TRADE & DIVERSIFICATION

Key commitments

Africa: African governments have consistently emphasised the importance of trade, with three broad inter-related sets of commitments:

(a) to reduce supply-side constraints, improve competitiveness and promote industrialisation and diversification; (b) to take practical steps to reduce trade barriers and facilitate trade; and (c) to deepen regional integration.

Recent commitments emphasise regional integration, removal of tariff and non-tariff barriers to intra-African trade and modernising domestic and regional trading systems. In January 2012, the African Union (AU) adopted a Decision and a Declaration to boost intra-African trade and fast-track the establishment of the Continental Free Trade Area (CFTA) by 2017. Trade targets include a doubling of Africa's share of global trade by 2040.

Development partners: have reiterated, including at the WTO and in the G-20 and G-8, commitments to: (a) maintain trade finance, keep markets open, roll back new protectionist measures, and refrain from raising new trade barriers or imposing new export restrictions; (b) bring the Doha Development Round to a balanced and ambitious conclusion; (c) make progress towards duty-free and quota-free (DFQF) market access for Least Developed Country (LDC) products); (d) support enhanced trade capacity, including specific commitments in the 2010 G-20 Multi Year Action Plan on Development, to at least maintain global Aid for Trade (AfT) levels beyond 2011 above the 2006-08 annual average.

What has been done to deliver on these commitments?

Africa: Supply: African governments and Regional Economic Communities (RECs) are tackling supply-side and competitiveness problems through regional initiatives that build productive capacity, including the Programme for Infrastructure Development in Africa (PIDA) (see Topic 3), the Comprehensive Africa Agriculture Development Programme (CAADP) (see Topic 2), Africa's Agro-industry and Agribusiness Development Initiative (3ADI) and the Accelerated Industrial Development in Africa (AIDA) action plan; Tariff barriers: have fallen but still have further to go. African average applied import tariffs (excluding North Africa) fell from 16.7% to 7.8% between 2000-2010, through unilateral measures and regional integration protocols; Regional integration: Adoption of an Action Plan for Boosting Intra-African Trade in 2012 and

creation of the CFTA (see also Box 2) have accelerated regional initiatives, notably the establishment of a COMESA-EAC-SADC Tripartite FTA by 2014 - an integrated market of 26 countries accounting for 54% of Africa's GDP in 2011 - and the establishment of FTAs in other RECs by the same date. Inter-RECs coordination is being reinforced by the newly created High-level African Trade Committee (HATC), composed of chairs of RECs and African heads of state. **Development partners:** *Protectionism*: At the 2012 Los Cabos Summit G-20 leaders expressed deep concern over rising protectionism, with 124 new trade restrictive measures introduced between October 2011 and April 2012. They extended their standstill commitment to end-2014. The pace slowed to 71 new measures between May and September 2012. Nevertheless, these add to restrictions established since the beginning of the global crisis, most of which remain in effect: restrictive measures put in place since October 2008, excluding those since terminated, cover around 3% of world merchandise trade (4% of trade of G-20 economies); Doha and preferential treatment: The Doha Round remains stalled. There has been some progress on duty and quota free market access for LDCs, with several emerging economies introducing preferential schemes. At the end of 2011, WTO members adopted a waiver to allow preferential treatment to LDC services and service suppliers, and all but one developed country member currently provide DFQF market access to 97% of products originating from LDCs. There has, however, been uneven progress in Africa's bilateral preferential arrangements with its major trading partners. Important progress was made on specific issues with one major trading partner. Most Economic Partnership Agreements with another major trading partner are still under final negotiation; African AfT: rose from an annual average of US\$11.4 billion over 2006-2008 to US\$17.4 billion in 2010, making Africa the largest AfT recipient. Economic infrastructure received the greatest support, followed by productive capacity. AfT dropped to US\$13.1 billion in 2011, although still above the 2006-08 average. The next global review will be available in July 2013.

What results have been achieved?

Africa's merchandise exports grew rapidly from US\$148.5 billion in 2000 and to US\$560.8 billion in 2008. After a sharp fall in 2009 due to the contraction of world trade combined with a fall in fuel, agricultural and food commodity prices, Africa had rebounded in 2012 recording an all-time high merchandise export

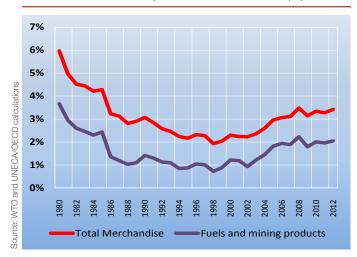
(NEW DATA) More needed to tackle supply side constraints, reduce trade barriers, deepen intra-African trade and deliver Doha commitments.



value of US\$626 billion. Key factors were the wider recovery in world trade and strengthening commodity prices. This figure represented 3.4% of total world exports - up from 2.3% in 2000, but still only around half the level of the early 1980s. There has been a corresponding growth in Africa as an export market: Africa's share of global merchandise imports has risen from 2% to 3.3% over this period. The low share of intra-regional trade means that these are mainly imports from the rest of the world.

Africa's merchandise trade balance was positive over most of the decade, moving from a surplus of US\$18.8 billion in 2000 to a surplus of US\$80 billion in 2008. It fell into deficit in 2009 due to a deterioration in Africa's terms of trade resulting from the crisis. With a recovery in the terms of trade since 2009 it has returned to surplus, though at a lower level - US\$22 billion in 2012. However African exports remain poorly diversified. In 2012 60% were oil and mining products, a figure which has increased since 2000 (53%) due to the boom in commodity prices. In 2011, African export of manufactured goods accounted for less than 1% of global manufactured exports, and in 2012 its export of services accounted for 2.1% of global commercial services exports. In contrast, Africa's export markets

Share of African trade exports in total world trade (%)



have become more diversified. Europe and North America continue to absorb most African merchandise exports, though the share to developing countries is increasing dramatically, from 28% to 43% between 2005 and 2011. China has gradually progressed from one of Africa's smallest trading partners in 2001 to the largest export market and largest source of imports by 2012. Intra-regional trade remains low, constituting only about 10% of total African trade (imports and exports), on average, over the last decade. However, this is gradually increasing, with proportions rising to 12% and 13% of total African exports in 2010 and 2011. The share of intra-African manufacture exports is growing even faster, reaching 26% of total African manufacture exports in 2011 versus 17% in 2005. Though this share is significantly lower than in Asia (53%) and South and Central America (23%), it reflects important progress in some RECs, such as COMESA and EAC, where intra-regional trade has been booming in recent years as a result of improving trade facilitation and growing regional demand.

What are the future priority actions?

Africa

- Continue to address supply-side constraints and pursue economic diversification to improve productive capacities and competitiveness (see also Topic 3);
- Continue to remove constraints to trade, including reduction of tariff and non-tariff barriers and further trade facilitation measures;
- Accelerate regional economic integration, finalise the tripartite FTA and establishment of FTAs within other RECs by 2014 and work towards the establishment of the CFTA by 2017.

- Dismantle the restrictive trade measures put in place since the global financial and economic crisis;
- Agree with other parties how to bring the Doha Round to a balanced and ambitious conclusion, whilst also striving for early harvest agreements, including on trade facilitation;
- Conclude outstanding negotiations on bilateral preferential trade agreements with Africa.

AGRICULTURE

Key commitments

Africa: African governments have committed to raise the share of their national budget allocated to agriculture to 10%, and through the Comprehensive Africa Agriculture Development Programme (CAADP) Framework have called for annual agricultural growth rates of 6%. They have committed to increase food and agricultural trade within Africa and harmonise fertiliser policies to reduce procurement costs. In 2009, the African Union (AU) acknowledged CAADP as the overarching framework for agricultural development and investment. In 2013 it adopted a strategy for sustaining the momentum of CAADP.

Development partners: Development partners committed to mobilise US\$20 billion over three years for agricultural development and food security (see also Topic 9) under the 2009 L'Aquila Food Security Initiative (AFSI). In 2012 G-8 leaders committed to promptly fulfill outstanding L'Aquila pledges. Under the New Alliance for Food Security and Nutrition, aimed at lifting 50 million people out of poverty over the next 10 years, they committed continued support for sustained and inclusive agricultural growth aligned to country plans. The food security pillar of the G-20 Multi-Year Action Plan on Development, adopted at Seoul in 2010, endorsed enhanced policy coherence on agriculture and food security and commissioned work on food price volatility and responsible agricultural investment. The G-20 subsequently endorsed an Action Plan on Food Price Volatility and Increasing Agricultural Production and Productivity at its 2011 Summit in Cannes, and agreed to further work at the 2012 Summit in Los Cabos.

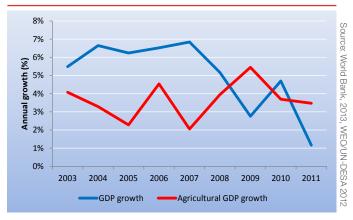
What has been done to deliver on these commitments?

Africa: Monitoring progress towards the 10% Maputo target is hindered by poor data, but suggests a mixed picture. For Africa as a whole, public expenditure in agriculture increased at a slower rate in 2003-09 compared to 1995-2003, and the share of total expenditure fell from 6% to 5.3%. Some sub-regions, however, particularly in eastern and southern Africa, show improved performance in both indicators, with Africa's average annual increase in public agriculture expenditure (excluding North Africa) doubling from 8%

to 15% over 2003-09, and the share in total expenditure rising from 6% to 7%. However, since 2003 only 11 of 34 countries for which data is available met or surpassed the CAADP 10% target, and only 7 have consistently surpassed the target in most years. Despite the higher profile which CAADP has given to agriculture, with over 40 countries signing CAADP Compacts, and despite some significant increases in public expenditure since 2003, African agriculture continues to suffer from under-investment. ECOWAS and COMESA have moved to harmonise fertiliser regulatory frameworks and trade policy. Countries have made progress in reforming the legal and regulatory framework and eliminating tariffs and taxes: 65% and 75% of countries did not have tariffs and taxes respectively on fertilisers in 2008.

Development partners: Total pledges under AFSI amounted to US\$22 billion, of which US\$16 billion represented already planned expenditure and US\$6 billion additional funding. By end-2012 67% (almost US\$15 billion) had been disbursed globally to both agriculture and other sectors addressing food security. OECD data shows that assistance specifically to agriculture in Africa increased from US\$1.9 billion in 2008 to US\$3.0 billion in 2011. The total over 2009-11 was US\$8.1 billion. The 2011 G-20 Action Plan included general commitments spanning support for agricultural growth and productivity, improvements to market information and functioning, and international

African annual GDP and agricultural GDP growth (%)



Some countries increasing expenditures, but agricultural growth remains below 6%, below economic growth and declining in some cases. More needed on investment, trade and policy reform.



co-ordination. Specific initiatives launched the same year included an International Research Initiative for Wheat Improvement (IRIWI) and the Agricultural Market Information System (AMIS) (see also Topic 9). Progress on wider policy issues relating to agriculture has been more uneven. There have been important changes to agricultural policies in many OECD countries over the past decade. Whilst total support to the sector has risen to an annual average of \$389 billion in 2009-11, the share provided in the most market distorting form (price support and input subsidies) has fallen from 90% in the 1980s to 58%, reducing the international spill-over effects. However, significant distortions remain and in the context of high food prices new policy coherence issues have emerged, including the use of biofuel mandates and export restrictions in non-OECD countries. Policies in emerging economies are increasingly important in all these areas, as well as those in OECD countries.

What results have been achieved?

Growth: With the exception of two years, agricultural growth has been consistently slower than the economy overall for the past decade. Growth has remained significantly below the 6% CAADP target: 4.2% for Africa as a whole over 2003-2010 and 3.8% with North Africa excluded, down from 4.7% and 4.1% respectively over 1995-2003. Average growth declined in four out of five African sub-regions between 1995-2003 and 2003-2010.

Productivity: Productivity increased since the mid-1980s, although this represents catching up with levels achieved in the early 1960s. Production increases depended heavily on expansion of cultivated land. African yields per hectare for cereals are among the lowest in the world: they rose marginally from 1.1t/ha in 1995-2003 to 1.3t/ha in 2003-2010, compared to over 5 t/ ha in high income countries. Average fertiliser consumption has not increased significantly, stagnating around 11-13kg/ha in the last decade, less than 10% of the world average and well below the Abuja 50 kg/ha target. Only three countries exceeded this target in 2009.

Access to land and environmental sustainability: Arable land increased from around 180 million ha in 1989 to 224.4 million ha in 2009, but this has not kept pace with population growth over the period. Only 6% of arable land is irrigated and less than 3 million ha have been brought under irrigation over 1989-2009 (see also Topic 3). It is estimated that as much as 70% of Africa's cultivable land remains uncultivated. International investors are leasing or purchasing large areas of land for biofuels, food crops and forestry development. Estimates of the total area of international land acquisitions in Africa between 2000-2010 range from 17 million ha to 34 million ha.

Trade and diversification: Although some countries have diversified into high added-value products, most trade is in bulk agricultural commodities. Africa's share of the global agricultural export market remains low and is concentrated in a small number of countries. Its share of global agricultural exports has risen marginally from 3.2% in 2005 to 3.6% in 2011. Its share of food product exports is even lower: 3.4% in 2011 (up from 3.1% in 2005).

What are the future priority actions?

Africa

Accelerate CAADP implementation by:

- · Continuing policy and institutional reform, particularly to create a predictable policy framework that fosters responsible private investment and addresses market failures:
- Increasing public investment, including in irrigation, rural infrastructure and research and development;
- Accelerating efforts to improve agricultural productivity, with special attention to women and smallholders and to the full implementation of the Abuja Declaration on Fertilizers;
- Taking the potential impact of climate change into account in the design and implementation of policies.

- Deliver commitments under AFSI and the New Alliance for Food Security and Nutrition (see also Topic 9);
- Intensify efforts to promote greater coherence between agriculture and development policies, including through eliminating market distorting support measures, continuing to reduce trade restrictions on both exports and imports, and avoiding detrimental spill-over effects from biofuel mandates (see also Topic 1):
- Promote responsible investment in agriculture in line with recognised international principles.

INFRASTRUCTURE

Key commitments

Africa: African governments have emphasised infrastructure – energy, transport, water and ICT - making commitments to strengthen national planning frameworks, reform and harmonise the regulatory environment, mobilise increased private and public resources and develop regional and continental programmes. The 2010 Programme for Infrastructure Development in Africa (PIDA) provides a long-term framework for infrastructure development and 51 projects contained in its Priority Action Plan (PAP) were prioritised in 2012. Governments have also agreed to support the Presidential Infrastructure Champion Initiative (PICI). Targets include: (a) 35% of the population have access to electricity by 2020; (b) proportions living beyond 2 km from an all-season road halved by 2015; (c) proportions without access to safe water and sanitation reduced by 75% by 2015, and (d) all African capitals' and major cities' information networks interconnected by 2012. **Development partners:** Development partners have undertaken to increase financial support, help mobilise private sector participation and enhance implementation capacity (see also Topic 4), with specific commitments to promote clean energy and energy efficiency. The infrastructure pillar of the Seoul Multi-Year Action Plan adopted in 2010 committed the G-20 to overcome obstacles to investment, develop project pipelines, improve capacity and facilitate increased finance. The G-20 has called on the Multilateral Development Banks (MDBs) to prioritise implementation of the 5 projects in Africa identified in 2011 by the High Level Panel on Infrastructure (HLP).

What has been done to deliver on these commitments?

Africa: Efforts are underway to promote national and regional infrastructure development. Government financing is substantial, although volumes have been falling, notably in the wake of the financial crisis, with public sector investment at 1-2% of GDP. Further, financing levels are roughly half the estimated US\$93 billion needed annually through to 2015 to sustain 7% growth rates. Inefficiencies caused by planning and regulatory frameworks have contributed to this financing gap. Most countries lack planning frameworks or long-term strategies, although progress varies by sector. The situation is significantly better for road transport and ICT while and energy and water and sanitation

sectors are improving under leadership of African Energy Ministers and the African Ministers' Council on Water. Similarly, while regulatory agencies have been established, capacity remains weak and low implementation is a constraint to growth. Most progress has been in telecommunications. Reforms are underway in the power sector to address electricity shortages and to promote renewable energy. In transport there are efforts to improve logistics and trade facilitation with a focus on land-locked countries. To address these challenges Africa has taken concerted action to increase investment through public-private partnerships (PPPs) and build economies of scale through regional development corridors and power pools. However, PPP financing has dipped since the financial crisis. In 2011, 18 infrastructure projects relied on PPPs - in line with the last three years but much lower than the 2005 peak of 42 projects and a small share of the 343 projects recorded across all developing regions. PPP investments fell 13% in real terms between 2010-2011 to US\$11.4 billion, 20% lower than the 2008 peak. Telecoms accounted for the largest share (80%). On regional progress, crossborder trading of power has begun in South and West Africa and initiatives have been launched in other sectors. An Institutional Architecture has been agreed by AU members to scale up PIDA implementation, which has suffered from bottlenecks and limited resources and implementation capacity. The PICI is also expected to help and Regional Economic Communities are taking a more active role in infrastructure planning, evidenced by the SADC Regional Infrastructure Development Master Plan. However, despite these efforts, the slow and uneven pace of development remains a concern.

Development partners: ODA has continued to increase for infrastructure, within a broader dynamic financing environment. Infrastructure ODA disbursements reported by the OECD doubled from US\$2 billion in 2002 to around US\$4.25 billion in 2006, and doubled again to US\$8.1 billion in 2010 and US\$8.65 billion in 2011. Almost half went to transport and storage, the remainder divided between water supply and sanitation and energy (with a small element for communications). Total funding commitments from all sources fell back to 2009 levels in 2011 at US\$41.5 billion, down from US56 billion in 2010. Commitments from members of the Infrastructure Consortium for Africa (ICA) fell particularly, down to US\$11.7 billion (mainly in non-ODA commitments to transport and energy) with smaller reductions from the private sector, down to US\$10 billion in 2011. Chinese commitments rose from US\$9 billion to US\$15 billion, making it for the first time the largest single source of external finance as measured by commitments.

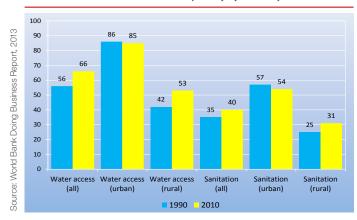
Weak infrastructure remains major constraint to growth and achieving MDGs. Need to improve public-private partnerships and implement PIDA Priority Action Plan.



What results have been achieved?

Despite increased investment, progress has been slow (apart from ICT), and weak infrastructure remains a major constraint to growth and to achieving the MDGs. On several basic infrastructure indicators African countries trail their developing country peers, with the gap particularly noticeable in the density of paved roads and power generation and distribution. Rural access across all sectors is even lower. *Energy*: In North Africa access to electricity is almost universal; in the other four sub-regions only 31% of the population had access in 2010, the lowest level in the world. Small, inefficient national power systems combined with reliance on expensive oil-based generation makes African generating costs exceptionally high (3.5 times that of South Asia). 30 countries have experienced energy crises in recent years. While universal access requires 7,000 MW of new power generation capacity annually, Africa has been installing only 1,000 MW. Investment in modern renewable energy has been limited. Transport: The paved road access rate (19%) in Africa (excluding North Africa) is substantially lower than other regions. Only one-third of the rural population is within 2 km of an all-season road, compared with two thirds in other developing regions. There are only

Access to water and sanitation (% of population)



34 motor vehicles per 1000 people and transport costs are much higher than in other developing regions, compounded by high profit margins for trucking companies. Water and sanitation: Half the continent faces water stress or scarcity. Access to improved water in Africa (excluding North Africa) rose by less than 1% a year over 1990-2010, reaching 66%, (53% and 85% in rural and urban areas respectively). Progress on sanitation has been even slower - only 40% of the population had access to improved sanitation facilities in 2010, marginally up from 35% in 1990 (see also Topic 8). The absence of water storage and irrigation infrastructure has led to severe under-utilisation of the continent's resources. Similarly, only 7% of Africa's hydropower potential outside North Africa has been tapped. ICT: Mobile telephony has been a success and has adapted to local needs (e.g. supporting mobile money transfers). Mobile cellular subscription has risen from 18% to 53% over 2006-2011 (although still lower than other regions such as South Asia (69%) and the 86% global average. The number of internet users is estimated to have grown from 3.5% to 12.3% over 2006-2011.

What are the future priority actions?

Africa

- Rapidly implement PIDA PAP, operationalise the Institutional Architecture for Infrastructure Development in Africa and maintain support to the PICI;
- Continue to improve efficiency of existing infrastructure, reduce costs, and promote private sector participation by revitalising PPPs and encouraging local investment and entrepreneurial development;
- Accelerate implementation of regional initiatives and harmonisation of regulatory frameworks.

- Maintain increased financial support, including through the ICA platform, with a stronger emphasis on large regional and soft infrastructure projects;
- Implement the G-20 HLP recommendations and the MDB action plan in line with PIDA:
- Use aid to leverage increased private investment and innovative financing solutions by supporting an enabling environment for investment and developing non-ODA instruments, such as export credits and investment funds.

THE PRIVATE SECTOR

Key commitments

Africa: African governments have made policy declarations and statements to improve the environment for business, although few specific targets have been set. Private sector growth was identified as a priority in the 2001 NEPAD founding statement and reiterated in the 2010 AU African Private Sector Forum Declaration. These declarations have encouraged private financial flows and partnerships among governments, the private sector and civil society, and approved codes and standards for achieving good economic and corporate governance. Successive commitments have sought to create suitable conditions to develop the private sector, and to promote its role in development through public-private partnerships (PPPs), notably in transport and energy infrastructure (see also Topic 3).

Development partners: Development partners have made commitments to: (a) support African efforts to remove the obstacles to investment and reduce the cost of doing business; (b) help mitigate risks faced by investors; (c) improve synergies between ODA and other sources of development finance and promote PPPs; and (d) to promote responsible investment. The G-20 identified private investment and job creation as a key pillar of the Seoul Multi-Year Action Plan on Development and commissioned work on maximising the value added of private investment, promoting responsible investment and supporting SMEs. In 2012, the G-20 committed to support initiatives improving food security for the poor and vulnerable by encouraging private sector innovation. The G-8 and Africa called on companies to improve their corporate and social responsibility at the 2011 Deauville summit.

What has been done to deliver on these commitments?

Africa: Starting from a low base, Africa is continuing to improve its regulatory environment, although the pace of reform slowed in 2011/2012. According to the World Bank's 2013 Doing Business Report 28 of 46 governments in Africa (excluding North Africa) implemented at least one regulatory reform in 2011-12, down from 36 the previous year. Similarly, while four countries were among the top 10 reformers between 2006 and 2011, only one made the list in 2011/2012. However, the 61% of African governments implementing

new reforms in 2011/2012 still remains above the preceding 2005-2011 average (56%), and globally only one region had a higher proportion of countries implementing new regulations. Among the 50 economies with the largest improvements since 2005, a third are in Africa.

Reforms have particularly focused on making it easier to start a business and improving trade across borders. Several countries have revised their labour codes, making it easier to employ workers. But the region still falls short in a number of regulatory reforms, such as dealing with licenses and protecting investors. The most problematic factors for doing business in the region remain access to financing, corruption, and an inadequate infrastructure. The African Development Bank has supported reforms encouraging strategic investments in private-sector projects and PPPs for infrastructure development, but its overall support to the private sector dropped 28% in 2011, representing 15.3% percent of total approvals – almost half that in 2010.

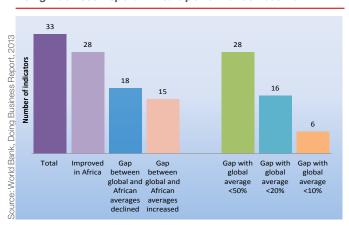
Development partners: An indicator framework developed by the G-20 Interagency Working Group to measure economic value-added and job creation was field tested in 2012 in six low and middle income countries. Efforts continued to promote responsible investment through the revision and strengthening of the OECD Guidelines on Multinational Enterprises, as well as OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. A Supplement on Gold was adopted in 2012 as part of a revised recommendation on the Due Diligence Guidance. Several partners also made progress towards more commercial transparency in trading natural resources with Africa through the introduction of mandatory reporting requirements in one major jurisdiction and consideration being given to this in others.

Other relevant initiatives include the NEPAD/OECD Africa Investment Initiative and the OECD Policy Framework for Investment. Development assistance for business support, banking and finance fell from over US\$2 billion in 2009 to US\$1.3 billion in 2010 and US\$1.2 billion in 2011. However IFC's investments in Africa (excluding North Africa) exceeded \$2 billion in 2011 for the second year running, supporting private sector growth in 31 countries, and reached \$4 billion for fiscal year 2012, helping simplify business procedures, attract investment, create jobs, and stimulate growth. This volume includes credit and risk guarantee mechanisms to promote domestic and foreign direct investment. The World Bank, UNECA and the Public-Private

Continued progress on reforms, although slowing in 2011-12 and behind global progress. High potential from harmonising best practice across sub-regions and improved access to finance, especially for SMEs.



Doing Business Report: Africa's performance 2005-2012



Infrastructure Advisory Fund have also undertaken PPP capacity-building initiatives.

What results have been achieved?

Doing business is significantly easier as a result of reforms. Over 2005-2012, Africa improved in 28 out of 33 sub-indicators defined by the World Bank to measure the ease of doing business. The gap between global and African averages has declined for 18 sub-indicators. For some sub-indicators, such as the average times needed to obtain a construction permit, pay taxes and enforce contracts, Africa reached performance levels comparable to most other regions. But for 15 sub-indicators Africa continues to be outpaced by other regions with a widening performance gap over 2005-2012. Doing business remains challenging compared to other regions, with no narrowing of the overall gap with the global average (31% compared to 30% in 2005). Only 9 African countries were among the World Bank's top 100 doing business rankings in 2012. Capital markets have grown but their small size and lack of liquidity remains a problem and investor protection is weak. And whilst business funding has improved, the banking industry remains con-

centrated, financing costs high and access to credit is a primary inhibitor, particularly for Small and Medium-size Enterprises (SMEs), which account for up to 90% of all businesses in African markets (excluding North Africa). Much remains to be done, although there is wide variation between sub-regions, between countries within sub-regions, and between specific indicators within countries. Harmonising around best practice within sub-regions would dramatically lift the overall standard of the business environment, as well as contribute to regional integration. Whilst the improved business environment has helped Africa attract more investment in the last decade (see Topic 15), it remains disadvantaged compared to other regions, reflected in low shares of global FDI. Despite recent enouraging economic growth in Africa, the global economic crisis saw gross fixed private capital formation decline from 13.0% of GDP in 2005 to 12.5% of GDP in 2010. Low business rankings combined with improved regulatory frameworks elsewhere has, with the exception of a few countries, hindered Africa's competitiveness. Accelerating reforms in the business environment is necessary to help enhance productivity in Africa, close the competitiveness gap with other regions, and boost employment.

What are the future priority actions?

Africa

- Accelerate improvements in the business environment by harmonising around best business practice;
- Accelerate improvements in access to finance, particularly for small-sized firms and informal businesses;
- Promote private sector participation and partnerships in strategic and productive sectors such as energy, transport, agribusiness and agro-industry, particularly through effective implementation of PPPs (see also Topic 3).

- Take forward work to measure the economic value-added and job creation generated by private investment, especially the G-20 indicator framework;
- Increase support for lower-level capacity building to tackle financial, human and technological development constraints;
- Support efforts to improve access to finance, particularly for SMEs as well as the global integration of African capital markets.

ENVIRONMENTAL SUSTAINABILITY

Key commitments

Africa: African countries have committed to integrate environmental sustainability into development planning since the 1992 Rio Conference and have ratified the 3 Rio Conventions: the Convention on Biological Diversity (CBD), the Convention to Combat Desertification (UNCCD), and the UN Framework Conference on Climate Change (UNFCCC) (see Topic 6). In the 2011 Common Position addressing Rio+20 African governments committed to improve environmental governance and strengthen partnerships with non-traditional actors and the private sector. A post-Rio+20 strategy included several new initiatives: an African green economy partnership to facilitate coordinated action; the African Programme on Sustainable Energy Development; the Integrated Waste Management Programme for Africa; the Africa Integrated Environmental Assessment for Sustainable Development Planning; a sustainable land management and desertification program in Africa; and the African Program on Biodiversity and Ecosystems.

Development partners: Partners have ratified multilateral agreements and have committed to support Africa in promoting sustainable forest management and tackling illegal logging and illicit trade in wildlife. They agreed to double, by 2015, international financial flows supporting the CBD, including the Strategic Plan for Biodiversity 2011-2020 and the Aichi Biodiversity Targets.

Jointly: At the Rio+20 Summit in 2012 world leaders agreed to (a) construct a new global environmental agenda built on a green economy addressing sustainable development and poverty eradication, (b) integrate existing Multilateral Environment Agreements, (c) develop a set of sustainable development goals (SDGs) to promote global prosperity, reduce poverty and advance social equity and environmental protection and (d) advance action in areas critical to Africa's sustainable development.

What has been done to deliver on these commitments? (See also Topic 6 on climate change)

Africa: African governments have developed national strategies incorporating economic, social, environmental and institutional dimensions of sustainable development. While some initiatives have moved to action, implementation is weak and effectiveness limited. Inadequate institutional capacity, poor data and

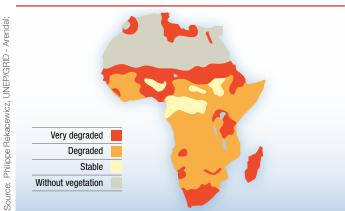
weak priority setting are key constraints, compounded by the limited political influence and budgetary resources of Environment Ministries. (i) CBD: 53 African countries have completed National Biodiversity Strategies and Action Plans (NBSAPs). Of these, 8 have revised their plans and 5 are under revision. Most countries have developed new biodiversity legislation since 2005 and two-thirds are developing or implementing national forest programmes: 39 countries have national plans covering 17% of Africa's forests; 40 countries have forest policies, and 43 have specific forest laws. Regional partnerships and programmes to promote sustainable forestry management have also been established. The UNFCCC Reducing Emissions from Deforestation and Forest Degradation (REDD+) initiative is promoting sustainable forest management, while contributing to climate mitigation by creating a financial value for the carbon stored in trees. (ii) UNCCD: Most governments have developed National Action Programmes to combat desertification and implementation has commenced in some countries. 5 Sub-regional Action Programmes and coordinating organisations have been finalised. A Regional Action Programme (RAP) has been developed with support from the African Development Bank, with regional actions increasingly aligned to the UNCCD. The Great Green Wall for the Sahara and the Sahel Initiative to catalyse sustainable development and poverty reduction in desert margins north and south of the Sahara has received strong international support and the commitment of 11 African governments, but only 1 country has started implementing the initiative.

Development partners: Total ODA for general environmental protection in Africa increased from US\$0.47 billion in 2006 to US\$0.83 billion in 2011. The Global Environment Facility (GEF) has supported over 872 projects in Africa worth US\$2.3 billion since 1991, and in 2012 the US\$849 million supporting active projects in Africa represented 23% of all GEF grants in that year. Specific initiatives have also mobilised substantial sums. The TerrAfrica Initiative, an international partnership launched in 2005 through NEPAD/AfDB, has leveraged US\$1.2 billion to scale up sustainable land and water management in 26 countries. 15 African countries are receiving technical assistance to implement REDD+. The Congo Basin Forest Fund has approved funding for over 40 projects in 5 countries, with several aimed at building readiness for REDD+. However despite these various initiatives, support for general environmental protection in Africa remains a low priority compared to other sectors, representing under 2% of total ODA to Africa.

Environmental sustainability objectives consolidated at Rio+20. More needed on implementation to address continued deforestation, biodiversity loss and land degradation.



Soil degradation in Africa



What results have been achieved?

Weak policies and implementation mean that environmental sustainability remains a serious concern, with larger implications for future sustainable development and poverty reduction. All but 3 African countries are in the bottom half of the 2012 Environmental Performance Index (EPI), which ranks 132 countries over 25 performance indicators assessing performance against established environmental policy goals. In terms of trends, Africa in aggregate slightly underperformed compared to global average over 2000-2012, although 10 African countries individually overperformed.

(i) Biodiversity: Data and information remain patchy. 25 African countries (two more than 2011) have reached a target of having at least 10% of their territorial and marine areas protected, compared to 20 countries in 1990. About 14% of the total forest area in Africa is designated for biodiversity conservation and is growing at 0.7% per annum. But Africa has the highest risk of extinction of medicinal plants (over 50%) with concomitant risks for health and livelihoods. Species diversity is also declining. MDG7B (reduce biodiversity loss by 2010) had not been achieved in Africa at the end of 2012; (ii) **Deforestation:** Although Africa continues to experience deforestation, net forest losses have slowed between 1990 and 2010, particularly in North Africa. Africa's total area of planted forests grew from 11.6 to 15.3 million hectares between 1990 and 2010, with the largest area in North Africa. However the total forest area has fallen from 31.2% in 1990 to 28.1% in 2010. MDG7A1 (increase the proportion of land area covered by forest) thus now looks unlikely to be achieved in Africa. The area of forest management plans has increased more than 4 million ha annually over the last decade. However, only 1% of Africa's forest estates (74,000 km2) have met responsible management standards through Forest Stewardship Council (FSC) certification. While Africa has 17% of world forests it accounts for only 4% of total certified areas; (iii) Desertification: Two-thirds of Africa is classified as deserts or dry lands, concentrated in the Sahel, the Horn of Africa and the Kalahari Desert in Southern Africa. Soil erosion from overgrazing, unsustainable agricultural practices and illegal timber logging, aggravated by climate change, play a major role in overall land degradation, which affects almost two-thirds of the population.

What are the future priority actions?

Africa

- · Accelerate implementation of existing national and regional plans and strategies embracing biodiversity, and combating desertification and climate change;
- Implement the post Rio+ 20 Strategy by integrating strategies for environmental protection and sustainable resource management with poverty reduction strategies in future national and regional development plans;
- Strengthen national and regional institutions to integrate sustainable development and improve coordination across governments.

- Strengthen the priority given to environmental concerns in development assistance by broadening poverty reduction objectives to include environmental sustainability (as requested by the Rio+20 Outcome Document);
- Increase support for implementation of green growth policies in Africa, and develop indicators and other measurement tools to monitor progress towards greener growth;
- Put an international investment strategy in place to facilitate transition towards a green economy following the Rio+20 Summit.

CLIMATE CHANGE

(This section should be read together with the separate Topic 18 - Climate Financing)

Key commitments

Africa: To address the threat posed by climate change, Africa's leaders have taken several decisions and resolutions urging states and Regional Economic Communities (RECs) to integrate climate change adaptation at national and regional levels, to expedite the implementation of existing programmes and initiatives on climate change and to initiate an African green economy partnership. Africa has also committed to developing a common negotiating position on climate change.

Development partners: Under the Kyoto Protocol a number of developed and transition economies committed to collectively reduce greenhouse gas (GHG) emissions by an average of 5.2% below 1990 levels in the first commitment period, ending in 2012. At Doha, 38 developed and transition economies signed up to a second commitment period of the Kyoto Protocol for the period 2013-20.

Jointly: At various climate negotiations, all countries have reiterated their support to set a goal of limiting global warming to 2 degrees Celsius (2°C). At Doha, countries reaffirmed their commitments to develop, before end-2015, a new legal instrument or agreed outcome with legal force applicable to all countries aimed at a substantial reduction in global emissions in the post-2020 period. Under the Cancun Adaptation Framework a process was established to enable Least Developed Countries (LDCs) to address medium- and long-term adaptation needs through national adaptation plans (NAPs). At Doha, parties also agreed to begin addressing loss and damage associated with the impacts of climate change, reflecting a notable shift in climate negotiations from initially a strong focus on mitigation, to including adaptation, and now to discussing the impacts of climate change.

What has been done to deliver on these commitments?

Africa: The Committee of African Heads of State and Government on Climate Change (CAHOSCC) provides the ultimate political guidance on climate negotiations. All 31 African LDCs have developed National Adaptation Programs of Action (NAPAs) which centre on urgent and immediate adaptation needs. 21 of them are implementing climate adaptation projects. 5

countries are in various stages of developing medium- to long-term NAPs. 42 African countries have submitted Nationally Appropriate Mitigation Actions (NAMAs) but few have gone beyond recognising the effort required. 30 countries have prepared Technology Needs Assessments (TNAs) and 3 countries are currently receiving climate-related technology transfer as pilot projects within the context of the long-term program on technology transfer. Half of all African countries have undertaken national resource assessments for renewable energy sources including solar, wind, geo-thermal and biomass. Regional frameworks of climate change programmes have been completed for all 5 sub-regions. An agreement was recently reached by SADC, COME-SA and EAC to conduct a five-year programme to build climate-resilient and carbon-efficient agricultural practices. The ClimDev Africa Programme and the African Climate Policy Centre (ACPC) have helped to improve decision making through analytical capacity, knowledge management and dissemination activities.

Development partners: In aggregate, developed countries reduced emissions by 8.9% between 1990 and 2010. Cuts have been driven primarily by significant reductions in transition economies and to a lesser extent among the original EU15 members. Excluding transition economies, emissions from industrialised countries have risen by 4.9%. More recent trends in energy demand appear particularly worrying. According to the International Energy Agency (IEA), after a dip in 2009 caused by the global financial crisis, global primary energy demand rebounded 8% in 2010-11.

What results have been achieved?

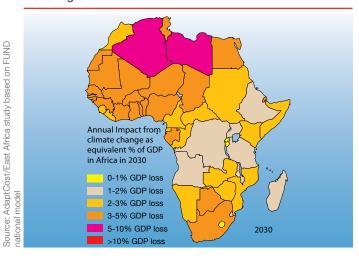
At the global level, recent data from the World Meteorological Organization (WMO) showed that the amount of $\mathrm{CO_2}$ in the atmosphere reached 391 parts per million (ppm) in 2011, a new record, and has been rising by 2 ppm a year for the last 10 years. Based on existing science-based recommendations, 450 ppm is considered the ceiling to stay within the 2°C global warming target by 2100. Expressed in other terms, global GHG emissions must peak before 2020 and decline rapidly afterwards. According to the 2012 UNEP Emissions Gap Report, GHG emissions are estimated at 50 GtCO2e in 2010 and are still growing. Under current pledges by parties and assuming strict accounting rules, the median estimate for emissions in 2020 is 54

Increased international emphasis on climate change impacts but global mitigation efforts require substantial and rapid upscaling of ambition and implementation.



GtCO2e, 22% higher than the 44 GtCO2e ceiling required to stay within 2°C targets. The IEA further warns that continued energy-intensive technology for new projects risks 'locking in' the high level of global GHG emissions. The OECD Environmental Outlook to 2050 warns that without more ambitious policies the atmospheric concentration of GHGs could reach 685 ppm by 2050, driving global temperature increases of 3°C to 6°C above preindustrial levels by 2100. The World Bank similarly warns that without further commitments and actions to reduce GHG emissions, the world is likely to warm by more than 3°C above preindustrial levels, and that even if current mitigation commitments and pledges are fully implemented, there is a 20% likelihood of exceeding 4°C by 2100. While the decision in Doha by 38 developed and transition economies to abide to a second commitment period of the Kyoto Protocol (2013-20) succeeded in extending the only existing legally-binding accord on climate mitigation, these countries currently account for only about 15% of global GHG emissions. Establishing an international agreement beyond the Kyoto Protocol, effective by 2020

High potential costs for most of Africa, higher than for other world regions



and with much more ambitious mitigation commitments from all major emitters - including developed countries and several major developing countries is therefore of paramount importance. Recent projections confirm that Africa will be disproportionately affected by climate change because of overreliance on rain-fed agriculture and weak adaptive capacity. The Intergovernmental Panel on Climate Change (IPCC) has stated that by 2020 between 75 and 250 million people in Africa will be exposed to increased water stress, yields from rain-fed agriculture could be reduced by up to 50% in some regions and agricultural production, including access to food, may be severely compromised. Arid and semi-arid lands are likely to increase by up to 8%. While climate impacts are increasing in severity, mainstreaming climate adaptation efforts and contributing to the global mitigation effort in Africa have begun. Despite the challenges in evaluating the impact of these national and regional efforts, recent initiatives by the Global Adaptation Institute (GAIN) to rank countries by their vulnerability to climate change and readiness to adapt show that out of the 40 countries for which the GAIN Index is available, 19 have shown an improvement in their readiness to adapt while 10 have experienced a deterioration. A few countries have gone beyond the preparation of NAPAs and have developed green growth and climate resilience strategies.

What are the future priority actions?

- Improve the scientific information base and capacity of countries and RECs to better incorporate climate considerations into decision making and development;
- Improve regulatory frameworks to attract low carbon/climate resilient investments.

- Increase substantially the ambitions of emission reductions as part of global efforts to keep global temperature warming limited to 2°C;
- Identify practical ways to support African countries in their efforts to reduce vulnerability and build resilience to climate change and to develop green growth activities:
- Integrate climate adaptation into development co-operation by assessing climate risks and opportunities within national government processes, at sectoral and project levels, and in both urban and rural contexts.