

Achieving sustainable development in Africa through inclusive green growth: leveraging trade potential

The present policy brief is the last in a series of six briefs drawn from the fifth edition of the Sustainable Development Report on Africa, a joint publication of the Economic Commission for Africa (ECA), the Food and Agriculture Organization of the United Nations, the United Nations Environment Programme, the United Nations Industrial Development Organization and the United Nations Development Programme on the theme “achieving sustainable development in Africa through inclusive green growth”. The brief highlights the role of trade in fostering inclusive green growth in Africa.

Trade plays an important role in the world economy and can spur economic growth on the African continent. It reflects the preferences of firms and consumers on the world market, making the environmental and social outcomes of international trade vital to the green economy. Trade can foster inclusive green growth in Africa as countries can expand the goods and services produced, create decent employment opportunities and enhance economic ties with the rest of the world.

Extractives, particularly fossil fuels, raw ores and metals, dominate Africa's exports to the rest of the world. African countries can achieve inclusive green growth within a highly globalized and competitive world market by harnessing their abundant natural resources, which also provide a broad range of benefits across the various sectors of society. Agricultural and non-agricultural products that can satisfy the demands

of environmentally conscious consumers range from eco-friendly household goods to clean and renewable forms of energy.

Potential for and trends in fostering inclusive green growth through trade

For Africa to achieve inclusive green growth within a highly globalized and competitive world market, it must create a strong comparative advantage in producing goods that are green and provide a broad range of benefits across the various sectors of its society. Sectoral reforms can create new opportunities for trade in sustainably produced goods and services. Reforms can allow for the removal of wasteful distortions and the reallocation of resources, resulting in resource-efficient production patterns and more trade. Enhanced trade flows could further reinforce the reallocation of resources, particularly when trade revenues are accessible by the poor, making economic growth broad-based and inclusive.

Sectoral reforms can also spur growth in the economy generally, as costs associated with wasteful resource use are eliminated. This is important for competitiveness in a highly globalized commercial environment. Specific examples of good practices include tapping the trade potential in the renewable energy subsector in Morocco, illustrated in the box below; promoting ecotourism for enhanced trade in Eastern Africa; carbon trading in Kenya and South Africa; and promoting inclusive green growth in the agriculture sector in Rwanda through trade.

Tapping the trade potential in the renewable energy subsector in Morocco

In 2009, as part of its National Renewable Energy and Energy Efficiency Plan, Morocco introduced the Solar Plan, one of the world's largest solar energy projects. The project aims at producing energy sustainably using concentrated solar technologies and photovoltaic systems, with a total installed output of 2,000 MW by 2020.

Solar projects in Morocco, along with a string of planned wind farms along its Atlantic coast, are expected to raise renewable energy production to 42 per cent of its total power supply mix by 2020. The projects are expected to reduce dependence on energy imports and lower energy costs by an estimated \$750 million per year for wind and \$500 million per year for solar. In addition, the projects are expected to establish an industrial infrastructure for solar technologies so that, over time, Moroccan companies will be involved in constructing and exporting solar power technologies. The projects will therefore include training and industry-orientated applied research activities, and will help to preserve the environment by limiting greenhouse gas emissions and contribute to the fight against climate change. The Solar Plan is estimated to reduce greenhouse gas emissions by 9.1 million tons per year.¹

The target is for renewable sources to generate 42 per cent of the installed electrical capacity of Morocco, including 2 GW of solar energy from five large plants, 2 GW of wind energy and 2 GW of hydropower. The Government has committed \$9 billion to the renewables sector, which is heavily financed by investment loans from multilateral institutions, such as the World Bank, the European Union and the African Development Bank. In addition to creating a shift in the country's energy mix, additional electricity distribution business and lower energy costs, the investments in the renewables sector are also expected to create between 13,000 and 35,000 new jobs, depending on the technology deployed, and will transform the country into a net energy exporter.²

Challenges and opportunities

While trade can be a driver of inclusive green growth, some of its dynamics may undermine green economy principles. These include trade openness and wage competitiveness, which often lead to overexploitation of the natural resources base, trade in environmentally sensitive goods and services and misuse of labour. Africa also has the world's lowest level of manufacturing value added as a proportion of GDP and low participation in global value chains in the mineral and metal industry. These may interact with other challenges that

limit the competitiveness of African trade, including: inadequate infrastructure; unreliable electricity supply; low local content limiting downstream and upstream linkages; weak enforcement, compliance monitoring and promotion of national environmental legislation and sustainability frameworks; the vulnerability of agricultural productivity and the agroprocessing manufacturing value chain to the effects of climate change; low technology development and transfer; inadequate capacity and skills in manufacturing; and low value chain development.

Inclusive green growth and the transition to a green economy should provide opportunities for African countries to take control of sustainable economic development and increase trade with the rest of the world. In particular, Africa should earn higher trade returns on sustainably managed natural resources and from correcting the negative effects of trade on the environment. There are enhanced benefits from global value chains and a prevailing momentum for value addition, as promoted by supportive policies and stakeholder groups in many sectors, including agriculture. However, strong political support for regional integration is needed to create opportunities for economies of scale in energy generation and distribution, and other trade investments.

Given the broad range of challenges that various African countries face, no specific set of trade-promoting reforms, policies or strategies would apply to every region. The drivers of the green economy transition in Africa are the same forces that would reinforce Africa's comparative advantage in trading green goods. The role of foreign direct investment in influencing trade should be used to generate further opportunities. The region receives strong support for green projects from multilateral financial institutions, but more needs to be done to unlock opportunities from financial markets. African industries have generally been improving their competitiveness but, given the slow growth and low level of manufacturing value added in trade, the effectiveness of industrial policies should be reassessed. In particular, trade and industrial policies should together drive innovation, technology transfer, adaptive capacities and regional markets, and must increasingly integrate existing and emerging national and international sustainability frameworks.

1. See Economic Commission for Africa, *Inclusive green growth in Morocco: selected cases studies* (Addis Ababa, 2015).
2. See German Development Institute, "Achieving Inclusive Competitiveness in the Emerging Solar Energy Sector in Morocco", (Bonn, 2013). Available from www.die-gdi.de/en/studies/article/achieving-inclusive-competitiveness-in-the-emerging-solar-energy-sector-in-morocco/.

Going forward

Several important policy interventions can promote inclusive green growth in Africa and, depending on a country's openness to trade and global markets, there are important interactions to be considered when designing country-level strategies for inclusive green growth. The transition to an inclusive green economy will require a broad set of reforms and institutional innovations to catalyse and nurture sectoral innovations that are consistent with the vision. The extent to which those reforms are carried out will largely determine whether or not they can encourage trade and openness to global markets without having negative effects on the environment and ecosystems of Africa. Overall, progress towards a greener and more inclusive socioeconomic growth path for Africa can be fostered through trade, if supported by an appropriate combination of policy reforms. The foregoing points to the need for African Governments to:

Foster the comparative advantages of African producers in the production and export of sustainably produced products. This will ensure that trade contributes meaningfully to driving inclusive green growth and the transition to a green economy in Africa.

Ensure the adequate governance of natural resources to prevent the unsustainable extraction of resources that undermine inclusive green-growth efforts. Resource-rich countries should consider establishing mineral revenue stabilization funds to improve the stewardship of resource-based revenues. Countries with favourable agricultural potential should aim at maintaining the natural resources base on which production depends.

Take advantage of the renewed political commitment towards accelerating regional integration and economic transformation. Countries should focus not only on attracting more investment funds, but also on deliberately targeting those investments, which will spur inclusive green growth and benefit the green economy transition. There is a need to further explore opportunities in the carbon market by taking advantage of the huge potential in the renewable energy market.

Remove price distortions to promote the implementation of fiscal reforms, as part of an inclusive green-growth strategy. There is also a need to reduce tariff and non-tariff barriers to further promote intra-Africa trade.

Recognize and leverage the significant contribution of the private sector to economic growth. This can be achieved through innovation, technology transfer and diffusion and by strengthening trade linkages in global value chains to spur inclusive green growth.

Policy briefs of the Economic Commission for Africa (ECA) are based on various analytical work and research on the social and economic development of Africa, carried out at or in collaboration with the Commission. The mandate of ECA is to promote economic and social development and good governance in member States and foster regional integration in Africa.

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