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Final Thesis

**Africa development beyond aids
The role of private sector and the challenges of
international actors in the economic growth**

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Abstract

Although Africa is experiencing positive economic growth rates, the efforts that have been made in recent decades with international aid to achieve the Millennium Development Goals have not been sufficient in fact, the African economy, compared with that of other world regions, consistently underperforms on average across all the pillars of competitiveness. The aim of this thesis is to analyze the economic policy that has been pursued, its consequences and the further development opportunities. In this perspective it is going to be analyzed the role of the private investments, that are becoming increasingly important, and the changes and challenges that the traditional international actors should face in order to achieve common development goals.

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Introduction

The Africa of today is a reality that is moving and evolving, however, despite having faced situations of economic growth, Africa still underperforms in terms of competitiveness if compared with other world macro regions. The aim of this study is to understand the factors influencing the economic growth and human development, and the challenges that international actors have to face in order to set a long lasting path for the well-being of African population, considering that a decade of growth have not been enough to solve the problem of mass poverty. In this perspective the attention will be focused on the increasing role of the private investments in the international collaboration for the achievement of the Sustainable Development Goals. The interest in seeking the factors that influence economic growth and that lock Africa in poverty is widespread in the international scenario of research because it allows to understand the causes, the possible solutions and the challenges to face in order to make a further effort for the Africa development. International institutions such as OCSE, ILO and United Nations have focused the attention since 2002 on rules and standards to be imposed to international investors for a prosperous and sustainable business environment, but there are still many steps forward to do in order to achieve development goals. Moreover, the role of private investors seems to be considered very important by the Italian government since it has provided in 2014 some tools for facilitating private investments in developing countries.

The phases of this study have required the application of different methods of investigation. In the first phase, in which are analyzed the macroeconomic indicators, the financial flows and the competitive dynamics of Africa, the information has been obtained from websites, international research institutions, public records research institutes, speeches at conferences on development issues. For the literature review has been studied books and magazines important in the global debate.

In the statistical analysis of the factors affecting human development has been made a comparison of various development index, considering data that are collected by various Institutes of the United Nations and put together by the UNDP to construct the Human Development Index and an array of other indicators. The analysis refers to the latest release of such data, in particular to 2014 values and includes also an historical wave of data concerning HDI evolution. It has been used the linear regression statistical tool with the purpose to provide an all-embracing landscape where to contextualize our main findings about human development in Sub-Saharan countries.

This study starts with the analysis of the current scenario of macroeconomic data, the flow of finances and the demographic revolution with their impact on the economic growth.

In the second chapter the attention is focused on the importance of the institutional assets as they are considered from the authors of literature the determinant of the incentives to save, invest, educate, engage, innovate and adopt new technologies in the developing countries creating a level playing field and a prosper business environment. The analysis than evolves in order to understand what are the killers of growth identified by many researchers with the economic factors that lock the African countries into poverty. It has been executed a statistical analysis in order to understand what are the factors that determine the differences among African states and in particular the reason why some states are more developed than others. This analysis has permitted to find interesting results on the quality of institutions influencing the Human Development.

Many are the challenges to face in order to better off the African situation. The third chapter is focused on the regional development strategies and trade policies that have to be set by international actors in order to reduce the borders between markets, lowering transaction costs, bureaucracy, institutional barriers and establishing economic partnership agreements. The efforts are still not enough and in this chapter are presented the future challenges to face: the transformation of the agricultural sector to sustain the demographic revolution, the address of the illegal and informal market into official ways of organization, the provision of urban and infrastructure policies to face the expansion of urbanization. It is presented an overview of the communication and banking services considered by the literature as accelerators of growth, than the research goes deepen the argument of the fight against corruption giving practical tools that should be applied.

Since the private investments are getting an increasing role in the international cooperation for the achievement of the Sustainable Development Goals it has been investigated the evolution of their involvement in the global scenario, the different categories of participation and the positive results of its involvement and application. It has been therefore studied how the Italian government considers the private investments and what are the tools provided to help the Italian companies in their activities in developing countries. To conclude, it has been studied the successful case of Pedon Spa, an Italian company operating in the international context, in order to

understand the elements of a model that could be considered replicable in the Multinational companies.

1 Analysis of African economic trends

Africa is a dynamic continent, rich in contradictions and opportunities. The colonial heritage, the mediocre economic policies and governance, the inadequate infrastructures, corruption, AIDS plagues are only some of the causes that have made Africa the only region in the world in which poverty has grown during the 80s and 90s. But what does Africa look like today? It is possible to still speak of a continent adrift? Certainly not, because in the last ten years it has been witnessed an economic renaissance of the continent and renewed energy.¹ In fact, some African economies have recorded the highest growth rates in the world in terms of GDP².

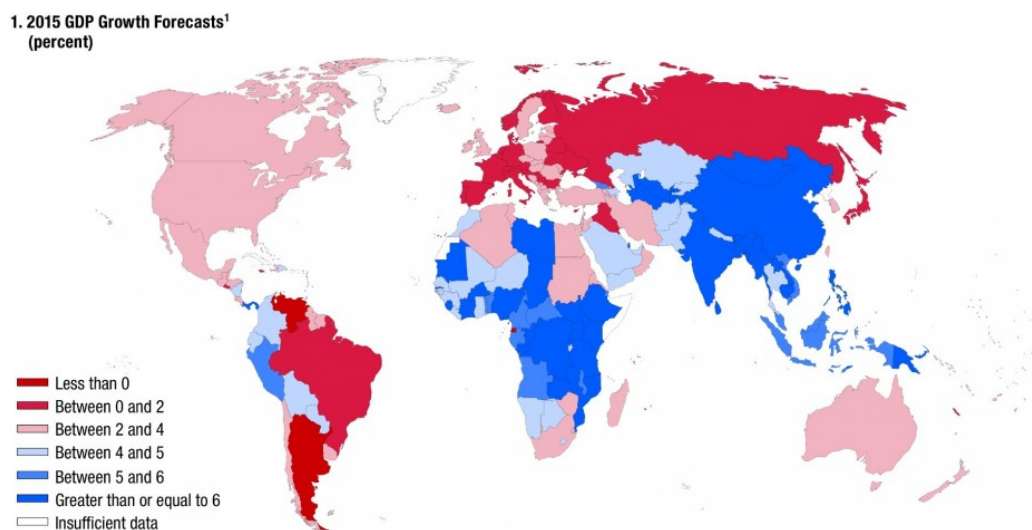


Figure 1: 2015 World's GDP growth forecasts

The Africa of today is a reality that is moving and evolving, it is therefore interesting to understand and explore the actors and the factors of this growth and the implications for the development and well-being of its populations.

The African results in terms of economic growth rate were positive starting from the middle of the 90s and into the Millennium. From 1996 to 2010 the average annual growth rate was 5 percent and the per capita growth rate was 2,5 percent despite a slowdown during the period 2008-2010. This means that the per capita income level in 2010 had exceeded that of 1995 by nearly 50 percent. In the first decade of the Millennium, Africa had almost doubled its per capita income level³.

¹ Source: Vijay Mahajan, *"Africa rising, How 900 Million African Consumers Offer More Than You think"*,

² Source: IMF, *"World economic outlook: uneven growth – short and long terms"* (pp.45-48), 2015

³ Source: Marco Zupi, Cespi research center of international politics, *"L'Africa e le trasformazioni in corso"*, 2014

Africa benefited from the increase of the commodity prices and oil prices, which went from less than \$20 a barrel in 1999 to more than \$145 in 2008. Prices for minerals, grain, and other raw materials have increased thanks to the global demand⁴.

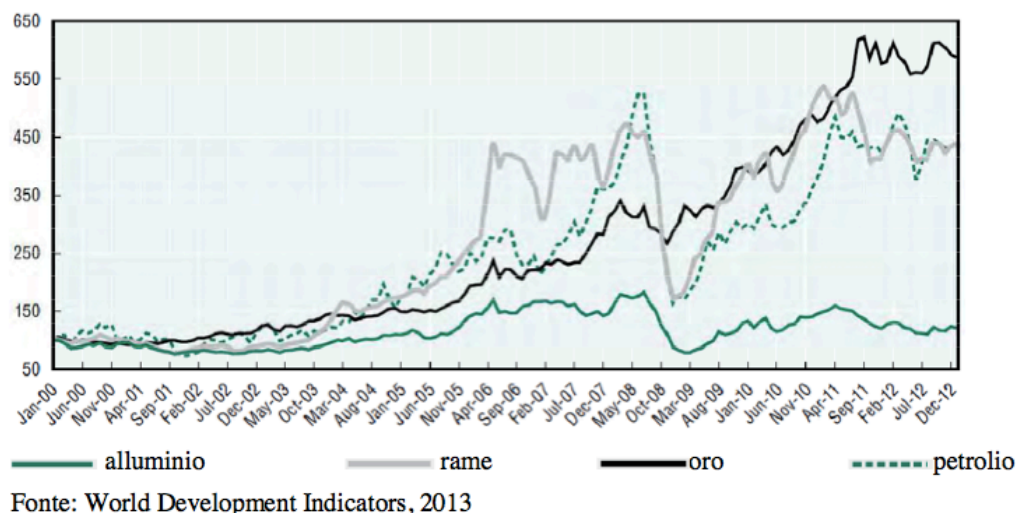


Figure 2: The increase of commodity prices 2000-2012 (base: January 2000=100)

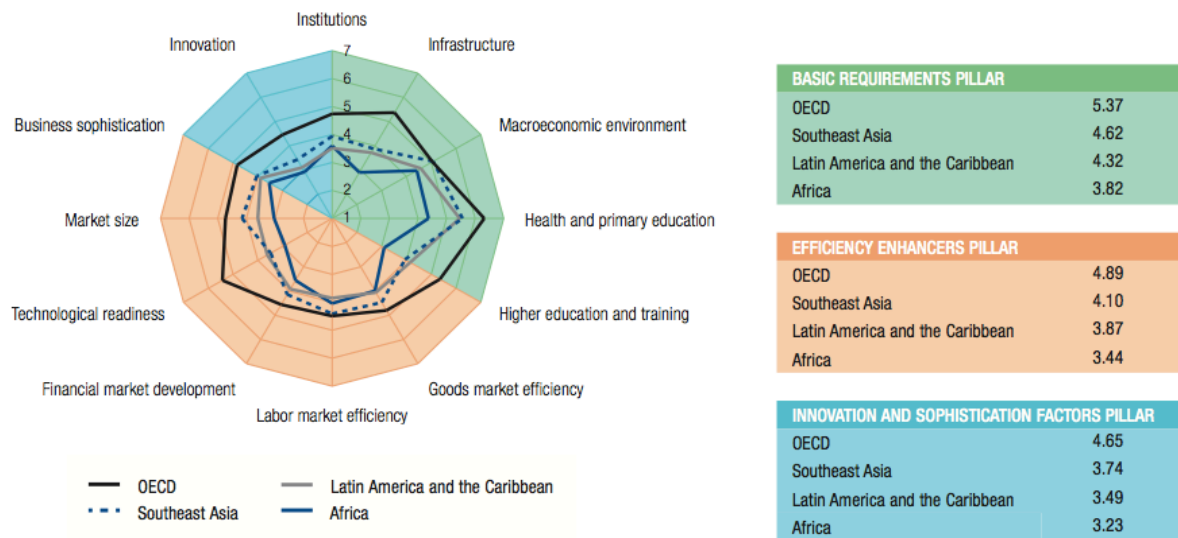
The increase in commodity prices is only one of the causes of Africa's wide growth. Other sectors such as wholesale and retail, transportation, construction, and manufacturing generated the two thirds of the GDP growth from 2000 to 2008. Nowadays other sectors such as banking and telecommunications contribute to a further growth. There has been a great commitment by the African governments to act for the end of arms conflicts, to improve macroeconomic conditions and to create a better business climate undertaking microeconomic reforms and adopting policies energizing the markets: the privatization of the own-state enterprises, the establishment of trade policies, the lowering of corporate taxes, the strengthening of regulatory and legal systems. For instance between 1999 and 2006 Nigeria privatized more than 116 enterprises and Morocco and Egypt struck free-trade agreements with their major export partners. These important structural changes are the first steps to improve African productivity, helping companies to achieve greater economies of scale, increase investment, and become more competitive.

Despite maintaining such healthy growth rates for over a decade, Africa's levels of productivity are low and the overall competitiveness has remained stagnant. Considering the African competitiveness, many steps have to be done more.

The World Bank in collaboration with OECD in "*The African Competitiveness report*

⁴ Source: Acha Leke and Susan Lund, McKinsey&Company, "*What's driving Africa's growth*", 2010

2015”⁵ compares, in the radar chart below, Africa’s competitiveness during the period 2014-2015 with that of OECD, Southern Asia and Latin American and the Caribbean areas across 12 pillars: institutions, infrastructures, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication and innovation.



Source: World Economic Forum, 2014a.

Note: **Africa** includes Algeria, Angola, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Chad, Côte d'Ivoire, Egypt, Ethiopia, Gabon, Gambia, Ghana, Guinea, Kenya, Lesotho, Libya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Tunisia, Uganda, Zambia, Zimbabwe; **Latin America and the Caribbean** includes Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, Venezuela; **Southeast Asia** includes Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, Vietnam; **OECD countries** include Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Rep., Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, the United States.

Figure 3: Africa’s performance in regional comparison, 2014-2015

The OECD and the World Bank in the report explain that, overall, Africa’s performance is lower than all the other regions:

“African economies consistently underperform the Southeast Asian average across all the pillars. The most critical gaps continue to be seen in the areas of basic requirements of competitiveness: institutions, infrastructure, education and skills. On a more positive note, Africa’s financial, goods, and labour markets function comparatively well. It will be important to build upon the region’s comparatively efficient markets by investing in other competitiveness-enhancing reforms”.

In terms of global competitiveness, the table below lists the top 15 Sub Sahara African

⁵ Source: World economic forum, World Bank, OECD, “The Africa Competitiveness report 2015”, 2015

countries, according to the 2014/2015 Global Competitiveness Report published by the World Economic Forum (WEF).⁶

Table 3: 2015 Global competitiveness rankings – top 15 countries in sub-Saharan Africa (SSA)

	SSA rank	Global rank
Mauritius	1	39
South Africa	2	56
Botswana	3	74
Namibia	4	88
Kenya	5	90
Zambia	6	96
Gabon	7	106
Lesotho	8	107
Ghana	9	111
Senegal	10	112
Côte d'Ivoire	11	115
Cameroon	12	116
Ethiopia	13	118
Tanzania	14	121
Uganda	15	122

Figure 4: Global Competitiveness Ranking – top 15 countries in Sub Saharan Africa

According to the WEF, significant challenges remain in the region such as closing the infrastructure gap, improving basic health and education facilities, accelerating the transition from agriculture and mining to the secondary and tertiary sectors of the economy.

A negative contribution was given by the net exports that, despite a slight improvement in 2014, show a value of the region's exports, mainly commodities, that are outweighed by the industrial imports. The contraction in net exports of oil- importing countries is expected to accelerate from 2 percent in 2014 to 2.4 percent in 2015. The continued decline in oil prices and the expected depreciation of Africa's currencies are expected to underpin that decline, underlining the need to add value to exports and to diversify the exported materials⁷.

1.1 Macroeconomic data

⁶ Source: PWC, Agribusiness Insights Survey 2014/2015 report "*Africa – are you in for the ride?*", March 2015

⁷ Source: UN Economic Commission for Africa, "Industrializing through trade. Economic Report on Africa 2015", 2015

1.1.1 Africa's performance and prospects

The OECD report “*African Economic Outlook 2015*”⁸ shows the Africa’s impressive economic turnaround from 2000 to 2014 characterized by an average gross domestic product (GDP) growth of 5 percent, more than doubling the 2 per cent growth during the 80s and 90s. It is a growth level higher than the general world growth of 4 percent and the Latin America 3 percent, but it is lower than the emerging and developing Asia 8 percent.

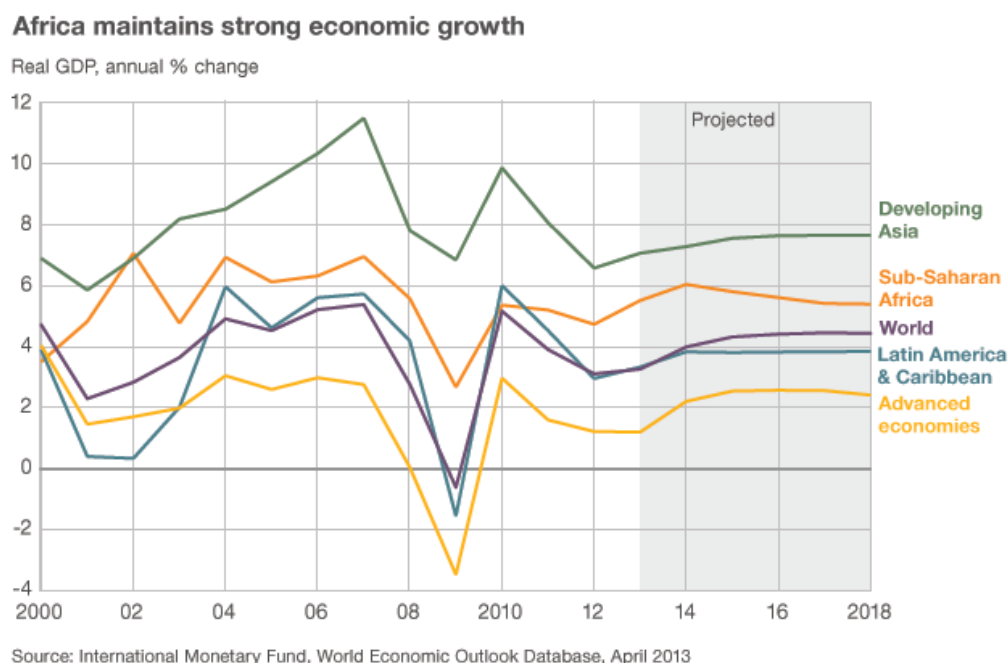


Figure 5: GDP growth rate comparison among world's region⁹

Africa’s GDP growth is expected to be 4.5 percent in 2015, slightly weaker than 2014, and 5 percent in 2016¹⁰. The slowdown mainly reflects the difficulties of the oil sector and of the countries affected by the Ebola outbreak. Excluding these countries and South Africa, the growth is projected to be healthy, even if the impact of the oil price decline is largely offset by that of in other commodity prices.¹¹

Considering the Ebola virus outbreak, the three most affected countries are Liberia, Guinea and Sierra Leone¹². The last report from the World Health Organization (WHO)

⁸ Source: African Development Bank Group, OECD, UNPD, “*African Economic Outlook 2015*”, 2015

⁹ Source: World economic forum, World Bank, OECD, “*The Africa Competitiveness report 2015*”, 2015

¹⁰ Source: IMF, “*Regional Economic Outlook, Sub-Saharan Africa Navigating Headwind*”, 2015

¹¹ Source: African Development Bank Group, OECD, UNPD, “*African Economic Outlook 2015*”, 2015

¹² Source: International Bank for Reconstruction and Development, The World Bank Group, “*The economic impact of the 2014 Ebola Epidemic*”, 2014

dated 2nd September 2015¹³ explains that there have been a total of 28,073 reported confirmed, probable, and suspected cases of EVD in Guinea, Liberia, and Sierra Leone up to 30 August 2015, with 11,290 reported deaths.

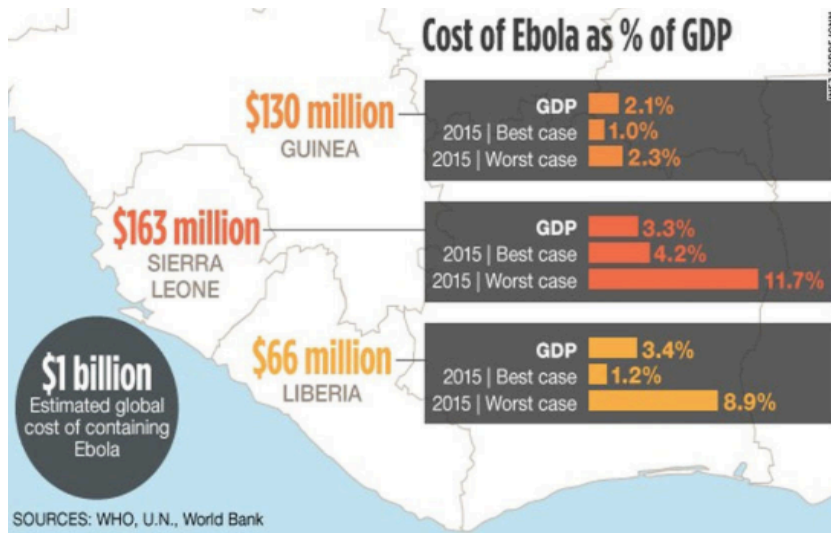


Figure 6: Costs of Ebola as % of GDP

The data of 2014 about the negative impact on output is in the order of -2.1 percent of gross domestic product in Guinea, -3.4 per cent in Liberia and -3.3 percent in Sierra Leone. This forgone output for these three countries corresponds to US 359\$million. The short-term fiscal impacts are also large, at US\$113 million (5.1 percent of GDP) for Liberia; US\$95 million (2.1 percent of GDP) for Sierra Leone and US\$120 million (1.8 percent of GDP) for Guinea. The overall cost of the Ebola epidemic for Sub-Saharan Africa's economy is closer to US\$4 billion. The Bank Group estimates that these three countries will lose at least US\$2.2 billion in forgone economic growth in 2015 as a result of the epidemic¹⁴. The UN Economic Commission for Africa in the “*Industrializing through trade - Economic Report on Africa 2015*” explains that:

“The economic effects on West Africa will be minimal; on the continent, miniscule. Under the LINK/WEFM (World Economy Forecasting Model), EBOLA in both 2014 and 2015 will for West Africa take off 0.1 percentage point from GDP growth and for the entire continent a mere 0.02 percentage point”.¹⁵

¹³ World Health Organization, “*Ebola Situation Report – 2 September 2015*”, September 2015

¹⁴ Source: Ivana Kottasova, CNN from WHO, UN, World Bank, “*World Bank: Cost of Ebola could top\$32 billion*”, 2014

¹⁵ Source: UN Economic Commission for Africa, “*Industrializing through trade. Economic Report on Africa 2015*”, 2015

An understanding of the overall consequences of the Ebola virus can be found in The World Bank Group's report "*The economic impact of the 2014 Ebola epidemic*"¹⁶, where it is explained how the impact of the Ebola epidemic on economic well-being operates through direct and indirect effects. The direct effects are sickness and mortality, which implies the use of health-care resources and the temporary or permanent absence of labour forces. The indirect effect is the change of behaviours resulting from the fear of contagion, fear of association with others, reduction of sane labour force participation, transportation block, closing of land borders with the affected countries by governments and private decisions to disrupt trade, travel, and commerce by cancelling scheduled commercial flights and reducing shipping and cargo services. The largest economic effects of the crisis are not the direct costs but rather those resulting from changes in behaviour, driven by fear, which have resulted in generally lower levels of employment, income, and demand for goods and services. These behavioural consequences have an important negative impact on the GDP of the Countries affected by the virus.

If, on the one hand, it is possible to observe the GDP reduction caused by Ebola, it is also important to highlight the World Bank Group aid effort. The World Bank Group has mobilized US\$1.62 billion for recovery efforts to support the countries hardest hit by Ebola. This includes US\$260 million for Guinea, US\$385 million for Liberia and US\$318 million for Sierra Leone to enable trade, investment and employment.¹⁷

Considering the GDP slowdown due to the fall of oil prices, the World Bank reported in "*Plunging Oil Prices Bring Gains and Losses to the Middle East and North Africa Region*" that at the beginning of 2015 an over 50 percent decline in world oil prices occurred, from US\$115 a barrel in June 2014 to less than US\$50 a barrel producing significant consequences for the African economies.¹⁸ The IMF Direct posted an article entitled "*Seven questions about the recent oil price slump*" on 22 December 2014, where it was explained that the African countries are among the most at risk from the fall in oil prices because of their degree of dependence on oil exports. This article states that:

¹⁶ Source: The World Bank Group in "*The economic impact of the 2014 Ebola epidemic*", 2014

¹⁷ Source: Melanie Mayhew, The World Bank, "*World Bank Group Ebola Response Fact Sheets*", September 2015

¹⁸ Source: Lara Saade, The World Bank, "*Plunging Oil Prices Bring Gains and Losses to the Middle East and North Africa Region*", January 2015

“In Africa, oil exports account for 40-50 percent of GDP for Gabon, Angola and the Republic of the Congo, and 80 percent for Equatorial Guinea. Similarly, Angola, Republic of Congo and Equatorial Guinea, oil also accounts for 75 percent of government revenues.”¹⁹

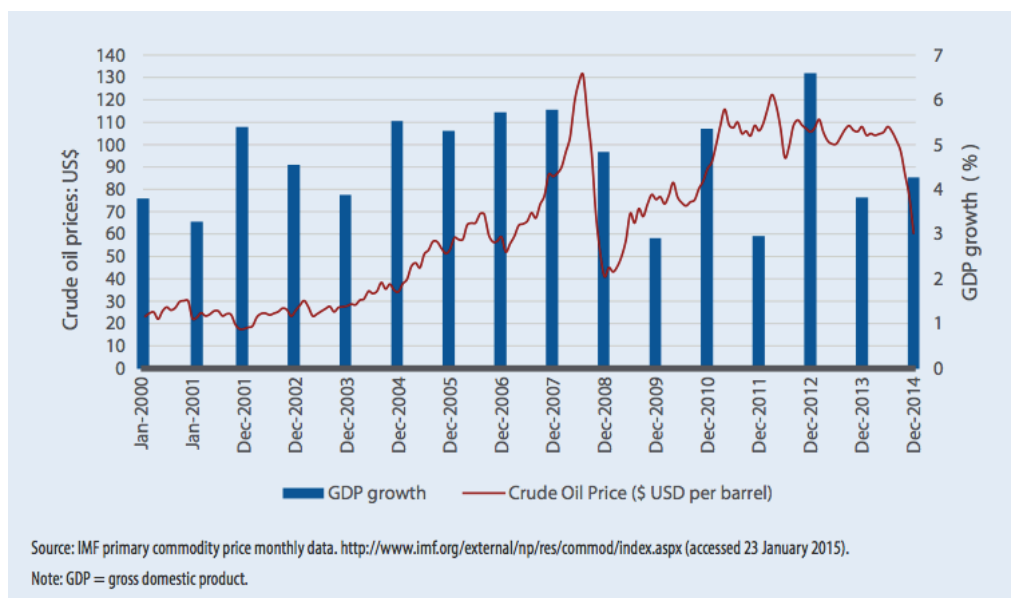


Figure 7: Crude oil price 2000-2014 (US\$/Barrel)

The UN report “*Industrializing through trade: Economic Report on Africa 2015*” explains that the marginal negative effect on Africa’s GDP may be attributed to the growth in the non-oil sectors of the African economy and also to the ability of African countries, especially oil-exporting countries, to minimize the shock: they save more when the prices are higher and use their savings to attenuate the impact of a decline in crude oil prices on their economies.²⁰

The drop in oil prices has led to a depreciation of the currencies in the oil exporting countries. Amadou Sy, director of the Africa Growth Initiative of the Brookings Institution, explains in the article “*Falling Oil Prices and the Consequences for Sub-Saharan Africa*” posted on 23 December 2014 in Brookings, that:

“the worst affected countries will have a hard time servicing their debt as their oil revenues fall and the depreciation of their currencies makes the U.S. dollar denominated debt more expensive”²¹.

Some highly oil-dependent countries may not have sufficient fiscal buffers to absorb the

¹⁹ Source: IMF Direct, “*Seven questions about the recent oil price slump*”, 22December 2014

²⁰ Source: UN Economic Commission for Africa, “*Industrializing through trade. Economic Report on Africa 2015*”, 2015

²¹ Source: Amadou Sy, Brookings, “*Falling Oil Prices and the Consequences for Sub-Saharan Africa*”, 23 December 2014

falling price of oil. In response to this crisis, the governments of the countries that have been hit hard by the shock, such as Nigeria, Angola and Gabon, are cutting the capital spending and have adjusted monetary and exchange rate policies to relieve pressures on the public finances and the currency. As a result, governments will have to adjust their expenditures and devalue their currency, which could lead to higher inflation.

1.1.2 Trading trends

The UN report “*Industrializing through trade. Economic Report on Africa 2015*”²² explains that the African economic growth is sustained by great domestic demand due to increased consumer confidence, private consumption and an expanding middle class. Moreover, the investments are supported by many African countries, such as Burkina Faso, Burundi, Côte d’Ivoire, Ghana, Kenya, Mauritius, Rwanda and Tanzania, that improve the business environment lowering the costs of doing business. In this perspective, the trade policies must be consciously designed, effectively implemented and managed with regular monitoring in order to achieve the greater level of economic growth.

The African exports grew very fast during the last decade thanks to the strong demand of raw materials coming from emerging economies, in particular from China. In terms of commercial partners, Asia has overcome the USA as main destination of the African exports. It is beyond just to the European Union. While during the period 1990-2000 the African export of goods increased from 122 to 155 billion \$, between 2000 to 2010 they increased three and a half times achieving 581 billion \$ in 2011²³.

Most of the African exports are represented by mining products and resource-based manufactures such as basic metals or chemicals and fuels: Bonaglia, Wegner and Prodi in “*Africa un continente in movimento*” explain for instance that in 2011 the petroleum and other fuels products represented the 97 percent of the exports in Angola, 92 percent in Equatorial Guinea, 82 percent in Gabon and 70 percent in Algeria.

The IMF report “*Regional Economic Outlook, Sub-Saharan Africa Navigating Headwind*”²⁴ explains how the prices of many key commodities exported by sub-Saharan Africa have declined since last June 2015: natural gas by 41 percent, iron by 44

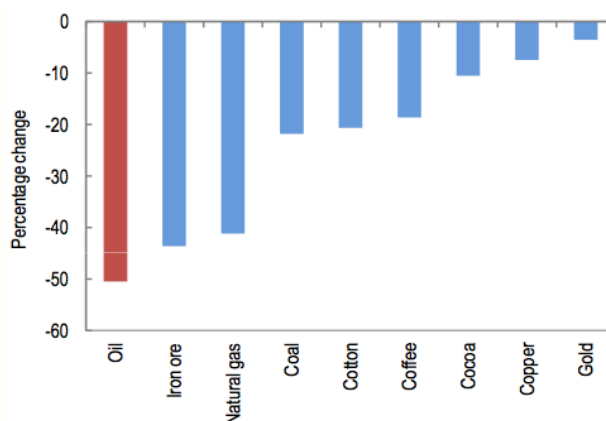
²² Source: UN Economic Commission for Africa, “*Industrializing through trade. Economic Report on Africa 2015*”, 2015

²³ Source: Bonaglia, Wegner, Prodi, “*Africa, un continente in movimento*”, 2014

²⁴ Source: IMF, “*Regional Economic Outlook, Sub-Saharan Africa Navigating Headwind*”, 2015

percent, coal by 22 percent, cotton by 21 percent, copper by 7.5 percent, and platinum by 22 percent, however the price of some other exported materials, such as zinc, has increased. This negative trend has affected the economic growth in many African Countries.

Figure 1.2. Selected Commodity Prices, Change from June 2014–March 25, 2015



Source: Bloomberg, L.P.

Figure 8: The decline of the commodity prices from June 2014 to March 2015

The exported goods are mainly raw materials with low value addition, projected to the integration into the global value chains. The difficulties on the establishment of intra regional production chain have been an important factor behind underperformance in terms of regional integration: there are restricted opportunities for cross-border trade and for job creation. The African Development Bank Group (AfDB) in the report “*Africa and Economic Trends Quarterly statistical Review*” published on 31 January 2014, made a comparison with the Asia’s success in increasing intra-regional trade:

“Whereas African economies tend to engage in inter-commodity trade (natural resource exports for imports of manufactures), Asia’s export structure is more diversified and increasingly characterized by intra-industry trade, including production networks. However, at early stages of development, most Asian economies also began with inter-industry trade; diversification proceeds as countries develop and move up value chains. And as in Africa, intra-regional trade in Asia has been hampered in the past by allocation of substantial resources to basic infrastructure.”²⁵

Further actions are needed to increase intra regional trade in Africa: in this way it would

²⁵ Source: African Development Bank Group (AfDB), “*Africa and Economic Trends Quarterly statistical Review*”, 31 January 2014

be possible to upgrade the productive capacities in economic sectors with higher value added and support the development of regional enterprises and value chains.

Despite its limited size, intra-African trade is significantly diversified than the exports, it includes many sectors such as agriculture, extractive industries, construction and manufacturing. Also the services sector is growing fast as we will see in the next paragraph. According to the UN article “*Intra-Africa trade: go beyond political commitments*” posted on August 2014 in the on-line magazine Africa Renewal, the intra Africa trade remain comparatively low, around 12 percent of the total African trade.²⁶

African exports are expected to strengthen in 2015 and 2016 as the world economy improves.

1.1.3 The business performance of the economic sectors

The PWC Agribusiness Insight Survey 2014/2015 report “*Africa – are you in for the ride?*”²⁷ explains how the agriculture is the Africa’s largest economic sector, employing 70 percent of Africa’s labour force and contributing to 30 percent of its GDP. The 10 percent of the world’s agricultural production comes from Africa. The continent agricultural imports annually reach US\$33 billion. The sector is characterized by the strong presence of smallholders with land sizes less than one hectare. Agriculture is an important sector because generates new business opportunities in other related economic sectors such as manufacture and marketing for the production of fertilizer, seeds, pesticides as well as food processing services. As the global population is increasing rapidly, recently exceeding the seven billion mark, Africa could have in the future an important role in the global agricultural production exploiting efficiently the resources available, to meet the new increasing market demand.

The African Development Bank Group in the “*Draft Strategy for 2015-2020*” explains that the African extractive sector is estimated to account for about 30 percent of all the global minerals reserves: the oil reserves constitute the 8 percent of the world’s reserves, the natural gas the 7 percent. The export of the extractive industry products account for an average of 70 percent of total African exports about 28 percent of GDP. As explained in the previous paragraph, there are many African states that are almost entirely dependent on the export of these resources: Algeria (oil), Botswana (diamonds),

²⁶ Source: UN, Africa Renewal on-line, “*Intra-Africa trade: go beyond political commitments*”, August 2014

²⁷ Source: PWC, Agribusiness Insights Survey 2014/2015 report “*Africa – are you in for the ride?*”, March 2015

Democratic Republic of Congo (copper, gold, diamonds, oil), Namibia (mining), Sudan (gold and oil) and Tunisia (phosphate), Nigeria (the largest oil producer in sub-Saharan Africa).²⁸ The African Development Bank estimates that Africa's extractive resources will contribute for over USD 30 billion \$ per annum in government revenue for the next 20 years. The supply in the global trade is driven from abroad by the multinational companies that target the commodity markets and influence the structure of the supply networks. There are many sustainable development challenges in the extractive sector: include illegal logging, unregulated fishing, displacement of communities from traditional lands and environmental damage. Large forests, wildlife reserves and national parks offer an opportunity for ecotourism and related economic activities for the region's inhabitants.

The KPMG sector report "*Construction and infrastructure*" (2015) studies the trend of this economic sector in Africa. The construction sector is an important driver of growth, its share in GDP has increased in recent years in most countries, in a few cases overcoming the manufacturing sector. The approximation on the amount of infrastructure investment in the continent is US\$100bn per annum.²⁹

Many African states have financed infrastructure spending more than their fiscal budgets being historically dependent on international donor aid. For example, according to the South African Venture Capital and Private Equity Association (SAVCA), the private equity is playing an increasing role in Africa's infrastructure landscape. An important effort was made in 2012 by the World Bank financing the members of the five-nation East African Community (EAC) for an amount of US\$1.2 billion \$ for the improvement of the waterways and sea port facilities.

African governments are more and more focusing on the urban mobility because it is an important support to the flow of goods, capital and offers to people of the rural areas a crucial link to access employment, social services and education.

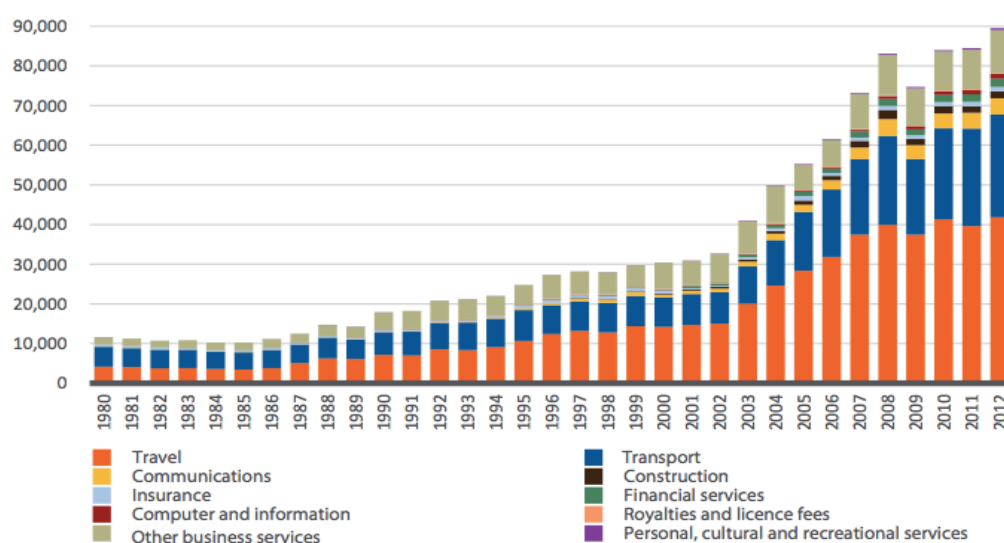
The KPMG report studies the 13 Countries seen as opportunities for investment and profit in the construction sector: Angola, Egypt, Ethiopia, Ghana, Ivory Coast, Kenya, Mozambique, Namibia, Nigeria, South Africa, Tanzania, Uganda and Zambia. The combined value of their capital stock was US 265 billion \$ during 2013, 57.5 percent of the continent's infrastructure stock

²⁸ Source: African Development Bank Group, OECD, UNPD, "*African Economic Outlook 2015*", 2015

²⁹ Source: KPMG sector report "*Construction and infrastructure*", 2015

The OECD “*African economic outlook 2015*” confirm that the services sector is an important engine of growth in most African countries. Over 2002–2012 there was the rise of many different services, in particular of computer and information services, financial services, insurance, royalties and license fees, transport, construction, and travel. In figure 8 it is possible to see the growth of the services export with the contribution per each year of every single service category³⁰.

FIGURE 1.23: AFRICA’S EXPORTS OF COMMERCIAL SERVICES, BY CATEGORY, 1980–2012 (\$ MILLION)



Source: ECA calculations based on International Trade Centre, (2014) data.

Figure 9: The services sector growth from 1980 to 2012

New information and telecommunication technologies are boosting growth and productivity: they allow more people in remote regions to become connected and able to using mobile banking. A great contribution in 2012 was given by Egypt, South Africa and Morocco that accounted for 52 percent of the overall Africa’s exports of services. Egypt alone accounted for 22 percent. Financial service, of which South Africa accounted for 42 percent of Africa’s exports, was the most concentrated sector.

According to the article “*Unlocking the trade and growth potential of Africa’s services sector*” published by the Institute of Development Studies (IDS) on 22 September 2015, in the global scenario Africa remains a marginal player in terms of global trade services. In fact, in 2012 Africa accounted for only 2.2 percent of the world’s total exports and 4

³⁰ Source: World economic forum, World Bank, OECD, “*The Africa Competitiveness report 2015*”, 2015

percent of total global services imports. An important example of success in this sector is reported in the IDS’s article:

“Ethiopian Airlines is the fastest growing, largest and most profitable airline in Africa, growing by an average rate of 20 to 25 percent per year since 2005. The company is a \$2.3 billion worth with a reported net income of \$228 million in 2013–14, making it the most profitable and the most competitive carrier in Africa.”³¹

The main objective of Africa's post-2015 development agenda is the development of the services infrastructure necessary for transformative growth by African countries.

The manufacturing sector remains relatively small in most African countries. According to the KPMG study “*Manufacturing in Africa*”, 2015 the Africa’s factories are concentrated in a few large economies: two thirds of the continent’s manufacturing activities are performed in Nigeria, Egypt, South Africa and Morocco. Considering Angola, Tunisia and Kenya, the share rises to almost 80 percent of manufacturing.

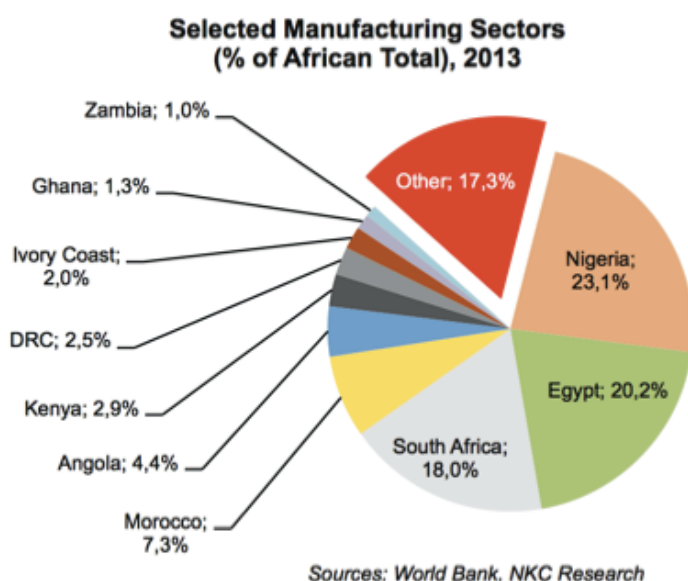


Figure 10: Manufacturing sectors as a percentage of the total in 2013

Although there is large potential to develop labour intensive manufacturing in Africa, the sector is hampered in many countries by a lack of skilled labour, shortages of

³¹ Source: Institute of Development Studies (IDS), “*Unlocking the trade and growth potential of Africa’s services sector*”, 22 September 2015

domestic suppliers, poor transport infrastructure and expensive energy. But as pointed out by The Economist during 2014:

“A few countries have been able to escape poverty without employing a significant amount of their people in manufacturing activity. “

According to the World Bank’s Doing Business report “*Trading across borders*” (2012), sub-Saharan Africa has the highest average time and costs involved in importing and exporting a standard shipping container.³² The KPMG study explains that during 2013, Africa imported US 240 billion \$ of manufactured goods compared to almost US 66 billion \$ of manufactured exports.

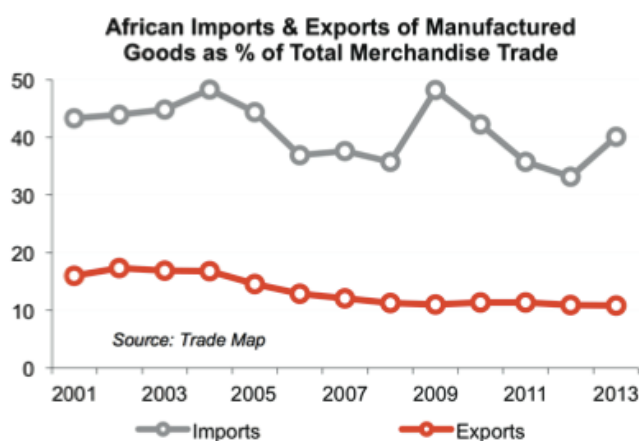


Figure 11: African Import and Export trends of Manufactured goods

The access to international markets helps the growth of businesses and permits to achieve economies of scale, allows developing economies to become part of a global supply chain that is in some cases crucial for businesses, lead to favourable externalities such as the transfer of know-how.

In the World Bank’s Doing Business report “*Trading across borders*” is explained that reducing exporting costs by 10 percent through improvements in the efficiency of the trade process increases exports by 4.7 percent. It is also mentioned a study where it is explained the Ghana example: customs revenue grew by 49 percent in the first 18 months after implementing GCNet, an electronic data interchange system for customs procedures.

³² Source: World Bank, Doing Business, “*Trading across borders*”, 2012

Tourism is an important industry but the growth of this sector has been slowed in consequence to the Ebola outbreak and the security problems in some African countries: international tourist arrivals in Africa increased in 2014 by around 2 percent, down from 4.8 percent in 2013 and less than half of the 2005-08 average of 5.8 percent. In North Africa, arrivals increased 2 percent in Morocco but decreased again in Tunisia, by 3 percent. The United Nations' World Tourism Organization for 2015 expects international tourist arrivals in Africa to increase between 3 percent and 5 percent.

The OECD "*African Economic Outlook*" (2015) explains that the energy sector in Africa still have important shortages.³³ In sub-Saharan Africa the energy demand from 2000 to 2012 increased by around 45 percent and in the same period the electricity access rate has increased from 23 percent in 2000 to 32 percent in 2012. An amount of 145 million people have gained access to electricity since 2000. As a result, in sub-Saharan Africa, out of a population of 915 million, 625 million people are living without access to electricity and nearly 80% of them live in rural areas. It has been projected that with new electrification programmes, this number will start to decline from 2020s and, by 2040, 950 million people will have gained access. The result of the World Bank Group Enterprise Surveys is that, in 12 countries, firms saw access to electricity in recent years as the biggest obstacle (Burundi, Central African Republic, Congo, DRC, Djibouti, Gabon, Gambia, Guinea, Guinea-Bissau, Nigeria, Senegal, Uganda). Reducing energy constraints for firms and households is thus of key importance to boosting economic and social development. An adequate energy supply is a prerequisite for economic development³⁴.

1.1.4 Regional growth

It is interesting to highlight the following updated information presented in OECD's report "*African economic outlook 2015*"³⁵ and the UN's "*Economic report on Africa 2015*"³⁶. The differences in the economic growth among the African regions are due to differences in availability of natural resources, macroeconomic policies, income levels and political and social stability. The following overview on the current situation shows the high economic growth rate in East, West and Central Africa in contrast with the low

³³ Source: African Development Bank Group, OECD, UNPD, "*African Economic Outlook 2015*", 2015

³⁴ Source: World Bank Group's Energy Sector, "*Toward a Sustainable Energy Future for All*", 2013

³⁵ Source: World economic forum, World Bank, OECD, "*The Africa Competitiveness report 2015*", 2015

³⁶ Source: UN Economic Commission for Africa, "*Industrializing through trade. Economic Report on Africa 2015*", 2015

growth rate of the Northern and Southern African region.

Table 1.1. Africa's growth by region, 2013-16
(Real GDP growth in percent)

	2013	2014 (e)	2015 (p)	2016 (p)
Africa	3.5	3.9	4.5	5.0
Central Africa	4.1	5.6	5.5	5.8
East Africa	4.7	7.1	5.6	6.7
North Africa	1.6	1.7	4.5	4.4
Southern Africa	3.6	2.7	3.1	3.5
West Africa	5.7	6.0	5.0	6.1
Memorandum items:				
Africa excl. Libya	4.0	4.3	4.3	5.0
Sub-Saharan Africa (SSA)	4.7	5.2	4.6	5.4
SSA excl. South Africa	5.4	6.2	5.2	6.2

Note: (e) estimates; (p) projections.

Source: Statistics Department, African Development Bank.

Figure 12: Africa's economic growth trend by region in the period 2013-2016

It is impressive the acceleration of the Central Africa's growth from 4.1 percent in 2013 to 5.6 percent in 2014. The GDP growth is expected to steady slow to 5.5 percent in 2015 but it is also expected to grow till 5.8 percent in 2016. The economic conditions are quite different among the countries. The Central African Republic is affected by a political and security crisis, that lead to a labour unrest and problems with the sole refinery in Gabon. The lower oil production during the last years in Equatorial Guinea affected the GDP growth rate that continues to fall. All the other countries remain on a relatively high growth path: growth is broader based in Cameroon, Democratic Republic of the Congo, Gabon, and Sao Tome and Principe. Moreover, the strong public investments on capital-intensive infrastructure in Cameroon and the Congo and new oil and gas developments in Cameroon and Chad are expected to drive growth. The mining sector and the related investments remain the main engines of the growth in the region.

The East Africa's growth acceleration in 2014 to more than 7 percent, from below 5 percent in 2013, it is influenced by the rapid expansion of banking services, telecommunications, urbanization, and investments in infrastructure. It is otherwise interesting to see that East Africa recorded the highest increase in foreign direct investment in 2014. The countries that have contributed most to the achievement of this result are Kenya and Uganda. Kenya is the sub-region's biggest economy. The

Uganda's growth is supported by the gradual decrease of the conflict in South Sudan with the withdrawal of troops in 2015³⁷ and by the increasing activities in construction, financial services, transport and telecommunications. The South Sudan armed conflict reduced the oil production and the GDP in 2013. It recovered in 2014 but is projected to decline again in 2015, leading to the fluctuation of the average regional GDP growth rate. This growth is projected to decelerate to 5.6 percent in 2015 and accelerate again to 6.7 percent in 2016 becoming the continent's fastest growing region. Ethiopia, Kenya, Rwanda, Tanzania and Uganda kept up their relatively high growth: the mining sector and its related manufacturing activities are not very large, their growth is more driven by services and construction. In Ethiopia the economy has experienced strong and broad based growth over the past decade, averaging 10.8 percent per year in the period 2003 - 2013 compared to the regional average of 4.8 percent. Expansion of the services and agricultural sectors account for most of this growth, while manufacturing sector performance was relatively modest³⁸.

The North Africa economic growth rate is expected to climb to 4.5 percent in 2015 from 1.7 percent in 2014 thanks to the support of the government spending on infrastructure, to the increase of the political stability in Egypt and Tunisia and to the growth in private consumption and investment.³⁹ The forecasts may be upset because of the weak commodity prices, tight monetary policies in Algeria, Egypt, Morocco and Sudan and political instability in Libya. In particular the prospects in Libya are highly uncertain. These difficulties are represented by the real GDP growth rate at a low level of 1.7 percent in 2014. By contrast, in Egypt and Tunisia greater political and economic stability is helping to improve business confidence. The gradual recovery of export markets and the improved security have been registered and should support growth in 2015 with a growth level of GDP of 4.5 percent. Algeria's oil production increased for the first time in eight years and also the non-oil sector is performing well. In Morocco, agricultural production declined in 2014 from its exceptionally high level in 2013, but assuming normal harvests and better export markets, growth is expected to accelerate. Mauritania continues to achieve the highest and steadiest growth in the region because it has been supported in 2014 by favourable macroeconomic and structural policies, by

³⁷ Source: Internazionale, *"L'Uganda avvia il ritiro delle truppe dal Sud Sudan"*, 12 October 2015

³⁸ Source: The World Bank, *Economic Overview: Ethiopia*, 23 September 2015

³⁹ Source: United Nations Economic Commission for Africa, *"Recent economic and social developments in Africa and medium-terms perspectives"*, 2015

private consumption and investment.

Southern Africa's growth slowed to 2.7 percent in 2014 because the key South African economy only grew by 1.5 percent from 2.2 percent of 2013 and the regional growth is projected to register a slow recovery in 2015 and 2016. It suffered from weakened demand in trading partners and lower prices for its raw materials, while labour unrest and electricity shortages disrupted economic activity. South Africa's growth is projected to recover gradually thanks to the improving export market conditions and improved competitiveness due to the depreciation of the rand. The growth of GDP decelerated also in Angola due to the oil price fall, a temporary reduction in oil production with the consequent lower oil revenues, the reduction in agricultural production due to the drought. Mozambique and Zambia are the most performing Countries in the region in terms of growth. The government in Mozambique is investing resources mainly in the so-called mega projects and in infrastructures. It is interesting to highlight that these investments are financed also by foreign direct investment. In Zambia, if on the one hand in 2014 lower growth in mining, manufacturing and services have been registered on the other hand agriculture well performed. Angola, Mozambique and Zambia will stay the fastest-growing economies. The OECD summarize in the report "*African economic outlook 2015*" the projection of the growth:

"It will be driven mainly by investment in the non-diamond sector in Botswana, recovery in private consumption in South Africa, increased investment in mining and natural gas exploration in Mozambique, and generally by private consumption. A continued slowdown in oil and mineral prices may derail those forecasts, as two thirds of those countries are mineral rich or oil- exporting."

Despite the outbreak in the economic and social contest by the Ebola virus, the West Africa region achieved 6 percent in 2014 a relatively high GDP growth. The virus significantly hurt the economic growth in Guinea, Liberia and Sierra Leone. The most performing Country is Nigeria, Africa's largest country, whose GDP growth rate in 2014 achieved 6.3 percent from 5.4 percent in 2013. It is interesting to see how this came mainly from non-oil sectors, notably services, manufacturing and agriculture: the economy is diversifying. Benin, Côte d'Ivoire, Niger and Togo also remained on a relatively high growth path. The GDP growth slowed in Ghana and The Gambia. These economies faced sharp currency depreciation, energy crisis, inflation rise and interest rates increase. West Africa's growth is projected to be mainly driven by Nigeria and to steady slow in 2015 but to strengthen again in 2016.

1.1.5 Natural resources

Africa is home to the second largest as well as the longest rivers in the world, namely the Nile and the Congo. Africa's 63 international rivers basins cover approximately 64 percent of the continent's land area and contain 93 percent of the total surface water resources. Africa is also host to the world's second largest tropical forest and the total value added of the fisheries and aquaculture sector is estimated at US 24 billion \$. In the extractives sectors, it is estimated that the region accounts for about 30 percent of all global minerals reserves.

It is proven that oil reserves constitute 8 percent of the world's reserves and those of natural gas amount to 7 percent. Minerals account for an average of 70 percent of total African exports and about 28% of Gross Domestic Product (GDP). The contribution of extractives to public finance is significant, with some member states public revenue almost entirely dependent on them. The African Development Bank⁴⁰ (AfDB) estimates that Africa's extractive resources will contribute over US 30 billion \$ per annum in government revenue for the next 20 years. However, due to the capital-intensive nature of extractives projects and emphasis on exports of raw materials, the region's employment levels in the sector are comparatively lower than those in other resource-rich regions. This is because the industry's footprint in infrastructure development, mineral processing and the manufacturing sector remains negligible.⁴¹

1.2 The inflow of finances in Africa

The Ernest&Young's report "*Africa attractiveness survey 2015*" explain that Western Europe and intra-African investors remain the largest sources of FDI into the continent even if in 2014 the traditional investors, mainly from North America and the Middle East, have refocused the attention on Africa. Investors from the US, France, the United Arab Emirates (UAE), Portugal and China were particularly active during the year.⁴² The most attractive sectors for the FDI activities that attracted strong inflows in 2014 are real estate, construction, telecommunications and technology, financial services, consumer products and retail.

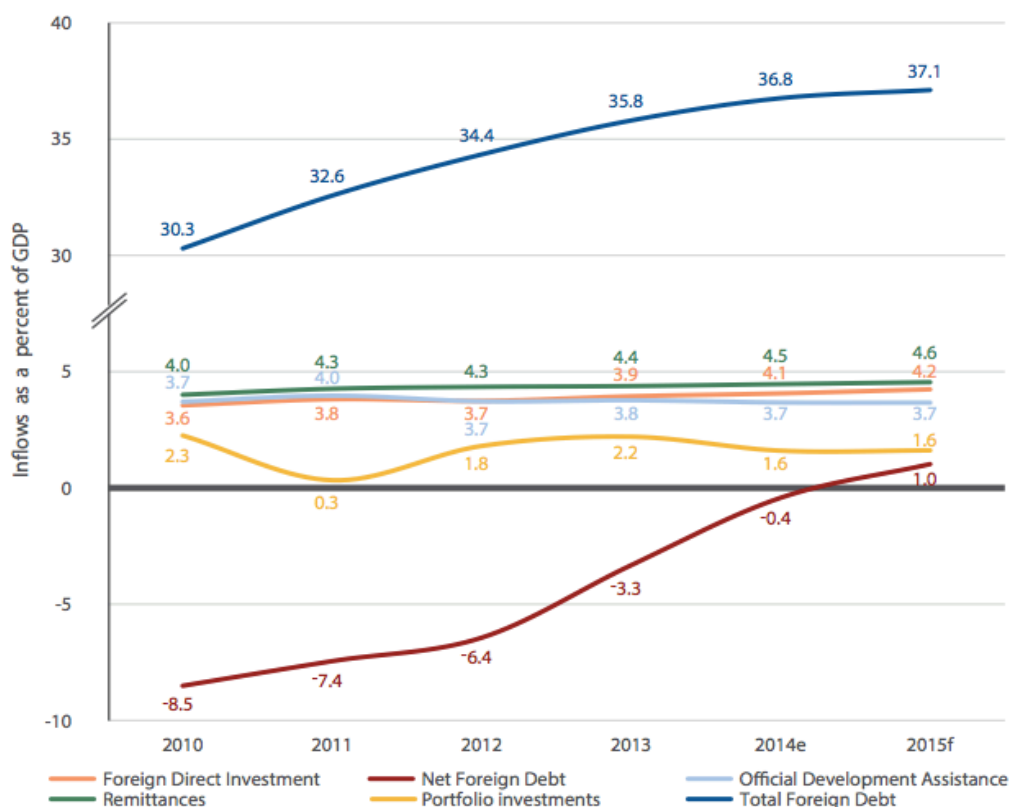
⁴⁰ Source: African Development Bank Group, "African natural resources center (ANRC); Draft strategy for 2015-2020", May 2015

⁴¹ Source: African Development Bank Group, OECD, UNPD, "*African Economic Outlook 2015*", 2015

⁴² Source: Ernest &Young, "*Africa attractiveness survey 2015*", 2015

In order to have a complete vision of the consistency of finance inflows in Sub-Sahara Africa, it is interesting to examine the level and composition of resource flows: foreign direct investment (FDI), portfolio investments, official development aid flows, and remittances. The UN’s Economic report on Africa 2015 “*Industrializing through trade*” 2015 shows in the chart below, helps to understand with a comparative analysis what are the flows of external finance to Africa.⁴³

FIGURE 1.16: INFLOWS OF EXTERNAL FINANCE, 2010–2015 (\$ BILLION)



Source: Calculations based on UNCTADstat (2014).
 Note: e = ECA estimate; f = forecast.

Figure 13: Africa financial inflows during the period 2010-2015

It is interesting to see how since 2010 FDI and remittances have registered a steady growth rate with the achievement of important results in terms of percentage of GDP: FDI grew 0,6 percentage points from 2010 to 2015 and the remittances level achieved in 2015 4.6 percent of GDP starting from 4,0 percent of 2010. In this perspective it is possible to understand how much important are the financial flows and investments of

⁴³ Source: UN Economic Commission for Africa, “*Industrializing through trade. Economic Report on Africa 2015*”, 2015

the expatriates in their country of origin. Migrant remittances appear to be increasing, but much of the flows are believed to be unrecorded as they bypass formal financial channels. In 2012 there was the overtaking of the Official Development assistance aid by the FDI: it is a positive trend that could have drawn attention on the importance of investments in African in the international scenario given the poor results of decades of aid, but the ODA will remain a key source of external public finance for many countries. In 2013 and 2014, ODA constituted 3.8 per cent and 3.7 per cent of Africa's GDP, respectively.

The Sub-Sahara African region continues to register a high level of dependency by foreign aid and financial inflows. Total foreign debt has been higher than 30 per cent of GDP in Africa since 2010 and is expected to rise to 37.1 per cent of GDP in 2015, although net foreign debt (total debt minus reserves) as a share of GDP will be only 1 per cent of GDP, having been negative since 2006 because of high international reserves in oil-exporting economies.

1.2.1 FDI and Intra Africa FDI

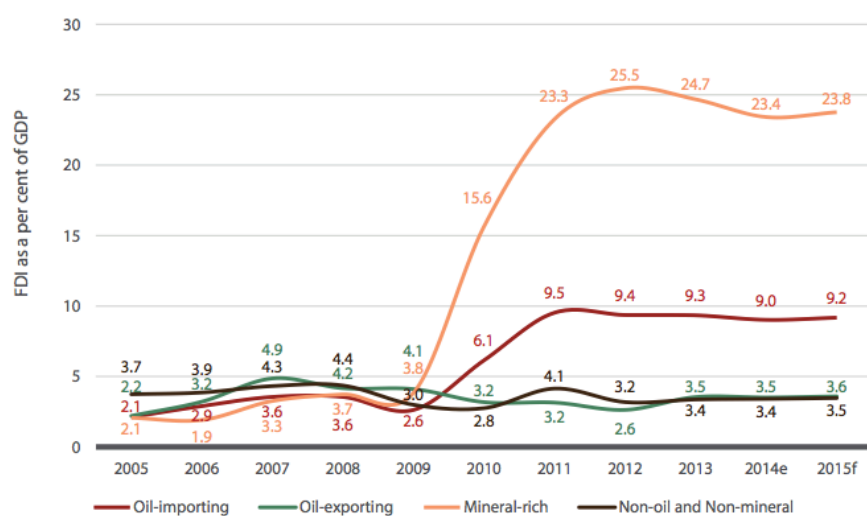
FDI is the second largest source of external private equity inflows. FDI increased from 56.6 billion \$ in 2013 to 61.1 billion \$ in 2014 and it is projected to increase to \$66.9 billion in 2015, equivalent to 3.9 percent, 4.1 percent and 4.2 percent, respectively, of African GDP⁴⁴. In 2014, FDI in Africa was down 8.4 percent on 2013 levels in line with the worldwide projections with a fall of 3.1 percent. In 2014 only the North America and Asia-Pacific regions experienced growth in FDI levels. Despite the slow recovery after the global crisis period in developed and emerging economies, both FDI and portfolio equity flows are expected to continue increasing⁴⁵. The growth was driven by large, capital-intensive investments and real estate schemes. The continent more than doubled its share of global FDI flows, from 7.8 percent in 2013 to 17.1 percent in 2014. That made Africa the second largest recipient of capital investment during the year and the fastest growing destination for FDI funding. In 2015, African markets are expected to attract 27 per cent and 59 percent, respectively, of total FDI and portfolio flows. Since 2010, mineral-rich countries have been by far the largest recipients of FDI inflows (figure 14): since 2009, those inflows have registered an impressive growth of 21.7 percent of GDP in 4 years and a gradually slight decrease from 25.5 percent of GDP in

⁴⁴ Source: UN Economic report on Africa 2015 "*Industrializing through trade*", 2015

⁴⁵ Source: Ernst& Young, "*EY's attractiveness survey Africa 2015*", 2015

2012 to 23.4 percent in 2014.

FIGURE 1.17: INFLOWS OF FDI AS A SHARE OF GDP, BY ECONOMIC GROUP, 2005–2015 (%)



Source: Calculations based on EIU(2014).
Note: e = ECA estimate; f = forecast.

Figure 14: African inflows of FDI as a percentage of GDP

In addition to being an important source of financing of the infrastructures and production activities, the FDI can generate positive consequences on the economy and on the population well-being such as the creation of employment: Ernst & Young⁴⁶ estimated that from 2003 the FDI contributed to the creation of 1,6 million jobs in Africa. FDI projects announced in 2014 will create 188.400 jobs in Africa, 76.200 more than in 2013. However, from a job-creation perspective, African FDI remains a poor performer because its FDI projects provide more capital than employment. For instance, in 2014 Africa attracted 17.1 percent of global FDI inflows (only Asia-Pacific performed better) but got only 8.7 percent of jobs. Its increased share of global FDI jobs in 2014 is an improvement, but a much bigger rebalancing is needed. In general, strong doubts remain on the possibilities that Africa could increase the active participation on the investments and international trade if there will not be overcome three fundamental obstacles: the negative perceptions of the international investors, the low regional integration and the infrastructural deficit⁴⁷.

Intra-African investment has a key role in the resources required to drive spatial

⁴⁶ Source: Ernst & Young, "EY's attractiveness survey Africa 2015", 2015

⁴⁷ Source: Bonaglia, Vegner, Prodi, "Africa, un continente in movimento", 2014

economic development. The Ernest & Young's attractiveness survey on Africa "*Making Choices*" (2015) explains how the intra-African FDI accounted for just 8 percent of all the FDI into Africa in 2007, but rose to 22 percent in 2013, making Africa the second largest source of investments after Western Europe.⁴⁸ The Trade and Industry Department of the Republic of South Africa in the "*Presentation to the Parliamentary Portfolio Committee on Trade and Industry*" on 22 July 2015 explains that between 2007 and 2013, South Africa was the biggest African investor in the rest of the continent.⁴⁹ Moreover, the projects in other African countries have grown annually at 44.2 percent since 2007. Among the foreign investments, the South African investments in 2013-2014 are the most significant source in low and middle-income countries such as Burundi (79 percent), Namibia (42 percent), Rwanda (62 percent), South Sudan (64 percent) and Uganda (45 percent). The key investment recipients were financial services, telecommunications, cement, food and retail, and oil and energy.

K.P. Sauvart and A.P. Torres of Columbia Center of Sustainable Investments explain in the report "*Africa rising out of itself: the growth of intra-Africa FDI*" (2015) that between January 2003 and January 2014, although the FDI from developed economies largely goes to South Africa, North Africa and the oil exporters, by contrast, the largest recipients of intra-African FDI projects were (in order) Ghana, Uganda, Tanzania, Nigeria, Kenya, Rwanda, and Zambia. These seven countries received over 45 percent of the total intra-African investment projects (over 400) during this period. Intra-African FDI can have further benefits for the local suppliers: local brands with strong growth could try to compete with foreign multinational enterprises (MNEs). In particular, there has been the regional expansion of African retailers, often through mergers and acquisitions. For local firms, regional suppliers can reduce lag and lead times in production.

The study of the Columbia Center of Sustainable Investments explains that the rise of Intra Africa FDI has had two clear impacts: first, African investors are slowly becoming more competitive as they acquire complementary assets, expand economies of scale and enhance brand value; second, competition in Africa is increasing.⁵⁰

1.2.2 The remittances

⁴⁸ Source: Ernst& Young, "*EY's attractiveness survey Africa 2015*", 2015

⁴⁹ Source: Trade and Industry Department of the Republic of South Africa, "*Presentation to the Parliamentary Portfolio Committee on Trade and Industry*", 22 July 2015

⁵⁰ Source: K.P. Sauvart, A.P. Torres, Columbia Center of Sustainable Investments, "*Africa rising out of itself: the growth of intra-Africa FDI*", 2015

FDI is a large external source of finance but the UN recorded also a surplus in 2010 by remittances coming from the African expatriates that seek to invest in their home countries (figure 13). The remittances, which are a stable source of external financing, increased up to 4,4 percent of GDP in 2013 and to 4,5 percent in 2014 and in 2015 they are expected to increase to 4,6 percent of GDP. In other terms, remittances in 2013, 2014, 2015, recorded respectively \$62,9 billion, \$67,1 billion, \$71,8 billion⁵¹. It will be explained in the next paragraph that these investments have grown thanks to the migrations abroad but the leverage for this increasing remittances are the development of innovative mobile banking services. For instance the transfer service M-Pesa, enables million of people to pay services and to transfer money using text messages. In the first two weeks, after the launch of this service, 10.000 people registered with a transfer amount of 100.000 \$. The rapid growth of the African remittances flows has been shown also by the increased diffusion of the money transfer societies such as Western Union, Econet Wireless, Money Gram and the Senegalese Money Express. In Africa Money Gram grows 40 percent per year and operates through 3200 agents all over the continent. From 2000 to 2006, in Guinea the remittances increased 4000 percent and in Guinea-Bissau 1000 percent. In 2005, people in Ghana received 800 million \$ from the expatriates: this amount was more than what they gained with the cocoa and gold sales. In the same year, the remittances represented 25 percent of the Somalia GDP and 20 percent of the Lesotho GDP⁵².

1.2.3 Official Development Assistance: aid to Africa

Three kind of financial aids exist: the humanitarian aids that are distributed in consequence to catastrophes and disasters, the aids distributed by non governmental organizations and the payments made directly to the governments both through transfers from government to government (bilateral aid) and through entities such as the World Bank (multilateral aid). The transfer of aids from rich countries to poor countries can assume two shapes: concessional loans, that are money lent at interest rates lower than the market and are given for longer terms than in the normal commercial market, or grants, that are funding dished without interest rates.

The OECD report “*Africa Economic Outlook 2015*” analyses the trends of the Official

⁵¹ Source: Bonaglia, Vegner, Prodi, “*Africa, un continente in movimento*”, 2014

⁵² Source: Mahajan, “*Africa Spa. How 900 million African consumers offer more than you think*”, 2009

Development Assistance to Africa⁵³.

Considering the bilateral aid to Africa from the Development Assistance Committee, it has been registered a decline of 4.2 percent in real terms from 2012 to 2013, achieving the level of USD 29.4 billion. In particular, it was reduced the disbursement to sub-Saharan Africa by the United States, the largest contributors of ODA to the continent, by 3.6 percent in real terms to USD 8.6 billion in 2013. Another contributor that reduced consistently the disbursement is France that lowered its ODA to sub-Saharan Africa by 33 percent, averaging USD 2 billion in 2013. Most of this decrease is due to lower levels of debt relief compared to 2012, which had been relatively high in 2012 due to assistance to Côte d'Ivoire. This reduction in DAC bilateral aid to Africa highlights a reduction in grants, which declined by 1.9 percent in real terms⁵⁴.

Multilateral aid increased slightly by 3 percent in real terms and reached USD 20.6 billion in 2013. The increase in aid allocations to Africa mainly reflects the higher disbursements from non-DAC donors, whose support recorded the highest increase in 2013.

Figure 2.8. Net official development assistance disbursements to Africa (USD, billion), 1997-2013

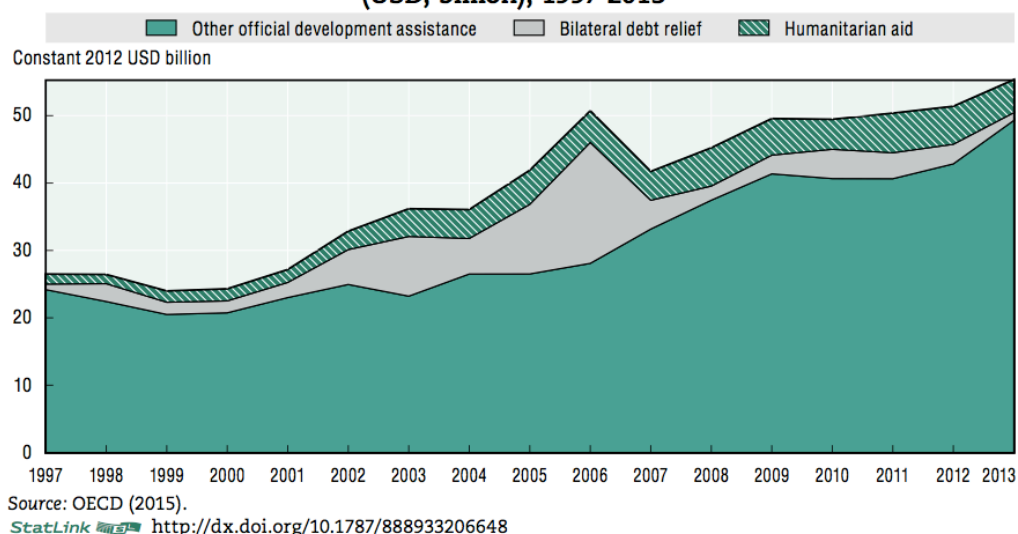


Figure 15: The net ODA to Africa from 1997 to 2013

In particular, the net disbursement from non-DAC donors achieved the amount of USD 5.8 billion, an increase of 413 percent in real terms compared to USD 1.1 billion in 2012.

⁵³ Source: African Development Bank Group, OECD, UNPD, "African Economic Outlook 2015", 2015

⁵⁴ Source: OECD Development Assistance Committee, "Aid to developing countries rebounds in 2013 to reach an all-time high", 8 April 2014

A new group of donors has emerged on the African scene, such as Brazil, China, India, Lebanon, and Saudi Arabia. The main contributors to this increase in ODA were the United Arab Emirates with an important disbursement to Egypt from USD 11 million in 2012 to USD 4.6 billion in 2013. It was also registered the important contribution by the emerging countries such as China whose government issued in 2006 an official paper on China's Africa policy promising in the China-Africa Summit to double its aid to Africa by 2009. China financing efforts to Africa increased from USD 5 billion in 2006 to USD 10 billion in 2009 and to USD 20 billion in 2012. In 2014, China increased the disbursement by another USD 10 billion addressing the majority of the support to infrastructure development⁵⁵.

The World Bank in the report "*Innovative Financing for Development*" in 2009 explains that:

"India spent more than \$1 billion on aid assistance, including training, deputation of experts and implementation of projects under the Indian Technical and Economic Cooperation Program⁵⁶".

In 2008 India began a structured engagement with Africa through the India Africa Forum Summit process and in the second summit in 2011 at Addis Ababa expanded this cooperation. During the third India-Africa Forum Summit in New Delhi on 29 October 2015, India confirmed the concern to continue with the aid flow to "those in need", to strengthen development partnership and to deepen economic collaboration in the areas of trade, technology and training⁵⁷. Overall, by 2011, the annual flows from emerging economies to the Low Income Countries was estimated to be between US\$12–15 billion, which represented between 10 and 15 percent of the amount of aid provided by developed countries.

The OECD analysis states that much of the 2013 increase in ODA to Africa was allocated to North Africa: Egypt was the largest recipient receiving about USD 5.5 billion, than there are six main recipients, Ethiopia (USD 3.8 billion), Tanzania (USD 3.4 billion), Kenya (USD 3.2 billion), the Democratic Republic of the Congo (USD 2.6 billion) and Nigeria (USD 2.5 billion), that receive 38 percent of the total ODA to Africa. Also East African countries experienced an increase in aid allocations compared

⁵⁵ Source: Yun Sun, Brookings, "*China's Aid to Africa: Monster or Messiah?*", February 2014

⁵⁶ Source: Ketkar, Ratha, The World Bank, "*Innovative Financing for Development*", 2009

⁵⁷ Source: Institute for Defense Studies and Analysis, "*3rd India Africa Forum Summit: Rejuvenating Relations*", 29 October 2015

to 2012. In the same period was registered a decline in ODA disbursements to several low-income countries mainly in West and Central Africa.

In 2012-13 was registered a decline in the ODA share of GDP for low-income African countries to 8.2 percent, compared to 11.5 percent in 2010-11 (Figure 16). This trend is expected to continue in coming years even if it represents a cause for concern, as many African low-income countries are dependent on foreign aid.

Figure 2.9. Net official development assistance disbursements to African countries by income group (% GDP weighted), 2000-15



Note: ODA (e) estimates and (p) projections are based on the real increase of Country Programmable Aid (CPA) in OECD (2014b).

Source: Authors' calculations based on OECD (2015) and IMF data.

StatLink <http://dx.doi.org/10.1787/888933206659>

Figure 16: Net ODA to Africa by income group (2000-15)

The survey provides estimates of future aid allocations for all DAC members and major non-DAC and multilateral donors, from 2014 up to 2017, more than two-thirds of countries in sub-Saharan Africa are projected to receive less aid.

Aid to Africa is projected to decline in fact, from 2015 about half of African countries are expected to receive less: the projections indicate a decline of 2.6 percent in 2015 to USD 46.4 billion, by a further 3.0 percent in 2016 to USD 45.0 billion and by 0.3 percent in 2017 to USD 44.8 billion. In 2017 is projected an increase in aid to Libya, Morocco and Tunisia in North Africa and Côte d'Ivoire, South Sudan and Zambia in sub-Saharan Africa. For 35 sub-Saharan African countries the level of Country Programmable Aid aid will be lower in 2017 than in 2014.

1.2.4 Tax revenues

In order to better off the productivity level and the economic growth, the African

governments are increasing the efforts for the mobilisation of domestic resources. The African Union leaders reiterated the key messages of the 2002 Monterrey Consensus and the 2008 Doha Declaration in the context of the 2014 Common Africa Position on the Post-2015 Development Agenda: the top priority is the increase and improve of the quality of finance from domestic sources.

The results of these efforts in a decade are encouraging because the domestic finance during the period 2003-2013 increased more than three times from USD 157 billion in 2003 to USD 507 billion in 2013. It is possible to understand the performance of the tax revenue in Africa from 2003 to 2013, in the latest available data collection of the African Development Bank through annual country missions for the *African Economic Outlook*⁵⁸.

The tax mix differs widely between resource-rich and non-resource-rich countries in Africa.

The resource rich countries depend on the fluctuation of the international commodity prices, in fact for instance the resource rents increased during the period 2002-2008 but then contracted during the global recession. After peaking at USD 235 billion in 2012 they decreased by 8% in 2013, following the decline in oil, metals and minerals prices.

Non-resource-rich countries have made progresses in raising tax collection through direct and indirect taxes. For Instance, Ethiopia and Kenya have a well-balanced mix of indirect, direct and trade taxes, which helps them to maintain a more stable and predictable flow of resources to finance public goods.

The combination of the informal sector, low levels of tax collection, high rates of tax evasion and a weak tax administration represent the difficulties of the governments to impose and control the fiscal system. It is possible to understand the deepen of the problem considering the OECD data collection which explains that in 2013 the 70% of tax collected in Africa were originated from six countries: South Africa (USD 86.5 billion), Nigeria (USD 77.8 billion), Algeria (USD 71.8 billion), Angola (USD 48.7 billion), Libya (USD 42.8 billion) and Egypt (USD 38.9 billion).

The OECD and the G20 are working together to develop a strategy defined as “Base erosion and profit shifting” (BEPS), which exploit gaps and mismatches in tax rules to shift profits for tax purposes.

⁵⁸ Source: African Development Bank Group, OECD, UNPD, “*African Economic Outlook 2015*”, 2015

1.2.5 Illicit financial flows

Dev Kar and Brian LeBlanc in the report of Global Financial Integrity, “*Illicit Financial Flows from the Developing World: 2002-2011*,” December 2013 report the OECD’s definition of illicit financial flows:

“Illicit financial flows (IFFs) involve funds that are illegally earned, utilised or transferred out of a country in contravention of national or international laws”.⁵⁹

These flows of money are in violation of law during their movement or use and they are considered illicit because they go against established rules and norms.

The illicit financial flows occur with detrimental practices such as tax evasion, trade misinvoicing, abusive transfer pricing, money laundering, bribery and abuse of office by public officials. They weaken the African financial system because they remove money that could be invested to finance much-needed basic social and public services. Ndikumana and Boyce in the report “*Capital Flight from Sub-Saharan African Countries: Updated Estimates, 1970 – 2010*” (2012) estimate that Africa’s capital stock would have increased by more than 60 percent if funds leaving Africa illicitly had remained within the continent, while GDP per capita would be 15 percent higher.⁶⁰

The Panel “*Illicit financial flows*” report of the High Level Panel on Illicit financial flows from Africa commissioned by the AU/ECA conference of Ministers of Finance, planning and economic development has been presented to the Seventh Joint Annual Meetings and African Union Conference of Ministers of Economy and Finance in March 2014 in Abuja, Nigeria. The Report provide the estimates on the amount of illicit financial flows:

“Over the last 50 years, Africa is estimated to have lost in excess of \$1 trillion in illicit financial flows (IFFs) (Kar and Cartwright-Smith 2010; Kar and Leblanc 2013). This sum is roughly equivalent to all of the official development assistance received by Africa during the same timeframe. Currently, Africa is estimated to be losing more than \$50 billion annually in IFFs.”⁶¹

⁵⁹ Source: Dev Kar and Brian LeBlanc in the report of Global Financial Integrity, “*Illicit Financial Flows from the Developing World: 2002-2011*,” December 2013

⁶⁰ Source: Ndikumana and Boyce, Political Economy Research Institute, University of Massachusetts, “*Capital Flight from Sub-Saharan African Countries: Updated Estimates, 1970 – 2010*”, October 2012

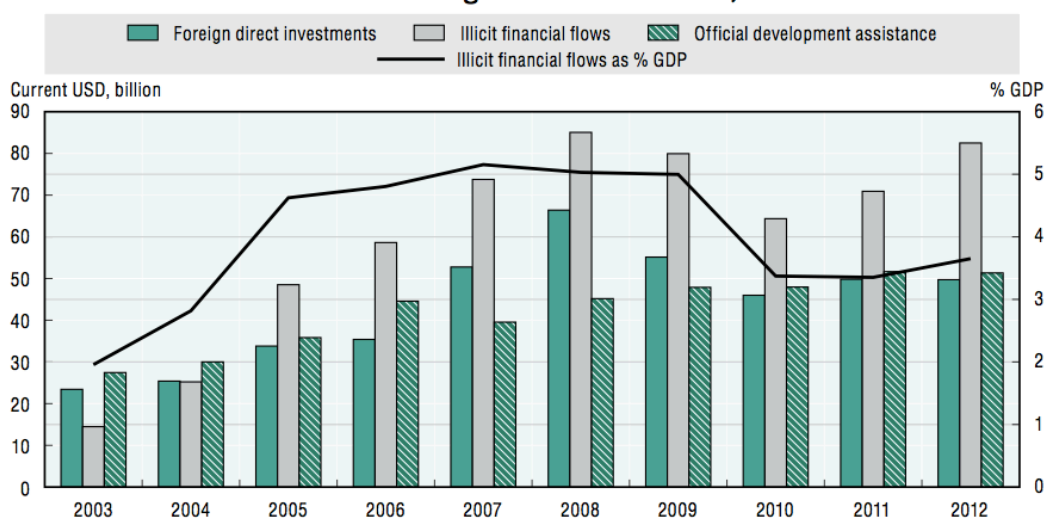
⁶¹ Source: AU/ECA conference of Ministers of Finance, planning and economic development, “*Illicit financial flows*”, 2014

These estimates often exclude some forms of IFFs that by nature are secret and cannot be properly estimated, such as bribery and trafficking of drugs, people and firearms.

These consequences of these illicit flows have a negative impact on Africa’s development efforts: loss of investment capital and revenue that could have been used to finance development programs, the weakening of State institutions, inadequate growth, high levels of poverty, resource needs, deepen reliance on donors. Another governance dimension of IFFs relates to the unequal burden of citizenship, both in terms of tax fairness and “free-riding”.

The figure 16, presented in the OECD report “*Africa economic Outlook 2015*”, well represents the recent estimates of Dev Kar and Joseph Spanjers that have been made comparing the IFFs with the Official development assistance and FDI.

Figure 2.11. Illicit financial flows from Africa compared to official development assistance and foreign direct investment, 2003-12



Note: IFFs are computed according to the methodology developed by Kar and Spanjers (2014), which measures IFFs using two sources: (i) outflows due to deliberate trade misinvoicing, and (ii) outflows due to leakages in the balance of payments, also known as illicit hot money narrow outflows. The vast majority of measurable illicit financial flows from Africa (67.4 % on average from 2003 to 2012) are due to trade misinvoicing.

Sources: Authors’ calculations based on Kar and Spanjers (2014), OECD (2015), and IMF and African Economic Outlook data.

StatLink <http://dx.doi.org/10.1787/888933206679>

Figure 16: The IFFs from Africa compared to ODA and FDI, 2003-12

The impressive results of this analysis are presented in the report “*Illicit financial flows from Developing Countries 2003-2012*”, (2014): the annual average lost in illicit financial outflows during 2003-12 is of USD 60.3 billion, that is about 4 percent of GDP.⁶² These illicit flows exceed aid and investment flows: the ODA and the FDI for

⁶² Source: Dev Kar, Joseph Spanjers, Global Financial Integrity report, “*Illicit financial flows from Developing Countries 2003-2012*”, 2014

the continent over the same period averaged USD 42.1 billion and USD 43.8 billion per year, respectively. Illicit financial flows for sub-Saharan Africa in 2012 (estimated at USD 68.6 billion) are slightly less than the combined total of ODA (USD 41.1 billion) and FDI (USD 35.4 billion).

According to the AU/ECA Panel, large commercial corporations account for the vast majority of IFFs (65 percent), followed by organised crime (30 percent) and corrupt practices (5 percent).

Some of the AU/ECA Panel results are the following: without IFFs, the Central African Republic would be able to reach the MDG indicators in 45 years compared with 218 years at current rates of progress, Mauritania in 19 years rather than 198 years, Swaziland in 27 years rather than 155 years and the Republic of Congo in 10 years rather than 120 years. Perhaps most striking is the finding that if IFFs had been arrested by the turn of the century, Africa would reach MDG 4 by 2016.

The solution exposed by AU/ECA in the Panel would be to equip customs authorities with the latest, comparable global pricing data, which would allow them to promptly detect and block misinvoiced transactions.

A key contribution to the efforts against IFFs is the Africa Initiative launched by the Global Forum for Transparency and Exchange of Information for Tax Purposes:

“Africa governments need to establish or strengthen the capacities of revenue authorities, transfer pricing units, customs services and anti-corruption agencies, and provide them with the necessary financial resources.”⁶³

1.3 The demographic revolution creates new opportunities

Africa is one of the youngest markets in the world having more than a half of the population less than 24 years old. According to the Population Reference Bureau, while it is expected that the European population will diminish by 60 million units until 2050, Africa is projected to increase to 2.4 billion from 1.1 billion of today, making it the region with the largest population growth⁶⁴.

⁶³ Source: OECD, “*Global Forum on Transparency and Exchange of Information for Tax Purposes*”

⁶⁴ Source: Population Reference Bureau, World Population Data Sheet 2014

Figure 6. Population growth in Africa, 1950-2050

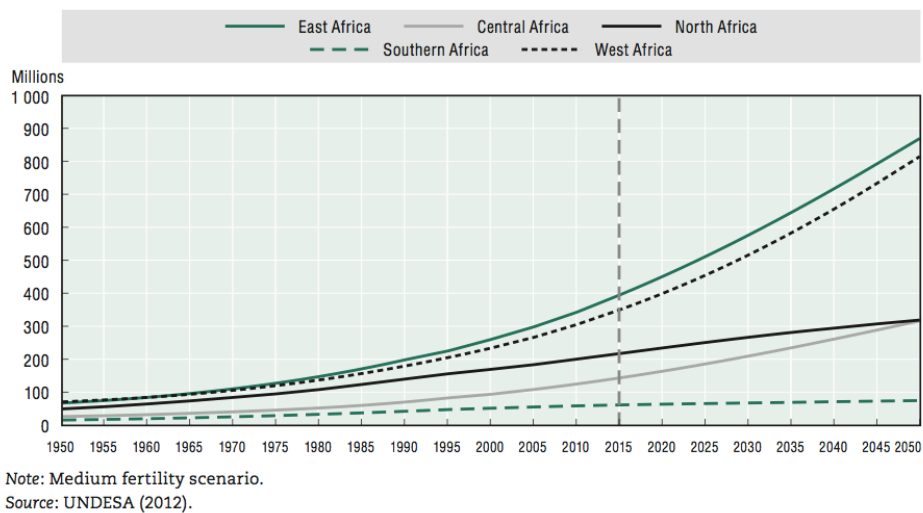


Figure 17: OECD's projection on the population growth in Africa (1950-2050)

The Population Reference Bureau (PRB), the United Nations Population Fund (UNFPA), and the Union for African Population Studies (UAPS), together with journalists and communications professionals from across sub-Saharan Africa have met for the 7th African Population Conference in Pretoria, South Africa at the beginning of December 2015. The conference was themed "*Demographic Dividend in Africa: Prospects, Opportunities, and Challenges*" and it was focused on the importance of achieving the demographic dividend despite the challenges a youth bulge presents⁶⁵. Those demographic changes lead to both opportunities and challenges. On the one hand, the ongoing demographic transition opens a window of opportunities, as the working-age population increases and child to be supported decrease. The number of active people will improve living conditions, such as education, health care and housing, and boost savings and investment, in fact, while in the 1990s there was practically one active person for each inactive one, by 2015 it is forecast to reach 1.6 active people per inactive person in sub-Saharan Africa (still less than China's current level). The demography growing projections will be significantly different among African regions, as it is possible to understand from the OECD graph in figure 17. On the other hand, the consequences on the rapid increase in workforce will increase the pressure on labour markets.⁶⁶

⁶⁵ Source: Population Reference Bureau, "*PRB Training Teaches Journalists About the Demographic Dividend*", December 2015

⁶⁶ Source: OECD, 2015.

1.3.1 Workforce growth

In the McKinsey Institute report “*Africa at work: Job creation and inclusive growth*”, 2012 it is explained that, despite the creation of 37 million new and stable wage-paying jobs over the past decade, only 28 percent of Africa’s labor force holds such positions. Instead, 62 percent of the total labor force is engaged in some form of self-employment, subsistence farming or urban street jobs. If the trend of growing population continue in the next decade, Africa will be able to create 54 million of new stable wage-paying jobs. However this will not be enough to absorb 122 million new entrance into labor force⁶⁷. The workforce is expected to increase by 1 billion people between 2010 and 2050, of which 830 million in sub-Saharan Africa and 80 million in North Africa. Currently, the youth that are joining labour markets are about 19 million in sub-Saharan Africa and 4 million in North Africa. Over the next 15 years, the figures will be 370 million and 65 million respectively. The upcoming growth in Africa’s workforce represents two-thirds of the growth in the workforce worldwide⁶⁸.

1.3.2 Rural and urban population: the infrastructure management

The African Development Bank Group declared in 2012 that the urbanization process in Africa has largely been translated into rising slum establishments, increasing poverty and inequality⁶⁹. However, there are differences in the patterns of urbanization among African regions: in North Africa there are relative fewer slum mainly thanks to better urban development strategies such as investments in infrastructure and upgrading urban settlements. By contrast in the Sub-Sahara Africa there is a lower percentage of urban population than in the North Africa, but there is a higher proportion of slum.

The ADBG registered a lack of basic infrastructures in the cities of the Sub-Sahara Africa, mainly in the low-income countries. The access to electricity is one of the main problems considering that only 20 percent of the population benefit from this service. The 84 percent of population living in the slum have access to potable water while 54 percent to the health services. The data reflect a scenario still inadequate for a well being population.

The urbanization process from rural to urban areas is the consequence of the seeking for a urban employment by the young population. Most of the migrants from rural areas don’t have technical skills or competencies so they end up in the informal sector: it

⁶⁷ Source: McKinsey Institute report “*Africa at work: Job creation and inclusive growth*”, 2012

⁶⁸ Source: OECD, 2015.

⁶⁹ Source: Africa Development Bank Group, “*Urbanization in Africa*”, 13 December 2012

accounts for the 93% of all the new jobs. As a consequence, many African cities have to deal not only with slum proliferation but also with increasing insecurity and crime.

It is otherwise interesting the article “ *Africa’s urbanizing, but not how you think*” written by Deborah Potts, a demographer from Kings College London who studies urbanization in sub-Saharan Africa. She argues that in countries like Ivory Coast, Mali, Zambia and Central African Republic more people are moving from urban areas to rural ones and that these "counter-movements" are the result of the severe shortage of jobs in many African cities⁷⁰.

1.3.3 Migration and the diaspora: investments and skills for workforce development in Africa

International migration is a global phenomenon that is estimated by the IMF in the report “*International migration: recent trends, economic impact and policy implication*”, 2015 to involve currently the 3 percent of the global population. This phenomenon has risen steadily in recent years with the contribution of the Middle East and North Africa crisis, in fact the number of refugees increased by 40 percent to 14.4 million between 2011 and 2014, achieving the highest number of migrants since 1990⁷¹. The economic incentives are the main drivers of migration infact the cross-country differences in income, economic opportunities and wages represent the first pulse for this phenomenon. There are also many other drivers of migration such as the presence of internal conflicts in the country of origin, the lack of personal freedom, the lack of job opportunities, discrimination and persecution.

It is interesting to understand what are the political and economic consequences of migration in the countries of origin. Paul Collier investigates on how important migration is for these countries and for people left behind by migrant in the book “*Exodus: how migration is changing our world*”, 2013⁷². The most important effects come from the political behaviours of the diaspora. Diasporas are often supporters of political oppositions in the country of origin. Living in host high-income countries, migrants can see what other well performing governance looks like and, knowing that their country of origin lack in it, they want to pressure for change. It have been studied how do migrants influence the political behaviour of their families back home: through

⁷⁰ Source: Citylab, Deborah Potts “ *Africa’s urbanizing, but not how you think*”, 2 October 2012

⁷¹ Source: IMF, “*International migration: recent trends, economic impact and policy implication*”, 12 November 2015

⁷² Source: Paul Collier, “*Exodus: how migration is changing our world*”, 2013

frequent phone calls migrant suggest the relatives to register to vote and they also suggest whom candidate to support for the elections. Collier analyses also the impact of migrants who have returned in their country of origin: not only returning migrants bring back democratic norms learned abroad but also influence the people left behind, in fact they are prone to copy the behaviours of returning migrants.

Not all the diaspora pressure has the objective of the effective governance achievement in the country of origin in fact diaspora often support and finance extremist political opposition that fuel conflicts.

During the civil wars the educated people get out of the country to find a better place to live and also the financial capital is moved abroad. This kind of exodus is called “Drain brain” and the challenge of the governance at the end of the conflict is to restore both.

Marion Marcier, PHD student at Paris School of Economics, investigates in the report “*The Return of the Prodigy Son: Do Return Migrants make Better Leaders?*”, 2013 wherease migration increase the supply of good leaders in the country of origin:

“While migration per se is not found to affect the quality of political institutions, it appears that leaders who studied abroad are associated with higher levels of democracy⁷³.”

The potential wealth and talent existing in the African Diaspora is enormous. Some researchers estimate that the African Diaspora saves annually US\$53 billion⁷⁴. They already are the major contributors to Africa's development in fact, in 2013, the African diaspora worldwide remittances approximately amounted to US\$80 billion sent through formal channels alone. This contribution is significantly higher than the bilateral aid flows⁷⁵.

In many cases, migration is a family decision rather than a decision of the migrant, it is a strategy to enlarge opportunities, it is the investment of the family. With the remittances the family can aspire to a better life and to allow the children to go to school that are expensive in a low-income country. In this perspective the migration creates two effects: a direct one that reduces talent in the country of origin society and an indirect one that increases it. It is essential for the governments to understand the evolving trends, the drivers and the economic impacts of migration in order to be able to design efficient and effective policies for both recipient and source countries.

⁷³ Source: Marion Marcier, “*The Return of the Prodigy Son: Do Return Migrants make Better Leaders?*”, 2013

⁷⁴ Source: The World Bank, “*Engaging the African Diaspora: Partnering for Long-term Trade, Investment and Skills for Workforce Development in Africa*”, June 10, 2015

⁷⁵ Source: European Commission, “*Enhancing the African diaspora's role in development post-2015*”, June 3, 2015

2 The importance of the institutional assets in the development and growth perspectives

2.1 Poverty in a rising Africa: why does governance matter

It is interesting to study the African scenario of today to understand how a decade of growth has not been enough to solve the problem of mass poverty that afflicts the African region. According to latest World Bank's report "*Poverty in a rising Africa*", 2015, the percentage of poor people in the continent has fallen from 56% in 1990 to 43% in 2012. However, because of population growth, many more people are poor in fact the current scenario shows about 330 million poor in 2012, up from about 280 million in 1990⁷⁶.

The average life expectancy is fifty years while in the other developing countries in the world is sixtyseven years. The infant mortality rate, i.e. the rate of children dying before the fifth year of life, is equal to 14 percent, while in the other developing countries is 4 percent. The 36 percent of children have symptoms of chronic malnutrition, compared to 20 percent in the other countries in the developing world. Despite substantial improvement in school enrollment more than two of five adults are still illiterate⁷⁷.

The picture of inequality in Africa shown by the World Bank is complex. Of the 10 most unequal countries in the world 7 are in Africa, most of them in southern Africa. Excluding these countries, the level of inequality is not higher in Africa than elsewhere in the world and it has not been registered an increase in inequality in the African countries. At the same time, the number of extremely wealthy Africans is increasing.

Why does the African Countries, despite the progress of recent years, remain so poor? From the introduction to this analysis it is possible to understand that one of the causes of this delay in growth, although there are signs of improvement, is the insufficient economic growth, in fact without economic growth it is not possible to reduce the poverty significantly. In some countries, the growth did not benefit the poorest sections of the population, it is instead increased the rate of inequality. Scholars agree that the failure to take off in Africa is caused by a combination of inappropriate economic policies and institutions that have distorted economic incentives. These factors have discouraged the private economic initiative and have instead favored the use of available resources of international aid to finance unproductive activities. The political

⁷⁶ Source: The World Bank, "*Poverty in a rising Africa*", 2015

⁷⁷ Source: Paul Collier, "*The bottom million*", Laterza Edition, 2009

and economic institutions that govern a society are the keystones for the growth. They determine the incentives for the citizens to save, invest, educate, engage, innovate and adopt new technologies. These incentives represent the trajectories of development of a nation, its prosperity or poverty. The institutions have to protect the property rights and guarantee economical opportunities not only to the élite but also to the majority of the society, creating a level playing field.

2.2 The reasons why some states remain locked in poverty: the killers of growth

The killers of growth are clearly identified by many researchers, in particular they have been identified and discussed by Dambisa Moyo, Global economist and strategist, in the “*Dead aid*” 2009⁷⁸, by Paul Collier, economist at Oxford University and at the World Bank, in “*The bottom Billion. Why the poorest Countries are failing and what can be done about it*”, 2009⁷⁹, by David Landes in “*The Wealth and the Poverty of Nations: Why Some Are So Rich and Some So Poor*”, 1998⁸⁰.

2.2.1 The Official Development Assistance effectiveness

Dambisa Moyo criticizes the concessional loans and the grants given by rich countries to African governments because the logic that stays behind this aids system is that the most of these investments necessary to the African countries need long terms in order to produce stable changes in the GDP growth and to generate income tax payments necessary to repay the loans. The international aids didn’t contribute to the achievement of the Millennium Development Goals, on the contrary this system has lead to the strong indebtment of the African countries. For this reason they are considered as killer of growth.

Starting from the ‘40s about one trillion dollars of international aids has been transferred from rich countries to Africa: this means nearly 1000 \$ per each man, woman and child of the entire world. The current scenario explained below in this perspective seems to present the result of these aids: the lack of effectiveness.

The main problem explained by Dambisa Moyo is that the African governments consider the aids as a permanent entrance, affordable and consistent, they consider these

⁷⁸ Source: Dambisa Moyo, in the “*Dead aid*”, 2009

⁷⁹ Source: Paul Collier, economist at Oxford University and at the World Bank, in “*The bottom Billion. Why the poorest Countries are failing and what can be done about it*”, 2009

⁸⁰ David Landes in “*The Wealth and the Poverty of Nations: Why Some Are So Rich and Some So Poor*”, 1998

entrances lasting forever. This security doesn't give them the incentives to a long term financial planning and even the reasons to find alternatives for a sustaining development.

The World Bank is the largest provider of development assistance to Africa and almost 50% of International Development Assistance funds are disbursed in the poorest Country of Africa. In the last five years, the Bank and its partners have increased their commitments for Africa to fight poverty, boost economic growth and lessen the impact of the economic, food and fuel crises. The World Bank has explained in the report "*The Role and Effectiveness of Development Assistance: Lessons from World Bank experience*" that progress on health, education, and income is not accidental.

"Governments, with the support of the development community and nongovernmental organizations (NGOs), have accelerated growth and poverty reduction by improving their policies, institutions, and governance, and through well-designed projects and programs"⁸¹.

However, numerous researchers have demonstrated that, after decades and million dollars, the aids have not exercised an appreciable impact on the development. Moreover, Bill Easterly, professor at New York University and ex economist at the World Bank, affirms that if for example The Zambia had turned into investments all aid received since 1960 by channeling towards growth, at the beginning of the 90s he recorded a GDP per capita of about \$ 20.000. The Zambia today has a GDP per capita of \$ 500, a value lower than in the '60s. Aids from rich countries have trapped many African nations in a cycle of corruption, slower economic growth and poverty. The aids given unconditionally have the danger of being dissipated instead of being invested, to disappear into the pockets of private rather than in public wellness. When this occurs are never inflicted real punishment or sanctions. In this perspective, most subsidies are equivalent to more corruption. It was estimated by the Transparency International that Mobutu, the president of Zaire, has looted 5 billion dollars from international aids given to the state and Sani Abacha, president of Nigeria, has transferred nearly the same amount to a private bank account in Switzerland⁸². Since 1995, Transparency International publishes the Corruption Perceptions Index (CPI) lists on a scale from 0 to 10, where 0 is the score assigned to the most corrupt country, more than 100 Countries.

⁸¹ Source: Goldin, Roger, Stern, The World Bank, "*The Role and Effectiveness of Development Assistance: Lessons from World Bank experience*"

⁸² Source: Transparency International, "*Seize Mobutu's wealth or lose your own money, Western Governments told*", 15 May 1997

Thanks to the CPI, Graf Lambsdorff, professor at Passau University, discovered that at the improvement of a point in the CPI scale corresponds a productivity growth of 4 percent of GDP⁸³.

These corrupted governments interfere with the law, the creation of transparent civil institutions and the defense of civil freedoms, discouraging investment both domestic and foreign. The lower investments result is the reduction of economic growth, reduction of jobs and increase of poverty.

The World Bank argues that providing more aid, rich countries cooperate in the fight against corruption allowing governments to support an ethical formation and increase the salaries of workers in the public sector (police, judges, medical personnel) thus limiting the state of necessity that drives corruption.

Considering the CPI of 2014 (figure 18) it seems that the policy of the World Bank is not achieving strong results.

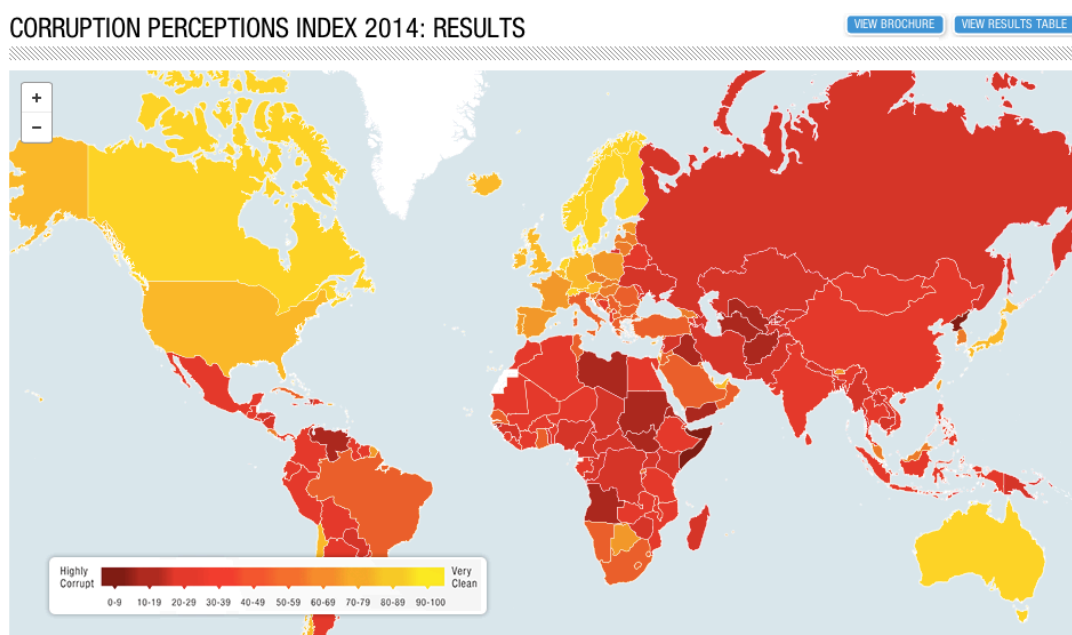


Figure 18: Corruption Perception index 2014, Transparency International

Many researches have argue that Official Development Assistance to sub-Saharan African countries has led to negative effects on macroeconomic indicators such as export performance. This theory is known as “Dutch Disease” and it is well explained by Adenauer and Vegassky in the report “*Aid and the Real Exchange Rate: Dutch Disease Effects in African Countries*”, 1998:

⁸³ Source: Johann Graf Lambsdorff, “How corruption affects economic development”, 1996.

“Entering the economy as foreign exchange, aid can cause the price of non-traded goods to rise relative to that of traded goods, bringing about a change in the real exchange rate. This theory identifies the paradox impact of aid on the recipient country, which causes a decline in competitiveness through an appreciation of the real exchange rate and a decrease in exports⁸⁴”.

The consequence of the ODA is the reinforcement of the local currency and it lead to an increase in prices of products to be exported, resulting non competitive in an international market. This economic mechanism damage the manufacturing product exports and consequently it reduces the long terms economic growth.

2.2.2 The development traps

Paul Collier investigates on the extreme African poverty in the book “*The bottom Billion. Why the poorest Countries are failing and what can be done about it*”, 2009⁸⁵. He starts from a very simple question in order to identify and understand the killers of growth: considering that all the societies were poor in the past, if the majority of these countries is currently managing to overcome poverty, why does others can’t do it? For instance, before the globalization had offered enormous opportunities to China and India, these two countries were poorest than many African countries that are still in economic difficulties. China and India had released on time to impose in the international markets, instead of many other countries that were at the beginning less poor that have not been able to release. Paul Collier answers to this question with his theory of the “development trap” that is the presence of some elements and situations in a country that create a vicious circle of negative effects that don’t permits to take the path of development. The Collier’s traps are four: the conflict trap, the resources trap, the trap of being landlocked, the bad governance in a small country. Together, these traps are causing the divergence of the poorest nations from the rest of the world and these poor countries will likely end in “a ghetto of misery and discontent”.

- a. The conflict trap. One of the causes that notoriously obstacle the growth of a country is the war. The 73 percent of the bottom billion countries have recently been in, or continue to be in, a civil war. These civil wars last for an average of seven years, reduce the economic growth by 2.3 percent per year and cost to a country and

⁸⁴ Source: Adenauer, Vegassky, Intereconomics, “*Aid and the Real Exchange Rate: Dutch Disease Effects in African Countries*”, 1998

⁸⁵ Source: Paul Collier, “*The bottom Billion. Why the poorest Countries are failing and what can be done about it*”, 2009

to its neighbors an average of 64 billion dollars. Collier found some factors that make a country prone to war: low income, slow growth and high dependency to natural resources because they give incentives to terrorism to start the aggressive revolution for their possession. Once a civil war begins in a country, it starts a cycle of civil war and violence that is difficult to stop because, according to Collier, being involved in a civil war increases a country's chances of entering into another civil war in the near future.

- b. The natural resources trap. Natural resource wealth, in addition to increasing a country's propensity for civil war, also creates its own trap. In fact, the "Dutch Disease" and the volatility of the commodity prices inhibit the growth even in a State well governed making country's other export activities uncompetitive. These two factors combined can almost zero the diversification potential of a country through export of manufactured goods and services.
- c. The trap of being landlocked. This trap occurs when a country is resource scarce, has the lack of access to the sea cost and in addition has the bad luck of having neighbors with poor infrastructures. Without access to a coast, countries have difficulties to integrate into the global markets. Moreover, for countries that cannot access the coast, the most they can hope for, says Collier, is relying on their neighbors for growth. However, if their neighbors are trapped in one of the four traps, development is next to impossible. Sachs in his studies sustains that the lack of access to the sea reduces of half a percentage point the growth rate. This trap could may be criticized when considering the case of Switzerland, Austria, Luxemburg or even Botswana, the country with the faster growing rate than all globally. The difference is that many African countries are landlocked and many of their neighbors have insufficient infrastructures. Moreover the countries depend from the neighbors not only for the transport of the product to the global market but also because they are their direct markets. In this situation the neighbors don't represent the market but an obstacle in the way of access to global markets.
- d. The bad governance in a small country. Bad governance in a small country can also trap a country in poverty. Collier provides Bangladesh as an example of an economic success despite being the most corrupted country in the world. In small countries, the government necessarily plays a larger role in guiding economic development. However, when small governments that are supposed to be guiding economic development, are instead corrupt or have bad policies, development

simply will not occur. The introduction of control mechanisms is even more important than the efficiency of the governative action. The bad policies and governance don't have necessarily to become a trap: societies can learn from mistakes and can react to the disaster activating the healing process with political reforms. China and India are example of success of this change of course. However, the prospects of a country turning around its policies is low, with a country having only a 1.6 percent chance of having a sustained turnaround in any given year.

2.2.3 The lack of strong institutions

Another explanation of the scarce economic performance of Africa is exposed by David Landes in “*The Wealth and the Poverty of Nations: Why Some Are So Rich and Some So Poor*”, 1998 ⁸⁶: the killer of growth is the lack of strong political institutions, transparent and credible, such as statal administration, police and judiciary. Landers investigate what are the essential requirements and the conditions of prosperity of a civilized society that must be granted by the government in order to ensure and safeguard the economic growth: a sphere of personal freedom not only in economy but also in culture and ideas, recognition and protection of private property and contractual rights, law respect. The technology is fundamental, it provides the essential tools for the large scale production and, to be improved, it requires freedom of sleekness and discussion. Finally, a great importance is given by Landers to the culture and the social values: a society is projected to the growth if it is appreciated and encouraged on the personnel initiative, the commitment, the work, the safe, the investments, the creativity, news and changes.

This is possible only if the institutions are able to secure the rights and enforce the laws.

2.2.4 Expectation and realization of democracy

From the Afrobarometer index of demand for democracy it is possible to understand that African people increasingly ask for democracy. The survey realized by Bratton and Houessou (2014) in 34 African Countries shows that the demand for democracy has risen from 36% in 2002 to 51% in 2012 and that seven out of ten African countries

⁸⁶ Source: David Landes, “*The Wealth and the Poverty of Nations: Why Some Are So Rich and Some So Poor*”, W.W. Norton, 1998

prefer democracy to “other kinds of government” by 2011-13⁸⁷.

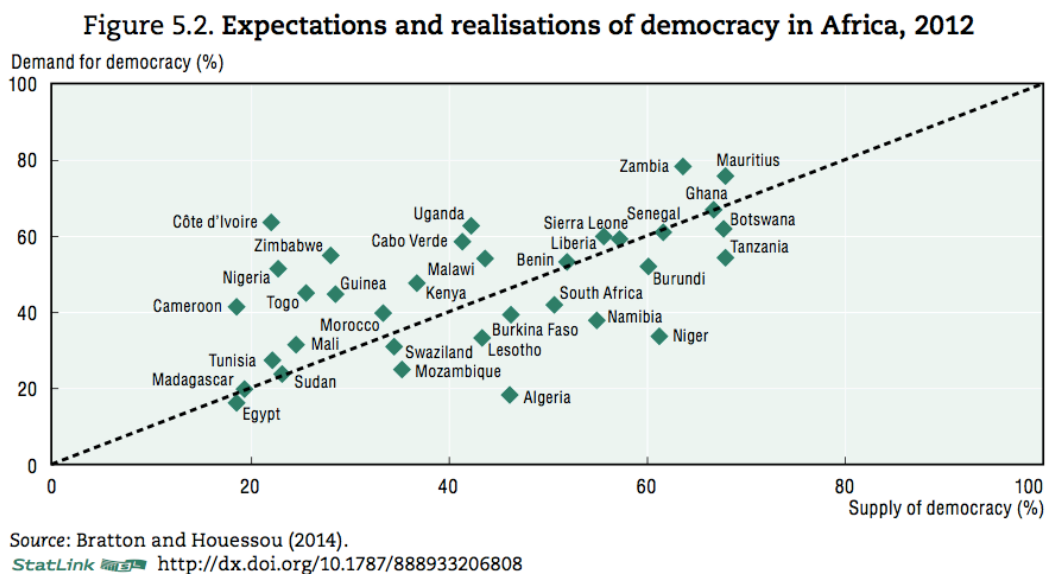


Figure 19: Expectation and realisation of democracy in Africa, the Afrobarometer, 2012

However, as it is possible to understand from the figure 19, the democratic process seems slower than what the public would expect: many countries are waiting for democracy, this means that a number of African countries experience what Afrobarometer calls a “deficit of democracy”, in which expectations from citizens exceed the realisations.

There are many reasons to believe that democracy is a major factor for economic growth, since the State through the governance inevitably affects the economy. This is also the theory of Mancur Olson, economist and sociologist, based on the idea that only under democratic governments the protection of the property rights and of the contracts, essential to stimulate the economic activity, are granted⁸⁸. In the study “ *The cash nexus: Money and Power in the Modern World 1700-2000*”, 2002⁸⁹, Ferguson discovered that, among the main developing economies, the democratic governments satisfy the fundamental needs of the population 70 percent more than the non-democratic States.

In the study “*Dead aids*”(2009), Dambisa Moyo argues that the democracy financed by

⁸⁷ Source: Bratton and Houessou, “*Demand for Democracy Is Rising in Africa, But Most Political Leaders Fail to Deliver*”, 2014

⁸⁸ Source: Clague, Keefer, Knack and Olson, “*Property and Contract Rights in Autocracies and Democracies*”, June 1996, *Journal of Economic Growth*, Vol. 1, No. 2, pp. 243-276

⁸⁹ Source: Niall Ferguson “ *The cash nexus: Money and Power in the Modern World 1700-2000*”, 2002

the international aids don't avoid the tendency of the African governments to address to their advantage the property rights, the growth results to be suffocated anyway. The democratic governments in Africa have difficulties to pass laws economically advantageous for the population because of the political rivalry and the cheating interests. Dambisa argues that, at the lower rungs of the economic development, not the democracy but a benevolent dictator that introduce essential reforms for economic growth is needed. Pinochet in Chile and Fujimori in Peru are example of economic success in countries without democracy.

2.3 Analysis of the reasons why some states are more developed than others: some notes and observations

Until the 1950s the term development was synonymous with economic growth and up to the late 1960s development was largely measured in terms of income per capita⁹⁰. The most well known indicators used to grasp the extent of such development through modern times have been Gross Domestic Product (GDP) and Gross National Product (GNP) or Gross National Income (GNI), which measure the economic performance of countries, or groups of countries, across time and space⁹¹.

We already used these indices in our previous chapter to sum up the achievements attained by Sub-Saharan countries and macro-regions in the last decade and a half - see paragraphs 1.1 and 1.3 - but values like the ones we employed surely suffer from multiple drawbacks. On the one hand we face serious limitations with the quality of informations upon which we build and correct these indicators to allow comparisons across different countries, like accounting sources or Purchasing Power Parities adjustments⁹². On the other, the GDP family has several weaknesses as an indicator of development, not taking account of many relevant matters, including, but not limited to, sustainability, inequalities or poverty⁹³.

The call for an enlargement of the concept of development inevitably led, in the last three decades, to a shift in focus from a single measure of merely economic

⁹⁰ Source: Othick J., "Development Indicators and the Historical Study of Human Welfare: Towards a New Perspective", Papers Presented at the Forty-Second Annual Meeting of the Economic History Association, 1983

⁹¹ Source: Maddison A., "A Comparison of Levels of GDP Per Capita in Developed and Developing Countries, 1700-1980", Papers Presented at the Forty-Second Annual Meeting of the Economic History Association, 1983

⁹² Not to mention theoretical issues about the inclusion of different components into our calculations - shadow economy's estimates just to hint at one - or choices between various assessments of the economic dimension - e.g. GNP vs GNI.

⁹³ Source: Yildimir B. F. and Kuzu S., *Alphanumeric Journal*, Volume 3, Issue 1, 2015: The Journal of Operations Research, Statistics, Econometrics and management Information Systems, 2015

performance to an array of various indices that encompass and represent progress or retrogression in areas of peculiar concern to society.

A widely known answer to these requirements has originated in 1990 from the United Nations Development Programme (UNDP) and its assemblage of multiple indices of development.

While their efforts have not been the first attempts to generate such measurements we concentrate on UNDP statistics for a couple simple reasons. At first, the publicity and media exposure that comes with these data and the publications distributed alongside them to describe the main findings year by year, the Human Development Reports⁹⁴ (HDRs) made them relevant not only at an individual and societal level but also as an useful tool for policy making and institutional commitments. (Booyesen, 2002)

Furthermore, the power enjoyed by a single number as an indicator of development, such was the case of GDP as we previously argued, has been effectively grasped by the UNDP with the establishment of one of the most notorious indices to gauge progress in human development, the Human Development Index, HDI. (Ogwang, 2000)

The Human Development Index (HDI) is a summary measure of achievements in three key dimensions of human development, encompassing the likes of a long and healthy life, access to knowledge and a decent standard of living⁹⁵.

In the remainder of this section we will therefore investigate how Sub-Saharan Africa, and the countries that comprise the region, fare among each other and compared to other macro-regions worldwide, on the basis of human development as measured by the HDI.

2.3.1 Data and Methodology of the analysis

Through our brief analysis of Sub-Saharan countries and regions we will use data collected by various Institutes of the United Nations and put together by the UNDP to construct the Human Development Index and an array of other indicators that we will, in turn, describe in this chapter. We will refer to the latest release of such data, referring to 2014 values and use also an historical wave of data concerning HDI evolution throughout the last two decades and a half. Furthermore, due to our purpose is to provide an all-embracing landscape where to contextualise our main findings

⁹⁴ As early as the late 1990s, Human Development Reports were already defined as “the flagship publication” of the entire UN system. (Sagar and Najam, 1999)

⁹⁵ For each one of these elements the UNDP develops a normalised dimensional index, converging, in a geometric mean to directly reflect poor performances in any of these facets, in the final computation of the HDI.

about human development in Sub-Saharan countries we will define the indices merely in a non-technical fashion providing references for technical references.

In each brief paragraph we will provide, when available, values for worldwide regions, by group and level of development, juxtaposing this global scenario to observations for single Sub-Saharan countries and we will conclude this chapter with some simple regressions' analysis to relate the HDI with other noteworthy indicators.

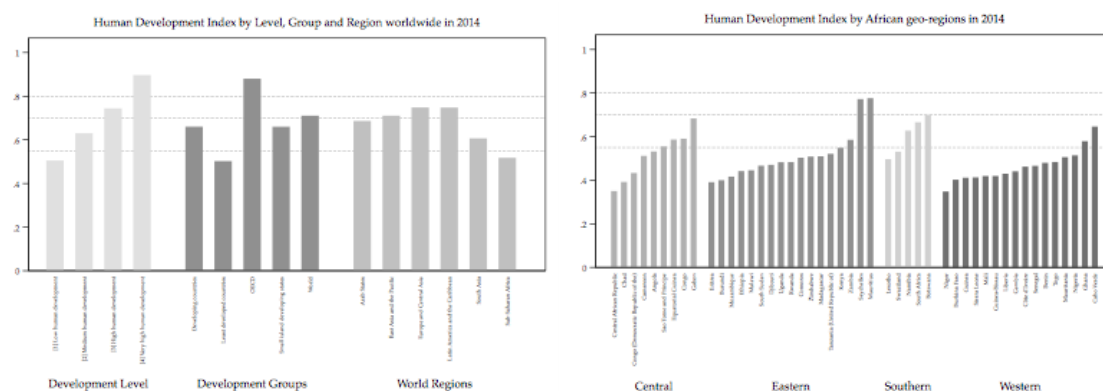
2.3.2 Human Development Index and Sub-Saharan Africa

At first we want to understand how the Sub-Saharan region, and the countries that constitute it, perform worldwide with regard to human development as measured by the Human Development Index.

Figure 20 gives us an hint about how Sub-Saharan Africa fared in 2014 if compared to other geographical macro-regions. Of the six areas defined by the UNDP, only the Sub-Saharan weighted average stands below the cut-off point distinguishing the “low human development” level, at 0.55. This result is not surprising as 88 percent of low human development countries are located in Sub-Saharan Africa.

Of all the other regions, two established themselves as “medium human development”,

Figure 20
Human Development Index in Macro-Areas worldwide and in African Regions in 2014



Left panel: Human Development Index (HDI) by development levels, development groups and regions worldwide as defined by the UN geo-scheme.

Right panel: Human Development Index (HDI) for African (Sub-Saharan) macro-areas as defined by the UN geo-scheme.

Dotted lines on vertical axis respectively at HDI values of 0.55, 0.7 and 0.8, defining the boundaries of Low, Medium, High and Very High development levels.

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP.

respectively the Arab States and South Asia, while the remaining stand as “high human development” groupings.

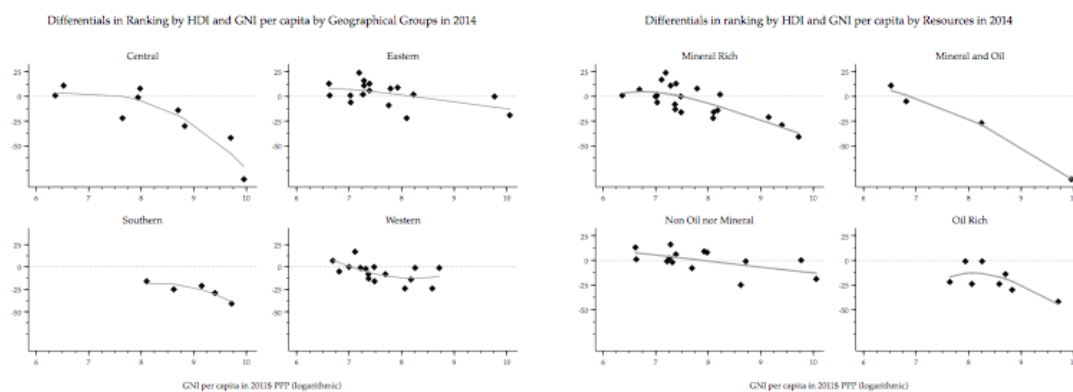
Looking at the single countries, we can see that almost 75 percent of Sub-Saharan States attained a value for the index below the same threshold of 0.55, and of the remaining quarter, only two countries out of 12 lies in the “high human development” zone, these nations being Mauritius and Seychelles.

The further division by geographical area allows us also to identify that the areas having the lowest values observed in the last wave of data are the Eastern and Western part of the continent, with Southern Africa somehow more developed and Central countries showing the highest variability and covering the whole range of the index as measured in the Sub-Saharan sub-sample.

However, what interest us more than the simple level of HDI, as we tried to emphasise in the introduction to our analysis, is the difference among the level of development grasped by this index and merely economic indicators, such as GNI per capita.

Due to the impossibility to directly compare these measures, we evaluated the worldwide ranking of countries based on these two diverse criterion and reported our

*Figure 21
Differentials in Ranking by HDI and GNI in African countries in 2014,
by Geographical grouping and by Resources*



Left panel: Differentials in ranking by Human Development Index (HDI) and Gross National Income per capita (GNI) in 2014, by geographical regions in Sub-Saharan Africa as defined by the UN geo-scheme.

Right panel: Differentials in ranking by Human Development Index (HDI) and Gross National Income per capita (GNI) in 2014, by resources richness regions in Sub-Saharan Africa as defined by the UN Economic Commission for Africa. Mineral rich countries are defined as those where mineral exports account for more than 20 per cent of total exports and oil rich countries as those which exports of oil are at least 20 per cent higher than oil imports.

A positive value in differential indicates an higher ranking in development as measured by the HDI than GNI per capita, conversely a negative value imply a lower ranking in human development than merely economic progress. Dotted lines on vertical axis respectively at HDI values of 0.55, 0.7 and 0.8, defining the boundaries of Low, Medium, High and Very High development levels.

Source: Author’s calculations based upon the statistical annex tables of the Human Development Report 2015. UNDP.

results for Sub-Saharan Africa in Figure 21, further grouping our observations by location and richness in natural resources.

The geographical division highlights how the largest drops in rankings are to be found in Southern Africa, which is also the richest area in terms of GNI per capita on average, and in Central Africa, where a strong relationship between the level of income and the plunge in rankings of human development appears to hold. For Eastern and Western Africa this same differential in rankings has different characteristics, with a substantial reshuffling of the standings for less developed countries in terms of income per capita.⁹⁶ Grouping observations by natural resources⁹⁷ we can trace faintly what has become known as the “resource curse”: countries which relies heavily on non-renewable resources, such as minerals and fuels, tends to have worse development outcomes than other nations. In our graphs, non-mineral and non-oil rich countries show a tendency, in fact, to sustain the relative ranking attained in GNI per capita with similar standings in human development as measured by the HDI.

Nonetheless, one of the main features of this reclassification is that most changes occur among African countries themselves. As highlighted in table 22, only one nation, the small islands of Sao Tome and Principe, experienced an improvement in group of development's belonging once taken into account the education and health dimensions as in the HDI, whereas most countries' group did not vary and almost a quarter of observations, considering human development and the HDI, dropped to a lower bracket.

⁹⁶ We are referring to ranking differentials therefore the shifting for each country is relative to its position in the alternative standings grounded solely on income.

⁹⁷ Here we consider natural resources in terms of trade, accounting for exports and imports ratios to define whereas a country pertains to a determined category. Other studies refer instead to abundance in the ground of these same resources to categorise a country, see e.g. (Brunnschweiler & Bulte, 2008).

Table 22

Changes in Development Groups as Defined by HDI and GNI per capita rankings

<i>HDI development groups</i>	<i>GNI development groups</i>			
	<i>Very High</i>	<i>High</i>	<i>Medium</i>	<i>Low</i>
<i>Very High</i>	0	0	0	0
<i>High</i>	1	1	0	0
<i>Medium</i>	0	5	4	1
<i>Low</i>	0	0	5	30

Changes in development groups by different rankings for Sub-Saharan countries, Human Development Index and Gross National Income per capita (in 2011\$ PPP). Rankings in term of development group for GNI are defined using the same quartiles used for the HDI.

The number of countries for each development group is computed in each cell. **Along** the diagonal we highlighted countries which did **not** vary their development group by shifting ranking: below these values are observation with a **lower ranking** by HDI than GNI in terms of group of development, above, countries with an **higher ranking** by HDI than GNI.

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP.

2.3.3 The Dynamics of Human Development in the last 25 years

The scenario we described for Sub-Saharan Africa in the previous few pages, albeit making allowance for several facets of development beyond income, was limited to a still depiction of these aspects using data for the latest year available, 2014. In this section we will shed some light on the variation of the HDI in the last two decades and a half, using data for selected years in this interval.⁹⁸

Table 23 reports the levels of HDIs at the beginning and at the end of our span and decennial average yearly growth of the indexes - plus the rate for the first half of the 2010s and for the entire stretch - for both World and Sub-Saharan macro-areas.

Looking at a worldwide level, the gap between Sub-Saharan Africa and other areas was already well pronounced in 1990, with the region well below the World average⁹⁹. What draws our attention is that this delay in human development was accompanied, in the first decade of our span, from 1990 to 2000, by the second lowest rate of yearly growth of the HDI among all the groups considered, behind only European and Central Asian countries, which started from the highest values recorded.

⁹⁸ As emphasised by the UNDP, changes year by year of the HDI are mainly due to income evolution, as life expectancy and means (and expected) years of schooling, the other variables included in the computation of the index, changes very slowly through time. We will not further investigate the matter, but the length of our span however seems reasonable to encompass changes in all of the three components of the index.

⁹⁹ Values are in the first section are weighted to account for differences in population's figures in various countries.

Table 23

Human Development Index and its evolution through from 1990 to 2014 for selected years in worldwide macro-areas

<i>World Macro-Areas</i>	<i>HDI in 1990</i>	<i>HDI in 2014</i>	<i>Annual Growth 1990-2000</i>	<i>Annual Growth 2000-2010</i>	<i>Annual Growth 2010-2014</i>	<i>Annual Growth 1990-2014</i>
Arab States	0.553	0.686	1.024	0.991	0.379	0.902
East Asia and the Pacific	0.516	0.710	1.392	1.478	0.873	1.341
Europe and Central Asia	0.651	0.748	0.217	0.943	0.590	0.581
Latin America and the Caribbean	0.625	0.748	0.910	0.704	0.471	0.751
South Asia	0.437	0.607	1.418	1.553	0.856	1.380
Sub-Saharan Africa	0.400	0.518	0.541	1.679	0.939	1.080
OECD	0.785	0.880	0.613	0.441	0.479	0.238
World	0.597	0.711	0.710	0.851	0.472	0.729

Human Development Index (HDI) “trends” from 1990 to 2014 in selected years, computed for worldwide macro-areas as defined by the UN geo-scheme.

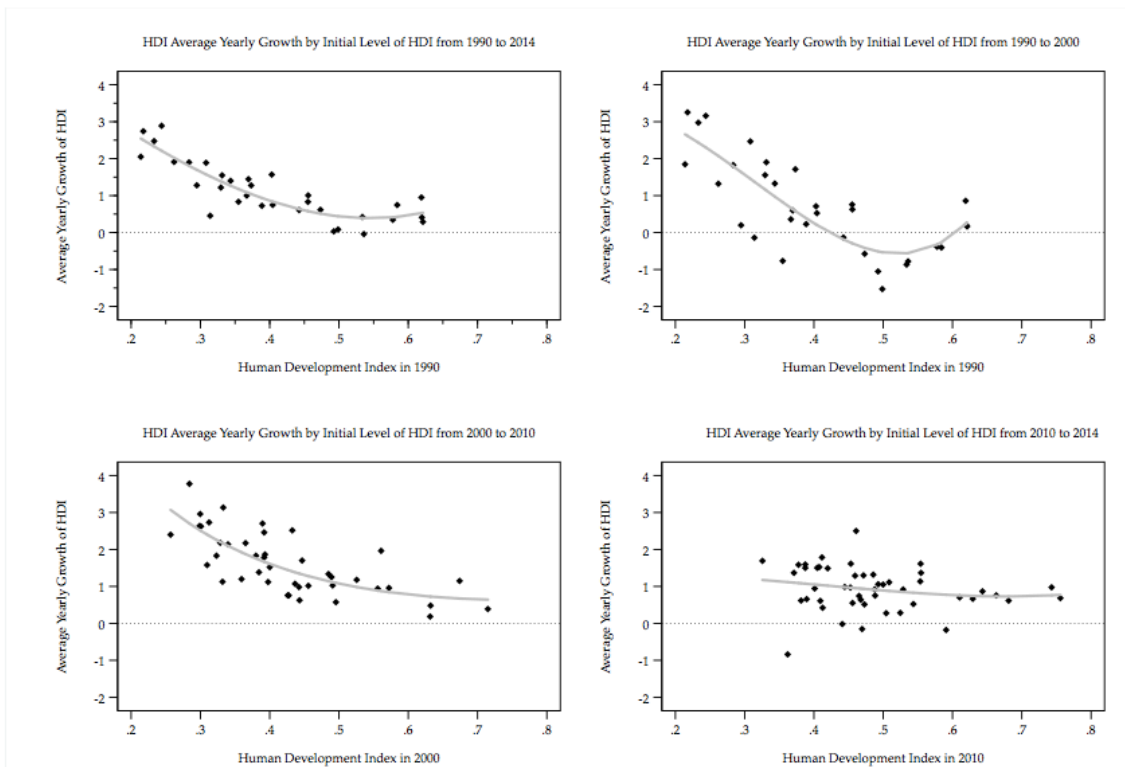
Source: Author’s calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP.

Moreover, in this same span, the speed of increase of African nations was also below OECD rates. On the contrary, the following decade showed premises of the “expansion” of the process of convergence, which previously involved South and East Asia - and to a lesser extent the Arab States - also to the Sub-Saharan region, which had, and still has, for the first half of the 2010s, the highest average annual growth rate observed.

Looking at single Sub-Saharan countries, in figure 24, the evolution of average growth rates through the years, plotted against the initial level of development, depicts clearly three different stages. In the first decade - top right plot - average growth was mostly positive for countries with the relatively lowest starting levels of human development and predominantly negative going up the index level.

Figure 24

Human Development Index and its Evolution from 1990 to 2014 in Sub-Saharan African Countries



Average yearly growth of HDI in the period from 1990 to 2014 in Sub-Saharan countries and in selected intervals in the same span: 1990-2000, 2000-2010 and 2010-2014.

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP.

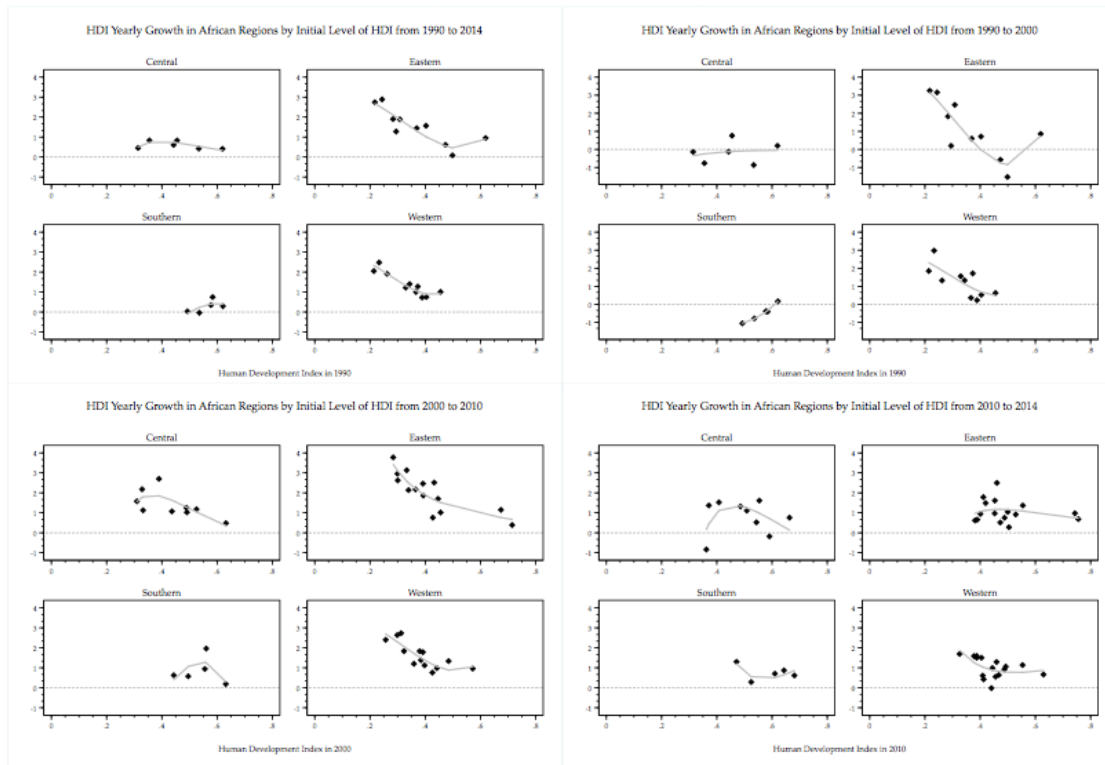
With the new millennium the increase in overall levels is clear - shifting of values to the right - and a positive average rate is widespread across all countries, again with a declining pace the higher the index. At last, the 2010s slow down is visible in the last graph - bottom right - with a general flattening of growth.

Further decomposing our changes through time by African regions, in figure 25 we can describe other marked territorial differences in the four time spans we defined.

In the “lost decade” of the 1990s - top right panels - with rates generally lower if compared to other world regions, Central and Southern Africa were characterised by the slowest rates and reversals in most countries, while Eastern and Western regions had highest rates of growth at lower levels of human development. From 2000 up to 2010 indicators recovered in Southern and Central areas, accelerated in Eastern countries and maintained a sustained pace in Western Africa. With the 2010s, the slowdown in rates is tangible, due also to the gradual increase in levels of the previous decade, with some Central countries slipping back to negative development variations.

Figure 25

*Human Development Index and its Evolution from 1990 to 2014
in Sub-Saharan African Countries by Geographical Region*



Average yearly growth of HDI in the period from 1990 to 2014 in Sub-Saharan countries by geographical region in selected intervals in the same span: 1990-2000, 2000-2010 and 2010-2014.

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP.

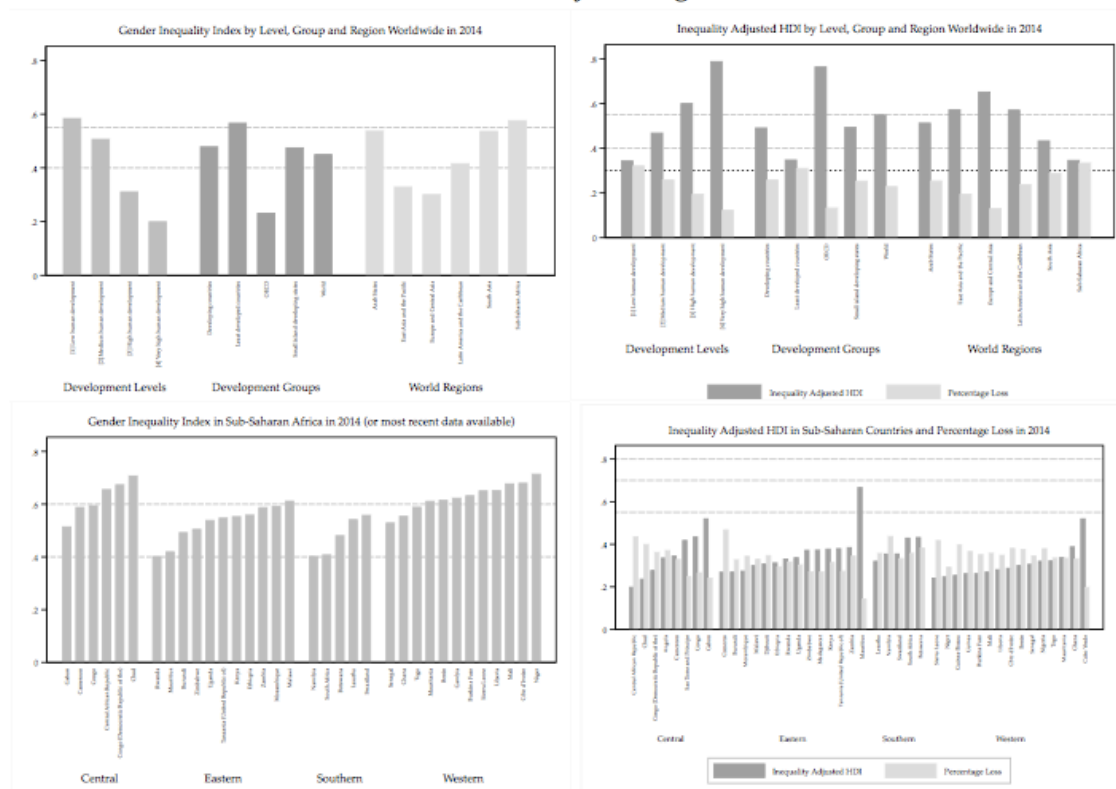
2.3.4 Development beyond the HDI: accounting for poverty, inequalities and gender

As useful as the HDI might be as an indicator of development it still retains its own limitations. To overcome a few of them and provide a more detailed picture of progress we can complete our depiction of overall results provided into the first paragraph of this section putting alongside the HDI other indicators of human well-being that account for other dimensions, not included in education, health or standard of living.

One of the indices we can analyse to perform such a task is the Gender Inequality Index, a measure reflecting inequality in achievements among men and women, comprehending three dimensions, the labour market, reproductive health and empowerment.

Following our previous methodology, in figure 26 we describe the indices value for worldwide groupings and African regions and countries.

Figure 26
Gender Inequality Index, Human Development Index and Inequalities Adjustments in Macro-Areas and in African Regions in 2014



Left panels: Gender Inequality Index by worldwide macro-areas as defined by the UN geo-scheme, development levels and groups (top) and for African countries grouped by geographical region (bottom).

Right panels: Inequality-adjusted Human Development Index (IAHDI) and percentage loss stemming from the adjustment of the index by worldwide macro-areas as defined by the UN geo-scheme, development levels and groups (top) and for African countries grouped by geographical region (bottom).

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP.

Compared to other macro-regions - top left - Sub-Saharan Africa has the highest observed values - here an higher value stands for an higher discrepancy among genders - even if the levels recorded is similar to the ones reached in the Arab States and South Asia. At a regional level, Central and Western Africa represent the most undeveloped areas, whereas Southern countries seem to stand, in general, slightly below the ones for other zones.

Another indicator developed by the UNDP, to take account of inequalities in the distribution among residents of a country of the achievements in education, health and income, is the Inequality-adjusted Human Development Index. In figure 26 we show the

levels attained by groupings worldwide, at a geo-regional level for Sub-Saharan Africa and for single states, coupling these observations with the percentage loss in HDI values due to this adjustment.

Looking at the index values in 2014 two main considerations arise.

At first Sub-Saharan Africa suffers the highest percentage drop in its HDI level due to inequalities corrections, over 30 per cent of the initial value, confirming its last place in worldwide macro-areas even by this indicator rankings. Moreover, there seems to be a negative correspondence between the level of human development and the drop due to inequalities adjustments as a percentage of the reference value. This negative relation between the percentage decrease in the index value and the level of human development appears also at a single country level for Sub-Saharan Africa¹⁰⁰.

Additionally, the loss is significantly widespread across countries, with drops ranging from 20 to 40 per cent and some observations also beyond this threshold.¹⁰¹

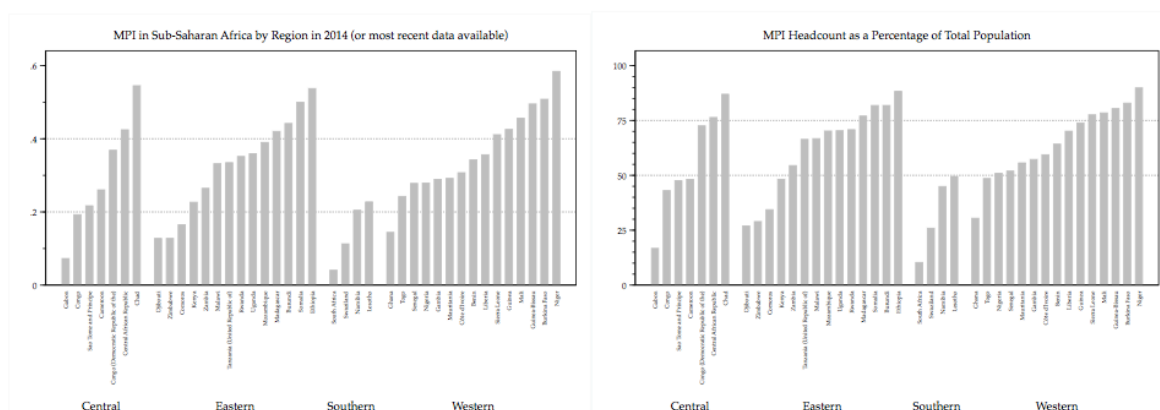
One last noteworthy indicator, particularly useful to describe African development is the Multidimensional Poverty Index - MPI - measuring multiple individual deprivations in education, health and living conditions. In figure 27 we reported both the dimensional index accounting for the intensity of such deprivations, both the percentage of population defined as multidimensionally poor, in 2014.

¹⁰⁰ Simply looking at correlations coefficients for HDI values and percentage losses due to inequality adjustments their values are strongly negative, -0.85 for macro-regions and -0.46 for African regions, and statistically significant. The relationship remains still to be further investigated.

¹⁰¹ We can see in Figure 26 bottom right panel that Cabo Verde and Mauritius show a percentage loss lower than twenty points but these values appear more as outliers than significant exceptions.

Figure 27

Multidimensional Poverty Index and MPI Headcount in African Countries in 2014



Left panel: Multidimensional Poverty Index (MPI) in African countries around 2014; observations are grouped by geographical areas as defined by the UN geo-scheme. Dotted lines on vertical axis respectively at MPI values of 0.2 and 0.4.

Right panel: Multidimensional Poverty Index (MPI) Headcount for individuals with a deprivation score of at least 33 per cent, expressed as a percentage of total population in African countries around 2014; observations are grouped by geographical areas as defined by the UN geo-scheme. Dotted lines on vertical axis respectively at 50 and 75 percent.

Source: Author’s calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP.

Grouping our countries by geographical area we see that both accounting for the various intensity of deprivation - left panel - than only referring to the percentage of “poor” people - right panel - Southern countries fare relatively well if compared to other areas, even if poverty involves almost half of the population in Namibia and Lesotho.

In other regions, both the severeness of deprivation and the extent of population involved are significantly greater, concerning over half of the inhabitants for most countries observed and over 75% of the population in one quarter of the nations. Moreover, the intensity of poverty as measured by the MPI seems more acute in Eastern and Western areas, with peaks of the index though, over 0.4, ubiquitous across our observations.

2.3.5 Financial Flows and human progress: an overview

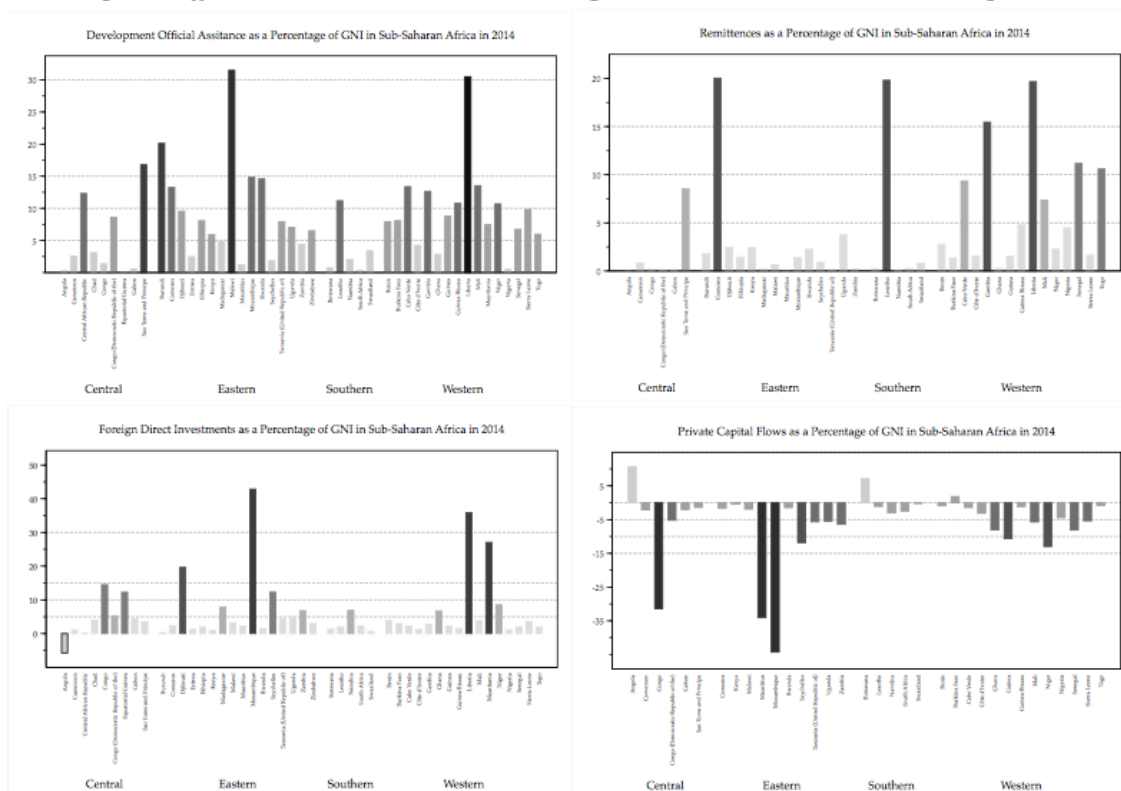
To conclude this analytic part, we report, in figure 28 the levels of four financial flows as a percentage of GDP, or GNI in the case of Official Development Assistance ODA, in our sample countries, by geographical region, in 2013.

The first row of graph represents what could be defined as public and private assistances for our observations, DOA - top left - being the public assistance and remittences - top right - the private one. While we will return to these variables in the following

paragraphs, we can catch at a glimpse that there are a few countries widely benefitting from private remittances, over 10% of GDP, and mainly concentrated in Western Africa. ¹⁰² Conversely, ODA widely covers all geographical areas of Sub-Saharan Africa, with over three quarters of the countries in the Continent having a value higher than 5 per cent of GNI in 2013, and one third of the countries over 10 per cent of GNI. To conclude this overview, we plotted Foreign Direct Investments (FDI) - bottom left - and private capital flows - bottom right - which shows, respectively, a prevalence of positive flows with peaks in Western and Eastern Africa for FDI, and mainly negative values for private capital flows, with lows for Congo and Mozambique.

Figure 28

*Financial Flows in Sub-Saharan Africa in 2013,
Development Official Assistance, Remittances, Foreign Direct Investments and Private Capital Flows*



Financial flows in Sub-Saharan countries listed by geographical areas in 2013 expressed as a percentage of GDP (GNI for Net Official Development Assistance). Note the differences in y-axis scales among different graphs.

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP.

¹⁰² The notable outliers in remittances as a percentage of GDP outside of Western Africa are Comoros, small islands between the coasts of the Continent and Madagascar, Sao Tome and Principe, small islands in Central-Western Africa, and Lesotho, an enclave in the state of South Africa, heavily dependent on this country for geographical reasons: overall, three outliers more than significant observations.

2.3.6 A Simple Regression Scheme to Draw Some Simple Conclusions

This last part of our enquiry upon the determinants of human development involves the outlining of various linear regressions and multiple regression to determine whether, for Sub-Saharan African countries there were significant relationship among the HDI and other selected indicators.

To perform such an exercise we used a log-log specification of the dependent variable - the Human Development Index - and of predictor variables.

$$\text{Log}(HDI) = \alpha + \beta \text{Log}(\text{Explanatory Index or Variable}) + \varepsilon \quad (1)$$

$$\text{Log}(HDI) = \alpha + \beta_0 \text{Log}(\text{Variable}_0) + \beta_1 \text{Log}(\text{Variable}_1) + \dots + \beta_n \text{Log}(\text{Variable}_n) + \varepsilon \quad (2)$$

This transformation will allow us to express OLS coefficients as elasticities and connect a one per cent increase in the independent variable value to a β per cent change, on average, in the dependent variable, positive or negative depending on the sign of the coefficient itself.

Human Development Index and Corruption Perceptions Index

The first analysis we present is a linear regression with the HDI as the dependent variable and the Corruption Perception Index as the independent variable, an index which generally measures perceptions of corruption in the public sector worldwide, selecting data from various sources and aggregating those results into a single powerful indicator of overall corruption. For the 2014 data we considered, the higher the value attained in the index level, the better the perceptions of business people and experts about institutional quality.

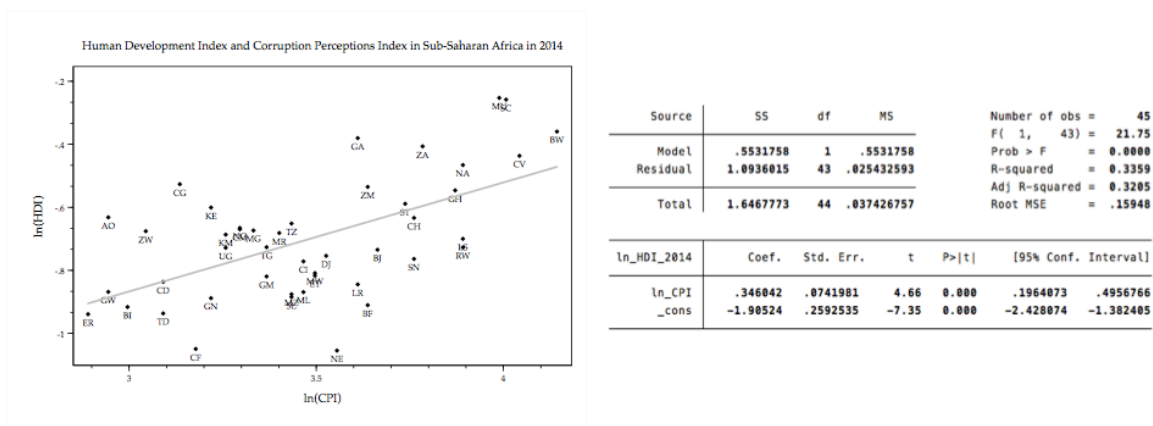
Figure 29 reports the scatter plot of observations for African countries in 2014, including the linear fit of these same values, and the complete output for the linear regression model as in (1), with CPI being the single predictor of human development.

The relationship between institutional quality, using the CPI as a proxy, and human development, using HDI as a proxy, is positive and statistically significant, with a coefficient β of 0.35, indicating that a one per cent increase in the predictor is reflected into a .35 per cent increase in the dependent variable. The R-Squared for this regression

however is only 34%, hardly convincing in explaining the variability of our index, with really large - or small - residuals for some countries¹⁰³.

Figure 29

Human Development Index and Corruption Perceptions Index in Sub-Saharan Africa in 2014



Human Development Index - HDI - and Corruption Perceptions Index - CPI - in Sub-Saharan Africa in 2014 expressed in a logarithmic scale. The relation among the variables is positive and significant, with a coefficient for CPI of .35, meaning that a one per cent increase in the index would lead to a .35% increase in human development as measured by the HDI.

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP and upon the Corruption Perceptions Index for 2014 released by Transparency International.

Human Development Index and Official Development Assistance

The second step we propose, involves the analysis of the HDI if related to the amount of net Official Development Assistance - ODA - received by Sub-Saharan countries in 2014. This assistance consisted of loans made on concessional terms and grants by official agencies, addressed to the promotion of economic development and welfare in countries which were included into a list of aid recipients by the Development Assistance Committee, a forum of the OECD. We expressed our variables in logarithmic terms and the ODA as percentages of recipients' GNIs.

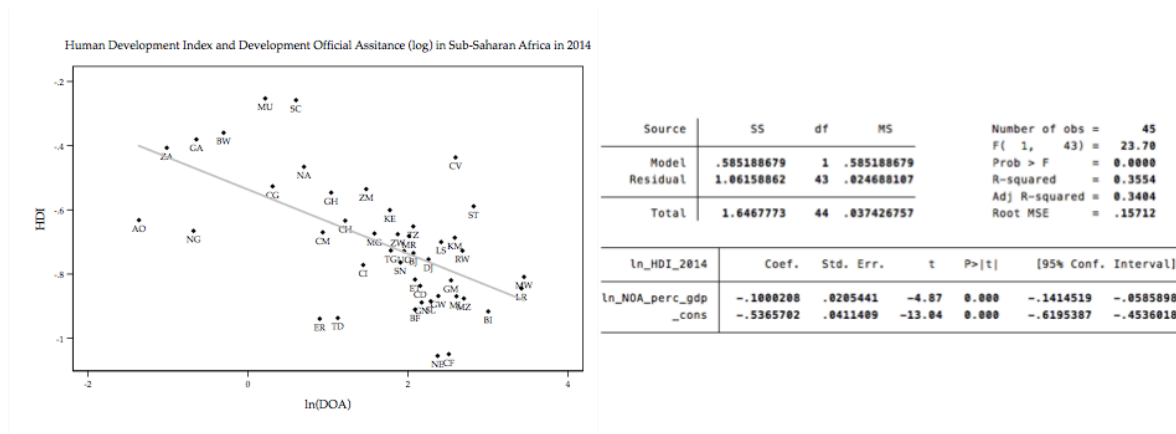
As we can see in figure 30 the correspondence among the variables is negative and statistically significant, with a coefficient for ODA of -.1, being evidence of a tenth of per cent decrease in the level of human development as the level of assistance in terms of GNI percentage increases of one percentage point. Again, the coefficient of

¹⁰³ While we will omit the analysis of residuals into our brief paragraph, it is straightforwardly possible to replicate our results and confirm that the distribution of residuals follows the one of a normal distribution into our regressions with significant predictors.

determination is quite low at 36%, suggesting that our data does not fit the model so well, thus necessitating further improvements.

Figure 30

Human Development Index and Official Development Assistance in Sub-Saharan Africa in 2014



Human Development Index - HDI - and Official Development Assistance - DOA - in Sub-Saharan Africa in 2014 expressed in a logarithmic scale. DOA is net and computed as a percentage of GNI.

The relation among the variables is negative and significant, with a coefficient for DOA of .10, meaning that a one per cent increase in official assistance received as a percentage of GNI would lead to a .10% decrease in human development as measured by the HDI.

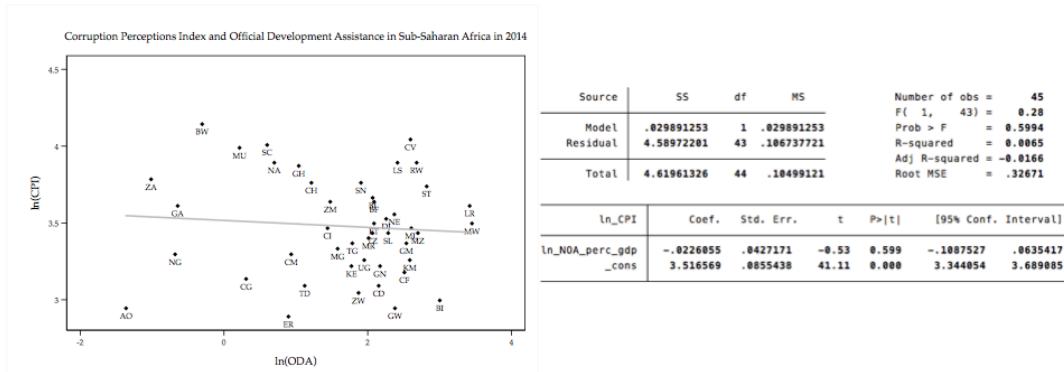
Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP.

Official Development Assistance and Corruption Perceptions Index

Using the same predictors we previously utilised in determining the level of human development, the CPI and ODA, we tried therefore to establish if a significant connection exists among these same two variables. Figure 31 shows our results and we found a non significant relation among CPI and ODA.

Figure 31

Corruption Perceptions Index and Official Development assistance in Sub-Saharan Africa in 2014



Corruption Perceptions Index - CPI - and Official Development Assistance - ODA - in Sub-Saharan Africa in 2014 expressed in a logarithmic scale. The relation among the variables is slightly negative but it is **not** significant.

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP and upon the Corruption Perceptions Index for 2014 released by Transparency International.

Multiple Regression: HDI, CPI and ODA

After our firsts simple regressions, to improve the fitting of our model we employed a multiple regression equation as expressed in (2), combining the CPI and ODA as predictors for our human development index as a dependent variable .

Table 32 display the main output for our multiple regression. We see at a glance that both independent variables are significant and that, overall, this model fairly accounts for the fitting of data, having an adjusted r-squared of .62 - or 62 per cent using our previous notation. The relation among the HDI and the CPI is, again, positive, with a one per cent increase in the level of development associated with a .30 per cent increase in the level of institutional quality. On the other hand, DOA coefficient remains negative, at -.09, with higher levels of the HDI associated to lower levels of ODA as a percentage of GNI.

Table 32

Multiple Regression for HDI, CPI and ODA in Sub-Saharan Africa in 2014

Source	SS	df	MS			
Model	1.05364889	2	.526824447	Number of obs =	45	
Residual	.593128402	42	.014122105	F(2, 42) =	37.30	
Total	1.6467773	44	.037426757	Prob > F =	0.0000	
				R-squared =	0.6398	
				Adj R-squared =	0.6227	
				Root MSE =	.11884	

ln_HDI_2014	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
ln_CPI	.3194796	.0554698	5.76	0.000	.2075371	.4314222
ln_NOA_perc_gdp	-.0927988	.0155884	-5.95	0.000	-.1242575	-.0613401
_cons	-1.660043	.1975295	-8.40	0.000	-2.058673	-1.261412

Multiple regression using HDI as the dependent variable and CPI and ODA as predictors, for Sub-Saharan African countries in 2014.

Both independent variable are statistically significant and the relation with the level of human development is positive for the CPI and negative for DOA, with coefficients of .32 and -.093. The overall fit of data to the model given by the adjusted R-squared indicator stands at 0.62.

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP and upon the Corruption Perceptions Index for 2014 released by Transparency International.

To provide an all-inclusive portrayal of our conclusions, we reported in the following table 33 all the results of our previous computations, including some further regressions for the financial flows of remittances and foreign direct investments - FDI - to investigate these variables relation with human development.

Table 33

Human Development Index, Explanatory Indices and Variables

Dependent variable: ln(HDI)						
	(a)	(b)	(c)	(d)	(e)	(f)
Ln (Corruption Perception Index)	0.346*** [0.074]		0.320*** [0.056]			0.271*** [0.065]
Ln (Official Development Assistance)		-0.100*** [0.021]	-0.093*** [0.016]			-0.087*** [0.021]
Ln (Remittances)				-0.031*** [0.011]		0.001 [0.019]
Ln (Foreign Direct Investments)					0.026 [0.024]	-0.015 [0.013]
Observations	45	45	45	40	44	39
R-squared Adjusted	0.32	0.34	0.62	0.16	0.03	0.63

Regression coefficients for Human Development Index and commonly used explanatory indices and variables for institutional quality and international financial public and private flows. *, ** and *** denote significance at 10%, 5% and 1% levels, standard error among square brackets.

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP and upon the 2014 Corruption Perceptions Index released by Transparency International.

In the first three columns see the results we already commented using the HDI level as dependent variable, while in the final three columns - from (d) to (f) - we included estimates about the coefficients for two other financial inflows, namely remittances and FDI, omitting here their graphical representations. The only significant value we obtained concerns remittances, and it is slightly negative - the higher the level of human development the lower are remittances as a percentage of GDP - standing at -.031 - again, a one per cent increase in HDI levels is paralleled by a β per cent decrease in remittances. The adjusted r-squared value, however, is drastically low, accounting for only 16% of the variability of the response around its mean, once made allowance for the number of predictors. Column (e) shows us how FDIs are not statistically significant, column (f) combines all predictors together and confirms the CPI and ODA as the only significant ones¹⁰⁴.

¹⁰⁴ Once we eliminate from the regression the predictor with the higher p-value, FDI, the one for remittances still remain non significant.

Table 34

Correlation Coefficients for Human Development Index, Explanatory Indices and Variable

	<i>HDI</i>	<i>CPI</i>	<i>ODA</i>	<i>Remittances</i>	<i>FDI</i>
<i>HDI</i>	1.000				
<i>CPI</i>	0.5796*	1.000			
<i>ODA</i>	-0.5961*	-0.080	1.000		
<i>Remittances</i>	-0.4025*	0.083	0.6527*	1.000	
<i>FDI</i>	0.162	0.172	0.051	-0.101	1.000

All variables are transformed using a logarithmic function. Significant values, at 0.01 significance level, are marked with [*].

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP and upon the 2014 Corruption Perceptions Index released by Transparency International.

A final inquiry: HDI growth and financial flows in the 2010s

The last part of our analysis evaluates if the financial flows we considered earlier, particularly DOA and remittances - which, despite their really low levels of r-squared values were both statistically significant as predictor variables of levels in human development - are related to changes in growth rate of HDIs across Sub-Saharan Africa. Due to data deficiencies, we assumed the last observations available for financial flows as representative of the inflows policies¹⁰⁵ for the time span covered by yearly rates of growth, from 2010 to 2014.

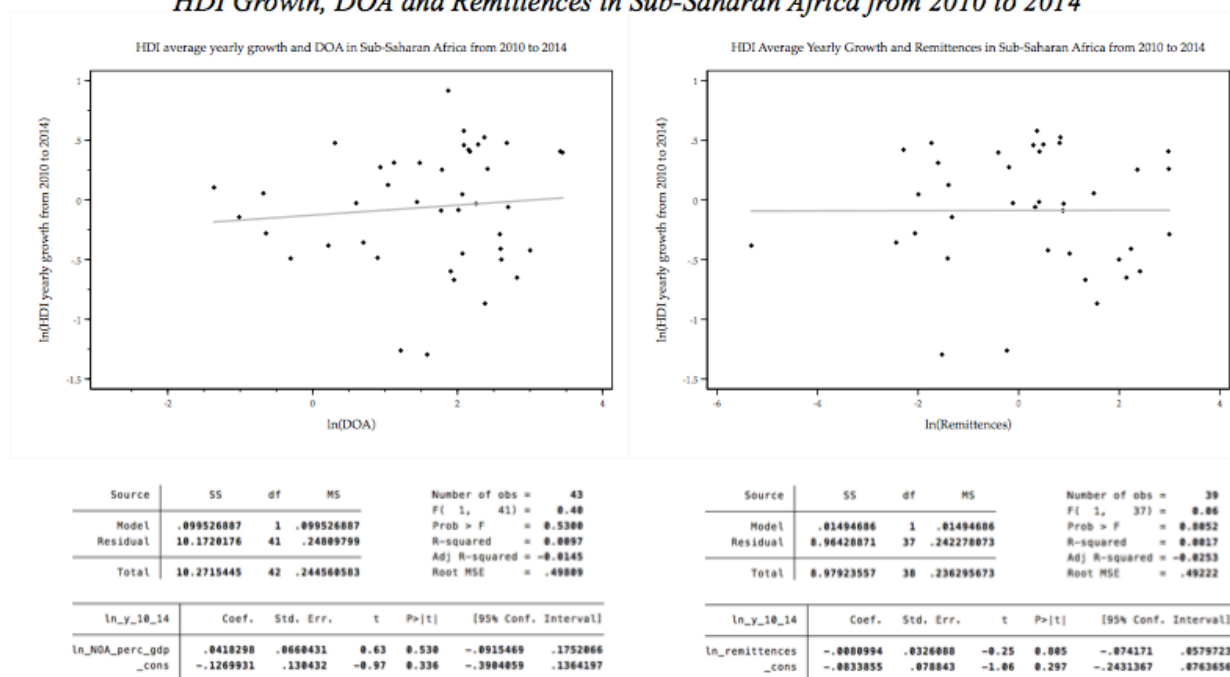
Despite these strong assumptions our results, reported in figure 35 are quite clear.

The coefficients for both simple linear regressions, as in (1), are not statistically significant, suggesting therefore that none of the inflows were determinant into explaining the differences in yearly rates of growth for Sub-Saharan countries in the time span 2010- 2014.

¹⁰⁵ Alternatively, our approach consider the last observation for inflows of DOA and remittances as the average flow for each one of the last four years.

Figure 35

HDI Growth, DOA and Remittances in Sub-Saharan Africa from 2010 to 2014



HDI average yearly growth and public - DOA - and private - remittances - financial flows in Sub-Saharan Africa from 2010 to 2014 expressed in a logarithmic scale. DOA and Remittances are expressed as a percentage of GNI for DOA and of GDP for remittances.

We assumed the last observations available for flows as representative of the inflows policies for the time span covered by yearly rates of growth, from 2010 to 2014.

None of the two relationship is statistically significant.

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP.

Using the same approach for financial flows we just described, we built a multiple regression model, as in (2), with ODA and remittances as predictors for the HDI yearly growth in the period 2010-2014. Table 36 shows the overall output for this regression, including the coefficients for such variables and their significance level.

Table 36

Multiple Regression for HDI yearly growth and financial flows of ODA and Remittances in Sub-Saharan Africa from 2010 to 2014

Source	SS	df	MS			
Model	.224131098	2	.112065549	Number of obs =	39	
Residual	8.75510447	36	.243197346	F(2, 36) =	0.46	
Total	8.97923557	38	.236295673	Prob > F =	0.6344	
				R-squared =	0.0250	
				Adj R-squared =	-0.0292	
				Root MSE =	.49315	

ln_y_10_14	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
ln_NOA_perc_gdp	.0801507	.0864216	0.93	0.360	-.0951204	.2554218
ln_remittances	-.0337525	.0428071	-0.79	0.436	-.1205694	.0530644
_cons	-.2146959	.162129	-1.32	0.194	-.5435088	.114117

Multiple regression using the yearly average growth of the HDI as the dependent variable, and ODA and remittances as predictors, for Sub-Saharan African countries in the span 2010-2014.

We assumed the last observations available for flows as representative of the inflows policies for the time span covered by yearly rates of growth, from 2010 to 2014.

None of the independent variables is statistically significant, neither in this multiple regression model.

Source: Author's calculations based upon the statistical annex tables of the Human Development Report 2015, UNDP.

Once more, these predictors are not statistically significant, with p-values well above 0.1.

3 Regional development strategies and the challenges of the international actors

3.1 Policy design and implementation

The disadvantages imposed by a territory's space, geography, resources availability and lack of infrastructures need to be overcome with regional integration policies that lower institutional barriers, establish larger integrated markets and reduce transport and transaction costs. If this objective will not become a priority in the African policies, the distances between markets will have thicker borders. Trade policies could make those border thinner lowering transaction costs and bureaucracy, and establishing economic partnership agreements.

3.1.1 WTO, trade policies and regional integration

Considering the OECD, UNPD, ADBG evaluation, Sub-Sahara Africa is, among other region in the world the most inefficient in terms of time and numbers of documents for import/export practices and shows how the transport costs in Africa are still among the world's highest, in particular in the CEMAC the Economic and Monetary Community of Central Africa.

Table 3.1. Time and cost of cross-border trade in selected sub-regions

Region	No. of documents to export	Time to export (days)	Cost to export (USD per container)	No. of documents to import	Time to import (days)	Cost to import (USD per container)
Southern African Development Community	7.3	31.2	1 856.3	8.4	38.0	2 273.3
Common Market for Eastern and Southern Africa	7.2	32.4	1 915.3	8.2	38.3	2 457.5
Economic Community of West African States	7.6	27.6	1 528.1	8.1	31.6	1 890.9
Economic and Monetary Community of Central Africa (CEMAC)*	9.0	35.2	2 808.8	10.8	44.0	3 721.4
Middle East and North Africa	6.4	20.4	1 048.9	7.5	24.2	1 229.3
East Asia and Pacific	6.4	22.7	889.8	6.9	24.1	934.7
South Asia	8.5	32.3	1 511.6	9.0	32.5	1 744.5
Latin America	7.1	19.0	1 310.6	7.5	22.0	1 441.1
Eastern Europe and Central Asia	6.4	36.7	1 651.7	7.6	28.1	2 457.5
European Union	4.5	11.5	1 025.3	5.3	12.1	1 086.5
OECD	4.4	10.9	1 058.7	4.9	11.4	1 106.3

Note: *Aggregate data for CEMAC covers all members except Chad, because of the lack of reliable data.
Source: Ben Barka (2012).

Figure 37: Time and Costs for import export practices in different region in the world, OECD 2015¹⁰⁶

According to the World Bank's 2014 Logistical Performance Index, six of the ten lowest ranked countries are in Africa: Republic of the Congo (Congo), Djibouti,

¹⁰⁶ Source: OECD, "Africa economic outlook", 2015

Democratic Republic of the Congo (DRC), Eritrea, Somalia and Sudan¹⁰⁷. In some instances the cost of crossing a border in Africa is two to three times higher than in other regions.

The thickness of the borders can be reduced deepening regional and global connectivity. In order to achieve the African integration and continental industrialization has been implemented the framework for the division of the continent into regional integration areas. By the Economic Commission for Africa (ECA) it was constituted the African Economic Community (AEC) with the establishment of three regional integration arrangements: in 1975 was established the Economic Community of West African States (ECOWAS) for West Africa; the Preferential Trade Area (PTA) covering East and Southern Africa, which was the precursor of the Common Market for Eastern and Southern Africa (COMESA); and the Economic Community of Central African States (ECCAS) for Central Africa. In 1989, was established the Arab Maghreb Union (AMU) completing continental coverage¹⁰⁸.

The African governments have to implement trade facilitation reforms in order to create greater opportunities to access the global markets and to improve the industry location and competitiveness. An effort was done in 2012 when the Regional Economic Communities (RECs) and the Member States of the African Union (AU) met at the “African Union Summit of African Heads of State and Government” to promote and actively support the realization of the Continental Free Trade Area CFTA and to stimulate Intra-African Trade¹⁰⁹. The main objective of the CFTA is well explained in the report “*Assessing Regional Integration in Africa V, Towards an African Continental Free Trade Area*” (2012) presented by Economic Commission for Africa, Africa Union and African Development Bank:

“The main objective of the CFTA is the creation of a single continental market for goods and services, with free movement of business, people and investments, the expansion of the intra African trade through better harmonization and coordination of trade liberalization, the expansion of the regional and continental integration processes and the increase of competitiveness at the industry and enterprise level through exploiting opportunities for scale production, continental market access and better reallocation of resources¹¹⁰”.

¹⁰⁷ Source: The World Bank, Logistical Performance Index, Global Rankings 2014

¹⁰⁸ Source: Hartzenberg, Trade Law Center for Southern Africa, “*Regional Integration in Africa*”, 2011

¹⁰⁹ Source: V.Ofa, M.Spence, S. Mevel, S. Karingi, United Nations Economic Commission for Africa Draft, “*Export Diversification and Intra-Industry Trade in Africa*”, June 2012; Africa Union

¹¹⁰ Source: Economic Commission for Africa, Africa Union, African Development Bank, “*Assessing Regional Integration in Africa (ARIA V): Towards an African Continental Free Trade Area*”, 2012

The efforts of the RECs to achieve the objectives include: co-ordinated responses to infrastructure challenges, joint border operations to prevent delays, reduce road blocks, simplify the procedure to use electronic documents and cross-border payment systems. The establishment of the CFTA will be concluded by 2017 as an indicative date.

Africa continues to attract private capital because of its improved business environment and regulatory reforms in fact The World Bank Group in the report “*Doing Business 2015 Fact Sheet: Sub-Saharan Africa*”, 2015¹¹¹ shows that 35 of 47 economies in Sub-Saharan Africa have implemented at least one regulatory reform making it easier to do business. According to the report, in 2013 and 2014, 75 reforms have been implemented and African countries have improved conditions for doing business, which enhance long-term growth prospects: Benin, the Democratic Republic of Congo, Côte d’Ivoire, Senegal, and Togo are among the 10 top improvers worldwide.

After 9 years of negotiations, in December 2013 at the Ministerial Conference, the 159 WTO members adopted the landmark “Bali Package”, a Trade Facilitation Agreement whose measure’s objectives are to reduce trade costs, to provide tools in order to achieve food security, to promote trade, to provide more efficient customs procedures, to incentive the cooperation with the authorities, to implement a multilateral trading system¹¹². Moreover, African governments provide national and regional initiatives to support development of productive capacity: Programme for Infrastructure Development in Africa, Comprehensive African Agriculture Development Programme, Africa’s Accelerated Agribusiness and Agro-industries Development Initiative and the Action Plan for the Accelerated Industrial Development in Africa, Adoption of the Action Plan for Boosting Intra-African Trade.

On June 2015, was signed the Tripartite Free Trade Area in Sharm-el-Sheikh, Egypt by the by representatives of most of the 26 countries member states of the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC)¹¹³. The 26 countries represent the 48 percent of the African Union Membership, the 51 percent of continental GDP and they include a combined population of 632 million. At the core of what was agreed

¹¹¹ Source: World Bank Group, “*Doing Business 2015 Fact Sheet: Sub-Saharan Africa*”, 2015

¹¹² Source: Dee, M. “*The 9th WTO Ministerial Conference: A victory for the WTO but what next?*”, GR:EEN Working Paper Series, N. 45, 18 December 2013

¹¹³ Source: Luke, Mabuza, International Centre for Trade and Sustainable Development, “*The Tripartite Free Trade Area Agreement: A milestone for Africa’s regional integration process*”, 23 June 2015

there are:

- a. Tariff liberalization. An important effort has been done in the last decade as the tariff barriers have fallen significantly: trade weighted average import tariffs fell from 16.8% in 2000 to 6.7% in 2013. The TFTA aims at liberalising 100 percent of tariff lines by consolidating the tariff regimes of the EAC .
- b. Non-Tariff Barriers. Considering the non tariff barriers, the aim of the TFTA is to provide among the COMESA, EAC and SADC a single mechanism and a well established process to identify, report, monitor, and resolve the Non Tariff Barriers in the region.
- c. Rules of Origin. TFTA Agreement set out the criteria and conditions for goods to benefit from the preferential rules of origin.
- d. Trade remedies and dispute settlement. TFTA Agreement provides tools for the application of anti-dumping and safeguard measures to address dumping, subsidisation and imports. However, the technical details are yet to be finalised. It is also provided a Dispute Settlement Body that is an appellate body with the power of the establishment of panels and the surveillance over the implementation of rules and recommendations.
- e. Other provisions include the elimination of quantitative restrictions, customs cooperation, trade facilitation and transit trade, infant industries, balance of payments. These are generally consistent with obligations under the WTO and international best practices. Article 29 details the organs for the Implementation of the Tripartite Free Trade Area in order to conclude the negotiations on trade in services, competition policy, intellectual property rights, movement of business and people.

3.2 The challenges of the African governments and international actors

The regional economic integration, the infrastructure development and the policies to better off the economic climate are essential ingredients to consolidate, diversify and internationalize the African production base. However, Africa needs a second round of reforms and a deep structural transformation in order to secure long terms development and a better distribution of benefits coming from growth.

3.2.1 The transformation of the agricultural sector

The first step to realize the structural transformation is the promotion by the governments of the enormous asset of natural resources and to invest in the agricultural transformation. The development path to be followed is well explained by Wegner, Bonaglia and Prodi in the book "*Africa, un continente in movimento*", 2014¹¹⁴.

The current scenario of the agricultural sector is that it is not able to feed the continent population. The FAO estimates that Africa is the world region with the higher percentage of malnutrition in the world: 1 of 4 people in the Sub-Sahara Africa. In a context where population is going to double until 2050 it is possible to understand that if the system will not change, this critical situation is supposed to worst off. The paradox is that Africa has got the highest percentage of wastelands in the world and at the same time has got an enormous productive potential. For instance, the farmers in Mozambico and Madagascar get just 25 percent of yield of the potential crops. The challenge to be faced is to improve these territories, but it will need great investments in infrastructures, technologies and legal rules to safeguard the rights. The low agricultural production is caused by many different factors: the lack of integration of the agricultural sector with other economic sectors, the low level of assistance to the small producers by the international companies, the lack of education of the producers in plantation techniques more effective, limited access to technology, difficulties in obtaining and maintaining the right to land ownership, poor access to credit and insurance instruments. It is interesting to note how the international aids to agriculture fell from 20 percent of the total in the '80s to 5 percent of the new Millennium.

The role of the public investments in the agricultural sector is essential in particular for the provision of technical assistance and education to the farmers, irrigation and construction of roads. It emerges a scenario where the reasons of the actual situations have to be found on the wrong political choices instead of geographical and environmental factors. Structural changes are essential if we consider that more than 30 percent of the food produced in Africa deteriorates before it reaches the consumer, because it is not treated, stored and transported properly. According to the World Food Programme of the United Nations this food could meet the nutritional needs of about 48 million people. What is the most appropriate system of farm production to feed the growing population of the African continent? The International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD) report

¹¹⁴ Source: Bonaglia, Vegner, Prodi, "*Africa, un continente in movimento*", 2014

“*Agriculture at the crossroads*”, 2009 published by 64 governments and written by 400 scientists from 100 countries, sustains that the family farming is the mainstay of the agricultural cultivation¹¹⁵. This study argues that the adoption of measures to support small farmers to increase productivity by facilitating access to markets will improve their purchasing power and ensure better availability of food in the area. This view was also shared by the G20 Seoul in 2010 and from the CSA in 2013. This approach has attracted the attention of Paul Collier, who argues that focusing on small producer you may lose sight of the goal of reducing poverty on a large scale. The large size of the food system today has the benefit of facilitating commercialization. Small producers are often disadvantaged compared to large farms because they have no access to credit and to finance the purchase of new means of production and must rely on family savings, the money obtained from the sale of livestock, or the remittances from family members migrated. Financial services, such as insurance, are limited and are not designed to meet their specific needs. However, there are emerging new financial instruments that can help to provide security and to reduce the risks associated with small farms. For instance, in Zambia a local bank, in partnership with the producer Zambia Agricultural Commodity Agency, and the US cooperation agency USAID has developed an innovative financing mechanism: the warehouse receipt financing i.e. the loans are secured by agricultural crops stored in stock. The international Financial Corporation, of the World Bank Group, launched in 2010 a Global Warehouse Finance Program that is currently active in 19 African countries.

Another important change has to be made in protecting the rights of local farmers. The customary rights are already contained in the regulations on land management in Africa of the African Union and in the FAO Voluntary Guidelines for responsible stewardship of the earth 2012, ratified by 124 countries¹¹⁶. These standards ensure the involvement of local communities in the negotiations of the land and the recognition of the rights associated with it. Their actual implementation is still at a premature stage and has not yet been provided for sanctions in case of non-compliance with the regulations. The private investments could contribute a lot to the agricultural transformation in Africa. Important economies of scale can be realized in the transformation, package and commercialization procedures of agricultural products. In these activities the big

¹¹⁵ Source: The International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD) report “Agriculture at the crossroads”, 2009

¹¹⁶ Source: FAO, “Voluntary Guidelines on the responsible governance of Tenure of land, fisheries and forest in the context of national food security”, 2012

companies have an advantage in respect to the small producers. The farmer's resources (workforce, natural resources, landscape knowledge) can be combined effectively with those of large companies (capital, technology, markets) thanks to a variety of contracts such as the outgrower scheme and the joint ventures. With the outgrower schemes the farmers shake a supply agreement with a big agricultural company. They are obliged to provide products of determined quality and quantity to an agreed date, in exchange the company provides credit, seeds, fertilizers, technical advice and it agrees to buy their products. A success story is that of Wilmar Agro Limited a Kenyan company that buys flowers from 2,500 small producers and sells them at auctions of Dutch flowers. The success comes from the fact that it is an inclusive business mechanism where big companies have combined the goal of profit with the social mission of engaging with and supporting a range of services the small local entrepreneurs. Another example of success is the Public-Private Partnership between ECOM, one of the biggest companies in the coffee market, and HIVOS a Dutch NGO that from 2006 to 2012 educated more than 85.000 farmers from the East Africa thereby with an improving yield and quality of coffee. The spread of these business models and partnerships requires an effort of the leading actors in the supply chain but also by the governments that must create optimal conditions at the base to involve farmers' associations and attract private investment.

3.2.2 The transformation of informal market into official markets and the growing used goods market

The existence of a demand for counterfeit goods is an opportunity to be exploited by governments and by international enterprises as a basis to create a legal business, in fact the existence of this market confirms the presence of a market demand. From the Mahajan experience described in the book "*Africa Spa: 900 million of consumers, a great business opportunity still unexplored*", 2009 it is possible to get some clear examples¹¹⁷. The market penetration of the Satellite TV in Egypt has jumped from 19% in 2004 to 68% in 2006. It seems to be strange this high percentage if we consider that in Egypt the GNI index per capita it was just 1.350 dollars in 2006. With a deepen analysis it was found that half of the viewers was not in the lists of subscribers to providers. They pirate the signal and sometimes one parable is for the whole

¹¹⁷ Source: Mahajan, "*Africa Spa: 900 million of consumers, a great business opportunity still unexplored*", 2009

neighbourhood. This form of counterfeiting is at the same time a plague and an opportunity.

Operating through informal markets, the African entrepreneurs seek to reduce costs related to wages, retirement pensions and other social benefits and these practices are strictly correlated with the weaknesses in three institutional areas: taxation, regulation and private property rights. The entrepreneurs are reluctant to formalize their business activities because of high taxes and complicated fiscal process. Long requirements for registration as well as licensing and inspection requirements and the limited access to capital are also barriers faced by the informal sector.

The informal sector doesn't seem to be on the development agenda of African countries but the policy-makers in Africa should recognize the important role of the informal sector in the economy and should improve the policies and strategies with an effective regulatory framework, promotion of social protection to workers, good governance, better government services, improved business environment, and improving access to financing such as with micro-credit¹¹⁸.

Another important market to be considered is the used goods market. A wide variety of used goods coming from developed countries are sold in Africa such as old cars, spare parts, mobile phones and clothes. For instance, considering the used car market, in the article of How We Made it in Africa, an insight on business in Africa delivered by DHL, "*New car market in Africa remains very small*", 26 May 2014 is explained that this market in middle Africa is estimated to be about 10 times the size of the new car market in the region¹¹⁹.

The used goods market is expanding very rapidly in the on-line channels, as new web sites for on-line sales are taking off. For instance, Mobofree is an on-line marketplace operating in Nigeria, Ghana, Uganda and Zimbabwe that sells and swap used products. They declared this year that the value of goods exchanged on its platform rose by 274 percent in 2014, achieving US\$1.97 billion that is 30 percent above the 2015 forecast¹²⁰. A variety of new online marketplaces including Mamymarket.com, Locanto.com, Myjoymarket.com, Jiji.ng, Cheki.com, Kaymu.com and OLX have been launched across the continent in recent years.

Many people in Africa are used to buy second-hand items even because there are widespread markets that are specifically created for used items and they buy following

¹¹⁸ Source: Africa Development Bank group, "*Recognizing Africa's Informal Sector*", 27 March 2013

¹¹⁹ Source: DHL, "*New car market in Africa remains very small*", 26 May 2014

¹²⁰ Source: Ogundeji, PC World, "*Business booms for African sites dedicated to used goods*", 2015

the idea that they are mostly of high quality and sold at lesser prices. This market has to be considered as an opportunity from the international companies and the government should take it into account and strengthen the regulatory efforts for a further development. It is at the same time important to highlight the efforts of some African governments, that have put up high barriers against import of used goods simply to protect local manufacturers and salespeople of new and used goods from outside competition.¹²¹

3.2.3 Communication and banking services as accelerator of growth

The communication and the banking services are the foundation of the markets success and moreover, the rapid growth of those sectors generate a push to increase further development. The Deloitte report “*The future of Telecoms in Africa: the blueprint for the brave*”, 2014 has shown that the bandwidth usage grew at 85 percent during the period 2007-11¹²². This growth has been mainly driven by the decline of the prices, by the improvement of the submarine connectivity and by the increased speed and quality of service. Moreover, Telecommunications operators are progressively evolving their business models and network infrastructure towards data connectivity.

In Africa the cell phones are an accelerator of the whole economy. For instance, Trade Net, whose headquarter is in Accra, Ghana, has create a commercial platform operating in 12 African countries to allow farmers the sale of agricultural products. The process is well explained by Ethan on an article posted in a personal blog on 27 February 2007 “*Tradenet – how mobile phones might revolutionize agriculture in West*”:

“They might get much better prices for their goods selling to customers located elsewhere in the country or the region. But without accurate pricing information, it’s difficult for a farmer to invest the money necessary to bring goods to a faraway market. TradeNet tries to solve this problem by letting farmers and customers post their products and find each other via the web and SMS¹²³”.

The impact of the cell phones in the developing countries could be double in respect to the impact exerted in the developed countries. The study of Meschi and Fuss in 2003 stated that 10 cell phones more in a population of 100 inhabitants had created an increase of the per capita GDP of 0.59 percent¹²⁴.

The World Bank has stated a West Africa Regional Communications Infrastructure

¹²¹ Source: Czaga and Fliess, OECD Observer, “*Used goods trade: a growth opportunity*”, 2005

¹²² Source: Deloitte, “*The future of Telecoms in Africa: the blueprint for the brave*”, 2014

¹²³ Source: Ethan, “*Tradenet – how mobile phones might revolutionize agriculture in West*”, 27 February 2007

¹²⁴ Source: Vodafone, “*Africa: the impact of mobile phones*”, 2005

Program Project for Africa to improve the telecommunication infrastructure however the program could be replicated in all the African regions. The objective is to increase the geographical reach of broadband networks and to reduce the costs of communications services¹²⁵. The elements that have to be put in practice to achieve the objectives are:

- The support of the regional and international connectivity by creating the missing infrastructure links, by providing access to submarine cables where opportunity exists, and by commercializing fiber capacity where electricity transmission lines and other alternative networks are the appropriate platform. Energy shortages have to be eliminated.
- The removal of the existing bottlenecks for private sector participation, and improving viability of incumbent operators where necessary to be competitive.
- The project implementation giving support to countries to implement the program through the setting up of project implementation units, communications, and resettlement costs where relevant, and monitoring.

Success is evident if in the hands of an African entrepreneur is put a cell phone but also a microloan. In a continent where just 20 percent of the families have a current account, the institutions began to conquer those who don't use the bank services¹²⁶. For instance K-Rep Bank Limited is a commercial bank specialized in micro finance that operates in Kenia providing personal and business banking services. They want to attract people living in rural areas providing services also to micro-enterprise operators, medium enterprises, poor households, development oriented enterprises, and low-income and small entrepreneurs¹²⁷.

Given the speed of penetration of mobile phones and the relatively low penetration rate of banking services, African countries have been pioneers in bringing the banking services on mobile devices. In 2005, 13,5 million of people in South Africa had a current account, while more than 20 million had a mobile phone. MTN mobile phone provider caught the opportunity creating MTN Banking, in collaboration with Standard Bank, a banking service that allowed users to transfer money, pay bills and buy conversation time with the cell phone. The mobile banking services open a bank branch

¹²⁵ Source: The World Bank, West Africa Regional Communications Infrastructure Program, 2015

¹²⁶ Source: Mahajan, "*Africa Spa: 900 million of consumers, a great business opportunity still unexplored*", 2009

¹²⁷ Source: Bloomber Business, Company Overview of K-Rep Bank Limited, June 2015

in the hands of every person who owns a cell phone. The banking services on a small scale provide to poor people the capacity to create enterprises and growth in the developing countries. Kiva is another example of success in the loans to poor people that don't have access to the banking services. People from all over the world can lend some money for an entrepreneurial initiative, such as the purchase of a new tractor for a poor farmer in Peru, uploaded in the Kiva web site. From 2005 have been lend 30 million dollars to people in 42 countries. The percentages of default were minimal. Following recent estimates, nearly 10.000 organizations (NGOs and Official Banks) offer annual loans with microfinance for a total amount of 1 billion dollars to people all over the world and the projection are to increase 20 times the value in the next years to meet the demand¹²⁸. The African countries and institutions don't have to miss the appointment.

3.2.4 Urban policies on the expansion of urbanization

In order to address the challenges of urbanization facing many African cities, the African Development Bank Group suggests some key reforms to be pursued by governments. These include:

- Upgrading informal settlements through the provision of integrated infrastructures and services, define and implement a clear urban development strategy;
- Mobilize urban financing from local and foreign investors. These resources should be efficiently and adequately allocated between central and local governments' urban projects and should encourage strengthening the role of municipalities;
- Improving human capital through equal access to education and healthcare services and facilities for all categories of citizens in order to meet labour market needs;
- Diversification of economic activities through the creation of new economic hubs oriented towards high sustainable and value-added production and exportation¹²⁹.

These reforms should be more inclusive to ensure that all categories of citizens have equal access to adequate housing, basic infrastructure and services and equal job opportunities.

¹²⁸ Source: Dambisa Moyo, "*Dead aid*", 2009

¹²⁹ Source: African Development Bank Group, "*Urbanization in Africa*", 13 December 2012

3.2.5 The fight against corruption and the challenge to set effective international standards

The problem of corruption in Africa is rampant but is often supported by western banks, governments and companies in fact often the banks guard the funds of African countries presidents. For example in the USA in 2004, in the Washington Riggs Bank were kept large funds of the Equatorial Guinea's president. In 2000, it was discovered that in Swiss and London banks were field sums of cash of the ex Nigerian dictator Abacha. The problem is not only that they hold the money without asking questions about the origin but also that, even after court ruling, they refuse to return the sums to the country of origin governments, as was happened in the Nigeria case. Can they be considered as complicit in the expansion of corruption?

One thing to take into account is that the costs related to the repatriation of capital make the process prohibitive and are accompanied by many bureaucratic difficulties. This means that the corrupt politicians of the developing countries continue to put their wealth in the Western banks. In order to fight the corruption it is necessary to start to change the rules in the banks from inside and to impose them to collaborate in the international context. This problem has been registered during the '90s with the western governments in fact they were not willing to oblige their companies to behave properly, because of the fear that the companies could be left aside in the race to win business contracts.

In 1999, OCSE fortunately realised the necessary coordination among the States in order to adopt the laws that penalize acts of bribery of a public official. The challenge now is to verify if the international regulation is respected.

The norms are important effective tools because they are generally voluntarily accepted or in other cases they have the force of law and so they can limit the national sovereignty. The norms can produce deep changes in the government method: a clear example is the path made by the Eastern Europe states in the last decade. In order to adhere to the European Union they had to adapt and conform to the established set of rules. The bottom billion societies need a set of rules with similar effect, rules that are adapted to their level of development.

Paul Collier in *“The bottom billion”*, 2009 propose five international Charters that include standards in order to help the developing societies to realize long lasting changes¹³⁰.

1. The Chart for revenues from natural resources. An important effort has been done with the Extractive Industries Transparency Initiative that set the EITI standards in 2003 during a conference where some principles have been agreed:

“These Principles, on which the EITI is based, state that the wealth from a country’s natural resources should benefit all its citizens and that this will require high standards of transparency and accountability¹³¹”.

The aim of the 12 Principles is to increase transparency over payments and revenues in the extractive sector. Paul Collier provides five elements that should be included in the Chart as practical instruments to apply transparency:

- i. The award of contracts for resource extraction: this stage has always been characterized by bribes with deleterious effects on the countries.
- ii. The disposition of the contents of contracts with particular reference to the risks and who will bear them: currently the risk of swing prices is responsibility of the governments and not of the enterprises. Oil companies should take responsibility at least of a half of the risk.
- iii. To ensure the transparency of all payments of profits: the objective of the EITI campaign “Publish What you Pay” was focused on this, in fact if the citizens don’t know how much money enters in the state coffers, they can’t control the use of it.
- iv. The transparency on the public spending: since the effectiveness of the public spending is of an essential importance for the country development, it is necessary to set minimum standards of transparency.
- v. The definition of a set of rules for the adjustment of public spending in the case of a revenue crisis: it is a tool to help the African governments to manage the volatility of revenues related to resources.

The main pressures for the international standards adoption should come within the poor societies because an international Chart gives the possibility to people to advance concrete demands: the government has to adopt them or explain why

¹³⁰ Source: Paul Collier, *“The bottom Billion. Why the poorest Countries are failing and what can be done about it”*, 2009

¹³¹ Source: Extractive Industries Transparency Initiative International Secretariat report, *“The EITI Standards”*, 11 July 2003

it doesn't. If a Chart based on the five points above would exist, the NGOs could ask to the companies and governments to adhere. For example, a company who enters into mining contract without having participated in a tender should be censored.

2. The Chart for democracy. In order to respect the principle for a democratic election of a government it is important to set rules for monitoring that there is not corruption in the process of political propaganda, especially in the media sector, but also after winning the elections to verify the use of power. In this perspective, through the introduction of international standards, it could be possible to avoid abuses setting methods for the collection and use of funds in the election campaign. The bribery impedes to choose candidates according to their skills and abilities, for this reason the governments should set a limit for the contributes and require a degree of transparency of the accounts of political parties.
3. The Chart for the balance transparency. The way governments spend their money is vital to their operation. A good way to test the effectiveness of public expenditure is the control from the bottom up: every time the Ministry of Finance allocates funds, informs the media and forwards to the recipients of the resources a list with what it should receive. A success case for this strategy was found in Uganda: at the beginning of the study, it was found that just 20 percent of the resources addressed to the primary school effectively arrived at destination. When Tumusiime-Mutebile, governor of the Central Bank of Uganda, understood this rotten mechanism decided to adopt the bottom up strategy. After three years he has repeated the analysis and found that the school were receiving 90 percent of resources. We can imagine what would be the effect if all governments adopted the same strategy.
4. The Chart for the post-conflict situations. The outcomes of the conflicts can be very different: some countries grow rapidly and maintain peace while others come apart again. Paul Collier considers that the Chart should include:
 - i. Guidelines for the donors that should guarantee their efforts for ten years and not just two years for media impact.
 - ii. The international security forces should be set for a long period.
 - iii. Governments of countries emerging from conflict should commit to cut military spending.

- iv. Governments should adopt a transparent budget to avoid that public resources are transformed into private wealth.
5. The Chart for investments. Even if the developing countries need private investments they are not able to attract them mainly because the investors are tired of being attracted in situations that seems to be favourable but then result in broken promises. The international chart for investments could set simple rules that the governments commit to adopt towards investors. In particular the Chart should impede to the governments to activate confiscatory procedures. The confiscatory power consists in the possibility to manipulate the taxes, exchange rates and tariffs on public services with the aim of ruin a company or industry. Two are the solutions: international arbitration and insurance for the investments. The limit for the arbitration is the possibility for the government to ignore the decision. For this cases, governments of rich countries, whose companies make huge investments abroad, have established a system of insurance protection such as Overseas Private Investments Corporation (OPIC) in USA and the Export Credits Guarantee Department (ECGD) in UK. They guarantee the insurance coverage just for the companies of their Country. The World Bank has created an insurance company called Multilateral Investment Guarantee Agency (MIGA) that could have a broader meaning. Unfortunately the insurance covers just the foreign investments and not the national ones and recently the Commission for Africa has proposed to make MIGA available to all. The Chart for investments can equip governments of the poorest countries of an appropriate instrument for ensuring compliance with the commitments. Without a large increase of private investments, countries that have undertaken reforms will fail to achieve levels of income and will remain into the limbo with the risk of falling into the trap.

3.2.6 The inclusion of the Private sector in the international cooperation for the achievement of the SDGs

The inclusion of the private sector in the international cooperation is an important challenge in order to improve the efforts for the achievement of the Sustainable Development Goals. The private sector in fact is getting increasing importance in the sustainable development being considered an engine in generating jobs, contributing to the public revenues and providing goods and services to enhance the African livelihood

level. Moreover through effective business models it can boost African productive activities including the African private sector in the global value chains. The European Commission and the Italian governments assist the private sector initiatives for development with financial tools, as we will see in the next chapter, in order to increase the social and environmental welfare in the developing countries¹³².

¹³² Source: European Commission, International Cooperation and Development Communication, “*A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries*”, 2014

4 The role of the private investments in the international cooperation

4.1 The increasing role of the private investments in African economic growth

4.1.1 The evolution of the private sector involvement in the international cooperation

During the first International Conference on Financing for Development in 2002, it was acknowledged, through the Monterrey Consensus¹³³, the increasing role of the private investments in supporting development. The importance of the private investments was confirmed during the Doha Conference on Financing for Development in 2008 through Doha Declaration¹³⁴. However, the private sector was considered of having a pivotal role just in 2011 at Busan in occasion of the High Level Forum on Aid Effectiveness¹³⁵. The non-traditional donors are considered among the protagonists in the international cooperation field. The objective of the Busan conference was to produce important trajectory changes on the international policies and on the development cooperation programs, in order to reinforce the leadership of the developing countries and to strengthen their collaboration with the private sector. Moreover, the private sector is expected to participate in the definition and management of strategies and policies aimed at reducing poverty and at creating innovative financing mechanisms. The ultimate goal was to combine the efforts of the traditional development actors (states, international organizations, civil society) with the private sector in order to achieve common development goals. One of the main outcomes of the Busan Conference was the adoption of greater involvement of the private sector from the financial point of view, trying to mobilize the resources towards forms of sustainable investments in the developing countries, in particular through the foreign direct investments, the development of public private partnerships and other private flows.

In 2011, the OCSE, in order to obtain an improvement in the efforts for the international development, introduced the “*Guideline for the Multinational Enterprises*”¹³⁶. It

¹³³ Source: United Nations, “*Monterrey Consensus of the International Conference on Financing for Development*”, 2003

¹³⁴ Source: United Nations, “*Doha Declaration on Financing for Development: outcome document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus*”, 2009

¹³⁵ Source: BEXCO Centre “*Thematic Session on Public-Private Co-operation for Broad-based, Inclusive, and Sustainable Growth Fourth High-Level Forum on Aid Effectiveness*” Busan-Korea, 29 November 2011

¹³⁶ Source: OECD, “*Guidelines for Multinational Enterprises*”, OECD Publishing, 2011

contains non-binding standards and principles ensuring that the activities of the Multinational Enterprises comply with government policies in order to strengthen the foundations for mutual trust. In the same year it was established the Global Partnership for Effective Development Cooperation (GPEDC) that is a body that brings together multilateral and bilateral donors, emerging economies, individuals donors, the recipient countries, the private sector, government organizations and civil society. The GPEDC is conducting an analysis on the effectiveness of the international development cooperation at both global and local level, developing a monitoring framework that includes new indicators also on the private sector.

The United Nations Conference on Sustainable Development (Rio+20) in 2012 through the document “*The future we want*” states that, in order to achieve sustainable development, it is necessary the direct involvement of both the public and private sector. Moreover, it is confirmed the importance of the Corporate Social Responsibility behaviours such as dynamism, inclusiveness, good operation, environmental and social responsibility¹³⁷.

In 2013, the World Bank in the report “*Financing for Development Post-2015*” argued that:

“Achieving the Post-2015 development goals will require the mobilization of resources from private sources including FDI, bank loans, bond issuance, institutional investors and private transfers. FDI is a dominant private financing modality in most developing countries¹³⁸”.

The World Bank considers that the private-public partnerships, the privatization, and the promotion of social entrepreneurship can increase the efficiency in the development path. Moreover, the improvement of the aid effectiveness for the development cooperation has an important role in attracting new sources of funding.

The program developed in 2000 with the Millennium Development Goals (MDGs) ended in 2015 with a partial achievement of the objectives. In 2015 the United Nations set a new development agenda with the Sustainable Development Goals that must finish the job and leave no one behind.

In the Addis Ababa Action Agenda, the outcome document of the third International Conference on Financing for Development in 2015, it is underlined the importance of

¹³⁷ Source: United Nations, Conference on Sustainable Development (Rio+20), “*The future we want*”, 2012

¹³⁸ Source: The World Bank Group, “*Financing for Development Post-2015*”, October 2013

aligning the private investment with the SDGs¹³⁹. In this perspective, the contribution of the private sector will be crucial if it will respond to the principles of responsible investment and environmental sustainability as evidenced by the recent United Nations Global Compact document “*Private sector investment and sustainable development*”. The United Nations continues to emphasise the need for policy frameworks to encourage private investments to support fight against poverty and start to aim at a broader private collaboration:

“A call to companies everywhere to voluntarily align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues¹⁴⁰”.

The United Nations Global Compact refers to the UNCTAD estimates to show that the investments needed at a global level to finance the SDGs’ key sectors are approximately US\$7 trillion per year of which US\$4.5 trillion for developing countries.

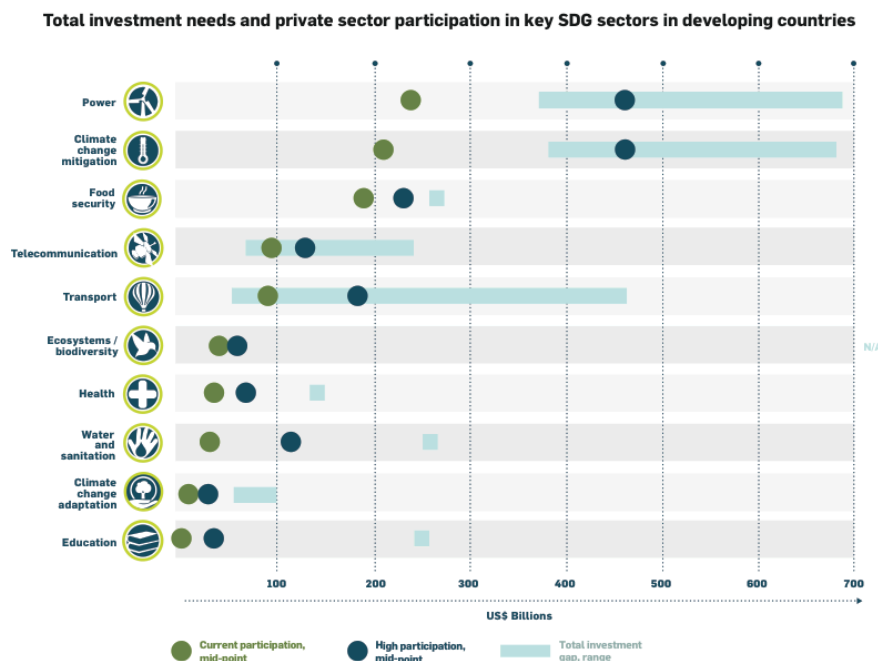


Figure 1. Investment needs for sustainable development and potential participation from the private sector in developing countries. UNCTAD World Investment Report 2014 – Investing in the SDGs: An Action Plan

Figure 38

¹³⁹ Source: United Nations Department of Economic and Social Affairs, Financing for Development, third International Conference on Financing for Development, Addis Ababa “*Countries reach historic agreement to generate financing for new sustainable development agenda*”, July 2015

¹⁴⁰ Source: United Nations Global Compact, “*Private sector investments and sustainable development: The current and potential role of institutional investors, companies, banks and foundations in sustainable development*”, 2015

The public investments, although central and fundamental for a sustainable development, cannot alone meet the demands for financing. Governments are calling on private actors to be part of the solution.

In the last decade, many efforts have been done by the international institutions, which presented a variety of principles, standards and indications that are relevant to involve the private sector in the sustainable development. These efforts have been implemented by the private sector that increasingly has engaged with initiatives in compliance with environmental and social issues with respect for human rights and workers. However, the international institutions should implement and ensure the observation of standards and principles and require adherence to certification in order to create an effective and fair international collaboration. Rules binding minimum standards could be the ideal solution to ensure sufficient consistency between the national framework and effective implementation of the principles. Moreover, the standards should ease the way for the participation of small enterprises in development initiatives.

Some efforts at the European Level have been done. The European Commission's Communication "*A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries*", 2014 have defined the role of private sector as at the forefront of international development in its partner countries¹⁴¹. It proposes 12 concrete actions in order to create better regulatory and business environments in partner countries, better access to finance, especially for micro, small and medium-sized companies. It also encourages the private sector from partner countries to engage in responsible investment, sustainable trade, inclusive business models and other strategies as part of its core business to enhance economic opportunities for the poor and thereby achieve development aims. The EU Communication is an invitation to the implementation of a series of standards aimed at promoting CSR:

“The Council supports the Commission’s and Members States’ efforts to promote Corporate Social Responsibility, in particular through the implementation of the internationally recognised guidelines and principles, i.e. the UN Guiding Principles on Business and Human Rights, the International Labour Organisation (ILO) Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, the Organisation of Economic Cooperation and

¹⁴¹ Source: European Commission, Communication "*A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries*", May 2014

Development (OECD) Guidelines for Multinational Enterprises, the UN Global Compact, and the International Organisation for Standardisation (ISO) 26000 Guidance Standard on Social Responsibility¹⁴²”.

It is possible therefore to assume that at European Union level the minimum framework in relation to standards is made up of the following statements:

- a. **UN Guiding Principles on Business and Human Rights.** The Guiding Principles highlight what steps the governments should take to encourage business respect for human rights: to provide a design plan where companies can show that they respect human rights and they make efforts to avoid contribution to human rights harm. The principles are organized under the UN Framework’s three pillars:
- i. The State Duty to Protect Human Rights
 - ii. The Corporate Responsibility to Respect Human Rights
 - iii. The need for greater Access to Remedy for victims of business-related abuse.

The UN Global Compact, the world’s largest corporate sustainability initiative with a collaboration of 8.000 companies from more than 150 countries, has developed a Post-2015 Business Engagement Architecture in partnership with the World Business Council for Sustainable Development and the Global Reporting Initiative. It illustrates the main building blocks necessary to enhance the corporate sustainability as an effective contribution to sustainable development:

- i. Transparency and accountability in order to make private commitments transparent and to ensure that progress is real
- ii. Platforms for action and partnership to optimize and scale up private efforts
- iii. Drivers and incentives to strengthen the “business case” for private action on sustainability issues

The corporate sustainability starts practically tackling responsibilities in the areas of human rights, labour, environment and anti-corruption. The following principles are the best practices that multinational enterprises have to follow in every place they act:

i. Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights

¹⁴² Source: European Commission Communication 2014

Principle 2: Make sure that they are not complicit in human rights abuses.

ii. Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

Principle 4: The elimination of all forms of forced and compulsory labour

Principle 5: The effective abolition of child labour

Principle 6: The elimination of discrimination in respect of employment and occupation

iii. Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges

Principle 8: Undertake initiatives to promote greater environmental responsibility

Principle 9: Encourage the development and diffusion of environmentally friendly technologies

iv. Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

By incorporating the Global Compact principles into strategies, policies and procedures, it is possible to set long lasting success.

b. ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy.

The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration), was adopted by the ILO Governing Body in 1977, when it was searching for international guidelines and policies in order to address those labour related activities where the Multinational enterprises concerned rise at that time. Today, as the first time of the adoption, the MNE Declaration has a prominent role in the globalization process, in fact, it tries to attract FDI and at the same time it enhances the positive social and labour efforts of the MNEs operations. Among the main principles to observe there are:

- i. To compliance with the objectives of the policies of the countries in which companies operate, including attention to ensure that activities are in harmony with the development priorities and social objectives of the country of reference
- ii. The abolition of child labour
- iii. The effective recognition of the right to collective bargaining
- iv. The attention to the highest standards of safety and health at work

c. The OCSE Guidelines for the Multinational Enterprises. The OECD Guidelines for Multinational Enterprises provide non-binding principles and standards to address

the MNEs operation to responsible and sustainable business in a global context. They are recommendations from governments to respect the internationally recognized laws and standards and multilaterally agreed code of responsible business conduct.

“The *Guidelines* aim is to promote positive contributions by enterprises to economic, environmental and social progress worldwide”.

Enterprises should take fully into account the established policies in the countries in which they operate, and consider the views of other stakeholders. In this regard enterprises should:

- i. Contribute to sustainable development
- ii. Respect the internationally recognised human rights
- iii. Encourage local capacity building
- iv. Encourage human capital formation, in particular by creating employment opportunities
- v. Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework
- vi. Support and uphold good corporate governance principles and develop and apply good corporate governance practices
- vii. Promote a relationship of mutual trust between enterprises and the social context
- viii. Refrain from discriminatory or disciplinary action against workers
- ix. Avoid causing or contributing to adverse impacts on matters covered by the *Guidelines* and seek to prevent or mitigate an adverse impact
- x. Encourage business partners to apply principles of responsible business conduct compatible with the *Guidelines*.

The playing field of the OCSE Guidelines concerns all the productive sectors and it involves not only the MNEs but also the SMEs.

d. ISO and SA Certifications. The *International Organization for Standardization* (ISO) is the greatest developer organization of international standards and it produced more than 19.500 standards involving many business sectors and organisms.

Among the standards adopted at the international level by companies there are the certification schemes of *International Organization for Standardization* (ISO) and the norms SA (*Social Accountability*) 8000. There are two main standards that concern the Companies behaviours: ISO 26000, ISO 9000. The ISO 26000 provide guidelines on Corporate Social Responsibility and on respect of human rights, labour and social

policies getting inspiration from the ONU's Guiding Principles on Business and Human Rights. The norms ISO 9000 are guidelines to define the requirements a company must have in order to implement an efficient system of production, service delivery and customer satisfaction.

Another important element is the *Social Accountability's* norm SA 8000: it is an ethical certification to assess whether companies comply with certain minimum requirements to guarantee the rights of workers, not only within the company but with reference to the entire production chain. It verifies the respect of the behavioural standard in the following areas:

- i. Child labour
- ii. Forced labour
- iii. Health and safety of workers
- iv. Freedom of association and right to the collective bargaining
- v. Non discrimination

An important support to address the international efforts on the involvement of the private sector in the international development cooperation has been done also by the Food and Agriculture Organization of the United Nations (FAO) in 2014, during the meeting in Rome "*Third FAO private sector partnerships forum*¹⁴³". The output of the meeting was the establishment of potential areas of collaboration between FAO and international companies:

- i. Working with governments and other stakeholders: the aim is to understand the gaps and challenges for creating enabling business environments, to work with regional economic bodies to promote the setting of standards that are consistent within and across regions, to ensure greater coordination among the international actors.
- ii. Building diversified livelihood: considering that diversification of the market outlets is essential for sustainable livelihoods, the aim is to create a partnership to ensure the spill-over opportunities, to develop a strategy to increase the accessibility and affordability of inputs and fertilizers, to provide strategic agribusiness guidance and support to farmers and entrepreneurs in agriculture.
- iii. Farm practices and farmers organization capacity: the aim is to boost the

¹⁴³ Source: Food and Agriculture Organization of the United Nations (FAO), "*Third FAO private sector partnerships forum*", Rome, 15 October 2014

- spread and the adoption of modern management practices in order to increase productivity and to let the farmers to sell their products at a competitive prices.
- iv. Small and Medium Size Enterprises knowledge transfer: the aim is the union of the efforts of the governments, FAO and international companies to support the dissemination of technology and know-how to SMEs of developing countries across the economic sector.
 - v. Knowledge exchange and collaboration in project panning: the aim is to fill the knowledge gap unifying the data of private companies and FAO to contribute to the availability of more robust public goods data.

4.1.2 The role of Private Investments in the Sustainable Development Goals and the intervention models for the private sector cooperation

The EU Agency for International Cooperation and Development in the communication “*A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries*”, 2014 defines the private sector as:

“An engine of inclusive growth by generating decent jobs, contributing public revenue and providing affordable goods and services¹⁴⁴”

For this reason, the European Commission assists developing countries in their economic reforms and private sector development initiatives such as suitable innovation and business models in order to boost their productive activities.

The private investments are part of the design and implementation of the strategy to finance the post-2015 Sustainability Agenda, in fact institutional investors, companies, and foundations provide a large capital for investments in order to achieve the SDGs. The World Bank explains the role of private investments in the report “*Financing for development post-2015*” sustaining that this way of financing arrives where the public sector shows the limits:

“Given the limited ability of the public sector to support long-term investments, finding new and better ways to attract private-sector financing is critical¹⁴⁵”.

Through the investment chain, well described by the United Nations in the Global

¹⁴⁴ Source: EU Agency for International Cooperation and Development, “*A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries*”, 2014

¹⁴⁵ Source: The World Bank Group, “*Financing for Development Post-2015*”, October 2013

Compact in Figure 39, the institutional investors confer capital to the private companies but also operate as active owners in the real economy, financing for instance infrastructures and agriculture, and collaborate with the receiver governments. However, considering that the current level of investment in SDG sectors remains insufficient and sustainable business practices are inconsistent within industries, the governments, in order to attract the private investments and to facilitate the FDI, should provide stable and predictable business environments with effective policy frameworks and reforms such as competition policy, sustainable financial regulations, incentive for Public Private Partnership, consumer protection, property and creditor rights, trade facilitation, judicial reform, fiscal transparency and market reforms. The fact that the regulatory reforms are necessary to attract private investments was confirmed by Bruno Wenn, CEO of the German Investment Corp. and Chairman of the Association of European Development Finance Institutions, who told at Devex during the recent EU-Africa Business Forum in Brussels:

“Filling the financing gap is quite easy: get things right by creating a regulatory environment that is conducive for the private sector, and the private sector will come¹⁴⁶”.

The aim of the Foundations and philanthropic initiatives is to provide social benefit funding capital flows for social enterprises and civil society. Of particular importance in the investment chain is the role of the Private companies, the producers of goods and services, being notably direct effective in sustainability areas such as employment, infrastructure, and social services¹⁴⁷. The private companies in fact, in the real economy are a major driver of growth because they provide employment opportunities, collaboration with the private companies of the country of origin private sector, health and social benefits for employees and also they provide basic services such as infrastructure (energy, telecommunications, transport and water) necessary to operate abroad.

¹⁴⁶ Source: Donelli, Devex Impact Business Transforming Development, “*Get things right in Africa and the private sector will come*”, 22 April 2014

¹⁴⁷ Source: UN Global Compact, 2015

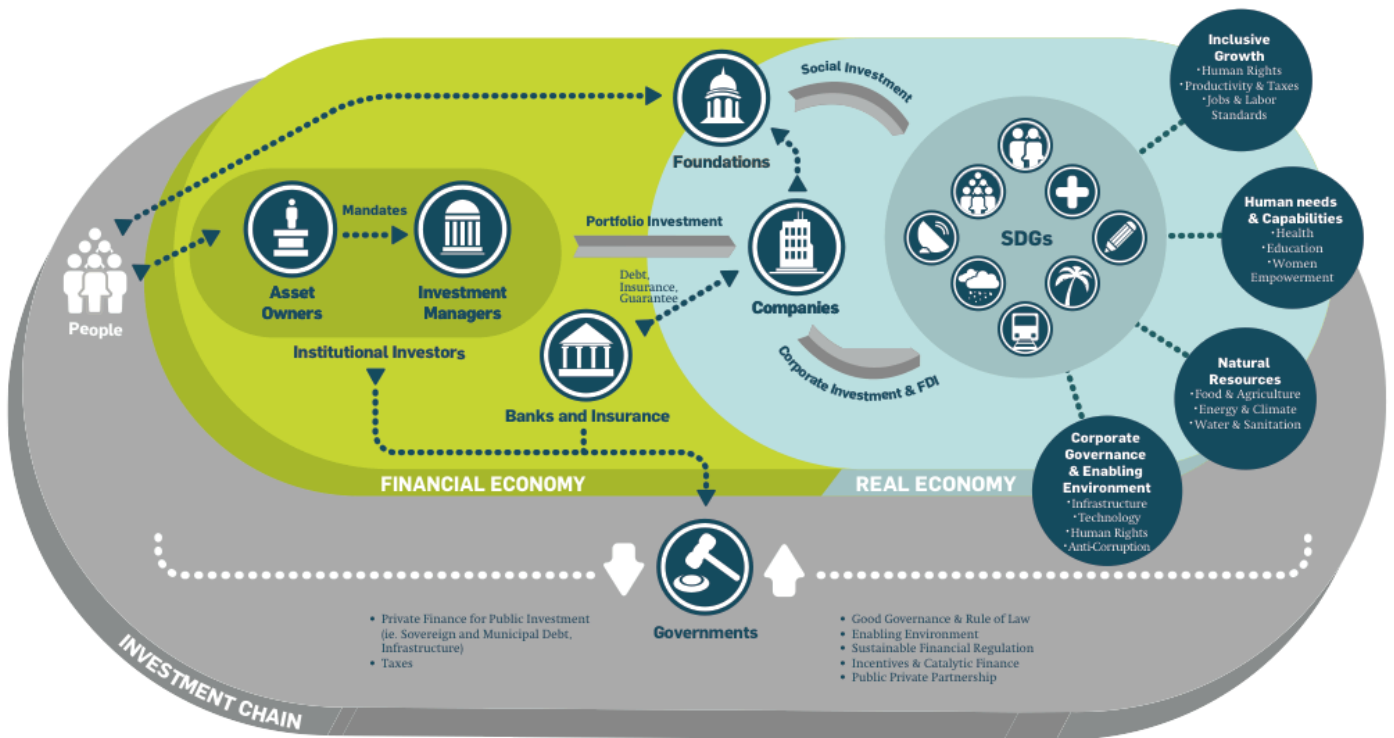


Figure 39: The private investments chain to sustain the GDGs

Moreover, companies can have a critical impact on societies, through improving labour relationships with workers, suppliers, consumers, and citizens, as well as with public institutions and civil society organizations, by sharing the best practices and by providing technology and innovative tools, managerial know-how, towards a more sustainable trajectory of long-term growth and development. These practices are useful in order to successfully operate to achieve the SDG through investment projects and to provide an opportunity of inclusive growth in economies where the need is greatest. It is important to highlight also the indirect effect of the investments abroad of the transnational companies for example understanding the importance of the tax revenues generated by the companies in the countries where they operate and also the contribution to the domestic resource mobilization through many forms of taxations. The responsible tax paying practices are a crucial part for SDGs improvement.

An important organization in the international development context is ActionAid International that operates in 45 countries with 15 million people in order to free the world from poverty and injustice. They leverage on the resilience of people and help them to use their own power to make a change to better off their lives. In order to obtain a sustainable economic development, they involve private people, companies and organizations to donate and to actively participate in order to transform the life of the

“bottom billion”, an individual and collective action together for a long lasting solution. ActionAid has set a new strategy for 2012-2017, a commitment they took with partners and allies, in order to achieve ten key changes:

1. Securing women’s land rights
2. Promoting sustainable agriculture
3. Holding governments to account on public services
4. Achieving redistributive resourcing of development
5. Transforming education for girls and boys
6. Harnessing youth leadership to end poverty and injustice
7. Building people’s resilience to conflicts and disasters
8. Responding to disasters through rights
9. Increasing women’s and girls’ control over their bodies
10. Generating women-centred economic alternatives

ActionAid proposes a useful classification to differentiate the private sector participation in the development programs. There are three categories of participation depending on the kind of projects:

- i. Building: the strategy is the development of the private sector in partner countries in order to generate employment, know-how and a widespread diversification. In this case external aid become a support tool for direct investments in certain strategic sectors or indirect, for example by building infrastructure.
- ii. Leveraging: the goal is to become partners in development programs in order to help to mobilize additional financial resources and investments: multinational companies of donor countries or of the partner countries leverage on the Public Private Partnership (in all policy areas, from agriculture to education), the blending (leverage private investment through public aid) and the challenge funds (aid designed to stimulate the private sector on specific subjects).
- iii. Delivering: the private sector is the principal developer of initiative financed with public aids, for instance it is committed through the conclusion of public contracts to provide goods and / or services such as consulting services or infrastructures construction.

There are many intervention models for the private sector cooperation:

- Philanthropy: it refers to the participation in cooperative activities for development through donations grant in favour of public or private no profit organizations.
- Business networks: in order to respect, promote and disseminate specific standards, so as to achieve objectives that respond to social needs, for-profit organizations can create networks. They involve financial actors, NGOs and social enterprises in order to reduce the fragmentation of interventions and to act with greater synergies. The partnership provides funds, in cooperation with private foundations and other entities such as investment fund managers, banking and corporate foundations. The network facilitates the access to small context with a lack of technical and finance capacity.
- Execution of projects for development cooperation as suppliers in the race tender. The private sector in this case operates for the development cooperation through the “delivering” activity: companies can be assignee of a contract by public institutions of Partner countries and international cooperation organizations, to provide goods and services within international cooperation projects.
- Public Private Partnership. The PPP schemes are adopted under the long terms collaboration between a public institution and a private company, for the provision of a service, determining the share of responsibilities, business risks, competences and skills. Through the PPP, there are co-financed private projects and the areas of cooperation in which today are more used PPPs are those of agriculture and agribusiness, health and transport and logistics. The Public sector focuses the attention mainly on the definition of the objectives to be achieved in terms of public interest, quality of services offered, of pricing policy and it ensures the monitoring of compliance with these objectives, while the Private sector provides products, services and consultancy.
- Joint Ventures. It is the participation of a company with investment capital in a foreign company. There are many different reasons for the opening of a joint venture in developing countries: the investment may be linked to the strengthening of the value chain in which it operates, or the chain of distribution with franchise mechanisms. The private business

innovation in the provision of goods and services can be directed through the joint ventures to improving social conditions. For instance by addressing their services to low income consumers, in geographic areas where the development of inclusive business (for example in the fields microfinance, energy, water, communications, hygiene, etc.) can be particularly appropriate both as a social solution and in terms of economic viability. Nonetheless important for the private players is the integration with the local partnership of the technical and organizational skills among businesses in the same industry.

- Funds for social impact, microfinance initiatives and ethical investments are initiatives of private investment in the form of risk capital in companies or organizations with the aim of generating a measurable social or environmental impact. Given the direct participation, the risk for private investors is high but it could be mitigated by the provision of guarantees from the beneficiary or from a third party that present resources to guarantee the credit. The beneficiaries are usually social enterprises, usually beyond the start-up phase in order to obtain returns more secure and stable. Funds that they invest are more often grants, which may be offered in some cases by the same private financial institutions, in partnership with public or private actors.

The World Bank in the report "*Financing for development Post-2015*", 2013 explains that the reluctance of the private sector is often due to the information asymmetries and lack of investor experience with particular types of investments, economic activities or countries. In order to fill the gap it is necessary to intervene at the project selection and preparation stage in fact through the effective planning it is possible to expand the portfolio of bankable projects. The institutions should help the private sector activities by providing tools to facilitate the investments. It is interesting the example of the public funds that can be used at the initial level to explore the feasibility of the projects and it typically averages 5-10 percent of the total project costs. For large infrastructure projects the amount could be of hundreds of millions dollars, so without some public financing of these up-front costs, projects will never become bankable. The governments should facilitate FDI by providing stable business environments and by improving the investments climate making effective reforms. At the OECD seminar in Paris "*OECD-AfDB Seminar on addressing policy impediments to private investment in*

African infrastructure” on 15 July 2014, was discussed the importance of the well-designed sectors at a national level and tackling the framework conditions and regulatory environment.

“It will be crucial to address the main impediments that prevent the private sector, and especially SMEs, from investing in developing countries, and to create coherent and consistent policy environments. Responsible business conduct will also count to ensure a long-term private sector contribution to development; with the right incentives and policy conditions, businesses can further act as enablers of local SMEs and economic development by strengthening local value addition”.

4.1.3 The Italian regulations and standards of international organizations to which the Law 125/14 and the financial instruments

In reference to the new Development Agenda post 2015, there has been a renovation in the Italian cooperation for development. In fact, in 2014 was passed a reform law of development cooperation where it was desired to achieve the new opportunities to transform cooperation policies in a strategic investment in the developing countries, thus having the ambition to strengthen the role of Italy as a reliable partner to build a more equitable and sustainable globalization¹⁴⁸. The perception of change has prompted the Parliament to carry out a comprehensive reform for the cooperation, in which the Ministry of Foreign Affairs has become the administrator that makes the Italian system of cooperation open to the participation of many actors. For the pursuit of these objectives there is a need to involve not only public support but also the private sector. The European Commission itself has planned to characterize its 2014-2020 programming for development cooperation through the involvement of the private sector¹⁴⁹. In this context, it is interesting to investigate some tools of cooperation such as the loans to help the lines of credit for small and medium-sized enterprises and the loans to Italian companies that make joint ventures in the partner countries, in accordance with art.27 of the law n. 125/2014.

In Italy, some tools to facilitate the participation of the private sector in foreign investment were set up in the 80's, for example through the law 49/1987. The law refers to the implementation of projects in favor of developing countries, in addition to direct

¹⁴⁸ Source: MAECI Cooperation for development, The cooperation reform, <http://www.cooperazioneallosviluppo.esteri.it>

¹⁴⁹ Source: European Commission, “ Instructions for the programming of the 11th European Development Fund (EDF) and the development cooperation instrument (DCI) 2014-2020”, 15 May 2012

grants to countries and international organizations, including financial instruments that help to create partnerships. In the text of the law n. 49 there is the direct reference to the private sector, in particular in the Article 7 where it is provided the possibility of granting subsidized loans to Italian companies with partial funding of their share of equity in joint ventures to be carried out in developing countries with public or private participation of investors and private companies. This instrument, provided for the use of credit facilities for the creation of joint enterprises, was not widely used. In fact, as explained in the report “*Gli Strumenti Finanziari della Cooperazione italiana a sostegno dello sviluppo del settore privato*”, 2015 presented by the Italian Minister of Foreign Affairs, between 1998 and 2012 were granted loans for the creation of joint ventures for a total of about 105 million euro, most of which allocated before 2000. This is a low value compared to both total Italian direct investments financed in the same period, whose amount is 32 billion euros and the amounts of aid disbursed, that in this period amounted to 5.7 billion euros¹⁵⁰.

In the text of the new general regulations Law 125/14 on international cooperation for development, there is a clear and direct reference to for-profit entities and private sector in general, considered as system of cooperation.

Article 2: It defines the beneficiaries of the policies of Italian ODA and identifies the private sector as a possible partner for development programs.

Article 8: It constitutes a special revolving fund outside the budget for the provision of concessional loans for the improvement of the developing countries economy, designed to facilitate and promote the advancement technical, cultural, economic and social development of those States.

Article 12: It refers to the redaction of a three-year planning document to address the policies for development cooperation.

Article 16: Establishing the National Council for Development Cooperation, which it is an advisory body made up of the main public and private actors, profit and non-profit organizations, of international cooperation development.

Article 17: It defines the tasks of the Agency for Cooperation and Development and Directorate General for Development Cooperation. The Agency, with decision-making autonomy of spending up to a limit of two million euro,

¹⁵⁰ Source: MAECI-DGCS, “*Gli strumenti finanziari della cooperazione italiana a sostegno dello sviluppo del settore privato*”, The books of the Italian cooperation, 2015

promotes forms of partnerships with the private sector for the implementation of specific initiatives.

Article 20: It refers to the reorganization of the Directorate General for Cooperation Development, which, among other activities, verifies the impact of interventions of development cooperation and the achievement of the policy objectives, including those of private sector.

Article 23: It recognizes the private for profit as subjects of the Italian cooperation for development, provided that they act in a manner consistent to the principles of the law and adhere to the standards on social and environmental liability, as well as comply with the rules on human rights.

Article 27: Specifies the role of the private investors within the Italian international cooperation for development: companies and businesses banks can participate in public procedures for the realization of development initiatives. It also specifies that the Inter ministerial Committee for Development Cooperation (CICS) determine the portion of the revolving fund that can be awarded to Italian for-profit entities and the conditions under which they may grant credits.

The new law 125/14 provides a clear and articulate picture of the forms of private sector involvement, thereby reinforcing the use of financing instruments such as:

- i. Credits for aid, art. 8 of law 125/14. They are concessional loans drawn on a revolving fund established at the Cassa Depositi e Prestiti SPA, intended for states, central banks, institutions or international organizations. The projects funded are made by tenderers of international competitions, and the terms and financial conditions (interest rate, term of the loan, the grace period) are the best of the credits market. The terms and conditions of such financial credits (interest rate, term of the loan, the grace period) are connected to the granting level attributed to the country in terms of its per capita income.
- ii. The “Matching” procedure, art. 8 law 125/14. The credits for aid can also be used as a form of indirect public support to its private sector. In fact, this process can be activated per request of an Italian company participating at an international competition, aimed at the realization development projects in developing countries, where the local authorities require at all competitors not only the technical-economic offer but also a financial offer in terms of aid, which takes decisive role in the award stage.

- iii. Lines of credit for small and medium local businesses in developing countries, art. 8 Law 125/14. They are referred to the private sector and they are paid through the banking system of the country partner. They are intended for purchasing of goods and services of Italian origins for a variable percentage of 50-70 percent of the total value. The aim is to bring down the interest rates of the commercial credit market in the reference countries.
- iv. Soft loans, art. 27 law 125/14. The aim of the soft loans is to allow the delivering of subsidized loans to Italian companies that realize joint ventures in partner countries using a portion of the revolving fund. It is a partial funding up to 70 percent of the Italian company share of venture capital in other companies, to be realized in developing countries. The participation in the capital of joint ventures by the Italian companies must be aimed at the realization of new initiatives, or expansion of existing initiatives.
- v. Financing with supranational institutions and *blending* with EU funds, art. 8 law 125/14. They are join funding with financial institutions such as the World Bank, the European Investment Bank providing credit for aid. They can provide technical assistance to the tendering for contracts to design and carry out the work, which may be in parallel financed by the partner financial institutions of the DGDC, at commercial rates. These loans are used for major initiatives, especially for the construction of infrastructure in the partner countries

The blending combines grants with loans and allows to take advantage from the cooperation funds using loans of the institutions. The blending operations with EU funds are addressed to co-funded cooperation programs in partner countries, among public actors, based on dedicated Trust Fund. Even in this case they are generally used for the realization of infrastructures.

- vi. Conversion of debt, law 209/2000. Italy is committed to cancel part of the debit of a beneficiary country in view of the destination by the same country of resources in local currency equivalent to the cancellation amount, for the realization of development projects. The private sector can participate in the project so financed. In Italy, from 2000 to 2014, were concluded 25 agreements of debt conversion for a total amount of approximately 600 million euro.

The need to mobilize additional resources to traditional aid and to improve their use effectiveness involves the design and dissemination of innovative financial instruments that can contribute to achieve tangible results for sustainable development. The challenge is to facilitate greater investment of financial flows and improve the quality and effectiveness of the policies.

It is interesting to analyse some financial instruments that are used by the private sector, profit and non-profit organizations in the development cooperation that are not expressly provided by law 125/14¹⁵¹.

Sustainable Investment Bonds: bonds targeted at investors who want to integrate the commitment for sustainable development in their investment decisions. The profits generated are credited to a special account of the World Bank supporting initiatives for local development, adaptation to climate change and projects risk mitigation. From 2008, the World Bank issued about 3 billion USD of Green Bonds through 44 transactions in 16 currencies.

Social impact funds: the funds are invested in the form of venture capital in companies or organizations with the objective of generating a social or environmental impact with financial return. In Italy it is estimated that in 2020 investments with a social impact could reach about 30 billion euro.

Low profit investments: they are investments in social enterprises that provide goods and services to the low-income population. These assets initially provide a limited return on investment. The investor will then be attracted more by the return in terms of social impact generated by the company in which it invests.

Development investment bonds: financial instruments through which private investment in Partner countries are directed to the development of infrastructure, education, health. The return on investment comes from donor agency or from the host country.

Social impact bonds: financial instruments to collect private finances. The return on investment capital is strictly connected with the achievement of a particular social outcome (method "pay for result" or "pay for success").

¹⁵¹ Source: MAECI-DGCS, “*Gli strumenti finanziari della cooperazione italiana a sostegno dello sviluppo del settore privato*”, The books of the Italian cooperation, 2015.

4.2 Pedon Spa: a successful case of private investment

To conclude the chapter, will be provided a brief depiction of one of the most interesting case studies that involves an Italian and European company that heavily invested worldwide and, inherently, in Sub-Saharan Africa: Pedon Group.

The company's core activities involve grains and dried legumes end-processing, packing and distribution, with the division Pedon S.p.A. specialised in retailing and distributed in all sale channels as own brand products or privately labelled, while the other division ACOS S.p.A. is specialized in cultivation, harvesting and trading of agricultural commodities to businesses¹⁵².

Our focus will be set upon ACOS, the business-to-business division of Pedon Group, which is nowadays among the main operators in Europe in the production and sale of dried pulses, importing and packing from its global supply chain, upon which the company has direct control¹⁵³. The firm, mainly by a continuous control of its Global Supply Network (GSN), provides the opportunity to externalise buying functions of global customers achieving buyers' needs by quality and supply time of products.

4.2.1 ACOS and Sub-Saharan Africa: the Ethiopian case

Despite earlier connexions by the Pedon Family¹⁵⁴ with the country, ACOS investments in Sub-Saharan Africa started formally in 2005, when the company first made contact with the Ethiopian Government to set a production plant near the country's capital, taking shape at the end of the following year, when the project materialised in the full capacity running of a plant near the pulses' areas of cultivation.

ACOS invested substantial sums in a sophisticated crop-processing factory in the city of Nazareth, located in the Rift Valley an area dedicated to the production of pulses, around 100km South-East of the capital. The site directly employs 350 people over a surface area of 3000 squared metres and fully respects European standards in farming and food industries, enabling the company to reshape a relatively low-quality crop into a high-

¹⁵² ACOS stands for Agricultural COMmodity Supplies.

¹⁵³ The UN General Assembly, recently, in its resolution A/RES/68/231, desiring, among other purposes, to recall attentiveness towards the role that pulses play as part of sustainable food production, declared 2016 the International Year of Pulses.

¹⁵⁴ See e.g. the interview released in 2012 by Remo Pedon, CEO of the Pedon Group, to the International Pulse Trade & Industry Confederation.

quality product for the export market, also building new opportunities with formal canning and retail businesses, mainly in the UK ¹⁵⁵.

The main purpose of the plant in Ethiopia is to allow ACOS to directly control the supply chain of pulses, starting from the pursue for raw materials to the shipping to final customers, the largest legumes and cereal processing companies, with particular regard to baked beans producers. Nevertheless, before digging into the company's main practices and their implementation in Sub-Saharan facilities we have to understand the functioning of the pulses' market in Ethiopia and the roles of involved operators, which will be the purpose of our next paragraphs.

4.2.2 The background in Ethiopian trade: the role of pulses in the country's economic network

One of the main issues that affects farmers in Sub-Saharan Africa is their dependency on export markets for their livelihoods. The entry into such markets for small-scale farmers, which have the skills and soils to provide high-quality products for the food industry, is restrained by increasingly stringent standards, by the volatility of prices and the lack of credit. Moreover, relationships between firms and farmers in export markets in Africa are deeply complex, with many markets characterised by the presence of outgrower contracts whereby firms provide inputs on loan at the beginning of the season and recover these loans, and due interests, at harvest time.

These problematics have to be summed to the significant changes that occurred in Ethiopian trade since the mid 2000s, with increased exports both in volume and type¹⁵⁶. Ethiopian exports are nowadays dominated by primary and semi-processed products such as coffee, oilseeds and pulses, which, being agricultural commodities, are heavily vulnerable to weather conditions and adverse shocks in terms of trade. While coffee and oilseeds remain the main exports for the country - accounting for almost 35 and 20 per cent as values of external trade through all the 2010s - pulses still represent a significant element of the Ethiopian agricultural sector. Export levels, after severe droughts and political instability, reverted, in the 1990s, to 1970s levels, and increased steadily in the following decade and a half, up until now, given both the varietal improvements of seedings and the enhancement of production methodologies, both progresses in market linkages. Ethiopian smallholders exported pulses for over 30 years dating back to the

¹⁵⁵ At the time there were no bean seed companies based in Ethiopia and smallholders planted mainly low quality seeds.

¹⁵⁶ Source: NBE, National Bank of Ethiopia "Developments in the External Sector", Annual Report. 2005/06

1970s, originally targeting low-value markets in Eastern Europe and the Middle East. After the 1980s economic crisis in developing countries, aid providers like the IMF and World Bank recommended to Ethiopian authorities a set of policies package, the Structural Adjustment Program (SAP) including trade liberalisation, to expand export, import and economic growth in the country, which the local government adopted in the early 1990s.

ACOS has been among the first European companies, and the first of its sector, to invest conspicuously in Ethiopia following these same liberalisation policies.

The main crop upon which ACOS invested were beans, a short-duration crop well suited to low rainfalls, as in the country's region of cultivation, but with yields consequently highly dependent on precipitations. Above that, most smallholders began to produce beans, specially white pea beans, to improve their incomings, grasping more lucrative opportunities from export markets than from staple food crops consumed locally, as these beans are not a part of the country's traditional diet.

4.2.3 The main actors involved in the Ethiopian pulses market

One of the main actors involved in ACOS operations in Ethiopia was, and still is to a certain extent, Catholic Service Relief (CSR) an international humanitarian agency which usually prioritise its efforts in helping farmers to produce and sell crops in local markets, focusing on productivity enhancements and on the evolution of business development services to support smallholders' undertakings.

In our case study, however, the attentiveness of the organisation was centred towards the development of the value chain that comprised the export market of pulses in the Ethiopian context, aiming at building more stable and reliable relationships among the many different levels of the chain by, among other efforts, collaboration with ACOS¹⁵⁷. ACOS role as a strong intermediary was a crucial element in this value chain, linking informal market smallholders to modern markets, prompting procurement, quality and efficiency. Given the structure of the farming industry in Ethiopia, and generally in Sub-Saharan Africa, establishing a connection among high value markets like the ones targeted by ACOS and the thousands of smallholders surely is an hard, yet essential,

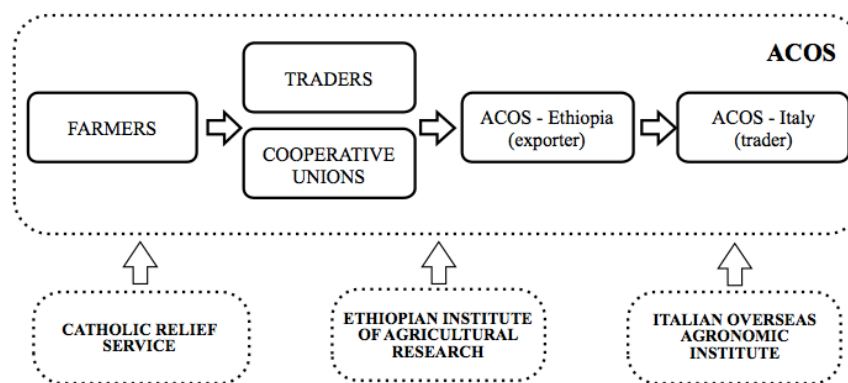
¹⁵⁷ However, this connection by the CRS with ACOS was not without drawbacks, as, for example, giving less support to other export companies or emerging farmer cooperatives.

need for agricultural development¹⁵⁸. Investing directly in Sub-Saharan Africa, ACOS provided a dual service: foremostly as a cardinal aggregation point for the farmers and furthermore as an operational link to large import companies that are rarely capable of managing the atomised configuration of such markets.

Going beyond this framework, ACOS also reached significant agreements directly with farmers' union representatives, taking advantage of Ethio-Italian public and private actors partnerships, to ensure that the promoted market-driven value chains will follow principles of economic and environmental sustainability.

Figure 40

Economic and Institutional Operators in the Ethiopian pulses value chain and their connections with ACOS



Economic and Institutional Operators in the Ethiopian pulses value chain and their connections with ACOS: farmers, traders and cooperative unions are directly affected by ACOS operations, with CRS, EIAR and the IOAI providing, at different stages, financing, inputs, technical assistance and technical-trade facilitation.

Source: Author's elaboration based informations publicly available in the company website, www.acosnet.it and upon Ferris, S. et al. 2012. *Dried Beans in Ethiopia: Increasing Food Security Through Trade*.

Specifically, ACOS deeply strengthened its ties with the Ethiopian agricultural value chain benefitting from the intermediation of the Overseas Agronomic Institute, a technical body of the Italian Ministry of Foreign Affairs, and from the project "Agricultural Value Chains in Oromiya", funded by the Italian Development Cooperation, aimed to improve the quality of products for several farmers' cooperative¹⁵⁹.

¹⁵⁸ This relation was strengthened against the background where farmers sold their produce: almost three quarters of smallholders, in fact, sold their products through independent trader networks, whereas only a minority of government supported cooperatives and unions offered sales services and access to inputs. As we will see later on, ACOS built a solid connection also with such cooperatives.

¹⁵⁹ Source: Italian Development Cooperation, "Ethiopia: Smallholder farmers' cooperatives sign an agreement with the Pedon Group in order to access the international market of pulses", 2013

These agreements allowed most cooperatives involved to skip all intermediaries, opening up to the international markets of pulses by trading head on with final purchasers or exporters. Again, complete control of the supply chain by ACOS has been the foundation of these contracts, with the adoption of precise production techniques and quality control all over suppliers, providing field assistance complementarily to the one provided by the Oromia region Agricultural Research Centre (SARC).

ACOS investment included also the necessary seeding, collecting the final good at the local price and quality plus or minus and comprised an innovative double sided insurance mechanism to return to the company seeds' costs while at the same time protecting farmers from crop failures due to droughts or pests.

4.2.4 ACOS, supply chain control and how it affects investments in Sub-Saharan Africa

One of the main features that characterise ACOS approach, directly involving its Sub-Saharan division, derives from the vertical integration of its Global Supply Network (GSN), connecting its Italian headquarters to own factories, satellite offices, joint ventures and partnerships worldwide. Management of this network is implemented worldwide by the company's own Management System which allows an easier control of the whole supply chain using a mere Internet connection and which supports full modularity, allowing the development of this same platform vis à vis the one of business' operations.

In practice, the first step for ACOS is the annual planning of its needs in products volumes, qualities and assortments, focusing its decisions upon market requirements and customer specifications. Following this planning, each production site worldwide schedules its production in terms of cultivated land, techniques adopted and seeds varieties its product processing particularly cleaning, selection and packaging, and logistics, with production areas constantly updating, and updated, about seasonal changes and market and customers circumstances.

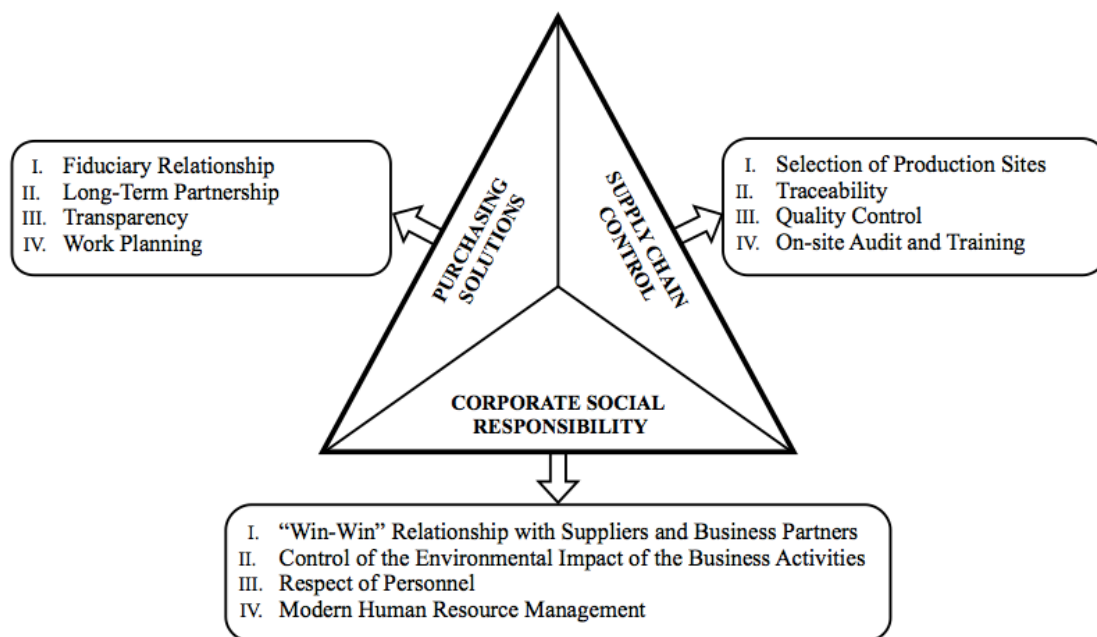
In the next phase the choice of production sites occurs, with specific areas chosen upon their ability to satisfy particular requirements: organisational, sanitary, ethical and environmental. The entirety of companies that operate within ACOS' agricultural network must, furthermore, prioritise techniques eco-compatible, use proper equipment for processing of raw products such as cleaning, brushing and visual selection and

packaging operations, with each site directly working under the supervision of a Quality Control Service that follows the company methodologies.

This System is founded on the principles of the ISO 9001:2000 standard, which defines requirements for quality systems and is based on processes, defining the so-called process-approach to quality management. This standard is structured upon four main pillars and accounts for all processes related to quality management, from the revision of customers' contracts to final products' delivery¹⁶⁰.

Figure 41

ACOS Pillars in Purchasing Solutions, Supply Chain Control and Corporate Social Responsibility implemented worldwide and in Sub-Saharan Africa



Main pillars in ACOS purchasing solutions, supply chain control and Corporate Social Responsibility, implemented by the company worldwide and namely in Sub-Saharan Africa.

Source: Author's elaboration based informations publicly available in the company website, www.acosnet.it.

All Quality Control units employed at production areas directly verify the fulfilment of specifics agreed in the contractual phase with customers and operate under the direction of the Quality Team, located at the headquarters in Italy¹⁶¹. In order to further ensure quality, ACOS implements an additional monitoring for determined parameters such as GMO's, heavy metals, mycotoxins and pesticides, to provide periodic controls of the product healthiness. Moreover, Quality Control works at multiple levels: members of the headquarters' team visit and check the plants periodically, instructing local

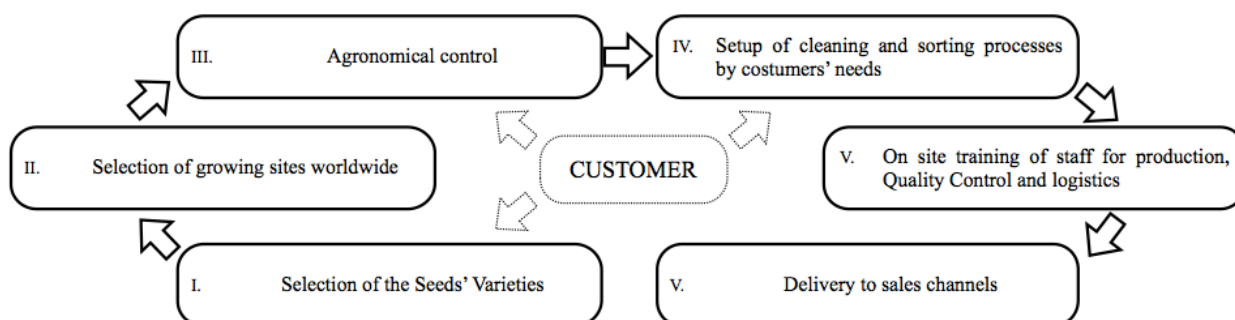
¹⁶⁰ Namely management responsibility, resource management, product realisation and measurement, analysis and improvement.

¹⁶¹ In the same headquarters, in Molvena (VI), also works the Quality Control laboratory, which exercise products' analysis and undergoes the necessary testings.

staff to control the conformity of operations with the company's standards and multiple training courses are held both at a central level than in production sites.

Figure 42

ACOS directly controlled and carried out processes, implemented worldwide and in Sub-Saharan Africa



ACOS directly controlled and carried out processes implemented worldwide and in Sub-Saharan Africa delineated by arrows and inputs coming from the market and costumers, short-dashed.

Source: Author's elaboration based informations publicly available in the company website, www.acosnet.it.

Another key element that defines ACOS direct control of the food supply chain involves traceability, with products identification starting in the fields and continuing via an ad hoc informatics system which allows verifications through all the supply-chain, guaranteeing complete traceability of the whole range of products supplied and the complete lack of Genetically Modified Organisms (GMOs) in the products supplied. Furthermore, ACOS investments in Ethiopia include multiple research and development accords with the Ethiopian Institute of Agricultural Research (EIAR) to study the pulses that better adapt to the Ethiopian environment and to improve agronomic techniques while preserving the wholesomeness of seeds. Developments from such researches are then passed on to farmers' cooperatives to favour the advancement of the national industry¹⁶². Additionally, ACOS teamed with EIAR and the CRS - Catholic Relief Services - to write training materials and disseminate them to farmers to spread Good agricultural Practices (GaP) and improve yieldings and working conditions. Posters and manuals were translated into local languages and distributed to government workers and other NGOs to promote pulses production in Ethiopia.

¹⁶² After a couple years from ACOS investment, retailers were mixing Ethiopian beans and indicating the source on the ingredients, highlighting significantly the product's quality: in a joint effort to further distinguish locally grown pulses, ACOS and the CRS developed a single variety supply chain strategy for branded products.

4.2.5 ACOS Ethiopia and Corporate Social Responsibility

ACOS deeply committed also in the sphere of Corporate Social Responsibility, keeping track of its activity in areas that fall outside the mere economic domain. In this context, Ethiopian pulses have present a double sided advantage: on the one hand they cost less than competitors' beans, on the other they boost buyers' CSR credentials¹⁶³.

The company's dedication in undertaking, alongside the whole supply chain, full respect for people and the prevention of whatsoever discrimination, alongside the protection and social maturing of the communities implicated.

Among its engagements, ACOS guarantees in its production sites in Ethiopia an appropriate salary to satisfying basic needs, calculated in an equitable manner, and a risk-free environment, taking into account the health of workers, and never resorting to forced or underage labour¹⁶⁴. In the long term, ACOS strategic objective in this field is, declaredly, to obtain the Social Accountability 8000 certification, a standard that emboldens organisations and companies to "*develop, maintain, and apply socially acceptable practices in the workplace*".

Additionally, concerning the environmental impact of its activities in Ethiopia, ACOS promotes sustainable processes and techniques, monitoring reverberations upon the ecosystem of its undertakings, advocating organic agricultural production and refusing GMOs commercialisation.

¹⁶³ Source: Ferris, S. "*Dried Beans in Ethiopia: Increasing Food Security Through Trade*". New Business Models for Sustainable Trading Relationships Topic Brief Series, IIED, London, 2012

¹⁶⁴ ACOS also established a primary school near the agricultural cooperatives, providing the workers' children with access to schooling

Conclusions

The increase in the GDP growth rate in Africa is mainly due to the increase of the commodity prices and prices for oil, minerals, grain, and other raw materials thanks to the increased global demand. The African exports in fact grew very fast during the last decade. Other business sectors have generated the two thirds of the GDP such as wholesale and retail, transportation, construction, and manufacturing. African economic growth is sustained by great domestic demand due to increased consumer confidence, private consumption and an expanding middle class. The slowdown of the last years, mainly reflects the difficulties of the oil sector and of the countries affected by the Ebola outbreak.

Despite maintaining such healthy growth rates for over a decade, Africa's levels of productivity are low and the overall competitiveness has remained stagnant in fact Africa's performance is lower than all the other world macro regions. The difficulties on the establishment of intra regional production chain have been an important factor behind underperformance in terms of regional integration: there are restricted opportunities for cross-border trade and for job creation.

Even if important financing such as FDI, ODA and remittances have flown into Africa contributing to a decade of growth, the efforts have not been enough to solve the problem of mass poverty that afflict the African region. The growth did not benefit the poorest sections of the population, it is instead increased the rate of inequality. The picture of inequality in Africa shown by the World Bank is complex: of the 10 most unequal countries in the world 7 are in Africa, most of them in southern Africa. The international researchers consider the political and economic institutions that govern a society as the keystones for the growth: they determine the incentives for the citizens to save, invest, educate, engage, innovate and adopt new technologies. These incentives represent the trajectories of development of a nation, its prosperity or poverty.

The analysis evolves with the study of the reason why some states remain locked in poverty, understanding what are the killers of growth. It has been analysed the effectiveness of the ODA to the achievement of the Millennium Development Goals: it has been demonstrated that, after decades and million dollars, the aids have not exercised an appreciable impact on the development. The aids given unconditionally have the danger of being dissipated instead of being invested, to disappear into the pockets of private rather than in public wellness. Paul Collier present the theory of the

“development trap” that is the presence of some elements and situations in a country that create a vicious circle of negative effects that don’t permits to take the path of development. The Collier’s traps are four: the conflict trap, the resources trap, the trap of being landlocked, the bad governance in a small country. Another killer of growth has been identified with the lack of strong political institutions. The governments should grant the essential requirements and the conditions of prosperity of a civilized society.

It has been made an analysis to identify what are the elements that has permitted to some African states to develop more than others through the study of the Human Development Index (HDI) that is a summary measure of achievements in three key dimensions of human development: health, access to knowledge and decent standard of living.

Compared the macro-regions worldwide, of the six areas defined by the UNDP, only the Sub-Saharan weighted average stands below the cut-off point distinguishing the “low human development” level. This result is not surprising as 88 percent of low human development countries are located in Sub-Saharan Africa.

Almost 75 percent of Sub-Saharan States attained a value for the index below the same threshold of 0.55. What interests more is the difference among the level of development grasped by this index and merely economic indicators, such as GNI per capita. The theory of Paul Collier “the trap of resources” has been confirmed: the countries that relies heavily on non-renewable resources, such as minerals and fuels, tends to have worse development outcomes than other nations. The dynamics of the Human development in Sub-Sahara show in the last decade premises of the “expansion” of the process of convergence.

The aim of the analysis is also to investigate the claims of the researchers on the importance of governance and in particular how the quality of institutions affects the HDI. It has been used the statistical tool of the linear regression that has led the following results: it has been found a meaningful relationships with the CPI and ODA for the level of human development in 2014 in Sub Sahara-Africa, even if the simple regression models do not have great goodness having low level on the coefficient R-squared. Considering the variables FDI and remittances we do not find significant linear relationships in simple regressions. Considering the HDI growth rates placed as a dependent variable we do not find a significant linear relationship with ODA and remittances, nor doing a multiple regression. The final test confirms that there are no

significant relationships between financial flows and changes in HDI. Which emphasizes the key variable: the quality of institutions. This is an important finding that confirms the theory stating that the corrupted governments interfere with the law, discourage investment both domestic and foreign and mainly negatively affect the human development.

The African governments have to reduce the thickness of the borders implementing trade facilitation reforms in order to create greater opportunities to access the global markets and to improve the industry location and competitiveness. Moreover, Africa needs a second round of reforms and a deep structural transformation in order to secure long terms development and a better distribution of benefits coming from growth:

- The transformation of the agricultural sector
- The transformation of illegal market into official market
- The exploitation of communication and banking services as they generate a push to increase further development
- The provision of urbanization and infrastructure reforms
- The setting of international standards to fight against the corruption plague
- The inclusion of the private sector in the international cooperation for the achievement of the Sustainable Development Goals

The increasing role of the private investments in supporting development has been taken into consideration by international institutions since 2002, having set standards on human and labour rights. The African governments, in order to attract the private investments and to facilitate the FDI, should provide stable and predictable business environments with effective policy frameworks and reforms such as competition policy and sustainable financial regulations. In the international scenario there is a boost for the private companies to cooperate through many intervention models for the Sustainable Development Goals achievement in fact, in the real economy they are a major driver of growth because they provide employment opportunities, collaboration with the private companies of the country of origin private sector, health and social benefits for employees and also they provide basic services such as infrastructure necessary to operate abroad. An example is in the Italian government legislation: the law 125/2014 presents some tools to facilitate the participation of the private sector in foreign investment, thereby reinforcing the use of financing instruments.

Pedon Spa, an Italian company operating in the international context, has been studied

as a successful case because has been able to create a business strategy characterized by win-win effect and based on a modern Corporate Social Responsibility.

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