

GLOBAL GOALS, AFRICAN REALITIES:

Building a Sustainable
Future for ALL

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The Africa Progress Panel (APP) consists of ten distinguished individuals from the private and public sector who advocate for equitable and sustainable development for Africa. Mr Kofi Annan, former Secretary-General of the United Nations and Nobel laureate, chairs the APP and is closely involved in its day-to-day work.

The life experiences of Panel members give them a formidable capability to access the worlds of politics, business, diplomacy and civil society at the highest levels in Africa and across the globe. As a result, the Panel functions in a unique policy space with the ability to influence diverse decision-makers.

The Panel builds coalitions to leverage and broker knowledge and to convene decision-makers to create change in Africa. The Panel has extensive networks of policy analysts and think tanks across Africa and the world. By bringing together the latest thinking from these knowledge and political networks, the APP contributes to generating evidence-based policies that can drive the transformation of the continent.

ABOUT THE AFRICA PROGRESS PANEL

The Africa Progress Report (APR) is the annual flagship publication of the Africa Progress Panel. The APR draws on the best research and analysis available on Africa and compiles it in a refreshing and balanced manner. The Panel makes policy recommendations for African political leaders and civil society who collectively have the primary responsibility for spurring Africa's progress. In light of the continent's dynamic links with the rest of the world, the APR also highlights critical steps that must be taken by leaders in the international public and private sector.

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INTRODUCTION

The new global targets for improving people's lives around the world, the Sustainable Development Goals, do much more than just extend for another 15 years the remit of the Millennium Development Goals. The SDG agenda, an unprecedented push to tackle the root causes of poverty, looks at the big picture. It embraces the need for economic development that leaves no one behind and gives every child a fair chance of leading a decent life. And it faces squarely our duty to protect future generations by limiting climate change, adopting renewable energy and managing resources sustainably.

The SDGs will only succeed, however, if they can succeed in Africa — whose rapidly growing population most needs the change that the agenda describes. That's why the same concerns that drive the SDGs have been taken up over the last four years by the Africa Progress Panel and are summarized in the following report.

The Panel, led by Kofi Annan, works to ensure that Africa's resources, creativity and dynamism are harnessed for the benefit of all Africans — including those who have been left behind by the recent economic growth surge. In successive annual reports, the Panel has laid out a roadmap for transforming the prospects of the continent's people. The Panel's policy recommendations have been adopted at the highest levels.

The 2015 report, *Power People Planet: Seizing Africa's energy and climate opportunities*, focuses on a question that goes to the heart of the SDG agenda: Can the world prevent catastrophic climate change while building the energy systems needed to sustain growth, create jobs and lift millions of people out of poverty?

Climate change demands that we rethink the relationship between energy and development. The carbon-intensive energy systems that drive our economies have set us on a collision course with our planetary boundaries. We can avoid that collision. As a global community, we have the technology, finance and ingenuity to make the transition to a low-carbon future, but so far we lack the political leadership and practical policies needed to break the link between energy and emissions.

Unlocking this "win-win" will not be easy. In Africa, leaders must take decisive action to reform inefficient, inequitable and often corrupt energy utilities that are failing to provide reliable power supplies. Two in three Africans lack access to electricity.

Africa's highly centralized energy systems often benefit the rich and bypass the poor and are underpowered, inefficient and unequal. Energy-sector bottlenecks and power shortages cost the region 2-4 per cent of GDP annually, undermining sustainable economic growth, jobs and investment. They also reinforce poverty, especially for women and people in rural areas. Africa's poorest people are paying among the world's highest prices for energy.

"We categorically reject the idea that Africa has to choose between growth and low-carbon development. Africa needs to utilize all of its energy assets in the short term, while building the foundations for a competitive, low-carbon energy infrastructure."

Africa Progress Panel, 2015

This energy crisis is also a moment of great opportunity, however. Demand for modern energy is set to surge, fuelled by economic growth, demographic change and urbanisation. As the costs of low-carbon energy fall, Africa could leapfrog into a new era of power generation. The region has an abundance of renewable energy in the form of solar, hydro, wind, and geothermal power. Utility reform, new technologies and new business models could be as transformative in energy as the mobile phone has been in telecommunications.

Tackling Africa's interlocking climate and energy problems will require strengthened international cooperation. The Sustainable Development Goals summit and the global climate talks in December provide a platform for deepening cooperation and making a down-payment on measures with the potential to put Africa on a pathway towards an inclusive low-carbon energy future and the world on a pathway to avoid climate catastrophe. All countries stand to lose if we fail to achieve the international goal of restricting global warming to below 2°C above pre-industrial levels. African countries stand to lose the most.

The window of opportunity for avoiding climate catastrophe is closing fast. The only promises that matter at the Paris climate summit are those that are kept. The 2015 Africa Progress Report shows how Africa can lead the way at the summit in forging an ambitious global deal.

Just as the 2015 report focuses on managing extensive Africa's renewable energy resources for the good of all Africans, the 2014 report, *Grain, Fish, Money*, examines the vast potential of the sector that most poor Africans work in – agricultural production. We highlighted the gulf between that potential and the growing dependence on food imports. Closing that gulf would provide a powerful catalyst for reducing poverty, generating jobs, feeding urban populations and creating new market opportunities for investment.

Accelerating Africa's transformation means significantly boosting its agriculture and fisheries, which together provide livelihoods for roughly two-thirds of all Africans. The time has come to unleash Africa's green and blue revolutions. These revolutions could transform the face of the continent. Beyond the valuable jobs and opportunities they will provide, they can generate a much-needed improvement to Africa's food and nutrition security. More than anything, malnutrition on the continent is a failure of political leadership.

The report highlighted some of the key challenges, including the removal of obstacles to intra-regional trade, and the unacceptable reality is that too many African farmers still use methods handed from generation to generation, working their lands or grazing their animals much as their ancestors have done for millennia. Africa may be showing impressive headline growth, but too many of its people remain stuck in poverty.

The 2014 report also turned the spotlight on the plunder of vital African resources, including fish stocks and forests. Illegal, unregulated and unreported fishing has reached epidemic proportions in Africa's coastal waters. West Africa is conservatively estimated to lose US\$1.3 billion annually. Beyond the financial

“Africa is a continent of great wealth, so why is Africa's share of global malnutrition and child deaths rising so fast? The answer is that inequality is weakening the link between economic growth and improvements in wellbeing.”

Africa Progress Panel, 2014

cost this plunder destroys fishing communities who lose critical opportunities to fish, process and trade. Another US\$17 billion is lost through illicit logging activities.

Foreign investors are increasingly choosing Africa as a lucrative opportunity, and pouring money into agribusiness. At best these investments bring jobs, finance and critical knowhow. At worst, they deprive African people of their land and water. African governments must regulate these investments and use them to Africa's advantage. Agreements between African governments and business have to be mutually beneficial.

The 2013 Africa Progress Report, *Equity in Extractives*, showed that in many countries, revenues from oil, gas and mining have been widening the gap between rich and poor. A decade of highly impressive economic growth has not brought comparable improvements in health, education and nutrition.

As the commodity super-cycle unwinds, it is time to ask some tough questions. Some major opportunities for investment, the development of linkages to the local economy and revenue mobilisation were lost. African and OECD governments should be cooperating far more closely to address some of the key challenges we identified. These range from systemic tax evasion to the outright plunder of valuable assets and the extensive use of off-shore tax havens by foreign and domestic investors.

For example, the report detailed five deals between 2010 and 2012 that cost the Democratic Republic of the Congo over US\$1.36 billion in lost revenues through the undervaluation of assets and sale to foreign investors. This sum represents twice the annual health and education budgets of a country with one of the worst child mortality rates in the world and seven million pupils out of school. Africa loses twice as much in illicit financial outflows as it receives in international aid.

The Africa Progress Panel finds it unconscionable that some companies, often supported by dishonest officials, are using unethical tax avoidance, transfer pricing and anonymous company ownership to maximize their profits, while millions of Africans go without adequate nutrition, health and education.

The report set out an agenda that was adopted in large measure by the G8. However, implementation, follow-up and the development of African capacity to oversee fair taxation systems now need to be strengthened further.

The 2012 Africa Progress Report, *Jobs, Justice and Equity*, called on African leaders to tackle the deep, persistent and enduring inequalities across the continent. Countries across Africa are becoming richer but whole sections of society are being left behind.

After a decade of buoyant growth, almost half of Africans still live on less than \$1.25 a day. Wealth disparities are increasingly visible. The current pattern of trickle-down growth is leaving too many people in poverty, too many children hungry and too many young people without jobs. Unequal access to health, education, water and sanitation is reinforcing wider inequalities.

"Tax avoidance and evasion are global issues that affect us all. The impact for G8 governments is a loss of revenue. But in Africa, it has direct impact on the lives of mothers and children. Throughout the world, millions of citizens now need their leaders to step up to the mark and lead. Fortunately, momentum for change appears to be accelerating."
Africa Progress Panel, 2013

"Africa is on its way to becoming a preferred investment destination, a potential pole of global growth, and a place of immense innovation and creativity. But there is also a long way to go – and Africa's governments must as a matter of urgency turn their attention to those who are being left behind. ...Africa and its leaders can rise to this challenge. If they do, Africa will become more prosperous, stable and equitable."
Africa Progress Panel, 2012

Viewed through the lens of the SDGs, the equitable growth agenda is more relevant than ever: on current trends one-third of Africans will still be living in extreme poverty in 2030. Africa will account also for a rising share of child and maternal deaths and out of school children.

All of these outcomes are avoidable. Africa can go to zero on extreme poverty and embark upon a transformative human development pathway. But it is time for Africa's leaders to bring the poorest and most marginalised sections of society in from the periphery to the centre of policy design.

These four latest Africa Progress Reports each focus on a different aspect of the same story. Their vision is the same as the vision behind the SDGs: the need to manage resources wisely and sustainably so that every citizen has a fair chance of leading a healthy, prosperous, fulfilling life, free of poverty.





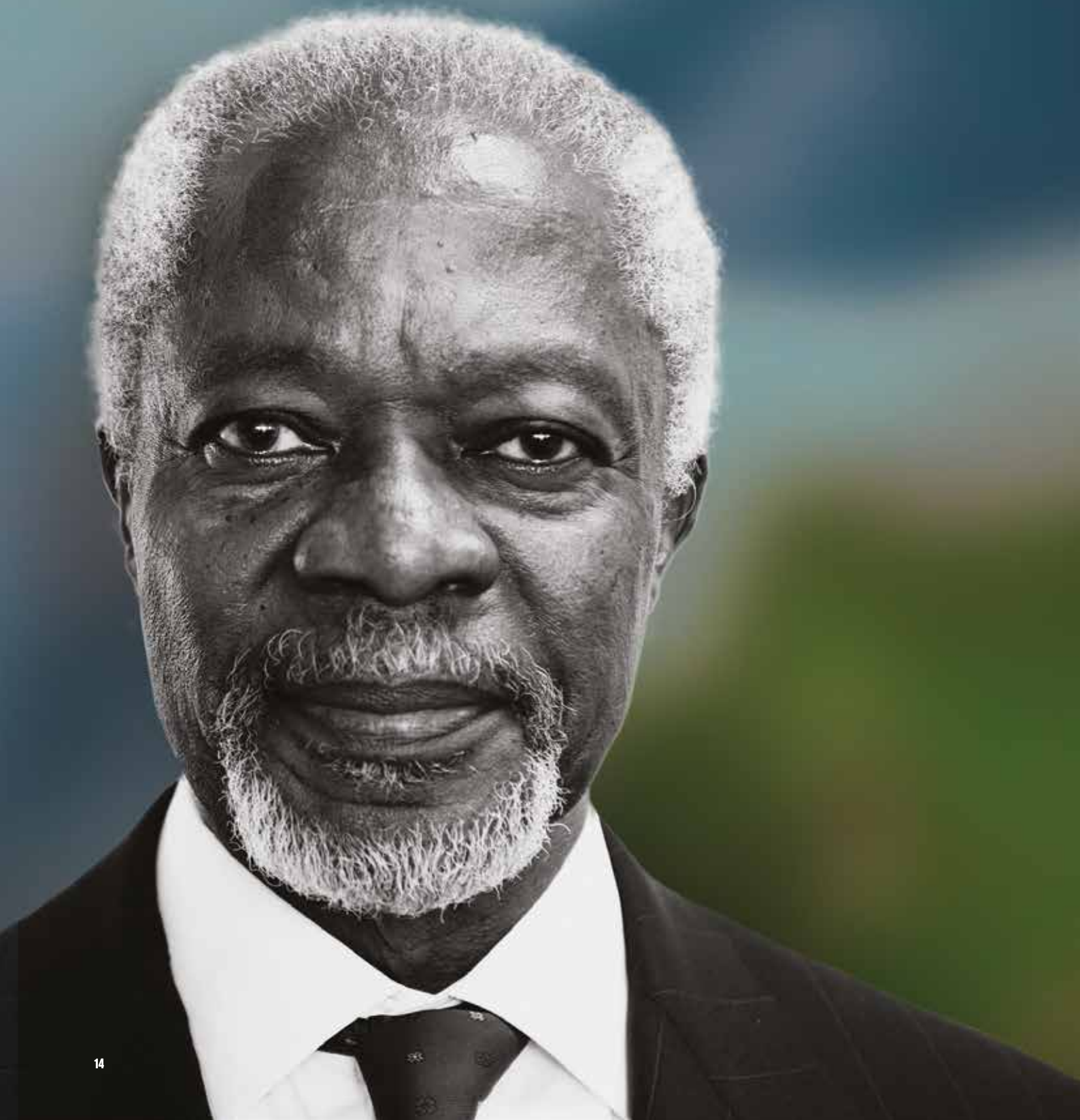
01/

**POWER PEOPLE
PLANET**

**SEIZING AFRICA'S
ENERGY AND CLIMATE
OPPORTUNITIES**

Africa Progress Report 2015

FOREWORD **BY KOFI ANNAN**



Can the world prevent catastrophic climate change while building the energy systems needed to sustain growth, create jobs and lift millions of people out of poverty? That question goes to the heart of the defining development challenges of the 21st century, and is the focus of this year's report.

It is a vital question for Africa. No region has done less to contribute to the climate crisis, but no region will pay a higher price for failure to tackle it. This year governments around the world will sign up for an ambitious new set of international development goals. These bold plans could turn to dust if world average temperatures are allowed to increase by more than 2°C. There is now a real and present danger that climate change will stall and then reverse the fragile gains made over the past two decades. Meanwhile, over half of Africa's population lacks access to basic electricity and clean cooking facilities – and the numbers are rising.

Climate change demands that we rethink the relationship between energy and development. The carbon-intensive energy systems that drive our economies have set us on a collision course with our planetary boundaries. We can avoid that collision. As a global community, we have the technology, finance and ingenuity to make the transition to a low-carbon future, but so far we lack the political leadership and practical policies needed to break the link between energy and emissions.

The central message of this report is: Africa is well placed to be part of that leadership. Some African countries are already leading the world in low-carbon, climate-resilient development. They are boosting economic growth, expanding opportunity and reducing poverty, particularly through agriculture. African nations do not have to lock into developing high-carbon old technologies; we can expand our power generation and achieve universal access to energy by leapfrogging into new technologies that are transforming energy systems across the world. Africa stands to gain from developing low-carbon energy, and the world stands to gain from Africa avoiding the high-carbon pathway followed by today's rich world and emerging markets.

Unlocking this “win-win” will not be easy. It will require decisive action on the part of Africa's leaders, not least in reforming inefficient, inequitable and often corrupt utilities that have failed to develop flexible energy systems to provide firms with a reliable power supply and people with access to electricity. Tackling Africa's interlocking climate and energy problems will also require strengthened international cooperation. The major summits planned for 2015 – on finance, the Sustainable Development Goals and climate – provide an opportunity to start the change.

Our report shows that Africa's energy challenge is substantial. Over 600 million people still do not have access to modern energy. It is shocking that Sub-Saharan Africa's electricity consumption is less than that of Spain and on current trends it will take until 2080 for every African to have access to electricity.

Modern energy also means clean cooking facilities that don't pollute household air. An estimated 600,000 Africans die each year as a result of household air pollution, half of them children under the age of five. On current trends, universal access to non-polluting cooking will not happen until the middle of the 22nd century.

The December 2015 talks on a new global climate treaty are approaching fast. Africa is already experiencing earlier, more severe and more damaging impacts of climate change than other parts of the world. Left unchecked, it will reduce agricultural productivity, create conditions for mass hunger and reverse human development.

Africa's lack of energy means it has a tiny carbon footprint. African leaders have every reason to support international efforts to minimize greenhouse gas emissions. At the same time, they urgently need more power to boost and transform their economies and to increase energy access. Their challenge is to embrace a judicious, dynamic energy mix in which renewable sources will gradually replace fossil fuels.

Africa has enormous potential for cleaner energy – natural gas and hydro, solar, wind and geothermal power - and should seek ways to move past the damaging energy systems that have brought the world to the brink of catastrophe.

The waste of scarce resources in Africa's energy systems remains stark and disturbing. Current highly centralized energy systems often benefit the rich and bypass the poor and are underpowered, inefficient and unequal. Energy-sector bottlenecks and power shortages cost the region 2-4 per cent of GDP annually, undermining sustainable economic growth, jobs and investment. They also reinforce poverty, especially for women and people in rural areas. It is indefensible that Africa's poorest people are paying among the world's highest prices for energy: a woman living in a village in northern Nigeria spends around 60 to 80 times per unit more for her energy than a resident of New York City or London. Changing this is a huge investment opportunity. Millions of energy-poor, disconnected Africans, who earn less than US\$2.50 a day, already constitute a US\$10-billion yearly energy market.

What would it take to expand power generation and finance energy for all? We estimate that investment of US\$55 billion per year is needed until 2030 to meet demand and achieve universal access to electricity. One of the greatest barriers to the transformation of the power sector is the low level of tax collection and the failure of governments to build credible tax systems. Domestic taxes can cover almost half the financing gap in Sub-Saharan Africa. Redirecting US\$21 billion spent on subsidies to wasteful utilities and kerosene to productive energy investment, social protection and targeted connectivity for the poor would show that governments are ready to do things differently. I urge African leaders to take that step.

Additional revenues can be mobilized by stemming the haemorrhage of finance lost through illicit financial transfers, narrowing opportunities for tax evasion and borrowing cautiously on bond markets. Aid must play a supportive, catalytic role. Global and African investment institutions already see the growth and revenue prospects of African infrastructure in a world where demand is slowing in developed countries.

Reforming energy utilities is also key. Long-term national interest must override short-term political gain, vested interests, corruption and political patronage. Energy-sector governance and financial transparency will help bring light in the darkness. Energy entrepreneurs can join the reformed utilities in investing revenues and energy funds in sustainable power that saves the planet and pays steady dividends. Some countries

in the region are already at the front of the global trend of climate-resilient, low-carbon development, including Ethiopia, Ghana, Kenya, Nigeria and South Africa.

Better and more accessible energy can also power up Africa's agriculture. Governments should take advantage of "triple-win" adaptation opportunities that integrate social protection with climate-smart strategies to raise agricultural productivity and to develop rural infrastructure, including crop storage, agro-processing and transport, cutting poverty while strengthening international efforts to combat climate change.

Actions taken by African leaders are essential, and so are actions by the world.

The 2015 summits provide a platform for deepening international cooperation and providing a down-payment on measures with the potential to put Africa on a pathway towards an inclusive low-carbon energy future and the world on a pathway to avoid climate catastrophe. All countries stand to lose if we fail to achieve the international goal of restricting global warming to below 2°C above pre-industrial levels. Africa will lose the most.

Governments in the major emitting countries should place a stringent price on emissions of greenhouse gases by taxing them, instead of continuing effectively to subsidize them, for example by spending billions on subsidies for fossil-fuel exploration. The political power of multinational energy companies and other vested interest groups is still far too strong.

Unlocking Africa's energy potential and putting in place the foundations for a climate-resilient, low-carbon future will require ambitious, efficient and properly financed multilateral cooperation. As we show in this report, the current global climate finance architecture fails each of these credibility tests.

The window of opportunity for avoiding climate catastrophe is closing fast. The only promises that matter at the Paris climate summit are those that are kept. Africa's leaders must rise to the challenge. They are the voice of their citizens in the climate talks – and that voice must be heard. Social movements, business leaders, religious leaders of all faiths and the leaders of the world's cities can join governments and create an irresistible force for change to win the war against poverty and avert climate catastrophe.

Future generations will surely judge this generation of leaders not by principles they set out in communiqués but by what they actually do to eradicate poverty, build shared prosperity and protect our children and their children from climate disaster.

Let us act now and act together.



KOFI A. ANNAN

Chair of the Africa Progress Panel

OVERVIEW

"We can no longer tinker about the edges. We can no longer continue feeding our addiction to fossil fuels as if there were no tomorrow. For there will be no tomorrow. As a matter of urgency we must begin a global transition to a new safe energy economy. This requires fundamentally rethinking our economic systems, to put them on a sustainable and more equitable footing." **Desmond Tutu**, Human Rights activist and Nobel Prize winner

"Africa, too, has no choice other than join hands to adapt and mitigate the effects of climate change. However, Africa can make a choice on how it can adapt and mitigate and when it can do so in terms of timeframe and pace. For Africa, this is both a challenge and an opportunity. If Africa focuses on smart choices, it can win investments in the next few decades in climate resilient and low emission development pathways."
H.E. Jakaya Mrisho Kikwete, President of the United Republic of Tanzania

2015 is a watershed year for international development. In September, global leaders will gather at the United Nations in New York to adopt a new set of sustainable development goals. Before then, in July, governments meet in Addis Ababa, Ethiopia, to agree on the financing framework that underpins the goals. At the end of the year, the summit spotlight will shift to Paris and the crucial negotiations on a new climate change agreement. The stakes could hardly be higher. The risks that will come with failure are immense. Yet this is a moment of great opportunity for the world and for Africa.

Energy is the link connecting the global poverty agenda and climate change. The carbon-intensive energy systems now driving economic growth are locked into a collision course with the ecological systems that define our planetary boundaries. Averting that collision – while eradicating poverty, building more inclusive societies and meeting the energy needs of the world's poorest countries and people – is the defining international cooperation challenge of the 21st century (**See infographic: The energy leapfrog**).

Nowhere are the threads connecting energy, climate and development more evident than in Africa. No region has made a smaller contribution to climate change. Yet Africa will pay the highest price for failure to avert a global climate catastrophe. Meanwhile, the region's energy systems are underpowered, inefficient and unequal. Energy deficits act as a brake on economic growth, job creation and poverty reduction, and they reinforce inequalities linked to wealth, gender and the rural-urban divide.

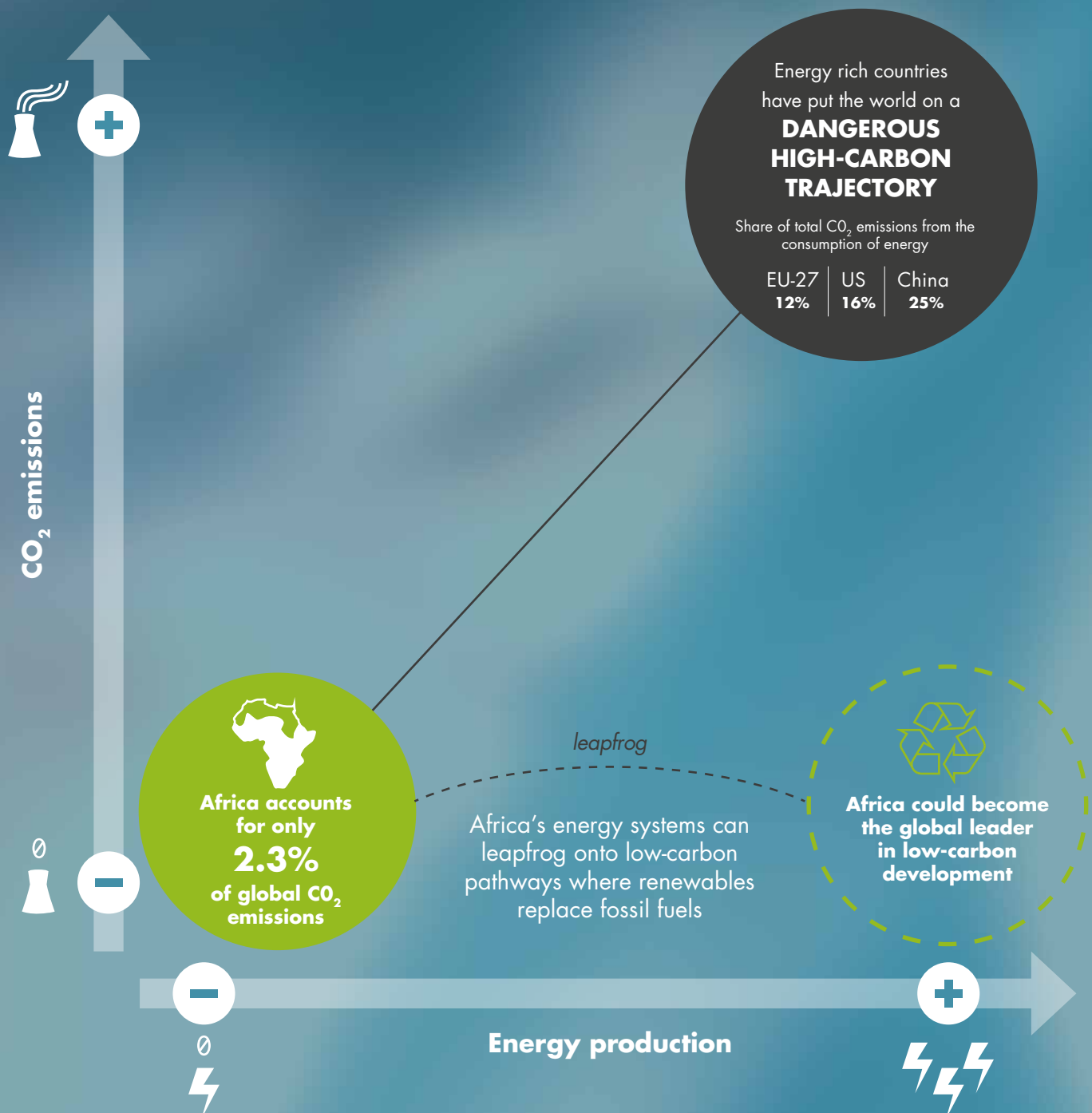
This year's *Africa Progress Report* explores the links between energy, poverty and climate change. We document the risks that would come with a business-as-usual approach. More important, we highlight the opportunities for African leaders both at home and on the world stage.

Energy policy is at the heart of the opportunity. For too long, Africa's leaders have been content to oversee highly centralized energy systems designed to benefit the rich and bypass the poor. Power utilities have been centres of political patronage and corruption.

THE ENERGY LEAPFROG

African countries need energy strategies that drive growth, and reduce energy poverty, while transitioning to a low-carbon economy

With the region experiencing some of the earliest, most severe and damaging climate impacts, African leaders have every reason to support international efforts to limit greenhouse gas emissions



The time has come to revamp Africa's creaking energy infrastructure, while riding the wave of low-carbon innovation that is transforming energy systems around the world. Africa cannot afford to stand on the sidelines of the renewable energy revolution. It can play its part in this revolution and tackle the challenges of transitioning away from fossil fuels.

Low-carbon technologies can be rapidly deployed to expand power generation and to extend the reach of energy systems. With the right policies in place, low-carbon development can correct one of the world's greatest market failures. Millions of Africa's poorest people are paying among the world's highest prices for energy because of the cost barriers separating them from affordable, efficient and accessible renewable technologies. Removing that barrier would unlock market opportunities and unleash a productive power to reduce poverty and build inclusive societies that dwarfs what could be achieved through aid.

The message of this report is that Africa can lead the world on climate-resilient, low-carbon development. Some countries in the region are already doing so, and others should follow. Many of the policies needed to build more resilient societies that can cope with climate change are long overdue. Raising agricultural productivity, conserving land and forestry resources, and planning more sustainable cities would reduce vulnerability and drive down poverty. In each of these areas there would be significant global benefits for climate change through reduced greenhouse gas emissions. This is a triple-win scenario for economic growth, poverty reduction and climate.

In this report we emphasize Africa's leadership role.

This is not to downplay the critical importance of international cooperation. Keeping global warming below the 2°C threshold above pre-industrial levels demands collective action to address a shared threat. Similarly, unlocking Africa's energy potential and putting in place the foundations for a climate-resilient, low-carbon future will require ambitious, efficient and properly financed multilateral cooperation. As we show in this report, the current architecture fails each of these credibility tests.

Based on extensive consultations with African energy planners, climate negotiators, researchers and governments, this report sets out the Africa Progress Panel's perspective on the energy and climate challenges. It also provides an agenda for change and a call to action directed not just to Africa's leaders, but to the wider international community.

More power with equity - Africa's energy challenge

Universal access to energy systems that provide a reliable and adequate supply of power to homes, firms and service providers is a condition for sustained human development. Africa's energy systems are not fit for the purpose of supporting shared prosperity.

Despite 15 years of sustained economic growth, power shortages, restricted access to electricity and dependence on biomass for fuel are undermining efforts to reduce poverty. The energy gap between Africa and the rest of the world is widening (**See infographic: Worlds apart**).

WORLDS APART

Viewed from Africa, energy use patterns in rich countries represent another universe

Spain



Spain's total electricity net consumption:

243 Billion Kilowatthours

population:

47 million



Sub-Saharan Africa's total electricity net consumption excluding South Africa:

139 Billion Kilowatthours

population:

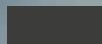
860 million

South Africa consumes over half of Africa's electricity



A kettle boiled twice a day by a family in Britain uses five times as much electricity as a Malian uses per year

MALIAN CITIZEN

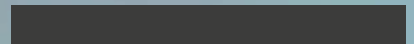


KETTLE BOILED



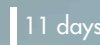
An Ethiopian takes 87 times longer to consume 150kWh than someone in the United Kingdom

ETHIOPIA



961 days

UNITED KINGDOM



11 days

A Tanzanian takes 8 years to consume as much electricity as an American consumes in one month

TANZANIA



8 years

USA



1 month

A freezer in the United States consumes 10 times more electricity than a Liberian, in one year

LIBERIAN CITIZEN



AMERICAN FREEZER

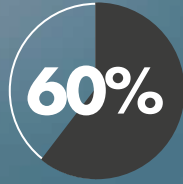


Range of time

AFRICA'S ENERGY GAP: THE COSTS OF THE DIVIDE

**621
MILLION**

Africans do not
have access to
electricity



of SSA's energy
is consumed by
South Africa

**89
BILLION**

US dollars of
petroleum exported
by Nigeria in 2013

**93
MILLION**

Nigerians
lack access to
electricity

4/5
The icon consists of five stylized human figures in a row. The first four are black, and the fifth is white.

OF THE POPULATION (727 MILLION)
rely on solid biomass, mainly fuelwood
and charcoal, for cooking

600,000

AFRICANS ARE KILLED EVERY YEAR
by air pollution caused by the use of solid
biomass for cooking

In 9 African countries, more than

80%

**OF PRIMARY SCHOOLS HAVE
NO ELECTRICITY**

In Africa, the poorest households spend



**MORE PER UNIT OF ENERGY THAN
THE WEALTHIEST HOUSEHOLDS**
with a connection to the grid

On current trends, it will take Africa until

2080

TO ACHIEVE UNIVERSAL ACCESS TO ELECTRICITY

Fifteen years ago, per capita energy use in Sub-Saharan Africa was 30 per cent of the level in South Asia, now it is just 24 per cent and still falling.

Sub-Saharan Africa is desperately short of electricity. The region's grid has a power generation capacity of just 90 gigawatts (GW) and half of it is located in one country, South Africa. Electricity consumption in Spain exceeds that of the whole of Sub-Saharan Africa. Excluding South Africa, consumption averages around 162 kilowatt-hours (kWh) per capita per year. This compares to a global average of 7,000 kWh. It would take the average Tanzanian around eight years to consume as much electricity as an American uses in one month.

Average figures mask the extent of Africa's energy deficit (**See infographic: Africa's energy gap - The costs of the divide**). Two in every three people – around 621 million in total – have no access to electricity. In Nigeria, an oil-exporting superpower, 93 million people lack electricity. Angola has five times the average income level of Bangladesh but Bangladesh has far higher levels of access to electricity (55 per cent versus 35 per cent).

Access to clean, non-polluting cooking facilities is even more restricted. Almost four in five rely for cooking on solid biomass, mainly fuelwood and charcoal. As a result, 600,000 people in the region die each year of household air pollution. Almost half are children under 5.

The international community has set the goal of achieving universal access to modern energy by 2030. Sub-Saharan Africa is not on track to achieve that target. It is the only region in which the absolute number of people without access to modern energy is set to rise, by 45 million for electricity and 184 million for clean cooking stoves. On current trends, it will take Africa until 2080 to achieve universal access to electricity. Universal access to clean cooking facilities would occur around 100 years later, sometime after the middle of the 22nd century.

The social, economic and human costs of Africa's energy crisis are insufficiently recognized. Energy-sector bottlenecks and power shortages cost the region 2-4 per cent of GDP annually, undermining job creation and investment. Companies in Tanzania and Ghana are losing 15 per cent of the value of sales as a result of power outages. Most of Africa's school children attend classes without access to electricity. In Burkina Faso, Cameroon, Malawi and Niger, over 80 per cent of primary schools lack access to electricity.

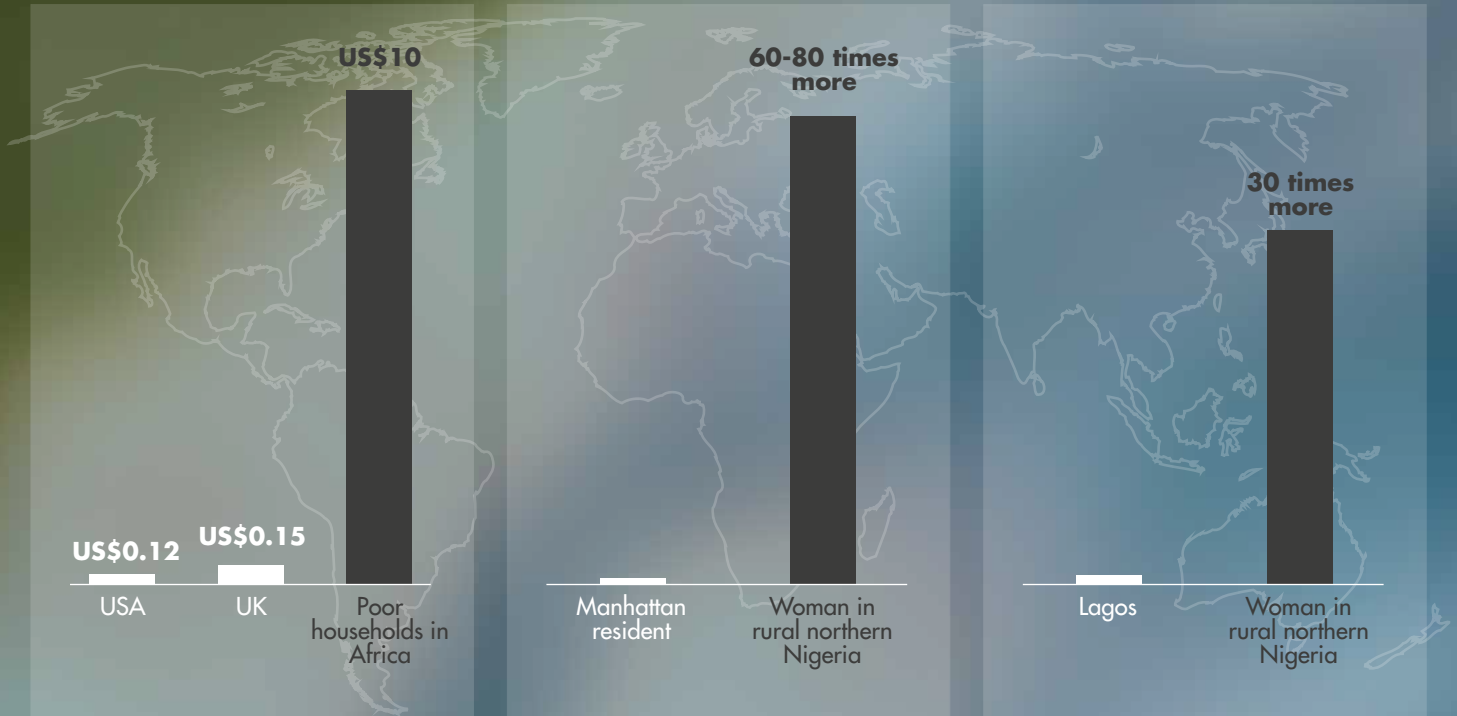
Governance of power utilities is at the heart of Africa's energy crisis. Governments often view utilities primarily as sites of political patronage and vehicles for corruption, providing affordable energy can be a distant secondary concern.

Far too much public finance is wasted on inefficient and inequitable energy subsidies. Governments spend US\$21 billion a year covering utility losses and subsidising oil-based products, diverting resources from more productive energy investments.

AFRICA'S BILLION DOLLAR ENERGY MARKET

Reducing prices, increasing access, empowering households

Africa's poorest people are paying among the world's highest prices for energy per kWh



US\$10 billion

The amount spent on energy by Africans living on less than US\$2.50 a day

The size of the energy market points to significant opportunities for investment and household savings

Reducing energy costs

by investing in modern energy could



Africa's poorest households are the unwitting victims of one of the world's starkest market failures. We estimate that the 138 million households comprising people living on less than US\$2.50 a day are spending US\$10 billion annually on energy-related products, such as charcoal, candles, kerosene and firewood. Translated into equivalent cost terms, these households spend around US\$10/kWh on lighting, which is about 20 times the amount spent by high-income households with a connection to the grid for their lighting. The average cost for electricity per kWh in the United States is US\$0.12 and in the United Kingdom is US\$0.15 (See infographic: Africa's billion dollar energy market).

The size of the market points to significant opportunities for investment and household savings. Halving costs would save US\$5 billion for people living below US\$2.50, or US\$36 per household. Plausible price reductions of 80 per cent would raise these figures to US\$8 billion overall and US\$58 per household. Such savings could release income for investment in productive activities, health and education. We estimate that the monetary saving from cost reductions would be sufficient to reduce poverty by 16-26 million people.

What would it take to expand power generation and finance energy for all?

Current energy-sector investment levels are just US\$8 billion a year, or 0.49 per cent of gross domestic product (GDP). This is inadequate. We estimate the investment financing gap for meeting demand and achieving universal access to electricity is around US\$55 billion a year until 2030, or 3.4 per cent of Africa's GDP in 2013 (See infographic: Plugging the gaps).

While this financing gap figure is large, it has to be placed in context. Energy financing is an investment with the potential to generate high social and economic returns by increasing productivity, job creation and economic growth.

Almost half of the gap could be covered by increasing Sub-Saharan Africa's tax-to-GDP ratio by 1 per cent of GDP. Additional revenues could be mobilized by halting the wasteful subsidies now transferred to loss-making utilities, stemming the finance lost as a result of illicit financial transfers, and cautious recourse to bond markets.

Aid can play a supportive, catalytic role. African governments themselves should mobilize around US\$10 billion to expand on-grid and off-grid energy access. The international community should match this effort through US\$10 billion in aid and concessional finance aimed at supporting investments that deliver energy access to populations that are being left behind.

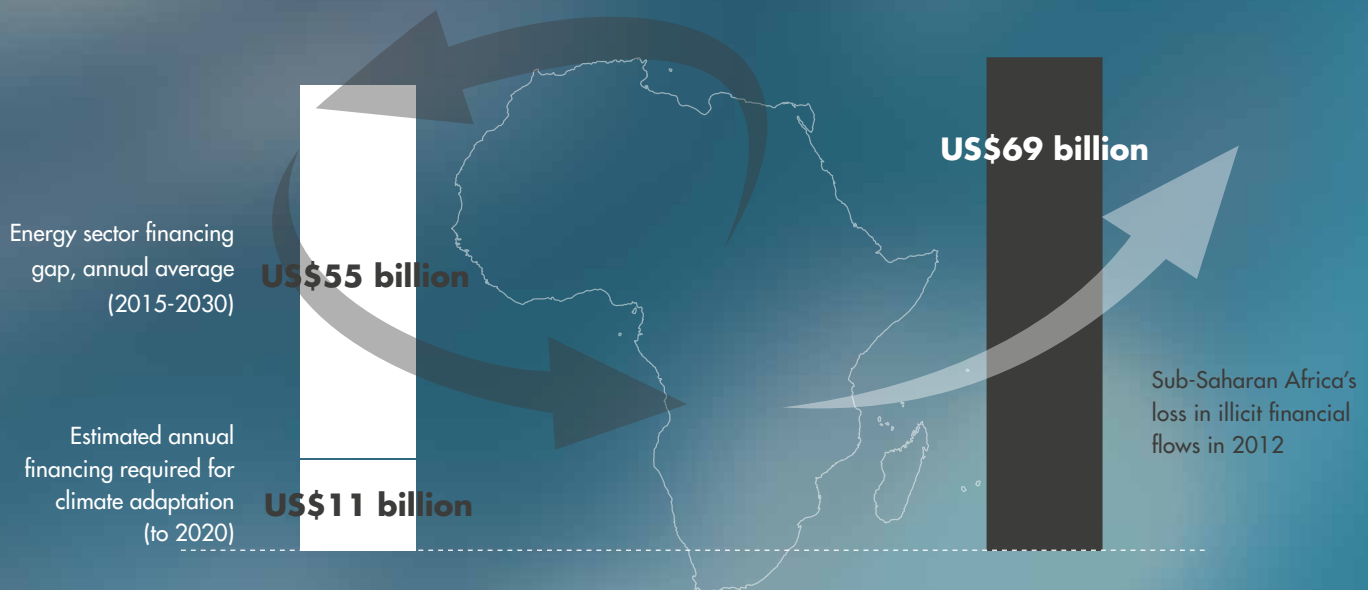
Opportunity Africa

Africa's energy deficits stand in stark contrast to the region's potential.

Africa has abundant reserves of fossil fuels and an even greater abundance of renewable energy assets. Rising demand for energy makes it imperative for policymakers to develop Africa's resources for Africa's needs, with less emphasis placed on the "three e" model of exploration, extraction and export.

PLUGGING THE GAPS

Illicit outflows are higher than the financing gap for both energy access and climate adaptation



CUT ILLICIT FINANCIAL FLOWS
and narrow the opportunities for tax evasion

Urbanization, population growth and economic growth are driving an increase in energy demand. Modelling by the International Energy Agency (IEA) suggests that electricity generation will need to increase by 4 per cent a year to 2040. The Africa Progress Panel regards this scenario as unambitious. Africa's per capita energy consumption would be one-third of the level in Thailand today. It would leave millions of Africans quite literally in the dark, with over 500 million people lacking access to electricity in 2040, a decade after the target date for universal access to energy. Such an outcome would be indefensible.

African governments need to set a higher level of ambition. Policies should aim at a 10-fold increase in power generation and universal access to energy by 2030. Countries such as Brazil, Thailand and Vietnam have demonstrated that, with sustained political leadership, these outcomes are attainable.

Renewable energy has a critical role to play. As highlighted by the Global Commission on Economy and Climate, headed by former Mexican president Felipe Calderón, the idea that countries face a choice between green energy and growth is increasingly anachronistic. Prices for renewable technologies, especially solar and wind-power, are falling at an extraordinary rate to the point at which they are competitive with fossil fuels.

From an African perspective, renewable technologies have two distinctive advantages: speed and decentralization. They can be deployed far more rapidly than coal-fired power plants and they can operate both on-grid and off-grid. In

considering investment decisions today, Africa's governments should take every opportunity to lay the foundations for a low-carbon future, while recognizing that the transition away from existing high carbon infrastructure will take some time.

Africa's energy transformation

After decades of neglect, a powerful current of energy reform is sweeping across Africa.

Governments increasingly recognize that underpowered and unequal energy systems are a barrier to developing dynamic economies and more inclusive societies. While there is a long way to go and the record is mixed, the potential for a breakthrough in energy is increasingly evident (**See infographic: Opportunities**).

Part of that potential is reflected in what some countries are already achieving. Since 2000, net electricity generation has increased by 4 per cent a year or more in 33 countries. Looking forward, the Africa Progress Panel has reviewed the energy plans of some 30 countries and most aim well beyond doubling capacity by 2020.

Financing for energy development is on the increase. African governments are investing more, albeit from a low base. Many are supplementing energy investments by turning to sovereign bond markets. Domestic and foreign private investment is rising, reflecting a move towards liberalization. Nigeria has one of the world's largest and most ambitious energy-privatization plans.

Some 130 independent power providers (IPPs) are now operating across Sub-Saharan Africa. A new generation of private equity investors is also emerging. There were around 27 private equity investments in energy and natural resources, with an aggregate value of US\$1.2 billion between 2010 and 2013.

International development finance has played a significant role in unlocking private investment. President Barack Obama's Power Africa initiative, which promises US\$7 billion over five years, has acted as a focal point for a range of US agencies and the private sector. Energy cooperation between the European Union and Africa is deepening. The game-changer, though, is the emergence of China as a source of integrated project finance for large-scale energy projects.

Encouraging as these developments are, they fall short of a breakthrough. African governments are mobilizing insufficient resources through domestic revenues. Moreover, while recourse to bond markets offers some benefits, countries are incurring significant foreign-currency risks. International development finance is constrained by excessive fragmentation, high transaction costs and poor coordination. Looking ahead, the challenge is to scale up domestic resource mobilization and to secure access to long-term financing from pension funds and other institutional investors.

Sustained regulatory reform is critical for investment. Unbundling power generation, transmission and distribution is one step towards creating more efficient and stable energy markets. Independent regulation is another. But private investors require an energy buyer such as a utility or dedicated power-purchasing agency and it is hard to build a convincing business case when the main buyer is a highly-indebted, corrupt and inefficient utility.

OPPORTUNITIES

A powerful current is sweeping across Africa's energy systems

The untapped potential of Africa's primary energy resources (excluding South Africa) is estimated to be

260 times the current grid-based capacity



Burkina Faso, Ethiopia, Ghana, Kenya, Mauritania and South Africa
are at the forefront of renewable energy innovations



The renewable advantage: speed and decentralisation

Africa can ride the wave of new technologies and innovation to enter a new era of power generation



Africa has a late-comer advantage

adopt, adapt and innovate

Governments are setting a higher bar for ambition – and some are delivering



Rwanda expanded electricity access by **160 percent** between 2008 and 2011



Ethiopia is set to achieve **zero net emission status by 2027**. No developed country has matched this level of ambition

Africa can lead the world on climate-resilient, low-carbon development - a triple-win for



1. CLIMATE



2. POVERTY REDUCTION



3. ECONOMIC GROWTH

Prices for renewable technologies are falling and are now competitive with fossil fuels



Africa's governments can lay the foundations for a low-carbon future. In some countries, fossil fuels – including coal – will continue to figure in the energy mix

International development finance can unlock significant private investment to spur a renewables revolution

Regional cooperation is deepening:



Only **5 per cent** of electricity is traded across African borders so the potential is huge



The AU is backing a **US\$22 billion** project to develop a pan-African electricity highway by 2020



In West Africa, the AfDB is supporting a project that will increase access to low-cost electricity for **24 million people**

Renewable energy – riding the wave of global innovation

Renewable energy is at the forefront of the changes sweeping Africa.

Hydropower continues to dominate the investment landscape. Countries as diverse as Ethiopia, Ghana, Kenya, Nigeria and South Africa are developing very large power-generation plants that use renewable energy. But the renewables revolution is also being driven from below, as innovative companies respond to household demand for lighting and power (**See infographic: Renewable energy in Africa**). On one estimate, 5 per cent of households in Sub-Saharan Africa now use some form of solar lighting, compared with 1 per cent in 2009.

New business models are emerging. One example comes from Kenya. M-KOPA has brought together solar and mobile technology to bring affordable solar technologies to off-grid villages. Customers pay a small deposit for a solar home system that would usually retail for US\$200, including a solar panel, three ceiling lights, a radio and charging outlets for mobile phones. The balance is repaid in small instalments on a pay-as-you-use basis through M-PESA, a widely available mobile-payment platform that is used by a third of the population.

Some governments are partnering with the private sector to extend the reach of electricity. The Ignite Power project in Rwanda brings together several private companies, the government and philanthropic agencies. The project aims to install off-grid technology through a pre-paid system that can power four lights, radios and televisions, and charge cell phones.

Despite such compelling examples, progress remains far too slow. While poor households stand to save over time from adopting new technologies, the initial costs of solar panels are too high for many.

This is a classic market failure. Consumers, investors and the wider economy are losing out because of the absence of institutional mechanisms to link supply and demand. However, the market failure can be corrected through a combination of public policy action, business innovation and international cooperation.

Climate change – an opportunity for transformation

The risks associated with climate change in Africa are well established. High levels of background poverty, dependence on rainfall, weak infrastructure and limited provision of safety nets combine to make climate risk a major source of vulnerability, even without global warming. Climate justice demands international cooperation and basic human solidarity to contain these risks.

Viewed from a different perspective, climate change provides African governments with an added incentive to put in place policies that are long overdue and to demonstrate leadership on the international stage. Countries such as Ethiopia, Kenya and Rwanda have already developed climate-resilient development strategies aimed at reducing poverty, raising productivity and cutting greenhouse gas emissions. From an African

RENEWABLE ENERGY IN AFRICA

Powering the future, now

NOOR-OUARZAZATE SOLAR COMPLEX

Power for 1.1 million Moroccans by 2018, saving 700,000 tonnes of CO₂ a year.

ZERO BLADE WIND CONVERTER

2.3 times more efficient than traditional wind turbines and 45% cheaper.

KATENE KADJI

Converts local waste into "green charcoal" and logs that replace charcoal and fuel wood.

Hydroelectricity is Sudan's largest source of power (68% of generation in 2011).

Ethiopia will have one of world's lowest-carbon power generation systems by mid 2020s.

ASHEGOLD

One of Africa's largest wind farms.

M-KOPA SOLAR

Provides 'pay-as-you-go' energy for off-grid customers. US\$75 million projected savings by existing customers.

Solar energy powers 1/3 of the capital and 10% of national grid.

LAKE TURKANA WIND POWER PROJECT

Aims to provide 300MW to national grid, generating US\$150 million annually in foreign currency savings through fuel displacement costs.

SHARED SOLAR

Solar panels are hooked to micro-grids (20 families or fewer) managed by smart meters. Users pay via mobile phones.

HELVETIC SOLAR GROUP

Pan-African solar energy business whose products have reached about 100,000 people directly, and 500,000 indirectly.

ZAGTOULI SOLAR PV PLANT

Zagtouli is set to host West Africa's largest solar PV, which is expected to boost energy production by 6 per cent and meet the needs of some 40,000 households.

NZEMA SOLAR PROJECT

Africa's largest solar plant (world's fourth largest) is under construction.

TOYOLA ENERGY

Cleaner efficient cooking stoves have benefited 940,000 people and saved 200,000 tonnes of CO₂ a year.

SOLAR SISTER

Provides women with training and support to create solar micro-businesses. Over 1200 entrepreneurs helped to date.

Hydro plants generate over 2/3 of Angola's electricity. Hydro potential could be 10 times current capacity.

ELEPHANT ENERGY

Provides solar energy to rural communities in Namibia. Saves families over US\$7.00 per month in fuel costs.

ITEZHI TEZHI POWER GENERATION PROJECT

First public-private project in Zambia, expected to inject 120MW into national grid and create 460 direct jobs.

GRAND INGA

Grand Inga could double Africa's electricity production capacity, making it world's largest infrastructure project.

Since 2010, South Africa has one of world's fastest growth rates for renewable energy investment.

STUDENT LIGHTS CAMPAIGN

Owned by UK charity SolarAid, SunnyMoney offers schools affordable study lights.

● Current business ● Fact ● Future project

perspective two priorities stand out for the Paris climate summit in December 2015. The first is an ambitious deal that delivers on the commitment to keep global warming within the 2°C threshold. Second, the climate agreement must address the financing and capacity-building challenges that Africa faces in responding to the climate challenge.

Africa will be hit hard by climate change

Climate change will have local impacts in Africa but their timing and severity will be determined by global emissions.

The most severe and immediate effects will be felt by the rural poor. If global average temperatures are allowed to increase by 4°C, large areas used for cropping sorghum, millet and maize would become unviable. In some areas drought could become more protracted and severe. In other cases, productivity levels will be affected by unpredictable rainfall, increased temperature and flooding.

The Fifth Assessment of the Intergovernmental Panel on Climate Change (IPCC) identifies Africa as the region at greatest risk from global warming. Regional heating will exceed the global average. While climate modelling does not provide castiron predictions, it does point to high levels of risk in many areas. Rising sea levels could threaten coastal cities such as Accra, Dar es Salaam and Lagos. Hydropower systems could be compromised by reduced rainfall and increased evaporation. New health threats could emerge. In each of these areas, the poor will bear the brunt.

Seizing the opportunity – land use and transformative adaptation

The severity and immediacy of the risks posed by climate change have deflected attention from opportunities to build more climate-resilient approaches to development.

These approaches offer “triple-win” benefits: boosting agricultural productivity, reducing poverty and strengthening international efforts to combat climate change.

Land use should be a focal point for strategies aimed at unlocking these benefits. Much of African agriculture is locked in a vicious circle of low productivity, poverty and environmental degradation. Around 2 million hectares of forest were lost annually between 2000 and 2010.

Changes in agriculture, forestry and land-use patterns are responsible for emissions equivalent to 10 - 12 gigatonnes (Gt) of carbon dioxide (CO₂), around one-quarter of the global total. Africa accounts for around 20 per cent of these emissions. While the region may account for a small share of overall greenhouse gas emissions, the region’s emissions from agriculture, forestry and land-use changes are growing at 1-2 per cent a year. Such changes account for about half of Africa’s emissions – and the share is rising.

Reversing the vicious circle of low productivity, environmental degradation and climate change has the potential to unlock far-reaching benefits. One of the most striking examples comes from Niger, where smallholder farmers have transformed the productivity and sustainability of agriculture across 5 million hectares of land. As shown in last year’s *Africa Progress Report*, African governments could also do far more to

reduce vulnerability and raise productivity through wider measures. Investment in rural infrastructure, social protection and developing new seeds, allied with greater financial inclusion and the promotion of regional trade, could do far more to enhance climate resilience than the current proliferation of small-scale adaptation projects.

The dangerous gap between international policy commitments and actions

The Paris climate summit provides an opportunity to negotiate an agreement that will deliver on the commitment to keep the 21st century's global average temperature increase within 2°C.

There have been some encouraging signs. Over the past year the world's largest emitters, which are China, the European Union and the United States, have all pledged more decisive action to cut emissions. Governments have also agreed to table their proposed actions – or Intended Nationally Determined Contributions (INDCs) – before the summit.

On a less positive note, the pledges that have been made leave the world far from a viable trajectory for meeting the 2°C commitment. The most credible scientific evidence estimates that the world is on a pathway that will lead to 4°C warming over the course of the 21st century. Such an outcome would have catastrophic consequences for Sub-Saharan Africa. Averting that outcome should be at the heart of every African government's climate diplomacy.

Despite the known threats, far too many countries are failing to take decisive action. Several countries including Australia and Canada appear to have withdrawn entirely from constructive international engagement on climate. Others have adopted contradictory policy stances. The US\$88 billion spent by G20 countries on subsidies for the discovery and exploitation of new fossil fuels is one example (**See infographic: Cut the waste**). To avoid catastrophic climate change, two-thirds of existing reserves have to be left in the ground, begging the question of why taxpayers' money is being used to discover new reserves of "unburnable" hydrocarbons.

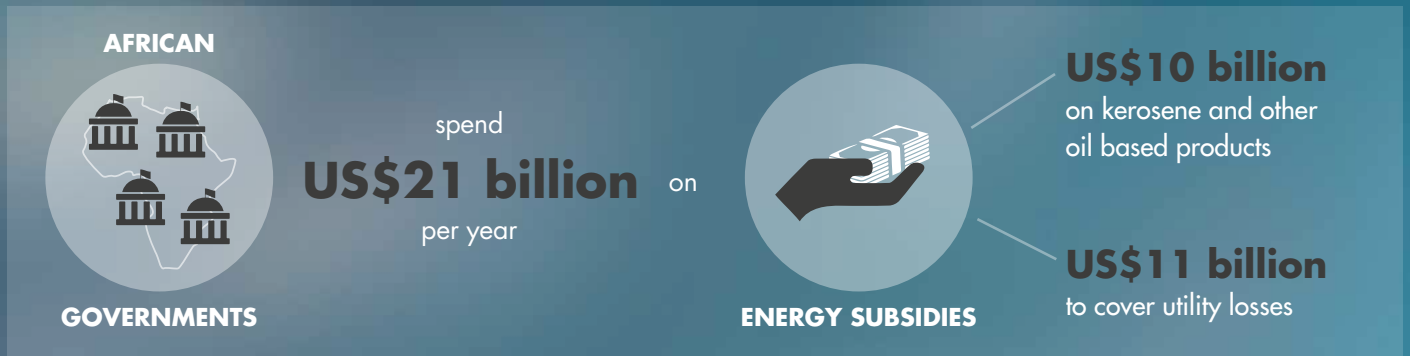
Governments in the major emitting countries should be placing a stringent price on emissions of greenhouse gases geared towards a credible carbon budget. Instead of taxing emissions for the global public good, they are effectively subsidising them. While many factors are at play, the political power of multinational energy companies and other vested interest groups weighs far too heavily in the decision-making processes of many governments.

Securing a better deal for Africa

The INDCs provide African governments with a vehicle to set out their ambition for the transition to a growth-oriented, climate-resilient, low-carbon development model.

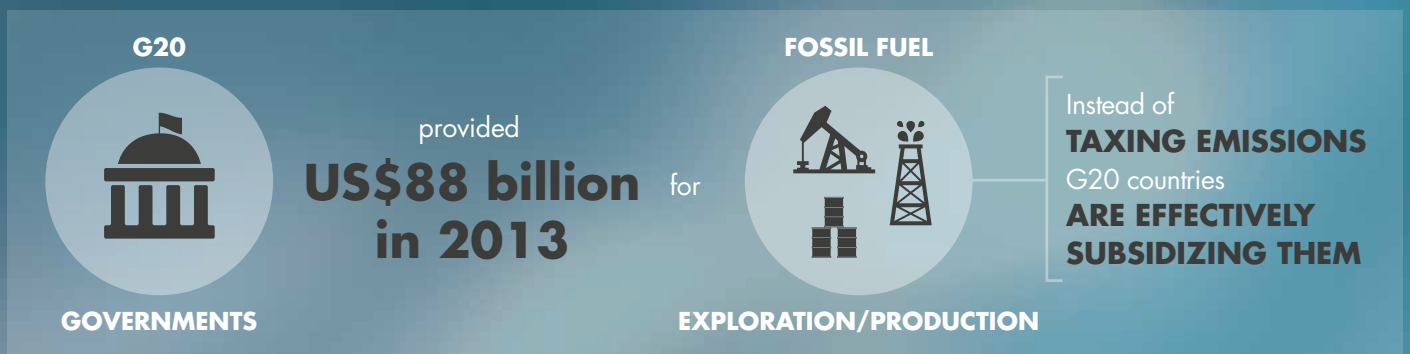
Building on existing energy and land-use strategies, the submissions could go beyond outlining what countries are doing now to identify what could be done through deeper international cooperation on financing, technology and capacity development.

CUT THE WASTE



REDIRECT SUBSIDIES

into energy investment, social protection and targeted connectivity for the poor



PHASE OUT FOSSIL FUEL SUBSIDIES FAST

Africa's governments should also use the 2015 financing and climate summits to press for wider reforms. Climate finance is a starting point. On one estimate, there are now 50 climate funds in operation under a fragmented patchwork of mechanisms with a total financing pool of around US\$25 billion.

Sub-Saharan Africa has not been well served by this elaborate international climate financing architecture. Over the three financial years 2010–2012, just US\$3.7 billion was provided in “fast-start” finance. Not all of this represents new and additional aid, some may have been diverted from other projects.

Detailed analysis of financial transfers points to two structural weaknesses in the climate-finance architecture: chronic under-financing and fragmentation. Both weaknesses are apparent in the financing offered for adaptation measures. Detailed costing exercises carried out by the United Nations Environment Programme (UNEP) put annual adaptation financing requirements at around US\$11 billion through to 2020. Average annual aid financing amounts to around 5 per cent at this amount.

When it comes to international climate finance for efforts to mitigate climate change by reducing emissions, Sub-Saharan Africa is picking up the small change. Nigeria and South Africa are the only countries to have received support from the Clean Technology Fund. A larger group of low-income countries in Sub-Saharan Africa have received pledges of support to develop solar, wind and geothermal power. However, as of February 2015, only Ethiopia, Kenya and Mali had received financing.

Recommendations

The Africa Progress Panel's recommendations identify a range of practical measures for expanding power generation, accelerating progress towards universal access to energy, and supporting low-carbon development. They also set out an agenda for the Paris climate summit, linking international action to African strategies for climate-resilient development.

Many of the specific proposals are directed to African governments. In the absence of ambitious African leadership, opportunities for an energy transformation will be wasted. By the same token, without strengthened international cooperation the opportunities available will be only partially exploited. The 2015 summits provide a platform for deepening international cooperation, setting a course that avoids climate disaster and delivering a down-payment on measures with the potential to put Africa on a pathway towards future powered by inclusive low-carbon energy.

Core recommendations for African governments:

Raise the ambition of Africa's energy strategies. Governments should aim at a 10-fold increase in power generation by 2040, while laying the foundations for a low-carbon transition. Public spending on energy should be raised to 3-4 per cent of gross domestic product (GDP), supported by measures aimed at raising the tax-to-GDP ratio and avoiding excessive reliance on bond markets. Given the US\$55 billion per until 2030' after 'annum gap in energy financing, governments should prioritize the development of balanced public-private partnerships and create the conditions for expanded private investment. Governments should look beyond national borders to accelerate the development of regional grids.

Seize the low carbon opportunity. Governments should strengthen the market for low-carbon energy through predictable off-take arrangements, utility purchase arrangements, feed-in tariffs and auctions. Recognising that the initial capital costs of renewable energy investment can be prohibitive, governments and regulators should seek to reduce risks and support the development of the market through appropriately subsidized loans.

Leave no one behind. Africa's energy systems combine inequity with inefficiency. They provide subsidized electricity for the wealthy, unreliable power supplies for firms and very little for the poor. National strategies should act on the commitment to achieve universal access to energy by 2030, which means providing access for an additional 645 million people through connections to the grid or decentralized mini-grid or off-grid provision. Every government should map the populations that lack access and identify the most effective routes for delivery. Better and more accessible energy can also power up Africa's agriculture. Governments should work with the private sector to develop the innovative business models needed to deliver affordable energy to the US\$10 billion market of people who live on incomes of less than US\$2.50 a day.

Cut the pro-rich subsidies. National strategies should include a roadmap and schedule for phasing out the US\$21 billion in energy subsidies geared towards the rich.

Subsidizing connections for the poor is more efficient and equitable than subsidizing energy consumption by the rich and subsidizing kerosene is of limited value as a tool for achieving universal access.

Deepen reform of energy governance. Governments across the region need to step up the pace of reform. Unbundling power generation, transmission and distribution is a starting point. But effective governance also requires the creation of robust, independent regulatory bodies empowered to hold utilities to account. Utilities themselves should be required to publish the terms of all off-take arrangements and emergency power-purchase agreements and they should prohibit tendering through offshore listed companies. While encouraging legislation has been introduced, the record on implementation is patchy. Establishing predictable off-take agreements is critical for attracting high-quality, long-term investment.

Adopt new models of planned urbanization. As the world's most rapidly urbanizing region, Africa has opportunities to develop more compact, less polluted cities, alongside safer and more efficient public transport systems. Economies of scale and rising urban incomes have the potential to expand opportunities for providing renewable energy and achieving universal access to basic services. Linking African cities to the growing range of global city networks, including the "C40" group of cities, could unlock new opportunities for knowledge exchange, capacity building and financing. Governments, multilateral agencies and aid donors should work together to strengthen the creditworthiness of cities, while developing innovative partnerships for clean energy.

Develop and act upon an African strategy for the Paris climate summit. The African Common Positions developed by the African Group of Negotiators (AGN) and endorsed by the African Ministerial Conference on the Environment (AMCEN) provide the basis for a strong set of demands that African countries can take to Paris. However, governments have often failed to act upon their collective commitments. Given the power asymmetry in the climate negotiations, this is not in the best interests of Africa's citizens. With one voice, Africa's governments should:

- Reject greenhouse-gas reduction commitments from rich countries and emerging markets that are not aligned with the 2°C commitment.
- Demand that rich countries set a course for zero net emissions by 2050, going further than envisaged in the current proposals of the European Union and the United States.
- Urge Australia, Canada and Japan to adopt a more credible and constructive stance on their climate offers.
- Request that China raises the level of ambition by bringing forward the proposed date for peak emissions.
- Demand increased support for climate-resilient development and transformative adaptation, along with a fundamental overhaul of the current multilateral adaptation finance system.

Engage fully in negotiations on the Intended Nationally Determined Contributions (INDCs). Many African governments have been reluctant to engage in the INDC process in the light of Africa's limited contribution to greenhouse gas emissions. However, the INDCs provide an opportunity to set out policies that could promote

growth and reduce poverty in Africa, while limiting global greenhouse gas emissions. The INDCs could be used to identify opportunities for international cooperation, linked to additional financing. To cite some examples:

- Eliminate within five years of gas flaring, which is a potent source of global warming and a waste of Africa's energy resources.
- Identify opportunities for combating soil erosion, conserving land, avoiding deforestation and restoring degraded forests and land.
- Highlight current actions aimed at reducing greenhouse gas emissions and the costs of reducing future emissions by scaling up renewable energy.

Proposals for action by the international community:

Create a "global connectivity fund" under the auspices of the Sustainable Energy for All (SE4All) partnership. The SE4All remit includes supporting universal access to energy and increasing the share of renewables in the energy mix but it lacks a bridge to financing mechanisms. Universal access costs are estimated at US\$20 billion annually to 2030. These costs could be co-financed by African governments and the wider international community in the form of concessional development finance, supplemented by aid. The SE4All governance framework would be reformed to require governments to submit comprehensive national action plans setting out strategies for universal access, with an understanding that credible plans will secure an appropriate mix of financing for their implementation. SE4All financing would help support innovative business models delivering affordable off-grid energy through risk and credit guarantees, subsidized loans and electricity-purchase agreements.

Unlock private finance. Development finance could play a more catalytic role through increased risk-guarantee provisions and strengthened coordination between international financial institutions, development finance agencies and bilateral donors. The World Bank and African Development Bank (AfDB) should lead an international effort to unbundle risk, structure guarantees and align Africa's risk premium with market realities. The exercise should aim also at reducing the transaction costs associated with financing energy projects. Risk instruments such as the World Bank's Multilateral Investment Guarantee Agency (MIGA) and foreign-currency risk mechanisms should be scaled up.

Strengthen the role of AfDB and World Bank financing. Development finance agencies, the World Bank and donors should commit US\$10 billion to the capitalization of the Africa '50' Fund of AfDB, which has the potential to leverage up to US\$100 billion in private finance. More African governments should be drawing on the World Bank's non-concessional borrowing windows, taking advantage of low interest rates to finance energy infrastructure.

Overhaul the climate finance architecture: Africa is poorly served by the current climate-finance architecture. The separate multilateral agencies offering facilities to support adaptation should be merged into a single Transformative Adaptation Facility, perhaps under the auspices of the Green Climate Fund. Facilities for mitigation finance and support mechanisms for low-carbon development – notably the Clean Technology Fund and the Scaling Up Renewable Energy in Low Income

Countries Programme – should be structured to be more responsive to Africa’s mitigation potential and the opportunities to back low-carbon development. The broader concern is that the increasingly fragmented global financing architecture is doing little to provide strategic direction in leveraging private investment.

Demonstrate serious intent at the Addis Ababa Financing for Development Summit in July 2015: The summit provides an opportunity to make a down-payment on strengthened international cooperation and build a bridge to the Paris climate summit:

- Aid donors should commit to the longstanding target of devoting 0.7 per cent of gross national income (GNI) to aid.
- Rich countries should set a clear timetable for delivering by 2020 the outstanding US\$70 billion per annum in climate finance, which they committed to in Copenhagen, with greater transparency on financial commitments, the identification of new sources of finance and delivery mechanisms.
- A US\$15 billion annual commitment to climate-resilient development in Africa, including financing for a transformative adaptation.
- Increase by US\$10 billion the development finance available to Sub-Saharan Africa for mitigation through the Clean Technology Fund, Green Climate Fund and other mechanisms.
- Increase the capitalization of the Green Climate Fund to US\$20 billion, subject to stringent performance requirements.

Phase out fossil fuel subsidies: The three 2015 summits should aim at a comprehensive phase-out of all fossil fuel subsidies by 2025, with appropriate support for low-income countries. Eliminating subsidies for fossil-fuel exploration and production – especially coal – should be a priority. Developed countries should withdraw by 2018 all tax concessions, royalty relief and fiscal transfers, and all state aid to fossil-fuel industries by 2020. The G20 countries should set a timetable for acting on their commitment to phase out fossil-fuel subsidies, with early action on coal.

Raise the level of ambition at the Paris climate summit: Developed countries should establish carbon budgets aimed at zero net emissions by 2050, with clear interim benchmarks to 2030. The European Union and the United States should revise their initial INDC offers in line with this commitment. Countries should move towards early implementation of credible carbon pricing and taxation systems, linked to carbon budgets.

Redouble efforts to combat tax evasion: In 2012, Africa lost US\$69 billion from illicit financial flows. G8 and G20 countries must act on past commitments to strengthen tax-disclosure requirements, prevent the creation of shell companies and counteract money laundering. Implementation of the G20/OECD’s planned actions on base erosion and profit shifting should be accelerated; and the international community should support African efforts to strengthen tax and customs administration and reduce illicit financial outflows, especially via trade misinvoicing. Other priority actions to mitigate illicit financial flows include public registries of beneficial ownership of companies and, with the assistance of the IMF, agreeing on how to define, measure and track such flows, especially trade misinvoicing.

For private investors and multinational companies:

Demand an ambitious Paris climate agreement: The business community should work with cities, municipal and regional authorities, civil-society organizations and governments to demand an ambitious Paris climate agreement, backed by carbon pricing and taxation. All companies should establish and publish a "shadow price" for carbon in their company accounts.

Accelerate the exit from carbon through divestment: Institutional investors should urgently review their portfolios with a view to progressively eliminating carbon-intensive assets, starting with equity stakes in coal. Regulatory authorities, investors and stock exchanges should require companies and institutional investors to fully disclose the carbon exposure of their assets. The World Business Council on Sustainable Development should review and report upon the misleading claims made by multinational mining companies with respect to the benefits of coal for reducing poverty.

Engage with governments: Lead the development of new low-carbon energy partnerships and identify the conditions for increasing investment in energy sector infrastructure.

Drive innovation for greater access: Energy investors should develop innovative business models aimed at lowering market-entry costs for electricity and the costs of efficient cooking-stoves. Working with governments, banks and aid donors, they should seek to broaden and deepen emerging mechanisms, such as pay-as-you-go financing, mobile payments, extended repayment periods and low-interest credit, to serve the "bottom of the pyramid" market. Given the limited ability of poor households to meet maintenance costs, governments should link public support to the provision of post-installation servicing.

Stop the secrecy: Foreign investors and African companies should provide full disclosure of their beneficial ownership structures and report transparently on energy-related contracts, including electricity off-take arrangements. Multinational corporations must also recognise that the tax and transparency revolution continues to move ahead at a rapid pace. New G20/OECD reporting standards for multinational companies will require companies to report on their activities more transparently. Companies that keep up with the pace of change are more likely to be able to influence the changes.



02/

GRAIN FISH MONEY

**FINANCING AFRICA'S
GREEN AND BLUE
REVOLUTIONS**

Africa Progress Report 2014

FOREWORD

BY KOFI ANNAN

“Africa’s fish and other harvests can help feed an expanding global population. We all benefit from an Africa that is prosperous, stable and fair.”

The world’s burgeoning population needs to be fed and Africa, our continent, is well positioned to do so. We have enough resources to feed not just ourselves but other regions too. We must seize this opportunity now.

Africa’s productivity levels, already beginning to increase, could easily double within five years. Indeed, our smallholder farmers, most of them women, have repeatedly proven how innovative and resilient they can be.

So why are they not yet thriving? The unacceptable reality is that too many African farmers still use methods handed from generation to generation, working their lands or grazing their animals much as their ancestors have done for millennia.

Africa may be showing impressive headline growth, but too many of our people remain stuck in poverty. This year’s Africa Progress Report finds that if we want to accelerate Africa’s transformation, then we have to significantly boost our agriculture and fisheries, which together provide livelihoods for roughly two-thirds of all Africans.

If we want to extend the recent economic successes of the continent to the vast majority of its inhabitants, then we must end the neglect of our farming and fishing communities. The time has come to unleash Africa’s green and blue revolutions.

These revolutions will transform the face of our continent for the better. Beyond the valuable jobs and opportunities they will provide, such revolutions will generate a much-needed improvement to Africa’s food and nutrition security. More than anything, malnutrition on our continent is a failure of political leadership. We must address such debilitating failure immediately.

Africa’s farmers and fishers are equal to the challenge, but they need the opportunity.

They need their governments to demonstrate more ambition on their behalf. African governments must now scale up the appropriate infrastructure and ensure that financial systems are accessible for all.

When farmers access finance – credit, savings, insurance – they can insure themselves against risks such as drought, and invest more effectively in better seeds, fertilizers and pest control. With access to decent roads and storage, farmers can get their harvests to market before they rot in the fields. Trade barriers and inadequate infrastructure are preventing our farmers from competing effectively. They are being told to box with their hands tied behind their backs.

No wonder Africa's food import bill is worth US\$35 billion (excluding fish) every year.

Investing in infrastructure will certainly be expensive. But at least some of the costs of filling Africa's massive infrastructure financing gap could be covered if the runaway plunder of Africa's natural resources is brought to a stop. Across the continent, this plunder is prolonging poverty amidst plenty. It has to stop, now. Last year's Africa Progress Report showed how illicit financial flows, often connected to tax evasion in the extractives industry, cost our continent more than it receives in either international aid or foreign investment.

This year's report shows how Africa is also losing billions to illegal and shadowy practices in fishing and forestry. We are storing up problems for the future. While personal fortunes are consolidated by a corrupt few, the vast majority of Africa's present and future generations are being deprived of the benefits of common resources that might otherwise deliver incomes, livelihoods and better nutrition. If these problems are not addressed, we are sowing the seeds of a bitter harvest.

Global collective action is needed to nurture transparency and accountability. In the year since our last report was published, notable action has been taken on beneficial ownership, tax avoidance and evasion, and resource revenues. Further technical and financial support to African governments will also help reduce the illicit flows of timber, fish and money.

With the same goals in mind, such action must be extended to the major international commodity traders, who play a critical role in African markets, from coffee through to oil. Too often these powerful and globally influential traders have been overlooked by national and international regulation.

We have a common interest in the success of these endeavours. African forests help the world to breathe. Along with African waters, they safeguard the priceless biodiversity of planet Earth. Africa's fish and other harvests can help feed an expanding global population. And we all benefit from an Africa that is prosperous, stable and fair.

Foreign investors are increasingly choosing Africa as a lucrative opportunity, and pouring money into agribusiness. At best these investments bring jobs, finance and critical knowhow. At worst, they deprive African people of their land and water.

African governments must regulate these investments and use them to Africa's advantage. Agreements between African governments and business have to be mutually beneficial.

Africans overseas are also transferring significant sums of money into Africa, but remittance charges are unethically expensive. This overcharging impacts even more negatively on rural communities. Remitting US\$1,000 to Africa costs US\$124 compared with a global average of US\$78 and US\$65 for South Asia.

Unleashing Africa's green and blue revolutions may seem like an uphill battle, but several countries have begun the journey. In these countries, farmers are planting new seeds, using fertilizer and finding buyers for their harvests. Impressive innovation and smart government policies are changing age-old farming ways.

Mobile technology allows farmers to leapfrog directly to high productivity. Young entrepreneurs mix agriculture with 21st century global markets. Africa's resilience, creativity, and energy continue to impress. These qualities are critical to our green and blue revolutions, upon which Africa's future will depend.



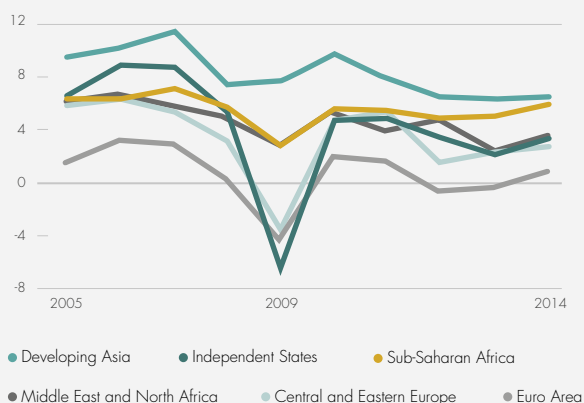
KOFI A. ANNAN

Chair of the Africa Progress Panel

OUR PROGRESS



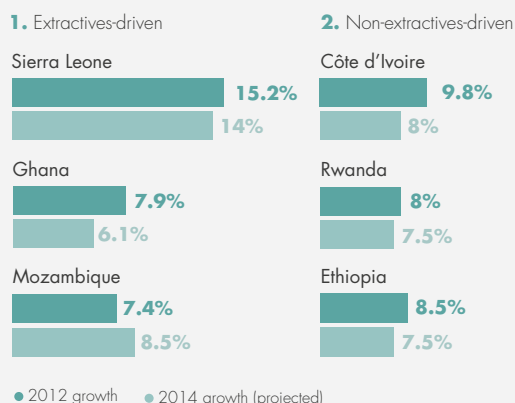
AFRICA REMAINS ONE OF THE WORLD'S FASTEST GROWING REGIONS



Source: IMF (2013), World Economic Outlook: Tensions and transitions.



DRIVERS OF GROWTH ARE BEYOND THE EXTRACTIVE INDUSTRIES

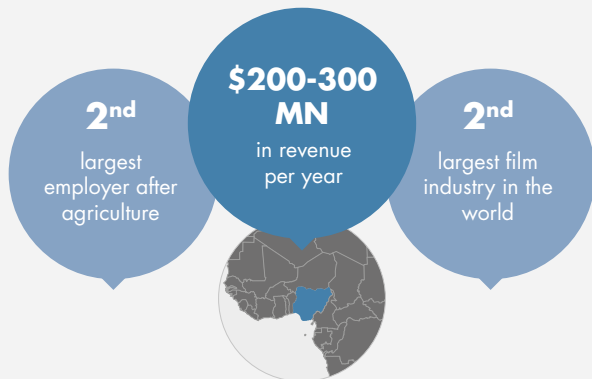


Source: IMF (Oct. 2013), Regional Economic Outlook for Sub-Saharan Africa: Keeping the pace.



CREATIVE INDUSTRIES ACROSS AFRICA ARE BOOMING

Nollywood, Nigeria's film industry, is a sector to watch

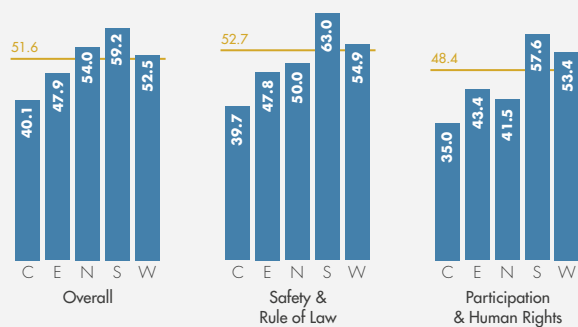


Sources: Africa Renewal (May 2013) and Financial Times (2013).



OVERALL GOVERNANCE IS IMPROVING: REGIONAL RESULTS 2012

Regional Category Scores: 2012



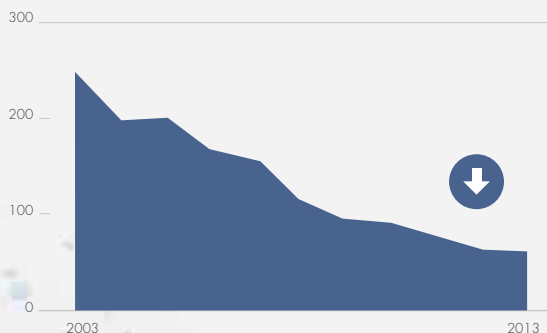
● Average
C = Central Africa E = East Africa N = North Africa S = Southern Africa W = West Africa

Source: Ibrahim Index of African Governance (2013).



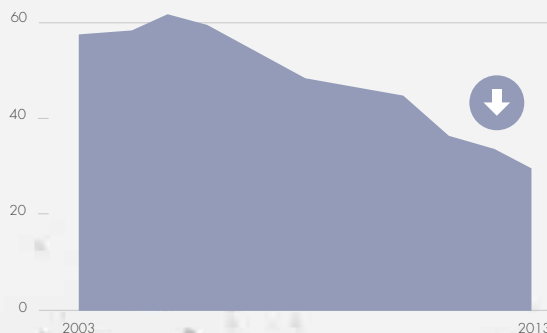
IT HAS BECOME EASIER & CHEAPER TO DO BUSINESS IN AFRICA

1. Cost of business start-up procedures (% of GNI per capita)



Source: The World Bank Group (2014), World Development Indicators.

2. Time required to start a business (days)

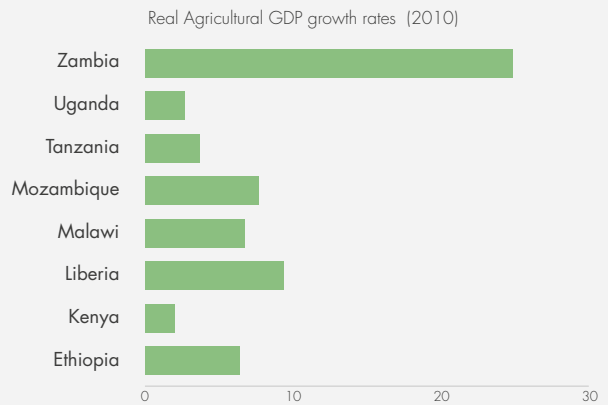


MORE CHILDREN HAVE ACCESS TO EDUCATION THAN BEFORE, EVEN IF QUALITY REMAINS AN ISSUE



Source: UNESCO (2013/14), Education For All Global Monitoring Report.

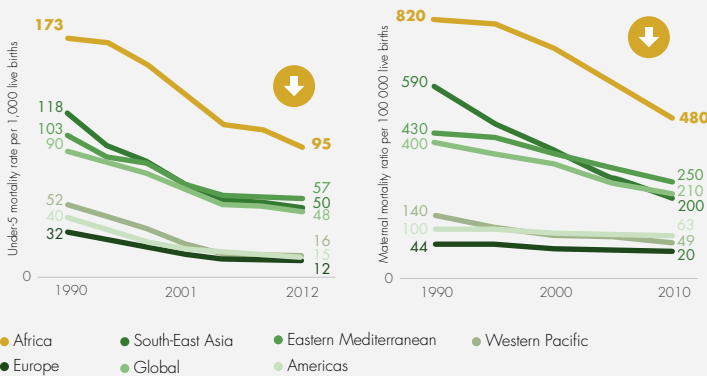
SOME COUNTRIES ARE SHOWING STRONG GROWTH IN AGRICULTURE



Source: AGRA (2013), African Agriculture Status Report.

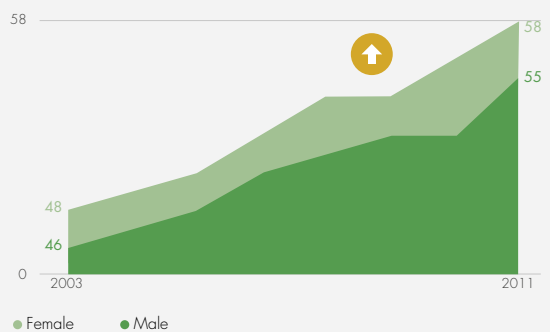
HEALTH LEVELS ARE IMPROVING

1. Child and maternal mortality rates are declining – but both still need to decline much further...



Source: WHO (2014), Atlas of African Health Statistics.

2. Life expectancy is increasing



WHO KNOWS? MAYBE 2014 WILL BE THE YEAR WHEN AN AFRICAN TEAM WINS THE WORLD CUP?

*Reached the quarter finals

1970-1990



African representation at the finals

- Algeria
- Egypt
- Zaire
- Tunisia
- Cameroon*
- Morocco

1991-2010



Greater representation at the finals

- Angola
- Côte d'Ivoire
- Morocco
- Nigeria
- South Africa
- Togo
- Senegal*
- Ghana*
- Tunisia
- Cameroon

Source: FIFA World Cup

DESPITE PROGRESS...

29 COUNTRIES IN AFRICA HAD **AVERAGE GDP PER CAPITA GROWTH OF LESS THAN**

3% BETWEEN 2000 AND 2012



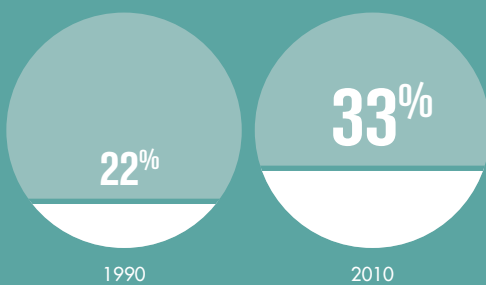
13%

AFRICA'S SHARE OF **WORLD POPULATION**



1.6%

AFRICA'S SHARE OF **GLOBAL GDP**



1990

2010

AFRICA'S SHARE OF **GLOBAL POVERTY**

173
million

1990-2

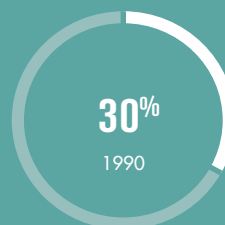
223
million

2010-3

NUMBER OF **UNDERNOURISHED**



OF CHILDREN UNDER 5 **ARE STUNTED**



30%
1990



50%
2012

AFRICA'S SHARE OF GLOBAL **CHILD MORTALITY**

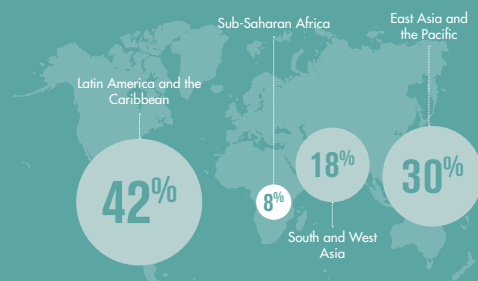
39%

1999

50%

2010

AFRICA'S GLOBAL SHARE OF **CHILDREN OUT OF SCHOOL**



42%

8%

18%

30%

ENROLMENT IN **TERTIARY EDUCATION**

SUMMARY

“Africa is a land of opportunity ... business opportunities are there, growth is there and the population is there.”

PRESIDENT MACKY SALL

Senegal, January 2014

“Families have lived off fish for generations...but fish stocks have been reduced. Our revenues have come down. We used to be able to save a bit for our children’s education or to fix our boats but it has now become harder to make ends meet.”

ISSA FALL, FISHERMAN COMMITTEE

Soumbédioune, Senegal, January 2014

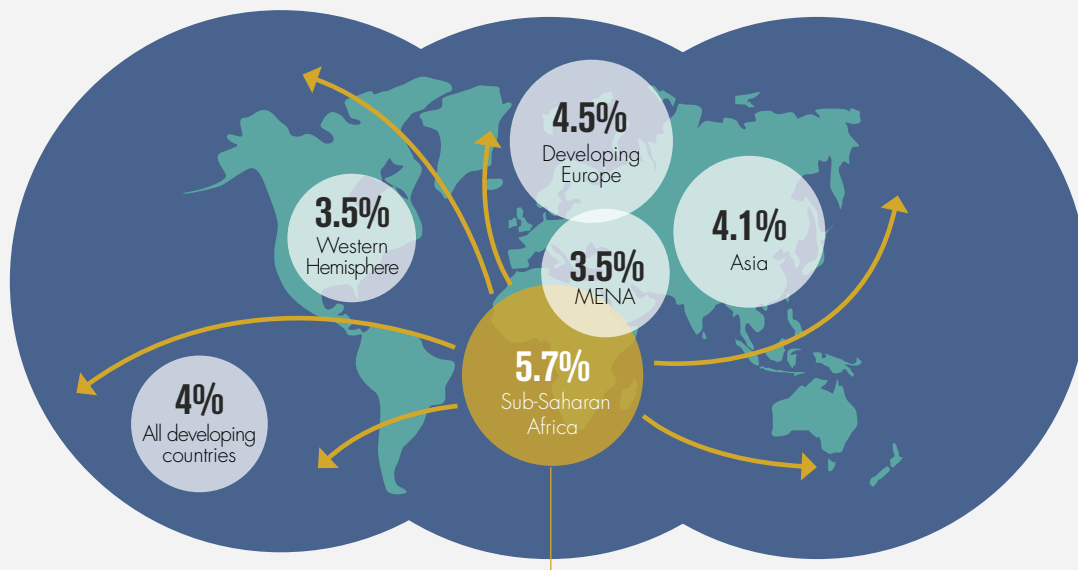
These two views from one country in Africa tell very different stories. President Macky Sall was speaking about his government’s “Emergent Senegal” investment plan – a multibillion-dollar strategy for transforming the country’s infrastructure. Ten years ago Senegal was still in the grip of a debt crisis. Now it is able to sell sovereign debt on eurobond markets. The economy is gaining strength, exports are growing and Senegal is emerging as a regional hub for transport, logistics and tourism.

Then there is the other Senegal – the Senegal of Issa Fall. Along with tens of thousands of artisanal fishers who ply their trade from *pirogues*, canoes built by hand from local timber, his livelihood is under threat. The ocean off West Africa is one of the world’s richest fishing grounds. Yet catches are declining, along with the income they generate. The reason: illegal, unreported and unregulated fishing by commercial fleets from other countries. Senegal lacks the capacity to monitor the activities of these fleets. Until recently, it also lacked the political will to tackle the problem. Leaders and business interests actively colluded in, and benefited from, the illegal sale of permits to foreign fleets.

Senegal’s experience is a microcosm of a wider story. For more than a decade, Africa’s economies have been doing well, according to graphs that chart the growth of GDP, exports and foreign investment. The experience of Africa’s people has been more mixed. Viewed from the rural areas and informal settlements that are home to most Africans, the economic recovery looks less impressive. Some – like the artisanal fishermen of West Africa – have been pushed to the brink of destitution. For others, growth has brought extraordinary wealth. Africa is now home to some of the world’s fastest-growing markets for luxury goods – and signs of the new prosperity are increasingly visible alongside reminders of the old problem of poverty.

AFRICA'S LOSSES: COST OF ILLICIT OUTFLOWS

Percentage of GDP that regions are losing in illicit financial flows



*MENA: Middle East and North Africa

Total illicit financial flows out of Africa

US\$50 BILLION

EVERY YEAR

This is equal to 5.7% of Africa's GDP and exceeds regional public spending on health

RESOURCE PLUNDER

Illegal logging

GLOBAL
US\$100
BILLION EVERY YEAR



AFRICA
US\$17
BILLION EVERY YEAR

IUU fishing (illegal, unreported and unregulated)

GLOBAL
US\$23
BILLION EVERY YEAR



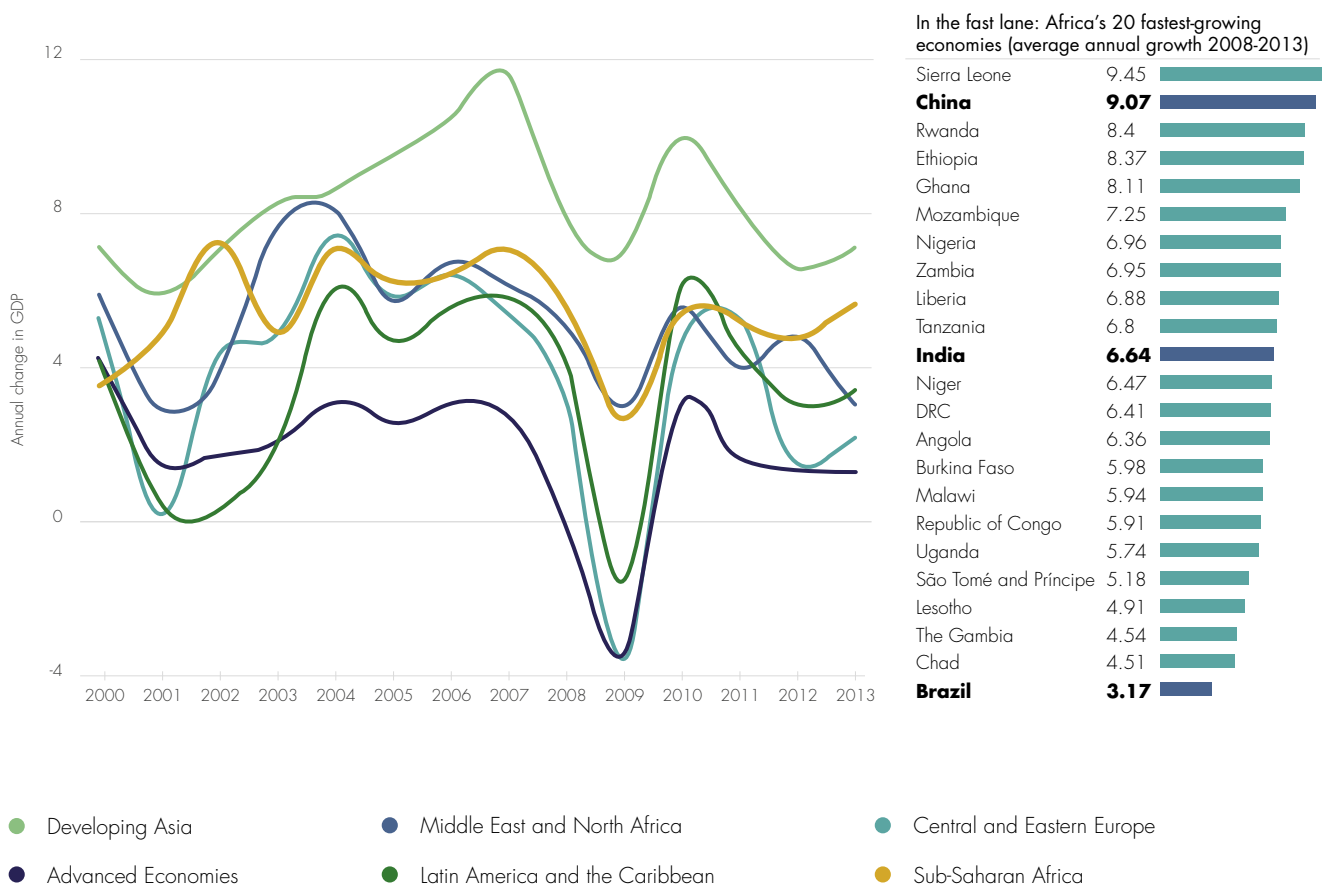
WEST AFRICA
US\$1.3
BILLION EVERY YEAR

Sources:

Canby, K. and Oliver, R. (2013), Trade flows, illegality hot-spots and data monitoring.
GFI (2013), Illicit Financial Flows from Developing Countries: 2002-2011.
INTERPOL and UNEP (2012), Green Carbon, Black Trade: Illegal logging, tax fraud and laundering in the world's tropical forests.
High Level Panel on Illicit Financial Flows from Africa (2014).
OECD (2012), Illegal trade in environmentally sensitive goods.

Africa stands at a crossroads. Economic growth has taken root across much of the region. Exports are booming, foreign investment is on the rise and dependence on aid is declining. Governance reforms are transforming the political landscape. Democracy, transparency and accountability have given Africa's citizens a greater voice in decisions that affect their lives.

FIGURE 1 AFRICA'S DECADE OF GROWTH (CONSTANT PRICES, SELECTED REGIONS)



Source: IMF (2014), World Economic Outlook database.

These are encouraging developments. Yet the progress in reducing poverty, improving people's lives and putting in place the foundations for more inclusive and sustainable growth has been less impressive. Governments have failed to convert the wealth created by economic growth into the opportunities that all Africans can exploit to build a better future. The time has come to set a course towards more inclusive growth and fairer societies.

This year's *Africa Progress Report* addresses some of the central challenges facing Africa's governments. We share the view that there is much cause for optimism. Demography, globalization, new technologies and changes in the environment for business are combining to create opportunities for development that were absent before the economic recovery. However, optimism should not give way to the exuberance now on display in some quarters. Governments urgently need to make sure that economic growth doesn't just create wealth for some, but improves wellbeing for the majority. Above all, that means strengthening the focus on Africa's greatest and most productive assets, the region's farms and fisheries. This report calls for more effective protection, management and mobilization of the continent's vast ocean and forest resources. This protection is needed to support transformative growth.

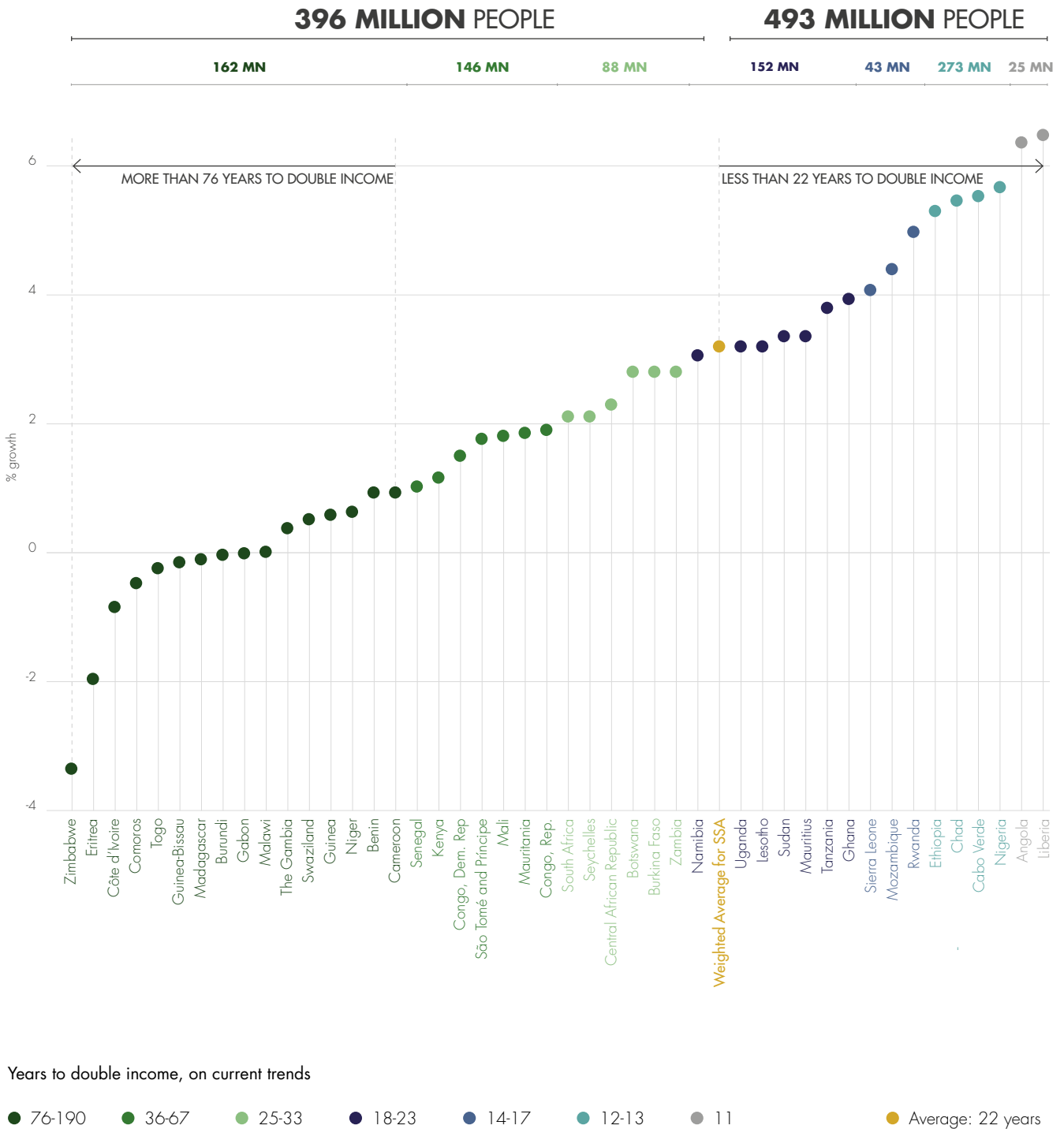
The achievements of the past decade and a half should not be understated. Economic growth has increased average incomes by around one-third. On the current growth trajectory, incomes will double over the next 22 years. Once synonymous with macroeconomic mismanagement and economic stagnation, Africa now hosts some of the world's fastest-growing economies. When it comes to growth, Ethiopia rivals China, and Zambia outpaces India. Contrary to a widespread misperception, there is more to the growth record than oil and minerals – and more than exports and foreign investment. African business groups have emerged as a powerful force for change in their own right, in areas such as banking, agro-processing, telecommunications and construction.

For the first time in a generation, poverty is falling – but it is falling far too slowly. The benefits of growth are trickling down to Africa's poor but at a desperately slow pace. Next year, African governments will join the wider international community in adopting post-2015 international development goals. One of those goals will be the eradication of poverty by 2030. On current trends, Africa will miss that goal by a wide margin.

Why is growth reducing poverty so slowly? Partly because Africa's poor are very poor: those below the poverty line of US\$1.25 a day live on an average of just 70 cents a day. And partly because high levels of initial inequality mean that it takes a lot of growth to reduce poverty even by a little. Raising the growth trajectory by 2 percentage points per capita and modest redistribution in favour of the poor would get Africa within touching distance of eradicating poverty by 2030.

Well-designed social protection programmes could play a vital role by protecting vulnerable people against the risks that come with droughts, illness and other shocks. By transferring cash, they can also raise income levels. Experience in other regions – especially Latin America – demonstrates that social protection can simultaneously help to reduce poverty and inequality, and boost growth in agriculture. Yet Africa underinvests in this vital area – and few governments have developed integrated programmes. By contrast, they spend around 3 per cent of GDP on energy subsidies, most of which go to the rich – three times the level of support provided for social protection. It is hard to imagine a more misplaced set of priorities.

FIGURE 2 AVERAGE INCOMES ARE RISING – BUT SOME ARE RISING FASTER THAN OTHERS: GDP PER CAPITA GROWTH (AVERAGE ANNUAL % 2000-2012)



Source: The World Bank Group (2014), World Development Indicators.

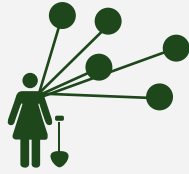
AFRICA'S APPLIED TECH INNOVATIONS: DEVELOPED BY AFRICANS, FOR AFRICA AND THE WORLD

Mobile technology can accelerate Africa's productivity in farming and fisheries. Innovation hubs are springing up all over Africa, incubating the next generation of technologists.



COMMUNITY SURVEILLANCE PROJECT

Helps fishing communities fight against illegal, unreported and unregulated fishing through the use of mobile phones and GPS-enabled cameras.



MLOUMA

Connects farmers to food purchasers by displaying real-time market prices and localizations.



TEXT TO CHANGE MAGRI

Provides best practice information on planting, harvesting, and pest and disease management to farmers.



ICOW APP

Uses mobile phones to encourage best practice for dairy farmers and increase milk production.



M-FARM

Connects farmers with each other in a virtual space. Helps farmers collectively buy inputs directly from manufacturers and sell produce to the market.



ESOKO

Enables farmers to collect and send out market data using simple text messages.



E-WALLET

Allows farmers to receive subsidised seeds and fertilizer vouchers on their mobile phones.



M-PESA

Mobile money transfer.



EFMIS-KE

Provides fisherfolk with greater access to market information.



COCOALINK

Connects cocoa farmers with information about good farming practices.



MOBILE AGRIBIZ

Uses web and mobile technologies to improve access to agriculture information and market accessibility for small farmers.



INTELLECT TECH

Helps farmers and insurance firms track compensation claims in real time.



FARMERLINE

Uses voice and SMS to collect data, share new farming techniques, and better link smallholder farmers to other actors along the agricultural value chain.



POULTRY GUIDE

Provides poultry farmers with information and market linkages to improve their productivity and profits.



E-VOUCHER

Helps cash-strapped small scale farmers access agricultural inputs.



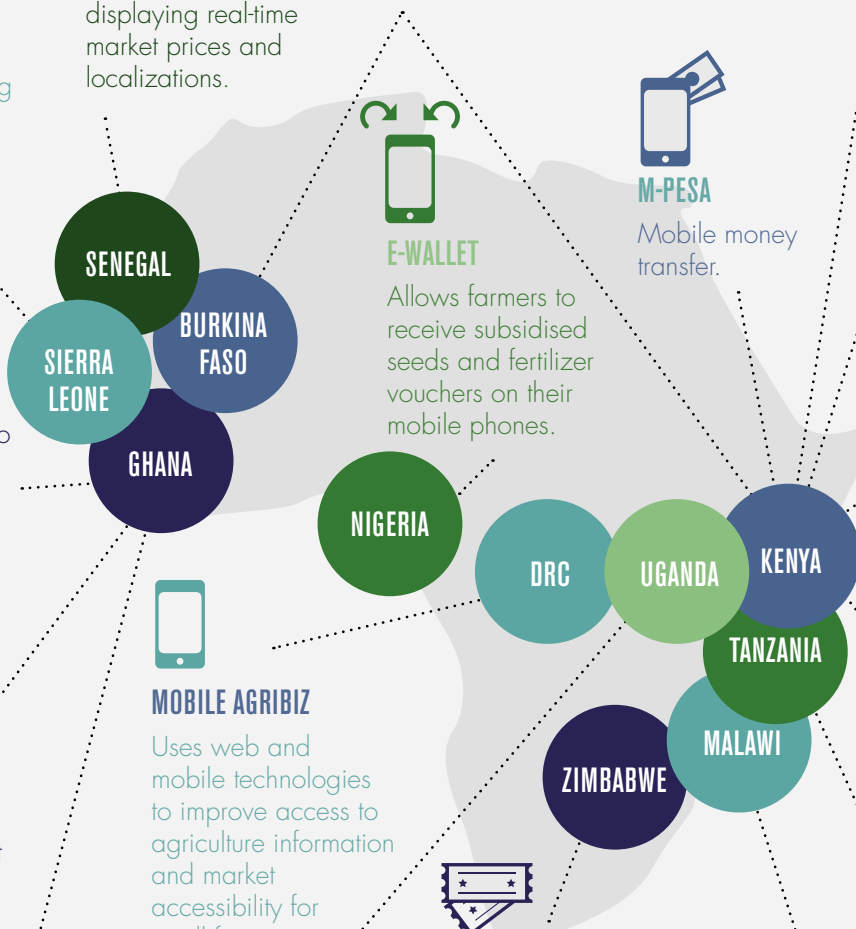
M-MALAWI

Supports and advances the growth of mobile money in Malawi through a series of coordinated interventions.



FARMING INSTRUCTOR

Provides online and offline agricultural information to farmers and their communities.



If Africa is to develop a more dynamic and inclusive pattern of growth, there is no alternative to a strengthened focus on agriculture. Sub-Saharan Africa is a region of smallholder farmers. Some people mistakenly see that as a source of weakness and inefficiency. We see it as a strength and potential source of growth.

Africa's farmers have an unrivalled capacity for resilience and innovation. Operating with no fertilizer, pesticide or irrigation on fragile soils in rain-fed areas, usually with little more than a hoe, they have suffered from a combination of neglect and disastrously misplaced development strategies. Few constituencies can have received more bad advice from development partners and governments than African farmers. And few of the world's farmers are as poorly served by infrastructure, financial systems, scientific innovation or access to markets. The results are reflected in low levels of productivity: cereals yields are well under half the world average.

Agriculture remains the Achilles' heel of Africa's development success story. Low levels of productivity trap millions of farmers in poverty, act as a brake on growth, and weaken links between the farm and non-farm economy – links that were crucial to development breakthroughs in Bangladesh, India and Vietnam. Low productivity has another consequence that has received far too little attention. Africa's farmers could feed rapidly growing urban populations and generate exports to meet demand in global markets. However, the region is increasingly and, in our view, dangerously dependent on imports. African countries spent US\$35 billion on food imports (excluding fish) in 2011. The share accounted for by intra-African trade: less than 5 per cent. If Africa's farmers increased their productivity and substituted these imports with their own produce, this would provide a powerful impetus to reducing poverty, enhancing food and nutrition security, and supporting a more inclusive pattern of growth.

It is time for African governments and the wider international community to initiate a uniquely African green revolution. We emphasize the word unique. Copying South Asia's experience and retracing the steps of other regions is not a viable strategy. Agricultural conditions in Africa are different. Yet Africa desperately needs the scientific innovations in drought-resistant seeds, in higher-yielding varieties and in water use, fertilizer and pesticide that helped to transform agriculture in other regions. Returns on investments in these key areas will be diminished if deep-rooted policy failures are not tackled. These range from exorbitant transport costs for farm produce to underinvestment in storage and marketing infrastructure and barriers to intraregional trade.

African farmers also need help to cope with the effects of climate change, which is very likely to lead to above-average warming in Africa over the course of the 21st century, reducing the yields of major cereal crops. Yields of maize, a major regional food crop, are expected to fall by around 22 per cent. The fifth assessment report of the Intergovernmental Panel on Climate Change identifies Southern Africa, West Africa and the Sahel as regions facing acute known risks. However, no region will be unaffected. Even modest changes in the timing and intensity of rainfall, in the frequency and duration of droughts, and surface temperature can have profoundly damaging consequences for production, poverty and nutrition.

AFRICA'S FOOD EXCHANGE

Before 2000 Sub-Saharan Africa was a net exporter of food.
Now, the region has a food import bill of over

US\$35 BILLION

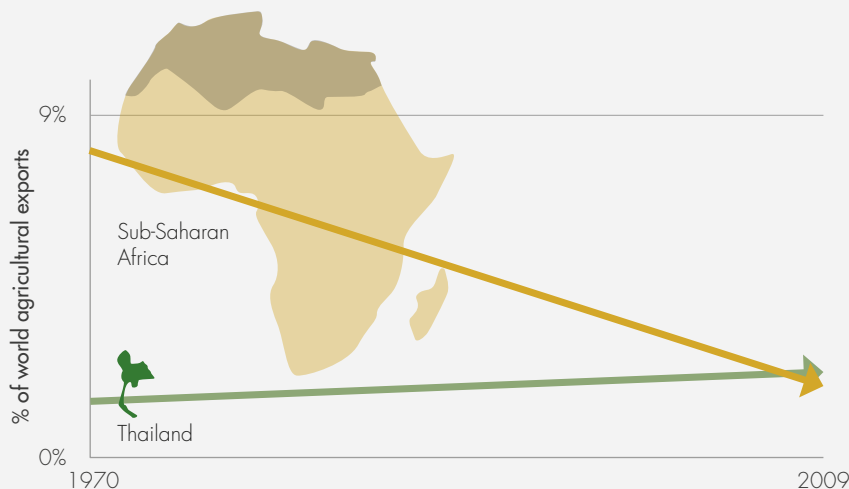
PER YEAR

AND IMPORTS EXCEED EXPORTS BY

30%

Volatile global food markets make Africa even more vulnerable.

WITH 13% OF WORLD POPULATION, SUB-SAHARAN AFRICA ACCOUNTS FOR LESS THAN 2% OF GLOBAL AGRICULTURAL EXPORTS. IT EXPORTS LESS THAN THAILAND



In 2012, support provided to OECD agriculture stood at **US\$258 billion** – contributing further to Africa's diminishing presence in global markets.

REVERSING THE TREND

Africa's productivity levels could easily double within

5 years

ONLY 3.5 MILLION HECTARES OF THE

240 million

hectares suitable for wetland rice cultivation have been exploited

Nigeria spends **US\$11 billion** on importing wheat, rice, sugar and fish

BUT > THE COUNTRY RECENTLY CUT ITS IMPORT BILL BY OVER

US\$5 billion

Sources:

Adesina, A. (2013), Transforming Nigeria's agriculture.
Africa Renewal (2014), Agriculture is Africa's Next Frontier.
Ernst & Young (2013), Getting down to business: Ernst & Young's Attractiveness Survey.
FAOSTAT quoted in the World Bank Group (2013), Growing Africa: Unlocking the potential of agribusiness.
FAO (2013), FAOSTAT.

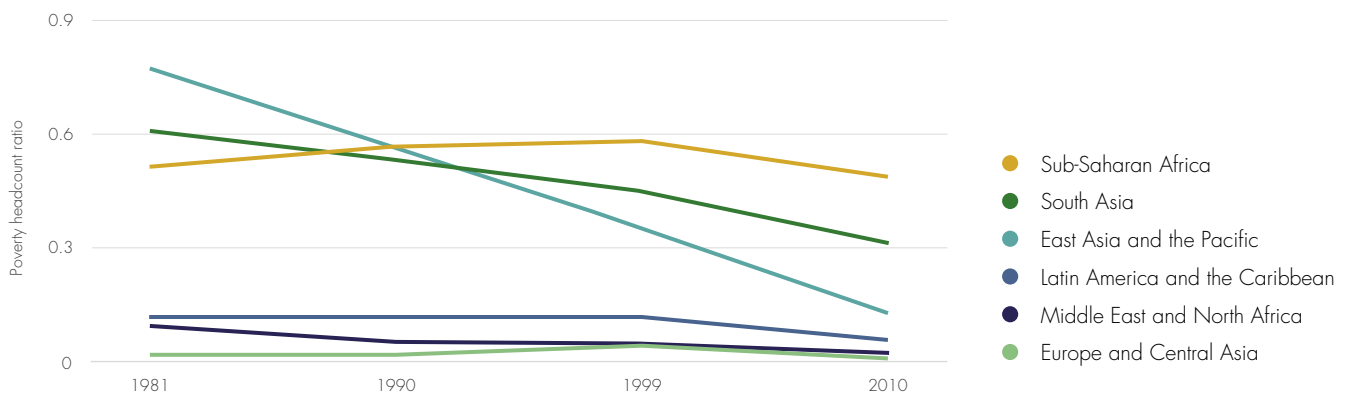
Note: Sub-Saharan Africa's import bill excludes fish.

All of which makes the international community's failure to provide adequate adaptation financing indefensible. Having promised much, rich countries have provided little new and additional climate adaptation financing. Commitments through climate funds are less than US\$700 million – and spending is even lower. This is unjust and short-sighted. It is unjust because Africa's farmers are being left to cope with a climate crisis they did not create. Adaptation spending in Africa is dwarfed by the multibillion-dollar investments being undertaken in rich countries. And underinvestment in adaptation is short-sighted because early investments could boost growth, enhance food security and reduce climate risks.

Harnessing Africa's resources for African development is another priority. In last year's report, *Equity in Extractives*, we highlighted the damaging consequences of tax evasion and loss of revenue through undervaluation of mineral resource assets. This year we turn our attention to renewable resources, focusing on fisheries and logging. There are some striking parallels with tax evasion. In each case, Africa is being integrated through trade into markets characterized by high levels of illegal and unregulated activity. In each case resources that should be used for investment in Africa are being plundered through the activities of local elites and foreign investors. And in each case African governments and the wider international community are failing to put in place the multilateral rules needed to combat what is a global collective action problem.

The social, economic and human consequences are devastating. On a conservative estimate, illegal and unregulated fishing costs West Africa alone US\$1.3 billion a year. The livelihoods of artisanal fishing people are being destroyed, Africa is losing a vital source of protein and nutrition, and opportunities to enter higher value-added areas of world trade are being lost. Unregistered industrial trawlers and ports at which illegal catches are unloaded are the economic equivalent of mining companies evading taxes and offshore tax havens. The underlying problems are widely recognized. Yet international action to solve those problems has relied on voluntary codes of conduct that are often widely ignored. The same is true of logging activity, with the forests of West and Central Africa established as hot-spots for the plunder of timber resources.

FIGURE 7 AFRICA'S POVERTY IS NOW FALLING – BUT MORE SLOWLY THAN IN OTHER REGIONS, %



Source: The World Bank Group (2014), PovcalNet

Placing Africa on a transformative pathway will require investing in inclusive growth. Infrastructure is one priority. No region has less-developed road networks and energy systems than Africa. Changing this picture will require significant up-front capital spending, prefaced by the development of bankable proposals and the emergence of new business models. The current financing gap has been estimated at around US\$48 billion. Much emphasis has been placed on the development of "new and innovative" financing to close that gap, including the use of aid to attract private investment. Unfortunately, the delivery of real finance has been less impressive than the hype surrounding the relentless proliferation of new initiatives. Part of the problem is a failure to invest sufficiently in building the capacity of African governments to develop infrastructure projects.

Africa's financial systems are another constraint on growth. No region has a lower level of access to financial services. Only one in five Africans have any form of account at a formal financial institution, with the poor, rural dwellers and women facing the greatest disadvantage. Such financial exclusion undermines opportunities for reducing poverty and boosting growth that benefits all. Lacking access to insurance, Africa's farmers have to put their meagre savings into contingency funds to deal with emergencies, rather than investing them in boosting productivity. Similarly, lacking access to loans and saving institutions, they are often unable to respond to market opportunities.

Other weaknesses in domestic financing have to be addressed as a matter of urgency. At one level, the regional financing environment has been transformed. Ten years ago, countries across Africa were still emerging from the Heavily Indebted Poor Countries initiative. Today, many of the same countries have entered sovereign bond markets. But Africa cannot meet its financing needs in infrastructure and skills development through aid and commercial market debt financing alone. That is why there is no substitute for domestic financing. Unfortunately, economic growth has done little to increase either the rate of savings or the proportion of GDP that is collected in domestic tax revenues – outcomes that point to the need for institutional reforms.

Recommendations

Africa's political leaders, entrepreneurs, farmers and civil society have an unparalleled opportunity to transform their countries. If that opportunity is seized, this could be the generation that will be lauded throughout history for eradicating poverty. In our report, we outline a broad-based agenda for change. At the heart of that agenda are five core principles, for each of which we identify the necessary practical action.

Share the wealth

Inclusive growth and expanded opportunity are essential to eradicate poverty.

African governments should set equity targets linked to the post-2015 development goals. These targets would focus on narrowing gaps in opportunity. For example, they could include halving over five years the disparities in school attendance, child survival and access to basic services linked to rural-urban divides, wealth gaps and gender divisions. Strengthening the commitment to inclusive growth demands an expansion of social protection, including cash transfers to the poor. Governments should be diverting some of the 3 per cent of regional GDP they now devote to energy subsidies into well-designed social protection programmes.

Invest in Africa's unique green revolution

African governments, the private sector and the global community must work together to invest in Africa's unique green revolution.

It is possible to double Africa's agricultural productivity within five years. As outlined by the African Union, African countries can end hunger and malnutrition and become major players in global food markets. It is also vital to unleash the potential of sustainable agriculture and aquaculture to provide food, jobs and export earnings. Some of the requirements for achieving a breakthrough in agriculture are financial. Now is the time for governments to act on their pledge to spend at least 10 per cent of budget resources on agriculture. But governments also have to create the right market conditions. An immediate priority is the promotion of import substitution to cut Africa's US\$35 billion food import bill. This will require measures to cut tariffs and non-tariff barriers to regional trade, eliminate transport cartels, and develop marketing infrastructure.

Take the profit out of plunder

Africa's resources should be sustainably managed for the benefit of Africa's peoples. National and regional action alone will not be enough. The international community must develop multilateral systems that prevent the plunder of Africa's resources.

Fisheries: The global community must act collectively to unleash a blue revolution for ocean management. To stop the plunder of African fishery resources, all governments should ratify and implement the 2009 Port State Measures Agreement to tackle illegal unreported and unregulated (IUU) fishing, and establish a global register of fishing vessels. African governments should increase fines on IUU vessels, support artisanal fishing, increase transparency, and provide full disclosure of the terms on which commercial fishing permits are issued.

Forests: All commercial logging concession contracts should be subject to full disclosure, along with the beneficial ownership structures of the companies involved. Concessions should be provided with the informed consent of the communities involved, based on a clear and accurate representation of potential costs and benefits.

Close the twin deficit in infrastructure and inclusive finance

African governments must close the twin deficit in infrastructure and inclusive finance.

The lack of infrastructure is a bottleneck on growth and opportunity. The same is true of finance. Regional cooperation on energy and transport is vital in order to achieve economies of scale in infrastructure projects. African governments can also support the development of mobile banking and e-commerce to overcome financial exclusion, building on successes such as M-PESA in Kenya. Development finance institutions should work with the private sector to foster more balanced perceptions of risk.

Make tax and finance more fair and transparent

Strengthened domestic resource mobilization holds the key to financing for inclusive growth, with African governments investing in efficient and equitable tax collection.

Governments should publish in a transparent manner all tax exemptions that are granted to corporate entities, both domestic and foreign. The estimated cost of the tax exemption should be made public, along with the reasons for the exemption and the principle beneficiaries.

The international community must step up efforts to combat tax evasion. Multinational corporations operating in Africa should fully disclose their financial operations and tax payments. Building on current initiatives, governments should accelerate the automatic exchange of tax information and build Africa's capacity to benefit from this information. All governments, including those of financially secretive jurisdictions, should establish public registries of beneficial ownership of companies and trusts. Multinational corporations can lead the way by publishing a full list of their subsidiaries, as well as information on global revenues, profits and taxes paid across different jurisdictions.

The international community should also deliver on its aid pledge – and go one step further by cutting the cost of remittances. The G8 should work with African governments to cut the cost of remittance transfers to a maximum of 5 per cent. That means curtailing restrictive business practices on the part of money transfer operators, strengthening competition, and creating incentives for the development of low-fee mobile remittance payments.





03/

**EQUITY IN
EXTRACTIVES**

**STEWARDING
AFRICA'S NATURAL
RESOURCES FOR ALL**

Africa Progress Report 2013

FOREWORD

BY KOFI ANNAN

Africa is standing on the edge of enormous opportunity. Will we invest our natural resource revenue in people, generating jobs and opportunities for millions in present and future generations? Or will we squander this opportunity, allowing jobless growth and inequality to take root?

In many countries, for example, natural resource revenues are widening the gap between rich and poor. Although much has been achieved, a decade of highly impressive growth has not brought comparable improvements in health, education and nutrition.

Indeed, our continent still faces many challenges, but this year's Africa Progress Report is a good reason to be optimistic. Building on a decade of strong growth, economic governance continues to improve, providing protection against the boom-bust cycle fuelled by earlier commodity booms. Across the region, democracy is sinking deeper roots – and the accountability that comes with democracy strengthens natural resource management. Defying the predictions of those who believe that Africa is gripped by a “resource curse”, many resource-rich countries have sustained high growth and improved their citizens' daily lives. Meanwhile, some foreign investors show they can make a healthy profit while also adhering to the highest international standards of social and environmental protection. And surging demand for limited resources is driving what some commentators describe as a commodity super-cycle, keeping prices high.

With a strong focus on equity, this year's report explores the potential, problems and policy options associated with natural resources by focussing on oil, gas and mining. The starting point is for all countries to develop national strategies that set up the terms under which their natural resources will be developed, including fiscal policies, contractual arrangements and tax regimes. African governments must consult widely to develop these strategies, replacing short-term calculations with the necessary long-term thinking. Critically, these national strategies must identify extractive projects that can generate more jobs, by linking effectively to the local economy. Processing natural resources before exporting them brings extra value to a country's natural resource sector. Africa cannot build dynamic growth and shared prosperity while extractive projects operate within enclaves or countries export natural resources unprocessed.

Above all, national strategies have to set out how the extractive sector fits with plans for poverty reduction, inclusive growth and social transformation.

Success will require leadership, transparency, and accountability, too. There is no substitute for public scrutiny in developing effective and equitable policies. African governments must rise to the challenges posed by fiscal policy, tax reform and the development of industrial policies. They must manage their countries' oil, gas and mining resources efficiently and share revenues fairly.

We therefore call on African governments to set out a bold national agenda for strengthening transparency and accountability to their citizens. For too long, African governments have been responding

to externally driven transparency agendas. They have been following, not leading. And it is time to change this pattern.

We welcome the recent adoption by the AU of the African Peer Review Mechanism as the main framework for monitoring natural resource. Building on the Africa Mining Vision, African governments should adopt legislation that requires companies bidding for concessions and licences to fully disclose their beneficial ownership. They should institute transparent systems of auctions and competitive bidding for concessions and licences, as well as tax regimes that reflect both the real value of their countries' natural resource assets and the need to attract high quality investment.

And yet, acting alone, African governments cannot resolve the most intractable natural resource governance challenges. The international community must also shoulder responsibility. When foreign investors make extensive use of offshore companies, shell companies and tax havens, they weaken disclosure standards and undermine the efforts of reformers in Africa to promote transparency. Such practices also facilitate tax evasion and, in some countries, corruption, draining Africa of revenues that should be deployed against poverty and vulnerability. We call on the G8 and the G20 to step up to the mark, to show leadership in the development of a credible and effective multilateral response to tax evasion and avoidance.

All countries must adopt and enforce the project-by-project disclosure standards embodied in the US Dodd-Frank Act and comparable EU legislation. All countries must apply them to all extractive industry companies listed on their stock exchanges. The time is right to develop a global common standard for all countries. As major players in Africa's extractives sector, Australia, Canada and China should be the next countries to actively support this emerging global consensus.

We welcome the commitment from the current G8 presidency, the United Kingdom, and other governments to put tax and transparency at the heart of this year's dialogue. And we urge all OECD countries to recognize the cost of inaction in this vital area. Africa loses twice as much in illicit financial outflows as it receives in international aid. It is unconscionable that some companies, often supported by dishonest officials, are using unethical tax avoidance, transfer pricing and anonymous company ownership to maximize their profits while millions of Africans go without adequate nutrition, health and education.

Different partners have similar goals. Their interests overlap. Building trust is harder than changing policies – yet it is the ultimate condition for successful policy reform. This year's report, therefore, identifies a shared agenda for change. When we build national capacity to understand natural resource sectors better – in civil society as well as government – we also build trust between government, business and citizens. Better understanding will generate fairer contracts and more equitable national strategies too. In turn, this creates local ownership, longer-lasting contracts, and a better

investment climate. Satisfying local communities pose less political risk. Mutually beneficial agreements are the only ones that will stand the test of time.

The Africa Progress Panel is convinced that Africa can better manage its vast natural resource wealth to improve the lives of the region's people. And we hope this report will make a contribution. We all stand to win from an Africa that is truly prosperous, stable and fair. We are all stewards of Africa's natural resource wealth for future generations.



KOFI A. ANNAN

Chair of the Africa Progress Panel

INTRODUCTION

Located in a remote corner of southeastern Guinea, the lush, green highlands of Simandou are at the centre of a transformation that is being felt across Africa. Beneath the tropical forests, which are celebrated for their ecological richness, lies another prized asset: one of the world's richest but least developed, and most coveted, repositories of iron ore, the core ingredient for making steel. Fuelled by rapid growth in emerging markets, world prices for iron ore have spiralled and global investors are scrambling to unlock new sources of supply. Today, multinational companies from six continents are competing for a stake in Simandou's ore, with billions of dollars of investment in prospect. Exports are set to boom, generating a surge in economic growth.

What does this mean for the people of Guinea, one of the world's poorest countries? Will resource wealth ensure better lives for themselves and future generations? Or will Guinea become another victim of what some commentators see as Africa's endemic resource curse?

These questions go to the heart of this year's Africa Progress Report, which focuses on oil, gas and mining. Over the past decade, Africa's economies have been riding the crest of a global commodity wave. Extractive industries have emerged as a powerful engine of economic growth. Surging demand for natural resources in China and other emerging markets has pushed export prices to new highs – and the boom shows no sign of abating. Africa's petroleum, gas and mineral resources have become a powerful magnet for foreign investment. With new exploration revealing much larger reserves than were previously known, Africa stands to reap a natural resource windfall.

The challenge facing the region's governments is to convert the temporary windfall into a permanent breakthrough in human development. Effective and equitable stewardship of Africa's natural resource wealth could transform the region. Apart from building manufacturing industries, the development of natural resources could provide the revenues needed for investment in smallholder agriculture, food security, employment, health and education. Governments have a responsibility to future as well as present generations to harness natural resource wealth. Sub-Saharan Africa entered the 21st century with a population of 670 million. By 2025 the region will be home to 1.2 billion – a figure that will rise to 2 billion by mid-century. The demography matters. Equipped with skills and opportunities, Africa's youthful population could become a powerful – and positive – force for change. Denied a chance to realize their potential, children born today will become a lost generation. Well-managed resource wealth has the potential to lift millions of Africans out of poverty over the next decade, while giving hope to future generations.

According to the resource pessimists, as revenues generated by extractive industries rise, the quality of governance inevitably declines, reducing economic competitiveness and leaving the poor behind. The pessimists' case is built on a long, inglorious history

in which Africa's resource wealth has financed colonial-era monuments in Europe, vast private fortunes of post-independence leaders like President Mobutu Sese Seko of Zaire (and some current rulers), and numerous civil wars. Meanwhile, progress in human development has been far less impressive, and most resource-rich economies have been locked into boom-bust cycles with episodes of unsustainable debt. For those who believe that past performance is a guide to future outcomes, Africa's deepening integration into global natural resource markets points to a bleak scenario.

We do not share that belief. Far from being hostage to a non-curable resource curse, this generation of political leaders has an opportunity to harness resource wealth for a transformation in human development. There are four reasons for our guarded optimism.

The first can be traced to the human development record of the past decade. It is a matter of grave concern that Africa is not on course for achieving the 2015 Millennium Development Goals (MDGs). Yet much has been achieved. For the first time in over a generation, the number of people in poverty has fallen. Child death rates are declining. There has been progress in combating major infectious diseases. More of Africa's children are in school. All of this is evidence that a combination of stronger economic growth and strengthened policies can deliver results. If the revenues generated by Africa's natural resource wealth are invested wisely and shared fairly, there is every prospect that the region will see an accelerated drive towards the MDGs.

The second cause of optimism is informed by global commodity market projections. Any prediction about these markets is subject to large margins of uncertainty. Yet there is compelling evidence that we are not living through a normal commodity cycle. Strong and highly resource-intensive economic growth in emerging markets and population growth are driving increased demand, while constraints on increased output are holding back supply. Some commentators maintain that we are now in the early phases of a commodity super-cycle – a period of sustained high prices. Of course, governments have to make contingency plans for market volatility and uncertainty. But it appears likely that export growth will generate large revenue streams that could be used to finance the social and economic infrastructure needed to support a human development breakthrough.

The third cause for optimism is the political and economic policy environment. While there have been setbacks, democracy has taken root across Africa – and when it comes to good governance of natural resources, there is no substitute for democracy. While the quality of participation, transparency and accountability varies from country to country, Africa's citizens are claiming their right to hold their governments to account for their management of natural resources. Fiscal policy and macroeconomic management has also strengthened. Resource-rich countries in Africa are far less vulnerable today to the boom-bust economics of the past. That is one reason they were able to recover so swiftly from the global downturn in 2008. Many of the countries in the early stages of developing their non-renewable resources – including Ghana, Guinea, Kenya, Liberia, Mozambique, Sierra Leone and Tanzania – have greatly strengthened macroeconomic governance over the past decade. Governments in these countries have another great advantage: they can learn from the mistakes of the past and take a different route.

The fourth source of our optimism is grounded in the practices surrounding resource management. Fifteen years ago, most governments treated the governance of resource wealth as a state secret.

Citizens were informed of decisions taken by governments on a “need to know” basis – and the assumption was that they needed to know very little. Complex commercial transactions between government agencies and foreign investors were cloaked in secrecy – an arrangement that was highly conducive to corrupt practice. There is still too much secrecy. But the world of resource governance is changing. Global partnerships such as the Extractive Industries Transparency Initiative (EITI) have helped to build a new culture of openness. Governments are making contracts on oil and minerals publicly available. Guinea has recently placed online the full text of contracts covering all major mining deals, including those planned for Simandou. Many major mining companies have strengthened their transparency and accountability standards – and they are assessing with more rigour the social and environmental consequences of their investments. Critically, a vibrant and growing national and international civil society movement is holding governments and companies to account.

Guarded optimism should not be interpreted as endorsement of the exuberance that has taken hold in some quarters. All too often, Africa is presented as a new El Dorado in the global economy – a dynamic hub of resource-led wealth creation and investment opportunity. The underlying message is that another decade of growth fuelled by extractive industries will automatically pull countries and people out of the poverty trap. That message is flawed. If the next decade looks like the last decade, Africa will unquestionably emerge with impressive gains in gross domestic product (GDP) and export activity. But the wellbeing of nations is not measured by growth alone. What matters for African people is the rate at which new resource wealth reduces poverty and expands opportunity.

Governments across the region have paid insufficient attention to this issue. The reduction in poverty achieved over the past decade should be celebrated. Yet as we demonstrate in this report, resource-rich countries have seen poverty levels fall by less than predicted on the basis of their economic growth performance. The reason: in many countries, the poor have seen their share of income shrink. Rising inequality is slowing the rate at which growth reduces poverty.

The wider human development record is also a cause for concern. Most resource-rich countries have human development indicators far below the levels that would be predicted on the basis of their average incomes. Angola and Equatorial Guinea have some of the largest gaps between income and human development as reported in the United Nations Development Programme's Human Development Index (HDI). The Democratic Republic of the Congo, one of the world's best-endowed resource economies, is at the bottom of the HDI. Progress in countries such as Ghana, Tanzania and Zambia has been held back by disparities in human development linked to poverty, the rural-urban divide and other markers for disadvantage.

In this report we set out an agenda for converting increased resource wealth into improved wellbeing. The starting point is a strengthened focus on equity and human development. Too many governments continue to view extractive industries solely as a source of growth and a magnet for foreign investment. Insufficient attention has been directed towards ensuring that the benefits of growth are distributed fairly across society. Governments also need to consider the quality of growth. In many countries, the petroleum and mining sectors continue to operate as enclaves insulated from the national economy. They create few jobs and have weak linkages to local firms. They add little value in production. Africa is exporting predominantly unprocessed natural resources and using the revenues to import consumer and agricultural goods, many of which could – and should – be produced locally. This is not a route to inclusive growth and shared prosperity. And some extractive companies generate healthy profits that do not translate into commensurate government revenues, because of excessive tax concessions, tax evasion and the undervaluation of assets.

There is no blueprint for reform. Policies have to be designed in the light of the constraints and opportunities facing individual countries. However, there are principles and examples of good practice that serve as a guide to policy. We highlight the critical importance of fiscal policy and equitable public spending. Strategies geared towards saving for the future are inappropriate given Africa's vast unmet needs for infrastructure, health, education, water and sanitation. These are all areas in which judicious public spending has the potential to yield not just high economic returns but also windfall gains for human development. Moves towards greater transparency and accountability should be broadened and deepened, not to satisfy the demands of aid donors but to respect the rights of Africa's citizens. The haemorrhaging of resource revenues that occurs through secretive deals and the operations of offshore companies is an unconscionable blight on the lives and hopes of their citizens. Full public disclosure is the most effective tourniquet. The Dodd–Frank legislation adopted in the United States and comparable measures in the European Union (EU) will greatly strengthen the momentum towards greater transparency – and African governments should apply similar principles in domestic legislation.

Breaking with the enclave model of natural resource extraction is another priority. Africa's vast mineral resources could transform social and economic development. The Africa Mining Vision sets out a compelling agenda for change. It calls on African governments to "shift focus from simple mineral extraction to much broader developmental imperatives in which mineral policy integrates with development policy." Achieving that goal will require not just new policies but also the development of institutional capacity and a wider industrial policy. Foreign investors can play a critical role in facilitating change by partnering with governments to strengthen transparency, by supporting skills development, and by carefully assessing the social and environmental impacts of their operations – and many companies are providing leadership in these areas.

In each of these areas there are examples of good practice. Some of Africa's poorest countries are demonstrating that strengthened governance is possible. Yet African governments acting alone, or even in concert, cannot solve all of the problems that are undermining the development potential of resource exports.

Foreign investors have a key role to play. Global companies operating in Africa should apply the same accountability principles and the same standards of governance as they are held to in rich countries. They should also recognize that disclosure matters. The extensive use by multinational investors of companies registered in tax havens and offshore centres, and their dealings with other offshore companies, is potentially damaging to their own corporate reputation and shareholder interests. It is also associated with practices that hurt Africa and weaken the link between resource wealth and poverty reduction.

International action can create an enabling environment for strengthened governance in Africa. Tax evasion, illicit transfers of wealth and unfair pricing practices are sustained through global trading and financial systems – and global problems need multilateral solutions. African citizens should demand that their governments meet the highest standards of propriety and disclosure. Governments in developed countries should demand the same thing of companies registered in, or linked to, their jurisdictions. The G8 and the G20 should establish common rules requiring full public disclosure of the beneficial ownership of companies, with no exceptions. They should also strengthen multilateral rules on taxation to clamp down on the transfer pricing practices that cost Africa billions of dollars annually. This is an area in which Africa and the developed world have a shared interest in bringing order to a system that allows the pursuit of private profit to be placed above the public interest in transparency, accountability and financial stability.

This report does not offer easy answers. There are none. The surge in resource wealth brings with it complex challenges and very real risks. Yet it also brings an unrivalled opportunity. Effectively harnessed and well managed, Africa's resource wealth could lift millions of people out of poverty over the next decade. It could build the health, education and social protection systems that empower people to change their lives and reduce vulnerability. It could generate jobs for Africa's youth and markets for smallholder farmers. And it could put the region on a pathway towards dynamic and inclusive growth.

Seizing these opportunities will be difficult. Squandering them would be unforgivable and indefensible.

SUMMARY

For much of the region's history, Africa's resource wealth has been plundered and squandered. It has served the interests of the few, not the many. Revenues that could have been used to improve lives have instead been used to build personal fortunes, finance civil wars, and support corrupt and unaccountable political elites. This report has a simple message: history does not have to repeat itself. Today, Africa's governments have a unique window of opportunity to convert natural resource wealth into a catalyst for poverty reduction, shared prosperity and accelerated human development.

This year's Africa Progress Report rejects the view that Africa is blighted by a "resource curse" – an affliction that automatically consigns the citizens of resource-rich nations to a future of economic stagnation, poverty and poor governance. There is no curse. The malaise that has afflicted natural resource management in Africa is caused by the wrong domestic policies, weak investment partnerships and failures in international cooperation. Lifting that affliction will require decisive leadership by African governments, backed by multilateral action and a commitment by foreign investors to adopt best international practices.

There is cause for optimism. Global market conditions point to another decade of high prices for natural resources, creating an environment conducive to economic growth. The policy environment has also improved. Strengthened public finance management has enabled Africa to escape the boom-bust cycle associated with past upswings in commodity markets. There have been moves towards greater transparency and accountability – the twin pillars of good governance in natural resources. New legislation in the United States and the European Union will add further impetus to these moves. Many companies are now looking beyond short-term profits and towards long-term investment partnerships. These companies recognize the economic, as well as the ethical, case for strengthening linkages to local firms, for social and environmental impact assessments, and for engagement with local communities.

None of this is to understate the risks and challenges that come with Africa's ongoing resource boom. Surges in revenue have the potential to destabilize budget planning. Governments must make tough choices over how much to spend today and what to save for the future. There are risks that the fragile and, in some countries, still limited moves towards more open budget systems and enhanced disclosure in state extractive companies will be reversed. The Africa Progress Panel is concerned at foreign investors' extensive use of offshore companies, shell companies and offshore jurisdictions. And much of Africa remains trapped in a pattern of exporting raw materials, with few countries successfully breaking into manufacturing and processing. None of this is inevitable – and our report demonstrates that the alternatives are practical, achievable and affordable.

Rapid growth, but a mixed record on human development

The past decade has been a period of sustained growth in Africa. Despite a weaker global economy, regional growth has averaged over 5 per cent a year. Twenty resource-rich countries have been at the forefront of the economic recovery. These countries, accounting for 56 per cent of Africa's population, have grown on average more rapidly than other countries – and they include some of the world's fastest-growing economies. Half of the resource-rich group has seen average income rise by one-third or more. In 2012, Angola and Sierra Leone outperformed China; Ghana and Mozambique grew more rapidly than India.

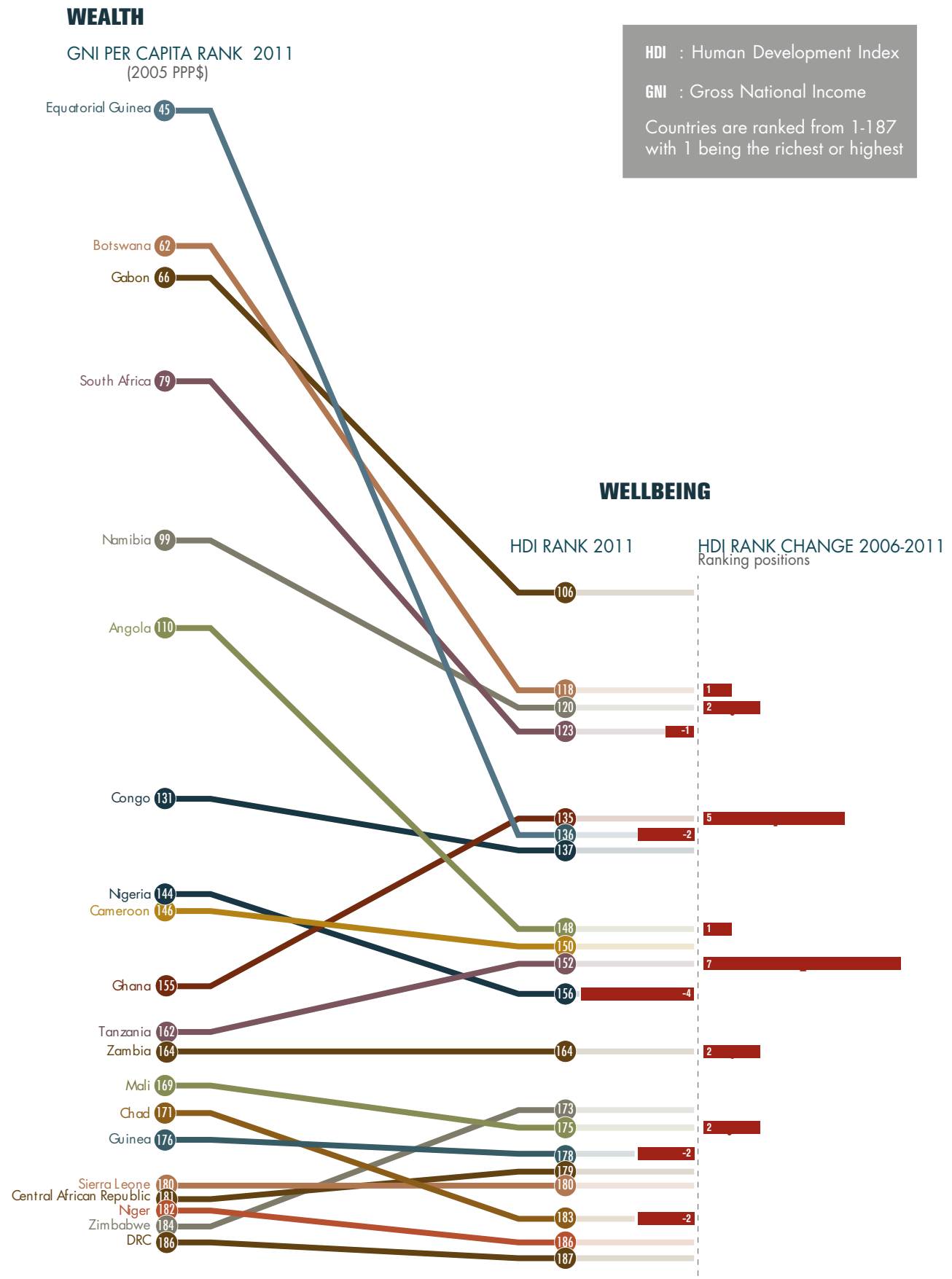
Many resource-rich countries are moving up the international wealth rankings. Over the past decade, Cameroon, Ghana, Nigeria and Zambia have crossed the threshold from low-income to lower middle-income status. Another five countries – Angola, Botswana, Gabon, Namibia and South Africa – are in the upper middle-income group. Equatorial Guinea, with an average income of US\$27,478 in 2011, is classed as a high-income country.

Progress on reducing poverty and improving human development has been less impressive. Resource-rich countries have some of the world's largest gaps between their global ranking on wealth, as measured by average income, and their performance on wider indicators for wellbeing, as captured by the Human Development Index (HDI). Equatorial Guinea's HDI ranking is 91 places below its average income rank, and Angola's is 38 places below. Moreover, resource-rich countries are heavily concentrated in the lower reaches of the HDI ranking. They account for 9 of the 12 last places, with the Democratic Republic of the Congo, bottom. (Figure 1)

International comparisons graphically illustrate the failure of many countries to convert resource wealth into expanded opportunities for human development. Bangladesh has a far lower average income than Nigeria, yet the country's children are three times less likely to die before their first birthday. And while Bangladesh has achieved universal primary education and gender parity, Nigeria has 10 million children out of school and some of the world's largest gender gaps. Angola has one of the world's highest maternal mortality rates. Eleven of the resource-rich countries – including high-income Equatorial Guinea – are in the group of 20 countries with the highest child mortality rates. (Figure 2)

High growth has not always reduced poverty. New research undertaken for the Africa Progress Report has explored the interaction between average income and the incidence of poverty in four countries. Both Ghana and Tanzania reduced poverty, though by far less than the amount predicted on the basis of their growth performance: Tanzania should have lifted another 720,000 people out of poverty. While Zambia registered strong growth, poverty levels increased by over half a million people. Nigeria also saw an increase in poverty.

FIGURE 1 WEALTH/WELLBEING GAP



Source: UNDP (2011), Human Development Report.

Why have resource-rich countries been unable to use stronger economic growth to accelerate poverty reduction? While the precise answer to that question varies across countries, the underlying problem can be summarized in two words: rising inequality. In each of the four countries explored, almost all of the benefit of economic growth were captured by the richest 10 per cent. In Zambia, the income share of the poorest 10 per cent fell by half over the survey period examined, while the richest decile increased its share of national income by almost one-third, from 33 per cent to 43 per cent of the total.

This pattern is consistent with the wider drift towards rising inequality. In last year's Africa Progress Report we cautioned that the rising disparities in wealth evident across the region are both unsustainable and unfair. That assessment applies with special force to resource-rich countries. These countries have an unprecedented opportunity to use resource wealth to reduce poverty faster. It is vital that governments seize that opportunity by distributing resource revenue more fairly.

The same is true for other areas. Some countries have invested resource revenues in health, education, water and sanitation, expanding opportunities for the majority of their citizens. Yet the record is checkered. Some political elites continue to seize and squander the revenues generated by national resource, purchasing mansions in Europe and the United States or building private wealth at public expense. Angola's oil revenues have been used to amass personal fortunes and subsidize cheap water and electricity for the wealthy, while the poor are left without basic services.

Looking back over the past decade, it is clear that growth alone will not transform human development prospects in resource-rich countries. Governments need to ensure that the revenue streams that come with the growth of extractive industries are invested efficiently and equitably. Part of that investment has to be directed towards inclusive economic growth, since it is growth that will generate the jobs and future revenues needed to sustain progress. But for the millions of people lacking access to health, education, clean water, social protection and other basic services, it is imperative that governments use resource revenues to increase the quality and accessibility of those services.

Africa and the commodity super-cycle

Africa's resource-rich countries have been riding the wave of a global commodity market tide. Even though supply of some commodities is unpredictable, markets are set to remain tight over the coming years, with real prices remaining well above the average level of the 1990s. (Figure 3)

By the end of 2011, average prices for energy and base metals were three times as high as they had been a decade earlier, and were approaching or surpassing record levels over the past 40 years. Reflecting the underlying market conditions, mining investments increased more than fourfold between 2000 and 2010, reaching almost US\$80 billion annually, and the value of world metals production rose at twice the rate of global GDP – a marked contrast with the stagnation in value of the previous decade. The upshot is that Africa has been integrating into one of the most dynamic sectors of world trade.

FIGURE 2 LEFT BEHIND IN HUMAN DEVELOPMENT

Social indicators in resource-rich countries are lower than expected

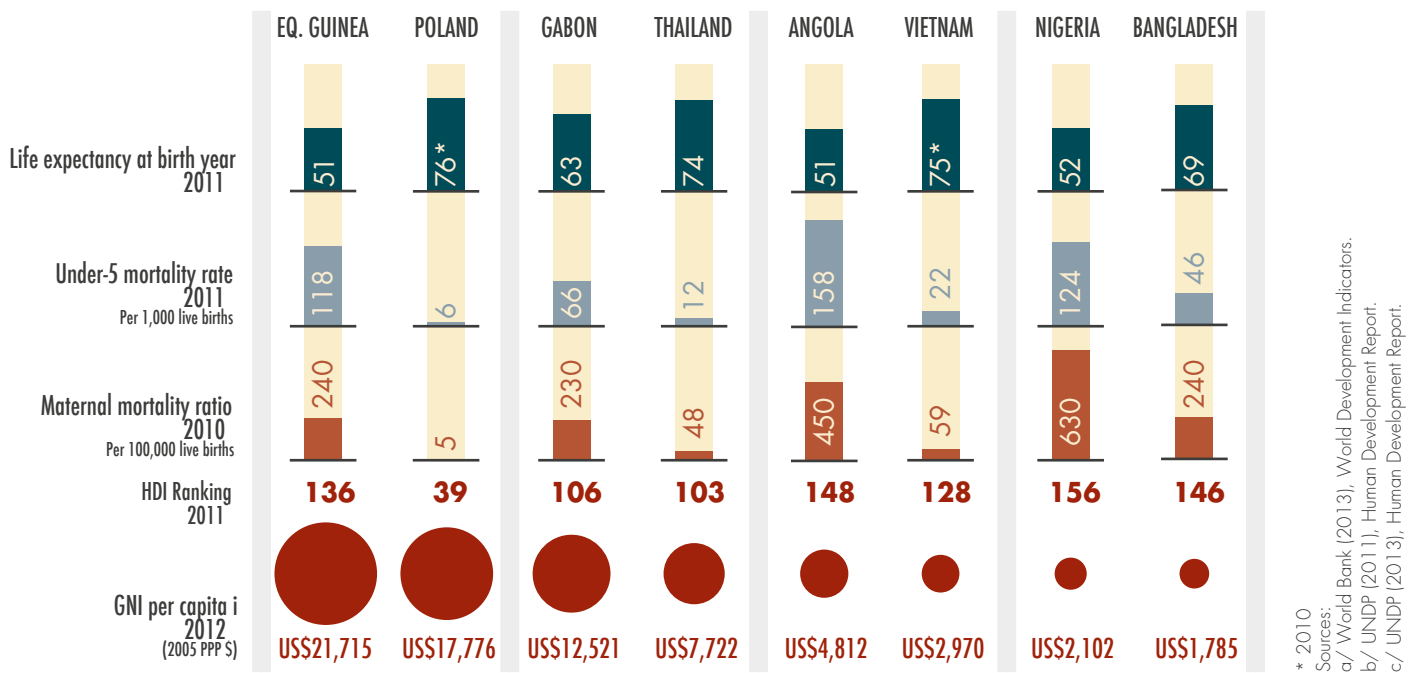
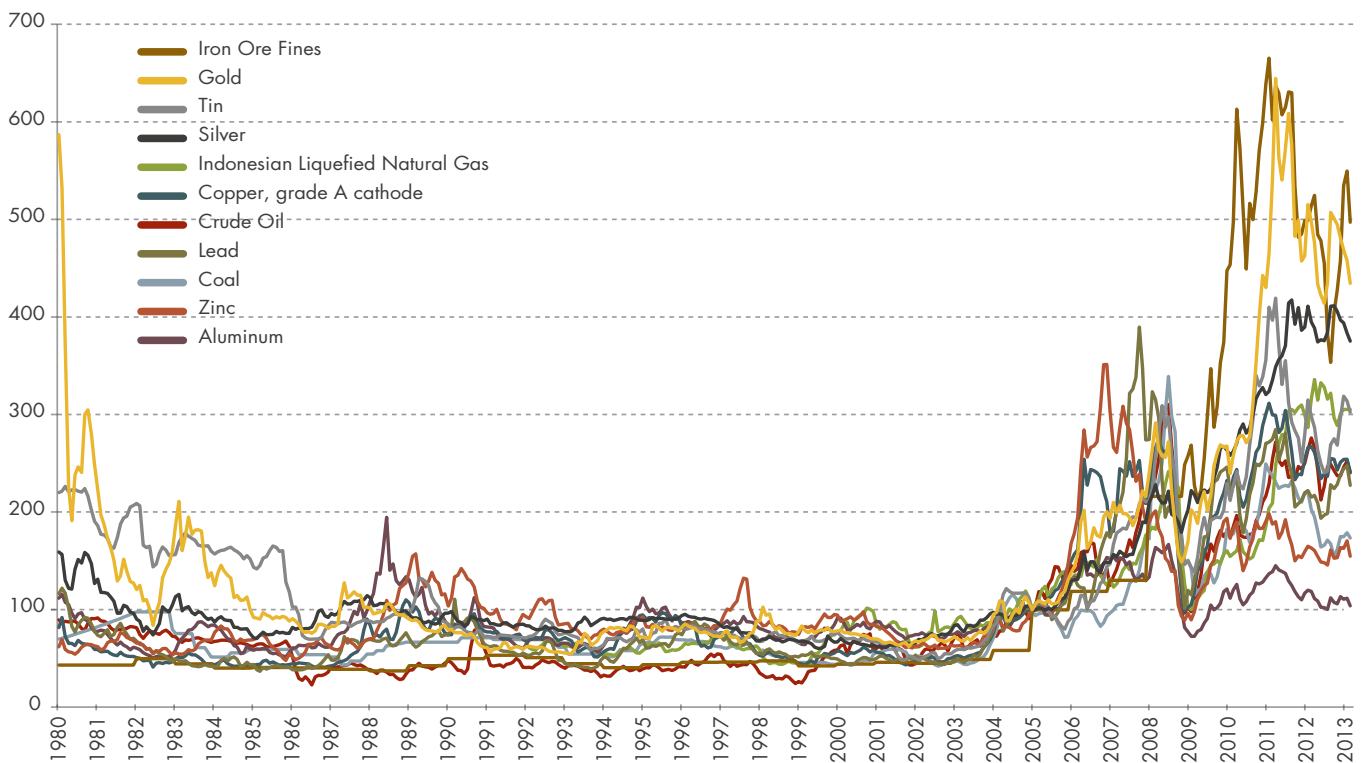


FIGURE 3 THE RISING TIDE OF COMMODITY MARKETS

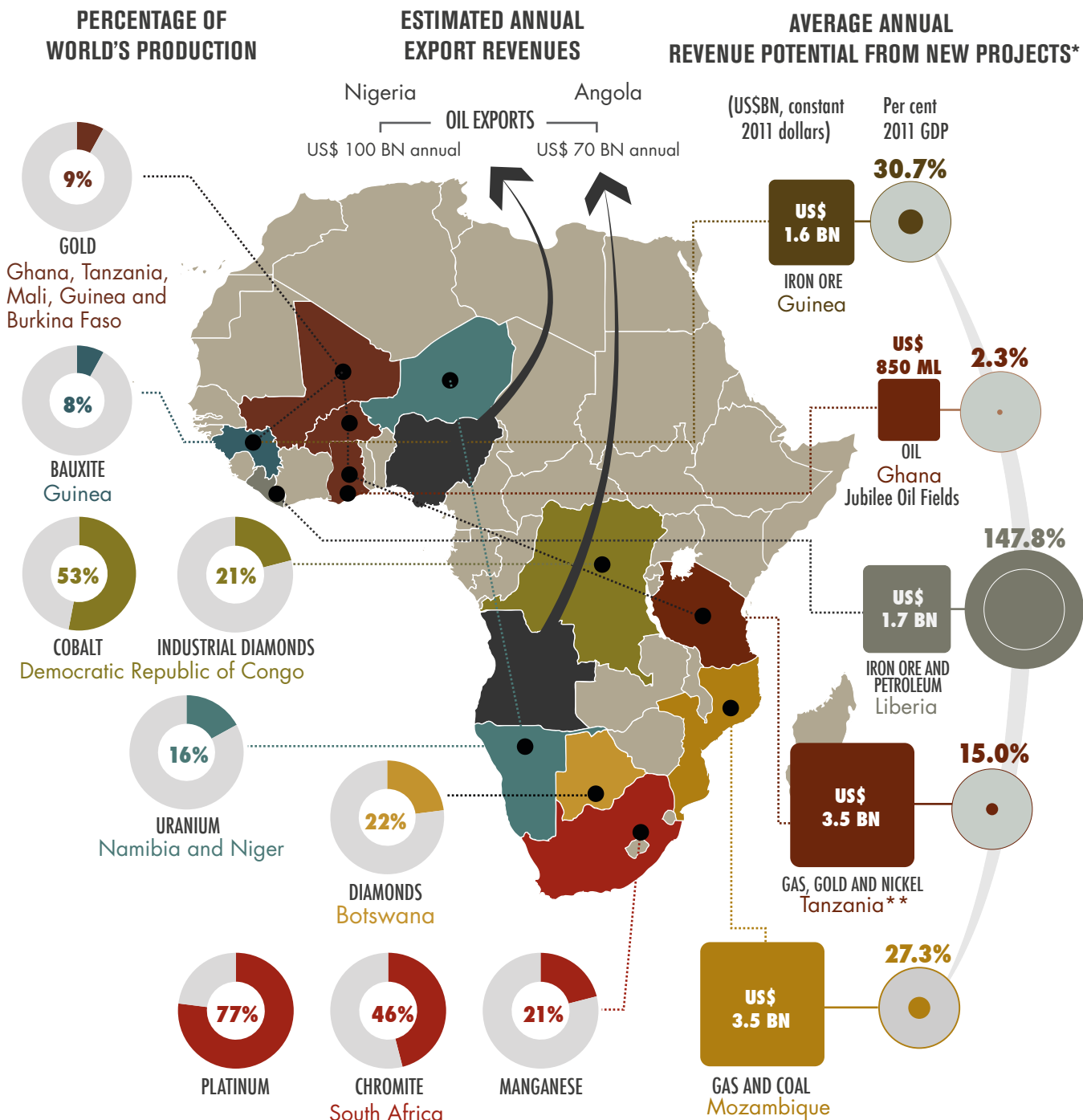
Mineral, metal and oil commodity price trends 1980-2013

(Index 2005=100)



Source: IMF Commodity Prices; World Bank Global Economic Monitor.

FIGURE 4 MAPPING AFRICA'S MINERAL WEALTH: SELECTED COUNTRIES AND COMMODITIES



Sources:

Raw Materials Data, IntierraRMG, 2013

World Bank, Africa Pulse October 2012, Volume 6

IMF, Fiscal Regimes for Extractive Industries: Design and Implementation, 2012

U.S. Geological Survey, Mineral commodity summaries 2013

*Estimates are intended to show order of magnitude. Revenue projections are highly sensitive to assumptions about prices, phasing of production, and underlying production and capital costs

**Data represents annual revenue at peak production

There is little evidence to suggest that a downturn is imminent. Some commentators maintain that the world is still in the middle phase of a commodity “super-cycle”. Fuelled by high growth in emerging markets and constraints on supply, prices are set to remain high. Compared with prices in 2005, which were already well above average levels for the 1990s, projected prices for 2025 are around 20 per cent higher for metals and minerals, 25 per cent higher for energy commodities, and over 90 per cent higher for precious metals.

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Such projections should not be interpreted as cause for over-exuberance. Africa is still a relatively minor player in inherently unpredictable global markets. Slower growth in China, global recession, increased investment in new sources of supply – such as natural gas extracted by “fracking” – and new technologies could fundamentally change underlying market conditions. African governments need to plan for uncertainty and the risks that come with dependence on exports, while preparing to manage increased revenues.

Increased exploration and rising foreign investment are deepening Africa’s integration into global natural resource markets. In the energy sector, established oil producers are expanding production. The US Geological Survey estimates that the coastal areas of the Indian Ocean could hold more than 250 trillion cubic feet of gas in addition to 14.5 billion barrels of oil. To put this in context, it exceeds the known reserves of the United Arab Emirates and Venezuela. Africa’s share of world gold exports is rising. Countries such as Zambia and the Democratic Republic of the Congo occupy a strategic place in world markets for copper and cobalt. More recently, there has been a global scramble to secure access to some of the world’s largest and least developed iron ore deposits in Guinea, Liberia and Sierra Leone.

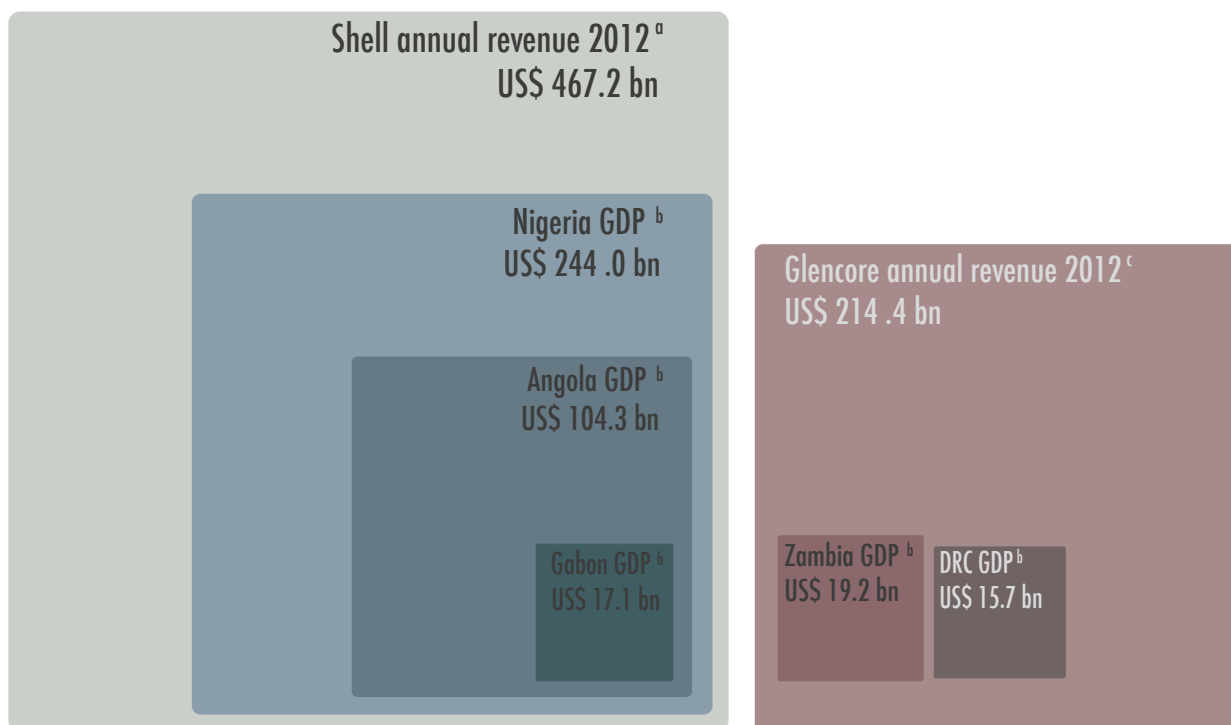
The revenue flow associated with Africa’s natural resources are potentially transformative. The IMF estimates that revenue from Mozambique’s natural gas and coal could reach US\$3.5 billion annually. Iron ore exports from Guinea could generate over US\$1.6 billion annually. Exports of natural gas, gold and other minerals could produce a revenue stream equivalent to 15 per cent of Tanzania’s GDP. (Figure 4)

The past decade has witnessed not just a surge in foreign investment activity, but a proliferation of actors. Companies active in Africa’s extractive sectors range from the multinational firms that dominate world petroleum and mining to smaller and more specialized regional actors. State and private Chinese companies occupy an increasingly prominent role, as do firms from other emerging markets. Many of the foreign investors operating in Africa are following international best practice, often in a difficult operating environment. However, the Africa Progress Panel has identified two major areas of concern.

The first concerns the structure of investment activity. Foreign companies operating in Africa make extensive use of offshore-registered companies and low-tax jurisdictions. In some cases, multinational companies are also linked through their investment activities to complex webs of shell companies. These arrangements come with weak public disclosure and extensive opportunities for tax evasion. This is bad for efforts to strengthen transparency and accountability in Africa – and jeopardizes the reputations foreign investors.

The second area of concern relates to the linkages between foreign investment activity and local markets. Extractive industries typically operate as low-value added enclaves with weak linkages to local firm and employment markets. Over a decade into the commodity boom, Africa continues to export predominantly unprocessed raw material, and to import consumer goods and agricultural commodities. This is not a sustainable model of development. It is imperative that governments develop industrial strategies for adding value to raw materials prior to their export – and that foreign investors do more to build local linkages. (Figure 5)

FIGURE 5 MULTINATIONAL CORPORATION ANNUAL REVENUE VERSUS NATIONAL GDP DATA



Source:
 a/ Royal Dutch Shell plc (2012), Annual report: Building an energy future.
 b/ World Bank (2011), World Development Indicators (GDP Data).
 c/ Glencore (2012), Annual Report.

In 2012, overall private capital flows are estimated to exceed aid transfers by 8 per cent.⁷⁶ Foreign direct investment was similar to aid flows before the 2008 global recession before falling back slightly (Figure 6). That position has now been reversed, with the latest data pointing to a rise in FDI and a decline in aid. While the increase in private capital flows has reduced financial dependence on aid, development assistance remains a critical source of finance for a significant group of countries. Moreover, well-designed development assistance can support national efforts to use resource wealth to accelerate poverty reduction, notably by building institutional capacity.

From natural resources to human development

Translating natural resource wealth into human development requires integrated policies across a wide range of areas. Governments need national strategies that set out the terms on which resource wealth will be exploited, including provisions on sustainability, the regulatory environment and licensing. They also need to ensure that revenues are collected, accounted for and allocated efficiently and equitably to advance public policy goals. Moving from good principles to practice is not an easy journey.

Poor governance of state companies and assets is associated with extensive revenue losses. In 2012, Angola was unable to account for US\$4.2 billion in “fi residuals”, essentially missing money, in the accounts of the state oil company. Nigeria is estimated to have lost US\$6.8 billion between 2010 and 2012. Revenue losses on this scale cause immense damage to public finance – and to national efforts to reduce poverty.

Concession trading arrangements are often associated with undervaluation of assets. No country has lost more from this practice than the Democratic Republic of the Congo. This report includes a detailed analysis of fi privatization deals conducted through the sale of state-owned assets to foreign investors operating through offshore companies registered in the British Virgin Islands and other jurisdictions. We estimate the total losses sustained in these deals as a result of undervaluation of the assets at US\$1.3 billion – more than double total budget spending on health and education. In a country with 7 million children out of school, the sixth highest child mortality rate in the world, and endemic malnutrition, losses of this order carry high human costs. (Figure 7)

The underpricing of concessions generates large returns for offshore companies. In the case of the Democratic Republic of the Congo, we estimate that underpricing generated returns of around 500 per cent for the offshore companies involved. In Guinea, the price secured by another offshore company for a concession in iron ore represented a return in excess of 3,000 per cent, with the agreed price exceeding Guinea’s GDP.

Lack of transparency remains a major concern. Resource-rich countries in Africa score poorly on the Resource Governance Index (RGI), a measure of the level of disclosure in the natural resource sector. Cameroon, the Democratic Republic of the Congo, Equatorial Guinea and Mozambique register some of the lowest scores reported on the RGI. Opaque practices in the natural resources sector are reinforced by opaque national budgets, with citizens routinely denied access to key budget documents.

Many resource-rich countries need urgently to review the design of their tax regimes. Most were designed to attract foreign investment during a period of low commodity prices. Countries have provided extensive tax concessions, including “tax holidays”, low royalty payments, and exemptions from corporation tax. One review in Zambia found that between 2005 and 2009, half a million workers in the country’s copper mines were paying a higher rate of taxation than major multinational mining companies. The IMF and the African Development Bank have urged governments to reconsider the level of tax concessions that they provide.

Tax evasion continues to erode the revenue base for public finance in many countries. It is impossible to quantify the scale of the problem. However, high levels of intra-company trade create extensive scope for trade “mispricing”, enabling companies to report profit in low-tax jurisdictions; and the extensive use of offshore companies and shell companies makes it difficult for African tax authorities to assess profits and enforce compliance. Trade mispricing alone is estimated to have cost Africa on average US\$38 billion annually between 2008 and 2010 – more than the region received in bilateral aid from OECD donors. Put differently, Africa could double aid by eliminating unfair pricing practices. (Figure 8)

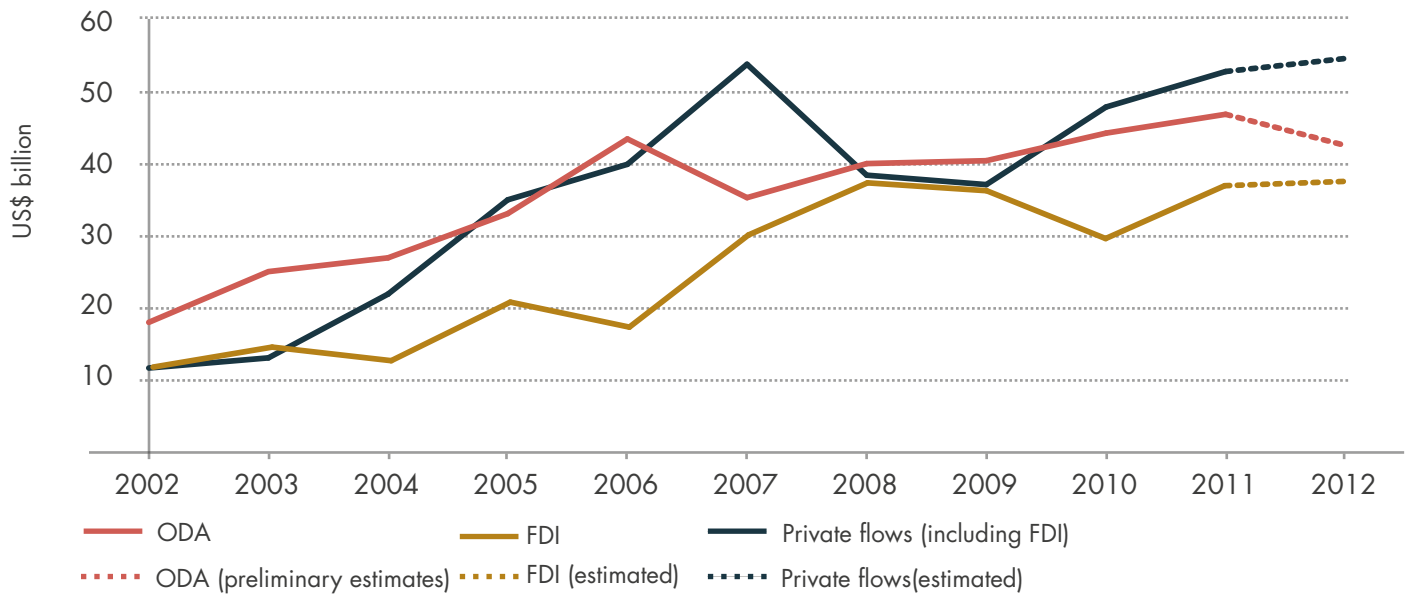
Converting resource revenues into tangible human development gains and expanded opportunity requires efficient and equitable public spending. The record of resource-rich countries in this area is mixed, but far from encouraging. Several countries – Chad is a notable example – under-invest in basic services. Countries such as Ghana, Kenya and Zambia skew public spending on health, education and infrastructure away from the most disadvantaged areas. As a group, resource-rich countries under-invest in social protection. The 1.5 per cent of GDP spent by Nigeria provides limited coverage. One of the main programmes, Care of the People, provides modest grants to only 22,000 households (0.001 per cent of the poor).

Unlocking the potential

The immense challenges that African governments face have practical and achievable solutions. Governments can also draw upon a wide range of guides to action. The Africa Mining Vision, jointly prepared by the African Union and the Economic Commission for Africa, sets out a compelling agenda for using resource wealth to boost inclusive growth, expand opportunities and reduce poverty faster. The Natural Resource Charter, which draws on international best practice, is another valuable tool that can help to frame policies.

Many African governments are leading by example. Reform-minded political leaders, supported by civil society, have used the Extractive Industries Transparency Initiative (EITI) to strengthen disclosure standards. Sierra Leone now publishes contracts and concessions online. In February 2012, Guinea published on a government website more than 60 contract documents covering 18 mining projects, along with a searchable summary of contract terms, allowing non-experts to find key sections and understand the obligations of companies and the government. The new Liberian Draft Petroleum Policy has a section devoted to transparency measures that will influence the eventual drafting of sector legislation. It includes provisions requiring the disclosure of the

FIGURE 6 PRIVATE FLOWS AND AID IN SUB-SAHARAN AFRICA



Source: OECD and UNECA (2013), Mutual Review of Development Effectiveness and the OECD-DAC International Development Statistics database.

FIGURE 7 DEMOCRATIC REPUBLIC OF THE CONGO LOSSES IN CONCESSION TRADING VERSUS BUDGETS FOR HEALTH AND EDUCATION

The Democratic Republic of the Congo is underpricing natural resources while children are hungry and out of school



17 OUT OF EVERY 100 CHILDREN DO NOT REACH THEIR 5TH BIRTHDAY



11.8 MILLION CHILDREN UNDER 5



MODERATE AND SEVERE STUNTING OF CHILDREN 43%

11.2 MILLION CHILDREN IN SCHOOL AGE (6-11)

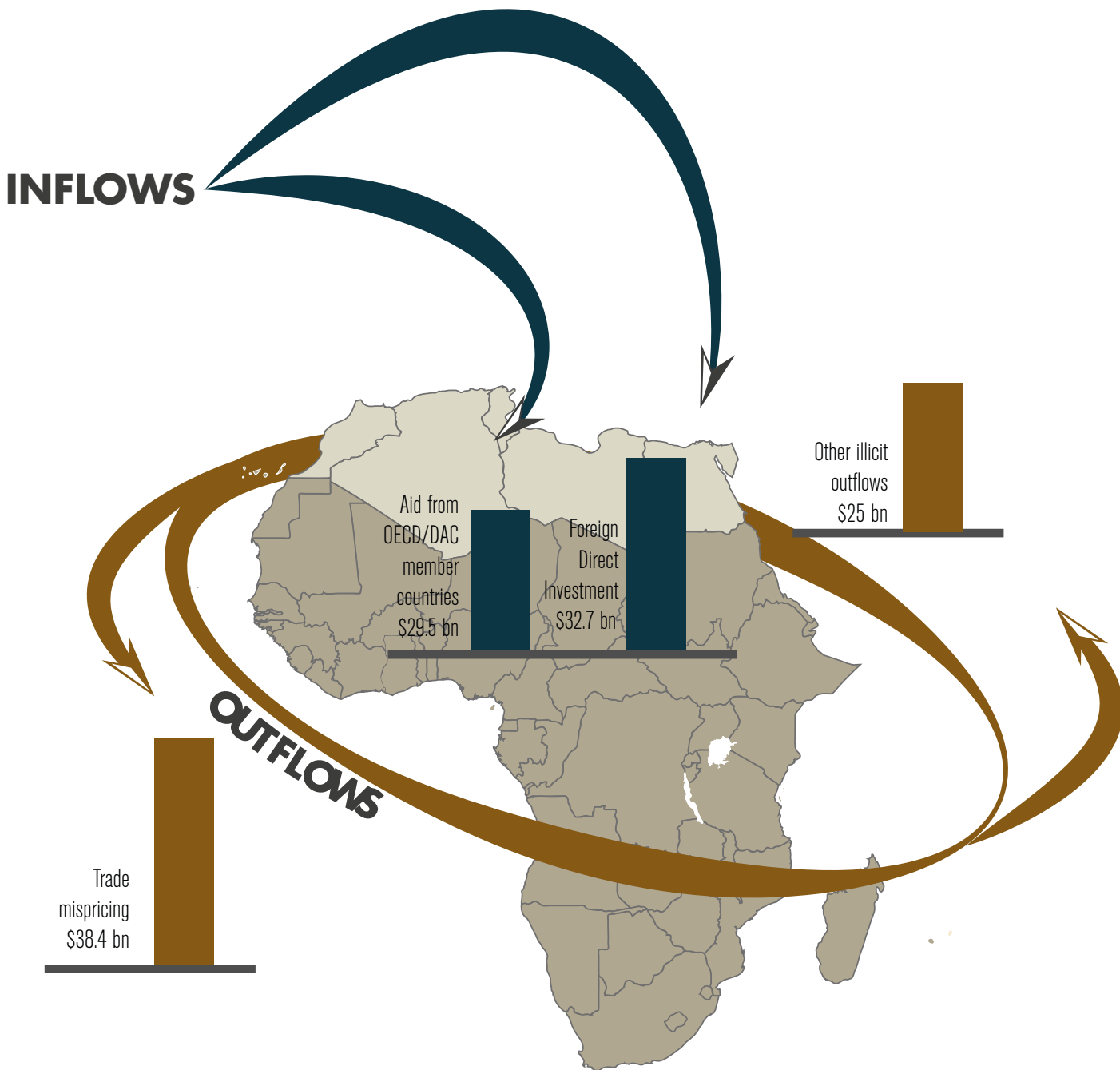


7 MILLION CHILDREN OUT OF SCHOOL

Source: IRIN (2011), DRC: Millions miss out on basic education; UNDP (2012), The Nutrition Challenge in Sub-Saharan Africa; UNESCO (2012), Global Monitoring Report; World Bank (2013), World Development Indicators.

FIGURE 8 AFRICA'S ILLICIT OUTFLOWS

Africa loses more through illicit outflows than it gets in aid and foreign direct investment



Trade mispricing: Losses associated with misrepresentation of export and import values

Other illicit flows: Funds that are illegally earned, transferred or utilized and include all unrecorded private financial outflows

(All figures are average annual 2008-2010 for Sub-Saharan Africa)

beneficial ownership structure of mining companies, revenue forecasts and oil sale price information. Ghana's 2011 Petroleum Revenue Management Act exceeds EITI reporting standards. These initiatives reflect the political impetus towards greater transparency and accountability in Africa.

International initiatives are supporting Africa's efforts. Under the Dodd-Frank legislation introduced in the United States, the Securities Exchange Commission will require companies involved in extractive industries to publicly disclose all payments on a project-by-project basis. The legislation, which has prompted parallel moves from the European Union, provides an opportunity for foreign investors to support Africa's efforts to strengthen transparency and accountability. Unfortunately, many companies have failed to grasp that opportunity. Some have initiated legal challenges seeking to overturn Dodd-Frank provisions. Others have embarked on a campaign of attrition aimed at diluting mandatory reporting requirements. This is short-sighted – and the commercial arguments deployed in favour of weaker disclosure lack credibility.

Not all of the opposition emanates from industry. The Canadian government has opposed the introduction of mandatory disclosure standards. This matters because companies listed on the Toronto stock exchanges control global mining assets in excess of US\$109 billion and in 2011 were involved in over 330 projects in Africa. China's stock exchanges, most notably in Hong Kong and Shanghai, also need to be brought into a more transparent multilateral regime.

Several governments in Africa are introducing more efficient and balanced tax regimes. Royalty rates have been increasing, reflecting the escalation in world prices. The African Development Bank has proposed indexing royalty payments to world prices, which would improve stability and predictability in tax administration. The IMF has urged governments to avoid negotiating tax deals on an investor-by-investor basis, and several countries have successfully renegotiated what were unbalanced arrangements.

However, African governments acting alone cannot resolve some of the most pressing tax problems facing the region. Tax evasion is a global problem facilitated by a mixture of intra-company trade practices, the extensive use made by foreign investors of offshore centres, shell companies and low-tax havens, and weak disclosure standards in a number of financial and commodity trading centres, including Switzerland, the United Kingdom and the United States. While there have been encouraging moves towards greater international dialogue on taxation, what is lacking is decisive international action – and this is an area in which the G8 and the G20 can make a difference.

In the past, fiscal policy has been an Achilles' heel of resource governance in Africa. Surges of revenue have led to bouts of uncontrolled public spending, without subsequent adjustment during downturns in the commodity cycle. This picture is changing. Governments are setting a reference price for resource exports, smoothing flows into the budget across the commodity cycle and placing surpluses into sovereign wealth funds and other instruments. Nigeria's recently established sovereign wealth fund has drawn on the experience of other countries in the region and beyond – including Botswana and Chile – to establish clear and transparent rules managing resource flows.

Effective fiscal management does not provide answers to key questions over spending. All governments have to consider the capacity of national economies to absorb increased spending financed by resource revenues. Saving for the future is an important policy goal. However, the Africa Progress Panel believes that there should be a presumption in favour of “front-loaded” expenditure – investing early in infrastructure and basic services. Evidence shows that returns to investment in infrastructure can be very high, typically ranging between 15 per cent and 20 per cent, and the World Bank estimates that infrastructure investments could raise Africa’s long-term growth rate by 2 per cent a year. By contrast, returns to savings in secure bond markets are currently well below 1 per cent, implying a negative return when adjusted for inflation.

Spending priorities have to be determined in the light of national dialogue. Two guides to action stand out. The first is that investment geared towards long-term, inclusive growth is critical. Governments need to ensure that the revenues generated by non-renewable natural resource assets are turned into permanent improvements in economic infrastructure and in people’s health, education, welfare and livelihoods. Unless growth continues, increased spending in basic services will become unsustainable. At the same time, it is difficult to make a case for saving a large share of resource revenues when some 30 million African children are out of school, when the region’s health system is unable to deliver basic care to a large share of its population, and when climate risk continues to trap smallholder farmers.

The second priority, therefore, is to use the revenues generated by resource exports to break the cycle of poverty trapping millions of Africans, and to unlock opportunities. These revenues can be used to eliminate charges on basic services, to expand provision for the most marginalized groups and areas, and to raise both the quality and accessibility of health care and education. Part of the resource windfall could also be invested in developing national social protection systems, drawing on the best regional practices of countries such as Rwanda and Ethiopia, and on relevant experience from other regions.

SHARED AGENDA FOR CHANGE THAT BENEFITS ALL

Africa's natural resource wealth is an asset with the potential to lift millions of people out of poverty and build shared prosperity for the future. This report has identified some of the policies that could realize that potential by enabling Africa's people, governments, civil society, foreign investors and the wider international community to come together around a shared agenda for change.

These policies offer pathways towards win-win scenarios. When governments strengthen disclosure standards and improve accountability, they improve their legitimacy in the eyes of their citizens. When foreign investors adopt more stringent disclosure standards and avoid irresponsible practices including tax evasion, they stand to gain from improved standing in the host countries – and from the avoidance of risks that could damage shareholder interests. If the international community comes together to tackle tax evasion, rich countries as well as poor will gain as the losses associated with aggressive tax planning diminish.

By the same token, when there is a deficit of trust there are no winners – and resource governance in Africa has long been blighted by a lack of trust. Millions of Africans have lost trust in the capacity and concern of their governments to manage what are public natural resource assets in the public interest.

Governments and many of their citizens question the motives and practices of foreign investors, while the companies themselves often have little confidence in the governments that shape the policy environment in which they operate. Building trust is harder than changing policies – yet it is the ultimate condition for successful policy reform. Civil society organizations have played a central role in strengthening transparency and accountability and they often partner effectively with all key stakeholders groups highlighted below. Their role is fundamental to implementing most of the recommendations below.

Africa has never suffered from a "resource curse". What the region has suffered from is the curse of poor policies, weak governance and a failure to translate resource wealth into social and economic progress. The favourable market conditions created by global resource constraints provide no guarantee that the growth of extractive industries will lead to improvements in the lives of people. But if governments seize the moment and put in place the right policies, Africa's resource wealth could permanently transform the continent's prospects.

SHARED AGENDA FOR CHANGE THAT BENEFITS ALL

TRANSPARENCY AND ACCOUNTABILITY

Adopt a global common standard for extractive transparency: All countries should embrace and enforce the project-by-project disclosure standards embodied in the US Dodd-Frank Act and comparable EU legislation, applying them to all extractive industry companies listed on their stock exchanges. It is vital that Australia, Canada and China, as major players in Africa, actively support the emerging global consensus on disclosure. It is time to go beyond the current patchwork of initiatives to a global common standard.

Realize the Africa Mining Vision: Adopt the Africa Mining Vision's framework for "transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development" as the guiding principle for policy design. Immediately equip the African Minerals Development Centre with the technical, human and financial resources it needs to help governments develop national strategies. Implement the Africa Mining Vision at country level, including a strengthened EITI provision.

Use the African Peer Review Mechanism: Assert African leadership in reforming the international architecture on transparency and accountability by implementing the African Peer Review Mechanism's codes and standards on extractive industry governance.

DISTRIBUTION OF BENEFITS

Build a multilateral regime for tax transparency: The G8 should establish the architecture for a multilateral regime that tackles unethical tax avoidance and closes down tax evasion. Companies registered in G8 countries should be required to publish a full list of their subsidiaries and information on global revenues, profits and taxes paid across different jurisdictions. Tax authorities, including tax authorities in Africa, should exchange information more systematically.

**ECONOMIC
TRANSFORMATION**

Boost linkages, value addition and diversifi Add value by processing natural resources before export. Forge links between extractive industries and domestic suppliers and markets to contribute towards value addition. Structure incentives to favour foreign investors who build links with domestic suppliers, undertake local processing and support skills development. Use linkages to diversify national economies away from dependence on extraction.

**RESOURCE REVENUES
AND PUBLIC SPENDING**

Ensure equity in public spending: Strengthen the national commitment to equity and put in place the foundation for inclusive growth: African governments should harness the potential for social transformation created by increased revenue fl Finance generated by the development of minerals should be directed towards the investments in health, education and social protection needed to expand opportunity, and towards the infrastructure needed to sustain dynamic growth.

**SOCIAL AND
ENVIRONMENTAL
SUSTAINABILITY**

Protect artisanal mining: Support artisanal mining, which is labour-intensive and provides precious jobs. The formal extractive sector and informal artisanal mining both stand to gain from constructive arrangements that recognize the rights of artisanal miners and protects the interests of all investors.

04/

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JOBS JUSTICE EQUITY

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**SEIZING
OPPORTUNITIES
IN TIMES
OF GLOBAL CHANGE**

Africa Progress Report 2012

FOREWORD

BY KOFI ANNAN

Annual reports often begin with the observation that the year in question has been a particularly eventful one, but rarely has it been as fitful as this year. We have seen enormous change across Africa and the world. We have witnessed the spread of revolutions, the end of autocratic regimes and the birth of new democracies. We all held our breath as countries and currencies narrowly escaped collapse and towering debt burdens threatened to choke the world economy. Once again, the world as we know it has changed dramatically in the course of months.

The “Arab Awakening”, combined with the rise of new social movements across the world in 2011, caught everyone by surprise. The common thread linking these movements is the shared sense of frustration and anger over unresponsive governments, and the lack of jobs, justice and equity. For societies to function and prosper, I have always argued that we need three inter-related conditions: economic and social development; peace and security; and, the rule of law and respect for human rights. In the countries affected by the “Arab Awakening”, there has been a longstanding and near-total absence of the third condition.

To the surprise of many, Africa has mostly stood tall through all of this. The majority of its 54 countries have weathered the recurrent financial and economic storms and have continued to impress as they traverse the road to recovery. A few have even been able to take their place among the world’s top performers in the economic growth league. There has also been encouraging progress towards some of the Millennium Development Goals (MDGs). Many countries have registered gains in education, child survival and the fights against killer diseases like HIV/AIDS and malaria. None of this is cause for complacency.

It cannot be said often enough, that overall progress remains too slow and too uneven; that too many Africans remain caught in downward spirals of poverty, insecurity and marginalisation; that too few people benefit from the continent’s growth trend and rising geo-strategic importance; that too much of Africa’s enormous resource wealth remains in the hands of narrow elites and, increasingly, foreign investors without being turned into tangible benefits for its people. When assessing nations, we tend to focus too much on political stability and economic growth at the expense of social development, rule of law and respect for human rights.

We at the Africa Progress Panel are convinced that the time has come to rethink Africa’s development path. Not all inequalities are unjust, but the levels of inequality across much of Africa are unjustified and profoundly unfair. Extreme disparities in income are slowing the pace of poverty reduction and hampering the development of broad-based economic growth. Disparities in basic life-chances – for health, education and participation in society – are preventing millions of Africans from realising their potential, holding back social and economic progress in the process. Growing inequality and the twin problems of marginalisation and disenfranchisement are threatening the continent’s prospects and undermining the very foundations of its recent success.

Justice and equity are certainly not new concepts. Here we use them in their broadest sense. By looking at the triangle of jobs, justice and equity, we underline the role of

empowerment and equality of opportunity as indispensable for progress and thus particularly powerful focal points for domestic policy initiatives and international development assistance. We highlight jobs because it is through their livelihoods that people achieve social progress, for themselves and for others, and because the need to create jobs for the continent's rapidly growing youth population stands out as among the most pertinent challenges for Africa's policymakers. Failure to create jobs and opportunities for a growing and increasingly urbanised and educated youth will have grave consequences. And we highlight justice and equity because in the eyes of hundreds of millions of Africans both are so conspicuously absent from their lives.

Against this backdrop, our report sets out some proposals for change. With the 2015 deadline for the MDGs fast approaching, we urge every government in Africa to draw up a plan of action for a "big push" towards the targets. These plans should include provisions to reduce inequalities in child survival, maternal health and education. Given the critical place of education in poverty reduction and job creation, we urge governments to deliver on the commitment to provide education for all by 2015 – and to strengthen their focus on learning achievement. We also urge governments to focus on including women and girls in education, which is essential for creating more just, prosperous and fair societies.

Food security and nutrition is another pressing concern. We must never again witness the human tragedy that unfolded in the Horn of Africa. It is time for African governments and the international community to come together and build more robust defences against the scourge of Africa. Raising the productivity of smallholder farmers is critical. That is why we call on governments to bring these farmers from the periphery to the centre of national strategies for growth and poverty reduction. Climate change poses a profound threat to African agriculture. Countering that threat will require international cooperation. It is imperative that Northern governments act swiftly to finance adaptation to climate change, not least because early investments in infrastructure, water management and soil conservation will yield high returns. And an effective food and nutrition security strategy has to include safety net provisions both nationally, through social protection programmes, and internationally through a more effective humanitarian-response architecture.

In this report we highlight a number of global trends that will shape Africa's future. There is a strong likelihood that the world is moving into an era of higher food prices. One effect of that prospect has been to drive a "land grab" in Africa. While foreign investment in productive farming can be enormously beneficial, governments need to remain vigilant in guarding against speculative activity and the risk of displacement of smallholder African farmers. As the economic growth pole of the world economy moves East, Africa stands to gain from strengthened trade links with China and other emerging markets. But it is vital that governments establish trade and investment policies that create incentives for entry into higher value-added areas of production.

Despite growing domestic resources and improved governance and administrative systems, African leaders cannot do it alone. They need to be able to count on the sustained commitment of the international community and the fulfilment of its many outstanding promises. At a time in which many donors view their development

assistance as expendable budget items, African leaders need to remind their partners of the intrinsic value of seeing it as an investment in a common future. Donors also need to honour and act upon the aid commitments that they made in 2005.

Naturally, the empowerment of Africans in their societies and economies is only one side of the coin. The empowerment of Africa in the global society and economy is the other, and seemingly no less challenging. Despite repeated promises to the contrary, the continent remains as marginalised in the world as many of its people remain in their countries. It remains heavily underrepresented in global institutions and constrained by unfair rules it does not have the power to change. The failure of the G20 to articulate a vision for supporting Africa's development, or to provide the region's poorest nations with a place at the table, is a disappointment. There are numerous qualified leaders in Africa.

Both in Africa and internationally we must intensify the focus on fairness, democracy, the rule of law and respect for human rights. For there can be no long-term security without development, and no long-term development without security. And both have to be rooted in the rule of law and respect for human rights. Events of the last year have underlined this message, which is understood by citizens in Africa and around the world.

Times are uncertain. But what is increasingly evident is that Africa is on its way to becoming a preferred investment destination, a potential pole of global growth, and a place of immense innovation and creativity. If we respond with courage and in the right way, building on the continent's many successes, African societies will become more prosperous, fair and equal. This is a prize which we all, wherever we live, will share.



KOFI A. ANNAN

Chair of the Africa Progress Panel

INTRODUCTION

Commentary on Africa has suffered from extreme mood swings, with the pendulum moving from episodes of pessimism to bouts of euphoria. Twelve years ago, The Economist wrote off Africa, describing it as “the hopeless continent”¹. That assessment was not atypical. After a decade of slow economic growth and even slower human development in the 1990s, few observers saw a bright future. How times change. Last year, The Economist ran with a very different cover headline: “Africa rising: the hopeful continent”². According to the title of one widely cited report, Africa has now become a continent of economic “lions on the move,”³ blazing a pathway to prosperity. The commentariat spotlight, to quote a few more reports, is now fixed on Africa’s “rising middle class,”⁴ the “dynamic African consumer market”⁵ and “growth opportunities for investors”⁶.

The extreme pessimism surrounding Africa a decade ago was unwarranted. So, too, is the current wave of blinkered optimism. Real gains have been made, but governments and their development partners need to reflect on the weaknesses, as well as the strengths, of the recent record – and assess both the risks and the opportunities that lie ahead.

A mixed balance sheet

Africa’s economies are consistently growing faster than those of almost any other region – and at twice the rate of the 1990s⁷. Improved economic management has contributed to the growth surge. Exports are booming and export markets have become more diversified. Foreign direct investment has increased by a factor of six over the past decade. Private entrepreneurs have emerged as a dynamic force for change, driving innovation and transforming outdated business models. There is an emergent middle class, although its size is often exaggerated. For the first time in over a generation, the number of people living in poverty has fallen. Fewer children are dying before their first birthday and more are getting into school. Young and not-so-young Africans are embracing new technologies that provide information, expand opportunities and connect people to one another and to the outside world. There have been setbacks and episodes of political violence, but democracy is growing deeper roots. Governance standards are improving.

Yet there is another side to the balance sheet. Countries across Africa are becoming richer but whole sections of society are being left behind. After a decade of buoyant growth, almost half of Africans still live on less than \$1.25 a day⁸. Wealth disparities are increasingly visible. The current pattern of trickle-down growth is leaving too many people in poverty, too many children hungry and too many young people without jobs. Governments are failing to convert the rising tide of wealth into opportunities for their most marginalised citizens. Unequal access to health, education, water and sanitation is reinforcing wider inequalities. Smallholder agriculture has not been part of the growth surge, leaving rural populations trapped in poverty and vulnerability.

The deep, persistent and enduring inequalities in evidence across Africa have consequences. They weaken the bonds of trust and solidarity that hold societies together. Over the long run, they will undermine economic growth, productivity and the development of markets. They weaken confidence in governments and institutions. And they leave many Africans feeling that their societies are fundamentally unjust and their governments unresponsive. Economic growth alone is not enough.

In this year's report, we look at three of the most critical ingredients for transforming a promising economic upturn into a sustained recovery and lasting human development – jobs, justice and equity. We highlight jobs because livelihoods play such a fundamental role in people's life-chances – and because Africa urgently needs to create jobs for a growing youth population. We highlight justice and equity because they are missing from the lives of too many Africans, making the present growth socially unsustainable.

A growing demand for equity and justice

We live in a world of rapid and unpredictable transformations. Changes in demography and human geography are re-making societies, not least in Africa. Climate change is interacting with other pressures to reconfigure agricultural markets. Economic power is gravitating from West to East and North to South. The pace of technological innovation is accelerating and the face of social protest is changing.

The Arab revolutions of 2011 caught the world by surprise, as social movements challenged and toppled autocratic rulers across North Africa, the Middle East and the Arabian Peninsula. In Europe and the United States, the financial crisis has spawned new forms of social protest. In India, a mass social movement is demanding action to combat corruption. Villagers in a remote area of southern

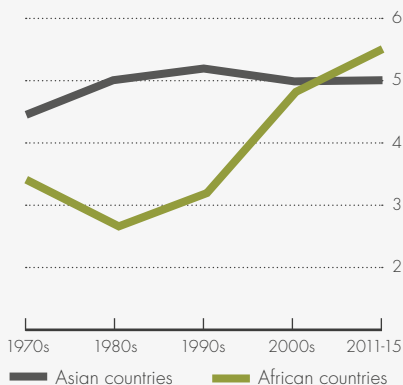
China successfully mobilised against autocratic officials responsible for overseeing land grabs. A shared sense of frustration and discontent with unresponsive governments, inequality and injustice links these movements.

Africa is not immune to the economic and political currents that are reconfiguring globalisation. Its leaders need to find a place in the global economic governance architecture of a multipolar world. Africa's own demography and human geography are changing. Failure to create jobs and opportunity for a growing and increasingly urbanised and educated youth population would have catastrophic consequences, socially, economically and politically. Having played a minimal role in creating dangerous climate change, Africa's farmers face some of the gravest risks. And the Arab Spring has not gone unnoticed by Africa's youth. The circumstances may be different, but young people in Africa also care about jobs, justice and equality – and governments ignore them at their peril.

AFRICA: SUCCESSES AND SETBACKS

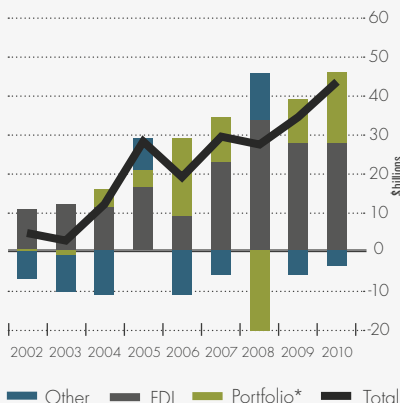
ECONOMIC SUCCESS

AFRICA'S GDP GROWTH IS STEADILY ON THE RISE*



* Excluding countries with less than 10m population, Iraq and Afghanistan
Source: The Economist, 2011 (IMF data).

FDI TO AFRICA IS ALSO INCREASING



Source: IMF, 2011.

AFRICAN COUNTRIES ARE TOPPING THE LIST OF FASTEST GROWING ECONOMIES

Annual average GDP growth, %

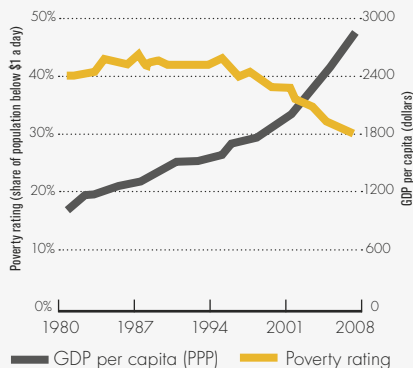
2001-2010	2011-2015
Angola 11.1	China 9.5
China 10.5	India 8.2
Myanmar 10.3	Ethiopia 8.1
Niger 8.9	Mozambique 7.7
Ethiopia 8.4	Tanzania 7.2
Kazakhstan 8.2	Vietnam 7.2
Chad 7.9	Congo 7.0
Mozambique 7.9	Ghana 7.0
Cambodia 7.7	Zambia 6.9
Rwanda 7.6	Nigeria 6.8

Source: The Economist, 2011 (IMF data).

* Portfolio investment is the category of international investment that covers investment in equity and debt securities, excluding any such instruments that are classified as direct investment or reserve assets.

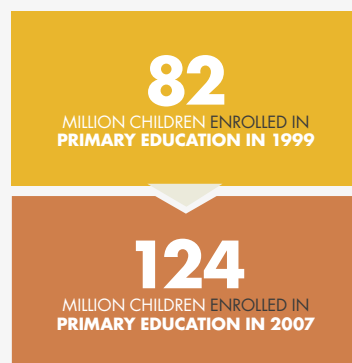
SOCIAL SUCCESS

POVERTY IS DECLINING



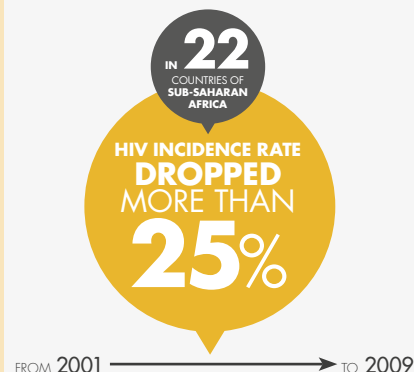
Source: Pinkovsky, MIT, Sala-i-Martin, Columbia University and NBER, 2010.

MORE CHILDREN ARE GOING TO SCHOOL



Source: UNESCO, 2010.

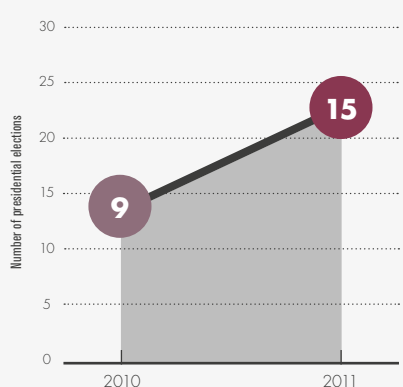
HIV INCIDENCE RATES HAVE DROPPED



Source: UNAIDS 2010

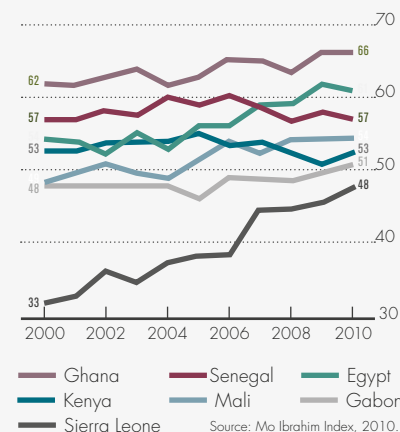
POLITICAL SUCCESS

DEMOCRACY IS SPREADING THE NUMBER OF ELECTIONS IS UP



Data Source: IFES Election Guide and EISA websites.

OVERALL GOVERNANCE IS IMPROVING



Source: Mo Ibrahim Index, 2010.

THE POLITICAL EMPOWERMENT OF WOMEN IS GROWING

Women's empowerment is growing:



Source: APP

Africa is rising and African economies are growing faster than those of almost any other region in the world. However, the current pattern of trickle-down growth is not benefitting many people still living in poverty.

Indeed, the benefits measured by poverty reduction and childhood survival fall far short of what Africans have a right to expect. There is a need for a renewed focus on justice and equity. Africa's impressive economic growth must be translated into shared growth for all Africans

ECONOMIC SETBACKS

ILLICIT FINANCIAL FLOWS ARE TAKING A TOLL ON ECONOMIC DEVELOPMENT

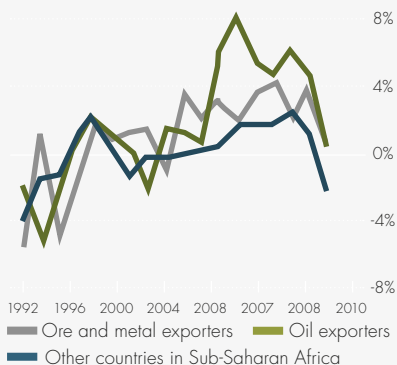
1.8 trillion USD
ARE ESTIMATED TO HAVE BEEN LOST TO ILLICIT FLOWS

FROM 1970 TO 2008

Illicit flows create a shadow financial system that "drains hard currency reserves, heightens inflation, reduces tax collection, cancels investment, and undermines free trade."

Source: Global Financial Integrity, 2009.

LABOUR PRODUCTIVITY* GROWTH IN SSA BY EXPORT STRUCTURE 1992-2009



Source: ILO, 2011.

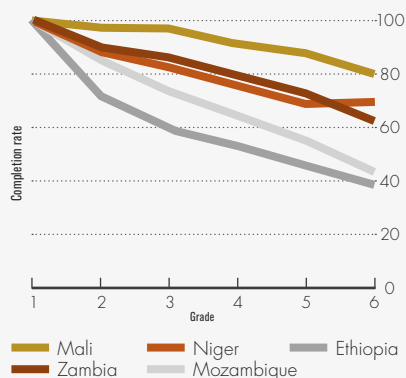
RESOURCE-RICH COUNTRIES CONTINUE TO HAVE HIGH DEPENDENCE ON EXTERNAL FINANCIAL FLOWS



Source: African Economic Outlook 2010

Labour productivity refers to GDP in 2005 PPP US\$ per person employed. Ore and metal exporters refers to countries in which ore and metal exports accounted for at least 50 per cent of all merchandise exports in 2005. Oil exporters refers to countries in which fuel exports accounted for at least 50 per cent of all merchandise exports. Export data are from World Bank, African Development Indicators

SCHOOL COMPLETION RATES ARE DOWN



Source: UNESCO, 2011.

NATIONAL AVERAGES CONCEAL STRIKING INEQUALITIES

On average, Nigerian children receive close to 7 years of education. The **richest 20%** school for almost **10 years** (more like Cuba or Bolivia) while the **poorest 20%** don't even complete **4 years** of education which is closer to the national average of Chad.

Urban/rural and boy/girl differences are also striking

AVERAGE NUMBER OF YEARS OF EDUCATION	BOY		GIRL	
	URBAN	RURAL	URBAN	RURAL
Poorest 20%	6.5	4	6	2.5
Richest 20%	11	10	9.5	9

Source: UNESCO, 2010.

MATERNAL MORTALITY REMAINS UNACCEPTABLY HIGH

Lifetime risk of maternal death *

* The MMR and lifetime risk have been rounded according to the following scheme: <100, no rounding; 100-999, rounded to nearest 10; and >1000, rounded to nearest 100. The numbers of maternal deaths have been rounded as follows: <100, no rounding; 100-999 rounded to nearest 10; 1000-9999, rounded to nearest 100; and >10 000, rounded to nearest 1000.

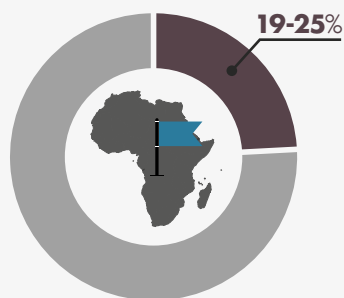
Chad and Somalia	1 in 14
Liberia	1 in 20
South Africa	1 in 100
AFRICA	1 in 36
ASIA	1 in 230
EUROPE	1 in 4 200

Source: WHO, World Bank, Unicef and UNFPA (2010) and The Lancet (2011).

SOCIAL SETBACKS

BUT ELECTORAL PROCESSES ARE ALSO DELICATE

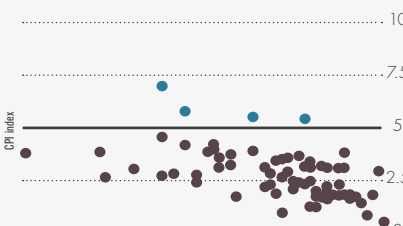
Between 19 and 25 percent of elections in Africa are affected by violence.



Source: USIP, 2010.

GOOD GOVERNANCE IS HAMPERED BY CORRUPTION

All Sub-Saharan countries with the exception of **Botswana, Cape Verde, Mauritius** and **Rwanda** (which score over 5 on the CPI index) rank in the lower half of the 2011 Corruption Perception Index)



Source: Transparency International, 2011.

STILL A LONG WAY TO GO TO SECURE GENDER EQUALITY AT LEGAL AND POLITICAL LEVELS

Post conflict countries fare better in legal and constitutional protection for women's political participation.

Non-Post-Conflict	Post-Conflict	
14%	27%	Women's representation in parliament
61%	93%	Constitution includes anti-discrimination clause on gender
10%	21%	Constitution mentions violence against women
39%	50%	Gender-responsive budgeting initiative

Source: UNWOMEN Website

POLITICAL SETBACKS

DEMOGRAPHICS

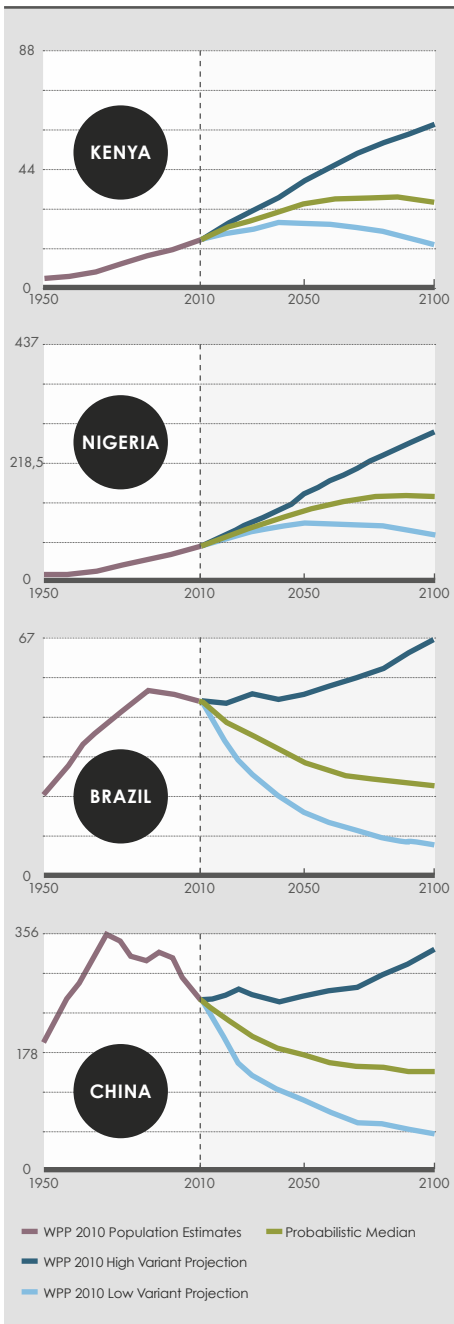
Africa's population is set to double by the middle of the century. This extra energy and talent could be a huge benefit if it is productively harnessed. If not, the impending youth bulge could prompt social disorder that will be difficult to contain.

9 BILLION IN 2050

THE POPULATION OF ASIA AND AFRICA IS EXPECTED TO DOUBLE BY 2050

ANTICIPATING A YOUTH SURGE

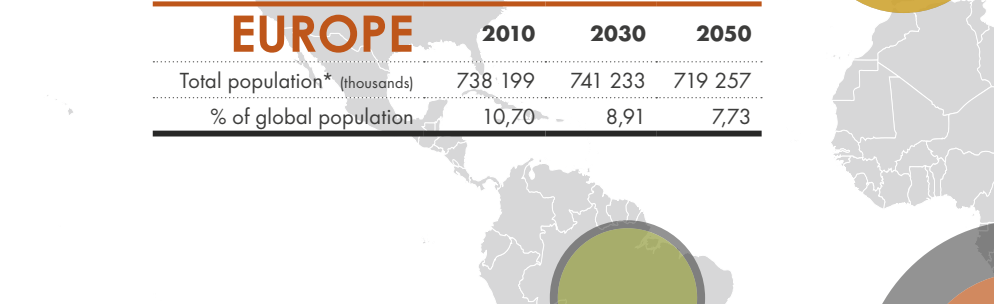
Over the next few decades, there will be a surge in the number of young people living in Africa. With fertility rates dropping, Africa could be on the brink of the type of demographic revolution that Asia experienced three decades ago.



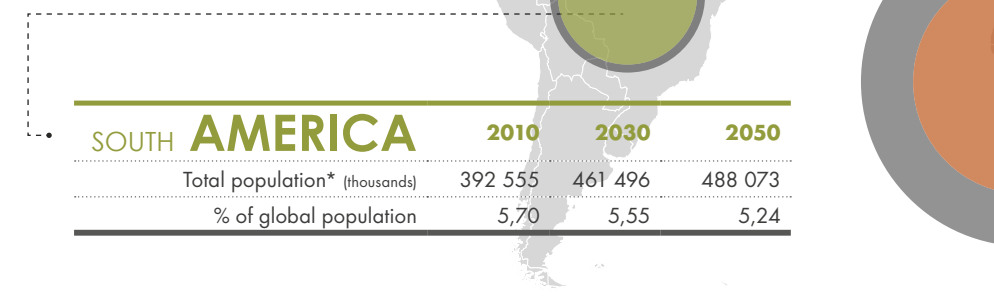
NORTH AMERICA	2010	2030	2050
Total population* (thousands)	344 529	401 657	446 862
% of global population	4,97	4,83	4,80



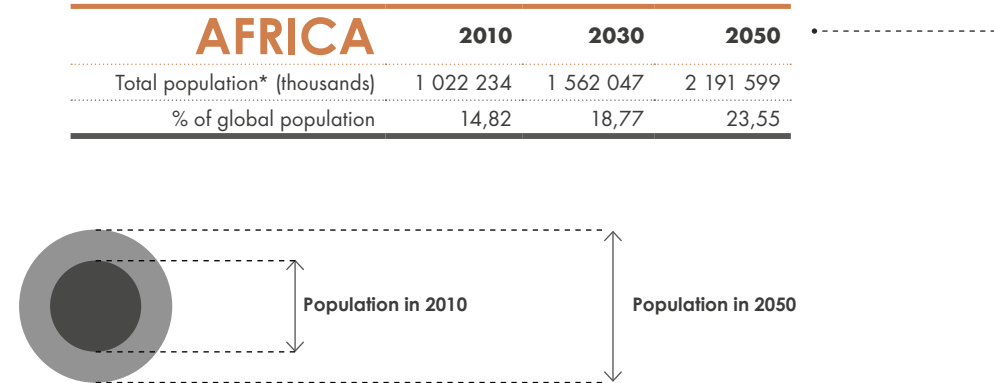
EUROPE	2010	2030	2050
Total population* (thousands)	738 199	741 233	719 257
% of global population	10,70	8,91	7,73



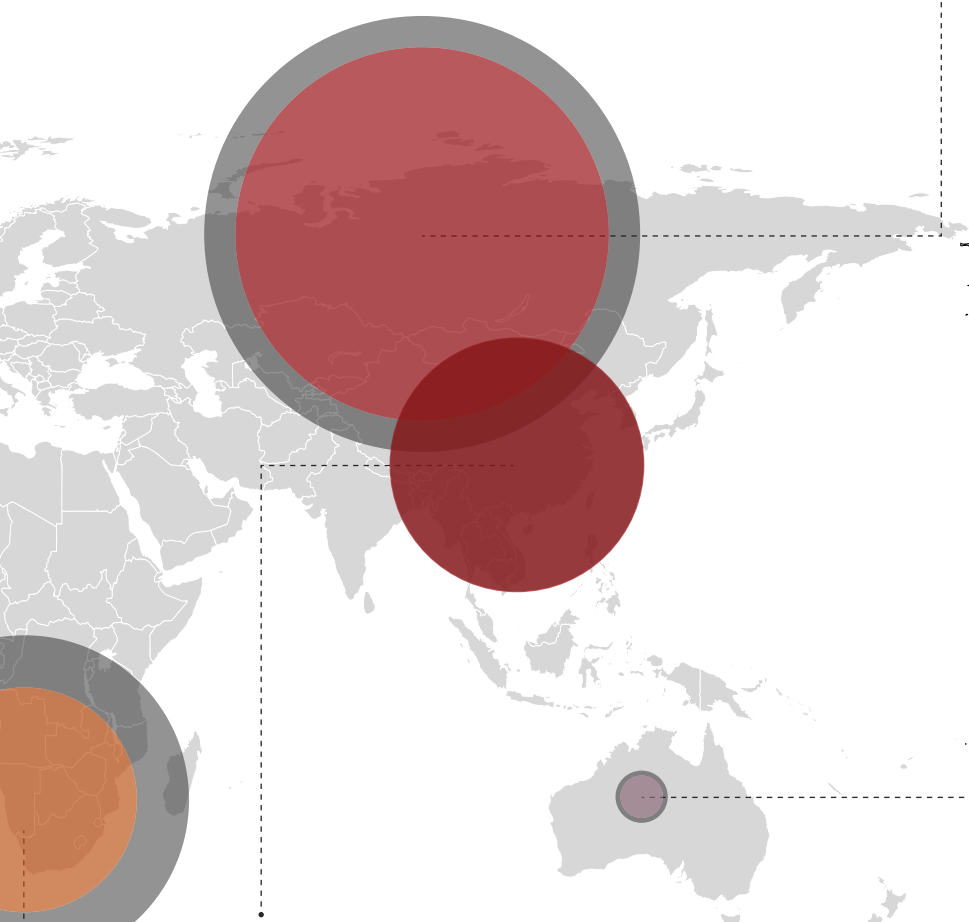
SOUTH AMERICA	2010	2030	2050
Total population* (thousands)	392 555	461 496	488 073
% of global population	5,70	5,55	5,24



AFRICA	2010	2030	2050
Total population* (thousands)	1 022 234	1 562 047	2 191 599
% of global population	14,82	18,77	23,55



ASIA EXCLUDING CHINA	2010	2030	2050
Total population* (thousands)	2 822 917	3 474 665	3 846 616
% of global population	40,94	41,76	41,33



CHINA	2010	2030	2050
Total population* (thousands)	1 341 335	1 393 076	1 295 604
% of global population	19,45	16,74	13,92

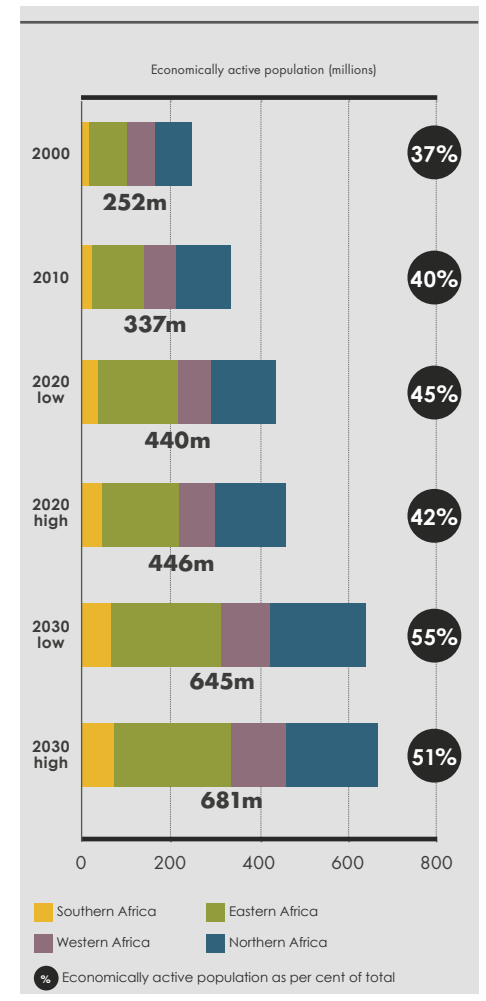
OCEANIA	2010	2030	2050
Total population* (thousands)	36 593	47 096	55 233
% of global population	0,53	0,57	0,59

* Median variant

Source: APP with data from United Nations, Department of Economic and Social Affairs. Population Division, Population Estimates and Projections Section

THE JOB CREATION CHALLENGE

WITHIN SUB-SAHARAN AFRICA, THE ECONOMICALLY ACTIVE POPULATION IS EXPECTED TO CONTINUE TO INCREASE ACROSS ALL SUB-REGIONS, ESPECIALLY IN EASTERN AFRICA

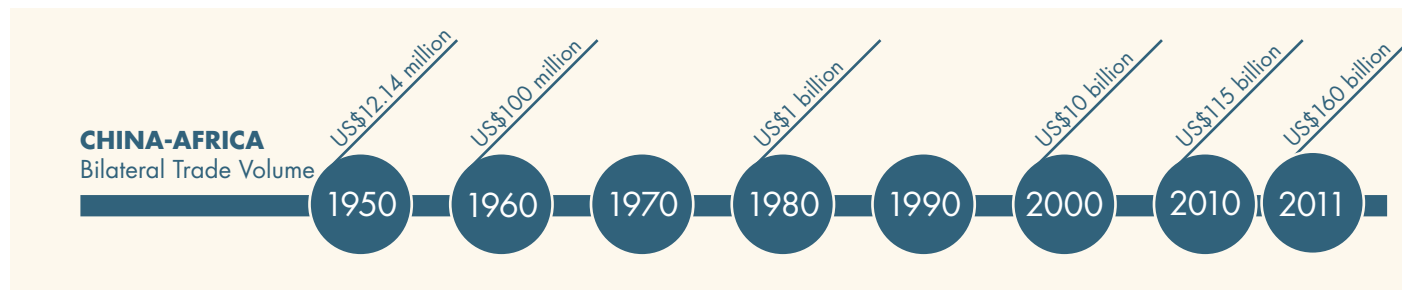


Source: AfDB, 2011.

Africa is in the midst of a profound demographic shift. Population is growing faster than in any other region. As the ratio of working age people to dependents rises, economic growth could get a boost – a demographic dividend.

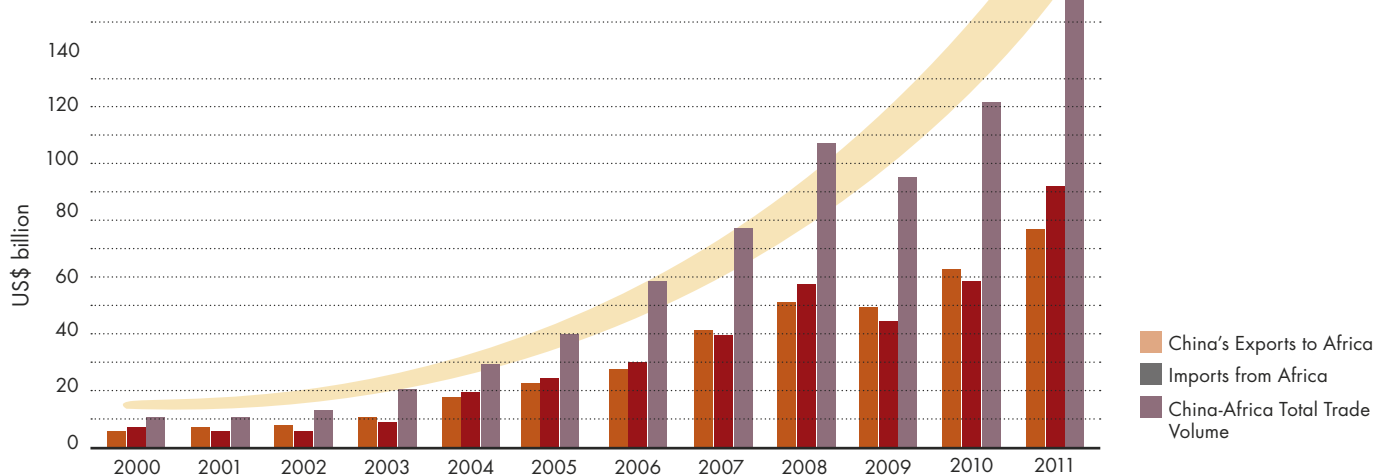
AFRICA AND CHINA

The Africa-china relationship continues to be a balance of opportunity and risk. With the rise of emerging markets set to continue, governments and companies across Africa need to identify strategies to increase the benefits that come with deeper integration while managing the accompanying risks.



CHINA-AFRICA TRADE

The value of Africa-BRIC trade has grown nine-fold over the past decade



Source: Ministry of Commerce PRC website, Standard Bank and Standard Chartered 2012.

MORE FACTS

China has bilateral trade agreements with 45 African countries

LDCs of Africa that have diplomatic relations with China have zero tariffs on some of their exports to China since 2005

By July 2010, zero-tariff African products increased to 4,700 taxable items (covering 95% of the total taxable items mentioned in Chinese Import and Export Regulations)

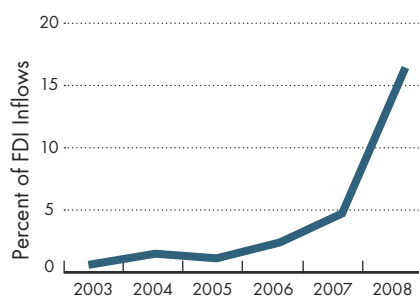
Last year, China accounted for 18% of Africa's trade (up from 10% in 2008)
Last year, Africa sourced nearly 17% of its imports from China (up from 4.5% in 2002)

China is set to become Africa's largest export destination in 2012

Source: Ministry of Commerce PRC website, Standard Bank and Standard Chartered 2012.

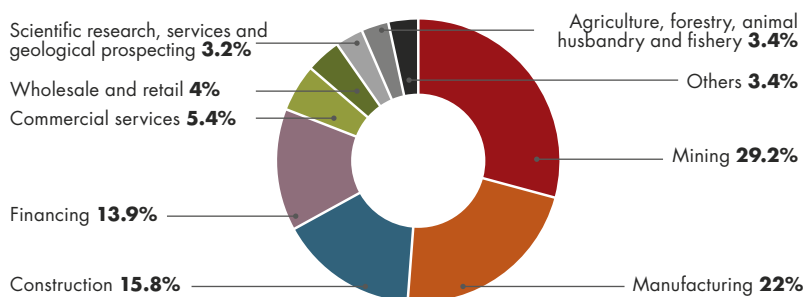
CHINA'S INVESTMENT IN AFRICA

INFLOWS OF FDI FROM CHINA TO SSA



Source: IMF, 'Regional Economic Outlook, 2011

SECTOR COMPOSITION OF CHINA'S INVESTMENT IN AFRICA BY END OF 2009



Source: IMF, Regional Economic Outlook 2011 (data, Chinese authorities)
Note: The figure covers both Sub-Saharan and North Africa

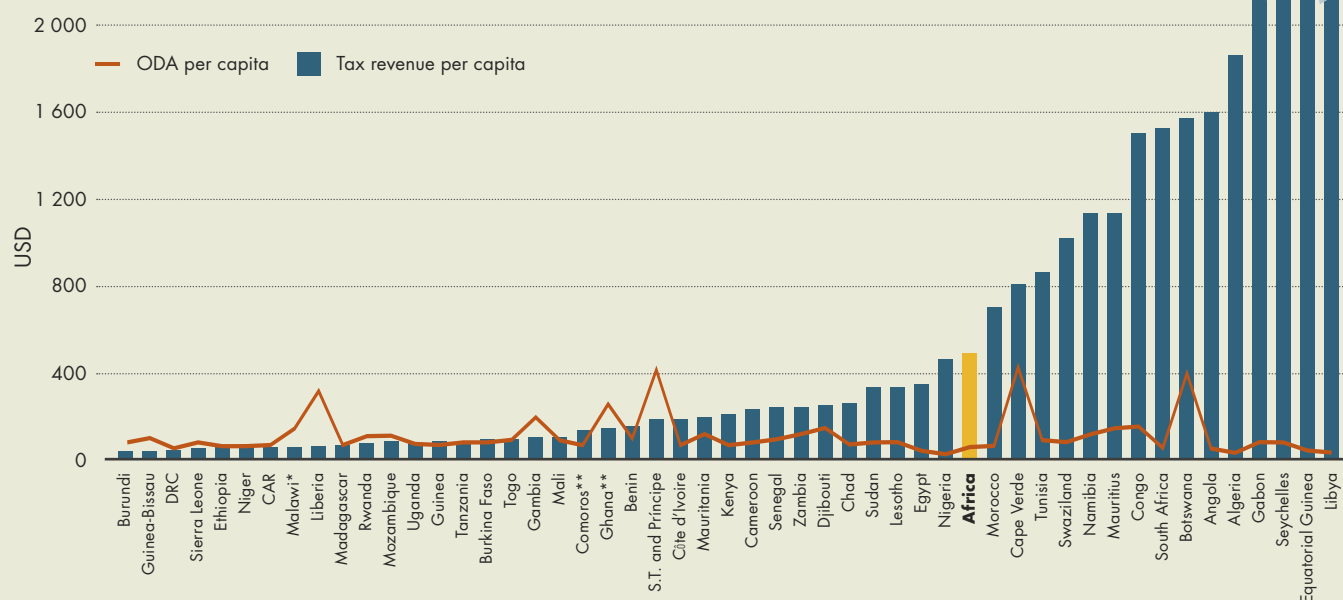
DOMESTIC RESOURCE MOBILIZATION

There is a widespread public perception in many rich countries that international aid remains the dominant form of development financing for Africa. That perception is wide of the mark. Africa is more dependent on aid than other regions, but domestic resource mobilization – the public and private finance raised within countries, through taxes and savings – far outweighs levels of development assistance. For the first time ever, official development assistance declined to Sub-Saharan Africa in 2010.

DOMESTIC RESOURCE MOBILISATION

AID AND TAX REVENUE PER CAPITA (2008)

Domestic resource mobilisation is rising but needs to increase faster in order to reduce aid dependence.



Notes: (*) 2007, (**) 2006.

Source: AFDB/OECD 2010 - African Economic Outlook.

FOREIGN DIRECT INVESTMENT

FOREIGN DIRECT INVESTMENT IS RISING BUT NEEDS TO BE ENCOURAGED BEYOND THE NATURAL RESOURCE SECTOR.

GRANT & HIGHLY-CONCESSIONAL LOANS FROM OFFICIAL SOURCES

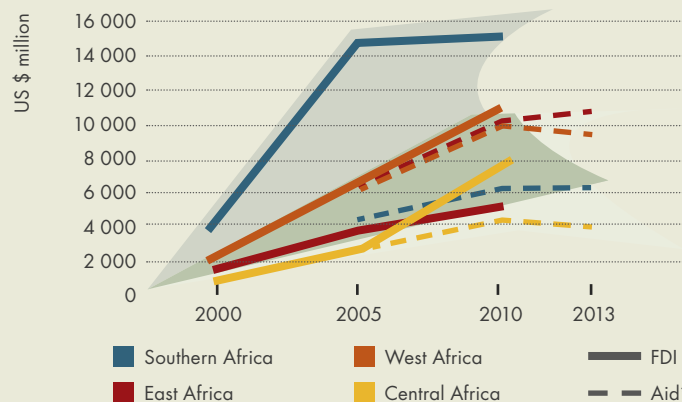
DEVELOPMENT ASSISTANCE IS LIKELY TO FLATTEN OUT AFTER THE GROWTH OF THE PAST DECADE, AND INDEED FELL IN 2011 FOR THE FIRST TIME THIS CENTURY.

SEMI-CONCESSIONAL AND NON-CONCESSIONAL FLOWS FROM OFFICIAL AND MARKET SOURCES

SEMI-CONCESSIONAL LOANS AND MARKET-BASED FINANCE HAVE POTENTIAL FOR GROWTH BUT COULD RAISE CONCERNS OVER DEBT

FOREIGN DIRECT INVESTMENT VS AID*

* Aid data is from the OECD report on Aid Predictability, 2011, and refers to gross Country Programmable Aid as defined by the OECD



CONCLUSION

We started this report by cautioning against highly polarised perspectives on Africa's prospects. Perhaps more than at any time in recent years, there is cause for cautious optimism. The region has registered a decade of strong economic growth and has recovered strongly from the global recessions. The private sector is emerging as a vibrant and innovative force for change. Domestic and foreign investment is rising. For the first time in a generation, poverty levels are falling – and many countries have witnessed strong progress towards the MDGs. Democracy is throwing down deeper roots, with multi-party elections now the firmly established rule rather than the exception. Inevitably in a region as diverse as Africa, there are many national exceptions to this big picture canvas. Yet the favourable constellation of strong economic growth, improving human development, and more accountable governance means that African leaders could set the scene for a breakthrough that transforms the lives of the current generation and the prospects of future generations.

That outcome is not automatic. Trend is not destiny – and Africa's future will be shaped by how effectively the region's governments and development partners respond to the great challenges that lie ahead. In this report, we have identified a number of concerns that, in our view, merit urgent consideration. Across the world, we have seen the rise of social movements and the spread of public attitudes contesting what are viewed as unacceptable levels of inequality. We are of the strong view that inequalities across much of Africa are ethically indefensible, economically inefficient and politically destabilising. That is why we call upon Africa's leaders to put equity and the development of more inclusive societies at the heart of their planning for the future.

This message should not be interpreted as part of an anti-growth agenda. Consistently high growth is unquestionably a condition for sustained – and sustainable – progress in Africa. Similarly, it is important that Africa's leaders not be mesmerised by economic growth in and of itself. They must also consider the quality of growth, the distribution of benefits from wealth creation, the opportunities that poor people and women have to participate in growth, and the relationship between growth and progress towards the MDGs. It is clear from the experience of several high-growth economies around the world that growth alone will not automatically deliver accelerated progress towards the international development goals in maternal health, child survival or hunger.

The 2015 target date for the MDGs provides an opportunity to focus national and international attention on parts of society that have been left behind. The Africa Progress Panel welcomes the emerging debate on the post-MDG framework. However, we are concerned that governments are losing sight of the 2015 promise enshrined in the original MDG targets. The value of any future commitments will be diminished by a failure to accelerate progress towards these targets. That is why we call for a 'big push' towards the MDGs, with every

government setting out a best endeavour strategy for getting as close as possible to the goals – and donors backing their efforts by acting on their aid commitments.

In our view, both the current and future MDG frameworks should attach far more weight to equity targets. The MDG promise was made for everyone. yet in many countries, people who are poor, female and rural face acute disadvantages. And because of inequitable patterns of public spending they have the last call on public spending. We are convinced that it is time to integrate equity targets into the MDG framework. These targets could take the form of specific goals aimed at reducing gaps in, say, child mortality, maternal health, and education based on wealth, gender, rural-urban divisions and wider markers for disadvantage. Reducing inequalities in basic life-chances is a moral imperative. But it would also spur prospects for economic growth and accelerate progress towards the MDG targets themselves.

Looking ahead, there are immense opportunities. African economies are becoming more integrated with high-growth emerging markets. The region's vast mineral wealth is driving growth and acting as a magnet for foreign investment. With population growth and rising wealth driving up demand for food, Africa's farmers could benefit from opportunities in global markets. As the centre of gravity in the world economy moves south and east, the emerging forms of global economic governance could provide Africa with a greater voice. Meanwhile, the revolution in information and communication technology has created an opportunity for Africa to leapfrog old, outmoded technologies and adapt new innovations.

For each of these opportunities there is a corresponding risk. In the absence of strategies aimed at facilitating entry to higher value-added areas of production, there is a danger that Africa's mineral wealth and integration with emerging markets will reinforce dependence on the export activities that generate modest levels of employment, have weak linkages to local markets, and leave the region vulnerable to adverse price trends. Rising global demand for food could generate incentives for a new wave of speculative land-grabbing, with the profit margins of hedge funds and other investors overriding national and regional food security. Paradoxically, the rise of the BRICS and the G20 could leave Africa more, not less, marginalised in global economic governance. And failure to lower the cost of Internet access could limit the democratising and leapfrogging potential of ICTs. In all of these areas, governments will need to develop proactive policies aimed at seizing opportunity and mitigating risk. Laissez-faire is unlikely to deliver results. That is why we call for more active policies in agriculture, manufacturing and trade aimed at strengthening competitiveness, supporting technological innovation, and protecting the land rights of Africa's farmers.

The future is never entirely predictable – but there are two areas in which policy failure today will have highly predictable, and damaging, consequences for the future. The first is youth employment. Africa's youth bulge could create a large demographic dividend. young Africans have extraordinary levels of energy and creativity. They also have hopes, ambitions and dreams. What they are lacking is the opportunity to develop the skills they need to realise their potential. Stated bluntly, the region's education and training systems are not currently fit for the

purpose of providing decent quality education for all. Failure to tackle the twin crisis in access to school and learning in school will not just limit the right to education, undermine prospects for economic growth, and waste human potential. It will also render countries all the more vulnerable to the political and social instabilities that inevitably accompany urbanisation and youth unemployment.

The second area that requires urgent policy attention is smallholder agriculture. It is sometimes forgotten that farming is the primary source of employment and food security for most Africans. Yet for far too long, smallholder farmers have suffered from a combination of indifference and actively damaging policies. With the right incentives, institutional reforms and public spending policies in place, we are convinced that it is possible to dramatically increase the productivity of smallholder agriculture, to expand opportunities for rural employment, and strengthen the economic interaction between urban and rural economies. By contrast, continued neglect of smallholder farming will undermine economic growth, reinforce inequalities, and increase the region's exposure to the risks that come with over-dependence on food imports.

Africa was never a 'hopeless continent'. It was – and remains – a region of immense potential, much of it unfulfilled. With decisive leadership at home and sustained support from development partners, there is now an opportunity to unlock that potential and to set course for a future of shared prosperity, more equal opportunity, and political stability. The journey will not be easy. But the prize is great and it is within reach – and we must collectively seize the moment.

The Africa Progress Panel promotes Africa's development by tracking progress, drawing attention to opportunities and catalyzing action.

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