

## Chapter 8

# Policy recommendations

This chapter proposes ten policy actions to address growth, job creation and inequalities in Africa. These recommendations rest on three pillars: sustainable economic development, social development and institutional development. To sustain economic development, African governments should consider better investments, diversifying exports, rural-urban linkages and green growth. Measures to achieve social development relate to education and skills, social protection, and health coverage. To improve institutional development, governments should address their engagements with Africa's global partners, regional integration, domestic revenues, economic and political governance, as well as their own institutional and statistical capacities. The policy recommendations are divided into specific actions to meet the objectives of Agenda 2063 and of the sustainable development agenda. They assess how to improve statistics and better measure policy impact.

# BRIEF

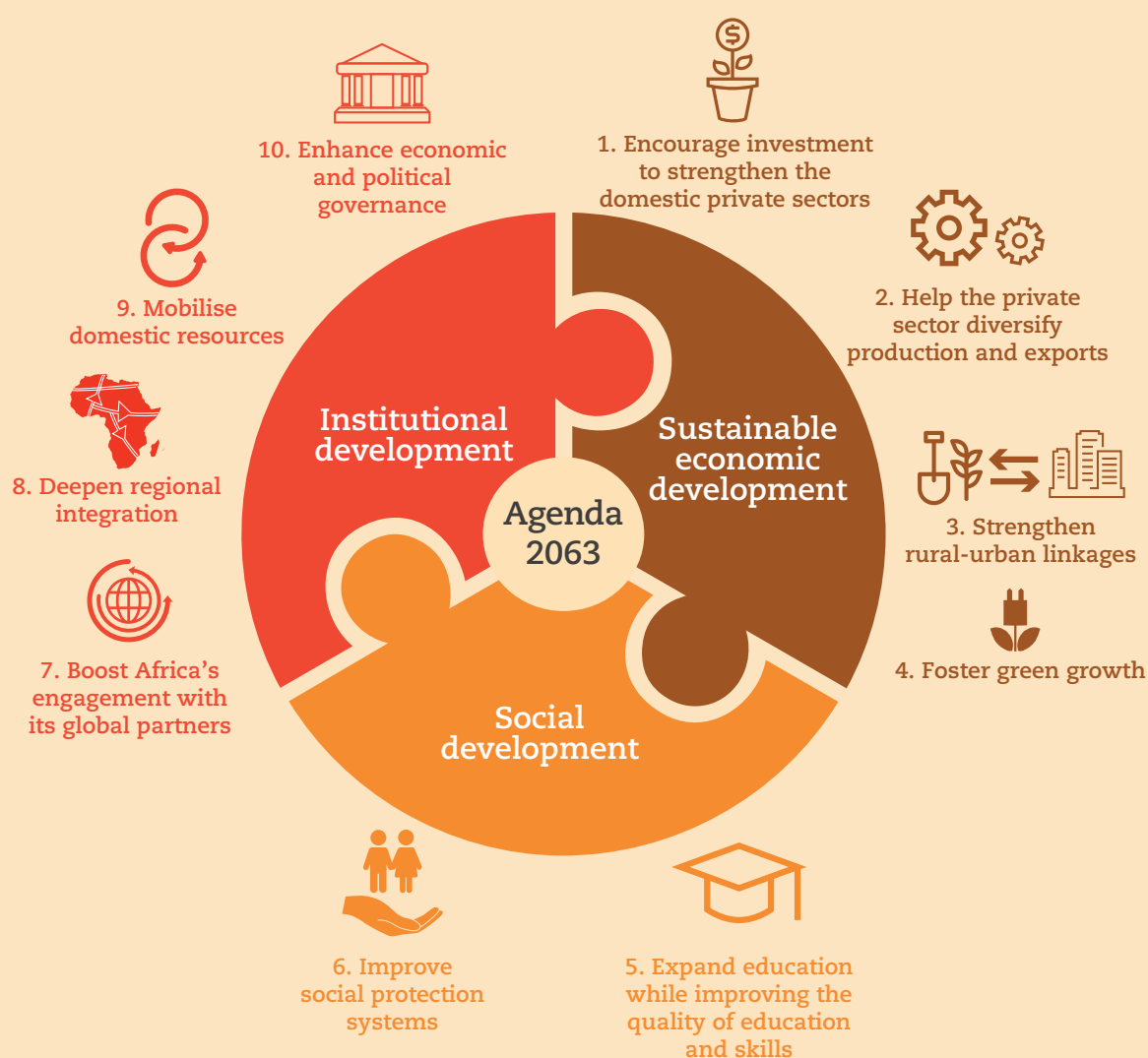
Africa's development agenda calls for implementing development strategies with a context-specific, multifaceted and holistic approach. Actors at all levels can contribute: pan-African institutions, regional communities, national, subnational and local governments, the local private sector, African citizens, and international partners. Generating quality data is key to monitor, evaluate and adjust countries' development policies. To achieve inclusive and sustainable development, strategies should go beyond simply spurring economic growth: they must also target social and institutional development.

Policies for **sustainable economic development** should aim at boosting the domestic private sector, which forms the basis for diversifying products and export baskets. This requires building on local comparative advantages, strengthening linkages between foreign investment and local economies, and improving the efficiency of public investment and institutions. Reforming land ownership, planning and management and developing sustainable intermediary cities will strengthen the linkages between rural and urban economies. "Greening" economic activities will help countries grow, create jobs and eradicate poverty while using natural resources responsibly.

Countries can promote **social development** through universal access to and improved quality of education and technical and vocational skills training. Seeking greater synergies with the private sector would align skills with labour market needs. Social development also rests on expanded, inclusive and financially sustainable social protection and health systems.

**Institutional development** is necessary to implement strong policies for inclusive growth. Policy makers should respect regional integration commitments. Reforming the tax administration can mobilise domestic revenue. Better global partnerships can strengthen capacity, and help reduce illicit financial flows and other harmful practices. Finally, implementing this African reform agenda requires enhancing government capacity, accountability, transparency and co-ordination, as well as promoting good corporate governance.

# 3 policy pillars and 10 recommendations



## Introduction

The patterns of growth, job creation and inequality in Africa are complex and differ from region to region. The continental trend is one of resilient but jobless growth with a slight reduction in inequality. In some regions, inequality has increased with economic growth, while in others inequality has receded.

African governments will need much stronger policies to meet Agenda 2063's aspiration of "a prosperous Africa based on inclusive growth and sustainable development" and the objectives of its First Ten-Year Implementation Plan 2013-2023.

This chapter proposes ten policy actions for improving growth, creating jobs and reducing inequalities. While far from exhaustive, this list of policy actions addresses key issues for most African countries (see Table 8.1). They fall under three pillars: sustainable economic development, social development and institutional development. These policy actions derive from the challenges posed by the Megatrends presented in Chapter 2 and from the main goals of Agenda 2063. They also relate to the five dimensions of the 2030 Agenda for Sustainable Development: people, prosperity, planet, partnership and peace. Annex 8.A1 provides an overview of the links between the ten policy actions and the Megatrends, Agenda 2063 targets, and SDGs.

**Table 8.1. Ten policy actions for Africa**

Sustainable economic development	Social development	Institutional development
1. Encourage domestic investment	5. Expand and improve education	7. Boost Africa's global partnerships
2. Diversify exports	6. Develop social protection systems, including labour and health	8. Deepen regional integration
3. Strengthen rural-urban linkages		9. Mobilise domestic revenue
4. Foster green growth		10. Enhance economic and political governance

Inclusive growth requires strong development strategies. These will necessarily differ between countries. Policies must be participative, place-based, multi-sectoral, and carried out with a holistic and co-ordinated approach. All stakeholders must participate in monitoring, evaluating and reformulating policies for their implementation to be successful. Stakeholder roles and responsibilities need to be clearly integrated into national strategies to ensure coherence, effective implementation and revision after their evaluation. Implementing policies adequately requires that the right level of government intervene, in co-ordination with other levels and development partners. This follows the principles of value addition and subsidiarity included in the African Union's Agenda 2063 Ten Year Implementation Plan. Development strategies must move forward with Africa's integration agenda.

## PILLAR I: SUSTAINABLE ECONOMIC DEVELOPMENT

### Action 1: Encourage investment for domestic private sector development

#### Context:

- Public investment is often inefficient, and private investment remains low. Between 2009 and 2016, private investment averaged only 15% of gross domestic product (GDP).
- Interest rates and risk premiums are often too high to enable firms to borrow and invest effectively (AfDB/OECD/UNDP, 2017; UNCTAD, 2014).
- Limited access to financing opportunities, marketing infrastructure and reliable demand make it difficult for even the most productive informal firms to keep up profitability levels or to innovate.
- Foreign direct investment (FDI) inflows do not result in strong linkages or knowledge transfer to local firms.
- Public investment plays a vital role in Africa. In 2016, 42% of the financing for infrastructure projects in Africa came from governments (ICA, 2017).

#### Proposed actions:

##### Simplify investment for domestic firms:

- ▶ improve the business environment
- ▶ provide public goods to business clusters
- ▶ facilitate the extension of credit by reducing borrowing costs and promoting financial intermediation services.

##### Ensure consistency between FDI promotion strategies and the capacity of local firms:

- ▶ enhance local firms' capacity to meet requirements of foreign investors
- ▶ guide foreign investment to benefit local firms' productivity, technology and know-how.

##### Leverage domestic savings and remittances to increase domestic investment:

- ▶ promote long-term savings while expanding the variety of savings instruments
- ▶ attract diaspora savings with dedicated institutions and investment projects.

##### Increase the efficiency of public investment:

- ▶ improve public procurement rules to reward and promote competitiveness
- ▶ tailor investments to local institutional capacity and project types.

#### Simplify investment for domestic firms

##### ▶ Improve the business environment to enable firms to invest more.

The investment climate should be good for all firms – foreign and domestic, large and small (see for example the OECD's *Policy Framework for Investment* [OECD, 2015a]). International co-operation initiatives such as the G20's Compact with Africa can help countries improve the instruments and funding conditions for private investment.

- Ensuring the reliability of the overall investment policy framework is essential to encourage both domestic and foreign investors. This can notably be done through predictable business laws and stable taxation systems. Predictable, transparent and fairer taxes are often more important for investors than fiscal holidays or other incentives (see for example Action 9). Priorities should include the following:

- setting up reliable regulations and institutions, including by strengthening the legal and regulatory frameworks to reduce uncertainty
  - establishing investor protection and dispute resolution mechanisms (for both local and foreign investors)
  - standardising contracts, such as clauses and provisions of public-private partnerships (PPPs) (AfDB/IMF/WBG, 2017).
  - Conducting comprehensive surveys on a regular basis can help inform policy makers about the challenges and needs of domestic firms in upgrading their production and products. Adding special modules on employers and own-account workers to labour force surveys (such as those done in the 1-2-3 surveys [see Cling et al., 2014]) can provide such comprehensive information at low cost.
- **Use public investment to provide public goods to business clusters.**
- Governments should invest in energy and transport infrastructure, provide other policy support (such as skills training), facilitate export and import procedures, and promote linkages between business clusters and the surrounding local economies. South Africa's government funded firms to join industrial associations, leading to the organic development of business clusters (Morris and Barnes, 2006). Similarly, Morocco successfully used the existing infrastructure in Tangier-Med to develop a competitive automotive and aeronautics cluster by involving multinationals, local firms, as well as central and local levels of government.
- **Facilitate the extension of credit by reducing borrowing costs and promoting financial intermediation services.**
- In East Africa, innovations such as M-Pesa (mobile money transfer) offer access to online platforms and e-services. These have paved the way for new mobile-based financial intermediation (e.g. micro-insurance, savings accounts), opening up market niches. This has had a positive impact on micro-enterprises' profitability, trade volumes and survival rates (Oosthuizen et al., 2016). Evidence shows that as firms increase in size, they benefit more from the advantages of joining the formal sector, such as access to credit (see Gelb et al. 2009, Amin and Islam, 2015).
  - Development finance institutions (DFIs) can invest in micro-finance institutions that lend to small and medium-sized enterprises (SMEs), in addition to commercial banks. For example, Norfund and others support a private equity fund, *Fundo de Investimento Privado Angola*, by providing up to USD 8 million for individual investments in SMEs, particularly for project expansion, privatisation and start-ups. DFIs should try to crowd in private capital to increase the availability of commercial credit (see for example OECD, 2018a).

### **Ensure consistency between FDI promotion strategies and the capacity of local firms**

FDI flows have a more durable impact on growth and productivity when foreign firms can contribute to the local private sector's development.

- **Enhance local firms' capacity to meet the needs and requirements of foreign investors.**
- Direct financial support or technology transfers can help improve firms' production techniques, management and marketing practices. Domestic firms can learn to comply with international trade standards and product specifications and adapt their production processes to global demand. Official development assistance (ODA) and development partners can promote high quality products by supporting quality label initiatives.

► **Guide foreign investment to benefit local firms' productivity, technology and know-how.**

- National and local authorities can work together to attract FDI, as shown by the Tangiers' logistics and automotive cluster in Morocco (see Chapter 6). There, local firms are slowly moving up the supply chain by collaborating with lead firms, with tailored support from the local and national governments.
- Spill-over effects are broader when local firms can freely use available technologies or acquire technologies through licensing agreements with lead firms. For example, productivity spill-overs from participating in global value chains (GVCs) appear stronger through joint ventures than through fully foreign-owned firms (Farole, 2016).

**Leverage domestic savings and remittances to increase domestic investment**

► **Promote long-term savings while expanding the variety of savings instruments.**

- Increasing domestic investment rests on increasing the propensity to save and on expanding market solutions. Policy makers and financial institutions should work towards locking in those savings in longer-term assets and utilise them to provide more credit without adding pressure to balance sheets.
- In countries with deep capital markets, SMEs and young companies can be listed on stock exchanges, following the example of the Johannesburg Stock Exchange's platform for SMEs. Rwanda has recently waived the USD 23 000 listing fee for SMEs and will subsidise the cost of hiring transaction advisors, brokerage services and legal services (Esiara, 2018).

► **Attract diaspora savings with dedicated institutions and investment projects.**

- Morocco's policies to handle investment issues for its diaspora have largely been successful. This is especially the case for housing investments (see OECD, 2017a). Likewise, Ghana has a new dedicated unit to handle investment issues for its diaspora (UNIDO, 2013). Mauritius has set up a Diaspora Scheme to make it easier for diaspora to return and invest in the country. Ethiopia and Nigeria created diaspora-indexed bonds, but underwriting remained limited.

**Increase the efficiency of public investment**

► **Improve procurement rules to reward and promote competitiveness.**

- Governments should improve their contract awarding procedures and their criteria to reward competitiveness and efficiency, rather than merely rewarding low costs. They should also better prepare public investment projects and enhance transparency, monitoring and evaluation mechanisms.

► **Tailor investment modes to local institutional capacity and project types.**

- Public-private partnerships can increase the efficiency of the design and implementation of projects, thus creating substantial savings. However, PPPs require careful public involvement and expertise. The PPP model used in Morocco's solar power station in Ouarzazate provides a good example of ways to engage key players (see Climate Policy Initiative, 2012).
- Governments can opt for modes of governance for infrastructure projects other than PPPs. These can range from direct delivery, where governments fully manage all aspects of a project, to procurement for specific phases and operations, to privatisation, where governments only retain their regulatory role. More complex project governance requires empowering regulators and ensuring that an independent judiciary can handle disputes (Kappel, Pfeiffer and Reisen, 2017).



## Action 2: Help the private sector to diversify production and exports

### Context:

- Africa's exports mostly concentrate in natural resources and agricultural commodities.
- Intermediate and capital goods represent 49% of Africa's imports, compared to 55% in Latin America and the Caribbean and 64% in developing Asia.
- Most export promotion activities in the region have met with limitations.

### Proposed actions:

**Design export strategies that are consistent with the country's potential:**

- ▶ base export strategies on comparative advantages
- ▶ regularly assess the government's approach as comparative advantages evolve over time
- ▶ facilitate trade.

**Facilitate access to intermediate and capital goods:**

- ▶ reduce import barriers for essential intermediate and capital inputs that are not produced locally
- ▶ apply the correct tariff rates to lower the cost of imported inputs.

**Empower public agencies to diversify exports:**

- ▶ provide export and investment promotion agencies with adequate funding and governance structures
- ▶ assign export promotion agencies with focused objectives.

Africa can benefit more from global integration by diversifying its product and export baskets (see Chapter 1). Economic diversification requires a system-wide approach, with strategies for a long-term vision of the future shared by both public and private stakeholders. These strategies need to define development priorities that are specific to the local contexts (OECD, 2013). For example, the Southern African Development Community (SADC) Industrialisation Strategy rests on the principle of both public and private involvement. One aim of the Strategy is to move away from commodity exports and increase the share of intermediate products to 60% of total manufactured exports.

### Design export strategies that are consistent with the country's potential

#### ▶ Base export strategies on comparative advantages.

- African countries that have comparative advantages can specialise in specific stages in global value chains. For example, Ethiopia has developed an apparel and textile export sector by investing in skills and infrastructure and developing domestic value chain linkages between cotton, textile and apparel firms.
- Mauritius developed globally competitive businesses in the sugar, tuna and textile sectors, and South Africa has done so in the automotive and agro-processing sectors. These countries built on their pool of capable workers, geographical endowment and preferential access to key markets. Botswana and Ghana, on the other hand, have focused on upgrading in the value chains of existing exports, namely diamonds and fresh fruit respectively.



- ▶ **Regularly assess strategies as comparative advantages evolve over time.**
  - Re-assessing industrial strategies helps to progressively upgrade industrial capabilities and respond to inevitable changes in a country's comparative advantages and in global economic conditions. For example, Mauritius first supported the sugar, tuna and textile products industries for the European Union market before expanding to logistics, financial services and blue economy activities (in particular tourism).
- ▶ **Facilitate trade between Africa and other continents.**
  - To facilitate trade, governments should improve logistics and customs performance, trade infrastructure and the quality of electricity supply (see Lopez Gonzalez, Kowalski and Achard, 2015). Several development partners provide capacity building for countries to improve the quality of export products to meet international standards, especially in food safety and pesticides.

### Facilitate access to intermediate and capital goods

- ▶ **Reduce barriers to imports for essential intermediate and capital inputs that are not produced locally.**
  - Lowering tariffs on intermediate inputs and capital goods that are essential for industrialisation but not available locally can enhance African producers' competitiveness. African governments can also facilitate these strategic imports by reducing delays in granting import licenses and in gaining access to these inputs.
- ▶ **Apply the correct tariff rates to lower the cost of imported inputs.**
  - Applying the correct tariff rates according to products' end use could make manufacturing firms more competitive. In the East African Community, nearly 400 products that are typically inputs for manufacturing are misclassified in the higher tariff band intended for final consumption products (Frazer, 2017). An agreed international classification, such as the broad economic category can serve for reclassifying products.

### Empower public agencies to diversify exports

- ▶ **Provide export and investment promotion agencies with adequate funding and governance structures**
  - Export and investment promotion agencies can play a strong role in a system-wide approach to transforming production. Their scope can cover many activities: providing financial assistance (credit, insurance), generating market intelligence, building a national image and branding, promoting FDI in strategic sectors, providing investors' aftercare, and expanding overseas presence.
  - The returns on funding for export promotion agencies (EPAs) are large. In Africa, the marginal return to a 1% increase in EPAs' budgets can boost export growth by 0.05% (Botswana) to 0.14% (Uganda) (ITC, 2016).
- ▶ **Assign EPAs objectives that are focused and aligned with industrial objectives and national economic development priorities.**
  - Global experience suggests that EPAs support export diversification better than increases in export volumes. EPAs are also better at improving the performance of established exporters than at encouraging non-exporters to start exporting.
  - Private sector representation on EPA boards can ensure greater influence on strategic decision-making (ITC, 2016). Charging the private firms fees for EPA services can ensure that EPAs' activities are aligned with private companies' interests and that they provide quality services. However, service fees must be moderate to include SME clients.

### Action 3: Strengthen linkages between rural and urban economies

#### Context:

- Urbanisation can play an important role in Africa's economic transformation (see Chapter 2, Megatrend 4). Although the patterns and rates of urbanisation differ by country, at least 50% of Africans are expected to reside in urban areas by 2035.
- In most sub-Saharan African countries, land is still regulated under customary law. Only about 10% of rural land in sub-Saharan Africa is registered. In Malawi, over 90% of the land is governed by customary law (Byamugisha, 2013).
- Many local government authorities lack cadastral systems or land title records, making it difficult to collect land-based revenue or to certify transfers of ownership. According to a 2015 survey, only 20 countries raise local taxes on landholdings (AfDB/OECD/UNDP, 2015).
- Investment in urban infrastructure in sub-Saharan Africa has remained constant at less than 20% of GDP since 1960 (compared to 42% in East Asian developing countries) (Lall, Henderson and Venables, 2017).
- African urbanisation is hampered by overcrowding, low access to public goods and lack of connectivity. Although levels vary by country, almost 62% of the African urban population live in slums. They suffer from shortages of water, sanitation services, power and affordable transportation. The latter limits their links to jobs and commercial activities.

#### Proposed actions:

##### Reform land ownership and management:

- ▶ simplify regulations on land ownership and use, particularly for women
- ▶ improve land information and management systems by adopting low-cost and scalable technological solutions
- ▶ manage urban land and public goods provision through participatory approaches.

##### Upgrade urban infrastructure and services:

- ▶ invest in infrastructure and services that are affordable, inclusive, sustainable and tailored to local needs
- ▶ invest in public transport networks to reduce spatial segregation and inequality
- ▶ couple investment in urban areas with enabling environments in rural areas.

##### Strengthen rural-urban linkages through sustainable intermediary cities:

- ▶ develop intermediary cities to enhance productivity of rural areas and strengthen rural-urban linkages.

#### Reform land ownership and management

- ▶ **Simplify regulations on land ownership and use to increase productivity, investment and reduce inequalities (recognising customary laws and aiming for gender equality).**
  - In addition to introducing legal frameworks, governments must ensure that laws are enforced and reforms properly implemented to avoid exacerbating inequalities. Civil society and development partners can help governments in this respect (see OECD, 2016a).
  - In Ethiopia and Rwanda, certifying ownership of agricultural land increased land productivity and the propensity to invest (Byamugisha, 2013). Ethiopia's low-cost

land titling programme of 2003, mainly conducted by sub-regional committees, distributed 20 million land titles. The programme enabled more women to access land (Quisumbing and Kumar, 2014: 407).

► **Improve land information and management systems by adopting low-cost and scalable technological solutions.**

- Excessively centralised land administration can restrict access to services for rural and low-income populations, thus limiting their legal protection. Zambia is attempting to decentralise land administration procedures for this reason (Corrigan, 2016). Namibia established communal land registration and the Communal Land Boards in 2002; by 2014, 160 000 plots had been surveyed and 82 000 land rights registered in communal areas (GIZ, 2013; Kasita, 2011).
- In Burkina Faso, a project using very high spatial resolution satellite images produced detailed territorial mapping. Similar projects are taking place in other countries.

► **Manage urban land and public goods provision through participatory approaches.**

- Land planning and reforms should aim to reduce spatial, income and gender inequalities. Governments should provide formal and affordable housing and dedicate enough land for transportation infrastructure linking peri-urban areas, where most informal settlements are located (Locke and Henley, 2016).
- Urban planning should also avoid strict top-down approaches and encourage citizen participation in policy making. For example, a programme in five Ugandan intermediary cities benefited from citizens' involvement which led to settlement upgrading and secured the tenure of thousands of informal settlers (AfDB/OECD/UNDP, 2016).
- As availability of urban land and opportunities for its development increase, mechanisms for land value capture can help recoup investments by both the state and private developers (Berrisford, 2013).

## Upgrade urban infrastructure and services

► **Invest in infrastructure and services that are affordable, inclusive, sustainable and tailored to local needs.** Providing public goods and adequate infrastructure can strengthen agglomeration dynamics in cities and improve economies of scale.

- Urban infrastructure plans should be inclusive and avoid exacerbating gender inequality. For example, plans should reduce distances to water sources and ensure streets are well lit to prevent sexual assault of girls and women and other forms of violence.
- At least 45% of urban areas should be dedicated to public spaces such as roads and green areas (public spaces in African cities represent around 20%) (UN Habitat, 2013).

► **Invest in public transport networks to reduce spatial segregation and inequality.**

- Setting up affordable transportation systems can facilitate job searching for poor urban dwellers and decrease spatial segregation, especially in urban areas. The light rail system in Addis Ababa connects the industrial suburbs to the city centre; providing affordable transportation services has increased the intensity of job searches and reduced the likelihood of people accepting temporary and informal work. The Bus Rapid Transit System in Lagos stabilised transportation prices and reduced them by 30% (AfDB/OECD/UNDP, 2016).

► **Couple investment in urban areas with enabling environments in rural areas.**

- Regional and national governments can engage and co-ordinate with local administrations to implement place-based policies that transcend urban administrative boundaries. New tools based on geographic information systems (e.g. Africapolis) can help analyse how urban development affects rural areas and can determine the functional boundaries of cities. Policies and investment in favour of urban areas should take into account the surrounding environment and promote virtuous interactions between rural areas and cities.

**Strengthen rural-urban linkages through sustainable intermediary cities**

► **Develop intermediary cities to enhance the productivity of rural areas and strengthen rural-urban linkages.**

- Intermediary cities can expand public services to rural areas and develop labour-intensive industries such as agro-processing and textiles, as well as service sectors such as tourism.
- In West Africa, rural areas with closer proximity to intermediary cities tend to have more diversified economies, larger working populations and higher income from non-farm activities (Christiaensen and Todo, 2014; Moriconi-Ebrard, Harre and Heinrigs, 2016). Urbanisation together with rising incomes and populations has led to an increase in West Africa's food economy, accounting for 36% of the region's GDP (SWAC, 2016).
- Formal employment creation in intermediary cities attracts higher migration flows from rural areas, helping reduce rural poverty. Longitudinal studies from Kagera (Tanzania) showed that migration from rural areas to intermediary cities reduced the poverty headcount by 24% and raised income by 77% (Christiaensen, De Weerd and Kanbur, 2017; Christiaensen et al., 2018).
- Governments should link intermediary cities to metropolises for a sustainable and equitable urban system. Well-linked intermediary cities can help alleviate pressures that megacities face for housing, infrastructure, transportation and service provision. They can absorb the administrative capacities of outlying areas and serve as new centres for social transformation (Otiso, 2005).

## **Action 4: Foster green growth**

### **Context:**

- African countries contribute less than 4% to global gas emissions, but 27 of the 33 countries most at risk from climate change are in Africa (see Megatrend 5, Chapter 2).
- With current trends, urban waste in sub-Saharan Africa is estimated to rise by 161% between 2000 and 2025. Africa is not yet prepared for this. It currently has the lowest levels of waste collection services of any region (Brahmbhatt et al., 2017).
- Mortality from air pollution in African cities has increased in recent years, representing an equivalent cost of USD 447 billion in 2013, a third of the continent's GDP (Roy, 2016).
- Population growth and inappropriate land use practices are increasing deforestation, land degradation, damage to ecosystems and water scarcity. The agricultural sector accounts for the livelihood of two-thirds of the population, and most traditional livelihoods depend on environmental services (UNECA, 2016a; Brahmbhatt, Haddaoui and Page, 2017).

**Proposed actions:****Promote the circular economy:**

- ▶ re-use resources and manage waste efficiently to create value, develop new economic activities, cut costs and reduce pollution.

**“Green” existing economic activities:**

- ▶ promote environmentally-friendly and sustainable farming and tourism as value-added activities
- ▶ introduce standards and regulations to limit pollution and preserve people's health and the environment.

Green growth can facilitate Africa's structural transformation and should be integrated into productive strategies. Adopting environmentally-friendly strategies and enhancing the productivity and reuse of natural resources can spur sustainable and inclusive growth (UNECA, 2016a).

**Promote the circular economy**

▶ **Re-use resources and manage waste efficiently to create value, develop new economic activities, cut costs and reduce pollution.**

- Farms in Morocco use olive by-products to meet 60% of their energy needs through biomass, saving almost USD 4 million on energy costs between 2009 and 2015.<sup>1</sup>
- The Recycling and Economic Development Initiative of South Africa increased collection rates for scrap tires from 3% to 70% in 18 months, leading to the creation of small and mid-size processing and recycling companies. South Africa expects to reap an aggregate benefit of USD 6 million by 2020.
- Rwanda invested USD 1 million in its e-waste facility, with the potential to recycle 7 000 tonnes of plastic per year, as well as metals and electronic materials.<sup>2</sup>

**“Green” existing economic activities**

▶ **Promote environmentally-friendly and sustainable farming and tourism as value-added activities without sacrificing yields or productivity.**

- In Mali and Senegal, farmers using sustainable fertilisers have raised their crops' net worth by 61%, increasing income and savings. Uganda has decreased its use of artificial fertilisers from 9 kg/ha to 1 kg/ha, consequently increasing its export revenues of organic farm products by 600% (UNDP, 2014).
- Since its creation in 1989, Madagascar's shrimp farming industry in the Western Indian Ocean has become one of the country's leading export sectors by integrating environmentally-friendly methods and community development activities. Its methods are now expanding to Mozambique and Tanzania (UNECA, 2016b).
- Mauritius is making eco-tourism the main pillar of its tourism industry. The country expects to earn USD 5 million in revenue with an estimated 1.2 million tourists by 2020.<sup>3</sup>

► **Introduce standards and regulations to limit pollution, thus preserving human health and the environment.**

- Since 2003, 27 African countries have established vehicle emission standards (e.g. limiting the age of imported vehicles) and set fuel parameters to phase out lead. However, most of those countries need to implement stronger monitoring and enforcement mechanisms (AfDB/OECD/UNDP, 2016).
- Green growth also implies improving energy and water services. Egypt's current investment in water saving devices is expected to reduce household water use by 10-15% (UNEP, 2015). The Upper Tana-Nairobi Water Fund in Kenya aims to improve water management, to increase water availability and revenues and to reduce maintenance costs for generating electricity (TNC, 2015).
- In the medium term, countries should aim to introduce full-fledged green growth strategies. Tools and indicators for such strategies could be drawn from OECD work on the topic (OECD, 2017b). Adopting sectoral approaches could be a first step. For example, South Africa has introduced policy instruments such as carbon taxing and energy efficiency requirements for new buildings and for reporting greenhouse gases (AfDB/OECD, 2013).

## **PILLAR II: SOCIAL DEVELOPMENT**

### **Action 5: Expand education while improving the quality of education and skills**

#### **Context:**

- Many Africans remain excluded from basic education. Approximately 34 million children of primary school age (6-11 years) are out of school. Of these, 45% never enter school, 37% enter late and 17% drop out (UNESCO, 2015a).
- Only 6% of the African population were enrolled in tertiary education in 2015. A young person is four times more likely to reach higher-education in East Asia and the Pacific than in Africa (Van Fleet, 2012).
- Quality education remains a key challenge for Africa's job market. In sub-Saharan Africa, 61.4% of young workers do not have the level of education to work productively on the job (ILO, 2015).
- Across sub-Saharan Africa, girls receive on average about 9 years of schooling compared to 10 years for boys. Females face higher dropout rates for secondary and tertiary education.<sup>4</sup>
- Rural children face greater learning disadvantages: 5.9% of urban children were unable to meet basic learning levels compared to 29.1% in rural areas (Van Fleet, 2012).
- Over 10% of secondary school students in Africa are enrolled in technical and vocational education and training (TVET), yet TVET programmes receive on average 2-6% of educational budgets (AfDB/OECD/UNDP, 2017).
- In sub-Saharan Africa, only 7% of students in higher education enrol in science, technology, engineering and mathematics (STEM).
- Expenditure on education in sub-Saharan Africa represented 16.8% of total government expenditure between 2000 and 2013, which is higher than the global average of 14.1%.



**Proposed actions:****Push for universal access to education, especially for females:**

- ▶ reduce the cost for families to send children to school
- ▶ invest in education systems (e.g. infrastructure and teachers) and aim for gender parity.

**Promote specialised education in strategic sectors:**

- ▶ advance formal and specialised education in agriculture
- ▶ promote enrolment in STEM subjects and invest in scientific research
- ▶ increase focus on management and entrepreneurial education.

**Improve technical and vocational education and training:**

- ▶ promote and increase financing of TVET education
- ▶ introduce innovative curricular elements (e.g. entrepreneurship).

**Bring educational institutions closer to job markets and private firms:**

- ▶ involve the private sector in the design and delivery of education curricula and introduce on-the-job training requirements and industrial placements
- ▶ conduct regular consultations between educational institutions, the public sector and the private sector to better tailor curricula and policies.

Quality education, in particular promoting skills in science, technology and innovation, is one of the most important pillars for sustainable development and growth. African governments can take several actions to improve access to and the quality of education, matching education to labour market needs.

**Push for universal access to education, especially for females****▶ Reduce the cost for families to send children to school.**

- Recent randomised experiments show that cash transfers (both conditional and unconditional) are effective in increasing school attendance and the re-enrolment of dropouts. This is the case particularly for girls and for all children in marginalised communities.<sup>5</sup> In Uganda, making primary education free increased enrolment and reduced the dropout rate, most notably for girls and children in rural areas (Deininger, 2003; Grogan, 2009; Nishimura et al., 2009).

**▶ Invest in education systems and aim for gender parity to improve educational outcomes.**

- Countries that have managed to improve overall school enrolment, education levels and gender parity rates have all used a mix of policies. These included waiving school fees, expanding pre-primary schooling, investing more in school infrastructure, increasing recruitment and improving training, particularly of female teachers.
- Countries should look beyond enrolment statistics and ensure grade progression. South Africa managed to solve the problem of limited school progression by gathering granular data at class and age levels and subsequently introducing norms on age-grade schooling and expanding pre-primary schooling (Bashir et al., 2018).
- In Benin, the government abolished school fees for all girls in public primary schools in rural areas in 2000 (Benin Ministry of Education and Scientific Research, 1999).



It combined this measure with community mobilisation strategies to increase demand for girls' education. As a result, the ratio of female-to-male students increased from 0.64 in 1999 to 0.89 in 2012. For further details on solutions for education policies in Africa and other developing countries, see UNESCO (2015b).

### Promote specialised education in strategic sectors

#### ► Advance formal and specialised education in agriculture.

- Investing in tertiary agricultural education could increase the number of knowledge brokers, trainers and teachers. Using new technologies and online courses to complement formal education could also prove useful in promoting agricultural studies. Currently, only 2% of university students are enrolled in agricultural programmes despite the agricultural sector accounting for 32% of Africa's GDP and employing two-thirds of its workforce (World Bank, 2014).

#### ► Promote enrolment in STEM subjects and invest in scientific research.

- Improving higher education's capacity to produce STEM research would enhance a country's ability to better harness its comparative advantages. It would also better equip the youth to develop the skills needed to compete in today's labour markets (World Bank and Elsevier, 2014).

#### ► Increase focus on management and entrepreneurial education.

- Many African entrepreneurs lack the necessary management skills to succeed. Possible actions to improve business education could include the following:
  - increase the number of high-quality business schools in Africa, which is currently very low, and the quality of students' learning outcomes (Naudé, 2017)
  - establish permanent endowments or funds for universities or business schools, possibly including grants from development partners (America, 2013).

### Improve technical and vocational education and training

#### ► Promote and increase financing of TVET education.

- Improving the perception of TVET in society goes hand-in-hand with better TVET programmes. Governments could encourage enrolment by increasing both funding to the TVET sector and the number of scholarships allocated to students pursuing these studies. Employers could provide opportunities for industrial placements and internships for TVET trainees.

#### ► Introduce innovative curricular elements (e.g. entrepreneurship).

- Adopting innovations can help train people and build skills outside of the typical TVET framework. Malawi has introduced entrepreneurial education by adopting technical, entrepreneurial and vocational education and training (TEVET) programmes and recognising the importance of informal training (e.g. traditional apprenticeships), especially for disadvantaged youth (OECD, 2018d). Other countries where traditional apprenticeships are widespread (e.g. Benin, Côte d'Ivoire and Ghana), could formalise or recognise this form of professional training. In Ghana, for example, apprenticeships represent up to 90% of basic skills training (Atchoarena and Delluc, 2002). TEVET courses also require strong linkages with the private sector to enhance their quality and respond to labour market needs.

### Bring educational institutions closer to job markets and private firms

- ▶ **Involve the private sector in the design and delivery of education curricula and introduce on-the-job training requirements and industrial placements.**
  - To close the skills gap, governments should bring educational institutions closer to job markets by favouring on-the-job training. The private sector can contribute to the design and delivery of training programmes by offering internships and on-the-job training, by financing training institutions and by advising on curriculum reforms (Bughin et al., 2016).
  - Increasing private sector engagement can help develop more demand-driven training programmes, for instance in activities such as business, commerce, and information and communications technology (ICT) (AfDB/OECD, 2008). Aligning TVET with domestic labour market needs is important to avoid fostering emigration (OECD, 2017c).
- ▶ **Conduct regular consultations between educational institutions, the public sector and the private sector to better tailor curricula and policies.**
  - Partnerships can improve the quality of public training programmes and address the skill needs of enterprises. Public-private partnerships could lower the cost of training,<sup>6</sup> inform TVET providers of which skills are in demand and provide employers with skilled workers.

## Action 6: Increase the coverage of social protection systems, including labour and health

### Context:

- SDG Target 1.3 calls on countries to provide “nationally appropriate social protection systems and measures for all, including [social protection] floors, and by 2030 achieve substantial coverage of the poor and vulnerable”.
- Poverty rates in Africa have declined significantly since 1990, yet over 35% of the population live on less than USD 1.90 a day. About 45% of the population earn USD 1.90-5.50 a day and are vulnerable to falling back into extreme poverty.
- Health expenditure grew from an average 5.1% of GDP in 2000 to 6.2% in 2015. However, in 2015, only Madagascar and Swaziland surpassed the threshold of 15% of government spending prescribed by the 2001 Abuja Agreement. Eighteen African countries now spend less than the minimum required for essential health services, as per the 2001 WHO Commission on Macroeconomics and Health’s recommendation.
- Scaling up social protection systems is the main challenge for policy makers in this area. Today more than 45 African countries implement unconditional in-kind transfers and public works programmes, reaching approximately 20% of the continent’s total population (World Bank, 2018). The number of countries implementing a cash transfer programme has more than doubled since 2010.
- Resources for social safety nets represent over 3% of GDP in Lesotho, Mauritius, Namibia and South Africa but much less in other countries. Social safety nets cover only 24% of sub-Saharan Africa’s population and 29% of the poorest quintile (World Bank, 2018).

**Proposed actions:****Establish social protection floors:**

- ▶ target the poorest populations in order to reduce income inequalities, and ensure that social protection systems cover an individual's entire life
- ▶ cater for recipients with low economic and social status as well as those of retirement age.

**Make social protection systems financially sustainable**

- ▶ in the short term, optimise the fiscal revenue allocated to social protection and rely on external financial assistance if necessary
- ▶ in the medium term, design social security/protection financing mechanisms that are self-sustaining and that do not burden the poor
- ▶ build the statistical capacity to inform policy making on social protection.

Social protection is vital to eradicate poverty, increase economic resilience and facilitate human development. Agenda 2063 highlights social protection as a crucial instrument to ensure that no citizen is without access to basic income and essential health care. The African Union's Social Policy Framework for Africa encourages member states to adopt minimum social protection policies such as essential health care, social insurance and social welfare. African Union targets for 2023 include providing the following:

- social protection to at least 30% of vulnerable populations including people with disabilities, seniors and children
- social security to everyone who works in the formal sector
- social security to at least 20% of the informal sector and rural labour.

**Establish social protection floors**

▶ **Target the poorest populations in order to reduce income inequalities, and ensure social protection systems cover an individual's entire life.**

- African governments need to establish an integrated framework for social assistance, social insurance and labour market policies to address current and long-term challenges. Central governments also need to facilitate co-ordination and develop centralised administrative systems, budgets and strategies. Supporting this framework requires investing in statistical and administrative capacity by:
  - enhancing civil registration
  - carrying out regular population censuses and household surveys
  - establishing single registries and unified management information systems
  - building rigorous monitoring and evaluation mechanisms.
- Gender aspects also need to be incorporated to increase access to social protection for women and girls, who often constitute a disproportionate share of the poor. This includes promoting females' access to health and education services as well as supporting them when they are out of the labour force caring for dependents (OECD, 2017d).
- The few African countries that have completed their demographic transition (e.g. Mauritius, Seychelles and Tunisia) are now confronted with a large portion

of the population reaching retirement age. Low labour force participation may worsen existing inequalities, particularly since the cost of care for the elderly falls disproportionately on the poorer members of society (OECD, 2017e).

► **Cater for recipients with low economic and social status as well as those of retirement age.**

- Varying social protection programmes can increase their impact and target different status groups. South Africa's public works scheme complements other existing welfare programmes. While work is short-term and wages are below formal sector salaries, participation in the scheme counts towards unemployment insurance and other benefits (AfDB/OECD/UNDP, 2016). Ethiopia and Tanzania have safety net programmes that target the poorest through public works for those who can work and through direct support for those who cannot. In Ethiopia, people enrolled in the Productive Safety Net Programme are more likely to take part in health programmes.

**Make social protection systems financially sustainable**

► **In the short term, optimise the fiscal revenue allocated to social protection and rely on external financial assistance if necessary.**

Financing strategies need to combine improvements to the tax system (see Action 9) with reforms on the expenditure side that optimise existing social or pro-poor spending. Natural resource rents can provide a portion of the revenue mix, yet they are not available to all countries and their volatility poses a risk to sustainable long-term financing. Removing fuel and food subsidies (without hurting the poor) could free up significant resources for social protection systems. Removing fuel subsidies in five Eastern African countries could save between 0.6% and 2.1% of GDP (OECD, 2017d).

► **In the medium and long term, design social security/protection financing mechanisms that are self-sustaining and that do not burden the poor.**

- Establishing social protection floors requires African governments to raise annual spending on social protection from today's average of about 1.5% of GDP to 5%, as stated in Agenda 2063. To reach this objective, governments should consider the following:
  - increasing domestic resource mobilisation and investing part of that additional revenue in social protection
  - managing social protection programmes sustainably (on both revenue and expenditure sides, while taking stock of demographic projections).

► **Build the statistical capacity to inform policy making on social protection.**

- Employing new tools such as the Commitment to Equity analysis can help governments understand the impact of the fiscal system on the final income of different groups in the society.<sup>7</sup>
- Capacity building and increased information sharing across relevant government bodies can develop the institutional capacity to forecast long-term social protection financing needs.

## PILLAR III: INSTITUTIONAL DEVELOPMENT

### Action 7: Boost Africa's engagement with its global partners

#### Context:

- Africa's engagement with development partners is receiving new impetus. The process of *shifting wealth*, or the increasing wealth created by developing countries has brought considerable attention to the roles of more recent partners for Africa's development such as Brazil, China and India.
- Africa's partnerships have generated mixed results and can benefit from enhanced co-ordination.

#### Proposed actions:

##### Strengthen global co-operation:

- ▶ open up to new partners (e.g. private sector and philanthropy) and strengthen existing initiatives such as the G20's Compact with Africa.

##### Improve existing African partnerships and co-operation:

- ▶ streamline relations and improve co-ordination between African bodies and institutions.

#### Strengthen global co-operation

##### ▶ Open up to new development partners (e.g. private sector and philanthropy).

- New donors have emphasised economic co-operation involving a wide range of activities such as resource-for-infrastructure swaps and FDI in agriculture, in natural resources and in manufacturing. China played a key role in the creation of two new multilateral development banks (MDBs): the New Development Bank and the Asian Infrastructure Investment Bank. The country pledged significant financing to the two MDBs, whose combined loan portfolios are estimated at USD 230 billion (Reisen, 2015).
- The Africa Global Partnership Platform was launched in 2015 to promote high-level dialogue on and partnerships for Africa's interest and priorities, but follow-up has been weak. New actors will need to be involved, including the private sector and civil society. Philanthropic groups and corporate social responsibility programmes are now emerging as important sources of development finance. Between 2013 and 2015, Africa received USD 6.6 billion from philanthropic foundations (OECD, 2018b), which offer a new business-like approach.

#### Improve existing African partnerships and co-operation

##### ▶ Streamline relations and improve co-ordination between African bodies and institutions.

- The African Union should strengthen its role in monitoring the impact of partnerships with continental and regional agencies in close partnership with the NEPAD, the African Union's development agency.
- The African Development Bank, as the executing agency for the Programme for Infrastructure Development in Africa, established an infrastructure fund, Africa50. It is leading efforts to leverage private investments for high-impact infrastructure projects.

## Action 8: Deepen regional integration

### Context:

- On 21 March 2018 in Kigali (Rwanda), the heads of 44 African countries signed the Continental Free Trade Area (CFTA) Agreement. Fully liberalising trade in goods could boost Africa's GDP by 1% and total employment by 1.2%. Intra-African trade could grow by 33% and Africa's total trade deficit could be halved (UNCTAD, 2018).
- Forty African countries have multiple memberships to Regional Economic Communities (RECs) recognised by the Abuja Treaty. This has created duplication and unclear mandates.
- High trade costs persist among African countries despite their longstanding integration into RECs. Ten years after the signing of the regional agreement, the East African Community is the only bloc where trading costs had fallen (de Melo, Nouar and Solleder, 2017). Only SADC has managed to maintain a positive trend in intra-regional trade, pushing it beyond 5% of GDP.
- Intra-African merchandise exports make up less than 19% of the total, compared to 63% in Europe (EU-28) and 58% in Asia.
- Informal cross-border trade represents 30-40% of total trade within SADC. Around 70% of informal cross-border traders in Africa are women (Afrika and Ajumbo, 2012; FAO, 2017).
- Over the period 2011-14, only about 20% of trade finance went to intra-African trade.
- Borders remain difficult to cross for capital, services and people. Only ten countries currently waive visa requirements or issue visas on arrival to all African citizens. Restrictions still hamper trade in services. National governments often take too long to implement regional commitments (UNCTAD, 2015). Moreover, the scope of services negotiations in some RECs remains limited.

### Proposed actions:

#### Improve the co-ordination and governance of RECs and rationalise memberships:

- ▶ encourage REC secretariats to co-ordinate and align policies to deepen continental integration
- ▶ prioritise REC engagements to resolve the issue of overlapping memberships
- ▶ increase policy commitment, co-ordination and harmonisation.

#### Facilitate trade in goods:

- ▶ operationalise the African Continental Free Trade Area
- ▶ remove non-tariff barriers to trade
- ▶ invest in infrastructure and simplify customs procedures
- ▶ expand financing for intra-regional trade
- ▶ remove constraints for small-scale cross-border traders.

#### Deepen regional integration to include the free movement of people, capital and services:

- ▶ remove visa requirements and restrictions on labour movement
- ▶ facilitate cross-border capital movements to reduce costs of payments and business operations
- ▶ further liberalise service sectors and enhance their trade.



The African Union's Agenda 2063 calls for a united continent where people, goods, services and capital cross borders freely. Achieving this will substantially increase continental trade and investment flows. Investments in ICT and transport infrastructure coupled with trade facilitation measures are expected to push the share of intra-African trade to 50% of the continent's total trade by the year 2045, more than three times the current level (AUC, 2015). Such regional integration is also key for connecting African firms to GVCs, which require competitiveness through economies of scale (Ahmad and Primi, 2017).

### **Improve the co-ordination and governance of Regional Economic Communities and rationalise memberships**

- ▶ **Encourage REC secretariats to co-ordinate between themselves and align policies to strengthen continental integration.**
  - Reviving the NEPAD's African Peer Review Mechanism and encouraging all African countries to sign up could strengthen peer learning and policy dialogue among African countries. Today, 37 countries participate on a volunteer basis. Other organisations conducting peer reviews, such as the OECD, could share their experiences.
- ▶ **Prioritise REC engagements to resolve the issue of overlapping memberships.**
  - The pursuit of multiple regional trade agreements discourages states from seeking deeper integration and decreases intra-regional trade (Chacha, 2014). African RECs need both the power to legally enforce their policies and stronger dispute resolution mechanisms (de Melo, Nouar and Solleder, 2017). Additionally, RECs and their member states need to clarify whether the recent mega-regional agreements (e.g. the Tripartite Free Trade Area and CFTA) supersede the legal provisions of regional agreements.
- ▶ **Within RECs, countries need greater policy commitment, co-ordination and harmonisation.**
  - SADC countries are working together to promote regional industrialisation and value chain upgrading. The 2017 SADC Industrialisation Strategy Action Plan looks at investment and industrialisation potential for specific products while taking into account comparative advantages at regional level.
  - East African Community countries market the Community as a single tourist destination, since launching the East African Tourist Visa in 2015. The private sector-led East Africa Tourism Platform is promoting a co-ordinated approach to enhance the region's competitiveness in travel and tourism (Dihel and Goswami, 2016).

### **Facilitate trade in goods**

- ▶ **Operationalise the African Continental Free Trade Area.**
  - Signatory countries commit to reducing tariffs and non-tariff barriers to trade. Removing tariffs will result in sizeable long-run gains for the vast majority of the countries, in spite of significant short-run adjustment costs. As regional economic communities move from free trade areas to common markets, common external tariffs will solve the issue of different rules of origin across RECs. Countries can also follow the BIAT Action Plan<sup>8</sup> to prioritise the policy reforms required to derive the full benefits of the CFTA (AU/UNECA, 2012).



► **Remove non-tariff barriers to trade.**

- Policy makers can reduce market entry costs for firms by harmonising standards and regulations (e.g. different rules of origins, for instance between SADC and the Common Market for Eastern and Southern Africa [COMESA]). Mutual recognition agreements between standards bureaus and national certification agencies can avoid costly duplication of procedures for firms.
- Various RECs can target different non-tariff barriers to trade:
  - North African countries can build on their current GVC integration with European Union (EU) countries to upgrade to branding, retailing, and research and development processes for Africa-focused value chains.
  - The South African apparel sector benefited from a customs union arrangement (i.e. SACU) for offshore production to Lesotho and Swaziland. Mauritian firms invested in Madagascar, another SADC country, to then access the South African market (Fessehaie, 2018).

► **Invest in infrastructure and simplify customs procedures.**

- The East African Community's Single Customs Territory (SCT) shows how RECs can co-ordinate the removal of non-tariff barriers. The SCT streamlined border crossings, eliminating both unnecessary checks and clearing procedures (NCTTCA, 2017). Here are two of the many results:
  - Transit times between Mombasa and Kigali were halved, from 11.4 to 5.7 days.
  - Road freight costs from Mombasa to Kigali decreased by over 30%, from USD 4 350 in 2015 to USD 3 300 in 2017.
- Electronic Single Windows and one-stop border posts can significantly reduce the time and cost of trading. The Uganda ESW simplifies submission and processing of trade information, reducing time for administrative procedures and transaction costs by 30%.

► **Expand financing for intra-regional trade and make financing more affordable.**

- Focusing export credit and trade finance on regional trade could reduce transaction costs and information asymmetries for African lenders. SMEs could also benefit from scaled-up financial solutions, such as asset-based lending or credit-guarantee schemes as well as capacity building initiatives to help them meet quality standards (AfDB/OECD/UNDP, 2017).

► **Remove constraints for small-scale cross-border traders.**

- Policies supporting small-scale traders can vary from building infrastructure to reducing bureaucracy, while enabling informal businesses to enter the formal economy. For instance, building cross-border marketplaces can increase the safety of women travelling long distances with their merchandise. Simplified procedures such as the COMESA Simplified Trade Regime reduce paperwork and encourage formal economic activity along border regions.

## **Deepen regional integration to include the free movement of people, capital and services**

► **Remove visa requirements and restrictions on the movement of people.**

- Only ten countries waive visa requirements or issue visas on arrival for all African citizens (AfDB/AU, 2017), and only half of the AU members have signed the CFTA Agreement on the free movement of people. Though implementing this policy

requires a serious commitment from signatory countries, the free movement of people could play a central role in unleashing the continent's economic potential (ICTSD, 2018). A joint OECD-ILO study found that immigrants in four African countries made a positive – albeit limited – net fiscal contribution (OECD/ILO, 2018).

- Within RECs under common market arrangements, countries should allow people to cross borders as freely as their own citizens, with no additional procedures. For example, Kenya, Rwanda and Uganda allow their citizens to travel between their countries with only their national ID cards.

► **Facilitate cross-border capital movements to reduce costs of payments and business operations.**

- Strengthening the cross-border use of banking and non-banking services can enable firms to serve regional markets at lower costs. Countries should promote the cross-border use of payment instruments. Through the banking sector, the East African Payment System reduced the time and cost of transactions thanks to direct currency exchange. Other such payment services include mobile money (e.g. Orange Money in West Africa), whose costs have fallen thanks to the removal of cross-border and roaming fees.

► **Further liberalise service sectors and enhance their trade.**

- Countries can benefit from further liberalising service sectors. The scope of services negotiations in some RECs remains limited. The launch of the Single African Air Transport Market in January 2018 is a step forward.
- Encouraging cross-border services such as education and health could help establish regional centres of excellence. Several programmes promote exchanges of African students and practitioners to enhance learning opportunities. These include the Intra-African Exchange Program established by the Association for the Development of Education in Africa and the EU-AU Intra-Africa Academic Mobility Scheme.

## Action 9: Mobilise domestic resources

### Context:

- Achieving Agenda 2063 or reaching the Sustainable Development Goals may require increasing annual public spending by up to 30% in low-income countries (Baum et al., 2017). However, foreign aid and other non-tax revenues such as resource rents can fluctuate wildly and unpredictably (OECD/ATAF/AUC, 2017).
- To strengthen tax systems, policy makers should be mindful of the size of the informal sector, which reaches 38% of GDP in sub-Saharan Africa, and adapt their policies (OECD/ATAF/AUC, 2017). For example, it is generally more difficult to collect reliable statistics from informal businesses and effectively apply regulations to them.
- Aid for public sector policy and administrative management has been falling. It accounted for less than 2% of the total aid allocated to Africa in 2015.
- African governments are currently experiencing reduced non-tax revenues. ODA averaged 10% less in 2015 than in 2013 (though low-income countries saw the amount decrease by only 1%). Revenues from oil exports from African countries are a third of their peak in 2011.



**Proposed actions:****Design tax systems that broaden the tax base and promote compliance:**

- ▶ increase the transparency of tax systems and improve communication with taxpayers
- ▶ design a tax system that reduces the burden and costs of complying.

**Invest in making tax administrations more effective and efficient:**

- ▶ simplify tax administrations and procedures

**Co-operate at the international level to improve tax systems:**

- ▶ co-ordinate tax policies and systems at REC and continental levels
- ▶ join international fora and efforts to stem practices such as base erosion and profit shifting, tax arbitrage, and illicit financial flows
- ▶ collaborate with international partners to improve revenue statistics.

African countries will need to invest heavily in order to meet their development needs. Agenda 2063, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and the SDG Target 17.1 all stress that increased taxation is pivotal to foster sustainable development finance.

**Design tax systems that broaden the tax base and promote compliance****▶ Increase the transparency of tax systems and improve communication with taxpayers.**

- Better communication to help taxpayers understand the link between tax payments and government expenditure can increase public acceptance and encourage tax compliance. Some countries go further, explicitly linking certain taxes to specific programmes, for example by instituting taxes whose revenues pay directly into special funds for emergency policy responses, health coverage programmes or large investments. Rwanda raises taxes that go to the national road maintenance fund, while Uganda has an infrastructure levy to finance the construction of a standard gauge railway.
- Increasing communication and proximity between government officials and citizens can have a major impact on tax revenues. Decentralising tax collection in Rwanda showed that greater geographic proximity can improve the flow of information as well as tax compliance (AfDB/OECD/UNDP, 2017). The Ethiopian Revenue Authority increased tax collections by 32% when reminding taxpayers of their duty to pay taxes and increased them by 38% when threatening taxpayers with an audit (Shimeles, Gurara and Woldeyes, 2017).

**▶ Design a tax system that reduces the burden and costs of complying.**

- By “unbundling” policies, for example separating business registration from taxation (Jütting and Laiglesia, 2009), governments can make entering the formal sector more attractive. Business licenses could be offered for free, and in exchange businesses could obtain social protections or incentives. This could be a first step towards improving firms’ performances and enabling tax compliance over the medium term.
- Flat taxes may be useful where compliance costs are high due to small business size or high informality. Côte d’Ivoire, for example, charges a flat rate to individuals

on their business income when it is below a certain threshold. This can increase compliance by simplifying payment for small businesses (OECD, 2016b, 2015b). However, these taxes can have unintended consequences such as providing an incentive for businesses to remain under the threshold.

- Requiring small businesses to retain the part of their employees' salary which will be paid as personal income tax (i.e. "withholding taxes") could reduce the cost of compliance for employees and increase revenues.

### **Invest in making tax administrations more effective and efficient**

#### **► Simplify tax administrations and procedures.**

- Removing inefficient tax exemptions can increase revenues while reducing administrative burdens and removing harmful distortions. Morocco increased VAT revenues by introducing reforms to expand the tax base and to simplify taxation rules, reducing both exemptions and VAT rates. As a result, between 2004 and 2013, VAT revenue as a share of GDP increased by 2.8 percentage points, constituting more than half of the total tax revenue growth over the period (OECD/ATAF/AUC, 2017).
- E-filing can increase compliance by saving time for taxpayers, as well as reduce calculation errors and make the paperwork easier to fill out. South Africa's introduction of e-filing in 2001 reduced tax compliance costs by 22.4% (Coolidge and Yilmaz, 2014).
- One common approach is the creation of a separate office to handle high-income taxpayers. Despite requiring more resources, these are usually cost-effective. Rwanda increased the compliance rate of high-income taxpayers by up to 97% after strengthening its compliance enforcement mechanism and establishing a separate Small and Medium Taxpayers Office (AfDB/OECD/UNDP, 2017: 34).

### **Co-operate at the international level to improve tax systems**

#### **► Co-ordinate tax policies and systems at REC and continental levels.**

- Some RECs, such as the Economic Community of West African States, have harmonised import tariffs and VAT rules across member countries, while allowing some variation in the rates. The Southern African Customs Union (SACU) went a step further, modernising its full revenue sharing formula by including customs excise duties and a development component, which are administered by the SACU Customs Union Commission. This has made tax collection more efficient and served as a forum in which to work collectively on the problem of development finance in the region.

#### **► Join international fora and efforts to stem practices such as base erosion and profit shifting (BEPS), tax arbitrage, and illicit financial flows.**

- Twenty-one African countries currently participate in the Inclusive Framework on BEPS. In developing countries, BEPS mainly results from abusive and inappropriate transfer pricing, as well as excessive interest payments, abuse of tax treaties and of the definition of permanent establishment. The OECD, together with other international organisations and the African Tax Administration Forum (ATAF) is conducting tailored country-level capacity building programmes in 17 African countries to support BEPS transfer pricing and VAT standards.

- Twenty African countries and two African international organisations (ATAF and the Centre de rencontres et d'études des dirigeants des administrations fiscales [CREDAF]) are participating in the OECD Global Forum on VAT. They participate in the development of global VAT standards (the International VAT/GST Guidelines) and share policy analysis, experiences and best practices.
  - Governments should work together to strengthen border controls, track down illegal funds, and remove significant differences in tax rates in order to reduce incentives for cross-border arbitrage and smuggling. In West Africa, the most significant net losses due to illicit financial flows were attributed to natural resource revenues invested outside the region. To stem these flows, national governments can engage with international initiatives and fora such as the Joint AfDB-OECD Initiative to Support Business Integrity and Anti-Bribery Efforts in Africa (OECD, 2018c).
- **Collaborate with international partners to improve the quality and comparability of revenue statistics.**
- African governments can benefit from making their revenue statistics comparable and available for international comparison. Making information on tax systems easily accessible to a wider range of experts would increase transparency while improving policy making and international co-operation. The Revenue Statistics in Africa project has created a single comprehensive dataset of detailed statistics on African countries' revenues. The project, now in its third year, is a partnership of the African Union, the African Tax Administration Forum and the OECD. The dataset will soon feature 21 countries and is aligned with an international classification standard, allowing for data comparisons at a detailed level with countries around the world.

## Action 10: Enhance economic and political governance

### Context:

- Most African countries continue to face key challenges in meeting citizens' expectations on policy-making processes and public service delivery. Over 22% of protests in Africa between 2014 and 2016 were motivated by such unmet expectations.
- Government accountability remains low according to the Mo Ibrahim Index of African Governance. Progress has been marginal since 2008 and is losing momentum.
- The lack of statistics in Africa reflects low institutional capacity and may prevent governments from clearly understanding their countries. For example, seven countries in Africa have not carried out population censuses in over ten years (CEPED, 2016).
- Many countries have gone through political and administrative decentralisation since the 1990s, notably by organising local elections and transferring more power to sub-national governments. However, fiscal decentralisation often lags behind political decentralisation.

**Proposed actions:**

**Increase accountability and transparency of policy-making processes and redistributive policies:**

- ▶ make use of digital solutions for open data and freedom of information initiatives as well as for government services.

**Promote good corporate governance and a stable business environment:**

- ▶ establish national regulatory frameworks and initiatives on corporate governance to enhance private sector capacity
- ▶ enhance the transparency and competitiveness of state-owned enterprises.

**Continually invest in upgrading institutional capacity:**

- ▶ undertake systematic capacity-building programmes to acquire new sets of skills, managerial approaches and institutional culture
- ▶ implement the decision of the AU Heads of State and Government to allocate 0.15% of the national budget each year to statistical activities.

**Ensure reforms are implemented at the appropriate level of government:**

- ▶ adopt the subsidiarity principle, where the right level of government intervenes for specific policies, in co-ordination with other levels of government
- ▶ bring fiscal decentralisation on a par with political and administrative devolution.

### **Increase accountability and transparency of policy-making processes and redistributive policies**

- ▶ **Make use of digital solutions for open data and freedom of information initiatives as well as for government services.**

- Cabo Verde's citizen information centre, *Casa do Cidadao*, provides a single portal to access administrative services. This initiative has reduced time for procedures, facilitated citizens' interaction with government and made information more accurate.
- The Kenya Open Data Initiative (KODI), launched in 2011, gives free access to government datasets and promotes transparent governance. Today, 31 ministries contribute data.

### **Promote good corporate governance and a stable business environment**

- ▶ **Establish regulatory frameworks and initiatives on corporate governance to enhance private sector capacity.**

- For publicly listed companies, governments should set and enforce accounting and auditing standards. Kenya's Private Sector Corporate Governance Trust works with the private sector and government to build institutional capacity and establish good governance practices (Gatamah, 2002).

- ▶ **Enhance the transparency and competitiveness of state-owned enterprises.**

- Governments can increase transparency and improve governance of state-owned enterprises by limiting conflicts of interest, designing effective regulatory frameworks, treating other shareholders and investors equitably, and following international standards on corporate ethics and stakeholder relations (SOE Network for Southern Africa, 2014). More generally, countries should consider aligning national regulations to global best practices and principles. For further details, see *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (OECD, 2015c).



### Continually invest in upgrading institutional capability

- ▶ **Undertake systematic capacity-building programmes to acquire new sets of skills, managerial approaches and institutional culture at all government levels.**
  - South Africa's eThekweni Municipality established the Municipal Institute of Learning (MILE) to build capacity for local government. Since 2009, MILE has trained 3 600 local government practitioners from different African countries.
  - The International Monetary Fund, together with a number of other donors, has set up six African Regional Technical Assistance Centers. The centres aim to build local capacity for economic and financial management. They provide assistance with a team of resident experts and organise in-country workshops, professional training and regional courses.
- ▶ **Dedicate greater resources to building Africa's statistical capacity**
  - Implement the decision of the Heads of State and Government to allocate 0.15% of national budgets each year to statistical activities, as recalled at the 4<sup>th</sup> Conference of African Ministers responsible for Civil Registration and Vital Statistics in Nouakchott, December 2017. South Africa has met this target by allocating to statistics 0.19% of its 2018 budget.
  - Strong monitoring and evaluation frameworks are needed to track progress in implementing Agenda 2063. Support to the update and review of the Strategy for the Harmonisation of Statistics in Africa (SHaSA) by all stakeholders can help national statistical agencies to develop harmonised indicators, definitions, measurement and verification processes for all the targets under Agenda 2063.
  - Countries should follow up on commitments to operationalise the Pan African Institute of Statistics by 2023, as set out in Agenda 2063.

### Ensure reforms are implemented at the appropriate level of government

- ▶ **Adopt the principle of subsidiarity, where the right level of government intervenes for specific policies, in co-ordination with other levels of government.**
  - Many African governments need to expand their multi-level governance agenda. In 2014, the African Union adopted the African Charter on Values and Principles of Decentralisation, Local Governance and Local Development. Despite the consensus on the matter among African governments, at the time of writing only 13 African countries have signed the charter (AU, 2018).
  - Multi-level governance dynamics are country-specific. Finding the right balance between the different levels of government requires trial and error (AfDB/OECD/UNDP, 2016).
- ▶ **Bring fiscal decentralisation on a par with political and administrative devolution.**
  - Effective reforms in fiscal decentralisation can enable local governments to boost resources and invest in the necessary infrastructure and services. Such reforms include national transfers, automatic sharing of revenues from natural resources, land value capture, increased capacity of local tax administration and the promotion of private finance (AfDB/OECD/UNDP, 2016). Efforts to improve local government transparency and institutional capacity must accompany fiscal decentralisation.
  - Participatory budgets can improve tax legitimacy for subnational governments, as shown by the YTAX system software in Senegal.



## Annex 8.A1. Links between each policy action and megatrends, Agenda 2063 goals, and SDGs

Policy Action	Related Agenda 2063 Goals	Related Sustainable Development Goals	Megatrends addressed
<b>Action 1: Encourage investment for domestic private sector development</b>	<b>Goal 4.</b> Transformed economies and jobs <b>Goal 12.</b> Capable institutions and transformative leadership in place at all levels <b>Goal 20.</b> Africa takes full responsibility for financing its development	<b>SDG 8.</b> Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all <b>SDG 9.</b> Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation <b>SDG 12.</b> Ensure sustainable consumption and production patterns <b>SDG 17.</b> Strengthen the means of implementation and revitalize the global partnership for sustainable development	1. “Shifting wealth” 2. The new production revolution (Industry 4.0) 4. Africa’s urban transition
<b>Action 2: Help the private sector to diversify production and exports</b>	<b>Goal 4.</b> Transformed economies and jobs <b>Goal 5.</b> Modern agriculture for increased productivity and production	<b>SDG 8.</b> Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all <b>SDG 9.</b> Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation <b>SDG 17.</b> Strengthen the means of implementation and revitalize the global partnership for sustainable development	1. “Shifting wealth” 2. The new production revolution (Industry 4.0) 4. Africa’s urban transition
<b>Action 3: Strengthen linkages between rural and urban economies</b>	<b>Goal 1.</b> High standard of living, quality of life and well-being for all <b>Goal 10.</b> World class infrastructure criss-crosses Africa	<b>SDG 1.</b> End poverty in all its forms everywhere <b>SDG 8.</b> Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all <b>SDG 10.</b> Reduce inequality within and among countries <b>SDG 11.</b> Make cities and human settlements inclusive, safe, resilient and sustainable	3. Africa’s demographic dividends 4. Africa’s urban transition
<b>Action 4: Foster green growth</b>	<b>Goal 5.</b> Modern agriculture for increased productivity and production <b>Goal 6.</b> Blue/ocean economy <b>Goal 7.</b> Environmentally sustainable and climate-resilient economies and communities	<b>SDG 1.</b> End poverty in all its forms everywhere <b>SDG 7.</b> Ensure access to affordable, reliable, sustainable and modern energy for all <b>SDG 8.</b> Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all <b>SDG 13.</b> Take urgent action to combat climate change and its impacts <b>SDG 14.</b> Conserve and sustainably use the oceans, seas and marine resources for sustainable development <b>SDG 15.</b> Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	5. Climate change and the transition to a green economy
<b>Action 5: Expand education while improving the quality of education and skills</b>	<b>Goal 2.</b> Well-educated citizens and skills revolution underpinned by science, technology and innovation <b>Goal 17.</b> Full gender equality in all spheres of life <b>Goal 18.</b> Engaged and empowered youth and children	<b>SDG 4.</b> Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all <b>SDG 5.</b> Achieve gender equality and empower all women and girls <b>SDG 12.</b> Ensure sustainable consumption and production patterns	2. The new production revolution (Industry 4.0) 3. Africa’s demographic dividends
<b>Action 6: Increase the coverage of social protection systems, including labour and health</b>	<b>Goal 1.</b> High standard of living, quality of life and well-being for all <b>Goal 3.</b> Healthy and well-nourished citizens	<b>SDG 1.</b> End poverty in all its forms everywhere <b>SDG 3.</b> Ensure healthy lives and promote well-being for all at all ages <b>SDG 10.</b> Reduce inequality within and among countries	3. Africa’s demographic dividends
<b>Action 7: Boost Africa’s engagement with its global partners</b>	<b>Goal 19.</b> Africa as a major partner in global affairs and peaceful co-existence <b>Goal 20.</b> Africa takes full responsibility for financing her development	<b>SDG 10.</b> Reduce inequality within and among countries <b>SDG 17.</b> Strengthen the means of implementation and revitalize the global partnership for sustainable development	1. “Shifting wealth”



Policy Action	Related Agenda 2063 Goals	Related Sustainable Development Goals	Megatrends addressed
<b>Action 8: Deepen regional integration</b>	<b>Goal 4.</b> Transformed economies and job creation <b>Goal 8.</b> United Africa (federal or confederate) <b>Goal 9.</b> Key continental financial and monetary institutions established and functional <b>Goal 10.</b> World class infrastructure criss-crosses Africa	<b>SDG 9.</b> Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation <b>SDG 10.</b> Reduce inequality within and among countries <b>SDG 11.</b> Make cities and human settlements inclusive, safe, resilient and sustainable <b>SDG 17.</b> Strengthen the means of implementation and revitalize the global partnership for sustainable development	1. “Shifting wealth” 3. Africa’s demographic dividends 4. Africa’s urban transition
<b>Action 9: Mobilise domestic resources</b>	<b>Goal 20.</b> Africa takes full responsibility for financing its development	<b>SDG 8.</b> Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all <b>SDG 17.</b> Strengthen the means of implementation and revitalize the global partnership for sustainable development	2. The new production revolution (Industry 4.0) 3. Africa’s demographic dividends 4. Africa’s urban transition
<b>Action 10: Enhance economic and political governance</b>	<b>Goal 8.</b> United Africa (federal or confederate) <b>Goal 11.</b> Democratic values, practices, universal principles of human rights, justice and the rule of law entrenched <b>Goal 12.</b> Capable institutions and transformative leadership in place at all levels	<b>SDG 8.</b> Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all <b>SDG 16.</b> Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels <b>SDG 17.</b> Strengthen the means of implementation and revitalize the global partnership for sustainable development	2. The new production revolution (Industry 4.0) 4. Africa’s urban transition

## Notes

1. Adaptation of [www.aaainitiative.org/circular-economy](http://www.aaainitiative.org/circular-economy) (accessed 31 January 2018).
2. [www.fonerwa.org/](http://www.fonerwa.org/) (accessed 31 January 2018).
3. [www.travelmauritius.net/eco-tourism.html](http://www.travelmauritius.net/eco-tourism.html) (accessed 31 January 2018).
4. See <https://tellmaps.com/uis/gender/#!/tellmap/1152163451>.
5. See for example [https://www.poverty-action.org/sites/default/files/publications/evaluations\\_of\\_cash\\_transfer\\_programs\\_in\\_african\\_settings\\_policy\\_memo.pdf](https://www.poverty-action.org/sites/default/files/publications/evaluations_of_cash_transfer_programs_in_african_settings_policy_memo.pdf).
6. [www.adeanet.org/adeapmp/sites/default/files/activities/tvds\\_and\\_ppp\\_policy\\_brief\\_v1.pdf](http://www.adeanet.org/adeapmp/sites/default/files/activities/tvds_and_ppp_policy_brief_v1.pdf).
7. The Commitment to Equity (CEQ) project is led by Nora Lustig since 2008 and is an initiative of the Center for Inter-American Policy and Research (CIPR) and the Department of Economics, Tulane University, the Center for Global Development and the Inter-American Dialogue. The CEQ project is housed in the Commitment to Equity Institute at Tulane. See [www.commitmenttoequity.org](http://www.commitmenttoequity.org).
8. The Action Plan for Boosting Intra-Africa Trade (BIAT), endorsed by Africa's head of states in January 2012, identifies seven clusters: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor market integration.

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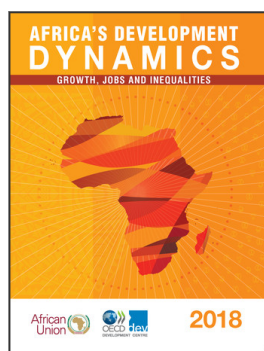
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