RETROSPECT

*Mwangi S. Kimenyi*

In January 2011, the Brookings Africa Growth Initiative (AGI) launched *Foresight Africa*—a compilation of policy briefs examining the key issues and events that we considered to be most important for Africa's economic, political and social development during the course of 2011. While it is not entirely possible to gauge the extent to which individuals, governments and organizations took heed of the policy recommendations we proposed in *Foresight Africa*, we can look back and evaluate whether the insights we offered a year ago turned out to be relevant during this past year.

Broadly, one set of briefs focused on the opportunities that Africa could exploit to accelerate its development. These opportunities included: solidifying democracy through democratic elections; the potential to leapfrog development through technology adoption; promoting aid effectiveness to improve development outcomes; the rise of new major development partners such as Brazil, Russia, India and China (BRICs); and new discoveries of natural resources. The briefs also highlighted the risks associated with not putting the right policies in place. For example, AGI warned of possible conflict if elections were not managed properly in 2011. Likewise, while the BRICs presented African countries with a great opportunity to advance economic cooperation, we argued for the need to manage these new relationships with transparency, especially in the area of natural resource extraction.

The other set of briefs focused on how potential challenges in Africa could be turned into opportunities for growth if appropriate actions were taken. These challenges included: ongoing and new conflicts across the region; a changing climate and severe droughts; creating a competitive environment for business and trade; managing migration across national borders; improving governance and the war on corruption. These challenges were considered among the most crucial issues that would impact economic development on the continent.

Looking back, the 2011 *Foresight Africa* publication was certainly insightful. The expansion of mobile phone technologies was a significant contributor to GDP in many African countries; the BRICs, especially China, continued to expand their presence in Africa with many new investments in infrastructure projects; efforts to reduce the barriers to the movement of goods and people across national borders dominated the African Union's agenda; conflicts in Somalia, Sudan and the Democratic Republic of the Congo continued to hamper development efforts; and good governance—especially the fight against corruption—was of particular concern for most African governments.

Two issues discussed in *Foresight Africa 2011* stand out as especially relevant over this past year: democratic elections and climate change. Broadly speaking, Africa's year of elections saw most polls and ballots conducted in a transparent manner and with no chaos. Many elections resulted in smooth changes in leadership like in Zambia. In the case of Sudan, we witnessed the creation of the world's newest country, South Sudan. Yet, there were significant problem areas. For example, during the 2010 Ivory Coast elections then incumbent President Laurent Gbagbo refused to accept the results after defeat, which resulted in an escalation of conflict throughout the first half of 2011. More recently, insufficient preparations resulted in the highly disputed outcomes of the DRC's presidential elections. Other examples where the election outcomes were disputed by losing candidates include Cameroon and Liberia. The 2011 *Foresight Africa* publication detailed the importance of sufficient election preparation and it is apparent that some of the elections produced undemocratic results because of inadequate investment in the electoral processes.

The damaging impact of climate change on Africa was another big issue that we highlighted a year ago, which unfortunately came to fruition this past year. One of the worst droughts in over a decade occurred in the Horn of Africa, resulting in a famine that cost the lives of tens of thousands of people and forced camps throughout the region to be filled with thousands of refugees through the end of 2011. The cost of the famine revealed major weaknesses in several African governments and the preparedness of the international community to deal with such catastrophes.

Overall, *Foresight Africa* was on the mark in forecasting the most important issues that impacted Africa in 2011. Nevertheless, we failed to identify the potential for revolutions in North Africa. However, AGI was not alone in this; few countries, organizations and individuals really saw the popular uprisings of the Arab Spring coming. While it was difficult to have predicted the speed by which the changes occurred in those countries, a careful analysis of those societies—especially in regard to their democratic deficits—should have revealed that all was not well.

The issues highlighted in *Foresight Africa 2011* will remain important in 2012 and beyond. The 2012 edition of *Foresight Africa* examines the top priorities, concerns and policy recommendations for the continent in the coming year. It is our hope that this year's publication will help African policymakers, development agencies, the private sector, civil society and the international community better prepare to seize opportunities and to mitigate risks that could reverse the progress Africa has achieved over the last few decades.

# INTRODUCTION

This past year, Africa and the rest of the world witnessed many significant events that have created consequential challenges for the future of Africa and the global economy. Most notably, these included the economic slowdown in Europe and the United States, the Arab Spring in the Middle East and North Africa, instability and unrest in a number of Sub-Saharan African countries, and severe drought and famine in the Horn of Africa. While 2011 has certainly proven to be difficult for Africa and other regions, there were also developments that have helped many African countries manage the negative impacts of these challenges. These developments included: high commodity prices, which helped boost trade returns in Africa's commodity-rich countries; economic and governance reforms in several African states, which helped strengthen democratic rights and improve livelihoods; and a deepening of regional integration efforts, which helped stimulate growth across the continent.

Looking at 2012, experts from the Brookings Africa Growth Initiative (AGI) and colleagues from think tanks based in the region have come together to produce this year's issue of *Foresight Africa*, where they outline the top priorities for the continent for 2012 and beyond. AGI scholars assess what they see as the major challenges for Africa in the coming year and provide policy recommendations on how to manage these challenges and leverage opportunities to catalyze and reignite growth in 2012. Similarly, AGI and its partner think tanks identify country-specific challenges in Nigeria, South Africa, Senegal and Kenya.

### China–Africa Relations: Defining New Terms of Engagement

**Vera Songwe and Nelipher Moyo** examine the China-Africa relationship. They argue that in 2012 African countries must articulate a comprehensive China policy that goes beyond trade to include issues of industrialization, agriculture, labor markets and politics.

### Consolidating Africa's Regional Integration Efforts

**Mwangi S. Kimenyi and Stephen N. Karingi** suggest that regional integration has the potential to achieve significant progress in 2012 if African governments and regional economic communities can increase coordination.

## Sub-Saharan Africa's Youth Bulge: A Demographic Dividend or Disaster?

**Julius Agbor, Olumide Taiwo and Jessica Smith** analyze the implications of the growing youth population in Sub-Saharan Africa. They emphasize that African governments must heed the example set by the youth-led Arab Spring and push for greater inclusion of young people into their economies to avoid political instability in their own countries.

## Enhancing Africa's Voice in Global Governance

**Mwangi S. Kimenyi and Nelipher Moyo** discuss Africa's need for further inclusion in global governance, as decisions made by the developed world have large implications for the continent. They outline recommendations for Africa to increase its voice and influence in global governance, stressing the need for a more inclusive framework to address the world's problems.

## A New Agenda for Aid to Africa

**John Page** stresses that 2012 is likely to be a year in which aid to Africa will fall and a new aid agenda will be needed. Page argues that after years of neglect donors need to focus on creating good jobs in Africa by shifting away from low impact regulatory reforms toward addressing the binding constraints to Africa's competitiveness.

## Securing a Productive South Sudan

**John M. Mbaku and Jessica Smith** assess forthcoming challenges for South Sudan in 2012. They recommend a broad set of policy interventions to help South Sudan manage the common pool resources of water and oil.

## Minimizing the Impact of the Global Economic Slowdown on Africa

**Julius Agbor and Anne Kamau** analyze the impacts of the global economic slowdown on Sub-Saharan Africa and discuss what African governments can do to better handle the ups and downs of global markets and the macroeconomic environment in 2012.

## Insecurity and Counter-Insurgency in Africa

**Richard Joseph** reviews the threats stemming from the statelessness of Somalia, the need for political reconfiguration in Sudan, and the potential for conflict in Nigeria.

## Strategies for Improving Food Security in Africa

**Vera Songwe** examines the burden posed by constant fluctuations in food prices on African farmers. Songwe explores how implementing communal storage warehouses for food and agricultural products can help mitigate problems of food price volatility and identifies the next steps for African governments and the private sector.

# CHINA–AFRICA RELATIONS: DEFINING NEW TERMS OF ENGAGEMENT

*Vera Songwe and Nelipher Moyo*

## The Priority

African countries weathered the global economic crisis fairly well due in large part to a shift away from their traditional trading partners—primarily the United States and the European Union—toward China, India and other emerging markets. In order to sustain economic growth over the next few years, African countries must continue to cultivate and build on these new and promising economic relationships. China, in particular, has emerged as an important and dynamic export destination for Africa. China's share of exports from Africa has increased significantly over the last decade from 3 percent in 1998 to 15 percent in 2008. In 2009, China overtook the United States to become Africa's largest trading partner. Recognizing the growing importance of the China-Africa relationship, the Chinese government outlined its Africa policy in a 2006 white paper. Over the last decade, the China-Africa relationship has been dictated by China's interest in Africa's natural resources. But for African countries to maximize the potential benefits from this partnership, African governments must articulate their own comprehensive China policy, which should include strategies for engagement beyond natural resources.

## Why Is It Important?

In the fall of 2012, China will undergo a major transition in leadership. Xi Jinping, China's current vice president, is expected to replace Hu Jintao as general secretary of the Chinese Communist Party and as president of China. With this change comes a new generation of Chinese leaders, the rise of "fifth generation". Seven out of nine members of the Standing Committee—China's most powerful decision-making body—will also be replaced. The previous generations of China's leaders were focused on growing the country's economy. However, now that China has emerged as an economic superpower—the second largest economy in the world—policy changes made by the new generation of leadership will have broader implications for China and the world.

With this change in China's leadership comes an opportunity for African governments to expand the scope of their engagement with China. In 2012, African leaders must articulate well-defined objectives and strategies to guide the next decade of their countries' relationship with China. Failure to do so will be a missed opportunity for both China and Africa.

## What Needs to Happen in 2012?

China's growth trajectory over the next decade could be critical for Africa's development. With an increasingly favorable business environment in Africa, China could help sustain and accelerate the continent's growth. China's economy is projected to grow at a slower rate in 2012 due to a fall in exports to the U.S. and Europe. However, rising domestic consumption in China may bode well for Africa as it could sustain China's demand for African exports. There are some risks however; a sustained slowdown in exports from China to the U.S. and the EU would certainly impact Africa primarily through a drop in China's demand for African exports.

In order to capitalize on the economic opportunities of the growing China-Africa relationship, African countries should take on the following policy recommendations in 2012:

### Increase Market Access and Export Capacity in New Industries

Over the next year, Africa should take advantage of increased trade with China to gain greater access into Asian markets more broadly and diversify the African region's export products. African governments should advocate for no tariffs on their exports to China as well as lower rules of origin requirements. China's current rules of origin require that 40 percent of the value-added be from the exporting African country; unfortunately this is much higher than the manufacturing capacity of many countries in the region.

For their part, African countries must increase the competitiveness of their existing exports and at the same time develop their export capacity in new industries. This will require substantial technology transfer and investment. Here, African countries can learn from China, as the Chinese government has had very successful experiences with implementing policies that support technology transfer from foreign investors to local Chinese firms. In the 1980s, the Chinese government put in place local labor, content and ownership requirements to ensure that there was opportunity for knowledge transfer from foreign to local firms in China. This policy had significant success and allowed Chinese businesses to increase their productive capacity. Similarly, African countries should examine whether such requirements could also enhance the capacity of African businesses. More effective collaboration and knowledge sharing between Chinese and African businesses and governments would certainly help take this forward. In addition, increased Chinese investment in Africa's emerging industries could help integrate the continent into global production chains and deepen industrial development.

### Improve Infrastructure

Poor infrastructure across the continent is one of the primary barriers to development and trade in Africa. It is estimated that Africa has an infrastructure financing gap of about $31 billion annually. China can actually help to bridge this gap. Chinese investment in African infrastructure has increased from $4.5 billion in 2007 to $9 billion in 2010; China is by far the fastest growing external source of infrastructure financing for the continent (Schiere and Rugamba, 2011). China is also helping to make it cheaper for African countries to improve their infrastructure by offering lower project costs.

To maximize China's growing investments in African infrastructure, African governments must steer infrastructure investment toward maintenance as well as new infrastructure development. It is estimated African countries have lost more than half of their road networks since independence due to poor maintenance. In 2012, African leaders should look for ways to engage China for better maintenance of the region's infrastructure. Furthermore, African governments must ensure that infrastructure development projects are not only concentrated around extractive industries, but that they also facilitate the development of new industries.

### Create Jobs and Reduce Youth Unemployment

Strong demand from China and increased access to its markets could help Africa deal with its growing youth unemployment problem if a more robust manufacturing sector develops on the continent. On average, youth unemployment in Sub-Saharan Africa is over 20 percent and is expected to increase over the next decade. Africa should follow the example of East Asia, where a rapid demographic transition between 1965 and 1990 occurred at a time when strong educational systems and trade liberalization enabled countries in the region to absorb the boom generation into the workforce. Similarly, African governments should look for innovative ways to absorb unemployed youth into the labor market.

The Arab Spring showed governments around the world that problems of youth unemployment cannot be ignored. African governments must therefore prioritize job creation and leverage their relationship with China to help tackle the unemployment problem. China's demand for African exports coupled with its investments in infrastructure in Africa could help to create jobs for youth in the region. While African countries must invest in education and health, investing in infrastructure and creating a conducive business environment are a top priority. To spur job creation, African governments should offer various incentives including tax breaks to foreign firms that create local jobs for Africans. Conversely, African governments should discourage the use of external workers by foreign firms for basic tasks that can be performed by local workers. This will help to ensure that Africa does not miss out on the job creating potential of China's increasing investment.

### Strengthen Governance

In light of the growing importance of the relationship with China, it is essential that the African leadership and governance structures that manage these relationships are robust. The nature and strengths of these institutions will ensure that the China-Africa relationship is a sustainable and equitable one.

African governments must conduct their business with China in an open and transparent manner, beginning with full public disclosure of all major contracts in the extractive industries. Many African countries have signed on to the Extractives Industries Transparency Initiative. Yet, numerous deals continue to be concluded without any public scrutiny.

It is also in China's interest to deal with strong and transparent institutions in Africa to protect its investments. China can work with African countries to strengthen their legal and regulatory frameworks to ensure that the overall business environment in these countries is conducive to investments and that the institutions needed to support trade facilitation are transparent, accountable and robust.

### Rethink International Partnerships

African countries should encourage China to leverage its role as a leading development partner in Africa in order to reshape the international aid architecture from an aid agenda to an investment agenda. Given China's recent transition from aid recipient to donor country and its understanding of the importance of investment, African countries should persuade China's new leadership to become a more active participant in the global development and international aid dialogue.

## Conclusion

China will remain an important trading partner for Africa over the next decade. Therefore, Africa should look for ways to leverage its relationship with China in order to increase productivity in the natural resources and mining sectors, and to diversify into other sectors. In the years to come, Africa could benefit from more meaningful exchanges with China in a number of areas, including infrastructure development, technology transfer, job creation, institution building and even international aid reform. However, a clear policy framework for engagement with China is needed. The leadership changes in China later this year present an opportunity for African governments to expand the scope of their engagement. This must be a priority for African countries in 2012.

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# CONSOLIDATING AFRICA'S REGIONAL INTEGRATION EFFORTS

*Mwangi S. Kimenyi and Stephen N. Karingi**

## The Priority

In a December 2011 edition of *The Economist*, an article entitled "Africa Rising" cemented an emerging consensus that Africa is on the verge of turning the corner in its development efforts. But more importantly, the transformation taking place is mostly driven by Africans themselves. African governments are implementing policies that are changing the continent's investment climate for the better; citizens are more informed about their rights and are demanding more accountability from their governments; and the African private sector is starting to look beyond national borders. One of the most important pillars in determining whether the positive prospects for Africa will be realized is success in regional integration. With numerous countries, small economies, low population density and many landlocked nations, regional integration is absolutely pivotal to generating high rates of economic growth and development in Africa.

## Why Is It Important?

This year is a crucial one for Africa's regional integration project and actions by governments, regional organizations and the international community will be critical in determining the course of the continent's development for many years to come. The continent's integration projects are certainly reaching a tipping point.

Africa's economic integration agenda progressed slowly in the early years after independence. Some countries were still under colonial control and the priority was decolonization. Furthermore, the geopolitical environment and a world order dominated by the Cold War made regional integration less of a priority for African countries. The integration agenda has been progressing at a faster rate since the Abuja Treaty establishing the Africa Economic Community was adopted in June 1991 and implemented in May 1994. The Constitutive Act of the African Union (AU) signed in July

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2000 added impetus to this second phase through full embrace of the Abuja Treaty.

While there has been significant progress in Africa's regional integration, evidence shows that much more can be achieved. While intra-African trade has grown, there has been little increase of its share in Africa's total trade; rising only by 1 percentage point from 9.7 percent in 2000 to 10.8 percent in 2010. In contrast, in other parts of the world intra-regional trade is a much larger share of total trade for the region.

As Africa enters 2012, many are optimistic that the regional integration agenda will make crucial progress and bring a substantial boost to intra-African trade. Three recent decisions are the basis for this confidence. First, the tripartite free trade agreement (FTA) of the Common Market for East and Southern Africa (COMESA), the South African Development Community (SADC) and the East African Community (EAC) has entered its negotiations phase. Expected to conclude in 2014, this agreement will lead to the creation of a common regional market covering 27 African countries, which include more than half of Africa's population and GDP. Second, in November 2010 AU trade ministers agreed to fast-track the creation of a continental FTA. Demonstrating their seriousness toward creating an African Common Market, the ministers in December 2011 endorsed a *Framework, Roadmap and Architecture of the Continental Free Trade Area (CFTA)*. Finally, the decision by African Union leaders to dedicate their January/February 2012 Summit to the theme of boosting intra-African trade will bring additional focus to the issue. During this meeting, AU leaders are expected to consider and adopt an action plan for increasing intra-regional trade. Adoption of these proposals will be one of the most important events in determining the course of African development in 2012 and beyond.

Estimates by the United Nations Economic Commission on Africa (UNECA) indicate that, by 2022, the removal of internal tariff barriers would lead to additional intra-regional exports of around $25 billion per year over the current baseline. Intra-regional trade as a share of Africa's total trade would increase to 15.4 percent by simply eliminating tariff barriers. However, while tariff barriers are important, the more constraining factors to intra-African trade are non-tariff barriers and weak infrastructure. The UNECA study shows that making customs procedures twice as efficient and halving the time goods spend at port within the African free trade zone would double intra-regional trade to 22 percent by 2022. This growth in trade would be accompanied by growth in real incomes. More importantly, the estimates show that intra-African trade in agro-processed goods would grow by an average of 8 percent per year, and intra-African industrial exports would grow 5 percentage points over the baseline. The CFTA will lessen the burden of agriculture-related imports while helping to create regional value-chains.

## What Needs to Happen in 2012?

African regional integration efforts in 2012 look optimistic. The current global economic environment leaves Africa with little choice than to decisively consolidate and build its regional trading market. The commodity-boom supercycle that started in 2003 will not continue forever and the benefits of the commodities boom are only a small proportion of what the region could gain through an enlarged internal African market. The uncertainties facing Africa's traditional export markets in Europe and the U.S. further exacerbate the risk to the region's development prospects if growth in the emerging market economies of China and India were to slow down significantly. Yet, even if Africa's traditional export markets and the emerging economies were to dramatically improve, the last six decades have shown that the trade policies Africa has pursued to date cannot lead to economic transformation. Below, we propose policy actions that African governments and regional economic communities (RECs) should implement to enhance integration and suggestions on how regional organizations and international players can contribute to this agenda.

### African Governments

African governments must realize true regional integration requires them to think regionally as well as locally. They must place their economic and political decisions within the framework of the larger integration agenda. Enhancing African integration calls for a paradigm shift that embraces a regional approach, rather than a national approach, to considering the benefits and risks of building a larger continental market. Second, efforts to consolidate the regional market must also move beyond its current focus on merchandise goods trade. Thirdly, national sovereignty must no longer trump regional integration goals, especially regarding the free movement of people–particularly business persons—across the continent.

In 2012, African governments must increase their commitment to deeper regional cooperation. The *Action Plan for Boosting Intra-African Trade* and the *Framework, Roadmap and Architecture of the CFTA* offer the blueprint for transformational integration decisions.

### Regional Economic Communities

The RECs are the building blocks of African integration. Although they have achieved varied results across the different sub-regions, given the higher African integration goal, they will need to learn from each other's successes and failures. The Economic Commission for Western Africa States (ECOWAS) has the best policy regarding the movement of people across national borders, which could be replicated elsewhere. COMESA, SADC and EAC have demonstrated trade policy harmonization, which could provide the model for other RECs to build upon. In the short-term, in order to enhance African integration, RECs will need to do at least two things. First, they must accelerate the implementation of previous agreements, especially those related to market integration. Second, RECs will need to provide stronger leadership and coordination of regional development strategies, helping their member states better prioritize projects and programs aimed at deepening integration.

### Regional Organizations

Both the *Action Plan for Boosting Intra-African Trade* and the architecture for the CFTA identify specific areas where regional organizations could play a role in implementation. For example, the EAC and the African Development Bank are expected to provide technical support during the negotiations and implementation of the CFTA for the African Union Commission, RECs and member states. Specifically, to support the integration agenda in the short term, regional organizations will need to concentrate their work in three areas: tariff and non-tariff barrier analysis; evaluating the operational rules of different RECs to prepare for future harmonization in the CFTA; and addressing trade remedy concerns. In addition, regional organizations will need to help RECs stay on course for CFTA implementation, which includes a preparatory phase between 2012 and 2014.

Africa is now well positioned to enter a phase of accelerated and more durable economic growth. Deepening regional integration is crucial for this to occur and should be a priority in 2012.

# SUB-SAHARAN AFRICA'S YOUTH BULGE: A DEMOGRAPHIC DIVIDEND OR DISASTER?

*Julius Agbor, Olumide Taiwo and Jessica Smith*

## The Priority

In an apparent response to the youth-led Arab Spring, African heads of state decided to accelerate the 2009–2018 Decade of Youth Action Plan at the African Union 2011 Summit held in Malabo, Equatorial Guinea. Deliberations at the summit noted that high youth unemployment is an impending threat to stability in Africa (AU, 2011). This concern is certainly valid as Africa's youth population (15–24 year olds) has been increasing faster than in any other part of the world (PRB, 2009). According to the World Bank, 200 million people in Africa fall into this category, making up 20 percent of the population, 40 percent of the workforce, and 60 percent of the unemployed on the continent. Youth in Africa hold great potential as drivers for economic growth through participation in labor markets and also as consumers. A young population can also be a resource that leads to innovation and supports governance and political reforms. However, a large youth population that is not gainfully employed can also be a liability, further undermining growth prospects. Africa's youth present a formidable challenge that requires careful interventions. In 2012, Africa must prioritize such measures to harness the potential presented by the youth population and to mitigate their risks.

## Why Is It Important?

Since the unfolding of the Arab Spring in 2011, commentators have considered the Sub-Saharan region the next stop for political uprisings: a logical response to the increasing number of educated youth confronted with rising unemployment and the absence of political space. While such uprisings have not spread to Sub-Saharan Africa, the youth in this region are a potential destabilizing factor. A large portion of the youth population remains unemployed and their economic status is being made worse by rising fuel and food costs. Even in the absence of large-scale revolts, youth unemployment represents an enormous cost to society in terms of lost potential growth and increased crime.

A large portion of people age 15–24 in Sub-Saharan Africa are involved in self-employment in the informal and agricultural sectors (World Bank, 2011). For example, Mali has 94 percent, Ethiopia 74 percent, and South Africa 31 percent of the total population employed in the informal sector (Adams, 2008). However, employment for the 15–24 age bracket, compared to the total population, has remained largely stagnant despite this age group increasing in size. This means that more and more youth are not fully absorbed in the economy or making significant increases in income, in self-employment or in agriculture. Compounding this problem is the increased rural-urban migration of youth. The African urban population is expected to rise by 0.8 billion to reach 1.2 billion by 2050 (United Nations, 2010). This translates into an increased population density in African cities. A large population of educated, yet frustrated, youth creates a greater impetus for current measures to promote stability and youth productivity.

## What Needs to Happen in 2012?

African Union members agree it is a priority for more youth to enter the labor market to promote stability and reduce crime. They have established several youth-focused goals: to reduce youth unemployment by 2 percent per year from 2009–2018; to elaborate on a Technical and Vocational Education and Training (TVET) framework; and to provide adequate funding to advance the youth agenda. The TVET framework will be important for helping African policymakers determine what skills their young people need to gain employment, become better entrepreneurs, or more successful farmers. However, these broad policy decisions will remain as idle chatter unless they are turned into action at the national level in 2012 and beyond.

African nations must determine at the country level the sectors with growth potential and develop youth skills that will serve labor demand. The Kenyan Government Vision 2030 plan has identified sectors to focus on as a medium term economic growth strategy. For example, information technology (IT) enabled services are expected to provide 20,000 jobs in five years. In order fill these positions, Kenya has designed a city at Konza to serve as an incubator for investment in IT enabled services. According to the Kenyan Vision 2030 website, the incubator site has been acquired and the feasibility study-master plan is complete. The incubator features a parallel plan to provide centers of specialization for education in IT enabled services. While the success of Kenya's ambitious plan is yet to be realized, the concept is correct; policymakers need to determine sectors with potential for job growth and simultaneously develop the needed skills in the youth population.

In addition to training, the governments should play a role in creating an enabling environment for youth involvement in the labor market. African policymakers should focus more critically on creating favorable conditions in non-wage sectors by developing value chains in agriculture and expanding opportunities for self-employment. Very little attention is paid to the agro-allied sub-sector—those activities that transform farm outputs into final products. The agro-allied sector has great potential for youth employment because formal skill requirements are typically low at the beginning, which allows youth to learn by gradually moving from simple tasks to more sophisticated production. In regards to improving conditions for entrepreneurs, policymakers need to provide incentives for financial institutions to innovatively find ways to deliver both financial and social capital to self-employed youth. The main setback for banks that would lend to youth has been lack of information. African governments can begin tackling this problem in 2012 by expediting national identification and registration systems that can support the development of consumer and credit information systems. The information made available to lenders would facilitate the growth of credit and entrepreneurship among young people.

Broadly, African nations should determine if any institutional barriers are preventing youth from participating in the economy. For example, youth in Ethiopia face restricted access to land due to customary land rights, which makes it difficult for them to succeed in the agriculture sector. Sub-Saharan countries also vary widely on land and property ownership for women; laws often exclude females as major economic players and restrict their access to collateral and farm land (OECD, 2011). Although institutions are slow to change, governments can play a vital role in opening political space.

As global attention remains on youth protests in Arab countries and elsewhere, and the global economic crisis worsens unemployment conditions for youth, 2012 is bound to feature the reactions of the young and jobless. The African Union is correct in accelerating their goal to reduce youth unemployment to avoid the negative consequences of the youth bulge. However, AU member countries should also be held accountable at the national level to better leverage the dividends a large youth labor force can provide. While the programs highlighted in the 2011 African Union Summit are not new programs for Africa, what is new for 2012 is the challenge for AU members to translate delivered skills into meaningful opportunities and employment for Africa's youth.

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# ENHANCING AFRICA'S VOICE IN GLOBAL GOVERNANCE

*Mwangi S. Kimenyi and Nelipher Moyo*

## The Priority

For Africa, global governance matters. Decisions made by developed countries have a direct bearing on the well-being of the African people—most recently demonstrated in the developed world's global economic and financial crisis. Despite having no control over the crisis and its mitigation or outcome, negative repercussions still occurred in African economies including: increased currency volatility, reduced flows of private capital to the region, reduced flows of remittances and decreasing commodity prices. These outcomes then induced consequential implications on poverty, food security and health. Yet, Africa has been a marginal player in global governance matters, which impact its economic stability and overall well-being. While African countries have made major progress reforming their economies—improving the business climate and governance; and macroeconomic management—these efforts are unlikely to bear fruit if impeded by developed countries. Volatility in global financial markets and a potential deceleration in commodity markets have gone unrecognized by developed countries and continue to threaten Africa's growth outlook for 2012. Beyond the economic arena, decisions on climate change, trade and global security matter to the continent. In 2012, Africa should seek to increase its voice and influence in global governance structures, specifically by requiring a more inclusive framework to address the world's problems.

## Why Is It Important and What Needs to Happen in 2012?

### Global Economic Governance

The recent global crises revealed that the G-8 could not adequately address global economic problems and required a more inclusive process, leading to the expansion of the G-8 to the more comprehensive G-20. While this is certainly a step in the right direction, Africa and other developing countries—which are the most vulnerable to global downturns—must push for expansion of the G-20 to G-20 plus. Although South Africa gained membership in the G-20, most Africans believe that broader representation is necessary and, perhaps, the African Union is best equipped to represent Africa's interests in global affairs. Like the European Union, the African Union should have a place at the G-20 plus.

In addition, the Bretton Woods institutions need to be reformed to be more representative of developing countries. The World Bank has made noteworthy progress by adding a third executive director for Sub-Saharan Africa and adjusting voting power on its Board of Governors. However, the International Monetary Fund continues to lack legitimacy in the changing global context. Despite the quota and voice reforms undertaken starting in 2008, emerging markets and other developing countries are under-represented on the IMF's Executive Board. In 2012, IMF reform should be at the forefront of Africa's agenda as the primary organization tasked with overseeing global financial market reform. South Africa's President Jacob Zuma reiterated this point at the 2011 G-20 Summit, where he stated "on IMF reform, South Africa seeks to increase the voice and participation of Sub-Saharan Africa and the creation of a third chair for Sub-Saharan Africa" (Patel, 2011). In reforming the IMF, countries should prioritize measures that increase the representation and inclusiveness of the organization. This includes removing veto power for any country, creating an independent accountability mechanism, and giving Africa a third chair on the Executive Board.

### Global Trade

Trade has been an important driver of growth in Africa over the last decade. Exports account for one-third of African GDP and export value more than doubled between 2000 and 2010 due to rising commodity prices. Worldwide, as countries struggle to manage the effects of the global crisis, some have implemented recovery measures that are exacerbating trade imbalances between developed and developing countries. The World Trade Organization (WTO) has reported an increasing trend of protectionism among G-20 countries. This threatens global trade growth in 2012 and consequently presents a risk of slower economic growth in Africa.

African countries' participation in the WTO has previously been very limited. With the exception of South Africa, no other country in Sub-Saharan Africa has been involved in the WTO's Dispute Settlement Mechanism, as either complainants or respondents. With the current trend of rising protectionism in developed countries, it will be important for African countries to take a more active role in the WTO to safeguard their trade gains. African countries should work to ensure that, like the European Union, the African Union becomes a member of the WTO. This will open a new trade context for countries in the region, which might otherwise lack the capacity to deal with complex trade issues and grievances.

### Global Climate Change

The adverse effects of climate change are more pronounced in developing countries and especially those in Africa. Changing climate such as rising sea levels, droughts, heat waves, floods, and rainfall variation threaten development and food security in many Sub-Saharan countries and are likely to increase unless nations can agree on a comprehensive strategy for climate change mitigation and adaptation. In December 2011, global climate change advocates and policymakers met in Durban at the 17th Conference of the Parties (COP-17) to the United Nations Framework Convention on Climate Change to agree on a global climate change framework. While a legally binding framework to address climate change was not reached, COP-17 brought African governments together and initiated the development of a united African position on climate change.

It is critically important that in 2012 African countries continue to assert their voices in global climate change discussions. In particular, African voices should address the allocation of climate change adaptation and mitigation funds. In order to achieve climate change objectives, recipient countries must be active stakeholders in these discussions. Therefore, in 2012 African countries should build on the consensus reached in Durban and continue to advocate for increased participation in the allocation of climate change funds. In addition, despite their low levels of development, African countries should play a larger role in negotiations to reduce greenhouse gas emissions in order to protect themselves against an agreement that could adversely affect the region in more advanced stages of development.

### Global Security—The U.N. Security Council

Global security remained a key issue in 2011 and will remain so for the foreseeable future. As the primary organization tasked with maintaining global security, in 2011 the United Nations Security Council authorized military action that resulted in regime change in two African countries: Libya and the Ivory Coast. Of the 60 resolutions passed by the U.N. Security Council in 2011, at least 38 were directed at African countries. Clearly, Africa has a stake in global security matters and should have adequate representation in the world's global security arm.

The Security Council's five permanent members—China, France, Russian Federation, the United Kingdom and the United States—were designated in 1945 and have since remained unchanged. While 10 non-permanent members have been added, including South Africa and Nigeria, these members do not have veto power and can only serve non-concurrent two-year terms. To date, both Africa and Latin America lack representation among the Security Council's powerful permanent members.

In 2012, African countries should work with their Latin American counterparts to call for a more inclusive and equitable global security governance structure, starting with regionally representative permanent seats. While there are numerous and sometimes conflicting proposals to reform the Security Council's size, regional representation structure, veto implementation and categories of membership, there is consensus that each region should have a permanent representative. This should serve as the starting point for U.N. Security Council reforms. Finally, the African Union should be delegated as the representative for the continent.

### International Aid Reform

A top item for Africa's 2012 agenda should be international aid reform and increasing the African voice in reform discussions. Two objectives must be met within aid reform: donors must continue to meet their aid commitments despite slower global growth; and the nature and effectiveness of aid must be improved. African policymakers agree that the region would benefit significantly from a reorientation of aid toward investment and that African countries should look for ways to leverage their relationships with China to increase their voice on aid reform.

In November 2011, the Fourth High Level Forum on Aid Effectiveness in Busan facilitated important discussions about improving the effectiveness of aid. During the forum, African countries emphasized the importance of ensuring that donor objectives align with African priority areas. While this was a positive step toward presenting a united front on aid, during the next forum, African countries should outline some specific agreed upon priority objectives and work to increase the voices of aid recipient countries.

### Prioritizing the Inclusion Agenda

While discussing the theme for the January 2012 World Economic Forum Annual Meeting, Professor Klaus Schwab observed the "conventional modes of decision-making have become outdated. What we clearly need are new models for global, regional, national and business decision-making which truly reflect that the context for decision-making has been altered" (Schwab, 2011). Starting with the World Economic Forum, African countries should utilize these conferences to increase their role and participation in global governance. This should culminate in a seat for the African Union at the 2012 G-20 Summit in Mexico.

The changing global dynamic presents an opportunity to integrate new voices in global governance—which Africa should capitalize. In order to safeguard its recent development gains, Africa must play a greater role in global governance organizations in 2012. Failure to do so may result in the global agreements that are disadvantageous to the region.

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# A NEW AGENDA FOR AID TO AFRICA

*John Page*

## The Priority

This year is likely to be one in which a number of hard decisions and unhappy truths will confront the international donor community in Africa. Fiscal retrenchment in the Organization for Economic Cooperation and Development (OECD) countries makes it increasingly likely that the members of the OECD Development Assistance Committee (DAC) will finally abandon their Gleneagles commitments to increase aid to Africa by $25 billion. Indeed, there is a significant risk that "programmable aid"—the aid actually available to support investments and public expenditures—may fall. 2012 is also the year in which donors are likely to have to admit that despite significant progress many African countries and the continent as a whole will fail to meet the Millennium Development Goals.

Aid to Africa remains high on the agenda of the G-8 and G-20 for 2012. But in the face of these realities, what sort of conversation should these two global "clubs" have with respect to an aid strategy in Africa? The answer is clear. After years of neglect, the international community needs to refocus aid on creating good jobs through private investment and structural change.

## Why Is It Important?

Growth enhancing structural change—the movement of workers from low productivity to high productivity jobs—matters crucially for Africa. It is the key to long-term growth, high wage employment and faster poverty reduction. There is little evidence, however, that significant structural changes have underpinned the region's more rapid growth since 1995. Since the middle of the 1980s, Africa has deindustrialized. Africa's share of manufacturing in GDP is less than one-half of the average for all developing countries and, in contrast with developing countries as a whole, it is declining. Today, Bangladesh alone produces as much manufacturing output as all of low-income Africa.

As industry has moved out of Africa, private investment has made other developing countries—mainly in Asia—the "world's factory". Since the 1990s, foreign direct investment (FDI) in manufacturing and infrastructure has moved disproportionately to Asia, driving the rapid structural transformation of its low-income economies. Not surprisingly, the majority of the "good jobs"—those with high value-added and the potential for good wages—created by globalization has been in Asia.

While Africa has seen a modest increase in FDI, that investment has been almost wholly in mining and minerals. Less than 1 percent of global FDI has gone to manufacturing in Africa. Again not surprisingly, a recent paper by Dani Rodrik and Margaret McMillan suggests that it is likely that since 1990 the structural changes that have taken place in Africa have reduced the share of African workers in good jobs and cut the region's overall growth rate.

### Aid and the Investment Climate: A Missed Opportunity

Although the vast majority of aid and development rhetoric over the last two decades has focused on meeting the MDGs, the international community has also attempted to support growth and job creation by the private sector in Africa. Unfortunately, it has done so badly. Since the 1990s, donor efforts to develop the private sector in Africa have focused primarily on the "investment climate"—the regulatory, institutional and physical environment within which firms operate. Around one-quarter of official development assistance, some $21 billion per year, currently supports investment climate improvements.

The centerpiece of this effort has been the World Bank-International Finance Corporation *Doing Business* surveys. In 2011, the average rank of African countries in the *Doing Business* indicators (moving from 1 as the best to 183 as the worst) was 137. Clearly, Africa can do better at *Doing Business*, but does *Doing Business* identify the binding constraints to private investment, structural change and growth?

The answer is no for at least two reasons. First, *Doing Business* was never designed to be a country-level diagnostic tool; it is cross-country "league table". Second and more fundamentally, *Doing Business* confines itself to only one part of the investment climate: it rewards changes in trade, regulatory, and labor market policies designed to reduce the role of government in economic management.

There is substantial evidence that lack of infrastructure and skills is responsible for much of the difference in costs and competitiveness between Africa and other parts of the developing world. Sub-Saharan Africa lags at least 20 percentage points behind the average for low-income countries on almost all major infrastructure measures. In addition, employer surveys report that African post-secondary graduates are weak in problem solving, business understanding, computer use and communication skills.

While regulatory reform has dominated the discussion of private sector development, donor attention to Africa's growing infrastructure and skills deficits has waned. Infrastructure financing to Africa by the members of the OECD DAC has been falling as a share of overseas development assistance since the early 1970s, while the pursuit of the primary education MDG has crowded expenditures on post-primary education out of development budgets.

## What Needs to Happen in 2012?

How can the international community better support structural change and job creation in Africa? In 2012, the G-8 and G-20 need to avoid the temptation to repeat the same platitudes about Africa's "growth turn-around" and the same hollow promises to increase aid. Rather, they should clearly call on the international financial institutions (IFIs) and the OECD DAC to develop a new aid strategy for Africa—one that leverages existing aid flows for job creation and structural change.

A simple initiative would be to task the IFIs—and the World Bank in particular—with rethinking their priorities for investment climate reform away from easily understood, but low impact regulatory reforms to address the binding constraints to competitiveness. Another would be to pledge to reverse the declining trends in aid to infrastructure and post-primary education within the existing aid envelope.

Because for the vast majority of African countries the export market represents the only option for rapid growth of manufacturing, agro-industry and high value-added services, aid and trade policies need to be restructured to support an "export push". These policies should have a focused set of public investments and actions designed to increase the share of nontraditional exports in Africa's GDP. International support for an export push should work on two fronts: aid to improve trade logistics through meaningful reforms to the current, moribund "Aid for Trade" initiative; and policies to increase preferential market access for Africa's nontraditional exports.

Africa has few large-scale, modern industrial agglomerations, making it both more difficult for existing firms to compete and more difficult to attract new industries. Governments can foster industrial agglomerations by concentrating investment in high quality institutions, social services, and infrastructure in a limited area, such as a special economic zone (SEZ). Unfortunately, Africa's traditional suppliers of aid have tended to neglect special economic zones as a development instrument. Here again, the G-8 and G-20 can task the IFIs with developing appropriate SEZ strategies for Africa.

The small size of Africa's economies and the fact that many are landlocked make regional approaches to infrastructure, institutional and legal frameworks, and trade related services imperative. Africa's development partners have not aggressively helped regional integration, preferring instead to deal with individual countries rather than regional organizations and limiting financial commitments to trans-border projects. Aid implementation and disbursement are particularly slow at the regional level. Donors through the OECD DAC need to make stronger efforts to harmonize their support to regional organizations, decrease the use of their own systems to channel aid flows to regional programs, and integrate their national aid programs into their regional strategies.

Africa's development partners have devoted too few resources and too little attention to the critical constraints to job creation and structural change. The hard truths likely to confront the G-8 and G-20 in 2012 represent an opportunity to craft a new strategy—one that catalyzes private investment for structural change—as the centerpiece of aid to Africa.

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# SECURING A PRODUCTIVE SOUTH SUDAN

*John M. Mbaku and Jessica Smith*

## The Priority

On July 9, 2011, South Sudan emerged as a sovereign nation, with an internationally-recognized legal identity, separate from the Republic of Sudan. Despite this monumental achievement, the people of South Sudan must still secure a state that is consensual and productive, and that can provide the enabling environment necessary to significantly improve national standards of living. Thus, while South Sudan achieved independence in 2011, the actions taken in 2012 to build the nation will be critical and will determine whether it emerges as a successful or failed state.

As it enters 2012, South Sudan already faces many problems and challenges to building a strong, industrious country, and addressing these effectively requires a consensual and productive government. Some of the problems that are likely to dominate the new country's political economy in 2012 include: building a federal state and government capable of managing ethnic diversity and providing a fully functioning infrastructure that includes a system of laws and institutions to prevent corruption; gaining full control of its natural resources through effective access to the waters of the Nile River and resolving North-South issues over the division of oil royalties; and securing the country's permanent boundary with the Republic of Sudan. If these issues are not tackled fully and effectively, the country will fail to create the wealth it needs. Failure could create institutional instability capable of significantly affecting prospects for peace, not only in South Sudan, but also in the east Africa region and throughout the continent.

## Why Is It Important?

### State and Government Reconstruction

During decolonization and preparations for the independence of Sudan in 1956, the country's citizens' demand for a federal system of government was rejected in favor of a unitary system. This system centralized political power in the capital city of Khartoum and sowed the seeds for much of the country's future woes. A federal system of government, however, would have provided the new government of South Sudan with the wherewithal to effectively manage ethnic diversity and ensure peaceful coexistence of its population, as well as enhance the government's ability to promote efficient and equitable allocation of resources. A competitive political system is critical to the prevention of destructive, sectarian mobilization. The ability of South Sudan to maintain an effective and fully functioning federal system of government will also be determined by the extent to which the country is able to create institutions that ensure public accountability—such as an independent media, a vibrant and robust civil society, and a well-constrained civil service, among others.

Additionally, past experience has shown a new government and independence do not necessarily result in the creation of a developmental state. The developmental state must be constitutionally limited so political elites and bureaucrats are not able to engage in corruption, rent seeking and other forms of opportunism to benefit themselves at the expense of their fellow citizens. As South Sudan decides on the type of government and institutions it will adopt, it must focus on those that best ensure equality, transparency and efficiency.

### Natural Resources: Water and Oil

The government of South Sudan has recently outlined a development strategy that is highly reliant on the modernization of its agricultural sector. However, modernization requires large-scale production that cannot be achieved with rain-fed agriculture alone. South Sudan is a riparian state to the Nile, along with Egypt, the Republic of Sudan, Ethiopia, Uganda, Kenya, Tanzania, Burundi and Rwanda. Yet, only the Republic of Sudan and Egypt have full access to Nile waters based on legislation established by the British colonial government and the 1959 bilateral agreement between Egypt and Sudan. The other Nile stakeholders have since rejected the 1959 agreement and have allied under the Nile Basin Initiative (NBI) to open a new dialogue regarding water rights and a more equitable allocation of the Nile River's resources. South Sudan should reject the 1959 agreement and align itself with the NBI to demand the development and adoption of a regionally-based cooperative framework for governing the allocation of the waters of the Nile.

Oil is as critical to the development of South Sudan and oil earnings account for 98 percent of public revenue for the government of South Sudan. In the Republic of Sudan, however, royalties from oil account for 50 percent of government revenue. Currently, South Sudan's abundant oil reserves can only be managed effectively and efficiently with cooperation from the Republic of Sudan. This is partly because South Sudan does not have the capacity to fully process its oil and must rely on a pipeline system and ports located in the Republic of Sudan for export. Although the 2005 Comprehensive Peace Agreement requires that oil revenues be shared between South Sudan and the Republic of Sudan, disputes occur over the fee that South Sudan must pay to transmit its oil through the Republic of Sudan's territory—demonstrated most recently when the Republic of Sudan blocked oil transmission through its land entirely. Such unilateral action on the part of the Republic of Sudan betrays the fact that economic development in South Sudan depends, at least in the immediate future, on cooperation between the two former civil war foes.

### The North-South Relationship

Although South Sudan separated from the Republic of Sudan with relatively little conflict, past issues remain that must be resolved—particularly regarding their shared border. The Comprehensive Peace Agreement, which ended the Second Sudanese Civil War, granted the Abyei Area "special administrative status" and gave residents citizenship in the states of South Kurdufan (the Republic of Sudan) and Northern Bahr el Ghazai (South Sudan) until a referendum could determine the area's permanent status. The referendum intended Abyei to choose between becoming part of a new autonomous South Sudan or remaining part of the Republic of Sudan but unfortunately the January 2011 referendum was never held. In December 2010, there still was no agreement by the Permanent Court of Arbitration on the Abyei area's boundaries and consequently there still was no concurrence on who constituted a resident of Abyei for purposes of participating in the referendum. As the stalemate dragged on, both sides sent troops to occupy the area and a series of bloody confrontations ensued. The violence eventually subdued due to a temporary agreement between the parties. The U.N. has deployed a contingent of Ethiopian troops in the region to keep the peace until the issue of border demarcation can be resolved.

Border conflicts also effect access rights to common pool resources, which include water, fertile land, grazing lands and oil. Thus, in 2012 and beyond, both South Sudan and the Republic of Sudan, working with the help of the East African Community, must first effectively resolve their boundary problems and second create an effective system of well-defined and enforced property rights in their respective jurisdictions. Until and unless this is accomplished, conflict over access to critical grazing lands will continue and nomadic livestock owners are likely to maintain their violent mobilization in an effort to secure food and water for their cattle.

## What Needs to Happen in 2012?

In sum, the main challenges facing South Sudan include: creating a capable government free of corruption, ensuring a more equitable distribution of the Nile's resources, addressing its dispute with the Republic of Sudan over oil royalties, and better securing its boundary. Policy actions are needed in the following ways:

To achieve stability, the government must first provide an institutional environment that ensures the country's ethnic, religious and nationality groups are capable of living together peacefully. These institutional arrangements must not allow some groups to dominate or exploit others or place some groups at a competitive disadvantage. Peaceful coexistence is critical for stability, economic growth and development.

Second, in addition to equitable allocation of political power, the country's laws and institutions must adequately constrain civil servants and politicians from engaging in corruption, rent seeking and other forms of political opportunism. The government must make certain that it provides its public sector with the types of laws and institutions that enhance efficient financial management and minimize opportunistic behaviors.

Third, the government must negotiate a peaceful settlement to its conflict with the Republic of Sudan over their border and the sharing of resources. More productive relations between Juba and Khartoum are critical for sustainable development in South Sudan. Escalating conflict between the two Sudans could prevent improved trade and cultural exchanges within the East African Community, as well as between the region and the rest of the world.

Fourth, South Sudan must put in place laws and institutions that enhance the efficient and equitable management of the country's resources, particularly its water and oil. The government must efficiently manage these enormous natural resource endowments to secure the capital needed to address mass poverty, provide employment opportunities for restless youth, and ensure the proceeds of economic growth are distributed fairly and equitably. This involves not only making certain that its oil and other resources are sustainably exploited, but also that the country's enormous human resources, including human capital residing in the Diaspora, are provided the means to contribute to national development.

Finally, in addressing each of these issues and in attending to their country's social and economic development, the people of South Sudan must recognize the critical role that partnerships with their neighbors can play. The countries of the East African Community and the international community have long recognized the extent of mass poverty in South Sudan and are making efforts to help the country deal with it. However, the South Sudanese government must make certain that it creates an institutional environment within which these donors can function as effective contributors to national development—such institutions must guard against waste, corruption, and the import of technologies that are not relevant to local development needs.

# MINIMIZING THE IMPACT OF THE GLOBAL ECONOMIC SLOWDOWN ON AFRICA

*Julius Agbor and Anne Kamau*

## The Priority

By all indications, 2011 was a challenging year for the global economy. GDP growth in the advanced economies—notably, the United States, the United Kingdom and the eurozone countries—stagnated at 1.6 percent and only marginal growth improvements are expected in 2012. Emerging economies and low-income countries on the other hand experienced robust growth of 6.4 percent in 2011.

The global macroeconomic environment continues to be dominated by the effects of the 2007–2009 Great Recession, the eurozone sovereign debt crisis and the ongoing turmoil in global financial markets. These events have largely contributed to the growth slowdown being experienced by the OECD countries and emerging market economies. Of particular concern is the magnitude and depth of the eurozone debt crisis. With the Greek debt crisis yet to be resolved and Italy now also experiencing its own sovereign debt problem, global markets are responding to fears that neither the European Union nor the International Monetary Fund will be able to bail out European countries in the event of a default. Even in event of a successful Greek and Italian debt restructuring, investors will still be concerned about highly indebted countries in recession—a situation that could jeopardize the stability of banks not only in Europe but also in the U.S. and Asia.

## Why Is It Important?

The anticipated growth slowdown in both OECD and emerging market countries, coupled with growing uncertainties in global financial markets, is expected to negatively impact Sub-Saharan African economies both directly and indirectly. First, with a slowing world economy and uncertainty in global financial markets, investors around the world will respond by withholding investment decisions. This in turn will directly hurt African economies because it will reduce exports from the continent, tourism from abroad, capital inflows and remittances. For example, during the recent global economic crisis, overall export revenues for all African countries dwindled by $251 billion and $277 billion in 2009 and 2010 respectively. Capital inflows also fell considerably, especially for countries like Kenya where remittances dropped steadily from $61 million in October 2008 to $39 million in January 2009. Likewise, compared to the fourth quarter of 2007, tourism receipts for Kenya in 2008 were 13 percent lower.

Second, as observed in 2011, uncertainties within the European financial system led to a massive shift by investors away from euro-denominated assets to dollar-denominated assets, thereby triggering sharp depreciations in the currencies of most of the non-oil-exporting emerging countries in Africa, notably South Africa, Kenya, Tanzania and Uganda. For instance, between May and December 2011, the Ugandan, Kenyan and Tanzanian shillings depreciated against the dollar by 18, 13 and 7 percent respectively. While these depreciations offered a potential export competitiveness dividend, the increased exchange rate volatility associated with these currency declines have instead magnified the downside returns as their import bills and foreign debt holdings rose, foreign reserves plummeted and trade deficits widened. To curb domestic inflation and stabilize the exchange rate, central banks in the African economies concerned have largely tightened monetary policy with unintended consequences on domestic demand and growth.

If the experience of the recent crisis in Africa that swept away firms, mines, jobs, revenues and livelihoods is anything to go by, then one should realistically expect the growth slowdown in OECD economies to have adverse consequences on the well-being of Africans. Without appropriate measures to counter these negative effects, the gains in poverty reduction and progress toward the Millennium Development Goals could be undermined.

## What Needs to Happen in 2012?

In 2012, financial markets will be watching the European Union as it moves toward closer integration. With Britain's veto of the proposed changes to the EU's Founding Treaty—which would have given EU institutions more enforcement authority and member countries less control over their national budgets—the remaining 26 EU member countries must pursue more restrictive budget deficit rules. Though this will not achieve the desired level of fiscal integration, it will nonetheless inspire markets to renew trust in eurozone bonds, which could stabilize the European banking system and global financial markets. In turn, African economies might see renewed capital inflows, which could shore up their foreign exchange reserves and diminish the volatility associated with the rapid depreciation in their currencies. Another factor that might contribute to a restoration of investor confidence in global financial markets is the announcement in December 2011 by the U.S. Federal Reserve that it would substantially implement all of the Basel III rules reforming the global financial architecture. Although pundits argue that increased regulation of the financial system will hurt growth, markets need assurance that the system will not default. Finally, markets will be looking forward to the implementation of a credible medium-term fiscal consolidation plan in the United States—a move that would restore consumer and investor confidence, and thus spending in the largest economy in the world. This would certainly have positive economic spillovers to the rest of the world, including Africa.

In light of the forgoing, and in order to reap any potential benefits from the global macroeconomic environment in 2012, Sub-Saharan African countries first need to protect their macroeconomic balance sheets by controlling inflation, restraining spending and ensuring that debt-to-GDP ratios are sustainable. Additionally, African governments need to maintain political stability, which is a crucial element to improving the business environment and attracting foreign investors.

Furthermore, considering the potential risks associated with trading with only a few OECD countries, African countries must seek to diversify their trading partners. For example, forging strategic trading relationships with emerging economies in Asia and Latin America would help sustain African economies in the event of further economic slowdowns in the advanced economies. In addition, African governments must implement policies to diversify their economies away from oil, gas and minerals into higher value-added activities, such as agro-industries, manufacturing and services. More diversified economies are more resilient to wide demand swings caused by fluctuating commodity prices. Likewise, African countries must accelerate the pace of regional integration in order to expand intra-Africa trade. Expanding trade within Africa is crucial to supporting growth especially when economic conditions will probably continue to be dismal in advanced economies in 2012.

# INSECURITY AND COUNTER-INSURGENCY IN AFRICA

*Richard Joseph*

## The Priority

Several years ago, I heard a senior U.S. government official discuss the war in Afghanistan. He described the challenges of the complex nation, and the even greater ones in neighboring Pakistan where large swaths of territory are outside the control of the national government. Americans, he said, should be prepared for military engagement in this multinational arena for 10 to 15 years. It was an eye-opener, not just of the quagmire the United States had rushed into, but the fact that most Americans were unaware of what he stated so convincingly.

If the current trend continues, one day the same may be said about the band of insecurity from northeast to northwest Africa. This region is likely to experience increasing instability and warfare, while narratives of jihadist revolt and terrorist technologies circulate among its citizens. The countries that may be affected, to differing degrees, include: Mauritania, Mali, Niger, Nigeria, Chad, Cameroon, Central African Republic, Sudan, Congo, Uganda, Kenya, Ethiopia, Eritrea, Djibouti and Somalia. Individuals cross these national borders easily, as do ideas, trading goods and armaments. We tend to think of these countries as occupying different geographical and cultural zones, but the reality on the ground is less hermetic.

Armed conflict has occurred in many forms throughout this area as both militaries and irregular forces disregard national borders. In Libya, the Gaddafi regime was involved for decades in seeding revolt in several of these countries, including efforts to dismember Chad. Many Chadians, and other citizens of west and equatorial Africa, were enticed to Libya as labor migrants and became trapped by the uprising against the regime. Conversely, some of Gaddafi's military officers and family members have taken refuge in Niger and when his son, Seif al-Islam el-Gaddafi, was captured in southwest Libya many believed he had fled across the border to Niger. All the countries bordering Sudan have been enmeshed, at one time or another, in its violent conflicts. Ethiopia—while constantly tamping down unrest among its disaffected communities, especially from the largest ethnic group, the Oromo—has been called upon to use its army as a pacification force in Sudan and Somalia. Ugandan soldiers constitute a major component of African Union peacekeepers in Somalia; and the Kenyan invasion of that country in October 2011 added a wholly new dimension to cross-border hostilities. The re-entry of Ethiopian troops and heavy armaments into Somalia a month later raised the stakes greatly considering the negative consequences of their 2007–2008 occupation of parts of the country. The year ended with horrific Christmas day bombing attacks in Nigeria by Boko Haram, which lifted the 2011 death toll attributed to this jihadist group to almost 500.

What the people of countries in this band have in common is poverty as all are poorer than their southern neighbors. Some of them, such as Mali and Niger, have vast areas with minimal governmental presence. As a consequence, they have become recruiting grounds and havens for al-Qaida in the Islamic Maghreb (AQIM). With the exception of Mali, which has experienced two decades of democratic progress, the governments range from autocratic Eritrea—whose repressive government has forced many of its citizens to flee—to contentious democracies like Nigeria and Kenya. While France is intermittently drawn into counter-insurgency, especially when its citizens are kidnapped by insurgent groups, it is the United States that is most steadily involved in such operations. As the United States has withdrawn militarily from Iraq, gradually draws down its forces in Afghanistan, and adjusts to an altered political landscape in the Middle East, resources will be strained to respond to African insecurities and insurgencies.

## Why is It Important and What Needs to Happen in 2012?

There is a need for urgent instability and warfare policy reviews in three theaters where the challenges are acute. First, after two decades, the implosion of Somalia as a nation, the brutalities of Al-Shabaab, and the depredations of Somali pirates must be recognized for what they are: severe threats to international peace and security. After enormous sums have been expended to install a transitional government in Mogadishu, and bribe—and thus finance—piracy, an international conference should be convened under U.N. auspices to consider one central question: Can legitimate governance be restored to the entire territory of Somalia and, if so, how? In addition to self-governing Somaliland and Puntland, many statelets are emerging. The absence of a single national state and multifaceted warfare exacerbated the 2011 drought and famine. Several authors have suggested the need to resurrect the U.N. trusteeship system to manage countries in which no sovereign authority exists and where the people experience extreme suffering. Whatever the specific outcomes, a comprehensive global effort involving all necessary military, diplomatic and humanitarian actions should be undertaken to end the lawlessness in what *used to be* the nation of Somalia. It is not just the security of the Somali people and those of the region that has been undermined, but also world security, due to the crime and warfare in this largely ungoverned territory with an extensive sea coast.

Second, although Sudan's leader, Omar al-Bashir, has been indicted by the International Criminal Court, his regime continues to be accused of conducting war crimes. The international community has engaged the Bashir regime to secure South Sudan independence. But South Sudan is faced with perpetual war on its northern borders, subversion within from Khartoum proxies, and the entrenchment in Juba of an autocratic regime based on oil income, global aid, and a post-liberation army. Sudan, even with the loss of the south, is not likely to become a coherent nation in which its peripheral areas are controlled with anything but force and Janjaweed-like militarism. As with the transformations in Egypt and Libya to its north, the 22-year Bashir regime will eventually run its course. Will it be succeeded by a regime capable of governing this entity through non-belligerent statecraft? When all is considered, Sudan should either become a confederal state or, like Yugoslavia, dissolve into viable sovereign entities. Pathways to these alternative outcomes, however, are not apparent. Consequently, no end is in sight to a half-century of near-incessant warfare with staggering levels of human suffering.

The third major priority area for sustained international engagement should be northern Nigeria. There are few African nations with which the U.S. and other major countries should engage with more today—despite the known difficulties. If Nigeria, with one-fifth the population of Sub-Saharan Africa, becomes "Pakistanized" with the entrenchment of militant groups that benefit from illicit relations with rogue operators in and outside government, the dire consequences for this nation and its neighbors are incalculable. It has taken over a decade to achieve a tenuous calm in Nigeria's delta region where armed militias once flourished. That conflict, despite the great losses inflicted in lives and petroleum production, remained largely localized. Islamic militancy in northern Nigeria, however, has deeper roots, covers a greater land area, targets a population larger than that of any other African country except Egypt and Ethiopia, and can draw inspiration and material support from global jihadism. Terrorist attacks by Boko Haram, the self-declared affiliate of al-Qaida, have increased in frequency and lethality. The August 26, 2011 suicide attack that destroyed the U.N. headquarters in the capital, Abuja, killing 25 persons, and several bombing incidents on Christmas Day that resulted in even more deaths, convey the huge challenges now posed by Islamic extremism in Nigeria.

While urgent efforts are being made to improve the counter-terrorist capacities of Nigeria's security forces, and similar initiatives pursued in this band of insecurity, it is important to develop a more comprehensive response. The Obama administration announced in October 2011 the dispatch of 100 armed military advisers to help catch Joseph Kony, head of the murderous Lord Resistance Army that once terrorized Uganda. Someday, there could be many drone aircraft scrutinizing countries beyond Somalia, counterinsurgency units operating—covertly and overtly—on the ground, and more cross-border military incursions. Such a scenario would indicate the extensive radicalization that had taken place and the degree to which expansion of terrorist cells had occured. To keep this from becoming a reality, a broader global response is now needed, involving national governments and continental, regional and non-governmental agencies. Of particular importance is the need for increased research by policy scholars on the interwoven economic, political and security dimensions and their active engagement with policymakers. Finally, unless innovative approaches are pursued regarding these three priority challenges—criminality and statelessness in Somalia, a Khartoum regime that continues to rely on unrestrained force, and deep economic distress in northern Nigeria—any hope of avoiding more insecurity and insurgencies in this band of Africa would remain elusive.

# STRATEGIES TO IMPROVE FOOD SECURITY IN AFRICA

*Vera Songwe*

## The Priority

Global food prices were high and volatile in 2011, a trend likely to continue in 2012. The floods in Thailand, the debt crisis in Europe, rising oil prices and the increased price of fertilizer and other inputs, unpredictable policy changes such as the reintroduction of price controls in Kenya, all indicate that global food prices will remain unpredictable in 2012. Despite these challenges, since 2008 many countries have finalized new agriculture development strategies based on the African Union's Comprehensive African Agriculture Development Program (CAADP), which was launched in 2003 to boost agricultural productivity on the continent through increased public investment. As of 2011, 26 African countries have finalized agriculture strategies and signed CAADP compacts, 15 are already in various stages of implementation, and 10 are newly engaged or have yet to start (CAADP, 2011). These compacts focus primarily on improving agriculture inputs through increasing agriculture production and productivity.

A number of countries in Africa have been successful in increasing the supply of agricultural products including Rwanda, Mali, Burkina Faso and Malawi. However, domestic price fluctuations, even in countries with increased supply, have still continued to be a problem. One reason is the inability of countries to manage supply and demand cycles distributed across different regions in their territory and, therefore, ensure a steady supply throughout the year. For example, parts of Kenya's Rift Valley experienced grain surpluses in 2011 despite the drought in the northeast. Grain prices dropped as farmers with surpluses faced market access issues to drought stricken areas and many farmers feared wasted product or selling their grain at low prices (Shiundu, 2011). If these issues of managing the storage, marketing and trading of agriculture commodities are not adequately addressed in Africa, they will undermine the success achieved in production and further increase food price volatility.

## Why Is It important?

If African countries fail to secure access to markets and competitive prices for their farmers, they risk inciting unrest in the population similar to the food riots witnessed in the summer of 2008 and repeated episodes of famine like the one in the Horn of Africa in 2011. A sudden increase in the supply of agriculture commodities not matched by an equivalent increase in demand will cause decreased prices in food and agricultural products during the harvest and will leave farmers in debt. Some Malawian maize farmers and Nigerian sorghum farmers have recently experienced this problem. In the Ivory Coast, a lack of access to competitive markets for cocoa has forced many farmers to switch to other cash and food crops. This is potentially very costly for the government since it might lead to a drop in export revenues, a rise in deficits and consequently hurt the government's ability to provide services to the population. African governments must therefore address the fundamentals of market supply and demand to control commodity price volatility, a long-term component for food security. Short-term emergency responses to food security, such as provisions for heavily subsidized inputs, will not address Africa's food insecurity problem in the long run and may in fact further distort prices.

However, available storage for food and agricultural products can help dampen demand when there is a surplus and bolster supply when there is a shortage. In either case, it helps to stabilize prices, which maintains farmer income and consumer access to food. In the absence of storage facilities, seasonal price fluctuations are even higher than those witnessed at the international level. In Tanzania for example, between 2008 and 2010 seasonal fluctuation in grain prices averaged over 250 percent more in regions where buyers did not have access to storage facilities for grain. But in regions with storage facilities, price increases did not exceed 130 percent.

## What Needs to Happen in 2012?

As implementation of the country agriculture strategies continues, the CAADP plans should be reviewed and updated to include the issue of storage as an important component of the country strategies. While some government support for agriculture inputs such as seeds and fertilizer is often recommended, governments should generally not be in the business of providing storage facilities to farmers. Typically state marketing boards with a storage mandate have been effective at managing food prices and security. Governments must therefore engage the private sector to encourage their participation in the storage and marketing process for agricultural and food products. Fortunately, the consultative nature of the CAADP process allows governments to include the private sector at a very early stage of strategy design.

In this regard, African governments should support local farm-based cooperatives to build community silos for commodity collection and primary aggregation. These silos should be owned by the local communities and the state should be involved in ensuring that the silos meet acceptable quality and service standards. Second, African governments have a responsibility to put in place a system for dispute resolution and to ensure that contracts are appropriately designed and respected. Third, governments should help local communities get access to loans or work through commercial banks to partially guarantee loans so that local communities can build silos. Encouraging local farmer cooperatives to build, own and operate community silos will also help reduce waste. It is common knowledge that between 20 to 40 percent of agriculture production in Africa is lost in transportation. Thus, storage facilities close to the farm-gate will help increase overall stocks. Finally, African governments should facilitate the development of private sector-run warehouses backed by a warehouse receipts system.

Under a warehouse receipt financing program, agricultural commodities of a certain quantity and quality are stored in an accredited warehouse and a receipt is issued against them. With the appropriate legal framework, these receipts become negotiable instruments or derivatives that can be traded, sold, swapped or used for collateral to support borrowing. The receipts could help farmers adjust trading decisions and as a result help smooth commodity price volatility. Government-financed warehouses built to support the operations of now defunct commodity marketing boards should also be sold or leased to the private sector to operate. Governments must ensure that the proper prerequisites needed to operate the aforementioned financing program are in place. This includes a formal legal enforcement system, warehouse infrastructure, transparent spot-and-futures markets and derivative instruments.

Ultimately, the business of storage is a risky one that requires farmers and producers to have access to much greater information sets on current production, demand, available stocks and future demand patterns when making decisions. As a consequence, African governments, farmers and producers will need to develop new tools to help manage the risk associated with storage. In the next few years, Africa will see the emergence of innovative financial instruments facilitated by a surge in telecommunication applications designed to facilitate trading in agriculture commodities. In 2012, African governments should proactively work with the private sector to safeguard markets and to design adequate systems to ensure all farmers have access to these instruments. Countries should also work with the Food and Agriculture Organization to ensure that farmers have access to adequate price information under the G-20 endorsed Agriculture Market Information System program. Furthermore, governments must also ensure that the regulatory frameworks in place in their countries are consistent with changing international financial regulations. Finally, those African countries working toward signing CAADP compacts in 2012 and beyond should build a strategy for grain storage management into their investment plans to prevent future famines brought on by inadequate storage and marketing infrastructure.

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# **SENEGAL:** STRATEGIES TO INTEGRATE YOUTH INTO THE LABOR MARKET

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Youth unemployment is a major quandary for Senegal; it inhibits the nation's economic well-being and is certainly an issue for upcoming elections in 2012. Recently, the extension of the retirement age coupled with a public sector hiring freeze has made it even more difficult to find jobs. Older employees remain in the labor market while opportunities for job creation are limited. In response, young people have turned to the informal sector to survive. This is evident in the capital where more than 43.9 percent of workers from age 15–24 work in the informal sector. Others resort to illegal migration, typically to Europe, that regularly results in death at sea or deportation. Crime has also become an alternative for troubled unemployed youth, particularly in drug trafficking, theft and drug-use.

> Many youth do not possess the skills for employment and young entrepreneurs often face challenges of limited resources and business networks.

In response to the bleak labor market, the government of Senegal has developed strategies to curb youth unemployment. The Accelerated Growth Strategy has defined a development plan for key sectors to boost youth employment and economic growth. The sectors with high potential for youth employment are agriculture, fisheries, textiles, information and communication technology, and tourism. Additionally, the 2010–2015 New National Employment Policy supports the informal sector and aspires to create 700,000 new jobs during the period.

The government has also designed support specifically for youth projects within the frameworks of various programs and agencies. Since 2006, Senegal has developed a national action plan for youth employment. This plan has established an online management information system to assist youth in their search for job opportunities. The National Fund for Youth Employment and the National Agency for Youth Employment are two additional government organizations dedicated to integrating young people into the labor market and supporting youth-led business projects. These organizations are currently functioning and are broadly considered effective tools for both educated and non-educated young people.

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The government's commitment to support young people is an unprecedented, positive experience, but challenges remain. Many youth do not possess the skills for employment and young entrepreneurs often face challenges of limited resources and business networks. These initiatives also have weak donor support; typically their resources come only from government funds. Senegalese youth must receive help to overcome the specific employment problems stemming from a lack of experience and a lack of relationships within the business community. Expanding access to education for previously excluded youth populations will increase human capital levels, while informing young people of opportunities will build their pool of resources. The Senegalese government should support the private sector in the development of technical and professional training programs, while donors should support the establishment of statistical surveys of the labor market. To develop entrepreneurship skills, donors and governments must facilitate access to financial services, business management training, and consultative support for start-up businesses. These efforts to integrate youth into the labor market should be reinforced and expanded to accelerate growth in Senegal over the next decade.

# **NIGERIA:** POLICY PRIORITIES TO UNLOCK GROWTH POTENTIAL

*John Olatunji Adeoti, Nigerian Institute of Social and Economic Research (NISER)**

The Nigerian economy has great potential for growth and structural change. Over the last decade, the economy grew at an average annual rate of more than 6 percent. Yet, even with such positive growth rates, the country's performance is far below its potential. The agricultural sector continues to dominate the Nigerian economy, employing 70 percent of the country's labor force and accounting for 40 percent of GDP. The manufacturing sector has by and large stagnated since the late 1990s and contributes only 4 percent of GDP. Another important sector is the oil industry; while it contributes nearly 95 percent of total foreign exchange and 70 percent of total revenue, Nigeria's oil industry accounts for a low share of the country's GDP—only 16 percent in 2010. Nigeria faces many challenges, the most pressing of which include corruption and poor management of the oil sector. In 2012, Nigerian policymakers must prioritize these issues as key to unlocking the country's growth potential.

> Despite government rhetoric, the purported war against corruption has yielded no significant result in abating the problem.

## Tackling Corruption

Corruption is pervasive across all sectors in Nigeria. Some estimates suggest that between 2000 and 2008, Nigeria lost $130 billion in illicit financial outflows (Kar and Curcio, 2011). This is significantly more than the estimated $20 billion in official development assistance Nigeria received from all Organization for Economic Cooperation and Development (OECD) countries during the same period. Nigeria is ranked 143 out of 182 in the 2011 Corruption Perceptions Index and the high prevalence of corruption imposes a huge burden on business and thus limits the flow of investment to the country beyond the high margin oil industry. Additionally, Nigeria is plagued by both grand and petty corruption, with studies confirming that 50 percent of all drugs sold in Nigerian drugstores in the 1990s were counterfeit (Akunyili, 2005). This has devastating consequences for health outcomes in the country. In short, all aspects of life in Nigeria are directly affected by corruption.

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It is also widely acknowledged that corruption is probably the single most important barrier to the realization of Nigeria's great productive potential. Despite government rhetoric, the purported war against corruption has yielded no significant result in abating the problem. In 2012, the anti-corruption agencies should come under increased scrutiny and there should be increased demand for reform in the judicial system to ensure that corruption is genuinely punished. Progressively more Nigerians are expressing dissatisfaction and the country is likely to witness growing demands for fairness and a more equitable distribution of the country's resources, especially among minority groups. It is therefore important that Nigerian policymakers prioritize fighting corruption to ensure these demands can be met. Nigeria's new president, Goodluck Jonathan, must fulfill the election promises he made in 2011 to launch an effective anti-corruption campaign in 2012.

## Better Management of Oil Resources

A 2007 article in *The Economist* posed the question as to whether oil sector reform is possible in a country where corruption prevails in all aspects of life. This article suggested that reforming Nigeria's oils sector was feasible but would require significant commitment and political will from the Nigerian government. Despite the much needed reforms outlined in the 2009 Petroleum Industry Bill, the Nigerian oil industry continues to be plagued by corruption, mismanagement and inefficiency. The awarding of oil licenses and contracts lacks transparency and effective oversight. Oil companies are also often faced with delays and inefficiencies when dealing with regulatory government institutions. Theft and mismanagement of oil revenues exacerbate the flow of illicit funds in Nigeria and limit the industry's potential to promote development.

In 2012, policymakers should prioritize reforms that increase transparency and oversight in the oil sector as well as increase the efficiency of the Nigerian National Petroleum Corporation and especially the Department of Petroleum Resources tasked with regulating the oil industry. At present, Nigerians are embroiled in a debate over the removal of the fuel import subsidy. With better management of oil resources and efficient oversight of the industry, Nigeria should be able to translate its vast oil wealth into development gains for its people and hence eliminate the need for a subsidy.

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# **SOUTH AFRICA:** ECONOMIC GROWTH, POVERTY AND INEQUALITY

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Typically, the pursuit of economic growth is associated with concomitant improvements in the living standards and welfare of the population. However, this link between growth and welfare gains is not always obvious. South Africa is a good example of a country where a record of economic growth has not necessarily translated into improvements in economic well-being for the majority of the population. South Africa has generally experienced economic growth since its transition to democracy in 1994, but has not seen the type of attendant gains in welfare one might have hoped for. These have been stifled, in large part, on account of the country's high and increasing inequality. How policymakers address this issue impacts a wide range of development outcomes. We suggest that an important priority for policymakers in 2012 is to focus on narrowing inequalities by expanding economic opportunities to all members of that society.

From 1995–2005, South Africa experienced an average, annualized growth rate of approximately 3.4 percent. This growth also coincided with improvements in poverty. The headcount poverty rate, calculated using a poverty line of South Africa rand R322 per month in 2000 prices, declined by five percentage points over the same time period. Importantly, this positive result is generally robust regarding poverty lines.

Viewed broadly, South Africa may be the most consistently unequal country in the world.

Yet, economic disparities have worsened. On the basis of per capita expenditure, data suggests that the country experienced a rise in income inequality, with its Gini coefficient increasing from 0.64 in 1995 to 0.69 in 2005. In other words, economic growth was enjoyed by a declining share of the population, making poverty reduction gains harder to realize. Had inequality remained constant since 1995, it is estimated that economic growth would have resulted in a 29 percentage point drop in household poverty, instead of a much more modest five point decrease. Viewed broadly, South Africa may be the most consistently unequal country in the world.

This inequality brings with it tremendous societal problems. The Diagnostic Overview, released by the South Africa's National Planning Commission in June 2011, highlighted the potential threats associated with high levels of inequality including crime, corruption and social exclusion.

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Another, less mentioned cost, is the potential for political destabilization. One of the striking features of the inequality trend in South Africa is that, unlike in the past when the most notable character of inequality was the differences between ethnic groups, today inequality has been increasing within ethnic groups especially among black South Africans. In fact, increasingly, the recent rivalry within the ruling party African National Congress (ANC) reflects dissatisfaction amongst segments of the membership, especially youth, due to the few economic opportunities available. In 2012, these issues may be particularly contentious as in December the ANC holds its national conference to select a 2014 presidential candidate. More broadly, if unchecked this inequality could translate into instability as recently evidenced in Arab countries.

The country's inequality has risen in spite of increasing government redistribution. Arguably, the country now possesses one of the best developed social protection systems among all middle income economies. Its grant expenditures increased by 26 percent annually between 2001–2002 and 2005–2006 and, in 2005, it dispensed grants to some 9 million individuals. As a result of these government measures, poor households have witnessed an increase in their expenditures since 1995. Unfortunately, however, these gains have not been realized through sustainable employment.

In sum, we have the following story: Consistently positive levels of economic growth since 1994 contributed to a healthy revenue base for government. The state was able to utilize this revenue to redistribute income in the form of social security grants and benefit the poor. An analysis comparing per capita household income with and without income from social grants shows that the levels of income inequality would have been even higher in the absence of the government's social protection system. Yet, on the whole, the poor have not been the direct beneficiaries of economic growth.

Critically, it remains unclear whether this cycle, from growth to redistributive revenues, is sustainable—a question that the country's government should think deeply about. In 2012, changes to its current strategy might be in order, especially those which allow the gains from economic growth to become more intertwined with welfare improvements. In the absence of such policy changes, the risks and problems of continuing redistribution and rising inequality in 2012 are high. Policy makers must seek to reduce inequality in order to ensure that 2012 is a year that preserves South Africa's political and economic stability as well as improves the economic well-being of the majority of the population

# **KENYA:** THE MAKE OR BREAK YEAR

*Mwangi S. Kimenyi, Brookings Africa Growth Initiative*

2012 will be the year that Kenya either transitions into a unified, progressive state or regresses to a fragmented society characterized by the type of ethnic divide that existed before the 2007 general elections. It will be the year when either constitutionalism is entrenched in society or poor governance and impunity continue unabated. Four issues—the International Criminal Court Process, the 2012 general elections, the implementation of the devolved constitution, and the war on Al-Shabaab—will be particularly important in influencing the economic, political and social developments in the country.

## The International Criminal Court (ICC) Process

Following the 2007–2008 post-election conflict that resulted in over 1,300 deaths, hundreds of injuries and thousands of displaced persons, the International Criminal Court (ICC) named six Kenyans as the main instigators of the violence. Their hearings were completed in 2011, with the final decision confirming the charges, but no announcement yet of whether the six will face a full trial. Kenyans have varying opinions on how the process was conducted. Many interpret it as overtly political. In particular, some critics believe the process targeted prominent individuals who would otherwise be presidential candidates in 2012. This view gained support during the initial hearings as it appeared the ICC had not conducted particularly thorough investigations. Others, including members of the defendants' communities, viewed the accusations through an ethnic angle. This is why the process, if viewed as unfair, could split the country along ethnic lines. The fact remains, however, that crimes against humanity were committed and that failure to punish the main culprits would mean continuing a culture of impunity. The ICC's decision, expected early in 2012, will confirm the charges or not. But the decision itself, and how the government and Kenyans react to it, will impact the future of the country in both the short and long-run.

> 2012 will be the year that Kenya either transitions into a unified, progressive state or regresses to a fragmented society...

## The 2012 General Elections

Kenya expects to hold national elections under the recently promulgated constitution and, while debate continues as to the exact date on when they are to be held, many expect the High Court of Kenya will set them for 2012. The elections will not only include the races for the positions of the presidency, deputy presidency and membership of the national assembly, but because of the new constitution and the devolved structures it calls for, they will also include the positions of senators, county governors and many other local representatives. How the elections are managed will be critically important in determining the future of the country. Kenyans will either accept the results and communities will unite behind their elected president and other leaders, or they will consider the process unfair and resort to conflict similar to that seen in 2007-2008. Even more important is whether the general election will produce forward-looking, progressive leaders who are committed to supporting the implementation of the new constitution.

### Implementation of the Devolved Constitution

Kenya has adopted complex devolved structures of governance. The constitution has created a new level of government—the county level—to be headed by an executive governor. In total, there are 47 counties that vary widely in terms of population, income levels and capacity. While in theory the devolved structures aim to improve the governance of the country, increase citizen participation and improve accountability, implementing the constitution's aims—work set to commence in 2012—will be a momentous challenge and will be a major factor impacting the prospects of the country. Some fear that devolution could exacerbate regional inequalities and, in some cases, increase polarization between communities within the same counties.

### War on Al-Shabaab

At the end of 2011, Kenya was heavily involved in the war against the Al-Shabaab terrorist organization deep inside Somali territory. While other countries and international organizations have committed support towards the dismantling of the terror group, Kenya's involvement remains the most substantial. In addition to the costs of its resource commitments, its efforts come with heightened risks—including increased terror activities that target Kenyans and an influx of refugees from Somalia to Kenya. Whether the war concludes successfully in 2012 will impact the country's peace and economic performance prospects.

### Summary

These highlighted issues will be critical to Kenya's future in 2012 and for many years to come. All are important challenges that have serious risks for the country. Alternatively, these challenges could be turned into opportunities to build a stronger, more progressive nation. Of all these issues, the one dealing with the ICC process is the most daunting; it should be addressed carefully both by Kenyans and the international community. Given the violent election in 2007, it is also absolutely critical that the country be fully prepared to ensure electoral fairness and transparency in 2012 and to deal appropriately with any instigators of violence. Finally, in the war against Al-Shabaab, Kenya must continue to seek international cooperation against the terror group and aim to return its troops home before the end of 2012.

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