Africa at a Crossroads

Overcoming the Obstacles to Sustained Growth and Economic Transformation

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A Report of the CSIS Africa Program
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This report is based on a series of interviews with U.S. and African business leaders, investment and risk analysts, trade experts, and African government officials in the course of 2013. Those interviewed were asked to identify examples of positive change and progress and to suggest how corporate and public actors can collaborate to overcome barriers to investment and economic transformation. An initial draft of findings was presented as a discussion paper at a GE-hosted roundtable on the sidelines of the May 2013 World Economic Forum in Cape Town, South Africa, which drew together senior government officials, private-sector representatives, and opinion leaders from academia, foundations, and think tanks. Themes from that discussion were integrated into this final report.
Africa at a Crossroads
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Introduction

Africa’s economic growth story is generating excitement among global investors and is changing long-standing perceptions of the continent as stagnant, high-risk, and poor. Sub-Saharan African economies are expected to post an average growth rate of close to six percent in the next decade—exceeding the projected average of any other world region. Capital is flowing into Africa at record levels: foreign direct investment rose from $10 billion in 2000 to near $80 billion in 2010 and is expected to increase to $150 billion by 2015.1 Returns on investment in Africa are currently among the highest in the world.

Africa has enjoyed surges of commodity-driven growth in the past. But there are indications that the continent’s current economic expansion is qualitatively different from growth spurts of the past. High commodity prices, driven by persistent high demand from China and other emerging markets, as well as new sources of energy and mining production, have been a critical component of growth, and many African countries remain heavily reliant on the revenues from unprocessed commodities. But equally important to Africa’s recent surge have been sectors outside of the extractive industries—telecommunications, transportation, construction, wholesale and retail, financial services—which together accounted for two-thirds of GDP growth between 2000 and 2008.2 Finally, Africa’s consumer base, propelled by rapid urbanization and rising incomes, is expanding apace, and


consumer spending is projected to grow from $860 million in 2008 to $1.4 trillion in 2020.\textsuperscript{3} Growth, investment, and rising consumer demand are mutually reinforcing and are paving the way for more sustained and resilient growth into the future.

Many African economies are at a crossroads and have an unprecedented opportunity for sustained growth, structural change, and accelerated development. Each will face a unique set of economic, political, and social circumstances, and there will be no single formula for success. But across sub-Saharan Africa’s 48 states, three priority areas will almost certainly top the list:

- **Accelerated infrastructure development:** If African countries are to build an industrial base, draw much needed investment, and compete in the global economy, businesses and citizens will need access to reliable, affordable electricity and a communication and transportation infrastructure that allows efficient and cost-effective movement of goods, labor, and services, linking African markets to one another and to the global economy.

- **Economic integration:** Most African economies are too small to diversify and develop a competitive manufacturing base without expanding trade links to regional markets and deepening integration. As big, potentially transformative investors consider basing operations in Africa, they will need relatively easy, efficient access to larger regional markets, supply chains, and labor pools, if their investment is to be economically viable.

- **A capable workforce:** Finally, if African economies are to move up the value chain and lay the foundation for more sophisticated and competitive manufacturing and services capacity, governments will need to invest now in educating their young citizens to become competent, capable participants in the workforce of the future.

All of these are big and complex challenges, and to address them successfully, African governments will need a strategic vision for growth and social development, collaborative partnerships, and long-term commitment. Failure to tackle these impediments now will leave African economies unprepared to capitalize on the big opportunities that will arise in the coming decade for industrial growth, diversification, and fuller integration into global supply chains. The immense challenge of generating employment for the continent’s growing population adds greater urgency to the task. An estimated 11 million young Africans will join the labor pool every year over the next decade, and without vastly expanded opportunities in

agriculture and manufacturing, governments will face increasing and possibly destabilizing pressures from a frustrated and underemployed citizenry.

Not all countries have been pulled along by Africa’s “rise,” and a number of them—poor, land-locked, or badly governed—will likely remain fragile and stagnant.

But the good news is that a number of African governments are rising to the challenge, and a growing number are beginning to grapple more systematically with long-standing impediments to growth. Across these three challenge areas there are new opportunities and examples of positive progress that suggest how corporate and public actors can collaborate to overcome barriers to investment and structural transformation. And in partnership with private investors, governments are more actively seeking to address the linkages between investment, growth, local employment, skills transfer, and value addition. This report, based on a series of interviews with U.S. and African business leaders, investment and risk analysts, trade experts, and Africa government officials, highlights examples of progress and positive collaboration and identifies areas where governments can do more to make the most of current opportunities.

While this report focuses on the obstacles and opportunities for increasing investment and accelerating economic transformation, African governments have a much broader responsibility to ensure that the benefits of growth and transformation are equitably distributed and that they translate to improved well-being of citizens, including the most vulnerable. This will require regulations and enforcement capacities to ensure that private-sector players adhere to acceptable standards in labor practices, environmental stewardship, integrity, and transparency. It will require sound revenue collection and management systems to support public investments that may not be commercially bankable but that serve vulnerable populations or a larger public good. And most important, it will require accountable, transparent governance, a culture of public service among political leaders, and strong domestic constituencies to hold institutions and investors to account. For all the optimism around Africa’s rise, these broader objectives will ultimately be the measure of success.

Bridging the Infrastructure Gap

THE CHALLENGE

Africa’s underdeveloped infrastructure has been a long-standing barrier to accelerated, sustained growth. The World Bank estimates that poor infrastructure in Africa reduces
per capita growth by more than two percent annually. Roads, railways, ports, and reliable electricity supply—the lifeblood of economic activity—have suffered from decades of neglect and mismanagement.

Infrastructure development in Africa has been funded predominantly through public-sector investment. The result in many countries has been chronic underinvestment by cash-strapped, debt-burdened governments, unable to sustain the long-term commitment and funding streams needed to see projects through. From 1960 to 1994, African governments invested an average 9.6 percent of gross domestic product (GDP) in building infrastructure, compared with 15.6 percent invested by other countries in the developing world in the same period. Further, these major public works projects have proved highly vulnerable to corruption and have often been left unfinished, poorly implemented, or unsustainable over the long term. Until recently, many Western donors abandoned infrastructure development within their assistance programming because of the high risks of corruption, underperformance, and white elephant projects. The results of chronic under-investment are evident today:

- **Power:** An estimated 70 percent of sub-Saharan Africans live without access to electricity, a stark contrast to Latin America, East Asia, and the Pacific, where fewer than 10 percent lack access. Seven out of 10 business leaders in Africa say the lack of affordable and reliable power is one of the most important constraints to growth.

- **Road:** Africa today has fewer kilometers of roads than it did 30 years ago, according to UNCTAD, and the highest costs of transporting goods in the world. Total road density in sub-Saharan Africa lags far beyond the rest of the developing world, and paved road density is 31 kilometers per 1,000 square kilometers of land, compared with 134 kilometers in the rest of the developing world.

- **Rail:** Railroad infrastructure has tremendous potential in easing freight traffic on Africa’s overburdened roads and in maximizing the benefits of the continent’s vast wealth. Standard Bank of South Africa estimates that the continent would need to spend more than $50 billion and build 4,000 kilometers of additional rail to fully exploit that potential.

- **Ports:** The volume of cargo that passes through African ports has tripled in the past 15 years, but with few exceptions, countries have been unable to keep up with increased volume and lack both physical and regulatory capacities to maximize opportunities for growth and trade. Cargo entering ports in Nigeria—the continent’s

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second largest economy—has an average dwell time of three weeks, and the dysfunctionality of the country's port system ranks second (to reliable electricity) as a concern to business leaders seeking to invest.  

THE OPPORTUNITY

Today, the World Bank estimates that the cost of meeting Africa’s infrastructure needs is $75 billion per year, $38 billion per year in investment, and a further $37 billion in operations and maintenance. Investment and attention to infrastructure development have been growing in recent years, but there remains an estimated annual funding gap of approximately $35 to $50 billion per year.

To fill this gap, African governments are increasingly looking to new sources of financing and partnership, and the continent’s recent growth trajectory is generating renewed interest from private-sector players and public institutions alike.

Public–private partnerships are on the rise, and African governments are getting more serious about building incentives for private investors to participate in infrastructure projects. The telecommunications sector has been most successful to date, attracting the lion’s share of foreign direct investment, but partnerships in transportation and power infrastructure, traditionally considered more risky, have been increasing in recent years as well.

In transportation, some projects can be explicitly tied to a commercial enterprise, for example, a rail line linking a commercial mine to a port or processing center. In some cases, costs can be partially recouped through user fees. In Uganda, for example, the new Chinese-funded Entebbe Highway connecting Kampala with the airport will be partially financed through tolls. “Build, operate, and transfer” (BOT) arrangements have expanded in the last decade in roads, ports, and airports. The N4 toll road linking Pretoria to Maputo Mozambique, for example, is considered a successful model of a BOT partnership. Trans Africa Concessions, a French-South African construction consortium, built the road and will operate and maintain it for a 30-year concession period, after which it will transfer responsibility to the South African and Mozambican governments.

In the power sector, more governments are opening opportunities for private participation by unbundling and privatizing generation, transmission, and distribution functions.

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Private equity and commercial lending are playing a growing role in infrastructure finance as well. Private equity firms invested some $850 million in Africa from January to June 2013, up 45 percent from the same period in 2012.\(^\text{10}\) Investment banks likewise are looking at expanding opportunities in Africa, particularly in infrastructure development, and syndicated loans from commercial lenders increased from $11.2 billion in 2011 to $17.7 billion in 2012, with $19.6 billion in loans in the first 10 months of 2013.

Multilateral and bilateral development finance institutions are stepping up engagement in infrastructure development in Africa, taking on large and long-term investments that private investors may be reluctant to make. The International Finance Corporation, part of the World Bank Group, has substantially increased its commitments in Africa—from $252 million in 2007 to $2.6 billion in 2012, mobilizing an additional $1.1 billion from other sources. The African Development Bank, under the leadership of current president Donald Kaberuka, has become a major player in infrastructure finance and support, committing more than $12 billion in the last six years to infrastructure projects in Africa. The bank expects its commitments to grow by $2.5 billion annually in the next three years. In the United States, the U.S. Overseas Private Investment Corporation (OPIC) has doubled its commitments in Africa since 2009, and financing for sub-Saharan African deals now totals $4 billion, more than a quarter of OPIC’s overall portfolio.\(^\text{11}\) Development finance institutions are not intended to replace commercial lending, and done right such institutions can fill critical gaps, to encourage greater private-sector finance and partnership.

China—through its EXIM Bank and the China Development Bank—has played a critical role in African infrastructure development, through a mix of concessional loans to African governments (in some instances paid back through commodity off-takes) and credits to Chinese state-owned companies.

In recent years, more African governments are seeking to raise capital on international markets, and a number have met with remarkable success. Zambia, in 2012, issued a 10-year $750 million euro bond that was oversubscribed 15-fold. The following year, Rwanda, Ghana, and Nigeria followed suit, together raising more than $2 billion through euro-bond issuances. Kenya’s Central Bank issued a $228 million infrastructure bond in mid-2013, attracting bids worth $430.4 million, with proceeds to target transportation, water, and energy infrastructure.

And finally, new energy discoveries—in world-class natural gas fields off the coasts of Mozambique and Tanzania and oil discoveries in Liberia and Sierra Leone, for example—offer potential new sources of revenue, power generation, and development. If


managed well, these newfound resources can be harnessed to support much broader infrastructural development and regional collaboration, for countries that have struggled for decades at the bottom tier of the UN Human Development Index.

Traditional development donors are recognizing the critical role of infrastructure in driving inclusive, sustainable growth; initiatives like the EU-Africa Infrastructure Partnership and, most recently, the U.S. Power Africa Initiative seek to incentivize and facilitate private-sector investment and partnership in critical sectors and assist governments in putting complex infrastructure financing packages together.

If African governments are to compete successfully for private capital and capable private partners, they will first and foremost need to win the trust and confidence of private-sector investors, demonstrating that projects are ultimately “bankable.” In many countries, this will require systemic governance reforms and greater capacity in planning, procurement, and regulatory enforcement.

KEYS TO SUCCESS

*Develop a sector-wide vision:* Large-scale, transformational infrastructure projects, particularly those with a regional component, need to be packaged in ways that are compatible with private firms’ ability to manage financing and risk. Companies will be attracted to more manageable “bite-sized” projects in which progress can be managed and measured, rather than massive complex undertakings that are vulnerable to delays outside of the investors’ control. In recognition of this, the U.S. Power Africa Initiative, announced by President Barack Obama in July 2013 to improve power generation and access in Africa, places a strong emphasis on a “transaction-centered approach” that prioritizes getting deals signed and generating near-term results.

But “bite-sized” infrastructure projects, whether in transportation or power, ultimately will not succeed unless they are embedded within a broader system that is functional, efficient, and self-sustaining. In the power sector, African governments will need to take the long view on calculating short-term costs and trade-offs. Some reforms will be politically difficult. Setting cost-reflective tariffs for power consumption, for example, is important in attracting capital and compensating for risks but may be viewed as a regressive burden on low-income consumers or a deterrent to local businesses. Decoupling power generation functions from transmission and distribution will create greater efficiencies but will often come up against politically powerful vested interests. Insulating strategic decisionmaking from political interference is critical in strengthening project “bankability” but often requires substantial institutional reform.

Insulating strategic decisionmaking from political interference is critical in strengthening project “bankability” but often requires substantial institutional reform and an effective communication strategy. Further, governments will need to weigh the direct and indirect payoffs of
large-scale investments, prioritizing those that can have catalytic impact, balancing direct commercial gains versus longer-term social development benefits.

**Power-Sector Reform in Kenya**

Kenya has received high marks for creating a long-term strategic vision for the power sector. The country began its power reform process in the early 1990s, with a view to putting the sector on commercially viable ground and attracting private-sector partners. The establishment of an independent regulator, the separation and liberalization of power generation, transmission, and distribution, and the imposition, sometimes unpopular, of cost-reflective tariffs have bolstered efficiencies and investment viability. These reforms are bearing fruit as Kenya has sealed multiple deals with private investors, multilateral organizations, and commercial lenders. As of 2011, Kenya had attracted more independent power producers than any other African country.¹²

*Strengthen and streamline legal systems, enforcement, and arbitration:* Lack of confidence in the legal system is cited as a major obstacle for companies looking to make big infrastructure investments. Attracting private partners will require a transparent regulatory framework that clearly articulates and demarcates the respective responsibilities and risks assumed by both government and private partners and that is consistently and fairly enforced. The private sector can deliver improved efficiencies, capabilities, and resources, but these will be maximized only if the government is able to oversee and enforce its contracts and partnerships. Companies are wary of protracted commercial adjudication processes that are costly and potentially politicized. Local arbitration mechanisms are often overloaded or lack the technical capacities to adjudicate multibillion-dollar transactions that involve multiple parties. Regional mechanisms, like the International Arbitration Centre in Kigali¹³ and the Regional Center for Commercial Arbitration in Lagos, can provide valuable economies of scale and pooled capacities, and these warrant strengthening alongside domestic mechanisms.

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Improving Commercial Adjudication in Zambia

In Zambia, a relatively low-cost collaboration between the government and the Investment Climate Facility (ICF) was launched in 2010 to improve efficiencies in commercial adjudication. The government has now increased the number of commercial courts from one to three and cleared a nine-month backlog of cases. The ICF’s baseline study found that judges spent close to 65 percent of their working time writing up notes from court proceedings. Proceedings are now taped and digitized, with 14 judges, 38 support staff, and 10 court reporters trained in the new system. Proceedings are captured on a compact disc, with a transcript available to claimants and the public at the end of the day.14

Think more strategically about procurement processes: Procurement process risks are a major concern of would-be investors. Building stronger procurement capacities within governments—to ensure strategic sourcing and implementation—is a critical component of accelerated infrastructure development.15 African governments have tended to underesti-

Deepening Regional Integration

THE CHALLENGE

Among the 48 states of sub-Saharan Africa, only three have a nominal gross domestic product of over $60 billion—the approximate size of the economy of New Hampshire. Almost half have economies of $10 billion or less. If African states are to maximize the possibilities of economic transformation and become more competitive players in the global economy, deeper integration of the continent’s small and disparate economies will be essential.

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Although integration has been an African aspiration since independence, progress to date has been mixed. Commitment from political leaders has been uneven, as some have been reluctant to make the upfront investments needed, are wary of being overwhelmed by wealthier, larger neighbors, or are fearful of short-term losses in economic sovereignty or fiscal revenue. Some have yet to be convinced of the long-term economic case for integration—in expanding market size and labor pools, building economies of scale, increasing competitiveness, and attracting transformative investments. Better information on the costs of fragmentation and opportunities forgone will be important, but advocacy from the private sector and promising models of success in integration and practical cross-border collaboration may ultimately prove stronger in changing minds.

Trade within Africa currently makes up little more than 10 percent of the continent’s total trade.16 This is an underexploited opportunity, and the World Bank estimates that Africa governments forgo billions of dollars in trade revenues each year because of the barriers to intracontinental trade.17 The lack of physical infrastructure—regional transportation links, telecommunications, power generation—is a significant barrier. At independence, most African states inherited a transportation infrastructure designed to move primary commodities from inland to a port to European capitals, and 50 years later intra-regional links remain largely underdeveloped. Africa has among the highest regional transportation costs in the world. The UN Economic Commission for Africa calculated in 2010 that shipping a car from Addis Ababa to Abidjan cost $5,000, while shipping the same car from Abidjan to Japan was only $1,500.

Physical infrastructure, however, is only part of the problem, and addressing the less tangible aspects of integration is perhaps even more important. Much of the attention in integration has been placed on reducing tariff barriers, but onerous regulations and non-tariff barriers often mean that it is cheaper to do business further afield than closer to home. Kenya’s horticultural industry, for example, is entirely driven by the European market, leading to a situation where fresh flowers are flown to the Netherlands in bulk, only for some to be reimported back again for sale in the east Africa region. Complex and competing regulatory structures, time-consuming customs procedures, strict visa requirements, and restrictive rules of origin all limit the movement of goods, services, and labor and stifle trade, efficiency, and competitiveness.

Fragmentation of African markets is a major deterrent to external investors. Countries with large populations—Nigeria with 180 million or Ethiopia with 85 million—have the advantage of a large and growing consumer base, but most African economies are too

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small to draw significant investment on their own. Big private-sector players, with the capacity to make transformative investments, are looking for big regional markets to make their investment worthwhile. Further, they want to be able to draw on regional supply chains and an expanded pool of labor and inputs to bolster efficiency and competitiveness.

Strengthened regional supply chains not only will be important to would-be investors but will also be a critical step in building the capacity and competitive edge that will allow African economies to plug into—and move up—global supply chains from primary commodity exports, to beneficiation, and to more sophisticated manufacturing processes.

In addition to barriers “at the border,” a number of African governments are enacting local content requirements, which require businesses to source some portion of inputs or labor from within the host country. These requirements are generally intended to build human capacity and employment opportunities and to spur the development of domestic supply chains. But African governments will need to carefully balance the short- and long-term trade-offs associated with local-content regulations. Requirements that are too stringent or inflexible may drive potential investors to look elsewhere, particularly if the workforce skills, capacities, or necessary inputs are simply not available nationally. And in the longer term, these requirements may undermine both national and regional competitiveness and growth.

THE OPPORTUNITY

More recently, as an increasing number of African countries have seen access and engagement with the global economy as a path to growth and development, regional integration has enjoyed a renewed surge of support. Across the continent, a number of countries have come to see integration as a means of creating a more attractive environment for foreign investment, building regional markets, and capitalizing on economies of scale across multiple sectors. Recent years have seen renewed efforts by several regional economic communities in expanding free trade arrangements and nascent efforts to promote intra-regional mobility of goods and labor and harmonize business regulations.

Many of these efforts have focused on government-to-government engagement on the formal architecture and institutions of integration.18 But incremental, pragmatic forms of

cooperation and integration, with strong private-sector input and buy-in, may ultimately be more useful in building regionalized markets and supply chains. Sector-specific projects may also yield more immediate and tangible results. These include efforts at power pooling, enhancing regional transportation corridors, strengthening regional information and communication technology, and improving transborder management of water and other resources.

**KEYS TO SUCCESS**

*Build on the regional economic communities:* Progress in deepening integration within Africa’s Regional Economic Communities has been uneven, but some have become more deliberate in their efforts. The East African Community (EAC) is the most advanced, having established a customs union and a common market in 2010. EAC member states have agreed on a work plan to reduce nontariff barriers at the border. Efforts have been made to speed up the flow of goods through the region by removing police checkpoints and illegal roadblocks. A relatively low-cost project in Tanzania has cut police roadblocks on the Dar es Salaam-Musoma highway from 58 to 15.19 Although partially implemented, these initiatives have sparked U.S. interest, with the Obama administration establishing a trade and investment partnership with the EAC and announcing plans to sign a regional investment treaty. Trade among the five EAC member states has doubled over the past five years. Broader, more ambitious plans to establish a Tripartite Free Trade area covering 26 African states have the potential to unlock a combined market of 600 million people but remain at an early stage.

*Factor in private-sector priorities:* Beyond the institutional architecture and geographic limits of regional economic communities, integration is happening through private networks, as companies are driving the process through their activities in the continent. External investors have a strong stake in promoting regional integration as single-country markets are often too small to justify large-scale upfront investments. Large companies like GE and IBM adopt a regional strategy to supply chain development and staff training. GE’s locomotive engine production site in South Africa will service the entire southern Africa region. IBM’s Nairobi-based research laboratory will select scientists from across the continent for skills training and development. More and more African companies are pushing policymakers to deepen integration and facilitate cross-border trade.

A number of African companies are increasingly exploiting opportunities across the continent, turning themselves into regional firms.

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19. This project was undertaken by the Tanzania-based Investment Climate Facility for Africa. See presentation by Omari Issa, CSIS, Washington, DC, April 13, 2012, http://csis.org/event/combating-barriers-investment-africa.
vocal proponent of regional integration and easing of nontariff barriers. Investment ties between South Africa and Nigeria are growing apace. And a number of African companies are increasingly exploiting opportunities across the continent, turning themselves into regional firms. This is particularly the case in the retail, food processing, banking, and telecommunications sectors. South African supermarket chain Shoprite has 400 outlets in 17 African countries, and Protea Hotels are springing up well beyond the southern African region. Togo’s Ecobank, South Africa’s Standard Bank, and Morocco’s Attijariwafa bank have established a strong presence across the continent. As governments deepen the formal architecture of regional integration, they should be more attuned to the needs and priorities of private-sector players, which will ultimately be the drivers of meaningful integration.

Focus on practical priorities: Regional resource and infrastructure pooling provide opportunities for African countries to give concrete meaning to the concept of regional integration. Large-scale infrastructure, including roads, railroads, and power generation and distribution plants, require enormous capital investments that are beyond the reach of most African countries. Regional infrastructure projects are not without challenges, and the risks of delay or disputes are compounded when multiple governments are engaged. But by pooling resources on a regional basis, African governments can leverage more strategic, less costly investments in critical infrastructure, with longer-term cost savings and economies of scale.

Power pooling and transport corridors are potential avenues for greater cooperation. The Maputo Development Corridor has been an important southern African initiative that seeks to link Johannesburg, the economic hub of the region, with the port of Maputo in Mozambique with road, rail, border posts, and port and terminal facilities. In East Africa, the discovery of large oil and gas deposits in Kenya and Tanzania along with established oil production in South Sudan and planned production in Uganda offers opportunities for national leaders and private hydrocarbon companies to work together on devising a common regional strategy for energy production, transportation, and distribution. The Lamu Port and Lamu Southern Sudan-Ethiopia Transport Corridor project, if realized, provides one potential solution by opening up the north of Kenya to development and integrating its economy more closely with those of South Sudan and Ethiopia, through the construction of road and rail links, an oil pipeline, and the expansion of Lamu port. In West Africa, the governments of Sierra Leone and Liberia, both small economies with newfound oil resources, are considering co-investments and cooperation in oil and energy infrastructure and institutions to make most efficient use of scarce resources and personnel.
These kinds of collaborations, that focus on practical priorities, that have clear and measurable benefits, and that are supported and driven by private sector demand, may help accelerate more formal frameworks of integration, where the political buy-in may be uneven and where the benefits are more abstract and long-term.

Building a Skilled Workforce and Expanding Employment Opportunities

THE CHALLENGE

Africa’s human capacity challenge is twofold. First, there is a shortage of jobs to satisfy the demands of an increasingly ambitious and expectant generation of young people. Much of this is due to the structural underdevelopment of African economies, which continue to rely on the production and export of primary commodities and capital-intensive extractive industries. While the official unemployment rate in Africa was 8.3 percent in 2011, 70 percent of the African workforce was classified by the UN Economic Commission for Africa as being in vulnerable employment.\(^{20}\) Without accelerated growth, economic diversification, and expansion of more labor-intensive sectors such as agribusiness and manufacturing, this problem is likely to get worse as young populations continue to grow.

At the same time, there is a dearth of suitably qualified workers to fill the limited number of skilled jobs available. This stems in large part from long-standing deficits in primary and secondary education systems in the majority of African countries, which are failing to turn out sufficient numbers of suitably qualified graduates. Africa lags badly behind the rest of the world in school attendance and in educational performance. School enrollment has risen dramatically in the last 15 years, but the education deficit still remains large compared with other parts of the world. In 2011, 22 percent of Africa’s primary school-age children were out of school, compared with 11 percent in Arab states, seven percent in South and West Asia, and five percent in Latin America and the Caribbean.\(^{21}\) Africa has the lowest level of secondary school attendance as well, with 34 percent enrollment, compared with 65 percent in Arab states and 90 percent in Latin America.\(^{22}\) Some seven percent of college-age youth are enrolled in university in Africa, compared with 30 percent in the rest of the world.

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THE OPPORTUNITY

According to the World Bank, Africa is the “youngest” continent, with more than 200 million people between the ages of 14 and 24, a figure that is expected to double by 2045. There is considerable apprehension about what this demographic youth bulge may mean for political stability and development if economic opportunities are not available. This possibility should spur African leaders to tackle the obstacles to structural economic transformation—power generation, infrastructural development, regional integration—with far greater urgency. But leaders should also look to Africa’s large youth cohort as a potential engine of growth and development, innovation, and entrepreneurship, particularly as workforces in other parts of the world—China and Europe, for example—age.

LEADERS SHOULD ALSO LOOK TO AFRICA’S LARGE YOUTH COHORT AS A POTENTIAL ENGINE OF GROWTH AND DEVELOPMENT, INNOVATION, AND ENTREPRENEURSHIP.

KEYS TO SUCCESS

Encourage training collaborations: Large investors that are looking strategically at Africa have a strong incentive in building up the skill sets of potential employees to maximize commercial efficiency, and a number of companies are investing in collaborative partnerships with governments and educational institutions.

In Mozambique, GE is partnering with the African Leadership Academy and the Eduardo Mondlane University to provide scholarships in technical and engineering fields that will be badly needed as the country begins to develop its offshore gas resources. The GE Oil and Gas University will hold specific training modules for professionals in the National Hydrocarbons Agency and National Petroleum Industry on areas related to oil and gas industry management. In Nigeria, Cummins Inc. is approaching other companies who hire from the same labor pool to float the idea of committing joint resources to vocational training and education programs. Tullow Oil provides 110 fully paid scholarships to public servants and students in areas such as technology and engineering, oil and gas economics, logistics and supply chain, and business journalism.23

The Tony Elumelu Foundation, founded by the Nigerian chair of Heirs Holding and former CEO of the United Bank of Africa, sponsors an African Markets Internship Program, which places top students from business schools in Ghana, Kenya, Nigeria, South Africa, the United States, and Europe, in high-performing, African-owned and operated businesses to build real-life managerial and entrepreneurial skills.

More governments and private companies are looking to collaborate to expand training opportunities for midcareer officials and personnel in technical areas such as procurement, management, and planning.

**Build regional labor pools:** A core element of regional integration and economic competitiveness is the ability of labor to move easily across borders. Yet visa requirements for intra-African migration are among the most restrictive in the world. Large international companies that are looking at long-term engagement in Africa are willing to make considerable investments in local workforce development, as noted above. But for newer players, in sectors that are less commercially certain, the large up-front investments in training and the constraints on hiring top-line personnel may serve as a deterrent. Visa restrictions and local content regulations limit opportunities to draw on a larger talent pool but also cost national economies in long-term competitiveness.

Intraregional labor mobility and local hire requirements are often politically charged issues, as policymakers seek to protect domestic employment opportunities. But restricting cross-border movement may also limit the entry of regional entrepreneurs and investors who can create jobs, bring expertise and know-how, and help develop new industries. Ultimately, the onus is on African governments to be strategic and balanced in setting the terms of their relationships with international companies and investors, and these decisions must be based on sound analysis and understanding of short- and long-term consequences.

**Reach out to the diaspora:** The African diaspora offers a major pool of talent and technical expertise that can be harnessed to build capacity on the continent. As Africa’s fortunes continue to rise, many in the diaspora are looking at investment and employment opportunities in their countries of origin, and global firms are benefiting. IBM’s head of operations in Ghana and the Kenyan head of its East Africa division, for example, were both coaxed back from overseas. Many in the African diaspora have the technical and managerial skills their home countries lack and can further support economic growth through their knowledge of foreign private sectors. A number of programs have been structured around short-term stints in the country of origin, for example, the Ethiopian North American Health Professionals Association, which works to support health care in Ethiopia through biannual missions and transfer of knowledge, skills, and state-of-the-art technology.24

**Invest in the workforce of the future:** Africa is not short of talented individuals with entrepreneurial skills and business know-how. But investors often cite the lack of manage-

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rial and leadership skills, as well as the shortage of STEM skills (science, technology, engineering, and mathematics) among the African workforce.

A central priority, if African governments are to lay the ground for long-term sustained growth and competitiveness, must be to improve the accessibility and quality of education at primary and secondary levels. This is a basic requirement to nurture and build a pool of graduates with solid practical skills, capacity to adapt to new industries, and a grounding in national development priorities.

With increasing constraints on public funding and foreign development assistance, expanding both the reach and quality of the educational system will be a major challenge and fiscal burden. But the longer-term costs of failed education systems should prompt greater urgency in finding efficiencies, strengthening quality assurance and oversight, and looking to new technologies and partnerships to expand educational opportunities.

A number of new initiatives are under way to boost tertiary education levels in Africa at a regional level. The Pan African University was launched by the African Union in 2011, creating centers of excellence at regional hub universities open to high-performing students from across Africa, in fields like science, technology, energy, and earth sciences. The World Bank has taken a similar regional approach, working to strengthen select higher education institutions in West and Central Africa, to focus on training and applied research in areas such as water, infrastructure, hospitality industries, banking, and information and communication technology, the areas of growth and opportunity in the coming decade.

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The Path Ahead

Africa’s trajectory over the last decade has opened up big new opportunities for transformational growth and development, and the continent today is taken far more seriously as a potential target for major investment, finance, and export flows. The continent is hugely diverse, and not all countries will benefit equally. Those with large populations—Nigeria, South Africa, and Ethiopia, for example—have the advantage of large and expanding internal markets that can potentially drive consumption and growth into the future. Those with abundant mineral and energy endowments—Nigeria, Angola, the Democratic Republic of Congo, and a number of up-and-coming energy producers, for example—may be able to rely for some time on continued export of primary commodities. But whether African countries take full advantage of today’s opportunities to become more fully integrated into global markets and supply chains is not assured. Some countries will likely rise to the challenge, but others will fall badly behind. The high commodity demand that has helped underpin current growth trends is not invulnerable—a slowdown or reorientation within the Chinese economy, for example, could have a dramatic impact for a number of African countries.
commodity exporters. And failure to build a strong economic development base that gives opportunity to young, urbanizing populations could generate political instability that reverses current gains.

African governments therefore have a window in which to prepare the ground for long-term growth, maximize current investment and finance opportunities, and make the up-front investments that will drive economic transformation. Governments, the private sector, and civil society all have a role to play. Government must help drive the process through a clearly articulated long-term vision; a business environment that promotes economic competitiveness, regulatory rules, and enforcement capacities that protect citizens and the environment; and robust investment in the well-being and education of its citizens. Private investors, too, should look to the long term if they want to accelerate and ultimately benefit from the big opportunities on the horizon. Universities, think tanks, and advocacy groups can play a critical role in providing strategic analysis and vision, informing public debate, and highlighting emerging models of progress and success. And African citizens themselves can build constituencies for reform and oversight that ensure that benefits and opportunity are equitably distributed and that hold governments and private-sector players to account.
Jennifer G. Cooke is director of the CSIS Africa Program, which she joined in 2000. The Africa Program covers a broad range of U.S.-Africa policy issues, including security engagement, health assistance, conflict diplomacy, and support for good governance. It places special emphasis on analyzing political and economic dynamics within African states to better inform U.S. policy choices. Ms. Cooke has authored numerous CSIS reports, most recently a report on strengthening U.S.-Africa commercial engagement and in 2011 a leading a study commissioned by U.S. Africa Command that examined potential sources of instability in a range of African states. Other recent reports examine South Africa’s evolving health diplomacy, Nigeria’s battle with polio, U.S. approaches to police reform, and China’s evolving role in Africa. With J. Stephen Morrison, she is coeditor of *U.S. Africa Policy beyond the Bush Years* (CSIS, 2009) and *Africa Policy in the Clinton Years* (CSIS, 2001). She is a frequent commentator in print, on radio, and on television. She has testified before Congress on multiple occasions, most recently on the threat of Boko Haram in Nigeria and on the political crisis in Côte d’Ivoire.

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Downie joined CSIS following a decade-long career in journalism. He was a reporter for several newspapers in the United Kingdom before joining the British Broadcasting Corporation (BBC), where he worked as a senior broadcast journalist covering the leading international stories of the day for radio and television. Since then, he has conducted research and completed writing projects on Africa for the Council on Foreign Relations and
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Africa at a Crossroads
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