Turning economic growth into economic transformation

Africa's $50 billion annual infrastructure funding gap is a barrier to inclusive, sustainable growth

By Donald Kaberuka, president, African Development Bank

Many commentators make big and bold statements about Africa and its development prospects, and the swinging pendulum of success and setback. Mine is simple: I believe that this is a unique moment in Africa's economic trajectory. Over the last decade, sub-Saharan Africa has outperformed the rest of the world in terms of growth, and almost all stable countries in Africa have a good chance of becoming 'middle income' by 2025.

Africa is growing, but it is not growing fast enough, or evenly enough. What it needs is not five per cent growth in gross domestic product (GDP), but at least a sustained seven per cent. The decline in poverty rates over the past 10 years – from 58 per cent to 48 per cent – is painfully slow, and there are still not enough jobs for the 15 million young people who come onto the market every year. Meanwhile, the population rises.

I see a landscape influenced by four megatrends that are shaping Africa in an irreversible way. First is the emergence of a multipolar economic world, bringing new investment sources and export destinations, development experience and know-how. Second is the demographic potential – human capital – of a young and increasingly urbanised continent of one billion people. Third is the continuing discovery of large amounts of natural wealth. Fourth is the ongoing opportunity to leapfrog through technologies such as the mobile phone, bringing the benefits of better service delivery and the reduced cost of doing business.

The question remains: how can Africa turn economic growth into true economic transformation? Many of the foundations are in place, including increasingly sound economic policies and sound institutions. What more still needs to be done?

The first thing to do is to achieve real regional economic integration, and allow the 54 fragmented economies of Africa to coalesce – across the regions, and across the continent. The collective task is to facilitate trade, and plug the gaps in hard and soft infrastructure to build conduits for Africa's integration into the global economy. Second, Africa needs to manage its natural resources better, taking advantage of the current strong cycle of commodity prices and ploughing back the proceeds into national priority areas such as health and education, rather than into foreign bank accounts. Third, the challenges of those African states that are designated as fragile, home to tens of millions of people, must be addressed. Fragility undermines countries – it is also contagious, and can weaken entire regions. I have just set up a high-level panel under Liberian president Ellen Johnson Sirleaf to tell us how to do this even better; one of its key findings is that fragility should not be seen as a category of state, but as a risk inherent in the development process.

> ***It is time for a different value proposition based on African countries taking charge of funding and managing their own development***

At the root of all these challenges is the gap in African infrastructure. Infrastructure is both the means to trade and the means to economic and social development. The primary task of the African Development Bank and the continent is to close the $50 billion annual infrastructure funding deficit, which costs Africa no less than two per cent annual GDP growth every year. Building and rehabilitating the continent's transport, power and water networks will account directly for the missing growth.

Filling the funding gap cannot be achieved by public means alone: the challenge is to leverage what public funds there are, in order to bring additional financing and ideas. Private capital is a large part of the answer: a $50 billion funding gap is small compared with what the private sector can offer, and organisations such as the African Development Bank need to mediate between the two.

Take risk out of the equation

Financing infrastructure projects is notoriously hard, with high transaction costs, sometimes serious political unknowns and a lack of bankable projects that are ready to go. The key is to take the risk out of the equation. The prerequisites are in place: the policy and regulatory arenas, the public-private partnership frameworks, the independent regulators. This was what triggered the private-sector-led telecommunications transformation of the 1990s, and it can do the same for the infrastructure (and especially energy) transformation of the 2010s.

The tools of risk mitigation – such as the African Development Bank's credit guarantees – are also in place, giving comfort to investors, especially in high-risk and low-income countries. And for each dollar at the bank's disposal, it estimates that it can leverage a further six. This is a very smart way to use public money. And, if it can go further in combining this 'smart aid' with the vast national savings and reserves that are now invested outside Africa – in the form of the newly launched Africa50 Infrastructure Fund – it will succeed.

So there are no 'business as usual' solutions if Africa really is to move to the next level, which is true economic transformation. It is time for a different value proposition based on African countries taking charge of funding and managing their own development. This is what the African Development Bank is trying to help with: its 10-year strategy for the period from 2013 to 2022 bears the title 'At the Center of Africa's Transformation'. The strategy is built on achieving growth that is both inclusive and sustainable – it is growth for all, and growth for all time. ■

Infrastructure is the means to trade and to economic and social development, but Africa's infrastructure funding deficit costs it two per cent GDP growth a year

AFDB

Climate finance: show me the money

At a recent meeting on climate change with a group of African parliamentarians in South Africa, everyone, except fellow MPs, was baffled by a question from one of the participants who, on listening to a presentation on climate finance, could hardly hide his feeling of disillusionment. "Show me the money," he said, after the presenter spoke about the so-called 'fast-start finance', under which developed countries had committed to provide Africa with $30 billion in new and additional climate finance by 2012. That same sense of frustration still prevails among African delegations to this day.

Even a cursory look at how the international community has handled climate change negotiations would tend to justify Africa's growing dissatisfaction with the entire architecture of climate finance. For example, every single report on the process has pointed to the dismal level of mismatch between promises and actual disbursements on climate finance commitments by developed countries. One study by the African Climate Policy Centre reveals that only a small fraction – less than 11 per cent – of currently provided climate finance meets the UN specification of being 'new and additional'.

Consequently, Africa has come to the conclusion that the experience with the fast-start pledges and discussions of the $100 billion promise suggest that the adequacy and predictability of climate finance may remain very low if the future climate finance architecture reflects current practice. Today, just one in every 10 dollars is new and additional.

Just like many developing countries, African states are vulnerable to climate change and are among those least likely to have the resources required to withstand its adverse impacts. Yet, there is currently no indication that the magnitude of climate finance will meet the scale of what is needed. Finance is one of the thorniest issues in current climate negotiations. However, programmes such as ClimDev Africa recognise this tension, but point to the necessity of rewriting a new narrative of opportunity that is strongly aligned with seizing potential gains in productive sectors, such as agriculture, and turning these into growth poles that will feed Africa's booming population and secure its industrial aspirations.

Last year, Africa had hoped that developed countries would commit at the last Conference of the Parties (COP19, held in Warsaw, Poland) to provide a detailed climate finance roadmap 2013-20, through which they demonstrate how they intend to fulfill the $100 billion promise by 2020 – that is, a scenario showing a gradual increase in climate finance between 2013 and 2020. Such a scenario would have included intermediate targets (say, for 2013 and 2017), indicated the share of public finance, and provided clarity on the mix of both direct budget contributions from developed countries as well as alternative sources of public finance. Nothing of the sort came to pass in Warsaw.

> International cooperation is important and critical for durable impact

However, be it on climate finance, research or on policy formulation, Africa is not standing still, as initial action taken in 2009 by the three foremost development institutions on the continent has continued to gain traction. Just before the 2009 climate talks in Copenhagen, the African Union Commission (AUC), the UN Economic Commission for Africa (UNECA) and the African Development Bank (AfDB) supported African governments to convene the 7th Africa Development Forum (ADF 7) on the theme of addressing climate change in Africa. Some 500 government representatives, legislators, scientists, politicians, policymakers and civil society groups, including women and youths, attended and deliberated extensively on the theme of the conference. The most important outcome of that conference was a commitment by these institutions to help Africa design a common approach to the way they deal with climate change.

The ideas soon crystallized into what has become the main driver behind every important discussion on climate change in Africa – the Climate for Development in Africa Programme, or ClimDev-Africa.

ClimDev-Africa: a solution from within

The programme is mandated at the highest level by African leaders (AU Summit of Heads of State and Government) to create a firm foundation for Africa's response to climate change. Beyond the AUC-UNECA-AfDB partnership, the programme works closely with other institutions and partners specialising in climate and development.

Each of the three main partners contributes towards the achievement of the overall goal by drawing from inner strengths to support each of the three pillars of the programme. ECA's African Climate Policy Centre (ACPC) is a hub for a demand-led knowledge base on climate change in Africa. It addresses the need for greatly improved climate information for Africa and strengthens the use of such information for decision-making, by improving analytical capacity, knowledge management and dissemination activities.

The objective of the Climate Change and Desertification Unit (CCDU), which is led by the AUC, is to provide policy and political guidance, and to enhance coordination and harmonisation of Africa's activities in the field of climate change. This entails effectively engaging Africa's political leadership at all levels, and using the AU structures in order to advance climate change issues.

The ClimDev Special Fund (CDSF) is a demand-led fund that pools resources to finance investment activities on the ground across Africa for the generation and use of climate information for climate-resilient development. The fund provides grants to projects in line with the ClimDev-Africa programme's goal, purpose and results areas, and they are implemented by national entities.

Through joint advocacy activities by the three partner institutions, the fund has mobilised more than 30 million euros, and in the coming year will be able to fund some of the projects already screened by the programme's

Joint Working Group, of which there are more than 20. The constantly increasing number of demands for policy analyses and project formulation that the ACPC receives from African governments and regional institutions attest to the established credibility of ClimDev-Africa.

Essential international cooperation

Aware of the global nature of climate change causes and impacts, ClimDev-Africa brings to the table an African perspective in the global climate change discourse, but more importantly, it shines a light on aspects of focused research that more often than not fall through the cracks when research plans are drawn.

ClimDev-Africa has carried a consistent message to leaders of the region: climate change is a reality that is here to stay and investments in the production and use of climate services cannot be sustained solely through externally funded projects. The impression we have is that the message has gone down well.

The other message it wants to bring to G7 leaders is that no region can effectively handle climate change on its own. International cooperation is important and critical for durable impact.

Working together

Without greater accountability and transparency in the so-called long-term climate finance, such that African countries are able to predict how much of the money is new, where it is coming from, and whether it will be directed towards adaptation or mitigation projects, climate talks would only serve to buy time, even as extreme climate events continue to bring the reality of its devastating effects to every region of the world.

Even as a good number of developed countries have made substantial contributions towards climate change programmes in Africa, the reality is that all the amounts contributed were neither new nor additional. They were mostly from resources previously earmarked as either Overseas Development Assistance (ODA) or from other foreign aid funds put in place earlier for education, health or water projects in Africa.

Arguments could be made about the shift in budget line, but put in the context of failed promises that have bedeviled climate talks between developed countries and Africa, there are more and more people at all levels in Africa who think that discussions about climate finance have run their course, and action needs to begin.

The current feeling among climate negotiators and within African government circles that climate talks could be a ploy to avoid facing real issues on the unfolding global calamity could deepen the sense of distrust among partners and spell failure yet again in the upcoming negotiations on the anticipated legally binding global treaty in Paris next year.

ClimDev-Africa, speaking as the main regional voice on climate change, remains optimistic that leaders of the industrialised countries will rise to commitments by their respective governments on climate finance, as well as on reductions in emission levels that, in the final analysis, is the only long-term solution to the threat that climate change poses to humanity.

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