



**OUR COMMON  
INTEREST**

**REPORT OF THE  
COMMISSION FOR  
AFRICA**

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March 2005

# Introduction

## About This Report

This year is of great significance for Africa. In 2005 the world will review progress on a remarkable commitment it made in 2000. The Millennium Development Goals set out to halve world poverty by 2015. But we are now a third of the way to that date and the rich world is falling behind on its pledges to the poor. Nowhere is that more clear than in Africa, where the world is furthest behind in progress to fulfil those solemn promises. If that is to change we must act now.

But all is not gloom. For 2005 is also the year in which it is becoming clear to the outside world that things are changing on the continent – with African governments showing a new vision, both individually and working together through the African Union and its New Partnership for Africa's Development (NEPAD) programme. Africa, at last, looks set to deliver.

A year ago, the British Prime Minister, Tony Blair, brought together 17 people to form a Commission for Africa. We were invited in our individual and personal capacities rather than as representatives of governments or institutions. A majority of us come from Africa and we have varied experience as political leaders, public servants and in the private sector. The task we were set was this: to define the challenges facing Africa, and to provide clear recommendations on how to support the changes needed to reduce poverty.

Our starting point was the recognition that Africa must drive its own development. Rich nations should support that, because it is in our common interest to make the world a more prosperous and secure place – though the international community will contribute to the achievement of these objectives in different ways. But what is clear is that if Africa does not create the right conditions for development, then any amount of outside support will fail.

Our recommendations are based on two things. We carefully studied all the evidence available to find out what is working and what is not. And we consulted extensively, inside and outside Africa, with governments, civil society, the academic world and with those in the public and private sector.

We have met individuals and groups from each region and 49 individual countries in Africa, and from every G8 country, China, India and across Europe. We have received nearly 500 formal submissions and have made a particular effort to engage with the African diaspora. We are enormously grateful to all these individuals and groups for their contributions.

Our report is in two parts. The first, **The Argument**, addresses itself to that wider audience and succinctly sets out our call to action. The second part, **The Analysis and Evidence**, lays out the substance and basis of our recommendations so these can be held up to public scrutiny. Our Recommendations are set out between these two sections.

Our report is written for many audiences. We address ourselves to decision-makers in Africa who must now drive forward the programme of change they have set out. We address ourselves to the rich and powerful nations of the world, whose leaders meet as the G8 in Gleneagles in Scotland in July 2005 where they must take a strong lead for action of a different order. We address ourselves to the international community, which must commit to greater and faster action on the Millennium Development Goals at the United

Nations in September – and must also act boldly at the World Trade Organisation talks in Hong Kong in December.

And we address ourselves to the people of Africa and the world as a whole. For it is they who must demand action. It is only their insistence which will determine whether their political leaders take strong and sustained action.

The measures we propose constitute a coherent package for Africa. They must be delivered together. 2005 is the year to take the decisions that will show we are serious about turning the vision of a strong and prosperous Africa into a reality.

Tony Blair (Chair)

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# Abbreviations

|         |   |           |  |
|---------|---|-----------|--|
| ACP     | African, Caribbean and Pacific countries                  | CPIA      | Country Policy and Institutional Assessment                |
| ADB     | African Development Bank                                  | CSR       | Corporate Social Responsibility                            |
| ADEA    | Association for the Development of Education in Africa    | CWS       | Continental Warning System                                 |
| AECF    | Africa Enterprise Challenge Fund                          | DFID      | UK Department for International Development                |
| AGOA    | African Growth and Opportunities Act                      | DRC       | Democratic Republic of Congo                               |
| AIDS    | Acquired Immune Deficiency Syndrome                       | DTI       | UK Department of Trade and Industry                        |
| AMU     | Arab Maghreb Union  | EAC       | East African Community                                     |
| APCI    | African Productive Capacity Initiative                    | EBA       | Everything-But-Arms  |
| APEC    | Asia Pacific Economic Cooperation                         | ECA       | United Nations Economic Commission for Africa              |
| APRM    | African Peer Review Mechanism                             | ECCAS     | Economic Community of Central African States               |
| ART     | Anti-Retroviral Treatment                                 | ECOSOC    | United Nations Economic and Social Council                 |
| ASF     | African Standby Force                                     | ECOWAS    | Economic Community of Western African States               |
| ATT     | Arms Trade Treaty   | EFA       | Education for All  |
| AU      | African Union   | EIB       | European Investment Bank                                   |
| CAFOD   | Catholic Agency for Overseas Development                  | EITI      | Extractive Industries Transparency Initiative              |
| CAP     | Common Agricultural Policy                                | EPA       | Economic Partnership Agreements                            |
| CEMAC   | Economic and Monetary Community of Central Africa         | EU        | European Union   |
| CEN-SAD | Community of Sahel-Saharan States                         | EUREP-GAP | European Retailers Protocol for Good Agricultural Practice |
| CEPGL   | Economic Community of Great Lake Countries                | FATF      | Financial Action Task Force                                |
| CET     | Common External Tariff                                    | FDI       | Foreign Direct Investment                                  |
| CGIAR   | Consultative Group on International Agricultural Research | FTA       | Free Trade Agreement                                       |
| CHGA    | Commission for HIV/AIDS and governance in Africa          | GATS      | General Agreement on Trade in Services                     |
| COMESA  | Common Market for Eastern and Southern Africa             | GATT      | General Agreement on Tariffs and Trade                     |
|         |   | GAVI      | Global Alliance for Vaccines and Immunization              |

|          |  |          |   |
|----------|--|----------|---|
| GCOS     | Global Climate Observing System                            | IPPF     | Infrastructure Project Preparation Facility   |
| GDP      | Gross Domestic Product                                     | LDC      | Least Developed Country   |
| GER      | Gross Enrolment Rate                                       | LIC      | Low Income Country  |
| GIS      | Geographical Information Systems                           | MCT      | Mother-to-child transition  |
| GNI      | Gross National Income                                      | MDG      | Millennium Development Goal   |
| GNP      | Gross National Product                                     | MFI      | Micro-Finance Institutions  |
| GSB      | Growing Sustainable Business Initiative                    | MFN      | Most-favoured nation  |
| GSP      | Generalised System of Preferences                          | MIGA     | Multilateral Investment Guarantee Agency  |
| HIPC     | Heavily Indebted Poor Countries                            | MIIU     | Municipal Infrastructure Investment Unit  |
| HIPC AAP | Heavily Indebted Poor Countries Assessment and Action Plan | MRU      | Mano River Union  |
| HIV      | Human Immunodeficiency Virus                               | NATO     | North Atlantic Treaty Organisation  |
| HMT      | Her Majesty's Treasury                                     | NEPAD    | New Partnership for Africa's Development  |
| IAC      | InterAcademy Council                                       | NGO      | Non-Governmental Organisation   |
| IBLF     | International Business Leaders Forum                       | NTB      | Non-tariff barrier  |
| ICF      | Investment Climate Facility                                | OAU      | Organisation of African Unity   |
| ICT      | Information and Communication Technology                   | OCHA     | UN Office for the Co-ordination of Humanitarian Affairs                                 |
| IDA      | International Development Association                      | oda      | Official Development Assistance   |
| IDP      | Internally Displaced Person                                | OECD     | Organisation for Economic Co-operation and Development                                  |
| IFF      | International Finance Facility                             | OECD/DAC | Organisation for Economic Co-operation and Development/Development Assistance Committee |
| IFFIm    | International Finance Facility for Immunization            | OED      | Operations Evaluation Department  |
| IFI      | International Financial Institution                        | PARIS21  | Partnership in Statistics for Development in the 21st Century                           |
| IGAD     | Inter-Governmental Authority for Development               | PEFA     | Public Expenditure and Financial Accountability   |
| ILO      | United Nations International Labour Organisation           | PEM      | Public Expenditure Management   |
| IMF      | International Monetary Fund                                | PFM      | Public Financial Management   |
| IOC      | Indian Ocean Commission                                    |          |   |

|        |  |            |   |
|--------|--|------------|---|
| PIDG   | Private Infrastructure Development Group             | UNDP       | United Nations Development Program                                |
| PPIAF  | Public Private Infrastructure Advisory Facility      | UNEP       | United Nations Environment Program                                |
| PPP    | Purchasing Power Parity                              | UNESCO     | United Nations Educational Scientific and Cultural Organisation   |
| PRGF   | Poverty Reduction and Growth Facility                | UNFCCC     | United Nations Framework Convention on Climate Change             |
| PRI    | Political Risk Insurance                             | UNFPA      | United Nations Population Fund                                    |
| PRSP   | Poverty Reduction Strategy Paper                     | UNGA       | United Nations General Assembly                                   |
| REC    | Regional Economic Community (see below)              | UNGASS     | United Nations General Assembly Special Session on HIV/AIDS       |
| ROSC   | Report on the Observance of Standards and Codes      | UN-HABITAT | United Nations Human Settlements Programme                        |
| SACU   | Southern African Custom Union                        | UNHLP      | United Nations High-Level Panel on Threats, Challenges and Change |
| SADC   | Southern African Development Community               | UNICEF     | United Nations Children's Fund                                    |
| SALW   | Small Arms and Light Weapons                         | UNIDO      | United Nations Industrial Development Organisation                |
| SDR    | Special Drawing Rights                               | UPC        | Universal Primary Completion                                      |
| SDT    | Special and Differential Treatment                   | URAA       | Uruguay Round Agreement of Agriculture                            |
| SIDA   | Swedish International Development Cooperation Agency | WAEMU      | West African Economic and Monetary Union (UEMOA)                  |
| SME    | Small and Medium-Sized Enterprises                   | WHO        | World Health Organisation   |
| SPS    | Sanitary and Phytosanitary Standards                 | WSIS       | World Summit on the Information Society                           |
| STAP   | Short Term Action Plan                               | WSSD       | World Summit for Sustainable Development                          |
| SUF    | Slum Upgrading Facility                              | WTO        | World Trade Organisation  |
| SWAP   | Sector Wide Approach                                 | YBI        | Youth Business International                                      |
| TB     | Tuberculosis   | YEN        | Youth Employment Network  |
| TRIPS  | Trade Related Intellectual Property Rights           |            |   |
| UK     | United Kingdom                                       |            |   |
| UN     | United Nations                                       |            |   |
| UNAIDS | Joint United Nations Programme on HIV/AIDS           |            |   |
| UNCAC  | United Nations Convention Against Corruption         |            |   |
| UNCTAD | United Nations Conference on Trade and Development   |            |   |

# Executive Summary

*African poverty and stagnation is the greatest tragedy of our time. Poverty on such a scale demands a forceful response. And Africa – at country, regional, and continental levels – is creating much stronger foundations for tackling its problems. Recent years have seen improvements in economic growth and in governance. But Africa needs more of both if it is to make serious inroads into poverty. To do that requires a partnership between Africa and the developed world which takes full account of Africa's diversity and particular circumstances.*

For its part, Africa must accelerate reform. And the developed world must increase and improve its aid, and stop doing those things which hinder Africa's progress. The developed world has a moral duty – as well as a powerful motive of self-interest – to assist Africa. We believe that now is the time when greater external support can have a major impact and this is a vital moment for the world to get behind Africa's efforts.

The actions proposed by the Commission constitute **a coherent package for Africa**. The problems they address are interlocking. They are vicious circles which reinforce one another. They must be tackled together. To do that Africa requires a comprehensive 'big push' on many fronts at once. Partners must work together to implement this package with commitment, perseverance and speed, each focusing on how they can make the most effective contribution.

## Getting Systems Right: Governance and Capacity-Building

Africa's history over the last fifty years has been blighted by two areas of weakness. These have been **capacity** – the ability to design and deliver policies; and **accountability** – how well a state answers to its people. Improvements in both are first and foremost the responsibility of African countries and people. But action by rich nations is essential too.

Building capacity takes time and commitment. Weak capacity is a matter of poor systems and incentives, poor information, technical inability, untrained staff and lack of money. We recommend that donors make a major investment to improve Africa's capacity, starting with its system of higher education, particularly in science and technology. They must help to build systems and staff in **national** and **local** governments, but also in **pan-African and regional organisations**, particularly the **African Union** and its **NEPAD** programme. Donors must change their behaviour and support the national priorities of African governments rather than allowing their own procedures and special enthusiasms to undermine the building of a country's own capacity.

Improving accountability is the job of African leaders. They can do that by broadening the participation of ordinary people in government processes, in part by strengthening institutions like **parliaments, local authorities, trades unions, the justice system and the media**. Donors can help with this. They can also help build **accountable budgetary processes** so that the people of Africa can see how money is raised and where it is going. That kind of **transparency** can help combat **corruption**, which African governments must root out. Developed nations can help in this too. Money and state assets stolen from the people of Africa by corrupt leaders must be repatriated. Foreign banks must be obliged by law to inform on suspicious accounts. Those who give bribes should be dealt with too; and foreign companies involved in oil, minerals and other extractive industries must make their payments much more open to public scrutiny. Firms who bribe should be refused export credits.

Without progress in governance, all other reforms will have limited impact.

## The Need for Peace and Security

The most extreme breakdown of governance is war. Africa has experienced more violent conflict than any other continent in the last four decades. In recent years things have improved in many countries, but in other places violent conflict is still the biggest single obstacle to development. Investing in development is investing in peace.

The most effective way to tackle conflict – to save both lives and money – is to build the capacity of African states and societies to **prevent and manage conflict**. That means using aid better to tackle the causes of conflict. It means improving the management of government incomes from natural resources and international agreements on how to control the 'conflict resources' which fuel or fund hostilities. It means controlling the trade in small arms.

**African regional organisations and the UN** can help prevent and resolve conflict when tensions cannot be managed at the national level, through, for example, effective **early warning, mediation and peacekeeping**. Donors can support this by providing flexible funding to the African Union and the continent's regional organisations; and supporting the creation of a UN Peacebuilding Commission. The co-ordination and financing of **post-conflict peacebuilding and development** must be improved to prevent states emerging from violent conflict from sliding back into it.

## Leaving No-One Out: Investing in People

Poverty is more than just a lack of material things. Poor people are excluded from decision-making and from the basic services the state ought to provide. Schools and clinics must be available to the poorest people in Africa. This is an urgent matter of basic human rights and social justice. But it is also sound economics: a healthy and skilled workforce is a more productive one, fulfilling their potential with dignity. Investing for economic growth means rebuilding African health and education systems, many of which are now on the point of collapse. This requires major funding, but it is not only a question of resources. It is also about delivery and results. These are powerfully strengthened when local communities are involved in decisions that affect them.

Properly funding the international community's commitment to Education for All will provide all girls and boys in sub-Saharan Africa with access to **basic education** to equip them with skills for contemporary Africa. Secondary, higher and vocational education, adult learning, and teacher training should also be supported within a balanced overall education system. Donors need to pay what is needed to deliver their promises – including the cost of removing primary school fees.

The elimination of preventable diseases in Africa depends above all on **rebuilding systems to deliver public health services** in order to tackle diseases such as TB and malaria effectively. This will involve major investment in staff, training, the development of new medicines, better sexual and reproductive health services and the removal of fees paid by patients, until countries can afford it. Funding for **water supply and sanitation** should be immediately increased, reversing years of decline.

Top priority must be given to scaling up the services needed to deal with the catastrophe of **HIV and AIDS** which is killing more people in Africa than anywhere else in the world. But this must be done through existing systems, rather than parallel new ones. Governments should also be supported to protect orphans and vulnerable children and other groups who would otherwise be left out of the growth story. Almost half of the extra aid we are recommending should be spent on health, education and HIV and AIDS.

## Going for Growth and Poverty Reduction

Africa is poor, ultimately, because its economy has not grown. The public and private sectors need to work together to create a climate which unleashes the entrepreneurship of the peoples of Africa, generates employment and encourages individuals and firms, domestic and foreign, to invest. Changes in governance are needed to make the **investment climate** stronger. The developed world must support the African Union's NEPAD programme to build public/private partnerships in order to create a stronger climate for growth, investment and jobs.

Growth will also require a massive investment in infrastructure to break down the internal barriers that hold Africa back. Donors should fund a **doubling of spending on infrastructure** – from rural roads and small-scale irrigation to regional highways, railways, larger power projects and Information & Communications Technology (ICT). That investment must include both rural development and slum upgrading without which the poor people in Africa will not be able to participate in growth. And policies for growth must actively include – and take care not to exclude – the poorest groups. There should be particular emphasis on **agriculture** and on helping **small enterprises**, with a particular focus on **women** and **young people**. For growth to be sustainable, safeguarding the **environment** and addressing the risks of **climate change** should be integral to donor and government programmes. This programme for growth takes over a third of the total additional resources we propose.

## More Trade and Fairer Trade

Africa faces two major constraints on trade. It does not produce enough goods, of the right quality or price, to enable it to break into world markets. And it faces indefensible trade barriers which, directly or indirectly, tax its goods as they enter the markets of developed countries.

To improve its **capacity to trade** Africa needs to make changes internally. It must improve its transport infrastructure to make goods cheaper to move. It must reduce and simplify the tariff systems between one African country and another. It must reform excessive bureaucracy, cumbersome customs procedures, and corruption by public servants, wherever these exist. It must make it easier to set up businesses. It must improve economic integration within the continent's regional economic communities. Donors can help fund these changes.

But the rich nations must also dismantle the barriers they have erected against African goods, particularly in agriculture. These barriers hurt citizens in both rich and poor countries. They must abolish trade-distorting **subsidies** to their agriculture and agribusiness which give them an unfair advantage over poor African farmers. They must lower **tariffs** and other **non-tariff barriers** to African products, including stopping the bureaucratic application of rules of origin which excludes African goods from preferences to which they are entitled. And they must show this ambition by completing the current Doha Round of world trade talks in a way which does not demand reciprocal concessions from poor African nations. Careful attention must be given to ensure that the poorest people are helped to take advantage of the new opportunities and to cope with the impacts of a more open system of world trade. Africa must be provided with the funds that can help it **adjust** to the new opportunities of a changed world trading regime.

## Where Will the Money Come From: Resources

To support the changes that have begun in Africa, we call for an **additional US\$25 billion per year** in aid, to be implemented by 2010. Donor countries should commit immediately to provide their fair share of this. Subject to a review of progress then, there would be a second stage, with **a further US\$25 billion a year** to be implemented by 2015. Ensuring the money is well-spent will depend on two factors. First, **good governance** in Africa must continue to advance. But, second, donors must significantly improve **the quality of aid** and how it is delivered: that means more grants, more predictable and untied aid, and donor processes that are less burdensome on the already stretched administrations of African countries. It must also be better harmonised with the aid of other donors and better in line with the priorities, procedures and systems of African governments. Above all, it must be given in ways that make governments answerable primarily to their own people.

These changes are needed not just from individual donor nations but also from **multilateral institutions** – both African and global. The African Development Bank needs to be strengthened and the role of the Economic Commission for Africa enhanced. The IMF and World Bank need to give higher priority to Africa's development. They also need to become more accountable both to their shareholders and to their clients, and to give Africa a stronger voice in their decision-making.

Rich nations should commit to a timetable for giving 0.7 per cent of their annual income in aid. To provide the critical mass of aid which is needed now, the aid should be **front-loaded** through the immediate implementation of the International Finance Facility. Practical proposals should be developed for innovative financing methods such as international levies on aviation, which can help secure funding for the medium and longer term.



For poor countries in sub-Saharan Africa which need it, the objective must be 100 per cent debt cancellation as soon as possible. This must be part of a financing package for these countries – including those excluded from current debt schemes – to achieve the MDGs, as promised in Monterrey and Kananaskis.

## Conclusion

Bold comprehensive action on a scale needed to meet the challenges can only be done through **a new kind of partnership**. In the past contractual and conditional approaches were tried, and failed. What we are suggesting is a new kind of development, based on **mutual respect and solidarity**, and rooted in a sound **analysis of what actually works**. This can speed up progress, building on recent positive developments in Africa, towards a just world of which Africa is an integral part.

# Part 1

## The Argument



# The Argument

***Xamul aay na, laajtewul a ko raw.  
Not to know is bad. Not to wish to know is worse.***

*Igbo Proverb*

***Batta li a ifi ise agoura li arin egun.  
With shoes, one can walk on thorns***

*Yoruba Proverb*

The world is awash with wealth, and on a scale which has never been seen before in human history. Unlike the opulence of the past, which belonged to a handful of privileged individuals and elites, this wealth is shared by unprecedented numbers of ordinary people across the planet. Growth and globalisation have brought higher living standards to billions of men and women.

Yet it is not a wealth which everyone enjoys. In Africa millions of people live each day in abject poverty and squalor. Children are hungry, their bodies stunted and deformed by malnutrition. They cannot read or write. They are needlessly ill. They have to drink dirty water. Those living in Africa's mushrooming shanty towns live by stinking rubbish tips and breathe polluted air.

We live in a world where new medicines and medical techniques have eradicated many of the diseases and ailments which plagued the rich world. Yet in Africa some four million children under the age of five die each year, two-thirds of them from illnesses which cost very little to treat<sup>1</sup>: malaria is the biggest single killer of African children, and half those deaths could be avoided if their parents had access to diagnosis and drugs that cost not much more than US\$1 a dose<sup>2</sup>.

We live in a world where scientists can map the human genome and have developed the technology even to clone a human being. Yet in Africa we allow more than 250,000 women to die each year from complications in pregnancy or childbirth.

We live in a world where the internet in the blink of an eye can transfer more information than any human brain could hold. Yet in Africa each day some 40 million children are not able to go school.

We live in a world which, faced by one of the most devastating diseases ever seen, AIDS, has developed the anti-retroviral drugs to control its advance. Yet in Africa, where 25 million people are infected, those drugs are not made generally available. That means two million people will die of AIDS this year. In Zambia, by 2010 every third child will be an orphan.

We live in a world where rich nations spend as much as the entire income of all the people in Africa subsidising the unnecessary production of unwanted food – to the tune of almost US\$1 billion a day. While in Africa hunger is a key factor in more deaths than all the continent's infectious diseases put together.

<sup>1</sup> Sources for the facts quoted in this section can be found in Part 2 of this report.

We live in a world where every cow in Europe has received almost US\$2 a day in subsidies – double, grotesquely, the average income in Africa. And Japanese cows nearly US\$4.

The contrast between the lives led by those who live in rich countries and poor people in Africa is the greatest scandal of our age. To convey the enormity of that injustice we speak in millions – and yet we have to remember that behind each statistic lies a child who is precious and loved. Every day that child, and thousands like her, will struggle for breath – and for life – and tragically and painfully lose that fight.

Globalisation must also mean justice on a global scale. The people of the world have an instinctive urge to help those in distress. The response to the tsunami which devastated the rim of the Indian Ocean showed that. More than 300,000 died when the most devastating earthquake of modern times sent a gigantic wave across the seas, destroying everything in its path when it hit the shore. It was an event of peculiarly dramatic horror and the people of the world reacted with spontaneous donations of cash on a scale which had never before been seen.

There is a tsunami every month in Africa. But its deadly tide of disease and hunger steals silently and secretly across the continent. It is not dramatic, and it rarely makes the television news. Its victims die quietly, out of sight, hidden in their pitiful homes. But they perish in the same numbers.

The eyes of the world may be averted from their routine suffering, but the eyes of history are upon us. In years to come, future generations will look back, and wonder how could our world have known and failed to act?

## **Everyone knows what Africa needs. . .**

When the British Prime Minister, Tony Blair, launched this Commission many people responded: "Why do we need a Commission? Surely everyone knows what Africa needs!" So we asked people to tell us. We held consultations across Africa and in the major cities of the rich world. We have examined the vast wealth of analysis of the last 50 years, and the mistakes which have been highlighted in aid, development and economic management. As a result we are now in a much better position to say what works and what does not, and to learn from those past failures and successes. Our report is evidence-based and pragmatic, with proposals which are based on sound analytical and practical arguments and evidence.

We have also done our best to be blisteringly honest. We write as 17 Commissioners, the majority of whom are Africans, but who include individuals from some of the world's richest countries, and we have done our best to face up to unpalatable truths wherever we have found them.

We have been frank about corruption, incompetence and conflict in Africa. And we have been direct in our criticisms of developed nations. Their trade policies are skewed to benefit the rich without consideration for the poor. They have been historically reluctant to lift the onerous debts which add to Africa's daily burden. And their aid policies have often seemed designed to support the political and industrial interests of the rich countries as much as to reduce poverty in Africa. Too much of the history of the industrialised world's involvement in Africa is a miserable history of broken promises.

It is not all a story of blame. We also address the natural disadvantages which are the legacy of Africa's geography, climate and history, and look at what both Africa and the industrialised world can do to help overcome that. And we have also taken into consideration the huge changes in the world's economy and politics which have taken place in the two decades since the Ethiopian famine of 1984/5, when Live Aid broadcast

pictures of famine, death and poverty to a staggering 98 per cent of the world's television sets. Those images fixed the world in its view of Africa as a place of despair and dependency. But, though such scenes still exist, as a norm they are increasingly outdated. Things have changed significantly in the intervening 20 years, both in Africa and in the wider world.

For a start the Cold War is over and with it the superpowers' tendency to back corrupt dictators who manipulated Africa's wealth with no thought for economic development or the continent's poorest people – and reinforced the view that aid is commonly wasted or does not work. In South Africa, apartheid has crumbled, a transformation which has brought a new confidence to the whole of the continent. The end of apartheid has reminded Africa, and the world, that no injustice can last for ever. More darkly, the events in New York and Washington on September 11th 2001 have caused many in the rich world to reflect on the relationship between global poverty and homeland security. What happens to the poorest citizen in the poorest country can directly affect the richest citizen in the richest country. "If a free society cannot help the many who are poor," as the US President John F Kennedy once said, "it cannot save the few who are rich". Take all that together and this document becomes a declaration of our common interest.

Now more than ever we rely on each other not just for our sustenance but for our safety and security. As President George W Bush has said: "Persistent poverty and oppression can lead to hopelessness and despair. And when governments fail to meet the most basic needs of their people, these failed states can become havens for terror... in many states around the world, poverty prevents governments from controlling their borders, policing their territory, and enforcing their laws. Development provides the resources to build hope and prosperity, and security". Today the fortunes of the richest people in the richest countries are tied irrevocably to the fate of the poorest people in the poorest countries of the world, even though they are strangers and will never meet.

Nor are the changes over. Shifts in patterns of oil production and consumption mean that the United States is poised to take as much as 25 per cent of its oil from Africa within the next 10 years. On the world stage, Asia – and particularly the giants of China and India – is emerging as a major economic power. Chinese investments and business interests, for example, are now to be found all across Africa. In different parts of the globe the industrial age has been in many respects leap-frogged by the information revolution, the complete implications of which the world has yet to fully comprehend. All of this means that the time is ripe to look again at the part which the developed world can play in assisting Africa in its development.

We try in this report to tell a story. It is inevitably a complex story, for many of the issues impact on one another and cannot sensibly be addressed in isolation. The path we pick through this thicket of interactions is this. We begin by telling the world how the problem looks through African eyes, for the cultures of the continent are all too easily brushed aside in the rush to offer pre-packaged solutions from the developed world. Then we look at how Africa has to change in the areas of governance and peace and security, and how the industrialised world must change its behaviour too. We look at what is needed to help people, most particularly their health and education, and how to make sure that the poorest people are included in the economy and society. We consider the central issue of how to make African economies grow and, again, how to ensure that poor people can participate in, and benefit from, that growth; policy makers must always consider the impact of policies on poor people. Then we look at trade, to discover what are the impediments to Africa selling more abroad, and how these can be removed. Then we look at the relationships between Africa and the rich world, in terms of trade, aid and debt – and how donors must change the way they do their business in Africa. In each of these

areas we make specific recommendations, which are introduced here and spelled out in more detail in Part Two of our report. We conclude by turning our attention to how we can make our recommendations really happen – and monitor that they are properly implemented.

In all this we insist on the need for Africa's voice to be heard more clearly. And we underscore that the first responsibility for change and improved governance lies with Africans themselves, in which the rich world has a moral duty – as well as a powerful motive of self-interest – to assist.

## **Something new out of Africa**

Our starting point is to tell the truth about Africa. That means we must point to successes as well as failures. In one African country after another the first signs are emerging that things may be changing. Twenty years ago it was commonplace for African countries to be run as dictatorships; today such governments are a minority. Democracy has new life. In the past five years, more than two-thirds of the countries in sub-Saharan Africa have had multi-party elections – some freer and fairer than others – with a number of examples of peaceful democratic changes of government. War has given way to peace in many places.

Where change has occurred a new generation of political leaders is emerging, many of whom voice a new commitment to the common good of the people. They seem set on reforming Africa's institutions too. The old Organisation for African Unity, with its policy of 'non-interference' in the internal affairs of other African states, has been transformed into the much stronger African Union which has a policy of "non-indifference" to the suffering of the citizens in neighbouring countries who do not respect democracy, human rights and the need for peace. They have set up, as an arm of the African Union, a programme entitled the New Partnership for Africa's Development (NEPAD), which sees better government as an essential pre-requisite to Africa's development. They have adopted an African Peer Review Mechanism to discover what policies and government systems have been shown to be most effective elsewhere. All these initiatives and bodies have still to prove their worth, but the first signs are encouraging. Backing now from the international community could make the difference on whether they succeed or fail.

In Africa, as elsewhere, there is a powerful link between political and economic development. Despite three decades of overall continental stagnation, growth exceeded 5 per cent in 24 separate countries in sub-Saharan Africa in 2003. A new entrepreneurship is in evidence and in several countries there is a growing middle class. A rich variety of pressure groups and community organisations are beginning to change the world around them and learning how to hold their governments to account. Also striking is the role of Africans living in the developed world. The flow of cash back home to Africa from relatives abroad is still low, compared with other developing regions, but it has increased dramatically in recent years. Everywhere there are the first signs of what could be a real momentum for change.

Of course, there are still oppressive regimes in Africa. Corruption remains pervasive. Violent conflict is all too frequent. Inefficiency and waste and unnecessary bureaucracy are commonplace. Many nations lack the administrative and organisational capacity to deliver what their citizens require and deserve. But there is a new optimism abroad. More than half of the Africans interviewed by the polling organisation Afrobarometer expect their national economy to get 'better' or 'much better' in the year ahead. And the BBC World Services's Pulse of Africa survey found that in nearly every country at least 9 in 10 are proud to be African. There is also an increasing recognition that the responsibility to

tackle all this lies squarely with Africans themselves. As the African winner of the Nobel Peace Prize, Wangari Maathai, said in her acceptance speech in December 2004:

***"Let us...intensify our commitment to our people, to reduce conflicts and poverty and thereby improve their quality of life. Let us embrace democratic governance, protect human rights and protect our environment. I am confident we shall rise to the occasion. I have always believed that solutions to most of our problems must come from us. "***

It is changes on the ground, like these, which have inspired us as Commissioners with the conviction that a singular moment has arrived for Africa. The challenge, for both Africans and their partners among developed nations, is to seize the new opportunity which change on the ground presents. Africa is at a crossroads. The path to the future for many African countries could drop inexorably down. Or it could continue the long slow climb to a better place. What we hope our report offers is a chart which will help take Africa on the upward path. But to follow it will require bold decisions from Africans and supportive action from the rest of the world.

## The lost decades

When the sun began to set on Europe's foreign empires, and former colonies across the globe began in the 1960s to prepare themselves for independence, nobody was that worried about Africa. The anxiety was all for Asia. After all Africa was a place of great mineral riches and vast agricultural fecundity. Asia, by contrast, seemed to have only problems and population. All the doomsday scenarios were centred in India and points east.

That was barely four decades ago. Today Africa is the poorest region in the world. Half of the population live on less than one dollar a day. Life expectancy is actually falling. People live, on average, to the age of just 46. In India and Bangladesh, by contrast, that figure is now a staggering 17 years higher.

Comparisons between Africa and Asia are revealing. For 30 years ago the average income in sub-Saharan Africa was twice that of both South and East Asia. In the intervening decades an astonishing turnaround has taken place. The average income in Africa is now well below half of that in East Asia. The story is similar in South Asia, Latin America and the Middle East. Africa is the only continent in the world which is stagnating. Why has Africa fallen so far behind?

In one sense its blessings proved also to be a curse. For the history of the past four decades reveals that the countries with the most oil, diamonds and other high-value natural resources are among those which have experienced the most war and armed conflict. Conflict is one of Africa's classic vicious circles. There can be no development without peace, but there can be no peace without development.

But Africa's great wealth provided it with a more systemic problem. The railways and roads put in place in colonial times were primarily designed to transport minerals and other raw materials from the African interior to its ports for shipping to Europe. They were not designed to join one part of the continent to another or generate more links to the East. Setting a map of African railways alongside those of India is very revealing: India's railways link the sub-continent; Africa's merely link areas of extraction to the ports. Today Africa's transport costs – local, national, or international – are today around twice as high as those for a typical Asian country. Shipping a car from Japan to Abidjan costs US\$1,500, whereas moving it from Abidjan to Addis Ababa costs US\$5,000.

The colonial era brought other problems. The division of Africa into its present countries was the product of Western interests not African minds. The lines drawn on a map by the

great European powers in Berlin in 1884 still have profoundly disruptive consequences. Many traditional communities of people are now divided between two, three or even four countries. Elsewhere disparate groups, some of whom were traditional enemies, are yoked together in uneasy union, many of them lacking a common language with which to speak to one another. Colonialism favoured some groups over others, creating new hierarchies. The consequences of some of these divisions are alive today, as was all too readily shown in Rwanda in the relationship between Hutu and Tutsi whose "ethnic" differences were sharpened artificially during the colonial era, with such terrible consequences in the genocide of 1994.

"Let them each have a big mountain," Queen Victoria is reported to have loftily pronounced when considering the division of land between what is now Kenya and Tanzania. The result is that many modern African states lack any natural geographic, ethnic, political or economic coherence. By contrast to the Indian sub-continent, where an effective administrative system was established, Africa was poorly served. Africa emerged from the colonial era with far weaker governance structures and infrastructure than other ex-colonies. Political borders have become economic barriers.

The legacy of all this is that Africa had a very weak starting point in the race for development. Even so in the 1960s, in the early years following independence, average incomes in Africa grew. It is no coincidence that, when the problems of the 1970s set in, the income of the average African declined. In that decade Africa became one of the battlegrounds on which the proxy conflicts of the Cold War were fought. Both sides backed venal despots who were less interested in developing their national economies than in looting the assets of the countries they ran and then stashed away billions of US dollars in their private Swiss bank accounts.

That decade only reinforced Africa's problems. While South Asia was busy expanding the area of land under irrigation, Africa's proportion of irrigated land hardly changed; over the last 20 years it has remained at around four per cent whilst South Asia's has risen to 40 per cent. Asia invested in rural roads and power, new crops, and science and technology. Africa fell behind there too.

One of the key failures of this period was not beginning to diversify African economies away from reliance on their key primary commodities. Today most African countries still rely on a very narrow range of exports. This leaves them highly vulnerable to long-term decline in the price of what they sell and to wild fluctuations in the world price of such commodities. From 1980 to 2000, the price of sugar fell by 77 per cent, cocoa by 71 per cent, coffee by 64 per cent and cotton by 47 per cent. Africa's export prices are nearly four times more volatile than those of developed countries.

Again comparisons with Asia are greatly to Africa's disadvantage. The last twenty years has seen a huge change in developing countries. The proportion of manufactured goods in their exports has risen from just 20 per cent to a staggering 80 per cent. Asia has led the way. It has developed the industrial infrastructure, skills and learning culture which Africa lacks. The task of breaking into new markets is now harder for Africa than ever before. Another vicious circle.

All this has had a knock-on effect. Investors, both domestic and foreign, see Africa as an undifferentiated whole – war in one country casts long shadows not just over neighbouring states but over the whole continent. As a result Africa seems to many outsiders an unattractive place in which to invest or keep their money. And what money is made in Africa is encouraged to flow out. Around 40 per cent of African savings are kept outside the continent, compared with just six per cent for East Asia and three per cent for South Asia. What is true of money is also true of people. Many educated Africans have over the years



quit their homelands because they are frustrated at not being able to put their skills to good use. They can also earn more and have a better life elsewhere. Africa loses an average of 70,000 skilled personnel a year to developed countries in this brain drain. Zambia has lost all but 400 of its 1,600 doctors in recent years.

A healthy and skilled workforce is vital to the success of any economic activity. Healthcare and education are the birthrights of every child but they are also essential for the health of the nation. Countries cannot develop properly if only elites are educated. Countries with poor health and low levels of education find it more difficult to achieve economic growth.

Here again Africa's record on human development is poor compared to that of East and South Asia. The decades in which Asia was investing, the 1970s and 1980s, were the years of crisis when African governments were slashing the budgets of both clinics and schools at the behest of the International Monetary Fund. Evidence shows that IMF and World Bank economic policy in the 1980s and early 1990s took little account of how these policies would potentially impact on poor people in Africa. Many health and education systems began to break down. And all of this came just as AIDS began to take its deadly toll. All this illustrates another of the vicious circles so typical of poverty traps. Without functioning clinics and schools a healthy and skilled workforce is harder to achieve; without such a workforce one of the key conditions for creating economic growth is removed; without economic growth there is no money to invest in clinics and schools.

Africa's problem is that all these vicious circles interlock. That is why tackling them requires strong action in all these areas at the same time.

### **Africa's relationship with the rich world**

Three sometimes contradictory dynamics dominate the relationship between Africa and the industrialised nations: they involve trade, debt and aid. In the last few decades, Africa has seen its share of world trade fall from six per cent in 1980 to less than 2 per cent in 2002. The industrialised world has been unhelpful here. Indeed it has been a wilful obstacle. The European Union, Japan, the United States and many other rich countries all heavily subsidise their agriculture, which then depresses world prices in the subsidised commodities. Local farmers then find that they cannot produce crops at prices which compete with products so heavily funded by taxpayers in G8 nations. Poor countries have complained to the World Trade Organisation about this and had their complaints upheld. But reform of the EU's Common Agricultural Policy and US farm policy is painfully slow. Indeed the amount the developed world spent just subsidising its agriculture – much of which goes to big agribusiness – was in 2002 the equivalent of the income of all the people in sub-Saharan Africa put together.

That is far from the only problem with trade. Developed nations place taxes on goods exported to them; agricultural produce imported into Europe, for example, must pay an average tariff of 22 per cent. There is a whole variety of such barriers on products of interest to Africa; for instance, tariffs on peanuts coming into the US are 132 per cent. Some of these barriers have been reduced over the years but new barriers have been introduced. These indefensible trade barriers must go; though as we shall see, these are not the only impediment to trade for Africa. Finally, African economic policy relating to trade, such as moves to liberalise sectors of the economy, is too often a condition of receiving aid from donors. If they are to be accountable to their own citizens African governments have to be allowed the space to make their own decisions.

The second problematic area in the relationship between Africa and the developed world is that of debt. There is strong resentment in many parts of Africa over these debt obligations, in part because much of the debt was incurred by unelected leaders

supported by the very countries now receiving money to cover the service of those debts – and who, many Africans feel, are now using debt as a lever to dictate policy to the continent. There is a widespread feeling that the debts are unreasonable and that what was owed has in practice already been paid many times over.

Over the years Africa has had difficulty in paying off the interest – let alone the capital – on these debts. Even after various rounds of debt reduction, sub-Saharan Africa still pays out more on debt service than it spends on health (around three per cent of its annual income). For every US\$2 Africa currently receives in aid, it pays back nearly US\$1 in debt payments.

The third key area in the relationship of Africa with the rich world is that of aid. In some quarters there is much scepticism about aid. It is seen as ineffective, stolen or wasted. There is no doubt that this has been the case in the past, for example in Mobutu's Zaire. There is also no doubt that some countries have not had the capacity to handle aid effectively. But the evidence on the effectiveness of aid, which we have examined very carefully, shows that it is simply untrue that aid to Africa has been wasted in more recent years.

Strong lessons have been learned and Africa is changing. But there are areas in which African governments must accelerate that change before extra aid can yield its full potential. In addition international donors must seriously improve the way aid is delivered. This report will recommend fundamental changes in the behaviour of African countries, rich countries and in the relationship between them.

## **The key issue of governance**

One thing underlies all the difficulties caused by the interactions of Africa's history over the past 40 years. It is the weakness of governance and the absence of an effective state. By governance we mean the inability of government and the public services to create the right economic, social and legal framework which will encourage economic growth and allow poor people to participate in it. All the evidence shows that reductions in poverty do not come without economic growth. But as any gardener will testify, growth will not occur unless the right conditions are in place. Horticulturally that will be the right soil and temperature and water and light in appropriate amounts. Economically, since growth is driven principally by the private sector, that requires governments to provide a climate in which ordinary people – whether they be small farmers or managers of larger firms – can get on with their daily tasks untroubled, and feel that it is worthwhile investing in their future. That climate is what is consistently lacking right across Africa.

At the heart of the proper function of government is establishing an economic environment that encourages investment. That means basic functions such as providing security, setting sound economic policies under the law, collecting taxes and delivering adequate public services like health and education. It means seeing that physical infrastructure is in place – roads, railways, water, electricity and telecommunications. But there are also more abstract forms of infrastructure, such as legal systems to protect basic property rights, human rights, and respect for contracts, to uphold order and to act as a check on governments.

This function extends beyond the direct business of government into a wider area of governance. It is about ensuring that other institutions are in place: an independent judiciary, an effective impartial police and prison system, and a wide range of financial and regulatory systems such as central banks, land registries, and bodies to administer ports and customs posts. All these require skilled public servants and managers, at national and at local government level. And they in turn need training, as well as basic equipment such as the tools of keeping records, files, accounting systems, telephones and computers.

Without all that the capacity of governments in the modern world to do their job is sorely constrained.

It is those governance systems, and the capacity to make them work, which Africa so badly lacks. And, to achieve that, government processes have to be properly open to scrutiny. Knowing what money has been received, and how it is meant to be spent, gives citizens the means to hold governments to account.

The issue of good governance and capacity-building is what we believe lies at the core of all of Africa's problems. Until that is in place Africa will be doomed to continue its economic stagnation.

## Why now?

The long history of Africa's decline might lead some people to suggest that there can be no urgency about taking radical action. The opposite is the case. Africa cannot wait. The plan we set out here needs action now.

The most obvious reason for immediacy is that across Africa people are needlessly dying every day. Deep levels of deprivation mean continued human suffering. Common human decency insists that delay cannot be an option.

But there are other reasons. We are storing up trouble for the future. The longer Africa's problems are left unaddressed the worse they will get. The contagion of AIDS will multiply if it is left unchecked. So too will diseases like tuberculosis, which spreads like the common cold and which is currently moving across the continent at the rate of one person per second. Poverty leads to actions for short-term survival, such as selling assets or cutting down trees, which often undermine conditions for future recovery. Irreversible damage is being done to the natural environment, threatening future food supplies.

The huge slum cities of Africa are growing apace, day by day, unplanned, and in ways which threaten serious social tensions in years to come. This chaotic urbanisation is a classic example of the costs of delay. The population of Africa is exploding. Some 37 per cent of Africans now live in cities and that figure will rise to more than 50 per cent over the next 20 years. On present trends Africa will be, by 2030, an urban continent. Already 166 million people live in slums. Living conditions there are made worse by the lack of access to water, sewage, electricity, refuse collection or other municipal services by local authorities ill-equipped, or unwilling, to address them. In cities like Nairobi 60 per cent of the people live on just five per cent of the land. And these slums are filled with an increasingly youthful population, unemployed and disaffected. Africa's cities are becoming a powderkeg of potential instability and discontent.

Yet, as with all these problems, early action can help to manage these trends. When girls are educated, when incomes rise, when reproductive healthcare is available, and when parents know that the rate of child mortality is falling, then birth rates slow. All these things can be comparatively rapidly achieved, as the history of Bangladesh and India has shown.

Inaction brings another danger. Those new African leaders who are committed to change have put in place reforms – on the economy and on combating corruption – that have been politically difficult. Those leaders could be evicted from office if their people do not see returns. That might mean some of the changes which are set to improve life in Africa in the medium to long term could be reversed. Other leaders might be deterred from venturing down that same path. That is why supportive action by the developed world is urgent.

Africa today has its best opportunity for change for decades. But the future is finely balanced. The rich world now has the chance to tip that balance towards the possibility of

success and away from the likelihood of failure. The risks from delay far outweigh the risks of acting strongly and swiftly.

## Through African eyes

Ask the big question: 'What is development for?' and you get very different answers in different cultures. Many in Western countries see it as being about places like Africa 'catching up' with the developed world. In Africa, by contrast, you will be more likely to be told something to do with well-being, happiness and membership of a community. In the West development is about increasing choice for individuals; in Africa it is more about increasing human dignity within a community. Unless those who shape Africa's development make this integral to the way they formulate their policies they will fail.

The trouble is that in the debate on development, though we all use the same terms, we often don't mean the same thing by them. Different cultures manifest their ideas of political and economic freedom in very different ways. For this reason the Commission decided to consider the issue of culture before embarking on political and economic analysis. By culture we are talking about far more than literature, music, dance, art, sculpture, theatre, film and sport. All of these, of course, are for any social group part of its shared joy in the business of being alive. But culture is more than the arts. It is about shared patterns of identity. It is about how social values are transmitted and individuals are made to be part of a society. Culture is how the past interacts with the future.

Africa's past is one in which, in pre-colonial times, people grouped themselves through clans. Their culture was strong on kinship ties and a sense that the members of the group were responsible for and to one another. Many of these features, such as the relationship between elders and non-elders, persist today. Not least here is the 'big man' culture which requires a successful member of the clan to offer patronage to other members – a phenomenon which is rarely taken with sufficient seriousness by development policy-makers. Patron-client relations should not be dismissed as temptations to nepotism and corruption; they reveal something about African senses of community.

Culture in this sense is not some bolt-on extra. It has to be built into our understanding, our analysis and our process. That is one of the reasons why, from the outset, we insisted that the Commission for Africa must consult as widely as possible, within Africa as well as within the developed world. As one of our Commissioners, Trevor Manuel, South Africa's finance minister, put it, quoting an African proverb: "Until the lions have spoken the only history will be that of the hunters". The consultation we launched had participants who ranged from east African slum dwellers and women from rural West Africa to the top elected and unelected decision-makers in Africa and the rich world. We asked them all the same question: what is actually working across the continent, and what is not?

Time and again two messages were reinforced to us. The first was of the need to recognise Africa's huge diversity. The second largest continent in the world, it contains more than 50 countries which hold an enormously rich mix of peoples, cultures, economies, history and geographies. Africa is many places, as is reflected in the French expression *les Afriques*. This means that there can be no "one size fits all" solutions.

The second message was that Africa's strength lies in social networks which are invisible to many outsiders. What can appear to donors as a form of anarchy is in fact structured; it is just that these are structures which Westerners are not trained to perceive. Africans survive – and some prosper – in the face of low incomes and few jobs in the formal economy. They do so using a complex network of social relations that make decisions about who gets start-up capital for small enterprises or interest-free loans in emergencies. These networks may be informal but they reveal how African people will get involved in activities where they can see purpose and direction.

What is also clear is that, in many places, such networks are seen as alternatives to the state. That is most obviously true in places like Somalia where the state has completely collapsed. But all across Africa there are 'failed states' in the sense that they are unable to provide the basic legal and economic frameworks, or public services like health and education, which citizens expect. There is a widespread cynicism with politicians. In the Wolof language the word *politig* has come to mean lying or deception. Voters have become disillusioned. Turnout is in decline in elections all across Africa.

For too many, perhaps a majority, the state is an irrelevance or a burden. For them their primary loyalty remains with the family, clan or tribe. Increasingly, though, something else is moving into the vacuum. It is religion. Religion has always been important in Africa but at present all across Africa people are converting in large numbers to Christianity, often in its more evangelical manifestations, and to Islam most particularly in the puritan Wahhabi form, encouraged by money from Saudi Arabia. There is also a big revival in traditional African religions including secret initiation societies. Where the state can no longer deliver, religious movements are gaining a new attractiveness.

This has very practical consequences. In the Congo, because there is no working national postal service, people leave letters in Catholic churches to be transmitted to other parts of the Congo since the Church is the only reasonably coherent nationwide infrastructure. In Senegal the Mouride Brotherhood has expanded to cover almost a third of the population with a singular mixture of Sufi Islam, entrepreneurial enthusiasm and committed members overseas who remit significant amounts of money. Religion, particularly Islam and Christianity, offers a way to plug into globalisation. Saudi Arabia and Persian Gulf countries have become part of an African trading network as well as reception zones for African migrant workers. And many of the new evangelical churches have relationships with rich churches in the United States.

This has at least two implications for development in Africa. Religion can be a model for the state. If the African state is to become more effective it needs to understand what it is about religion that builds loyalty, creates infrastructure, collects tithes and taxes, fosters a sense that it delivers material as well as spiritual benefits. Religion can, of course, be misused but it can also be a partner in development. Faith leaders have great influence on shaping social attitudes, community relationships, personal responsibility and sexual morals. In Ethiopia the government recently secured a ruling from the Patriarch of the Ethiopian Orthodox Church which gave farmers permission to work on 160 days a year which had previously been thought of as religious festivals, when to work would be a sin; agricultural productivity has since risen by more than 20 per cent a year. In Kenya medical workers are already using shamans to transmit primary health care. Clerics, traditional religious leaders and Islamic imams are increasingly prominent in the fight against HIV and AIDS. But this must not be seen simply as an attempt to co-opt religious leaders and traditional healers into disseminating the messages of foreign cultures. An appreciation of the role of religion in African life will require some fundamentally different approaches by the international community.

One commonly held fallacy about culture is that it is the expression of unchanging tradition. Those who hold this view usually see African cultures as regressive and tribal and therefore inimical to development. African culture, they often say, is an irrational force that generates inertia and economic backwardness. This is contrary to the evidence. History shows African cultures to have been tremendously adaptive, absorbing a wide range of outside influences, and impositions, as well finding ways to survive often difficult natural, environmental and social conditions. Such influences are not all positive. Many African cultures nurture a sense of denial and passivity, or encourage the abuse of women, or pay respect to the elderly with such deference that they exclude the young

who now make up half the population of the continent. But the dynamics of culture mean that people can be critical of what they have inherited. The lesson is that culture is an agent of economic and social change.

The way that the mobile phone is changing life in Africa today is a vivid example of that. The use of mobile phones in Africa is increasing much faster than anywhere else in the world. Some 75 per cent of all telephones in Africa are mobile. A driving force in their spread has been the need for people to keep in touch with family news, but cellphones are also used to help poor people in remote areas find employment without travelling long distances. But the new technology is bringing many indirect spin-off.

In farming communities in Tanzania, where butchers cannot stock large amounts of meat because they have no electricity or cannot afford a refrigerator, shops previously often ran out of meat. Nowadays customers use mobiles to place orders ahead of collection, enabling butchers to buy the right amount to satisfy their customers' needs and developing the entire supply chain. Mobile servers on motorbikes are now providing telephone connections in rural parts of South Africa. Already evidence is emerging that data collection via cellphones has the potential to dramatically increase efficiency within health budgets; pilot schemes in Uganda are already showing savings of as much as 40 per cent.

The continent is ahead of much of the world in the use of pre-paid phone cards as a form of electronic currency. Africans in the developed world are buying pre-paid cards and sending them, via cellphones, to their relatives back home, who can then sell the cards to others. Thus the cards have become a form of currency by which money can be sent from the rich world to Africa without incurring the commission charged on more conventional ways of remitting money.

The mobile phone is creating virtual infrastructures and raising the possibility of unthought-of transformations in African culture, infrastructure and politics – studies show that when 20 per cent of a population has the ability to exchange news and ideas through access to cellphones and text messaging, dictatorial or totalitarian regimes find it hard to retain power. Changes such as these should alert us to the possibility of other developments which it is difficult if not impossible to foresee – and which may undermine some of the traditional assumptions in our thinking about development. A report like this must always leave room for us to expect the unexpected.

Those who ignore culture are doomed to failure in Africa. The outsiders who ran a workshop on AIDS in Angola recently learned that. They came to pass on their knowledge about transmission and prevention. They left having obtained new understandings of cultural practices such as initiation rites, scar-tattooing, blood brother practices, means of breaking the umbilical cord, polygamy and traditional marriage and healing practices. Only then did they come to understand why their education and awareness programmes had not resulted in higher use of condoms or lowered rates of infection. They had not known enough about local cultural norms and values on sexuality.

Those who understand culture can find new ways to succeed. Before civil war plunged Somalia into a condition of warlord-dominated anarchy, order was maintained by the country's traditional courts of tribal elders, the Tol. These made each clan collectively responsible for the actions of its individual members – if one man stole, his whole clan could be fined for it. In most parts of the country the power of the Tol has been abolished by the warlords. But in Somaliland, a place of modest but ordered prosperity, the Tol has not only been retained it has been incorporated into the second chamber of parliament. Few in Somaliland doubt that the continued existence of the old system is a key component in the relative stability there. Such a hybrid system is not one which a political theorist might have invented given a blank sheet of paper. But it is one, with its odd mix

of African and Western systems of governance, that clearly works. The challenge is to harness the cultures of Africa to find such workable hybrids for the rest of the continent.

The overall lesson is that outside prescriptions only succeed where they work with the grain of African ways of doing things. They fail where they ignore, or do not understand, the cultural suppositions of the people they seek to address. The international community must make greater efforts to understand the values, norms and allegiances of the cultures of Africa and in their policy-making display a greater flexibility, open-mindedness and humility.

## **Getting systems right : governance and capacity-building**

A cornerstone of development is a state with a sound constitution that balances the interest of all its citizens, and that separates powers of the judiciary and legislature from the executive. This provides the framework within which the private sector can create the economic growth without which the lives of poor people can never be substantially improved. That means a state which has the ability to maintain peace and security and protect the freedom and human rights of its citizens, to design policies that will enable ordinary people to build a better life, and to deliver the public services its citizens require.

There is more to governance than how the government conducts itself. It is about the whole realm in which the state operates, including areas like parliament, the judiciary, the media and all the other organisations of society which remain in place when a government changes. Next it is about the policies of government. But it is also about whether a government has the staff and organisational systems to design its policies and the ability to implement them with the participation of its citizens.

It also has another crucial dimension: how well the government answers to its people for its policies and actions, whether it is 'accountable' to its citizens. Democracy of some kind is an absolute fundamental here. But this is about much more than elections every five years to allow for a change of leaders. Many Africans call into question the legitimacy of the constitutions of their states, in which the balance between the executive, parliament and the judiciary shifted to the executive at independence and paved the way for the one-party state in the years that followed. Other leaders ignore constitutions and stay in power longer than is constitutionally permitted. Africans need to address these issues, and developed nations should offer technical and financial support.

More prosaically, for accountability to be effective, a government's policies, actions and systems need to be open to scrutiny by its people. This openness is not just a question of attitude; it has to be woven into the very systems through which the state operates.

Fortunately there is an increasing recognition of all this among African governments. They are now working more closely together, through the African Union, to tackle this. Some 24 countries, representing 75 per cent of Africa's population, have so far signed up to an initiative by the African Union's NEPAD programme to establish an African Peer Review Mechanism where a country puts itself forward for scrutiny by its peers to help identify its weaknesses and the actions needed to correct them. The aim is to foster adoption of good policies and practice by sharing information on what is working, and what is not. Peer pressure produces a strong incentive to act. The initiative is in its early days but its first actions have been promising and this Commission recommends that rich countries support it. For a relatively small amount of money this mechanism could lever significant change. Details on this, as on all our recommendations, are given in Part Two of this report.

### **The capacity to deliver**

Good governance is about much more than sound policies. Governments have to be able to put those policies into effect. A number of practical factors constrain African states'



capacity to do this. Africa has had insufficient money to invest in technology, health and education systems, roads, power grids, telecoms, affordable housing and water supply and sanitation. It has poor quality systems for the collection of data, without which government policies can neither be properly formulated nor accurately monitored. Its civil servants, in national and local government, often do not have the training to analyse complex information or plan and budget effectively. Quality of management and incentive systems have been poor. Public servants are also being hit by AIDS. In Zambia teachers are dying faster than they can be trained.

International donors have in recent years tried to invest in building this capacity – the ability to design and deliver services. But results have been patchy. We have looked at the reasons for this. Reforms have been piecemeal, rather than part of a wider strategy. African governments have not been fully committed to them. And donors supplied assistance in ways which were counter-productive. Instead of strengthening the abilities of African ministries, donors created Project Implementation Units to run individual projects. In the short term these may have worked, but in the longer term getting outsiders to 'do the job' does nothing to improve the skills of the civil servants.

An entirely different approach is required. Strong backing is now being given by most African countries to the African Union's NEPAD programme which puts new emphasis on strengthening institutions. The starting point must be comprehensive strategies drawn up by African governments to build capacity throughout their administrations. The international community should support these strategies, and make sure that the aid efforts of individual donor nations do not undermine them. This improved capacity needs to be built in national ministries and also at local government level, but it is also needed at a continental level in the African Union and in the various regional economic communities through which countries work together.

Transforming bureaucracies will not be achieved overnight. Donors must recognise that in most African countries change will be long, slow and complicated. That means rich countries must provide assistance in a way that allows African governments to plan over a longer term than at present. Without a long-term predictable flow of funds which can be used for salaries or maintenance, governments will be reluctant to build schools or hire teachers. Donors must also guard against poaching the most talented civil service staff, and thus weakening the structure still further. And African governments should address weak management, lack of incentives for individuals to get things right and poor motivation which are often more critical. So is the need to attract, motivate and retain skilled staff. A survey in Malawi showed that 25 per cent of teachers who started work in rural areas in January 1999 had left by October that same year.

The shortage of skilled professionals in Africa is a critical issue. It has its roots in a tertiary education system that is in a state of crisis. The emphasis in Africa in recent years has rightly been on the need for primary education. An unfortunate side-effect of this has been the neglect of secondary and tertiary education from which are produced the doctors, nurses, teachers, police officers, lawyers and government workers of tomorrow. Africa's universities ought to be the breeding ground for the skilled individuals whom the continent needs. There is a particular shortage in the science skills that are fundamental to addressing Africa's problems. Africa needs higher education and research institutes that attract students, researchers and teachers to study and work in Africa – at present there are more African scientists and engineers working in the USA than in Africa. A long-term programme of investment is needed, both to revitalise African universities and to support the development of centres of excellence in science, engineering and technology, including African institutes of technology.



## Answering to the people - accountability

There is another key condition that is required for good governance. It is accountability – by which we mean a system which ensures that governments are answerable to their people for the way they run the country. Too often in the past African governments have responded not to the interests of all their people but to those of elites, parties, tribes or other particular groups. Sometimes they have even put the demands of the international donor community before the concerns of their citizens.

Governments must be answerable to all their people, including the poorest and most vulnerable. Clearly they are not felt to do this at present. The Globescan survey commissioned by this Commission reveals that for most Africans, the primary responsibility for creating the problems in their country is laid at the door of their national governments: 49 per cent of those surveyed blamed their own politicians – three times more than blamed the formal colonial powers, 16 per cent, or rich countries, just 11 per cent.

The answer to this is, putting mechanisms in place to make sure that the voices of all citizens can actually influence decisions of their governments. To do this requires good economic and financial management systems. But it also means empowering key groups within society. African parliamentarians need training and mentoring – for their work in their national parliaments and also in the nascent Pan-African parliament – from their counterparts in other developing countries with strong parliaments and in the developed world. They also need a greater representation of women. Africa's system of justice – which has a vital role in enforcing human rights, contracts and property rights, and acting as a check on government – needs strengthening. African governments could do this by a host of measures including guaranteeing tenure for judges, introducing computerised case management and bolstering democratic mechanisms to oversee the judiciary. Judges from more developed countries could also assist here.

Likewise with the media. Africa's journalists have a crucial role in holding the government to account and exposing corruption and inefficiency. But at present its journalists are not sufficiently free or professional. They need more training, in both journalistic techniques and professional ethics. African governments can assist media independence by granting commercial licences for radio stations to compete with the state-owned stations from which most Africans get their news. Journalists and editors in other countries could assist here too.

Developed countries can also support the strengthening of another crucial sector which has the power to hold governments responsible for their actions. The organisations of civil society – trade associations, farmers organisations, business groups, trades unions, development agencies, women's organisations, faith groups and community groups – all have a role to play in ensuring that those in charge truly reflect what the various sections of society want. The number of these civil society organisations has risen dramatically over the last decade or so, but many of them require help to develop the skills they need to spot dubious priorities, conflicts of interest or a lack of probity in public finances. Again their counterparts in other developing and developed nations could help.

## Corruption and transparency

For political leaders to be held accountable, citizens must have proper information about government revenues and budget allocations. Openness makes it more likely that resources will be used efficiently. By contrast a lack of transparency encourages corruption, especially where politicians and officials are members of secret societies, which are common in Africa as in the rest of the world. This lack of openness is a particular problem where income – particularly that derived from oil, minerals and other high-value natural resources – is managed in a way which hides accounts from the public.

Corruption is systemic in much of Africa today. It is another of Africa's vicious circles: corruption has a corrosive effect on efforts to improve governance, yet improved governance is essential to reduce the scope for corruption in the first place. All this harms the poorest people in particular because it diverts funds away from providing the services they need more than anyone else in society and they are likely to have to pay a higher percentage of their income in bribes. Africa has begun to tackle this. Its politicians have agreed through the African Peer Review Mechanism to assess their performance against a number of internationally-agreed codes and standards, including those on fiscal and monetary transparency. They now need to adapt these to the African context because many of them have been designed for countries which are already far more developed than Africa and which have different capabilities and face different economic policy challenges.

The rot of corruption has spread throughout society at all levels. But to send a strong signal it is worth tackling the most egregious examples. The international community can assist in two ways. First, it should track down money looted by corrupt African leaders, now sitting in foreign bank accounts, and send that money back to the states from whom it was stolen. This will send out a clear message to current and future leaders that they will not be allowed to profit from such immoral behaviour. Second, rich nations should put in place a series of measures to make theft of national assets more difficult and to deter their own companies from paying bribes in the first place. After all as the former Zairean dictator President Mobutu Sese Seko once reputedly said: "It takes two to be corrupt – the corrupted and the corrupter." And he should know.

We are talking huge sums here. It is estimated that the amount stolen, and now held in foreign bank accounts, is equivalent to more than half of the continent's external debt. In the worst cases, the amounts held by individuals in foreign bank accounts run into billions of US dollars. Developed countries must require banks within their jurisdiction to inform on such deposits and to repatriate them to the proper authorities. Action is needed in five linked areas:

**Prevention:** Measures are required to prevent the theft of assets in the first place. Appropriate offences must be put on African statute books. Each nation's financial institutions must have anti-money laundering controls in place.

**Identification:** Systems must be improved so it is possible to recognise when funds in an account have been acquired illicitly. Rich countries have developed advanced money laundering controls in the war on terror and drugs which can be used here. Banks should be obliged to inform African states where they see suspicious transactions.

**Freezing:** Laws must be changed to make easier the freezing of assets at a much earlier stage in a criminal investigation, preventing money from being moved while further investigations are carried out.

**Confiscation:** Mechanisms should be established to enable the confiscation of assets without the necessity for criminal conviction. All developed country governments should introduce laws to make confiscation possible without the necessity for a criminal conviction and find ways to reduce the number of time-wasting appeals allowed in these cases.

**Repatriation:** The states in which the banks that hold the funds are located must create instruments for returning the funds to the state from which they were looted.

Rich nations should give technical assistance to help develop Africa's capacity in these areas.

But corruption goes far beyond the actions of a few kleptocratic leaders. It is present at all levels. What really matters to poor people is petty corruption. At the grassroots level that is a question of African governments demonstrating the political will for a crackdown on corruption. But there is much the international community could do. Attention must focus on the bribe-giver as well as the bribe-taker. Numerous international anti-bribery

agreements exist already to curb corruption. They should be enforced more rigorously. The UN Convention Against Corruption – the first international legal instrument to recognise the need for all states to commit to asset repatriation – has not been ratified by one single member of the G8. It can come into force only if it is ratified by 30 states. It is pointless for the developed world to bemoan African corruption when it does not take the specific measures needed to counter it.

Transparency is especially important in countries rich in mineral wealth. All the evidence shows that oil, for example, usually enriches only the ruling elite. For the vast majority of the population mineral wealth often appears merely to increase corruption, poverty and political instability. African electorates need to demand that government books on revenues from mineral extraction are opened to public scrutiny.

The international community also has a role to play. As well as cracking down directly on bribery it can demand higher standards from multinational companies active in developing countries. Where there are no laws to govern the actions of foreign companies, codes and standards should be used to guide behaviour. Shareholders and consumers must exercise their considerable influence to ensure that such codes and standards are followed.

One promising initiative in this field is the Extractive Industries Transparency Initiative, which is being implemented in a number of African countries. Under it, oil, gas and mining companies publicly disclose all payments they make to governments, and governments, in turn, publish what they receive from these companies. Individual citizens and concerned groups can then scrutinise these. This scheme is in its early days, and work is still underway to clarify exactly what it means to implement the initiative. It may not solve all the problems immediately but it is an important first step towards greater accountability. The international community and more African governments need to back this initiative and encourage all resource-rich countries to sign up to it, as Nigeria, Ghana, Republic of Congo and São Tomé e Príncipe have already done. That includes funding the training of civil servants, and public systems to make the scheme work. The civil society organisations who monitor it will also need similar assistance. But the oil and mining sectors are not the only ones where money is lost due to poor management and corruption. Sectors like the forestry and fisheries industries could also benefit from more openness about revenue flows, and the international community should support this.

One area that suffers particularly severely from corruption is procurement – the way that governments buy in goods and services. Abuse of this system takes many forms. When public sector contracts are put out to sealed tender, bribes – known by euphemisms such as 'signature bonuses' – can be requested or offered. Quotations can be doctored to build in false costs. It is not only the politicians and public officials who create the problem: it is also the bankers, lawyers, accountants, and engineers working on public contracts. Widescale corruption adds at least 25 per cent to the costs of government procurement, frequently resulting in inferior quality construction and unnecessary purchases. A crackdown on all this is in the hands of Africa's leaders, who must demonstrate the political will to follow through what they have started. But the international community can help here too. It must encourage more transparent methods of selling goods and services both in Africa and the developed world. Rich countries' Export Credit Agencies – government-backed bodies which provide loans, guarantees, credits and insurance to private companies who invest or engage in trade with developing countries – can make their funds conditional on compliance with anti-bribery measures.

These are the main measures required on governance. Unless there are improvements in all these areas this Commission has concluded, after a detailed review of all the evidence, that all the other reforms we will recommend – in international trade, debt and aid – will have only limited impact.

## **The need for peace and security**

Out of sight of the world, in the biggest death toll since the Second World War, around 1,000 people die every day in the Democratic Republic of Congo. It is only one of Africa's many conflicts. In recent decades Africa has experienced more brutal coups, drawn-out civil wars and bloody instability than any other part of the world. Some of this, like the violence in Darfur, has been high profile. But there are countless smaller conflicts, such as those between herders and cultivators which are to be found in many parts of Africa, which are no less vicious. Violence causes as many deaths in Africa as does disease.

The human cost of all this is devastating. Millions of lives have been lost. At least three million people died in four years in the civil war in the Democratic Republic of Congo alone. As a result of 'localised' conflict in Nigeria, for example, at least 10,000 people lost their lives between 1999 and 2003 and an estimated 800,000 were internally displaced. More people have been forced to flee their homes in Africa than anywhere else in the world, many ending up in the slums of already-overcrowded cities and towns. Malnutrition and disease increase. And those who suffer most are the poor and the vulnerable. War does not only harm people. It destroys roads, bridges, farming equipment, telecommunications, water and sanitation systems. It shuts down hospitals and schools. It slows trade and economic life, sometimes to a halt. The very fabric of society is torn asunder.

But conflict has a much wider consequence. Instability in Africa undermines global security. States weakened by strife increase international refugee flows. They also become havens for international terrorist organisations. In the face of all this it may seem odd to talk of optimism. But things are beginning to change in Africa. There is now hope of peace in many of Africa's most war-torn places such as Angola and Sierra Leone. There are even glimmers of hope in the Democratic Republic of Congo, Sudan and Somalia. Countries such as Mozambique, once previously synonymous with violence and suffering, have maintained peace for over a decade now. How do we continue this improvement?

### **Prevention is better than cure**

Until now the international community's main focus has been on intervening in conflict – militarily or with humanitarian assistance. But this Commission has concluded that donors must place far more emphasis on building the foundations for durable human security and supporting African institutions in attempts to prevent the outbreak of fighting in the first place. This is for a number of reasons.

Once armed hostilities have begun they are difficult and costly to resolve – and create a higher risk of further violence in the future. Even after fighting is over the evidence is that nervous governments keep levels of military expenditure high. This means that resources are diverted away from rebuilding society in a way which tackles some of the social problems which may have contributed to the cause of fighting in the first place. Thus, countries that have experienced one civil war have an increased likelihood of further fighting within five years. Violent conflict is another of Africa's vicious circles.

The costs are also high for the international community. Donor nations respond to violent conflict, in the main, through deployment of peacekeepers and through development work once fighting is over. This is expensive. The budget for UN peacekeeping operations in Africa for the year to June 2005 is US\$2.86 billion. On top of this is the cost of aid to war zones; Africa received around US\$7 billion in humanitarian aid between 1995-2001. Much of this was in response to conflict.

War means rebuilding vital infrastructure. The cost of the material damage during the Rwandan genocide was around US\$1 billion. Reconstruction for the Democratic Republic of Congo is estimated at US\$20 billion and even if strong growth starts now it will take

several decades for the country to get back to the level of per capita wealth it had at independence in 1960. A number of studies have shown that conflict prevention is much more cost-effective than intervention. One estimate is that it would have cost US\$1.5 billion to prevent the outbreak of fighting in Somalia compared with the US\$7.3 billion it cost to respond. Just 5,000 troops with robust peace enforcement capabilities could have saved half a million lives in Rwanda. Evidence shows that prevention can work.

So why has there not been more emphasis on prevention? Partly because of the 'CNN factor'. The high profile given to some emergencies by the media puts strong pressure on international politicians to respond to them – and provides political rewards for doing so. By contrast creating unglamorous mechanisms to address Africa's vulnerability to violence may not draw the headlines, but it is far more effective and far cheaper. The international community must invest more in conflict prevention if Africa is to have a chance of development and prosperity.

The best way to do that is to strengthen mechanisms that can manage tensions before they get violent. The most obvious mechanism for doing this is a strong and effective state, which has systems to resolve disputes between individuals, or groups, before they deteriorate into violence. Africa has had a double problem here. It has many sources of high tension. And its mechanisms for managing them have been weak.

The causes of those sources of tension in Africa vary considerably from one place to another. But there are certain common conditions. Weak institutions and poor governance are risk factors, as are authoritarian rule, poverty and inequality, and the exclusion of minorities from power. States with high levels of corruption and low levels of accountability seem particularly prone to violence. So do economies which are dependent on one or two primary commodities for most of their income. There is a strong link between oil and other mineral wealth and the risk of conflict. Tension over access to land, water and other less lucrative but vital resources is also a factor. And, of course, group identities – such as tribalism, ethnicity or religion – often come into play in the competition for power.

To all this is added the vast quantity of weaponry which is now readily available right across Africa. In some countries an AK-47 Kalashnikov assault rifle can be bought for as little as US\$6. Weapons are not a cause of violence, but they are a stimulant of it. When tension turns to violence, it is the proliferation of small arms which makes disputes much more lethal. When AK-47s rather than spears and arrows become the instruments of war the death toll inevitably rockets.

What sparks the tinderbox may be hard to prevent. Triggers can include: controversial elections, coups and assassinations, a sudden influx of refugees from a neighbouring country, and sudden shifts in the economy. Factors like these can convert structural 'proneness' into actual violence. But the solution is not to address these symptoms but rather the underlying causes. Many of this Commission's recommendations in other areas will assist with this.

Investing in development is investing in peace. And this Commission's recommendations as a whole have a fundamental contribution to make to peace. But there are a number of other specific areas which can make a difference:

**Ensuring aid does not make matters worse:** Aid can do much to reduce the background factors that cause tension and feed conflict. But aid can also inadvertently contribute towards increasing the risk of violence. This is because much aid is short-term and focused on crises. So it often fails to tackle the inequalities and exclusion which are part of the structural causes of conflict. And it routinely under-estimates the importance of reform in the policing and justice sector – which is crucial after the fighting stops.

Donors should do more to monitor the risk of conflict and modify their development strategies accordingly.

**Control of small arms:** Many of the largest manufacturers, exporters and brokers of arms to Africa are to be found in G8 and EU countries. The international community has signed a number of control agreements on small arms but these contain gaps which are being exploited by many countries, companies and arms brokers. Measures to control the flow of arms to Africa need to be rigorously enforced. As a matter of priority the international community should begin negotiations on an international Arms Trade Treaty. It must also adopt more effective and legally-binding agreements on arms brokering, with common standards on monitoring and enforcement. And donors should support African programmes to tackle the huge amount of weapons already in circulation. A registration scheme for transportation agents, an international aircraft inspection agency and tighter monitoring of the rules on aircraft insurance would also help stop the illegal transportation of arms to Africa and inside it.

**Conflict resources:** Oil, diamonds, timber and other high-value commodities all fuel Africa's conflicts. Governments use money from their sale to fund increased military activity, at home and abroad. Rebel groups loot oil fields or mines, or extort cash from the firms who operate them. Both sides even sell resources which are still in the ground – pledging advance rights, known as 'booty futures', as the security for loans to buy more arms. All this makes wars last longer and more difficult to resolve.

African governments should be pressed to set up transparent systems that show how they spend the money from mineral wealth. But it should also be made more difficult for warring parties to trade in these 'conflict resources'. Attempts have been made to do this, with some success, through the Kimberley Process – an initiative in which governments, industry and lobby groups joined together to stem the flow of 'conflict diamonds'. The scheme now covers around 98 per cent of the world diamond trade. But each time a new 'conflict resource' needs to be controlled, there is a long process of negotiation. A common definition of conflict resources – and an agreed international framework for acting to control the flow of such goods – would speed up the ability of the international community to react. The UN should set up a permanent body to monitor the trade in conflict resources, and to ensure that sanctions on these resources are enforced.

**The role of foreign companies in conflict zones:** Better behaviour by foreign companies could improve Africa's climate of peace and security. Sometimes, unwittingly, they make matters worse by hiring security firms to protect their operations. These private armies can become involved in human rights violations. Their arms can be seized by rebel groups. They can crank up tensions further by hiring staff from one social or ethnic group at the expense of another.

But some companies knowingly fuel conflict. They pay substantial sums to oppressive governments or to warlords. Some firms even assist with arms purchases. Some of these actions, like bribery of a local official, are straightforward crimes. Others, like forcibly moving indigenous people from their lands, are illegal under international law. But many of their actions are not crimes – and at present the various voluntary corporate codes of conduct, such as the OECD Guidelines on Multinational Companies, do not provide clear enough guidance on what companies should do in these situations. Such guidelines must be redrafted to include specific provisions on how to avoid creating or exacerbating conflict. The new permanent body in the UN, mentioned above, should be charged with monitoring implementation of these guidelines, with clear disincentives for non-compliance.

## Building the capacity to prevent and resolve conflict

Conflict is usually best addressed by those closest to it. Local or national bodies and systems are the first line of defence here. When these fail then regional and international organisations have a role in preventing and resolving violent conflict, and protecting the lives of civilians. Africa's regional economic communities and the African Union have been playing an increasingly active role in this in recent years. These organisations are developing their capacity to detect and mediate conflicts, and conduct peacekeeping when required. The international community has previously made commitments to strengthen African peacekeeping capacity. These pledges should be honoured through, for example, support in training and logistics for the African Standby Force, a continental peacekeeping force being created under the African Union. More than that, the international community must increase investment in more effective prevention and non-military means to resolve conflict.

Developed nations should support Africa's continental and regional organisations in building early warning, mediation and peacekeeping systems. The international community should also assist them with the resources to conduct specific operations – such as mediation, fact-finding missions, and peacekeeping. Unearmarked, regular funding contributions – through, for example, paying for half of the African Union's Peace Fund on a yearly basis – would allow such organisations to have ready access to the resources when they are needed. The work of local organisations such as faith groups should be drawn on by the African Union and African regional organisations to help detect and mediate conflict.

The United Nations has an important role to play in supporting the efforts of these regional bodies – and through its own capacity to prevent and resolve violent conflict. The international community should support the creation of the UN Peacebuilding Commission, as was recently recommended by the United Nations High-Level Panel on Threats, Challenges and Change. This body would engage in both prevention and in planning and co-ordinating post-conflict peacebuilding. The UN defines peacebuilding as encompassing everything from conflict-prevention to rebuilding the institutions and infrastructures of war-torn nations – and both require tackling causes of conflict such as economic inequality, social injustice and political oppression.

Member states should also support reforms to the management and resourcing of UN peacekeeping operations to speed up troop deployment. They should do more to train their troops for peace operations – including through placing Africa high on the priorities of the "battlegroups" being formed by the European Union to respond where African nations request military support.

## After the fighting stops

When a war ends, peace does not automatically arrive. After disarmament and demobilisation all too often new problems arise – such as how to reintegrate returning soldiers and refugees, who find their homes have been occupied by people who do not welcome them back. And old problems resurface, such as the inequities and resentments which led to conflict in the first place. All that is on top of destroyed infrastructure, a lack of functioning institutions and extreme poverty. Which explains why half of all countries emerging from conflict relapse back into violence within five years.

Post-conflict peacebuilding is a complex task involving many competing demands. The classic approach has been to insist that peace must come first, with economic development thereafter. But what works best to bring a lasting peace is somewhat different. Obviously security must first be restored. But combatants do not just need to



be disarmed, they need to be given jobs and given a stake in the peace. So do returning refugees. War economies need to be dismantled – and alternative economic opportunities created. Steps should be taken to foil those, like warlords, who have a vested interest in wrecking any peace process. The specific requirements of women must be considered, since rape and sexual violence – so widespread during war – have a long-term impact. Special arrangements will be needed for child soldiers. All these processes are long-term and extremely complex which means the frequent delay between peacekeeping operations and the start of social and economic development must be avoided.

Reconciliation is as important as reconstruction in repairing the impact of war on society. This takes a number of forms. Most obviously it is about addressing abuses and human rights violations so that victims begin to feel a sense of justice. Thus, greater aid to the local justice sector is essential. Rebuilding must avoid recreating those elements of the pre-war order which may have been amongst the causes of the conflict. Peace processes are very political in nature and require sustained support to mediation even after a peace agreement has been made.

Successful post-conflict peacebuilding depends in particular on two things – co-ordination and planning, and financing. Co-ordination and planning would be much enhanced by the creation of the UN Peacebuilding Commission. And post-conflict countries need financing that allows them to begin reconstruction and development efforts early and such aid needs to continue for as much as 10 years after the fighting has ended.

This is a complex and ambitious set of proposals. But then the processes which feed violent conflict are long-term, extremely complex and not amenable to 'quick fix' solutions. If together we can begin to address these issues the future for Africa's children might look very different indeed.

## **Leaving no-one out : investing in people**

Our concern as a Commission has been overwhelmingly for the poorest people of Africa. In Ethiopia the most destitute families are known as 'those who cook water'. In Ghana they are called 'those with two bags' – one for begging in the hungry season, and another for begging in the season of plenty.

Around a sixth of the entire population of sub-Saharan Africa – that is more than 100 million men, women and children – are chronically poor. They are people who experience such persistent poverty that they cannot break free of it using their own resources. They are reliant on day labouring. They have little education and few assets. A period of illness can mean selling the last of what they own to eat. The smallest crisis can tip them over the edge of bare survival into starvation and destitution.

They are individuals and families trapped in vicious circles of poverty. They often choose to grow the least productive crops because those are the ones which have least risk of failure when poor rains come. They dare not risk ambition. And their vicious circles of poverty so easily turn into downward spirals. When parents are unable to invest in the health, education, skills or nutrition of their children, these children will be disadvantaged and more likely to be poor themselves. Another African expression encapsulates these reinforcing cycles of penury; in Zimbabwe they speak of 'poverty that lays eggs'.

But poverty is often about more than a lack of material things. The very poorest people are those who are excluded from the sources of help made available by governments, aid agencies or even the informal support systems of their local community.

All too often the reason is discrimination. Some people are excluded because of their identity – as a woman, as a disabled person, or as a member of a different tribe or ethnic



group. Some are discriminated against because of language or the stigma of an illness such as AIDS. Others because they are young people, orphans, albinos, older people, refugees, indigenous peoples or nomads. All lack the power to combat their exclusion.

Two of these groups, of course, are not minorities – women and young people. Women may be Africa's primary carers and providers but they are routinely excluded from information, services and decision-making bodies. Young people – under the age of 17 – are now estimated to make up more than 50 per cent of the continent's population, but have no voice in most decisions which affect them.

The position of women is of particular concern, not merely as a matter of human rights, but also because all the evidence agrees that they make a greater contribution to economic life than do their menfolk. Women are the backbone of Africa's rural economy, accounting for 70 per cent of food production, most of the selling of the family produce and half of the animal husbandry in addition to food preparation, gathering firewood, fetching water, childcare and the care of the sick and the elderly. Women spend most of the earnings they control on household needs, particularly for the children, whilst men spend a significantly higher amount on themselves.

Yet women have fewer opportunities to generate income; they are less likely to attend school; they are subject to harassment and violence; and on widowhood lose their assets. A study in Namibia showed 44 per cent of widows lost cattle, 28 per cent lost livestock and 41 per cent lost farm equipment in disputes with their in-laws after the death of their husband. In many African countries, they lose all rights to cultivate their husband's land.

Africa's challenges will not be effectively addressed unless the exclusion faced by women is tackled across the board. Women must be included and the full power of their development skills unleashed. Women are a key part of the solution to Africa's problems. The same is true of other excluded groups – partly because inclusion is what lessens the tensions which lead to conflict, but mainly because all the evidence is that development works better when no-one is left out.

### **Education for All**

Education for All is the title of one of the most exciting pledges that the international community has ever made. At the World Education Forum at Dakar, Senegal, in 2000 the assembled nations committed themselves to providing free primary education for every child in the world by 2015. Adult illiteracy was to be halved and girls given equal treatment across primary and secondary education by 2005. In 2002, a 'Fast Track Initiative' was launched to provide the resources needed to fulfil this promise.

Some progress has been made. Overall numbers of children in primary school in Africa increased by 48 per cent between 1990 and 2001. But provision is patchy. Rural areas are still lagging behind. Girls, disabled children and orphans are still marginalised. Some 40 million children are still not in school. For despite the bold rhetoric of Education for All, the international community is not coming up with the money to match its promises. Donors need now to deliver an estimated US\$7-8 billion a year extra to fulfil what they have pledged and to ensure that the whole sector is properly funded – from primary education to secondary and higher, including adult learning and vocational training. This would allow primary school fees to be abolished throughout Africa.

This new money should be spent in three priority areas:

**More teachers in the classrooms:** Africa is undergoing a teacher shortage of critical proportions. Ghana has just a quarter of the teachers it needs, and Lesotho only a fifth. The result is not just bigger classes but also falling quality of education. Large sums must

be invested in teacher training, staff retention and professional development. Donor countries and international financial institutions must change their policies to allow recurrent expenditure – including teachers' salaries – to be paid for from aid.

**More girls in the classrooms:** Getting girls into school, studies show, is crucial for development. Economic productivity is raised by educating girls. Infant and maternal mortality is lowered. Nutrition and health improve. The spread of HIV is reduced. Providing girls with one extra year of education boosts their eventual wages by 10-20 per cent. And a strong investment is made in the education of the next generation. The removal of school fees would particularly help girls, as would free school meals and school attendance grants. Removing school fees in Uganda almost doubled the number of very poor girls in education. Donors must support this until countries can afford to pay for this themselves, and African governments need to plan more systematically for measures that will achieve greater equality for girls.

**Teaching the right things:** Across Africa the curriculum must be made more relevant. The existing syllabus is largely limited to academic subjects. Little weight tends to be given to acquiring skills appropriate to developing entrepreneurial attitudes or finding a job. Life skills that address HIV and AIDS are vital. Curriculum development should be led by each African country, drawing on the work of education institutions in the African regions.

### **Reviving Africa's health services**

One in six children in Africa dies before reaching their fifth birthday. This is largely because health care delivery systems are at the point of collapse following years of debilitating under-investment. Average spending on health per person in Africa in 2001 was between US\$13 and US\$21; in the developed world it is more than US\$2,000 per person per year. Yet there are glimmers of hope. After the Abuja Declaration in 2000 some 45 per cent of African countries increased their health budgets, with some making impressive increases to reach over 10 per cent of government spending. Donors should support this with additional US\$10 billion a year from 2006, rising to US\$20 billion a year by 2015 as health systems are strengthened. Without action here, most other investments in health are doomed to failure. Significant progress can be made in the short term by donors backing the plans to strengthen the foundations of health systems which have been set out by the African Union's NEPAD programme. The following areas must be prioritised:

**The health worker crisis:** Training and retaining doctors, nurses and other health service personnel has been neglected. Numbers are down, but so is the quality of work. Many of the best have been attracted abroad. Others – frustrated by working without the drugs or equipment they need – have found better paid jobs outside the health service. Radical action is required. Africa's health workforce should be tripled through the training of an additional one million workers over a decade. Salaries should be increased to ensure staff are not wooed from their jobs.

**Medicines:** Africa needs a predictable supply of medicines and vaccines at a cost it can afford. This means buying drugs in bulk to reduce their price. It means giving large pharmaceutical firms incentives to investigate the diseases that affect Africa, instead of focusing on the diseases of rich countries. Donors should do this immediately by making legally-binding commitments to buy these treatments for use in Africa so drug companies are given the incentive to put these new medicines and vaccines into production. Without understanding people's circumstances the right drugs will not be developed. A microbicide gel that would protect women from HIV infection, without men even knowing it is there, is not getting the priority it deserves. Likewise paediatric anti-retroviral treatment is still not available in for the five million children living with HIV and AIDs in Africa. Donor governments should also directly fund research, led by Africa to boost the continent's science, engineering and technology capacity.

**Making donors work together:** International donors can cause problems by focusing on different diseases in an unsystematic way. They insist on using different drugs from one another. They demand different delivery approaches. They fail to live up to their funding pledges. And they provide funds over short timeframes, which deters African governments from making long-term commitments to projects they know they could not afford to continue if funding dried up after one or two years. Where aid is ineffective donors are sometimes to blame as much as recipients. Donor countries must change their approach. They should all work to a single agreement, to be drawn up by the government in each African country. They should pay for what they have promised. And they should pledge aid over a longer timeframe to allow African governments to plan better. Hospital fees paid by poor Africans bring in, on average, only five per cent of health care budgets. For this to be paid by rich nations would cost comparatively little. The abolition of primary healthcare fees in Tanzania would cost only US\$31 million. Removing patients' fees in Uganda more than doubled clinic use, with the poorest people increasing their use most. Rich nations should support the removal of fees for basic healthcare, until African governments can afford to take on these costs themselves. Basic healthcare should be free for poor people.

**Eliminating preventable diseases:** Africa is afflicted by a number of diseases which are entirely preventable. Two-thirds of all the African children who die under the age of five could be saved by low cost treatments such as vitamin A supplements, oral rehydration salts and insecticide-treated bed-nets to combat malaria. A tenth of all the diseases suffered by African children are caused by intestinal worms that infect 200 million people, and which could be treated for just 25 US cents a child. Many of the 250,000 women who die each year from complications in pregnancy or childbirth (compared to just 1,500 in Europe) could be saved if African governments and donors gave greater emphasis to sexual and reproductive health care.

### **Expanding access to water supply and sanitation**

More than 300 million people – some 42 per cent of Africa's population still do not have access to safe water. Around 60 per cent still do not have access to basic sanitation. Access to clean water would save women and girls the chore of walking an average six kilometres to fetch water, giving them more time for the family, for school and for productive work. Without clean water, anti-retroviral treatment for AIDS sufferers is not as effective and formula milk cannot safely be used to prevent transmission of HIV from mother to child. Better water management can greatly reduce malaria mosquito breeding sites. Yet aid to the sector has fallen by a massive 25 per cent since 1996. This is a short sighted decline that should be reversed immediately, giving priority to those countries in most need. The G8 already has a comprehensive water action plan for Africa. It is time these commitments are met.

### **Protecting the vulnerable**

Another way of helping poor people is for the state to pay cash allowances for children, widows and orphans, people with disabilities or in old age pensions. This 'social protection' can also be delivered in non-cash benefits like free basic healthcare and education, free school meals, employment-guarantee schemes or skills training for poor people. It can also be delivered by defending people's rights, especially women's and children's right to inheritance and to protection from domestic violence and rape.

African governments are increasing social protection measures because all the evidence shows that is cost-effective – it is much cheaper than the costs of responding after a crisis. Attendance at school has increased to 90 per cent in Zambia since childcare grants of US\$6 a month were given to elderly carers of vulnerable children, and nutrition is

improving. Including administration this costs US\$100 per household a year compared to US\$250 a year for food aid. International donors need to back this type of shift in strategy and provide predictable funding for simple benefits on a larger scale. Donors should provide US\$2 billion a year, in the first instance, rising to US\$5-6 billion a year, for orphans and vulnerable children, including rescued child-soldiers. The money should be paid through families and communities who look after 90 per cent of orphans. With the increasing burden of AIDS these systems will break down without support.

### **Why AIDS is worse in Africa**

The worldwide scourge of AIDS is having a disproportionate impact in Africa where some 62 per cent of the world's 15-24 year olds who live with HIV are to be found. The scale of the pandemic is chilling. Some 25 million people have died so far, and life expectancy in some southern African countries is now back to pre-1950s levels. A further 25 million Africans are living with HIV, including nearly 40 per cent of the population in Botswana. The human, social and economic implications of all this are not, even now, fully clear.

AIDS does not just devastate a single generation. It attacks three generations – the individual living with HIV or AIDS, but also the children born with the HIV virus and grandparents who are pressed into levels of childcare and food production for which their advancing years ill-fit them.

It also has an especially destructive impact upon the economy. AIDS primarily affects those of working age who are the productive adults in a population. As many as 90 per cent of people living with HIV and AIDS are aged 15-49. This means that, on present projections, between 20 per cent and 40 per cent of the workforce will be lost in the hardest hit counties. AIDS hits in the most unlikely ways. Farmers in Zimbabwe who found that their irrigation systems were not working properly discovered that the brass fittings from their water pipes had been stolen for coffin handles.

HIV and AIDS also disproportionately affects women, who often play the most vital role in development. Of the 25 million people living with HIV and AIDS in Africa nearly 57 per cent are women, compared to 47 per cent elsewhere in the world. Data from Zambia indicates that young women are three times more likely to be infected as young men. Women have a greater biological vulnerability to infection but the main risk factors are social: the earlier onset of sexual activity, their lower socio-economic status and their powerlessness to insist on the use of condoms.

The legacy of all this is huge numbers of orphans. Africa had 43 million orphans in 2003. AIDS was responsible for 12 million of those. But that number is set to grow – to 18 million by 2010 and higher for at least another decade. The broader social impacts give cause for concern - in Zambia 71 per cent of child prostitutes are orphans.

The social and economic impact of HIV and AIDS is widespread. Those with a good harvest would once lend to those with a poor one, but in areas with a high incidence of AIDS the amount of surplus for lending has been reduced all round. HIV-affected households save and invest less and their children are more often removed from school. In 20 years time the economies of developing countries with a high incidence of AIDS will have grown by only a third of what they otherwise could have.

Until recently, HIV and AIDS treatment was a low priority for donors, but funding levels are now rising. It is important however that the international community should not treat AIDS merely as a medical problem. To tackle the disease requires well-functioning health systems and drugs. But it also requires a cultural and social response. In one consultation we heard the tragic story of a woman in Nairobi who explained that it would take her five years to succumb to AIDS, but only months for her baby to die of starvation;

thus having unprotected sex for money was the rational thing to do, as it was the only way of keeping her baby alive. Such is the terrible logic of poverty.

AIDS will not be checked until those combating it take on board cultural factors about poverty and choices, traditions and beliefs, perceptions of life and death, witchcraft and ancestral punishment, power hierarchies and gender norms, social taboos and rites of passage, control of female sexuality and the demand for male virility and pressures for widows to marry close relatives of a husband recently dead from AIDS. Health workers must confront such issues, and form partnerships with religious leaders and traditional healers who often have an understanding of culture and of gender and power relationships.

All of this will require additional funding. But the existing commitments, set out in the UN Declaration of Commitment on HIV and AIDS, have not yet been fully delivered. In part this is because donors, again, are not paying what they promised. In part it is because different aid agencies have inconsistent approaches, with some advocating abstinence and others the use of condoms. In part it is because donors are falling over each other in one area, leaving gaps emerging elsewhere. It is essential that rich countries agree a common approach here – with a proper financing plan, agreed roles between agencies and shared principles of good behaviour. But more money is needed too. At present there are insufficient resources to provide a proper range of prevention, treatment and care services. International donors should at once increase their funding to meet immediate needs. Funding should rise to at least US\$10 billion a year within five years. Responding to the HIV and AIDS pandemic must be a top priority for the world community.

### **Getting results**

Human development is the area in which the greatest resources will be needed to affect change. Almost half of the extra aid we are recommending should be spent on health, education and HIV and AIDS. But getting results here, as in so many other areas, is not simply about throwing money at the problem. Effective use of these large new resource flows will require comprehensive strategies for delivery and for monitoring results. To this end, African governments must continue to strengthen governance and ensure the participation of ordinary people and local communities in decisions on development. If the international community matches that by delivering on its promises then an enormous amount will be achieved – both in terms of human fulfilment and in building the base for economic growth.

### **Going for growth**

Thirty years ago Botswana was one of the poorest and most aid-dependent countries in the world. Today the landlocked nation is one of Africa's biggest success stories. It has undergone consistent economic growth to the extent that it is now classified as a 'middle-income' country.

That is not surprising, many people might say. After all Botswana has diamonds. But Africa so often turns received wisdom upside-down. Look across the continent and it is often precisely those countries with the greatest amounts of mineral and other riches which are in most trouble. In too many countries natural resources bring war. They enrich the elite but for most people they merely increase corruption, poverty, environmental degradation and political instability. Spending on health and education is low in such countries. But Botswana bucks the trend.

Africa is the poorest region in the world. Over the last 30 years its people have, on average, seen virtually no increase in their incomes. The message is clear: without economic growth, Africa cannot make substantial reductions in poverty. Again Botswana

is testimony to that. The diamond industry employs only about two per cent of those employees in Botswana's small population who have jobs registered in the formal economy. But proceeds from the diamond industry which have entered the government exchequer have been invested rather than squandered. The economy has grown and the number of people living in extreme poverty has fallen dramatically. (And yet Botswana also highlights a major threat facing Africa's growth and development – it has one of the highest HIV and AIDS rates in Africa).

So Africa is not doomed to slow growth. Botswana is not the only indicator of that. In the last decade, 16 countries in sub-Saharan Africa have seen average growth rates above four per cent, including ten with rates above five per cent and three with rates above seven per cent. This Commission believes that the recommendations we are setting out should enable African countries to achieve and sustain growth rates of seven per cent by the end of the decade.

What are the common factors to those success stories? Our study of all the available evidence leads us to conclude that, again, governance is at the core. It is the private sector that in the main drives economic growth. But the state has a vital role too – for only it can create the climate within which private entrepreneurial spirit flourishes. Our analysis suggests that there are three essential things the state must do. It must create an economic and political climate which encourages people to invest. It must invest significantly in infrastructure, including in agriculture. And it must have a strategy on how to include poor people in growth by investing in the health and education of its people, tackling the roots of youth unemployment and under-employment and by encouraging small businesses, the most important of which in Africa are family farms.

### **A safe place to invest**

If people are to feel safe about investing their money in a country they need to feel confident about a whole range of things – that the law will be upheld, that contracts will be enforced, that business regulations will not be imposed merely to secure an endless stream of bribes for corrupt officials. They also need stable economic policies, good public financial management systems, predictable and transparent taxation and effective competition laws. These requirements are the same for domestic and foreign investors and in Africa, as in many other developing countries, 80 per cent of investment is domestic and 20 per cent is foreign. These measures work. In Tanzania, an improvement in the investment climate is behind the country's fastest growth in 15 years. In Mozambique, investment climate improvements have resulted in a doubling of private investment.

To spread these improvements across the continent the African Union's NEPAD programme has proposed setting up an Investment Climate Facility. Supporting this idea will not cost much – a total of US\$550 million from donors and the private sector over seven years – but the returns on that investment will be significant. The fund will act on key obstacles to doing business, including those identified by the African Peer Review Mechanism and other processes. It will help generate and shape policies across a broad range of areas and give the private sector a voice in deciding priorities on new infrastructure.

One of the most significant barriers to investment for Africa is that outsiders tend to perceive Africa as one large risky country – a view driven by the media and a lack of real information. But we are convinced, from the progress that we have seen across the region in recent years, and from what major international businesses have told us, that this view is wrong and outdated. Those who know Africa are more confident about investing. So the facility should address perceptions too. In addition, developed countries should support a fund of the world's public agency for risk-bearing, the Multilateral Investment Guarantee Agency, to insure foreign and domestic investors in post-conflict

countries in Africa. It would also be useful to extend support to domestic investors across sub-Saharan Africa which should boost investment significantly.

### **Improving infrastructure**

Problems with roads, rail, ports, air transport, energy, telecommunications and other infrastructure are cited by the business community and African Finance Ministers alike as one of the chief constraints on economic growth in Africa. And irrigation, energy, water supply and sanitation are among the top priorities for poor people. Africa needs to spend an additional US\$20 billion a year on infrastructure investments and maintenance between now and 2015 to sustain a growth rate of seven per cent.

As a first stage developed countries should provide an extra US\$10 billion a year to improve Africa's infrastructure. And subject to review, this should be increased again to US\$20 billion after 2010. It should avoid funding prestige projects that have so often turned into white elephants in the past but it should cover a whole range of infrastructure projects – from rural roads and irrigation of small plots to larger projects for electric power, ports and regional infrastructure. It should cover maintenance costs for existing infrastructure. Major projects could be built and delivered in partnership with the private sector. Decisions are required now if – given the time lags which attach to infrastructure investments – these levels are to be reached by the end of this decade.

### **Down on the farm**

Agriculture remains a central part of the economy in every country in Africa. More growth in agriculture is critical to more growth in the wider economy. It is also vital in another way. Since 80 per cent of people depend on farming for their incomes, growth here will have a particular impact on reducing poverty. And since women play the major role in African agriculture it will help combat the inequality women face in African life, which is a strong force for the deepening of poverty.

Agriculture is key to Africa. Evidence from across the world has shown that industrialisation follows a period of agricultural growth. But farming can itself provide real long-term growth, as rapidly expanding diversification into cut flowers and other non-traditional crops is showing in Kenya, Uganda, and Ethiopia. Yet at present agriculture has just two focuses: growing crops for subsistence and for export to the industrialised world. If a third is added – to grow staple foodstuffs for those parts of Africa which have regular food shortages – then agriculture could bring growth to areas which could be breadbaskets. That would simultaneously redress the situation where at least 25 per cent of the population is undernourished and close to half of African countries experience routine food crises. It would also reduce the need for food imports on the present scale – US\$22 billion worth of food with a food aid complement worth US\$1.7 billion in 2002. With an increasing population, markets in staple foods will be the fastest growing of all agricultural markets in Africa over the next 20 years. Given the current structure of spending, local demand for food will outpace growth of export markets.

What Africa's agricultural success stories show is that there is no single 'key' to unlock agricultural growth. As with so much in Africa, interventions have to take place simultaneously in a number of areas. Increasing production will be unrewarding without improving markets to sell produce or infrastructure to transport it. A number of interlocking areas must be addressed here, and not one at a time, but together.

**Irrigation:** Land which is irrigated is much more productive than land which relies on rain-fed agriculture. The crops it can produce are more valuable and yield is less volatile. They are available all year round and are far less susceptible to variability in weather conditions. And irrigation can be increased, with proper consultation processes, without



disadvantaging other users of water. The international community should increase funding for irrigation, in support of doubling the area of land under irrigation by 2015, initially focusing on funding a 50 per cent increase by 2010, with an emphasis on small-scale irrigation.

**Getting crops to market:** As much as 50 per cent of the harvest is lost in many parts of Africa because farmers are unable to get their goods to market. This is double the average in other developing countries. Developed countries should fund the creation of storage facilities, roads and energy infrastructure in Africa's rural areas. And an investment of just US\$30-US\$50 million over a 10-year period could save US\$480 million each year for maize alone.

**Research and innovation:** More research is essential. But it must closely address the problems and needs of local farmers in each place. Many valuable approaches and products, such as hybrid crops, are available already but more work is necessary. In this Africa must choose its own research priorities. The international community should support Africa's efforts to increase innovation in agriculture over the next 10 years. The support should be channelled through African research organisations and universities.

**Selling within Africa:** Crops for export are currently targeted at the international market. This brings an indispensable annual income of US\$17 billion. Yet Africa's internal market could be worth US\$50 billion a year. The development of local and regional markets would give smallholders and other producers greater opportunities to sell their food, and also the chance to diversify into new crops. This would require much better internal transport and local financial institutions to provide credit to poor smallholders and poor people.

**Land rights and secure tenure:** Giving poor people security of tenure on their land in both rural and urban areas is also essential to encourage local investment. Land reform is an intensely political issue in Africa and many donor countries have pulled back from addressing it in recent decades. But African governments must take measures to give poor people, particularly women, access to land and secure rights to their land. When people have title to their land they feel more confident about investing and also can use the title deeds as security to obtain loans.

### **The challenge of urbanisation**

Any strategy for growth and poverty reduction must take seriously the issue of urbanisation. Africa is the fastest urbanising continent in the world – around twice as fast as Latin America and Asia. In 25 years half the entire population will live in cities. Africa is well on the way to European levels of urbanisation – but without the economic base to sustain it. The cities are unable to cope, for this is 'premature urbanisation'. There are no industries to provide jobs and many people – around 72 per cent of the total urban population of Africa live in slums. Constantly threatened by eviction, the living conditions are made worse for such households by the lack of access to water, sanitation and other services. Nearly all of the urban populations in Chad and Ethiopia live in slums. Cities like Nairobi – where almost a million people live in Kibera, the largest contiguous area of slum settlements – are socially unsustainable.

All over the world, the management of cities is the direct responsibility of local authorities. But local authorities are seriously hampered by weak governance and a lack of capacity and resources. City authorities do not have the funds or the necessary professional staff to manage the rapid urbanisation process which has led to a shortfall of millions of housing units. African leaders made this a priority area at the African Union Summit held in Maputo in 2003. Countries like Nigeria, Burkina Faso, Uganda and South Africa have launched national Campaigns on Urban Governance. The growing consensus, under AfriCities, the African Union's NEPAD programme is that strong local governance,



decentralisation and systems of community participation are now essential. The international community should empower African governments in planning for rapid urbanisation. Capacity-building is essential at local government level to encourage emerging innovations such as UN-HABITAT's Slum Upgrading Facility which will set up loan guarantee systems for investment in housing for the urban poor.

### **The environment and climate change**

There is one final factor which will obviously be a major influence on Africa's future economic growth. It is the environment. Africa's poor people consistently highlight the importance of the environment to their livelihoods. Yet poverty interacts in a two way process with environmental problems like desertification, deforestation, biodiversity loss, land degradation and the depletion of fresh water. Improved environmental management is crucial to overcoming these challenges. African governments must include considerations of environmental sustainability in their poverty reduction strategies. And donors should strengthen environmental considerations in all their work in Africa, in support of the Environment Initiative of the African Union's NEPAD programme.

Climate change is a particular worry. The weather is becoming increasingly volatile in Africa. Rains seem to be failing more frequently. That is one reason why we have emphasised irrigation so strongly. Current predictions suggest a future warming across Africa of 0.2-0.5°C per decade. Africa is likely to get drier in northern and southern latitudes and wetter in the tropics, with significant variation within regions and countries. Climate variability and the frequency and intensity of severe weather events are likely to increase. Rising sea-levels, coastal erosion, saltwater intrusion and flooding will all impact on coastal communities and economies. In Tanzania, a sea level rise of 0.5 metres would inundate over 2,000 square kilometres of land. Climate-induced threats to agricultural productivity, to food security, water and energy security and to health will all undermine Africa's ability to develop.

The cost of inaction is high. The cost of environmental degradation in Ghana is estimated to be two per cent of national income. In 2000, devastating floods in Mozambique cost 700 lives and left half a million people homeless – and also caused economic growth to fall from eight per cent to two per cent that year. The frequency of these events can only increase with the growing impact of climate change which could be seriously destabilising politically for Africa. Without slowing global warming considerably, it is clear that the livelihoods of millions of Africans will be undermined. Developed countries should therefore set targets for greater use of new cleaner energy technologies to help mitigate greenhouse gas emissions. Donors should give in the region of US\$100m, over the next ten years, to improve climate observation, through the Global Climate Observing System, and build capacity in African research institutions. Donors should also make climate variability and climate change risk factors an integral part of their project planning and assessment, by 2008, and meet their commitments on funding to help African countries adapt to the risks of climate change.

### **Involving poor people in growth**

In all this, growth alone is not enough. Where incomes are unequal most of the benefits from growth go to the wealthy. Growth will not reduce poverty unless poor people are able to participate in it. And policies for growth must actively include, and take care not to exclude, the poorest people in opportunities for health, education and work. Specific action can be taken in the following areas.

The primary source of jobs in Africa is small enterprises, the most important example of which is the family farm. Many of these enterprises operate informally. In Africa, the informal economy covers most agricultural activities and the greater part of urban commercial activities, transport, services, craft and even small manufacturing industries.

The subsistence farmer, the street trader, the taxi driver, the shoeshine boy – the vast majority of people – all remain excluded from information, business services and access to credit. This is another aspect of the marginalisation of women, for African women often play a pivotal role in informal businesses; in Benin, women traders represent over 90 per cent of total informal trade employment.

Most small businesses – many of them involving a single individual – often rely on family and social networks to raise working capital to start-up and grow. In the last decade the growth of micro-finance institutions (MFIs) – so called because they deal in amounts too small to be of interest to commercial banks – has helped to mobilise savings and provide short-term credit to an increasing number of poor people. These MFIs have largely been started by charities, aid agencies and other non-governmental organisations. To magnify the success of MFIs requires banks to become involved, since they have potentially much greater resources, but at present most banks adopt a risk-averse short-term attitude to these smallest of businesses and shy away from them because the potential profit margin is too small.

Foreign businesses can also be of help in fostering opportunity. Multinational companies and major supermarkets in rich countries should go beyond seeing corporate social responsibility as a form of philanthropy and examine the impact their core business activity has on poor people. As a start, businesses must sign up to leading codes of good social and environmental conduct, including on transparency and corruption. But this must go beyond rhetoric or box-ticking. They must make sure their systems are adapted to the needs of African suppliers – including paying them promptly.

Larger foreign and domestic companies can nurture African business skills by targeting local staff for key managerial positions, mentoring the managers of small enterprises, providing access to business training, helping with access to finance. Donor governments should fund initiatives to broker such partnerships.

To assist all this developed countries should set up a US\$100 million Africa Enterprise Challenge Fund to increase the access small enterprises have to finance and their ability to make links with other businesses. The new fund should place particular emphasis on tackling youth unemployment and addressing the economic obstacles faced by women. To complement this, developed countries should give US\$20 million to the UN's Growing Sustainable Business Initiative in Africa to help foreign and domestic companies to develop commercially-viable investment projects to benefit poor people.

These measures on growth and poverty reduction, like all the others we have outlined, are an integral package which combines growth and governance. The mistake of the past has been to think that the one might work without the other.

## **More trade**

Trade has been a key driver of economic growth over the last 50 years, first in the Western world and Japan, and then more recently in China and India. Developing countries, particularly in Asia, have used trade to break into new markets and change the face of their economies; two decades ago 70 per cent of their trade was in raw materials, but today 80 per cent is in manufactured goods.

Alas, not in Africa. The last three decades, by contrast, have seen stagnation in African countries and a collapse in their share of world trade, which fell from around six per cent in 1980 to two per cent in 2002. This has been caused, in part, by the fact that the composition of Africa's exports has remained essentially unchanged. As more dynamic and competitive regions have made major shifts into manufacturing, Africa has been left behind. The task of catching up gets harder every day.

Analysing this tells us something very interesting. Many people think that Africa's problems in trade come primarily from the trade barriers imposed by rich nations. It is true that those barriers are absolutely unacceptable. They are politically antiquated, economically illiterate, environmentally destructive and ethically indefensible. As we shall say in a moment, they must be scrapped. But – contrary to what is often supposed – there is also another cause, and that is this: Africa simply does not produce enough goods to trade, at least not of the right kind or quality, or at the right price. Addressing those questions, as well as the trade barriers Africa faces, are key if Africa is to prosper.

To grow, trade must have the same climate as does the rest of the economy. But there are three other areas in which Africa, with support from the rich world, must make changes: improving transport infrastructure, reducing Africa's internal barriers to trade, and diversifying African economies away from current levels of dependency on primary commodities.

### **Improving transport infrastructure**

Africa needs a functioning transport and communications system to get its goods to market. This is one key area in which rich nations can help. At present the costs and difficulty of moving goods in Africa can be far higher than in richer countries – in many cases double. For landlocked countries transport costs can be three-quarters of the value of exports; transport costs impose the equivalent of an 80 per cent tax on clothing exports from Uganda. These kinds of costs make it extremely difficult to get goods to market at a competitive price. And the problem is not just with land transport. It costs about the same to clear a 20-foot container through the port of Dakar as it does to ship the same container from Dakar to a north European port. This is why transport is such an important element in the infrastructure package we have already recommended above.

### **Clearing away the roadblocks**

Africa has many internal barriers to trade, which damage its ability to grow its way out of poverty. These include excessive bureaucracy, cumbersome customs procedures, and corruption by public servants using bribes to supplement their meagre wages. The African roadblock stands as symbol of many of these. Checkpoints, official and unofficial, are characteristically found on any major African road. The journey from Lagos to Abidjan encounters one every 14 km. In Côte d'Ivoire, to get a single lorry from one side of the country to the other typically adds US\$400 to the journey in official payments and bribes.

Customs urgently need reform. Africa suffers from the highest average customs delays in the world, 12 days on average. Estonia and Lithuania require one day for customs clearance; Ethiopia averages 30 days. Customs procedures are often Byzantine in their complexity. Average processing involves 20-30 parties, 40 documents, 200 bits of information, of which 30 have to be repeated at least 30 times. Customs delays throughout Africa add over 10 per cent to the cost of exports. That alone is more damaging than many rich country trade barriers.

Another problem area is the lack of trade between African nations. A mere 12 per cent of all African goods go to other African countries. To improve that requires Africa to reduce its internal trade barriers. That means reducing and simplifying African tariff systems, and eventually creating regional free-trade areas. It means reducing regulatory and other barriers at borders. The size of truck axles and axle load regulations vary between Botswana, Namibia and Zambia. And there are three different rail gauges in Africa.

Many African governments fear that removing these barriers will cut their income. Customs revenues provide up to a quarter of government revenue in Africa. But experience shows that it is possible to reduce tariffs and still maintain revenue. Lesotho

tripled its income when equalisation of VAT rates with South Africa and other arrangements reduced smuggling and simplified revenue collection at the border.

African governments have been pressing for decades for rich countries to remove their trade barriers but they could do far more to reduce their own internal restraints on trade. Yet many of these are relatively easy to remove, and it could be done unilaterally. This ought to be an uncontroversial priority for action in Africa. The clean-up of the Mozambique customs service, and the rapid transformation of the Tanzanian port of Dar es Salaam to world standards of efficiency, show what is possible. In Mozambique, goods are cleared 40 times faster than before reforms took place; and customs revenue in the first two years increased by 38 per cent. African governments should make reforms in this area an extremely high priority.

Donors should fund African governments' moves to remove internal tariffs and regulations barriers. They should support reform of customs and port administration, sharing expertise in areas such as automating customs systems. This will not require very substantial donor assistance, but will have major economic pay-offs.

### **Reducing primary commodity dependency**

The biggest single action that Africa could take to reduce its dependency on raw materials is to help large firms and family farms break into new products and activities. Strong support from G8 and EU countries in infrastructure, as described earlier, is key to building this capacity to trade, but they should also help Africa develop the capacity to process agricultural products and improve the productivity and quality of raw materials. They should fund the development of organisations to help small farmers market their produce. Supermarkets could do more to make it easier for household farmers to become suppliers.

### **Fairer trade**

First do no harm, is one popular summary of the Hippocratic oath taken by doctors through the ages. The maxim should also be applied to the responsibility that the rich world has towards Africa. The trading relationship between the developed and developing worlds has long been one dominated by a complex web of rules, taxes, tariffs and quotas which massively bias the entire business of international trade in favour of the rich. As well as helping improve Africa's capacity to trade competitively, G8 and EU countries must compete more fairly. There are three key areas where developed countries can do more. They should do a deal at the Doha Round of World Trade Organisation talks that genuinely helps development. They should make their existing 'trade preferences' work better. And they should provide cash to help African countries adjust to new trading opportunities.

Agriculture is the activity from which the vast majority of the poorest Africans make their living; by contrast agriculture is not of great economic importance to most developed countries, accounting for a few per cent of national incomes, or less. Yet the agricultural sectors of many G8 and EU countries are the most heavily subsidised and protected in the economies of the industrialised world. Rich countries spend around US\$350 billion a year on agricultural protection and subsidies – which is 16 times their aid to Africa. The European Union is responsible for 35 per cent of this, the United States for 27 per cent and Japan for 22 per cent.

These policies have a harmful effect in both the poor and rich worlds. Taxpayers and consumers pay heavily to support their farmers – though, ironically, it is not small farmers in the EU and US who benefit: they get only four per cent of the subsidy, with more than 70 per cent going to the 25 per cent richest farmers, landowners and agribusiness companies. The result is that the EU subsidises sugar beet at such high levels that it is

grown in Europe in places where it is economically irrational and inefficient to do so. And in the US subsidies to just 25,000 US farmers, who are paid twice the world market price for cotton, threaten the livelihoods of more than 10 million people in West Africa who produce the crop for a third of the price.

Reform of the EU Common Agricultural Policy is essential, as is further reform of protection and subsidies to American and Japanese agriculture. There are many other ways for rich countries to exercise their right to support their rural areas, such as direct income support to farmers, and investments in rural development and in the environment. Using farm protection to ruin the livelihoods of millions of poor Africans is morally inexcusable.

Action to rectify these trade imbalances must be taken in the following areas:

### **Taking out the tariffs**

Developing countries face disgraceful barriers in the markets of the developed world. Agriculture is the most important export sector, by far, for the poor people of Africa. Yet, knowing that, Europe puts taxes on agricultural produce which are three to four times higher than its tariffs on manufactured goods, and even higher in products of interest to Africa. It is essential that rich countries stop discriminating against the few goods in which Africa has a comparative advantage. G8 and EU countries should accelerate the process of dismantling their trade barriers to give Africa a chance to expand exports – by progressively reducing all tariffs to zero by 2015. This should be a top priority at the World Trade Organisation's Doha Round negotiations.

And there are new barriers too, such as health and safety standards, where help is needed. If the EU used international standards on pesticides on bananas, instead of its own, African exports would grow by US\$410 million. The G8 and EU should apply a 'development test' when designing and setting standards in order to avoid doing major development damage for minimal gains. Rich countries should fund Africa to meet these new standards.

### **Scrapping the subsidies**

Rich countries must also stop subsidising their own farmers to over-produce, undermining world prices, and then dump their surpluses on African markets. When trade ministers meet in Hong Kong in December this year, G8 and EU countries should bind themselves to end all export subsidies and trade distorting support by 2010. As a down-payment, trade-distorting support to cotton and sugar should be scrapped immediately. By doing this and by cutting tariffs they will cut massive wasteful spending, and provide huge benefits to their own public, and to Africa and other developing countries. These reforms could be win-win for everyone. The money saved could be shifted to rural development and environmental needs in the rich world, and aid could be increased to Africa.

### **Progress on Preferences**

Contrary to popular belief, which holds that Africa is completely shut out of the markets in rich countries, the continent has substantial access to developed nations' markets through a range of 'preference' schemes – a system by which high income countries grant partial access to their markets to developing countries.

But these preferences do not work as effectively as they should. They are often temporary and unnecessarily complex (just trying to meet their demands can cost up to 10 per cent of the value of goods entering the scheme). Some have rules which are applied in a deliberately obstructive manner: 'Rules of Origin', intended to determine that the goods exported from the poorest African countries were genuinely made there, are being taken

to ludicrous extremes – to the extent that fish are ruled ineligible if the boat they are caught from is Ghanaian but the master of the vessel is South African. The US system has been more helpful for some countries in textiles. It allows the poorest African countries to import garments even if they are made from cloth manufactured elsewhere; 'origin' status is conferred for assembly alone. This approach has created 40,000 jobs in the Lesotho textiles industry.

G8 and EU countries should, as a first step, extend their schemes to cover all low-income countries in Africa so that poor countries such as Ghana, Côte d'Ivoire and Kenya are not excluded. They should apply Rules of Origin to allow countries to source their inputs competitively from anywhere in the world, and requiring from countries only that they add a minimum of 10 per cent of value in their manufacturing or processing industries.

Making these schemes work better could raise African incomes by up to US\$5 billion a year, and increase growth across the continent by as much as one per cent.

### **Assisting with Change**

Preferences cannot be a permanent system. Eventually Africa must adjust to open competition with the rest of the world. Making those adjustments is a gradual business which is what negotiations at the World Trade Organisation are about. But those changes involve costs. The rich world must help fund this change and smooth the adjustment. This means: helping poor people benefit from the new opportunities created, and assisting those whose incomes may reduce; supporting governments to meet losses in trade revenue; countering the impact of higher food prices for some importing countries; and assisting countries to adjust to losses as the value of preferences erode when rich country trade barriers come down.

### **Development at Doha**

Finally – but perhaps most importantly – what Africa most needs is an ambitious agreement at the Doha Round of world trade talks by no later than the end of 2006. That cannot happen unless rich countries agree major reductions in their subsidies of their agriculture. It cannot happen without the rich world's trade barriers coming down. It cannot happen without dropping the idea that poor nations must make reciprocal concessions in return for those of rich countries, this is not a level playing field. Trade liberalisation must not be forced on Africa as a condition of trade or aid negotiations. Individual African countries must be allowed to sequence their trade reforms in line with their poverty reduction and development plans, and not be forced to open up their markets to foreign imports on terms which damage their infant industries. The World Trade Organisation allows 'special treatment' for developing countries, but this must work better to deliver what we have described above. And developed countries must provide the increased aid necessary to help Africa adjust to more open markets.

Any deal at Doha must allow reforms to proceed at a pace agreed by Africa, not forced upon it. The discussion must adopt a more transparent and inclusive style of decision-making than is often the norm at WTO negotiations. And it must ensure that poorly-staffed African governments can get a fair deal when involved in highly-complex rules-based trade negotiations in which rich countries have large teams of highly-paid lawyers.

And while Doha is a multilateral process, bilateral measures – such as free trade agreements negotiated between the US or EU, and Africa – can cause harm by forcing additional demands. The EU must ensure that the Economic Partnership Agreements it is currently negotiating with Africa are designed primarily for development, guided by the same principles that we call for in the Doha Round – and providing African products with full access to the EU market, with the EU not demanding concessions from Africa in

return, and providing the aid necessary to increase Africa's capacity to trade. Such negotiations must pay adequate attention to the impact on poverty.

All of these policies – increasing opportunities for trade, and lifting restraints on trade – must be pursued together. We realise this is an ambitious agenda but we believe it to be a realistic one. Anything less will not offer Africa the opportunities it needs to increase trade, in both traditional products and new ones. And it should not be separated from the other recommendations of this Commission. Africa will never break out of its interlocking vicious circles with piecemeal solutions and policy incoherence.

## Where will the money come from?

When you are stuck with a really tough problem, Albert Einstein once said, you have to change your mental approach entirely. More of the same will not get you anywhere. You have to move your thinking to a different level.

The same is true when it comes to Africa, and the question of how the world is to finance the changes that are required. The problems we are addressing are huge. They are the result of three decades of stagnation. To agree a few more incremental steps along the road already travelled will get us nowhere. Change requires a quantum leap. That is why we are suggesting a doubling of aid to Africa within the next three to five years.

That is a lot of money. But this is not a time for timidity. Get it right and in two decades we should be looking at a strong and growing Africa, for which aid is needed in ever decreasing amounts, as has happened in Asia. Get it wrong and many of the children of Africa will be doomed to a life of abject misery as their mothers and fathers have been – and things will actually get worse.

Three changes are necessary now: continued improvements in governance in Africa, a substantial increase in aid from the international community and a significant change in the way donors do business in Africa.

The major programme of reform we have outlined – in governance, public investment and social expenditure – will cost, we estimate, an additional US\$75 billion a year. There is no prospect of Africa paying for this alone. At present Africans pay as much or more tax, proportionate to their income, as the citizens of other low-income countries. But it can never be enough to break out of the present deadlock. So how are we to finance the extra investment and expenditures needed?

What we propose is a two-stage approach. First we recommend that African governments and donors, over the next three to five years, get to a halfway point. That will mean a third of the initial amount of resources needed (roughly US\$12.5 billion) being provided by Africa – through increased tax revenue coming from extra growth. Two-thirds of the resources (US\$25 billion) will come from an increase in aid. Progress should then be reviewed. Subject to improvements in African governments' managerial and administrative capacity, and improvements in the way aid is delivered, we would recommend a further increase in aid of US\$25 billion a year. Africa can find its increased contribution by leveraging other sources of financing, including domestic savings, foreign and domestic investments, and by more efficient and transparent public finances.

To attempt to give extra aid faster than that would not be sensible because, as we shall set out shortly, at present Africa does not have the capacity to handle it effectively – though it is important not to overstate the case. This two-stage proposal is both realistic and practical. Anything less will not give African economies the kick-start they need.

There may be those who ask whether aid is the right solution at all. Certainly Africa can and should pay for part of the required increase in expenditure. But the amounts needed



to achieve the critical mass necessary for change are of such an order that the bulk will have to come from the rich world. Aid is the only credible source of this. And the US\$25 billion that is required in the first stage is, after all, only an extra 0.1 per cent of the income of rich countries; just 10 cents in every US\$100.

### **Does aid work?**

Extensive studies done in recent years show that, when a strong commitment is made to change governance, aid works. It is bringing education – free to 1.6 million children in Tanzania in 2002. It is bringing healthcare – increasing the number of poor out-patients by 87 per cent in Uganda since 2000. It eradicates disease – smallpox was wiped out by a little more than US\$100 million worth of targeted aid. It brings growth – Mozambique grew at an astonishing 12 per cent in the 1990s, while aid accounted for about 50 per cent of national income. All of these examples are representative of many more. Analysis by the World Bank suggests that average rates of return on its aid projects in Africa exceed 20 per cent.

Yet despite this, the system for allocating aid to African countries remains haphazard, uncoordinated and unfocused. Some donors continue to commit errors that, at best, reduce the effectiveness of aid. At worst, they undermine the long-term development prospects of those they are supposed to be helping. Rich countries pursue their own fixations and fads, often ignoring the needs prioritised by African governments. The amounts they give are unpredictable, sometimes varying by as much as 40 per cent from one year to the next. They tie aid so that it can only be used to buy the donor's own products or services – effectively reducing the value of aid by as much as 30 per cent. Tied aid should be scrapped. They continue to attach unnecessarily detailed conditions to aid packages. They insist on demanding, cumbersome, time-consuming accounting and monitoring systems – and refuse to link with the recipient's systems. They are insufficiently flexible when it comes to reallocating aid to new priorities in the face of a national emergency. They don't respond quickly, or appropriately, when natural or economic disasters strike, such as droughts or floods, unexpected hikes in oil prices or falling commodity prices.

It is time to change all that to bring the bad aid up to the standards of the good aid, and to make this change decisively and quickly. G8 and EU governments should do this immediately, in the following key areas:

More aid should be provided as grants rather than loans. This will avoid adding to Africa's existing debt burden. It will also allow aid to be targeted in places where loans are inappropriate – through regional bodies, local government or faith communities.

Aid should be pledged over longer timeframes and be predictable. Up to 80 per cent of African education spending, for example, goes on teachers' salaries. How can governments train and employ more teachers if they do not know whether the funds will still be there to pay their salaries in three, five or ten years' time?

Aid should be aligned to the priorities and systems of African governments, not to those of donors. Where governance is already good, aid should be paid directly into African government national budgets; where not, aid should wherever possible be channelled in ways that improve local systems rather than trying to bypass them.

Rich countries should harmonise their aid policies and delivery systems to reduce the burdens placed on already stretched African governments.

Donors should encourage African governments to respond primarily to the needs of their people, rather than to the strictures and processes of the international community. For aid to be effective it has to be accountable to the people it is meant to benefit.



A US\$4 billion a year fund should be established, possibly within the African Development Bank, to cushion African governments from unanticipated shocks to the economy, such as natural disasters and sudden drops in commodity prices caused in part by the unfair global trade regime, which can destabilise the economy and reduce national income by up to three per cent.

### **How much aid can Africa usefully absorb?**

There is one other pivotal issue. Despite the glaring needs across Africa, there is a limit to the number of roads, dams, schools, and clinics that can be built and serviced effectively in any one year. Africa only has so many technical experts and managers to plan, budget and build. There are also other factors – macro-economic, institutional, physical, human, social, cultural and political – which limit the amount of aid Africa can absorb and use effectively in one go. The shorthand which economists use to describe this is 'absorptive capacity'. No analysis of aid can afford to ignore this problem and the Commission has examined it very carefully.

Absorptive capacity depends critically on two things: African governance and the quality of the rich world's aid. Donor countries should, as we have said, both support changes in governance and move strongly to improve the quality of aid. The evidence we have suggests that African governance has already improved, as has the quality of aid, to the extent that US\$25 billion extra could be used effectively now. And, if current trends continue and outside support works effectively, five years from now Africa will be able to absorb another increase of a similar order.

### **Is extra aid forever?**

There are those who fear that aid invariably induces dependency. This only happens where economic growth does not occur. When growth comes, aid can fall away. This has happened around the world. For example, South Korea has switched from being a recipient of aid in the 1960s to a contributor of aid in the 1990s.

It has happened in Africa too where, as we have seen, Botswana has been transformed from one of the countries most dependent on aid into a middle-income country no longer in need of significant amounts of external assistance. Donors have begun to phase out their funding there. Botswana has done this through strong political leadership and sound management (including in the aid sector where the government was willing to reject aid which did not fit in with its policies and priorities). The number of people living in extreme poverty has fallen dramatically. With high economic growth, Botswana proves, the need for aid falls slowly away.

### **What about debt?**

What Africa does not need is negative aid – which is what the payments to service its debt, in effect, constitute. Sub-Saharan Africa's total external public debt totalled US\$185 billion in 2003. That burden clings like a heavy parasite to the body of every man turning the soil in his field, every woman carrying a heavy pot of water from the well, and every child who cannot go to school. With debt, progress is slowed. Countries with high levels of public debt generally have lower rates of economic growth.

Much of Africa's debt, given the current state of its economies, can never be repaid. The international community has made some acknowledgement of this in the past, with programmes of debt reduction. It is time for the developed world to own up to the fact that where debt could never be repaid, debt 'relief' merely relieves the creditor of a balance sheet fantasy. And it perpetuates the situation whereby debt discourages private investment, and increases the flight of capital out of African countries.

More than that, decisions on debt-reduction have been made primarily taking into consideration how "sustainable" a country's debt was – that is to say how much in debt repayments it could afford while still functioning as an economy. This never bore much relation to reality, indeed only four countries have succeeded in getting to 'sustainable' levels of debt according to the narrow criteria of the HIPC debt-relief programme. Decisions on debt relief should be taken in accordance with the same poverty-reduction criteria that are used for making decisions on aid – that is, whether it will be well used to promote both the growth and participation in growth by poor people which together reduces poverty.

For poor countries in sub-Saharan Africa which need it, the objective must be 100 per cent debt cancellation as soon as possible. This must be part of a financing package for these countries to achieve the MDGs, as promised in Monterrey and Kananaskis. The key criterion should be that the money be used to deliver development, economic growth and the reduction of poverty for countries actively promoting good governance. Accordingly, work should begin immediately to establish a transparent debt compact to include all sub-Saharan African low-income countries, including those excluded from current schemes. It should cancel debt stock and debt service by up to 100 per cent, and cover multilateral and bilateral debt. As an urgent measure, financing should immediately be put in place to provide 100 per cent multilateral debt service cancellation, where this is necessary to achieve the MDGs.

And relief should end in 2015 to avoid the risk of new loans being taken with the expectation that they subsequently will be written off.

### **Raising the money**

There are a number of ways in which the additional aid could be raised. Several nations have recently committed themselves to reaching the UN target of giving 0.7 per cent of their national income in aid. Other G8 and EU nations should now follow this example and announce timetables for reaching the 0.7 per cent target. Within these aid budgets, particularly in the context of a potential global increase in aid of US\$50 billion, there is a strong case for reallocating money so that less goes to middle-income countries and more goes to poor countries, especially Africa which is the only region in the world that is not growing.

But this will not be enough. To provide the amounts which are essential to give Africa the momentum it needs will require a lot of assistance now. Investing in the education of children, in improving health standards, in building infrastructure, in improving governance and in creating a climate which encourages people to invest in creating new jobs is, of course, good for poor people today. But it also establishes a stronger base for future economic growth. And all of these measures improve the prospects for the success of one another. Done together they can create the opposite of a vicious circle – a virtuous one. But if they are done separately, in piecemeal efforts, spread over time, they will lose that mutually-reinforcing effect. That is why it is necessary to take the aid money to be pledged for the next decade and to spend a large amount of it up-front. Not to do that would be to fail to learn the lessons of the past.

This front-loading of aid is not just right in humanitarian terms – because it swiftly attacks today's poverty – it also makes economic sense. Investing more aid now will give higher returns on the overall investment. G8 and EU countries should front-load their aid commitments so that a critical mass of money can be deployed soon. They should commit now to a phased doubling of aid for Africa. This should be financed through the immediate launch of the International Finance Facility (IFF). Under this, donors would make long-term and binding pledges on aid; using these commitments as security the IFF would raise money

now from the international capital markets by issuing bonds, which donors' future pledges would repay. The IFF would not require an increase in aid budgets from donor governments; it is founded on the additional aid commitments for the future that many countries have made, in particular the countries with commitments to reach the 0.7 per cent target. Nor would it require a doubling of aid bureaucracies, since it could work more through existing systems to pass more money directly into Africa government budgets.

An additional and complementary approach is to raise finance through international taxes, levies or lotteries. One example would be a voluntary levy on airline tickets to reflect the costs inflicted by carbon emissions. A number of other innovative proposals have been suggested to help address the funding gap. Further work should be undertaken to come up with specific practical proposals.

Doubling aid to Africa may sound ambitious. In reality it amounts to giving every man, woman and child on the continent just an extra 10 US cents a day. If efforts now are too small and uncoordinated to be effective, the world will be faced with the prospect of a permanent aid programme to Africa.

## Making it happen

How then will we ensure that the world delivers on what this Commission has proposed?

First, by ensuring that Africa's development is shaped by Africans. History has shown that development does not work if it is driven from outside. Regardless of how well-intentioned outside donors may be, they will never fully understand what Africa requires. "No matter how long a log stays in the water it doesn't become a crocodile" as one of our Commissioners, President Benjamin Mkapa of Tanzania put it, quoting a proverb from the Bambara people of Mali. Africans must lead, and the rich world must give support.

The history of the past few years should make eliciting that support easier. Africa's changing actions are creating the case for strong external assistance. And conditions for success have not been better for 30 years.

To make good that promise will take a clear programme of action, based on sound evidence. That is what we have sought to provide here. The development community has learned much about what works and what does not, from the successes and failures in Africa in the last few decades. That evidence has been behind the proposals in this report.

We have tried to make our proposals clear and specific. But we have also tried to show that Africa's interconnected problems can be solved only by an interconnected raft of proposals. Piecemeal solutions are doomed to fail. A big push is required on many fronts at once.

If those solutions are to work, changes must come within many institutions, both in Africa and in the developed world. Inside Africa the priority is strengthening institutions by building their capacity and making them more accountable to ordinary people. That will not work without increased financial support from the rich world.

The best way to deliver that support is to put aid into African government budgets and let them prioritise the spending of it. This direct budget support ensures that aid goes most effectively to the government's agreed development priorities. It also keeps the additional monitoring and reporting costs for African governments to a minimum. It should be predictable and long-term, though clearly there must be break-clauses if the internal situation changes radically.

But this will only work where a government has a clear development strategy in place – and where the budget system is open and transparent. Where this is not the case a sector-wide approach to a particular area such as education or health may be more

appropriate. And where governance is too poor for donors to have confidence in sector-wide approaches aid may best be paid into specific projects run by aid agencies or other non-governmental organisations. Project support of this sort can make a real difference at grass-roots level, but by definition cannot help build the capacity within government which is a prerequisite for long-term development – which is why we encourage donors to move wherever possible along the spectrum from project aid to sector-wide approaches, and from these to direct budget support. At the very least, however, donors should ensure that projects do not run counter to African governments' development and budget priorities. Nor should they undermine African efforts to improve the capabilities of government ministries.

Africa's trans-national organisations need support too. Its Regional Economic Communities have great potential – as the 'building blocks' of the African Union – but have as yet only weak capacity and are all too often diverted from long-term development issues by crises or conflict. They require the support of the international community, as does the African Union and its NEPAD programme, the Economic Commission for Africa and the African Development Bank whose shareholders should ensure that it now develops the vision and takes the steps to become the pre-eminent financing institution in Africa. It is these organisations which have developed the 'agenda for change' which is Africa's new hope.

Change is necessary too in the institutions of the developed world. Donor countries must co-ordinate their work better with one another, and also with Africa's national strategies to reduce poverty. The World Bank, IMF and World Trade Organisation and the UN all need to do better on Africa.

The World Bank must shift more of its resources, including staff, to Africa, and must provide more of its assistance as grants rather than loans in poor countries. It should focus more staff on states with weak and unstable institutions. It should make longer-term aid commitments and increase the predictability of its aid flows. And it should improve its co-ordination with other donors, including UN agencies, who should strengthen their own co-ordination at country level.

The IMF could help developing countries by assessing and publicising information about their budget and accounts, so enabling citizens to hold their governments accountable as well as supporting external assessments, such as those for debt negotiations. It should avoid creating ill-judged limits on what countries can spend and should promote a better allocation of grants to poor countries. It should change its corporate culture to show greater flexibility.

Both the Bank and the Fund need to micro-manage less and reduce the amount of conditions they place on poor countries. The only conditions that should be laid down are that African government policies must focus on development, growth and poverty reduction, and that in their handling of their budgets they must be transparent and accountable to their voters. If African governments are left to make the hard decisions themselves, as more and more are showing themselves willing to do, reforms are more likely to stick. "One who bathes willingly with cold water does not feel the cold" says a Tanzanian proverb.

In World Trade Organisation (WTO) negotiations, rich countries should seek only minimal concessions from poor countries in return for making major concessions themselves. The reciprocity traditional in trade negotiations will not help Africa overcome the huge obstacles it faces. Nor should poor countries be blackmailed into accepting a plethora of complex arrangements as the price for admission to the WTO. Declarations to this effect should be made by rich country ministers at the next WTO meeting.

The World Bank, IMF, and WTO management must prepare strategies for Africa that reflect these points, preferably for their 2005 annual meetings. The WTO strategy should be agreed at the organisation's 2005 ministerial meeting. What is fundamentally important is finding ways of increasing the accountability of these institutions to their shareholders and clients. One option is the creation of a monitoring group to assess the quality of donor assistance in each country; this could be independent or it might be made up of representatives of the recipient government and the donors. But what is crucial is that Africa is given greater say in decision-making in these multilateral bodies. African representation should be increased on the UN Security Council. Africa should be given a stronger voice on the executive boards of the World Bank and IMF. Moreover, the strategic direction of these institutions should be put in the hands of decision-making Councils whose members would be accountable to political leaders with authority to speak for the member countries.

Responsibility for these reforms lies with the political leaders of the member countries, who must make these international financial institutions more open and publicly accountable. As a signal of this the top jobs in the IMF and World Bank should no longer be restricted to candidates of Europe and the United States and but should be filled through open competition. If reform is not forthcoming the international public will be forced to the conclusion that these institutions, established after the Second World War, are becoming increasingly irrelevant in our post-Cold War, post-apartheid, post-11 September world.

Our proposals add up to a detailed blueprint but they will do little good without mechanisms to monitor them. There are a number of existing bodies which might be charged with the task but they either have limited briefs or no teeth to enforce delivery. Therefore, to add extra force to our recommendations this Commission proposes an independent mechanism to monitor progress on the implementation of what we have proposed. This could, for example, be led by two distinguished and influential figures who carry weight in the international community, one African and one from the donor community, who could produce a short, open and focused annual report. They should be supported by a small unit within an existing international or African institution.

But no matter how clear the recommendations, or diligent the monitoring process, none of this will happen without political will. Only that will close the yawning gulfs of the past between commitments and delivery. To build that political will requires Africa to become an issue which cannot be ignored in the domestic politics of G8 countries.

We know that – with the help of parliamentarians, the media, the aid agencies, the churches and other faith groups, the trades unions, the African diaspora and the business community – this can be done. Individual voices and grassroots action can make a profound difference. The Jubilee 2000 campaign proved that. It was started by two individuals and ended with a million people on the streets worldwide, demanding that the debt of poor countries be dropped. The governments of the rich world were forced to listen and US\$100 billion worth of bilateral debt was written off.

That is why this year's international Global Call For Action (Make Poverty History) campaign is so important. We hope that 2005 will be the year when 100 per cent of the remaining multilateral debt is cancelled. At the launch of that campaign, in London in February, Nelson Mandela told a crowded Trafalgar Square: "In this new century, millions of people in the world's poorest countries remain imprisoned, enslaved and in chains. They are trapped in the prison of poverty. It is time to set them free."

Only a sense of public indignation at that state of affairs will bring our politicians to make the commitment to take the necessary decisions to do that. And this time to stay the course.

## **Broken promises and squandered opportunities**

Anyone drawing up a plan for a major programme of action such as the one proposed by this Commission becomes acutely conscious of one thing. The relationship between Africa and the developed world is a story of hopes raised, and constantly dashed – of promises broken and opportunities squandered. African leaders themselves, of course, cannot be acquitted on this charge. Africa has fallen short on its commitments too. Pledges to commit 15 per cent of national budgets to health have not yet been realised. Sweeping commitments to gender equality have yet to be turned into action. But the catalogue of unfulfilled undertakings by the leaders of the wealthy world is a source of some shame.

Pledges of 'education for all' have gone unfunded. So have commitments on HIV and AIDS. Initiatives to curb corruption are unratified and unimplemented. The world says "never again" after every major atrocity, but turns a blind eye to the trade in small arms. Codes of conduct by multinational companies remain mere exercises in public relations. Trade rules are applied vexatiously. Promises on aid are seen as impossible targets. Debt forgiveness schemes are hedged about with intractable restrictions. Wealthy nations make well-intentioned pledges at international conferences only to later decide that the promises, or their timetable, were unrealistic. Goals are set, reset, and recalibrated yet again so that all the rich world ends up doing is mitigating the extent to which it has failed. The gap between promises and reality never closes.

Today the world community has before it another great pledge. Five years ago in New York every world leader, every international body, almost every single country, signed up to an historic declaration. The Millennium Declaration reflected a shared commitment to right the greatest wrongs of our time. The Millennium Development Goals were an extraordinary plan which promised that by 2015 every child would be at school. That by 2015 avoidable infant deaths would be prevented. That by 2015 poverty would be halved.

But already those noble ambitions are receding into the distance. Despite the pledge to find the necessary resources – and despite a renewal of the commitment at the UN conference on Financing for Development in Monterrey in 2002 – Africa is well behind target on reaching all the goals. A measure of how far is graphically revealed in the UN Millennium Project report – Investing in Development – which was published in January 2005.

On current projections the halving of poverty will come not by 2015 but by 2150 – that is 135 years late. Africans know that it is often necessary to be patient but 135 years is too long to ask people to wait, when their children are dying while the rest of the world has the medicines to heal them. It is too long to wait for justice.

The Millennium commitment was a bond of trust, perhaps – to quote another of our Commissioners, the UK Chancellor Gordon Brown, "the greatest bond of trust ever pledged between rich and poor". Promises made to poor people should be considered particularly binding. The cheque offering international justice must not be returned, to use a vivid phrase of Martin Luther King, with the words "insufficient funds" scrawled upon it. The danger we face today is that what began as the greatest bond between rich and poor for our times now risks turning into the greatest betrayal of the poor by the rich of all time.

The problem is not that the Millennium Development promise was wrong, the pledge unrealistic or the commitment unnecessary. It is that the world has been too slow in developing the means to honour it. Fulfilling the commitment requires strong and urgent action. The Commission for Africa's programme of action – improving African governance and infrastructure, giving the continent further substantial debt reduction, doubling aid to halve poverty and opening up trade opportunities – shows that there is a realistic way of doing that. Without a programme like that the Millennium Development Goals will perish

as yet another pious aspiration. And Africa will remain, in the words of the chairman of this Commission, a scar upon the conscience of the world.

## Why bother?

There will be those who will say we have been too ambitious or unrealistic. Grand overviews have been tried before, they will say. In the late 1970s the Brandt Commission spent seven years analysing the issue of global poverty. Its report, North-South, proposed a number of reforms to the world economic system with the aim of integrating Third World countries into the global economy. The changes which followed were only piecemeal, but this need not always be the fate of such initiatives. People were scornful too after the Second World War when the Marshall Plan was announced. In 1948 the US Secretary of State, General Marshall, faced with a Europe in ruins, proposed a wide-ranging plan for reconstruction. He started with a narrow view of emergency aid but quickly came to the conclusion that there were deep social and economic issues that must be addressed.

The result was that the richest country in the world – the USA – agreed to transfer one per cent of its national income, every year for four years, to finance the development of a ravaged post war Europe. Rich countries are now much richer and the additional US\$25 billion a year we are proposing as a first stage is just an extra 0.1 per cent of their income. It should be used to take action in a broad number of areas, simultaneously, as the Marshall Plan did. The Marshall Plan worked. We should remember that.

What Africa requires is clear. It needs better governance and the building of the capacity of African states to deliver. It needs peace. It needs political and economic stability to create a climate for growth – and a growth in which poor people can participate. It needs investment in infrastructure and in the health and education systems which will produce a healthy and skilled workforce as well as a happy and fulfilled people. It needs to trade more, and on fairer terms than the rich world has allowed to date. It needs more debt-relief. It needs aid of a better quality than at present. And it needs a doubling of aid to pay for this.

Without simultaneous co-ordinated undertakings across a whole range of areas Africa's economic revival will be halting if it happens at all. But if Africa gets the 'big push' we recommend, the continent ought – sooner than many people might expect – be in a better position to stand on its own feet, and eventually make aid a thing of the past.

In all of this Africa must take the lead, but in all of it Africa will require considerable support from the rich world, which will have to give more and also change its behaviour – on international trade, on debt-relief and on including Africa more in the considerations of its institutions.

Why should the rich world bother? For a start, out of self-interest. A stable and growing Africa will provide a market of several hundred million people into which the rest of the world can sell its goods and services. Africa has the potential to be transformed from a place of privation to one of opportunity. It will also provide a stable source of supplies. Africa holds seven per cent of world oil reserves, and generated 11 per cent of global oil exports in 2000. By 2015, West Africa will provide 25 per cent of the oil imports into the United States. And its richness in natural resources is not confined to the more traditional commodities. It is the primary source of coltan, the essential component of the world's mobile phones. As the world changes and grows it is likely that Africa's rich resources will continue to be vital to the world's prosperity.

By contrast, if Africa persists in a state of insecurity and economic stagnation that will not just be bad for Africans, it will be bad for the rest of the world. It will lead to still more powerful pressures for migration, legal or illegal. And an Africa which is unable to



control the spread of disease will not only condemn countless numbers of African children, women and men to an unnecessary death, it will also be a source of disease for the world as a whole in an era of globalisation.

Moreover – as the events of September 11th 2001 have emphasised all too starkly – an Africa with failing states and deep resentment can become a source of conflict which is not only internal but spreads across continents in international terrorism and crime. Cells of groups linked to al-Qaeda are thought to be in operation in Kenya, Ethiopia, Somalia and Sudan and terrorist attacks have already taken place in East Africa. Indeed al-Qaeda's first outrages were in Africa, with the bombing of the US embassies in Nairobi and Dar es Salaam. There are also concerns about increasing links between North and West African terrorist groups, for example in Algeria, Morocco and Mali. These groups, hiding in places where they can plot undisturbed by weak governments, threaten security and prosperity within Africa, with many Africans dying in attacks and tourism and other investments being undermined. They are also a threat to the whole world community.

But this Commission believes that there is something much deeper that motivates us. There is something greater, more noble and more demanding than just our shared needs, and linked destinies. Our common interest, the title of our report, is defined by our common humanity.

Different Commissioners have spoken of this in different ways. Our chairman, the British Prime Minister, Tony Blair, has spoken of "recognising the common bond of humanity". The activist and musician, Bob Geldof, has talked of a mission "to extend the hand of sympathy and shared humanity to reach above the impenetrable roar and touch the human beings on the other side". The Ethiopian Prime Minister Meles Zenawi, has used the word 'solidarity' – a term which means not some feeling of vague compassion but a firm and persevering determination for us all to commit ourselves to the common good because we are all really responsible for all.

There is more to this than the kindness of strangers. It is about a journey from charity to justice or what in Zulu and other Bantu languages is called ubuntu which insists that the very identity of each person is bound up with others in a community of all. I am what I am because of who we all are, it says. In a globalised world our sense of ubuntu must extend right across the planet. The more global the market, the more it must be balanced by a global culture of solidarity, attentive to the needs of the weakest. Interdependence is, in its most profound sense, a moral issue. Our common humanity is violated by the extreme poverty we all see in Africa. And that is what propels us to demand action against deprivation and despair on behalf of other people we may never meet in far away places.

We are one moral universe. And our shared moral sense makes us recognise our duty to others. We, as a mixed group of African and non-African Commissioners, have in our shared enterprise experienced some sense of this as we have been bound together in the interests of our common good.

The time is ripe for change. That is the conviction of us all. Acting together we have the power to shape history. To do nothing would be intolerable. To do something is not enough. To do everything we can is not only a requirement, it is our clear duty. Now is the time to act.



# Recommendations

Africa has begun to make progress in the long battle against poverty. But to sustain that will require a stronger partnership between African nations and those of the rich world. That means action, and change, on both sides.

Africa must take the lead in this partnership, take on responsibility for its problems and take ownership of the solutions – which are far more likely to work if they spring from African insights and judgments than if they are imposed from outside. The international community, for its part, must cease to do those things by which it harms or disadvantages the world's poorest people. It must do what it can to support the reforms which are underway in Africa; these must accelerate significantly if the continent is to prosper and poor people are to share in that prosperity. It must support Africa's regional initiatives, including the African Union and its NEPAD programme, to work together to generate and promote these reforms.

Some of our recommendations – on infrastructure, on health, on education – require significant transfers of money from the developed world to Africa. Others – underpinned by new approaches to African cultures – require changes to behaviour, ways of working and priorities. Others call on the international community to stop doing things which damage Africa. All these should be seen as an integrated package. Partners must work together to implement this package with commitment, perseverance and speed, each focusing on how they can make the most effective contribution.

## A: Recommendations on Governance and Capacity-Building

Weak governance has blighted the development of many parts of Africa to date. Weak governance can include bad government policies and an economic and political climate which discourages people from investing. It can also include corruption and bureaucratic systems that are not open to scrutiny and therefore are not answerable to the public. And it includes a lack of accountability and weakness in mechanisms to ensure that people's voices are heard and their rights upheld, such as parliaments, the media and the justice system.

At the core of the governance problem in many parts of Africa is the sheer lack of capacity of national and local government ministries, and the problems of recruiting and keeping skilled staff, equipped and motivated to do their job. The continent's regional and pan-African organisations, including the African Union and its NEPAD programme, which are so important to Africa's future, also need strengthening.

### Investing in capacity-building

- Developed countries should give strong support – both political and financial – to Africa's efforts to strengthen pan-African and regional bodies and programmes, including the African Peer Review Mechanism.
- African governments should draw up comprehensive capacity-building strategies. Donors should invest in these, making sure that their efforts are fully aligned with these strategies rather than with their own competing priorities and procedures.
- Skilled professionals are key to building improvements in the administration and technical ability which Africa so gravely lacks. The international community should commit in 2005 to provide US\$500 million a year, over 10 years, to revitalise Africa's institutions of higher education and up to US\$3 billion over 10 years to develop centres of excellence in science and technology, including African institutes of technology.

## **Increasing accountability and transparency**

- Parliaments in both developed and other developing countries should establish partnerships to strengthen parliaments in Africa, including the pan-African parliament.
- Independent media institutions, public service broadcasters, civil society and the private sector, with support from governments, should form a consortium of partners, in Africa and outside, to provide funds and expertise to create an African media development facility.
- Developed country governments, company shareholders and consumers should put pressure on companies to be more transparent in their activities in developing countries and to adhere to international codes and standards for behaviour.
- The international community should give strong political and financial support to schemes such as the Extractive Industries Transparency Initiative (EITI) to increase the transparency of payments made to, and received by, governments and should encourage its acceptance by all resource-rich African countries. It should support the development of criteria and a means of validating EITI implementation; and support and fund capacity-building among public servants as well as civil society, by contributing to the EITI Multi-donor Trust Fund.
- Principles of transparency such as those in EITI should be extended to other natural resource sectors, including forestry and fisheries.
- Timber importing countries should ensure they do not trade in illegally acquired forest products and should procure only legally sourced timber and products.

## **Corruption**

Corruption is a systemic challenge facing many African leaders. They must demonstrate renewed political will to fight it at all levels in the economy and society. Many African nations have begun this task. Increased transparency by African governments will assist this. But fighting corruption involves tackling those who offer bribes as well as those who take them.

- Developed countries should encourage their Export Credit Agencies (ECAs) to be more transparent, and to require higher standards of transparency in their support for projects in developing countries. Developed countries should also fully implement the Action Statement on Bribery and Officially Supported Export Credits agreed by members of the industrialised nations group, the OECD.
- Countries and territories with significant financial centres should take, as a matter of urgency, all necessary legal and administrative measures to repatriate illicitly acquired state funds and assets. We call on G8 countries to make specific commitments in 2005 and to report back on progress, including sums repatriated, in 2006.
- All states should ratify and implement the UN Convention against Corruption during 2005 and should encourage more transparent procurement policies in both Africa and the developed world, particularly in the areas of construction and engineering.

## **Strengthen information systems**

- Good information is essential to informed policy making and effective delivery. Donors should provide the additional amount required to help Africa improve systems to collect and analyse statistics, to meet criteria normally regarded as an acceptable minimum (estimated at about an additional US\$60million per year).

## **B: Recommendations on Peace and Security**

The right to life and security is the most basic of human rights. Without increased investment in conflict prevention, Africa will not make the rapid acceleration in development that its people seek. Responsibility for resolving conflict in Africa should lie primarily with Africans, but there is much more the developed world can do to strengthen conflict prevention. Investing in development is itself an investment in peace and security.

### **Tackling the causes of conflict, and building the capacity to manage them**

- To make aid more effective at reducing conflict, all donors, the international financial institutions, and the United Nations should be required to use assessments of how to reduce the risk of violent conflict and improve human security in formulating their country and regional assistance strategies.
- As a matter of priority and no later than 2006, the international community should open negotiations on an international Arms Trade Treaty (ATT).
- The international community must also adopt more effective and legally-binding agreements on territorial and extra-territorial arms brokering, and common standards on monitoring and enforcement. These agreements could be integrated into a comprehensive ATT.
- To speed up action to control the trade in natural resources that fund wars, the international community should:
  - agree a common definition of 'conflict resources', for global endorsement through the United Nations;
  - create a permanent Expert Panel within the UN to monitor the links between natural resource extraction and violent conflict and the implementation of sanctions. The panel should be empowered to recommend enforcement measures to the UN Security Council.
- OECD countries should promote the development and full implementation of clear and comprehensive guidelines for companies operating in areas at risk of violent conflict, for incorporation into the OECD Guidelines on Multinational Enterprises.

### **Building regional and global capacity to prevent and resolve conflict**

The international community must honour existing commitments to strengthen African peacekeeping capacity, including support for training and logistics. But it must move beyond this to increase investment in more effective prevention and non-military means to resolve conflict.

- To enable the AU to act quickly and effectively to prevent and resolve violent conflict, donors should agree to fund at least 50 per cent of the AU's Peace Fund from 2005 onwards. As far as possible, and in return for the implementation of effective financial accountability by the AU, these contributions ought to be unearmarked and provided jointly on an annual basis. Where funds are provided directly to RECs, these should also be co-ordinated and, where possible, unearmarked.
- In 2005, the UN and regional organisations must take steps to clarify their respective roles and responsibilities, and the criteria for taking action to prevent and resolve conflict. They must also establish effective co-ordination mechanisms.

- In 2005, the UN Security Council should establish the UN Peacebuilding Commission, as proposed by the United Nations High Level Panel on Threats, Challenges and Change. It should have the powers and resources required to fulfil its mandate to prevent violent conflict, and co-ordinate post-conflict reconstruction.

### **Post-conflict peacebuilding**

As well as supporting the UN Peacebuilding Commission to improve the co-ordination of post-conflict peacebuilding, we recommend further measures:

- Donors should fund the rapid clearance of arrears for post-conflict countries in Africa to enable early access to concessional financing from international financial institutions. In line with this report's recommendations on aid quality, they should also allocate long-term and predictable grant financing sufficient to meet the reconstruction needs of post-conflict countries.

## C: Recommendations on Leaving No-One Out: Investing in People

There is no substitute for the large increase in resources that are required to reverse years of chronic under-investment in education, health and social protection.

Effective use of these large new resource flows will require comprehensive plans for delivery and for monitoring results. To this end, African governments must continue to strengthen governance and ensure the participation of ordinary people and local communities in decisions on development. For its part, the international community must deliver what it has promised. Both African governments and international donors must ensure that opportunities are available to all.

### Education

- Donors and African governments should meet their commitments to achieve Education for All, ensuring that every child in Africa goes to school. Donors should provide an additional US\$ 7-8 billion per year as African governments develop comprehensive national plans to deliver quality education.
  - In their national plans African governments must identify measures to get girls as well as boys into school with proper allocation of resources. Donors should meet these additional costs.
  - African governments should undertake to remove school fees for basic education, and donors should fund this until countries can afford these costs themselves.
  - To ensure that high quality education is delivered, African governments must invest in teacher training, retention of staff and professional development. Teacher/child ratios should be brought to under 1:40 in basic education. Donors should commit to predictable long-term funding to enable this.
  - Education should provide relevant skills for contemporary Africa. Donors should fund regional networks to support African governments in the development of more appropriate curricula at all levels.

### Health

- African governments should invest in rebuilding systems to deliver public health services. Donors should provide US\$7 billion over five years for this, behind the Health Strategy and Initial Programme of Action of the African Union's NEPAD Programme.
- Donors and African governments should urgently invest in training and retention to ensure there are an additional one million health workers by 2015.
- African governments should meet their commitment to allocate 15 per cent of annual budgets to health and put in place strategies for the effective delivery of health services. Donors should increase their funding to support these strategies, making up the shortfall, from an additional US\$10 billion annually immediately and rising to US\$20 billion annually by 2015. The assistance should go predominantly through national budgets.
  - Where African governments remove fees for basic healthcare as part of reform, donors should make a long-term commitment to fill the financing gap until countries can take on these costs.
  - Donors should fully fund the Global Fund to Fight AIDS, Tuberculosis and Malaria.
  - Donors should commit to full funding of the Global Alliance for Vaccines and Immunisation (GAVI) through the International Financing Facility for Immunisation.

They should also meet their commitments to the Polio Eradication Initiative to eradicate polio in 2005.

- The World Health Organization's 'Two diseases, one patient' strategy should be supported to provide integrated TB and HIV care.
- African governments and donors should work together to ensure that every pregnant mother and every child has a long lasting insecticide treated net and is provided with effective malaria drugs.
- Donors should ensure that there is adequate funding for the treatment and prevention of parasitic diseases and micronutrient deficiency. Governments and global health partnerships should ensure that this is integrated into public health campaigns by 2006.
- African governments must show strong leadership in promoting women's and men's right to sexual and reproductive health. Donors should do all they can to enable universal access to sexual and reproductive health services.
- Donors should develop incentives for research and development in health that meet Africa's needs. They must set up advance purchase agreements for medicines. They should increase direct funding of research led by Africa, coordinated by the Regional Economic Communities and in collaboration with the global health partnerships.

### **Water and sanitation**

- Starting in 2005, donors must reverse the decline in aid for water supply and sanitation, to enable African governments to achieve the Africa Water Vision commitment to reduce by 75 per cent the proportion of people without access to safe water and sanitation by 2015. The G8 should report back by 2007 on implementation of the G8 Water Action Plan agreed in 2003.

### **HIV and AIDS**

- The international community must reach a global agreement in 2005 to harmonise the current disparate response to HIV and AIDS. This must be in support of bold and comprehensive strategies by African governments that take account of power relationships between men, women and young people.
- As agreed in the UNGASS Declaration of Commitment on HIV and AIDS, African governments and the international community should work together urgently to deliver the right of people to prevention, treatment and care. Donors should meet the immediate needs and increase their contribution to at least US\$10 billion annually within five years.

### **Protecting the most vulnerable**

- African governments should develop social protection strategies for orphans and vulnerable children, supporting their extended families and communities. Donors should commit to long-term, predictable funding of these strategies with US\$2 billion a year immediately, rising to US\$5 to 6 billion a year by 2015.
- Donors should support the African Union's NEPAD Programme to develop a rights and inclusion framework and support countries to develop social protection strategies by 2007.
- Donors and African governments should endorse and implement the UN Framework for the Protection, Care and Support of the Orphans and Vulnerable Children.
- Donors and African governments should provide direct budgetary support to pan-African organisations to support their work in protecting women and children's rights.

## **D: Recommendations on Growth and Poverty Reduction**

Poverty in Africa will continue to rise unless there is greater economic growth – and of a kind in which poor people can participate. And none should be excluded. Policy makers must always consider the impact of policies on poor people. The package of proposals set out in this and other chapters should enable sub-Saharan African countries to achieve and sustain growth rates of seven per cent by 2010. And they will also boost the participation of poor people in the opportunities created by growth. In so doing they will work to reduce income inequality, which can undermine the impact of growth on poverty.

Our proposals here are divided in two. The first set relates primarily to promoting growth. Faster growth and greater poverty reduction require major investment in infrastructure, agriculture, urban development, the creation of a climate which fosters investment, and policies which take careful account of the environment and climate change. Growth will be driven by the private sector, but government creates the conditions for this – the challenge is to build a strong partnership.

The second set of proposals relates to promoting poor people's participation in that growth. In this, particular emphasis should be placed on much stronger opportunities and rights for women, who are often key to small enterprise growth. Young people need job opportunities. The business community can also play a part in these areas.

### **Promoting Growth**

Africa needs an additional US\$20 billion a year investment in infrastructure. To support this, developed countries should provide an extra US\$10 billion a year up to 2010 and, subject to review, a further increase to US\$20 billion a year in the following five years. This should support African regional, national, urban and rural infrastructure priorities – ranging from rural roads and slum upgrading to information and communication technology and the infrastructure needed to support greater integration of Africa's regions and to enable Africa to break into world markets.

African governments must unleash the strong entrepreneurial spirit of Africa's people. To promote this, donor governments and the private sector should co-ordinate their efforts behind the proposed Investment Climate Facility of the African Union's NEPAD programme. This requires US\$550 million from donors and the private sector over seven years to identify and overcome the obstacles to doing business. In addition, developed countries should support a fund of the Multilateral Investment Guarantee Agency, the world's public agency for risk-bearing, to insure foreign and domestic investors in post-conflict countries in Africa. Support should also be extended to domestic investors across sub-Saharan Africa.

As part of a wider set of measures to promote agricultural and rural development, Africa must double the area of arable land under irrigation by 2015. Donors should support this, initially focusing on funding a 50 per cent increase by 2010, with an emphasis on small-scale irrigation. Other measures include improving the investment climate; rural infrastructure; research and the spread of new agricultural techniques; security of tenure and land rights, particularly for women; and investment in small towns to encourage the growth of local and regional markets.

### **Poor people's participation in growth**

Developed countries should set up a US\$100 million Africa Enterprise Challenge Fund to support private sector initiatives that contribute to small enterprise development by giving them better access to markets. The Fund will encourage new partnerships in the

financial and non-financial sectors and contribute to the African Union's objectives of promoting job creation for young people and women's entrepreneurship.

African governments must take the lead in promoting employment for young people, both women and men, in their policies for growth. Donors should assist African governments in formulating and implementing national action plans on employment through the Youth Employment Network, as endorsed by the African Union.

### **Promoting the role of business**

The Commission calls for a sea change in the way the business community, both domestic and international, engages in the development process in Africa. Businesses must sign up to leading codes of good social and environmental conduct, including on corruption and transparency, and focus their efforts on co-ordinated action to tackle poverty – working in partnership with each other, with donors, with national governments, and with civil society, including trades unions. In support of this, developed countries should support the UNDP Growing Sustainable Business initiative in the region. For their part, donors and African governments must develop more effective partnerships with the private sector.

### **The environment and climate change**

In support of the Environment Initiative of the African Union's NEPAD programme, donors should strengthen environmental considerations in all their programmes. Donor governments and international institutions, including the World Bank, the UN Environment Programme (UNEP) and the UN Development Programme (UNDP), should encourage the inclusion of environmental sustainability in African government's poverty reduction strategies. These should include indicators for monitoring environmental performance.

Developed countries should set targets for greater use of new cleaner energy technologies to stimulate the global market and encourage their use in developing countries. Donors should work to improve the climate observation network through the Global Climate Observation System, bilateral support, and a co-ordinated capacity building programme between donor and African research institutions. From 2008, donors should make climate variability and climate change risk factors an integral part of their project planning and assessment. They should meet their commitments on funding to help African countries adapt to the risks and impacts of climate change.



## E: Recommendations on Trade

Increased trade is vital to increased growth. Africa's share of world trade has slumped to just two per cent from six per cent twenty years ago, and Africa has fallen behind its competitors. Africa faces a huge challenge if it is to reverse this and catch up. African governments must drive this process and be allowed to develop their own trade policies. Action in three key areas by African countries and the international community, working together, could make this happen by: supporting African-owned strategies for building the capacity to trade; dismantling the rich world's trade barriers through the Doha Round of world trade negotiations; and providing transitional support to help Africa adjust to new trading regimes.

### Improving Africa's capacity to trade

- And Africa must increase its capacity to trade. It should remove its own internal trade barriers between one African country and another. Measures to facilitate trade will be key, including reform of customs and other regulations. And it must increase efforts to achieve greater economic efficiency through integration and increased co-operation within African regions. Some of these steps will be relatively easy and low cost.
- Africa should do more to improve the economic environment for farmers and firms, backed up by major investments of aid from international donors to ensure Africa can produce and trade competitively. Funding for infrastructure should, in part, be spent on improving African transport and communications to bring down costs.

### Improving Africa's access to the markets of the rich world

- Developed countries should ensure the Doha Round of world trade talks makes development its absolute priority at the December 2005 meetings of the WTO in Hong Kong. The Doha talks should conclude no later than the end of 2006 in order to make an early difference to Africa and other developing countries.
- Rich countries must agree to eliminate immediately trade-distorting support to cotton and sugar, and commit by 2010 to end all export subsidies and all trade-distorting support in agriculture when they meet in Hong Kong. At the conclusion of the Doha talks they should agree to reduce progressively all tariffs to zero by 2015, and reduce non-tariff barriers. By doing this they will cut massive wasteful spending, and provide huge benefits to their own public, and to Africa and other developing countries.
- Higher-income developing countries should also do more to reduce their tariffs and other barriers to trade with Africa.
- In making development a priority in trade talks, including in the new trade agreements Europe is currently negotiating with Africa, liberalisation must not be forced on Africa through trade or aid conditions and must be done in a way that reduces reciprocal demands to a minimum. Individual African countries should be allowed to sequence their own trade reforms, at their own pace, in line with their own poverty reduction and development plans. Additional financial assistance should be provided to support developing countries in building the capacity they need to trade and adjust to more open markets.
- Special and Differential Treatment must be made to work better for Africa and other developing countries, by making resort to legal disputes conditional on assessing development concerns. A review of Article XXIV of the General Agreement on Tariffs and Trade in order to reduce requirements for reciprocity and increase focus on development priorities may be useful.

- Although Africa wants to meet developed country product standards, it is struggling to meet the costs of doing so. Rich countries should apply a development test, including an impact assessment, when designing these standards, to minimise the barriers they may create, and urgently provide help to meet them.

### **Helping Africa adjust to new trade regimes**

It will take time to build Africa's capacity to trade, and to deliver reform in the Doha Round. During this period, Africa will need transitional support if it is to make progress.

- Developed countries should remove all barriers to all exports from low-income sub-Saharan countries, by extending quota and duty-free access to all of them. This will cost developed countries very little. They should cease to apply rules-of-origin requirements in a way designed to hinder rather than help African exporters, by allowing Africa to source inputs from anywhere in the world, and requiring only that they add a minimum of 10 per cent of value in their processing. Europe's new trade agreements with Africa must move quickly on this. If all developed countries extended quota and duty free access to all low-income sub-Saharan African countries this could raise annual incomes in sub-Saharan Africa by up to \$5 billion.
- Rich countries should also provide aid to help African economies adjust to a more open global trade regime, and to enhance the benefits to and limit the detrimental impacts on poor people.

## F: Recommendations on Resources

To increase the growth rate in Africa, and to make strong progress towards the Millennium Development Goals, the volume and quality of external aid to sub-Saharan Africa must change radically. Aid to sub-Saharan Africa should increase by US\$25 billion per annum over the next three to five years. This must be accompanied by a radical change in the way donors behave and deliver assistance, and by continued strong improvements in governance in African countries. We show that in these circumstances this increase in aid can be used effectively. Additional finance should be raised in various ways, including the immediate launch of the International Finance Facility.

### Aid quality

- To improve the quality of aid an annual discussion should take place between the Development Ministers of the OECD countries and African Finance Ministers, along with representatives of civil society and international organisations. This should consider aid allocation criteria and make suggestions for a better distribution, including between middle and low income countries. In countries where governance and institutions are weaker, donors should seek to provide adequate and effective flows through appropriate channels, bearing in mind the need to avoid undermining national systems and/or long-term sustainability.
- Aid should be untied, predictable, harmonised, and linked to the decision-making and budget processes of the country receiving it. The length of the commitment should be related to the purpose: for example, aid for infrastructure and public expenditure support should be committed for terms longer than aid for technical assistance.
- Aid to Africa should be mainly in the form of grants.
- The use of policy conditionality associated with external assistance should be strongly reduced. Ways of strengthening mutual accountability, and of monitoring implementation, should be put in place. The activities of the IFIs and donors should support and not undermine, institutions of accountability in African countries, for example by helping countries to strengthen international codes and standards and by avoiding heavy burdens of reporting.
- Through a new facility, donors should help African countries to address problems caused by commodity-related shocks and natural disasters.

### Aid quantity

- Aid to sub-Saharan Africa should be doubled, that is, increased by US\$25 billion per annum, over the next three to five years to complement rising levels of domestic revenue arising from growth and from better governance. Following a review of progress towards the end of this period, a further US\$25 billion per annum should be provided, building on changes in the quality of aid and improvements in governance.

### Debt relief

- For poor countries in sub-Saharan Africa which need it, the objective must be 100 per cent debt cancellation as soon as possible. This must be part of a financing package for these countries to achieve the MDGs, as promised in Monterrey and Kananaskis. The key criterion should be that the money be used to deliver development, economic growth and the reduction of poverty for countries actively promoting good governance.

- Accordingly, work should begin immediately to establish a transparent debt compact to include all sub-Saharan African low-income countries, including those excluded from current schemes. It should cancel debt stock and debt service by up to 100 per cent, and cover multilateral and bilateral debt.
- As an urgent measure, financing should immediately be put in place to provide 100 per cent multilateral debt service cancellation, where this is necessary to achieve the MDGs.

### **Financing mechanisms**

- Donor countries should commit immediately to their fair share of the additional US\$25 billion per annum necessary for Africa.
- Ways of financing the doubling of aid to Africa should include the immediate launch of the International Finance Facility.
- Rich countries should aim to spend 0.7 per cent of their annual income on aid, with plans specified for meeting this target.
- Further work should be undertaken to develop workable proposals for specific international levies to raise additional finance (for example from compulsory or voluntary charges on airline tickets).

## **G: Recommendations on How to Make All This Happen**

If Africa is to take responsibility for its own development, it must be given greater influence in decision-making which affects it most directly. It must have a stronger voice in international forums. And it must be able to exert much greater pressure on the rich world to honour its commitments to the poor people of Africa. An independent monitoring system must be established to make sure this happens.

### **Strengthening the African multilateral institutions**

- Shareholders of the African Development Bank should aim to make the African Development Bank the pre-eminent financing institution in Africa within 10 years. Proposals should be put forward by the new president within six months of taking office. Shareholders should provide strong support for their implementation.
- Strong support should be provided for the further enhancement of the role of the Economic Commission for Africa.

### **Changing the multilateral organisations**

#### **Strategy**

- The management of the World Bank, the IMF, and the WTO should give greater priority to accelerating Africa's development. Proposals to do so should be presented to the Boards of Governors of the World Bank and IMF (preferably at the 2005 Annual Meetings of the two institutions, but certainly no later than the 2006 Spring Meetings) and the WTO's 2005 Ministerial.
- The UN Secretary General and the UN Development Group should strengthen the coordination of UN agencies, funds and programmes at country level, to improve their impact.

#### **Voice**

- African countries should be given a greater voice in the multilateral institutions, most notably through greater representation on the boards of the World Bank and IMF.
- Strategic leadership and decision-making in the IMF and World Bank must be the responsibility of the political leadership of member countries. To this end, a decision-making Council, consisting of political representatives of member countries, should be established for each institution.
- Appointments of the heads of international institutions should be decided upon by open competition which looks for the best candidate rather than by traditions which limit these appointments by nationality.
- In each recipient country, the government and donors should set up monitoring groups to assess the quality of donor assistance and co-ordination.
- The UN Security Council should be expanded to include greater African representation.

### **Putting in place effective independent monitoring mechanisms**

- To add extra momentum to the delivery of the Commission's recommendations, an independent mechanism, which reflects the consultative approach of the Commission, should be established to monitor and report on progress. This could be led by two distinguished and influential figures who carry weight in the international community, one African and one from the donor community, who could produce a short annual report. They should be supported by a small unit within an existing African or international institution.

# Part 2

## Analysis and Evidence



# Chapter 1

## Overview: The Case for Action

1 In Part 1 of this report we have set out a summary of our argument as briefly and simply as possible. That argument has been based on a careful and detailed analysis of the evidence on Africa's development, including lessons from experience on what works and what does not. It is this analysis and evidence that forms the foundation of our case for action and our plan of action.

2 In this opening chapter of Part 2 of our report, we set out the structure of the analysis on which our recommendations are based, and thus provide a framework for the detailed analysis and evidence presented in the remaining chapters. In the process, we make the case for integrated action and provide a summary of the core recommendations, while answering two key questions: why is it so important for the world to support Africa's development now, and what specifically should it do?

3 We argued in Part 1 that African poverty and stagnation is the greatest tragedy of our time. The continent has lost much of the past three decades, as conflict, corruption, and economic stagnation have replaced the hope, idealism and economic progress of the immediate post-colonial period. Poverty is rising, life expectancy is falling and millions of children still do not attend school.

4 Poverty on such a scale demands a forceful response. And Africa – at country, regional, and continental levels – is creating much stronger foundations for tackling its problems. We believe that now is the time when greater external support can have a powerful impact and that this is a vital moment for the world to get behind Africa's efforts.

5 Our focus on what the world must do to support Africa's development should not be taken as an assertion that those outside Africa can be the prime movers of African development and poverty reduction. As we will argue in Chapter 2, weak domestic governance – and its extreme form, violent conflict – is the key factor that has most devastatingly undermined Africa's progress. Thus it will be strong actions by Africans to improve governance and establish peace and security that will provide the foundation for growth, poverty reduction and human development. And it will be these actions that will determine the success of any outside support.

6 Africa's problems cannot, however, be ascribed solely to weak governance. Africa suffers from a geography that is often hostile in terms of transport, climate and disease. And many of the geographical problems have been compounded by history, with its colonial fragmentation and exploitation. Overcoming them requires strong investment and technical assistance as well as improvements in governance.

7 But governance has begun to improve, and in recent years many African governments have been strongly focused on promoting and sustaining growth and development, rather than furthering the narrow self-interest of those in power. We recognise clearly that problems of corruption and conflict remain pervasive but recognise also the reality of the progress. With that progress comes an opportunity and responsibility for the world.

8 Why must the world act? First and foremost, our common humanity binds us together. Africa is part of our world community and the world must show solidarity with the people of Africa. Common humanity and solidarity demand that we all work together

to overcome poverty, despair and death in Africa. Second, at the UN Millennium Summit, the world took on a clear obligation to act, agreeing to specific deadlines for reducing poverty and promoting human development. Third, many of the difficulties of Africa arise from a history of colonialism and of Cold War tensions; thus there is a historical responsibility to help Africa break free from this historical legacy. And fourth, we have self-interest: an Africa in turmoil and desolation will have grave consequences for the rest of the world, in terms of unstable supplies (particularly of oil and raw materials), movement of people, disease, conflict and terrorism. To put it more positively, a growing and increasingly prosperous Africa will benefit all those that have economic, social and political relationships with the continent.

## 1.1 Why Africa cannot wait

9 If we agree that the world has a responsibility to act, several factors make it clear that action must come now. Africa cannot wait. First, the immense scale of the suffering in Africa – much of it avoidable – should compel the world to act now. The economic and social gap that has opened up between Africa and the rest of the world (see Chapter 2) places Africa's plight in stark contrast. The world crisis of poverty is now in Africa, whereas 25 years ago, at the time of the Brandt Commission report on development, the focus was on Asia with its much larger population and higher population density.

10 Poor governance, a lack of growth, and slow human development have already levied huge costs on Africa, relative to what could and should have been. These losses are mounting steadily and that alone should be enough reason for urgent action. In human terms, people are needlessly suffering and dying from HIV and AIDS, malaria, tuberculosis and malnutrition, with every year of inadequate action costing millions of lives. The recent UN Millennium Report, which this Commission supports, has shown convincingly that on current trends Africa will miss more of the Millennium Development Goals – and by a wider margin – than any other developing region.

11 Second, delay is magnifying the crisis that Africa and the world will have to face in the years ahead. Viewed on a global scale, Africa's problems are deeper than simply economic stagnation. As Chapter 2 will discuss, other countries' economies and international trade have grown strongly in recent decades. Africa has become increasingly uncompetitive, as a result of its weaknesses in governance and infrastructure, low capacity in science and technology and lack of innovation and diversification from primary products. Catching up has become more difficult. Barring significant and swift progress, the marginalisation of Africa will become an ever-greater problem to overcome and an ever-greater threat to global stability.

12 Extreme poverty harms not only those who suffer today, but also future generations. Malnutrition in the womb and early in life does permanent damage to children's health and productivity; AIDS deaths leave behind orphans who lose forever the benefit of parental teaching and support; failed educational systems hobble a generation of students throughout their working lives; and poverty leads to actions for short-term survival, such as selling assets or cutting down trees, that undermine conditions for future recovery. Finally, current patterns of development are doing severe and often irreversible damage to the natural environment, threatening the future of agricultural production, the security of food supplies and the health and livelihoods of Africans. In short, we are storing up problems in a systemic way.

13 Yet Africa is changing, in ways that make external support for development more effective. This change is a third major reason for acting now. Democracy has spread in Africa and the continent has new political leaders, many of whom are committed to



reform. While economic governance remains weak by international standards, it has improved notably over the past several years (as Chapters 2, 4, 7 and 9 will document). By taking responsibility for their own development and laying the foundation for success, many countries in the continent are now demonstrating that Africa is not doomed to failure and growth has restarted in many countries (as Chapter 2 will show). After only 3 years of existence, the African Union is beginning to show that it means business – particularly in the crucial area of peace and security. The pan-African Parliament is up and running. And the AU's New Partnership for Africa's Development (AU/NEPAD) and its African Peer Review Mechanism (APRM) are powerful vehicles for promoting further improvements in governance. All these initiatives and bodies have still to prove their worth, but the first signs are encouraging. Backing now from the international community could make the difference on whether they succeed or fail.

14 In many countries, the conditions are now in place for a strong expansion of aid and assistance to make a powerful difference. Critics are no longer justified in making universal claims that aid to Africa is money wasted. Even in other countries—those that are not yet likely to use aid so effectively—we now know that outsiders can do a great deal to help create the preconditions for progress.

15 Finally, and related, the world has another reason to move quickly: reforming African leaders risk being evicted from office if their people do not see returns on their reform programmes. Procrastination will feed cynicism about the commitment of foreign partners and the prospects for progress. "All we hear are words," Africans constantly say, or "More promises, little action". Some reforms that will improve life in the medium to long term – such as combating corruption, maintaining macroeconomic control and reforming economies – have been politically difficult and could be reversed. A lack of support for reforming countries could also deter other leaders from trying to improve governance and generate growth. Future reforms may wither on the vine.

16 The risks from delay far outweigh the risks from acting strongly and swiftly. What is required is no less than a re-casting of the relationship between Africa and the rich world, in which both, as partners, have responsibilities to discharge in the interests of real and long-lasting change.

## 1.2 What needs to be done: a big push to break vicious circles

17 It will not be easy to break with the legacy of Africa's difficult history, which we explore in Chapter 2. That history, and the circumstances in which Africa now finds itself, mean that Africa will have to break out of a set of vicious circles that reinforce each other and shackle the continent. Without simultaneous and effective action on several priority fronts, successful development is unlikely. Chapters 4 to 8 lay out the Commission's recommendations for action in key areas. Chapter 9 explores the details and Chapter 10 examines ways of promoting implementation of the external support required and the better meeting of promises than we have seen in the past. Underpinning all the recommendations is our analysis of *culture* (Chapter 3); culture is both an end in itself and a way of thinking about the many other issues covered in the report.

18 The first priorities must be achieving *good governance* (Chapter 4) and *peace and security* (Chapter 5), which together provide the foundation for development in all its aspects. Along with the infrastructure required to support economic activity, these factors are the key elements of the environment for growth. Without better governance and growth, Africa will not achieve any of its other goals; it will not achieve sustained

improvements in health and education, nor will it successfully involve its poorest women and men in the economic and social life of each country.

19 *Better governance* must be at the heart of the African resurgence and it must be managed by Africans. This lesson of experience has been emphasised most strongly by Africans themselves. It is a core idea both of AU/NEPAD and of the governments and leaders of Africa working to improve their own governance and to implement the AU/NEPAD initiatives. And it is felt more strongly still by the populace: surveys increasingly find that poor governance is viewed as the most important cause of Africa's struggles.

20 Africa's colonial history of exploitation, the manipulation of social divisions, arbitrary borders and fragmentation has created profound challenges in the building of nations and the creation of effective states. This Commission argues that the building of an effective state is vital for development: a state that delivers an environment for growth, fosters delivery of education, health, and other services, and provides security for its people. Slashing the state indiscriminately will not build effective development. We learned this in the 1980s and 1990s when – to take one example – many development agencies and bilateral donors withdrew, or cut back sharply on, financial support for public infrastructure. The mantra then was that infrastructure financing should be a private sector activity, when in fact not much more than 25 per cent of infrastructure in developing countries – and probably even less in Africa – is likely to be privately financed for the foreseeable future. The attack on the role of government and the neglect of the building of institutions not only had medium-term economic costs in many countries, but it has also severely damaged the difficult long-term process of building an effective state. It left public servants bewildered, disillusioned, and demotivated, sometimes breeding corruption. Chapter 4 details ways in which the international community can support African efforts to build states and nations and to improve governance.

21 *Peace and security* is an absolute prerequisite for a healthy and dynamic economy. Far too many countries in Africa – from the Democratic Republic of Congo to Sierra Leone, from Ethiopia to Mozambique, from Angola to Côte d'Ivoire – have seen a complete breakdown of governance and outbreak of hostilities at times over the past three decades. Civil and cross-border conflict have had huge direct costs in human lives, but have exacted far broader long-term consequences by making sustainable growth impossible. Chapter 5 lays out key measures to prevent the emergence and re-igniting of conflicts.

22 The report then turns to key direct determinants of development: the health and education of people and an enabling environment that allows them to use their entrepreneurship. Investment in *human development and inclusion* (Chapter 6) – particularly through health, education, and social protection – is an end in itself, but it also has instrumental value: human development drives growth and creates the conditions for all women and men to develop their full potential and participate fully in the economy and society.

23 A vibrant economy requires both an effective state and a strong private sector. The evidence of history clearly shows that successful growth will be led by the private sector. Thus policies and governance should be focused on creating the conditions where growth can flourish. This means that African governments, and their external supporters, should not see the private sector as a competitor or even a menace that needs to be tightly circumscribed; on the contrary, it is the key driver of growth. On the other hand, the private sector has a duty to contribute to and avoid undermining the building of the state on which it depends for the environment for growth.

24 Africa needs successful African entrepreneurs and capitalists to provide the innovation and productivity growth necessary for long-term poverty reduction. Chapter 7 discusses

how to release Africa's *entrepreneurial energies*. Large firms may often be best placed to explore new foreign markets and invest in product development, but creating the conditions for the growth of small and medium enterprises (SMEs) is also essential. These firms provide the vast bulk of employment and may be more creative and more nimble in responding to opportunities. For medium-term poverty reduction, the most important of SMEs in Africa are the family farms. Africa's growth requires the growth of Africa's agriculture, both to improve livelihoods immediately and to promote the growth of the off-farm rural economy. That will not happen without investment, changes in technology, and an investment climate in which Africa's farmers – particularly the women who do much of the farming – are ready to improve their own land, methods, and crops. Chapter 7 therefore includes specific proposals for generating a good investment climate for Africa's diverse private sector, investing in infrastructure, urban development and agriculture, helping small and medium-sized enterprises, and promoting youth employment. It also proposes action to ensure environmental sustainability and to manage climate change. This combination of measures, together with investments in health and education, will drive not only growth but also the participation in growth which is so vital to poverty reduction.

25 The recommendations on *trade* (Chapter 8) focus on investments in capacity to trade and on market access. Trade is crucial to growth and Africa's problems of governance and infrastructure have severely constrained its ability to compete on world markets. Africa in 20 years saw its share in world trade fall from six to two per cent; just one percentage point of that fall represents more than US\$70 billion in foregone revenues annually. Chapter 8 examines African countries' opportunities and capacities to engage in the international trade that will drive growth and provide further outlets for the products of Africa's entrepreneurship. To increase the returns to the investment and to the removal of domestic barriers to trade expansion, developed countries must open their markets to Africa's products. This means giving African countries the opportunity not only to sell agricultural products in rich-country and world markets on fair terms, but also to diversify beyond traditional exports into new exports of manufactures and services. History suggests that these new products are ultimately likely to be bigger drivers of long-run growth than are traditional agricultural exports.

26 If the problems facing Africa are interlocking, so are the recommendations and actions to overcome them. Moving ahead on all of these fronts, whilst taking careful account of the practical problems of implementation, will increase the returns to action in each area. This is why the Commission has called for a 'big-push' approach to supporting Africa's resurgence. The Commission believes strongly that for all its risks – which can be mitigated by actions described in the next section – the big-push approach is the only one that can address Africa's challenges with the urgency and effectiveness required. Partial and limited action cannot reverse the deadly and dramatic advance of HIV and AIDS, or turn back malaria; it cannot generate an infrastructure in Africa that will allow it to compete in the near future; it cannot rebuild Africa's education systems; it cannot overcome the stagnation of Africa's agriculture; and it cannot deal with the most rapid urbanisation the world has ever seen. But with concerted action and the support of the international community, Africa can generate the virtuous circles of rapid growth and development we have seen in so much of Asia.

27 We can see the virtuous circles at work when we examine the relationship among governance, growth and human development. Improving governance requires building an effective state, which then can create an environment in which economic activity and entrepreneurship can flourish. The emergence of a strong and growing group of entrepreneurs will, with other stakeholders in the growing economy, in turn generate further pressure for improving governance. Similarly, in the area of human

development, health and educational systems suffer from myriad governance problems, and poor governance and low growth reduce the incentives for families to invest in better education. Better governance can also ensure that public services, particularly for health and education, are delivered to all people, especially those who previously have been excluded from them. Better educated, more informed, and healthier women and men will in turn constitute both a force for growth and a strong constituency for better governance.

28 Similarly, efforts to promote peace and security interact strongly with action to improve the investment climate and promote growth. We have already emphasised the economic costs of wars; conversely, a leading risk factor for civil war is a lack of development progress. Statistically, low-income countries have a far higher likelihood of conflict than do middle-income countries – those with more to lose are less likely to risk losing all by waging war to achieve other aims. Thus if international action can help a poor country stay out of conflict and spark growth, action in the two spheres will reinforce each other. Investing in development is investing in peace and security and vice versa.

29 Africa and African countries must set their strategies for development and the world community must craft its support so that together they foster these mutually reinforcing effects rather than exacerbating the vicious circles that are the cause of Africa's problems. This is what we mean by '*policy coherence*'. Africa's strategies and action and policy and aid from developed countries, should constantly focus on the challenges of improving governance and security, fostering human development, and creating the conditions for growth. Developed countries must scrutinise their actions so that, for example, an expansion in aid is not undermined by irresponsible behaviour in extractive industries or damaging trade policies. And African governments must similarly examine their own actions: for example, in proposing support for rural development, a government must ask whether it is creating the conditions on governance where road building, irrigation or new technology are likely to work.

30 *The ambition and goals of the big push.* The ambition, we argue, should be to generate a growth rate of output for Africa of seven per cent by the end of the decade and a strong acceleration towards the Millennium Development Goals. With a sustained seven per cent growth rate, output would double in a decade, and income per capita would grow at four to five per cent per annum. The growth rate may sound ambitious, but some African countries have already attained it, and much of Asia has grown even faster for extended periods of two decades or more. And the drive to counter Africa's falling life expectancy and get its children to school surely requires us all to set our sights high and make a powerful response. Specific goals must be set by and in individual countries and take careful account of specific circumstances, but the Millennium Development Goals must continue to provide the framework for the ambition of the partnership.

## **1.3 Working in partnership**

### **1.3.1 Africa in the lead: responsibilities and priorities**

31 Our analysis of Africa's challenges and our call for a big push together imply that success will depend on partnership between Africa and the world community. That has been clearly recognised at the G8 summit in Kananaskis in 2002, when the G8 gave its initial response to the plans of AU/NEPAD. Both the plans and the G8 response, emphasised that partnership was essential, that Africa must be in the lead, that better governance was at the core of Africa's challenges, that responsibility for governance lay with Africa and that governance was the highest priority.

32 What is the nature of the partnership? What are the responsibilities of Africa, its people and its countries and what are the responsibilities of the world community? The partnership must be one of solidarity and mutual support founded in a common humanity and a recognition that a strong and prosperous Africa is in the interests of the whole world. The partnership must recognise the responsibility of Africa and its countries to take the lead in shaping their strategies. It is for Africa to create the conditions where the entrepreneurship and creativity of its people can flourish and drive growth. It is for Africa to take the lead in creating health and education systems which can deliver investment in its people. It is for Africa to take the lead in creating the peace and security without which no development can happen.

33 If Africa fails to do all this, the international community will find it far more difficult to discharge its responsibilities, act in solidarity with Africa and deliver effective support. The partnership we embrace therefore depends crucially on action in Africa. And the structure of the support, as we shall argue shortly, must be tailored to Africa's action.

34 As we have already stated, we are convinced that many countries in Africa and its regional and pan-African institutions are moving strongly to improve governance and conditions for development. But we are not naïve, or starry-eyed. These advances and the resulting economic growth have covered a large part of Africa, but far from the whole region. And even where they have taken place, the advances still have far to go, and many of them are fragile. If African countries fail in their efforts to overcome weak governance, corruption and conflict, the case for outside support in terms of strong increases in aid is fundamentally undermined. Instead the world community would have to focus the majority of its attention on the hard slog of restoring peace and security and overcoming corruption and weak governance in all its forms.

35 We have chosen to focus our attention in this report on what the developed countries can do to support Africa. Thus, notwithstanding our emphasis on African responsibility, we are not setting out a detailed action plan for Africa. That is the responsibility of Africa. And Africa is a very diverse continent – actions and goals for development must depend on the economy, geography, social structure, culture and history of the individual country. Nevertheless, in our analysis of individual issues such as health, education and growth, we will be constantly returning to the theme that Africa is in the lead and has the most important set of responsibilities. And in presenting financial packages for external support in Chapter 9 we will argue that at least a third of the finance for expanded expenditures should come from public revenues in Africa.

36 Before moving to an outline of what rich countries must do let us emphasise what the partnership should not be. We do not advocate a partnership where there is a narrow set of specific contracts between African countries and outside bodies. That risks becoming adversarial and unpredictable and does not show the trust and mutual respect which is vital for a deep partnership to work. Similarly, a partnership based on heavy conditionality set by outsiders will fail. It too is destined to lose the solidarity which should bind a partnership together. The binding forces must be solidarity and mutual respect.

### **1.3.2 The world community: responsibilities and priorities**

37 The analysis above has shown that there is a powerful case for action by developed countries in support of Africa, that this action is urgently needed, and that it must take place across a broad and coherent front. It is inconceivable that this will happen on the scale needed without a major increase in external support.

38 The costs of our proposals in each of the key areas – governance, peace and security, human development, investment climate, infrastructure, urban development and trade –

are presented in Chapters 4 to 8, together with a discussion of the results they can yield. A summing (see Chapter 9) of those recommended investments and expenditures points to a need for a tripling of external support from 2004 levels, matched by a large increase in domestic revenues. This would mean an additional US\$50 billion per year in aid to Africa, and an additional \$75 billion in overall public expenditures. Of this amount, about half would be dedicated to human development, including HIV and AIDS, and around a third to growth, infrastructure, and trade (see Table 1.1a, taken from Chapter 9).

39 But the Commission was determined to be not only visionary, but also severely practical, and our recommendations on aid levels reflect this determination. In the immediate future – that is, over the remainder of this decade – the practical difficulties of delivering and absorbing such a large increase would be insurmountable: Africa does not yet have the governance, administrative, or technical capacity (or ‘absorptive capacity’, in short) to use the full projected expansion of flows effectively. Thus in Chapter 9 we recommend a two-stage approach to scaling up support to Africa. During the first stage, over the next three to five years, Africa would add US\$35-40 billion of annual expenditure (see Table 1.1b). We suggest that two-thirds (or US\$25 billion annually) be financed by the international community through *aid increases*, and one-third (or US\$10-15 billion) come from African sources, arising from higher revenues from growth and better administration. The two-stage approach includes in the first stage a careful assessment of governance and absorptive capacity and of revenue generation in Africa, reflecting the emphasis throughout the Report on African leadership and responsibilities.

40 This represents a doubling of aid from 2004 levels. Much of this increase is already expected on the basis of prior commitments that donor countries have made to expand aid, but a doubling would require both delivery on these commitments and the generation of further resources. The extra aid beyond existing commitments for 2010, to fund the expansion for Africa proposed here, would add around US \$15 billion (or an extra 15 per cent) to the existing commitments for global aid that year. Our analysis of the amount of aid Africa can absorb, which we set out carefully and in detail in Chapter 9, and of the effectiveness of that aid, indicates that Africa could indeed use the additional US\$25 billion of external aid effectively – assuming that governance and aid delivery continue to improve over the next few years. The risks of failing to act on this scale are far greater than the risk that some modest fraction of these extra resources might be wasted.

41 After the initial phased-in doubling of aid, we recommend an interim assessment toward the end of this decade. Donors and recipients can learn much during this three- to five-year first-stage expansion of expenditure, which should be a period of both delivering and learning about what works. To make this learning possible, it will be crucial to build in strong systems for measuring development results and evaluating impacts. Through such efforts, it should become clear whether or not governance and aid quality have improved sufficiently for effective use of aid and whether they are likely to continue to improve fast enough to allow further aid increases. Thus the Commission recommends a reassessment in 2009-10 of whether a second-stage expansion of aid would be warranted.

42 Even after this period of further expansion, aid flows could be accommodated well within an overall increase of development assistance to 0.7 per cent of GNP, a level that many donors are already committed to reaching. In the meantime, developed countries should resist the temptation simply to cite aid absorption problems as a reason for delay. The two-stage structure will allow adequate opportunities for mid-course correction, and there is a great deal that donors can do themselves to increase absorptive capacity rapidly, most notably by improving the quality of their aid and lightening the burdens it imposes.

**Table 1.1a: Costings of the Commission's Recommendations Taking No Account of Constraints of Absorptive Capacity**

|   |                   |
|---|-------------------|
| <b>Additional annual public expenditure needed to implement each item of the Commission's package in full (US\$ billion, per annum)</b> | <b>75.0</b>       |
| <b>Composition of Commission's Expenditure Recommendations</b>  | <b>(per cent)</b> |
| Governance (Chapter 4)  | 4.0               |
| Peace and Security (Chapter 5)  | 2.0               |
| HIV and AIDS (Chapter 6)  | 13.0              |
| Education (Chapter 6)   | 10.0              |
| Health (Chapter 6)  | 26.0              |
| Social Inclusion (Chapter 6)  | 5.0               |
| Growth, Infrastructure and Trade (Chapter 7, 8)   | 27.0              |
| Mitigation of Shocks (Chapter 9)  | 5.0               |
| Contingencies   | 7.0               |
| Commission's Package of Recommendations (US \$ 75 billion):   | 100.0             |

**Table 1.1b: Costings of the Commission's Recommendations Taking Account of Constraints of Absorptive Capacity**

|   |      |
|---|------|
| <b>First Stage: 2006-2010 (in US\$ billion per annum)*</b>  |      |
| Additional public expenditure, by 2010  | 37.5 |
| Total financing needed  | 37.5 |
| Domestic resources**  | 12.5 |
| Extra aid (double 2004 volume)  | 25.0 |
| <b>Second Stage: 2010-2015</b>  |      |
| The Commission recommends proceeding to a second stage (2010-2015) of similar expansion based on an assessment of experience of the first stage |      |

Notes: \* Breakdown across sectors would be similar to Table 1.1a

\*\* Assuming an annual five per cent real growth rate of GDP, and a tax to GDP ratio of 15.7 per cent (based on an average for the period 1993-2002), the extra tax revenue generated domestically within sub-Saharan Africa would amount to US\$12.3 billion. If the expected growth rate of seven per cent is achieved, the extra generated domestic revenue would rise to US\$18.6 billion. Domestic revenues should also arise from efficiency improvements in tax collection. We assume such gains rising to 0.5 per cent of GDP by 2010. This would provide a further US\$1.8 billion (based on assuming five per cent economic growth), or US\$2.1 billion (if the seven per cent expected rate is realised). For realism, in the table above we use a slightly lower amount (US\$12.5 billion) as sub-Saharan Africa's domestic resource contribution. (Given South Africa's high shares in sub-Saharan Africa's key macroeconomic aggregates, these estimates exclude South Africa.)

Source: Reproduced from Chapter 9, Table 9.2



43 There is a final point which we must emphasise in arguing that there is a compelling case for aid expansion and that is the tragedy of HIV and AIDS, which constitutes an enormous, urgent and growing crisis for Africa and the world. Our recommendations include more than US\$10 billion per annum for HIV and AIDS. HIV and AIDS is an emergency on a global scale. It therefore requires a global response. Indeed, there is a powerful case for placing and resourcing the response to HIV and AIDS in a special category over and above the other challenges of development.

44 If all parties to the expansion – African countries, bilateral agencies, and multilateral institutions – are to be in a position to gear up for their first-stage expansion of support, the decisions must be taken in 2005. Without emphatic decisions now, the necessary institutional advance toward scaling up development assistance is very unlikely to be in place before the end of the decade.

45 It is not only the levels of aid that must change. In Chapter 9 we identify and recommend other key means of supporting Africa's development – improvements in aid delivery, debt reduction and cancellation, and improved behaviour of other countries. First, *aid delivery* must be reformed. We are not recommending that donors and recipients do twice as much while following the same patterns as before. As aid is structured at present, it places great burdens on the limited administrative capacity of Africa's public services – particularly where bureaucratic requirements vary among donors. Excessive conditionality together with demands for constant reporting risk making African governments feel more accountable to foreign donors than to their own people. And aid is often 'tied': it comes with a requirement to buy goods and consulting services from donor countries, which forces the recipient country to spend scarce funds on high-cost or inappropriate inputs. Finally, aid is often unnecessarily unpredictable, for a number of reasons, including narrow interpretations of conditionality. This makes it more difficult for African governments and their finance ministers to make the long-term commitments required, for example, to build their health systems. In summary, Africa needs aid that promotes accountability to its own people; that is supportive rather than dictatorial and burdensome; and that is long-term, predictable, and untied. The improvements in aid quality will increase aid effectiveness and lay a foundation for further aid expansion in the next decade.

46 In addition to improvements in the quantity and quality of aid, progress on *debt relief* is essential. In recent years, for every US\$1 given in aid, nearly 50 cents have gone to the rich nations in debt-service payments. The majority of this debt is public sector, and the need to service it places great burdens on Africa's public finances. Past efforts to reduce the debt burden on poor countries, most notably through the Highly Indebted Poor Countries (HIPC) initiative, have made a substantial difference to many countries in Africa. But, while well intentioned, they have not been enough and many poor countries have been excluded. For poor countries in sub-Saharan Africa which need it, the objective must be 100 per cent debt cancellation as soon as possible. This must be part of a financing package for these countries to achieve the MDGs, as promised in Monterrey and Kananaskis. The key criterion should be that the money be used to deliver development, economic growth and the reduction of poverty for countries actively promoting good governance. Accordingly, work should begin immediately to establish a transparent debt compact to include all sub-Saharan African low-income countries, including those excluded from current schemes. It should cancel debt stock and debt service by up to 100 per cent, and cover multilateral and bilateral debt. As an urgent measure, financing should immediately be put in place to provide 100 per cent multilateral debt service cancellation, where this is necessary to achieve the MDGs. And, in the future, assistance to the poorest countries should be provided to a much greater extent in the form of grants, rather than loans, to prevent more debt building up in the years ahead.



47 Beyond aid, debt relief, and trade, *developed countries* can do much to promote better governance, peace, and security in Africa through their policies and behaviour. The big-push package of support for Africa should include requirements for much greater transparency in the behaviour of rich-country firms. It must include measures to promote repatriation of assets stolen by African leaders, or indeed others. It should promote the advance of codes of conduct and standards for firms operating in Africa. It must include closer co-operation between institutes of learning, including on science and technology. And it must cover assistance with the building of the capacity of African data systems to gather and analyse statistics. There are many other ways that we recommend in this report. *A big push for Africa is not just a matter of resources and trade.*

48 Neither are the issues solely a matter of developed countries and sub-Saharan Africa. There is much the *rest of the developing world* can do to support Africa. It can share the lessons of its own experience – in nation-building and anti-corruption efforts, in promoting higher education and technological progress, in advancing agriculture, urban development and in building health and education delivery systems. This experience is often much more relevant than the development experiences of the rich countries, who developed at a different time and in a very different context. Other developing countries can also invest in Africa and can lower their own barriers to the import of African goods into their growing markets.

49 Further, we should not confine our attention to governments. *Ordinary people in developed countries* can do much to help the people of Africa, and we discuss possibilities in Chapter 10. Above all, they can press their own governments and firms to do much better and sustain their commitments. The whole population – working with its schools, media, and parliamentarians – can deepen its understanding of how its actions affect Africa and what they can do to help. Insisting on trade policies that give far better opportunities to developing countries and understanding (and acting on) the consequences of climate change for Africa are examples of special importance.

50 Responsibility lies also with the *private sector*. Rich-country firms often undermine good governance, most notably through participating in corruption. Some financial institutions in developed countries are complicit in harbouring African assets. And few of the arms used in African conflicts are manufactured in Africa; most are imported, many illegally, from outside the region. Codes and standards – and their observance and enforcement – do matter.

51 Fortunately, civil society and aid agencies now apply constant pressure on governments to assist African development much more strongly and private-sector firms from developed countries have also begun to improve their own behaviour in their host countries. In our consultations with both civil society and the private sector, we were very encouraged by initiatives in these areas but also saw great potential in taking such measures forward. The people of the developed countries must build on the momentum. In addition, there is a great deal of experience and analysis of development that can be shared and much that skilled workers, professionals, scientists, universities and others in the developed world can offer. There is special potential in Africa's diaspora, which has both the necessary skills and an understanding of the environment in which they can be applied.

### 1.3.3 A changing of ways

52 We have argued both that the developed countries can do a great deal to support Africa's resurgence and that the action required must be prompt, sustained, coherent and large-scale. And we have emphasised constantly, as we do throughout this report, that the effectiveness of this action depends critically on what Africa is doing and will do, particularly in the area of governance. The leadership must be with Africa. In the

concluding section of the chapter, we will summarise the key recommendations of the Commission explaining how the elements of the package complement each other and how the idea of a big push should be understood. Chapters 4 to 10 will provide the detailed justification for the recommendations.

53 But first we must emphasise that this Commission is not simply recommending throwing money at the problems. We would not be proposing large increases in aid unless we were also proposing both coherent policy packages across the board, in Africa and outside, and fundamental change in the way in which aid works. Our proposals represent a radical changing of the ways. Whilst they build on the improvements of the past few years in development strategy and approaches to aid, they go much further. The best way to illustrate this point is to define not only what the big push entails – which we sketched out in the previous section, and will return to in the next – but also what the big push is not.

54 First, it is *not a matter of doing 'the same, only more'*. Greater support from the world will not help Africa reach development goals if donors and governments continue working as they have until now. The big push involves radical change in our ways in key respects. Most importantly, it is built on African change and improved governance and policies. In this respect, it stands in marked contrast to the approach in the 1980s and much of the 1990s, when aid was often used to try to compensate for poor governance, simply ignored governance issues, tried to force policies on reluctant countries, or aimed primarily at advancing the economic or political interests of the donor.

55 The approach advocated here differs from past approaches to development assistance in other key respects as well. It advocates investment in higher education and in science and technology, which have been neglected in recent years. It urges support for the African Union's role in promoting peace and security. The AU's development and initiatives offer a great new opportunity to do much better in promoting peace and security, which are essential but often overlooked prerequisites for development. It rejects the theory that the private sector will be willing to finance most of Africa's infrastructure (even though private finance clearly has a role in some areas) and instead advocates a major, increase in infrastructure investment financed by African governments and aid agencies. It advocates that the international community place less emphasis on debt sustainability criteria for appropriate levels of debt relief, and more on developmental criteria. And it calls for a doubling of aid flows over the next five years, which would require a radical change in the way that aid agencies do business (including a shift to much greater use of grants in low-income countries).

56 Second, the measures proposed here are not intended to replace other international actions, nor do they ignore past lessons, nor do they call for the creation of a plethora of new institutions. These measures support the work of the AU and AU/NEPAD on peace and security, governance, and other areas, as well as the actions that individual African countries are taking. They also aim to give additional support to mechanisms and structures that are already in place to respond to Africa's needs, including the G8 Africa Action Plan and the Africa Partners' Forum. The starting point for our work is necessarily the commitments already made by the international community (including at Kananaskis and Monterrey), many of which have not yet been delivered. And the Commission supports the strong efforts being made by the United Nations, particularly in 2005 and through the Millennium Project, to generate an acceleration in action on development. The Commission has also been careful to recommend very few new institutions; the challenge is to make existing institutions work much better. Chapter 4 on governance places great emphasis on changing African institutions and in Chapter 10 we set out requirements for reform of the international institutions.

57 Third, a big push does *not mean an un-coordinated wave of initiatives, taken all at once*, that will overwhelm Africa's limited administrative capacity. The report does emphasise that Africa's major problems are closely interconnected, and hence the actions

to attack them must be as well. But the Commission recognises that governments and donors have constraints on their capacities and attention, and therefore must set priorities within an advance along a broad front. It does not argue that each initiative will fail unless everything is done at once. The priorities for action will depend on the circumstances of each region, country, and sector, and must be set there.

58 Fourth, given the tremendous diversity of Africa, this package of actions is *not a uniform template* to be applied to all countries. Instead, it is a package of clear principles to be applied flexibly in different contexts. No set of recommendations can be equally applicable to all African countries. Different countries have different circumstances, geographies and histories. And particular models of governance or social policies developed in rich countries cannot simply be pasted on to an African canvas. Country-specific approaches should be constructed through processes that will work best if they follow certain general principles – they should be participatory, country-led and based on a long-term view of development, and they should embody partnership and mutual accountability. These are the principles of the Poverty Reduction Strategies that have been adopted by many African countries to guide and shape their partnerships with donors, as well as to structure their own action.

59 Finally, this package is *not to be applied in a top-down fashion*. Most projects and programmes work when they are designed locally with strong participation, and where they reflect local aspirations – both because local people understand local circumstances better, and because they will be more motivated to help these approaches succeed. That is a lesson of development experience which must be applied ever more strongly. The Commission therefore envisions a development process in which countries and communities chart their own course. The Commission also recognises – and this has strongly influenced our approach – the importance of culture in shaping development goals and instruments. It must also take careful account of basic human rights. Different communities will have different notions of property rights, different dispute-resolution mechanisms, and different manifestations of authority and leadership. But while the development solutions will come largely from African countries and communities, the world and especially the developed countries must take responsibility for helping Africa to fund these actions. The scale of Africa's need is far too great for the continent to provide all the additional funding itself.

## 1.4 A plan of action to support Africa's resurgence

60 In this chapter, we have outlined the case for acting now and the rationale for and outline of the big-push approach. With this understanding of the big push kept in mind, our summary of the recommendations in this section builds on the analysis we have sketched above and follows the structure of the overall report. Detailed proposals, the logic behind them, and the evidence base are set out in Chapters 4 through 10. The full list of recommendations was provided at the end of Part 1 of this report. Here, as an introduction to the detailed analysis and evidence which follows, we present the Commission's major recommendations in broad terms, and sketch the rationale given for each set of recommendations. The costings have been summarised in Table 1.1 and further detail on costs is provided in the relevant chapters and in Chapter 9.

# Summary of Key Messages

## Building Effective States, Governance, and Nations (Chapter 4):

61 Effective states – those that can promote and protect human rights and can deliver services to their people and a climate for entrepreneurship and growth – are the foundation of development. Without progress in governance, all other reforms will have limited impact. While there have been improvements in many African countries, weakness in governance and capacity is the central cause of Africa's difficult experience over the last decades. Improvements in governance, including democracy, are first and foremost the responsibility of African countries and people, and they take time and commitment. But there are also actions that outsiders can take both to support and to avoid undermining good governance. Two areas are crucial: **capacity** (the ability to design and deliver policies) and **accountability** (how the state answers to its people). This chapter proposes:

- Providing strong political and financial support for the **pan-African and regional organisations**, particularly the African Union and its programme NEPAD;
- Making changes in **donor behaviour**, to get fully behind a comprehensive **national strategy** for capacity-building;
- Building up **professional skills and knowledge**, including by revitalising Africa's higher education, especially in science, engineering, and technology;
- Broadening participation and strengthening institutions that improve accountability, including **parliaments, local authorities, the media, and the justice system**;
- Increasing **transparency** of revenues and budgets, especially in countries rich in natural resources; this also makes a powerful contribution to conflict prevention;
- Tackling **corruption**, including **repatriation of stolen state assets**;
- Strengthening the quality and management of **data**.

## Establishing Peace and Security (Chapter 5):

62 The right to life and security is the most basic of human rights. Without **increased investment in conflict prevention**, Africa will not make the rapid acceleration in development that its people seek. Investing in development is itself an investment in peace and security, but there is much more that should be done directly to strengthen conflict prevention:

- Building the **capacity of African states and society to prevent and manage conflict** by tackling its root causes, including steps to make aid more effective at building the foundations for durable peace, to improve the management of natural resource revenues, and to tackle the trade in small arms and 'conflict resources';
- Strengthening **African regional organisations' and the UN's ability to prevent and resolve conflict through, for example, more effective early warning, mediation and peacekeeping**. We propose to do this by providing flexible funding for African Union and regional organisations' core capacity and operations; and by supporting the creation of a UN Peacebuilding Commission;
- Improving the co-ordination and financing of **post-conflict peacebuilding and development**, so that states emerging from violent conflict do not slide back into it.

## Promoting Human Development (Chapter 6):

63 Strong and sustained progress in human development requires fundamental change. That change will happen only if women and men are at the centre of the action. The world has made inspiring commitments, including Education for All and the UNGASS Declaration of Commitment on HIV and AIDS. Delivering on these commitments is fundamental to meeting the MDGs. But that should not be through yet more competing initiatives. Sustained advance requires financing that aligns behind national health and education systems and is harmonised with and complementary to other assistance. Effective use of the large new resource flows will require careful attention to mechanisms for delivering and monitoring results, and accountability to the poor communities that are being served. Practical actions include:

- Providing the funding for all boys and girls in sub-Saharan Africa to receive free **basic education** that equips them with skills for contemporary Africa. Secondary, higher, vocational education, adult learning, and teacher training should receive appropriate emphasis within the overall education system;
- Strengthening health systems in Africa so all can obtain **basic health care**. This will involve major investment in human resources, in sexual and reproductive health services, in the development of new medicines, as well as supporting the removal of user fees. Through coherent, integrated strategies, this approach could effectively **eliminate diseases that devastate poor people**, such as tuberculosis and malaria and other parasites;
- Delivering the UNGASS Declaration of Commitment on **HIV and AIDS** urgently and as a top priority to ensure that appropriate services are available to all. Mobilising and integrating the international response behind coherent, comprehensive yet bold national strategies that take account of gender and power relationships;
- Enabling families and communities to continue to protect **orphans and vulnerable children**, through providing predictable financing streams for national social protection strategies;
- Meeting the G8 **Water Action Plan** commitments through increased funding for the Africa Water Vision to reduce by 75 per cent the number of people without access to safe water and basic sanitation by 2015, monitoring progress in 2007.

64 Of all the issues addressed in this report, the health, education and inclusion challenges are the most demanding in terms of resources. We recommend that these resources be provided in predictable, long-term streams, with a carefully sequenced steady increase in step with improvements in African governments' capacity to deliver effective services.

## Accelerating Growth and Poverty Reduction (Chapter 7):

65 Accelerating growth, and ensuring the participation of poor people in that growth, is fundamental for poverty reduction. The proposals across this Report – on infrastructure, investment climates, governance, peace and security, trade, human development, culture, the environment and the quality of aid – should both boost participation and contribute strongly to increasing sustainable growth, investment and employment. **The goal should be to increase the average growth rate to seven per cent by the end of the decade, and sustain it thereafter.** These growth rates have been attained across Asia and in parts of Africa and can be achieved across the continent – but only if the obstacles of a weak infrastructure and a discouraging investment climate are overcome, releasing Africa's entrepreneurial energies. This will require:

- Committing to **double infrastructure spending** in Africa, with an initial increase in donor funding of US\$10 billion a year up to 2010 and, subject to review, a further increase to US\$20 billion a year in the following five years. This will require careful management and build-up to avoid corruption and cost escalation, and should extend from rural roads, small-scale irrigation, and slum improvement to regional highways and larger power projects.
- Public and private sector working together to identify the obstacles to a favourable **investment climate**, together with outside support to fund the necessary actions.
- Fostering **small enterprises** through ensuring better access to markets, finance, and business linkages, with a particular focus on youth and women, as well as the family farms that employ so many people in Africa.
- Action by the **business community** to contribute in each of these areas and in other areas set out in this Report, working in partnerships with each other, with donors, with national governments and with civil society, as part of a sea change in the way it engages in the development process.
- Action to ensure that **environmental sustainability** is integral to donor interventions and to manage and build Africa's resilience to climate change.

## Breaking into the World Markets (Chapter 8):

66 Africa will fail to achieve sustainable growth and poverty reduction, and fail to meet the Millennium Development Goals, unless it increases its diminishing share of world trade. Growing global competition makes this even more challenging than in the past. African countries and the international community, working together can make progress possible, by:

- Increasing Africa's **capacity to trade**. The investments in infrastructure and the enabling climate for the private sector (described in Chapter 7) are at the top of the agenda. Further measures described here focus on **trade facilitation**, including: customs reform; removal of regulatory barriers, especially in transport; improved governance; air and sea transport reform; and regional integration.
- Removing the **trade barriers** in developed and other developing-country markets that frustrate the fulfilment of Africa's trade potential. Progress requires the successful completion of an ambitious Doha Round, with specific and timebound goals for ending appalling levels of developed-country protectionism and subsidies. Development must be the priority in all trade agreements, with liberalisation not forced on Africa.
- Providing **transitional support to Africa** as global trade barriers are removed. First, this requires making current preferences work more effectively – expanding schemes to cover all low-income countries in sub-Saharan Africa, and ensuring that rules of origin requirements are not vexatiously applied. Second, the rich countries must finance 'aid for trade' to help meet the economic and social costs of adjusting to a new global trading environment.

## Financing and Supporting Africa's Resurgence (Chapter 9):

67 To accelerate income growth towards seven per cent, and to spur strong progress towards the Millennium Development Goals, the volume and quality of external aid to sub-Saharan Africa must change radically. To ensure effective absorption, increases in aid over the next three to five years should be strong and measured. They must also be accompanied by continued improvements in governance in aid-recipient countries, by substantial changes in donor behaviour, and by learning and evaluation. Past experience

shows aid can be provided and used badly. But more and better aid can support positive changes, as demonstrated by recent advances in many African countries, including Senegal, Mali, Burkina Faso, Ghana, Benin, Ethiopia, Uganda, Tanzania, and Mozambique.

This chapter proposes:

- **Doubling aid levels** over the next three to five years, to complement rising levels of domestic revenue from growth and from better governance;
- **Financing increases in aid** by meeting existing commitments to move toward the 0.7 per cent ODA/GNI target, by raising additional finance from an International Finance Facility (IFF), and by developing international levies (for example, a tax on airline tickets) with revenues dedicated to development;
- For poor countries in sub-Saharan Africa which need it, **the objective must be 100 per cent debt cancellation** as soon as possible. This must be part of a financing package for these countries – including those excluded from current debt schemes – to achieve the MDGs, as promised in Monterrey and Kananaskis. The key criterion should be that the money be used to deliver development, economic growth and the reduction of poverty for countries actively promoting good governance;
- Improving radically **the quality of aid**, by:
  - Strengthening the processes of accountability to citizens in aid-recipient countries;
  - Allocating aid to countries where poverty is deepest and where aid can be best used;
  - Providing much stronger support to advancing governance where conditions for effective use of aid are currently weak;
  - Channelling more aid through grants, to avoid the build-up of debt;
  - Aligning more closely with country priorities, procedures, systems, and practices;
  - Providing aid more predictably and flexibly over the longer term;
  - Protecting countries better against unanticipated shocks.

## Delivering and Implementing (Chapter 10):

68 Effective and sustained action that can deliver results will come only if African countries and institutions and Africa's external partners make and deliver on commitments. There are a number of complementary ingredients that are key to stronger implementation and delivery of results:

- Building a **global partnership** around **African leadership**;
- Setting out a clear **programme of action**, with responsibilities and timetables, based on sound evidence about what works and what does not;
- Strengthening **institutions**, both inside and outside Africa, so that they are **capable of delivery**. This must include reorienting the international financial institutions so that they give higher priority to accelerating African development and are more accountable, including to their clients and partners;
- Ensuring a **stronger African voice** in the multilateral organisations;
- Putting in place **effective independent mechanisms to monitor** and report on progress on implementation;
- Generating and sustaining strong commitment to Africa's development by the people and civil society of the developed countries, as well as Africa, to keep the **pressure on political leaders** to deliver.



# Chapter 2

## Lost Decades: Legacy and Causes

1 There is a powerful case for urgent and comprehensive action by the global community to support Africa's resurgence. Chapters 3 to 10 will set out our recommendations in each of the key areas of action, together with their analytical basis. But before forging ahead, we must look back. Effective action to eliminate poverty on a continental scale requires a clear understanding of where Africa now stands and how Africa arrived at its current position. What are Africa's most difficult problems, and what are their causes?

### 2.1 The meaning of poverty

2 We open by exploring the meaning and extent of poverty. The answer to this question is inevitably a complex one. But it requires, before we come to look at the causes, a careful consideration of several other questions. What does it mean to be poor? Which people are poor, and where are they? And why are they poor? The answers to these questions are not as self-evident as many suppose, but they are crucial, as they must guide us in mapping out actions against poverty.

3 Ask poor people themselves what poverty means to them and these are the answers they give. Poverty means hunger, thirst, and living without decent shelter. It means not being able to read. It means chronic sickness. Poverty means not finding any opportunities for you or your children. It is about being pushed around by those who are more powerful. It is about having little control over your own life. And it can mean living with the constant threat of personal violence<sup>1</sup>. That is why this report is primarily about growth in opportunities and incomes, about health, about security, about education.

4 It is this understanding of the meaning and dimensions of poverty, and the huge challenges on all its dimensions, that motivated the adoption of the Millennium Development Goals by the United Nations in September 2000 (see Annex 1). Africa is far off track on all of these goals; by contrast, South Asia is firmly on track to meet the goal of halving the fraction of people in poverty between 1990 and 2015, and East Asia has achieved it already. The analysis of the UN Millennium Project, which reported earlier this year, sets out the position and forecasts and demonstrates what is required to achieve them. It concludes that strong and urgent action is needed to achieve them for Africa. The report is highly consistent and complementary with ours, and the Commission welcomes both the Millennium Project's analysis and its recommendations.

5 About one-sixth of the people living in sub-Saharan Africa are chronically poor<sup>2</sup>. These families are known in Ethiopia as 'those who cook water'. In Ghana they are called 'those with two bags' – one for begging in the hungry season, and another for begging in the season of plenty. They are people who experience such persistent poverty that it is almost impossible to break free of it using their own resources<sup>3</sup>. They are reliant on day labouring. They have no education and few assets.

6 What makes people poor? The first and most important answer for Africa must be the absence of economic growth in recent decades. For most poor people in Africa,



poverty is something they are born into, with little opportunity to escape. Where the large majority of the population is poor and the economy is stagnant, individual characteristics of poor people are less important than the overall context in determining the overall incidence of poverty. And as Africa's economies stagnated while the population grew rapidly, the percentage of people living in poverty grew. This trend persisted into the 1990s, despite the stirrings of economic improvement towards the end of the decade.

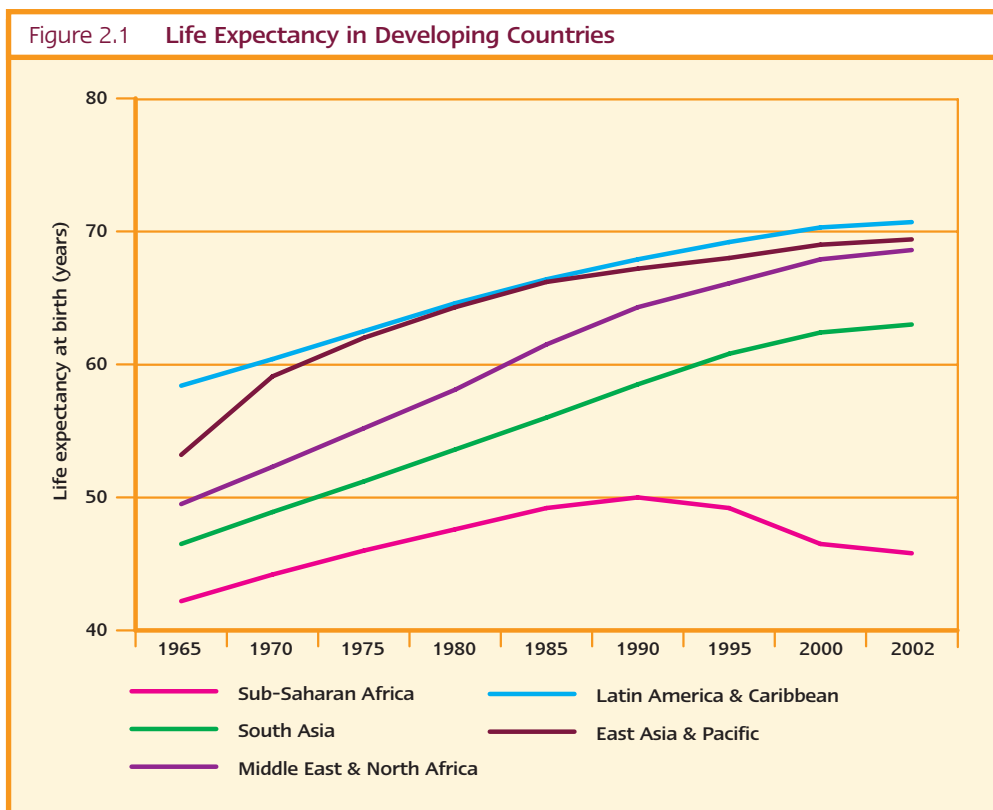
7 Beyond these problems of long-term economy-wide stagnation, there are many individual and regional factors that can plunge people into poverty, or drive them deeper if they are already poor. People can become poor through a personal crisis, such as ill health, or through a more general shock, such as a drought or a drop in the prices of export crops. When only an individual or household is affected, it is easier to cope, as the community may offer support. But when whole communities are affected, as with drought, conflict, or HIV and AIDS, these mutual support systems begin to break down. Then a period of illness can mean selling the last of what they own to pay for food. Family and the community can help only for so long, before being unable to meet the constant requests for help. The ability to recover from a crisis is non-existent or painfully slow; in Ethiopia, ten years after the 1984 famine, people still owned one-tenth fewer livestock than they had before the famine<sup>4</sup>. Individuals and families are trapped in vicious circles of poverty, which can easily turn into downward spirals. Another African expression encapsulates these reinforcing cycles of poverty and exclusion: in Zimbabwe they speak of 'poverty that lays eggs'.

8 Who are these poor people? Again, they are, first and foremost, simply those who have the misfortune to be born into desperately poor economies—economies in which the average income is only around two US dollars per day, and the vast majority of people must live on even less. But it is not just a story about growth and income levels. Even within poor countries, the poorest people are those who are excluded from information, from government services, from full participation in society, politics and the economy and even informal community support systems. All too often the reason for the exclusion is discrimination, for example against women, disabled persons, ethnic or linguistic minorities, or persons with HIV or AIDS. Exclusion makes it especially difficult to escape from poverty; worse still, the disadvantage is transmitted from one generation to the next, as parents are unable to invest in the health, education, or nutrition of their children<sup>5</sup>. Poverty, as they say in Uganda, passes from one generation to the other, as if the child sucks it from her mother's breast<sup>6</sup>. How can we stop this intergenerational transmission of poverty? The best way to address it is to break out of the traps that have strangled growth and kept income so low, while also working to end the exclusion of particular groups.

## 2.2 What has been happening to poverty?

9 Poverty and hunger are deepening in sub-Saharan Africa. The number of poor people is expected to rise from 315 million in 1999 to 404 million people by 2015. Some 34 per cent of the population is undernourished – almost double the figure for the rest of the developing world. The impact of hunger upon the health of Africa's children is hard to measure. Hunger kills more than all the continent's infectious diseases – HIV and AIDS, malaria, and tuberculosis (TB) – put together<sup>7</sup>. Early childhood malnutrition has irreversible long-term consequences, not just in health but also in educational achievements and future earning capacity<sup>8</sup>. Other indicators are equally depressing. Average life expectancy (see Figure 2.1) in Africa is only 46 years, compared with 63 years in South Asia and 69 years in East Asia<sup>9</sup>. Access to clean water in Africa has also fallen behind the levels in the

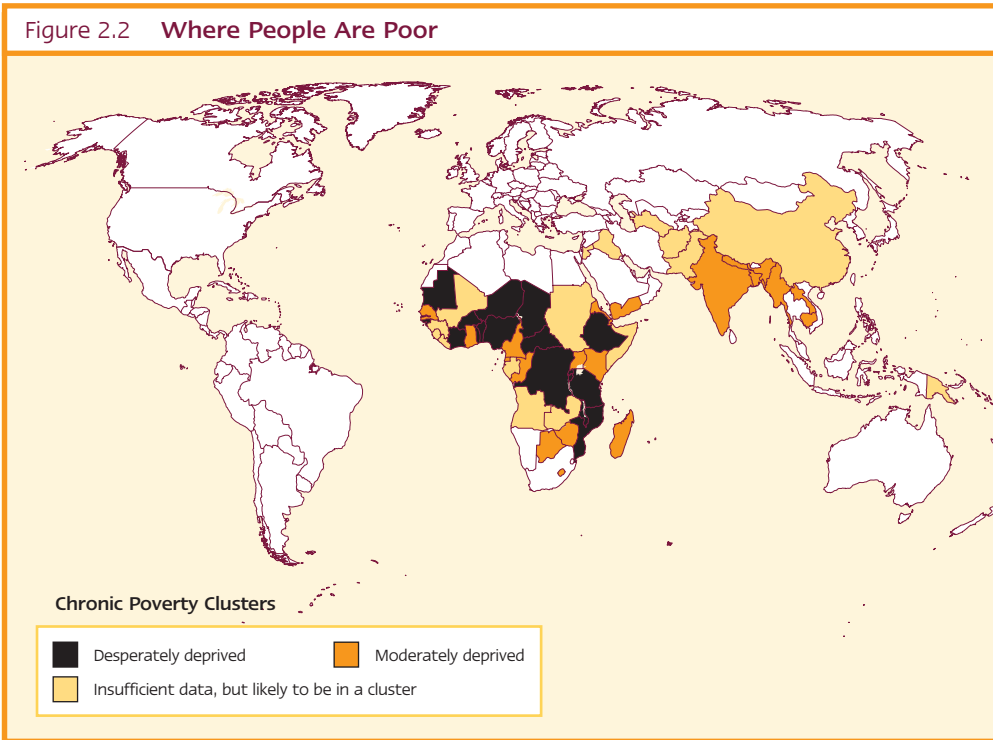
rest of the developing world (58 per cent in Africa in 2002, compared with 84 per cent in South Asia)<sup>10</sup>. Only in education is the picture more encouraging, with strong increases in literacy across all developing regions over the last few decades.



Source: World Bank, 2004a

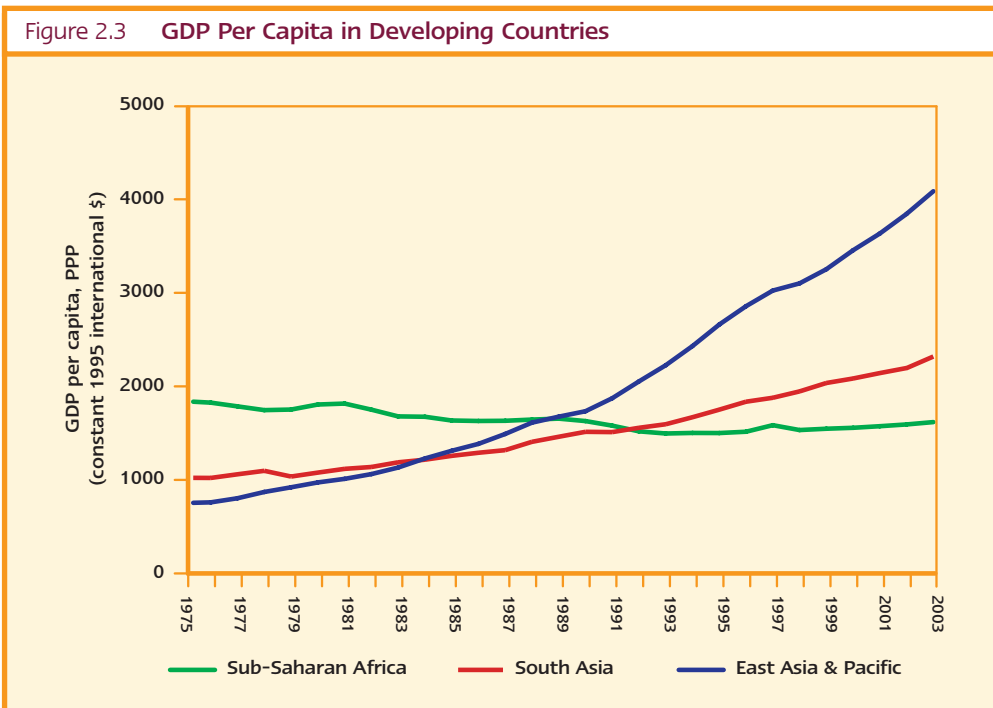
10 The comparisons with South and East Asia are revealing (see Figure 2.2). Thirty years ago the average income in sub-Saharan Africa was twice that of both East Asia and South Asia (see Figure 2.3). Yet despite the fact that those regions hold 60 per cent of the developing world's population, the crisis of world poverty is now in Africa. Average African incomes are now well below half that of East Asia, where the number of people living on less than one dollar a day has fallen dramatically since 1981<sup>11</sup>. Increasingly we see a similar story in India and South Asia<sup>12</sup>. Incomes in Latin America are eight or nine times higher than in sub-Saharan Africa while those in the Middle East and North Africa are five times larger<sup>13</sup>. And Africa is the only continent where the proportion of the population in poverty is growing<sup>14</sup>.

Figure 2.2 Where People Are Poor



Source: CPRC analysis

Figure 2.3 GDP Per Capita in Developing Countries



Source: World Bank, 2004a

11 **A warning about diversity** Before we look at what the causes of this dramatic decline might be, we must remind ourselves – as we should throughout this report – that sub-Saharan Africa consists of 48 countries, and the variation across and within them is huge. The aggregate figures we have been using when comparing with other regions, conceal enormous diversity. Countries vary greatly in population size, population density, and natural resource wealth<sup>15</sup>. All have different histories, cultures, colonial experiences, and institutional structures and have had diverging experiences of growth and poverty reduction. Table 2.1 sets out a picture of poverty rates in selected African countries, to illustrate the difference in experiences. Compare, for example, Ghana's income per capita (US\$2,141 in PPP-adjusted figures) to that of Zambia (US\$839)<sup>16</sup>.

12 There are also wide variations in experience within African countries, including major disparities between different regions and between rural and urban areas. For example, in Uganda 42 per cent of those in rural areas live in poverty, compared with only 12 per cent in urban areas<sup>17</sup>.

|               | (1)<br>Percentage of population below<br>US\$1 a day (1998 survey) | (2)<br>GNI per capita, PPP<br>(current international \$) 2003 |
|---------------|--|---|
| Burkina Faso  | 44.9   | 1,112   |
| Burundi       | 54.6   | 635   |
| Côte d'Ivoire | 15.5   | 1,520   |
| Ghana         | 44.8   | 2,141   |
| Zambia        | 63.7   | 839   |

Source: (1) DFID Statistics on International Development, 99/00-03/04<sup>18</sup>  
(2) World Bank, 2004a

13 Although stagnation in Africa has been widespread, the picture is not grim everywhere. Far from it. Many countries in Africa have taken on their problems and shown that success is possible. In 2003, 24 countries in sub-Saharan Africa had growth rates of five per cent or more<sup>19</sup>. And falls in poverty are demonstrably associated with economic growth. East Asia has grown faster than South Asia, and poverty has fallen faster. In contrast, output per head has declined in Africa, and poverty has risen<sup>20</sup>. Similarly, the African countries that have succeeded in cutting poverty in the last two decades are those that have grown most rapidly. In Mozambique, for example, the numbers living in poverty fell between 1997 and 2000, when income per capita was growing at 3.3 per cent a year<sup>21</sup>.

14 But growth is not sufficient for poverty reduction. Countries must also strengthen the ability of poor people to participate fully in the economy and in society, for example by investing more in health and education.<sup>22</sup> Alongside this, the broader economic, legal, political, and governance environment shapes opportunities for poor people to participate<sup>23</sup>. These issues are covered in detail in later chapters.

## 2.3 The causes

15 Any proposals for action must be based on an understanding not only of where we are but also the causes that brought us here. The major obstacles to African development in the past several decades have been difficult geography and poor governance, by which

we mean 'the manner of governing', or how the state functions (or fails to function). Africa's developmentally unfriendly geography has been exacerbated by colonial patterns of investment and border-drawing. Poor governance too has some roots in the policies of colonisers, but governance today is in large measure made at home. Africans are taking increasingly effective action to improve governance, and the result could be a revival of the continent's development. Good governance can even overcome poor geography, if countries have the ability to manage the building of ports and transport infrastructure, to expand regional co-operation, and generally to ensure that political borders do not become economic barriers.

16 Whilst governance and geography are the headlines to describe the key causes of Africa's failure to grow, if we look into the issue in greater detail, we find that Africa's struggles have had several causes. They are complex and interlocking, and setting them out gives us some indication of the scale of the challenge Africa now faces. It is helpful if we think of them under four broad headings: *political*, including governance and conflict; *structural*, including fragmentation, transport costs, and the roles of agriculture, manufacturing, and services; *environmental and technological*, including climate, water, desertification, deforestation, and technological development; and *human*, health, education, and the growth and age structure of population.

### 2.3.1 Political causes

#### Poor governance

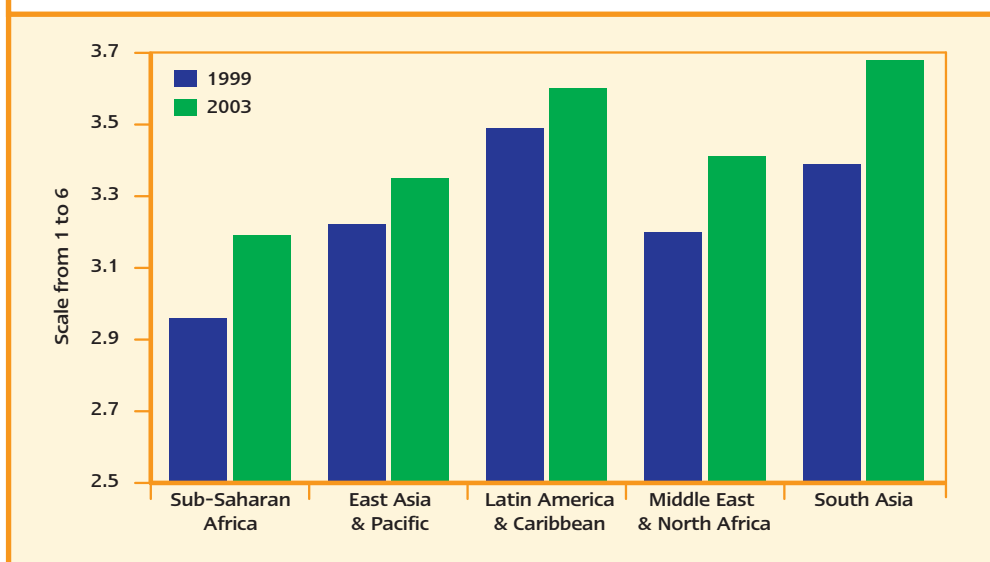
17 In the 1960s, in the early years following independence, average incomes in Africa grew. As a barrage of problems struck Africa in the 1970s and 1980s, per-capita incomes declined sharply. That period was characterised by undemocratic governments, widespread corruption, and ineffectual states.

18 To elaborate on this point: Africa has suffered from governments that have looted the resources of the state; that could not or would not deliver services to their people; that in many cases were predatory, corruptly extracting their countries' resources; that maintained control through violence and bribery; and that squandered or stole aid. At times, particularly during the Cold War, these governments received active support from donors. But governance is ultimately home-grown, and change will have to come from within Africa. The more it happens, the greater the effectiveness of external support; indeed, external support can also work to foster such change.

19 The Commission is convinced that good governance is the key to both growth and participation. Although Africa still lags far behind other regions, governance in Africa has improved significantly in recent years.<sup>24</sup> In the past five years, more than two-thirds of the countries in sub-Saharan Africa have had multi-party elections, with a number of examples of peaceful, democratic changes of government<sup>25</sup>. Not all elections involved transfers of power and there are still a number of apparently immovable presidents in office, but in terms of political freedoms, Africa has shown strong improvement in the last 20 years.

20 Governance has improved on other fronts as well, including those more directly related to economic growth. There has been considerable progress over recent years in constructing indices for governance, and these indices show that improvements in governance in Africa are not confined to one or two countries. Nevertheless, if we examine indicators of economic governance for the continent as a whole over the past few years, we find sub-Saharan Africa continues to lag behind other regions, but the positive news is that these indicators are increasing at least as quickly in Africa as in any other region (see Figure 2.4). Thus Africa is working to create conditions where growth has a chance.

Figure 2.4 Governance Quality in Developing Countries, Measured by Country Policy and Institutional Assessment (CPIA) Scores



Source: World Bank CPIA database

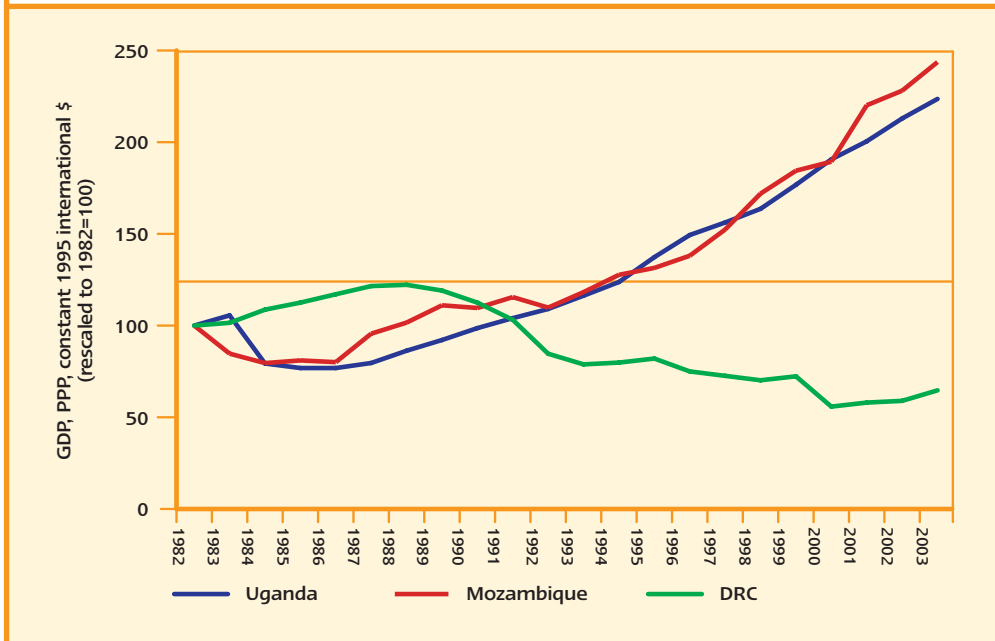
### Civil conflict

21 A major factor that has created and perpetuated poverty in Africa is war and insecurity. Africa has experienced more violent conflict than any other continent in recent decades, with civil war, localised violence, and a general lack of security plaguing many countries. The toll on human lives has been enormous: conflict causes as many deaths in Africa each year as epidemic diseases and is responsible for more death and displacement than famine or flood<sup>26</sup>. Between 1998 and 2002, some four million people died in the civil war in the Democratic Republic of Congo alone<sup>27</sup>. When people are forced to flee their homes, malnutrition and disease inevitably follow. Those who suffer most from violence are people who are poor and vulnerable, including many children and women<sup>28</sup>. There are 13 million internally displaced people in Africa, mostly as a result of violent conflict, and 3.5 million refugees<sup>29</sup>.

22 There has been some improvement in recent years, however. The number of civil wars dropped from 15 to nine between 2002 and 2003, with the African Union playing a key role in conflict resolution. But the situation remains grave, with deep problems in the Democratic Republic of Congo, Darfur, Northern Uganda, and Côte d'Ivoire. Without security, and without greater and more successful efforts at preventing violent conflict, Africa will not achieve its economic or human development goals. The causes of conflict are complex, but poverty, exclusion, poor political and economic governance, judicial failure and dependency on natural resources all play a part. These are discussed in more detail in Chapter 5.

23 It is clear that war and poor governance bring economic decline, but the reverse is true as well: overcoming conflict and promoting better governance brings swift improvements in economic growth. That is clear from the experience of Mozambique and Uganda over the last two decades (see Figure 2.5).

Figure 2.5 Growth in Sub-Saharan African Post-Conflict Countries



Source: World Bank, 2004a

24 After relative peace came to Uganda in 1986 and Mozambique in 1992, their governments substantially improved governance and policy, with strong backing from donors. Growth came quickly and has been sustained, leading to a rapid reduction in poverty. The number of Ugandans living below the poverty line of one dollar per day was reduced sharply, from 56 per cent in 1992 to 35 per cent in 2000<sup>30</sup>. In Mozambique, the poverty share fell from 69 per cent in 1997 to 54 per cent in 2003<sup>31</sup>. By comparison, in the Democratic Republic of Congo, where war and weak governance have persisted, income and living standards have continued to decline and poverty has risen.

### 2.3.2 Structural causes

#### A weak investment climate

25 What is required to drive economic growth is the individual entrepreneurship of Africans. That is true both in farming, where most African entrepreneurs work, and in business in general, on whatever scale. Yet investors, domestic or foreign, will place their money only where they feel that risks are acceptable in relation to returns. Where governance is weak, corruption is prevalent, or infrastructure is poor, investors are reluctant to risk their resources. Change this, and growth will soon be underway.

26 That is what happened in Uganda. Broad reforms to improve its investment climate provided the basis for economic growth that averaged around seven per cent annually during 1993-2002, and, as we have seen, poverty fell sharply. Improving the investment climate can bring more income to a country than is produced by all the world's aid flows<sup>32</sup>. In the last few years there has been a growing recognition of this fact – and of what domestic governments, developed countries and the business community can do to improve the investment climate. Measures include making taxation predictable and transparent, tackling corruption, lessening regulation on business, an effective and fair justice framework, and improving public financial management systems. For example, it

takes two days to start a business in Australia compared with 203 days to do so in the Democratic Republic of Congo, were one to do it formally<sup>33</sup>.

27 Other factors in improving the investment climate include tackling political instability, resolving conflict, and reducing crime<sup>34</sup>. Removing instability can result in a 30 per cent increase in investment. Perceptions are particularly important here; evidence from a number of studies suggests that the perception of Africa as one large, risky region is one of the most significant barriers to investment<sup>35</sup>. In other words, the bad reputation of some countries has a tendency to rub off on all African nations, even those that have made great progress in improving the climate for business. Detailed discussion of investment climates and how to change them can be found in Chapter 7.

### **Dependence on primary commodities**

28 Africa has also been vulnerable to declining and volatile commodity prices, especially given its dependence on a narrow range of products. From 1980 to 2000, the greatest falls in prices were in cotton (47 per cent), coffee (64 per cent), cocoa (71 per cent) and sugar (77 per cent)<sup>36</sup>. And in a short period, losses can be very severe. Between 1986-89, sub-Saharan Africa suffered losses, associated with price falls, of US\$56 billion or around 15-16 per cent of the then GDP<sup>37</sup>. In the past three decades, export prices for sub-Saharan Africa were twice as volatile as those of exports from East Asia, and nearly four times more volatile than the exports of developed countries<sup>38</sup>. Reliance on primary commodities is therefore unlikely to constitute a successful long-term development strategy<sup>39</sup>. More on this can be found in Chapter 8.

### **Transport costs and other colonial legacies**

29 The colonial era was a powerful factor shaping the problems Africa now faces. Colonial powers created many of the divisions in sub-Saharan Africa's fragmented political structure, and they also built infrastructure focused on extracting Africa's natural resources rather than integrating the continent or generating more links to the East. In effect, Africa's history has reinforced its geographic disadvantages, rather than helping to overcome them. Setting a map of African railways alongside those of India makes this point clearly: while India's railways link the sub-continent, Africa's provide for extractive industries to reach ports for export to developed countries, particularly Europe. Africa's transport costs – local, national, and international – are around twice as high as those for a typical Asian country (see Figure 2.6). The response to lower transport costs could be very high; by one estimate, if Africa could cut transport costs by half, it could increase transport fivefold<sup>40</sup>.

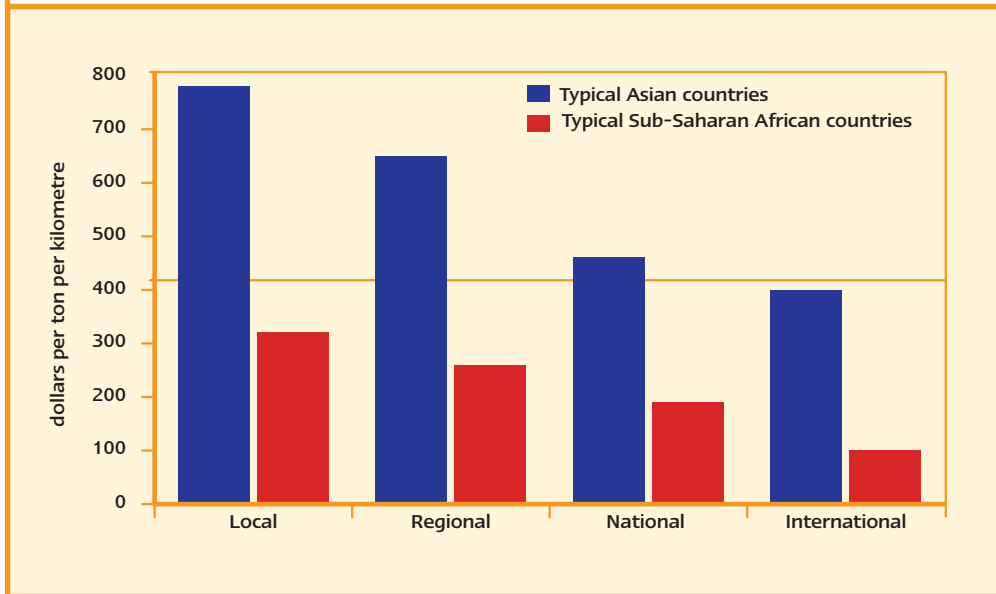
30 Nor is the colonial story just about transportation infrastructure. By contrast to the Indian sub-continent, where the colonial power established an effective administration system, Africa was poorly served. Africa emerged from the colonial era with a far weaker governance structure than other ex-colonies, compounding the infrastructure problem. As a result, the often-illogical political borders of landlocked countries have become economic barriers.

### **Late entry into manufacturing**

31 The last twenty years have seen an enormous expansion of manufacturing exports from developing countries as a whole, as the proportion of manufacturing in their total exports has risen from 20 to 80 per cent. Asia has led the way. But as a result of all the problems we have described, Africa has fallen far behind in the diversification of exports and will find it increasingly difficult to break through into manufacturing markets.



Figure 2.6 Transport Costs in Sub-Saharan Africa and Asia



Source: P.Starkey et al, 2002

32 Countries in Asia and Latin America are well ahead of Africa in having developed the industrial infrastructure, skills, and learning culture needed for rapid advances. Compounding Africa's late start in manufacturing are its labour costs: contrary to what some assume, Africa does not have significantly lower labour costs than Asia. As a result, the region remains caught in the trap of dependency on primary commodities, with their wild price fluctuations. More on this topic can be found in Chapters 7 and 8.

### 2.3.3 Environmental and technological causes

#### Low agricultural productivity

33 Agriculture is a key part of virtually every African economy. For the majority of the population it provides their livelihood, so that spurring African growth requires improving Africa's agricultural sector. That will not happen without investment in rural roads and power, irrigation, new crops and changes in technology. Africa has fallen behind here too. We have already emphasised transport costs, which have their severest effect on rural areas. Irrigation is another example: Africa's proportion of land irrigated has hardly changed over the last 20 years (at around four per cent), while South Asia's has risen to 40 per cent.

34 Like transport, irrigation is expensive and has been sorely neglected in Africa. To bring change will require major support from the donor community for a comprehensive package to improve the production and efficiency of agriculture. That means not only improving transport and irrigation, but also doing more research, innovation, and agricultural extension; building post-harvest infrastructure; and developing local markets and institutions. It means improving the security of land tenure and creating the better investment climate needed to induce Africa's farmers to improve their own land, methods and crops.

35 And, of great importance, it will also require developed countries to open their markets to Africa's agricultural products. More on Africa's agriculture can be found in Chapter 7 (on agriculture and growth) and Chapter 8 (on agricultural trade).

### Climate change and Africa's fragile environment

36 Africa's reliance on agriculture and its very low levels of irrigation make it singularly vulnerable to the vagaries of its highly variable climate. Rainfall is erratic and natural hazards such as droughts and floods are frequent. As well as the threat to life itself, crops fail routinely, livestock is lost and housing and infrastructure is often severely damaged. Climate variability and the frequency and extremity of environmental hazards in Africa will only increase with the impacts of climate change.

37 Africa has also, over recent decades, experienced growing environmental degradation, such as deforestation, desertification, declining soil productivity, loss of biodiversity, and depletion of fresh water.

38 All these environmental challenges have implications for crop production, for security of food and water supplies, for the health and livelihoods of poor people and for the sustainability of economic growth (see Chapter 7).

### 2.3.4 Human causes

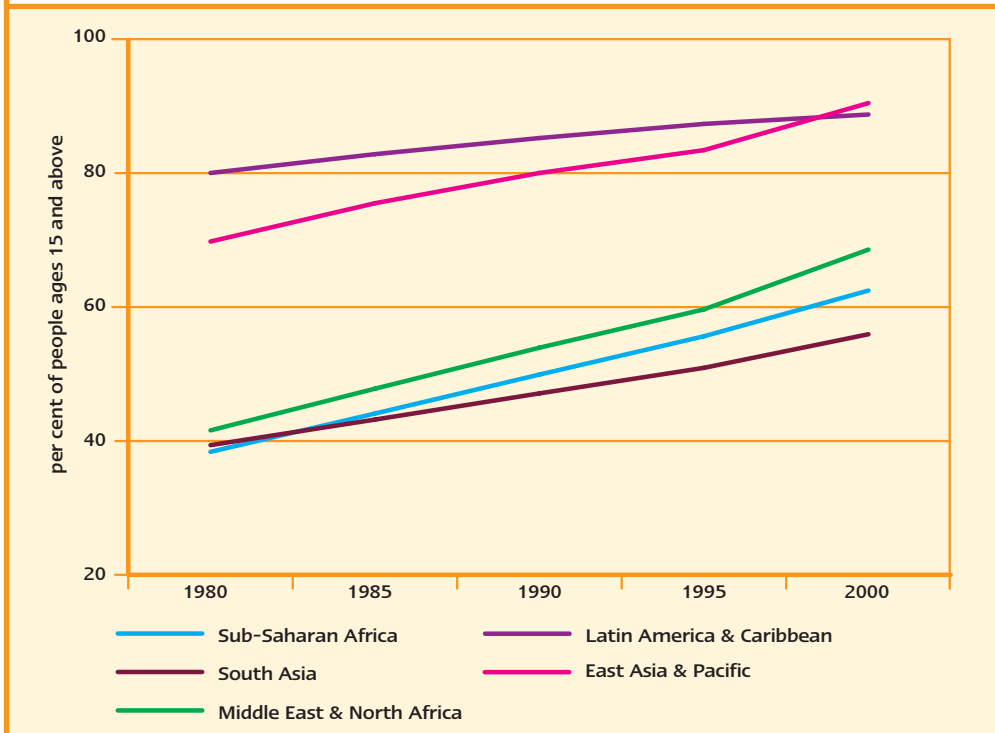
#### The impact of poor health and education

39 A healthy and skilled workforce is vital to the success of any economic activity. When it invests in health and education, a state is investing in the human development of the children and young people that are its future. All the evidence is that countries with poor health and low levels of education find it more difficult to achieve economic growth.

40 Here again, Africa's record is poor compared to that of East and South Asia. During the economic crises and structural adjustment years of the 1970 and 1980s, investment in health and education suffered in much of Africa. Slow growth or economic decline undermined the public finances, while populations grew very rapidly. The cost of debt servicing brought cuts to the budgets of both clinics and schools. Many health and education systems began to break down. The scythe with which HIV and AIDS cut through the population added drastically to the burden on health services in particular, which were already struggling with TB, malaria, gastrointestinal diseases, and the other diseases of poverty.

41 The picture in education is a little more encouraging. Starting from a low base, enrolment in primary schools in Africa increased by 38 per cent between 1990 and 2000. Africa's progress has been impressive, with increases in literacy as strong as have been seen in other developing regions over the last few decades (see Figure 2.7). But huge challenges remain. Overall, some 47 million African children are out of school and of those African children who start primary school, only one in three finish it. And the secondary and university systems – which are essential to improving the skills-base of government and the private sector alike – have atrophied. All of this receives detailed treatment in Chapter 6.

Figure 2.7 Literacy Rates in Developing Countries



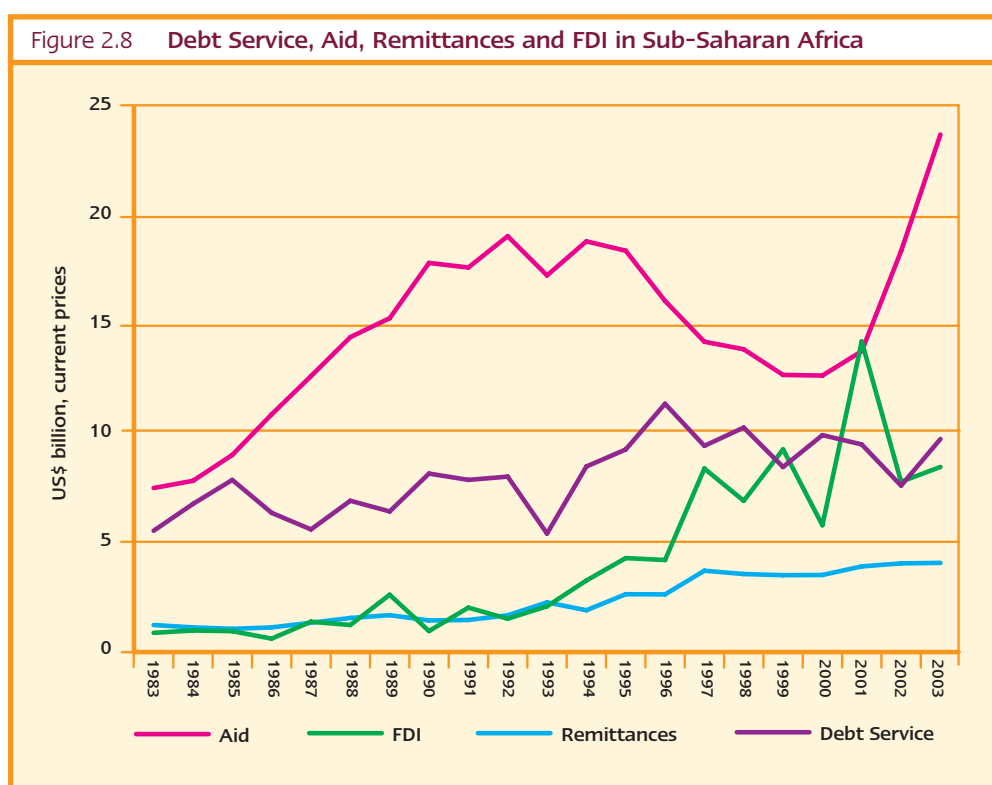
Source: World Bank, 2004a

### The pressures of population growth and urbanisation

42 Between 1980 and 2002, sub-Saharan Africa's population grew from 383 to 689 million people – an increase of 80 per cent. The rate of increase is 2.7 per cent every year, which is much faster than in South Asia (two per cent) and the East Asia and Pacific Region (1.4 per cent). At Africa's rate of growth, the population doubles every 25 years. High fertility rates and rapid population growth result from several factors—low incomes, economic stagnation (which lowers people's expectations of future incomes), low levels of education for women, and high child mortality. This rapid growth has had several effects. Africa's population is much younger than that of other regions: 44 per cent are under 15 years old, compared with only 34 per cent in South Asia and 26 per cent in East Asia<sup>41</sup>.

43 This growing population is moving into towns at a very rapid rate. With low agricultural technology improving very slowly, per-hectare agricultural production has stagnated; combined with population growth, this has led to an outflow of people from rural areas. In 1980, 28 per cent lived in cities. Today, that number is estimated at 37 per cent, and it is expected to reach 50 per cent by 2020<sup>42</sup>. Africa is urbanising far more rapidly than the developed countries did, and nearly twice as fast as Asia and Latin America<sup>43</sup>. And unlike in other continents, Africa's urbanisation is occurring at a time of economic stagnation, resulting in what UN-HABITAT calls a 'premature urbanisation'. The pressures on Africa's infrastructural investment (for housing, water supply and sanitation) are intense. Some 72 per cent of Africa's urban population live in slums and squatter settlements under appalling conditions<sup>44</sup>. This subject is explored in Chapter 7.

44 In summary, the causes of Africa's decline over the past three decades are complex, but very broadly speaking they are about governance and geography. Many of the factors described in this section interact with one another in different ways in different African



Note: Debt service is Public and Publicly Guaranteed Debt only

Source: World Bank, 2004e

countries. But what is clear is that the challenges facing the continent are immense. Change will not come without both commitment from African leaders and serious levels of support from the international community.

## 2.4 Africa's relationship with the developed world

45 If internal factors have been the primary culprit for Africa's economic stagnation or decline over the past three decades, external forces have been an important influence too. Three sets of factors are examined here: the flows of capital in and out of the continent; the flows of goods and services; and the flows of people. Of great importance also are the flows of technology and ideas, although they are less easily measurable.

46 We highlight five types of movement of capital within Africa: investment money going into the continent (known as foreign direct investment, or FDI); money leaving Africa (capital flight); money sent home by Africans living abroad (remittances); money paid by Africa to service its debts; and aid (often called Official Development Assistance, or oda). Data on how these have moved over time are presented in Figure 2.8.

### Foreign direct investment (FDI)

47 Flows of investment in Africa by foreign investors are not very different from the average for all developing countries, if measured as a percentage of Africa's income. They constitute between two and three per cent of the continent's GDP, but are low in absolute terms. These investments are not spread across a broad range of industries throughout the African economy, however. Instead, they are strongly focused on high-value resource-based industries like oil and diamonds. In fact, between 1983 and 2002, 59

per cent of total FDI flowing into sub-Saharan Africa went to just three countries: Angola (13 per cent), Nigeria (23 per cent) and South Africa (23 per cent). Most of this FDI flowed into the extractive industries.

48 The bulk of investment in Africa, as in most other parts of the world, is domestic. But because FDI brings skills, know-how, and international marketing channels, Africa also needs higher levels of foreign investment as a boost to the process of 'catching up'. Attracting high levels of FDI will require a much better investment climate. If a country provides a safer environment for its people and a climate where resources can be used more productively, then inflows will be strengthened. That in large measure is a question of improving governance, as discussed earlier. This topic is treated in depth in Chapters 4, 7, and 9.

### **Capital flight**

49 Large sums of money depart Africa in the form of capital flight, a problem that afflicts Africa much more severely than it does other developing regions. Around 40 per cent of the stock of African savings is held outside the continent, compared with just six per cent for East Asia and three per cent for South Asia<sup>45</sup>. By 1990, despite its scarcity of capital for productive purposes, Africa slightly exceeded even the Middle East (39 per cent) in the high proportion of private wealth held abroad.

50 While capital flight is always difficult to estimate, the outflow is apparently around US\$15 billion per year (of the same order as aid flows into the continent over the past decade or so). The best mechanism to stem the outflow of money from Africa is, again, to improve the investment climate. Savers need to feel confident that the legal, banking, and regulatory frameworks are effective – and that the political and economic system is stable enough that their investments will not be stolen, confiscated, or subjected to arbitrary taxation. Only then will they feel confident about bringing their money back to invest at home in Africa.

### **Remittances**

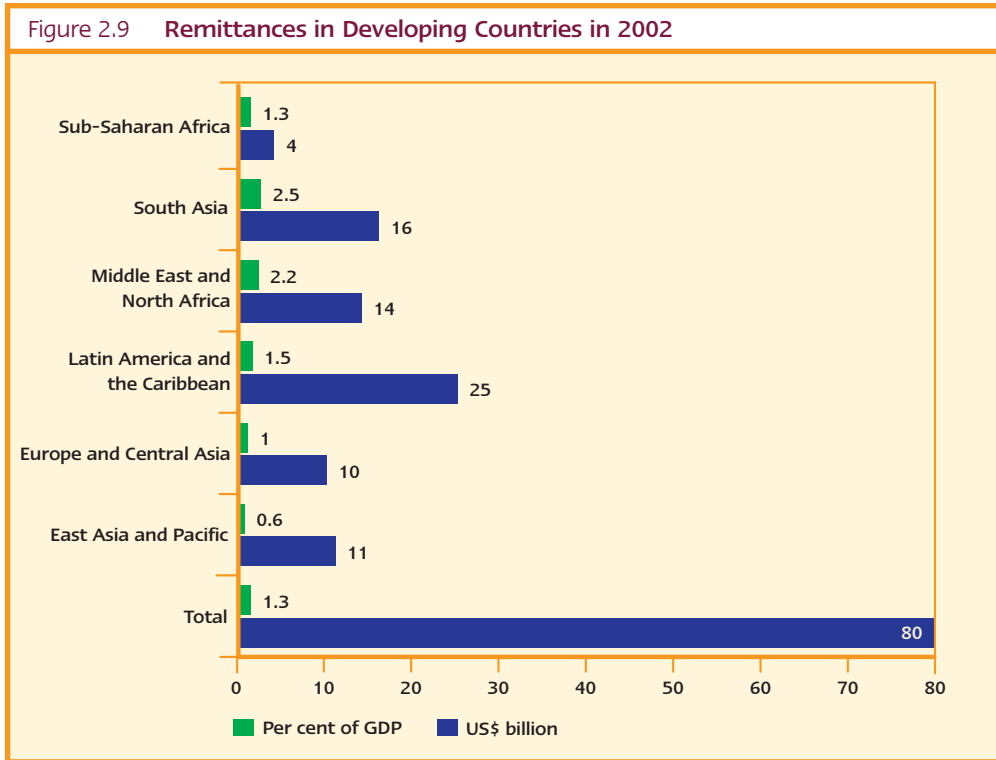
51 As a percentage of GDP, Africa's share of remittances is higher than that of either the East Asia and Pacific region or the Europe and Central Asia region. However, in cash terms, Africa receives less in remittances (or international transfers of funds, mainly by individuals) than does any other developing region – around US\$4 billion, according to official figures<sup>46</sup> (see Figure 2.9). Again, the level of remittances depends partly on the investment climate – remittances represent an investment in the region by its diaspora, and they are governed by similar considerations of risk as other investments. As India's investment climate improved in the 1990s, for example, the country enjoyed a strong increase in remittances from Indians living overseas.

### **Debt service**

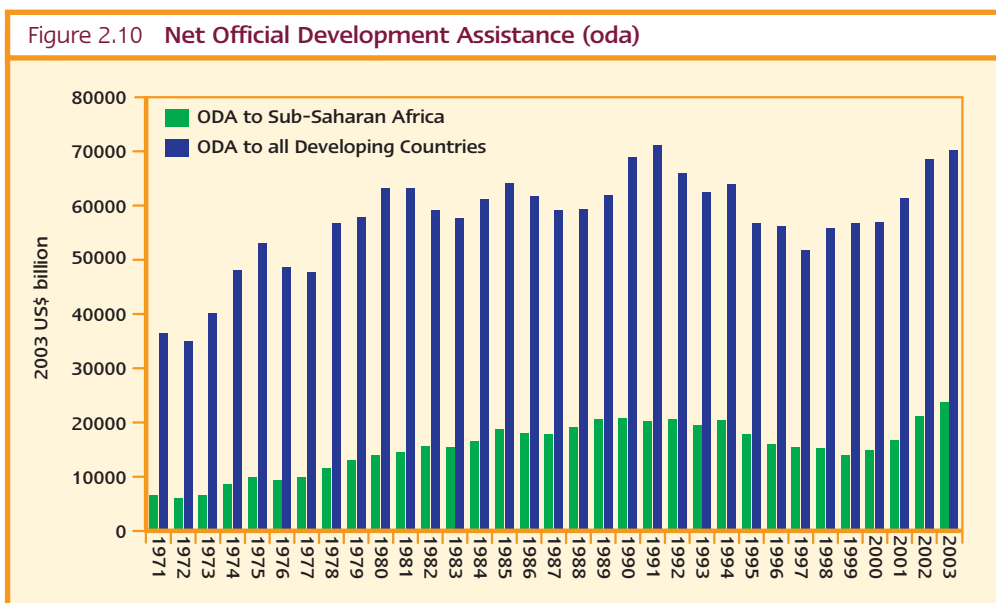
52 The debt that African countries have incurred in the last three decades continues to cast a long shadow over the continent's development prospects. Many Africans deeply resent these debt obligations. Much of the debt was incurred by dictators who were enriching themselves through their countries' oil, diamonds and other resources and who were supported during the Cold War by the very countries now receiving debt repayment. Many of these rulers siphoned billions of dollars out of their country using the financial systems of developed countries. The issue of debt is therefore a matter of intense political sensitivity in Africa.

53 Over the years Africa has had difficulty in paying off the interest – let alone the principal – on its national debts. The region has benefited from various rounds of debt reduction, most recently through the Highly Indebted Poor Countries (HIPC) initiative, which has cut back substantially on the debt stocks of the countries that have been able

to comply with its requirements. But even after these reductions, governments in sub-Saharan Africa, on average, still pay out more on debt service than they spend on health (nearly three per cent of annual income). Over the past few years, nearly half of all aid money to Africa has returned to the developed world in debt repayments: that is to say for every dollar received in aid, nearly 50 cents has gone straight back to the developed world in debt payments. Debt relief must be a high priority.



Source: World Bank, 2003b



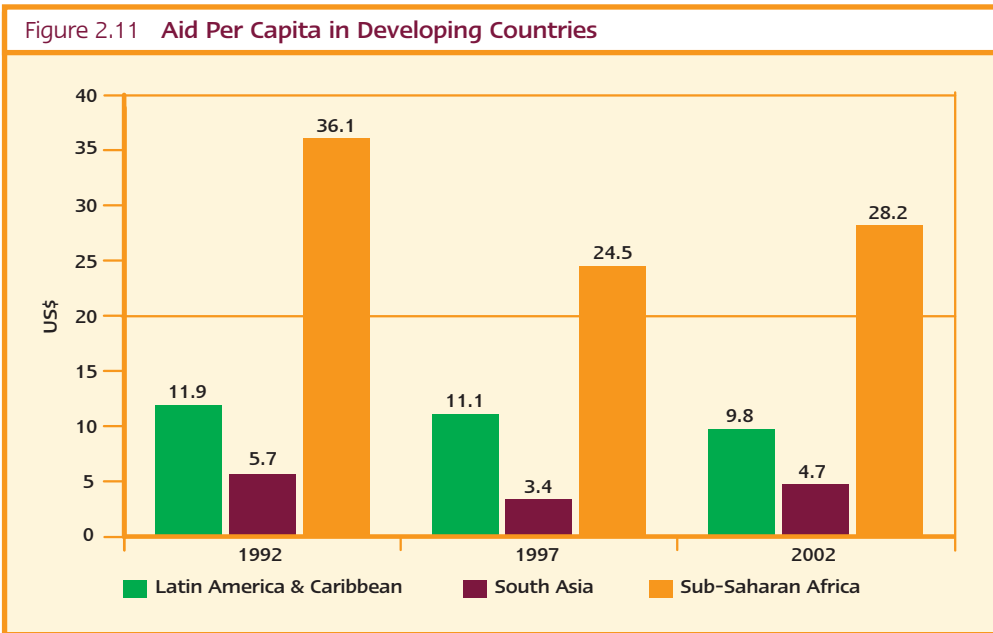
Source: OECD Development Assistance Committee Database

## Aid

54 The flow of aid to Africa has followed a similar pattern to that of the rest of the world (see Figure 2.10). It rose during the 1970s and 1980s, in part as a result of Cold War competition, and fell back in the 1990s. It has started to rise again in the first few years of this decade with the commitment to the Millennium Development Goals at the end of 1999 and the Monterrey Conference on financing development in 2002. In dollar terms, aid to Africa has recently surpassed its previous historical high of about US\$20 billion, first attained in 1990.

55 Measured as a share of donor countries' incomes, however, aid remains far below past levels. Aid as a whole now stands on average at 0.25 per cent of income of developed countries. In the early 1960s, the figure was around 0.50 per cent, meaning that the fraction has halved. The developed world is very far from the international pledge made in 1970 to pay 0.7 per cent.

56 Africa now receives around five per cent of its income from aid, which is a much bigger proportion than other developing regions get. Aid levels are also high in per capita terms, relative to what other regions receive (see Figure 2.11). But in an absolute sense, the amount is not large, at US\$25-30 per person per year, and it is not yet much higher than at the end of the 1990s<sup>47</sup>. Rapid progress in Africa requires that the international community support African efforts with much more aid than this; as we shall argue, there should be at least a doubling of aid in the medium term.



Source: World Bank, 2004a

## Trade

57 Over the past few decades, the association between rapid economic growth and expanding trade is clear: the developing countries that have expanded trade more rapidly have also grown more rapidly<sup>48</sup>. Yet while many developing countries have increased their exports dramatically in the last few decades, Africa has not. In fact, Africa has seen its share of world trade fall from six per cent in 1980 to less than two per cent in 2002. If sub-Saharan Africa could manage to increase its share of world exports by just one per cent, it would generate over US\$70 billion<sup>49</sup> – treble the amount it gets from all its current aid flows and nearly a quarter of its total annual income<sup>50</sup>.

58 There is no doubt that Africa has suffered because developed countries restrict Africa's ability to sell its products in their countries and that these barriers to trade must be lowered. But other developing countries also labour under this handicap, and yet they have made rapid progress in trade. Africa has not. To see why, in Chapter 8 we will look beyond the issue of the developed world's protectionism and ask what are the constraints on Africa's ability to produce and trade, or what economists call 'the supply side'.

### **The brain drain**

59 Africa's economic links with the rest of the world involve the movement of people as well as capital and goods. Africa has suffered severely from this flight of human capital, commonly referred to as the 'brain drain'.<sup>51</sup> The African Capacity Building Foundation has estimated that Africa loses an average of 20,000 skilled personnel a year to developed countries. This figure does not include the sizeable number of students who leave the continent to study overseas. One of the most egregious examples of the brain drain cited by the International Organisation for Migration (IOM) is Zambia: a few years ago the country had 1,600 doctors, but many have since left the country, and now there are only 400 at work.

60 The flight of human capital is closely associated with the same conditions as flight of financial capital – conflict, weak governance, and poor investment climate. If conditions do not allow you to use your talents, whether as an entrepreneur, doctor, or engineer, you will be more likely to look elsewhere. This subject is treated in Chapters 4 and 6.

61 To conclude, external factors continue to be major influences on Africa's development, and many of them will become even more important as globalisation continues. External trade, international capital flows, and the international movement of labour will become still more important as engines of growth. That is why it is so important to dismantle the barriers that Africa faces in finding access to developed country markets in trade, capital and labour services. These issues are at the heart of Chapters 7, 8 and 9 of this report, which focus on the economy.

62 There are many other ways that developed countries have played a role in deepening Africa's problems. These include the approach of foreign companies to intellectual property rights in relation to Africa - from the pricing of drugs to the non-payment for cultural assets and ideas. Of great importance too is the weakness of science and technology in Africa, a state of affairs associated with both internal and external factors. Again governance is of central importance. People are much less likely to acquire skills and knowledge or use them within the country when conditions are hostile. We return to these issues in subsequent chapters.

## **2.5 Conclusion**

63 The analysis – both of the causes of past failures and of the sources of some recent successes – suggests that Africa's entrepreneurial energies can be released and that growth and poverty reduction will follow. The actions to release these energies must originate in Africa and must start with much better governance. But everything will move so much faster if the developed world provides strong and sustained support. That is indeed the central subject of this report.

64 Whether external support is effective will depend crucially on both continued improvements in governance in Africa and improvements in the quality of aid from outside. What makes us optimistic is the commitment of many African governments to achieving better governance. This is manifested in the African Union's New Partnership for Africa's Development (AU/NEPAD), which is developing programmes designed to strengthen areas such as governance (through the Africa Peer Review Mechanism or



APRM) and regional co-operation. And donors are co-ordinating better with each other and giving countries room to guide the aid process, so that aid will be less likely to overburden and undermine governance. In Chapter 1, we proposed a measured build-up in aid to reflect these past and expected improvements in governance, and we set out the proposed programme in more detail in the chapters that follow.

# Annex: Millennium Development Goals to be Achieved by 2015

## **Goal 1: Eradicate extreme poverty and hunger**

Target 1: Reduce by half the proportion of people living on less than a dollar a day

Target 2: Reduce by half the proportion of people who suffer from hunger

## **Goal 2: Achieve universal primary education**

Target 3: Ensure that all boys and girls complete a full course of primary schooling

## **Goal 3: Promote gender equality and empower women**

Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015

## **Goal 4: Reduce child mortality**

Target 5: Reduce by two thirds the mortality rate among children under five

## **Goal 5: Improve maternal health**

Target 6: Reduce by three quarters the maternal mortality ratio

## **Goal 6: Combat HIV/AIDS, malaria and other diseases**

Target 7: Halt and begin to reverse the spread of HIV/AIDS

Target 8: Halt and begin to reverse the incidence of malaria and other major diseases

## **Goal 7: Ensure environmental sustainability**

Target 9: Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources

Target 10: Reduce by half the proportion of people without sustainable access to safe drinking water and without sanitation

Target 11: Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020

## **Goal 8: Develop a global partnership for development**

Target 12: Further develop an open trading and financial system that is rule-based, predictable and non-discriminatory. Commit to good governance, development and poverty reduction-nationally and internationally

Target 13: Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction

Target 14: Address the special needs of landlocked and small island developing states

Target 15: Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term

Target 16: In cooperation with the developing countries, develop decent and productive work for youth

Target 17: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries

Target 18: In cooperation with the private sector, make available the benefits of new technologies-especially information and communications technologies

*Source: United Nations*

# Chapter 3

## Through African Eyes: Culture

1 At the first meeting of the Commission one of the African Commissioners warned us all that ideas and actions not premised on the cultures of Africa would not work. This chapter demonstrates the wisdom of that warning by illustrating how culture impacts on all areas of policy-making. We start with an example from east Africa.

2 Civil war plunged Somalia into a condition of such chaos that the state, as an organism of government, could be said no longer to exist. Provinces became anarchic and autarchic; with warlords ruling whatever territory their forces could command. To the north of the country, however, the area known as Somaliland has shown signs of calm, and modest but ordered prosperity.

3 There is a complex background to this situation, but one distinguishing factor makes Somaliland particularly interesting. The warlords elsewhere have abolished the influence of the Tol, the country's traditional courts of tribal elders. Somaliland has not just retained the Tol, but has elevated it to the status of the second chamber of parliament. The Tol is a clan-based system of justice, which places responsibility for crimes not on individuals but on the whole of their clan. A complainant with a grievance can go before the Tol and demand compensation not just from the perpetrator of the wrong but from that person's entire clan. The result is that potential miscreants are kept in check not by the law but by their own clan. Few in Somaliland doubt that the continued existence of the old system, and its elevation to an instrument of government as a check on the democratically-elected house, is a key component in the relative stability of Somaliland. Such a hybrid system is not one that a political theorist might have invented given a blank sheet of paper. But it is one, with its mix of African and other systems of governance, which clearly works.

4 When we speak of the culture of a place, we are talking about far more than its artistic expressions or its 'cultural products' – literature, music, dance, art, sculpture, theatre, film and sport. All of these, of course, are important expressions of the culture of any social group and are part of its shared joy in the business of being alive. We return to these topics later. But culture is more than all of that. The Tol example is one illustration of how culture is about shared patterns of identity, symbolic meaning, aspiration, and about the relationships between individuals and groups within that society<sup>1</sup>. Culture is also about the relationships between ideas and perspectives, about self-respect and a sense of security, about how individuals are socialised and values are formed and transmitted. It is also deeply intertwined with structures of power and wealth<sup>2</sup>. What it is not – contrary to the views of some<sup>3</sup> – is an expression of unchanging tradition. The evidence argues against those who assign hopelessness to countries that are seen as having the 'wrong' kind of culture for development<sup>4</sup>. Culture is both dynamic and reactive; it both influences economic and political conditions, and is influenced by them.

5 Ask the big question 'What is development for?', and you get very different answers in different cultures. Many in the developed world see it as being about places like Africa 'catching up'. Development is often described as about increasing choice for individuals<sup>5</sup>. In Africa, by contrast, you might be told that it is something to do with well-being, happiness and membership of a community. An understanding of the cultures of Africa shows that development means putting a greater emphasis on increasing human dignity within a community.

6 The trouble is that although we all use the same terms, we often do not mean the same thing by them. Ideas of political and economic freedom can be manifested in very different ways and with very different results. It is culture that dictates the differences, which is why culture is so important when it comes to policy making.

7 In one sense there is nothing new in this notion. Adam Smith wrote in the 18th century about the relationship between poverty and the cultural life of a community<sup>6</sup>. In 1980 the Brandt Commission on international development observed that "cultural identity gives people dignity"<sup>7</sup>. In 1996 the World Commission on Culture and Development insisted that culture was factored into development policy since "economic criteria alone could not provide a programme for human dignity and well-being"<sup>8</sup>. In 2001, the World Summit on Sustainable Development insisted that respect for cultural diversity is essential for sustainable development<sup>9</sup>. For all that, however, as Amartya Sen has noted, culture has been treated by many economists as a subject of "comparative indifference" and this has caused "development agencies such as the World Bank [to] reflect, at least to some extent, this neglect"<sup>10</sup>.

8 We do not say that some of the insights and underlying trends in this chapter could not also be applied, with local cultural awareness, in other parts of the world. Our concern, however, is for the role of culture in Africa. We believe that the inattention to culture in the policy-making of many donor countries goes some way to explain the failure of so many development initiatives in Africa over the years.

### **3.1 The Commission process**

9 From the outset, as Commissioners, we were determined that the Commission for Africa would do all it could to avoid that mistake. Culture could not be some bolt-on extra to our enterprise, or a dutiful nod to a worthy ideal. We were determined to build it into our process. So when, even before our first meeting, people challenged us: "Why do we need a Commission? Surely everyone knows what Africa needs!", our response was to ask people to tell us. And we have made the months of our deliberation a consultation whose participants have ranged from East African slum dwellers and women from poor areas of rural West Africa, through all levels of private and public sector activity in Africa and the developed world, to the top elected and unelected decision makers in governments and international institutions. We also tuned into surveys of opinion in Africa, Internet debates and exchanges of information and opinions through the media<sup>11</sup>. We were concerned constantly to examine our assumptions to discover whether in them we might be mistaking incidentals for essentials. And we asked not for theories but for practical experience of what was actually working across the continent, and what was not. As we listened, we were particularly attentive to where cultural factors helped distinguish what succeeded from what failed. We heard that. We also heard the aspirations of Africans for a better future, which the Commission hopes our recommendations will help to fulfil. Most importantly, in even a short time, the Commission heard an enormous diversity of opinion. No one had all the answers about what Africa needs.

### **3.2 Perspectives on African development**

10 Not surprisingly, the very terms of the debate have been different in each situation, reflecting different meanings and standpoints in different cultures. But time and again two things were reinforced. The first was the need to recognise Africa's huge diversity. There are no 'one size fits all' definitions of problems or solutions to them. This does not mean there is no scope to act, no principles that can be applied, and no lessons to be learnt. On the contrary, it means that approaches must be tailored to different situations

and the people involved. That also threw light onto the other recurring theme: that 'development' is almost invariably and unthinkingly seen through the lens of Western perspectives. At the same time as looking at Africa's diversity and seeking to offer a fresh perspective, so we recognised that action on our findings will also require some cultural self-assessment on the part of the developed societies, and the choices they make.

11 Among the differing viewpoints, we heard some voices which argued that there is an enduring inconsistency in developed societies, where many people live happily with the apparent contradiction of giving aid to the developing world with one hand and then taking money away in debt servicing and unfair trade policies on the other. Discussions on issues of aid and debt relief often revealed resentment in Africa over the way that finance flows are seen as dictating policy to the continent. Some Africans also speak of how psychologically hard it is to accept the necessity to repay debts for which there is no visible financial gain and yet such a visible human cost. It is important to understand that notions of justice and fairness can widely diverge on different sides of international policy-making in these areas.

12 There is also scepticism in some quarters about the developed world's insistence that the continent should follow an economic and political prescription which some Africans perceive as differing from the ones followed by the industrialised world in its own development. Developed countries, they argue, did not get where they are now through the policies and the institutions that they recommend to Africa today. Most of them actively used policies such as infant industry protection and export subsidies – practices that are now frowned upon, if not actively banned, by the World Trade Organisation (WTO). In addition, development did not grow from the adoption of democracy; history shows that matters often proceeded the opposite way round. Why, say some Africans, should we be denied the very policy instruments used by Europe and America for their own development<sup>12</sup>? "Is there a hidden agenda or conspiracy?", they ask.

13 As well as hearing individual perspectives, we recognise that institutions have cultures too. It is, for example, widely perceived that some international institutions, such as the IMF, World Bank, UN Security Council and even many NGOs in developed countries (some of which are perceived in Africa as arms of the donor governments that fund them), do not adequately give space for African participation and perspectives in their thinking. At the same time, such institutions often betray an arrogance born of their own fixed procedures and structures, which in turn limit their ability to take account of different cultural standpoints. Chapter 10 of this report looks at ways to improve the way these institutions work.

### 3.3 Culture and change

14 There will be those for whom all this talk of culture confirms their worst fears. They agree that people's cultural background influence their attitudes and the choices they make. But they see African cultures as regressive and tribal<sup>13</sup>. They argue that African cultures are inimical to development, an irrational force that generates inertia and culminates in economic backwardness. There are a number of difficulties with such a view, not least because it treats culture as a primordial phenomenon, an ingrained, deep, slow-changing part of a society's essence. In fact, culture is dynamic and relational, and interacts with economic and political conditions. It is not convincing to try to make a stark distinction between tradition and modernity. As Stephen Ellis and Gerrie ter Haar have put it: "No more than anyone else do Africa and Africans have an authentic, unchanging culture that is transmitted from one generation to another, or ought to be"<sup>14</sup>. What is at issue in contemporary Africa, therefore, is not a clash between 'tradition' and 'modernity' but between different paths and different conceptions of modernity.

15 Recognition of this is central to the Commission's approach to culture. Within the diversity of African cultures, we do find elements of common experience and related practice such as persistent clan and family structures. We explore these below. But the significance of culture is not to be the explanation of failures or successes in Africa, any more than it would explain failures or successes anywhere else. Seeking culturally deterministic explanations for economic development is as much of a trap as neglecting to consider that culture has a part to play at all<sup>15</sup>.

16 The Commission's approach to culture does not tell us what will happen in Africa, but it does help us understand the significance of what is happening now. It also cautions us to be alert that potentially far-reaching processes of change may be at work. This is especially applicable to areas that are in most flux.

17 One example is the impact on culture of accelerating urbanisation, which defies the apparent assumptions of some planners that Africa is fixed in rural communities. Although only 37 per cent of Africans currently live in urban areas, in 25 years the figure will be 50 per cent. That means 400 million more Africans living in cities than at present<sup>16</sup>. The rate of urbanisation is twice as fast as in Asia or Latin America, with only a moderate expansion in the productive economic base to support it. Too often the result is life in slums, which in turn draws many – especially young people disaffected by exclusion from labour markets and other opportunities – into a slide of anti-social behaviour and crime. The cultural challenge is to build on traditional African community strengths in order to create viable urban communities which can be centres of opportunity and creativity, linking local and international markets, and helping end the degradation and vulnerability of life in slums. Achieving this not only means investment in urban infrastructure (taken up in Chapter 7) and mechanisms for effective governance, especially at the local level (Chapter 4). It also means that people must be given a voice in defining an area's problems, deciding on solutions, and allocating resources to them.

18 Access to new information technologies, and the mobile phone in particular, is also having a profound cultural impact. This is heightened in communities where any form of communication over distance has meant long journeys, often on foot. Where many Africans never experienced the cultural leap of connectedness through fixed lines, the mobile phone provides a new form of identity. With scarce resources, collective creativity helps people get connected. Phones are shared when they are too expensive. They are charged on car batteries or by other means where there is no rural mains electricity. Airtime is traded across distances by the use of SMS messages to send the pin codes of top-up scratch cards<sup>17</sup>. These and other solutions show technology being assimilated to local needs. The result is a new and direct form of empowerment. This starts with the ability to exchange personal and family information, and extends to enabling people to allocate time more efficiently, for example through direct access to information about employment and business opportunities. The growth opportunities associated with new technologies, and the provision of communications infrastructure that is essential to realise them, are covered in Chapter 7. The form and speed of change associated with new technologies is an expression of culture and may defy existing economic models in the way it is driven by personal empowerment.

19 The dynamics of culture also mean that people can be critical of what they have inherited. This applies to parts of culture that create denial and passivity; that lead to violence and other forms of abuse or exclusion of women; that pay respect to the elderly with such deference that they exclude the young who now make up half the population of the continent. The lesson is that culture is and can be used as an agent of economic and social change. Not all manifestations of culture are positive.

### 3.4 Misunderstandings about Africa

20 In our consultations, participants often referred to three key areas in which the developed world misunderstands or is ignorant of Africa. They are the cultural implications of Africa's history, its diversity and the networks through which it organises.

#### 3.4.1 The inheritance of history

21 History is of more than academic interest here. In pre-colonial Africa, clans – groups of people who claim the same ancestor, either through birth or kinship – were the central units of administration, although immediate family units took precedence in the more sparsely populated areas. Clans had a variety of customary practices and social and political structures. Some of these customs were developed through consensus and/or commonly accepted principles of mutual accountability and susceptibility, such as between elders and non-elders and the wealthy and the poor<sup>18</sup>.

*“Some individuals were [wealthier] than others just as some were poorer than others. The wealthy never lost sight of their obligations to the kinship group just as the poor members of such a group were never slow in claiming their due from them. The point is that nobody could become wealthy without reference to his kinship group for this must have helped him in numerous ways, although his personal merits may contribute towards his success.*

*In such societies, there had never been room for individualism or impersonal governorships requiring equally impersonal regulations to service them.<sup>19</sup>”*

22 These structures were not static, so it is wrong to think in terms of some fixed 'traditional' or homogeneous culture. However, some features of this organisation persist today, including strong kinship ties, rules based on custom, and agreed principles including mutual accountability between elders and non-elders. The 'big man' culture in which powerful individuals are expected to offer patronage to other members of the clan is significant here. It is not enough to dismiss patron-client relations simply as channels of corruption. Development policy-makers must take such culture into account in order to see how principles such as mutual accountability and responsibility can best be made to work in a modern state. In Chapter 4 we will show how this sort of understanding is essential to achieving effective governance.

23 Influences from specific phases of African history must also be factored into the analysis. The Atlantic slave trade, missionaries and colonialism disordered many of those traditional features, subtly altering them. The demarcation of new colonial boundaries disrupted many existing clan, ethnic and religious boundaries. Land ownership was caught between customary and new statutory legal systems. The new systems were more often than not designed with a colonial wish in mind to 'divide and rule' local communities. This created both artificial divisions and new hierarchies within groups and sowed seeds for conflicts after the colonial leaders departed. The consequences of some of these divisions are very much alive today, as was all too readily shown, for example, in the relationship between Hutu and Tutsi in Rwanda.

24 But what history shows, throughout all this, is the tremendously interactive and evolving nature of African cultures. They have been able to absorb a wide range of outside influences and impositions, and have found ways to survive often difficult natural, environmental and social conditions including conflict and disease. For many Africans, the strength and resilience of African cultures give a real sense of pride and coming opportunity, in stark contrast to pessimism about Africa that often dominates outside the continent<sup>20</sup>.



25 The years since independence have reinforced some of the historical trends. But they have also introduced new influences. Global communications have expanded both awareness and aspirations across Africa. The end of the Cold War, the collapse of apartheid and the impact of global security issues since 11 September 2001 – together with the devastating sweep of AIDS across the continent – have further added to a state of psychological flux in Africa and are a powerful influence on the wider cultural context of this report.

### **3.4.2 African diversity**

26 The sheer diversity of the African continent must be taken into account in policy-making. The continent is the second largest in the world, covering some 11,700,000 square miles and is home to around 700 to 800 million people<sup>21</sup>. It contains more than 50 countries, which hold an enormously rich mix of peoples, languages, cultures, economies, history and geographies, from deserts to tropical rain forests, mountains and fertile grasslands. All this variety impacts upon the culture of each locale. Every country has a mix of social and economic realities that differ from other countries and differ, often massively, even within the one state according to divisions of ethnicity, religion, gender, generation, geography and so on<sup>22</sup>. Such diversity can be seen in everything from attitudes to standards of living, provision of infrastructure, access to health and education, economic opportunity, models of governance and political history. In some cases, understanding why such enormous diversity exists, between and within countries, may be an important step in establishing means to tackle Africa's inequalities. At the very least, although it may occasionally be convenient to make generalised statements about 'Africa', it is essential to pay constant regard to the continent's diversity.

27 Language is a potent asset and expression of cultural identity, as well as a tool for the transmission of oral and written culture between generations. Africa's linguistic diversity counts some 2000 or more languages on the continent. Nigerians alone speak 374 different languages<sup>23</sup>. This diversity and the absence of native national languages in most African countries, where only the colonial languages of English, French and Portuguese have national reach, presents a particular challenge to nation-building. The active promotion of Kiswahili, for example in Tanzania, has shown however that African languages can be a unifying force at a national level. At the pan-African level, the African Union's adoption in 2004 of Kiswahili as its first official African language has added a further dimension to efforts at African leadership through that body. There is a need for development planners to take account of language at all levels of planning. This ranges from measures to enhance individual participation in decision-making, to education planning, the importance of bilingualism<sup>24</sup> in many contexts, promotion of local-language media including radio and television broadcasting, and technological developments such as African language computer software<sup>25</sup>.

### **3.4.3 Africa's invisible networks**

28 The third factor that needs to be better understood by outsiders is the importance of different networks within African society. These are social networks that all too often can seem invisible to many from the developed world who have a different and more formal perspective on governance, but which form much of the social capital without which many African communities could not function.

29 In more formal analyses, it is often fashionable to speak of 'failed states'. This can be applied in the extreme, where for example the Somalia civil war led to the complete collapse of the state. Elsewhere, most states 'fail' in the language of political science when they do not fulfil basic functions such as the control of external borders, collection

of taxes and administration of justice. In practical terms, they may not have the ability to keep their citizenry secure nor the systems to control their increasingly alienated and disaffected young people. Specific symptoms can include the absence of a free press. Without that, rumour and gossip may be trusted over official government pronouncements, turning false perception into new political realities.

30 Alongside the systematic failings of whole states, politicians encounter widespread cynicism. Turnout in elections is in decline all across Africa<sup>26</sup>. Sometimes the cynicism is fed by the avarice and incompetence of particular individuals. Sometimes the real or perceived activities of secretive or other closed political networks by their very nature undermine any claims of transparency in governance. Cynicism can also be nurtured by outside interference, for example when politicians have been seen as unable to meet manifesto or other political promises due to externally imposed restrictions such as economic structural adjustment required by the IMF or the World Bank. Chapter 4 looks in detail at the challenges facing systems of governance.

31 Taken together, all these factors reflecting the way people perceive their governments and politicians mean that for too many, perhaps a majority, the state is an irrelevance or a burden. But that does not mean there are no effective non-state forms of governance. For many people, their primary loyalty remains with the family, clan, tribe<sup>27</sup> or other social networks, including, increasingly, religious groups. Africa's strength lies in these networks. Africans survive – and some prosper – in the face of low incomes and few formal economy jobs. The networks create social capital, which is crucial in their survival strategies. This is something that cannot easily be quantified in economic statistics. There is a complex network of social relations that provides start-up capital for small enterprises, secures interest-free loans in emergencies, ensures that hospital bills are paid, and that keeps children in school. There are many other examples, some with weaknesses in addition to strengths. For example, business collaboration can be hindered by the resources and time needed to harmonise socio-economic relationships. This may explain why other than inherited family farms, few small African businesses survive the deaths of their founders, and business collaboration is often hindered because of the complex social relations that support economic ventures<sup>28</sup>.

32 These culturally-defined social networks embody a concern for human development that is directly relevant to Chapter 6 of this report. To an outsider, the complexity and opacity of many networks may be perceived as a form of anarchy. In reality, there is structure. Often it is self-organisation, for example in the local organisations of farmers, women and students. In all cases, the networks demonstrate that people will respond to and get involved in activities where they can see purpose and direction. Just as these networks can fill gaps where the central state fails, they have the potential to act as building blocks in the struggle to build effective states. In other words, the African capacity to operate through an apparent anarchy must be made an agent of change<sup>29</sup>.

### 3.4.4 The growing importance of religious networks

33 The diversity already highlighted in this section, combined with the geographical and administrative fragmentation inherited from the colonial era, have all posed big challenges to nation-building in Africa. Much of the nationalism generated around or prior to independence, on which the African state has depended, now appears to be exhausted (apart from perhaps in southern Africa). Religion is moving into the vacuum.

34 Especially where the state is perceived as unable to deliver, religious networks appear to be gaining a new attractiveness. Contrary to apparent assumptions in the 20th century that religion was in inevitable decline worldwide, people in Africa are converting in large

numbers to Christianity and Islam. Africa is also witnessing a big revival in an array of syncretic African religious movements, including neo-traditional groups such as initiation societies. The reported association of some politicians with these and other religious societies illustrates the influence of these groups<sup>30</sup>.

35 The importance of religion in Africa is not new. Most people on the continent engage in some form of spiritual practice from time to time, and many profess membership of formal religious organisations. But the growth of religion in Africa now includes one of the most active periods of Christian expansion anywhere in the world, particularly of evangelical pentecostal churches. Although definitive statistics for Africa are difficult to come by<sup>31</sup>, due not least to political sensitivities around them, estimates suggest adherence to all forms of Christianity is growing at perhaps two or three per cent annually. Islam is also growing, perhaps particularly in the puritan Wahhabi form of Islam (which is converting Muslims and non-Muslims), stemming in part from the relationship between Saudi Arabia and northern Nigeria and other African countries<sup>32</sup>.

36 Religious beliefs, movements and networks cross the lines between material and spiritual experience. They affect all aspects of how people live, including the social, economic and political parts of their lives<sup>33</sup>. Indeed, many Africans voluntarily associate themselves with religious networks for purposes that go beyond a strictly religious aspect. Religion provides the means by which to understand and adjust to conflict and tragedy such as AIDS. It provides language of hope and aspiration. These networks are also plugging Africa into globalisation. Senegal's growing Islamic Mouride Brotherhood has an international network that provides significant remittances to the country<sup>34</sup>. Saudi Arabia and Persian Gulf countries have become part of an African trading network as well as destinations for African migrant workers. African cultural and political systems are being affected by the growth of Islamic movements sponsored by foreign states, something which is resulting in market, labour and ideological shifts<sup>35</sup>. Among other examples, for some women in northern Nigeria, Shari'a law offers far easier access to divorce than does traditional or civil law<sup>36</sup>. In the Congo the Catholic Church is the only reasonable coherent nationwide organisation, and it even functions as a post office in the absence of any working national postal service. People can go to a Catholic Church in one part of the Congo and leave messages to be transmitted to others elsewhere in the country. In Ethiopia, a ruling from the Patriarch of the Ethiopian Orthodox Church that farmers could work on 160 days previously thought of as religious festivals on which work was forbidden, reportedly led to increases of more than 20 per cent in agricultural productivity<sup>37</sup>.

37 As well as their wider roles, religious organisations have long played an important role in African development, including in education, health care provision, and social and other welfare services. In much of rural Africa, religious leaders have strong and long-term bonds of trust with their communities. They have knowledge of local languages and cultures, including gender relations, and many are directly able to reach very remote rural areas. They have access to large and regular audiences and have great influence over sexual morals and practices. The same is often true of traditional medicine practitioners. Traditional healers serve at least some of the health and education needs of 80-85 per cent of the population of sub-Saharan Africa<sup>38</sup>, giving them wider influence and reach than health practitioners with more modern training<sup>39</sup>. The World Health Organisation has recommended that traditional medicine should be officially recognised and legalised by national governments, and incorporated into national health care systems<sup>40</sup>. It is clear for example that traditional healers and religious leaders should be involved in African strategies for the prevention and treatment of HIV and AIDS. Anti-retroviral treatment alone simply will not be able to prevent or solve the multiple aspects of this disease.

38 The donor community has recently become keen to 'harness' the positive influences of religious and traditional networks for development, particularly in the delivery of health

messages<sup>41</sup>. When looking at how services can be delivered through these networks however, it will be important to see them as complements to and partners with, rather than substitutes for, state systems of delivery. Even so, donors will need to view religious organisations as equal partners rather than simply the means by which to disseminate their health messages. An appreciation of how religion structures African life will require some fundamentally different approaches by donors.

39 Religion also offers lessons for states. For example, although revenue collection is a significant problem for many African states, religious networks in Africa usually survive entirely from donations from their predominantly impoverished members. This demonstrates strong loyalty and a degree of credibility and accountability that many governments find difficult to foster<sup>42</sup>.

40 Religion is not only a force for good of course. Religious movements can produce great passivity and fatalism in their adherents, enforced by belief in miraculous divine provision or a malevolent spirit world. A farmer who has good crops may be accused of using the spirits to prosper at the expense of his neighbours, leading to a 'we're all poor together, so let's pull down the successful' culture. Some religious beliefs contribute to the spread of HIV and AIDS, for example where the use of condoms is resisted. Although some traditional medicines work, belief in supernatural causes of disease can prompt a search for supernatural remedies that may be harmful<sup>43</sup>. Religion can also be a vehicle for fraud, criminality, human rights abuses and extremism.

41 Witchcraft accusations are one specific manifestation of a meeting point between material and spiritual experience. It may be difficult or 'politically incorrect' to talk about witchcraft as a manifestation of evil believed to come from a human source<sup>44</sup>. However, the consequences for those accused of witchcraft are clear, ranging from designated safe 'witch villages' in South Africa's Limpopo Province to child victims of witch-hunts in the Democratic Republic of Congo and killings of old women accused of witchcraft in Tanzania and Mozambique<sup>45</sup>. The challenge for policy-makers is to strike a balance between protecting religious freedom and preventing persecution, which is unacceptable regardless of its motivation.

42 Tackling these issues requires informed understanding, and investment of resources to gain the necessary understanding of religious influences. Participation and both intra- and interfaith dialogue will be elements of the approach. Where nation-building is one of the greatest challenges facing African governments, there are lessons to be drawn from the experiences and different forms of identity offered by religion. What is overwhelmingly clear is that, in the words of Michael Walton, "religion can be a force for good or bad in African development, but can't be ignored"<sup>46</sup>.

### 3.5 Cultural heritage

43 The discussion so far in this chapter is not what many people mean by culture. As we saw at the beginning, the term culture is more routinely used to describe cultural products such as literature, music, dance, art, sculpture, theatre, film and sport. All of these can be a source of economic reward as well as a source of identity and pride. Africa's traditions of oral history, ritual and other manifestations of what is known as 'intangible cultural heritage' deserve special mention here. There can be no doubt of the great richness of contemporary African cultures. The continent's artists, musicians, novelists and film-makers continue to win both international audiences and international awards, with their influence further multiplied through the activities of diaspora communities. Africa is also globally competitive in sports such as soccer and long-distance running<sup>47</sup>.

44 Much of this creativity has its roots at community level. And while organisations have been interested in offering assistance to community-based art programmes and innovative schemes such as health education through music and drama<sup>48</sup>, the vast majority of new African forms of cultural creativity have developed on their own. All this is in the face of the continent's depressing social and economic indicators, though some – citing the beautiful mural painting and street art of Freetown as the by-product of the war in Sierra Leone – have suggested that crisis may even inspire artistic innovation<sup>49</sup>.

45 The economic benefits of these cultural products are becoming evident. African governments have responded by setting up structures for taxation, copyright and intellectual property. The protection of intellectual property rights is taken up in Chapter 8. An example of donor input is that the World Bank has signed a loan with Senegal with some US\$5 million earmarked to develop the music industry<sup>50</sup>. Building on all this, and on Africa's abundant wildlife and scenic splendour, tourism has also been identified by many, including the WTO, as a potential contributor to socio-economic development.

46 Expressions of culture also offer clear non-economic benefits. Sport, for example, has been harnessed as an educator through the delivery of HIV and AIDS education messages on footballs<sup>51</sup>. The 2010 World Cup in South Africa will offer another opportunity for advancing development goals through sport.

47 African leaders, through the AU/NEPAD, have identified culture as a major area of activity. The NEPAD base document of 2001 specifically discusses the importance of African tourism. It has drawn-up a Tourism Action Plan, which was endorsed by the AU in 2004 and which includes recognition of the role of ecotourism and cultural tourism for Africa. The AU has listed culture as one of the six key areas prioritised for their Strategic Framework 2004-2007 Plan of Action. In 2006, the AU will launch a special programme to support film production, run festivals and exhibitions, and disseminate the artistic works of Africans. Beyond economic opportunity, this activity should offer huge educational gains through heightened cultural awareness in Africa.

### **3.6 Culture and development policy**

48 The Commission fully endorses and supports the priority given by the AU/NEPAD to culture. We also welcome the many vibrant forms of country-to-country and community-to-community cultural exchanges we encountered through our consultation. But the Commission would like to see much more. We want culture to become an inherent component of all development strategies – not just in terms of cultural products, but also in defining the terms of the development debate and the actions that follow. Culture becomes a way of working as well as an end in itself.

49 Our consideration of African cultures in this chapter has shown the difference it makes when cultural awareness is applied to ideas about development in Africa. But we see a real danger that a lack of attention to culture in policy-making, alongside immense cultural shocks such as the creation of a generation of orphans by HIV and AIDS, will overwhelm many of the collective mechanisms of survival which are part of Africa's cultures. These include traditional safety nets such as the family and social networks, as well as intergenerational transmission of values and education.

50 For this reason a cultural urgency underpins our findings across this report and cultural dimensions form part of the argument for the actions we propose in the chapters which follow. In addition to the areas covered by this chapter, this is particularly applicable where a culturally determined sense of shared identity and responsibility is needed to underpin effective local, national and international governance; as well as to our arguments on human development and on ways to achieve effective participation in

development. It is also noticeable that the role of culture in development is relatively less studied in Africa than, for example, in much of Asia. Efforts to address this should be part of the expansion of higher education in Africa, covered in Chapter 6.

51 Three examples starting at the grassroots level will help to illustrate the urgency of action that takes culture into account.

52 As already noted, the scourge of AIDS will not be combated in Africa by the use of modern medicine alone. This is essential, of course, but it will not be sufficient. What is needed is the understanding that, alongside medical or biological explanations of a disease, many Africans will also look for an explanation that is spiritually or culturally related. Much in reducing the transmission of HIV and AIDS turns on cultural attitudes. Learning this will be a two-way process, as was exemplified by a workshop run by UNESCO in Angola with youths from a variety of ethnic backgrounds. The purpose was to discuss traditional norms regarding sexuality, social reactions to people living with HIV and AIDS, existing knowledge about transmission and prevention, and cultural practices that might contribute to the spread of HIV. But in the process, those running the workshop obtained new understandings of cultural practices such as initiation rites, scar-tattooing, blood brother practices, circumcision, means of breaking the umbilical cord, polygamy and traditional marriage and healing practices. Participants spent time discussing cultural values and practices associated around virginity, condom use, monogamy and the like. Discussions like these helped explain to the outsiders who had designed the education and awareness programmes why these had not resulted in lowered prevalence rates or higher use of condoms. It became clear that the education methods had been distorted by local cultural norms and values regarding sexuality that had previously been overlooked or underestimated by health strategies<sup>52</sup>.

53 The area of peace and security offers another example. As will be illustrated in this report, the political and economic dimensions of conflict interact with and manipulate social differences within societies. Rwanda is just one example where 'ethnic' differences, between the Hutu and Tutsi, were to a significant extent shaped in the colonial experience of the late 19th and 20th centuries<sup>53</sup>. The potential for leaders to manipulate and sharpen identities to destructive impact is vividly shown in conflicts throughout Africa. Comprehensive efforts to resolve conflicts need to confront these dynamics.

54 Famine relief offers the third example of the importance of understanding local cultures. Analysis of the late 1990s' famine in Sudan found that aid agencies failed to take account of culturally-embedded patterns of food distribution. The agencies targeted the most malnourished children and elderly people and then noticed that the food aid was being given to clan elders who were redistributing it among whole families rather than just those most in need. The aid workers modified their distributions to bypass the local leaders but the people still fed their rations back through the elders. The result was that the depth of the famine was hidden until it reached near-devastating consequences<sup>54</sup>. The aid workers may have felt that the culturally-determined approach of the local people was not one that made best use of the available food aid, but in a famine they found that a pragmatic approach that takes account of cultural behaviours is key. In the case cited, the ultimate solution was a massive food relief operation over two years to ensure all those in need were fed.

55 Similar cultural insights can make crucial differences in the whole range of subjects that concern development policy makers. All this is not to set up a false dichotomy between economics and culture, it is merely to note, as Ian Linden does that:

***“At the simplest material level, having affordable maize mills, electricity, pharmaceuticals – or even washing machines in ‘middle income’ countries – does not fit in some conceptual space marked ‘economic growth’ that is different from a space marked ‘human and social development’. Nor does wanting many wives, children and clients, dense relationships of reciprocity based on trust and religious affiliation, a religious idiom for talking about economic injustice, and an implicit idea of a moral economy”<sup>55</sup>.***

56 The overall lesson is that outside prescriptions succeed only where they work with the grain of African worldviews. They fail where they ignore, or do not understand, the cultural suppositions of the people they seek to address. The following chapters show ways this insight can help shape actions. At the outset our recommendation is that the international community should recognise the need for greater efforts to understand the values, norms and allegiances of the cultures of Africa, and in their policy-making display a greater flexibility, open-minded willingness to learn, and humility. Such an approach will pay respect to the Africans who must be partners in this enterprise. It will also be more likely to produce the results that donors want to see.



# Chapter 4

## Getting Systems Right: Governance and Capacity-Building

### Summary

Effective states – those that can promote and protect human rights and can deliver services to their people and a climate for entrepreneurship and growth – are the foundation of development. Without progress in governance, all other reforms will have limited impact. While there have been improvements in many African countries, weakness in governance and capacity is the central cause of Africa's difficult experience over the last decades. Improvements in governance, including democracy, are first and foremost the responsibility of African countries and people, and they take time and commitment. But there are also actions that outsiders can take both to support and to avoid undermining good governance. Two areas are crucial: **capacity** (the ability to design and deliver policies) and **accountability** (how the state answers to its people). This chapter proposes:

- Providing strong political and financial support for the **pan-African and regional organisations**, particularly the African Union and its programme NEPAD;
- Making changes in **donor behaviour**, to get fully behind a comprehensive **national strategy** for capacity-building;
- Building up **professional skills and knowledge**, including by revitalising Africa's higher education, especially in science, engineering, and technology;
- Broadening participation and strengthening institutions that improve accountability, including **parliaments, local authorities, the media, and the justice system**;
- Increasing **transparency** of revenues and budgets, especially in countries rich in natural resources; this also makes a powerful contribution to conflict prevention;
- Tackling **corruption**, including **repatriation of stolen state assets**;
- Strengthening the quality and management of **data**.

A full list of the Commission's recommendations on Governance and Capacity-Building can be found at the end of this chapter.

1 Poor people in urban slums, forced to live with mountains of uncollected, disease-infested rubbish, open sewers and dirty and expensive water. Farmers who cannot sell their produce because the road to market is impassable in the rainy season. Clinics that have no drugs and schools that have no teachers. Investors, domestic and foreign, who choose to put their money – which could create jobs and growth – elsewhere. Monies that disappear from hard-pressed national budgets. Ordinary people, threatened by crime but unable to trust the police to help. Tensions and violent conflict between communities. These are some of the consequences that arise when governments fail to protect freedom and human rights, to provide effective public services that meet basic needs, and



to respond equitably to the requirements of every section of society. Recent research shows a strong link between improvements in the way states govern and better development results, whether in terms of income per capita, child mortality or illiteracy<sup>1</sup>. We can see the implications of weak governance and conflict for economic decline, from Liberia to Côte d'Ivoire to Zimbabwe, and how strong the turnaround can be when governance improves and conflict is resolved, from Mali to Mozambique to Uganda.

2 Strengthening states, so they are effective and able to deliver is, therefore, the foundation of our report. Unless Africa makes a concerted effort to do so, we believe that all other reforms, in international trade, debt and aid – essential though these reforms are – will have only limited impact.

3 The environment for progress is demanding, challenged by HIV and AIDS. This epidemic may undermine the capacity for effective governance in the hardest-hit countries by affecting key workers, public officials, and armed forces. AIDS may also damage democratic progress through impacts on elected representatives, ministries and the electorate itself. Unless HIV and AIDS responses are mainstreamed into governance strategies and public awareness, much potential progress will be lost.

4 There are a number of practical measures that African governments, with support from the international community, must take to improve both political and economic governance. They must also avoid making policies that undermine the state, such as requiring unnecessary permits, which discourage investors and can allow individual officials to make personal gain from discretionary allocation. Improving the *capacity* of the state to design and deliver good policies and services, and to manage its development partners, along with better *accountability* for how the state answers to its entire people for its policies and actions, are central. Action in other areas will support these. For example, increasing *transparency* – openness about how policies are made and delivered – helps people to hold their governments to account and increases their ability to play a part in the decision-making process. Tackling *corruption*, including through increased transparency, will improve services by reducing diversion of resources. Improving the quality and availability of data will provide better evidence on which to base policies and will allow results to be monitored and measured. Building effective states requires strong progress in all these areas.

5 Evidence suggests that there have been some improvements. The forthcoming African Governance Report (AGR) – a major 28-country study pioneered by the Economic Commission for Africa (ECA) to measure progress towards good governance, both political and economic, in Africa – shows that governance overall is getting better and that the situation across the continent is markedly different from a decade ago<sup>2</sup>. It highlights positive developments in four areas: the continent's growing transition to democracy; growing attempts to include in the political process many groups that have traditionally been excluded; better systems of accountability; and improvements in general levels of economic management.

6 However, there are significant variations and some countries have made much less progress than others. The poorest performance is found in countries in conflict. In some cases action lags behind rhetoric. For example, although most governments have signed major international treaties, such as the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) and its optional protocol<sup>3</sup>, many have yet to translate them into national law, to enable them to be implemented effectively. As the AGR also highlights, weaknesses remain in most countries in the efficiency of government services, the control of corruption, the transparency and accountability of the civil service, and the effective decentralisation of government structures<sup>4</sup>. Further improvements are also needed in management of budgets and public resources<sup>5</sup> and strengthening the rule of law.

## 4.1 Pan-African organisations

7 African leaders have started to work more closely together to tackle these problems and to hold each other to account for performance. In 2002 they established the African Union (AU) to promote African economic, social and political integration as well as peace and security. When fully realised, the AU will have a number of organs and agencies, including the Pan-African Parliament (established in 2004, to debate continent-wide issues) and a Court of Human Rights.

8 One tangible outcome of AU/NEPAD's work is the African Peer Review Mechanism (APRM), adopted by the AU in July 2002, with the aim of promoting good governance<sup>6</sup>. The APRM reviews cover political and economic governance (including issues such as the independence of the judiciary and the transparency of the budget process), as well as corporate governance (including codes and standards) and socio-economic development. 24 countries, representing some 75 per cent of Africa's population, have so far signed up. Four countries are currently in the process of peer review<sup>7</sup>. A key outcome of the process is development of a country Programme of Action, to identify the country's priorities and the time-bound and costed steps needed to address the weaknesses, including capacity shortages, which have prevented progress. Peer pressure creates a strong incentive for participating countries to implement review findings: reports are discussed by Heads of State and Government of participating member countries, then formally and publicly tabled in key regional bodies; and follow-up reviews (every two to four years) will report on progress made.

9 All of these organisations and initiatives are relatively new; their finances (provided by participating governments) are limited, and human capacity stretched. In many areas it is too early to see strong results from their actions. However, interventions by the AU and Regional Economic Communities (RECs) in conflict in Africa (Chapter 5) do already provide an example of the practical value and potential of a strong pan-African and regional approach. **Recommendation: Developed countries should give strong support – both political and financial – to Africa's efforts to strengthen pan-African and regional bodies and programmes, including the African Peer Review Mechanism.** The precise nature of this support will vary by institution, but common elements will be: active engagement as partners in dialogue (as, for example, the Africa Partners Forum); building of institutional capacity, including for research and analysis, through funds (to complement those provided by member countries) for the AU's US\$50 million institutional transformation programme and the US\$15.5 million required by the APRM Trust Fund for 2005-07; exchange of experts; and provision of funding for operational programmes,<sup>8</sup> in a way which enables the organisation to decide and manage its own priorities – in other words, aligned with the organisation's strategies, not donors' particular predilections, priorities and procedures, and co-ordinated among donors so as to avoid taking up the time of stretched officials. Where appropriate, the international community should support, at the national level, countries' responses to the work of these institutions. For example they should be prepared to help countries meet the costs of participating in APRM reviews and help finance the programmes of action that arise from their recommendations.

## 4.2 Capacity to deliver

10 Weak institutional capacity prevents the state from undertaking its responsibilities effectively, whether planning and budgeting, managing development assistance, providing services or monitoring and evaluating progress.

11 Weak capacity is a major problem in most African countries. All tiers of government are affected, and the problem is growing in urban areas, whose populations are already

doubling and will continue to double every ten to twenty years. Violent conflict has seriously undermined capacity in many countries, as has HIV and AIDS<sup>9</sup>.

12 Tackling the huge need for capacity strengthening will have major knock-on effects for all the other areas of our report, whether by increasing security and the rule of law, reducing corruption, improving service delivery and the operating environment for business, or reducing the constraints which have limited governments' ability to absorb higher levels of development assistance. Action to strengthen capacity should therefore be a high priority<sup>10</sup>.

13 Many attempts have been made, with donor support, to reform the public sector and improve its capacity. More than a quarter of bilateral aid to Africa is channelled directly into capacity-building<sup>11</sup>. However, a number of recent reviews have shown that results have often been poor<sup>12</sup>.

14 There are many reasons for this. Reforms have often been piecemeal, and have not been made within an overarching strategy. They have not been seen as a key element in a broader political process and African governments have not been fully committed to them or given them strong leadership. They have not focused enough on behavioural issues, which can have a corrosive effect even within a formal structure. They have often had too short-term a focus. And not enough emphasis has been given to monitoring the impact of the reforms.

15 Moreover, many donors have supplied assistance in ways that undermined national capacity. Instead of building up the abilities of African government ministries, they have insisted on discrete Project Implementation Units (PIUs), which often poached the most qualified staff from government. Aid agencies have also overloaded governments<sup>13</sup> with additional procedural, reporting, monitoring and accounting burdens, which bypassed national budgeting and accounting practices. Tied aid – insisting that development cash is spent on the products of the donor nation – has raised the cost of goods and services, and has not developed the ability of the private sector in African countries to compete in the provision of such goods and services themselves<sup>14</sup>. All this has left African governments feeling more accountable to donors than to representatives of national institutions and to citizens.

16 If capacity is to be strengthened, this must change. African governments have the lead responsibility. They should, in the context of their poverty reduction strategies, draw up an overarching capacity-building strategy that responds to the unique political economy of each country,<sup>15</sup> includes all levels of government (including local authorities), and takes account of the indigenous knowledge base. It should identify the constraints (both internal and outside the public sector), the steps necessary to overcome them and the areas where external support can contribute. Once developed, Programmes of Action, arising from APRM reviews, could fulfil this function.

17 African governments should then manage donor support for their strategies. In South Africa, a Technical Assistance Unit has been set up in the National Treasury, staffed with South African nationals, to carry out capacity-building tasks. It is demand driven and focuses on building indigenous capacity, using local and international technical assistants and support. Recently the NEPAD secretariat has shown interest in replicating this model in other countries to help overcome co-ordination and quality control problems.

18 Regional programmes – such as the African Capacity-Building Foundation (ACBF)/Partnership for African Capacity-Building (PACT) and the African Regional Technical Assistance Centres (AFRITACS) – also have a strong role to play in providing regionally oriented technical assistance and capacity-building programmes.

**19 Recommendation: African governments should draw up comprehensive capacity-building strategies. Donors should invest in these, making sure that their efforts are fully aligned with these strategies rather than with their own competing priorities and procedures.** They must provide predictable and flexible long-term finance to

allow African governments to plan over a longer term than at present. For example, without a predictable flow of funds and ability to use development assistance for recurring expenditure, such as salaries, governments will be cautious about hiring teachers or nurses.

20 Within this framework, action in three specific areas would build on and enhance existing capacity: professional skills and leadership; incentives; and equipment and infrastructure, including Information and Communications Technology (ICT).

### 4.2.1 Professional skills and leadership

21 Qualified professional staff are essential to all forms of development. The delivery of health, education and other services depends on them. They are crucial for collecting and managing data, and debating and developing good policies, based on the evidence of what works and what does not. They are essential to implementing those policies and to monitoring how they are put into effect. Scientifically and technically proficient staff are needed to identify opportunities arising from innovation and scientific discoveries and to develop effective policy in areas such as science, trade and resource management. Especially in the private sector, these particular skills are key to performance and innovation. Africa has been lacking skilled men and women in all these spheres and fundamental to this shortage is the loss of much of Africa's pool of skills to the developed world. Around 70 per cent of Ghanaian medical officers trained in the 1990s have left<sup>16</sup> and it has been estimated that there are more African scientists and engineers working in the USA than in the whole of Africa<sup>17</sup>.

22 This shortage starts with higher education, which ought to be the breeding ground for the skilled individuals whom the continent needs. Higher education and research institutes can also improve the accountability of governments and build participation and citizenship. As well as providing skilled staff, they also generate independent research and analysis that supports the vibrant debate that can greatly improve the effectiveness of government policy and other services.

23 But many of Africa's higher education institutions are still in a state of crisis. They lack physical infrastructure, such as internet access, libraries, textbooks, equipment, laboratories and classroom space. Senegal's Université Cheikh Ata Diop built for 13,000 students now houses over 23,000<sup>18</sup>. They lack human resources, such as teachers, lecturers, and administrative and managerial systems. Unattractive conditions, brain drain and HIV and AIDS are depleting capacity and faculties are ageing. (Chapter 6 also discusses responses to the current teacher shortages.) Yet demand for higher education is increasing: in 2000, Nigeria had the capacity to accept only 12 per cent of qualified candidates<sup>19</sup>. Hit by these pressures and a lack of funding, the research capacity of Africa's institutes has declined. The capacity that does exist is not being used efficiently, as there is limited collaboration, and human and financial resources are spread thinly.

24 The African diaspora have long contributed to developing capacity in their country of origin, through activities such as setting up facilities, institutions and conferences. However, it is crucial that better use is made of their enormous potential. One such example is making greater use of skilled expatriates to train African nationals as part of exchange processes, including through the UNDP's Transfer of Knowledge through Expatriate Networks (TOKTEN) project. Another is encouraging further links between businesses or universities in Africa and their country of residence.

25 The African Association of Universities (AAU), the South African Association of Vice Chancellors and the Association of Commonwealth Universities (ACU) have developed a ten-year partnership programme, 'Renewing the Universities,' which has pan-African scope, involves key African and international stakeholders, and has a nine-point programme addressing the major challenges to Africa's higher education system. Funding of US\$500

million per annum would be required to roll out the programme. **Recommendation: The international community should commit in 2005 to provide US\$500 million per annum over ten years to revitalise Africa's institutions of higher education.**

26 On top of this, specific action for strengthening science, engineering and technology capacity is an imperative for Africa. Scientific skills and knowledge enable countries to find their own solutions to their own problems, and bring about step-changes in areas from health, water supply, sanitation and energy to the new challenges of urbanisation and climate change. And, critically, they unlock the potential of innovation and technology to accelerate economic growth, and enter the global economy.

27 There is some scientific capacity in Africa. The African Economics Research Consortium (sub-Saharan Africa), the Biosciences Facility for Central and Eastern Africa (hosted in Kenya), CIDA City Campus (South Africa), the Kigali Institute of Science and Technology (Rwanda), and the University Sciences, Humanities and Engineering Partnership (Central and East Africa) are some examples of the excellent centres, institutes, universities and partnerships that there are. However, overall scientific capacity is limited and restricted to a few regions. In 2000, over 60 per cent of Africa's total expenditure on research was in South Africa<sup>20</sup> and there are areas, such as the greater Congo basin, where there is virtually no science at all. The science gap between Africa and the rest of the world is widening and under business-as-usual this gap will continue to grow.

28 Centres of scientific excellence can act as springboards for developing scientific capacity. For example, the Indian Institutes of Technology, which are now globally front-ranking institutions, have made a crucial contribution to India's scientific and industrial development<sup>21</sup>.

29 To be effective in Africa, centres of excellence must have several key characteristics. They can be both physical centres and virtual networks of research that are internationally competitive. They need to be regional, as carrying out research is beyond the resources of many single African countries; regional centres and networks concentrate capacity. They need to set up the public-private partnerships or 'innovation hubs' that are critical to fostering innovation, entrepreneurship and technology diffusion. They also need to engage with local communities, the government, the African diaspora and international partners to ensure that science extends beyond the laboratory into everyday life and that Africa participates in the global knowledge community.

30 The development of up to thirty regional centres of excellence in the environmental, physical, medical and social sciences is needed, building on existing centres where it is possible, and creating new capacity where it is not. Developing institutes of technology to sit at the apex of the educational and research system in each region of sub-Saharan Africa should be a core part of the programme. Funding would need to be rolled out on a sliding scale, with a five-year rolling budget. The programme will need to involve public-private partnerships and bring together governments and research institutions in Africa and industrialised countries. **Recommendation: The international community should commit in 2005 to provide up to US\$3 billion<sup>22</sup> over 10 years to develop centres of excellence in science and technology, including African institutes of technology.**

31 UNESCO and AU/NEPAD should set up a high-level working group to complete a detailed programme for implementation by December 2005, building on the AU/NEPAD mapping of science and technology capacity. International donors, partners from southern nations such as India and Brazil, the World Bank, and other national and regional stakeholders should be involved. Improved co-ordination in Africa should be matched by co-ordination amongst international donors. The programme needs to be rolled out to capitalise on existing strengths, to address gaps and ensure that investments in physical and human capital are sequenced. A strategic and coherent approach is absolutely crucial.

32 These initiatives should be closely linked with the ideas proposed in Chapter 7 to expand agricultural research, innovation and extension, and promote the participation of the poor in growth.

33 In addition to qualified professional staff, Africa needs leaders. Strong leadership, committed to change, is one of the key drivers of progress. Developing the capabilities of leaders at all levels and in all spheres – political, the public sector, business and civil society – is critical to African-led sustainable development. Our proposals to strengthen tertiary education will contribute to developing leaders. Short training programmes, seminars and workshops, facilitated networking and learning exchanges, mentoring and coaching also play a part, as do south-south and north-south partnering with universities, and civil society more generally<sup>23</sup>.

### 4.2.2 Incentives

34 Africa spends an estimated US\$4 billion annually on recruiting some 100,000 skilled expatriates<sup>24</sup> to replace the many African professionals or managers with internationally marketable skills who have found the lure of emigration too strong. A study by the World Bank reported that some 70,000 highly qualified African scholars and experts leave their home countries every year to work abroad, often in more developed countries<sup>25</sup>. The problem of recruiting, retaining and motivating qualified staff is especially acute in the public sector.

35 Finding and retaining staff to work in remote or difficult areas is a particular problem. A survey in Malawi showed that 25 per cent of teachers who started work in rural areas in January 1999 had left by October that same year<sup>26</sup>. Gender dynamics have an impact: in Africa it is generally accepted that women teachers should not be separated from their husbands/partners. Also, even if single, posting young female teachers in remote places isolates them socially and is not the best way to motivate women to remain in the profession.

36 So what is the answer? Better pay scales, which reward performance, may improve status and motivation and so begin to trigger change. Financial and other motivational incentives such as accelerated promotion and participation in regular training workshops, especially for those working in remote areas or urban slums (which have the most serious staff retention and recruitment problems) would help, as would steps that make it easier to get the job done (such as improvements in infrastructure). They could encourage the diaspora to bring their skills back to Africa. However, all of this will have a significant impact on public finances, which are already stretched. They will have to be built up. Until then, such steps will only be taken if they have external support. For the next five to seven years donors, working closely with African governments, should shift technical assistance funding towards salary enhancement programmes<sup>27</sup>, particularly for priority skills which are difficult to recruit or retain, whether the successful employee is local or expatriate, including members of the diaspora. Programmes could be linked to a number of principles, such as a full day's work for a full day's pay; accountability to local communities; and zero tolerance of corruption. Donor support must be predictable, though limited in time and with a phased exit, so that African governments can take over as other reforms produce the necessary increases in growth.

37 Pressure from local communities is another means of improving services. This can come from individuals, informal groups such as parents acting together, or from formal organisations, either in civil society, the private sector or traditional tribal structures. This can improve the motivation of those who provide the services, by attaching greater perceived value to their jobs or by increasing their sense that they are answerable for what they provide.



38 Public services are also provided at the local level by organisations that operate outside the state system, most particularly religious networks and faith groups. Often these have a wider reach than the state and there is a persuasive case for making use of them, provided they complement the state (for example by adhering to similar standards) rather than compete with it.

39 This approach is especially relevant in fragile states – such as those in conflict or emerging from it – where government is so weak that it is not possible to work with it. Donors should work at community level, with faith groups and other private providers, and with local government, to provide basic services such as education. These projects must help to build capacity and be accountable to the local population so that they can be integrated into state systems in the future. Wider issues of assistance to weak and failing states are discussed in Chapter 9.

### **4.2.3 Equipment and infrastructure, including ICT**

40 Basic equipment, such as the tools of keeping records, files, accounting and personnel systems, is essential for public servants to do their work properly and efficiently. Provision is at present very variable. Many do not even have functioning telephone systems. That needs to change if computers are to be used to their full potential.

41 E-governance<sup>28</sup> has a particularly powerful role to play in improving administrative efficiency, driving technical innovation and making the governance process more transparent, accountable and open to participation by everyone. Strategic programmes for e-governance have been established recently in countries such as Egypt, Kenya, Senegal, Mozambique and South Africa and there is a wide range of relatively successful African e-governance projects, such as a tax portal in Cameroon. This site contains tax-related data and guidance, providing instant information on payment and refund procedures to citizens and businesses, to limit opportunities for corrupt officials to charge for such information.

42 However, not all African e-governance projects have been success stories. The transition to e-governance is rarely smooth in any country but African e-governance faces two additional barriers: the lack of ICT infrastructure (see Chapter 7) and mass connectivity to the Internet, and under-resourced and unaccountable bureaucracies. A good start could be for a number of African governments to pilot development of e-governance strategies, and then spread good practice developed through them to a second group of countries. The international community should support this work and consolidate and expand e-governance training for African civil servants.

### **4.2.4 Monitoring of capacity-building**

43 What is measured and monitored usually gets results. Establishment of an explicit framework for monitoring results of well-defined activities will be crucial for enhancing effectiveness of capacity development. Some instruments to do so are already in place. HIPC tracking surveys deal with effectiveness of public financial management. Client service charters, which entail scorecard type assessments of delivery of public services, have been developed in Tanzania. Development of coherent national frameworks to monitor state effectiveness will be important for the success of the APRM as a peer pressure instrument. There is also a need for mutual review by donors and African governments, for assessing the appropriateness of programme instruments and setting criteria for measuring impact. Mutual review is discussed further in Chapter 10.

## 4.3 Accountability

44 Accountability is our second area of focus. It is fundamental to the legitimacy of a state and to the freedom and human rights of its people. The African Charter for Human and Peoples' Rights, which provides the framework for promoting and protecting human rights, states that every citizen shall have the right of equal access to the public services of the country<sup>29</sup>. Governments must answer to all their people, including the poorest and most vulnerable, and must not respond only to the interests of elites or particular groups (including donors), parties or tribes. Accountability to all citizens is also a prerequisite for political stability and effective development. Good intentions are not enough. Mechanisms are needed to make sure that the voices of all citizens are heard; to monitor how governments respond to what they hear; and to enforce the rights of ordinary citizens. In this section we discuss participation, then consider key mechanisms of accountability: constitutional structures, parliaments and political processes; the media; the justice system; local government, traditional leaders, business, civil society and trades unions.

### 4.3.1 Participation

45 Policies often fail because they are created without a full understanding of the local situation, people or history. As we saw in Chapter 3, Africa's diversity makes this point particularly pertinent. The term 'participation' holds a variety of meanings, but in essence is about people expressing their views and taking part in the decisions that affect their lives. It is common sense that people have a clearer idea of the problems and opportunities affecting their own communities than outsiders do. Although in the past participation has been associated with community development projects, African participation is required broadly, from the project to the national or international level. Creating opportunities for people to be heard can lead to unpredictable and often contradictory messages but has the potential to inform policies, improve accountability and improve service provision.

46 Participation in decision-making has long been a feature of many African societies. However, African voices often fail to be heard within the development sector, including in international processes. This is partly due to an arrogance that expert outsiders or domestic elites 'know best' and partly due to institutional pressures for quick, consensual and anticipated results.

47 Within participatory approaches, the more powerful often have a vested interest in maintaining the status quo and the education and influence to ensure that their voices are heard. Meaningful participation is a political phenomenon and requires those who traditionally make decisions to relinquish some of their control and to hear voices they may not agree with or may not usually listen to, including those of women and youth.

48 Social disenfranchisement, lack of confidence and respect for social and gender norms will disproportionately restrict some people from being heard. Logistical problems will also prevent the poorest people from being able to participate and hinder the involvement of inaccessible or mobile people, such as indigenous peoples, pastoralists and refugees.

49 Addressing the obstacles to full inclusion will require more than simply ensuring quotas of certain groups are physically present at discussions. International institutions, policy makers and elites will need to question the ways they work. They should explore different means of expression, including through African languages, traditional media such as community radio, and new forms of ICT. Practical, logistical and cultural considerations are necessary.



50 African governments and the international community should base policy change on broad participatory research. Participation should occur at all levels and stages of policy-making, including during monitoring and evaluation. Local authorities are a good entry point for democratic debate. Local or regional expertise should be invested in, in preference to bringing-in external experts. Decision makers should allow long timeframes for participation and ensure that the least powerful are able to express themselves. Facilitators should be trained in negotiations and communication, and informed of local gender norms and power relations.

### 4.3.2 Constitutional structures, parliaments and political processes

51 A strong state derives from and depends on a legitimate constitution that balances the interests of all its citizens and separates the powers of the judiciary and legislature from the executive. In many cases this balance was lost at independence and power was consolidated in the executive<sup>30</sup>. As settling the constitution did not involve the people, it lacks popular legitimacy in many countries.

52 Constitutions are weakened further when leaders seek to stay in office beyond the constitutionally prescribed term. Several factors can contribute to a decision to seek to extend tenure, ranging from a belief that there is no suitable successor to a fear that immunity will be removed, to concerns about 'what next' and sources of finance. One answer could be to establish pension provision and clearly defined roles for retiring presidents – a 'presidential legacy' – to address these problems. These pressures on constitutions would be reduced in a system where leaders depended on the electorate to determine their stay in office.

53 The African Union should address these issues in its current efforts to promote good governance and resolve conflict. African governments should revisit constitutions, and the international community should be prepared to support this work with funds and technical assistance.

54 Democracy has been growing in Africa. A key element in the democratic process is the election, in many cases involving parliaments which are independent of the executive and whose remit is to make laws in the interests of the people, exercise power over the budget and oversee public institutions. According to the AGR, fewer than half of the respondents in 15 out of 28 African countries considered their legislature to be free from external control and only about a quarter of respondents rated the performance of their parliaments as good<sup>31</sup>. The low levels of education or training of legislators in many countries limits their ability to perform efficiently. The position of women in government is poor. Many African governments have made concerted efforts to raise awareness of the importance of women's involvement – South Africa, Uganda, Rwanda<sup>32</sup> and Mozambique have levels of women's representation in parliament ahead of most developed countries. But most countries fall well short of gender equality at all levels of political decision-making. This is despite evidence that corruption falls as the proportion of parliamentary seats held by women rises<sup>33</sup> and the fact that many Africans believe women MPs are more likely to listen and attend to basic community needs<sup>34</sup>. Whether men or women, parliamentarians need better knowledge and capacity to address gender concerns – such as review of inheritance and property tax rights and of laws or customary practices that discriminate against women – and to mainstream gender into sector policies and budget processes. **Recommendation: Parliaments in both developed and other developing countries should establish partnerships to strengthen parliaments in Africa, including the Pan-African Parliament.** For maximum value, these should go beyond short exchanges, conferences and study visits to become longer term, practically focused

partnerships, based on mutual learning, for example in areas such as consultation with all their constituents<sup>35</sup>. Partnerships could include training in the effective use of parliamentary processes, provision of ICT resources and skills, and sharing of practical experience. We also recommend that developed country parliaments consider whether their own institutional structures facilitate their international work.

### 4.3.3 Media

55 The right to receive information and to the freedom of expression is set out in the African Charter for Human and Peoples' Rights<sup>36</sup>. This must be respected. The media is an educator and key information source that can help deliver the MDGs, promote transparent governance<sup>37</sup> and, through balanced reporting, help prevent conflicts. The wide benefits from plural media means it acts as a public good in development.

56 Information flows in Africa through a variety of media, including established media such as radio, traditional communication such as song and story-telling, and new technologies including mobile phones. Private media outlets and liberalised airwaves are increasing. For example, Mali now has 30 private newspapers, 147 independent local radio stations, seven state radio stations and one television station<sup>38</sup>. In Uganda, those villages that in 1985 had ten community broadcasting stations have 300 or more now<sup>39</sup>. This rapid expansion has generated some problems, including inadequately trained journalists, poor professional standards and weak self-regulation. Moreover, much of African media remains government owned or controlled. The monopolisation of media by any one group, including the government, undermines media freedom and popular trust, and creates space for distortion and rumour.

57 African journalists should maintain strong self-regulation and professional ethics in order to allow the media to fulfil its role as a public watchdog and generator of change. In addition, the political environment must be supportive of diverse, plural and free media, with a balance of public service, private, community and local media<sup>40</sup>. AU/NEPAD should encourage African governments to eliminate any current restrictions on mass media, promote competitive frameworks that enable investment in diverse broadcasting infrastructure, and develop transparent and flexible regulatory environments and legal frameworks in co-operation with civil society. They should strengthen their relationship with civil society and independent media institutions.

58 African media would benefit from a regional or continental media reference point<sup>41</sup>. Although some regional media bodies exist, they are few in number and tend to cover only particular aspects of the media. The Media Institute of Southern Africa (MISA) for example does good work, but is focused primarily on promoting free media. A pan-African approach could increase the scale of funding and ensure co-ordination and a holistic approach to include the various aspects of media. **Recommendation: Independent media institutions, public service broadcasters, civil society and the private sector, with support from governments, should form a consortium of partners, in Africa and outside, to provide funds and expertise to create an African media development facility.** Support for this is already evident from some media organisations<sup>42</sup>. The consortium should work with African government ministries, independent institutions and civil society in order to provide long-term support for the strengthening of media capacity<sup>43</sup> and programme-making through supporting regulatory reform, training<sup>44</sup> and the generation of market and audience research<sup>45</sup>.

59 Donors have tended to see support for the media as an 'add-on' to other development programmes, such as health initiatives. Whilst this is important, the media sector also requires support. We urge donors to increase substantially their funding to African independent media institutions and those governments promoting free media. Communications infrastructure must also be strengthened, and is addressed in Chapter 7.

60 A more effective African media will contribute to informed perceptions of the continent in the rest of the world. Currently much of the media in developed countries offers low and unbalanced coverage of Africa. We challenge the media sector to do more to ensure that audiences in developed countries understand what is happening in Africa, including through monitoring their coverage of Africa and increasing programme co-production with African professionals<sup>46</sup>. The Internet gives people the control to find their own information and is demonstrating a growing appetite for news of Africa in developed countries. African media should be supported to serve audiences outside the continent via the Internet.

#### **4.3.4 The justice system**

61 The role of the justice system, including judges and lawyers, police and prison officers, is to guarantee rights and uphold the law equally for all sections of society. It is what keeps a state together as a dispenser of justice and a custodian of peace and security for all. Without effective policing, ordinary people suffer violence, crime and insecurity; without a functioning court system investors cannot be sure their contracts will be enforced<sup>47</sup>. To fulfil their role, all sections of the justice system need to be impartial, adequately funded and independent of government. Yet this is not the case: too little money and too few professionally trained people continue to hamper performance, as does political intimidation and corruption. For example, Sierra Leone (with a population of almost six million) has only 125 lawyers, 95 per cent based in Freetown<sup>48</sup>. Cases are slow to come to court, taking three to four years in some cases<sup>49</sup>.

62 Access to justice can be difficult, especially for poor people, who do not have means of financial support or access to legislative proceedings and major reports in local languages. The establishment of legal aid councils can help address these gaps as can resources to translate laws and proceedings into simple terms for average citizens. Our proposals on higher education can help build capacity in the justice sector. Training for court officials, police and prison officers will also be required. In addition to funding and training, African governments should take steps to guarantee the tenure of judges, introduce computerised case management systems and strengthen judicial oversight commissions.

#### **4.3.5 Local government, traditional leaders, business, civil society and trade unions**

63 Devolving power and the provision of public services to local units and layers of government has potential as an effective means of bringing politicians and policy makers closer to clients and making services more effective<sup>50</sup>. It can strengthen the ability of all citizens, particularly excluded groups, to participate in decision-making. However, at the local level, institutions and participatory development mechanisms are often weak, resulting in poor service delivery, particularly when financial management systems and regulatory oversight structures are underdeveloped. This calls for increased capacity-building of local authority officials in transparent and democratic management. Moreover, reformers should not assume that it is always the best way to effect change in the short and medium term. Alternative strategies for strengthening accountability should be considered, such as partnerships for service delivery with the private sector and civil society.

64 Traditional leaders may, in some cases, provide a link between people and government. As we have shown in Chapter 3, there are forms of effective governance in Africa that are hybrids of traditional and more western-influenced forms of government. These can offer a form of accountability that attract loyalty and can deliver forms of governance that people need.

65 Business groups, trades unions and other non-governmental organisations (NGOs) can often speak for a community, especially where individuals can find it difficult to make their voice heard or are unwilling to speak out. The number of these civil society organisations has risen dramatically over the last decade or so, in response to removal of restrictions. In Tanzania, for example, there were over 9,000 registered civic organisations in 1999, compared to 168 in 1990<sup>51</sup>. Civil society organisations are increasingly viewed as credible partners, but may still suffer from weak capacity, poor transparency and lack of accountability, particularly where their work becomes influenced by the agenda of their funders. Support should be provided, including by their counterparts outside Africa, to develop their human resources and institutional capacity.

66 Trades unions in Africa have a particularly important role to play in both helping those in work and seeking work to access their rights and in creating a thriving civil society in which citizens are able to take part in decisions about economic life. People in Africa aspire to decent jobs in the same way as do people everywhere, with fair rates of pay and good health and safety. Core labour standards can help to achieve this.

## 4.4 Transparency

67 Transparency is a vital component of governance. Openness about policies and decisions makes it easier to hold governments to account for their actions. It makes it more likely that existing resources and capacity will be better used. It reduces the scope for inequitable allocation of resources, which could stoke ethnic tensions and increase the risk of violent conflict, or leave the poor and the marginalised inadequately provided for. It makes it more difficult to divert money into corrupt pockets. And greater access to information about the government's activities strengthens the public's ability to participate in the policy-making process by making their voices heard. This increases the commitment and ownership which citizens feel.

68 Budget transparency is one of the most critical areas where transparency can promote better governance. Citizens have a right to information about how budgets are spent<sup>52</sup>. Without budget transparency, inefficiency, inequity and corruption go undetected. Budget transparency is particularly important when it comes to large revenue items, such as the enormous amounts of income generated in some African countries from their natural resources sectors. The next section looks in more detail at some of the governance problems that mark this sector.

### 4.4.1 Natural resources revenue management: the extractive industries

69 Many countries in Africa are blessed with abundant natural resources, which sustain millions of people. They also have the potential to drive economic growth and human development – but this potential is often not realised. As Table 4.1 illustrates, many of the most resource-dependent countries in Africa have a poor record in human development.

70 This is due at least in part<sup>53</sup> to mismanagement and misappropriation of revenues and corruption, made possible by a lack of openness about how natural resource revenues are used. There is strong evidence, for example, that in many developing countries rich in oil, this wealth enriches only the ruling elite. For the vast majority of the population it often appears merely to increase poverty, corruption, environmental degradation and attendant political instability<sup>54</sup>. A lack of transparency on the part of all actors – governments, domestic and foreign extractive companies and investors – can contribute to the problem.

| Country or region        | % Share of primary commodities in: |             | HDI ranking* (2002) |
|--------------------------|------------------------------------|-------------|---------------------|
|                          | exports (2000)                     | GDP (2000)  |                     |
| Equatorial Guinea        | 91.8                               | 89.0        | 109 (out of 177)    |
| Angola                   | 92.6                               | 81.6        | 166                 |
| Congo                    | 97.5                               | 79.1        | 168                 |
| Gabon                    | 86.6                               | 62.4        | 122                 |
| Guinea-Bissau            | 99.7                               | 50.9        | 172                 |
| Nigeria                  | 98.1                               | 50.1        | 151                 |
| <b>Africa (average)</b>  | <b>78.6</b>                        | <b>21.2</b> |                     |
| All developing countries | 30.6                               | 9.6         |                     |
| Developed countries      | 15.8                               | 2.6         |                     |
| <b>World</b>             | <b>21.4</b>                        | <b>4.3</b>  |                     |

\*The UNDP ranks countries from 1 (highest) to 177 based on an aggregate of three indicators: life expectancy, education as measured by literacy and school enrolment rates, and standard of living as measured by per capita GDP and purchasing power. 2000 HDI rankings are not available.

Source: UNCTAD Commodity Yearbook, 2003; UNDP Human Development Report, 2003

71 Clearly, the responsibility for managing resources lies with the state. But the international community also has a role to play in maintaining high standards of governance. If it does so in its own activities – and demands it in the activities of private sector agents, like the multinational companies active in developing countries – then it will be better positioned to encourage similar high standards in the way African countries manage the cash from their natural resources.

72 Developed country governments are already making strong efforts in this field. The G8 countries and European Union are giving high priority to the need for increased transparency in the extractives sector. This is evident in the G8 Declaration on Fighting Corruption and Improving Transparency, issued in Evian in 2003<sup>55</sup>; the Transparency Directive adopted by the EU late in 2004<sup>56</sup>; and the Transparency Compacts between the G8 and four developing countries, agreed at the Sea Island Summit in 2004<sup>57</sup>. Commitments in principle should now be translated into action.

73 Developed country governments should take strong steps to promote revenue disclosure among all companies operating from their territories. Many of these companies already disclose a lot of detailed information about their operations in developing countries; others should follow suit. Where there are no laws to govern the actions of multinational extractive companies, codes and norms should be used to set standards for behaviour. There is also much that 'ordinary people' like shareholders and consumers in developed countries can do to persuade companies to maintain high standards of social and economic governance. Shareholders have a direct say in corporate policy and there are numerous examples where civil society campaigning and consumer action such as boycotts have succeeded in effecting changes in practice<sup>58</sup>. Again, access to reliable information about companies' activities makes scrutiny possible and increases the scope for good governance. **Recommendation: Developed country governments, company shareholders and consumers should put**

**pressure on companies to be more transparent in their activities in developing countries, and to adhere to international codes and standards for behaviour.**

74 One promising initiative in this field is the Extractive Industries Transparency Initiative (EITI). EITI is a multi-stakeholder agreement under which oil, gas and mining companies agree publicly to disclose all payments they make to developing country governments and governments agree to publish what they receive. Published information is audited independently, and there is a clear role for civil society, who participate actively in the design, implementation and overview of the disclosure process. EITI is currently being implemented in nine countries, four of which are in Africa (Nigeria, Ghana, Republic of Congo and São Tomé e Príncipe)<sup>59</sup>. Several other African nations have expressed an interest in implementing it in the near future<sup>60</sup>.

75 EITI is a relatively young initiative – it was introduced in 2002 – and still lacks clear implementation guidelines (these are being developed), and a way to validate whether it has been fully implemented. It does, however, have the potential to be a firm first step towards greater accountability and better management of valuable natural resources. Among its strong points are its participative nature and the fact that it makes revenue disclosure mandatory for all companies active in a country whose government has signed up to EITI, including those owned by the state, thus levelling the corporate playing field.

76 It is therefore recommended that as many resource-rich countries as possible sign up to EITI, and that they take full ownership of the process to ensure its longer-term sustainability. The international community should support this by promoting EITI as a global framework for resource revenue transparency with African governments, with the continent's regional organisations, and with the AU/NEPAD, which could potentially absorb the principles encapsulated in EITI into the transparency criteria of the APRM. Particular attention should be given to resource-rich countries that are emerging from conflict, where transparency measures should be built into the process of restoring the state's ability to capture revenues.

77 It is also important that the necessary capacity is created for each of the parties to participate in the process as intended. In most countries, the need is particularly great among civil society, where capacity is needed to interpret and respond to disclosed information<sup>61</sup>. All this will happen faster if such schemes are backed by developed countries, both politically and with cash.

**78 Recommendation: The international community should give strong political and financial support to schemes such as the Extractive Industries Transparency Initiative (EITI) to increase the transparency of payments made to, and received by, governments, and should encourage its acceptance by all resource-rich African countries. It should support the development of criteria and a means of validating EITI implementation. Donor countries should also support and fund capacity-building among public servants as well as civil society, by contributing to the EITI Multi-donor Trust Fund.**

#### **4.4.2 Other natural resource sectors**

79 There are many countries that are heavily dependent on natural resources even though they do not have large oil or mining reserves<sup>62</sup>. As shown in Table 4.1, on average, African economies derive over 21 per cent of their GDP from primary commodities, compared to an estimated five per cent for South and East Asia<sup>63</sup>. **Recommendation: Principles of transparency such as those in EITI should be extended to other natural resource sectors, including forestry and fisheries.**

## Forestry

80 Forests play a central role in the lives of millions of Africans, and their sustainable management is crucial for protection of livelihoods, preservation of biodiversity and fighting desertification<sup>64</sup>. African nations have already indicated that they see this as a priority and have made political commitments to strengthen capacity to enforce forest law, particularly in relation to illegal logging and the trade in illicit timber and wildlife resources<sup>65</sup>.

81 It is now more necessary than ever for rich countries to support this process, both to ensure that forests are protected and that developing country governments receive the tax revenues generated by commercial logging which they are entitled to and which are essential to fund investments in health, education, infrastructure and the like.

**Recommendation: Timber importing countries should ensure they do not trade in illegally acquired forest products and should procure only legally sourced timber and products.** To provide evidence of legality, certification or licence schemes (perhaps along the lines of those being developed under the EU Forest Law Enforcement, Governance and Trade voluntary partnership scheme) should be used.

82 Whereas legality should be a minimum requirement for all traded forest products, sustainable management of forests is another objective of great importance. Here, too, certification schemes can help to ensure that timber sourced from sustainable forests is given preference in international markets. In Africa, very few forests are certified as being sustainable as yet, but some governments are working hard to change this. There is much that the international community and the private sector can do to support the process. Importers should give preference to contractors who demonstrate their logging is sustainable and the international community should work with African partners to increase the area of certified forest. In order that countries working towards sustainable forest management should not be excluded from international trade, a step-by-step approach to evidence of sustainability should be adopted, with legality as a minimum requirement<sup>66</sup>.

83 Companies also have an important role to play. Timber companies from the developed world should work with partners in African countries to make their operations more transparent, promote sustainable forest management, be of greater benefit to local communities and reduce poverty through more investment in the processing of forest products. They should develop responsible policies for their purchasing, aligned with government procurement policies. All interested parties, particularly local populations, must be able to influence the management of forests. This will require the production and ready dissemination of accessible information on legislation, policies and the allocation of concessions. It will mean independent monitoring of forest law development and enforcement. It will also mean protecting the rights of vulnerable groups, such as indigenous peoples, who need access to information about their rights to water, land and forests as sources of livelihood and to compensation should this access be threatened by commercial activity or environmental concerns. It must also recognise the wider role of forests as reservoirs of biodiversity, sources of food and fuel and protectors of watersheds<sup>67</sup>.

## Fisheries

84 Fisheries is another sector of great importance to many African countries and one that is plagued by serious problems, including a lack of policy coherence among international players, the damaging impact of subsidies on local fishing industries<sup>68</sup> and the loss of substantial revenues and livelihoods through illegal, unreported and unregulated ('IUU') fishing<sup>69</sup>. A lack of information about the value of fish stocks, the rights of access to them and the revenues generated from them compounds the problems of managing this sector. Another cause for concern is the lack of openness about the terms on which African countries allow international fleets to fish in their



waters. Royalty agreements represent a major source of revenue in a number of coastal countries<sup>70</sup>, but the negotiation process is highly non-transparent and frequently results in terms that are seen as unfavourable to African countries. Issues of sustainable fishing and fish stocks management are clearly of concern here but so is the significant lost revenue, which could have been spent on development goals.

85 There is scope for African coastal states to extract much greater benefit from these royalty agreements<sup>71</sup>, and they could benefit significantly from greater transparency in the process of negotiating royalty agreements with third parties. The international community, for their part, could take steps to ensure negotiations are transparent and accessible. Developed countries should promote transparency and accountability in natural resource sectors such as fisheries, including in the negotiation of international fishing licences and sustainable management of fishing stocks. The rights of local fishermen should be taken into account specifically.

#### 4.4.3 The role of the International Financial Institutions

86 International Financial Institutions (IFIs) can play an invaluable role in promoting good governance in natural resource revenue management. They can set an example through maintaining high standards of governance and transparency in their own activities. But they are also in a strong position to persuade developing country governments, and the companies that operate in their territories, to adopt similar high standards. The value of IFI involvement in large-scale projects is usually not purely financial; in fact, their financial contribution is often quite modest. Rather, their endorsement confers credibility on a project and clears the way for private sector investors to take up the main burden of financing. This critical influence gives IFIs a lot of leverage with which to encourage all parties involved in large-scale natural resource projects to manage the revenues from the project in a transparent and accountable way, and to demand high standards of social, environmental and economic governance.

87 IFIs also contribute to improved governance by setting standards and creating benchmarks for the private sector in their engagement with developing countries. For example, the Equator Principles, a set of norms to "promote responsible environmental stewardship and socially responsible development" that were collectively adopted by a group of ten private banks in 2003<sup>72</sup>, were modelled on World Bank and IFC guidelines for good environmental and social governance. Both the World Bank and the IMF have taken firm steps in recent times to promote transparency in large-scale natural resource projects. The World Bank's response to the Extractive Industries Review<sup>73</sup> and the IMF's current development of a Guide on Resource Revenue Transparency<sup>74</sup> both place strong emphasis on the need for transparency of revenues and good fiscal practice. Donor countries should press for all multilateral banking institutions and regional development banks active in Africa to require high standards of transparency in all their lending, development and technical assistance for natural resources projects in developing countries.

### 4.5 Corruption

88 Corruption is a by-product of weak governance. It manifests itself in many ways, some of which have been described in the previous section. Much of it takes place at the grassroots level and affects people's daily lives, for example through bribes paid to bureaucrats, or non-delivery of services to poor people. The corrosive effect of corruption undermines all efforts to improve governance and foster development. Major increases in financing for infrastructure, which we recommend in Chapter 7, must be accompanied by strong improvements in governance. Numerous conventions



and initiatives exist to curb corruption. These include the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1999) (the 'OECD bribery convention') the UN Declaration against Corruption and Bribery in International Commercial Transactions (1998); and the UN Convention Against Corruption (2003). But the persistence of the problem suggests that these are not always being efficiently enforced. It is time the international community turned words into action.

89 While greater transparency about budgets and revenues will go a long way to limiting the opportunities for corrupt practices, this alone will not be enough. African governments, together with their development partners, should broaden their investigation of means to address corruption at all levels. This should include the use of coalitions for change and the involvement of non-state actors. The initial focus should be on tackling corruption in those sectors where it is most pervasive, such as in the lucrative natural resource sector, which we have discussed already, and in the area of procurement.

### 4.5.1 Corruption: procurement

90 Procurement – the way that governments buy in goods and services – suffers particularly severely from corruption. Abuse of this system takes many forms. Though public sector contracts are widely put out to sealed tender, bribes – known by euphemisms such as 'signature bonuses' – can be requested or offered which result in the accepted bid not being the best available. Quotations can be doctored to build in false costs. It is not only the politicians and public officials who create the problem: it is also the bankers, the lawyers and the accountants, and the engineers working on public contracts.

91 One of the sectors where bribery is most prominent is the international construction and engineering sector. Public Works and Construction came top in the Bribe Payers Survey published in 2002 by the corruption watchdog Transparency International, with business leaders in 15 emerging markets suggesting this industry to be the most corrupt<sup>75</sup>. Experts estimate that systemic corruption can add as much as 25 per cent to the costs of government procurement, frequently resulting in inferior quality construction and unnecessary purchases. Transparency International's most recent Corruption Perception Index suggests that, of the US\$4 trillion spent worldwide on government public contracts every year, some US\$400 billion is lost to bribery<sup>76</sup> (Corporate Social Responsibility is discussed further in Chapter 7). Since this money comes out of the public purse this means a major loss of resources that could otherwise be spent on education, healthcare and the reduction of poverty. Of course, the problem of corruption in public procurement is by no means unique to Africa. But in countries with very limited resources, it has particularly damaging consequences for the population at large.

92 **Recommendation: The international community should encourage more transparent procurement policies in both Africa and the developed world particularly in the areas of construction and engineering.** It should also strengthen existing international instruments aimed at curbing corruption. This includes ratifying the UN Convention Against Corruption, as recommended below, and wider accession to the 1999 OECD bribery convention by countries engaged in commercial activity on Africa. Governments should also take strong action to encourage companies registered in their territories to adhere to the various international guidelines, such as the OECD Guidelines on Multinational Enterprises,<sup>77</sup> that exist, among other things, to prevent corrupt commercial practices in developing countries.

93 Technology can also help in the fight against corrupt and inefficient procurement policies. Online bidding processes can be designed to be more open and easier to scrutinise than the traditional 'sealed envelope' – this makes it much more difficult to award

contracts to non-competitive or unscrupulous bidders. This kind of 'e-procurement' also has other benefits: it cuts out red tape, and tends to be cheaper and easier to use, thus making it more feasible for small businesses to participate in the process as well.

#### 4.5.2 Export Credit Agencies

94 Export Credit Agencies (ECAs) are government-backed bodies which provide loans, guarantees, credits and insurance to private companies registered in their territories who invest or engage in trade with developing countries – particularly those marked by high political and financial risk. Collectively, ECAs are now the largest source of public finance for private sector projects in the world<sup>78</sup>. They play a crucial role in supporting foreign direct investment into developing countries. Like IFIs, ECAs tend to become involved at the early stages of large-scale projects; and many projects would not go ahead without their support.

95 ECAs are therefore in a strong position to demand high standards of governance from projects in which they become involved. However, in the past they have had a poor record of using their unique position to encourage better governance; generally, they were not required to ensure that the projects they financed met minimum developmental, environmental or social standards<sup>79</sup>. ECAs themselves also tend to function in highly non-transparent ways<sup>80</sup>. Some progress has been made in establishing common standards and promoting best practice, such as the OECD Common Approaches on Environment and Officially Supported Export Credits<sup>81</sup>, but there is still substantial scope for improvement. ECAs are competitive organisations; thus any measures to improve governance in the sector will have to apply equally to all of them, or else it will merely serve to create a competitive advantage for those who do not comply with higher standards.

**Recommendation: Developed countries should encourage their ECAs to be more transparent, and to require higher standards of transparency in their support for projects in developing countries. Developed countries should also fully implement the Action Statement on Bribery and Officially Supported Export Credits<sup>82</sup> agreed by the OECD<sup>83</sup>.** The Action Statement requires the implementation of measures to deter bribery. These include inviting exporters applying for export credits to declare that neither they, nor their agents, will engage in bribery. It also requires credit applications to be refused where bribery is established and appropriate action to be taken if bribery comes to light later.

96 Following on from the OECD's Action Statement, a subsequent Best Practices Paper sets out even higher standards for officially supported export credits. If bribery is to be seriously confronted, members of the OECD should adopt and implement this paper as well. In addition, we would like to see the OECD Working Party on Export Credits and Credit Guarantees<sup>84</sup> publish figures on the number of applications turned down on grounds of bribery so that the international community can determine whether these voluntary measures are working sufficiently well.

#### 4.5.3 Stolen assets

97 One specific problem affecting Africa particularly severely is the illicit acquisition of public assets. The scale of the problem is huge: an EC report estimates that stolen African assets equivalent to more than half of the continent's external debt are held in foreign bank accounts<sup>85</sup>. In the most egregious cases, amounts held in individual foreign accounts run into billions of dollars. Rich countries have recognised the importance of the issue, and have made commitments, such as that made by G8 countries at Kananaskis in June 2002<sup>86</sup>; but the amount of stolen money returned to African countries is still relatively small. **Recommendation: Countries and territories with significant financial centres should take, as a matter of urgency, all necessary legal**

**and administrative measures to repatriate illicitly acquired state funds and assets. We call on G8 countries to make specific commitments in 2005 and to report back on progress, including sums repatriated, in 2006.** We now turn our attention to the obstacles that are usually raised to meeting this responsibility.

98 The underlying difficulty is that the legal systems to effect recovery and repatriation are essentially designed to deal with claims from one developed country to another. African judicial systems are often unable to meet the requirements for the amount and quality of evidence. The challenge is for developed nations to help African countries develop the capacity, and show the political will, to overcome the blockages.

99 Good progress has been made recently through the work of international bodies and regulators, particularly after the recognition that some laundered money was being used to finance terrorist activities, such as those of 11 September 2001. Many countries now have controls built into their legal systems. But implementation is not always effective, especially where many different parts of the administration – finance and justice ministries, financial regulators, law enforcement agencies etc. are involved. The same vigour as was exercised in developing controls against terrorist financing – which resulted in the preparation of international guidelines<sup>87</sup>, model legislation, and technical assistance programmes – should be applied to tracking and returning stolen state assets. The theft of billions of dollars from an African country undermines standards and leads to a collapse of public services that can have as devastating an effect as a terrorist incident there.

100 Positive action would not only ensure that significant sums were returned to the budgets of several African countries, but would also send a strong deterrent signal to potential corrupt figures that crime does not pay. The action is needed in a series of linked areas: introducing measures to *prevent* the theft of assets at source; improving systems to *identify* funds that have been acquired illicitly; facilitating the authorities' power to *freeze and confiscate* assets while further investigations are carried out; and creating instruments to *hand back* funds to the jurisdiction from which they were looted. Failure by African governments to recover stolen assets has resulted from obstacles in each of these areas, so all need to be addressed. There are actions here both for countries where the financial centres are located and African countries, which must be able to assist in identifying the theft.

### **Prevention**

101 A recent report estimates around US\$18 billion was laundered in eastern and southern Africa in 1999 alone.<sup>88</sup> This figure covers the laundered proceeds of drug trafficking and other crime, not just corruption. Some could have been linked to financing terrorism. To combat this, and to respond to requests for financial intelligence about stolen assets, African states need appropriate legislation and robust financial institutions. The international community should give priority to helping build these, by providing expert advice. This could include training courses for financial investigators, providing mentors, and strengthening or creating African regional bodies associated with the Financial Action Task Force.<sup>89</sup>

### **Freezing and Confiscation**

102 Most large financial centres have appropriate legislation and regulations to permit freezing and confiscation of assets in criminal investigations, but often assets cannot be frozen until criminal proceedings are well advanced, allowing time for corrupt individuals to move stolen money. To reduce this risk, amendments to legislation should be made to allow assets to be frozen at a much earlier stage in a criminal investigation<sup>90</sup>.

103 It is also likely that states with advanced money laundering controls will notice financial irregularities in a foreign customer's account that the home country might have failed to recognise. All countries should exchange information with African state authorities on suspicious transactions in bank accounts of African individuals (and their family members and close associates) who are, or have been, entrusted with prominent public functions. They should assist them to put together a Mutual Legal Assistance<sup>91</sup> request, which is usually needed before further legal progress can be made.

104 The need to rely on criminal proceedings is a further major obstacle. Most developed countries apply the principle of Dual Criminality, which means they can only investigate activities that are recognised as a crime in both countries. Also, no conviction can be brought if the accused is dead (often the case with African leaders in these situations). One way to address this problem is to take action against the proceeds of crime rather than the individual (non-conviction based forfeiture). Some countries have recently passed legislation making this possible, and have used it successfully to recover stolen assets. All financial centres that have not done so should introduce and implement legislation to allow confiscation without needing a criminal conviction.

105 Family members of the accused frequently appeal against confiscation and repatriation of illicitly acquired funds. This can severely hold up the process, and is sometimes used as a deliberate delaying tactic. It is of course important to ensure a citizen's right to appeal against a conviction. However, there are rights to consider on both sides; and the existing balance is so distorted as to be ineffective. Developed states should consider ways to reduce the number of appeals allowed in a given case<sup>92</sup>. Another serious obstacle is the application of political immunity for serving leaders and their families<sup>93</sup>. African states should restrict the application of immunity<sup>94</sup>, and pursue criminal cases against those shown to be corrupt.

### Repatriation

106 There is a distinction to be drawn between embezzled funds and the proceeds of other crime (including corruption). Embezzled funds must be repatriated to the state of origin, as maintained in the UN Convention Against Corruption. In other cases, it is difficult to establish to whom funds should be returned, as the crime is often regarded as 'victimless'. Concerns therefore exist about how funds are utilised: several mechanisms have been used to ensure transparency in the deployment of returned funds. These include a mutually agreed contract and a designated trust fund<sup>95</sup>. A further possibility is to establish a fund managed by a third party. The most suitable mechanism will vary from case to case; the key point is to reach mutual agreement before funds are repatriated. Financial centres should agree a mutually acceptable mechanism for returning and monitoring the use of funds.

107 Momentum is building to address these problems. But the first step is to ratify the UN Convention Against Corruption (UNCAC). Signed in December 2003 this is the first international legal instrument to recognise the need for all states to commit to asset repatriation (see Article 57)<sup>96</sup>. For UNCAC to come into force 30 states must ratify it. By the end of 2004, only one OECD state had ratified the Convention.

**Recommendation: All states should ratify and implement the UN Convention Against Corruption during 2005<sup>97</sup>.**

## 4.6 Strengthening the quality and use of data

108 One thing that has emerged from all our considerations on issues of governance and capacity is the importance of good information and communication. In so many areas information can be a valuable driver for change. It is also necessary for monitoring and measuring performance and results. It is the lifeblood of transparent, informed and open societies, able to debate, decide and implement successful reforms, measure their impact and hold their governments to account.

109 Many countries have recognised the need for better data to guide policies for poverty reduction and human and economic development. As a result, more and better data are available than five years ago and, to understand better the dimensions of poverty, some indicators are now disaggregated by location and gender. But despite improvements the quality of national data systems in many sub-Saharan African countries remains inadequate. Only about a third of countries have a strategy for national statistical development, and few if any have the ability to disaggregate urban and rural development statistics. Important social, economic and environmental data – including, for example, data on gender or ethnic groups – are too often not available or of inadequate quality. Even where data do exist they are often poorly disseminated and used. Rarely do African governments and local authorities have access to or use modern planning tools like Geographical Information Systems (GIS).

110 Donors have recognised the importance of supporting development of data systems, and a number of initiatives exist<sup>98</sup>. An action plan for statistics<sup>99</sup> was endorsed at the World Bank Roundtable on 'Managing for Results' in Marrakech in February 2004. This proposes a six-point plan for addressing statistical capacity-building issues, with actions at national and international level<sup>100</sup>. Two vital elements are helping countries to develop national strategies for statistical development (which would analyse current strengths and weaknesses and set out the country's own needs and priorities for data, taking account of all the main producers and users) and increasing financing for statistical capacity-building. **Recommendation: Good information is essential to informed policy making and effective delivery. Donors should provide the additional amount required to help Africa improve systems to collect and analyse statistics, to meet criteria normally regarded as an acceptable minimum (estimated at about an additional US\$60million per year).** They should also support capacity-building in the use of modern information systems like GIS.

111 Even where data are available they are often not used in decision-making, which can lead to poor decisions. Governments need to promote a culture of evidence-based decision-making, where those with responsibility actively seek data and analysis on the impact of policy options. Poverty and Social Impact Analysis and Strategic Environment Assessments, increasingly being used to assess the impact of major policy decisions on poor people and other vulnerable groups before final decisions are taken, are useful tools in this respect.

## 4.7 Conclusion

112 As this chapter has shown, good governance underlies all development, and its impact is felt in every sphere. It is an area where African countries must be firmly in the lead. There are, nonetheless, a number of practical and effective actions that the international community can take to support them. These have been highlighted throughout the chapter. Some of these require resources. Others are about changes in policies, behaviour and practices. Only by taking action in both areas will the international community be able to help African countries bring about the changes needed to achieve stability, growth and poverty reduction.

# Recommendations on Governance and Capacity-Building

Weak governance has blighted the development of many parts of Africa to date. Weak governance can include bad government policies and an economic and political climate which discourages people from investing. It can also include corruption and bureaucratic systems that are not open to scrutiny and therefore are not answerable to the public. And it includes a lack of accountability and weakness in mechanisms to ensure that people's voices are heard and their rights upheld, such as parliaments, the media and the justice system.

At the core of the governance problem in many parts of Africa is the sheer lack of capacity of national and local government ministries, and the problems of recruiting and keeping skilled staff, equipped and motivated to do their job. The continent's regional and pan-African organisations, including the African Union and its NEPAD programme, which are so important to Africa's future, also need strengthening.

## Investing in capacity-building

- Developed countries should give strong support – both political and financial – to Africa's efforts to strengthen pan-African and regional bodies and programmes, including the African Peer Review Mechanism.
- African governments should draw up comprehensive capacity-building strategies. Donors should invest in these, making sure that their efforts are fully aligned with these strategies rather than with their own competing priorities and procedures.
- Skilled professionals are key to building improvements in the administration and technical ability which Africa so gravely lacks. The international community should commit in 2005 to provide US\$500 million a year, over 10 years, to revitalise Africa's institutions of higher education and up to US\$3 billion over 10 years to develop centres of excellence in science and technology, including African institutes of technology.

## Increasing accountability and transparency

- Parliaments in both developed and other developing countries should establish partnerships to strengthen parliaments in Africa, including the pan-African parliament.
- Independent media institutions, public service broadcasters, civil society and the private sector, with support from governments, should form a consortium of partners, in Africa and outside, to provide funds and expertise to create an African media development facility.
- Developed country governments, company shareholders and consumers should put pressure on companies to be more transparent in their activities in developing countries and to adhere to international codes and standards for behaviour.
- The international community should give strong political and financial support to schemes such as the Extractive Industries Transparency Initiative (EITI) to increase the transparency of payments made to, and received by, governments and should encourage its acceptance by all resource-rich African countries. It should support the development of criteria and a means of validating EITI implementation; and support and fund capacity-building among public servants as well as civil society, by contributing to the EITI Multi-donor Trust Fund.

- Principles of transparency such as those in EITI should be extended to other natural resource sectors, including forestry and fisheries.
- Timber importing countries should ensure they do not trade in illegally acquired forest products and should procure only legally sourced timber and products.

## **Corruption**

Corruption is a systemic challenge facing many African leaders. They must demonstrate renewed political will to fight it at all levels in the economy and society. Many African nations have begun this task. Increased transparency by African governments will assist this. But fighting corruption involves tackling those who offer bribes as well as those who take them.

- Developed countries should encourage their Export Credit Agencies (ECAs) to be more transparent, and to require higher standards of transparency in their support for projects in developing countries. Developed countries should also fully implement the Action Statement on Bribery and Officially Supported Export Credits agreed by members of the industrialised nations group, the OECD.
- Countries and territories with significant financial centres should take, as a matter of urgency, all necessary legal and administrative measures to repatriate illicitly acquired state funds and assets. We call on G8 countries to make specific commitments in 2005 and to report back on progress, including sums repatriated, in 2006.
- All states should ratify and implement the UN Convention against Corruption during 2005 and should encourage more transparent procurement policies in both Africa and the developed world, particularly in the areas of construction and engineering.

## **Strengthen information systems**

- Good information is essential to informed policy-making and effective delivery. Donors should provide the additional amount required to help Africa improve systems to collect and analyse statistics, to meet criteria normally regarded as an acceptable minimum (estimated at about an additional US\$60million per year).

# Chapter 5

## The Need for Peace and Security

### Summary

The right to life and security is the most basic of human rights. Without **increased investment in conflict prevention**, Africa will not make the rapid acceleration in development that its people seek. Investing in development is itself an investment in peace and security, but there is much more that should be done directly to strengthen conflict prevention:

- Building the **capacity of African states and societies to prevent and manage conflict** by tackling its root causes, including steps to make aid more effective at building the foundations for durable peace, to improve the management of natural resource revenues, and to tackle the trade in small arms and 'conflict resources';
- Strengthening **African regional organisations' and the UN's ability to prevent and resolve conflict through, for example, more effective early warning, mediation and peacekeeping**. We propose to do this by providing flexible funding for African Union and regional organisations' core capacity and operations; and by supporting the creation of a new UN Peacebuilding Commission;
- Improving the co-ordination and financing of **post-conflict peacebuilding and development**, so that states emerging from violent conflict do not slide back into it.

A full list of the Commission's recommendations on Peace and Security can be found at the end of this chapter.

1 Few Africans can afford to share the view that preventing conflict in Africa is a lost cause.

2 Violent conflict has killed and displaced more people in Africa than in any other continent in recent decades. This has driven poverty and exclusion, undermined growth and development, and deprived many of their right to life, liberty, and security as enshrined in Article 3 of the Universal Declaration of Human Rights<sup>1</sup>.

3 Our consultations in Africa show that there is a strong desire to see greater action to prevent the emergence, spread and re-emergence of violent conflict<sup>2</sup>. Responsibility for peace and security lies primarily with African governments but the Commission is clear that the actions of developed countries are essential to making this desire a reality. The developed world's trade, economic and development policies, and its participation in the trade in small arms and 'conflict resources', have contributed to Africa's instability. Developed countries have, to date, consistently prioritised reaction over prevention. Often, this reaction has been 'too little, too late'. Reactive military or humanitarian measures are necessary to prevent the further loss of life in emergencies, but even at their most successful can only control a situation not resolve it. Investment in other tools, such as development, African national and regional capacity to manage conflict, mediation, and



peacebuilding, is needed to ensure existing conflicts are resolved as well as future ones prevented. Without such investment, the demand for reactive measures, such as military intervention, can only increase.

4 Now is a prime opportunity for the international community to change its approach in support of African efforts to promote peace and security. Some African leaders and governments have neglected the security of their populations and used division and violence for their own political goals. And, as the crisis in Darfur shows, there are still huge problems on the continent. But the past few years have seen some progress towards greater peace and security in Africa, and a growing political will from African governments and organisations to take the lead in promoting peace and security on the continent. There have been tentative and varying steps towards ending some of the continent's worst civil wars, such as those in Angola, Sierra Leone, the Democratic Republic of Congo (DRC), Somalia, and Sudan. The African Union (AU) has moved towards putting the concept of 'non-indifference', which recognises the responsibility of member states to promote human security, into practice. Regional organisations, such as the Economic Community of West African States (ECOWAS), have taken an active role in responding to instability in their regions.

5 The process of taking forward the UN High Level Panel on Threats, Challenges and Change<sup>3</sup> (UNHLP) recommendations in 2005 is a crucial opportunity for the international community to take action on many of the issues raised in this chapter.

6 Part of the reason developed countries have failed to prioritise prevention in the past has been the 'CNN factor': the high profile given to some emergencies by the media puts strong pressure on the international community to respond to them – and provides political rewards for doing so. Mechanisms to promote scrutiny, measurement, and accountability for commitments made by developed countries (see Chapter 10) are therefore essential to generating the pressure needed to implement the recommendations in this chapter.

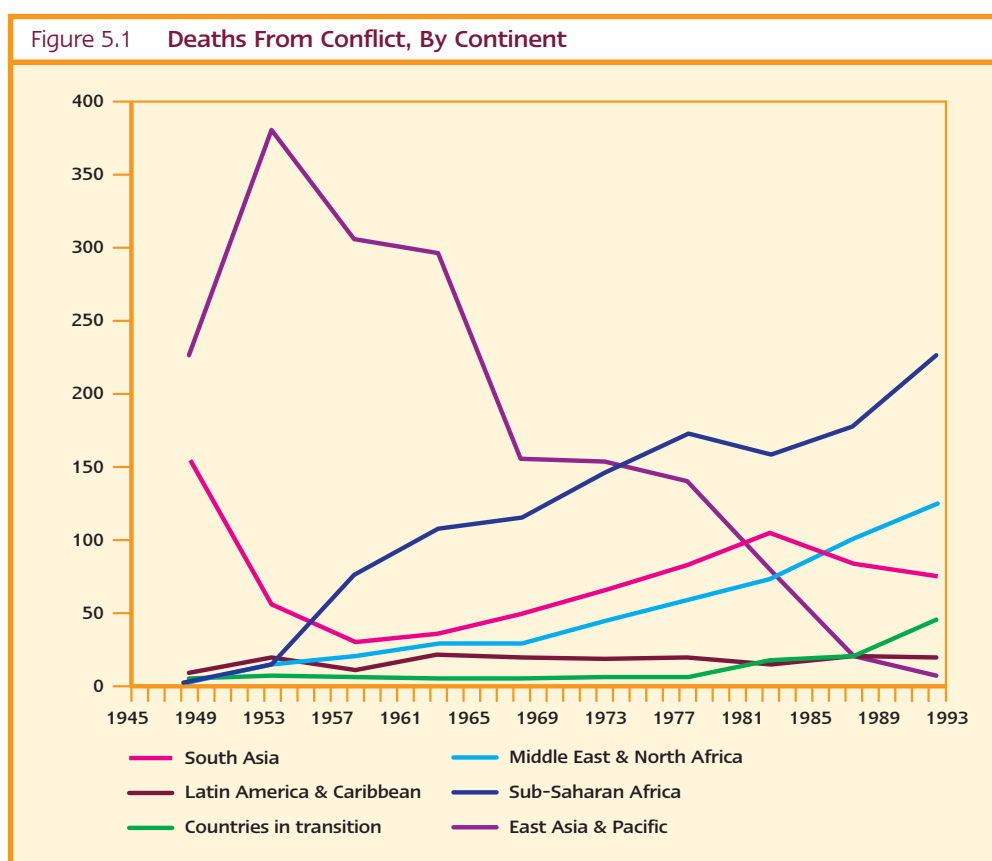
## 5.1 The case for prevention

7 **African and developed countries should invest in the prevention of violent conflict in Africa.** Conflict prevention can be defined as action to stop the emergence, spread and re-occurrence of violent conflict<sup>4</sup>.

8 Prevention is vital for a number of reasons. First, violent conflict causes huge human suffering and denies many Africans their most basic right to life and security. As illustrated by Figure 5.1, violent conflict has killed more people in Africa than in any other continent in recent decades.

9 Africa also has by far the highest level of forced displacement in the world: 13 million internally displaced people (IDPs) and 3.5 million refugees, more than twice the absolute number in Asia, which has more than five times the population<sup>5</sup>.

10 Much of this death and displacement is a result of the long and brutal civil wars that have affected many African countries. It is estimated that four million people have died as a direct or indirect result of the civil war and continuing insecurity in the DRC since 1998<sup>6</sup>. This is the largest death toll from a war since World War II<sup>7</sup>. Coups, political instability and localised outbreaks of violence have affected many other countries. In Nigeria, for example, between 1999 and 2003 at least 10,000 people lost their lives in ongoing localised violence and short-lived but vicious communal fighting<sup>8</sup>. A widespread lack of effective policing and legal systems contributes to violent crime and insecurity in many more places. Those who suffer most are the poor and the vulnerable, including many women and children recruited, often by force, into armed groups as child soldiers, porters, or sex slaves<sup>9</sup>.



Source: DFID, 2001

11 Second, violent conflict and insecurity severely undermine development. It increases poverty; reduces growth<sup>10</sup>, trade, and investment; and destroys vital infrastructure<sup>11</sup> and 'human capital' through death, injury, and displacement. Violent conflict encourages high levels of military expenditure, diverting resources away from development<sup>12</sup>. Violent conflict helps spread malnutrition and infectious diseases, including HIV and AIDS, through breakdown in services, the rapid movement of refugees and IDPs, and the use of rape as a weapon of war<sup>13</sup>.

12 Third, violent conflicts, once sparked, can create intractable and ongoing tensions that are very difficult to resolve. Violence deepens the poverty, inequality and economic stagnation that can cause violent conflict. The damage and destruction of health and education systems perpetuates the inequalities and exclusion that fuel tensions. Displacement of large numbers of people has fuelled the rapid growth of cities, such as Kinshasa<sup>14</sup>, creating further potential problems. The breakdown in institutions, social and cultural structures, and the trauma created by violence and displacement, deepens resentment and divisions, increasing the risk of future conflict. Thus, countries that have experienced a civil war have an increased likelihood of violence in the future<sup>15</sup>. Furthermore, violence in one country can drive instability in neighbouring countries, and increases the pressure on neighbours' resources through refugee flows. By weakening states, internal strife can provide an enabling environment for international terrorist organisations.

13 Fourth, reacting to conflict is more expensive for the international community than preventing it. If the international community reacts to a crisis, it tends to be through deployment of peacekeepers or humanitarian assistance<sup>16</sup>. This is expensive. The budget for

UN peacekeeping operations in Africa from July 2004 to June 2005 is US\$2.86 billion<sup>17</sup>. Africa received around US\$7 billion in humanitarian aid between 1995 and 2001, and four of the top ten countries receiving such aid globally were African<sup>18</sup>, much of it in response to violent conflict. Reconstruction is also expensive: it has been estimated that the reconstruction of DRC alone will cost US\$20 billion<sup>19</sup>. It is not surprising, therefore, that a number of studies have shown that conflict prevention is much more cost-effective than reaction<sup>20</sup>. One estimate is that it would have cost the international community US\$1.5 billion to prevent the conflict in Somalia compared with the US\$7.3 billion it cost to respond<sup>21</sup>.

14 Many agree that prevention is desirable, but argue that it is not possible. There is evidence to suggest the opposite. Studies have estimated that in the second half of the 1990s the world would have seen 25 per cent more violent conflict had it not been for preventive measures, involving both domestic and international action<sup>22</sup>. Other studies show that more could have been done to avert major crises. As with many of Africa's major conflicts, there were clear signals of the risk of serious conflict in Rwanda, such as deepening economic crisis and rising ethnic tension and violence, long before the genocide in 1994. There were specific and detailed warnings of impending genocide closer to the event. A package of prevention measures – such as greater support for the implementation of peace agreements, combined with economic support to alleviate the impact of the economic crisis – could have reduced the chances of Rwandan genocide by up to 50 per cent<sup>23</sup>.

15 The rest of this chapter shows that there are many opportunities for increasing investment in prevention by: addressing the root causes of violent conflict and building the capacity of African societies to manage conflict; improving the capacity of regional, continental and international organisations to prevent and resolve conflict; and ensuring peace is maintained in countries emerging from violent conflict.

16 At all levels, actors should promote the full implementation of UN Resolution 1325 (2000) on the role of women in peace processes and the impact of armed conflict on women and girls<sup>24</sup>.

## 5.2 Building peaceful African societies

17 As Figure 5.1 shows, Africa has not always experienced such high levels of conflict. Violence erupts when societies' mechanisms for managing disputes and tensions break down – or are unable to cope with the problem. Thus, the rise in violent conflict in recent decades is a result of growing sources of tension alongside a low and declining capacity to manage them in many parts of Africa.

18 Addressing the sources of conflict and strengthening the capacity to manage them is the only way to build durable peace<sup>25</sup>. This needs to be led by African actors, but developed countries need to play their part by tackling the negative impact of their policies and behaviour on the level of tension, and devoting more resources to reducing tensions and to strengthening conflict management mechanisms.

19 Investing in development, growth and job creation, including through fairer trade policies, is essential to reducing violent conflict in Africa. Studies suggest that 'doubling per capita income approximately halves the risk of rebellion' and 'each additional percentage point on the growth rate reduces the risk of rebellion by approximately one percentage point'<sup>26</sup>. High unemployment, particularly among the young, means that violence can offer economic opportunities not found elsewhere<sup>27</sup>. The large number of children orphaned as a result of violent conflict and AIDS is likely to add to this pool of disaffected youth.

20 However, development and growth that do not address inequality and exclusion will not reduce violent conflict. Inequality and exclusion are central causes of violent

conflict<sup>28</sup>. Unequal access to political offices, basic services, and economic opportunities has created tensions between communities in many African countries. Group identities, such as ethnicity or religion, come into play in the competition for power and resources<sup>29</sup> – and provide the principal dividing line for many conflicts. The DRC and Rwanda are just two examples where ethnic tensions over access to political power have resulted in major conflicts.

21 Countries with economies dependent on one or a few primary commodities, particularly high-value resources such as oil and other minerals, are often poor, have weak and less accountable governance systems<sup>30</sup>, and are more vulnerable to violent conflict and economic shocks<sup>31</sup>. Creating much greater transparency about who owns resources and who has access to them, as well as greater openness about the amount and allocation of the revenues generated, is crucial to making these countries less susceptible to violent conflict.

22 The income from the trade in 'conflict resources' has been used to finance wars. 'Conflict resources' are resources, such as oil, diamonds, timber or coltan<sup>32</sup>, the revenues from which enable warring parties to continue their activities - for example, by buying arms. Gaining access to such riches encourages coups and rebellions, and can become the reason for continuing hostilities. Sometimes, money is raised not through selling the actual resources, but by using anticipated revenues to access loans or other forms of finance<sup>33</sup>. Where the extraction and selling of natural resources form an important part of the war economy, wars tend to last longer and are more difficult to resolve<sup>34</sup> – as has been the case in, for example, Angola, Liberia, Sierra Leone, Somalia, and the DRC. This is linked to the illicit arms trade, clandestine transport systems, money laundering, and criminal networks<sup>35</sup>.

23 Tension over access to land, grazing rights, water, forests, fishing stocks, and other vital resources has also played a central role in violent conflict in Africa. Conflict between herders and cultivators over access to land creates localised violence in many parts of Africa, but can also often stretch across borders and lead to larger conflicts. For example, such disputes contributed to the current violence in Darfur, Sudan. In Côte d'Ivoire, growing local tensions over land use, linked to migration and national identity, contributed to national instability. Shared water resources can lead to tensions between countries, as in the Nile Basin (see Chapter 7) and elsewhere, and access to valuable mineral resources fuels fighting in the Great Lakes region.

24 The proliferation of small arms and other light weapons (SALW) is another factor that needs to be addressed. In parts of Africa, AK-47 Kalashnikov assault rifles can be bought for as little as US\$6<sup>36</sup>. The availability of this weaponry is not in itself a cause of instability, but has increased the duration of conflicts and made them more lethal. It is estimated that SALW are implicated in more than 300,000 deaths each year, primarily in the world's poorest countries<sup>37</sup>. SALW are also used in violent crime<sup>38</sup> and human rights violations.

25 Actual conflicts are often sparked by specific events or crises: controversial elections, political crises, coups and the actions of political leaders, or the impact of economic shocks and policies<sup>39</sup>. At times, such factors have come from neighbouring countries – for example, refugees and armed combatants from the Rwandan genocide contributed to violence in eastern DRC. The movement of arms over borders, and direct support for rebellions from neighbouring governments can also fuel internal conflicts<sup>40</sup>.

26 Governance can be a deciding factor in whether or not a country experiences violent conflict<sup>41</sup>. The state is responsible for ensuring security for its people. Many African states struggled to develop their legitimacy and capacity following independence, dealing with the legacy of colonial policies and the impact of the policies of Cold War powers. A number of the factors that drive violent conflict – such as poverty, resource dependence, and the

proliferation of small arms – have also undermined states' conflict management capacity. Numerous African countries have avoided civil war and major conflicts<sup>42</sup>, despite being subject to most of the underlying factors that drive violent conflict elsewhere. But many other African states have failed to manage conflict or provide security for their population, and many have a very low capacity to manage conflict. Some leaders and governments have been directly implicated in causing violent conflicts by neglecting the security of their people and pursuing power through violent means.

27 Building effective and accountable states that represent and respond to the needs of their population is therefore essential to improving the peaceful management of conflict. At the same time, local communities are often the primary actors in conflict management, through formal, traditional and religious dispute resolution mechanisms. The role of women is receiving increasing recognition, as is the necessity of involving other key actors, including the young. Such 'grassroots' mechanisms also need to be understood and supported.

28 All the themes addressed in this report have a key role to play in addressing the causes of conflict and building local and national capacity to manage conflict – by promoting inclusive and effective governance and a strong civil society; development, trade, growth and economic diversification; addressing exclusion through human development and participation; and action to reduce the impact of economic crises. We identify some other steps vital to conflict prevention below.

### **5.2.1 Making aid better at reducing violent conflict and promoting security**

**Recommendation: To make aid more effective at reducing conflict, all donors, the international financial institutions, and the United Nations should be required to use assessments of how to reduce the risk of violent conflict and improve human security in formulating their country and regional assistance strategies<sup>43</sup>.** This commitment should be made at the UN Millennium Review Summit in September 2005, and implementation monitored and evaluated through the DAC Peer Review and other mechanisms.

29 Development assistance offers the opportunity to address the root causes of violent conflict by promoting growth, poverty reduction, and addressing exclusion and inequalities. However, development assistance that reinforces the root causes of violent conflict, such as exclusion and inequality and poor governance, or ignores them, is likely to make matters worse. For example, aid that strengthens unaccountable leaders or governments that exclude certain ethnic or religious groups fuels the root causes of violent conflict. In pre-genocide Rwanda, development assistance reinforced ethnic tensions<sup>44</sup>. Individual projects and programmes have also caused trouble by reinforcing or exacerbating existing inequalities at local level<sup>45</sup>.

30 The problem is that development actors often fail to acknowledge that their aid policies and funds are not neutral: they have a political impact even if their objectives are economically or developmentally sound. They can also fail to understand and act upon the realities of the countries in which they operate. For example, major donors to Côte d'Ivoire, Rwanda, and Zaire in the 1990s ignored the clear signs of impending instability. Furthermore, support for conflict management and the reform of the security and justice sectors (including policing) is not generally given priority, despite evidence that security is essential to development. The absence of sufficient support to such programmes has been particularly detrimental to post-conflict peacebuilding. Without support to security sector reform and policing at the national level, there will not be the necessary basic capacity for peacekeeping.

31 Some limited steps have been taken to address these problems. Many of the organisations mentioned in the recommendation above have developed conflict assessment tools. There has also been some increase in donor support for conflict prevention and security and justice sector reform programmes<sup>46</sup>. Some development programmes have also been adapted to address conflict issues. For example, the World Bank, finding that one of its agricultural programmes was directly contributing to conflict between farmers and cattle herders in northern Nigeria, used conflict analysis to improve the second phase of its programme to include support for local conflict management mechanisms<sup>47</sup>.

32 However, progress is still very limited, and often confined to programmes in countries already experiencing conflict rather than those that might be at risk. Conflict assessments, if conducted, are often not converted into action.

33 Little more can be achieved without promoting a fundamental change in the way security and the causes of conflict are treated in development policies and programmes. Requiring better analysis of the risks of violent conflict and the current state of human security in formulating country and regional assistance strategies would ensure that these issues are given the attention they require as a matter of course. The assessments should focus on potential risks arising from inequality, for example, as well as on existing conflicts. They need to look at how to promote security from low-level violence and crime as well as averting the threat of major violent conflicts, including through increased support to more effective justice systems and better policing.

34 Increased awareness and sensitivity is needed from all donors. Some organisations – such as the UN, EU and certain bilateral donors – may have a greater role to play in providing direct support to security sector reform or conflict prevention. Others, such as the international financial institutions (IFIs), need to focus more on the impact of their core programmes rather than developing new activities. The regional dimension to many conflicts in Africa means that strategies at that level have a particular role to play. At the regional and national level, civil society and grassroots initiatives to reduce violence must be supported.

35 Member states should also support UN reforms aimed at establishing a strong working relationship between UN security and development actors, as proposed by the UNHLP<sup>48</sup>. AU/NEPAD proposals to map exclusion also provide an important entry point for improving the impact of development assistance on the causes of conflict in Africa (see Chapter 6).

## 5.2.2 Arms control

**Recommendation: As a matter of priority and no later than 2006, the international community should open negotiations on an international Arms Trade Treaty (ATT)<sup>49</sup>.**

**Recommendation: The international community must also adopt more effective and legally-binding agreements on territorial and extra-territorial arms brokering<sup>50</sup>, and common standards on monitoring and enforcement. These agreements could be integrated into a comprehensive ATT.**

36 There are a number of significant gaps in the current control agreements on small arms and light weapons (SALW) and some significant barriers to effective implementation – and many countries, companies, and brokers are exploiting these. For example, despite steps taken by the international community to limit the flow of arms to Sudan during the crisis in Darfur some countries and brokers continue to export arms to the country, including those that can be used for internal repression or war. Several of the largest manufacturers, exporters, and brokers of arms to Africa are to be found in G8 and EU countries<sup>51</sup>. This means that if there is political will in these countries, control agreements and other measures can have an impact.

37 There are signs that an increasing number of states recognise the need for more effective action to counter arms proliferation. In Africa, for example, some regional organisations are ratifying tighter or legally-binding arms control agreements<sup>52</sup>, and many African governments are trying to improve the control of weapons already in circulation in their countries. Globally, support for an ATT as an international legal framework and an avenue for coherent action against arms proliferation in countries at risk of instability is growing<sup>53</sup>. An ATT would establish an unequivocal international legal mechanism to prevent arms transfers when they are likely to be used in violent conflict, human rights abuses, terrorism, or for other serious abuses contrary to international law.

38 In 2005, a priority for both the G8 and EU should be building consensus behind the idea of an ATT and developing criteria for such a treaty. In addition to improving the control of legal transfers, an agreement on common brokering controls would be an important step forward. In 2006, the UN Small Arms Review Conference offers an important opportunity to set international guidelines on arms transfers, trafficking and brokering.

39 Arms brokers play a major role in supplying weapons to African conflict zones. A succession of UN reports into sanctions busting have highlighted the role of these middle-men. A number of countries, such as the US, Belgium, Estonia and Finland, have broad controls on brokering, including extra-territorial activities, but elsewhere controls are weak and often do not cover extra-territorial aspects.

40 There is evidence that the transport of illicit weapons to and within Africa continues by sea, air, and land<sup>54</sup>. G8 and EU governments should take the lead in encouraging stricter controls and better monitoring and enforcement of existing regulations. Transport regulations could be tightened through the creation of a registration scheme for transportation agents such as international white/blacklists of companies, or through more assertive monitoring of the rules on aircraft insurance. This will only be effective if a concerted effort is made to strengthen international information-sharing and if monitoring is approached more pro-actively.

41 Donor countries should also support African governments in strengthening national and regional capacity to monitor compliance, enforce existing rules, and deal with existing stockpiles through practical and sufficiently funded SALW programmes. Furthermore, they must actively promote the integration of SALW and mine clearance programmes into regional peacebuilding and post-conflict reconstruction efforts.

### 5.2.3 Management of natural resources

**Recommendation:** To speed up action to control the trade in natural resources that fund wars, the international community should:

- agree a common definition for 'conflict resources', for global endorsement through the United Nations;
- create a permanent Expert Panel within the UN to monitor the links between natural resource extraction and violent conflict, and the implementation of sanctions. The panel should be empowered to recommend enforcement measures to the UN Security Council.

42 In Chapter 4, we propose several ways in which governance of natural resource wealth can be strengthened, including support for the Extractive Industries Transparency Initiative (EITI) and extending transparency principles to other natural resources sectors like forestry and fisheries. These recommendations are also designed to address the role of natural resources in conflict in Africa. Therefore, **to weaken the link between natural resources and violent conflict in Africa, the international community should support the recommendations on increased transparency set out in Chapter 4.**



43 The international community has a number of instruments available to obstruct the trade in 'conflict resources' – resources being used to finance wars – including targeted sanctions against persons, products or regimes, certification schemes, and the creation of Expert Panels to investigate illicit commercial activities in conflict zones. An example of an international response to the abuse of natural resources to fuel and fund war is the Kimberley Process Certification Scheme, an initiative in which governments, industry, and NGOs joined together to stem the flow of 'conflict diamonds'<sup>55</sup>.

44 More effective action to obstruct the trade in conflict resources is hampered by the fact that there is as yet no internationally recognised definition of such resources<sup>56</sup>. This means that each commodity, and each instance of misuse, has to be dealt with separately, on an *ad hoc* basis. It took two years and several UN resolutions to establish the Kimberley Process<sup>57</sup>. A common definition of conflict resources with clear criteria for when resources become conflict resources would remove the need for separate schemes on individual commodities<sup>58</sup>. International measures designed to stop the trade in conflict resources can then kick into action as soon as there is convincing evidence that revenues from extraction of a particular resource in a specific country are being diverted towards funding violent conflict. The international community should prioritise, and fund, the process of agreeing a common definition of conflict resources. The definition could eventually be incorporated into a UN Security Council or General Assembly resolution, to maximise its international impact.

45 Another obstacle is a lack of political will to ensure that international sanctions are enforced, and to punish sanctions busters. The monitoring and enforcement of recommendations by Expert Panels is also often weak<sup>59</sup>. In recognition of these problems, the UNHLP has suggested a number of steps that the international community should take to improve the effectiveness of sanctions<sup>60</sup>. (See Annex 1 for the text of the UNHLP's recommendation on sanctions.) The international community should support the implementation of these measures to improve the efficiency of international sanctions.

46 The monitoring and enforcement of sanctions can be improved by establishing a permanent body attached to the UN Security Council with standing capacity to investigate and sanction malfeasance<sup>61</sup>. The UN Expert Panels established in recent years have faced significant bureaucratic and logistical hurdles when being set up, and only had temporary mandates<sup>62</sup>. A permanent Expert Panel would make it possible to retain the institutional knowledge essential to conduct investigations, and would be able to respond more rapidly to complex, highly-changeable conflict situations. This permanent body could also be tasked with investigating the links between natural resources and violent conflict.

#### 5.2.4 Corporate activity in conflict areas

**Recommendation: OECD countries should promote the development and full implementation of clear and comprehensive guidelines for companies operating in areas at risk of violent conflict, for incorporation into the OECD Guidelines on Multinational Enterprises.**

47 One of the negative impacts of instability is reduced foreign and domestic investment. Chapter 7 includes proposals to help counter this through a guaranteed fund for investors in conflict-affected countries.

48 However, while this investment is often desperately needed, companies that are actively engaged in such countries can also have a negative effect on peace and security. By using disreputable private security companies or co-opting armed groups to protect installations, multinationals have contributed to wider insecurity<sup>63</sup>. Another disruptive factor can be hiring disproportionate numbers of people from one socio-economic or ethnic group, or providing



'development assistance' to particular communities<sup>64</sup>. In other cases, companies are more directly involved in fuelling war by, for example, paying substantial sums to governments or warlords and helping oppressive or corrupt regimes to remain in power. Sometimes these payments go directly to financing conflict. Some firms are even involved in arms trafficking<sup>65</sup>.

49 Many such actions are in breach of international laws<sup>66</sup>. But many unhelpful acts are not actually crimes and cannot be controlled using existing channels of regulation. The regulatory gap is currently filled by various standards and codes for behaviour, such as the OECD Guidelines on Multinational Enterprises<sup>67</sup>. Although voluntary, OECD governments are obliged to promote and ensure adherence to the guidelines<sup>68</sup>. The G8 has already committed to 'encouraging the adoption of voluntary principles of corporate social responsibility by those involved in developing Africa's natural resources'<sup>69</sup>. That obligation now needs to be implemented.

50 However, existing guidelines make inadequate provision for economic activity in areas at risk of, or actively engaged in, violent conflict. Corporate guidelines need to be revised with conflict zones in mind, setting out the best current practice on security arrangements, transparency, and revenue-sharing arrangements. Such guidelines should be aimed at helping companies to avoid the potential risks to their own business of operating in such environments, and thus allow them to invest with greater confidence. They should set out the importance of using conflict analysis and risk assessments to avoid creating or worsening conflicts. The mechanisms for implementation of the OECD Guidelines through National Contact Points (NCPs) should be strengthened, for example through establishing NCPs in resource-rich African countries, as recommended by participants at the Commission's regional consultations. In addition, as highlighted in Chapter 4, shareholders can exercise their considerable influence to ensure that codes and standards are adhered to and consumers also have substantial power to persuade companies to adopt ethical policies.

51 Guidelines alone, of course, will not be enough. A body will be needed to monitor their effectiveness, with clear disincentives for non-compliance<sup>70</sup>. This could be another function for the **permanent Expert Panel within the UN Security Council** charged with overseeing various issues relating to conflict resources and their trade, which we recommend above. This body should also be charged with ensuring that companies do not circumvent guidelines by taking a deliberately narrow interpretation of them<sup>71</sup>. It could also play a role in monitoring the activities of businesses not registered in OECD countries.

### **5.3 Building regional and global capacity to prevent and resolve violent conflict: early warning, mediation and peacekeeping**

52 When local or national mechanisms fail, regional and international organisations have a key role in preventing and resolving violent conflict, and protecting the lives of civilians.

53 Throughout the world, regional integration and organisations have played a role in promoting peace and security. For example, the creation and expansion of the European Union has been seen as a force for stability in Europe. In 2001 the EU, the Organisation for Security and Co-operation in Europe (OSCE) and NATO made a variety of interventions, including preventive peacekeeping and mediation, that helped to avert an escalation in conflict in the Former Yugoslav Republic of Macedonia<sup>72</sup>.

54 Continental and regional efforts are playing an increasingly important role in building peace and security in Africa. At the continental level, the AU has created a Peace and Security Council and the protocol establishing this outlines plans to create a

continental early warning and mediation capacity, along with an African Stand-by Force (ASF) to undertake peacekeeping operations. Though these mechanisms are at an early stage of development, the AU has already shown its willingness to act by deploying a peace support operation to Darfur in Sudan, and promoting action on crises in Côte d'Ivoire, the Great Lakes, and Somalia.

55 The African regional economic communities (RECs) have also demonstrated their willingness to deal with conflicts in their regions<sup>73</sup>. ECOWAS has intervened in several regional conflicts in the past decade, including in Liberia, Sierra Leone, and Côte d'Ivoire. Its counterpart in Eastern Africa, the Inter-Governmental Authority for Development (IGAD), has led the mediation of conflicts in Sudan and Somalia. South Africa led regional efforts to negotiate a peace agreement in the DRC. In 2004, African and international actors tried to further peace in the Great Lakes through a conference in Dar es Salaam involving all the key actors.

56 Regional efforts have not always been successful, and have sometimes created problems of their own, including infringements of human rights and looting of resources<sup>74</sup>. Neighbours are often not impartial actors. Furthermore, like any multilateral institution, the AU and RECs are dependent on the will and capacity of their member states. The performance of regional efforts will depend on members' commitment to peace and security, and those organisations taking the necessary steps to ensure their activities are effective. Recent experience has shown that the speed and effectiveness of response needs to be improved.

57 Thus, such organisations do not provide an unqualified solution to violent conflict in Africa. However, part of the rationale for promoting 'African solutions', is that recent history has repeatedly demonstrated that African states and organisations are more likely to show the political will to respond to crises than non-African actors.

58 Nevertheless, the UN retains primary responsibility for and continues to play a leading role in the maintenance of international peace and security<sup>75</sup>. The UN must become more effective at playing its part in preventing violent conflict and responding when regional efforts cannot deal with the problem. It also needs to provide a clear framework for regional organisations' efforts.

59 The UN, the AU, and RECs face a number of challenges in preventing and resolving violent conflicts. The African organisations face considerable constraints in terms of infrastructure and financial and human resources to act effectively<sup>76</sup>. Mechanisms to anticipate and prevent violence are underdeveloped and lacking in investment. For the UN, taking a stronger role in prevention has presented many problems, including a lack of access to skilled staff and sound analysis.

60 How can these organisations become better at preventing and resolving violent conflict? Effective prevention of violent conflict requires the capacity to detect its emergence, and the will and means to respond. '**Early warning systems**<sup>177</sup>, risk assessments and fact-finding missions can be used to improve information about the risk of conflict. Any early warning system is most effective when based on an accurate and shared understanding of particular situations and their dynamics, and when linked to range of options for taking early action. The OSCE's High Commissioner on National Minorities has been cited as one example of an effective mechanism linking early warning with action<sup>78</sup>.

61 There is evidence that greater investment in non-military tools for intervention would yield considerable benefits in strengthening the ability of all these organisations to prevent and resolve violent conflict effectively – and reduce the demand for peacekeeping in the longer-term<sup>79</sup>. **Mediation** has proved to be a successful tool: more wars have been ended through negotiated settlement in the past 15 years than in the previous 200<sup>80</sup>.

However, mediation as a tool for conflict prevention and resolution has suffered from a relative lack of investment<sup>81</sup>. The political nature of peace processes means that sustained support is required for mediation to ensure that peace agreements are implemented as well as agreed upon. Investment in training and support is required to make the practice of mediation more strategic and professional<sup>82</sup>.

62 As the numerous current UN **peacekeeping** operations in Africa illustrate, military action is sometimes necessary to protect civilians and prevent the spread and re-emergence of hostilities. Operations require the mandate and resources necessary to meet the specific requirements of each mission<sup>83</sup>. Failure to provide these has meant that peacekeeping has failed in the past – for example, the under-resourcing and eventual withdrawal of UN forces in Rwanda contributed to the genocide. Military forces need to work on the basis of a common doctrine, effective training, and clear command structures. They need to be trained and managed to protect the rights of civilians not abuse them. Non-military aspects of peace operations also need to be effective with high quality policing and civilian crisis management capacity.

63 The process of establishing the ASF will require continued support to planning, logistics, communications and training if its planned 15,000 capacity is to be fully functioning by 2010. The G8 and EU are already active in this area, including substantial operational funding through the EU's Africa Peace Facility. There will nevertheless be a continuing need for UN peacekeeping for the foreseeable future – and for developed countries to give it effective support. The ASF will not be able to meet all Africa's peacekeeping needs even when at full force – there are currently 45,594 UN peacekeeping troops in Africa<sup>84</sup>. The development of plans for the EU Battlegroups<sup>85</sup> offers an opportunity to build on the positive examples of the UK-led intervention in Sierra Leone in 2000, and the French-led EU operation (Operation Artemis) in Eastern Congo in 2003, in support of UN operations.

64 The UN system could also be more effective at delivering **humanitarian assistance**, and bilateral donors could do more to promote better coordination of humanitarian action. Recent proposals from the UK government propose that a new humanitarian fund of US\$1 billion a year be created and be put under the control of the UN Office for the Co-ordination of Humanitarian Affairs (OCHA). This would allow the UN response to be faster, and to meet the needs of 'forgotten emergencies' – otherwise under-funded by bilateral donors. This would also enable OCHA to play a stronger role in co-ordination. Co-ordination could also be improved if the UN Secretary General were able to authorise UN Humanitarian Co-ordinators to direct different UN agencies' activities in a particular country, on the basis of a shared strategies and a single source of funding<sup>86</sup>.

65 We argue that reactive measures, such as military intervention and humanitarian assistance, need to be effective, but the priority must be to improve the capacity to prevent and achieve the long-term resolution of violent conflicts. Recent external support for the AU and RECs' conflict management capacity has focused on their capacity to undertake military interventions. The G8 Africa Action Plan agreed at Kananaskis in 2002 commits the G8 to 'providing technical and financial assistance to African countries and regional and sub-regional organisations for preventing and resolving conflict'. The Joint Africa/G8 plan established at the following year's summit at Evian, focused the agenda on peace support (peacekeeping) operations. The Sea Island summit continued this focus.

66 The continental and regional capacity to mount peace support operations, and of member states to contribute well-trained troops, needs continued support, including through support to security sector reform at the country-level. But there must be renewed effort by donors to strengthen the African and international ability to use a

range of tools to prevent and resolve violent conflict. We therefore focus our main recommendations on preventive capacity and non-military tools for resolution.

### 5.3.1 External support to the African peace and security architecture

**Recommendation:** To enable the AU to act quickly and effectively to prevent and resolve violent conflict, donors should agree to fund at least 50 per cent of the AU's Peace Fund from 2005 onwards. As far as possible, and in return for the implementation of effective financial accountability by the AU, these contributions ought to be unearmarked and provided jointly on an annual basis. Where funds are provided directly to RECs, these should also be co-ordinated and, where possible, unearmarked.

67 It is member states' responsibility to ensure that the AU and RECs have the resources needed to fulfil their role – and of the leadership of those organisations to develop and implement the mechanisms needed to promote peace and security. However, for the time being, building the capacity and financing the operations of these organisations will require substantial external resources.

68 The AU and RECs need the core capacity to detect the emergence of violent conflict and plan and manage activities to respond – including the right human resources and systems. In the case of the AU, the capacity of the Peace and Security Council, the envisaged continental early warning system (CEWS) and Panel of the Wise<sup>87</sup>, civilian elements of the ASF, and other programmes of the Peace and Security Department must be strengthened<sup>88</sup>. In the case of RECs, support to their analytical and information-gathering, mediation and operations planning capacity is required.

69 As stated in Chapter 4, the best way for donors to support this capacity is by allowing the strategies and plans of those organisations to establish the agenda for action, rather than pushing separate priorities and projects. For proposals on how to do this, see **Chapter 4's discussion of support to African continental and regional institutions.**

70 In addition to this support to core capacity, the AU and RECs need resources for conflict prevention and resolution activities, such as mediation or peace support operations. At the moment, each time the AU or RECs need funds for operations, they have to ask for new funds from international donors. This means they spend precious time dealing with different donor initiatives and administrative requirements for accounting for funds. This takes time and means that African solutions are driven by rich countries' interests, not African organisations' own priorities. More flexible support would allow them to take the lead in preventing and resolving violent conflict in Africa and to respond more rapidly to member states' needs. Donors should provide support to the AU and RECs in establishing the systems to administer and account for funds, as appropriate.

71 Donors unable to commit to unearmarked funding should ensure contributions reinforce the organisations' priorities. Any additional contributions to individual operations should also be provided in a similar manner to allow recipient organisations to manage activities effectively.

72 UN member states should also consider supporting the UNHLP's recommendation to allow regional organisations to access UN assessed contributions<sup>89</sup> when conducting UN-mandated operations.

73 At the same time, the AU and RECs must also establish and implement existing mechanisms to build on the capacity of local actors and civil society to prevent and resolve violent conflict. Many African civil society organisations are involved in practical conflict

management activities and have important networks that provide essential information for early warning. Developing 'open-source' early warning systems is one way of drawing on this knowledge and capacity<sup>90</sup>. Well-trained journalists providing accurate and impartial reporting have a role to play in early warning and mobilising responses<sup>91</sup>. The policy development capacities of African 'think tanks' and universities on peace and security need to be supported and used by the AU and RECs. See Chapter 4 for discussion of support to the media and tertiary education, and the section above on 'Making aid better at reducing conflict' on support to non-state actors in conflict management.

### 5.3.2 Clearer roles and responsibilities

**Recommendation: In 2005, the UN and regional organisations must take steps to clarify their respective roles and responsibilities, and the criteria for taking action to prevent and resolve conflict. They must also establish effective co-ordination mechanisms.**

74 2005 is a prime opportunity to take these steps as part of the follow-up to the work of the UNHLP.

75 There is currently no framework that clearly outlines an agreed division of responsibility between the UN and regional and sub-regional organisations for peace and security, and a means for coordination between them. Related to this, the criteria for activating interventions in response to crises could be more clearly defined. Clarification of roles and responsibilities, the criteria for intervention, and stronger co-ordination would make the process of mobilising interventions more efficient. This process of clarification should establish the practical means of implementing agreed criteria for humanitarian intervention and the use of force<sup>92</sup>, drawing on the principles of the 'Responsibility to Protect' human life<sup>93</sup>.

76 Effective co-ordination within the continent is also crucial. The AU is currently in the process of agreeing Memoranda of Understanding with the RECs on their respective roles. These protocols, which will also allow RECs to access greater external financing, should be finalised and implemented as a matter of priority. Donors should ensure that programmes of support to any of the organisations in question, and related activities, such as military training, reinforce the agreed division of labour and co-ordination rather than undermine it.

### 5.3.3 Strengthening the capacity of the UN to prevent and resolve violent conflict

**Recommendation: In 2005, the UN Security Council should establish the UN Peacebuilding Commission, as proposed by the United Nations High Level Panel on Threats, Challenges and Change. It should have the powers and resources required to fulfil its mandate to prevent violent conflict, and co-ordinate post-conflict reconstruction.** (See Annex 2 for the full recommendation on the Peacebuilding Commission.)

The UNHLP has proposed that a new Peacebuilding Commission (PBC) be created within the UN to promote better assistance to those countries under stress and at risk of conflict; organise prevention efforts; plan and co-ordinate post-conflict peacebuilding; and ensure sustained efforts post-conflict. The PBC would draw on relevant member states and regional organisations when considering specific countries, and include representation from IFIs, such as the World Bank. To be effective in prevention, the PBC will need access to improved UN capacity to analyse and mediate conflicts, and effective support from the Peacebuilding Support Office (see Annex 2). A more representative UN Security Council

should also improve the ability of the UN to respond to African needs. Chapter 10 recommends expansion of the UN Security Council.

77 Member states should also support reforms to the management and resourcing of UN peacekeeping operations to speed up troop deployment. This could include taking the necessary steps to implement the recommendation of the UNHLP that 'developed countries should do more to transform their existing force capacities into suitable contingents for peace operations' by placing Africa high on the priorities of the EU's Battlegroups<sup>94</sup>. The criteria for deployment of EU Battlegroups need to reinforce agreements on the division of labour between the UN and regional organisations and on the use of force. Their role with respect to African-led operations needs to be clear.

## 5.4 Building peace after the fighting stops

78 Half of all countries emerging from conflict relapse into violence within five years<sup>95</sup>. Effective post-conflict peacebuilding is essential to ensuring that peace processes hold. A number of African countries, such as the DRC, currently face the challenge of maintaining difficult peace processes and translating them into reality.

79 Post-conflict peacebuilding is a complex task, requiring long-term commitment from local and international actors<sup>96</sup>. To be successful, it must address and avoid recreating the underlying causes of violent conflict. Rigid blueprints for action are not useful, but lessons learned in one context need to be used to improve practice in others.

80 Experience to date has highlighted the many challenges and competing demands. Security must be established and this requires disarming and reintegrating ex-combatants and creating a new effective security sector accountable to civilian control. Small arms and mine clearance programmes need support, as noted in the section on arms control above. But for ex-combatants, returning refugees, and internally displaced persons to be reintegrated, war economies must be dismantled<sup>97</sup> and non-war-related opportunities need to be created. However, war destroys the infrastructure and investment that can create those opportunities, and the government often has little capacity and few resources, even to pay civil servants or the army.

81 Women, children, and youth often suffer the most during violent conflict. Women and children are often recruited, often by force, as combatants, porters or 'wives' for male combatants. The demobilisation, reintegration and counselling of child soldiers, female combatants and 'wives' and children of combatants ought to be reflected in demobilisation and reintegration programmes. The impact of sexual violence – so widespread during war – must also be addressed. The particular requirements of post-conflict environments need to be reflected in HIV and AIDS prevention and treatment programmes<sup>98</sup>.

82 Peace processes are highly political and must be actively nurtured and sustained by both local and international actors. They will not work without local ownership. They can be strengthened by contributions from a diverse range of groups, including women and youth<sup>99</sup>.

83 Reconciliation and addressing human rights violations are essential to a meaningful peace process – as is ending the impunity that could lead to future violations. Experience has shown that more aid to the local justice sector, and to reconciliation mechanisms that give a voice to those previously marginalised, is essential<sup>100</sup>. Traditional mechanisms for reconciliation can be very important<sup>101</sup>, particularly when formal capacity is weak. International and regional mechanisms, such as the International Criminal Court (ICC), also have a role to play, particularly in dealing with high-profile cases and in deterring human rights abuses. Such mechanisms need to act with due speed and sensitivity to local contexts<sup>102</sup>.

84 External actors' most effective contributions to post-conflict peacebuilding are when they are in support of local processes, and are sensitive to the context. The international community has shown much interest in the issue of post-conflict peacebuilding, and has made efforts to identify useful lessons from past experience. The challenge now is to put those lessons into practice. We focus on two priority areas: planning and co-ordination, and financing.

### 5.4.1 Planning and co-ordination

85 Co-ordination around local leadership is more important, but also more difficult, in post-conflict situations<sup>103</sup>. Where international and national actors have worked well together, such as in Mozambique, post-conflict peacebuilding has been more effective<sup>104</sup>. However, competition between international actors over leadership, mandates, and funds has often characterised external interventions in post-conflict environments<sup>105</sup>.

86 The proposed new UN Peacebuilding Commission (PBC) (see recommendation on support to the UN Peacebuilding Commission above) will have responsibility for post-conflict planning and co-ordination as well as conflict prevention. The PBC offers an opportunity to improve the implementation of best practice. The PBC should promote the use of co-ordination tools, such as joint 'needs assessments' and conflict analysis, and the World Bank's Transitional Results-based Framework<sup>106</sup>, to improve co-ordination in individual countries. It should also encourage the implementation of the 'good donorship principles' for support to post-conflict environments and other fragile states, initiated at the OECD Development Assistance Committee High Level Forum in January 2005 (see also Chapter 9).

87 The AU may also play a role in promoting co-ordination and lesson-learning around post-conflict peacebuilding in Africa in the future. AU/NEPAD has conducted some early activities towards this end. As part of their broader support to the AU (see recommendations in Chapter 4 and above), donors should support the development of this work as appropriate.

88 But no mechanism will work if key actors, such as bilateral donors and the IFIs, are not willing to contribute actively to improved co-ordination. Mechanisms, such as the DAC peer review process, should review donors' performance in post-conflict and other fragile environments.

### 5.4.2 Financing post-conflict peacebuilding

**Recommendation: Donors should fund the rapid clearance of arrears for post-conflict countries in Africa to enable early access to concessional financing from international financial institutions. In line with this report's recommendations on aid quality, they should also allocate long-term and predictable grant financing sufficient to meet the reconstruction needs of post-conflict countries.**

89 Effective post-conflict peacebuilding requires suitable financing. Rapid assistance is required to begin the reconstruction process and meet immediate needs. But there is often a problem in gaining swift access to substantial development aid as opposed to humanitarian assistance. This often leads to a delay in international support to longer-term reconstruction and development. This sometimes means that peacekeeping operations aimed at promoting immediate security are undermined because they are not accompanied by action to deal with the socio-economic reasons for continued insecurity<sup>107</sup>.

90 Post-conflict countries tend to be in arrears on debt repayments and cannot access substantial concessional financing from the IFIs until these have been cleared. In Afghanistan, bilateral donors enabled faster access to concessional financing by clearing the two countries' arrears and supporting rapid agreement of that financing. African countries could enjoy



similar treatment if bilateral donors show the will to do so. Funds for clearing these arrears could be channelled through the African Development Bank's new Post-Conflict Countries Facility, created in 2004. This concessional financing should be in the form of grants rather than loans, in line with the recommendations in Chapter 9<sup>108</sup>.

91 In order to ensure that there is sufficient short-term financing whilst arrears are cleared, the UNHLP has recommended the creation of a new permanent US\$250 million Peacebuilding Fund<sup>109</sup>. This would allow for short-term financing for recurrent expenditures of post-conflict governments as well as rehabilitation and reintegration. Expanding the World Bank's Post-Conflict Fund, which is currently only US\$30 million over three years, would serve a similar purpose. We suggest expanding it gradually: to US\$30 million each year for the next three years; and then doubling it to US\$60 million after that. Authorising the financing of disarmament and demobilisation programmes (as central aspects of almost all peacebuilding operations) from assessed peacekeeping budgets (also recommended by UNHLP) should also be considered. Donors should give sufficient support to security sector reform following conflict (see recommendations on 'Making aid more effective at reducing conflict' above). Where key actors are unable to engage in this sector, those who can should actively seek to fill any gaps.

92 Levels of external funding need to be sustained as evidence suggests that it is in the medium to long term that assistance has the most impact<sup>110</sup>. However, funding to post-conflict countries often declines after a few years as other 'emergencies' attract donors' attention. The above recommendation will only deal with early access to financing as opposed to long-term predictable financing. To ensure sustained levels of funding, in line with recommendations in Chapter 9 on aid predictability, bilateral and multilateral donors must provide long-term predictable financing to post-conflict countries.

## 5.5 Conclusion

93 Without much greater and more effective investment in preventing the emergence, spread and repetition of violent conflicts, Africa and the international community cannot hope to achieve their development goals and Africans will continue to be deprived of their basic human rights. In this chapter, we have identified a number of ways that this investment can be made. But this chapter's objective will only be achieved if it is accompanied by action to promote growth, development and good governance. Making this commitment promises not only to save lives and enable development, but also to reduce future military expenditure, humanitarian aid, peacekeeping and reconstruction costs.



# Recommendations on Peace and Security

The right to life and security is the most basic of human rights. Without increased investment in conflict prevention, Africa will not make the rapid acceleration in development that its people seek. Responsibility for resolving conflict in Africa should lie primarily with Africans, but there is much more the developed world can do to strengthen conflict prevention. Investing in development is itself an investment in peace and security.

## Tackling the causes of conflict, and building the capacity to manage them

- To make aid more effective at reducing conflict, all donors, the international financial institutions, and the United Nations should be required to use assessments of how to reduce the risk of violent conflict and improve human security in formulating their country and regional assistance strategies.
- As a matter of priority and no later than 2006, the international community should open negotiations on an international Arms Trade Treaty (ATT).
- The international community must also adopt more effective and legally-binding agreements on territorial and extra-territorial arms brokering, and common standards on monitoring and enforcement. These agreements could be integrated into a comprehensive ATT.
- To speed up action to control the trade in natural resources that fund wars, the international community should:
  - agree a common definition of 'conflict resources', for global endorsement through the United Nations;
  - create a permanent Expert Panel within the UN to monitor the links between natural resource extraction and violent conflict and the implementation of sanctions. The panel should be empowered to recommend enforcement measures to the UN Security Council.
- OECD countries should promote the development and full implementation of clear and comprehensive guidelines for companies operating in areas at risk of violent conflict, for incorporation into the OECD Guidelines on Multinational Enterprises.

## Building regional and global capacity to prevent and resolve conflict

The international community must honour existing commitments to strengthen African peacekeeping capacity, including support for training and logistics. But it must move beyond this to increase investment in more effective prevention and non-military means to resolve conflict.

- To enable the AU to act quickly and effectively to prevent and resolve violent conflict, donors should agree to fund at least 50 per cent of the AU's Peace Fund from 2005 onwards. As far as possible, and in return for the implementation of effective financial accountability by the AU, these contributions ought to be unearmarked and provided jointly on an annual basis. Where funds are provided directly to RECs, these should also be co-ordinated and, where possible, unearmarked.

- In 2005, the UN and regional organisations must take steps to clarify their respective roles and responsibilities, and the criteria for taking action to prevent and resolve conflict. They must also establish effective co-ordination mechanisms.
- In 2005, the UN Security Council should establish the UN Peacebuilding Commission, as proposed by the United Nations High Level Panel on Threats, Challenges and Change. It should have the powers and resources required to fulfil its mandate to prevent violent conflict, and co-ordinate post-conflict reconstruction.

### **Post-conflict peacebuilding**

As well as supporting the UN Peacebuilding Commission to improve the co-ordination of post-conflict peacebuilding, we recommend further measures:

- Donors should fund the rapid clearance of arrears for post-conflict countries in Africa to enable early access to concessional financing from international financial institutions. In line with this report's recommendations on aid quality, they should also allocate long-term and predictable grant financing sufficient to meet the reconstruction needs of post-conflict countries.

# Annex 1: Recommendation on the Sanctions Regime, Article VIII, A more secure world: our shared responsibility: Report of the High-level Panel on Threats, Challenges and Change.

The Security Council must ensure that sanctions are effectively implemented and enforced:

- (a) When the Security Council imposes a sanctions regime – including arms embargoes – it should routinely establish monitoring mechanisms and provide them with the necessary authority and capacity to carry out high – quality, in-depth investigations. Adequate budgetary provisions must be made to implement those mechanisms;
- (b) Security Council sanctions committees should be mandated to develop improved guidelines and reporting procedures to assist States in sanctions implementation, and to improve procedures for maintaining accurate lists of individuals and entities subject to targeted sanctions;
- (c) The Secretary-General should appoint a senior official with sufficient supporting resources to enable the Secretary-General to supply the Security Council with analysis of the best way to target sanctions and to assist in co-ordinating their implementation. This official would also assist compliance efforts; identify technical assistance needs and co-ordinate such assistance; and make recommendations on any adjustments necessary to enhance the effectiveness of sanctions;
- (d) Donors should devote more resources to strengthening the legal, administrative, and policing and border-control capacity of Member States to implement sanctions. These capacity-building measures should include efforts to improve air-traffic interdiction in zones of conflict;
- (e) The Security Council should, in instances of verified, chronic violations, impose secondary sanctions against those involved in sanctions-busting;
- (f) The Secretary-General, in consultation with the Security Council, should ensure that an appropriate auditing mechanism is in place to oversee sanctions administration.

Sanctions committees should improve procedures for providing humanitarian exemptions and routinely conduct assessments of the humanitarian impact of sanctions. The Security Council should continue to strive to mitigate the humanitarian consequences of sanctions.

Where sanctions involve lists of individuals or entities, sanctions committees should establish procedures to review the cases of those claiming to have been incorrectly placed or retained on such lists.

## Annex 2: Recommendation on the Peacebuilding Commission and Peace Support Office, Article XV, A more secure world: our shared responsibility: Report of the High-level Panel on Threats, Challenges and Change.

We recommend that the Security Council, acting under Article 29 of the Charter of the United Nations and after consultation with the Economic and Social Council, establish a Peacebuilding Commission.

The core functions of the Peacebuilding Commission should be to identify countries which are under stress and risk sliding towards State collapse; to organise, in partnership with the national Government, proactive assistance in preventing that process from developing further; to assist in the planning for transitions between conflict and post-conflict peacebuilding; and in particular to marshal and sustain the efforts of the international community in post-conflict peacebuilding over whatever period may be necessary.

While the precise composition, procedures, and reporting lines of the Peacebuilding Commission will need to be established, they should take account of the following guidelines:

- (a) The Peacebuilding Commission should be reasonably small;
- (b) It should meet in different configurations, to consider both general policy issues and country-by-country strategies;
- (c) It should be chaired for at least one year and perhaps longer by a member approved by the Security Council;
- (d) In addition to representation from the Security Council, it should include representation from the Economic and Social Council;
- (e) National representatives of the country under consideration should be invited to attend;
- (f) The Managing Director of the International Monetary Fund, the President of the World Bank and, when appropriate, heads of regional development banks should be represented at its meetings by appropriate senior officials;
- (g) Representatives of the principal donor countries and, when appropriate, the principal troop contributors should be invited to participate in its deliberations;
- (h) Representatives of regional and subregional organizations should be invited to participate in its deliberations when such organizations are actively involved in the country in question.

### Peacebuilding Support Office

A Peacebuilding Support Office should be established in the Secretariat to give the Peacebuilding Commission appropriate Secretariat support and to ensure that the Secretary-General is able to integrate system – wide peacebuilding policies and strategies, develop best practices and provide cohesive support for field operations.

The Office should comprise about 20 or more staff of different backgrounds in the United Nations system and with significant experience in peacebuilding strategy and operations. In addition to supporting the Secretary-General and the Peacebuilding Commission, the Office could also, on request, provide assistance and advice to the heads of peace operations, United Nations resident co-ordinators or national Governments – for example in developing strategies for transitional political arrangements or building new State institutions. It should submit twice-yearly early warning analyses to the Peacebuilding Commission to help it in organising its work.

The Peacebuilding Support Office should also maintain rosters of national and international experts, particularly those with experience in post-conflict cases.

The Office should have an inter-agency advisory board, headed by the Chair of the United Nations Development Group, that would ensure that the Office worked in effective co-operation with other elements of the system that provide related support.

# Chapter 6

## Leaving No-One Out: Investing in People

### Summary

Strong and sustained progress in human development requires fundamental change. That change will happen only if women and men are at the centre of the action. The world has made inspiring commitments, including Education for All and the UNGASS Declaration of Commitment on HIV and AIDS. Delivering on these commitments is fundamental to meeting the MDGs. But that should not be through yet more competing initiatives. Sustained advance requires financing that aligns behind national health and education systems and is harmonised with and complementary to other assistance. Effective use of the large new resource flows will require careful attention to mechanisms for delivering and monitoring results, and accountability to the poor communities that are being served.

Practical actions include:

- Providing the funding for all boys and girls in sub-Saharan Africa to receive free **basic education** that equips them with skills for contemporary Africa. Secondary, higher, vocational education, adult learning, and teacher training should receive appropriate emphasis within the overall education system;
- Strengthening health systems in Africa so all can obtain **basic health care**. This will involve major investment in human resources, in sexual and reproductive health services, in the development of new medicines, as well as supporting the removal of user fees. Through coherent, integrated strategies, this approach could effectively **eliminate diseases that devastate poor people**, such as tuberculosis and malaria and other parasites;
- Delivering the UNGASS Declaration of Commitment on **HIV and AIDS** urgently and as a top priority to ensure that appropriate services are available to all. Mobilising and integrating the international response behind coherent, comprehensive yet bold national strategies that take account of gender and power relationships;
- Enabling families and communities to continue to protect **orphans and vulnerable children**, through providing predictable financing streams for national social protection strategies;
- Meeting the G8 **Water Action Plan** commitments through increased funding for the Africa Water Vision to reduce by 75 per cent the number of people without access to safe water and basic sanitation by 2015, monitoring progress in 2007.

Of all the issues addressed in this Report, the health, education and inclusion challenges are the most demanding in terms of resources. We recommend that these resources be provided in predictable, long-term streams, with a carefully sequenced steady increase in step with improvements in African governments' capacity to deliver effective services.

1 Human security encompasses men and women's ambition to be free from want, fear, illness and ignorance and to have the freedom to take control of their lives<sup>1</sup>. To achieve this, human development seeks to expand the opportunities available to individuals to help them shape their own lives and fulfil their potential with dignity. Human development has intrinsic value. People have a right to it. But it is also a public good – that is, it has value to others. And it is essential for the economic and political development of society as a whole. Health, education and social protection are productive investments not only for the individual but also in the basic capital of a state – its people and particularly the children and youth that are its future. Social justice demands that we work together to deliver these basic rights.

2 The challenges are immense. If we continue as we are, the Millennium Development Goals (MDGs) for halving poverty, for universal primary education and for the elimination of avoidable infant deaths in sub-Saharan Africa will not be delivered in 2015 but between 100 and 150 years late<sup>2</sup>. In 2004, AIDS killed over two million people in sub-Saharan Africa with more than three million infected in that year alone<sup>3</sup>. We are not yet through the peak of the crisis. Three out of four of the young people living with HIV and AIDS are women in sub-Saharan Africa. Meanwhile, health and education systems have been run down through years of neglect and there are huge deficits in doctors, nurses and teachers. Staying healthy is particularly expensive for the poor, with a third of their monthly expenditure going on malaria treatment alone<sup>4</sup>.

3 Real progress in human development requires fundamental change. The world has signed up to exciting commitments, including the MDGs, Education for All in 2000 and the Declaration of Commitment on HIV and AIDS at the United Nations General Assembly in 2001. And they must be delivered. But not through new initiatives. Rather, through financing that supports coherent country-led strategies for strengthening health and education systems. Donor funding has been short term, volatile and largely tied to using people and products from donor countries. Single-issue initiatives have led to the setting up of parallel systems in competition with each other, further undermining government capacity. In fragile states, the co-ordination of assistance is even more essential. Whilst we call for substantial new financing, we also call for it to be predictable and over longer time frames. We call for these investments to be increased in a carefully sequenced way, to ensure that government capacity to absorb funding and deliver outcomes is progressively built up. Above all, we call for investment that comes in behind national commitments to improve services, supporting African leadership and based on genuine partnerships between governments, civil society and the international community.

4 But there is much more to do, and African governments must continue to demonstrate their commitment to deliver quality services. Unless the incentives work to improve outcomes – better education, greater health – increased funding will have little impact. Making services accountable to communities either through their participation in design and delivery or through politicians is essential to improve the quality of those services and the effectiveness of investments. And through disaggregated monitoring, governments must also manage for results, to further increase effectiveness and ensure the inclusion of the poorest people in services. But the allocation of resources must be in response to need and the potential to deliver returns – not just based on past performance or previous aid relationships. Chapter 4 covers issues of accountability, transparency and the capacity to deliver services in more detail.

5 This chapter sets out the bold and urgent actions required by the international community to effect real change – along with the reforms that must be undertaken by African governments. First are the actions to support Africa's new vision for education, with skills that are relevant and provision that is inclusive for girls and boys. The case is made for ensuring support is equitably balanced across the sector, from primary to

secondary and higher, including adult learning, vocational and teacher training. Actions to strengthen higher education are covered in Chapter 4. Second are the actions required to strengthen health systems and eliminate preventable diseases. An essential part of this is the harmonisation and integration of initiatives behind coherent national strategies. Third are the actions to ensure three out of four households have water and sanitation by 2015, through integrating efforts behind single national strategies and behind single river basin strategies. The urgent response required for HIV and AIDS is highlighted throughout the report, but fourth are the core actions to ensure that the campaign against HIV and AIDS is coherent and comprehensive. This requires donors to work together behind African leadership to ensure full support for locally owned strategies appropriate to gender and power relationships. Fifth are the additional actions that are required to tackle exclusion and vulnerability – interrupting these interlocking cycles to enable families and communities to protect orphans and vulnerable children. These interventions should also reduce inequalities between groups, and so lessen one of the sources of political instability and conflict. Again, achieving greater inclusion is also explored in other chapters. Protecting the rights of women and children and recognising the far-reaching impacts of the HIV and AIDS pandemic is the foundation of this analysis.

## 6.1 Education and skills for contemporary Africa

6 Education is a fundamental human right<sup>5</sup>. It is a means to the fulfilment of an individual. It is the transfer of values from one generation to the next. It is also critical for economic growth and healthy populations. Countries which are not on track to meet the gender parity MDG target in education (and nearly half of those are in Africa) will have child mortality rates one and a half per cent worse than countries with better education systems, and they will also have two and a half per cent more underweight children<sup>6</sup>. A World Bank study in seventeen sub-Saharan African countries shows a clear correlation between education and lower HIV and AIDS infection rates<sup>7</sup>. Education should clearly play a powerful role in preventing HIV and AIDS. Providing girls with one extra year of education has been estimated to boost their eventual wages by ten to 20 per cent<sup>8</sup>. All these benefits increase as children, and especially girls, complete more years of schooling and progress to higher levels of education<sup>9</sup>. The case for education is overwhelming – both in terms of fulfilling human security and as an investment with very high returns.

7 Education for All (EFA) is the title of one of the most exciting pledges that the international community has ever made<sup>10</sup>. At the World Education Forum in Dakar, Senegal in 2000, the assembled nations committed themselves to providing free and compulsory primary education for every child in the world and halving adult literacy by 2015<sup>11</sup>. Gender disparities in primary and secondary education were to be eliminated by 2005<sup>12</sup>. The quality of education was to be improved, as was early childcare and learning and life skills for young people. Countries from across the world also pledged 'no countries seriously committed to education for all will be thwarted in their achievement of this goal by lack of resources'<sup>13</sup>. In 2002, the 'Fast Track Initiative' (FTI)<sup>14</sup> was launched as one way to mobilise the resources to make good this promise. FTI is a partnership of donors and low-income countries that have made mutual commitments to accelerate progress in primary education. It provides a practical framework, not only for harmonising donor funds in support of African governments' own education strategies, but for agreeing what constitutes success in the delivery of results.

### 6.1.1 Time to deliver

8 Six areas require priority action by the international community in strong partnership with African governments and non-state actors: planning and balancing resources better



across the whole education sector – from primary to secondary and higher, and including adult and vocational education; delivering on existing aid commitments with better international leadership and co-ordination of aid; gender equality; teacher training and retention; community involvement and developing curricula relevant for today's challenges.

### **Investing resources better across the whole education sector**

9 Progress in primary education is being made in some of the poorest countries such as Burkina Faso, Benin and Eritrea<sup>15</sup>; with overall numbers of children in primary school in sub-Saharan Africa increasing by 48 per cent between 1990 and 2001<sup>16</sup>. But attaining universal enrolment has been patchy (see Figure 6.1). Rural areas tend to fare worst<sup>17</sup> and particular groups, such as girls, disabled children and orphans are marginalized. Certain strategies are very successful, such as removing primary school user fees, which can massively increase enrolment. But careful planning is needed to maintain the quality of education to ensure these gains lead to better educational outcomes. There has been greatest success where political commitment has been strong<sup>18</sup>, highlighting the importance of African leadership in driving change.

10 But more must be done to get the 40 million children currently out of school in sub-Saharan Africa into education<sup>19</sup>. Support must target countries at high risk of not achieving universal primary completion and gender equality by 2015 – in Niger, Burkina Faso and Angola the expected number of years of formal schooling is less than five years on average, and over 60 per cent of children drop out of school in Chad, Equatorial Guinea, Guinea Bissau, Madagascar and Rwanda<sup>20</sup>.

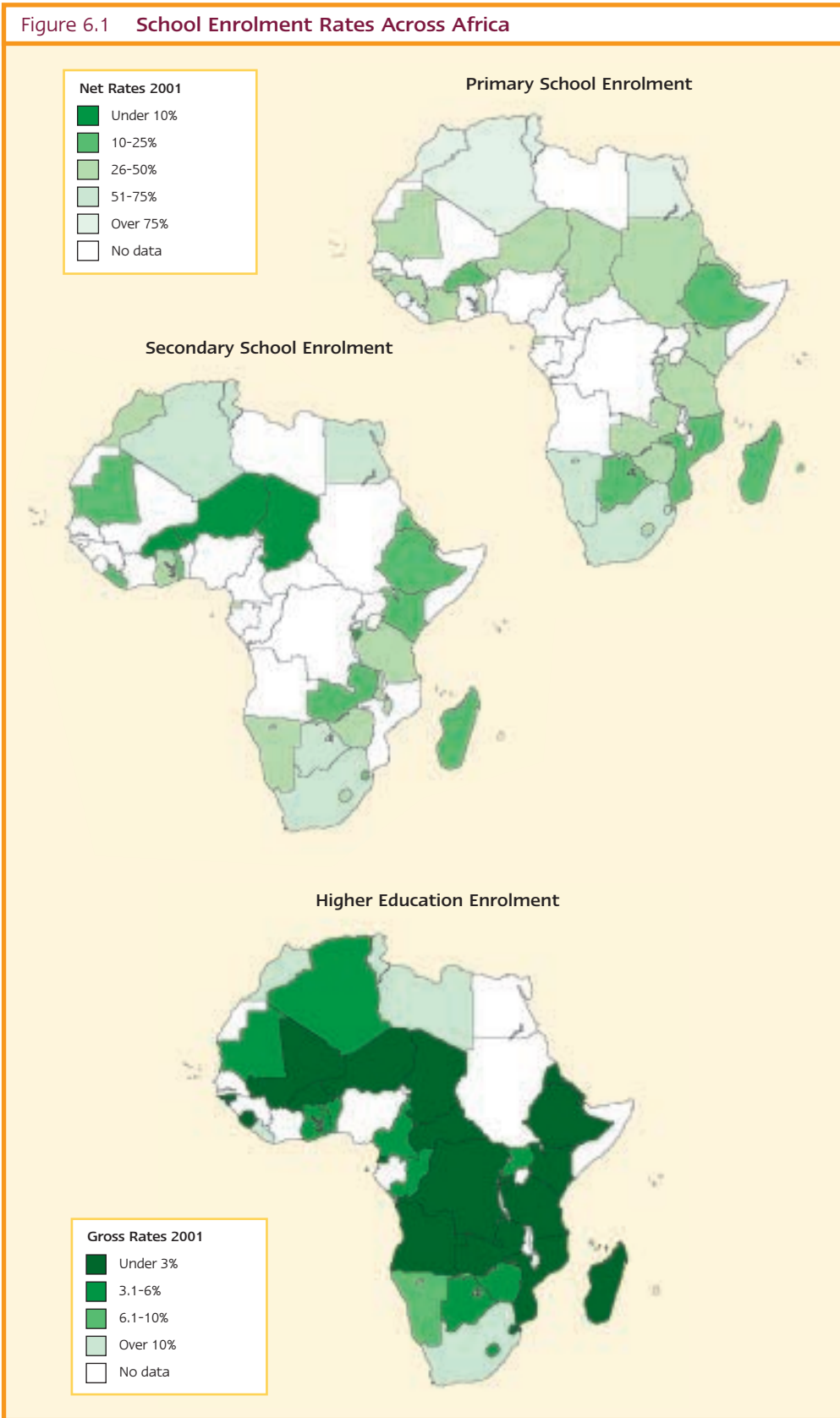
11 Where more children are completing primary school, there is also more demand for secondary or vocational education. Competition for places in under-funded secondary schools then becomes an issue<sup>21</sup>. Places tend to be skewed towards males and the better-off in urban areas<sup>22</sup>. Enrolment in higher education is also very low – most countries have gross enrolment rates below ten per cent, and in several cases less than one per cent, including Chad, Guinea-Bissau and Tanzania. Again, places are generally taken up by a privileged few. Expanding access to higher education is important not only for providing the skills necessary in governments and other professions, including the vital supply of teachers and administrators crucial for delivering education at all levels, but also for accountability throughout society. Beyond formal education, lifelong learning for adults plays an important role in developing societies' values and skills. And educating mothers through adult literacy programmes has been linked with improving their children's attendance and performance at school<sup>23</sup>.

12 Therefore, in addition to the priority of basic education, which has the most equitable outcomes, broader education must not be neglected-as recognised in the EFA agenda and during our consultations<sup>24</sup>. We support the shift from the conventional concept of 'primary' to that of 'basic' education – defined in AU/NEPAD's education strategy as a nine-year cycle of primary and lower secondary<sup>25</sup>. Upper secondary, vocational and higher education appropriate to the demand for skills in-country are then the logical extension of basic education. All elements are part of a complementary and mutually reinforcing system. This requires planning based on country priorities that sequences reforms accordingly and allocates resources for the whole education sector.

### **Delivering existing commitments, better international leadership and co-ordination of aid**

13 Despite the bold rhetoric of the EFA declaration, the international community is not coming up with the money to match its promises. Aid has only increased modestly. Just US\$1.2 billion was given by donors in 2001-2 to fund primary education globally, with a

Figure 6.1 School Enrolment Rates Across Africa



Source: Global Monitoring Report, UNESCO, 2004.

mere third of this to sub-Saharan Africa<sup>26</sup>. Estimates for funding universal primary education in Africa vary greatly. The World Bank estimates that for 33 sub-Saharan African countries, an additional US\$1.9 billion is required<sup>27</sup>, but this figure does not take into account the needs of the other 15 countries, nor the more comprehensive interventions to improve quality that we are recommending below – including education that is 'girl friendly', that systematically addresses HIV and AIDS, that invests in teachers, that develops relevant curricula and that covers the agenda beyond primary. For secondary alone, a conservative estimate is US\$2.3 billion annually<sup>28</sup>.

14 We estimate, therefore, that the shortfall to achieve an equitable balance in education provision in sub-Saharan Africa is US\$7 to 8 billion each year, but that this should be provided in a steady measured increase, focusing on getting the basic structure right first, such as sufficient teachers and equitable provision, and governments capacity to deliver effective outcomes. **Recommendation: Donors and African governments should meet their commitments to Education for All, ensuring that every child in Africa goes to school. Donors should provide an additional US\$7 to 8 billion per year as African governments develop comprehensive national plans to deliver quality education.** This would bring spending on the education sector to an average six per cent of GDP in each country<sup>29</sup>. This would be enough to strengthen education systems comprehensively and enable all children to have a basic education with half progressing to secondary. Part of this funding will go through the FTI – US\$1.4 billion is required this year for countries that have approved plans ready for immediate implementation. Funds will need to increase incrementally as the expansion of the FTI to other sub-Saharan Africa countries is rapidly pushed through<sup>30</sup>, as agreed at the EFA annual meeting in 2004, and supported by the UN Millennium Project. Some of these countries have plans waiting endorsement, but others need additional support, especially countries with insufficient donor funding<sup>31</sup>, countries affected by conflict and those countries with large education disparities but which lack good governance structures<sup>32</sup>. The right to education should be recognised even in fragile states. The balance of overall funding will be through national budgets.

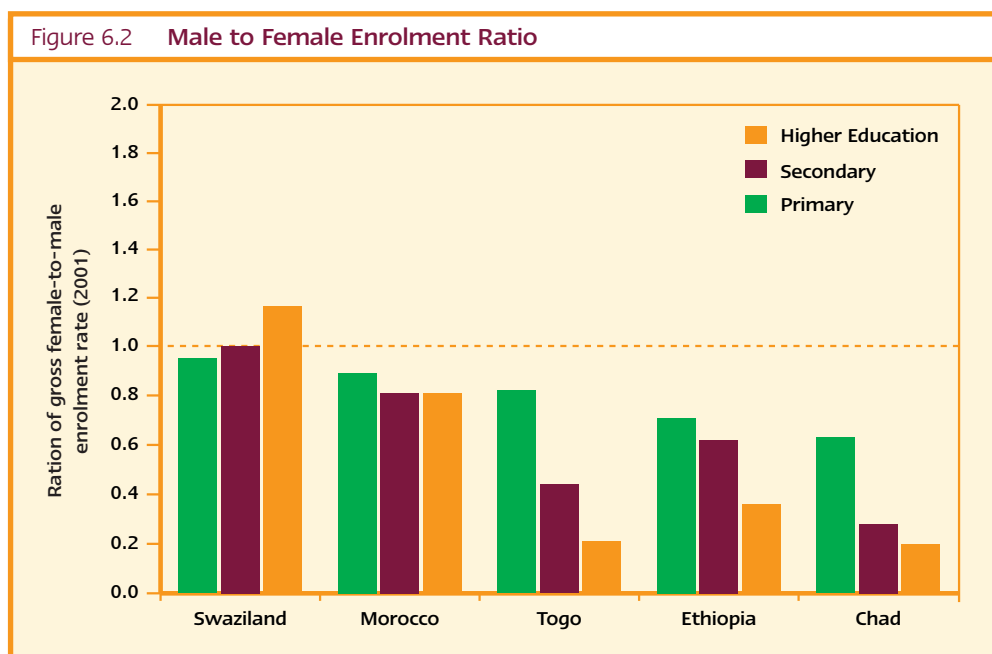
15 This will only be effective with strong leadership and action by African governments. Funding will therefore be dependent on comprehensive education plans to ensure investment is equitably balanced and sequenced across the sector. The emphasis given to each part of the sector plan will depend upon the current situation in individual countries<sup>33</sup>. The plans should have a focus on managing for results – capturing information to evaluate what works and allocating resources appropriately. The plans would be linked to poverty reduction strategies, would prioritise basic education, and ensure a strong focus on girls throughout. Governments must also build mechanisms to increase accountability to communities, discussed further below.

16 Likewise, strong action by donors is crucial. Donor funding must align with national priorities<sup>34</sup> through partnerships with African governments. Investments must also be flexible to be more effective. As discussed in Chapter 4, donors must provide predictable and sustainable funding to allow governments to invest in long-term plans and recurrent costs such as teachers' salaries.

17 But that is still not enough. To make the investment effective, the international community must improve its co-ordination under stronger leadership from UNESCO and the FTI to avoid duplication of activities through clearer delineation of roles. The FTI should also increase African representation in its working groups and planning and review processes.

### **Gender equality**

18 Education is as much a right for girls as it is for boys. And the impacts of education on development discussed earlier are stronger when girls are educated. In particular, girls' education provides an opportunity to reduce the spread of HIV and AIDS – it was considered



Enrolment ratios above 1 indicate greater female than male enrolment.  
Enrolment ratios below 1 indicate greater male than female enrolment.

Sources: Global Monitoring Report, UNESCO, 2004.

a key factor in reducing prevalence rates in Uganda<sup>35</sup>. Educating girls is also an indirect investment in the education of the following generation<sup>36</sup>. So it is unacceptable that there are still big gender disparities in many countries in sub Saharan Africa (see Figure 6.2). This area was a particular concern in our consultations and was also highlighted by the UN Millennium Project<sup>37</sup>. Despite the rapid and significant progress being made in some countries that shows what is possible<sup>38</sup>, the first time-bound MDG target – eliminating gender disparities by 2005 in primary and secondary – will clearly be missed.

19 There are both African and international initiatives to address this<sup>39</sup> which seek to scale up and share what works. Extra investment is needed for girls in order to achieve equality in educational outcomes. Interventions showing significant impacts include reducing financial obstacles such as school fees, offering free school meals or cash incentives for attendance<sup>40</sup> and making the school environment 'girl friendly'. This requires tackling sexual abuse by teachers which is alarmingly common<sup>41</sup>, providing toilets, and more female teachers. Niger is introducing an innovative strategy to get more girls into school with the objective of ensuring that there will be a school and a well in every village, the distance girls travel to school and the burden of household chores such as water-collection will be reduced. Men who marry underage girls will be required by law to pay a fine to government to compensate for the State's investment in her education<sup>42</sup>.

**Recommendation: In their national plans African governments must identify measures to get girls as well as boys into school with proper allocation of resources. Donors should meet these additional costs.**

20 **Recommendation: African governments should undertake to remove school fees for basic education, and donors should fund this until countries can afford these costs themselves.** This should be part of a coherent strategy for education, properly sequenced so the quality of education is not reduced with the massive increase in enrolment likely. The impacts will benefit all children and will be particularly strong for girls – in Uganda when user fees were removed, enrolment of the poorest girls doubled.

## Teacher training and retention

21 **Recommendation: To ensure quality education is delivered, African governments must invest in teacher training, retention of staff and professional development. Teacher-child ratios should be brought under 1:40 in basic education. Donors should commit to predictable long-term funding to enable this.** The push to achieve EFA will certainly never succeed without substantial investment in teacher recruitment, training, retention and professional development to combat the present shortage due to losses to the HIV pandemic or leaving the profession. Ghana has just a quarter of the teachers it requires, and Lesotho merely a fifth<sup>43</sup>. In Namibia, only 40 per cent of teachers in rural schools in the north have teacher qualifications compared to 92 per cent in the capital<sup>44</sup>. Although there is little information on the impact of HIV and AIDS on teachers, what evidence does exist gives cause for concern – in Zambia mortality among teachers is reported to be 70 per cent higher than in the general population, although deaths are not attributed officially as AIDS related<sup>45</sup>. Expanding enrolment must be properly sequenced with more teachers otherwise trends towards even bigger classes and falling quality of education will increase further.

22 To boost the teaching force, the number of people progressing to and attaining higher education must increase. This means recognising the importance of investing in African higher education institutes. It is from here that the skills and knowledge needed to deliver good education outcomes will be developed. But because of the scale of the problem, radical and pragmatic measures are also urgently required. These are already being undertaken in some places where governments have taken strong leadership in tackling the problem.

23 In Burkina Faso, the teacher shortage has been declared a 'national emergency' and people are being contracted from across the public sector to fill the immediate gap whilst recruitment and training of teachers to a higher standard is undertaken<sup>46</sup>. In Malawi, the introduction of free primary education in 1994 has led to an unprecedented demand for new teachers that has also required a radical response. A teacher training scheme has been set up that replaces conventional college-based training with a four month college programme followed by 20 months of in-service training. As a result, high volumes of teachers have been trained at relatively low costs – US\$590 per two-year trained teacher compared to an average US\$2,100 for a three-year college trained teacher in Ghana<sup>47</sup>. The quality of teachers from such programmes may be lower initially, but results demonstrate that, utilising training on the job and distance-learning programmes, innovation is possible. Direct investment into continuous teacher development and incentives is also critical, and is explored further in Chapter 4.

## Community involvement

24 Non-state actors, including faith-based organisations, civil society, the private sector and communities, have historically provided much education in Africa. Some of these are excellent, but others (often aiming at those who cannot afford the fees common in state schools) are without adequate state regulation and are of a low quality<sup>48</sup>. Essential to improving the quality of education is accountability to communities and their involvement in monitoring and managing teaching and learning processes. In Malawi, parents, teachers, children and community leaders have worked together to improve local schools. Absenteeism – of both teachers and pupils – has dropped. So has sexual harassment of girl pupils by teachers, and the amount of work parents give children, particularly during school hours<sup>49</sup>. In order for national plans to deliver quality education, it is essential that mechanisms are developed to ensure the participation of communities and non-state actors in partnership with the State.

## Developing curricula relevant to Africa

25 Another area that was raised repeatedly in our consultations across Africa was the lack of relevant curricula. Education systems are often based on inherited curriculum content that is limited to conventional academic subjects. Little weight tends to be given to teaching values or skills appropriate to a future society with the ability to compete in a changing global economy or cope with the current HIV pandemic. These are required if the quality of education is to be raised and completion rates improved.

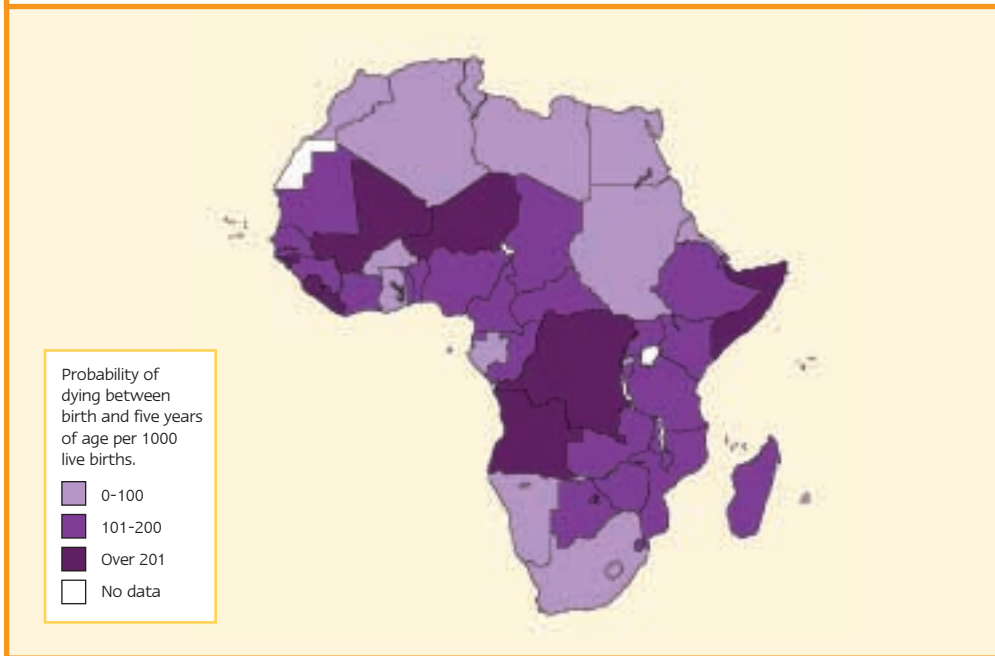
26 Improving employability includes critical income-earning skills such as vocational, entrepreneurial, agricultural and computer skills as well as creative and analytical skills<sup>50</sup> to provide flexible competencies to match changing market demands<sup>51</sup> (see Chapter 7). But educational content is not just about delivering economic advancement: the rights and responsibilities of citizenship should also be taught. So should values of inclusion and challenges to stigma and discrimination. Conflict resolution and reconciliation techniques should be taught in education programmes, as in UNICEF's post-conflict back-to-school initiative in Liberia<sup>52</sup>. Curricula should be designed with regional histories, cultures and languages in mind.

27 Life skills that address issues like HIV and AIDS and challenge gender inequalities in a clear and comprehensive way are vital. Children should learn early about risky behaviours and build assertive communication skills. The younger generation could be provided with a window of opportunity to combat the pandemic and tackle stigma if given the right knowledge that is personalised to make it directly relevant to children's lives. In Uganda, Kenya and Senegal, HIV and AIDS education has already been integrated into the core curriculum. Health education, including hygiene, significantly reduces illness. And relevant education will also provide psychological support to orphans and vulnerable children experiencing grief and difficult circumstances at home. Relevant education is important for post-school learning too – vocational, life and citizenship skills are essential whatever the age<sup>53</sup>.

28 Making the curriculum more relevant will require African-led changes in teacher training and methods with an emphasis on active learning and problem solving, along with the provision of quality support materials including textbooks and internet-based resources. This is a tall order that requires investment to prevent overburdening the education system. There have been many successes in innovative education content and delivery that could be built upon. The Somalia Distance Education Literacy Programme (SOMDEL) launched in 2002 has reached over 10,000 people (70 per cent of whom are female) in remote rural areas affected by conflict through using radio assisted learning. The programme teaches basic literacy skills as well as covering community health, human rights and environmental issues<sup>54</sup>.

29 **Recommendation: Education should provide relevant skills for contemporary Africa. Donors should fund regional networks to support African governments in the development of more appropriate curricula at all levels.** Funding should be used to set up and support regional networks for joint learning and effective sharing of materials in collaboration with the Association for Development of Education in Africa, the Association of Africa Universities, teacher training institutes and UNESCO. This would cost around US\$2 billion over the next five years<sup>55</sup>. Curricula development should be led by existing initiatives and expertise in Africa, but draw upon other networks including education institutions<sup>56</sup> in Africa and elsewhere<sup>57</sup>. With local knowledge and understanding, these networks can also suitably adapt international support materials<sup>58</sup> to be made freely accessible to developing countries, explore innovative means of delivery such as the internet or radio, and adjust materials for use in local languages. AU/NEPAD's 'e-learning' pilot scheme should be

Figure 6.3 Under-5 Mortality Rates (2003)



Source: UNICEF, 2005. The state of the world's children: Childhood Under Threat

supported in this area<sup>59</sup>. The regional networks should also support African governments in developing systems for the accreditation and quality assurance of education, vocational and teacher training.

## 6.2 Eliminating preventable diseases

30 Like education, access to basic health care has long been viewed as a fundamental human right. The number of men, women and children who suffer and who die from preventable disease in Africa is simply unacceptable. One in six children die before their fifth birthday (see Figure 6.3). This compares to one in 150 in high-income countries<sup>60</sup>. Low cost interventions, such as vitamin A supplements, insecticide-treated nets, and oral rehydration could avert two thirds of these deaths. One and a half million children die each year of vaccine-preventable illnesses<sup>61</sup>. Polio could be eradicated on the continent in 2005. Many could live healthier lives through fortifying basic foods with micronutrient supplements, such as iron, vitamin A and zinc<sup>62</sup>. And in the past two decades we have seen the emergence of a massive, and yet preventable, threat to African society: HIV and AIDS.

31 Disease burden and economic growth are intimately related. Healthy people are more productive and more likely to be able to take care of their children, benefit from education, and contribute to society. For example, deworming children has been shown to reduce pupil absenteeism in schools by one quarter<sup>63</sup>. The income levels of countries with severe malaria are a third of equivalent countries without malaria and grow 1.3 per cent less per person annually. In Kenya this would have translated as 50 per cent greater incomes since 1970<sup>64</sup>.

32 Why is so little of this being done? Because massive under-investment, along with unsystematic responses to single diseases and unpredictable financing, have left health care delivery at the point of collapse. Poor people are the worst affected. Health centres may be too far away, or have no staff. Many health workers do not have transport to reach patients<sup>65</sup>. Often the available funds are not equitably shared between services reaching the poorest and the better off<sup>66</sup>.



33 To tackle this, investment is urgently required to repair and develop health systems, and African leaders have set out their priorities in a strategy under AU/NEPAD<sup>67</sup>. With a concerted effort to strengthen health systems and with the right resources, many diseases<sup>68</sup> could be effectively eliminated in ten years and the rise of TB and HIV infections stabilised. But all this requires strengthening health care delivery through ensuring adequate financing behind African-led strategies in a predictable stream, addressing the human resource crisis, developing information and management systems, and having a predictable and affordable supply of medicines and other physical infrastructure. It also requires bringing coherence to the ways donors and global health partnerships (the international coalitions to tackle a single disease or group of diseases) support health care in countries, integrating initiatives, working in partnership with African governments and investing in prevention. This means harmonising behind national strategies, for example through common funding and monitoring arrangements.

34 The following section looks first at the signs of progress; second at the four priorities to rebuild healthcare; third at the need for increased and better quality funding to support countries in strengthening their health care systems; and finally at integrating disease-specific initiatives.

### 6.2.1 What is working?

#### African political commitment

35 African political commitment to health is growing and must be supported. In 2001, African Heads of State committed themselves to allocating 15 per cent of national budgets to health<sup>69</sup>. Between 2001 and 2002, 45 per cent of African countries increased their health budgets with DRC, the Gambia, Mauritania, Senegal and Burkina Faso having made impressive increases to reach over ten per cent of government spending<sup>70</sup>. However, as discussed in more detail below, even meeting this target does not generate enough resources for health care at present, as economies are small and tax revenues are low – an average of 2.5 per cent of GDP is spent on public health provision in sub-Saharan Africa, compared to a global average of 5.4 per cent<sup>71</sup>. It is, however, also essential that as funding is increased it is used to make service delivery better through a commitment to improve the management and the accountability of services to citizens – directly and through politicians. Both of these benefits come about through monitoring progress and evaluating the effectiveness of increased resources<sup>72</sup>.

36 African Heads of State and Ministers of Health adopted the AU/NEPAD Health Strategy in 2003 which sets out the priorities for the foundations of a robust health system and subjects the performance of individual countries and the Regional Economic Communities to monitoring under the Peer Review process (which is discussed in Chapter 4). The World Health Organization (WHO) has welcomed this and will work in partnership with AU/NEPAD to provide technical support. Continuing strong leadership will be vital for the implementation of this African vision for strong health systems.

#### Community involvement

37 Programmes that give people more power to improve local health care have shown real promise. Non-governmental organisations have been at the forefront of developing communities' involvement. However, impact has been greatest where they integrate with public health systems. Broadcasting and other methods of public communications (see Chapter 4) can play a major role in preventing illness as well as increasing demand for health care, such as encouraging young people to seek sexual and reproductive health care. Examples of this include the Zambian Youth Forum that campaigned on reproductive health issues and

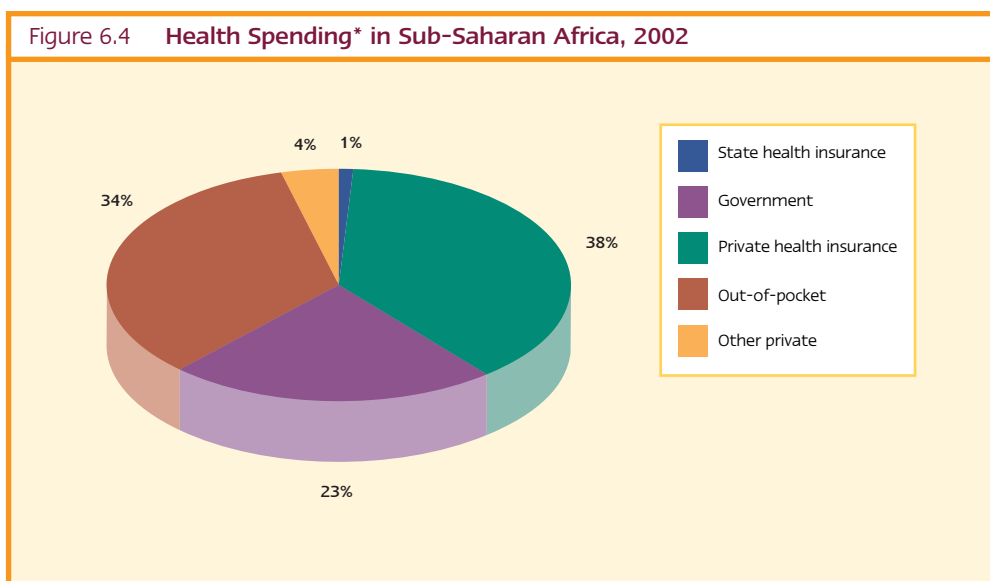


gained a place on the National AIDS Council<sup>73</sup>, and the expansion in FM radio in Uganda, which has been linked to the falling prevalence of HIV<sup>74</sup>. African governments should enable community involvement to improve health outcomes as well as increase accountability.

## 6.2.2 Priorities for delivering health care

38 An important element of building health systems will be that they are capable of innovation to improve effectiveness in treatment and care<sup>75</sup>. More analysis is still needed on how to best support health system development. New strategies will be required in response to the evolving patterns of infectious disease<sup>76</sup>. Radical action is necessary, not least because the AIDS crisis in some parts of Africa is raising demand for health services while at the same time a cause of illness and death amongst the trained workers who provide them. There are four priorities for strengthening health systems as a whole:

### Funding health systems



\*Total spending was US\$21,600 million, of which US\$1,456 million came from external sources. Average annual exchange rates have been used in estimating values in US\$.

Source: National Health Accounts Unit, Department of Health System Financing, WHO

39 Health care delivery systems are in danger of disintegrating beyond repair. In high-income countries, spending on health is more than US\$2,000 per person per year<sup>77</sup>. By contrast, in Africa in 2001, health spending averaged US\$13 to US\$21 per person<sup>78</sup>. Of this only 38 per cent was government spending<sup>79</sup> (see Figure 6.4). 34 per cent was 'out of pocket' spending when ill. These costs are a cause of poverty for some people. The Commission for Macroeconomics and Health recommended that spending should rise to US\$34 per person by 2007 and to US\$38 by 2015 in sub-Saharan Africa, and mostly from a greater government spend<sup>80</sup>. This is the minimum amount to deliver basic treatment and care for the major communicable diseases (HIV and AIDS, TB and malaria), and early childhood and maternal illnesses. This significant increase is required due to the past failure to prioritise the health sector or to expand spending with population increases. African countries must continue to prioritise health spending and increase levels over the long term. If growth continues at current levels and the tax base broadens, governments will be able to afford this level of spend in the long term<sup>81</sup>. Until that point, donors should provide much greater levels of financing through partnerships with governments, in a

Figure 6.5 Human Resources for Health in Africa

Figure 6.5a Africa's share of world disease burden

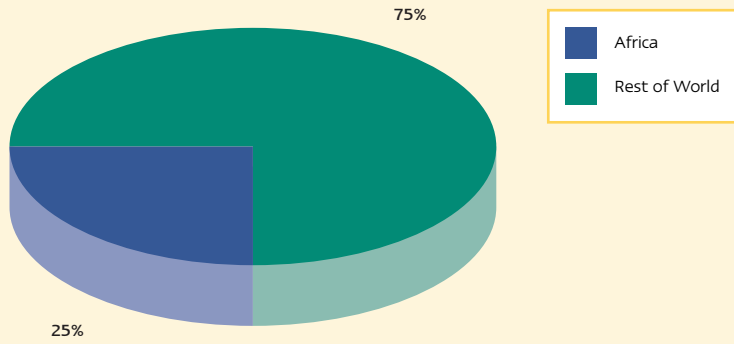


Figure 6.5b Africa's share of world's health workforce

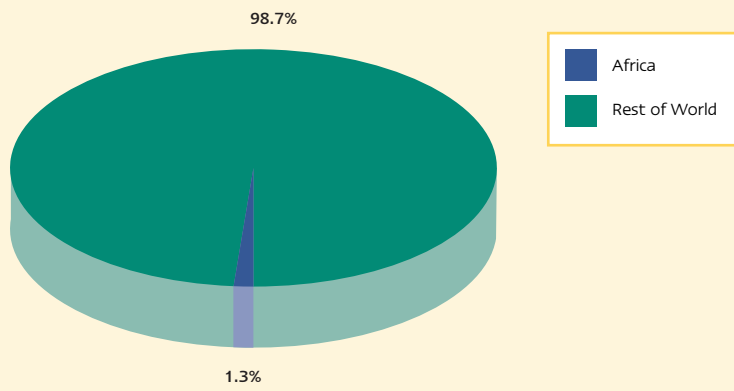
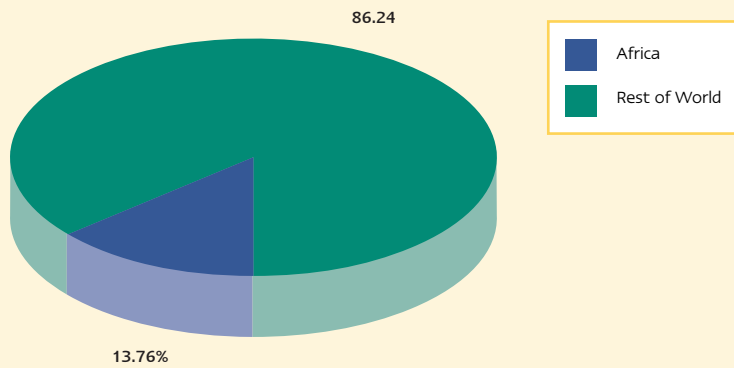


Figure 6.5c Africa's share of world's population



Source: WHO, 2004

predictable stream, to repair crumbling health systems. Programmes to combat specific diseases should also integrate at the national level and work behind national priorities.

### **The health worker crisis**

40 Training and retaining doctors, nurses and other health service personnel have been much neglected in health system development<sup>82</sup> (see Figure 6.5). This is not just a shortage in numbers; evidence shows that the quality and productivity of health workers has worsened over time. Many of the best have been attracted abroad – the AU has estimated that US\$500 million a year in health training investment is lost by low-income countries<sup>83</sup>. Some of those who have remained in Africa have moved out of the public and health sectors. As well as the pull of better jobs elsewhere, they have been subject to factors making their jobs less attractive<sup>84</sup>. They find working conditions constantly more onerous and often feel they do not have the training, back-up, drugs or equipment they require to work properly. They feel that the wages on offer do not reflect their skills or commitment. Small wonder they get frustrated and leave. There are other constraints too. AIDS places an additional burden on health providers at home and on the job. Many countries have outdated rules that prevent lower-qualified staff from performing tasks they can undertake perfectly safely.

### **Building information and management systems**

41 Africa's ability to measure the health of poor people is extremely limited, as is its ability to measure what is working. The development of health information and management systems is central to increasing accountability to communities. It is key to improving outcomes (managing for development results), but has been distorted by donors' separate monitoring of the various unco-ordinated programmes to combat particular diseases<sup>85</sup>. Furthermore, priorities set by donors and multilateral organisations are not always relevant to local realities. It is essential that initiatives are driven by African priorities. So too is the increasing the capacity to use information technology which can reduce health care costs by 30 to 40 per cent<sup>86</sup>. In Tanzania, a community participation project that included a focus on managing for results with better information systems has led to a 46 per cent drop in child mortality<sup>87</sup>. The development of monitoring processes, such as through the ESTHER initiative (Ensemble pour une Solidarité Thérapeutique Hospitalière En Réseau) to prevent the build up of viral resistance is also important. As many health care services are delivered outside the public sector and paid for privately, African governments require reliable information to improve co-ordination and set standards for partnerships in delivering health care. This is also required to develop capacity in the main sources of health care: medicine shops and traditional healers. The use of traditional medicines is very common, but little is known about their efficacy and more must be done in order to understand and regulate these<sup>88</sup>.

### **Strengthening Infrastructure: essential medicines and commodities**

42 Ensuring reliable access to and proper use of safe, effective and affordable diagnostic tests, medicines, vaccines, and reproductive health goods, such as condoms, are essential to health and a key function of effective health systems. It is estimated that nearly half of people in Africa do not have regular access to essential medicines<sup>89</sup>. Effective distribution and management of health goods are essential to improving access and must be part of health system strengthening. Price can be another key barrier to access. Improving procurement systems, including greater availability of pricing information and reference to regularly updated essential drug lists, can have a valuable impact. Many people access drugs through the private sector. Strategies are therefore needed to limit excessive price mark-ups and to promote good prescribing practices. More support is needed to increase the capacity of national regulatory authorities to monitor and ensure the use of quality medicines.

43 That is not all. Many of the health challenges faced by Africa lack effective diagnostic, preventive or treatment options. Africa accounts for just 1.1 per cent of the total value of the global pharmaceuticals market.<sup>90</sup> This has meant that large pharmaceutical companies have not prioritised African health needs. More public funding is needed to support research and development for diseases that affect Africa. The Commission for Macroeconomics and Health has estimated that an additional US\$3 billion is required globally for research and development for diseases that affect poor people.<sup>91</sup> This should include building African capacity through engaging directly with the African research community, for example through the Product Research and Development for Africa (PRADA) Partnership. And it should be part of a broader investment strategy in Africa's science, engineering and technology capacity (see Chapter 4). Pharmaceutical companies have key skills and expertise and should be partners in these efforts. Incentives are required to increase private sector investment in the diseases that affect Africa. Tax incentives can reduce the cost of research to companies, while advance purchase commitments to buy future priority products, once they have been developed, can guarantee a market and return on research investment.<sup>92</sup> African governments should increase domestic funding for research and development to at least two per cent of domestic budgets<sup>93</sup>.

**Recommendation: Donors should develop incentives for research and development in health that meet Africa's needs. They must set up advance purchase agreements for medicines. They should increase direct funding of research led by Africa, co-ordinated by the Regional Economic Communities and in collaboration with the global health partnerships.**<sup>94</sup> Priorities include the development of microbicides, TB drugs and diagnostics, AIDS and malaria vaccines, as well as incentives for the production of long-lasting insecticide-treated nets, paediatric anti-retroviral (ARV) and malaria drugs. Not to be forgotten are drugs for parasitic diseases.

44 Patents are important for innovation because they protect the investment in research and development. But Africa can't afford high medicine prices. The World Trade Organisation's (WTO) TRIPS agreement<sup>95</sup> contains important flexibilities that can be used to access medicines, including through the use of a compulsory license<sup>96</sup> allowing local producers to make patent protected medicines. In August 2003, the WTO agreed to allow countries without the ability to make these medicines in their own country to obtain a licence for them to be made in another country that has the capacity<sup>97</sup>. Although its impact is not yet known, this should be an important way of maintaining access to cheaper drugs. However, critics argue that getting the licence is complicated and time consuming. This therefore requires further analysis. We recommend that the G8 and other donors should support developing countries to make effective use of TRIPS and its flexibilities as appropriate, through financial, technical and political support. In addition, developed countries should commit not to lobby bilaterally for measures that go beyond TRIPS.

45 Given the small markets and limited capacity of African countries, a 'regional approach' could address the challenges of implementing TRIPS flexibilities and other barriers to increasing access to medicines. We recommend that donors should support efforts by developing countries to operate through regional groupings to enhance capacity for drug regulation, manufacturing and management of intellectual property.

46 Pharmaceutical companies can play an important role in increasing access to medicines in developing countries. In the long term, viable markets must be developed in developing countries. Pharmaceutical companies can support this by developing differential pricing offers for drugs, whereby medicines are sold close to the cost of manufacture with limited conditions attached<sup>98</sup>. We recommend that the G8 and other donors should support efforts to develop a global framework to facilitate voluntary, widespread, sustainable and predictable differential pricing by pharmaceutical companies.

### 6.2.3 Doing business differently

47 The overall approach of donors is one of the causes of poor management in health. Some donors fund generics, others branded drugs, so countries have to set up prescribing rules for two drugs in parallel. Many Global Health Partnerships require a different delivery approach and a different co-ordinating body. Yet if they worked together they could play a major role in the harmonisation of donor funding. Some donors prefer not to fund governments, so African countries see aid agencies and NGOs setting up parallel systems, attracting the best staff away from the government system. There are no hard incentives for the international community to work together to agree rapid strategic solutions, so progress is slow. This costs lives on the ground. Donors cause other problems too. They fail to live up to their funding pledges – for example disbursing only US\$11 billion of the US\$17 billion committed in 2000 for sexual and reproductive health services. And they provide funds over short timeframes, which inhibit governments from making long-term commitments because they know they would be unable to take on the running costs if funding dried up after one or two years. Despite countries' need for technical support in health, donors continually fail to provide the World Health Organization with the predictable core funding which would enable them to do this job effectively. They require an additional US\$150 million a year.

48 This Commission asserts that unless good healthcare delivery systems are in place, the problems of HIV and AIDS and other serious diseases such as TB and malaria cannot be addressed adequately. The international community should support integrated and co-ordinated mechanisms for financing African-led strategies to improve their health systems. Three key recommendations follow from this:

49 **Recommendation: First, African governments should invest in rebuilding systems to deliver public health services. Donors should provide US\$7 billion over five years for this, behind the Health Strategy and Initial Programme of Action, of the African Union's NEPAD programme.** Emerging from African leadership, the Initial Programme of Action is a short-term, catalytic plan to build and renovate the foundations for health systems in a coherent manner. It is setting out to tackle the years of neglect and conflicting approaches described previously. Similar to the education Fast Track Initiative, which is based upon principles of partnership between donors and low-income countries, mutual accountability and managing for results, the approach will be to support governments' priorities to strengthen health systems and harmonise aid, increasing the effective use of future resources. The Initial Programme of Action will be co-ordinated through a formal partnership between AU/NEPAD and the World Health Organization (WHO) and will seek to bring other agencies together to integrate and harmonise approaches. The partnership will develop guidelines for global health partnerships and donors to ensure they fit into the national healthcare priorities fixed by African states with joint monitoring. AU/NEPAD estimate building these foundations will cost in the region of US\$7 billion over five years. 85 per cent of the funds would be channelled directly to countries, with the remaining funds used for regional and continental projects, such as an 'African Health Systems Observatory' to monitor progress, share best practice, and develop priorities for health systems research. Some countries' health system strengthening programmes are already being supported donors directly. The AU/NEPAD-WHO partnership will focus on those countries with insufficient donor support, including through a mechanism for disbursing funds quickly. The governments' reciprocal commitment will be to increase their funding levels, to achieve health care management objectives and to develop mechanisms to work with non-state providers, including funding and regulation. In fragile states, a unified and coherent approach would also be developed. This partnership will also work with the health units of

the regional economic communities (RECs) to develop African regional capacity for drug regulation and manufacturing, for bulk buying of medicines and to manage TRIPs at regional levels.

**50 Recommendation: Second, donors and African governments should urgently invest in training and retention to ensure there are an additional one million health workers by 2015.** African governments and donors should ensure the health workforce in sub-Saharan Africa is tripled through the training and retention of an additional one million workers over a decade<sup>99</sup>. This will require sustained leadership on both parts<sup>100</sup>. By African governments, in the development of radical investment programmes and by donors to provide predictable funding in the region of US\$0.5 billion in 2006, rising to about US\$6 billion each year by 2011<sup>101</sup>. The WHO should lead at the global level to coordinate and ensure effective action by all stakeholders. This requires strong collaboration to ensure technical assistance in this effort is harmonised with overall health system strengthening (as described in the above recommendation) and broader public sector reform. Where countries have human resource plans in place already, these should be identified and receive immediate donor support through existing financing mechanisms, including budget support and global health partnerships. But strategies must also be formed for fragile states, recognising the challenges of the lack of accountability of service providers to the service users because of ethnic, religious, linguistic and gender schisms. Human resource plans should also consider improvements to the salaries and conditions of government health and management staff to ensure that staff are retained and have access to professional development. AU/NEPAD is exploring innovative approaches to training and accreditation of health workers<sup>102</sup>. Regional and country strategies must recognise the major service delivery role of the private and not-for-profit sectors, and plan for the natural movement of health workers in and out of the public sector. Finally, donor countries must increase transparency about where their health workers were trained. But rather than restrict hiring, they should be challenged to reciprocate through supporting training and retention in the countries of origin.

51 These two funding proposals will strengthen the foundations of health care and ensure additional funding results in powerful acceleration towards the health-related MDGs.

**52 Recommendation: Third, African governments should meet their commitment to allocate 15 per cent of annual budgets to health and put in place strategies for the effective delivery of health services. Donors should increase their funding to support these strategies, making up the shortfall, from an additional US\$10 billion annually immediately and rising to US\$20 billion annually by 2015. The assistance should go predominantly through national budgets.** This level of funding would ensure delivery of a basic health package including TB and malaria treatment and prevention, as well as interventions for maternal health and childhood disease. The Commission for Macroeconomics and Health provides the most recent and thorough estimate of the funding shortfall in health for sub-Saharan Africa. This was US\$18.7 billion per year by 2007 rising to US\$27.5 billion per year by 2015. Here however, we have had to make some changes. The costs of HIV and AIDS are covered separately, and so this figure was reduced accordingly. In addition to this there are a number of costs not covered by their estimates – these include the full cost of more health workers, incentives for research, scaling up sexual and reproductive health services and TB treatment in light of the HIV and AIDS pandemic, recent developments in malaria treatment and prevention, scaling up the prevention of parasitic disease and micronutrient deficiencies as well as the funding gap for vaccines. Each of these additional interventions have costs in the region of one to three per cent of the total needed – except health workers – which as outlined above costs from one to six billion US dollars. The total investment therefore recommended for health is an additional US\$20 billion each year – which again excludes the costs of responding to the HIV and AIDS crisis.

53 This financing should be additional to and incremental with progress in the health systems strengthening work outlined above. This would ensure that strong foundations for basic health systems are built with mortality and illness significantly reduced by 2015. It is clear that to reach these levels, Finance and Health ministries will have to make long-term commitments to increase current expenditures<sup>103</sup>. To do this they should be able to rely on long-term commitments from donors and recognition from the IMF and World Bank in their discussions of overall national budgets. As government systems and capacity are developed, a coherent, costed strategy would be the basis of financing and of managing for development results – to increase system efficiency and therefore outcomes. Where governments are prepared to put in place measures to increase transparency and accountability, we call for 90 per cent of this additional funding to be provided through direct budgetary support, including from global health partnerships.

### **Additional health system interventions**

54 **Recommendation: Where African governments remove fees for basic healthcare as part of reform, donors should make a long-term commitment to fill the financing gap until countries can take on these costs.** Many governments in Africa have sought to develop collective insurance schemes for health, to reduce the financial burden on the state. Getting the institutional arrangements for these so that they are equitable has proved very challenging. User fees have been another approach to sharing costs. Ensuring the waiver of fees for the poorest has proved unsuccessful. To reduce the disease burden in the long run, it is important to reach the entire population. This Commission therefore recommends that governments abolish user fees. Removing the fees paid by patients in Uganda increased clinic use by 120 per cent and reduced health expenditure for the poorest quintile by 13 per cent, who also captured 50 per cent of the benefit<sup>104</sup>. In addition, through the massive numbers taking up services, a momentum for change and reform is developed<sup>105</sup>. But in order for it to be possible for African governments to do so, donors will have to guarantee long-term and predictable compensatory funding until a country is able to take on these additional costs themselves. The removal of user fees in health would cost US\$8.9 million in Zambia, US\$32.8 million in Kenya and US\$31.3 million in Tanzania. This would cover the existing service. However, with no user fees, demand would also increase and the health system would need more resources, especially for direct transfers to clinics.

55 **Recommendation: Donors should fully fund the Global Fund to Fight AIDS, Tuberculosis and Malaria.** Donors should channel a sufficient proportion of the new health funding through the Global Fund to Fight AIDS, Tuberculosis and Malaria to meet the shortfall in resources at the 2005 financing round as well as meet the full US\$3.2 billion needed in 2007<sup>106</sup>. The Global Fund estimate that by 2010, they will be able to effectively channel US\$7-8 billion of health funding, 60 per cent of which would be for Africa. In addition, sufficient core funding to the WHO is critical for it to be able to provide technical assistance for African countries. Donors should move from the present replenishment system for the Global Fund whereby countries volunteer erratic amounts, to a more predictable system, within the next three years. The Global Fund should increase African representation on its review panel for project proposals and include public health expertise to improve the health systems work it has begun to engage in. It should also disburse funds more quickly, and lengthen its grant cycle to ten years. Lastly, the Global Fund, and other major donors including the World Bank must make clear to potential recipients that it will fund recurrent expenditure to support the strengthening of health systems, like health workers' salaries. The Global Fund should ensure that it provides appropriate funding arrangements to improve health care in fragile states.



56 **Recommendation: Donors should commit to full funding of the Global Alliance for Vaccines and Immunisation (GAVI) through the International Finance Facility for Immunisation<sup>107</sup>. They should also meet their commitments to the Polio Eradication Initiative to eradicate polio in 2005.** A large, upfront investment for Africa of US\$5 million a year for ten years through GAVI will have immediate impact on child mortality, spur country-led health system strengthening as well as accelerate the development of vaccines required in the future. This level of investment would save the lives of over five million children, and potentially prevent more than three million adults deaths<sup>108</sup>. The Polio Eradication Initiative estimates a gap of US\$0.6 billion over four years to eradicate polio in 2005 and prevent re-emergence.

57 We recommend that relief and development agencies should ensure reliable centres for health services in conflict and emergency situations, including sexual and reproductive health services. The right to health should be recognised even in fragile states. War and conflict create the conditions for sexual violence and the spread of HIV and AIDS<sup>109</sup> (see Chapter 5).

### 6.2.4 Integrating responses to the burden of disease

58 The specific problems associated with the control and effective eradication of any single disease have been the rationale for the setting up of a number of global health initiatives, each one setting up new co-ordinating, funding and monitoring mechanisms. As described above, this has led to new problems as these parallel systems compete. The challenge to integrate single disease responses into health systems is considered below.

#### HIV and AIDS

59 The urgent requirement for well-functioning health services is most apparent in the context of the HIV and AIDS crisis. The impact of the AIDS pandemic is huge and it affects Africa disproportionately. Such is the magnitude of the crisis that we deal with it more fully in a separate section of this chapter (section 6.4). But in terms of the medical response, it is essential that treatment and care for HIV and AIDS is provided through health systems and not yet another parallel approach that will undermine health care in Africa<sup>110</sup>. Bridging the current separation of HIV and AIDS services from both TB and sexual and reproductive health services is covered below.

#### Tuberculosis

60 Some 70 per cent of the 14 million people worldwide who have both HIV and TB (which are often linked) are in Africa, where the TB epidemic is rising by four per cent a year and is now the most common opportunistic infection of people living with HIV. The integration of care for HIV and AIDS and TB would reduce the impact of TB among people living with HIV and AIDS and reduce the impact of HIV among TB patients<sup>109</sup>. African governments must ensure collaborative TB and HIV programmes. **Recommendation: the World Health Organization's 'Two diseases, one patient' strategy should be supported to provide integrated TB and HIV care.** The allocation of US\$0.25 billion each year for collaborative TB and HIV programmes would ensure that all patients with TB are offered VCT and all HIV patients are tested and treated for TB.

#### Malaria

61 Despite some progress, malaria continues to pose a major challenge, with 400-500 million episodes in children each year in Africa. Malaria is the biggest fatal parasitic disease among African children despite being largely preventable and almost entirely treatable. Malaria-related costs and lost GDP deprive Africa of US\$12 billion each year<sup>112</sup>. New



technologies, such as artemisinin-based drugs, have a proven and powerful impact. A big push to control the carriers of diseases such as malaria is both cost-effective and sustainable, particularly if provision of bednets could be integrated with the delivery of other public health programmes such as de-worming<sup>113</sup>, vaccinations and improving water drainage. Supporting Africa's ability to develop and produce its own long-lasting insecticide treated bed-nets would both increase supply and strengthen local economies. The Global Fund's guarantee of purchase of bed nets in Tanzania encouraged external investment in bed net manufacturing. Roll Back Malaria estimates that US\$1.8 billion each year is needed for treatment and prevention amongst pregnant women and children and these costs are included in the overall financing figure above. **Recommendation: African governments and donors should work together to ensure that every pregnant mother and every child has a long lasting insecticide treated net and is provided with effective malaria drugs.**

### **Other diseases of poverty**

62 Other parasitic diseases cause widespread suffering, reduce economic productivity, and keep children from school<sup>114</sup>. Schistosomiasis, an intestinal parasite, affects 164 million people in Africa<sup>115</sup>. Many parasitic diseases, which largely affect poor people, have simple, cost-effective solutions (schistosomiasis can be treated with medicines which cost 25 US cents per child<sup>116</sup>) but remain untreated. Likewise, reducing vitamin and mineral deficiency, through supplements and fortification, has minimal cost with big impacts. Both the Copenhagen Consensus (2004) and the UN Millennium Project (2005) identified this as a cost effective quick win. Vitamin A supplementation alone can lower child mortality by 23 per cent<sup>117</sup>. African governments and global health partnerships must ensure that the treatment and prevention of parasitic diseases and micronutrient supplementation are integrated into public health campaigns. For example, de-worming should be expanded from schools to reach pre-school children and pregnant women through regular treatment, improved water supply and sanitation and vector control strategies.

**Recommendation: Donors should ensure that there is adequate funding for the treatment and prevention of parasitic diseases and micronutrient deficiency. Governments and global health partnerships should ensure that this is integrated into public health campaigns by 2006.** Costs for the chemotherapy programmes required for the estimated five hundred million people infected with one or more of five parasitic diseases<sup>118</sup> would be US\$0.2 billion each year, for five years. This would then drop to \$0.1 billion a year to maintain the control. Micronutrient fortification would cost donors US\$0.2 billion a year for comprehensive protection against vitamin and mineral deficiency for up to 380 million African women and children at risk – including through support to school feeding programmes<sup>119</sup>.

### **Sexual and reproductive health and rights**

63 Rates of maternal mortality in Africa are the highest in the world. More than 250,000 women die each year from complications in pregnancy or childbirth compared to 1,500 in Europe<sup>120</sup>. Up to 19 per cent of these deaths are attributable to unsafe abortion<sup>121</sup>, which further increases the risk of HIV infection. In the coming decade, Africa will have its largest number of childbearing women. Without greater access to contraception, antenatal care and skilled attendance at delivery, safe abortion and post-abortion care, the numbers of deaths will accelerate. Despite this, less than half of the international financial commitments made on sexual and reproductive health rights in Cairo in 1994 have been implemented<sup>120</sup>. This has serious consequences for improving public health and addressing the HIV and AIDS epidemic effectively.

64 African governments must prioritise sexual and reproductive health within their vision of health systems<sup>123</sup> and integrate HIV and AIDS treatment and care into it as set out in the UN's New York Call to Commitment<sup>124</sup>. Some donors are effectively unable to fund these services. Those that can should compensate and complement their funding so sexual and reproductive health services are delivered, with HIV and AIDS treatment and care integrated into them. This would include increasing the availability of condoms, attended births, emergency obstetric care and referral systems, and improving safe abortion services<sup>125</sup>. Further details about the HIV and AIDS response required are given in section 6.4. The UN Population Fund (UNFPA) should work closely with AU/NEPAD and WHO to ensure that a clear sexual and reproductive health strategy is integral to the AU/NEPAD Initial Programme of Action. **Recommendation: African governments must show strong leadership in promoting women's and men's right to sexual and reproductive health.** Governments must be accountable for ending the stigma and gender discrimination associated with sexual and reproductive services. This will require working in partnership with civil society, particularly religious and traditional leaders. **Recommendation: Donors should do all they can to enable universal access to sexual and reproductive health services.** UNFPA estimates that an additional US\$300 million a year is required to make up the gap in reproductive health commodity requirements. Additional costs related to HIV prevention are covered in 6.3 below.

### 6.3 Expanding water supply and sanitation

65 Access to water is a right and a basic need. The UN's Committee on Economic, Social and Cultural Rights recently stated 'the human right to water is indispensable for leading a life in human dignity. It is a pre-requisite for the realisation of other human rights'<sup>126</sup>. It is consistently among the top three or four priorities of poor people in Africa, especially women and girls who shoulder primary responsibility for securing and managing domestic water.

66 International commitments include the MDG to halve the proportion of people without sustainable access to safe drinking water and basic sanitation by 2015. Water and sanitation were also highlighted in the urgent call for slum upgrading at the World Summit on Sustainable Development (WSSD) in 2002. African leaders have also developed the more ambitious Africa Water Vision, which seeks a 75 per cent reduction in the proportion of people lacking access to safe water and sanitation by 2015 and by 95 per cent by 2025. However, despite the emphasis put on water at the Kyoto Forum and the Evian G8 Summit, at current levels of commitment the MDG water target will not be met until 2050 nor the sanitation target by 2100 at the earliest.

67 This is because the water sector, which includes sanitation, has been neglected in the past, compared to other sectors. It has received weak or uneven treatment in PRSPs<sup>127</sup>. Responsibility for water is often split between different government ministries, making it difficult to take a coherent, strategic approach to the sector. Aid to the sector has fallen by 25 per cent since 1996 and is poorly targeted<sup>128</sup>. The costs of neglect, which are cumulative, are now better understood than in the past.

68 A safe, convenient water supply and improved sanitation is a pre-requisite for improving the productivity and quality of life of poor people. Water is vital to achieving the other MDGs, such as poverty reduction, education and gender equality. The Copenhagen Consensus (2004) ranked water supply and sanitation projects among the top ten most cost-effective ways to advance global welfare. For example, providing appropriate toilet facilities in schools is a pre-condition for the education of girls in some countries; carrying water long distances and waiting at water sources wastes energy and time, particularly of women and children, at the expense of family activities, education

and productive work; and irrigation is and will increasingly be a pre-requisite to increasing food production to feed the growing African population<sup>129</sup>.

69 The health benefits of access to clean water and proper sanitation and attention to wastewater treatment are also clear. Unsafe water and poor sanitation causes intestinal worms, cholera, blindness from trachoma and diarrhoea (see section 6.3). Washing hands can reduce diarrhoea cases by 40 per cent, improving both health and educational outcomes<sup>130</sup>. Without clean water, anti-retroviral treatment for people living with HIV and AIDS will be less effective. The WHO estimates the total annual economic benefit of meeting the water supply and sanitation MDG in Africa to be US\$22 billion<sup>131</sup>.

70 Effective water resource management is essential if water supply and sanitation services are to be sustained in Africa. Extreme climate variability coupled with growing water demand, deteriorating water quality and trans-boundary problems posed by most of Africa's river basins present daunting challenges. At the same time in most African cities over 50 per cent of the water supply is wasted or unaccounted for. A comprehensive, strategic approach to the water sector is therefore required, based around integrated water resource management. This requires regional co-operation over trans-boundary water resources; improved water governance to manage competing needs; and increased and more effective management of investments in water infrastructure (see also Chapter 7). These were all addressed in the G8 Water Action Plan agreed at Evian in 2003.

71 River basin organisations in Africa require donor support. The Nile Basin Initiative (NBI) is a good example of co-operation in development of water resources in a river basin that is also catalysing wider regional integration. It aims to reduce poverty through the equitable use of the Nile's water. Benefits include environmental conservation, flood prevention, increased food production, energy availability and reduced political tension. We call for more donor support to Africa's river basin organisations. We recommend that donors fund the basin-wide capacity building and the preparation of first round investment programmes in the Nile Basin Initiative. An initial US\$60 million is required. Through this funding, economic integration is supported, with potentially important returns in terms of political stability.

72 2005 is the start of the Second UN Water Decade. A renewed commitment to both water supply and sanitation is required. **Recommendation: Starting in 2005, donors must reverse the decline in aid for water supply and sanitation, to enable African governments to achieve the Africa Water Vision commitment to reduce by 75 per cent the proportion of people without access to safe water and sanitation by 2015. The G8 should report back by 2007 on implementation of the G8 Water Action Plan agreed in 2003.** Financing for the water sector forms part of the US\$10 billion infrastructure funding proposed in Chapter 7. The forthcoming pledging conference in Paris in March 2005 provides an immediate opportunity where donors could demonstrate their commitment to the sector. But it is important to ensure that Governments and donors work together to harmonise future delivery and focusing on those countries most in need. Funds and capacity to deliver are currently being spread across a variety of different water initiatives<sup>132</sup>, which increases transaction costs. The African Ministers Council on Water (AMCOW) is best placed to co-ordinate this and could formally report on progress to the Africa Partners Forum. To improve effectiveness at the country level, donors must take a sector wide approach and strengthen overall sector co-ordination. This should be done through budget support for one national strategy, with one co-ordinating body and one monitoring framework<sup>133</sup>. African governments must ensure there is multi-stakeholder participation, drawing in representation from rural and urban sectors, poor people, women and men, different levels and departments of government, civil society and the private sector. They should also ensure that the water supply and sanitation strategy is fully integrated with broader human development and environmental policies at the country-level with funding allocated to maximise results.

## 6.4 HIV and AIDS: delivering on the promises

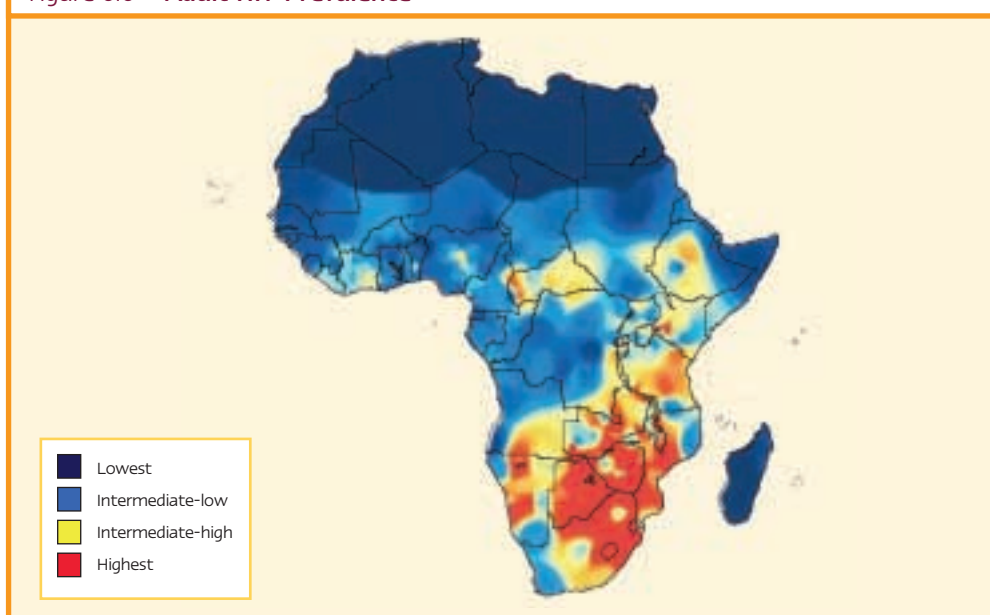
73 Unlike any other epidemic in history, AIDS poses one of the most brutal attacks the world has witnessed. More devastating than the plague and the Spanish Flu, AIDS is unique in that victims are not random. The epidemic has a young woman's face, and nowhere is this truer than in Africa where nearly 60 per cent of people living with HIV and AIDS are women.

74 Only one in seven of the world's people live in Africa yet they account for two thirds of all people living with HIV and AIDS (see Figure 6.6). And despite efforts to date, prevalence rates are still rising overall. With over three million infections just last year, we have yet to see the pandemic peak. Tragic though the effects of the 2004 South Asian Tsunami were, last year's AIDS death toll in sub-Saharan Africa was equal to the fatalities of eight South Asian tsunamis combined (2.3 million). Last year the number of children who died of AIDS in Africa topped half a million and the number of AIDS orphans is growing: the projections for 2010 suggest that the numbers will more than double from its 2000 levels to nearly 19 million. The African AIDS orphan crisis augments the already great numbers of orphans on the continent and generates additional burdens for households and grandparents in particular.

75 The silence that surrounds this disease because it can be transmitted through sex and because of the delayed onset of the AIDS symptoms, creates unique challenges (see figure 6.7). AIDS is an exceptional threat in Africa today, and demands an unprecedented global response.

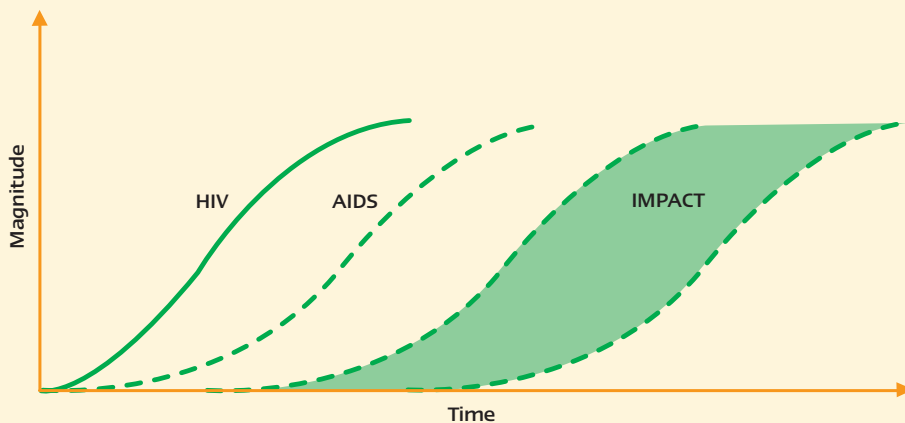
76 African leadership across the continent has been variable, but in some countries leaders have inspired radical action. Senegal's progressive response has arrested the spread of the virus before it grew exponentially into an epidemic. Pivotal factors to Senegal's success story were a stable political system, the early legislation of commercial sex work, and the government's commitment to keeping prevalence rates below two per cent. It is believed that Uganda bought a spreading and generalised epidemic under control with strong leadership, comprehensive education with a clear message (ABC - Abstain or delay sex, Be faithful, use a Condom) and making the response part of everyone's day to day business.

Figure 6.6 Adult HIV Prevalence



Source: Adapted from ESRI/CIA

Figure 6.7 AIDS Morbidity, Mortality and Impact Lag Behind HIV Infection



The unique nature of the HIV and AIDS epidemic lies in its time delays. Years go by between HIV infection and onset of AIDS symptoms, meanwhile more people become HIV infected with the virus. Consequently more people progress to AIDS. The full impact of this epidemic spans well into the future as families, economies, coping mechanisms, cultures and systems are affected in ways that are hard to predict and quantify today.

Source: Adapted from Barnett and Whiteside, 2002

77 Pan-African leadership has emerged with the AU's Presidential Initiative, AIDS Watch Africa and the AU/NEPAD Fight against AIDS Strategy. Both have support from African Heads of State and are likely to be elements of a single strategy under the Africa Union. With the support and advocacy of the AU and the other pan-African organisations, there is great potential for African political and religious leaders to define and lead the exceptional response needed to arrest the spread of this devastating virus – breaking the silence and removing the stigma.

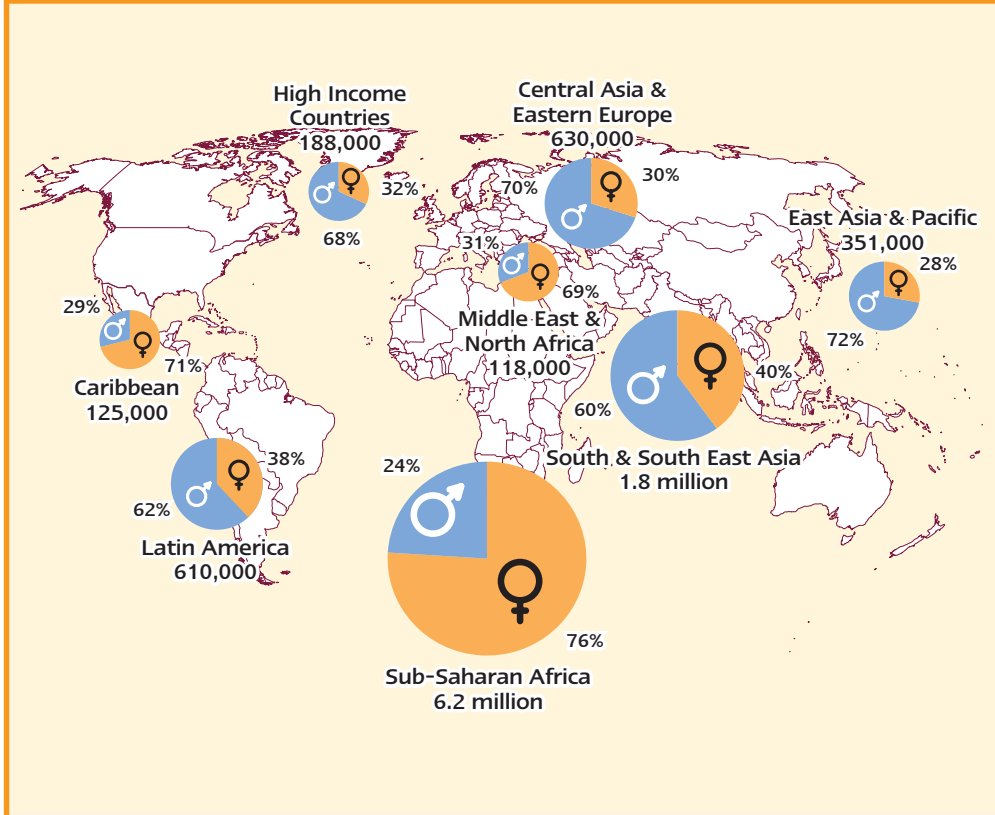
78 This section looks at some of the challenges presented by the pandemic and how it intertwines with poverty and powerlessness. The comprehensive response required is reflected in the chapters throughout the report and in the other sections of this chapter. Here we highlight actions necessary for faster progress: first, to get resources to all elements of the front-line response; second, for more effective co-ordination of actions and third, for monitoring of progress by different actors. Responding to the HIV and AIDS pandemic has been a top priority in all our consultations, from young people to business, in Africa and elsewhere.

#### 6.4.1 The nature of the pandemic

79 AIDS does not just attack an individual. It attacks three generations – the person living with HIV and AIDS, the children left behind and the children born with the HIV virus, as well as the grandparents pressed into levels of childcare and food production for which their advancing years ill-fit them<sup>134</sup>. It is reversing development and is ravaging the social fabric. In so doing it spawns impacts now and in the future that are hard to predict or quantify today.

80 Within sub-Saharan Africa, the pandemic is worse in southern and eastern Africa – adult prevalence rates range from under one per cent of the population in Senegal and Mauritania to over 25 per cent in Swaziland, Botswana and Lesotho<sup>135</sup>. But they also vary

Figure 6.8 Three Out of Four Youth Living With HIV in Africa are Women



Source: Reproduced by kind permission of UNICEF/UNAIDS, 2004

within country, in some places urban areas seeing higher rates, in others rural – pockets of poverty are particularly hard hit, such as slums.

81 HIV and AIDS disproportionately affects women in Africa. Women have a greater biological vulnerability to infection, earlier onset of sexual activity, lower socio-economic status and economic dependence. They are unable to negotiate safe sex, and they experience high levels of violence and discrimination<sup>136</sup>. HIV and AIDS also disproportionately and increasingly affects young people, who bear the brunt of 50 per cent of all new infections. Nearly two thirds of the world's young people aged 15 to 24 living with HIV and AIDS are to be found in Africa<sup>137</sup> and at this age women are three times more likely to be infected than men (see Figure 6.8). One of the reasons for this is young women are unable to negotiate safe sex when sleeping with older men. In rural Zimbabwe, the HIV prevalence rates in young women (aged 15-19) were twice as high amongst those whose partners were more than five years older<sup>138</sup>. In South Africa, two thirds of sexually active young people had not used a condom in their last sexual encounter<sup>139</sup>.

82 The sexual transmission of HIV inevitably involves embedded traditions and power hierarchies (including men with multiple partners, truckers' and combatants' use of sex workers as well as wife inheritance). The fight against the disease depends upon the ability of cultures and religions to confront issues of sexuality – in Africa and amongst donors. Strategies are ineffective if they do not take on board the importance of childbirth for women to attain adult status or of virility in defining manhood. Nor will they be effective without confronting the lack of power women have to negotiate safe

sex – they cannot ensure their husband is faithful to them or negotiate condom use or abstinence. The rate of infection is now ten per cent higher amongst married women than unmarried in Kenya and Zambia and in rural Uganda 88 per cent of young women living with HIV and AIDS are married<sup>140</sup>.

83 The impact of HIV and AIDS is felt at the very heart of a country – through the loss of productive adults. Unless treatment expands substantially, 19 countries will lose ten per cent of the workforce by 2015, in four countries the loss will be over 30 per cent<sup>141</sup>. The functioning of some states is beginning to be disrupted – through the loss of soldiers, health workers, teachers and planners. As working adults become sick, they become increasingly dependent whilst simultaneously decreasing business and farm productivity. AIDS is adding costs to wage bills and an AIDS death reduces food surpluses by around 60 per cent<sup>142</sup>. The economy is affected by up to a one-point reduction of GDP for every ten per cent of the adult population infected<sup>143</sup>. A recent study suggests that in countries with adult prevalence rates over 20 per cent, GDP will be reduced by 67 per cent after 20 years due to the impacts of AIDS<sup>144</sup>. Economic performance will stagnate and be outpaced by the increased costs of the AIDS pandemic.

84 AIDS is also undermining the traditional coping strategies of households, making the population as a whole more vulnerable<sup>145</sup>. For example, those with a good harvest would once lend to those with a poor one, but with lower productivity the surplus is less, so lending is reduced. HIV-affected households save and invest less and children are removed from school<sup>146</sup>. As mentioned earlier there is a growing orphan crisis and in Zambia, by 2010 every third child will be an orphan<sup>147</sup>. 90 per cent of orphans are looked after by the extended family – still – but it is unlikely that families will be able to absorb the growing problem without support. Such children are less likely to attend school and are far more vulnerable to exploitation, as child prostitutes, child soldiers, street children and domestic workers<sup>148</sup>. The following section (6.5) identifies how to mitigate the impacts of HIV and AIDS and support families and communities in caring for orphans and vulnerable children.

## **6.4.2 Ineffective responses to AIDS**

85 In the quarter century that AIDS has rampaged, the world has failed to act early enough, fast enough, or on a large enough scale to match the growing challenge. And so the urgency for rapid and co-ordinated action grows. Indeed the scale of the challenge posed by AIDS has been equated to issues like nuclear weaponry and global warming<sup>149</sup>. However, there has been delay in action and an absence of broad leadership at the highest levels of government and civil society. This is in part a result of the stigma associated with the disease. There has been silence at the very moment open discussion and action is so necessary.

86 Until recently, HIV and AIDS treatment was a low priority for donors, but overall funding levels have tripled in three years<sup>150</sup>. WHO estimated that four million people needed treatment in Africa and only one per cent were receiving it in 2002. The 3x5 goal for treatment was set up to galvanise a response – this sought to get three million people on anti-retroviral treatment (ART) by 2005 globally, two million in Africa. Progress has been limited – eight per cent of those needing treatment were receiving it at the end of 2004. Much more must be done. And yet this effort risks shifting focus to treatment as the dominant response – and would 'excessively medicalise' AIDS. Tackling HIV and AIDS requires a holistic response for treatment, prevention and care that recognises the wider cultural and social context and which is supported by well-functioning health systems. Indeed, where cultural norms have not been taken into account in HIV and AIDS prevention strategies, prevalence rates continue to rise<sup>151</sup>.



87 Progressive commitments have been made through the Declaration of Commitment on HIV and AIDS at the United Nations General Assembly Special Session on HIV/AIDS in 2001 (UNGASS)<sup>152</sup>, but are not being delivered effectively. It is essential that the international community delivers sufficient financing in country to achieve the goals agreed, and with defined roles and common procedures by agencies. Above all there should be a complementarity of policy between them. So if some donors cannot fund sexual health services, others should. And if some donors prefer to fund through NGOs and not through governments, their contribution must fit into an overall programme so that they are funding only the NGO part of a bigger strategy, and not trying to fund everything through the NGOs and undermining the national systems of health and education.

### 6.4.3 A better way

88 We can turn the tide. We can make progress to combat AIDS. But to achieve the comprehensive and strategic response needed, donors must change the way they do business and African governments must step up to the mark. **Recommendation: That the international community must reach a global agreement in 2005 to harmonise the current disparate response to HIV and AIDS. This must be in support of bold and comprehensive strategies by African governments that take account of power relationships between men, women and young people.** This should – under the auspices of the United Nations Programme on HIV and AIDS (UNAIDS), and in close collaboration with the African Union – articulate high-level, time-bound and concrete actions to give meaning to the agreed 'Three Ones' policy at a national level – one co-ordinating agency, one strategy and one monitoring framework. The 'Fourth One', a single pooled fund, should also be pursued. The agreement would work out a division of labour between development agencies to achieve the aspirations of the UNGASS Declaration of Commitment on HIV and AIDS. This requires a monitorable plan of action with targets for specific agencies<sup>153</sup>. UNAIDS should be mandated to work with lead agencies to report jointly on progress in the HIV and AIDS response and harmonisation as part of the annual UNGASS reporting.

89 The unprecedented nature and scale of this emergency means that HIV and AIDS expenditure should be considered as additional to normal ODA requirements. **Recommendation: As agreed in the UNGASS Declaration of Commitment on HIV and AIDS, African governments and the international community should work together urgently to deliver the right of people to prevention, treatment and care. Donors should meet immediate needs and increase their contribution to at least US\$10 billion annually within five years.** At the time of going to press<sup>154</sup>, UNAIDS estimates that the unmet financial need to provide adequate AIDS prevention, treatment and care programmes across sub-Saharan Africa between 2005 and 2007 ranges from US\$5.2 billion to US\$11.3 billion. This costing does not cover the broader support of orphans and vulnerable children, which can be found below<sup>155</sup>. The actual cost of providing a proper range of prevention, treatment and care services would be around US\$10 billion in 2007. This would increase as more people need ART<sup>156</sup>. Overcoming the absorptive capacity constraint to deliver proper HIV and AIDS services must be the highest priority of both governments and donors. To do this, governments will have to make investments in health and education systems and improve their accountability and capacity to deliver, and donors will have to increase harmonisation, complementarity and predictability of funding. This Commission takes note of the leading role played by the WHO and others in helping the poorest African countries build absorptive capacity. This costing does not include what is needed to increase incentives for research into AIDS vaccines, microbicides and the production of paediatric ARV (see section 6.2), which should be accelerated – as agreed by the G7 Finance Ministers, February 2005<sup>157</sup>.



90 Through this extra financing, African governments, civil society and development agencies will be enabled to deliver African people's right to prevention, treatment and care<sup>152</sup>. There must be a proper balance of effort across all three. And the inclusion of those most affected – children, young people and women – must be prioritised<sup>153</sup>. With this funding, programmes could be delivered at sufficient scale to stabilise the epidemic and reduce orphaning. However, even with a stabilisation in infection rates in Africa's growing population, the actual numbers of people living with HIV and AIDS will grow. Therefore the importance of urgent and sustained action is critical.

91 This means scaling up sexual and reproductive health services for testing and anti-retroviral treatment (ART); combating opportunistic infections; palliative care; tackling sexually transmitted infections, and addressing malnutrition<sup>154</sup>. This means routinely offering HIV testing rather than only testing when requested<sup>155</sup>. This means achieving the 3x5 goal and then expanding treatment to all who require it by 2010 (with the increased financing<sup>162</sup>) – to slow orphaning and to give people more reason to know their status. This means rapidly addressing the use and availability of female and male condoms. Presently in Africa, fewer than ten male condoms are available per sexually active male per year and this must be increased to 250<sup>163</sup>. This means scaling up proven interventions to reduce the risk of mother to child transmission of HIV to as little as two per cent<sup>164</sup>. It means meeting the unique needs of the three million children who are living with HIV, in terms of medical care and counselling, and in terms of the urgent development of paediatric anti-retroviral and antibiotic treatments. It also means investing in developing better ways to prevent transmission – through prioritising the development of microbicide gels and creams women can use to protect themselves, through research for an HIV vaccine and through better and cheaper female condoms.

92 This also means prevention messages in AIDS literacy campaigns must confront critical issues of identity, power and stigma and reach the excluded groups<sup>165</sup>. The response must focus on those most affected: youth and women. Every avenue must be used to achieve and surpass the UNGASS target of a 25 per cent reduction in infections in young people by 2010. The Global Coalition of Women and AIDS should be supported in its priorities to reduce the greater vulnerability of women and girls to infection and lift part of the burden of care from them. Partnerships with religious leaders and traditional healers have worked in developing effective responses that are based on an understanding of the cultural contexts as well as gender and power relationships<sup>166</sup> (see also Chapter 3). Special emphasis should be placed on the participation of people living with HIV and AIDS, AIDS widows and orphans, children, older people, men who have sex with men and other vulnerable groups<sup>167</sup> in the design of HIV and AIDS policies and health messages as well as in strategies to reduce stigma. Sport, radio, film and other popular elements of youth culture should be widely used to engage them in the response.

93 African leaders have developed HIV and AIDS responses in many places and this should be supported – but where they have not, leaders must take action now. We recommend that donors should provide budgetary support for the AU Presidential Initiative AIDS Watch Africa and the AU/NEPAD Fight against AIDS strategy to define and mobilise the response in prevention, treatment, care and mitigating the impacts of HIV and AIDS. They should be funded through budgetary support to the AU. The ECA's Commission on Governance and HIV and AIDS<sup>168</sup> will report in 2005 and their recommendations should also be integrated into this strategy. African nations can also work collectively to promote regional production, purchasing and distribution of drugs, interpret TRIPS (see section 6.1) and share information and lessons.

94 To ensure the HIV and AIDS response is mainstreamed, we recommend that UNAIDS should be supported in the development of accreditation systems for HIV and AIDS competency among international agencies, businesses and nations. UNAIDS must ensure

that all actors – whether government, civil society or the private sector – are actively addressing the pandemic<sup>169</sup>. Through an accreditation system like ISO or Investors In People, it can encourage good practice to be shared and implemented and ensure that individual responses support wider strategies, for example strengthening health, education and social protection systems. Monitoring outcomes would be critical. Central to this would be to encourage HIV and AIDS workplace programmes in every medium to large organisation, as discussed in more detail in Chapter 7<sup>170</sup>. This will build on thinking such as the Consensus Paper for Joint Action.

## 6.5 Tackling exclusion and vulnerability

95 Many people are vulnerable to periods of poverty. What tips them over the edge from bare subsistence to starvation and destitution is a crisis. It may affect large numbers of people – caused by environmental or economic change, or by bad governance. Conflict and volatile agricultural prices are two of these shocks commonly found in Africa. Or it may be personal – ill health, old age, disability or a death in the family. HIV and AIDS is a growing source of crisis. One in six people are chronically poor – meaning they can't recover with their own resources<sup>171</sup>. And this poverty is passed from one generation to another when parents cannot invest in their children's nutrition, health or education.

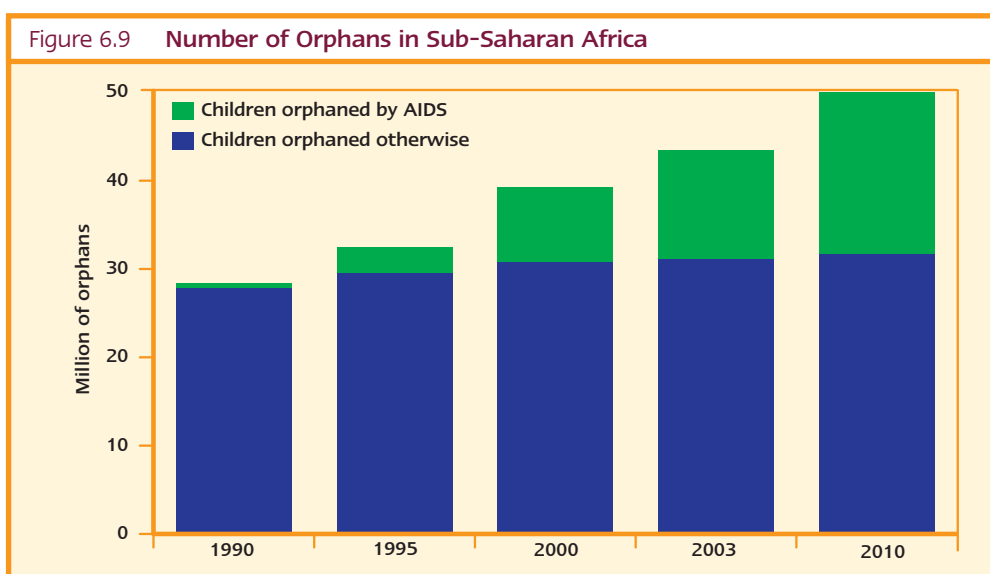
96 But particular groups suffer more than others, because they are unable to access formal services or informal support. Some are unable to get their entitlements or even demand redress through the justice system. This discrimination has consequences in terms of their wider sense of well-being and the productivity and cohesiveness of society. Such differences can lead to tension and sometimes violence, as was the case in the Rwandan conflict<sup>164</sup>. Some groups have used excluding others from decision-making and services consciously to increase power. Other groups are excluded when those in power do not question traditions – for example concerning gender relationships. Reversing this through policies of inclusion – such as affirmative action, regional investment or campaigns about rights – have been used to increase social cohesion as well as simply to ensure every individual can fulfil their potential. Birth registration is an essential step in having citizenship status and related entitlements, yet two out of three births are not registered in sub-Saharan Africa<sup>173</sup>.

97 The importance of policies for the inclusion of women, of youth, of people with disabilities and other groups emerged again and again during our consultations. Social protection is necessary to enable men and women experiencing chronic poverty or exclusion to invest in their health or education or even their businesses. It complements investments in health and education, as it helps the poorest cover the costs involved in taking up services. It gives people more ways to manage risk and cope with shocks. In those places in Africa where the impact of HIV and AIDS is compounding everyday poverty, the very backbone of African society – family and community or clan support systems – are overburdened to the point of collapse<sup>174</sup>. Social protection is required to alleviate some of this burden and ensure these ways survive. If families can no longer take in and care for orphans, the impact to societies through the failure to pass on knowledge, values and beliefs will be significant and long-lasting<sup>175</sup>. Social protection can foster social cohesion by providing individuals with a tangible return from their relationship with the state and by reducing the exclusion experienced by some groups. It equips more people with the ability to be fulfilled and productive citizens.

98 Below we first consider a few of the groups whose lives could be transformed through social protection. Second, social protection interventions showing high returns are explored. And third, actions to support the development of national social inclusion strategies are identified.

## 6.5.1 Who are excluded and who are vulnerable?

99 Two groups of particular importance – women and young people – are not minorities. Women head one in five households; they are responsible for 80 per cent of agricultural production and all of the household production<sup>176</sup>. Yet they are systematically excluded from institutions and have fewer opportunities to generate income<sup>177</sup>. They accumulate more of the burden of care and are less likely to attend school. They are subject to harassment and violence and when widowed lose their assets<sup>178</sup>. Women's emancipation is their right. It is also a prerequisite to development and growth, as covered elsewhere in this report. Women have an important instrumental role to investing in children. Women tend to spend a greater proportion of earnings they control on household needs, particularly for the children, than men do<sup>179</sup>. Studies show that in South Africa a pension 'improves the nutritional status of children (especially girls) if received by a woman, but not by a man'<sup>180</sup>.



Source: UNICEF, 2004. *Children on the Brink*

100 Africa is also the continent with the highest proportion of young people. Stagnant economies with high unemployment combined with HIV and AIDS have left this large generation especially vulnerable. And this vulnerability is particularly evident in the urban slums, where youth unemployment was 38 per cent in Ethiopia in 1999 and 56 per cent in South Africa in 2000<sup>181</sup>. Developing opportunities for young people is covered in Chapter 7. Rapid urbanisation is also seeing growing numbers of street children, for example, in Nairobi numbers have risen from 4,500 to 30,000 in three years<sup>182</sup>, many of whom are also orphans<sup>183</sup>. The growing orphan crisis is one of the critical challenges emerging. Africa had 43 million orphans in 2003 – one third more than in 1990, many due to conflict and a growing proportion of them due to AIDS. By 2010 the numbers will reach 50 million<sup>184</sup> (see Figure 6.9).

101 Alongside women and young people there are other groups experiencing particular vulnerability or exclusion. The 25 million adults and children living with HIV and AIDS in 2004 are vulnerable to poverty and due to the stigma of the disease, are excluded from local support<sup>185</sup>. Older people were five per cent of the population in 2000 and will be around ten per cent in 2050 and in HIV and AIDS affected countries are increasingly caring for their grandchildren<sup>186</sup>.

102 There are 50 million disabled people in sub-Saharan Africa<sup>187</sup>. In Uganda, disabled people are 38 per cent more likely to be poor than those without disabilities, and this does not take into account the extra costs incurred due to being disabled<sup>188</sup>. Disabled people require extra support to attain their rights to participate in society and lead productive lives. The Tanzanian Federation of Disabled People's Organisations suggests 'People are disabled by their society not by their impairment. They are incapacitated by society not by things.'<sup>189</sup>. Other people often regarded as excluded are indigenous peoples and ethnic minority groups, even to the point of being considered to have no rights, like the Batwa of the Great Lakes<sup>190</sup>.

## 6.5.2 Social protection interventions

103 The costs of pre-emptive social protection are less than the costs of responding after a crisis. For example, in Zambia US\$19 million a year is needed to provide cash grants nationwide for the largely elderly carers of vulnerable children. Including administrative costs, this is a total of US\$100 per household annually, which compares favourably with the US\$250 per household that would be needed to provide food aid of less value than the US\$6 per month<sup>191</sup>. If a family's assets are shielded by social protection rather than eroded during a shock, a household is able to return to productive activity more quickly once the crisis has passed. Otherwise, many coping mechanisms have long-term consequences – because they involve choosing low risk and low return enterprises, or selling productive assets, cutting food to levels which bring malnutrition and staying away from schools and clinics on grounds of cost<sup>192</sup>. In Uganda, Kenya, Tanzania and Malawi, the poorest choose low risk crops that are from three to six times less productive than those chosen by the more secure<sup>193</sup>.

104 Whilst some types of social protection are not expensive, others can place pressure on public finances and therefore require careful consideration – there are massive trade offs between different options and the implications of each need to be understood and debated. Having said this, even those requiring more resources are proving to be very cost effective, as in the long term they reduce costs and increase growth. They deserve more attention than they have been given in past analyses of development in Africa. This has never been more so than in light of the HIV and AIDS pandemic, where special attention is needed to alleviate the burden of care from women and ensure orphans and vulnerable children receive proper support.

105 Each country has to take the lead in developing their own mix of interventions for their context but there are five categories of social protection which, when supporting constructive family and community strategies<sup>194</sup> can be effective:

### Protecting Rights

106 Protecting people's rights can transform their lives and enable them to take up opportunities and lessen the impact of HIV and AIDS. Improving women and children's rights over property on being widowed or orphaned would reduce destitution and therefore also reduce their migration into slums and into prostitution. In Namibia just under half of all widows lost cattle and farm equipment in disputes with their in-laws after the death of their husband<sup>195</sup>. In many sub-Saharan African countries, widows lose all rights to cultivate their husband's land<sup>196</sup>. Property rights would also give women more control over the means of production (Chapter 7). Rwanda is at the forefront of realising inheritance rights for women<sup>197</sup>.

107 There is greater progress when strengthened legislation is combined with awareness campaigns, legal assistance and legal aid<sup>198</sup>. Violence against women is all too common. South Africa is making significant advances through, for example, enforcing laws where a teacher who sexually abuses a girl is sacked. Simplifying the registration of births, combined

with campaigns to register people retrospectively, would ensure all men and women are able to demand their entitlements as citizens. The decriminalisation of sex work would assist with HIV prevention, detection and treatment<sup>199</sup>.

### **Springboards**

108 Schemes to assist poor people into employment work well when the entitlements to them are clear. These might include programmes that guarantee a number of days employment in infrastructure development, at a rate marginally lower than the market. An example of this from India is the Maharashtra Employment Guarantee Scheme, which also provides a crèche, allowing women to participate on equal terms with the men<sup>200</sup>. Schemes that build up people's skills increase their employability. Schemes can also be used to strengthen community institutions such as in Mali<sup>201</sup> and increase awareness of rights or HIV risks, as in Zambia<sup>202</sup>. In Senegal, street children are supported to assess their own education and employment requirements<sup>203</sup>. Entry into employment is also covered in Chapter 7.

### **Cash transfers**

109 Childcare grants, disability allowances, pensions, and other direct transfers of cash can be used even in countries with poor infrastructure, little capacity to deliver services or no interest in reform. The childcare grants in Zambia mentioned above provide US\$6 a month to the largely elderly carers of vulnerable children, have increased attendance at school to 90 per cent and improved nutrition<sup>204</sup>. Childcare grants conditional on school and health clinic attendance, such as PROGRESA, Bolsa Escola and PETI, have had dramatic impacts in Latin America – increasing school attendance, reducing illness and malnutrition<sup>205</sup>. Social pensions (universal and non-contributory) have increased investment in children's education and nutrition in Namibia and South Africa, where around a third of pensions are spent on grandchildren's education. Without pensions, the gap between the poorest and the poverty line in South Africa would be 81 per cent greater<sup>206</sup>.

### **Consumption transfers**

110 Basic health and education can be made free. So can school meals. The removal of health and primary school fees has been shown (in sections 6.1 and 6.2) to increase numbers of poor people taking up services. In education for example, removing primary fees can almost double the attendance of the poorest girls<sup>207</sup>. School feeding with take home rations – using locally bought produce<sup>208</sup> – increase attendance of girls and boys, improve their nutrition and meets the right of the child to food. The fortification of food and its marketing would reduce illness amongst women and children (see section 6.2). Food supplements for people living with HIV and AIDS are also an important element of their care.

### **Community support**

111 Schemes to involve communities in the protection and empowerment of vulnerable families have been very effective across Africa. These might entail practical care, information about entitlements or psychosocial support to orphans<sup>209</sup>. 'Vulnerable children committees' in Tanzania and Uganda galvanise community support for vulnerable children and their families. In Kenya and Ethiopia, community groups worked with religious and traditional leaders to campaign successfully for eliminating violence against women. In Kenya and Uganda, community volunteers support families in crisis to identify wider support networks.

## **6.5.3 Building strategies against exclusion and vulnerability**

112 All of these mechanisms – as well as the basic provision of health and education covered in the sections above – increase investment in a household's assets. They reduce

vulnerability and exclusion by interrupting the processes that drive people into poverty and exclude them from the economy, politics or society. Objectives of these strategies might be to mitigate the impacts of HIV and AIDS, reduce conflict and lessen vulnerability to economic or natural shocks – this is also covered in Chapters 5, 7, 8 and 9.

113 These interventions have received less attention in Africa than Asia or Latin America. Each country has to develop its own strategy for social inclusion and work on this has begun. African and European parliamentarians have, through the Cape Town Declaration (September, 2004), committed to advocate for interventions to protect orphans and other children made vulnerable by HIV and AIDS<sup>210</sup>. Tanzania, Uganda and Ghana have already undertaken thorough analyses of vulnerability and exclusion in their countries and this is now being fed into the design of national poverty reduction strategies and other policies. 16 countries in Africa have also developed national orphans and vulnerable children strategies. Many local authorities have community strategies to ensure care for orphans. This African leadership must be supported. A review of service delivery in conflict and post conflict countries highlights the requirement for these types of disaggregated analyses in fragile states too. The solutions can be very simple – such as positioning toilets in refugee camps or slums in central well-lit areas to reduce the abuse of girls.

114 But donors to date have tended to fund short-term, small-scale and – frequently complex – social protection projects, often in reaction to a disaster. For social protection to have real impact such projects must be at scale and therefore simple. They must be high impact and therefore bold. African governments require predictable, long-term support from donors in order to take on these types of recurrent costs.

115 There has to be better co-ordination with clear agreement on roles within Africa and internationally. The AU, its programme NEPAD and ECA all have initiatives in this area, particularly on gender relations. UNDP might be well placed to take the lead in co-ordination of international agencies, such as UNICEF, ILO, WB, UN HABITAT, and through their poverty trust fund, could support financing where countries do not have sufficient bilateral support.

116 **Recommendation: Donors should support the African Union's NEPAD programme to develop a rights and inclusion framework and support countries to develop social protection strategies by 2007.** As so little has been done in the area of social protection in Africa to date, this is the first priority. Through a grant of US\$2 million as seed money, experience and understanding in Africa would be gathered to inform the development of social protection strategies, linked to the national poverty reduction strategies. In collaboration with other pan-African institutions, such as the Social Affairs Commission of the AU and the ECA's African Gender and Development Institute, AU/NEPAD will develop a rights and inclusion framework drawing on other relevant analysis and good practice<sup>211</sup>. AU/NEPAD will lead the development of a common position of what is required to reach the MDGs in Africa in 2005 – including social protection interventions. Working in collaboration with relevant international agencies, AU/NEPAD will then support African countries to undertake analysis of vulnerability and exclusion and develop national inclusion strategies, piloting approaches as necessary to refine simple, bold interventions that work. Existing national orphans and vulnerable children strategies should be situated within this work.

117 **Recommendation: African governments should develop social protection strategies for orphans and vulnerable children, supporting their extended families and communities. Donors should commit to long-term, predictable funding of these strategies with US\$2 billion a year immediately, rising to US\$5 to 6 billion a year by 2015.** Following the recommendation above, donors should fund these national social protection strategies, as long as they are credible. These strategies must include clear mechanisms for transferring resources to households and communities to support

child protection, with clear entitlements and processes to ensure transparency and accountability to communities. National strategies should also be structured so that funding would increase incrementally with evidence of the effectiveness of delivery as well as efficiency – to develop the confidence of governments as well as donors. Donors financing should be provided both bilaterally through a common pool and multilaterally through the poverty trust fund of UNDP to support fragile states and others who have insufficient donor support. Agencies must work in co-ordination to ensure harmonised action in social protection behind national strategies – using the AU/NEPAD rights and inclusion framework for common monitoring.

118 We are recommending an initial US\$2 billion a year by 2007, rising to five to six billion a year by 2015 as it is not our view that funding of this magnitude could be used effectively immediately. These are indicative amounts and funding should increase with evidence of the outcomes achieved and of the impacts that would be attained with additional resources. The potential outcomes from the types of bold, simple interventions at scale, suggested above would include 40 million cash grants of US\$6 a month for child support and people with disabilities would cost US\$3 billion a year – which would lead to better nutrition, less illness and greater uptake of educational services<sup>212</sup>. UNICEF estimates that with US\$1.7 billion a year, the five million most vulnerable children in Africa would be provided with all basic services – health, education, food as well as psychosocial and community support<sup>213</sup>. For US\$4.4 billion, UNICEF estimates that all 15 million children who have been identified as an orphan or about to be orphaned and are in need could be supported. A top priority in 2005 is the additional first US\$500 million to increase these services gradually<sup>214</sup>. Also required immediately are long term commitments for the 16 national orphans and vulnerable children plans already developed, costing US\$30 to 40 million each year on average. These plans are likely to be an underestimate of what is needed, but are an important starting point. **Recommendation: Donors and African governments should endorse and realise the UN Framework for the Protection, Care and Support of Orphans and Vulnerable Children.**

119 **Recommendation: Donors and African governments should provide direct budgetary support to pan-African organisations to support their work in protecting women and children's rights.** African governments must honour the progressive and exciting commitments made in the African Heads of State Solemn Declaration on Gender, which includes the implementation of the Convention for the Elimination of Discrimination Against Women. African civil society and governments have also identified specific actions at the Beijing+10 in Africa meeting, 2004. Donors and African Governments should provide financial and other support to the Gender and Development Directorate of the AU, to AU/NEPAD and to the African Gender and Development Centre of the Economic Commission for Africa.

## 6.6 Conclusion

120 The well-being and development of all individuals has intrinsic value. The Millennium Declaration set out the international community's firm commitment to work together to realise the right to a basic standard of living for all. Progress is measured through a number of goals including to ensure primary education for all, eliminate gender disparity and empower women, halve the numbers of people without access to clean water, reduce maternal and child mortality and halt and begin to reverse the spread of HIV. These goals will not be met without strengthening and resourcing government systems to deliver basic services. The actions set out in this chapter require significant extra resources. But to use these effectively a fundamental change in how donors and African governments work together is needed.

121 This chapter has six recurring themes. First, African governments must develop coherent strategies that integrate different initiatives and resources to maximise impact.



Second, donors and global partnerships must harmonise and co-ordinate their procedures, to lighten the administrative load for African governments and avoid duplication. Third, donors and global partnerships must provide predictable, long-term funding, ideally pooled through budgetary support. Fourth, one agreed monitoring framework is required that allows African governments to improve delivery as well as enabling both governments and donors to see what impact they get for their money. Fifth, a considered but strong increase in funding is necessary, sequenced to ensure the foundations of governments' systems are strengthened and increasing as resource effectiveness is demonstrated. Finally is the overarching requirement to ensure accountability to poor people.

122 Development will not happen without equipping women and vulnerable groups with the capacity to reduce their poverty and participate fully in society, in politics and in the economy. Much is known about which reforms work and when – but innovation is still needed as well as extra effort to ensure that services reach the poorest and excluded.

123 The recommendations made in this chapter would have far reaching effects:

124 In education, a total annual increase of US\$7 to 8 billion each year for all the recommendations, would enable all children in sub-Saharan Africa – boys and girls – to complete a basic education, equipping them with the skills for contemporary life. Half of these children would also go on to attain secondary education. And higher and vocational education, adult learning and teacher training would receive appropriate support within the overall education system (higher education is covered in Chapter 4). As a result of this investment across the sector, not only would the education and gender MDGs be attained, and the ability to achieve other MDGs improved, but also the commitments for the broader and more progressive Education For All agenda would be met.

125 The outcomes from the bold programme of action in health would be substantial. For the additional US\$20 billion a year, free access to broad-based health systems would be in place by 2015 and would meet 60 to 70 per cent of the Child and 70 to 80 per cent of the Maternal Mortality MDGs, and are absolute requirements for meeting the MDGs for tuberculosis, malaria and HIV and AIDS treatment and care<sup>215</sup>. The lives of five million children would be saved through immunisation, with a further three million deaths among adults prevented. 500 million people would live free from the threat of parasitic disease. All African men and women would obtain the family planning and reproductive health commodities they need. Scientists would accelerate the search for vaccines for both malaria and HIV and AIDS. Polio would be eradicated in 2005. All of these goals are possible if donors provide predictable, long-term financing and if African governments deliver coherent integrated strategies.

126 The outcome of reversing the decline in aid for water supply and sanitation would also be substantial. Chapter 7 sets out recommendations to support the closing of the infrastructure finance gap in Africa. By 2015, this would enable access to water supply and sanitation services for 75 million people. By providing sufficient funding to meet the MDG on water supply and sanitation in Africa, 173 million cases of diarrhoea would be avoided each year, 456 million productive days would be gained annually, US\$1.6 billion of treatment costs would be averted each year and 99 billion school days would be gained<sup>216</sup>.

127 Through at least an additional US\$10 billion annually for HIV and AIDS by 2010, real advances would be made in the delivery of the UNGASS Declaration of Commitment on HIV and AIDS – realising the right of African people to prevention, treatment and care services. The pandemic would be stabilising, 25 per cent of infections in young people having been prevented. All in need of treatment would receive it, with paediatric ART available to the three million children living with HIV and AIDS. The delay in orphaning would reduce the predicted levels of orphans by five per cent. But in addition to the resources, donors and international agencies would have harmonised and worked in complementarity to ensure all aspects of a national AIDS strategy was properly supported. And African governments would have developed strategies to



integrate the HIV and AIDS response into the delivery of health, education and social protection systems, with prevention messages appropriate to and challenging of gender and power relationships.

127 Through the social protection interventions, the lives of women and children would be transformed through property and inheritance rights and protection against violence. The five million most vulnerable children and another 40 million chronically poor households caring for orphans and other vulnerable children would be supported through community programmes and cash grants, perhaps conditional on school and health clinic attendance. For the US\$5 to 6 billion, the interlocking cycles of poverty and exclusion trapping millions would be interrupted, preventing the transfer of poverty from parent to child and mitigating the far reaching impacts of AIDS and conflict.

# Recommendations on Leaving No-One Out: Investing in People

There is no substitute for the large increase in resources that are required to reverse years of chronic under-investment in education, health and social protection.

Effective use of these large new resource flows will require comprehensive plans for delivery and for monitoring results. To this end, African governments must continue to strengthen governance and ensure the participation of ordinary people and local communities in decisions on development. For its part, the international community must deliver what it has promised. Both African governments and international donors must ensure that opportunities are available to all.

## Education

- Donors and African governments should meet their commitments to achieve Education for All, ensuring that every child in Africa goes to school. Donors should provide an additional US\$7-8 billion per year as African governments develop comprehensive national plans to deliver quality education.
  - In their national plans African governments must identify measures to get girls as well as boys into school with proper allocation of resources. Donors should meet these additional costs.
  - African governments should undertake to remove school fees for basic education, and donors should fund this until countries can afford these costs themselves.
  - To ensure that high quality education is delivered, African governments must invest in teacher training, retention of staff and professional development. Teacher/child ratios should be brought to under 1:40 in basic education. Donors should commit to predictable long-term funding to enable this.
  - Education should provide relevant skills for contemporary Africa. Donors should fund regional networks to support African governments in the development of more appropriate curricula at all levels.

## Health

- African governments should invest in rebuilding systems to deliver public health services. Donors should provide US\$7 billion over five years for this, behind the Health Strategy and Initial Programme of Action of the African Union's NEPAD Programme.
- Donors and African governments should urgently invest in training and retention to ensure there are an additional one million health workers by 2015.
- African governments should meet their commitment to allocate 15 per cent of annual budgets to health and put in place strategies for the effective delivery of health services. Donors should increase their funding to support these strategies, making up the shortfall, from an additional US\$10 billion annually immediately and rising to US\$20 billion annually by 2015. The assistance should go predominantly through national budgets.
- Where African governments remove fees for basic healthcare as part of reform, donors should make a long-term commitment to fill the financing gap until countries can take on these costs.

- Donors should fully fund the Global Fund to Fight AIDS, Tuberculosis and Malaria.
- Donors should commit to full funding of the Global Alliance for Vaccines and Immunisation (GAVI) through the International Financing Facility for Immunisation. They should also meet their commitments to the Polio Eradication Initiative to eradicate polio in 2005.
- The World Health Organization's 'Two diseases, one patient' strategy should be supported to provide integrated TB and HIV care.
- African governments and donors should work together to ensure that every pregnant mother and every child has a long-lasting insecticide-treated net and is provided with effective malaria drugs.
- Donors should ensure that there is adequate funding for the treatment and prevention of parasitic diseases and micronutrient deficiency. Governments and global health partnerships should ensure that this is integrated into public health campaigns by 2006.
- African governments must show strong leadership in promoting women's and men's right to sexual and reproductive health. Donors should do all they can to enable universal access to sexual and reproductive health services.
- Donors should develop incentives for research and development in health that meet Africa's needs. They must set up advance purchase agreements for medicines. They should increase direct funding of research led by Africa, coordinated by the Regional Economic Communities and in collaboration with the global health partnerships.

## **Water and sanitation**

- Starting in 2005, donors must reverse the decline in aid for water supply and sanitation, to enable African governments to achieve the Africa Water Vision commitment to reduce by 75 per cent the proportion of people without access to safe water and sanitation by 2015. The G8 should report back by 2007 on implementation of the G8 Water Action Plan agreed in 2003.

## **HIV and AIDS**

- The international community must reach a global agreement in 2005 to harmonise the current disparate response to HIV and AIDS. This must be in support of bold and comprehensive strategies by African governments that take account of power relationships between men, women and young people.
- As agreed in the UNGASS Declaration of Commitment on HIV and AIDS, African governments and the international community should work together urgently to deliver the right of people to prevention, treatment and care. Donors should meet the immediate needs and increase their contribution to at least US\$10 billion annually within five years.

## **Protecting the most vulnerable**

- African governments should develop social protection strategies for orphans and vulnerable children, supporting their extended families and communities. Donors should commit to long-term, predictable funding of these strategies with US\$2 billion a year immediately, rising to US\$5 to 6 billion a year by 2015.

- Donors should support the African Union's NEPAD Programme to develop a rights and inclusion framework and support countries to develop social protection strategies by 2007.
- Donors and African governments should endorse and implement the UN Framework for the Protection, Care and Support of the Orphans and Vulnerable Children.
- Donors and African governments should provide direct budgetary support to pan-African organisations to support their work in protecting women and children's rights.

# Chapter 7

## Going for Growth and Poverty Reduction

### Summary

Accelerating growth, and ensuring the participation of poor people in that growth, is fundamental for poverty reduction. The proposals across this Report – on infrastructure, investment climates, governance, peace and security, trade, human development, culture, the environment and the quality of aid – should both boost participation and contribute strongly to increasing sustainable growth, investment and employment. **The goal should be to increase the average growth rate to seven per cent by the end of the decade, and sustain it thereafter.** These growth rates have been attained across Asia and in parts of Africa and can be achieved across the continent – but only if the obstacles of a weak infrastructure and a discouraging investment climate are overcome, releasing Africa's entrepreneurial energies. This will require:

- Committing to **double infrastructure spending** in Africa, with an initial increase in donor funding of US\$10 billion a year up to 2010 and, subject to review, a further increase to US\$20 billion a year in the following five years. This will require careful management and build-up to avoid corruption and cost escalation, and should extend from rural roads, small-scale irrigation, and slum improvement to regional highways and larger power projects.
- Public and private sector working together to identify the obstacles to a favourable **investment climate**, together with outside support to fund the necessary actions.
- Fostering **small enterprises** through ensuring better access to markets, finance, and business linkages, with a particular focus on youth and women, as well as the family farms that employ so many people in Africa.
- Action by the **business community** to contribute in each of these areas and in the other areas set out in this Report, working in partnerships with each other, with donors, with national governments and with civil society, as part of a sea change in the way it engages in the development process.
- Action to ensure that **environmental sustainability** is integral to donor interventions and to manage and build Africa's resilience to climate change.

A full list of the Commission's recommendations on Growth can be found at the end of this chapter.

## 7.1 Introduction

*“We, the Heads of State and Government of the African Union... [are] concerned that at the current growth rates, Africa is at risk of not attaining the MDGs... [We are] convinced that high and sustained economic growth is a necessary but not sufficient condition to reduce poverty”.*

*AU Extraordinary Summit on Employment and Poverty Alleviation,  
Burkina Faso, September 2004<sup>1</sup>*

*“Poverty reduction is linked directly to economic growth and to enabling Africans to become agents of their own development”.*

*Professor Wiseman Nkuhlu, Chairperson, NEPAD Steering Committee<sup>2</sup>*

*“There is no poverty of effort in Africa, there is a poverty of opportunity.”*

*Juan Somavia, Director General, International Labour Organisation<sup>3</sup>*

1 This chapter is about action to raise Africa's growth rate and to enable poor people to participate. The evidence – from within Africa and from other regions, including East and South Asia – is that accelerating economic growth in Africa is fundamentally important for poverty reduction. But growth will drive poverty down more rapidly if poor people are better able to participate.

2 The statements above underline the growing understanding that we must recognise and support the entrepreneurial spirit of Africa's people – from family farms and small firms to large businesses. This means creating the right climate for investment. It means removing the impediments to people's livelihoods, particularly those of poor people. For example, the inadequacy of irrigation or transport for farmers, or difficulties in accessing the finance, information and skills that small businesses need to grow. It means enabling African enterprises to break into world markets: all the more challenging when Africa's relative economic stagnation is set alongside Asia's advance. And it means empowering poor people to shape their own lives: including by investing in their health and education, tackling youth unemployment and addressing the economic obstacles and inequalities faced by women. In short, as Professor Nkuhlu of NEPAD puts it, it means “empowering Africans to become wealth generators”<sup>4</sup>.

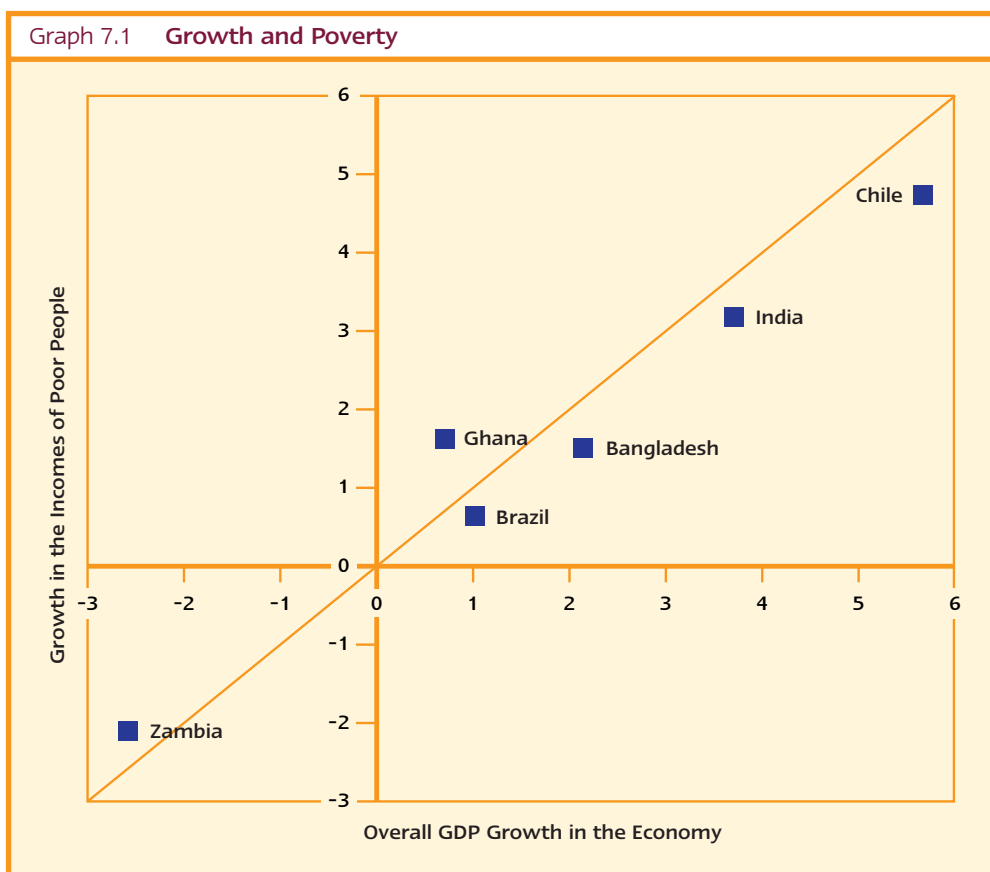
3 The package of proposals set out in this chapter is designed to **support the entrepreneurial spirit of Africa's people**: investing in the **infrastructure** and enabling **investment climate** needed for growth, to foster **small enterprises**, with a particular focus on youth and women. Emphasis is placed on agricultural and rural development, as well as the need to deal with the challenge of rapid urbanisation. Our proposals on infrastructure, investment climates and on agriculture and rural development are covered in section 7.3 on policies for growth, while those on small enterprises and enhancing the participation of youth and women, are covered in section 7.4 on policies for participation in growth. The importance of **environmental sustainability**, and our recommendations in this area, is looked at in section 7.5. There are practical ways the **business community** can contribute to each of these areas, as part of a sea change in the way it engages in the development process, as set out in section 7.4.3.

4 Together with the proposals set out in other chapters of the Report – including on trade, governance, peace and security, human development, culture and aid quality – our recommendations should enable sub-Saharan African countries **to achieve and sustain**

**growth rates of seven per cent by 2010**, from current levels of close to three per cent. At this rate of growth, the size of their economies will double in a decade, ensuring a powerful acceleration of progress towards the MDGs. This level of growth has been achieved and sustained by sub-Saharan Africa countries that have introduced effective growth-focused policies, such as Uganda and Mozambique. And many others are already achieving growth rates of five per cent or more: 24 in 2003<sup>5</sup>.

## Growth and poverty in sub-Saharan Africa

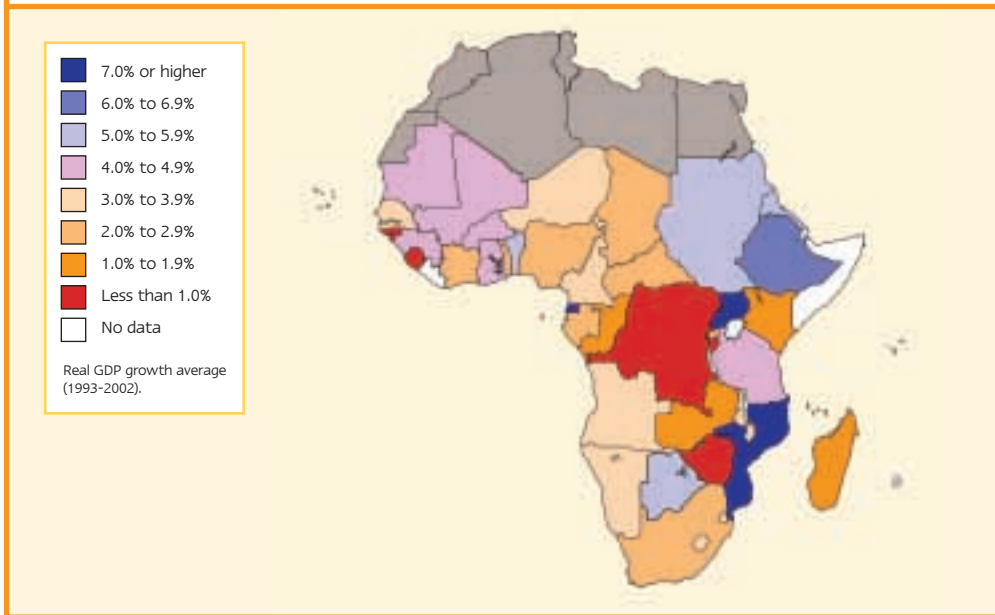
5 Africa is the poorest region in the world<sup>6</sup>. Over the last 30 years, on average, its people have seen virtually no increase in their incomes. Across countries and within countries over time the message is clear: without economic growth, Africa cannot make substantial reductions in poverty (Graph 7.1).



Countries with higher overall growth rates also saw higher growth in incomes of poor people. Points above the 45-degree line indicate incomes of poor people rising faster than average incomes.

Source: DFID, 2004b

Figure 7.1 Growth in Sub-Saharan African Countries



Source: World Development Bank, 2004c

6 During the last ten years or so in Africa it *has* been possible to generate growth. Over the last decade<sup>7</sup>, 16 sub-Saharan Africa countries have seen average growth rates above four per cent, including ten with rates above five per cent and three with rates above seven per cent<sup>8</sup> (see Figure 7.1). There are examples of strong performers from across the region – such as Mozambique in the south, Benin in the west, and Uganda in the east.

7 However, while many African countries have historically managed to generate periods of rapid growth, few have been able to sustain it for long periods at the levels needed<sup>9</sup>. A joint study by the African Development Bank (ADB), African Economic Research Consortium, Global Coalition for Africa, Economic Commission for Africa and World Bank warned five years ago that ‘five per cent annual growth is needed simply to keep the number of poor from rising... [and that]... halving severe poverty by 2015 will require annual growth of more than seven per cent, along with a more equitable distribution of income’<sup>10</sup>.

8 The effect of growth on poverty reduction is much greater if poor people can participate in the growth process. The evidence points to a strong association between growth and poverty reduction<sup>11</sup>. A number of economists have attempted to quantify this positive impact<sup>12</sup>, with the finding that for a one per cent rise in economic growth, the proportion of people living below the poverty line (US\$1 a day) should fall by between two and three per cent<sup>13</sup>.

9 But these estimates disguise wide variations across countries<sup>14</sup>. For some countries, there is a stark difference between their growth performance and their broader development performance: Equatorial Guinea is ranked 103 places lower on its 2002 human development performance (based on life expectancy, adult literacy, school enrolment and average income), than it is on its growth performance – reflecting poor governance of its huge oil wealth<sup>15</sup>. Other poor performers in this regard include Botswana (67 places lower), South Africa (66), Gabon (50), Namibia (48) and Angola (38)<sup>16</sup>.

10 A highly unequal distribution of income significantly reduces the positive impact of growth on poverty<sup>17</sup>. Inequality is particularly high in Lesotho, Botswana, Sierra Leone, the Central African Republic, Swaziland and South Africa. But it is most severe in Namibia,



which has one of the highest levels of inequality in the world<sup>18</sup>. Relatively equal distributions of income in Ghana and Uganda have meant that growth in these countries has been linked more strongly to poverty reduction<sup>19</sup>.

11 In the past some have used the term 'trickle down' – to suggest that poor people will automatically benefit from growth. This was the wrong way to look at the issue. The fact is growth creates opportunities. The critical challenge is to ensure poor people are able to participate in these opportunities. That requires government action. Strengthening the assets of poor people – including their human capital, such as health and skills, physical capital, such as land and property, access to finance and their natural environment – enables them to participate more effectively in markets<sup>20</sup>, while the economic, legal and governance environments shape the opportunities open to them<sup>21</sup>.

12 Investing in social protection is important for reducing their level of risk and vulnerability. It includes, for example, improving women and children's rights over property, assisting poor people into employment, cash transfers such as disability allowances and pensions, free basic healthcare and education, and schemes to involve communities in the protection of vulnerable families. If a family's assets are protected by social protection, rather than eroded during a shock, a household is able to return to productive activity more quickly once the crisis has passed (see Chapter 6). Strong growth performance in Mozambique in recent years accompanied by a strong commitment by the government to social spending has dramatically reduced poverty from 80 per cent in the early 1990s to 54 per cent in 2002<sup>22</sup>.

## 7.2 The drivers of growth

### 7.2.1 Governance and geography: the fundamental drivers of growth

13 Economists have long seen growth in terms of the accumulation of physical and human capital, on the one hand, and the productivity with which factors of production – land, labour and capital – are used, on the other. The collapse in African growth post-1973 is blamed on a collapse in both<sup>23</sup>.

14 The last decade has seen a shift of attention towards still more fundamental questions. Why do some countries see more rapid accumulation and higher rates of productivity growth than others? What enables a country to sustain growth, once it has been ignited? The answers have focused on institutions<sup>24</sup> – particularly those relating to governance, including peace and security<sup>25</sup> and the economic framework – and on geography<sup>26</sup> – particularly the impact of Africa's distinctive tropical, largely land-locked, geography on agriculture and transport costs. Both governance and geography shape the incentives, opportunities and constraints on the private sector – from small farms to big firms – and the level of productivity and innovation in the economy. For reasons of both governance and geography, Africa's problems – shaped in part by its colonial history – have been severe and it is here that policy action must be focused if growth is to be accelerated and sustained.

15 Neither governance nor geography is destiny. There are many ways a nation can act to improve its governance and many ways outsiders can help, as set out in Chapter 4. Chapter 5 on peace and security looks at how governments can increase human security – importantly linked to growth and poverty<sup>27</sup>. Problems of geography can be overcome or reduced by investments in infrastructure, good governance and regional co-operation to stop political borders becoming economic barriers. Botswana is a good case in point: one of the fastest growing countries in the region for four decades despite being land-locked

and natural resource dependent<sup>28</sup>. Botswana also illustrates a fundamental threat to growth and development in sub-Saharan Africa – the impact of HIV and AIDS (Section 7.2.3.1 and Chapter 6) – with close to 40 per cent of those aged 15 to 49 infected in 2003<sup>29</sup>.

## 7.2.2 Country growth strategies

16 Circumstances, geography and endowments of countries vary enormously and there is no single route to or pattern for growth (See Box 7.1). The routes, and therefore policy and investment priorities, will be different for countries with and without natural resources, and depending on whether they are coastal or landlocked<sup>30</sup>. Some of Africa's countries will take the manufacturing route to increased prosperity. That was the driving force for East Asia and, in Africa, for Mauritius. Others will take the natural resource route: Chile and, in Africa, Botswana have shown that this can be done. And most countries, including China in the early 1980s, and India in the 1970s, have seen increases in agricultural productivity ahead of acceleration in the growth rates of industry<sup>31</sup>.

17 Whatever the growth engine, a long-term vision is essential<sup>32</sup>. In particular, promoting economic diversification within and across sectors is key for African countries to become less vulnerable to external shocks and achieve sustained growth. Equally important is for African governments to draw on best practice in promoting the participation of poor people in growth (discussed in Section 7.4. Box 7.1 gives the example of tourism in Ethiopia).

**Box 7.1 Growth Opportunities in Africa: A Sectoral Focus**
**Natural Resources**

The growth performance of resource-rich developing countries has generally been significantly poorer than that of non-resource-rich ones<sup>33</sup>, because of weaker linkages to the wider economy, poor governance, corruption and conflict. Slow growth is, however, not an unavoidable outcome for developing economies with abundant natural resources. The experiences of Botswana and South Africa show that, when the right set of policies is in place, natural resources can be a source of prosperity not necessarily a 'curse'. Other resource-rich countries in Africa could achieve similar success if they pursue prudent management of the resource flows from their wealth. This includes Nigeria, following its recent signing up to the Extractive Industries Transparency Initiative (See Chapter 4) and Chad, under its Petroleum Revenue Management programme. Hydro-and gas-powered energy could also become an important driver of growth in Africa. Hydro resources in some African countries, notably the Democratic Republic of Congo, are huge, but largely unexploited: the DRC has the third highest average potential hydropower output in the world after China and Russia, yet only two per cent of this has been developed to date. Mozambique has become a major exporter of electricity. 'Mega-projects' in the gas industry are planned in Southern and West Africa.

**Agriculture**

The experiences of South Asian and Latin American countries suggest that, given the right set of policies, commodity-dependent African economies have, like them, the potential to diversify and upgrade their agriculture to achieve rapid growth<sup>34</sup>. One possibility for these countries is to move towards commodity-based export-oriented industrialisation (as in the case of Indonesia or Malaysia) or diversify within the primary sector itself (such as in Chile, Costa Rica or Colombia). Diversification through non-traditional agricultural exports is being pursued in Kenya, Uganda, and Ethiopia; rapidly expanding cut flowers and horticulture sectors, for example. Rapid expansion of fish and fish products exports in Senegal, Tanzania, Kenya and Uganda, provides another important example of what can be done in this sector. There is also scope for regional trade. Mali, for example, could become a main rice exporter in the West African region, as a result of successful irrigation. Agriculture is discussed further in section 7.3.3 of this chapter.

## Manufacturing

Natural resource-based export-oriented industrialisation in Africa has very rarely moved into higher value-adding activities. At the same time, Africa's modest import-substituting manufacturing industry has been in decline for the past two decades, because it focused on a weak internal demand and was not internationally competitive. Of course, once African economies start to grow, demand for local manufactures will revive. However, some argue that such manufacturing for the local market will be a beneficiary of growth rather than its driver. Manufacturing can, however, become a driver of growth, if Africa breaks into the global market. There is also scope for expanding regional trade in manufactured goods, although this inevitably implies that some industries will relocate between countries. But first, wages and other costs have to fall into line with main competitors in Asia and Latin America. The cost of doing business has often been too high in Africa, whether due to inadequate infrastructure, excessive regulation or corruption. Again the right mix of macroeconomic policy and structural reforms can help. Madagascar and South Africa have seen manufacturing exports grow rapidly in recent years, while Côte d'Ivoire was a major manufacturing exporter to the sub-region before the war. A strategy of expanding manufacturing will not work everywhere, but it can work in some countries. A number of countries have taken advantage of privileged access to developed country markets, such as Lesotho, which has turned out to be the largest apparel exporter to the United States under the US African Growth and Opportunity Act (AGOA)<sup>35</sup>.

## Services

The primary role of services, whether public or private, is to support activities in other sectors. Private sector growth in Africa will not accelerate unless essential services, such as banking and health, are developed. At the same time some services, like transport and trade, do particularly well when the economy is thriving – such as when countries experience bumper harvests. Telecommunication services have become a major driver of growth in many African countries, as a result of deregulation and the telecommunications revolution in OECD countries in recent years. More generally, information and communication technology (ICT) can be a powerful driver of growth: in the United States, ICTs produced an estimated one percentage point increase in annual GDP growth in the late 1990s<sup>36</sup>. Countries with an abundance of cheap, low skilled labour are now well placed to undertake off-shore business process services. There are more than 400 call centres in South Africa employing 80,000 people<sup>37</sup>. And other countries, like Senegal and Ghana, have also opened some call centres in the past year. Tourism is a major source of foreign exchange earnings in many African countries, especially in the East and South. It is also a powerful tool for poverty reduction, when linkages are built with the local economy. Yet, political instability, security concerns, and weak air transport links have greatly hindered the development of a mass tourism industry in Africa. Tourism could become a major driver of growth in peaceful African countries if infrastructure is upgraded and local enterprises – including small farms – are able to participate. In Ethiopia, the government is promoting an Ethiopian Tourism Paradigm programme as a model for poverty reduction through tourism.

### 7.2.3 Key challenges

18 A number of important factors threaten the development gains of growth. They also have serious implications for future growth strategies. Two are highlighted here – HIV and AIDS and urbanisation. A third, environmental degradation, is discussed in Section 7.5.

#### 7.2.3.1 The economic impact of HIV and AIDS

19 A study for the Commission for Africa highlighted the devastating impact of HIV and AIDS for individuals, businesses and economies<sup>38</sup>. HIV and AIDS was also highlighted as a major challenge in our consultations with business<sup>39</sup> and with civil society. Chapter 6 looks at this in more detail, including the role of the private sector in the response.

20 The majority of people living with HIV and AIDS are in their economically productive years. They are often the breadwinners for large families. This means that a vast number of people who previously contributed to the economy are no longer able to do so, with severe impacts for their families. In 2003, 7.6 per cent of sub-Saharan Africa's population aged 15 to 49 was infected with HIV and AIDS, but infection rates are much higher in Southern Africa: 39 per cent in Swaziland, 37 in Botswana, 29 in Lesotho and 25 in Zimbabwe<sup>40</sup>. The likely negative effect on the economy is clear. A recent study estimates that in countries with adult prevalence rates over 20 per cent, GDP will be reduced by 67 per cent after 20 years due to the impacts of AIDS<sup>41</sup>.

21 The business impacts have been illustrated across a range of firm-level studies. One conducted in South Africa, Botswana and Zambia, assessed 34 firms with 44,000 employees. 16 to 17 per cent tested positive for HIV. In a study by the South African Business Coalition on HIV and AIDS, 40 per cent of company representatives confirmed that they have already experienced reduced labour productivity or increased absenteeism among employees. And while the effect on large businesses is vast, it is even greater for small businesses, particularly those in the informal sector. Smallholder agriculture in Southern Africa has been severely affected with a decline in productivity of up to 60 per cent among households with members affected by HIV and AIDS, increasing the levels of food insecurity and poverty in the region<sup>42</sup>.

#### 7.2.3.2 Urban development<sup>43</sup>

22 Africans are on the move. Africa is the fastest urbanising continent in the world – around twice as fast as Latin America and Asia, with an annual urban growth rate of close to 5 per cent. Nearly 40 per cent – around 300 million Africans – now live in cities, compared to under 30 per cent in 1980. On current trends, this figure is expected to rise to 50 per cent in the next 25 years.

23 The future of the continent is closely linked to the development and management of its cities. In 1960, Johannesburg was the only city in sub-Saharan Africa with a population of over one million. By 2010 there could be at least 33. Whereas in the developed world, urbanisation was linked to a rise in agricultural productivity and industrialisation, unfortunately, this is not the case in Africa. Migration is fuelled by a failure of agricultural policies or regional conflict, while in the cities there are no industries to provide jobs.

24 This form of premature urbanisation means that African cities and towns do not act as engines of economic development, linking local and international markets, nor can they attract industrial investment. With municipalities hampered by a lack of trained personnel and resources, it is hardly surprising that African towns are unable to be centres of opportunity and creativity.

25 Instead, the urbanisation of poverty is becoming a major problem. Around 72 per cent of the population in African cities and towns live in slums – defined as households that lack access to improved water or sanitation, security of tenure, durability of housing and/or sufficient living space<sup>44</sup>. In many poorer countries this is over 80 per cent, with nearly all of the urban populations in Chad and Ethiopia considered to be living in a slum household. Constantly threatened by eviction, the living conditions are made worse for such households by a lack of access to infrastructure services. In 1998, water connections for informal settlements were 19 per cent compared to 48 per cent for urban areas as a whole. This has direct human development impacts. For example, in Nairobi slums it is estimated that there are around 90 infant deaths per 1000, compared to 76 in rural areas and 57 in the rest of urban areas. In South Africa, the incidence of HIV and AIDS is close to 30 per cent in slums, compared to around 16 per cent in formal urban areas.

26 The failure to design and implement national plans of housing and urban development has led to a backlog of several million housing units in Africa. The market has not been able to deliver, especially as many mortgage institutions collapsed under the pressures of structural adjustment. Concerned about the problems of rapid urbanisation, one of the MDGs specifically targets slum upgrading (Goal 7, target 11). African Ministers of Housing and Urban Development together with AU/NEPAD have called for greater investment in urban infrastructure. Huge investments are required to improve the supply of affordable housing and services. At the same time, the magnitude of urban poverty precludes conventional approaches to housing poor people. In response, the UN General Assembly has called on UN-HABITAT, the UN agency responsible for human settlements, to help African governments manage the process of urbanisation and, more specifically, to strengthen mortgage services for poor people.

27 This is why UN-HABITAT has launched the Slum Upgrading Facility (SUF) Initiative. The SUF would support the emergence of appropriate loan guarantee mechanisms at national and municipal levels to assist poor people and communities to access domestic financing for development of sites, services and housing. The SUF would not itself give loans, but will provide technical assistance to assist poor communities to prepare bankable<sup>45</sup> projects and provide municipalities and housing groups with start-up capital to establish housing loan guarantees. Such an initiative will initially require US\$250 million a year for the first five years.

28 The urgency of the problems of African urbanisation means that this Report takes this issue seriously. The effect of the demographic shift on poverty is discussed in Chapter 1. The implications of accelerating urbanisation on culture are taken up in Chapter 3. The need for greater democratic participation at the level of local authorities is discussed in Chapter 4. The urgent need for security of tenure as one of the critical elements in slum upgrading is set out in Section 7.3.3. Finally, the opportunities for environmental sustainability offered by well-planned cities are noted in Section 7.5. The critical role of small towns in encouraging markets and trade is reviewed in Chapter 8.

## **7.3 Policies for growth**

29 Our proposals focus on a strategy for growth driven by the private sector. But it is for each country to chart its own sectoral strategy, reflecting its assessment of its drivers for growth. The right strategy will differ between countries – for some it may be export-oriented manufacturing, for others diversification into higher value, non-traditional agricultural exports.

30 What is clear is that the private sector, including micro, small and medium-sized enterprises and family farms, has a central role in driving growth and poverty reduction. The challenge for sub-Saharan Africa is to unleash its entrepreneurial potential by improving its investment climate. This is how China and India have started growing faster, and there is no reason why African could not follow the same path.

31 However, it is also clear that it is the public sector that creates the enabling environment for this growth by ensuring that the governance and infrastructure that underpin the investment climate are in place. Thus, the promotion of growth is not a question of the state versus the private sector but a question of how they combine to generate growth<sup>46</sup>.

32 If growth is to be fostered, it must be recognised that the role for the state is substantial and demands resources, including for health, education and infrastructure. A priority must be strengthening the capacity of governments to promote long-term growth; to encourage economic restructuring, diversification and technological dynamism; to develop enabling investment climates; to put in place and maintain – directly or in partnership with the private sector – the needed infrastructure; to deliver public services; and to implement integrated rural and urban planning.

33 In this section of the chapter we make three sets of proposals for action to improve the environment for growth in Africa covering: the investment climate (section 7.3.1); infrastructure (Section 7.3.2); and agriculture and rural development (section 7.3.3). These proposals will also have a positive impact on Africa's international competitiveness<sup>47</sup>, and – alongside proposals set out in Chapter 8 – its ability to break into world markets.

### 7.3.1 The investment climate

34 Sub-Saharan Africa suffers from low domestic and foreign investment, high capital flight and low remittance flows, relative to other developing countries. At 18 per cent, Africa's investment-to-GDP ratio is below the average of 24 per cent for all developing countries and the lowest of any developing region<sup>48</sup>. Only six to seven per cent of foreign direct investment (FDI) and around five per cent of remittances flowing to developing countries go to sub-Saharan Africa<sup>49</sup>. It is estimated that around 40 per cent of private wealth is held outside Africa compared to three per cent for South Asia<sup>50</sup>.

35 Africa has been an unattractive continent for investment both by Africans themselves and by outsiders. The challenge is to generate an environment where Africans want to invest in their own farms, businesses, countries and continent, and which attracts greater flows of foreign investment.

36 There has been a growing recognition of the importance of what is referred to as the 'investment climate' – and of what domestic governments, developed countries, the business community and civil society can do to enhance it. As in most developing countries, the bulk of investment in Africa is domestic: around 80 per cent against 20 per cent for foreign investment<sup>51</sup>. This means the focus must be on the domestic investment climate. But getting the investment climate right for domestic firms will also bring more foreign investment and remittances.

37 A commitment was made in the G8 Africa Action Plan<sup>52</sup>, agreed at the 2002 G8 Summit in Kananaskis and reinforced at the 2004 G8 Summit in Sea Island, to supporting investment climate improvement – in recognition of its importance to growth. And this is the focus of the 2005 World Development Report, 'A Better Investment Climate For All'<sup>53</sup>. The report finds that enhancing the investment climate can accelerate economic growth significantly. It notes that getting the investment climate right for agriculture and in rural areas is of particular importance for many of the poorest people.

38 The benefits of an enhanced investment climate can be far-reaching: in Uganda, which underwent widespread investment climate reforms, GDP grew by around seven per cent per year during 1993-2002<sup>54</sup>, reducing the share of the population living below the poverty line from 56 per cent in 1992 to 35 per cent in 2000<sup>55</sup>. In Tanzania, an improvement in the investment climate is behind the country's fastest growth in 15 years<sup>56</sup>. In Mozambique, investment climate improvements resulted in a doubling of private investment as a share of GDP between 1998 and 2002<sup>57</sup>. A study of 10 countries, including seven in sub-Saharan Africa – Ghana, Kenya, Malawi, South Africa, Tanzania, Uganda and Zambia – linked increased growth of 2.4 to 4.8 percentage points to improved property rights, commercial justice and deregulation<sup>58</sup>.

39 This picture is reflected in other regions. A study on India concluded that "if each... state could attain the best practice in India in terms of regulation and infrastructure, the economy should grow about two percentage points faster, and 3.2 percentage points in poor climate states"<sup>59</sup>. In China, improving property rights, starting with agriculture 25 years ago, helped lift 400 million people out of poverty<sup>60</sup>. In Ukraine and elsewhere, investment climate reforms have resulted in an increase in jobs between 15 and 35 per cent<sup>61</sup>.

40 But many barriers to investment remain in Africa, increasing the risks and costs of doing business. Issues relating to governance, including the transparency, accountability and effectiveness of governments, feature highly in surveys of investors<sup>62</sup>. And they were also identified as priorities by the Commission for Africa Business Contact Group, a group of investors with extensive experience of investing in Africa<sup>63</sup>. Policy unpredictability and macroeconomic instability are among the highest concerns<sup>64</sup>. Improving policy predictability can increase investment by up to 30 per cent<sup>65</sup>.

41 Other important factors relating to governance that are identified in studies and surveys include the quality and accountability of public financial management systems, the predictability and transparency of taxation<sup>66</sup>, the nature of business regulation, the level of corruption, and an effective and fair judiciary<sup>67</sup>. Robust competition laws and policies, with strong institutions to enforce them, are vital to improving productivity and to promoting innovation and better prices<sup>68</sup>. Political instability, conflict and crime are also key issues for investors<sup>69</sup>. As discussed below, these factors are exacerbated in post-conflict countries, making it difficult to attract the private investment needed. Governance is discussed further in Chapter 4, while peace and security are the subjects of Chapter 5.

42 Weak governance has also translated into poor service delivery, with weaknesses in health, education and infrastructure pinpointed as key issues in our business consultations. Given the significance of the infrastructure gap in Africa, and the scale of the challenge this represents, it is looked at separately in section 7.3.2. Proposals to strengthen health and education systems are set out in Chapter 6.

43 Weak governance matters from another perspective. In many high-growth countries – China, India, South Korea, Taiwan, Singapore and, in Africa, Botswana and Mauritius – the state has played an important and active role: in attracting investment; encouraging restructuring, diversification and technological dynamism; boosting productivity, competitiveness and exports; and securing long-term growth. While all have promoted effective property rights, contract enforcement and sound macroeconomic policy, these different countries have adopted very context-specific approaches. In all cases the state has played an important role<sup>70</sup>, with a focus on unleashing private entrepreneurship.

44 In the case of Mauritius, an export-oriented strategy – based on an Export Processing Zone – was combined very successfully with a high level of trade protection for domestic industry until the mid-1980s. Botswana, similarly, combined a 'market-



friendly' environment with substantial state activities in certain areas<sup>71</sup>. An important lesson from these cases is that the quality of government action matters, and therefore so too does its capacity. Past policies that undermined the capacity of governments must be avoided. Governments, and donors, must adopt a creative and flexible approach to promoting long-term growth, with the precise mix of policies reflecting the country-context.

45 Many barriers to investment in Africa are exaggerated due to 'Afro-pessimism'. Africa often appears to be seen as one large risky country<sup>72</sup>, with little understanding of its diversity – driven by negative media coverage and a lack of country-specific knowledge among investors. But the perceived investment climate is as important as the actual one and so addressing negative perceptions is an important part of encouraging investment.

46 Small enterprises suffer most from a poor investment climate<sup>73</sup>. Access to credit and other financial services is important to growth and investment, yet few small businesses or individuals are able to get the access they need. This partly reflects a lack of access to property rights for the majority of poor people: formal legal title to homes and land are often required as collateral to obtain commercial credit<sup>74</sup>. More generally, effectively enforced property rights are important for reducing investment costs and risks<sup>75</sup>. Only one per cent of the land in sub-Saharan Africa has been officially registered with title deeds and most of this is for high-income groups<sup>76</sup>. An example of the failure to register land is that provided by Dar es Salaam, which received over 200,000 applications for plots between 1990 and 2001 of which only about 8,000 plots were allocated officially. The situation is aggravated by the fact that in many African countries there is no financing mechanism for housing.

**47 Recommendation: African governments must unleash the strong entrepreneurial spirit of Africa's people. To promote this, donor governments and the private sector should co-ordinate their efforts behind the proposed Investment Climate Facility (ICF) of the African Union's NEPAD programme. This requires US\$550 million from donors and the private sector over seven years to identify and overcome the obstacles to doing business.**

48 It is clearly the responsibility of African governments to prioritise and take action to enhance the investment climate. Through AU/NEPAD, particularly in the context of the APRM, an African-led process is underway to identify priorities and share best practice from across the region. The ICF is an initiative supported by and in support of AU/NEPAD involving joint action by business and government working together to identify and act on key obstacles. The ICF will provide technical assistance to governments to improve the investment climate in support of AU/NEPAD's aim of 'making Africa an even better place to do business'.

49 The ICF is complementary to existing efforts in Africa, has African ownership and is able to address many barriers to investment in a dynamic way. It has the flexibility needed to reflect the country and sectoral diversity across the region, and is private sector-led. This independent, pro-active and responsive grant facility will combine resources from the private sector with the donor community: an amount of US\$550 million is required over seven years. The major share of resources will need to come from donors, but it is intended that the private sector's share should be significant. Resources should be built up over time subject to review<sup>77</sup>. Donors should stand ready to co-ordinate their efforts behind identified actions, and many have already expressed an interest in funding the facility. Support for the ICF was recommended by the Business Contact Group and welcomed throughout our private sector consultations<sup>78</sup>.

50 It is estimated that the facility will fund over 300 projects, mainly in the 24 African countries signed up to the APRM. It will act on issues highlighted by the APRM, the World

Bank's Investment Climate Assessments and Doing Business Reports, and other processes. It will also be informed by analysis coming out of the proposed Africa Enterprise Challenge Fund (section 7.4.1) and Growing Sustainable Business initiative (section 7.4.3).

51 The ICF will focus on: putting in place appropriate policies, legislation and regulations; ensuring more effective business friendly administration and implementation of policies; enhancing competition policy; facilitating improvement of support and services to the private sector; increasing dialogue between the private sector and government on investment climate reform, including on infrastructure priorities, by strengthening the private sector voice through mechanisms such as chambers of commerce, employer federations and investment councils<sup>79</sup>. The ICF will also address issues such as corporate governance, crime, security, corruption, HIV and AIDS and malaria, particularly emphasising the private sector response to these.

52 It will also support financial market strengthening and the promotion of integrated regional capital markets, including encouraging the standardisation of financial regulation and shared regulatory capacities across countries; increased access to credit information; and simplifying systems for remittance transfers. The role of credit bureaux in boosting credit supply by providing small enterprises with a financial track record was also highlighted during our consultations<sup>80</sup>. As part of efforts to promote enhanced access to credit and financial services the ICF will invest in better information on the demand for financial services and gaps in provision. This would help to identify new market opportunities for financial institutions, and help governments to tackle policy related barriers to widening access to formal financial services. The ICF could support, for example, the extension of Finscope<sup>81</sup> surveys of access and usage throughout Africa in order to address this gap.

53 The ICF will undertake major programmes to tackle issues regarding property rights, making registries more efficient and providing legislative drafting and legal expertise to government, acknowledging the governments' role in driving and owning these changes.

54 Importantly, the ICF will address negative perceptions by giving significant publicity to investment success stories, including through media campaigns to publicise African success stories. It could also complement work on sovereign ratings<sup>82</sup> (for example, initiatives by UNDP with Standard and Poor<sup>83</sup>, and by the US State Department with Fitch<sup>84</sup>), including by supporting countries that are in the "preparation phase" for a sovereign rating.

55 These projects will take place over seven years and, based on the effect investment climate improvements have had in the past, will support poverty reduction and increased jobs, private investment and economic growth.

56 As noted above, the risks and costs of doing business are particularly high in post-conflict countries. And yet there is a critical need to re-establish growth quickly in these countries to ensure they do not regress into conflict. Private investment is key to this, and political risk insurance (PRI) provided by the Multilateral Investment Guarantee Agency (MIGA) – a part of the World Bank Group that provides insurance to private investors – can help. As its Convention presently stands, MIGA, can only provide PRI to foreign investors. Yet, in a post-conflict situation, domestic investors will normally be of particular importance. While other factors dominate, notably commercial risk, domestic investors could have a special interest in protection from expropriation risk, to which they are especially exposed. The aim would be to design a Post-Conflict Guarantee Facility to provide cover to domestic, as well as foreign, investors for political risks.

**57 Recommendation: Developed countries should support a fund of the Multilateral Investment Guarantee Agency to insure foreign and domestic investors in post-conflict countries in Africa. Support should also be extended to domestic investors across sub-Saharan Africa.**

58 MIGA would leverage an amount of US\$80 million of donor contribution to create a fund of US\$500 million covering the World Bank's list of 16 conflict-affected African countries<sup>85</sup> and with the ability to include countries that may go into conflict in the future. Official Export Credit Agencies, private insurers and MIGA would contribute to insurance along side the fund. About 60 projects of between US\$5 million to US\$15 million would be insured, thus enabling 60 new investments that otherwise would not have taken place. The investment projects would be carefully selected so as to have the highest developmental impact. Of course, it should be noted that providing insurance for investments is only part of a much wider effort needed to increase investment flows, including through the changes to the investment climate outlined earlier.

59 A need for such services exists in other African countries as well. Over the longer term, MIGA should work towards extending its focus beyond foreign investors to include domestic investors throughout its operations to cover all (non-conflict) African countries.

### 7.3.2 Infrastructure<sup>86</sup>

60 Poor infrastructure is a critical barrier to accelerating growth and poverty reduction<sup>87</sup>. In Uganda, transport costs add the equivalent of an 80 per cent tax on clothing exports<sup>88</sup>. In some regions of Africa, farmers lose as much as half of what they produce for lack of adequate post-harvest storage<sup>89</sup>. Across the region, women and girls currently walk an average of six kilometres to collect water<sup>90</sup>. The life of those living in urban slums is made still worse by the lack of infrastructure – only seven per cent have access to sewerage services for example<sup>91</sup>, leading to economic costs in terms of health and lost work hours. According to some estimates, increasing the stock of infrastructure by one per cent could add one per cent to the level of GDP<sup>92</sup>. But in some cases the impact has been far greater: the Mozal investment in Mozambique doubled the country's exports and added seven per cent to GDP, while creating new jobs and, through its Small and Medium Enterprises Empowerment and Linkages Programme, has contracted with and trained numerous local companies<sup>93</sup>.

61 Infrastructure is a key component of the investment climate<sup>94</sup>, reducing the costs of doing business and enabling people to access markets; is crucial to advances in agriculture; is a key enabler of trade and integration, important for offsetting the impact of geographical dislocation and sovereign fragmentation, and critical for enabling Africa to break into world markets; and is fundamental to human development, including the delivery of health and education services to poor people. Infrastructure investments also represent an enormous untapped potential for the creation of productive employment<sup>95</sup>.

62 There was overwhelming support during our consultations for increased investment in regional, national, urban and rural infrastructure. At a recent meeting of African Finance Ministers, infrastructure was identified as the top priority for promoting growth<sup>96</sup>. They also underlined the importance of information and communication technology (ICT) for competitiveness and productivity. ICT is transforming the continent<sup>97</sup>. In 2001, Uganda became the first African country to have more mobile phones than fixed lines. The mobile market in the region (excluding South Africa) has grown from under 20,000 users in 1993 to an estimated 18.2 million in 2003<sup>98</sup>. The benefits of ICT are far-reaching – connecting schools to the internet<sup>99</sup>; enabling remote rural communities to get urgent medical advice by phone<sup>100</sup>; giving farmers access to market price information<sup>101</sup>; potentially halving the costs of sending remittances<sup>102</sup>.

63 Yet, despite its clear benefits, African governments and development partners sharply reduced, over the 1990s, the share of resources allocated to infrastructure<sup>103</sup> – reflecting its lower priority in policy discussions<sup>104</sup>. In retrospect, this was a serious policy mistake, driven by the international community, that undermined growth prospects and generated

a substantial backlog of investment – a backlog that will take strong action, over an extended period, to overcome.

64 This was a policy mistake founded in a new dogma of the 1980s and 1990s asserting that infrastructure would now be financed by the private sector. Throughout the developing world, and particularly in Africa, the private sector is unlikely to finance more than a quarter of the major infrastructure investment needs<sup>105</sup>. Between 1990 and 2002, relative to total infrastructure investment in the order of US\$150 billion, private commitments for infrastructure in sub-Saharan Africa totalled only US\$27.8 billion, and two-thirds of this amount (US\$18.5 billion) was for telecommunications<sup>106</sup>. Of course, this picture applies to the large private operators in the sector: the small private operators – such as water carriers and informal water kiosk operators<sup>107</sup> – have *de facto* taken on a larger role as the public sector was pulling out and large private operators were not showing up.

65 A loss of focus on the importance of growth for poverty reduction, and a failure to appreciate the important complementarities between investment in infrastructure and the social sectors, have also contributed to the fall in spending on infrastructure and a lack of emphasis on it in many national poverty reduction strategies.

66 Estimates of needs over and above current expenditures depend on objectives, on assessments of the current position, and on cost assumptions. But there is no doubt that the current needs are very large. A recent World Bank research paper estimates that sub-Saharan African needs to spend around five per cent of its GDP between 2005 and 2015 on infrastructure investments and a further four per cent on operations and maintenance<sup>108</sup>. This means additional expenditure in the order of US\$20 billion a year<sup>109</sup>.

**67 Recommendation: Africa needs an additional US\$20 billion a year investment in infrastructure. To support this, developed countries should provide an extra US\$10 billion a year up to 2010 and, subject to review, a further increase to US\$20 billion a year in the following five years. This should support African regional, national, urban and rural infrastructure priorities – ranging from rural roads and slum upgrading to ICT and the infrastructure needed to support greater integration of Africa's regions and to enable Africa to break into world markets.** This is equivalent to at least a doubling of expenditure on infrastructure<sup>110</sup>. It is not our view that an increase of US\$20 billion could be easily absorbed effectively over the next five years. The priority is to deliver the extra US\$10 billion a year – using existing institutions while improving local capacities to manage increasing resources – and then review the potential for further expansion.

68 The additional funding should support the regional, national, urban and rural priorities identified by AU/NEPAD, the Regional Economic Communities (RECs), national governments, local authorities and municipalities, the private sector and poor people – and should avoid funding prestige projects that have so often turned into white elephants in the past. A significant part of the additional funding will need to be invested in improving the capacity of the public sector (at regional, national and municipal levels) to manage larger flows effectively, including to cover recurrent expenditure.

69 Funding should be for a range of infrastructure projects, from investments that support the growth of agriculture and related agribusiness, such as rural feeder roads and irrigation, to larger projects for electric power, ports and regional infrastructure. Also important is investment in slum upgrading, energy, water resource management, water supply and sanitation, which are among the priorities of poor people in most countries, especially those of women and girls.

70 The necessary expansion is on a scale that means that in the short term only a small fraction could be funded by African public finances (see Chapter 9). Experience has told us

that only a small fraction will come from the large private sector operators unless donor countries are willing to support them through guarantees and other insurance-type schemes. Over time, and on the basis of economic growth and with improvements to investment climates, financing could increasingly come from domestic public finances, the private sector and user charges (where appropriate and equitable).

71 The magnitude of the investment needed in infrastructure and its role in fostering growth presents a strong case for front-loading resources, given the high up-front costs and large social and economic benefits that accrue over many years. It is possible to get a very tentative feel for the likely growth and poverty impacts of an infrastructure investment of this magnitude. Continuous investment over a decade, with a build-up in investment to the US\$10 billion total by 2008, and to US\$20 billion by 2013, could raise the level of GDP in 2015 by close to 4.5 per cent above what it would otherwise have been. This would result in, by 2015, a poverty rate that is close to 2.5 percentage points lower than would otherwise have been the case, equivalent to around 20 million people. These figures are sensitive to assumptions, including the profile of spending<sup>111</sup>.

72 It is also possible to get a rough sense of what this resource could buy, by making assumptions about the allocation between regional and national infrastructure and between sectors. Clearly, it is for African-led processes to make these decisions at the local, sectoral, country and regional levels – the figures and the mix of investments presented here are for indicative purposes only. Assuming some additional resources could be leveraged from the private sector, total resources could, at the regional level, provide close to three quarters of the funding needed for AU/NEPAD's Short Term Action Plan (covering energy, transport, ICT, and water and sanitation)<sup>112</sup>.

73 On top of this, at the national level, it could enable, by 2015, the creation of around 15 million electricity connections, as well as 150,000 kilometres of roads, 3,000 kilometres of railway, water supply and sanitation services for 75 million people, and around 60 million telephone connections (though clearly in the case of telecommunications the priority must be for governments to put in place the regulatory framework to attract private operators – which could vastly increase the number of connections<sup>113</sup>). And it would also allow a major expansion of irrigation – increasing the proportion of arable land that is irrigated by 50 per cent by 2010 on the way to doubling by 2015 (See section 7.3.3). This would leave sufficient resources to fund the UN-HABITAT's Slum Upgrading Facility, which requires US\$250 million a year for five years (see Section 7.2.3.2)<sup>114</sup>.

74 Of course, investment needs are considerably higher if we are to close Africa's infrastructure gap<sup>115</sup> – such as tackling more comprehensively the human suffering of those living in slum households in the context of rapid African urbanisation, the cost of which, alone, could be over US\$10 billion a year<sup>116</sup>, and the importance of which was highlighted by the African Ministerial Conference on Housing and Urban Development<sup>117</sup>. Or filling the gap in the provision of rural and feeder road networks: the Economic Commission for Africa estimates that the density of these needs to at least triple<sup>118</sup>. Or tackling the digital divide and investing the resources into ICT needed to enable Africa to participate fully in the global knowledge economy – identified as a priority in AU/NEPAD's infrastructure plans. We therefore believe it is important to move towards US\$20 billion a year in the medium-term as an important contribution towards these needs.

75 The new funding must be used in a way that reflects the lessons of the past that have led to substantial improvements in the economic rate of return of infrastructure projects<sup>119</sup>. In particular, the funding should: support operation and maintenance costs, as well as institutional innovations such as those that involve users in maintenance and delivery; ensure good governance and transparency in procurement, to combat currently

high levels of corruption<sup>120</sup> (see Chapter 4); build national, municipal and regional capacity to plan and implement projects in line with economic, social and environmental<sup>121</sup> good practice, to deliver effective infrastructure services, and to work with the private sector, including small and medium enterprises<sup>122</sup>; and support access of poor people to services, including through greater application of 'output-based aid' which uses targeted subsidies to extend services into poor communities<sup>123</sup>. Where the public sector is directly involved in delivery, there should be investment in building the capacity of users, including poor people, to hold government to account.

76 The funding should also support a pragmatic approach to private sector participation that recognises the roles where the private sector can add most value – most often as a performance-based contractor in building, delivery and maintenance. It should also build on existing initiatives to attract much-needed private sector investment, such as the Public Private Infrastructure Advisory Facility (PPIAF)<sup>124</sup>, the Municipal Infrastructure Investment Unit (MIIU)<sup>125</sup>, the work of the International Finance Corporation, and the programmes of the Private Infrastructure Development Group (PIDG)<sup>126</sup>. These work with national and municipal governments to improve the investment climate, develop commercially viable projects, and provide funding including in the form of long-term debt finance and guarantees to cover the risks of local currency financing.

77 The importance of developing and promoting public-private partnerships for infrastructure was emphasised in the Commission's business consultations<sup>127</sup>. The need for governments to ensure that the regulatory environment is in place to facilitate private sector investment in ICT was also highlighted. So too was the importance of a co-ordinated, continent-wide approach to ICT that brings together donors, governments and the private sector to enhance Africa's connectivity. Innovative private sector approaches to meeting the infrastructure needs of poor people – such as rural electrification – are one focus of the Growing Sustainable Business Initiative, support for which is proposed in section 7.4.3. Involving the private sector in setting infrastructure priorities is a focus of the Investment Climate Facility.

78 A shortage in the supply of bankable projects is a critical constraint in attracting private investment. The fund should support the expansion of the NEPAD Infrastructure Project Preparation Facility<sup>128</sup>, hosted and managed by the ADB and other such initiatives<sup>129</sup>. Of course this is an issue that faces public projects too: building public sector capacity is also key (See Chapter 4).

79 Alongside additional funding, there must be a change in the way donors operate, including through a new framework to enhance donor co-ordination; an improvement in the way they work at the sub-national and regional levels; a review of procurement processes to ensure they are open to local private sector participation, especially small enterprises, as part of a move away from tied aid; and more predictable financing. Funding for infrastructure should be predominantly on a grant basis, given the importance of facilities being available to poor people and the importance of avoiding the future build-up of debt. Country-level donor officials should strive to empower local actors: once mechanisms of oversight, such as regular evaluations and auditing are put in place, donors should resist micro-management in the implementation of projects given the impacts this can have on efficiency.

80 For their part, African governments must re-prioritise the importance of infrastructure in their poverty reduction strategies. They must place sufficient emphasis on the on-going maintenance of infrastructure, commit to working with the private sector and with poor people in determining infrastructure priorities, put in place the right investment climate to attract private sector investors, and take a lead in tackling corruption in procurement.



81 We suggest two options for administering the funds, though a hybrid of the two would also be possible. Option 1 is to house a new facility at the ADB<sup>130</sup> – the lead agency for infrastructure development in Africa and designated as the focal agency for promoting AU/NEPAD infrastructure programmes. This arrangement could be assisted by private sector participation in fund management and a Review Panel to examine large projects. Option 2 is to spread the funds across a range of institutions – the ADB, World Bank, European Investment Bank, International Finance Corporation and other multilateral and bilateral agencies, within a framework for enhanced co-ordination. Both options are discussed in the Annex.

### 7.3.3 Agriculture and rural development

82 Through AU/NEPAD and the RECs, African Union Heads of State and ministers have expressed their recognition of the crucial role of agriculture<sup>131</sup>. In sub-Saharan Africa, agriculture contributes at least 40 per cent of exports, 30 per cent of GDP<sup>132</sup>, up to 30 per cent of foreign exchange earnings, and 70 to 80 per cent of employment<sup>133</sup>. Accelerating growth in agriculture is critical to sustained growth and industrial diversification in the wider economy<sup>134</sup>. In both rural and urban areas, poor people, particularly women, depend directly on agriculture for their livelihoods and food security<sup>135</sup>.

83 However, Africa's agricultural potential is constrained by a wide range of obstacles and bottlenecks<sup>136</sup> that include climatic and very varied agro-ecological problems, and the decline post-1980s of investment in rural infrastructure and in small market towns and villages that link local markets to the global economy. Poor rural transport infrastructure and the inability of local authorities of small rural towns to provide the necessary services increases the costs of delivering inputs to growers and outputs to markets. Agricultural growth is also constrained by the international trade regime (discussed in Chapter 8)<sup>137</sup>. And farmers face huge burdens from pests, weeds and diseases affecting crops and livestock. In many parts of the continent, inequitable land distribution and insecurity of land tenure discourage investment and undermine the livelihoods of poor people<sup>138</sup>.

84 Unlocking agricultural growth in Africa will require a package of actions that responds to the above problems and opportunities and builds on a range of Africa's agricultural success stories. Most such stories involve measures that both increase output and address the vulnerability, volatility and risk in the sector. For example, the development and diffusion of modern high-yielding varieties of maize<sup>139</sup>; the expansion of horticultural and flower production for exports to European markets<sup>140</sup>; the growth of smallholder dairy in Kenya, which is inspiring similar innovations in Tanzania and Uganda<sup>141</sup>; and improved cassava and rice production in West Africa arising from policy incentives for smallholder markets and, more recently, crossbreeding to produce the high-yielding New Rice for Africa (NERICA)<sup>142</sup>.

85 In support of AU/NEPAD's Comprehensive African Agricultural Development Framework<sup>143</sup>, developed countries should support measures to improve production and the efficiency of African agriculture, focusing on: irrigation and post-harvest infrastructure; research, innovation and extension; security of tenure and land rights; and a well planned strategy of urbanisation that recognises the role of small towns in encouraging growth and trade through the development of local and regional markets. Developed countries should support the capacity building of national and local governments so that they can act as efficient links between the agricultural sector and local and regional markets. Chapter 8 looks further at trade issues. The importance of investing in rural and feeder road networks has already been mentioned. So too has the need to generate an enabling investment climate for agriculture and in rural areas, to be tackled by the proposed Investment Climate Facility.

86 Rural development will also depend on effective farmer institutions owned by farmers themselves, without interference from state actors. The revival of an independent agricultural co-operative movement in Africa should be emphasised. Chapter 8 looks further at farmer organisations.

### **Irrigation and post-harvest infrastructure**

87 Barely four per cent of arable land in sub-Saharan Africa is irrigated compared to 40 per cent in South Asia<sup>144</sup>. In the last decade, the amount of land under irrigation grew slowly, at a rate of between 0.5 and 0.7 per cent a year. Poverty can be as much as 20 to 30 per cent lower in areas where a higher proportion of land is irrigated<sup>145</sup>. Rain-fed agriculture is far more susceptible to the large climatic variability that faces the region (described in section 7.5). With irrigation, cropping intensity<sup>146</sup> can rise by 30 per cent.

**88 Recommendation: As part of a wider set of measures to promote agricultural and rural development, Africa must double the area of arable land under irrigation by 2015. Donors should support this, initially focusing on funding a 50 per cent increase by 2010, with an emphasis on small-scale irrigation<sup>147</sup>.** This should bring an additional five to seven million hectares of arable land under irrigation by 2010, and would cost in the region of US\$2 billion per year<sup>148</sup>. Based on rice productivity work in Tanzania, this would raise yields by an average of five per cent, crop prices by seven per cent and irrigated land rentals by up to 40 per cent a year.

89 Appropriate micro-irrigation systems and technologies are already in use in East and Southern Africa, and extending them to a wider area and network of producers should not be unmanageable in this time frame. Irrigation can be increased without significantly disadvantaging other users of water, as was discussed at the First Pan African Implementation and Partnership Conference on Water in Addis Ababa in 2003, through the use of integrated water resource management strategies, micro-irrigation schemes, local level water harvesting and trans-boundary water management (see Chapter 6).

90 Post-harvest infrastructure is also key. Post-harvest losses in many parts of Africa average around 50 per cent for fruits, potatoes and vegetables compared to 25 per cent for developing countries overall<sup>149</sup>. This undermines both food and income security for smallholders and poor people. Accordingly, we call for support to address post-harvest losses, including storage infrastructure and improved rural transport and energy infrastructure. It is estimated that for maize, for example, with a budget of between US\$30 million and US\$50 million over a 10-year period, potential efficiency savings of US\$480 million a year<sup>150</sup> could be possible.

### **Effective research, innovation and extension**

91 Effective research, innovation and extension<sup>151</sup>, driven by the needs of farmers and owned by Africans themselves, has declined over the past two decades<sup>152</sup>. Rejuvenation of agriculture should include timely institutional innovations appropriate to each locality involving smallholders and other stakeholders.

92 We urge the international community to support Africa's efforts to increase investment and innovation in agriculture, by funding a major growth in research and extension services in Africa over the next ten years. The support should be channelled through regional research organisations, universities and centres of excellence. AU/NEPAD<sup>153</sup> estimates needs at US\$1.6 billion a year, in addition to US\$340 million a year for the Consultative Group on International Agricultural Research centres<sup>154</sup>. Chapters 3 and 4 set out related proposals on higher education and science and technology.



93 We also recommend support to enhance sharing of agricultural innovation and knowledge between Africa and Asia. Although Asia's Green Revolution experience cannot be transferred wholesale to Africa<sup>155</sup>, recent innovative south-south research partnerships, such as those behind the New Rice for Africa, point to the benefits of such partnerships. The potential of these is not currently being fully exploited. The emphasis should be on the production and use of high yielding, stress resistant and nutritious plant varieties, such as quality protein maize and vitamin A rich yellow sweet potato.

### **Security of tenure and land rights**

94 Land reform is intensely political and most donors have pulled back from this issue in recent decades. But, with only one per cent of land being officially registered in sub-Saharan Africa<sup>156</sup>, it is of such fundamental importance to the lives of the majority of the poor people in Africa that it cannot be ignored. The objective should be to provide poor people, particularly women and the most vulnerable, with some sort of security in land tenure and thus the incentive to invest. In Burkina Faso where women have more secure land rights than in other African countries, female farmers' productivity is significantly higher<sup>157</sup>. The provision of some form of security of tenure to slum dwellers can help attract investments for infrastructure and housing from donors, the private sector and people themselves. Technological advances such as Geographical Information Systems and computerised records have reduced the technical issues, and increase transparency and accountability. But few, if any, local authorities have access to this technology.

95 Recording and security of tenure should not automatically be equated with formal titling systems common in developed countries. Generally such systems would be more appropriate for urban areas<sup>158</sup>. Given the strongly political nature of the issue, public dialogue is crucial. Systems should be grounded in local social and political legitimacy and provide methods, based on local culture, for dealing with conflict and dispute. The proposed Investment Climate Facility offers a way to take this forward. Donors should also support the UN's land and property administration programme.

## **7.4 Policies for participation in growth**

96 Growth will drive poverty down more rapidly if poor people are better able to participate in society and the economy. The measures proposed on governance (Chapter 4), peace and security (Chapter 5) and human development, including health, education and social protection (Chapter 6), will have a major role in shaping the opportunities of poor people to participate. So too will the proposals above in this chapter. Supporting agriculture is key, given its importance to poor people's livelihoods, particularly women.

97 In this section we look further at the issue of participation, and set out our proposals to encourage micro, small and medium enterprises (section 7.4.1) and promote employment (section 7.4.2). Promoting opportunities for women and young people must receive special attention. Larger foreign and domestic businesses have a key role to play in supporting our priority areas for action, and this is discussed in section 7.4.3.

### **7.4.1 Small enterprise development**

98 Poverty reduction through growth requires a focus on the indigenous private sector, which in sub-Saharan Africa is composed of a myriad of micro, small and medium enterprises, including – the most numerous – the family farm. And it depends on finding ways to help them thrive and grow. Together, they are the primary source of jobs and

economic opportunities, as the UN Commission on the Private Sector and Development, co-chaired by Paul Martin and Ernesto Zedillo, emphasised strongly<sup>159</sup>.

99 Many of these enterprises operate informally<sup>160</sup>. On average, the informal economy in sub-Saharan Africa accounts for 78 per cent of non-agricultural employment, 61 per cent of urban employment and 92 per cent of new jobs<sup>161</sup>. While a daily reality for the majority of people, activities in the informal economy contribute to less than half of GDP<sup>162</sup>. This is because the majority of actors operating in the informal economy are trapped in low productivity activities, where income is low and often irregular. The cost is huge for people's livelihoods, but also for Africa's economies: a productivity cost put at one to two percentage points off growth every year<sup>163</sup>. Marginalised groups and individuals, including migrants, the disabled, and the urban youth, are concentrated in this unregulated part of the economy.

### **Creating an enabling environment for small entrepreneurs**

100 Africa needs a strong and vibrant small enterprise sector that operates in the formal economy, and is heard in policy discussions. One of the key messages of the Economic Commission for Africa's Big Table meeting in Addis Ababa in October 2004 was that each government in Africa should develop a small enterprise development strategy, as part of or alongside their national poverty reduction strategies<sup>164</sup>.

101 Because of their limited resources, small enterprises suffer more than bigger firms from a weak investment climate<sup>165</sup>. A key responsibility of governments in Africa is to create an enabling environment for the private sector, and we have set out a proposal to support AU/NEPAD's Investment Climate Facility to help them in this role. For the informal economy, this starts by giving small enterprises a voice in the policy process<sup>166</sup>, and securing and extending their rights over assets (including land and commercial premises)<sup>167</sup>.

102 African governments also need to work in close partnership with civil society, established businesses (both domestic and foreign) and the international community to develop specific actions for small enterprise development and poverty reduction. This is also one of the recommendations made by the Millennium Project in 2005<sup>168</sup>. The role of local authorities is also essential for guaranteeing an equitable access to goods and services in support of small enterprises in both rural and urban areas.

103 Women play a pivotal role in the informal economy, in large part because gender discrimination prevents them finding jobs in the formal sector. In some African countries, women are responsible for 80 per cent of agricultural production and close to 100 per cent of production for the household<sup>169</sup>. In Benin, for example, women traders represent 92 per cent of total informal employment. In slums, where women headed households predominate, it is the women who bear the burden of finding employment and raising their children under the most difficult conditions.

104 Yet women entrepreneurs in Africa face huge discrimination with regards to access to economic and social assets, including land rights, and education<sup>170</sup>. One priority area agreed by the AU is to empower women<sup>171</sup>. Recommended actions include improving women's access to training in basic business skills and market opportunities; and implementing legislation that guarantees land, property and inheritance rights for women. We strongly support these recommendations. These are essential not only for gender equality and poverty reduction, but also for the development of a diverse and vibrant private sector. Access to education for girls is discussed in Chapter 5.

### **Market linkages and the need for finance**

105 In most African countries, domestic demand is low and market opportunities are few and far between. But even where market opportunities exist, small enterprises may

not be able to take advantage of them: constrained by a lack of access to finance, to business know-how and information, and to infrastructure and technology – what can be collectively referred to as poor 'market linkages'.

106 Small enterprises cannot grow in isolation and need access to a range of financial and non-financial services to take advantage of market opportunities. Access to credit is a constraint facing many small enterprises, especially farmers. Micro-finance institutions (MFIs), from *susus* in Ghana to *tontines* in Francophone countries like Cameroon, have grown under the pioneering work of non-government organisations<sup>172</sup>. But much more needs to be done in this area. Levels of financial exclusion – the number of people without access to bank accounts – can run as high as 90 per cent in some African countries<sup>173</sup>. The UN General Assembly has designated 2005 as the International Year of Micro-Credit<sup>174</sup>. The importance of microfinance was also raised in the 2004 G8 Summit in Sea Island<sup>175</sup>. We welcome this renewed focus and stress the importance of all aspects of finance (credit, savings, deposits, insurance services and pro-poor mortgage mechanisms) for the successful development of enterprises in Africa. Governments should encourage development of a variety of financial intermediaries that serve poor people with diverse financial services, not just loans<sup>176</sup>.

107 MFIs alone are not the answer. Banks and other financial institutions, domestic and international, have far greater resources to take up the challenge of enterprise financing and come up with innovative financing schemes<sup>177</sup>. In this area, there is a need to build on existing efforts of partnership between MFIs and commercial banks, as already observed in some countries, like Guinea and Tanzania<sup>178</sup>.

108 African countries also need a regulatory framework that supports microfinance and its integration into the financial sector<sup>179</sup>. The need for comprehensive reforms in the financial sector was discussed earlier, and is a focus of the proposed Investment Climate Facility.

109 Deepening financial markets is one example of how improved market linkages can help small enterprises grow. But other market linkages are equally critical to increasing opportunities for small enterprises. As discussed earlier in this chapter, infrastructure is vital for enabling enterprises to access markets and make the most of market opportunities. For agribusinesses, rural roads, irrigation and post-harvest infrastructure are particularly important. Enabling small enterprises to access markets should be a priority for the proposed additional infrastructure funding.

110 Small enterprises are also constrained by a lack of access to business services, including training in business planning. And they find it difficult to access information about market trends and opportunities. In this regard, mobile telephones have the potential to be of enormous benefit, with examples of farmers already using this technology to access market price information<sup>180</sup>.

111 Through their trading relationships with small enterprises, larger domestic and foreign firms can play an important role in enabling them to overcome weak market linkages<sup>181</sup>. They open new market opportunities for small enterprises by involving them as suppliers or distributors of their products. But many also provide financial assistance, technological upgrading and business skills development<sup>182</sup>. The 'Partnerships for Small Enterprise Development' Resource Document commissioned by the UN<sup>183</sup> explores best practice, in Africa and elsewhere. The Business Contact Group has developed a welcome proposal to support small and medium enterprises (SMEs): an 'SME Passport' that will help small enterprises access finance and business knowledge<sup>184</sup>.

**112 Recommendation: Developed countries should set up a US\$100 million Africa Enterprise Challenge Fund<sup>185</sup> (AECF) to support private sector initiatives that contribute to small enterprise development by giving them better access to**

**markets. The Fund will encourage new partnerships in the financial and non-financial sectors and contribute to the African Union's objectives of promoting job creation for young people and women's entrepreneurship.**

113 Developed countries should support and encourage the direct involvement of domestic and foreign businesses, including banks and other financial sector institutions<sup>186</sup>, in the challenge of small enterprise development and poverty reduction in Africa, building on commitments made at the 2004 G8 Summit in Sea Island<sup>187</sup>. While mutually beneficial in the long term<sup>188</sup>, such engagement will involve initial risks that businesses may be unprepared to take.

114 Building on lessons and experiences of previous Challenge Funds<sup>189</sup>, and other interventions in this area<sup>190</sup>, the AECF will seek to work with businesses to accelerate the development of profitable business opportunities that contribute to small enterprise development through strengthened market linkages<sup>191</sup>. It will leverage private sector funding and management by providing direct support to overcome the perceived or actual risks that deter such investments. The private sector will identify, and bid for funding for, projects that have the potential to be commercially sustainable after the grant has been utilised<sup>192</sup>.

115 This level of funding is expected to attract a further US\$170 million of private sector capital across 300 projects in the first instance, with substantial follow-up investments for successful initiatives. This has the potential to impact directly upon thousands of micro, small and medium enterprises during the Fund's life. The selection of projects will be governed by their small enterprise focus and poverty impact, with a particular emphasis on women's participation and job creation for young people. The Fund will engage with a broad range of projects across sectors and types of market linkage. The AECF will work closely with the UNDP Growing Sustainable Business (GSB) Initiative (outlined in section 7.4.3), which would be an important source of potential projects for funding, and will inform the focus of the proposed Investment Climate Facility.

## **7.4.2 Employment promotion**

116 Creating new jobs in Africa will depend primarily on accelerating economic growth. But growth alone will not always translate into employment opportunities for all. More direct actions are needed. In developed and emerging countries, the vast majority of people who escape poverty do so by taking up waged employment<sup>193</sup>. Yet waged workers represent a minority in Africa – from eight per cent in the Central African Republic to 25 per cent in South Africa<sup>194</sup>. This partly reflects low economic activity and the lack of employment opportunities in the formal sector. In addition, the majority of the domestic labour force in Africa, especially women, do not have the basic literacy and numeracy skills required for formal employment. Employers' organisations have further identified the lack of vocational (including ICT) skills as a major hindrance to employability in Africa<sup>195</sup>. For the many people who work in the informal economy, labour and safety regulations do not apply and work is often low paid and seasonal – providing a poor alternative to formal employment.

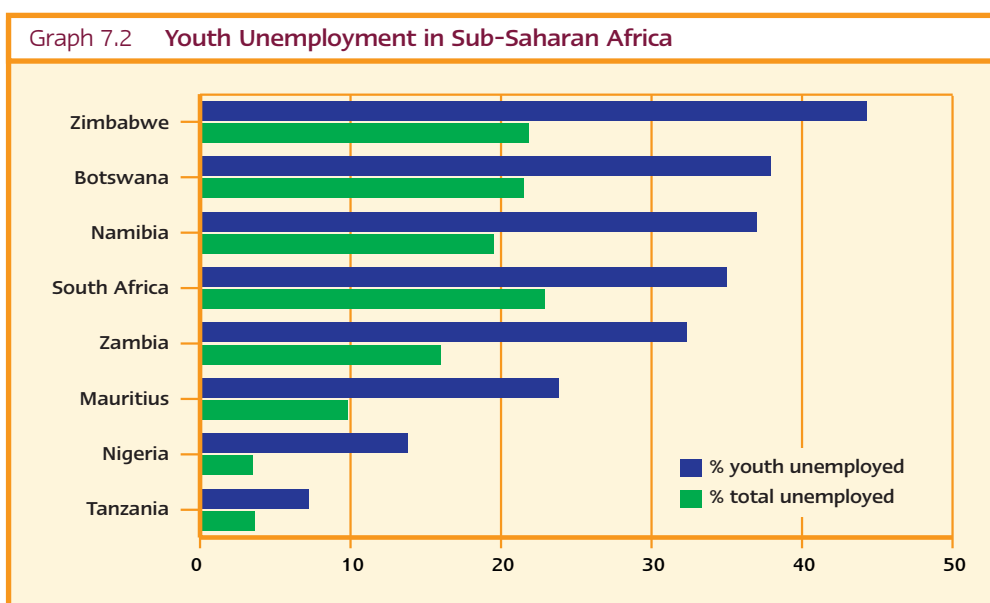
117 These issues call for an integrated approach to employment strategies in Africa, with an equal focus on the four priority areas of entrepreneurship, employability, equal opportunity and employment creation, which the International Labour Organisation<sup>196</sup> and the AU highlighted at the summit on Employment and Poverty Alleviation in 2004 in Burkina Faso.

118 All African governments have committed themselves to build on existing efforts to tackle employment by signing up to the AU Action Plan in Burkina Faso. But to do this, African governments – education, labour and finance ministries in particular – need donors' assistance to undertake robust labour market analysis, building-up information on the labour market that will guide policy decisions (see Chapter 4). They also need to work in close partnership with all stakeholders, including trades unions and the private sector.

## The challenge of youth employment

119 The challenge of youth employment in Africa needs urgent attention. In sub-Saharan Africa, young people aged 15 to 24 make up 36 per cent of the working age population<sup>197</sup>. Because of population pressure, the number of young people looking for work is expected to increase by 28 per cent in the next 15 years, equivalent to about 30 million people<sup>198</sup>. On average, 21 per cent of African youth are openly unemployed, a rate over three times higher than adults<sup>199</sup>. National rates exceeding 30 per cent are not uncommon, as illustrated in Graph 7.2<sup>200</sup>. But these figures capture only part of the problem. With no social protection, many young people (including graduates) cannot afford to be unemployed and, instead, survive by taking up activities in the informal economy.

120 Failure to address youth employment issues will have grave costs for the economy and society. Without opportunities to earn a living, intergenerational cycles of poverty will persist. This will reinforce the impact on youth incomes and activities, already made vulnerable by HIV and AIDS, food insecurity and violence. Young people and their employment must be seen as central for the broader development agenda. The UN Security Council has argued that youth unemployment is related to insecurity in West Africa<sup>201</sup>. Joblessness fuels the propensity of young people to engage in crime and violence. Post-conflict re-integration programmes in particular must respond urgently to the needs of youth and child soldiers (see Chapter 5 on employment issues in the framework of peace and security and, specifically, demobilisation).



Source: ILO/SAMAT Discussion Paper No14, 2000 (latest year available)

## Building on recent successes

121 Despite the scale of the challenge, many African governments have failed to address employment issues explicitly in their national poverty reduction strategies. Donors' focus on employment has also been particularly weak and erratic. Yet efforts to tackle employment issues, and youth employment in particular, have increased in recent years – spurred by commitments made under the Millennium Declaration<sup>202</sup>, and the launch of

the Youth Employment Network (YEN) by Kofi Annan, Secretary-General of the UN. The initiative, backed by two UN resolutions, supports and promotes national-level strategies for youth employment<sup>203</sup>.

122 Senegal, a lead country in the YEN, launched a youth employment programme in 2001. Since then, the national youth employment agency has assisted 25,000 young people in their job search; a national fund to facilitate finance for youth micro-enterprises (with a special focus on young women) has helped to create over 12,000 jobs; and public-private partnerships have improved vocational training through business internships for 600 graduates<sup>204</sup>. Other sub-Saharan African countries that have volunteered to prepare youth employment action plans include Mali, Rwanda, Namibia, and Nigeria.

123 As noted in the earlier section on infrastructure, public sector investment can also have a positive effect on employment. Public works in road building, slum upgrading and irrigation<sup>205</sup> are examples of employment-related schemes that African governments can integrate in their national poverty reduction strategies. Benefits are particularly strong when long-term employability is improved (see also employment springboards in Chapter 6).

### **Encouraging public-private partnerships**

124 As strongly emphasised during the 2004 AU summit on Employment and Poverty Reduction and the African Social Partners Forum in Burkina Faso<sup>206</sup>, all stakeholders – including youth, employers, civil society and trades unions – need to be involved in the process of identifying employment opportunities and matching up people's skills.

125 Through apprenticeship programmes, workplace training and input into curriculum development, employers are in a strong position to help prepare young people for jobs that are likely to be available. Successful demand-led vocational education packages include South Africa's 'employment platforms', the Nigerian National Open Apprenticeship Scheme and the introduction of enterprise skills in Malian secondary schools<sup>207</sup>. The Business Contact Group also identified the need for the international business community to work with local business schools, universities and colleges<sup>208</sup>.

126 Larger domestic and foreign firms can also promote entrepreneurship by involving smaller businesses as suppliers or distributors of their products, as well as by offering mentoring support and access to start-up capital. This is the focus of the proposed Africa Enterprise Challenge Fund. An inspiring and instructive example is Youth Business International (YBI) – a private sector-led initiative that has helped 50,000 young people set up in business through 20 programmes around the world<sup>209</sup>.

**127 Recommendation: African governments must take leadership in explicitly promoting employment for young people, both women and men, in their policies for growth. Donors should assist African governments in formulating and implementing national action plans on employment through the Youth Employment Network, as endorsed by the African Union<sup>210</sup>.**

128 Developed countries should provide an additional US\$30 million over three years to expand the work of the YEN to 25 sub-Saharan African countries<sup>211</sup>. The YEN aims to provide technical and financial assistance to these countries to draw up national youth action plans based on extensive consultations with youth, employers, civil society and trades unions. The countries that have already volunteered to prepare National Action Plans on youth employment would be encouraged to catalyze efforts in other countries. One third of overall funding would be for the policy, consultation and review process. The remaining US\$20 million would be start-up funding for activities with the potential to be scaled-up in the future. Activities would be country-specific addressing both supply (relevant skills and training) and demand (job creation). In addition, the YEN will continue to encourage the

sharing of expertise between its members, co-ordinate donor funding, work with RECs, and build a partnership with the infrastructure fund (see section 7.3.2).

### 7.4.3 What business should do<sup>212</sup>

129 The business community's primary contribution to poverty reduction is through generating economic growth: it creates jobs and economic opportunities that lift people out of poverty, as well as tax revenues needed to fund public spending on a long-term basis. However, it is increasingly recognised that the way larger foreign and domestic businesses do business can have a further powerful impact on the extent to which poor people are able to participate in and benefit from growth.

130 These issues were put firmly on the international development agenda at the World Summit on Sustainable Development held in Johannesburg in 2002, with a business response to AU/NEPAD set out at the World Economic Forum's Africa Economic Summit 2002<sup>213</sup>. This year's Annual Meeting of the World Economic Forum in Davos placed a renewed emphasis on this area<sup>214</sup>. The work of the NEPAD Business Group, the AU's Economic, Social and Cultural Co-ordination Committee, and the King Report on Corporate Governance in South Africa, amongst others, have also raised and reflected interest in the African context.

131 The impact of business on the societies in which they operate is often discussed in the context of 'Corporate Social Responsibility' (CSR). However, the vagueness of the term and its overly-narrow misinterpretation as 'corporate philanthropy' means that some of the most important business-poverty linkages are often missed. While philanthropy – in the form of community level investments, employee volunteering programmes and product donations – does have very real benefits<sup>215</sup>, still more important is the impact businesses have on development outcomes through their core business activities<sup>216</sup>. Four areas are particularly important:

- *Employment*: Job creation is clearly a central way in which businesses can be of direct benefit to society. In addition to the quantity of jobs, businesses' commitment to core labour standards<sup>217</sup> can contribute to poverty reduction by promoting broad-based economic and social development<sup>218</sup>. This is important in the face of pressures on developing countries to increase labour market flexibility and erode labour protection in the context of increased globalisation and competition<sup>219</sup>. Business can also support public and private sector capacity building<sup>220</sup>.
- *Enterprise*<sup>221</sup>: Developing long-term business relationships with micro, small and medium enterprises is one of the most important ways in which larger companies can promote the participation of poor people in growth<sup>222</sup>. This is a focus of the proposed Africa Enterprise Challenge Fund. Examples of proactive support range from financial assistance and mentoring to lobbying national governments to create effective investment climates for small business<sup>223</sup>. Chapter 8 discusses the role of supermarkets that source products from Africa.
- *Goods*: Goods and services for poor people are often relatively expensive and of poor quality<sup>224</sup>. A greater choice of lower cost goods can benefit poor people, particularly if they are tailored to their needs<sup>225</sup>. Better management of environmental impacts of goods and services is also important (section 7.5 looks at environmental sustainability). Chapter 6 looks at pharmaceutical companies, drug pricing and research into new drugs, vaccines and diagnostics.
- *Social Services*: Paying taxes and refraining from demands for special tax treatment strengthens the government revenues, needed for sustainable, long-term provision of public services. Businesses can also directly benefit employees (and their families),



through the provision of education, housing and health services, with HIV and AIDS programmes particularly important. This is especially beneficial where it fits with and builds local capacities. Business can also be an important voice in lobbying government for public expenditure that benefits poor people<sup>226</sup>. The importance of private sector participation in infrastructure has already been discussed. Chapter 6 discusses this in the context of health and education services<sup>227</sup>.

132 Business can also play an important role in promoting transparency and good governance<sup>228</sup>. Revenue transparency is particularly important in the extractive sectors<sup>229</sup>; governments in Equatorial Guinea and Angola, for example, have largely misused oil revenue inflows<sup>230</sup>. This contrasts with Botswana which put in place effective governance of its diamond revenues, so that resources were invested rather than squandered<sup>231</sup>. Chapter 4 sets out our proposals to encourage all African countries rich in extractive resources to implement the Extractive Industries Transparency Initiative (EITI). We urge businesses to apply the same principles of transparency and accountability in all sectors, including in natural resource sectors and in construction.

133 There are a number of factors that can limit the potential of business activities to provide opportunities and benefits for poor people. These include, first, a proliferation of codes and guidelines for corporate responsibility which can obscure comparability and accountability and encourage a 'box-ticking', process-driven, rather than outcome-driven, approach. Second, a lack of co-ordination and alignment with national development priorities can undermine the effectiveness of businesses' efforts. Impacts can be much larger if businesses act together and in support of national initiatives – a point made during our business consultations<sup>232</sup>. Third, current approaches take inadequate account of developing country perspectives: prescriptive codes – reflecting concerns of developed country stakeholders – can have unintended consequences on small-scale suppliers, excluding them from market opportunities if they are inappropriate or costly.

134 But the picture is a positive one. There are already numerous good examples of effective action. The International Business Leaders Forum has developed a useful framework for co-ordinating business actions in support of the MDGs<sup>233</sup> and is in the process of rolling this out across Africa. The Global Business Coalition on HIV and AIDS<sup>234</sup> brings together 180 international companies to promote best practice company anti-AIDS programmes in the workplace and communities, and to influence public policy. Many others, including the Business for Social Responsibility movement<sup>235</sup> and the World Business Council for Sustainable Development<sup>236</sup>, are leading the way in business engagement in development issues. And individual companies, including members of the Commission for Africa Business Contact Group, are pioneering innovative ways of working in Africa.

135 It is time now for others to join the effort to promote development and the elimination of poverty in Africa. We call on the business community to identify actions it can take in support of the priority actions set out in this Report, not only financially, but in terms of developing innovative business models and new partnerships with each other, with donors, with national governments and with civil society, including trades unions; extending infrastructure services, housing and other basic services to poor people; promoting enabling investment climates that support all enterprises – including the very smallest; promoting good governance and transparency; supporting small enterprise development and youth employment; tackling HIV and AIDS; lobbying for Africa's interests on trade, aid and debt relief; tackling the old stereotypes of Africa – telling the positive stories of their own investment experiences.

136 This means businesses moving beyond CSR strategies that focus on philanthropy to a more fundamental look at how they do business. It means better co-ordinated, outcome-focused efforts centred around leading initiatives<sup>237</sup>, including the UN Global



Compact<sup>238</sup>, the OECD Guidelines for Multinational Enterprises<sup>239</sup>, the Global Reporting Initiative<sup>240</sup>, the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy<sup>241</sup> and the OECD Bribery Convention<sup>242</sup>.

137 The UNDP Growing Sustainable Business initiative (GSB)<sup>243</sup>, closely linked to the UN Global Compact and the report of the UN Commission on the Private Sector and Development<sup>244</sup>, aims to promote such an approach. The initiative brokers partnerships that enable foreign and domestic companies to engage in pro-poor and sustainable investment projects, and is currently active in Tanzania, Madagascar and Ethiopia. Investments range from rural telecommunications and rural electrification to agribusiness and eco-tourism.

**138 Recommendation: The Commission calls for a sea change in the way the business community, both domestic and international, engages in the development process in Africa. Businesses must sign up to leading codes of good social and environmental conduct, including on corruption and transparency, and focus their efforts on co-ordinated action to tackle poverty. In support of this, developed countries should support the GSB in the region. For their part, donors and African governments must develop more effective partnerships with the private sector.**

139 Specifically, developed countries should provide US\$20 million over five years. This level of funding will enable the GSB to broker over 100 investments, worth over US\$300 million, across 20 African countries and across a range of sectors, such as infrastructure, financial services and agriculture. Activities – including brokerage, up-front feasibility and technical studies – are designed to improve the supply of bankable, pro-poor investment projects.

140 There are important synergies between the GSB, and the proposals for an Africa Enterprise Challenge Fund and an Investment Climate Facility. The GSB provides a pipeline of projects that combine commercial returns for the private sector with positive outcomes for poor people. Some of these projects may require initial risk sharing by the public sector, a proposed focus of the AECF. As such, the AECF would be one possible funding source for relevant investment projects brokered by GSB, and the GSB would be one possible source of project proposals that will be considered by the AECF. And both the AECF and the GSB will be well placed to inform, on the basis of their experience, the ICF of the systemic obstacles to doing business and to assist in promoting increased private/public dialogue to solve these issues.

141 Consumers and investors can play an important role in encouraging the business community to engage more actively in Africa. The Commission welcomes the strong growth in 'ethical trade', 'socially responsible investment' and 'sustainability investing', and calls for the principles embodied within them to be adopted across the investment and business community. Institutional investors – including African pension funds – should be encouraged to invest in Africa. Improvements to the domestic investment climate, discussed earlier, will mean that it will be easier to attract such investors.

142 The Commission urges greater participation of African countries – and their private sectors, including small enterprises, and civil societies – in the global CSR debate, including in the context of the next review of the OECD Guidelines. Specifically, we call for financial support for initiatives such as the recently launched Africa Corporate Sustainability Forum<sup>245</sup>, and measures to enable small-scale suppliers to meet international codes and standards. African businesses, during our consultations, felt that private sector firms of developed countries should build partnerships with their African counterparts in areas of standards to raise the quality of African export commodities<sup>246</sup>.

## 7.5 Environmental sustainability

143 Africa has a wealth of natural resources with the potential to drive economic growth and social development: land, minerals, biological diversity, wildlife, forests, fisheries and water, although these are unevenly distributed. In surveys, poor people consistently highlight the importance of the environment to well-being in terms of health, security, clean water, sanitation, safe energy, safe housing, food security and access to agricultural inputs<sup>247</sup>.

144 Africa's economies and people are vulnerable to environmental hazards such as droughts and floods, the frequency and extremity of which is likely to be increased by climate change. Additionally, sub-Saharan Africa is seeing a faster degradation of many environmental resources, important to poor people, than any other region<sup>248</sup>. Problems include land degradation, desertification, biodiversity loss, deforestation<sup>249</sup>, loss of arable and grazing land, declining soil productivity, pollution, and depletion of freshwater. Many of these are intertwined. Underlying causes of environmental problems include, amongst other things, rapid population growth and urbanisation, unsustainable agricultural expansion, over-exploitation of forests and ill-defined property rights. These pressures are increased by natural causes, such as highly variable rainfall, and wider pressures such as overall low economic growth, weak regulatory frameworks, the limited capacity of public institutions to respond, and collapses in governance associated with conflict.

145 Such environmental challenges can have significant impacts on economic growth and social development. Deforestation removes key sources of food, fuel and medicines for rural poor people as well as degrading biodiversity and wildlife – part of Africa's comparative advantage for tourism and pharmaceuticals. More than 70 per cent of sub-Saharan Africa's population depends in large measure upon forests and woodlands for livelihoods and 60 per cent of Africa's energy demand is met by forests<sup>250</sup>. The annual gross cost of environmental degradation in Ghana, including forest loss, soil erosion, health effects and land degradation, has been estimated to be US\$127 million, or two per cent of GDP<sup>251</sup>. In Mozambique, the devastating floods in 2000 left 700 people dead and half a million people homeless. Crops were destroyed and infrastructure was severely damaged<sup>252</sup>. Economic growth fell from eight per cent in 1999 to two per cent in 2000<sup>253</sup>. In Kenya, floods in 1997-98 were immediately followed by drought in 1998-2000. Crop and livestock losses and reduced hydroelectric and industrial production resulted in an estimated cost to the economy of US\$4.8 billion over the period or 22 per cent of GDP per annum. In short, the cost of inaction is high.

146 It is important to ensure that Africa's development both generates benefits for poor people and is sustainable – broadly meeting the needs of the present without compromising the ability of future generations to meet their own needs. To achieve this, it is necessary to address all three pillars of sustainable development: economic, social and environmental. Sustainable economic growth requires prudent use of natural resources and effective protection of the environment. A key challenge is to ensure this is addressed in the face of rapid urbanisation: well-planned cities offer opportunities for environmental sustainability. Sustainable environmental management requires a holistic assessment of what resources a county has and how these natural resources could contribute to poverty reduction. It also requires improved environmental governance, through transparent and participatory institutions and processes that genuinely involve those affected by change. This is required at local, national and regional levels.

147 In line with the Millennium Project's findings on progress towards environmental sustainability, the UN<sup>254</sup> assesses that Africa faces huge challenges in reaching the goals agreed at the 2002 World Summit on Sustainable Development (WSSD) on issues such as

access to energy, water supply and sanitation. Significant investment is required in the physical and institutional infrastructure necessary to achieve sustainable development.

148 The Commission calls on all countries to honour and implement the Multilateral Environmental Agreements to which they are party, as well as the commitments made at WSSD<sup>255</sup>, which complement the MDGs including MDG 7 on environmental sustainability and all its constituent targets on water, sanitation and slum upgrading (see also Chapter 6). **Recommendation: In support of the Environment Initiative<sup>256</sup> of the African Union's NEPAD programme, donors should strengthen environmental considerations in all their programmes.** This requires screening to identify environmental opportunities and risks at an early stage and, if necessary, a full environmental assessment. Recommendations to deal with environmental issues should be built into donor plans and closely monitored during implementation.

**Recommendation: Donor governments and international institutions, including the World Bank, the UN Environment Programme (UNEP) and the UN Development Programme (UNDP), should encourage the inclusion of environmental sustainability in African governments' poverty reduction strategies. These should include indicators for monitoring environmental performance.**

149 Climate change poses a major threat to Africa's future. Some rapid changes have already been observed. For example, in the Sahel there has been on average a 25 per cent decrease in rainfall over thirty years<sup>257</sup>. Climate variability and the frequency and intensity of severe weather events will increase<sup>258</sup>. Africa is likely to get drier in northern and southern latitudes and wetter in the tropics. There will be variation within regions and countries; southern Africa may be drier as a whole but some countries may be wetter than average. Rising sea levels, coastal erosion and flooding will all impact on coastal communities and economies<sup>259</sup>. Climate-induced changes to crop yields, ecosystem boundaries and species ranges will all dramatically affect the distribution and productivity of agriculture. Climate-related threats to food security, water and energy security and the increased incidence of vector and water-borne disease will further undermine Africa's ability to develop. Globally, an additional 80 to 125 million people will be at risk of hunger by 2080 – up to 80 per cent of whom will be in Africa because of its dependence on ecosystems that will be first to disappear<sup>260</sup>.

150 Despite the threats, understanding of Africa's climate system is relatively limited. Much more needs to be done to improve the availability and understanding of information to inform national development planning. This requires improved capture and storage of existing data, new monitoring stations in low coverage areas and uptake and use of data by African institutions. **Recommendation: Donors should work to improve the climate observation network through the Global Climate Observation System, bilateral support, and a co-ordinated capacity building programme between donor and African research institutions.** Costs, over a 10-year period, could be in the region of US\$100 million.

151 Africa is not a driver of climate change, but a victim. Without slowing global warming considerably, it is clear that the viability of millions of people's livelihoods in Africa will be undermined<sup>261</sup>. Mitigation of greenhouse gas emissions is therefore critical. This must be led by the developed world: in 2000, G8 countries accounted for 40 per cent of global greenhouse gas emissions<sup>262</sup>. It will also be important to engage countries with a large future energy demand so that they can meet their needs in a sustainable way within the framework of the UN Framework Convention on Climate Change.

**Recommendation: Developed countries should set targets for greater use of new cleaner energy technologies to stimulate the global market and encourage their use in developing countries.**

152 However, climate change will continue for some time even if greenhouse gas levels are stabilised, due to the lag effect of the atmospheric system. Overall, Africa's vulnerability to climate change is high and its capacity to adapt is low. Economic growth, poverty reduction and the achievement of the MDGs in Africa are jeopardised. More needs to be done to enable Africa to manage climate-related risks and to build resilience to these risks. **Recommendation: From 2008, donors should make climate variability and climate change risk factors an integral part of their project planning and assessment. They should meet their commitments on funding to help African countries adapt to the risks and impacts of climate change<sup>263</sup>.**

## Recommendations on Growth and Poverty Reduction

153 Poverty in Africa will continue to rise unless there is greater economic growth – and of a kind in which poor people can participate. And none should be excluded. Policy makers must always consider the impact of policies on poor people. The package of proposals set out in this and other chapters should enable sub-Saharan African countries to achieve and sustain growth rates of seven per cent by 2010. And they will also boost the participation of poor people in the opportunities created by growth. In so doing they will work to reduce income inequality, which can undermine the impact of growth on poverty.

154 Our proposals here are divided in two. The first set relates primarily to promoting growth. Faster growth and greater poverty reduction require major investment in infrastructure, agriculture, urban development, the creation of a climate which fosters investment, and policies which take careful account of the environment and climate change. Growth will be driven by the private sector, but government creates the conditions for this – the challenge is to build a strong partnership.

155 The second set of proposals relates to promoting poor people's participation in that growth. In this, particular emphasis should be placed on much stronger opportunities and rights for women, who are often key to small enterprise growth. Young people need job opportunities. The business community can also play a part in these areas.

### Promoting Growth

156 Africa needs an additional US\$20 billion a year investment in infrastructure. To support this, developed countries should provide an extra US\$10 billion a year up to 2010 and, subject to review, a further increase to US\$20 billion a year in the following five years. This should support African regional, national, urban and rural infrastructure priorities – ranging from rural roads and slum upgrading to information and communication technology and the infrastructure needed to support greater integration of Africa's regions and to enable Africa to break into world markets.

157 African governments must unleash the strong entrepreneurial spirit of Africa's people. To promote this, donor governments and the private sector should co-ordinate their efforts behind the proposed Investment Climate Facility of the African Union's NEPAD programme. This requires US\$550 million from donors and the private sector over seven years to identify and overcome the obstacles to doing business. In addition, developed countries should support a fund of the Multilateral Investment Guarantee Agency, the world's public agency for risk-bearing, to insure foreign and domestic investors in post-conflict countries in Africa. Support should also be extended to domestic investors across sub-Saharan Africa.

158 As part of a wider set of measures to promote agricultural and rural development, Africa must double the area of arable land under irrigation by 2015. Donors should support this, initially focusing on funding a 50 per cent increase by 2010, with an emphasis on small-scale irrigation. Other measures include improving the investment climate; rural infrastructure; research and the spread of new agricultural techniques; security of tenure and land rights, particularly for women; and investment in small towns to encourage the growth of local and regional markets.

## Poor people's participation in growth

159 Developed countries should set up a US\$100 million Africa Enterprise Challenge Fund to support private sector initiatives that contribute to small enterprise development by giving them better access to markets. The Fund will encourage new partnerships in the financial and non-financial sectors and contribute to the African Union's objectives of promoting job creation for young people and women's entrepreneurship.

160 African governments must take the lead in promoting employment for young people, both women and men, in their policies for growth. Donors should assist African governments in formulating and implementing national action plans on employment through the Youth Employment Network, as endorsed by the African Union.

## Promoting the role of business

161 The Commission calls for a sea change in the way the business community, both domestic and international, engages in the development process in Africa. Businesses must sign up to leading codes of good social and environmental conduct, including on corruption and transparency, and focus their efforts on co-ordinated action to tackle poverty – working in partnership with each other, with donors, with national governments, and with civil society, including trades unions. In support of this, developed countries should support the UNDP Growing Sustainable Business initiative in the region. For their part, donors and African governments must develop more effective partnerships with the private sector.

## The environment and climate change

162 In support of the Environment Initiative of the African Union's NEPAD programme, donors should strengthen environmental considerations in all their programmes. Donor governments and international institutions, including the World Bank, the UN Environment Programme (UNEP) and the UN Development Programme (UNDP), should encourage the inclusion of environmental sustainability in African government's poverty reduction strategies. These should include indicators for monitoring environmental performance.

163 Developed countries should set targets for greater use of new cleaner energy technologies to stimulate the global market and encourage their use in developing countries. Donors should work to improve the climate observation network through the Global Climate Observation System, bilateral support, and a co-ordinated capacity building programme between donor and African research institutions. From 2008, donors should make climate variability and climate change risk factors an integral part of their project planning and assessment. They should meet their commitments on funding to help African countries adapt to the risks and impacts of climate change.

## Annex: Options for Administering Additional Infrastructure Funds

164 Our proposal on infrastructure, set out in Section 7.3.2, involves an additional US\$10 billion a year, building in the medium-term to US\$20 billion. We suggest two options for administering the additional funds. Clearly, a hybrid of the two would also be possible. Firm decisions are needed now to ensure that disbursements reach US\$10 billion by 2008.

165 Option 1 proposes housing the facility at the African Development Bank (ADB). The ADB is the lead agency for infrastructure development in Africa, and has been designated as the focal agency for promoting AU/NEPAD infrastructure programmes. In the last five years it has scaled up its operations in this area in line with the strategic orientation of the Bank<sup>264</sup>.

166 There are a number of governance options for managing a fund at the ADB, with one being to follow the structure of the Bank's Special/Trust Funds. Under this arrangement, the Bank would accept administration of the resources and serve as trustee to the fund. This would involve preparing a pipeline of projects and financial management of the resources.

167 Oversight of the fund would sit with the 18-member Board of Directors, and ultimately with the Board of Governors of the Bank – the highest decision-making body of the Bank with 77 Ministers of Finance/Development/Co-operation, from 53 African States and 24 non-African States.

168 To ensure a fast-track approval process, authority can be delegated to a management committee. In some cases a separate governance organ has been set up, involving donors, with an oversight committee or council to set the strategic direction of the fund, review the pipeline of projects and conduct progress reviews. Establishing a smaller, separate Board of Directors drawn from the ADB and state participants, but still reporting to the Board of Governors, is another option, as in the case of the African Development Fund.

169 ADB resources are always untied and available for use continent-wide. However, the Board may consider the earmarking of resources for specific sectors, or as appropriate, countries.

170 This arrangement could be assisted by private sector participation in fund management and a Review Panel to examine large projects. Constructing such a facility might take a year but given that a decision could be taken in 2005 and that there are projects and programmes already in preparation, notably by the ADB in the context of the AU/NEPAD Short Term Action Plan, funds should begin to flow to approved projects before the end of 2006. For 2005, the Bank is considering seven physical projects, one capacity building project, and three studies estimated at about US\$500 million.

171 In addition to the experience gained by the ADB in financing infrastructure and public utilities in Africa<sup>265</sup>, the organisation should draw on the experience of development banks such as the World Bank, Asian Development Bank and European Investment Bank, which have successful infrastructure records. Such organisations could also help with staffing.

172 Subject to progress in implementing ADB's in-house capacity building programme, resources could be transferred to core-funding either as a ring-fenced, special contribution to the African Development Fund, or in connection with the 2008 round of funding. Clearly, this must recognise that at full disbursement the new fund would represent a more than ten-fold increase in current ADB annual commitments in infrastructure sectors<sup>266</sup>.

173 Disbursements by 2006 would be unlikely to be at the 'running level' of US\$10 billion per year but the aim should be to build to that level by around 2008, subject to effective and responsible mechanisms for disbursements, procurement including from SMEs and social and environmental responsibility being in place.

174 A second possibility for implementation, Option 2, is to spread the funds across the ADB, the World Bank, the European Investment Bank, International Finance Corporation, bilateral agencies and others, within a framework of enhanced co-ordination. This framework could range from a formal co-ordinating group of donors to a series of Memoranda of Understanding, but it should be light touch. It would be important that the ADB has a role in co-ordinating such a framework.

175 This would probably allow for faster build-up and draw more effectively on existing skills, whilst overcoming the concern expressed by some over creating a single fund. On the other hand, it would be less focused on African governance and building capacity at the ADB. The World Bank and the EIB are already major lenders for African infrastructure. Some bilateral donors have extended records of successful financing for infrastructure in other regions, for example Japan in East Asia, and might be in a position to move quickly. Clearly there are a number of possible splits of the extra infrastructure financing across mechanisms, instruments and donors.

176 For both options, it is important that, to ensure accountability and efficient use of the additional resources, early investment is made in developing a more accurate and standardised baseline of existing expenditure (to ensure existing expenditure is not simply displaced) and to benchmark unit costs (to promote efficiency in the face of the wide variations across countries, and to avoid cost escalation in the face of a large injection of resources). Measures must also be put in place to ensure transparency in procurement – in light of the traditionally high levels of corruption in the sector.

177 It is also important to recognise the need to invest in implementation capacity, to ensure the funding is effectively delivered. This has implications for all key donors in terms of their own staffing: the proposed initial increase of US\$10 billion compares to total global multilateral commitments for infrastructure in 2002 of around US\$16 billion and bilateral commitments of US\$8 billion<sup>267</sup>. The need to promote national, municipal and regional capacity is covered in section 7.3.2.

178 Funding on an appropriate scale could be provided via the proposed International Finance Facility (see Chapter 9) or by a strong increase in Official Development Assistance. At the same time, facilities should be designed so that, over time and where appropriate and equitable, via user fees, they can make a contribution to the public finances.



# Chapter 8

## More Trade and Fairer Trade

### Summary

Africa will fail to achieve sustainable growth and poverty reduction, and fail to meet the Millennium Development Goals, unless it increases its diminishing share of world trade. Growing global competition makes this even more challenging than in the past. African countries and the international community, working together, can make progress possible, by:

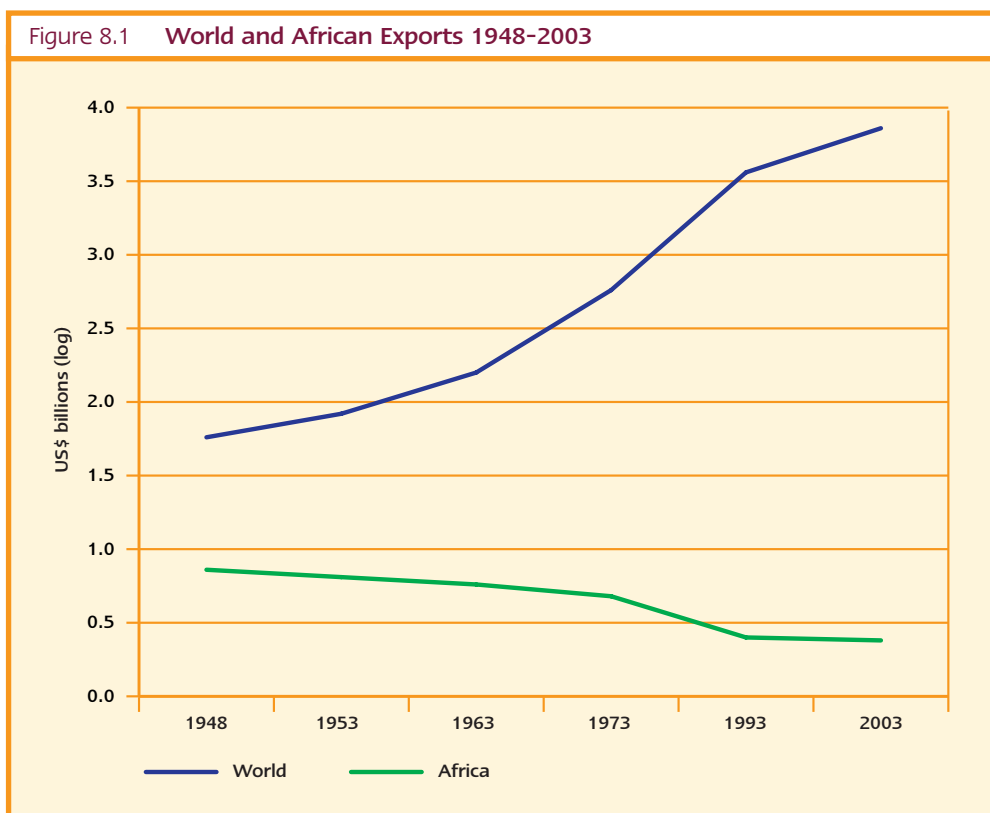
- Increasing Africa's **capacity to trade**. The investments in infrastructure and the enabling climate for the private sector (described in Chapter 7) are at the top of the agenda. Further measures described here focus on **trade facilitation**, including: customs reform; removal of regulatory barriers, especially in transport; improved governance; air and sea transport reform; and regional integration.
- Removing the **trade barriers** in developed and other developing country markets that frustrate the fulfilment of Africa's trade potential. Progress requires the successful completion of an ambitious Doha Round, with specific and timebound goals for ending appalling levels of developed country protectionism and subsidies. Development must be the priority in all trade agreements, with liberalisation not forced on Africa.
- Providing **transitional support to Africa** as global trade barriers are removed. First, this requires making current preferences work more effectively – expanding schemes to cover all low-income countries in sub-Saharan Africa, and ensuring that rules of origin requirements are not vexatiously applied. Second, the rich countries must finance 'aid for trade' to help meet the economic and social costs of adjusting to a new global trading environment.

A list of the Commission's recommendations on trade can be found at the end of this chapter.

### 8.1 Introduction: The potential benefits of trade for Africa

1 Trade has been a key driver of growth over the last 50 years. As developed countries emerged from the devastation of the Second World War and the economic depression and protectionism of the 1930s, they began to open their markets. Trade among these countries expanded very rapidly, contributing to the strongest period of growth in their history. In the last twenty years, China and now India have seen rapid trade expansion contribute to their growth acceleration. They and other countries have broken into new markets: 80 per cent of exports from developing countries are now in manufacturing, whereas 20 years ago 70 per cent were in primary commodities<sup>1</sup>. The share of developing countries in world trade has risen strongly, with the share in manufacturing rising from 17 per cent in 1990 to 27 per cent in 2000<sup>2</sup>.

2 In stark contrast the last three decades have seen stagnation in Africa. The composition of Africa's exports has essentially remained unchanged, and has contributed to a collapse in Africa's share of world trade, from around six per cent in 1980 to two per cent in 2002<sup>3</sup> (see Figure 8.1). These problems are reinforced by growth in other more dynamic regions which have managed to make major shifts into manufactures (see Figure 8.2 for current exports). Africa will not be able to achieve the Millennium Development Goals, nor set itself on a sustainable path to growth and poverty reduction, without increased trade.



Source: WTO, 2003

3 Two very important diagnoses follow from this history. First, Africa's collapse in share of world trade has been partly due to its low capacity to produce and trade – in commodities, manufactured goods and services – and to do this competitively. In other words there are key problems in what economists would call the 'supply side', rather than the 'demand-side' issues of market access. Such capacity constraints have been reinforced by the disgraceful protectionism facing it in the markets of the developed world, and the need to compete with heavily subsidised developed country exports. Those barriers and subsidies are absolutely unacceptable; they are politically antiquated, economically illiterate, environmentally destructive, and ethically indefensible. They must go.

4 Second, the advance of other countries has made it much more difficult now for Africa to break into world markets, since their competitors from other developing countries have established strong competitive advantages. In its efforts to catch up, Africa faces an ever-steeper challenge. Moreover, Africa will face even greater

competitive pressures, as removal of global trade barriers continue to reduce the value of the preferences it receives.

5 The policies to foster growth in Africa's trade offered in this chapter follow from these two diagnoses. We focus first on the supply-side, in four related areas that are at the root of the problems: governance and the investment climate, including peace and security; infrastructure; African barriers and fragmented regional groupings; and skills and know-how necessary to diversify away from commodity dependency. Such problems have been compounded by the various economic crises that Africa has faced over past decades. Action on the first two of these has already been discussed at length in Chapter 7 on growth, and in Chapters 4 and 5 on governance and peace and security. The remaining trade-policy areas demand action mainly from Africa itself, much of which is easy to do, and relatively low-cost. With increased developed country support, rapid and substantial gains could be made.

6 While we have emphasised the importance of the supply side, there is also a great deal that developed countries can and should do on the demand side to enhance and foster supply-side investment and reform. They form the subject matter of the second part of this chapter.

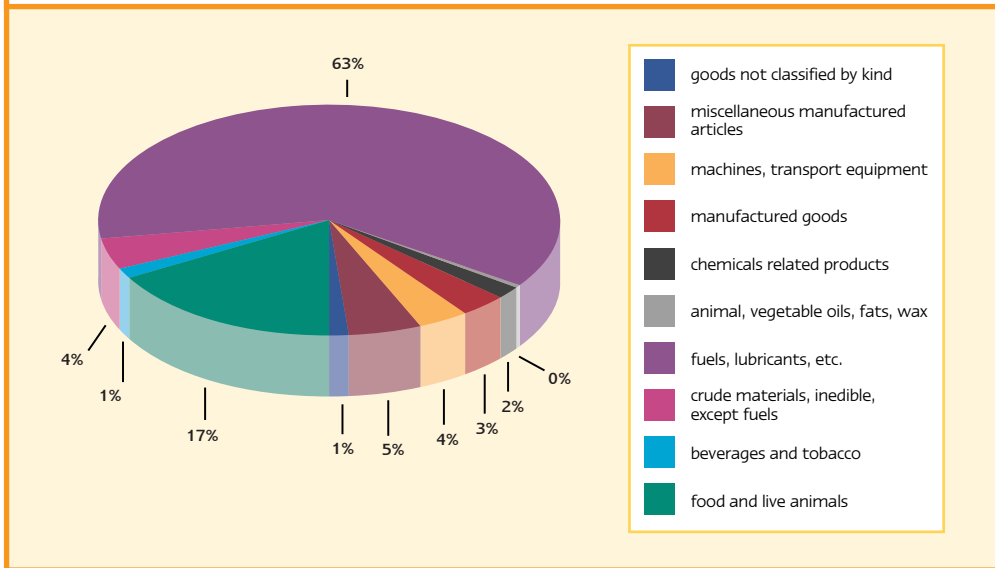
7 The demand side is in large measure shaped by developed-country policies on market access. Rich countries must accelerate the process of dismantling their trade barriers to give all developing countries, including Africa, a chance to expand exports. In particular, they should stop discriminating against goods in which developing countries, including Africa, currently have a comparative advantage, so that these countries get a fair return for their traditional exports. They must stop subsidising their own production, for example in cotton, and dumping their surpluses on world markets. These actions are essential to give Africa's producers a chance to compete in both traditional and new products, whether in African markets or elsewhere. Thus they must stop doing damage to Africa's prospects of achieving the Millennium Development Goals, and of raising growth.

8 Such measures come under the heading of 'first, do no harm', but developed countries can also take positive steps to encourage Africa in its attempts to break into new markets. Developed countries already give preferences to imports from Africa's poorest countries, including the EU's 'Everything But Arms' (EBA) and the USA's 'Africa Growth and Opportunity Act' (AGOA). They should extend the system of preferences from Africa's poorest countries to include the region's other very poor countries. And they should ensure that preferences actually do work. All too often they founder on vexatious application of rules-of-origin and other requirements.

9 Preferences must be transitional and temporary arrangements. Their purpose is to give a short term boost in market access, while trade barriers are progressively dismantled. They should provide short-run confidence to make investments but not long-run privileges that lead to inefficiency and lack of competitiveness. As global barriers come down, there are costs associated with the inevitable economic and social disruption as agricultural and industrial structures adjust to new international arrangements. Here too, there is much that rich countries can do to help Africa handle the costs of adjustment, beyond supply-side investments.

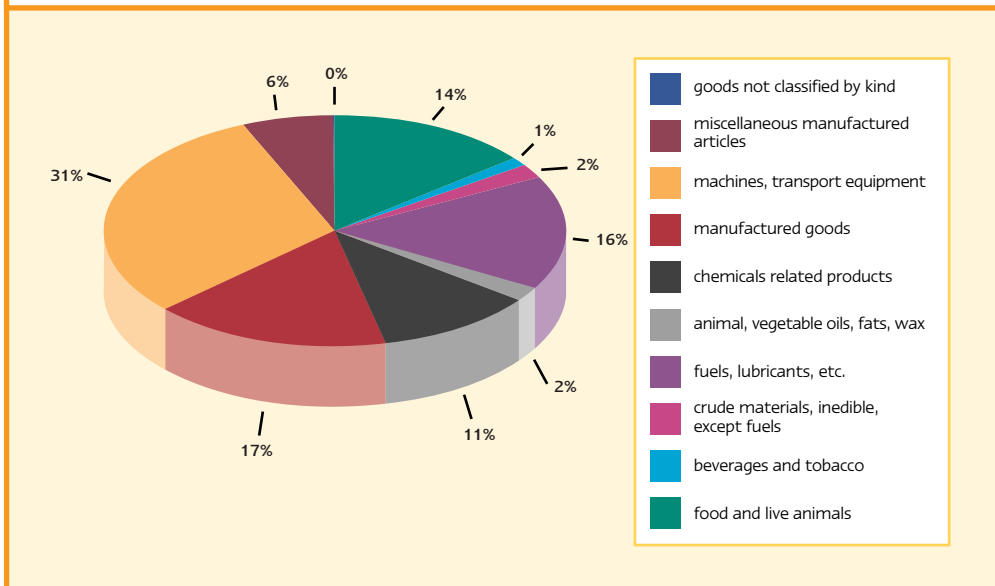
10 While Africa faces a substantial competitive disadvantage, the measures recommended in this report, if delivered, coupled with growing world trade fuelled by trade liberalisation, will provide Africa with an unprecedented opportunity to expand its exports, including to the rapidly expanding markets of Asia. These effects will be strengthened further if other developing countries help Africa in this process, especially by opening up to sub-Saharan Africa's exports.

Figure 8.2 Sub-Saharan Africa Exports to the Rest of the World (Excluding South Africa) 2003



Source: UN COMTRADE

Figure 8.3 Sub-Saharan Africa Imports from the Rest of the World (Excluding South Africa) 2003



Source: UN COMTRADE

11 This expansion of exports and the large increases of aid we advocate will greatly expand Africa's capacity to import<sup>4</sup> (see Figure 8.3 for current imports). Africa cannot make everything it needs and should not try – imports are as necessary and desirable for all countries as exports are, especially for small countries. They can bring down the costs of products consumed by poor people or be used for productive investments.

12 If this package of trade expansion is to work it must come with appropriate trade policies within Africa, including increased opening up – this is part of the whole economic logic of trade. But this process will need to be managed carefully, with proper sequencing of reforms, and attention given to the impacts on both producers and consumers. Historical progress in Europe and North America, and more recently in the Asia Tiger economies, shows us that a mix of openness and protection, provides a managed path to global integration<sup>5</sup>. As such these policies should not be dictated within trade agreements as part of mercantilist negotiations, or as part of World Bank or IMF programmes. Making special and differential treatment (SDT)<sup>6</sup> work in the WTO, means allowing Africa the flexibility to implement reforms, and must be a priority for any development round. Africa should not be forced to liberalise; the reforms should be chosen by African countries as part of the big push, and made more prominent in national development plans. Attempts to dictate policies, as we have argued throughout, are not only unacceptable as behaviour towards a partner and sovereign nation; they are also likely to be ineffective in generating real commitment and reform, let alone deliver the right solutions.

## 8.2 Increasing Africa's capacity to trade

13 A major problem Africa faces is its weak capacity to trade – driven by its low productivity and poor competitiveness, and rooted, in part, in a history of economic crises over past decades. These problems are compounded by the barriers it faces in global markets, including indefensible levels of rich-country protectionism and subsidies. The following sections cover the measures necessary to increase Africa's opportunities to trade, and break down these barriers. But we must underline that these measures will make little or no impact if Africa does not improve its competitiveness.

14 The long-term objective should be to ensure Africa is able to compete successfully on level terms in global markets for a diverse range of products and services. This may appear unrealistic, given the difficulties many sub-Saharan African countries currently face, and a huge challenge for some countries. Strong action on the measures outlined in this report will be vital in this regard – improvements in policy and governance in Africa; investments in infrastructure, in the health and education of Africa's people, and in peace and security; all backed by a doubling of aid, and an end, once and for all, to Africa's debt problems. Recent history is encouraging: the Asian Tiger economies, and other countries such as China and Vietnam have made huge progress towards achieving this goal, despite weak starting points.

### The preconditions of growth and building the capacity to trade

15 The fundamental prerequisites of a dynamic and competitive exporting economy are the same as for a dynamic economy, as covered in the preceding chapter on growth. Political stability and peace and security are a fundamental requirement. Beyond this, unleashing Africa's diverse private sector – from household farms to large firms – will require the same favourable conditions sought by investors anywhere. These include: functioning transport and communications infrastructure, a stable and predictable economic framework, an enabling regulatory and legal environment, well managed local authorities and effective public administration and service delivery, particularly in health and education. Improved governance is important, corruption and bureaucracy can increase costs considerably, and can easily make otherwise profitable products uncompetitive. All these elements must be addressed, to create an enabling environment for the private sector.

16 Infrastructure is a key component of such an environment. Delivering functioning markets with the necessary transport, communications, and energy infrastructure is a

major challenge. The scale and type of investment needed to overcome these current gaps is huge and varied: from multi-million-dollar roads to cheap but very difficult-to-implement reforms. The economic case for investment of this kind is very strong. The challenge is greatest for landlocked countries, home to 28 per cent of sub-Saharan Africa's population, where transport costs are 50 per cent higher and trade volumes more than 50 per cent lower than in similar coastal countries<sup>7</sup>.

17 Improved trading capacity in Africa will depend on four areas of action: i) an enabling environment for the private sector, ii) infrastructure, iii) reducing Africa's barriers and iv) diversifying out of commodity dependency.

### **8.2.1 Enabling environment for the private sector**

18 Governance and an enabling climate for the private sector are addressed in Chapters 4, 5, and 7. Getting the investment climate right has already boosted growth and poverty reduction in a number of countries in sub-Saharan Africa. As mentioned in Chapter 7, in Uganda, for example, an extensive program of reforms began in the early 1990s, stabilising the economy and increasing private-sector participation. As a result, the share of private investment in GDP more than doubled between 1990 and 2000<sup>8</sup>. And Mozambique's impressive growth performance since the end of civil war in 1992 is explained not only by post-conflict reconstruction, but also by the government's efforts to cut red tape and streamline regulations. As a result, domestic and foreign investment has nearly doubled<sup>9</sup>.

### **8.2.2 Infrastructure**

19 Infrastructure constraints are addressed in Chapter 7 through proposals for a US\$10 billion increase in annual infrastructure financing to tackle key bottlenecks, including those hindering trade and integration. Trade-related infrastructure includes rural and international roads, railways, ports and airports, efficiently managed small towns to act as links between local and international markets, and also telecommunications, energy, and water. In landlocked countries, transport costs can be three-quarters of the value of exports. Shipping a car from Japan to Abidjan costs US\$1,500, but shipping the same car from Abidjan to Addis Ababa costs US\$5,000<sup>10</sup>. Current cost estimates for infrastructure investment, including those based on a recent World Bank research paper, suggest a need for additional expenditure in the order of US\$10 billion to US\$20 billion a year, meaning at least a doubling of current levels<sup>11</sup>. This excludes spending on ports and airports, among other areas, and is therefore certainly an underestimate of need.

### **8.2.3 Reducing Africa's trade barriers**

#### **Effective national and regional trade policies**

20 Trade must be made more of a priority in national development strategies and be properly integrated with other areas of economic reform<sup>12</sup>. African countries and regions need to chart out a vision for trade, and develop strategies to deliver it. Ministers of Trade must work more closely with their counterparts in finance, planning, agriculture and industry, to ensure that strong government efforts are directed at undertaking necessary reforms to secure both growth and trade, and to ensure that these contribute to poverty reduction (see Box 8.1). Such efforts are particularly important in order to maximise the gains from trade reform for both women and men, to ensure gender impacts are understood and catered for and that negative impacts from reform are properly addressed.

21 Africa has many trade barriers, both internal and external, that hamper its ability to grow its way out of poverty. Africa has made efforts to reduce its own tariffs, some of

**Box 8.1 Integrating Trade into PRSPs – Tanzania**

Tanzania's first PRSP did not include trade, the main focus was on the social sectors. The second revision of the PRSP (National Strategy for Growth and Poverty Reduction) addressed growth in more depth, including trade, with cross-cutting goals and strategies. For instance, the promotion of SMEs is seen as a measure to improve the private sector environment for growth, and also for trade. The Ministry of Industry and Trade works closely with the President's Office – Planning and Privatisation, on policies for SME promotion, and with Ministry of Finance on access to credit, microfinance regulation, and SME and export credit guarantees.

Source: DFID Staff<sup>13</sup>

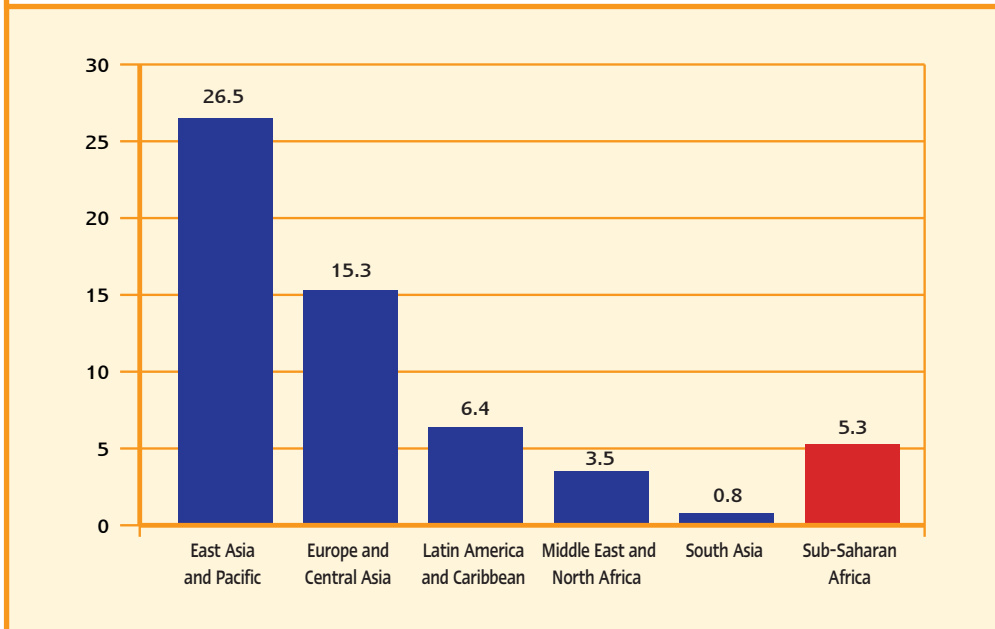
this through country-owned efforts at trade reform, and some through conditionality in IMF and World Bank programmes. The World Bank's Trade Restrictiveness Index<sup>14</sup> shows that Africa is relatively more open than South Asia and Latin America, and as such must be deserving of more credit in WTO negotiations for these past reforms. But Africa could also do more to reduce its own tariff barriers. In many of the economic models used to estimate benefits from trade reform, a large share of the benefits for Africa come from reducing its own tariff barriers. Such reforms bring adjustment challenges as there will always be winners and losers from reform: major investments in building the capacity to produce and trade will help producers gain from these new opportunities, and further assistance will be needed to help countries manage adjustment (see section 8.3.3). While estimates from these models rely heavily on assumptions and should be used with care, they do show substantial gains from opening up to cheaper imports, which can magnify the benefits of new markets abroad. A careful approach to opening should be taken, sector by sector, given the potentially damaging impact of opening up to subsidised agricultural imports. At a minimum, simplifying tariff structures, 'binding tariffs' – that is committing never to exceed a maximum level – at the levels currently applied, and seeking more tariff harmonisation, would remove distortions and provide substantial income gains for Africa.

**Regional integration to promote sustainable growth**

22 Historically, the African domestic market has been fragmented by high internal and external barriers. In 1991, the Abuja Treaty was adopted, establishing a timetable towards the creation of a pan-African Economic Community by the year 2025<sup>15</sup>. The existing Regional Economic Communities were to be the foundation. This is an ambitious objective, but the first building block must be the creation of free trade areas that can be the foundation for wider economic integration at the regional and continental level. Figure 8.4 shows the potential of intra-regional trade in more integrated regions, such as in East Asia and the Pacific.

23 There are huge challenges posed by the proliferation of regional economic groupings and protocols across the continent, characterised by overlapping membership<sup>16</sup>. However, progress has been made in the past decade. Most regions have now adopted a common external tariff structure (usually involving no more than three to four bands) – the most recent example being the EAC in January 2005 – while some, including CEMAC, WAEMU and 11 member countries in COMESA, have also removed custom duties among themselves (see Box 8.2). Recent ECA estimates<sup>17</sup> indicate that welfare gains from regional integration in sub-Saharan Africa alone, could be of the order of US\$1.2 billion, reinforcing the view that Africa's own liberalisation offers major gains.

Figure 8.4 Intra-Regional Trade as a Share of GDP (Per cent), 2002



Source: UN COMTRADE

24 Research also suggests that enhanced regional co-operation can help reduce barriers caused by transport costs, 'rules of origin'<sup>18</sup>, standards and other regulatory barriers, and poor customs administration – what is known as the 'trade facilitation' agenda. Making rapid progress in such areas will do much to build Africa's capacity to trade regionally and globally. And much more could be done by regional economic communities to encourage intra-regional industrial linkages and improved co-operation to address infrastructure and production constraints.

25 Building institutional capacity is important too, and this includes building intellectual capacity, promoting research and analysis to strengthen policy debate and reform. Strengthening data management and the development of consistent and coherent datasets across member countries should also be prioritised.



**Box 8.2 COMESA – Benefits of Trade Integration**

The COMESA (Common Market for Eastern and Southern Africa) Free Trade Area (FTA) was launched on 31st October 2000, with nine countries out of COMESA's 20 member states. These were Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe.

In 2004, two more countries – Burundi and Rwanda joined. The other COMESA member states, which are at various stages of tariff phase down are Angola, Comoros, Democratic Republic of Congo, Eritrea, Ethiopia, Namibia, Swaziland and Uganda. The countries in the FTA trade on duty-free and quota-free terms for all goods originating from within their territories, but continue to impose their own national tariffs on goods imported from the rest of the world.

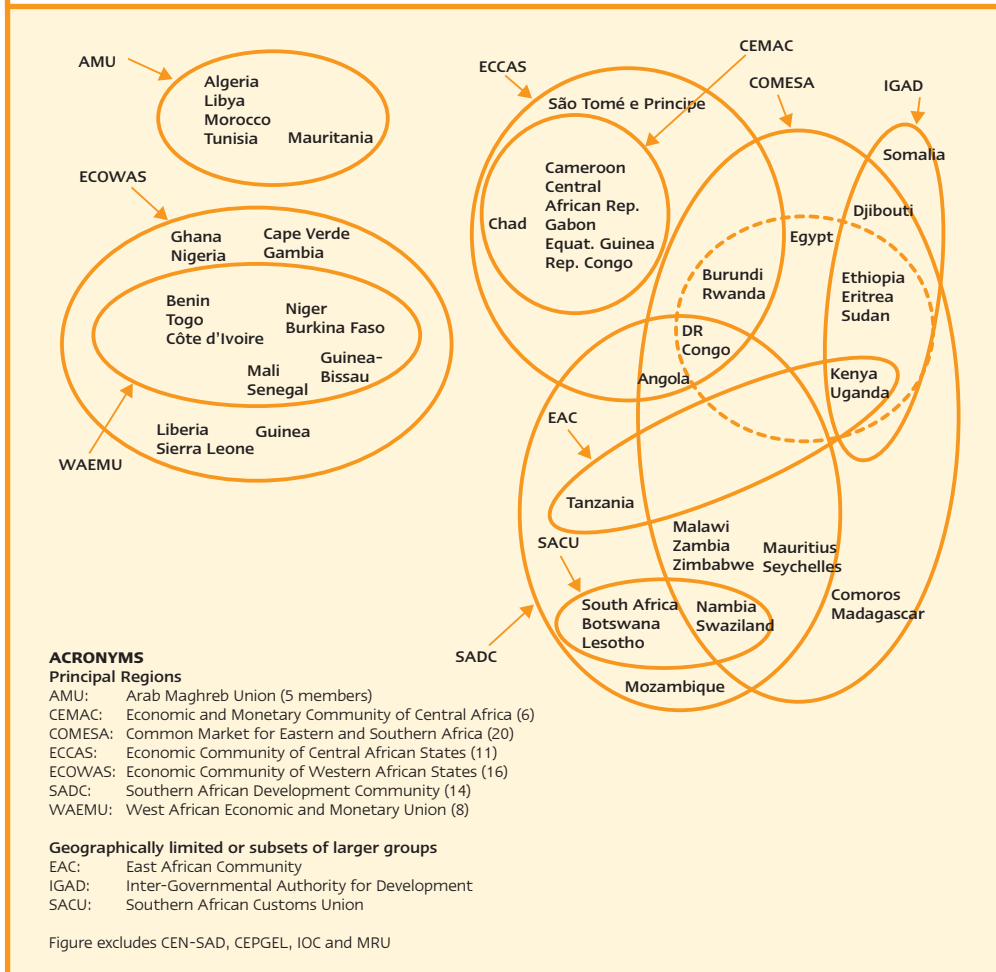
COMESA members aim to integrate their economies by strengthening their trade and investment links. The aim is to achieve full economic co-operation through a gradual process starting with the FTA, then a customs union, followed by a common market and ending with an economic community. The customs union, originally scheduled to be in place by the end of 2004, has now been postponed to 2005.

Trade in COMESA grew by 15 per cent from \$4.5 billion in 2002 to \$5.3 billion in 2003 as a result of the FTA, which increased the competitiveness of goods within the region, according to a statement in 2004 from the COMESA Secretariat. Another boost to COMESA trade has been AGOA, which had led to the growth of exports from US\$457 million in 2002 to US\$880 million dollars last year in 2003. Up to March 2004, AGOA exports stood at US\$752 million. A major focus of COMESA is in the improvements in efficiency that deeper integration will bring in terms of increasing the size of the regional market and supporting integration with the world economy, for instance, by working with member states to undertake analysis of the implications of Doha and European Economic Partnership Agreements to better inform negotiating positions.

Source: DFID Staff<sup>19</sup>

26 IFPRI<sup>20</sup> has identified more than 250 agricultural goods for which one or more sub-Saharan African countries have a comparative advantage, a third of which are goods of which other African countries are importers<sup>21</sup>. Given that a quarter of Africa's cereals are imported, increased intra-regional trade could both provide opportunities for the poor rural agricultural producers and assist in partially alleviating Africa's food security problems. For example, Kenya has for the past decade imported grain from Uganda and Tanzania during periods of drought.

Figure 8.5 African Regional and Sub-Regional Economic Communities



Source: Adapted from the World Bank

27 Key issues include how to harmonise and rationalise the current regional economic community configuration<sup>22</sup> and at what pace to optimise their role as building blocks for an eventual continent-wide union as agreed in the Abuja Treaty. A variety of approaches exist<sup>23</sup>, for example, the Cross Border Initiative has been used to accelerate regional integration in many of the COMESA countries<sup>24</sup>, through the principle of 'open regionalism'<sup>25</sup>.

28 Discussion with the EU on Economic Partnership Arrangements (EPAs) – see section 8.3 – will also affect the pace of regional integration. Currently there are four regions undertaking the negotiations – Central, West, East, and Southern. Rationalisation of existing blocs is taking place, for example, with Zambia, Mauritius, Malawi, and Zimbabwe negotiating their EPA through COMESA, not SADC.

29 Regional economic integration of various forms has been tried around the world, with varying degrees of success. African experience to date has shown that removing tariffs to create a free trade area or customs union is a challenging but feasible target. And a greater impact will be achieved when coupled with measures to improve trade facilitation. Achieving continent wide coverage may be feasible within a reasonable timeframe. An

African free trade area may deliver a substantial slice of the benefits of deeper economic integration far more quickly and efficiently than seeking deep integration all at once. If the regional groupings in Africa harmonise their approach to building free trade areas, it will then be possible for them to finally be joined together and form a pan-African economic union. Some regions have greatly strengthened their co-operation in recent years. For example, COMESA and SADC have recently agreed to adopt a common 'Common External Tariff' structure and co-ordinate their negotiations with the EU, while ECOWAS and WAEMU have plans to form a monetary union<sup>26</sup>.

30 Deeper integration requires legal and regulatory harmonisation. This is very hard to achieve and extremely demanding of skilled input to shape and negotiate. The greater the number of countries and the greater their diversity, the more problematic the harmonisation process. European integration is perhaps the deepest and one of the longest standing economic unions. Even for the well resourced member states this has been a difficult process taking half a century, and the integration of newer states has required substantial financial transfers and technical support. For many African countries, reaching such a level of integration is far off. Countries belonging to the Franc Zone (WAEMU and CEMAC) could provide a good example of what is possible. Members of WAEMU and CEMAC share the same currency, the CFA franc, which is pegged to the euro, and have their monetary policy dictated by their respective regional central banks. Both regions have custom unions. In WAEMU, much has also been achieved in terms of economic convergence (with countries committed to reach specific 'convergence' fiscal and economic targets), but also in the harmonisation of business regulations and investment procedures. WAEMU also has a small but active regional stock exchange market.

### **Trade facilitation: Reducing Africa's non-tariff barriers**

31 Despite very low wage rates, the costs and difficulty of moving goods across, between, in and out of some African countries can be far higher than in richer countries, undermining Africa's competitiveness. While African governments have been pressing for decades for the removal of OECD trade barriers, many of their own barriers to trade are relatively cheap and easy to remove, and can be, in some cases, more damaging than rich-country barriers (see Box 8.3).

32 The process of reducing these barriers to trade at borders is broadly called 'trade facilitation'. It includes addressing cumbersome customs administration procedures, excessive bureaucracy, poor governance and corruption, lack of transparent regulatory frameworks, lack of automated systems, and low levels of human capacity. African governments should make reforms in this area an extremely high priority, and integrate their efforts into national strategies.

33 In the 1990s, it cost about the same to clear a 20-foot container through the ports of Abidjan or Dakar as it did to ship the same container all the way to a north European port<sup>27</sup>. Sub-Saharan Africa suffers from the highest average customs delays in the world; for example Estonia and Lithuania require one day for customs clearance versus 30 days on average for Ethiopia. An average customs transaction in a developing country is estimated to involve 20 to 30 parties, 40 documents, and 200 data elements, 30 of which have to be repeated at least 30 times<sup>28</sup>. Costs and inefficiencies like these make it extremely difficult to get goods to market at a competitive price. These are all points strongly emphasised by the private sector in our consultations<sup>29</sup>.

34 The growth impact of these reforms can be very high. An OECD study<sup>30</sup> makes a conservative estimate of almost *one per cent of GDP for sub-Saharan Africa*<sup>31</sup>.

**Box 8.3 Sub-Saharan Africa's Internal Barriers**

- It is estimated that every day spent in customs adds to 0.8 per cent to the cost of goods

Average delay in regions of the world (days) Source: ECA

| Africa | SSA  | Latin America | Asia | Western Europe |
|--------|------|---------------|------|----------------|
| 11.4   | 12.1 | 7.2           | 5.5  | 3.9            |

- In many cases the effective rate of protection provided by transport costs is higher than that provided by tariffs, e.g. for many of sub-Saharan Africa's exports to the US, the tariff incidence can be as low as 0-2 per cent (tariff cost as part of product value) but the transport cost incidence exceeds 10 per cent (transport cost of the product value)
- For a majority of sub-Saharan African countries, freight costs are twice as high as the world average
- Informal barriers such as checkpoints (e.g. Lagos to Abidjan – one checkpoint per fourteen km); and varying standards across regional communities (number of allowable axles/truck length – Cameroon (CEMAC) 18m, Nigeria (ECOWAS) 22m) add to costs.

Source: Hummels, ECA, World Bank, UNCTAD and WTO

35 Unfortunately, trade facilitation has been associated with some of the new issues included in the Doha Round, the so-called 'Singapore issues'<sup>32</sup>, which aroused considerable opposition. This has a more specific and limited focus (associated with GATT Articles V, VIII and X) than trade facilitation for development. While African countries should not be burdened with trade facilitation obligations they do not have the capacity to meet, their growth and trade will benefit from immediate and unilateral action such as publishing rules and regulations in a transparent manner, and eliminating informal road checkpoints.

### Role of trade facilitation in regional integration

36 Africa has a long way to go before realising the full potential of regional integration. Intra-regional trade remains very low, at around 12 per cent of cross-border trade. Increased co-ordination between countries and regions is needed to accelerate trade facilitation efforts in Africa and reach the same level of commitment as in Asia Pacific Economic Cooperation (APEC) economies, where APEC committed to a five per cent reduction in transactions costs of trade by 2006<sup>33</sup>. The gains in annual real incomes of the reforming economies currently amount to an estimated US\$17.1 billion increase in real incomes<sup>34</sup>. An APEC study shows that efforts to achieve its original commitment could raise APEC's GDP by 0.9 per cent (US\$154 billion) a year<sup>35</sup>.

37 Many regional transport corridor agreements are not effective because of a failure to remove administrative and practical barriers (see Box 8.4). The size of truck axles and axle load regulations vary between the neighbouring countries of Botswana, Namibia, and Zambia, and there are three sizes of rail gauges in Africa. Regions are making efforts to address these problems, the reduction of transport documentation requirements (visas) between ECOWAS member countries has greatly facilitated road transit<sup>36</sup>.

**Box 8.4 The Case of the Trans-Kalahari Corridor (TKC)**

The TKC (road route between South Africa and Namibia via Botswana) went through major rehabilitation in 1999, but traffic reached only 15 per cent of expected capacity. In 2003, the TKC initiated a pilot to replace various existing documents with a single administrative document, which was complemented by a website with the details of the documentation process (developed by South African Customs). This led to a reduction in border processing time from an average of forty-five minutes to 10-to-20 minutes, leading to an estimated cost saving of US\$2.6 million a year (USAID).

Source: World Bank Global Economic Prospects, 2005

**Customs reform**

38 To dismantle some of these barriers requires both skill and organisation. The reform of ports and customs services might involve management contracts like that between the Government of Mozambique and Crown Agents (see Box 8.5).

39 Customs reform should also appear prominently on the governance agenda (see Chapter 4), because of the substantial revenue sums at stake, and the potential for bribery and corruption. Its importance was strongly emphasised during our consultations with business<sup>37</sup>. The costs of customs bribes and delays seriously undermine Africa's competitiveness. In Côte d'Ivoire, it typically costs US\$400 to get a single lorry through the country due to the 'costs on the road' (fees accumulated in bribes and official payments).

**Box 8.5 The Mozambiquan Experience**

After the civil war (1975-1994), revenue collection in Mozambique virtually collapsed, in part due to high levels of customs fraud and evasion. Almost half of all Mozambiquan traders surveyed had been solicited to pay fees that were not required by law or regulation. Most paid between US\$4 and US\$40 per transaction, but nine per cent paid between US\$40 and US\$400. In 1996, the Mozambiquan government strengthened custom procedures and implemented trade facilitation measures. Crown Agents were selected to manage custom operations, train staff, and provide other support. 130 members of staff were charged with serious offences. Goods are now cleared 40 times faster than the pre-reform rate, making Maputo one of the most efficient terminals in Africa<sup>38</sup>. Surveys indicate that 80 per cent of road imports and 62 per cent of imports by sea are cleared by customs within 24 hours of correct documentation<sup>39</sup>. In the first two years, although imports decreased by 0.2 per cent, customs revenue increased by 38.4 per cent.

Source: World Bank Global Economic Prospects, 2005

40 Improving a poorly administered customs administration can have a large impact on the investment climate. For instance, Intel decided to invest US\$300 million into a micro-chip facility in Costa Rica only after the Government of Costa Rica had guaranteed rapid customs clearance<sup>40</sup>. Significant costs can be imposed on importing and exporting firms and also indirectly on firms that depend on imported goods or supply exporters. Delays in imports can prevent firms from adopting processes that depend on 'just-in-time' deliveries, raising their costs through forcing them to hold larger inventories.

41 Trade facilitation measures have been shown to substantially reduce customs delays and costs, while also increasing revenue (see Box 8.6). Customs revenues can provide up to a quarter of government revenue in Africa, and this dependence is often cited as a barrier to tariff reduction. But since duties and taxes are often not collected efficiently, revenue collection falls short of its potential and sometimes the cost of collection is greater than the revenue collected. It may be quite possible to reduce tariffs and maintain or even increase revenue<sup>41</sup>.

#### Box 8.6 The Lesotho Revenue Authority (LRA) Project

The purpose of the LRA project was to strengthen 'sustainable, equitable and improved tax management by the LRA'<sup>42</sup>, in part through re-organisation of government departments into one revenue body.

**Trade facilitation at borders has improved:** Waiting time at borders reduced from two to three hours for traders to typically 30 minutes, and for small-scale traders (who can at some borders represent 50 per cent of all trade) and shoppers from 20 to 60 minutes to less than five minutes. Equalisation of VAT rates with South Africa and other arrangements have impressively simplified VAT collection at the border.

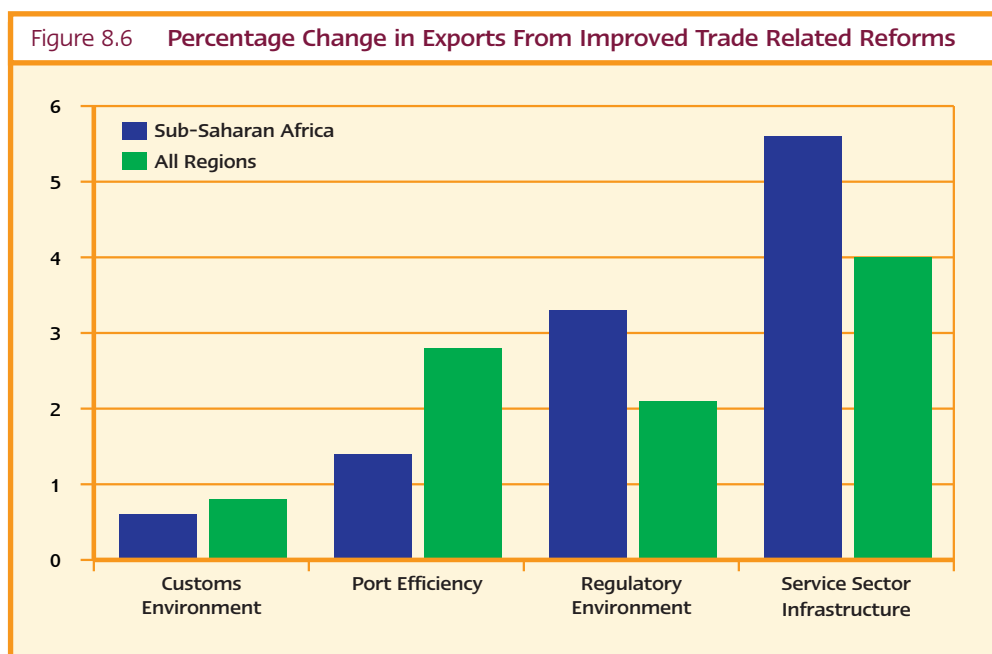
**Revenue collected at borders:** Income tripled due to the reduction in smuggling and ease of compliance, revenue collection at the border has increased from around US\$700,000 per month under Sales Tax, to around US\$2.9 million per month, after the introduction of VAT.

**Threshold for VAT payment at border:** To ensure administrative efficiency no VAT is collected where the total purchase value is less than 150 Rand. This means small traders/shoppers are allowed to pass through quickly without requiring customs clearance.

*Source: Govt of Lesotho/DFID South Africa LRA Output to Purpose Review, 2003*

#### Trade-related services : helping countries trade

42 These barriers are compounded by the lack of competition and distorted regulation in services, such as sea and air transport, which raise costs significantly. Trade-related service sector infrastructure (e.g. telecommunications, financial intermediaries, and logistics firms) provide the biggest gains<sup>43</sup> (see Figure 8.6).



Source: Wilson et al, 2004

43 Some major challenges lie in the areas of: sea transport, air transport, and new security measures.

44 *Sea transport:* Monopolies in sea transport give rise to excessive costs. Maritime deregulation that ensured proper competition among shipping services could reduce freight costs by 25-50 per cent<sup>44</sup>.

45 *Air transport:* African air transport costs are higher than those of other countries, severely hampering Africa's ability to compete and to diversify, particularly in the case of landlocked countries. More than 20 per cent of African exports enter the US by air, and it is estimated that air transport costs can make up to 50 per cent of the value of exports to the US<sup>45</sup>. Although the Yamoussoukro Decision in 1999 prompted reform<sup>46</sup>, most airlines in Africa are still protected. Moving immediately towards an 'open skies'<sup>147</sup> arrangement would lower air cargo freight rates substantially. This is a relatively cost-free option, and is in the hands of African governments to deliver.

46 *New security measures:* The introduction of new US security measures to combat terrorism at ports, may lead to further marginalisation of developing countries. Given that 13 per cent of African trade constitutes exports to the US<sup>48</sup>, the new measures are expected to reduce African exports by further increasing the region's high cost of international trade. Security concerns could act as a non-tariff barrier and could undermine the benefits from preferential schemes such as EBA and AGOA. **Developed countries should assess the impact of new security measures** on African exports and support African efforts to satisfy security requirements.

### Implementation

47 In order to be effective, trade facilitation measures have to be undertaken as part of a much broader process of domestic reform. No single package will meet the needs of all the countries. Bolivia financed a five year project for customs modernisation from several

sources costing around US\$38 million (including US\$25 million on institutional improvements, and US\$9 million for computerised systems)<sup>49</sup>. Some areas of reform are technically demanding and require additional training and infrastructure investments. Existing efforts such as the ASYCUDA programme have huge potential (costs can range from US\$2.5-5 million), but must be coupled with training of human resources (e.g. customs officials). But other areas, especially in early stages, can be covered by the normal operating budgets of custom agencies. These are quick and cheap wins: simple measures to streamline the communication infrastructure, address the inefficient bureaucracy, reduce duplication, and standardise documentation. Simple tools such as trade facilitation centres and electronic data interchange can also reduce border costs greatly.

### **Technical assistance and capacity building**

48 Technical assistance provided by the Doha Development Agenda Global Trust Fund<sup>50</sup>, is primarily concerned with strengthening the capacity of developing country officials to participate in WTO negotiations and to implement commitments. The WTO Agreement on Customs Valuation (including border customs reform), although signed by many countries was never implemented in the spirit of the agreement. It is estimated to cost countries between US\$1.6 million and US\$16.2 million to implement. Resources for implementing broad trade facilitation programs exists within the WTO, UNCTAD, the World Bank<sup>51</sup>, the EC and regional development banks. But a more co-ordinated approach within donors is required. Given the vested interests of the private sector<sup>52</sup>, they should be encouraged to contribute either financially or by providing expertise and sharing best practices with customs administrations.

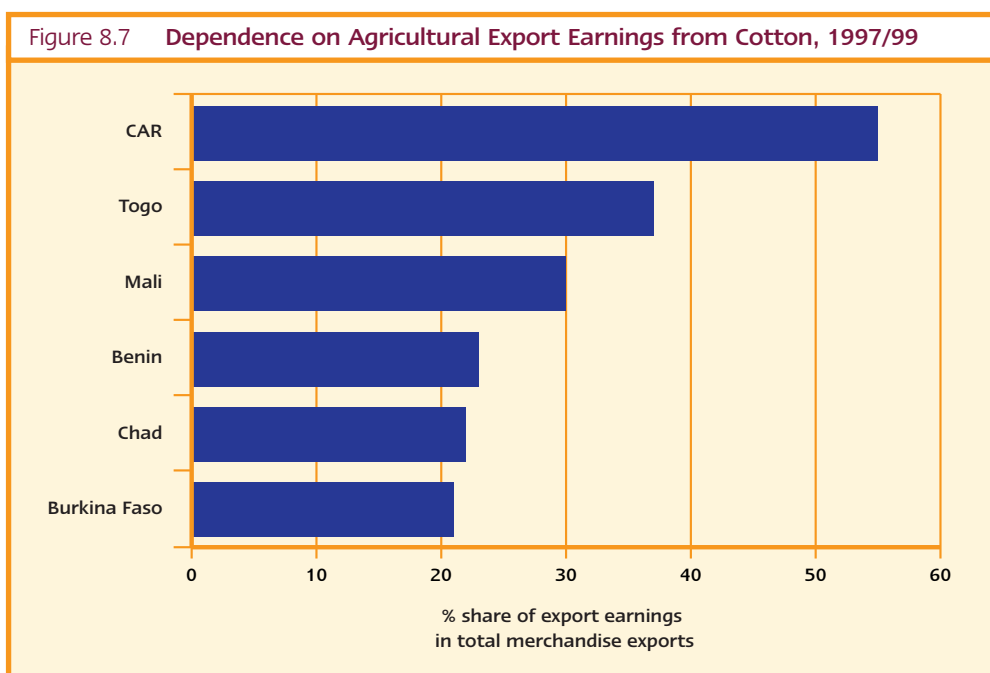
### **Recommendations - building the capacity to trade:**

- **Africa must increase its capacity to trade. It should remove its own internal trade barriers between one African country and another. Developed countries should support African efforts to achieve this greater economic efficiency through regional integration and trade facilitation at both the regional and national levels. This should include budgetary support to regional institutions, capacity-building, and efforts to meet the needs of weaker members of regional communities.**
- **With support from developed countries, African countries should integrate trade facilitation into their national development strategies and urgently reduce non-tariff trade barriers by: undertaking reforms in air and sea transport, streamlining customs administration – including further revenue-raising efforts, and improving governance and reducing corruption. This should extend to assessing where regulatory simplification and service sector liberalisation may be beneficial. The Africa Peer Review Mechanism should become a tool for ensuring these key trade commitments are implemented in African countries.**
- **Developed countries should follow up on commitments to supporting trade facilitation made in the 2004 WTO July Framework Agreement, including helping to meet any new rules, and mitigating the possible adverse impacts of new security measures. The Integrated Framework, should continue to be supported and expanded to all African low-income countries<sup>53</sup>.**
- **Africa should do more to improve the economic environment for farmers and firms, backed by major investments of aid from developed countries to ensure Africa can produce and trade competitively. Funding for infrastructure should, in part, be spent on improving African transport and communications.**



## 8.2.4 Reducing commodity dependency

49 Many African economies are heavily dependent on only a few commodities dominated by traditional agricultural crops such as coffee, cotton (see Figure 8.7) and sugar<sup>54</sup>, which currently accounts for 50 per cent of Africa's total agricultural exports<sup>55</sup>. Therefore adverse market conditions matter a great deal, and pose a high risk. An ambitious Doha Round, described later in this chapter, will expand Africa's market opportunities and allow diversification of exports by destination and product, including in higher value-added production. But the key domestic policy action is to develop a broader economic base in order to diversify and adapt to risk, so that market fluctuations can be managed. Progress must be built on developing a vibrant and responsive private sector – from household farms to large firms. But other measures described in this section can complement these efforts.

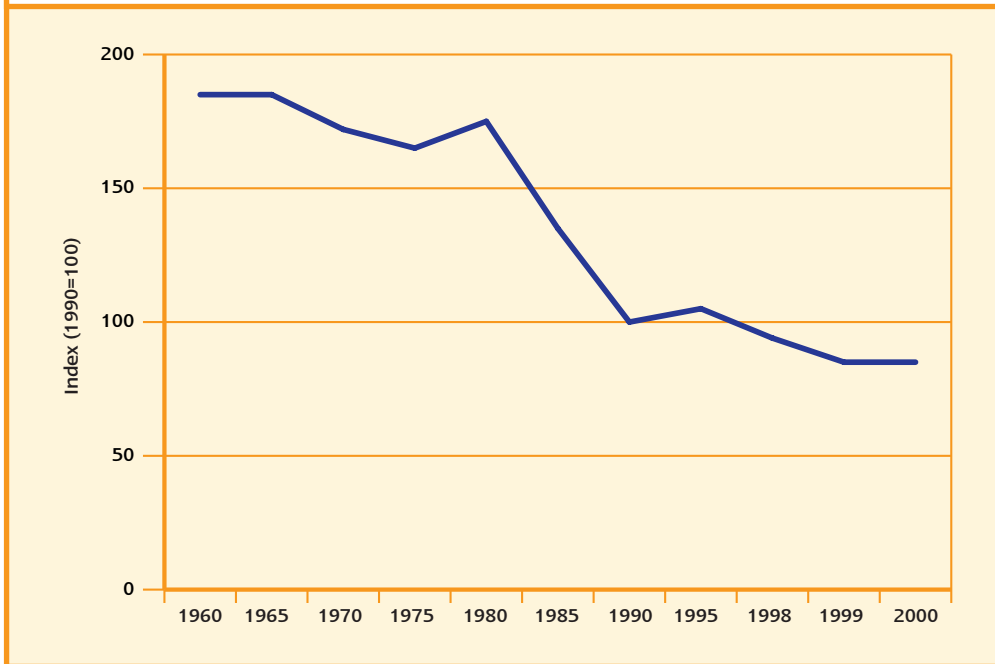


Source: UNCTAD

50 17 of the 20 most important non-fuel export items of Africa are primary commodities and resource-based semi-manufactures<sup>56</sup>. Many countries have begun to diversify into other areas, such as fish or flowers<sup>57</sup>. On average, African countries derive over 21 per cent of GDP from primary commodities<sup>58</sup> (including fuels), compared to around 10 per cent for developing countries overall, and less than three per cent in developed countries<sup>59</sup>. Almost all the countries that are hit hardest by falling commodity prices are also among the world's poorest<sup>60</sup>, with over half of sub-Saharan Africa falling into this category<sup>61</sup>.

51 Sub-Saharan Africa has suffered the most from declining terms of trade – the price of exports relative to imports (see Figure 8.8). Increased export quantities have not been sufficient to cover the loss of purchasing power of commodity exports. The price of some commodities like coffee have been driven lower due to oversupply and intense global competition. The decline in world coffee prices alone produced a 40 per cent fall in Ethiopia's terms of trade, resulting in a decline in GDP of about six per cent<sup>62</sup>.

Figure 8.8 Decline in African Agricultural Commodities Terms of Trade, 1960-2000



Source: UNCTAD

52 Commodity markets can be volatile, making it hard to distinguish long-term trends from cyclical price changes. However, prices for some commodities appear to be in permanent decline, for example, in sub-Saharan Africa, eleven countries face 'permanent' shocks to their terms of trade<sup>63</sup>. At the same time, the presence of short-term shocks, e.g. from the weather, create additional volatility. Although oil has an important role in African economies, there are currently only nine oil-exporting countries<sup>64</sup>. Estimates show that a one-dollar increase in international oil prices results in about US\$900 million additional oil revenues for sub-Saharan African oil exporting countries and US\$200 million additional costs for oil importing countries<sup>65</sup>. Compensatory finance can have an important role in mitigating the impact of price volatility, and the impact on government budgets and spending plans. However, existing mechanisms such as the EU FLEX mechanism are not particularly effective. What is required is a rapid disbursing grant facility that provides short-term support to cushion the impact of the shock, and stabilising the budget.

53 Diversification is a long-term strategy and will require structural transformation of an economy. However, past experience shows that this is possible, for example in Chile, Malaysia and Mauritius.

### Current state of play at the international level

54 The management of commodity prices has been recognised as an international problem since the 1920s. However, after collective action by the international community at stabilising prices proved generally unsuccessful<sup>66</sup>, the issue of commodity dependency disappeared from the international agenda. International commodity agreements<sup>67</sup> were used to minimise the effects of world commodity price shocks. There was much use of buffer stocks or export quotas as tools of market intervention to stabilise world commodity prices and raise returns to commodity producers. However, these failed in the 1980s and 1990s, as the cost of maintaining them became

unsustainable. Interest was renewed recently with calls by the EU<sup>68</sup> and UNCTAD<sup>69</sup> to address the specific challenges of commodity dependent developing countries. President Chirac of France reinforced this, by describing prevailing international action on commodities as a 'conspiracy of silence'<sup>70</sup>. These have been highlighted throughout this chapter. As recently recognised by the international community, an integrated and comprehensive international approach is needed to deal with the commodities problem, particularly given the link between commodity-dependency and poverty. A grant-based shock facility is urgently required (see Chapter 9). However given that liberalisation over the past few decades has introduced increased market complexities, past forms of cooperation involving international price stabilisation need to be avoided. Following the UNCTAD XI Sao Paulo Consensus<sup>71</sup> a new task-force of various stakeholders, looking into these issues should be supported.

### Market opportunities for smallholder farmers

55 African agricultural production continues to be targeted primarily at export or subsistence farming. Some analysis suggests that markets in food staples will be the fastest-growing of all agricultural markets in Africa over the next 20 years, where the current value of domestic output is about US\$50 billion<sup>72</sup>. Demand for food staples is projected to far outpace growth of export markets, doubling by 2015<sup>73</sup>. This means that the development of well-functioning local and regional markets should be a priority, including the development of micro-credit institutions, support to producer associations, and harmonisation of legal and administrative regimes. Urbanisation offers new opportunities not only for supplying food staples but the consumption of more high-value and processed goods.

56 To earn more from commodities, Africa will need to improve productivity, quality, reliability of supply, and also increased value-added production, particularly through agricultural processing. Progress in this area will partly come from establishing an enabling environment for the private sector, as discussed earlier, but African countries must also address the structure of production. The current structure – often through smallholdings or subsistence farming – hinders economies of scale. Larger firms or co-operatives may have access to services such as price risk management and specialist inputs that are not possible at the smallholder level. Government and donor aid programmes should support the development of producer organisations to help secure economies of scale and organise commercially. This would increase their leverage in markets dominated by national agri-businesses and multinationals. Programmes should also ensure that farmers have access to resources such as information, credit, training needed to diversity into income generating activities such as higher value crops or agri-processing. Support to effective marketing arrangements in rural areas where market failure may be a problem, should be encouraged. Developed countries should also continue to support the International Commodity Bodies<sup>74</sup> and the Common Fund For Commodities<sup>75</sup> to improve the productivity and quality of African commodity production e.g. the Coffee Quality Improvement Programme<sup>76</sup>. Action on coffee is particularly important given the problems of over-dependency, over-supply and the very low prices that millions of farmers in rural Africa receive<sup>77</sup>. Increased funding from developed countries would help increase the participation of producer groups in 'fairtrade'. The demand for products carrying the 'fairtrade' mark is growing, but investment is needed in building the capacity of producer groups in Africa to meet the rigorous demands of developed country markets.

57 Export markets offer very lucrative opportunities but can be very hard to exploit. Large retailers such as supermarkets in Europe play a decisive role in structuring the production and processing of fresh vegetables exported from Africa. The top 30 supermarket chains worldwide control almost a third of grocery sales<sup>78</sup>. Their informal or private standards<sup>79</sup> can

be even more exacting than official ones – such as sanitary and phyto-sanitary (SPS) described later in this chapter – leading to the exclusion of small farmers and concentrating business in the hands of large firms. In 1997, approximately 70 per cent of Kenya's high-value horticulture export earnings were supplied by small-scale farmers. By 2000, the need to comply with international food standards meant this fell to 30 per cent<sup>80</sup>. It is estimated that the effects of the 2005 EU food safety regulations<sup>81</sup> could cost Kenya over US\$400 million annually in lost export earnings<sup>82</sup>. If African countries do not meet these standards (see following sections), a shift in procurement from other regions, such as Latin America, could take place. Supermarkets should assess the development impact of their procurement and standard setting practices on smallholders and help them integrate into the supply chain; practices such as making payment within 30 days could increase their survival chances.

### **Risk and uncertainty**

58 Increased productivity requires investment, but farmers will not invest if they are highly uncertain of their income. African countries individually and collectively have tried various marketing arrangements to address this problem. Many state marketing boards were closed down after failing to remain solvent or to offer farmers attractive terms. Effective institutional infrastructure can help fill this vacuum and assist in price risk management and 'price discovery'. Innovative ways to use information and communication technologies can provide smallholders with market information, e.g. the use of mobile phones as attempted in Uganda<sup>83</sup>. Governments can help by enforcing contracts to prevent defaults and by improved transparency in government food aid and import management. This will have the knock-on affect of improving incentives and activities of private traders in staple food markets<sup>84</sup>.

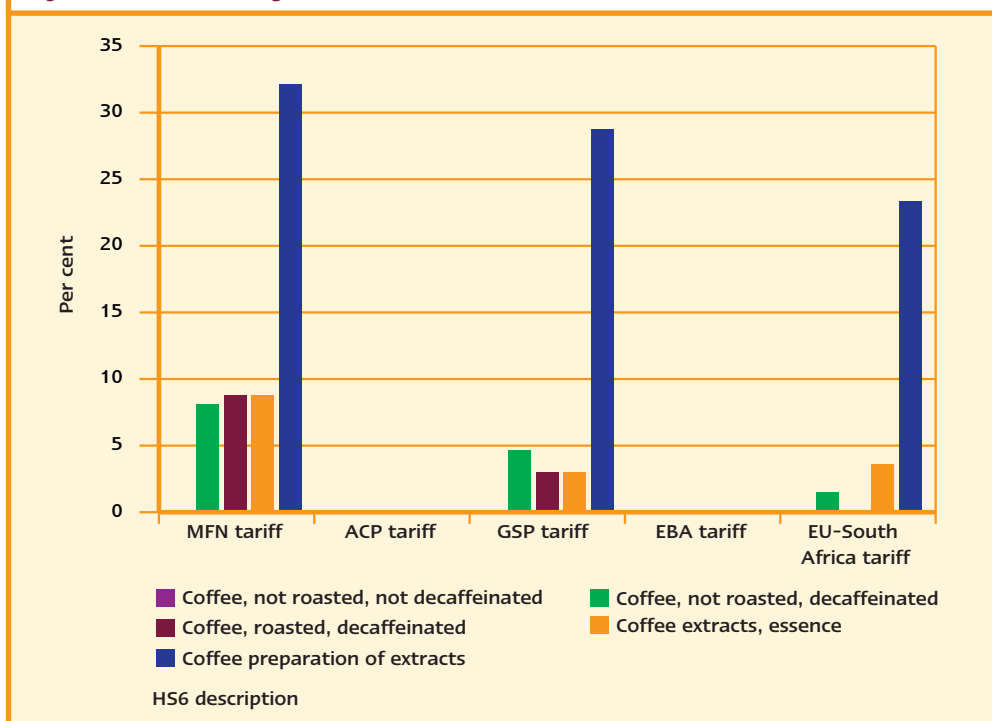
59 Commodity exchanges<sup>85</sup> can overcome problems of information and enforcement in the marketplace. The process of defining the price at these exchanges is transparent and market-driven. They also provide services such as transportation, storage, and information dissemination, in addition to conducting spot and forward transactions. The South African Futures Exchange is widely recognised as the 'price discovery' mechanism for maize in the Southern African region. There may be a case for similar regional commodity exchanges, such as an East African commodity exchange<sup>86</sup>.

60 Market based solutions such as the World Bank's Commodity Price Risk Management project can give developing country producers access to developed world risk management products which use internationally traded markets. Market-based tools, while not a panacea, can provide better security for a number of commodities<sup>87</sup>. The futures market is best suited to manage risks resulting from short-term movement in prices, but not to deal with long-term price decline. Some African governments (e.g. Côte d'Ivoire and Ghana) have sold 'forward' their cocoa exports and many francophone countries, their cotton exports. But the use of market-based instruments is not widespread in Africa. Deeper use of international risk markets may be an option where there are shallow financial sectors and a limited number of unsophisticated financial products. However, widespread use is unlikely without technical assistance in building the required institutional infrastructure and expertise. The donor community can assist in providing more support to implement programmes in this area and help develop the capacity to manage commodity price instability, especially as part of rural development schemes.

### **Constraints to diversification**

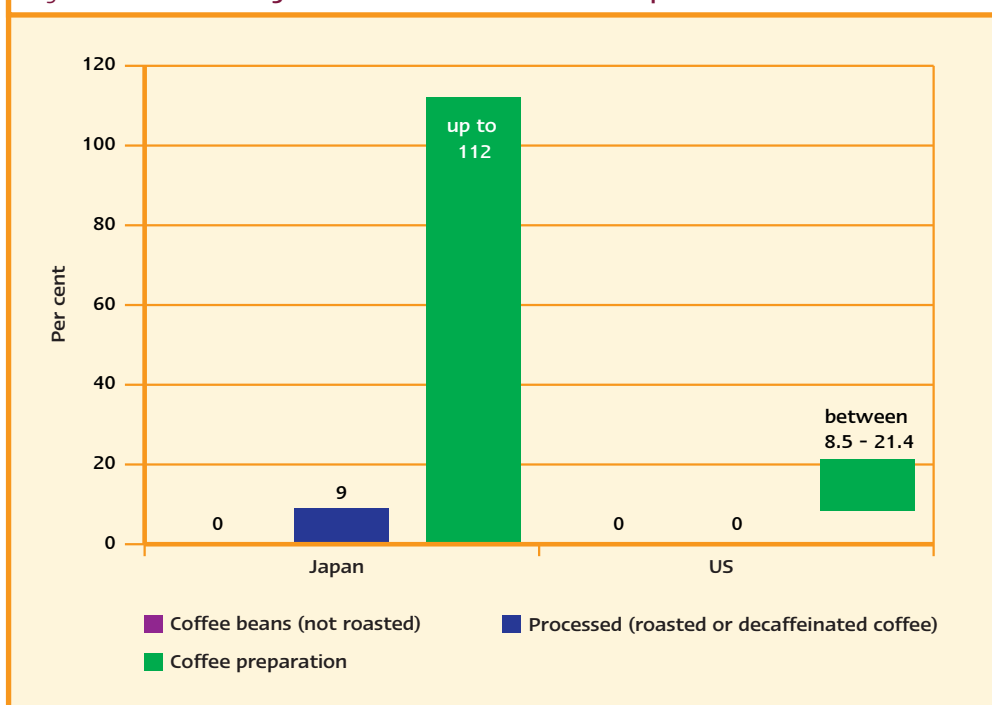
61 Many argue that the structure of tariffs in rich countries undermines processing in Africa. Looking at 'bound tariffs' – tariffs that apply to all WTO members – all sectors are affected by 'tariff escalation' (where tariffs rise with the level of processing). But given that African exports benefit from 'preferential' market access (see section 8.3.2), they face

Figure 8.9 Tariff Progression for Coffee Products in the EU



Source: Adapted from Bureau et al, 2004

Figure 8.10 Tariff Progression for Coffee Products in Japan and the US



Source: Adapted from Bureau et al, 2004

relatively *limited* tariff escalation in the EU and US markets<sup>88</sup>. However some escalation does remain where products are excluded from preference schemes. For instance, under AGOA, many products deemed 'sensitive' are excluded from receiving duty-free access. This affects products such as soya bean oil, sugar, cocoa, tobacco and cotton, which are of interest to Africa<sup>89</sup>. In the EU, for non-LDC African countries, affected products include meat (beef, pig meat and poultry); soya bean oil, groundnuts, sugar, cocoa, oranges and pineapples. The most commonly used examples to show tariff escalation are in the coffee<sup>90</sup> and cocoa sectors<sup>91</sup>. However, escalation for African coffee is evident only under the Japanese preference scheme and for elaborately prepared coffee in the US market (figures 8.9 and 8.10). For cocoa products, however, there is evidence of tariff escalation in some preference schemes in the *later* stages of the processing chain<sup>92</sup>. This is particularly pronounced under the Japanese scheme: cocoa beans enter at 0 per cent, cocoa paste at five per cent, defatted cocoa paste at 10 per cent, cocoa powder at 13 per cent and chocolate and elaborate products face tariffs of over 280 per cent.

62 The greatest concern, according to importers, is not tariff-escalation, but the need to meet with product standards, attain certification of origin and gain the trust of consumers for the product (see discussion of standards later in this chapter). However, while escalating tariffs are not a major problem, there is no reason why the remaining distortions cannot be eliminated.

63 Market conditions in some commodities are also controlled by a small number of large integrated companies, who capture most of the value of a product. In coffee, for example, 90 per cent of value goes to traders, processors and retailers<sup>93</sup>. Many African countries are tied into low value-added commodity production because of their lack of investment in processing equipment. African countries should be helped to diversify their production into dynamic and higher value added products through processing and moving into other sectors where they have a comparative advantage.

64 Various diversification funds have been recommended by the international community, in support of structural change in commodity dependent economies<sup>94</sup>. A more specific, concrete proposal based on Africa's comparative advantage is the AU/NEPAD African Productivity Capacity Initiative<sup>95</sup>, the policy framework for Africa's industrialisation effort, with an emphasis on the involvement of the private sector, including science and technology issues and innovation (see Chapter 4). It addresses constraints that prevent African economies from actively participating in global trade and investment flows and aims to shift production into more value-added areas. Priorities are both sub-regional and sectoral<sup>96</sup>. However, large scale investment is needed given that success is dependent on a range of policies and infrastructure. A flexible facility has been created for sourcing funds. Agro-processing has been identified as a sectoral priority for all regions, but given constraints, investments of up to US\$75 million would be required in plant and equipment<sup>97</sup>. Assistance would also be required in marketing strategies to access newer markets such as India and China (a potential indicator of success could be an increase in at least 50 per cent in the value of processed fruit exports). Donors should provide at least US\$70 million<sup>98</sup> (excluding loans and guarantees) to ensure the facility can become operational.

## 8.3 Opportunities for trade

### Africa's trade

65 The previous sections discussed how to build Africa's capacity to trade and engage competitively in global markets. But Africa must be able to enter these markets on better terms than it can now. While rich countries preach the benefits of

free trade, they do not practice it, and this hypocrisy continually sours global progress on trade. The following sections describe how to ensure there is a more level playing field for African trade.

66 Multilateral agreements provide the main framework of rules and terms for trade. Starting in 1945, developed countries made efforts to eliminate 'beggar-thy-neighbour' trade barriers. Up until the Uruguay Round (1986-1994) developing countries had little voice in trade negotiations, and as a result virtually no attention was given to the products in which poorer countries specialised. Thankfully there has been progress. The Doha Development Round of world trade talks is aimed at bringing down tariffs and other barriers to trade on the products that are most important to developing countries. These talks broke down at the Cancun Ministerial in September 2003, mainly due to the lack of development ambition. After some delays, talks are back on track. The WTO July 2004 Framework Agreement set broad parameters for talks at the Hong Kong Ministerial in December 2005. Given the failure in Cancun, this year is make-or-break for ensuring that Doha discussions achieve development progress, and Hong Kong is where concrete decisions must be made.

67 From Africa's perspective, we believe that certain principles should drive Doha Round conclusions:

- (a) Creating a fairer international trading environment that removes the obstacles Africa faces in exporting its products, including making preferences work;
- (b) Ensuring that Africa can benefit from a rules-based system, including support in trade negotiations<sup>99</sup> and in taking forward legal cases; and facilitating increased African membership<sup>100</sup> (see Chapter 10);
- (c) Ensuring that Special and Differential Treatment works for Africa, prioritising development without resorting to legal disputes, with sufficient flexibility to allow trade reform to be achieved at a locally agreed pace – not forced through reciprocity or IFI conditionality – with appropriate sequencing, and within a framework of national and regional development and trade strategies;
- (d) Developing ever more transparent and inclusive decision making at the WTO;
- (e) Providing substantial support for building Africa's capacity to trade, and assistance with adjustment to trade reforms.

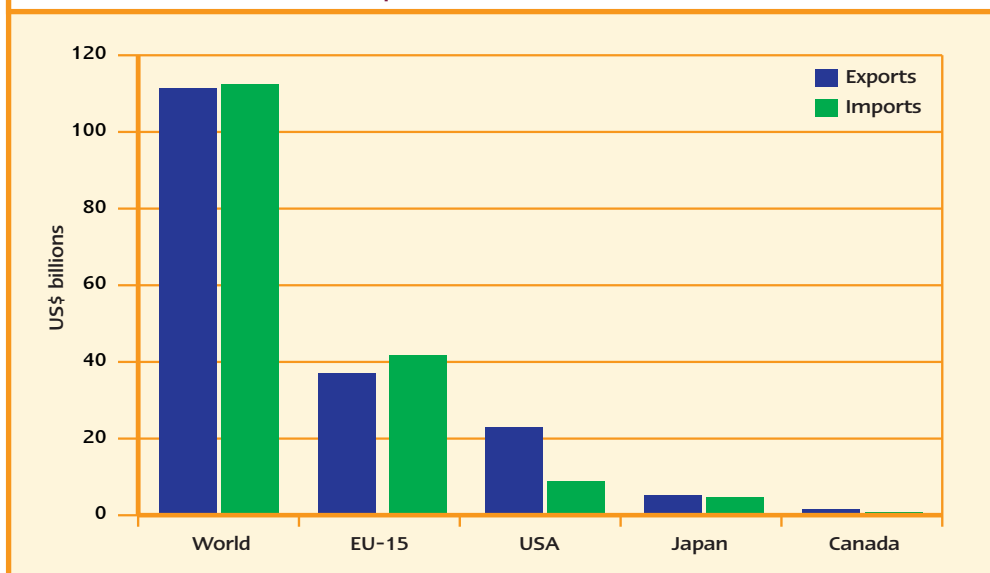
68 Ambitious achievements in the Doha Round will provide substantial gains to developing countries<sup>101</sup>. Gains to sub-Saharan African countries are relatively small in the short-term, but will increase in the long-term if the measures we argue in this report are put in place. In the short term, Africa needs to gain from improved access through more effective preference schemes – a relatively cost-free measure for rich countries to undertake, and receive 'aid for trade' to help it adjust to reduced market barriers. In the medium term, Africa needs to build its trading capacity, and this will have to be supported by sustained levels of infrastructure investment, amongst other things, as well as appropriate policies to design and sequence trade reform. High levels of support will be required from developed countries to assist Africa in these areas. Overall, Africa must boost its competitiveness to achieve greater benefits from Doha.

69 The potential of large gains reinforces the need for political will and leadership in achieving a successful development round. There are a wide range of estimates of gains from Doha, based on different assumptions, but all of these models show that only ambitious liberalisation in the Doha Round will provide significant gains for Africa. These gains will be enhanced if Africa further reduces its own trade barriers in appropriately sequenced ways, and if it can move quickly on a trade facilitation agenda. If the Round is

not ambitious, Africa may lose: serious barriers, particularly in so-called 'sensitive products' are likely to remain, while the value of Africa's preferences will be eroded.

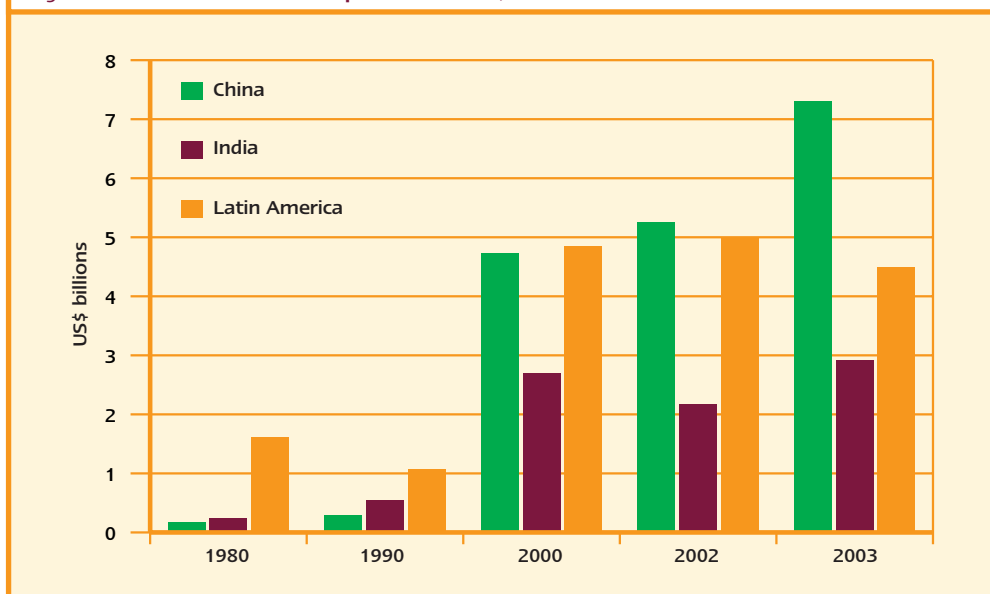
70 The misuse by developed countries of 'sensitive products' classification is a serious threat to Doha gains. It is estimated that if only two per cent of agricultural tariff lines in developed countries are classified as sensitive, receiving only a 15 per cent cut, then three-quarters of global welfare gains will be lost<sup>102</sup>.

Figure 8.11 Sub-Saharan Exports to the World and QUAD (EU, US, Canada, Japan) Countries, 2003



Source: IMF Direction of Trade Statistics, 2004

Figure 8.12 Sub-Saharan Exports to India, China and Latin America



Source: UNCTAD Handbook of Statistics, online

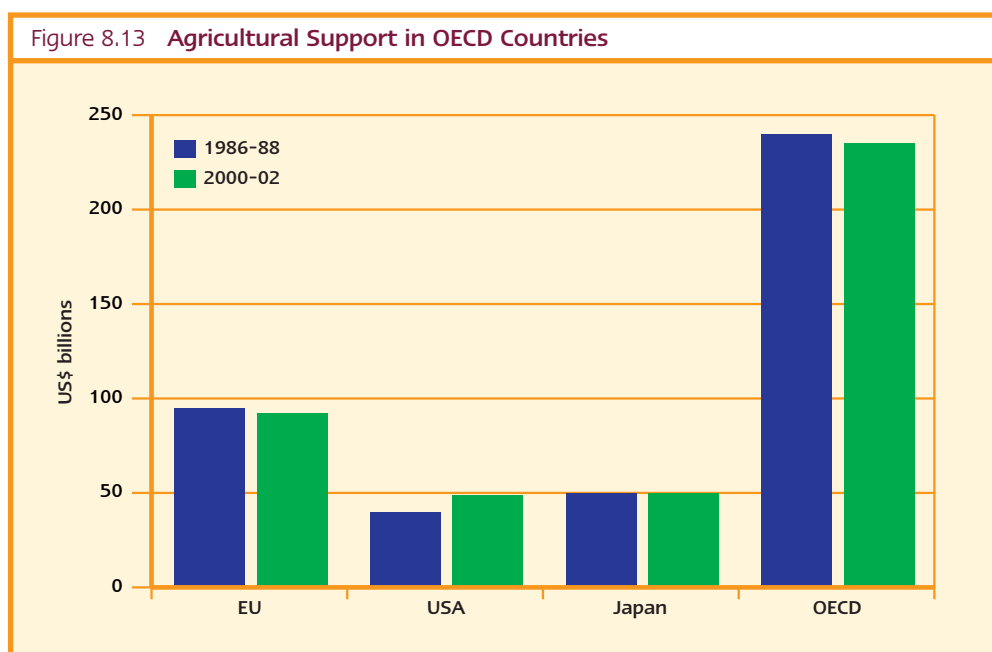


71 Africa also needs to move away from reliance on its old trade links with Europe, and expand its trade in other markets, particularly in the south (see Figure 8.11 for recent progress). As Europe expands its membership to include poorer nations, this relationship will change anyway. New markets are important, for example, in recent years trade between China and Africa has grown dramatically. In 2004 it reached over US\$20 billion<sup>103</sup>, an increase of more than 50 per cent from the previous year. South-South trade has been growing rapidly, and now over 40 per cent of developing country exports go to other developing countries<sup>104</sup> (see Figure 8.12). The US imports more from developing countries than it does from developed countries, and 40 per cent of its exports are to developing countries. This is what Brazilian President Lula has called the 'new geography of trade and economics', and thus his call for a 50 per cent reduction in tariffs between developing countries<sup>105</sup>.

### 8.3.1 Agriculture in the Doha Development Agenda

72 Agriculture is the most important sector in the majority of sub-Saharan African countries, and for the majority of people, as discussed in section 7.3.3. The majority of African countries do not have valuable minerals to exploit – only nine are major oil exporters. Although the sector is relatively small in value terms for all of Africa (compared to oil and manufacturing), it makes up 70 per cent of employment<sup>106</sup> or more, and dominates the exports of most countries.

73 Agriculture accounts for 30 per cent of African GDP directly, and for a far higher proportion if activities related to agriculture are included<sup>107</sup>. It is an area of production dominated by poor people (see agriculture section in Chapter 7). In contrast, agriculture is not of great economic importance to most developed countries, accounting for a few per cent of GDP or less, and only around five per cent of the population depend on farming, in contrast to that in Africa. Yet the agricultural sectors of most OECD countries are the most heavily subsidised and protected sectors of their economies, and the situation has not changed much in the past few decades (see Figure 8.13).



Source: OECD

74 Total support to farmers in OECD countries in 2003 was US\$350 billion – US\$1 billion a day<sup>108</sup>. Of this, US\$257 billion was support to producers and US\$52 billion was support to R&D, training, marketing and promotion. Most support to producers is provided through market barriers that keep prices artificially high – some US\$160 billion – as opposed to the US\$97 billion paid directly to producers. The EU, US, and Japan account for 90 per cent of total OECD support, and the bulk of this support is for milk, meats, grains and sugar<sup>109</sup>. This support is 16 times OECD aid to Africa (US\$22 billion in 2002). Shifting one-seventh of these resources into aid would double global aid volumes.

75 These government hand-outs to farming come at huge expense to EU consumers and to tax-payers, as well as to farmers in poor countries. And worse still, these hand-outs go mainly to the rich, to companies and to landowners. Only four per cent of EU support goes to the 25 per cent smallest farms, and this is roughly the same in the US; the largest 25 per cent of farms receive over 70 per cent of support, reaching 80 per cent in the US<sup>110</sup>. The costs of the CAP are felt hardest by poor people (food items in particular consume relatively more of their income) – the equivalent of over US\$1,500 added to the annual food bill for a family of four<sup>111</sup>. Consumers in rich countries, i.e. the public, have the most to gain from ending the waste of agriculture support and protection.

76 These concerns have all been raised strongly in our five regional business and civil society discussions in Africa, and in the majority of submissions we have received on trade issues.

77 Developing countries face a huge array of protectionist measures in developed country markets. These barriers include high 'tariffs', a tax applied at the border on imported goods. Average applied tariffs in agriculture in the EU are 22 per cent, and in the US 14 per cent, some three-four times higher than in manufactured goods. There is also substantial use of 'tariff peaks', or very high duties on specific products. These affect over 40 per cent of agriculture tariff lines in the EU and Japan. Maximum tariffs in the US on fruits and nuts exceed 200 per cent, and on meat in the EU, 300 per cent. 'Tariff rate quotas' limit the volume of imports and 'specific duties' on 'sensitive products' are particularly onerous<sup>112</sup>. 'Tariff escalation' is another barrier, which has been discussed earlier. For most sub-Saharan products, preferential access schemes reduce the impact of these barriers, although barriers still remain. Even within these schemes, the complexity of the remaining barriers undermine entry. That is why the simple and complete elimination of all of these barriers to African exports is so important.

### **US farm reform**

78 In recent years, US agricultural reform has been reversed, with farm subsidies actually increasing, after earlier reductions. The US Farm Bill in 2002<sup>113</sup> institutionalised emergency support to US farmers – with a 10-year value of US\$190 billion, an increase of US\$83 billion over previous programmes. There are also stronger links between subsidies and production decisions. This approach leads to oversupply and dumping of agricultural produce; US policy on cotton is one extreme example of the harm this can cause to poor people in Africa (see cotton section that follows).

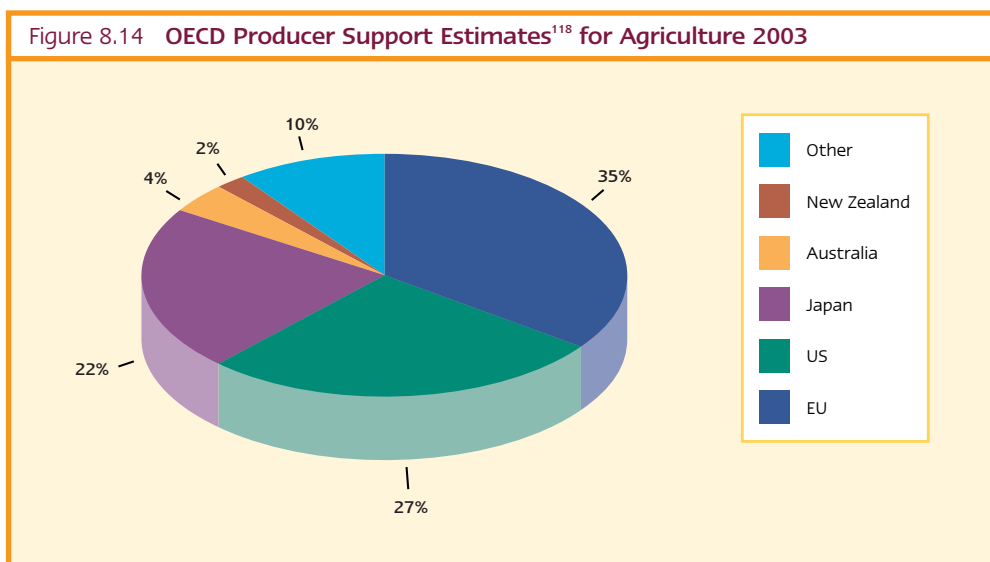
79 The US is also the largest user of export credits<sup>114</sup>, which can provide the equivalent of subsidies, partly through reducing the cost of credit, and partly through reducing risk by providing government guarantees and credit insurance. These US programmes are estimated at around US\$5.5 billion under the 2002 Farm Bill<sup>115</sup>. The 2004 WTO July Framework Agreement incorporates a commitment to eliminate export subsidies, although no date has been set for elimination.

80 US support for agricultural exports is essentially 'welfare for farmers', but as in Europe, the main beneficiaries of these hand-outs are mainly the rich<sup>116</sup>. Worse than this, this welfare is also paid for by poor American consumers and taxpayers. It is estimated that tariffs cost the average low-wage worker in the US the equivalent of five days income<sup>117</sup>. The Farm Bill will expire in 2007, and discussions now, including recent measures to reduce farm payments made in the 2005 budget, offer opportunities for the US to reform agricultural support.

### EU Common Agricultural Policy reform

81 EU policy on agriculture is guided by the Common Agricultural Policy (CAP), which arose in the aftermath of the Second World War, and was intended to promote food security through guaranteeing agricultural prices at high levels to stimulate production. But without credible and further reform of the CAP, the EU will not be able to contribute meaningfully to a development-friendly outcome in the Doha Round, and lack of progress in the EU will mean the USA and Japan will not feel pressure to address this politically difficult area.

82 As Figure 8.14 shows, the EU is the largest protector of agriculture in the world. The EU also accounts for 90 per cent of OECD export subsidies in agriculture. Gross support from consumers and taxpayers to farmers constitutes only two per cent of farm receipts in New Zealand, but around 20 per cent in the US and Canada, 35 per cent in the EU, and 58 per cent in Japan. Japan spends 1.4 per cent of GDP on agricultural support, the EU 1.3 per cent, and the US 0.9 per cent.



Source: OECD, 2004b

83 The CAP affects other countries in a number of key ways: by increasing world supply, thus lowering world prices<sup>119</sup>; by artificially raising EU prices; by excluding others from its markets; by heavily subsidising exports and by undermining world price stability<sup>120</sup>. While the EU on the one hand is being asked to assist countries facing commodity shocks (see Chapter 9), it also helps to create these shocks through its agricultural policies.

84 Because of its preferential access to EU markets, Africa has in some ways gained from CAP distortions. Beef from Botswana has not had to compete with beef from Argentina in EU markets, nor has sugar from Mauritius with Brazil's, and some African

producers gain from artificially high prices in the EU – in sugar, for instance, where prices are almost three times world prices<sup>121</sup>.

85 These gains will end as global trade reform progresses. Ultimately the CAP and other OECD agricultural protection will reduce, and Africa needs to gear up for this. And while Africa has gained from CAP distortions and protectionism, it has also not yet faced the full measure of the impacts developed country protectionism creates in world markets, because its supply capacity is so poor. If Africa produced substantial export-quality sugar and beef, then it would be competing with heavily subsidised EU and developed country products in other markets. If Africa can build its supply capacity, as we argue it must, then CAP reform – as with other OECD agricultural reform – will quickly become a precondition of Africa. Without reform, African exports would be undermined by heavily subsidised EU and OECD production.

86 Problems with the CAP have been recognised, and the EU has undertaken a number of important and difficult reforms, making progress that provides the foundation for further reforms. These include 'Agenda 2000'<sup>122</sup>, and then in 2003, the beginning of the gradual decoupling of payments to farmers from production. Although the overall level of support to producers is projected by the OECD<sup>123</sup> to barely change, the new structure is intended to be less trade distorting. Further progress was also made when the EU agreed to phase out export subsidies in the 2004 WTO July Framework Agreement.

87 We believe that these reforms must be accelerated and that the completion of the Doha Round offers the best opportunity to do so. Given that the CAP absorbs almost 40 per cent (around US\$40 billion) of the EU budget and that the EU economy is growing at only 0.8 per cent, it is high time that European governments paid more attention to the opportunity costs of this waste<sup>124</sup>.

### **Protectionism in action: cotton, sugar, fisheries**

88 Developed-world protectionism is much more damaging for some products than others. Cotton, sugar, and fish highlight some of the key problems.

89 *Cotton*: US support to its cotton farmers was US\$3.9 billion in 2002, driving down world prices by 10-20 per cent, with annual income losses in West African cotton producing countries estimated at US\$250 million<sup>125</sup>. This support is expected to stay at these levels for the next six years, ensuring that US farmers get twice the current world price for cotton. The EU provides up to US\$1 billion in support to EU cotton production. These hand-outs have appalling consequences, undermining the incomes of more than 10 million people who rely on cotton in West Africa. Removal of US and EU cotton support is estimated to increase sub-Saharan Africa cotton exports by 75 per cent<sup>126</sup>. African farmers are much more competitive than their US and EU counterparts, producing a pound of cotton for 21 cents in Burkina Faso, compared with 73 cents in the US<sup>127</sup>. Brazil, with formal support from Benin and Chad, recently challenged US cotton support in the WTO, and a panel ruling in September 2004, to which Benin, Burkina Faso, Mali and Chad contributed, has found that much of US support to cotton is against WTO rules<sup>128</sup>.

90 *Sugar*: Sugar is another commodity that is highly protected through tariff and quota barriers, and receives major subsidies<sup>129</sup>. OECD support for domestic sugar producers is roughly the same as the total value of developing country sugar exports. It is estimated that a move to free trade in sugar would raise world prices by something close to 40 per cent, and could generate around US\$4.7 billion in welfare gains for the developing countries<sup>130</sup>. The EU, the biggest culprit, pays such high prices that sugar beet is grown in places where it is economically irrational and inefficient to do so. And while it provides preferential access to 1.3 million tonnes of ACP sugar, it dumps 4.1 million tonnes of

subsidised sugar onto the world market. In the US in the 1990s, the protection of just 2,300 sugar industry jobs cost US\$800,000 each<sup>131</sup>. A complaint by Brazil, Thailand, and Australia, has led to a WTO panel ruling that the EU is breaking WTO rules in exporting excessive amounts of subsidised sugar. Reform to the sugar sector in the EU is expected to reduce EU prices and production quotas; this will benefit some developing countries but will lead to serious adjustment difficulties for others, including the sugar sector in Côte d'Ivoire and Madagascar<sup>132</sup>.

91 *Fisheries*: Seafood exports have grown in importance in Africa in recent years, with exports in SADC quadrupling to US\$892 million between 1998 and 2001. By that date, African exports to the EU had reached US\$1.75 billion<sup>133</sup>. Yet the EU subsidises this sector heavily, at around US\$1 billion annually: US\$280 million of which supports 850 vessels to fish outside EU waters<sup>134</sup>. When coupled with highly onerous and perversely worded rules of origin (see section 8.3.2), African exports to the EU are even further undermined. Fishing agreements that allow European boats to fish African waters are often badly negotiated. They only return around US\$0.8 billion in royalties, and EU tuna boats in five West African states pay less than one per cent of the value of the catch to these governments (the governance aspect of this problem is also addressed in Chapter 4). Transparent and competitive tendering, including more organised action at the regional level, could go some way to ensuring Africa gains from the contracts it offers. At the same time, the subsidised EU fleets have superior equipment, which means they can catch far more than the African boats.

### **Farm reform – a way forward for Doha**

92 An ambitious Doha Round could provide global welfare gains in the order of US\$80-250 billion<sup>135</sup>, potentially lifting 100 million people out of poverty<sup>136</sup>, depending on assumptions. Those who gain the most are consumers in developed countries, who will pay less for goods, and developing countries, in part because of their own tariff reductions. Two-thirds of global gains go to developed countries, who still account for the majority of world trade. Two-thirds is provided by agriculture reform, because it is the most distorted market. But such gains will only be realised if the Round is ambitious. For Europe, the US and Japan – there are few real costs, and huge gains; for their economies and for their public. For those affected, proper measures can be put in place to address rural development and environmental considerations, improving livelihoods, not harming them.

93 When the Doha Round was launched in late 2001, it was intended to be a development round; this should be the end result. Business as usual will not be enough. The Hong Kong ministerial, planned for the end of 2005, must not fail, as the Cancun ministerial did, for lack of ambition and for ignoring developing country concerns. The stakes are too high, including achievement of the Millennium Development Goals. Concerns that Doha's development ambitions will be too low have been raised many times during our consultations with civil society, with business, with African trade experts, and in the analysis done by the UN Millennium Project, the World Bank, the FAO<sup>137</sup> and others.

94 Africa will only gain from an ambitious Doha Round, if this is backed by strong developed country support to building its capacity to trade, and helping it adjust to trade reform. Anything less will fail Africa. Lack of ambition on these three fronts – an ambitious Doha Round; building the capacity to trade, and support to trade adjustment – will lead to Africa losing, not benefiting from Doha<sup>138</sup>.

95 While an ambitious Doha Round delivers substantial global benefits, immediate gains to sub-Saharan Africa are quite small, around US\$0.7-1.5 billion<sup>139</sup>. This is primarily because sub-Saharan Africa's capacity to trade is so weak; in the short term it cannot make best use of these new opportunities. However, in the long term it can do

so, with dynamic gains of around US\$4 billion, but only if supported by the measures described in this report. The history of past trade rounds should lead us to worry – past rounds maintained rich country protectionism, while aid levels actually reduced, and debt repayments grew.

96 But delivering a successful round will also mean addressing the challenges of adjustment necessary in order to take advantage of new opportunities and help overcome difficulties – in both developed and developing countries. Large reforms will be necessary in the agricultural sector of developed countries. But this does not have to be a lose-lose scenario. A win-win scenario would be one where the huge resources squandered on protection and subsidised production are re-allocated into an ambitious developed country agenda for rural development and environmental protection. This would build on current progress, for instance in Europe, to reduce trade-distorting support. Some of the resources saved should be used to help poor countries, including in Africa, to also adjust to a more open trading environment. In particular help should be provided to those countries in Africa that are hit hard from losing the value of their preferences, loss of tariff revenue, and those who would face higher priced food imports.

97 The kind of Development Round we describe will provide Africa with a more open global trading system with the right market incentives to develop its comparative advantages. Larger and more open markets in developed and developing countries will provide Africa with more opportunities. Increases in world prices that will arise in some products from the removal of subsidies and support, will provide Africa with the incentives to export rather than import.

### **Food imports**

98 Overall Africa would benefit from a fairer trading environment, but reductions in OECD protection and subsidies may have adverse effects in the short term<sup>140</sup>. Sub-Saharan Africa now needs to import food, with imports almost doubling over the 1990s to around US\$10 billion (excluding fisheries) between 2001-2003; of which 25 per cent is in grain products such as maize, rice and wheat<sup>141</sup>. If substantial progress is made with agricultural liberalisation in the Doha Round world food prices may increase in the short-term, and some African food-importing countries could face a considerable adjustment challenge. In the long-term impacts will differ depending on the capacity of countries to take advantage of a more open and less distorted international trade system. Support to smooth the short-term transition will be important, and again, as we have said earlier, a wide range of measures is necessary to help build supply-side capacity, including in food production, storage and markets. Some countries will need temporary assistance to ensure that national food needs are properly met as food prices rise.

### **Trade in non-agricultural goods and in services**

99 Liberalisation of trade in non-agricultural goods (Non-Agricultural Market Access – NAMA) is more advanced at a multilateral level than for agriculture, so average tariffs are already relatively low. For sub-Saharan Africa, the key issues now are developing appropriate industrialisation and manufacturing strategies, coupled with appropriate sequencing of trade reform, and building the capacity to trade, rather than only gaining access to markets. Chapter 7 covers a number of these issues, as does the later part of this chapter.

100 Trade in services is constrained not only by tariffs but also by a wide range of non-tariff barriers, and by the policy positions of countries. The liberalisation of trade in services offers potential benefits to African countries both as providers and users of labour intensive services. However, such liberalisation is best managed within national development strategies, rather than through multilateral trade negotiations in the

General Agreement on Trade in Services (GATS) or through Free Trade Agreements. Many countries in Africa will take some time to develop their regulatory, competition and other institutions necessary for managing more liberalised services environments, and as such need to be able to do this over appropriate periods of time, sequenced and in line with their own national development strategies. As we have said elsewhere in this report, forcing poor countries to liberalise through trade agreements is the wrong approach to achieving growth and poverty reduction in Africa, and elsewhere.

101 The GATS sets the framework of legally binding rules that govern world trade in services through four 'modes of supply': (1) Cross-border (e.g. e-commerce, telecommunications); (2) Consumption Abroad (e.g. tourism); (3) Commercial Presence (e.g. financial services); (4) Temporary Movement of Natural Persons.

102 Developed countries have traditionally been unwilling to liberalise 'Mode 4' trade in services, which covers the 'movement of natural persons' to provide services in another country. This offers the most obvious benefits to developing countries, which have a comparative advantage in low-wage labour. A recent study estimates that if quotas were increased to three per cent of developed countries' labour forces, world welfare would increase by US\$156 billion per year (70 per cent of the gains from increased migration would be from the movement of unskilled workers)<sup>142</sup>. Gains to Africa could be around US\$14 billion. To date, however, Mode 4 relaxation of restrictions on temporary entry has been generally used for skilled workers, not unskilled ones<sup>143</sup> – contributing to the brain drain in Africa with, for instance, trained nurses leaving to rich country hospitals (see Chapter 4). Full liberalisation under Mode 4 is unlikely to happen, and may be politically unfeasible – even though there are substantial gains to 'temporary movement'. Most OECD governments, their public and media, are extremely sensitive to immigration issues, and more recently to security concerns, although it should be noted that Mode 4 is about 'temporary' movement, rather than emigration. *However some modest progress could generate benefits for sub-Saharan Africa.*

103 Some developing countries have maintained extensive barriers to services imports in their own markets. But skill and technology-intensive services can speed up growth and development, with banking and telecommunications often seen as particularly important to building the capacity to trade. More of Africa's future growth will have to come from services and manufacturing, and thus barriers to imports of this kind risk damaging future growth and development prospects (see Chapter 7).

### **Non-tariff barriers and standards**

104 While, to some extent, market access has improved over past decades, entry to rich-country markets for Africa have worsened through new barriers which are difficult and costly to implement. These non-tariff barriers are a major concern, and take several forms – quotas for limits on imports allowed, administrative procedures, customs fees, extra taxes, shipment inspections, even currency restrictions (see section on trade facilitation). Other barriers take the form of health and safety standards. In preferential schemes, rules of origin stand as major non-tariff barriers (see following section 8.3.2).



### Box 8.7 Trade Barriers – Standards

If the EU used international standards, instead of its own, for traceability requirements and regulations on pesticide residues for agricultural imports, African banana exports could grow by US\$410 million a year. By participating in international standards, Africa could gain up to US\$1 billion a year in additional exports of nuts, dried fruits and other agricultural commodities<sup>144</sup>. Research shows that that when standards are set, impact assessments should be undertaken during the design of standards and following implementation.

New challenges include EU requirements for traceability of produce throughout the food chain. (EC Regulation 178/02). Although only applicable within the EU itself, private sector importers/distributors are requiring similar sophisticated tracing and tracking systems to be adopted down the import value chain to the farmer. The many smallholders who constitute the core African supply base for many horticultural products do not have the resources to comply with these demands.

The latest Regulation (EC Feed and Food Controls 882/04) however is likely to have the greatest impact on African-EU trade. This Regulation requires that the national authorities of exporting countries guarantee that their food safety control systems will in practice deliver a level of food safety, for exported produce, that is equivalent to that in the EU itself. This requirement will impact most severely on the plant related sector (as the animal, including fish, sector is already closely controlled).

*Source: Various sources*

105 Health standards such as sanitary and phyto-sanitary (SPS) standards can be serious barriers to trade. Even though the effect may be quite accidental, it can be highly damaging. Consumer concerns in rich countries, increased technological detection capacity and so on, have created SPS standards that are now major barriers to African exports. It is not unwillingness to meet these standards that is the problem, nor disagreement with their rationale. The problem is that poor countries in Africa are not equipped to meet these demands.

106 Two key actions are necessary to help Africa. The first is, while ensuring the health needs and consumer concerns of developed countries are met, to ensure that standards set are not unnecessarily stringent. A 'development test', including an impact assessment, should be applied to existing and new standards to ensure that the health and other gains are essential, and the impact on developing countries considered. African governments should be consulted in the design of such standards, with capacity strengthened in order to make appropriate inputs. The Standards and Trade Development Facility should be fully supported<sup>145</sup>. The scope to harmonise standards should be explored so that African exporters are able to best identify and meet such standards.

107 Secondly, help is needed in meeting these standards. Standards for different markets differ and the cost of demonstrating that they have been met is often punitively high. These include product standards which govern quality, and process standards which set conditions under which products are produced. Meeting these standards can also be an opportunity: compliance will mean African exports can enter markets throughout the world. The recent EU regulation on feed and food law (see Box 8.7), will apply from 2006 and will require countries and farms to have in place adequate hygiene protection, including food safety laws, an enforcement agency, a court system to adjudicate, and evidence that this works in practice. Africa will need substantial support to meet these and similar requirements<sup>146</sup>. Infrastructure investments (such as laboratories, inspections)



and training costs could be in the order of US\$5 million per country, or more if the implications on the structure of production are taken into account. The cost of compliance with EU hygiene standards in the fish-processing sector in Kenya were over US\$0.5 million alone. But a lower bound estimate of almost US\$250 million for sub-Saharan Africa<sup>147</sup> could be made – a small investment for major gains.

### **Trade Related Intellectual Property Rights (TRIPs)**

108 The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), negotiated in the Uruguay Round, introduced intellectual property rules into international trade. NEPAD has called on the WTO to ensure African countries are given sufficient technical assistance and advisory support to meet TRIPs requirements<sup>148</sup>. Although the role of TRIPs in preventing access to medicines for life-threatening illness is the most visible issue (see Chapter 6), there is another development dimension to intellectual property through the promotion of innovation, knowledge, and creative skills of poor people<sup>149</sup>.

109 Piracy and the ability for artists to control reproduction of their works is an area of concern. For example, Kente cloth is a traditional Ghanaian form of weaving that depicts significant life events and reflects the history, philosophy, ethics, and moral values in Ghanaian culture. When a US supermarket chain reproduced the designs of a Ghanaian artist Gilbert 'Bobbo' Ahiagble, who works to preserve the tradition of Kente, he had no legal recourse since he had no legal protection for his designs<sup>150</sup>. Developed countries should increase technical support to African countries and regions for the extension of intellectual property rights to indigenous innovation and knowledge.

### **Free Trade Agreements (FTAs)**

110 Recent years have seen a rapid expansion in Free Trade Agreements (FTAs). Over 170 are in force, some of them between developed and developing countries. For developing countries, the greatest gains will come from the Doha multilateral process, not through FTAs. While FTAs may provide benefits, it is important that they do not railroad developing-country governments into undertaking commitments that go beyond existing multilateral agreements. Recent FTAs negotiated by the US, for instance, include measures to extend patent protection beyond that agreed in TRIPs (so-called TRIPs +), or to relax capital account controls.

111 Developed countries should also ensure that sufficient time and flexibility are built in to FTAs to enable African countries to adjust to a more open trading environment, with careful sequencing. Reciprocal requirements should be reduced to the minimum, and without the additional burdens described above. This is a serious concern for Africa in the on-going Economic Partnership Agreement negotiations (see below). African countries should have the flexibility to implement reform at an appropriate pace, and in line with their own development strategies. Forced liberalisation will not work. A review of Article XXIV in the GATT which sets out requirements for reciprocal opening – currently for both parties to substantially eliminate all trade barriers between each other – may be useful in order to ensure the Article better meet the needs of developing countries and regions by allowing them the flexibility to protect sectors as necessary.

### **EU/ACP Economic Partnership Agreements**

112 The EU is currently negotiating a series of such bilateral agreements – Economic Partnership Agreements (EPAs) – with the African, Caribbean, and Pacific countries. These EPAs will replace the current Cotonou preferences, which currently operate under a WTO waiver that expires at the end of 2007. The new agreements are opposed by many

stakeholders, who fear that EPAs will force Africa to open to EU exports, a genuine concern. The European Commission (EC), which acts on behalf of the EU on trade, must ensure that EPAs support development needs. This means: not forcing poor countries to liberalise; pursuing a non-mercantilist approach; allowing individual African countries to sequence their own trade reforms in line with their own poverty reduction and development plans; and providing additional financial assistance to support developing countries in building the capacity they need to trade and adjust to more open markets<sup>151</sup>. EPAs should be implemented in a way that reflects the principles set out above and changes will need to be made in order to do so. Any reciprocal requirements should not in practice cut across these principles - they should provide for substantial time-frames for all countries - over 20 years if necessary. We believe that if implemented in this fashion, EPAs will offer major opportunities for Africa. The EC should commit itself more explicitly to this development-orientated approach, rather than a 'trade negotiator' approach that seeks concessions from ACP countries. This would build more confidence in current negotiations, and accelerate development progress. The ECA estimates that if properly implemented along the lines we describe, with sequencing which provides immediate unrestricted access to EU markets, and strong support to regional integration and in Africa's capacity to trade, EPAs could yield gains of up to US\$8 billion for sub-Saharan Africa, with gains of US\$1.2 billion from regional integration<sup>152</sup>.

113 The EC's approach to EPA negotiations should ensure that EPAs prioritise developmental needs, reflecting the points set out above. The development test of EPAs should be a commitment up-front to provide duty- and quota-free access to the African regional groupings (or implement this immediately if the current Cotonou waiver can be modified); to reform immediately its rules-of-origin to allow global cumulation and 10 per cent minimum value-added in country of origin, in order to maximise the developmental impact of its preferences (see section 8.3.2); to provide substantial parallel support to accelerate regional integration and build Africa's capacity to trade; and to ensure reciprocal requirements are reduced to minimal levels and with appropriate timeframes (e.g. up to 20 years if necessary for some products). A review of Article XXIV of the GATT to reassess and reduce reciprocal requirements in free-trade agreements in order to prioritise development needs may be useful. It will be in Africa's interests to open up to EU and other regional imports, in a managed way, as cheaper imports and technology transfer would benefit African growth and poverty reduction. But this should be in line with Africa's own development strategies, not bound in trade agreements.

### **Making Special and Differential Treatment (SDT) work for developing countries**

114 Currently developing country needs are addressed through SDT, which through the 'enabling clause' agreed in 1979, allowed preferential market access, limited reciprocity to levels 'consistent with development needs'<sup>153</sup> and greater flexibility in use of trade policy by developing countries. Many argue<sup>154</sup> that these approaches have not worked well in meeting development objectives. The Doha declaration called for a review of SDT with a view to 'strengthening them and making them more precise, effective and operational'<sup>155</sup>. As we have said earlier, Doha must deliver a development agenda; one key route to this is to ensure that WTO rules can work for developing countries. A committee chaired by Ernesto Zedillo has been created to look into SDT of developing countries. One mechanism it is exploring is whether to make legal recourse to dispute settlement<sup>156</sup> conditional on applying a test of whether trade policy under consideration meets development objectives. This test would focus on the likely net effects of not implementing WTO rules in favour of more development orientated trade policy, and on negative spillovers, and would allow greater discussion of development concerns, rather than merely the implementation of the rule of law. There are other complementary approaches, and we discuss one, aid for

trade, later in this chapter. We fully support the efforts of this panel, and call on developing countries to closely engage and support the outcomes of the committee.

### **Recommendations - ambitions for Doha:**

- Developed countries should ensure that the Doha Round of world trade talks makes development its urgent and absolute priority, in order to help Africa, and other developing countries, achieve the Millennium Development Goals. Developed countries should do the following: at the December 2005 meetings in Hong Kong, they must agree to immediately eliminate trade-distorting support to cotton and sugar, and commit by 2010 to end export subsidies and all trade-distorting support to agriculture. An early commitment to this would provide a powerful impetus for the Doha talks.
- However, the greatest gains will come from reduced protectionism. At the conclusion of the Doha talks developed countries should agree to progressively reduce all tariffs, to all countries, to zero by 2015, and reduce non-tariff barriers. There are few costs, but huge gains from these measures.
- Higher income developing countries should also do more to reduce their tariffs.
- Developed countries should agree not to invoke exemptions for 'sensitive products', since this will eliminate gains from tariff reductions.
- The Doha talks should conclude no later than the end of 2006 in order to make an early difference to Africa and other developing countries.
- While Africa will benefit from reducing its own tariff barriers, making development the priority for both Doha and other trade negotiations, including Europe's new trade agreements with Africa (EPAs), means allowing reform to proceed at a pace set by Africa, sequenced in line with their own poverty reduction and development plans, with liberalisation not forced through trade or aid conditions. Reciprocal demands should be reduced to a minimum, and over appropriate timeframes, up to 20 years or more if necessary. A review of Article XXIV of the GATT may be useful in support of this.
- This will also require making Special and Differential Treatment work better, by making legal recourse to disputes conditional on applying a 'development test'. African countries, for instance, may need to protect domestic agricultural producers on the grounds of food or livelihood security, and sustainable rural development, by exempting some agricultural areas from liberalisation.
- EPAs should also prioritise development more clearly through up-front commitment to EBA for all sub-Saharan Africa and reformed rules-of-origin.
- Developed countries should apply a development test when designing product standards, to assess impacts and minimise barriers they may create, and should provide resources to help Africa meet them.
- Shifting the resources allocated to OECD agricultural protection (US\$350 billion) away from waste and into rural development and environmental investments will provide huge benefits to the OECD public, and would provide a win-win situation for those affected by reform; an allocation of one-seventh to aid budgets would immediately double global aid volumes, including to Africa.

## 8.3.2 Making preferential access work for sub-Saharan Africa

### Preference schemes used by Africa

115 Contrary to popular belief, Africa has substantial access to northern markets through a range of preference schemes. The key issue, as we have already discussed, is Africa's capacity to trade and gain from this access, and to build its capacity to compete in a world without preferences. More can be done to improve the short-term help that preference schemes can give to African exports by making them work better. And as we argue in the next section, more can be done to ease the transition to liberalised markets.

116 Some developing countries argue that the value of preferences should remain, in part by retaining the protectionism in OECD markets that make such preferences so beneficial. However, whilst a small number of countries in Africa may benefit, most would lose. This is the wrong path for Africa. We have argued earlier that OECD market reform will eventually happen, and the value of preferences will erode. Africa will then have to compete in a global market place. A more competitive Africa will gain far more from a world without protection, than it will from preferences in a protected world.

117 Preferential access schemes offer developing countries additional tariff cuts below the 'Most-Favoured Nation' rates agreed in the WTO, (see Box 8.8).

#### Box 8.8 Preference Schemes Used by Africa

Africa benefits from a range of preference schemes – the GSP (Generalised System of Preferences); the EU Cotonou agreement for African Caribbean and Pacific countries (ACP); the US African Growth and Opportunity Act (AGOA), and various LDC schemes of the EU, Canada, and Japan. There are 33 LDCs<sup>157</sup> in sub-Saharan Africa, and 15 non-LDC African countries (Botswana, Cameroon, Cape Verde Côte d'Ivoire, Republic of Congo, Gabon, Ghana, Kenya, Mauritius, Namibia, Nigeria, Seychelles, South Africa, Swaziland, and Zimbabwe). See Figure 8.15.

**EU Cotonou Scheme:** Cotonou is a very open scheme, with enhanced preferences beyond those in the GSP scheme, and with protocols for bananas, beef, veal and sugar. This incorporates all of SSA excluding South Africa.

**Everything-But-Arms (EBA):** The EU offers duty-free and quota free access for all goods from LDCs under the Everything But Arms (EBA) Agreement, and is part of the EU GSP scheme, but for LDCs. This scheme was introduced in 2001 and is permanent. Full access for bananas, and for rice and sugar is being phased in by 2006, and 2009 respectively.

**AGOA<sup>158</sup>:** The US introduced this scheme in 2000, amending the US GSP scheme to reduce tariffs and offer improved access to some African countries for a limited number of products, including in textiles and clothing, up to 2008. In 2004, the scheme was extended to 2015. Low-income countries (defined by US as those with annual per capita income below US\$1,500) can receive a waiver on restrictive rules of origin. This covers 24 LDCs and 13 non LDCs in SSA.

**Canada:** In 2003 Canada expanded its GSP scheme to cover substantially all products from LDCs, including textiles and clothing, with the exception of a limited number of products (eggs, poultry and dairy), along with liberal rules of origin.

**Japan:** In 2000 and 2003, Japan has progressively expanded the number of industrial and agricultural products from LDCs receiving duty-free access. This covers 31 SSA LDCs except for Djibouti and Comoros.

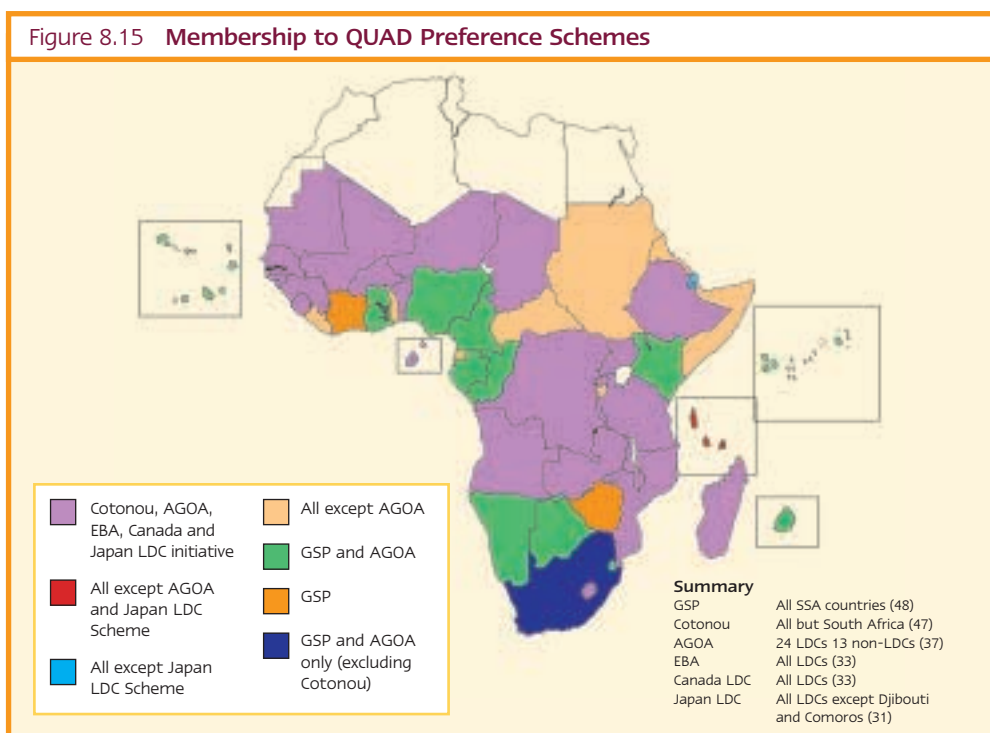
Source: Brenton, 2004a, b; Stevens, 2004b and others

118 In the process known as 'preference erosion', the overall value of preferences will be reduced, as reductions in general tariff levels are agreed through the WTO, or other preferential arrangements are agreed, or changes occur in domestic market prices. In the long term, this will be good for Africa, as it will smooth the region's integration into the wider world trading system, lead to growth that will expand market opportunities, and stop the distortion of incentives within African countries introduced by the preference. Although in the short term, there will be costs, these can be overcome through a number of measures.

119 Firstly, making existing preferences work effectively would provide a temporary boost in access. When coupled with other measures to increase trade capacity outlined in this and other chapters, this access would help Africa expand its exports, build its competitiveness, and get ready to compete more effectively in a global market with reduced tariff preferences.

120 Secondly, such measures will need to be coupled with assistance to address the adjustment challenges arising from preference erosion (see section 8.3.3), as well as support to shift away from a reliance on preferences. These two areas of assistance would go some way to addressing the concerns of those African countries that are opposed to multilateral liberalisation, in particular those few countries who wish to maintain developed country barriers in order to continue to benefit from preferences. Such assistance could win African support for a successful Doha Round.

121 Gains from making these schemes work better are substantial, and a range of work has been done to look at the benefits of unrestricted access for sub-Saharan Africa to OECD markets. The World Bank has estimated yearly gains in income of nearly US\$2 billion<sup>159</sup>. Recent ECA estimates are around US\$4 billion<sup>160</sup> in annual income gains, and recent UNCTAD estimates are US\$3-5 billion, including an increase in exports of around five to ten per cent<sup>161</sup>, and a rise in government revenues of 10 per cent. While these are modelling estimates that



Source: Adapted from various sources

depend heavily on assumptions, and only show static gains<sup>162</sup>, they do make it clear that gains are not negligible. It would cost developed countries relatively little – in the order of a few hundred million dollars – while gains could be a quarter of current aid flows.

122 The 2004 WTO July Framework Agreement called on all members to provide duty- and quota- free access to LDCs. This should be an immediate first step for developed countries and emerging economies. Expanding these schemes to cover non-LDCs is more complex.

123 One possible problem is whether offering improved access to low-income African non-LDCs is WTO-compatible. Differentiation between developing countries is generally not seen as compatible with WTO rules, and improved access for low-income African countries could be seen as unfair on poor countries outside Africa who do not benefit from it. However, EC negotiations on EPAs are intended to replace Cotonou preferences with WTO compatible trade agreements, and in our view should lead to Cotonou/EBA-style access for all sub-Saharan low-income countries. Moreover, a recent WTO panel ruling on the EU's GSP in April 2004 offered an opening for additional differentiation. The panel pronounced that developed countries can offer different preferences to different developing countries, provided that the favoured countries meet certain objective and transparent criteria relating to their 'development, financial and trade needs' and that 'similarly situated' countries could also apply for these preferences.

124 Given Africa's current economic and poverty challenges, a strong case could be made for sub-Saharan African low-income countries to receive special treatment through preferences. On current trends, most people living on less than US\$1 a day in 2015, will be living in sub-Saharan Africa, where they will make up over two-fifths of the population. By contrast, in South Asia the proportion below the poverty line will be 16 per cent, and in East Asia and the Pacific only two per cent.

125 The better-off developing countries – Brazil, China, India and South Africa, as well as Korea, Malaysia, and others – could contribute by increasing access to their markets. China recently introduced a preferential tariff arrangement with 25 African countries, with zero rates on 190 items (including food, textiles, minerals and machinery), which will apply from January 1, 2005<sup>163</sup>. The World Bank measure of trade restrictiveness shows that while sub-Saharan Africa is relatively open, South Asia and Latin America are less so, including towards low-income countries. As a first step they should offer duty- and quota-free access to LDCs in Africa.

### **Making preferences work**

126 These preference schemes could be improved in four key ways: First by **expanding preferential access to cover other very poor African countries**. At the 2001 LDC Summit and again at Doha, developed countries committed to providing duty- and quota-free access for all products, to all LDCs; clearly this commitment is outstanding for the US, Japan and Canada and action should be taken. However, this is not enough. Other poor countries in Africa need this access too, if they are to achieve the MDGs. AGOA covers a mix of LDCs and non-LDCs in Africa, as does the EU's Cotonou scheme, while the most open EU and Canadian schemes focus only on LDCs. Allowing other low-income African countries such as Kenya, Ghana, Nigeria, and Côte d'Ivoire the same benefits would provide an important access boost, and assist regional integration. Extension of these schemes could draw upon the recent WTO panel ruling on the EU's GSP scheme to find ways of doing this that are WTO-compatible. This is a relatively cost-free and immediate way of assisting a region seriously off-track for achieving the MDGs. A strong case could be made in the WTO given the challenges faced by low-income sub-Saharan African countries compared to low-income countries in other, more dynamic regions. The EU could do this by committing up-front to

provide EBA-style access via the EPAs for all sub-Saharan African countries, not just LDCs, when this comes into force in 2008, the US could help by extending and improving AGOA; Canada and Japan by extending their LDC schemes.

127 Second by **relaxing rules of origin**. Preference schemes usually have a set of 'rules of origin' (see Box 8.9) that determine where products are deemed to have come from and therefore whether they are eligible for preferences. The rules of origin also specify the minimum amount of processing required on the imports of raw materials to confer eligibility. These rules can appear to be created purely to eliminate the benefits of the preference schemes, and can go to bizarre lengths in order to exclude products: for example, the EU fisheries rules actually specifies the nationality of the crew of fishing boats<sup>164</sup>.

#### Box 8.9 Trade Barriers – Rules of Origin

Lesotho is a well-documented success story, with liberal rules of origin for textiles in AGOA leading to substantial growth in the garment industry and contributing to the creation of 40,000 new jobs. These gains show what may be possible in other sectors if rules of origin are relaxed. This success is possible because of massive protectionism in the textiles sector, where preferences therefore have high value. In 2002 Lesotho's exports to the US were some US\$321 million, whilst imports to the EU were only US\$18 million. The difference in flows is entirely due to more liberal rules of origin for AGOA, and more restrictive rules in the EU. The key difference is that the US allows Lesotho and other African LDCs in the scheme, to source fabrics globally ('global cumulation'), from the most competitive suppliers – a normal approach for EU firms, but not one allowed for Lesotho under EU rules. Origin under AGOA is conferred for simple assembly alone, leading to major development gains for Lesotho. This liberal rule is due to end in 2006-2007 however, with potentially devastating impacts for Lesotho and other African countries that now benefit, and with high social costs for their female textile workforce. The AGOA rule should be made permanent.

Source: Gibbons, 2003

128 Compliance with rules-of-origin under EBA and AGOA can impose costs on exports equivalent to tariffs of up to 10 per cent – enough to make the difference between being competitive or not. Only around half the products eligible for duty- and quota-free access under the EU's EBA scheme gain from this scheme, partly because Cotonou is only marginally less generous than EBA, partly because importers are used to using Cotonou, and partly due to rules-of-origin barriers<sup>165</sup>. These rules should be reformed so that they contribute to maximising country exports, while ensuring fraud does not take place. The Lesotho case shows what can be achieved in one sector. We recommend that all developed countries should allow global cumulation and specify a minimum of 10 per cent value-added in the country of origin.

129 Third by increasing the product coverage to increase opportunities and remove distortions. Many of the more sensitive products are protected to some extent under preference schemes; AGOA excludes some meat products, dairy, sugar, chocolate, groundnuts, tobacco and some prepared food<sup>166</sup>; LDCs have to pay full tariffs on 16 per cent of product lines in Japan's LDC scheme<sup>167</sup>; Canada excludes eggs, poultry and dairy; EBA currently excludes sugar, rice and bananas.



130 And fourth by increasing certainty, since uncertainty hinders investment. In making investment decisions, businesses are likely to look over a longer timeframe. Uncertainty over the longevity of preference schemes like AGOA or Cotonou increases risk and uncertainty about the likely return, deterring investment<sup>168</sup>. Predictability is important. Developed countries should overcome these problems by binding preferential tariff rates permanently under the WTO.

### **Recommendations - making preferences work for Africa:**

Developed countries should immediately extend quota and duty-free access to all exports from low-income sub-Saharan African countries, simplify and relax rules-of-origin requirements, and work towards better co-ordinating their approaches. If all developed countries extended quota and duty free access to all low-income sub-Saharan African countries this could raise annual incomes in sub-Saharan Africa by up to US\$5 billion, and would provide a temporary access boost to assist Africa while Doha reforms are implemented. Such provisions should be made in the context of an ambitious Doha Round, and be bound in the WTO to ensure predictability. Developed countries should allow 'global cumulation' and a minimum value-added of 10 per cent in the country of origin for all products.

### **8.3.3 Mechanisms to support trade adjustment and address preference erosion**

131 The process of trade liberalisation, while providing overall gains to both developing and developed countries, also requires difficult processes of adjustment and short-term costs. The costs of these adjustments animate opposition to trade reform in both developed and developing countries.

132 Short-run adjustment costs will vary for different countries in Africa, but they include short-term export losses; balance-of-payments problems, including impacts on debt payments; loss of tariff revenue (where for some countries this is up to a quarter of government revenue<sup>169</sup>); impacts due to the end of quotas in textiles in the January 2005; preference erosion; impacts of changes in world prices, particularly for food importers; new investment costs to support diversification; coping with the social costs of adjustment, including gender impacts, in sectors employing poor people and the impact of reduced income for some. Reduced income levels have knock-on effects, in that they can prevent poor people from meeting health costs or school fees. Strong support is vital in order to help Africa make these necessary adjustments, and major aid investments will be necessary to ensure that Africa can build its capacity to trade and gain from a more open world trading system.

133 The Commonwealth Secretariat<sup>170</sup> has calculated that US\$1.7 billion will be lost annually in agriculture, textiles and clothing for Commonwealth countries now dependent on preferences (including African countries such as Botswana, Ghana, Kenya, Mauritius, Mozambique, Namibia, Swaziland, Zimbabwe).

134 The IMF<sup>171</sup> has proposed a Trade Integration Mechanism (TIM) as a way of providing IMF support to balance-of-payments shortfalls arising from implementation of WTO agreements – including preference erosion, expiry of textiles quotas, and changes in food terms of trade. The Fund estimates that Malawi, Mauritania, Tanzania, Mauritius, and Côte d'Ivoire would see losses in export values ranging between seven and two per cent, assuming a 40 per cent cut in preference margins as a result of multilateral tariff reduction. Support for adjustment would be through existing facilities such as the Poverty Reduction and Growth Facility (PRGF) or the Extended Fund Facility (EFF), and would provide increased predictability of finance. However, IMF resources would be



limited in size and scope, are relatively high cost, and adjustment caused by the country's own reforms are not covered.

135 OECD countries have well developed social security and welfare systems and are well placed to address the adjustment costs they face. This is not the case for African countries. Whereas in the UK and US spending on social safety nets comes to 10.5 and 14.1 per cent of GDP respectively, in sub-Saharan Africa the figure is 1.4 per cent<sup>172</sup>. At the same time, OECD countries would be able to shift resources from agriculture protection into rural development support and environmental investment; helping to support adjustment to trade reform, while investing in creating sustainable rural growth and employment.

136 Various ideas are being discussed to address the problem of developing-country trade adjustment. The committee chaired by Ernesto Zedillo, which is looking into Special and Differential Treatment of developing countries, is also assessing the case for additional support for trade adjustment and integration, and is reviewing various options for providing 'additional resources'. This work also includes recommendations on how most effectively to operationalise trade adjustment support and capacity-building.

137 The question of additional resources for adjustment and integration needs to be considered in the context of the huge net aggregate global gains that a successful Doha trade round would generate. One-seventh of the costs of OECD protection, if allocated to aid budgets, would immediately double global aid flows. Mobilising a serious trade support effort ('aid for trade' as well as 'aid for development') would not only help the negotiating dynamics but also the development relevance of the WTO. The recent work by the UN Millennium Project recommends an 'aid for trade fund', and we support this proposal. Efforts to support developing countries to date have been made on a best-endeavour basis and in a constrained environment for aid resources, trade-related issues have justifiably had to compete with priority sectors such as health and education. Recent reviews continue to indicate that 'aid for trade' remains limited, and so promises of additional support for trade have to be credible<sup>173</sup>.

138 The 'Zedillo' group is looking at a range of options to provide additional resources, and should be fully supported in these efforts. Increasing direct assistance would be one of the best options but others include the engagement of the private sector, the International Finance Facility (IFF) (discussed in detail in Chapter 9), and setting aside an increment of tariff revenue on tariffs subject to reduction commitments agreed at the conclusion of the Doha Round. This last option proposes a transfer of an increment (say half a per cent) of currently raised tariff revenue in developed countries into an 'aid for trade' fund. Current levels of tariff revenue collection in OECD countries are around US\$60 billion. Within the context of global liberalisation, as tariffs reduce, the levels of revenue collection will reduce, thus providing a time-bound framework and incentives to adjust.

139 In terms of an operational structure for support, building on the Integrated Framework makes considerable sense<sup>174</sup>, expanded to cover all low-income countries in Africa (and elsewhere), not just LDCs. The Joint Integrated Technical Assistance Programme (JITAP) of the WTO, UNCTAD, and ITC may be another mechanism. The Integrated Framework builds on good practice for improving the quality of aid through greater donor 'harmonisation' and for additional aid to be provided in the context of a country's overall development strategy, but both could be better linked to build on the strengths of each.

### **Recommendations – delivering aid for trade:**

**Developed countries should agree, by the time of the Hong Kong ministerial at the end of 2005, to provide increased support to trade integration and the costs of trade adjustment so that sub-Saharan African countries can benefit from market**

opening. Major increases in aid investments are necessary, as we have described earlier in this chapter, to build Africa's capacity to trade, particularly in infrastructure and communications. But assistance is also needed to address the impacts of preference erosion, loss of tariff revenue, social costs, and to provide support to efforts to undertake trade facilitation efforts and meet standards. This support would be provided through mechanisms developed over 2005/2006 and then implemented from the conclusion of the Doha Development Round. Access would need to be aligned with national development plans and poverty reduction strategies, and support would build on the success of the Integrated Framework rather than create a new mechanism.

### **8.3.4 Making trade policy consistent with aid policy**

140 It is important that rich countries increase the coherence of their policies towards developing countries. What they provide in aid, is undermined by the appalling trade policies described earlier in this chapter, that hinder Africa's growth and poverty reduction prospects. However, trade policy could also become more consistent with aid policy. The Commission proposes elsewhere in this report that aid to Africa be doubled. Aid can be used only for imports, so the proposal has major implications for Africa's trade. Unless trade policy is properly aligned with this new aid policy, increased aid could actually have perverse effects on export diversification.

#### **Aid is imports**

141 Ostensibly, aid can be used to pay for anything – more drugs for health clinics or more teachers for schools. Generally, the drugs will be imported, but the teachers will be local. Imported drugs require foreign exchange, which aid supplies. By contrast, teachers need to be paid in local currency; aid comes in foreign currency and so must be sold to generate this local currency. People buy this extra foreign currency only if they want to purchase extra imports. Thus, either directly or indirectly, extra aid can be used only for extra imports.

#### **The problem of real exchange rate appreciation**

142 The problem posed by a quantum increase in aid is that people will normally want to purchase a lot of extra imports only if the imports get cheaper. As donors increase the supply of foreign exchange, this happens automatically: the local currency appreciates, cheapening imports in local currency terms. This is good news for consumers of imports in Africa – often the higher-income groups. But it is bad news for exporters – whose incomes go down: in Africa these exporters have often been small farmers.

143 Not only does exchange-rate appreciation have adverse distributional consequences; it also fundamentally frustrates export diversification. Indeed, exports are liable to contract, retreating into a yet narrower range of commodities. In Africa the classic example of this process came when foreign-exchange earnings from oil wiped out Nigeria's agricultural exports. It is vital that a big push on aid should not lead to such unintended consequences.

144 It is sometimes imagined that fancy strategies by the Central Bank – 'sterilisation' to use the technical term – can avoid the problem. This is an illusion. 'Sterilisation' in effect means the strategy of not spending the aid: just leaving it sitting in foreign exchange reserves. This is clearly not the best use of aid. Some developing countries are so scared of the effects of exchange rate appreciation on their exports that they even adopt a strategy of 'negative aid'. China is currently running what amounts to a huge aid programme to the USA, building up a stock of US Treasury Bills, to avoid allowing its exchange rate to appreciate.

### Trade policy to the rescue

145 Yet there is a simple way of reconciling a doubling of aid with the maintenance of export competitiveness: aid policy and trade policy need to work together. Doubled aid means a big increase in Africa's *supply* of imports. To prevent exchange rate appreciation, this has to be matched by a corresponding increase in the *demand* for imports. This is what trade policy can do. By reducing tariffs and other impediments to imports, African governments can raise the demand for imports *without lowering the incomes of exporters*. This is why trade policy is preferable to allowing the exchange-rate appreciation.

146 By focusing on the barriers to imports, governments can also be more selective in who benefits. Whereas exchange-rate appreciation benefits the rich, selective trade liberalisation can be designed to benefit ordinary people. For example, tariffs can be reduced on bicycles and trucks, but not on cars. If customs procedures are simplified for inputs into the production process, costs of production will fall and jobs will be created.

# Recommendations on Trade

Increased trade is vital to increased growth. Africa's share of world trade has slumped to just 2 per cent from 6 per cent twenty years ago, and Africa has fallen behind its competitors. Africa faces a huge challenge if it is to reverse this and catch up. African governments must drive this process and be allowed to develop their own trade policies. Action in three key areas by African countries and the international community, working together, could make this happen by: supporting African-owned strategies for building the capacity to trade; dismantling the rich world's trade barriers through the Doha Round of world trade negotiations; and providing transitional support to help Africa adjust to new trading regimes.

## Improving Africa's capacity to trade

- And Africa must increase its capacity to trade. It should remove its own internal trade barriers between one African country and another. Measures to facilitate trade will be key, including reform of customs and other regulations. And it must increase efforts to achieve greater economic efficiency through integration and increased co-operation within African regions. Some of these steps will be relatively easy and low cost.
- Africa should do more to improve the economic environment for farmers and firms, backed up by major investments of aid from international donors to ensure Africa can produce and trade competitively. Funding for infrastructure should, in part, be spent on improving African transport and communications to bring down costs.

## Improving Africa's access to the markets of the rich world

- Developed countries should ensure the Doha Round of world trade talks makes development its absolute priority at the December 2005 meetings of the WTO in Hong Kong. The Doha talks should conclude no later than the end of 2006 in order to make an early difference to Africa and other developing countries.
- Rich countries must agree to eliminate immediately trade-distorting support to cotton and sugar, and commit by 2010 to end all export subsidies and all trade-distorting support in agriculture when they meet in Hong Kong. At the conclusion of the Doha talks they should agree to reduce progressively all tariffs to zero by 2015, and reduce non-tariff barriers. By doing this they will cut massive wasteful spending, and provide huge benefits to their own public, and to Africa and other developing countries.
- Higher-income developing countries should also do more to reduce their tariffs and other barriers to trade with Africa.
- In making development a priority in trade talks, including in the new trade agreements Europe is currently negotiating with Africa, liberalisation must not be forced on Africa through trade or aid conditions and must be done in a way that reduces reciprocal demands to a minimum. Individual African countries should be allowed to sequence their own trade reforms, at their own pace, in line with their own poverty reduction and development plans. Additional financial assistance should be provided to support developing countries in building the capacity they need to trade and adjust to more open markets.
- Special and Differential Treatment must be made to work better for Africa and other developing countries, by making resort to legal disputes conditional on assessing development concerns. A review of Article XXIV of the General Agreement on Tariffs

and Trade in order to reduce requirements for reciprocity and increase focus on development priorities may be useful.

- Although Africa wants to meet developed country product standards, it is struggling to meet the costs of doing so. Rich countries should apply a development test, including an impact assessment, when designing these standards, to minimise the barriers they may create, and urgently provide help to meet them.

## Helping Africa adjust to new trade regimes

It will take time to build Africa's capacity to trade, and to deliver reform in the Doha Round. During this period, Africa will need transitional support if it is to make progress.

- Developed countries should remove all barriers to all exports from low-income sub-Saharan countries, by extending quota and duty-free access to all of them. This will cost developed countries very little. They should cease to apply rules-of-origin requirements in a way designed to hinder rather than help African exporters, by allowing Africa to source inputs from anywhere in the world, and requiring only that they add a minimum of 10 per cent of value in their processing. Europe's new trade agreements with Africa must move quickly on this. If all developed countries extended quota and duty free access to all low-income sub-Saharan African countries this could raise annual incomes in sub-Saharan Africa by up to US\$5 billion.
- Rich countries should also provide aid to help African economies adjust to a more open global trade regime, and to enhance the benefits to and limit the detrimental impacts on poor people.

# Chapter 9

## Where Will the Money Come From: Resources

### Summary

To accelerate income growth towards seven per cent, and to spur strong progress towards the Millennium Development Goals, the volume and quality of external aid to sub-Saharan Africa must change radically. To ensure effective absorption, increases in aid over the next three to five years should be strong and measured. They must also be accompanied by continued improvements in governance in aid-recipient countries, by substantial changes in donor behaviour, and by learning and evaluation. Past experience shows aid can be provided and used badly. But more and better aid can support positive changes, as demonstrated by recent advances in many African countries, including Senegal, Mali, Burkina Faso, Ghana, Benin, Ethiopia, Uganda, Tanzania, and Mozambique.

### This chapter proposes:

- **Doubling aid levels** over the next three to five years, to complement rising levels of domestic revenue from growth and from better governance;
- **Financing increases in aid** by meeting existing commitments to move toward the 0.7 per cent ODA/GNI target, by raising additional finance from an International Finance Facility (IFF), and by developing international levies (for example, a tax on airline tickets) with revenues dedicated to development;
- **For poor countries in sub-Saharan Africa which need it, the objective must be 100 per cent debt cancellation** as soon as possible. This must be part of a financial package for these countries – including those excluded from current debt schemes – to achieve the MDGs, as promised in Monterrey and Kananaskis. The key criterion should be that the money be used to deliver development, economic growth and the reduction of poverty for countries actively promoting good governance;
- Improving radically **the quality of aid**, by:
  - Strengthening the processes of accountability to citizens in aid-recipient countries;
  - Allocating aid to countries where poverty is deepest and where aid can be best used;
  - Providing much stronger support to advancing governance where conditions for effective use of aid are currently weak;
  - Channelling more aid through grants, to avoid the build-up of debt;
  - Aligning more closely with country priorities, procedures, systems, and practices;
  - Providing aid more predictably and flexibly over the longer term;
  - Protecting countries better against unanticipated shocks.

## 9.1 Introduction

1 Previous chapters have shown, by bringing together evidence and analysis, that a major effort is needed to break free from the problems that have constrained Africa's development and led to long-term stagnation. Business more-or-less as usual is likely to produce outcomes more-or-less as usual – in other words, continued stagnation. After considering the challenges involved, we argue that there is a case for boosting public expenditure – on vital areas such as education, health and infrastructure – by an additional US\$75 billion a year, through a large programme of public investment and social expenditure through various international, regional, and national initiatives.

2 As Africa's capacity to absorb a large volume of additional resources in the near future is likely to be constrained, we propose, on the basis of a careful analysis of absorption issues, that half of the US\$75 billion per annum extra expenditure be made by 2010. While roughly one-third of this increase could, and should, be financed by African governments, the majority of the finance for this expansion would have to come from the international community. We recommend that the international community increase annual aid flows to Africa by US\$25 billion per annum over the next three to five years.

3 The key actors in such a major effort will be Africans. Where African countries move resolutely towards improving their policies, and take measures to expand domestic sources of finance and reform public financial management systems, the international community should act strongly in support, and thereby honour their Monterrey commitments – “no country genuinely committed to poverty reduction, good governance and economic reform will be denied the chance to achieve the MDGs through lack of finance”. This chapter focuses on the importance of finance, but within an overall package of measures discussed in earlier chapters. The perspective it offers is that while aid to Africa will rise in the medium term as resources for poverty reduction and growth are frontloaded, in the longer term, Africa's reliance on external assistance should decline.

4 In the next section we show that Africa is very unlikely to achieve the rapid growth in finance and human development necessary to halt or reverse its relative decline without a strong expansion in aid. In section 3 we present the evidence on how extra aid can be used effectively. In section 4 we discuss how extra aid relates to the issue of debt relief. Finally, in section 5 we consider options for the developed countries for raising the resources for extra aid.

## 9.2 Can Africa finance a big push without extra aid?

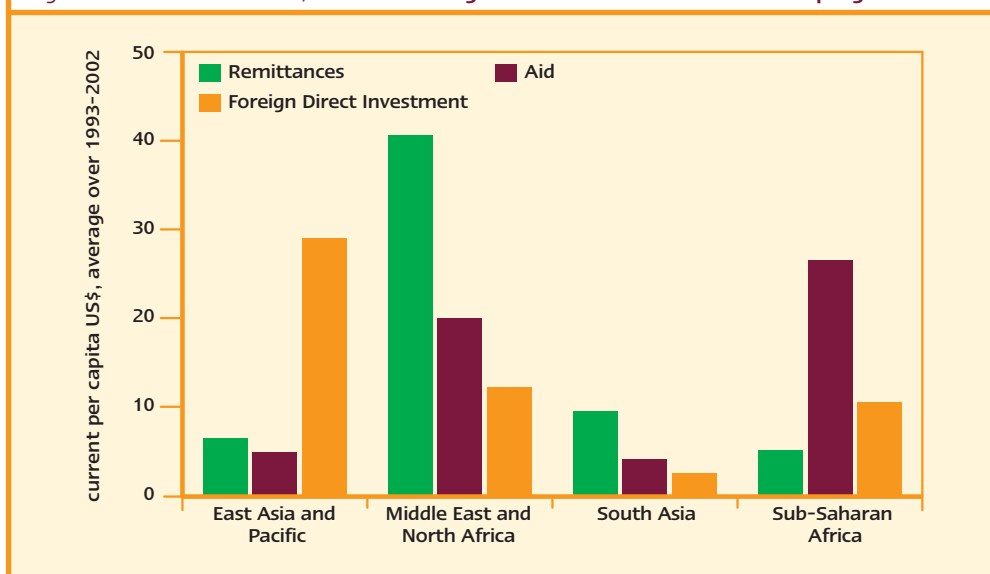
5 As China and India have demonstrated, a low-income country can grow rapidly without much aid. China has very high savings rates and has managed to attract large inflows of private capital, especially Foreign Direct Investment (FDI), while India has attracted significant inflows of remittances (see Figure 9.1). Can Africa follow either of these routes?

### Can FDI kick-start African growth?

6 Africa already attracts Foreign Direct Investment. As Figure 9.2 shows, FDI to sub-Saharan Africa has not been insignificant in per capita terms. In contrast to China, however, FDI to Africa has generally not been associated with broad-based growth.

7 FDI to Africa is dominated by the extractive industries: oil and minerals. Figure 9.2 illustrates that three countries – Nigeria, South Africa, and Angola – dominate, accounting

Figure 9.1 Remittances, Aid and Foreign Direct Investment in Developing Countries



Sources: World Bank, 2004a and 2004b.

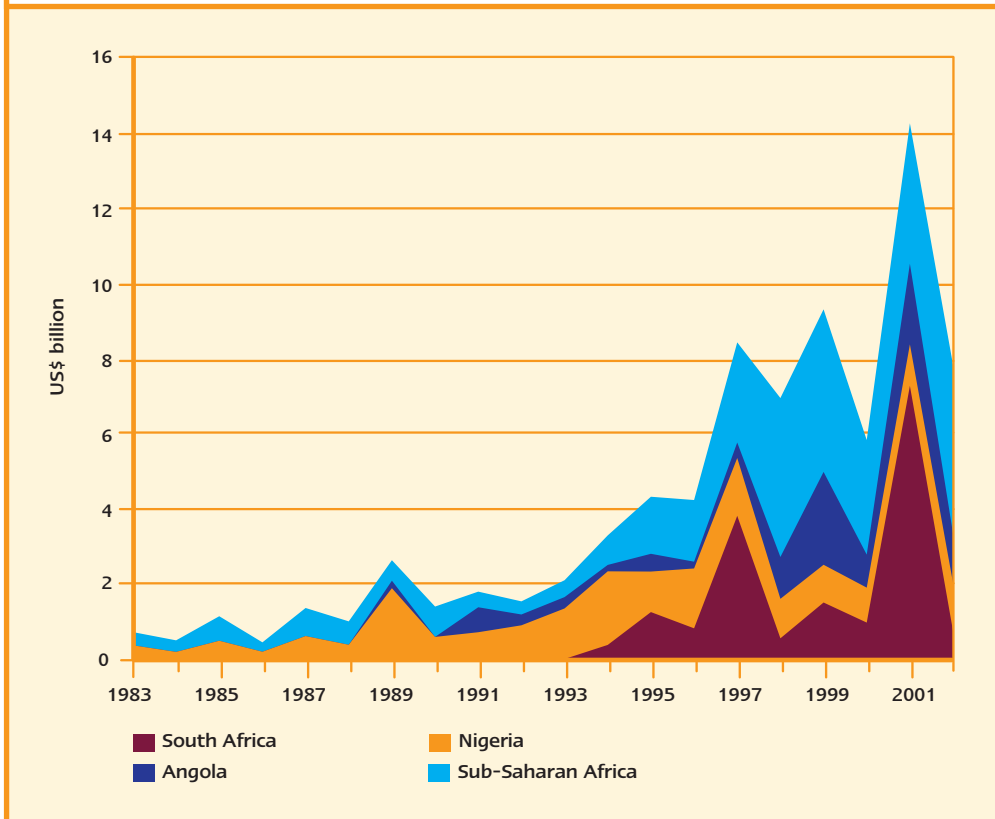
for 59 per cent of all FDI flows to sub-Saharan Africa. Investment in the extractive industries often thrives on risky conditions and weak governance because companies can strike highly advantageous deals. For example, when the rebel leader Jonas Savimbi was killed, ending the civil war in Angola, the share price of companies with large Angolan diamond interests<sup>1</sup> fell. These extractive industry companies were doing well out of war. As discussed elsewhere in this Report (Chapter 4), a strategy of development through extractive industries is difficult and requires a high degree of transparency. This is why the Commission is urging a strengthening of the Extractive Industries Transparency Initiative (Chapter 4), agreement of a common definition of 'conflict goods' (Chapter 5), and changes to the OECD guidelines on multinational enterprises to cover behaviour in conflict situations (Chapter 5). It also recommends that the UN maintain a standing capacity to monitor these and the implementation of sanctions.

8 Africa could benefit from a substantial expansion in other types of FDI. In other developing regions, international companies are playing a significant role in developing infrastructure such as in telecommunications, electricity, and water, although their contribution to the finance is minor from the perspective of infrastructure as a whole. This has started to happen in Africa, albeit hesitantly, with successes mainly in telecommunications. Most importantly, FDI is likely to be vital for breaking into global markets for manufacturing for many countries in Africa.

9 Investment in both infrastructure and export manufacturing is highly sensitive to risk – the opposite of what is true for the extractive industries. Infrastructure is necessarily subject to regulation, and this exposes such investment to political risk. Companies in export manufacturing work on very narrow margins and are highly sensitive to even modest levels of risk. For Africa to attract significant amounts of FDI in these sectors, a radical change in international perceptions of risk is required. In part this can be addressed by better arrangements for political risk insurance, and in Chapter 7 we propose a strengthening of the Multilateral Investment Guarantee Agency (MIGA). However, the reality is that a big expansion in such FDI is likely to *follow* rather than *lead* in the financing of African development. Growth rates will need to rise, and risks be seen to



Figure 9.2 Gross Foreign Direct Investment in Sub-Saharan Africa



Source: World Bank, 2004a.

decline, in order to induce substantial shifts in international investor behaviour, and even then, responses are likely to lag behind economic improvements.

### Can remittances kick-start African growth?

10 Remittances are a key source of finance for developing countries, and globally have risen from US\$20 billion to nearly US\$100 billion between 1983 and 2003, long ago overtaking official capital flows. They are now the second largest source of development finance, after FDI<sup>2</sup>. Their flows to the poorest countries are counter-cyclical (whereas private capital flows tend not to be), and are more stable and evenly spread across countries. Remittances are thus a highly attractive source of finance. Africa receives a far lower volume of remittances than do other developing regions. Why is this and what can be done about it?

11 Remittances require remitters: that is, migrants earning good incomes in high-income countries. There are several reasons why African remittances are relatively low. Africa has few remitters because compared to other regions, it has had relatively few emigrants. International migration is now highly restricted. This is the major difference between the globalisation of the nineteenth century and globalisation now. Legal limitations on migration make it difficult for many migrants to remit regularly, especially through official means. Africa also has low remittances because people who do emigrate tend to have lower earnings than more educated emigrants from some other regions, and so are less able to make remittances. Financial conditions within Africa have often not helped. The costs of making remittances are often high, and holding deposits in the domestic financial

sector may be regarded as risky. Financial-sector reforms, improvements in the investment climate, and better access to ICT could thus increase the volume of remittances.

12 Increased education and financial-sector reforms are going to take time. Remittances predominantly reflect the stock of emigrants and so are unlikely to become as large for Africa as for South Asia in the foreseeable future. Thus a positive response is likely to come about after an interval of time, and as improvements in the investment climate start to take effect.

### **Can the reversal of capital flight kick-start African growth?**

13 Africa has had more capital flight relative to its own wealth than any other region<sup>3</sup>. If this wealth could be returned to Africa, it would indeed make a major difference to Africa's capacity to finance its development. What have been the big drivers of African capital flight, and how can it be reversed?

14 One driver has probably been corruption. An important step that the governments of developed countries can take is to help African countries make it harder for government officials to loot its assets. Laws and practices must be changed to require international banks to inform on such deposits and to repatriate them to the proper authorities. The Commission has made proposals for such measures in Chapter 4.

15 Another driver of capital flight is high indebtedness. As we discuss in section 4 of this chapter, high debt is a signal of high future taxes (as governments will seek to raise revenues to service debts), which in turn creates an incentive for people to move their money out of the country. Again, this is something that the governments of developed countries can address by helping African countries to reduce levels of indebtedness.

16 But capital flight is also driven by purely domestic conditions, such as high perceived risk and a poor investment climate. For Africa, these include the low level of security of property and person in some countries as a result of violent conflict and crime. These conditions can be remedied, but they take time. Like FDI and remittances, the reversal of capital flight offers substantial eventual rewards, but it is likely to follow rather than lead development. As we discuss in section 3 below, there is good evidence that aid is itself directly part of the remedy to capital flight.

### **Can higher African savings kick-start African growth?**

17 Savings rates in Africa are low, averaging around 16 per cent of GDP<sup>4</sup>. They will undoubtedly need to rise substantially to finance the high investment rates required for sustaining rapid growth. Higher savings can come from either households or government.

18 Could a large increase in household savings rates stimulate African growth? The main reason for doubting that it could is that household consumption is already very low: it is low consumption that is the visible manifestation of poverty. For household savings to stimulate high growth rates across Africa, the already low level of consumption would need to be reduced further still. Such a reduction would surely be undesirable. Indeed, at low levels of income the distinction between consumption and investment blurs: reduced food consumption would reduce health and the ability to work, and hence food expenditure could be viewed as an investment. Higher private savings will be a necessary use of higher incomes, but they will follow the growth of income rather than lead it.

19 Estimates for developing countries show that a doubling of per capita income raises long-term private saving by 10 percentage points of disposable income<sup>5</sup>. Findings based on investigating the savings behaviour of households in developing countries confirm

that the ability to save increases substantially only once a certain threshold in consumption is passed<sup>6</sup>. The importance of a strong financial sector in stimulating higher savings, however, should not be underestimated<sup>7</sup>.

20 The alternative way of raising the domestic savings rate is for governments to use tax revenues for public investment. For public savings to lead growth, governments would either have to shift their expenditures away from public consumption or raise tax revenues.

21 In general, it is hard to see where African governments have the scope for substantial cuts in public consumption. Better security assistance may allow some reductions in military spending, but this spending is already modest by international standards<sup>8</sup>. Even major cuts would be unlikely to release more than one per cent of GDP. Large parts of the recurrent budget are spent on non-discretionary items, such as interest payments (13.5 per cent of total expenditure in 2002) and wages (24.2 per cent)<sup>9</sup>. As with private consumption, much of the recurrent expenditure of African governments is perhaps better thought of as investment: spending on health and education builds 'human capital', and spending on the police and judiciary builds a better investment climate.

22 Do African governments have the scope to raise tax revenues? Could a big push in public investment be financed by African taxpayers rather than by taxpayers in developed countries? The comparison between regions shown in Table 9.1 suggests that the average

| <b>Region</b>             | <b>Tax/GDP (per cent)</b> |
|---------------------------|---------------------------|
| East Asia & Pacific       | 10.0                      |
| Latin America & Caribbean | 16.8                      |
| South Asia                | 9.2                       |
| Sub-Saharan Africa        | 19.4                      |
| Europe & Central Asia     | 20.1                      |

*Note: it should be taken into account that these figure are for central government. India for example has substantially decentralised its tax system and the number for South Asia could hence be biased downwards.*

*Source: World Bank, 2004b.*

tax revenue in Africa is already broadly in line with those of other developing regions. Indeed, given relatively low incomes, the tax effort in Africa is relatively strong. A recent study of 120 countries over a twenty-year period found the average tax-to-GDP ratio to be 20 per cent<sup>10</sup>. In 2002, the ratio for sub-Saharan African countries was 19.4 per cent<sup>11</sup>.

23 In the poorest countries of sub-Saharan Africa, the story is different. Despite internationally comparable tax rates, the tax revenues generated are not high because of the structure of African economies. A substantial part of Africa's estimated GDP is generated by 'subsistence' activities, such as food, agricultural, and handicraft produce consumed within the household. Such activities are intrinsically difficult to tax. The 'formal' sector of the economy, which is the normal base for taxation, is often very small. Indeed, at the taxable end of the spectrum of activities, Africa has rather high tax levels. An important indication of this is that a large proportion of its tax revenue comes from taxes on international trade, indeed, the share is much higher than in any other region<sup>12</sup>. Such taxes are generally seen as damaging:

developed countries, despite raising a far higher share of tax revenue in GDP, have virtually scrapped trade taxes. Raising taxes even higher would risk damaging economic activity.

24 Tax revenues in Africa will gradually need to rise to finance higher levels of public spending. But for this rise to complement rather than impede the growth process, a country needs first to build the taxable base of the economy. Growth itself is the strongest factor increasing the tax base, but the base can also expand by enlarging the formal sector. During this 'first phase' taxes need to stay modest. Even once the formal sector has grown as a proportion of the economy, there will need to be a phase of building tax compliance and the integrity of the revenue-raising system<sup>13</sup>, during which modest tax rates should be maintained.

25 In short, it is always feasible to raise tax revenue, but it is not always wise to do so. As growth takes root and the modern economy develops and tax administration is reformed, there is scope to augment revenue in ways that do not damage growth, and strong efforts to do so should continue. If aid leads, revenue can follow and eventually replace it. Thus, a reliance on external assistance will be necessary over the medium term, but will persist for the long term only if aid and reforms fail to ignite the growth process.

## Conclusion

26 As seen in Chapter 2, between 1970 and 2000 Africa stagnated. Marginal increases in aid will not allow Africa to escape stagnation. A big push is needed and an essential part of this big push will be a major increase in investment. In this section we have considered ways in which such a quantum increase in investment could be financed other than by an increase in aid. We have found no credible alternative.

## 9.3 How can extra aid be most effective?

27 Efforts to refocus the African public sector on investing in infrastructure, health, education and training, and on fostering private activity, would need initially to be financed mainly by aid<sup>14</sup>. Is there any evidence that such aid-financed expenditures would be effective? A reasonable starting point is to see how well aid to Africa has worked in the past. We note that many of the weaknesses in aid programmes that have been identified can be rectified, so that the future should be much better than the past. However, past performance provides a useful benchmark.

### 9.3.1 Aid: the record of achievement

#### **Aid-financed projects in Africa have typically had high returns**

28 Among the aid agencies, the World Bank carries out the most rigorous analyses of returns on its projects. It finds that average economic rates of return in Africa were 22 per cent for the 1994-2003 period<sup>15</sup>. Its projects have also been showing significant improvements in terms of sustainability and institutional development impact<sup>16</sup>.

#### **Aid increases access to education and improves educational outcomes**

29 Budget support to Tanzania has enabled the government there to double per capita spending on education, as outlined in their poverty reduction strategies between 1999 and 2003<sup>17</sup>. The same external assistance, including debt relief, has made it possible for the Government of Tanzania to introduce a policy of free and compulsory education in 2002, benefiting 1.6 million children<sup>18</sup>. Increased aid is enabling governments in many more African countries to abolish primary school fees and increase access.

30 A World Bank Operations Evaluation Department (OED) study of World Bank support to schooling in Ghana over a 15-year period shows enrolment rose by ten per cent. The quality of schooling rose too: while nearly two-thirds of primary school graduates were illiterate before (that is, they scored two or less on a simple eight-question multiple choice English test), this had fallen sharply to one in five in 2003. The gains in educational outputs were clearly related to improvements in the quality of schools (better infrastructure), more trained teachers, and a greater availability of school textbooks<sup>19</sup>.

31 Substantial external support to building infrastructure, and supporting teachers' salaries, and teacher training in Ethiopia has enabled gross primary school enrolment to rise from 20 per cent in 1991 to 63 per cent in 2003. Progress has been especially notable in the rural areas and among girls, who now represent 40 per cent of total primary enrolment<sup>20</sup>.

32 Support to The Gambia's education strategy has had successful outcomes across the sector. Through increasing public expenditure on education from 2.6 to 4.3 per cent of GDP, improvements have been made in the accessibility and quality of mainstream and vocational training, in non-formal and early childhood education, and in building management capacity. Applying a participatory approach was key to this success, particularly in addressing gender disparities – girls' gross enrolment more than doubled from 35 to 75 per cent between 1980 and 2000<sup>21</sup>.

### **Aid increases access to health services and improves health outcomes**

33 With aid, Ugandan health authorities have been able to abolish almost totally patient charges and to expand access to basic health care services: since 2000, out-patient attendance has grown by 87 per cent and immunisation rates have grown by 78 per cent<sup>22</sup>. In conflict-affected countries, such as the DRC, aid reached millions of children in 2001 as immunisation efforts were being maintained, and the number of reported cases of polio fell from 603 to zero within 12 months<sup>23</sup>.

34 In the Zambian health sector, external aid has helped per capita public expenditure to rise from US\$10 in 2000 to US\$17 in 2003. Previous declines in outcomes appear to have been halted, and some reversed. Examples include immunisation, use of contraception and antenatal coverage. Infant mortality (under one year old) has fallen from 107 to 95 (per 100,000 births), and under-five mortality has fallen from 191 to 168 (per 100,000 births) over the period 1987-1991 to 1997-2001<sup>24</sup>.

35 The eradication of smallpox globally is, to a large extent, the result of more than US\$100 million worth of targeted aid. Progress towards the eradication of polio is also the result of internationally funded activities: in 2001, over 575 million children under five were vaccinated against polio in 94 countries, and much of this effort was financed by aid<sup>25</sup>.

### **Several African countries have grown rapidly and reduced poverty with support from large aid programmes**

36 In Mozambique, in the 1990s, when aid accounted for about 50 per cent of GDP, GDP growth reached an astonishing 12 per cent. Even more important, Mozambique sustained high growth rates even when the aid ratio fell sharply – suggesting that aid had helped build a foundation for sustained growth<sup>26</sup>. Household surveys show the incidence of poverty fell from 69.4 per cent in 1996/97 to 54.1 per cent in 2002/03, and a disproportionate share of poor people in the rural areas were lifted out of poverty. The percentage of households with latrines increased from 31 per cent to 41 per cent, and the mortality rate of children under five declined from 277 to 135 per 1000 living births

between 1994 and 2002. Between 1999 and 2003, the overall number of students in primary and secondary education increased by 43 per cent<sup>27</sup>.

37 Few countries have such high aid/GDP ratios, but there are other high-aid successes. Uganda received over 20 per cent of GDP in aid in the early 1990s, achieved decade-long growth rates of over seven per cent, and reduced the proportion of people living below the poverty line by over 20 percentage points. In other areas, Uganda has also made good progress: the HIV prevalence rate has fallen from an estimated 20 per cent in 1991 to 6.5 per cent in 2001; and net enrolment in primary schools has risen from 62 per cent in 1992 to 98 per cent in 2003<sup>28</sup>. Ghana received aid of around 10 per cent of GDP over the past two decades, during which growth averaged nearly five per cent. And, poverty rates fell from 51.7 per cent in 1991/92 to 39.5 per cent in 1998/99. The proportion of Ghana's rural population with access to safe water increased from 40 per cent in 2000 to 47 per cent in 2003<sup>29</sup>. Since the genocide ten years ago, Rwanda has made huge progress: there is peace, recent economic growth was over six per cent, and the incidence of poverty fell from around 70 per cent in 1994 to under 60 per cent in 2001, with aid levels persistently above 15 per cent of GDP<sup>30</sup>.

### **Cross-country research shows aid supports growth**

38 The above examples are consistent with more aggregate evidence. Econometric analyses predominantly find that aid raises growth<sup>31</sup>. A recent and thorough study<sup>32</sup> concluded that 'short-impact' aid – by which the authors mean budget and programme support, and aid to infrastructure development, agriculture and other productive sectors – had raised growth in Africa by more than one per cent. Without aid, in other words, Africa would have experienced severe decline<sup>33</sup>. The finding that aid is effective does not depend significantly on country circumstances, even though (unsurprisingly) aid tends to work better where policies, institutions, and governance are better.

### **Aid raises investment**

39 The effects of aid on investment are indeed positive. A study by Collier and Dollar (2004: 268) shows that in a typical developing country (i.e., in their study one receiving aid at about two per cent of real GDP in Purchasing Power Parity (PPP) and with average policies) an additional one per cent of GDP in aid is associated with an extra 0.9 per cent of gross investment. Aid does not substitute for policy, but complements it: in better policy environments the favourable effect of aid on investment is doubled.

### **Aid reduces capital flight**

40 Africa has had more capital flight, relative to its wealth, than any other region. While some people accuse aid of fuelling capital flight, recent research finds precisely the opposite: aid significantly and substantially reduces capital flight<sup>34</sup>. The movement of private capital is scaled up by aid because wealth-holders choose to retain their capital in domestic currency when they perceive improvements in the investment climate. For every US\$1 of aid, an equivalent of US\$0.40 worth of domestic investment is induced that might otherwise have left as capital flight.

### **Aid helps countries to improve institutions and governance**

41 Recent research finds that aid of the right type and timing substantially increases the chances that a country will achieve a sustained turnaround from weak institutions and governance<sup>35</sup>. With carefully designed technical assistance and the provision of post-primary education, it is possible for aid to improve the institutional environment. One example of this gradual process of turnaround assisted by appropriate aid is Ghana,

which has evolved from a coup-ridden country to a democracy that is sustaining growth. Another example is the turnaround in Ethiopia during the past decade. The experiences of Ghana, Ethiopia and Mali are described in more detail in Annex 1, Annex 2 and Annex 3 of this chapter.

### **Aid helps to reduce violent conflict and rebuilds post-conflict societies**

42 Aid has the potential to contribute to conflict prevention through its effects on the growth and level of income, which are key factors in reducing risk<sup>36</sup>. Strong and sustained aid is vital for rebuilding countries emerging from conflict. As discussed in Chapter 5, the ability of aid to fulfil this potential will depend on the timing and type of funding. To be effective at preventing conflict, aid decisions must reflect an understanding of the potential drivers of violent conflict in recipient countries, especially those countries emerging from conflict. Rapid financing to meet short-term needs is essential, but to contribute to long-term stability and development, aid must be sustained for at least a decade following the end of war<sup>37</sup>. Donor co-ordination is particularly important for enhancing effectiveness in post-conflict contexts. As discussed in Chapter 5, in the case of

#### **Box 9.1 Aid, Growth and Poverty in a Post-Conflict Environment: the Case of Rwanda**

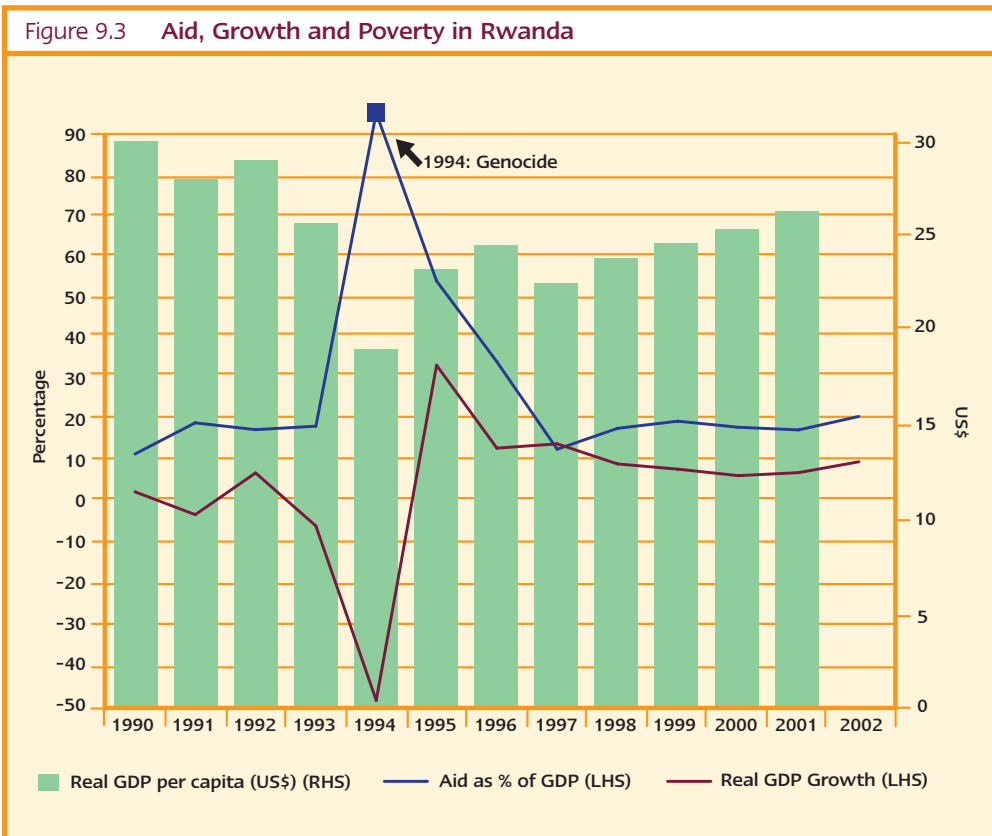
Post-conflict environments present particular challenges for delivering effective aid. The case of Rwanda, which experienced civil war and genocide between 1990 and 1994, shows that a country emerging from conflict can make productive use of aid. Moreover, aid was effective not only for humanitarian purposes, but also to stimulate economic growth and reduce poverty over an extended period.

Figure 9.3 shows that Rwanda managed to restore real per capita income to pre-genocide levels in 2001. Economic growth has been sustained throughout the 10-year post-conflict period. The inflow of aid has been substantial, peaking at 54 per cent of GDP in 1995, but still averaging almost 20 per cent over the 1997-2001 period. Rwanda's record in macroeconomic and public financial management (especially in revenue) has generally been considered good.

Research at the World Bank on growth patterns in post-conflict countries shows that the intensity of Rwanda's economic recovery during the first couple of post-genocide years was higher than for other civil wars and this despite the near total destruction in the capital stock and the extremely high death rate<sup>38</sup>. The IMF increasingly acknowledges there might be a good case for increasing aid to post-conflict countries beyond what IMF staff normally see as being in line with sustainable fiscal policies<sup>39</sup>.

The successful growth effort can also be attributed to the quick rebuilding of key institutions. Even though educated people were an explicit target for the genocidaires, Rwanda's overall Country Policy and Institutional Assessment (CPIA) has seen one of the fastest increases in the whole of sub-Saharan Africa, and is now well above the average for sub-Saharan Africa.

Mozambique, innovative responses from the international community helped greatly. Rwanda provides another recent example of effective post-conflict assistance. See Chapter 5 for further discussion and recommendations on making aid more effective in reducing the risk of violent conflict, and in building peace after the cessation of conflict.



Sources: World Bank, 2004c.

### Aid helps countries to withstand shocks to export prices

43 Compared with other regions, Africa is much more exposed to fluctuations in the prices of commodity exports. When prices crash, as happens periodically, economies contract. Research finds that aid is particularly valuable to the most shock-prone economies, especially when timed to coincide with adverse shocks, when it protects the economy from contraction<sup>41</sup>.

### 9.3.2 Aid: the scope for enhanced effectiveness

44 Past evidence on aid effectiveness necessarily reflects past conditions in Africa and past aid practices. Growth in Africa has not been vigorous despite strong aid flows in the past. To a significant extent this is due to the low quality of aid provided and poor conditions of governance. Conditions for using aid productively in Africa have improved in recent years, suggesting that results from current aid may be better than the past. Since the end of the Cold War, aid has been provided to recipient countries more explicitly for financing development<sup>42</sup>. Donors are more focused on giving aid for reducing poverty; evidence of this includes HIPC II debt relief, increased aid selectivity, and the Poverty Reduction Strategy (PRS) approach. Many African countries have experienced a sustained period of macro-economic stability, reasonable economic growth, and improved political and economic governance. Regional institutions are better poised in guiding assistance towards improving the conditions for longer-term growth.

45 Despite these improvements, the system for allocating aid to African countries remains haphazard, unco-ordinated, and unfocused, to a degree that should be



unacceptable. Aid is supplied by many donors, each with multiple, and often opaque, objectives; provided in a variety of forms; accompanied by many onerous conditions that are often of dubious value; and is channelled to countries unpredictably<sup>43</sup>. Not all aid is presently provided to countries with the primary objective of overcoming poverty, for example, in the sense of meeting the MDGs. As Birdsall (2003) suggests, donors continue to commit errors that, at best, reduce the effectiveness of aid, and at worst, undermine recipient countries' long-term development prospects.

46 A mechanism is needed to ensure that a wider range of countries receive assistance of the right kind, and that African countries have a greater role in guiding allocation decisions and recommending criteria. **Recommendation: To improve the quality of aid an annual discussion should take place between the Development Ministers of the OECD countries and African Finance Ministers, along with representatives of civil society and international organisations. This should consider aid allocation criteria and make suggestions for a better distribution, including between middle and low income countries. In countries where governance and institutions are weaker, donors should seek to provide adequate and effective flows through appropriate channels, bearing in mind the need to avoid undermining national systems and/or long-term sustainability.** A mechanism for an annual dialogue could provide a regional forum for discussing a range of supporting actions that the international community should take, including the volume and the form of finance (Annex 4).

47 A background study undertaken for the Commission found:<sup>44</sup>

- (a) *Misalignment*: Aid is rarely aligned with recipient countries' national budget cycles. Donors' commitments remain unpredictable, and pledging is seldom multi-year (although multilateral assistance is more predictable and is reliably channelled to priority sectors through budgets). African governments perceive donor resources to be insufficiently flexible to allow them the manoeuvring room to switch funds and meet new priorities in the face of exogenous shocks;
- (b) *Donor rather than country priorities*: Donor conditionality (especially of the IFIs and ADB) remains high and can be inconsistent with recipient countries' national policy and performance priorities. There is a strong perception that overall conditionality has increased under PRSPs. Some donors are continuing to channel resources to non-priority (donor-selected) projects;
- (c) *Complex procedures*: Overall, disbursement, reporting, and monitoring and review procedures of the IFIs, multilateral institutions, and donors are demanding, cumbersome, time-consuming, and cause delays.

48 The assessments from the study highlight the lessons that have been learned about aid delivery and that the application of these lessons has far to go. Translating these lessons, we suggest the following:

- (a) The most efficient way of giving aid is through direct budget support (DBS). DBS supports directly the Government's development priorities, and keeps transaction costs at a minimum. It should be predictable and long-term. The case for DBS requires that there should be a very clear development strategy in place. It only works where the budget system is open and transparent. Governments need to report clearly how (and how effectively) resources have been utilised, which not only fulfils accountability requirements, but forms the basis for future allocations.
- (b) Where these conditions have not been completely fulfilled, programme support (giving financial and technical support to a particular sector) may be a more

appropriate option. Where the overall environment is less conducive to either of these forms of assistance, support for specific projects may be more appropriate. We encourage donors to move wherever possible along the spectrum from project aid to programme aid, and from programme aid to budget support. In any case, wherever project assistance is given, it should be fully in line with the government's development priorities.

- (c) In 'fragile' states, none of these options may be possible or appropriate, either because there is no effective government to deal with, or because resources cannot be accounted for properly. In those cases, it might be necessary to provide support (either from donor Governments or through intermediaries) direct to NGOs and civil society organisations (see also 9.3.5).

### 9.3.3 Improving the quality of aid

49 Regarding the influence of the quality of aid on African development, Elbadawi and Gelb state<sup>45</sup>: "if the quality of aid in sub-Saharan Africa rose by 24 per cent (to reach the median of the aid-dependent countries in the sample), per capita GDP growth in sub-Saharan Africa would rise by about 1.8 per cent per annum". The effect of improving the quality of aid delivered to sub-Saharan Africa is thus very powerful. The Commission believes that it is both feasible and important to improve aid effectiveness radically. To this end, it proposes the following recommendations.

#### 50 **Recommendation: Aid to Africa should be mainly in the form of grants.**

51 Grants have two major advantages over loans. They do not become a future debt problem, and they enable greater flexibility as to the choice of recipient. The volume of grants to a country need only be limited by its ability to absorb aid effectively, whereas loans are constrained by considerations of debt sustainability. After several rounds of debt forgiveness, making serious debt sustainability calculations is difficult. The credibility of further official lending to Africa is undermined if both creditors and borrowers heavily discount the prospects of repayment. It is better to face this reality than to continue to undermine Africa's creditworthiness.

52 Loans are constrained by considerations of the status of the borrower, and in sub-Saharan Africa, this generally means they finance only national-level government. Grants are able to meet a wider range of needs. Much regional infrastructure is best provided by supra-national entities based on regional groupings, to which multilaterals cannot lend. Similarly, sub-national entities such as local governments often have the prime responsibility for service delivery, but may not be regarded by donors as appropriate entities to incur debt. Often the most cost-effective service delivery is provided by faith-based organisations: where government delivery systems are very weak, grants to such non-government organisations are likely to be a better use of money than further loans to governments.

53 Virtually all bilateral aid and all aid from the European Commission is already in the form of grants. The main source of loans is the World Bank. Although World Bank loans are concessional, the grant content of its loans has declined substantially because of the decline in world interest rates. World Bank aid is better targeted towards the poorest countries than is aid from other programmes, so that the present system has the paradoxical consequence that loans tend to be targeted to the poorer countries while grants (from other donors) go to less poor countries. There is therefore a clear need to increase significantly the proportion of grants within IDA<sup>46</sup>, in order to allow the World Bank greater flexibility in disbursements. Channelling more resources from various donors through the World Bank would also be the most straightforward way of harmonising aid and raising its effectiveness. Similarly, the UN system could also be used to channel more

resources for capacity building, technical assistance, and institutional strengthening. This would help to expand countries' capacity for absorbing additional resources.

**54 Recommendation: Aid should be untied, predictable, harmonised, and linked to the decision-making and budget processes of the country receiving it. The length of the commitment should be related to the purpose: for example, aid for infrastructure and public expenditure support should be committed for terms longer than aid for technical assistance.**

55 In some countries – especially Uganda, Tanzania, Mozambique, Ethiopia, Ghana, Rwanda, Benin, Burkina Faso, Madagascar – there is evidence of good progress on effective aid delivery, as donors and partner authorities have established formal mechanisms to improve practices and for aid to come in solidly behind national Poverty Reduction Strategy and budget processes. Aid delivery has certainly improved when compared with donor practices in the 1980s and 1990s. But despite this, implementation of new aid approaches linked with HIPC, the PRS, and MDG agenda still retains a 'business as usual' feel about it<sup>47</sup>. Progress is patchy, and as shown in Annex 6, the practice of aid tying remains pervasive, and is estimated to have reduced the value of aid to Africa in 2002 by US\$0.7 to 1.3 billion<sup>48</sup>. Most sub-Saharan African governments lack an overarching external financing and aid strategy that provides the complementary framework to PRSs and MDGs. Such a strategy could greatly enhance the effectiveness of the partnership between the country and donors, including the co-ordination among donors.

**56 Recommendation: The use of policy conditionality associated with external assistance should be strongly reduced. Ways of strengthening mutual accountability, and of monitoring implementation, should be put in place. The activities of the IFIs and donors should support, and not undermine, institutions of accountability in African countries, for example by helping countries to strengthen international codes and standards and by avoiding heavy burdens of reporting.**

57 The practical effect of policy conditionality was to make African governments accountable to donors for their policy choices. This was both an infringement on sovereignty and ineffective. While reducing policy conditionality is now widely accepted in principle, its incorporation in the day-to-day practice of donor operations is still poor. This does not mean that African governments should be free from accountability: for aid to be effective, the people whom it is meant to benefit (or their representatives) should be able to hold their governments accountable.

58 Donors should therefore focus on the processes by which ordinary citizens can hold government to account, such as: the transparency and integrity of the budget; the freedom and capacity of the popular media, especially radio, to scrutinise resource use; and the effective functioning of democratic processes of accountability (see Chapter 4). Where these are weak, donors should help to improve them, including by the strengthening of international standards and codes, and do so without introducing excessive conditionality.

59 Regional development institutions are critical for Africa, although they have been relatively under-funded in the past<sup>49</sup>. The African Development Bank (ADB), is gradually emerging from a period when its performance and resources declined (see Chapter 10). It has the potential of being a stronger financial institution and a key provider of development finance having had its AAA financial rating restored. Its policies are broadly consistent with those adopted by other multilateral organisations. It is genuinely African-owned, with a good record of financing a range of activities in Africa. It has a sound plan of action committing itself to change and monitoring progress. It has allied itself with AU/NEPAD as a key partner, and will be leading work on infrastructure. There

is a unique opportunity now to ramp up support so that it becomes an even more effective regional institution capable of supporting PRSs programmatically<sup>50</sup>. Supported by other IFIs and the European Commission, the ADB could also play a greater role in disbursing grants for mitigating the impact of shocks.

60 The World Bank and the IMF are the world's main institutions capable of responding to the challenge posed by African economic stagnation. While they are institutions with global responsibilities, they have not given Africa a priority commensurate with the increasingly exceptional problem that African stagnation has come to represent. There is also considerable potential for the European Investment Bank (EIB) to play a greater role in Africa. The question of how to strengthen the strategic approach and the implementation capacity of these institutions is addressed in the next chapter.

**61 Recommendation: Through a new facility, donors should help African countries to address problems caused by commodity-related shocks and natural disasters.**

62 Most African countries suffer from multiple, frequent and severe shocks. Fluctuating commodity prices and other adverse export shocks are an extremely serious problem for many commodity dependent countries, and generate large multiplier losses in output<sup>51</sup>. Adverse climatic shocks can expose African states to the risk of civil war<sup>52</sup>. For all IDA-only countries, it has been estimated that large shocks occur once every 1.4 years and have the effect of reducing GDP by 4.25 per cent<sup>53</sup>. Such events are particularly problematic in democracies, as electorates face the difficult task of distinguishing between outcomes that are the responsibility of government and those that are beyond its control.

63 African countries are not well placed to bear shocks, because of poverty and the structural reliance on (producing and exporting) primary commodities (see Chapter 8 on trade). For these reasons, part of the risk associated with shocks should be spread internationally. Shocks pose long-term development problems, and not just humanitarian catastrophes at the time they occur; yet whereas humanitarian relief is designed to respond to shocks, development assistance has largely been unresponsive to them. Where development assistance has responded to shocks, the evidence shows it to have been effective, with exceptionally high rates of return<sup>54</sup>.

64 Given the frequency of the shocks that hit African countries, and the need for responses to be rapid if they are to be effective, a structured approach is required. Compensating finance should be through grants, since for low-income countries the aftermath of an adverse shock would not be a good time to be increasing debt levels. The objective of external finance would be to cushion the shock, permitting a gradual adjustment should it be long-lasting, and avoiding unnecessary adjustment should the shock be short-lived. It should thus be tapered: aid would provide substantial compensation in the first year of a shock, but phase out around three years after a persistent shock. The cushioning finance would aim to stabilise government finances rather than directly compensate individuals. Typically, large adverse shocks reverberate around the economy and so targeted compensation is impractical, but by stabilising the budget, aid can help to dampen these damaging effects.

65 The key agency with the macroeconomic expertise for designing such a contingent grant facility is the IMF. The IMF itself does not have access to the grants that would be needed, but it could provide the signals by which bilateral or IDA assistance could be provided and co-ordinated. Such automatic grant finance to smooth shocks would considerably facilitate the implementation of IMF Programmes. Given the frequency of shocks in low-income Africa, there is a significant risk that an IMF programme will be derailed by an unanticipated shock.

66 A number of options might be considered for a facility covering shocks, so as to

initiate the required structured response internationally, and in which the IMF should play a key signalling and advisory role. One option worth considering is a special facility within the ADB. Potentially, this might allow more effective implementation and for closer monitoring to take place within Africa. Complementarities with other activities within the ADB would also be strengthened (e.g. those related to its recently-established Post Conflict Country Facility, and the work being undertaken on debt sustainability). Other alternatives might be a special UN Trust Fund, given the UN's existing role in donor co-ordination at the country level; or a revamped facility within the European Commission, operating as a fast-disbursing unit alongside its current mechanism for compensating ACP countries for lost export earnings. Wherever the facility is housed, it should not operate as a large separate entity. Its function should be to analyse shocks and to advise the Board of its institution on appropriate disbursements.

67 Our estimate for compensating African IDA-only countries for GDP losses arising from commodity and natural disaster shocks until 2015 would amount to US\$5.6 billion per annum<sup>55</sup>. Of this amount, US\$2 billion could be allocated to cushion commodity-related shocks, and US\$3.6 billion for natural disaster shocks. Assuming a shocks facility were to cover 75 per cent of resources required to compensate countries for GDP losses arising from a particular shock, and an average commodity shock were to occur twice every seven years and a natural disaster shock twice every five years, US\$4.2 billion would be required per annum (US\$1.5 billion for commodity shocks and US\$2.7 billion for natural disaster shocks). As natural disaster shocks in Africa are already partially covered by other facilities, this facility could focus on compensating countries against commodity shocks, thus lowering its operating costs. Approximately US\$3.8 billion per annum would provide full protection from commodity-related shocks, and 50 per cent from natural disasters<sup>56</sup>.

### **9.3.4 Aid: so how much more?**

**68 Recommendation: Aid to sub-Saharan Africa should be doubled, that is increased by US\$25 billion per annum, over the next three to five years to complement rising levels of domestic revenue arising from growth and from better governance. Following a review of progress towards the end of this period, a further US\$ 25 billion per annum should be provided, building on changes in the quality of aid and improvements in governance.**

69 We have seen that aid to Africa has been effective despite deficiencies in delivery mechanisms. A range of practical steps and new aid opportunities can be taken to make aid even more effective in the future. As we have emphasised repeatedly, Africa needs to invest today to address a long list of development challenges: the decline in rural production, the growing problem of rapid urbanisation leading to slums and squalor, the difficulties created by weak infrastructure and poor transport and telecommunications networks, and the lack of adequate public services, especially in health, education, and social protection. Added to these, very large investments are required for tackling the HIV and AIDS pandemic. Frontloaded aid can assist Africa in tackling these changes.

70 By frontloading aid we mean investing a larger quantity of foreign assistance in the immediate rather than in the more distant future. We believe this is not just morally right, in that it will reduce the extent and severity of today's poverty, but is also economically sensible, in that returns to big investments are likely be higher now than later. Many studies show that social and economic benefits of investment financed by aid are very high<sup>57</sup>. Investing now in the education of children, in improving health standards, in building infrastructure, in slum upgrading, in providing people with clean water, in improving sanitary conditions, is not just good for today's poor people, it establishes a stronger foundation for expanding future economic growth.

Table 9.2a: **Costings of the Commission's Recommendations Taking No Account of Constraints of Absorptive Capacity**

| Additional annual public expenditure needed to implement each item of the Commission's package in full (US\$ billion) | 75.0       |
|---|------------|
| Composition of Commission's Expenditure Recommendations   | (per cent) |
| Governance (Chapter 4)  | 4.0        |
| Peace and Security (Chapter 5)  | 2.0        |
| HIV and AIDS (Chapter 6)  | 13.0       |
| Education (Chapter 6)   | 10.0       |
| Health (Chapter 6)  | 26.0       |
| Social Inclusion (Chapter 6)  | 5.0        |
| Growth, Infrastructure and Trade (Chapter 7, 8)   | 27.0       |
| Mitigation of Shocks (Chapter 9)  | 5.0        |
| Contingencies   | 7.0        |
| Commission's Package of Recommendations (US\$75 billion):   | 100.0      |

Table 9.2b: **Costings of the Commission's Recommendations Taking Account of Constraints of Absorptive Capacity**

| First Stage: 2006-2010 (in US\$ billion)*   |      |
|---|------|
| Additional public expenditure, by 2010  | 37.5 |
| Total financing needed  | 37.5 |
| Domestic resources**  | 12.5 |
| Extra aid (double 2004 volume)  | 25.0 |
| Second Stage: 2010-2015   |      |
| The Commission recommends proceeding to a second stage (2010-2015) of similar expansion based on an assessment of experience of the first stage |      |

Notes: \* Breakdown across sectors would be similar to Table 9.2a

\*\* Assuming an annual five per cent real growth rate of GDP, and a tax to GDP ratio of 15.7 per cent (based on an average for the period 1993-2002), the extra tax revenue generated domestically within sub-Saharan Africa would amount to US\$12.3 billion. If the expected growth rate of seven per cent is achieved, the extra generated domestic revenue would rise to US\$18.6 billion. Domestic revenues should also arise from efficiency improvements in tax collection. We assume such gains rising to 0.5 per cent of GDP by 2010. This would provide a further US\$1.8 billion (based on assuming five per cent economic growth), or US\$2.1 billion (if the seven per cent expected rate is realised). For realism, in the table above we use a slightly lower amount (US\$12.5 billion) as sub-Saharan Africa's domestic resource contribution. (Given South Africa's high shares in sub-Saharan Africa's key macroeconomic aggregates, these estimates exclude South Africa.)

Source: Commission's estimates

71 Together, the Commission's recommendations constitute a coherent and integrated package of measures. There are mutually beneficial effects to be realised from investing in this package as a whole. These benefits would be lost if investment efforts were piecemeal and spread across a period of time. In responding to evident capacity constraints in poor countries, it may at first seem sensible for donors to scale down, and stretch-out, the aid effort over time. But if this approach *reduces* overall effectiveness, this would be counterproductive and a waste of good aid. Donors should therefore desist from repeating mistakes made in the past when confronting very real absorptive capacity problems. As we have argued throughout this Report, a critical mass of sensibly-invested interventions financed by frontloaded aid will improve social conditions and accelerate growth. Over time, the latter will in turn generate the domestic resources required to finance development, and this should eventually reduce the need for more aid.

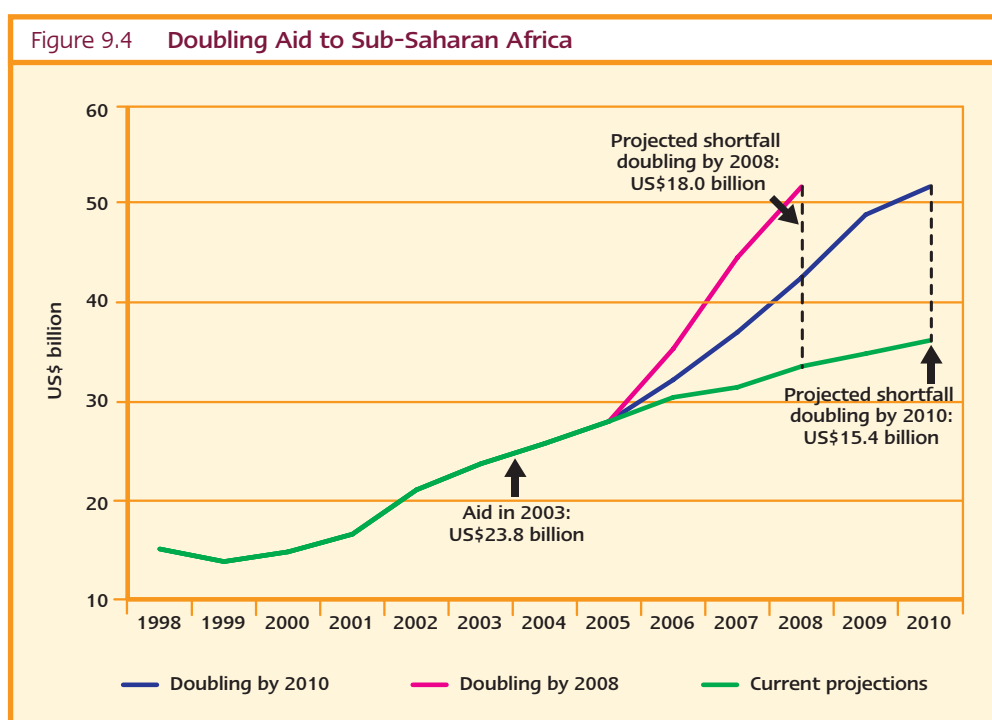
72 Table 9.2a draws together the financial implications of the recommendations that the Commission proposes in this and earlier chapters. The sectoral priorities listed are suggestive rather than definitive, although they have emerged from detailed analysis and many consultations. Actual priorities and implementation plans will inevitably be shaped by country, regional, and continental processes within Africa. We must emphasise that the total cost indicated in Table 9.2a is an aggregation of the Commission's recommendations and takes no account of absorptive capacity issues.

73 To accelerate income growth towards seven per cent, and to spur strong progress towards the Millennium Development Goals, the volume and quality of external aid to sub-Saharan Africa will need to change radically. As Table 9.2a shows, if the Commission's recommendations were implemented fully, taking no account of problems of absorptive capacity, public expenditure would need to rise over the 2006-2010 period to reach an extra US\$75 billion in 2010. However, throughout the report we have emphasised the importance of being measured in implementing an ambitious programme, despite the great urgency in meeting needs. It would be reckless for the international community not to respond strongly to the enormous challenges of accelerating human development in Africa. It would be negligent, however, to set about tackling these without giving adequate attention to evident capacity constraints in planning, budgeting, administration, and management. Accordingly, our recommendation is to proceed in two stages (Table 9.2b). In the first stage of three to five years, only half the package would be implemented and our analyses of absorptive capacity indicates that this could be implemented effectively. Before embarking on the second stage, an assessment would take place of experience: considering advances in governance and in aid quality. To allow meaningful assessment, it will be crucial to build monitoring and evaluation into the scaling-up of aid programmes. An allowance is made both for unforeseen increases in programme expenditure due to sudden price increases, and to allow some flexibility in adjusting the size of some programmes<sup>58</sup>. (For a more detailed breakdown of cost estimates, see Annex 5.)

74 We provide below, and in Annexes 1, 2, 3, and 6, the analysis to support our argument that half the full package could be absorbed over the first stage of three to five years. To attempt a faster scale-up in expenditure would require even bigger improvements than we expect in the quality of aid and in countries' ability to use resources effectively. The build-up over three to five years should be measured in pace, justified by bottom-up costs, and be based on a very careful analysis of absorption issues. Moreover, a rapid acceleration in expenditure may not be feasible, and is unlikely to be sustainable. New capacity created over the next five years should make it possible for higher levels of funds to be absorbed productively in the future.

75 In the first stage, it should be possible for *one-third of the required new resources to be raised domestically, and two-thirds from external sources*. We expect that the one-third domestic contribution will be financed from resources arising out of economic





Sources: OECD/DAC, 2004 and 2005 and Commission's estimates

growth. With a constant tax-to-GDP share of 15.7 per cent<sup>59</sup>, and some efficiency gains in the collection of taxes, we anticipate that in 2010, the contribution from sub-Saharan Africa would amount to at least US\$12.5 billion (see Table 9.2b)<sup>60</sup>.

76 The remaining two-thirds of the required additional expenditure should come from external concessionary resources. These external funds come to an *extra US\$25 billion over the next three to five years (2006-2008/10)* – a mere US\$0.10 extra per person per day in Africa<sup>61</sup>.

77 The proposed doubling in aid is realistic and feasible. If projected growth in aid flows to Africa during 2004 and 2005 is realised, the average annual percentage increase in aid will have been about 11 per cent per annum between 2001 and 2005. This rate has allowed current aid levels to Africa to be partially restored to 1990 levels<sup>62</sup>. As noted earlier in this chapter, aid to Africa declined substantially during the 1990s.

78 For aid to double between 2005 and 2008, the average annual percentage increase would amount to 22.5 per cent; if the period for the doubling was extended to 2010, the increase would be 13 per cent per annum. Our recommendation for a doubling is therefore ambitious, but, at least if extended to 2010, only moderately faster than the first half of this decade. A more ambitious agenda would be to achieve the doubling by 2008 (see Figure 9.4).

79 In recent years, some donors have announced significant increases in their commitments to foreign aid, most notably through G8 pronouncements at Monterrey, Kananaskis, and Evian. If donors honour existing commitments, aid to sub-Saharan Africa could rise to US\$33.5 billion by 2008 and to US\$36.1 billion by 2010<sup>63</sup>. Beyond these pledges, the Commission's recommendation for a doubling in aid levels (based on 2004 amounts) will require an extra US\$18 billion per annum if this to be achieved by 2008 or an extra US\$15.4 billion per annum achieved by 2010<sup>64</sup>. Figure 9.4 maps out the future trajectory of aid flows based on current commitments.



80 It must be emphasised that the proposed doubling in assistance would not be business as usual. Our recommendation is based on: (i) a radical change in the way donors behave and deliver assistance, and (ii) a continued, and expanded, strong improvement in governance in African countries. With a view to proceeding to the second stage and moving to the full programme by 2015, we suggest a review five years from now to assess the basis for a further expansion of external support of US\$25 billion per annum. We turn now to issues regarding expenditure priorities that more aid might support and how the extra finance might be productively absorbed.

### **9.3.5 What assurance is there that the extra aid will be used productively?**

81 Despite glaring needs across Africa, there is a limit to the number of roads, schools, clinics and water points that can be built and serviced effectively in any one year. For example, the required number of technical experts and managers to plan and budget extra finance may not be available to make productive use of the resources. The extent to which resources can be productively absorbed into economies is circumscribed by macro-economic, institutional, physical, human, social, cultural, and political factors. From a large amount of credible research and analysis, we now know that the effectiveness of aid depends on aid delivery and on the recipient country's governance and overall conditions – the more propitious the latter, and the higher the quality of the former, the more effective will aid be.

82 Annexes 1, 2, 3, and 6 bring together various strands of arguments made throughout this chapter regarding the effectiveness of aid to sub-Saharan Africa. Together they demonstrate that there is a virtuous circle of mutually reinforcing actions which donors and governments can take in making aid more efficient and effective. This requires donors to provide better-quality aid, which in practice means adjusting donor procedures and processes to suit recipient-country circumstances better. And it requires aid-receiving governments to create a more conducive policy and institutional environment for attracting more resources for public and private investment. To increase absorptive capacity further, macro-economic management must improve, especially management of monetary and exchange rate policies, and so must public financial management. Donors will not improve aid delivery much without concomitant improvements in recipient countries' public financial management, public administration, and public accountability systems.

83 In many parts of Africa, country conditions and the quality of donor assistance have been improving, creating conditions for further assistance to be used well. However, there is much more scope for further improvement. Although the alignment and harmonisation of donor support is now better than in the mid-1990s, progress is limited to a few successful cases (See Annexes 1, 2, 3, and 6). Problems of donor fragmentation and multiple parallel procedures remain pervasive, and tying of aid reduces its value substantially, with estimates of the reduction around 20 per cent. Better aid would allow stronger institutions of governance and development to emerge, which in turn would allow higher absorption.

84 What about increasing levels of aid to countries where states and governments are fragile, because of various forms of conflict, poor public-sector management, corruption, and where the absorption of increased aid presents special challenges? Evidence commissioned by the OECD/DAC shows that in countries where states are perceived as being fragile, of which many are in sub-Saharan Africa, donors provided as much as 43 per cent less aid between 1992 and 2002 than the level that these countries' performance ratings (CPIA) suggested might have been possible to absorb<sup>65</sup>. In this sense, these countries have been significantly under-aided, which could be corrected if donors adopted

more innovative approaches in supporting reforms in such environments (including better co-ordination). Analysis also shows that aid receipts by fragile states are twice as volatile as those to other low-income countries. The relative neglect of these countries by the international community is costly, not least because it is estimated that countries neighbouring fragile states bear annual losses in the order of 1.6 per cent of GDP<sup>66</sup>. Countries with weaker and less stable institutions, for example those emerging from conflict, also face bigger development challenges, notably in health and sanitation, child immunisation, malaria, and access to drinking water.

85 Although it is more complex, donors can ramp up aid levels to such countries and help to reduce poverty. Donors are giving increasing attention to these issues in recognition of the fact that without greater attention, poverty reduction and collective security goals will not be achieved. A recent Senior Level Forum on fragile states in London (14-15 January 2005), concluded that the risk of inaction was far greater than donors not taking any action at all. At this meeting, Draft Principles of Good International Engagement were tabled – see Annex 7 for details. Where conditions are less robust, for example in countries where states are fragile, and where donors and governments disagree on policy priorities, it should still be possible for donors to provide adequate and effective aid in ways that do not undermine national systems, and/or long-term sustainability<sup>67</sup>. These include:

- (a) ensuring transparent information on aid flows to countries regarded as having fragile states or governments;
- (b) making aid more effective at reducing conflict, improving the understanding and analysis of risk factors, and being willing to provide better responses to risk, for example by addressing issues of inequality and human security (see Chapter 5);
- (c) sustaining a commitment to reducing poverty in difficult environments and developing more innovative ways of being effective;
- (d) engaging in countries over the longer term, and providing less volatile and more predictable funding, even when threatened by temporary setbacks;
- (e) increasing funding by about 40 per cent, which should be possible without damaging the norms of efficient aid allocation, as suggested by Collier and Dollar (2004);
- (f) investing in those interventions that recent research suggests can help countries with weaker and less stable institutions to experience rapid turnaround. The benefits of these interventions can be as high US\$80 billion<sup>68</sup>.

86 In conclusion, our assessment indicates that over the next three to five years aid levels could be doubled and be used productively. Higher absorption of aid should be possible with:

- (a) continuing policy and governance improvements within Africa;
- (b) better allocation so that a broader range of countries can receive assistance, and through appropriate channels – budget and sector support where possible, and non-state channels where necessary;<sup>69</sup>
- (c) better quality assistance.

### **9.3.6 Are public financial management systems improving, and are international efforts in supporting these getting better?**

87 A well-performing public expenditure system is indispensable for increasing the effectiveness of all publicly channelled resources (including aid) and enhancing accountability to citizens. Within Africa, the importance of improving public financial management (PFM) systems is increasingly being regarded as critical for enhancing

development effectiveness. For example, AU/NEPAD's APRM explicitly recognises the significance of building better capacity in African countries for strengthening economic governance<sup>70</sup>. Most recently, an initiative to facilitate cross-learning, and the dissemination of information on good practice, was launched<sup>71</sup>.

88 Since the enhanced HIPC debt-relief initiative was implemented, an increasing proportion of external assistance has been channelled through government systems of aid-recipient countries. These funds have been provided both in the form of debt relief, and as general and sector budget support. From a donor perspective, this has made it more important than ever to support improvements in the overall management of the budget, and since 2001, efforts to improve public financial management and accountability systems in poor countries have intensified.

- (a) With the greater interest in these issues have come better measures of how well governments manage their money. The forthcoming Africa Governance Report by the ECA shows economic and political governance in Africa as having improved significantly over the last ten years or so.<sup>72</sup> Moreover, as Chapter 2 indicated, between 1999 and 2003, World Bank CPIA governance scores for sub-Saharan African countries also improved. Whereas the CPIA scores are survey-based assessments of many aspects of governance, we now have new detailed evidence based on careful examinations of country budget processes in 2001 and 2004. Following up on an earlier survey in 2001, which assessed standards of public expenditure management (PEM) in HIPCs, a recent joint World Bank and IMF progress report for 25 countries (22 of which are African), shows that in 2004 PEM systems had strengthened in several countries<sup>73</sup>. On average improvements were small but significant, reflecting amongst other factors the short assessment period, and some countries making great strides.
- (b) Several countries have improved budget codes and standards, as a direct consequence of country authorities implementing action plans adopted by HIPCs following the first assessment by the World Bank and IMF in 2002<sup>74</sup>. Each country surveyed in 2001 undertook to implement Assessment Action Plans (AAPs). Progress by the 2004 survey showed, for example, that: PEM areas that were the weakest in 2002 had "improved significantly, in most cases",<sup>75</sup> furthermore, where implementation of AAPs was the strongest, PEM indicators had improved the most (e.g., in Ghana, Mali, Senegal, and Tanzania).

89 In short, while there is considerable diversity in country progress, financial management on average in this set of poor countries has clearly improved. This success has resulted from strong commitment by some HIPC governments to implementing PEM

**Table 9.3: Improvements in Revenue Mobilisation in Developing Countries 1999-2003 (Average CPIA Ratings)**

| Category                 | Efficiency of Revenue Mobilisation |      |
|--------------------------|------------------------------------|------|
|                          | 1999                               | 2003 |
| All Developing countries | 3.27                               | 3.56 |
| Low Income Countries     | 3.09                               | 3.32 |
| SSA (37 countries)       | 3.11                               | 3.36 |

Note: Table entries are mean values for indicated country groups. Ratings are on a rising scale of 1-6  
Source: World Bank CPIA Database and World Bank and IMF, 2004

Table 9.4: The Fiscal Effects of Aid in Selected African Countries

| Impact of oda on: |                  |                    |                  |
|-------------------|------------------|--------------------|------------------|
| Country           | Domestic Revenue | Development Budget | Recurrent Budget |
| Ghana             | ++               | +                  | ++               |
| Malawi            | +                | ++                 | --               |
| Uganda            | +                | ++                 | ++               |
| Zambia            | --               | ++                 | +                |

Symbols: ++ strongly positive; + moderately positive; -- strongly negative.  
'Development Budget' corresponds to investment.

Source: Osei et al, 2003 and Fagernas and Roberts, 2004

reforms, combined with co-ordinated donor support to governments' action plans. Successes have been greater where plans have been focused and narrow, and where fewer donors have been involved in backing national efforts.

90 In an earlier section of this chapter we noted that tax-to-GDP ratios in sub-Saharan African countries are not out of line with those of other developing countries. Given the relatively high aid receipts of these countries, this suggests that past aid flows have not led to any overt slackening in revenue mobilisation. Moreover, Table 9.3 shows the 'Efficiency in Revenue Mobilisation' criterion (which the World Bank uses as part of their annual CPIA scoring) as having risen by eight per cent (between 1999 and 2003) for 37 sub-Saharan countries.

91 Country studies considering the fiscal impact of aid show that aid has, on balance, had a positive impact on revenue collection efforts. Indeed, as Table 9.4 indicates, aid has had a beneficial effect on public investment and on recurrent budgets.

92 Country examples regarding the fiscal impact of aid reveal interesting results:

- (a) In Ghana: "it appears that aid has been used as a substitute for domestic borrowing. It also appears that aid has been associated with increased tax effort";<sup>76</sup>
- (b) In Malawi: "It [aid] has also been associated with high fiscal resource mobilisation and lower domestic borrowing. (...) aid inflows have closely tracked the fluctuations in the volume of public expenditure, thus offsetting some of the destabilising effect of gyrations in domestic financing";<sup>77</sup>
- (c) In Uganda: "Estimated domestic revenues are shown to have increased in response to inflows [of aid]. The estimated effects of inflows on domestic borrowing have been insignificant, suggesting on the one hand, that there was no explicit policy of using aid to achieve fiscal savings, but, on the other, that the receipt of aid was not the pretext for abandoning fiscal control";<sup>78</sup>
- (d) But the experience has not been positive everywhere, for in Zambia: "injections of external financing have had... negative and sustained impacts on domestic revenue", and further: "aid in Zambia has thus not for the most part been used to stabilise the economy, or to offset the shocks to which it has been subject".<sup>79</sup>

93 Overall, it seems that economic governance among many sub-Saharan African countries has been improving strongly over the past few years, and that significant elements of progress have been associated with external support.

### 9.3.7 What would the extra aid be used for, and to achieve what?

94 Detailed expenditure priorities will emerge from African-led processes, and rightly so. Nevertheless, the Commission has identified sectoral priorities, reflected in Table 9.2a. In some cases, investing in these sectors will mean supporting existing plans and programmes that are currently underfinanced<sup>80</sup>. In other cases, current knowledge for improving livelihoods has yet to be translated into actions; but with available finance, projects and programmes could be initiated quickly. We examine the sectors briefly in turn – the breakdowns in Table 9.2a are based on Chapters 4 to 8.

95 If it is used well – as the Commission believes it can be, with continued improvements in governance and especially financial management – the extra investment in infrastructure should enable African economies to grow by up to 0.5 percentage points extra per annum. Exogenous shocks would be cushioned more effectively by a properly financed shocks facility, allowing more continuous growth. And an increase in expenditure would help to improve outcomes in primary education and health across sub-Saharan Africa.

96 HIV and AIDS constitute a special, enormous and urgent crisis particularly for Africa, but also the world. Our recommendations include at least US\$10 billion per annum for HIV and AIDS. However, the unprecedented nature and scale of this emergency means that there is a case for considering this expenditure as being beyond 'normal' oda requirements.

97 With more resources now, it should be possible to make interventions at various levels of government and the economy. It is important to recognise that investing in the MDGs today (and intensifying efforts to combat HIV and AIDS and tropical diseases) will expand sub-Saharan Africa's future capacity to accelerate development: Africa will have more skilled people to design and build the necessary infrastructure, to deliver services, and to provide the managerial know-how for planning, organising, and implementing activities.

98 As mentioned before, we recommend a two-stage approach in which our recommendations would be implemented in a measured way, financed through gradually increasing external and internal resources. It is not straightforward to demonstrate in advance the full effect of actions and resources, but the full programme is oriented toward the following results:

- (a) by 2010, GDP growth rate to reach seven per cent per annum;<sup>81</sup>
- (b) by 2015, cultivated area under irrigation to rise by five million hectares (0.5 ha/year), leading to net productivity gains of 3.4 per cent per year;<sup>82</sup>
- (c) by 2010 all people in Africa requiring anti-retroviral treatment will receive it;
- (d) by 2010, HIV infections among young people will be reduced by 25 per cent;
- (e) by 2010, five million Orphans and Vulnerable Children provided with access to basic services;
- (f) by 2015, 40 million allowances provided as child support and disability support, at US\$6 per month;
- (g) by 2015, Universal Free Primary Education achieved;
- (h) by 2015, Secondary Gross Enrolment Rate to reach 50 per cent;
- (i) by 2015, free access provided to basic health services;

- (j) by 2015, health workforce tripled, thus adding one million doctors and nurses;
- (k) between 2006 and 2015, through immunisation coverage, over five million children's (under five years old) lives saved, and five million adult deaths prevented;
- (l) annually, 500 million more people treated by chemotherapy programmes against debilitating parasitic diseases;
- (m) by 2006, 380 million African women and children protected against vitamin and mineral deficiency;
- (n) by 2015, 95 per cent of pregnant mothers and children to have received a bed net and treated for malaria;<sup>83</sup>
- (o) by 2015, treatment of Tuberculosis increased to 70 per cent of cases.

99 None of these outcomes are guaranteed, of course. In fact, they are all 'stretch targets'. They depend on both increased support from the international community and continued improvement in governance, and probably even good fortune as well. But the speed of advance in many countries over the past half-century makes us aware of the tremendous possibilities; and the depth of African poverty is such that we must set ambitious goals.

100 At a country, regional, or continental level, there are a number of areas and sectors listed below where additional financing could be relatively quickly and effectively absorbed, i.e. at the beginning of the first stage of our measured approach. The Commission's recommendations are that the international community move rapidly on the following actions:

- (a) in HIV and AIDS, change the way donors and global health partnerships deliver funds by providing an extra US\$5.2 billion to US\$11.3 billion over the 2005-2007 period;<sup>84</sup>
- (b) in education, enable implementation of the Fast Track Initiative (FTI) with supplementary finance (of roughly US\$1.9 billion), to start intensive teacher recruitment and training, and prepare for a substantial expansion in basic education;
- (c) in health, build up the capacity and human-resource skills for delivering better, and scaled-up, services. Thus immediate support might be extended to support AU/NEPAD's Health Strategy and the Initial Programme of Action to strengthen basic health care systems. Other measures for which extra resources are of great importance and can be absorbed quickly include GAVI, polio eradication and vaccine development;
- (d) in the area of social protection, provide funding for already-advanced plans for supporting orphans and vulnerable children in 17 countries (at a cost of roughly US\$30-40 billion);<sup>85</sup>
- (e) in infrastructure, proceed with implementation under the AU/NEPAD framework, where priority plans have been drawn up by regional organisations, and where implementation is held up by a lack of funds;
- (f) in agriculture, raise agricultural productivity and reduce rural poverty, by implementing known small-scale irrigation technologies;
- (g) with regards to reducing the impact of unanticipated economic and natural disaster shocks, financing and implementing a new shocks facility;<sup>86</sup>
- (h) with regards to peace and security, to act faster in clearing arrears, creating the UN Peacebuilding Fund, and expanding the World Bank's Post-Conflict Reconstruction Trust Fund.

### Would extra aid hit export competitiveness?

101 As explained in Chapter 7, regardless of what aid is spent upon, the external funds it provides can only buy imports. For example, if aid is used to pay local teachers, aid dollars are sold in exchange for the local currency that is used to pay them. The aid dollars are sold largely because people purchase them in order to buy imports. Extra aid increases the capacity to import. While this can bring many benefits, it can also hurt exporters. In effect, aid competes with exporters as the means by which imports are financed. Extra aid can result in an appreciation of the 'real exchange rate', increasing the amount of dollars local currency can buy, and so reducing the domestic returns from earning a dollar from exports.

102 A key part of a viable growth strategy is for Africa to diversify and dramatically increase its exports. It would be ironic if the aid meant to support that strategy had the unintended consequence of making exporting even less competitive than it is already. Further, in much of Africa, exporters are predominantly low-income farm households, and so an adverse effect would be particularly serious. The way Nigeria's oil dollars severely damaged its other exports, thereby hurting farmers, is an example of the process which an aid push must avoid.<sup>87</sup>

103 Unless actions are taken to offset the exchange rate appreciation effect, export competitiveness will deteriorate substantially if aid is doubled. There are no magic central banking strategies to prevent the problem: the policy of 'exchange rate protection' sometimes adopted in Asia would involve simply accumulating the additional aid in foreign exchange reserves. In effect, with such a strategy, the extra aid would not be used. There are, however, two complementary policies that would preserve export competitiveness.

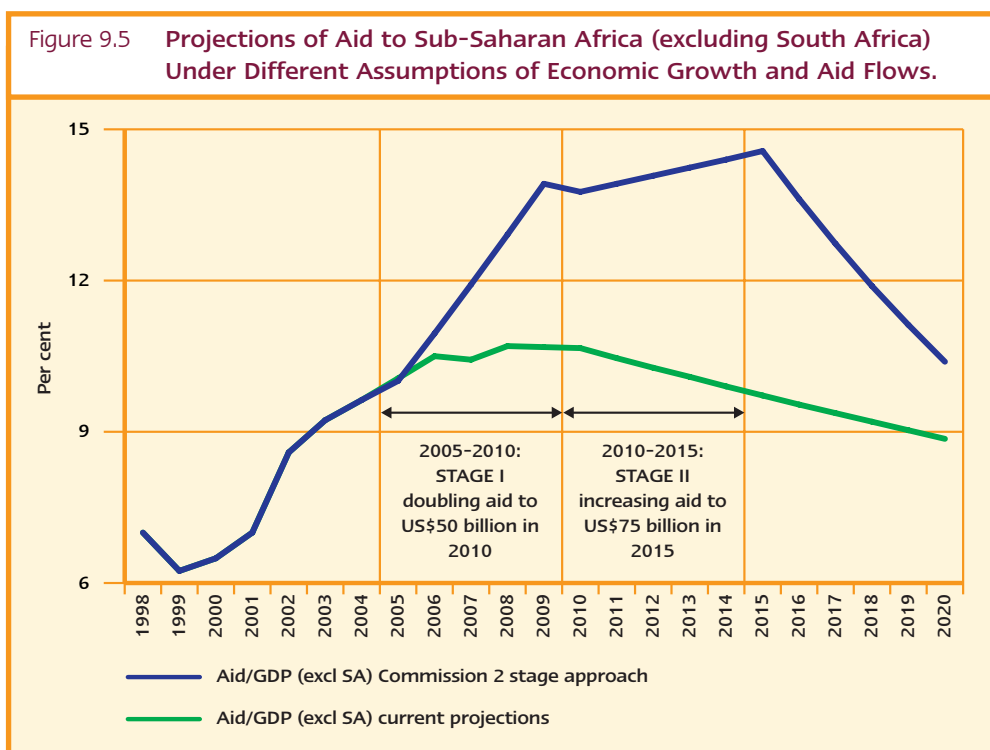
104 The first is for much of the aid to be spent on investments that bring down costs for exporters. For example, aid can be spent on improving transport and the functioning of ports. Precisely what spending would be most effective will vary country by country, depending upon the composition of existing and potential exports, and upon the structure of their costs. However, there is a lot of scope for cost reduction: for example, transport costs are a much larger percentage of exports for Africa than for other regions.<sup>88</sup>

105 The second policy is to increase the *demand* for imports by an amount corresponding to the increased *supply* of imports that will be purchased by the extra aid. Aid spent on importing medicines, for example, does exactly this. The additional instrument which governments can use for this purpose is trade policy. African governments have already reduced their trade barriers substantially, but to preserve export competitiveness in the face of a doubling of aid they will need to do more. As noted above, African governments remain heavily reliant on trade taxes for their revenue. Hence, one necessary use of aid may be to meet the loss of revenue caused by reduced trade taxes.

106 Donors should probably not insist that every dollar of extra aid be used for extra public spending: the preservation of export competitiveness may require other priorities. The need to match extra aid with extra import demand, and the implications for tax revenue, is an example of the co-ordinated actions that will be needed between developed-country governments and African governments. A co-ordination failure – such as donors expanding aid, but recipient governments not changing trade policy – would risk contracting exports onto an even narrower range of primary commodities.

107 Recent experience of the potential (negative) impact of high levels of aid on the real exchange rate suggests that it is modest<sup>89</sup>. Simulations for certain countries, notably for Uganda and Ethiopia, also find that increasing aid over the short to medium term would have only moderately deleterious effects within the exporting sector from an appreciating real exchange rate, which would be more than offset by positive productivity-improving effects of increased aid (of the sort mentioned above – see Annex 2)<sup>90</sup>.





Note: For the Commission's two-stage recommendation, with additional aid, total assistance to sub-Saharan Africa in 2010 would reach US\$50 billion (Stage I). Between 2010 and 2015, the increase in aid would continue, and would reach US\$75 billion in 2015 (Stage II). In the first-stage, we assume GDP growth would accelerate to reach seven per cent in 2010, and would be sustained at this level throughout the second-stage, and until 2020. Were current trends in growth and aid flows to continue, we assume economic growth in sub-Saharan Africa would remain flat at four per cent throughout both stages, and until 2020. Under this projection, aid to sub-Saharan Africa would reach US\$36.1 billion in 2010, and thereafter would grow at 2.1 per cent per annum, in line with the GDP growth rates of OECD countries.

Source: Based on OECD/DAC, 2004 and 2005 and Commission's estimates.

### Is extra aid forever?

108 The language of aid 'dependency' implies that recipients of aid become permanently reliant upon it. This happens only where the growth process fails, and in that case, aid would have to be reconsidered. But as we have argued, the failure of the African growth process cannot be attributed to a malfunctioning of aid. Figure 9.5 shows projections for the aid-to-GDP ratio (excluding South Africa), with the Commission's recommendations taken into account. It illustrates that when the Commission's recommendations are implemented, the ratio of aid-to-GDP would reach a peak in 2015 and would decline fairly quickly thereafter<sup>91</sup>. This provides a graphical illustration of a 'big push' sustained over 10 years. As African growth rises, aid-to-GDP ratios will fall and, eventually, so too will aid.

109 Where the growth process succeeds, aid tapers out. This has happened around the world. For example, South Korea has switched from being a recipient of aid in the 1960s to a contributor of aid in the 1990s. Within Africa, Botswana has made a similar transformation over 30 years from being highly aid-dependent to a successful middle-income country (see Annex 8 of this Chapter for more details). The world will be faced with a permanent aid programme to Africa only if national reform efforts are too small and/or implemented ineffectively.



## 9.4 How does debt relief fit in?

110 **Recommendation:** For poor countries in sub-Saharan Africa which need it, the objective must be 100 per cent debt cancellation as soon as possible. This must be part of a financing package for these countries to achieve the MDGs, as promised in Monterrey and Kananaskis. The key criterion should be that the money be used to deliver development, economic growth and the reduction of poverty for countries actively promoting good governance. Accordingly, work should begin immediately to establish a transparent debt compact to include all sub-Saharan African low-income countries, including those excluded from current schemes. It should cancel debt stock and debt service by up to 100 per cent, and cover multilateral and bilateral debt. As an urgent measure, financing should immediately be put in place to provide 100 per cent multilateral debt service cancellation, where this is necessary to achieve the MDGs.

111 The Enhanced HIPC Initiative has had a positive impact in reducing debt stocks in a number of African countries. 27 countries are currently benefiting from debt service relief, which over time has amounted to over US\$50 billion. However, it should also be noted that some of the debt written off under HIPC could not have been repaid. In the case of this debt, debt 'relief' merely relieves the creditor of a balance sheet fantasy, and does not free up any actual resources for Africa. HIPC debt relief was intended to bring debt down from an 'unsustainable' to a 'sustainable' level; this language suggests an accounting clean-up on the balance sheet. There was an inconsistency between this ostensible criterion for relief and the discussion of how the relief should be spent by governments<sup>92</sup>. In practice, the 'sustainable debt' levels that were set were not derived from convincing economic analysis, although for some countries, the enhanced HIPC initiative released real resources for new expenditure. Despite this, there is widespread recognition that the relief provided under the initiative has not been wide enough, or deep enough.

112 Several low-income countries in Africa have been unable to benefit from the enhanced HIPC initiative, including Nigeria. Some non-HIPCs may require stock relief to relieve debts that are 'unpayable'. Beyond this, additional relief would be on debt that could have been repaid<sup>93</sup>. To support reform, the criteria on which debt relief should be granted should therefore be similar to those applied for aid – the main resources transfer.

Table 9.5: **Total Debt Service Paid by Sub-Saharan African Countries in 2003**

| (Figures for 2003, in US\$ billion) | Paid to bilateral lenders | Paid to multilateral lenders | Paid to private creditors | Total      |
|-------------------------------------|---------------------------|------------------------------|---------------------------|------------|
| HIPC's                              | 1.1                       | 1.1                          | 0.1                       | 2.3        |
| Other low-income countries          | 1.1                       | 0.7                          | 1.8                       | 3.6        |
| <i>Of which Nigeria</i>             | 0.8                       | 0.5                          | 0.3                       | 1.6        |
| Middle-income countries             | 0.3                       | 0.2                          | 2.3                       | 2.7        |
| <i>Of which South Africa</i>        | 0                         | 0                            | 2.1                       | 2.1        |
| <b>TOTAL</b>                        | <b>2.4</b>                | <b>2</b>                     | <b>4.2</b>                | <b>8.6</b> |

Source: World Bank, 2004a

Debt relief is highly efficient compared with other aid modalities in that it can deliver flexible long-term, untied, predictable and on-budget resources. In practice, Martin et. al. note that there have been problems in the delivery of HIPC relief which have undermined its effectiveness, and which should be addressed in future relief efforts by reducing conditionality and enhancing country ownership.

113 Future relief should also move away from the confusing language of 'sustainability', which provides increasingly inappropriate guidance on the allocation of a resource transfer the deeper the debt write-off becomes. It must instead focus on a country's capacity to utilise resources effectively for poverty reduction and growth.

114 In 2003, the total (public) debt service paid by all sub-Saharan African countries amounted to US\$8.6 billion<sup>94</sup>. Of this, US\$2.4 billion was paid to bilateral lenders, US\$2 billion to multilateral lenders, and US\$4.2 billion to private creditors<sup>95</sup>. These amounts include debt paid by low-income countries, which are not eligible for debt relief under the HIPC programme. Debt servicing by these countries is not trivial. Nigeria, for example, paid US\$1.6 billion in debt servicing in 2003, or almost 20 per cent of the total for sub-Saharan Africa (Table.9.5).

115 With gradually more countries receiving 100 per cent bilateral debt relief under the enhanced HIPC initiative, and the accompanying additional relief from many Paris Club creditors, the emphasis now must turn to the servicing costs of debts owed to multilateral creditors. Debt-service payments of low-income African countries to multilaterals are estimated to be roughly US\$1.2 billion in 2005; of this amount, the share owed by 32 countries eligible for HIPC-relief will be 90 per cent<sup>96</sup>. Information for the HIPCs confirms that projected debt service costs remain high, and further bilateral and multilateral relief would enable countries to shift public expenditure towards their priorities for poverty reduction<sup>97</sup>.

116 Recent research points to a significant negative (statistical) relationship between debt service payments and economic growth: debt service is basically negative aid<sup>98</sup>. A high debt stock is also an inadvertent signal of future problems, such as upcoming tax increases that will be needed to repay the debt. Rather than assuming this future tax liability, potential investors are inclined to take their money elsewhere. There is evidence that large debts discourage private investment<sup>99</sup> and increase capital flight<sup>100</sup>.

117 Analysis of Africa's debt also indicates the need to give priority to frontload liquidity to indebted countries so that spending on MDG-related activities can be increased. 100 per cent multilateral debt service cancellation and further bilateral debt service relief, would help to achieve this. Debt relief arrangements should be expanded to include all sub-Saharan low-income countries, including those excluded from current schemes.

118 Existing debt relief initiatives have generated (and are scheduled to provide) a range of positive results. But an assessment of African countries' debt profiles and the effects of creditor non-participation shows several problems: countries still have high debt-service ratios, there are delays in providing relief, and the impact of external shocks continues to be felt. Only four countries have succeeded in getting to 'sustainable' levels of debt by the narrow HIPC criteria<sup>101</sup>.

119 It is estimated that if half of all debt service reduction were to be channelled to productive public investment, growth in HIPCs would accelerate by 0.5 per cent per annum, over and above any 'debt-stock overhang' effects (i.e., from private investment being deterred by high public debt stocks).<sup>102</sup> It has been suggested that as most debt relief in HIPCs goes towards increasing public investment, the additional effects of debt-service relief on GDP growth are probably almost one per cent a year.<sup>103</sup>

120 In addition to the core recommendation made above regarding debt cancellation, Annex 9 elaborates a further proposal to assist HIPC address problems (including law suits) caused by debt owed to non-OECD bilateral and commercial creditors which are not participating in the HIPC Initiative. These debts are causing HIPC considerable difficulties. Effective new measures of the kind mentioned in Annex 9, including the establishment of a rapid-response legal technical assistance facility, would help to bring down avoidable debt burdens.

121 Limiting both the stock of debt and providing debt service relief until 2015 would help to address moral hazard problems, in the sense that countries would be tempted to take on more debt in the hope that it too would be written off. The measures proposed here are intended to clear the slate for a fresh start, and to maximise the amount of resources available to countries for achieving the MDG's. It is an economically sound approach; but to be effective, the debt relief must be substantial, it must be financed with additional resources, and must be executed in a way that does not put countries at risk of accumulating unsustainable debts in the future.

122 The debt-relief compact we are proposing has not been costed (and is therefore not included in Table 9.2a). However, 100 per cent multilateral debt service relief for all sub-Saharan African countries would cost less than US\$2 billion per annum and could be included with the aid package in each of the two stages of additional finance outlined above.

## 9.5 Paying for extra aid<sup>104</sup>

123 **Recommendation: Donor countries should commit immediately to their fair share of the additional US\$25 billion per annum necessary for Africa. Ways of financing the doubling of aid to Africa should include the immediate launch of the International Finance Facility. Rich countries should aim to spend 0.7 per cent of their annual income on aid, with plans specified for meeting this target. Further work should be undertaken to develop workable proposals for specific international levies to raise additional finance (for example from compulsory or voluntary charges on airline tickets).**

### 9.5.1 The global requirements for aid

124 Despite the commitments made at Monterrey and other initiatives to increase oda levels (at Barcelona with respect to EU member states; and the Millennium Challenge Account (MCA) in the case of the United States), the MDGs (globally) remain under-financed, as the report of the UN Millennium Project has so clearly shown. And our analysis has further demonstrated the urgency and scale of the need for extra resources. As Table 9.6 makes clear, even if OECD/DAC member countries fulfilled their Monterrey commitments by 2006 (globally raising an estimated additional US\$19 billion), this would still leave significant additional resource requirements – assuming, at the lower end, an extra US\$50 billion is required for meeting MDGs globally. Extra resources must be found now if there is to be any chance of making the 2015 targets.

125 Assuming donor countries honoured their Monterrey commitments to provide an extra US\$19 billion by 2006, on current shares, this would amount to an extra US\$6.6 billion for sub-Saharan Africa (increasing aid from US\$23.8 billion in 2003 to US\$30.4 billion in 2006; see Table 9.6). Over the medium term, substantially more money

| (US\$ billion)                                    | Current oda | Based on current oda projections |           | Sub-Saharan Africa doubling from 2004 level                                  |
|---|-------------|----------------------------------|-----------|--|
|   | 2003        | 2004                             | 2006      | Gradual increase from 2004 levels to reach doubling over 2006-2008/10 period |
| <b>From all bilateral donor countries</b>         | 72          | 78                               | 92        |  |
| DAC members (incl. Multilateral contribution) (1) | 69          | 75                               | 88        |  |
| Of which, G7                                      | 50          | 54                               | 64        |  |
| oda/GNI DAC members (%) (2)                       | 0.25        | 0.26                             | 0.30      |  |
| Non-DAC bilaterals                                | 3           | 3                                | 3         |  |
| <b>To all developing countries (3)</b>            | <b>70</b>   | <b>76</b>                        | <b>89</b> |  |
| DAC donors  | 50          | 54                               | 64        |  |
| Multilaterals                                     | 17          | 19                               | 22        |  |
| Non-DAC bilateral                                 | 3           | 3                                | 3         |  |
| <b>To sub-Saharan Africa (4)</b>                  | <b>24</b>   | <b>26</b>                        | <b>30</b> | <b>52</b>  |
| DAC donors  | 17          | 19                               | 22        | 37   |
| Multilaterals                                     | 6           | 7                                | 8         | 14   |
| Non-DAC bilateral                                 | 1           | 1                                | 1         | 1  |

(1) Projections to 2006 taken from OECD/DAC (2004) include Monterrey commitments. A similar growth rate is then used to calculate aid flows for both DAC donors and Multilaterals under 'To all developing countries' and under 'To sub-Saharan Africa'. Non-DAC bilateral aid flows are assumed to remain constant over the projection period.

(2) GNI is assumed to grow by 2.1 per cent per annum (OECD/DAC, 2004).

(3) There is a difference between total oda from donors and total oda to developing countries. This is mainly because capital subscriptions to multilateral institutions by bilaterals are not always drawn down in the same year as they are being paid by bilaterals.

(4) DAC members/multilaterals projected contributions to sub-Saharan Africa (for period 2004-2006) proportional to its 2003 share.

Source: OECD/DAC, 2004 and 2005, and Commission's estimates

will obviously need to be raised. Doubling aid from projected 2004 levels would mean aid to Africa reaching US\$51.5 billion in 2008/10.

126 Raising money and building mechanisms to spend resources effectively presents a chicken-and-egg problem. Until there is a credible indication that major increases in resources will be available, donor agencies and recipient governments will not act to prepare delivery systems. Yet, until delivery systems are improved, decision-makers will not commit large increases in resources. In such a situation, each party responsible for actions ends up blaming the other for immobility.

127 The way to break out of this cycle is for donors to commit now, clearly and strongly, to a build-up of resources over the medium term. As discussed below, such a commitment can be agnostic as to which kind of financing mechanism is eventually used. There are a variety of options available. Faced with a credible commitment, African governments, the IMF, and the aid agencies will know how best to prepare for this. For example, medium-term expenditure frameworks can be developed to incorporate an increasing inflow of resources. Those countries ready with credible financial plans will be the first to benefit from the resource build-up.

### **9.5.2 Burden-sharing through meeting common norms**

128 There is an enduring tradition of surprisingly successful agreements for international burden-sharing; a longstanding example is the co-ordination of military efforts through NATO, involving resources far in excess of those involved for global development assistance. A basic element in burden-sharing is benchmarking. For development assistance, the UN has adopted a target of 0.7 per cent of Gross National Income (GNI) for the OECD countries. And in thinking about this burden, let us be very clear that this burden is small: US\$25 billion per annum in extra aid for Africa represents only 0.1 per cent of high-income country GDP.

129 The most credible, reliable, and durable approach to financing the MDG funding gap would be to make faster progress in increasing aid budgets and raising the oda/GNI ratio to 0.7 per cent. Recent evidence shows that while progress is being made – in that global oda in nominal terms rose from US\$52.3 billion in 2001 to US\$ 68.4 billion, i.e. 0.25 per cent of GNI, in 2003 – 87 per cent has not gone to countries struggling to reach the MDGs.<sup>105</sup>

130 A growing number of countries are announcing plans for reaching the 0.7 per cent oda/GNI target (including Belgium, Finland, France, Spain, and the UK). Announcements of similar timetables by other OECD/DAC members would be an extremely valuable advance along the road to fulfilling aid requirements. We should be very clear that the achievement of the increases we are arguing for by 2015, after completion of the first and second stages, would (assuming Africa's share of total aid stayed constant) still leave aggregate aid flows from developed countries well below 0.7 per cent of their total GDP.

### **9.5.3 Reallocating aid to Africa**

131 Despite the importance of continuing efforts to meet the 0.7 per cent target, it is unlikely that substantial increases in oda will materialise in the immediate future. Domestic political and fiscal constraints in some developed countries are likely to delay substantial budget increases for development. An option for governments facing fiscal constraints is to reallocate existing aid budgets; aid has not been well allocated from the perspective of reducing poverty. Historically, the biggest single misallocation of development assistance has been that too great a share has gone to middle-income countries<sup>106</sup>. As shown above, although Africa is the only low-income region that is not growing, less than half of global aid goes to Africa. Within the context of a global increase in aid of US\$50 billion,<sup>107</sup> a good case can be made for a refocusing of aid to low-income countries, and to Africa specifically to finance the big push that is needed to get the region growing.

### **9.5.4 Raising finance for development from international levies and other mechanisms**

132 An additional and potentially important source is from the raising of finance internationally through levies or lotteries<sup>108</sup>. One example is a voluntary levy on airline tickets to reflect some of the costs inflicted by carbon emissions. For example, there could

be a US\$5 charge per airline seat, which the traveller could decline to pay by ticking a box. Being voluntary, the levy could avoid many of the difficult issues involved in getting international agreement on taxation. And it would help people to face up to the consequences of their actions in terms of pollution and global warming.

133 Another alternative for raising additional finance for development, and which is mentioned in the recent Landau report<sup>109</sup>, would be the allocation of Special Drawing Rights designed (SDRs) to benefit particularly developing countries. When the current allocation of SDRs was decided, the international community had not recognised fully the need to raise substantial funding for accelerating development in low-income countries. A new allocation for developing countries, or a redistribution of SDRs from developed countries, for example, might raise an additional US\$50 billion for Africa over the next five years, and which could be administered from a special account. The funds made available to African countries would be issued at zero or low interest rates over a 10-year loan period, mixed with appropriate amounts of grant contributions from donor countries. The IMF should be required to provide an assessment of this suggestion as part of its examination of its institutional reforms described in the next chapter.

134 A number of other innovative proposals have been suggested to help raise additional funds<sup>110</sup>. Much attention has been devoted recently to reviewing these proposals, assessing their viability from a range of viewpoints: technical; political; administration; governance; implementation; compliance and enforcement; and compatibility with existing structures. Given the detailed treatments elsewhere – most notably in Atkinson (2003), Landau (2004), World Bank (2004d and 2004e), and Reisen (2004) – we do not propose a detailed consideration of the pros and cons of the different proposals. Further work should be undertaken to analyse and assess the political, social, and technical feasibility of specific international levies. Given the analysis already available, the challenge now is to move to concrete proposals for practical action.

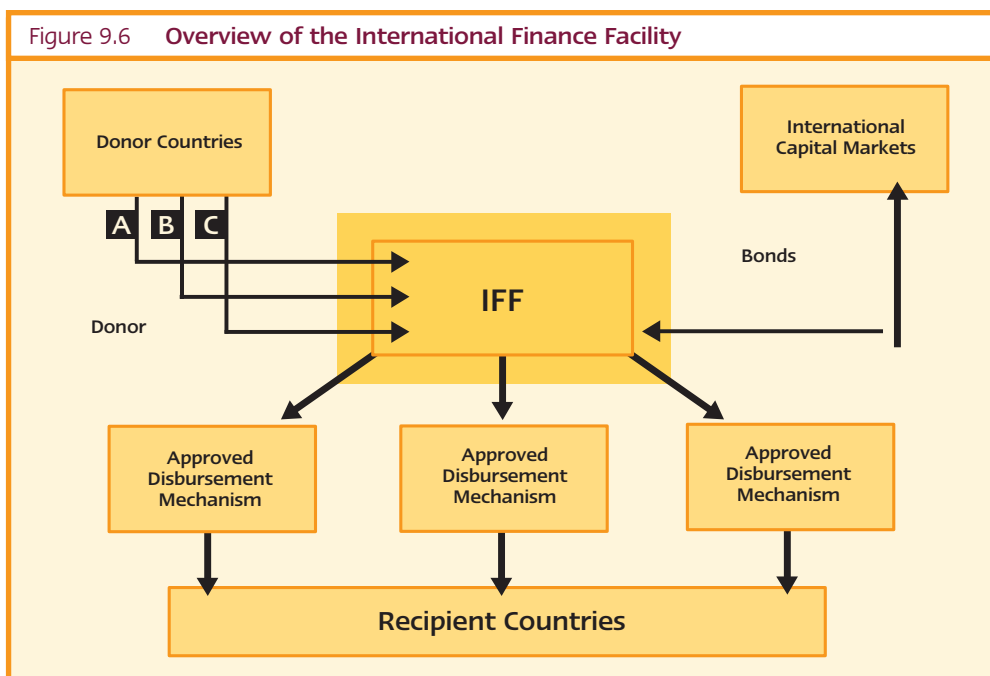
135 The critical issue is to raise the finance needed for assisting African countries to take strong actions over the next few years in accelerating development. We have noted throughout this chapter that what matters most is for these actions to be financed effectively. Accordingly, each donor country should opt for raising the required amount of finance in ways that best suit their specific circumstances.

### 9.5.5 Frontloading aid by using capital markets

136 It may be that direct increases to aid budgets of donor countries and other means of sustainable revenues, such as levies and other voluntary mechanisms, can only build up more slowly than the resources needed to finance a big push. To accelerate progress in the near term, one option would be to immediately raise funds in capital markets, frontloading aid on the strength of future aid commitments already made by donors. The revenues needed to pay for a frontloaded 10-or 15-year hump in spending would then be smoothed out through borrowing. A big push to fight African poverty would be financed partly through donor borrowing, as in the case of other necessary spending bulges such as those during wartime. The proposal for an International Finance Facility (IFF) aims to do precisely this, and we recommend its immediate implementation<sup>111</sup>. We should recognise that the combination of rising incomes in developed countries, advances in their aid/GDP ratio toward 0.7 per cent, and graduation of some countries from aid-recipient status, will mean that flows to Africa could be maintained, over whatever period is necessary, beyond 2015.

137 The IFF, if implemented by all countries, would provide an additional US\$50 billion a year in development assistance in the years to 2015, providing the funds necessary to reach the MDGs by 2015. Based on donors' legally binding long-term commitments, the Facility would leverage money from international capital markets by issuing bonds.

Bondholders would be repaid from future donor payment streams. The IFF would not require an increase in aid budgets from donor governments; it is founded on the additional aid commitments for the future that many countries have made, in particular the countries with commitments to reach 0.7 per cent.



Source: HM Treasury, 2004

138 The IFF is not an alternative to swift progress by donor governments towards the 0.7 per cent oDa/GNI target; indeed, its rationale depends on future commitments to increase aid. However, to halve poverty and achieve the MDGs, a surge in finance over the next 10 to 15 years is needed to complement other radical changes – in governance, in trade, and in security. As fiscal constraints can prevent donors from increasing their aid budgets in the short term, the IFF is an attractive option for increasing global levels of aid substantially as other changes occur, so that in combination they can have a concerted impact on tackling poverty. And in our case the extra finance forms a key element of a big push for Africa.

139 Frontloading aid through the IFF will enable countries to make the investments in economic growth in the short term that are essential to reduce poverty and to provide a chance to meet the Millennium Development Goals. Success will allow the lowering of aid requirements in the future. The long-term, multi-year commitments that donors would make to the IFF, according to an agreed set of high-level principles to ensure aid effectiveness, should increase the predictability and stability of aid, allowing recipient countries to make sustainable investments.

140 The IFF would not seek to become a new body for disbursing aid with new criteria that developing countries will need to meet, and would not establish a new aid bureaucracy. It would disburse aid using existing mechanisms that have been tried, tested and shown to be effective. For example, it is envisaged that the IFF would use a mix of existing successful multilateral and bilateral mechanisms and agencies (see Figure 9.6).

141 In sum, the IFF should: provide predictability in the long term; assure legally binding commitments; not be administratively demanding (although governance structures are still being discussed), and supplement current oda. The IFF would enable the international community to meet the global US\$50 billion MDG-funding gap, of which half - US\$25 billion - should go to Africa. The IFF is most relevant for donor countries that have not yet reached oda levels of 0.7 per cent of GDP or higher, as it would provide the necessary immediate increase alongside ongoing progress towards the target. It is impressive therefore that the Nordic countries that have already reached 0.7 per cent or higher have declared their support for the IFF.



# Recommendations on Resources

To increase the growth rate in Africa, and to make strong progress towards the Millennium Development Goals, the volume and quality of external aid to sub-Saharan Africa must change radically. Aid to sub-Saharan Africa should increase by US\$25 billion per annum over the next three to five years. This must be accompanied by a radical change in the way donors behave and deliver assistance, and by continued strong improvements in governance in African countries. We show that in these circumstances this increase in aid can be used effectively. Additional finance should be raised in various ways, including the immediate launch of the International Finance Facility.

## Aid quality

- To improve the quality of aid an annual discussion should take place between the Development Ministers of the OECD countries and African Finance Ministers, along with representatives of civil society and international organisations. This should consider aid allocation criteria and make suggestions for a better distribution, including between middle and low income countries. In countries where governance and institutions are weaker, donors should seek to provide adequate and effective flows through appropriate channels, bearing in mind the need to avoid undermining national systems and/or long-term sustainability.
- Aid should be untied, predictable, harmonised, and linked to the decision-making and budget processes of the country receiving it. The length of the commitment should be related to the purpose: for example, aid for infrastructure and public expenditure support should be committed for terms longer than aid for technical assistance.
- Aid to Africa should be mainly in the form of grants.
- The use of policy conditionality associated with external assistance should be strongly reduced. Ways of strengthening mutual accountability, and of monitoring implementation, should be put in place. The activities of the IFIs and donors should support and not undermine, institutions of accountability in African countries, for example by helping countries to strengthen international codes and standards and by avoiding heavy burdens of reporting.
- Through a new facility, donors should help African countries to address problems caused by commodity-related shocks and natural disasters.

## Aid quantity

- Aid to sub-Saharan Africa should be doubled, that is, increased by US\$25 billion per annum over the next three to five years to complement rising levels of domestic revenue arising from growth and from better governance. Following a review of progress towards the end of this period, a further US\$25 billion per annum should be provided, building on changes in the quality of aid and improvements in governance.

## Debt relief

- For poor countries in sub-Saharan Africa which need it, the objective must be 100 per cent debt cancellation as soon as possible. This must be part of a financing package for these countries to achieve the MDGs, as promised in Monterrey and Kananaskis. The key criterion should be that the money be used to deliver development, economic growth and the reduction of poverty for countries actively promoting good governance.
- Accordingly, work should begin immediately to establish a transparent debt compact to include all sub-Saharan African low-income countries, including those excluded from current schemes. It should cancel debt stock and debt service by up to 100 per cent, and cover multilateral and bilateral debt.
- As an urgent measure, financing should immediately be put in place to provide 100 per cent multilateral debt service cancellation, where this is necessary to achieve the MDGs.

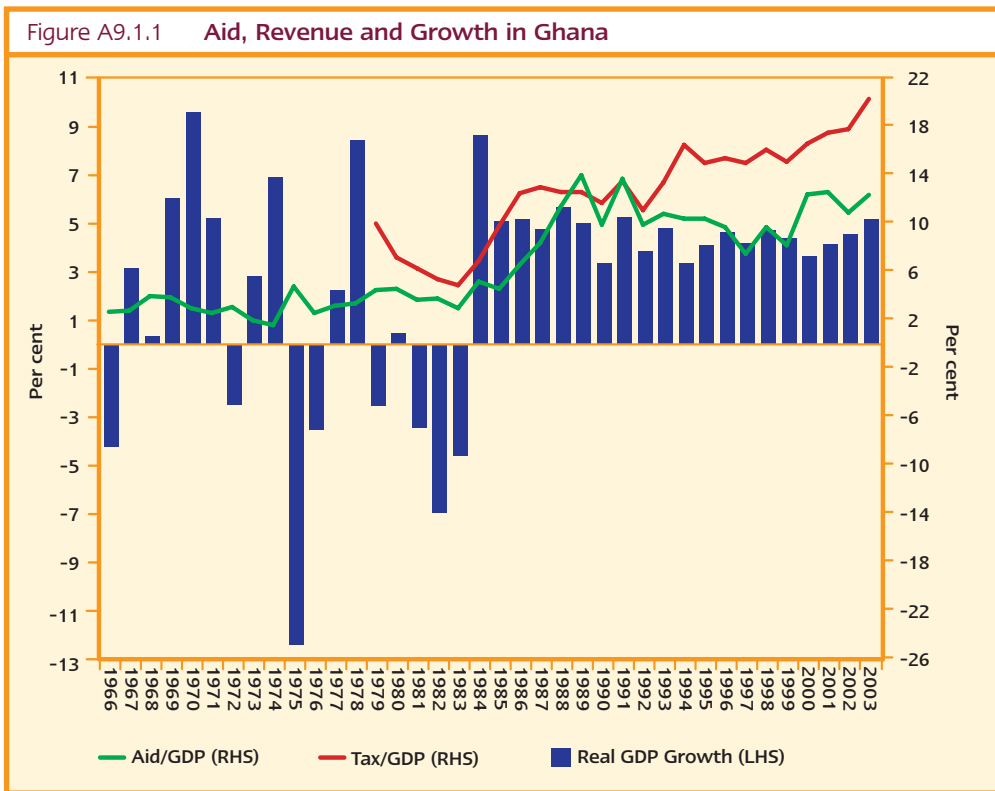
## Financing mechanisms

- Donor countries should commit immediately to their fair share of the additional US\$25 billion per annum necessary for Africa.
- Ways of financing the doubling of aid to Africa should include the immediate launch of the International Finance Facility.
- Rich countries should aim to spend 0.7 per cent of their annual income on aid, with plans specified for meeting this target.
- Further work should be undertaken to develop workable proposals for specific international levies to raise additional finance (for example from compulsory or voluntary charges on airline tickets).

# Annex 1: Scaling Up Aid to Ghana

## Recent performance and needs

1 Economic performance in Ghana since the early 1980s has been reasonably strong and stable. Figure A9.1.1 shows that average real GDP growth between 1966 and 1983 was less than one per cent, whereas between 1984 and 2003 it was 4.7 per cent, and much more stable<sup>1</sup>. It seems aid has played a crucial role in helping the Government of Ghana to bring about this turnaround.



Source: World Bank African Development Indicators, 2004

2 The results of research by Lloyd et al (2001) indicate that policy reforms implemented after 1983 served to enhance the effectiveness of aid and other public investments, and helped to increase exports<sup>2</sup>. They emphasise the important role played by aid in helping to bring about this change. Other research, using different estimation techniques find similar results: 'Aid has financed higher imports, investments and government spending and has thus made a positive contribution to growth<sup>3</sup>. An authoritative study by the World Bank also stresses the beneficial interaction between improvements in governance and higher aid flows<sup>4</sup>. Overall, poverty rates have fallen from 51.7 per cent in 1991/92 to 39.5 per cent in 1998/99. Other social indicators have also improved. For example, the proportion of rural population with access to safe water rose from 40.0 per cent in 2000 to 46.6 per cent in 2003<sup>5</sup>.

3 At the end of the 1990s, due to pressures created by the election, and adverse shocks, a fresh round of macro-stabilisation became necessary. Since then, however, progress has been good.

4 The Millennium Project needs assessment study has estimated that to reach the MDGs, US\$52 per capita in external finance would be needed by 2006, rising to US\$70 by 2015<sup>6</sup>. In terms of aid spending on MDG-related activities, this would mean more than a doubling of assistance from levels in 2002.

**Table A9.1.1: Aid, Growth and Poverty in Ghana**

|      | Real GDP growth (%) | Aid (billions 2003 US\$) | Aid/GDP (%) | Govt Revenue/GDP (%) | Govt Expenditure/GDP (%) | Govt Expenditure per capita (US\$) | Real Aid per capita (US\$) | People below poverty line (%) |
|------|---------------------|--------------------------|-------------|----------------------|--------------------------|------------------------------------|----------------------------|-------------------------------|
| 1999 | 4.4                 | 500                      | 7.9         | 16.4                 | 24.3                     | 79.9                               | 26.0                       | 39.6                          |
| 2000 | 3.7                 | 791                      | 12.1        | 17.7                 | 29.8                     | 99.7                               | 40.4                       | 37.5                          |
| 2001 | 4.2                 | 840                      | 12.3        | 18.1                 | 30.4                     | 104.2                              | 42.2                       | 35.3                          |
| 2002 | 4.6                 | 757                      | 10.6        | 18.0                 | 28.6                     | 100.8                              | 37.4                       | 33.1                          |
| 2003 | 5.2                 | 907                      | 12.1        | 18.1                 | 30.2                     | 109.5                              | 43.8                       | 30.8                          |
| 2004 | 5.0                 | 979                      | 12.4        | 18.2                 | 30.6                     | 114.2                              | 46.3                       | 28.6                          |
| 2005 | 5.0                 | 1,057                    | 12.8        | 18.3                 | 31.0                     | 119.1                              | 49.0                       | 26.6                          |
| 2006 | 5.0                 | 1,196                    | 13.7        | 18.3                 | 32.1                     | 126.7                              | 54.3                       | 24.8                          |
| 2007 | 5.0                 | 1,353                    | 14.8        | 18.4                 | 33.2                     | 135.0                              | 60.1                       | 23.1                          |
| 2008 | 5.0                 | 1,530                    | 15.9        | 18.5                 | 34.5                     | 144.0                              | 66.6                       | 21.5                          |
| 2009 | 5.0                 | 1,731                    | 17.2        | 18.6                 | 35.8                     | 153.7                              | 73.8                       | 20.0                          |
| 2010 | 5.0                 | 1,958                    | 18.5        | 18.7                 | 37.2                     | 164.3                              | 81.8                       | 18.6                          |
| 2015 | 5.0                 | 1,784                    | 13.2        | 19.1                 | 32.3                     | 164.3                              | 67.2                       | 13.0                          |
| 2020 | 5.0                 | 1,472                    | 8.5         | 19.6                 | 28.1                     | 164.3                              | 50.0                       | 9.1                           |
| 2025 | 5.0                 | 970                      | 4.4         | 20.0                 | 24.4                     | 164.3                              | 29.7                       | 6.3                           |

*Assumptions: GDP growth of 5 per cent (PRGF target), doubling aid from 2004 levels between 2006 and 2010, afterwards spending per capita remains constant. Population growth set at 2.1 per cent and elasticity of poverty with respect to GDP at -1. Aid+Government Revenue is assumed equal to Government Expenditure.*

*Source: World Bank African Development Indicators, 2004 and Commission's estimates*

5 Table A9.1.1 shows a gradual doubling of aid to Ghana from 2004 levels, between 2006 and 2010, and constant public spending per capita thereafter. From the table it should be clear that as aid declines (measured as a ratio to GDP), financing from higher domestic revenues takes over, while spending per capita remains constant.

### Feasibility of scaling up

6 Between 1993 and 2002, economic growth in Ghana averaged 4.3 per cent, and increased real GDP per capita moderately. Ghana has been subjected to significant terms-of-trade shocks during the last decade. Cocoa prices, for example, hit a 27-year low in 2000, while oil prices rose<sup>7</sup>. From 2001 onwards, the new Government has embarked on an ambitious new reform programme, and key macro-economic variables have improved significantly over the last three years<sup>8</sup>.

7 As part of the Government of Ghana (GoG) self assessment policy, a sovereign rating was conducted by Standard and Poor's. The result, published in September 2003, rated Ghana as a B+, which compared favourably with Senegal's B+ and Morocco's B rating, although it did less well against Botswana's score. In December 2004, a rating by Fitch confirmed the country's long-term sovereign ratings. This came with the following comment: "an impressive degree of macroeconomic stability has been achieved ahead of next month's elections." On current forecasts, the fiscal deficit for 2004 is expected to be 2.3 per cent of GDP, relative to the budgeted value of 1.6 per cent. Compared with previous election years, this level of deficit, both in size and variance, would seem to be much smaller<sup>9</sup>.

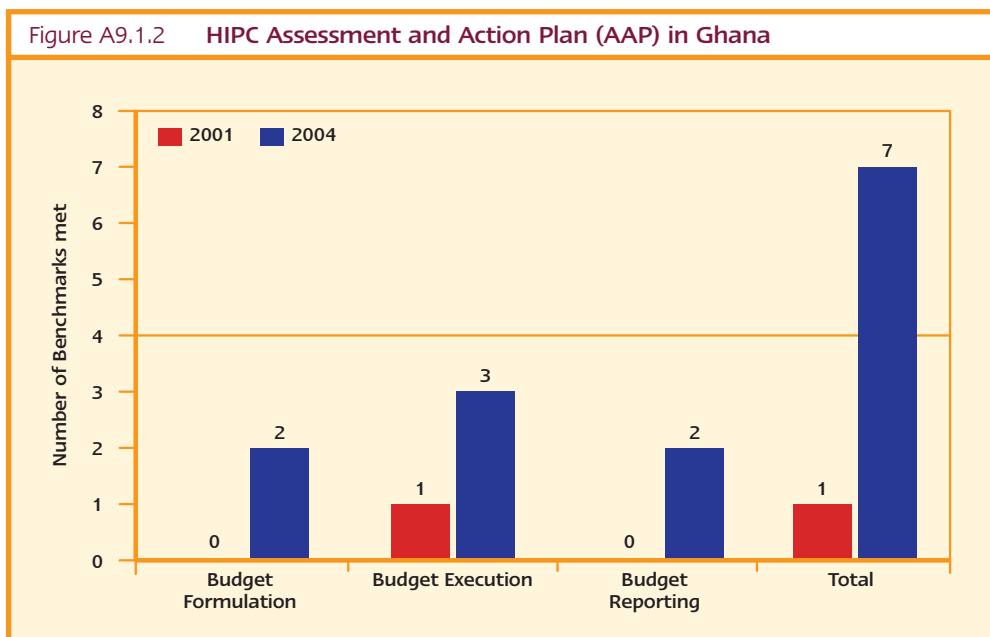
8 Although aid volumes between 1984 and 2002 have been higher than between 1966 and 1983, flows of aid have been more volatile<sup>10</sup>. For the years between 1999 and 2003, total aid disbursements ranged from a high share, at around 15 per cent GDP, to a low share of five per cent. For these years, project support seems to have been more volatile than budget support. Since the creation in 2003 of the Multi Donor Budget Support (MDBS) process, which groups together all budget support donors, budget support has become more predictable and less volatile – although the assessing period is arguably too short to make conclusive observations.

9 Nevertheless, a mutually reinforcing virtuous relationship seems to be emerging from a set of linked processes: improved macro economic and public financial management; Ghana's poverty reduction strategy; HIPC debt relief; the IMF's Poverty Reduction Growth Facility (PRGF); and the multi-donor budget support programme. It appears that the MDBS has:

- (a) led to more stable budget support flows, which has helped the GoG to improve macro-economic management, and has allowed a sharp reduction to be made in domestic borrowing – declining from five per cent of GDP in 2002 to roughly zero in the past two years. In the past, the GoG increased domestic borrowing to offset shortfalls in budget support (or terms of trade shocks) to maintain expenditure levels;
- (b) allowed authorities to increase the share of the budget devoted to poverty-reducing expenditure;
- (c) allowed more timely releases of funds to be made to the District Assembly Common Fund, the main form of transfer from the centre to districts for financing small-scale development projects;
- (d) strengthened the role of the Ministry of Finance in establishing financial and accounting controls in administering substantial HIPC and budget support funds;
- (e) encouraged more joint missions and reduced reporting burdens on government;
- (f) allowed Ghana to maintain a sustainable level of external debt having reached completion point in 2004<sup>11</sup>.

10 Ghana has made great strides in improving its Public Financial Management (PFM) System. In part, this has been the result of the GoG giving greater priority to financial management reforms, but HIPC debt relief and the MDBS processes have also been influential. The 2004 HIPC Expenditure Tracking Assessment showed that Ghana scored 7

out of 16 benchmarks, which the World Bank and IMF consider to be important for ensuring good public expenditure management (see Figure A9.1.2). Given that in a previous assessment in 2001 Ghana succeeded in scoring only one out of 15 benchmarks, the improvement achieved within a short period of time is significant<sup>12</sup>. The IMF in its 2004 Report on the Observance of Standards and Codes (ROSC) – Fiscal Transparency Module, also noted that “in recent years, Ghana has been making substantial efforts to improve fiscal transparency”, and furthermore, “Ghana already meets the standards of the fiscal transparency code in several areas<sup>13</sup>.”



Source: World Bank, IMF and Government of Ghana, 2004

11 Over the last 10 years, the aid-to-GDP ratio in Ghana averaged 10 per cent. Whilst reliance on external assistance is relatively high, it is not extraordinarily so compared with other sub-Saharan African countries. Figure A9.1.1 shows that while the tax effort in Ghana was low in the pre-1983 period, subsequent inflows of high levels of aid have not been detrimental to this. Indeed, tax revenues have risen dramatically from 4.6 per cent of GDP in 1983 to 20.8 per cent in 2003, and this was achieved despite a lowering of tax rates that occurred during the first decade of reforms. The installation of the Ghana Revenue Authority has also been critical in bringing about this evolution<sup>14</sup>.

12 High aid inflows to low-income countries could have an appreciating impact on the real exchange rate, and which might affect export competitiveness negatively. In Ghana's case, however, according to Sackey (2001), aid inflows seem to have had a depreciating effect. This has largely been possible because of the beneficial growth-enhancing impact of aid associated with improvements in the policy and general investment climate<sup>15</sup>.

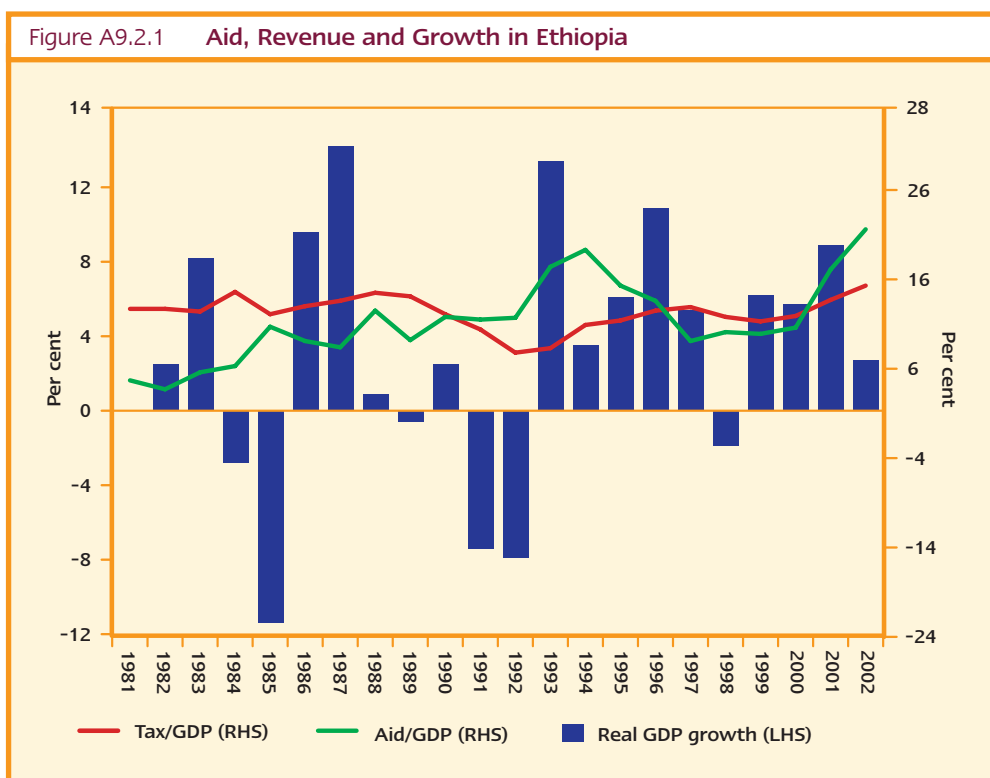
## Conclusion

13 Given favourable developments in Ghana, doubling aid to Ghana over the next three to five years would help to accelerate development, and would allow more rapid progress to be made in reaching the MDGs. The key ingredients for success appear to be: sound macro-economic and public financial management; a strong commitment to growth and poverty reduction; and better quality aid.

## Annex 2: Scaling Up Aid to Ethiopia

### Recent performance and needs

- 1 Ethiopia is one of the poorest countries in Africa and the developing world. Its population has doubled in three decades – to 67 million – and it is continuing to grow fast. Despite very good economic growth achieved in the 1990s (see Figure A9.2.1), real per capita income is barely above what it was in the 1970s; it is currently about \$110 per annum<sup>16</sup>.
- 2 The country is heavily reliant on primary commodity production and is vulnerable to extreme fluctuations in weather, terms of trade, and conflict. In 2002/03 for example, precarious food-supply conditions were made worse by the severe drought. This resulted in GDP declining by 3.8 per cent. However, growth rebounded strongly thereafter and reached 11.6 per cent in 2003/04, thus benefiting from recoveries in the agricultural sector<sup>17</sup>.
- 3 While there is potential for dynamic economic growth to be achieved, which would allow a gradual diversification away from agriculture, this potential has yet to be realised. More than 85 per cent of the population is still reliant on agriculture for a livelihood. Agricultural production also accounts for more than 40 per cent of total GDP.



Source: World Bank African Development Indicators, 2004

4 Nevertheless, over the last couple of years, progress has been encouraging. Between 1993 and 2002 economic growth was six per cent compared to 0.5 per cent in the previous decade, although it was fairly volatile during the 1990s. The aid-to-GDP ratio went up from 10 per cent in the 1980s to 12.9 per cent in the 1990s. Prospects for a significant scaling up in aid seem highly promising. It should be possible for Ethiopia to absorb a doubling in aid over the coming three to five years. The basis for this suggestion is outlined below.

5 Social progress in Ethiopia has been good. Between 1995 and 2000, estimates of poverty reduction range from one per cent to five per cent per year<sup>18</sup>. Enrolment of pupils in primary education increased by 14 per cent per annum between 1997/98 and 2000/01. The first Health Service Development Programme (1997/98 - 2001/02) doubled immunisation coverage and reduced the threat and loss of life from major infectious diseases. Finally, the first Road Sector Development Programme expanded the road network by 30 per cent<sup>19</sup>.

6 More recently, in 2002/03 real expenditure on road improvements increased by nearly 40 per cent, while public expenditure in agriculture rose by around 33 per cent. Since the end of the war with Eritrea, defence spending fell by 2.7 per cent between 2002 and 2003.

7 On current trends, it seems Ethiopia will not succeed in meeting the MDGs. Table A9.2.1 shows World Bank estimates on what it would cost to meet the MDGs<sup>20</sup>. The resource gap to reach all the MDGs would require increasing oda to 30.7 per cent of GDP<sup>21</sup>.

|                                  | <b>SDPRP Budget 2002</b> | <b>SDPRP Required 2005</b> | <b>Required to meeting MDGs 2015*</b> |
|----------------------------------|--------------------------|----------------------------|---------------------------------------|
| Poverty focused expenditure      | 19.4                     | 27                         | 38.5                                  |
| Non-poverty expenditure          | 15.2                     | 12.2                       | 12.2                                  |
| Total expenditure                | 34.6                     | 39.2                       | 50.7                                  |
| <i>of which Capital</i>          | 13.0                     | 16.0                       | 22.9                                  |
| Domestic tax and non-tax revenue | 23.0                     | 23.0                       | 23.0                                  |
| Food security (non-MDG related)  |                          |                            | 3.0                                   |
| External resource requirement    | 11.2                     | 16.2                       | 30.7                                  |

Source: Table 6 in World Bank, 2004

8 Net aid per capita in Ethiopia was US\$19 in 2002. This is smaller than the average for sub-Saharan Africa (estimated to be US\$28), and much less than amounts received by other countries such as Tanzania (US\$35), Rwanda (US\$44), or Mozambique (US\$112)<sup>22</sup>.

9 The IMF in its latest Article IV and PRGF review included a scenario in which aid might be doubled to reach the MDGs. The estimated increase in assistance is expected to be in grants in order to maintain external debt sustainability. Increased aid would reach US\$6 billion by 2015<sup>23</sup>. The additional assistance would allow poverty spending per capita to rise from US\$19.5 in 2003/04 to US\$78.4 in 2015/2016.



### Feasibility of scaling up

10 Over the last decade or so, Ethiopia's macro-economy has been stable, and its management has been good<sup>24</sup>. Aid flows have increased steadily. Such increases do not appear to have had adverse effects on export competitiveness arising from a real appreciation in the exchange rate<sup>25</sup>. If increases in aid can be utilised to ease supply-side bottlenecks, and to increase productivity, it should be possible in the medium to long term to counter any adverse effects on export competitiveness that may arise from aid-induced appreciations in the real exchange rate.

11 As for Public Expenditure Management (PEM), the latest HIPC expenditure tracking assessment survey noted that Ethiopia achieved eight benchmarks in 2004 compared to six in 2001<sup>26</sup>. A recent fiduciary risk assessment undertaken for DFID observed that: "overall, the public financial management systems of Ethiopia do not present significant or material fiduciary risk"<sup>27</sup>. Donor support for upgrading public financial management systems in Ethiopia is fairly well streamlined. Ethiopia is also scheduled to be one of the first countries to be assessed using a new co-ordinated assessment procedure that has been developed recently for a donor consortium by the Public Expenditure and Financial Accountability (PEFA) Secretariat based at the World Bank.

12 Considering the size of Ethiopia's population, and aggregate poverty levels, institutional capacity at the central government level is remarkably high. However, capacity at the sub-national level is limited (Foster, 2003). The country's poverty reduction strategy (SDPRP) emphasises the importance of decentralisation both for building capacity and for satisfactory implementation of poverty plans. The Government of Ethiopia has placed great emphasis on the need to build adequate capacity, and has established a National Capacity Building Program.

13 Ethiopia's total external debt was US\$5.9 billion at the end of 2002, of which 51 per cent was owed to multilaterals and 46 per cent to bilateral creditors. Ethiopia has reached HIPC completion point, and received significant additional ('topping up') relief in 2004<sup>28</sup>. Nonetheless, debt burdens remain significant, which is made more serious by the economy's continued vulnerability to external shocks<sup>29</sup>. To help Ethiopia manage its external debt position better, the International Financial Institutions have called on donors to support Ethiopia's reform efforts primarily in the form of grants<sup>30</sup>.

14 As Figure A9.2.1 shows, the share of taxes in GDP in Ethiopia is not low and the domestic revenue effort rose during the 1990s. Sustained flows of aid have not affected the domestic revenue effort negatively.

15 Although the quality of aid to Ethiopia, relative to other countries, is now much better, more could be done to support the government programmatically in implementing its poverty reduction strategy. The presence of a common framework for providing general budget support, and the pooling of donor funds at the sector level, raise the prospects for increasing the effectiveness of aid even further.

### Conclusion

16 The case of Ethiopia demonstrates that in an environment where peace prevails, and where authorities have worked hard in producing a robust poverty reduction strategy, it has been possible for donors to provide rising levels of good quality aid. With continued progress, prospects for a significant ramping up in aid levels seem possible, and indeed would be desirable if a serious effort is to be made at reaching the MDGs. Foster (2003) suggests that it would be realistic to double aid to Ethiopia over the next five years<sup>31</sup>. In 2002, Ethiopia received US\$1.3 billion in foreign aid. Re-allocating aid to Ethiopia using IDA's current performance-based criteria would imply an increase of roughly US\$ one billion.

# Annex 3: Scaling Up Aid to Mali

## Recent performance and needs

### GDP averaged 5.5 per cent in 1996-2002

1 Mali is a landlocked country that is democratically governed. It is heavily dependent on producing and exporting primary products, and is the largest producer of cotton in sub-Saharan Africa. The economy is vulnerable to exogenous shocks. Nonetheless, economic progress has been good: average real GDP growth was 5.5 per cent per annum between 1996 and 2002 and GDP per capita rose by 2.7 per cent each year (Figure A9.3.1). Growth accelerated to 6.1 per cent in 2003 which benefited from bumper harvests of cotton and cereals (including rice)<sup>32</sup>. Given the political crisis in Côte d'Ivoire, Mali's main economic and regional trading partner, the strong economic performance in Mali is indeed noteworthy.

2 Mali's mining sector has also developed over the past five years. Gold production more than doubled in 2001, and gold exports are now the largest source of foreign exchange earnings. Mining and investment codes have been revised and the country has attracted significant foreign interest since gaining preferential access to US markets under the African Growth and Opportunity Act (AGOA). Mali's production capacity in textiles is expected to double by 2005 due to higher foreign and domestic investment. Oil companies were granted exploration permits in 2004.

### Some MDGs – especially education – could be reached by 2015

3 Despite solid economic growth, social indicators reveal a range of problems: in 2002, 64 per cent of the population was estimated to be living below the poverty line; life expectancy at birth was 52 years; infant mortality was 113 per 1,000 live births; and the adult illiteracy rate was 55 per cent. With existing policies, Mali could reach at least one target in each of the MDG categories (poverty, education, health and environment). But with better policies, all poverty and education targets could be met by 2015<sup>33</sup>.

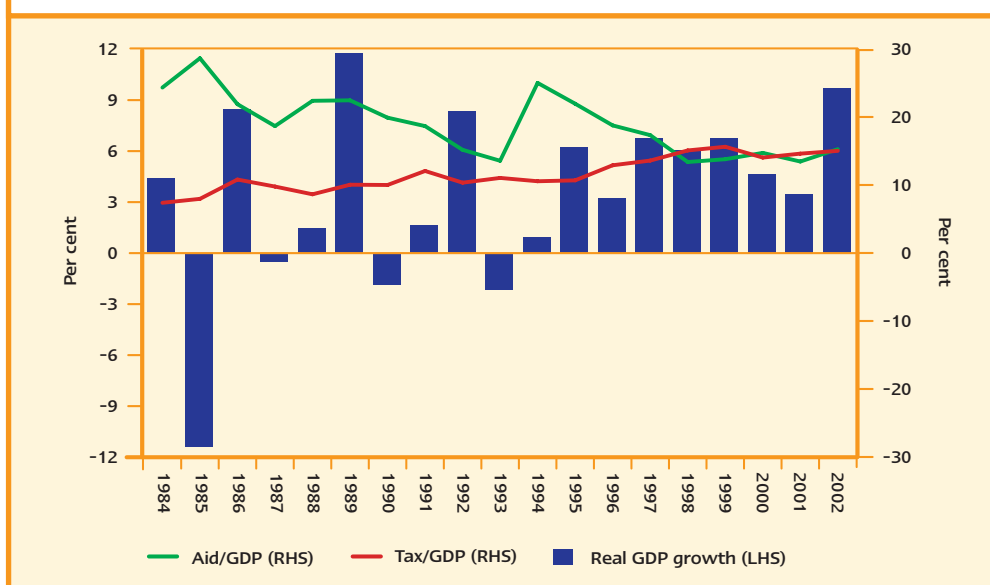
4 Mali's poverty reduction strategy paper (PRSP), which was completed in May 2002, highlights resource requirements to 2005 and sets out priorities under three pillars:

- institutional development and improvement in governance and participation;
- sustainable human development and improved access to basic social services;
- development of basic infrastructure and support to productive sectors.

5 The PRSP annual progress report, released in July 2004, indicated some improvements in the education and health sectors. Health coverage rose from 41 per cent in 2001 to 44 per cent in 2004, and the overall gross enrolment rate in primary schools rose from 58.1 per cent in 2000 to 64.3 per cent in 2004. The share of recurrent expenditures in health and education in the central government's budget also increased between 2001 and 2003, from 27.0 per cent to 30.3 per cent for education, and from 10.0 per cent to 10.8 per cent for health.

6 As illustrated in Table A9.3.1, projections for financing PRSP-related objectives over the 2002-05 period are based on assuming increases in internal financing from mobilising domestic resources (by 10 per cent a year). External financing is set to contribute an average of 38.5 per cent of the total financing needs, estimated at CFAfr2.7 billion (US\$5.3 billion)<sup>34</sup>.

Figure A9.3.1 Aid Revenue and Growth in Mali



Source: World Bank African Development Indicators, 2002

Table A9.3.1: External and Internal Financing of Mali's PRSP (US\$ million)

|                                 | 2002         | 2003         | 2004         | 2005         | 2002-05      |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Programmed external financing   | 349          | 392          | 401          | 410          | 1,552        |
| Additional external financing   | 88           | 126          | 131          | 145          | 490          |
| <b>Total external financing</b> | <b>437</b>   | <b>519</b>   | <b>532</b>   | <b>555</b>   | <b>2,043</b> |
| Tax revenue                     | 648          | 718          | 804          | 898          | 3,068        |
| Non-tax revenue                 | 47           | 47           | 47           | 47           | 189          |
| <b>Total internal financing</b> | <b>695</b>   | <b>765</b>   | <b>851</b>   | <b>946</b>   | <b>3,257</b> |
| <b>Total financing</b>          | <b>1,133</b> | <b>1,284</b> | <b>1,383</b> | <b>1,500</b> | <b>5,300</b> |
| Total external financing (%)    | 39%          | 40%          | 39%          | 37%          | 39%          |
| Total domestic financing (%)    | 61%          | 60%          | 62%          | 63%          | 62%          |

\*Note: exchange rate used is CFA fr 510 = US\$1

Source: Government of Mali, 2002

### Donors have pledged US\$2.4bn for the 2004-07 period

7 Aid resources are crucial for Mali. Net ODA inflows in 2002 were US\$472m, representing 15.3 per cent of the country's GDP. In March 2004, a donor roundtable meeting of donors – the first since 1998 – renewed commitments in support of the PRSP. A total of US\$2.4 billion was pledged for the 2005-2008 period.

8 Good progress has been made in implementing donor programmes, especially in road building. Mali has received significant assistance for the construction of the Bamako-Senegal road axis, which is one of NEPAD's short-term infrastructure projects. Several sections of this road-building exercise have been completed.

9 Mali reached completion point under the enhanced HIPC initiative in February 2003. This provided a debt relief package totalling US\$675 million. As a result, approximately CFAfr30-40 billion of domestic resources have been freed up annually for spending in priority poverty-related sectors.

## **Feasibility of scaling up**

### **Public sector performance has improved**

10 Under a UNDP initiative, Mali received its first credit rating in 2004. Standard & Poor's assigned Mali a B rating. Budgetary discipline has been maintained, and macro-economic management has been considered sound by the IMF<sup>35</sup>. The budget deficit declined from 3.7 per cent of GDP in 2002 to 0.7 per cent of GDP in 2003. Total revenue receipts increased by 17 per cent to reach 21.4 per cent of GDP in 2003 as a result of more effective revenue collection. Grants also increased significantly to CFAfr112.4 billion, representing 21 per cent of total receipts. On the expenditure side, capital outlays were lower than expected, valued at CFAfr201.6 billion, while recurrent expenditure increased moderately by 2.5 per cent, reflecting a government commitment to control non-essential expenditures.

11 Mali's membership to the CFA franc zone has also helped to maintain fiscal discipline. Direct government borrowing is restricted to less than 20 per cent of the previous year's receipts (direct advance by the regional central bank have now been substituted for treasury bills) and the UEMOA has also set up a number of performance convergence criteria, which member countries are required to adhere to. These include: moving towards a balanced budget; controlling the build-up of domestic and/or external arrears; reducing total public debt to less than 70 per cent of GDP; keeping the wage bill at less than 35 per cent of revenue; funding at least 20 per cent of the government's share of public investments from fiscal receipts; and increasing fiscal receipts to at least 17 per cent of GDP.

12 Mali reached all but one of the UEMOA targets in 2003. Ongoing fiscal reforms have continued to focus on boosting domestic tax efforts (VAT was introduced in April 1999) and improving customs administration. Total tax revenue as a percentage of GDP has increased significantly over the last decade, from 10.6 per cent of GDP in 1994 to 15.0 per cent in 2002. The government is also committed to increasing the allocation of expenditures towards priority sectors.

13 Fighting corruption has also remained one of the main priorities of the Malian Government. In its 2003 report, the anti-corruption watchdog Transparency International (TI) reviewed the perceived level of corruption in Mali for the first time. Mali scored 3.0 out of 10 (in a range of scores where zero represents 'completely corrupt' and 10 'uncorrupt'), and it was ranked 78th out of the 133 countries surveyed (neighbouring Côte d'Ivoire ranked 118th).

### **Implementation capacity is increasing**

14 The Government of Mali has also made significant progress in implementing measures to improve its capacity for supporting development and poverty reduction efforts more effectively<sup>36</sup>.

15 In planning, the Government of Mali introduced a new budget classification in April 2003, in line with UEMOA requirements. This allows for more transparency in the government's medium-term spending plans. A Medium-Term Expenditures Framework for the education and health sectors has also been adopted.

16 Mali's decentralisation programme has made great progress since being launched in the late 1990s. Local elections were held in 2004, and legislation was adopted for transferring decision-making responsibility in health, education and water to local governments. Regional offices of central government ministries have been reinforced to assist local authorities in taking over new responsibilities, and 46 support centres have been set up to assist local authorities in technical and financial matters.

17 Whilst progress in implementing the PRSP has been good, some weaknesses have been highlighted. These include delays in implementing a monitoring and evaluation mechanism; weak links between the government's budget programmes and PRSP objectives; and a lack of co-ordination between central and local government sectoral programmes.

### **Donor co-ordination has increased**

18 Mali is a pilot country of an OECD-DAC exercise to improve aid effectiveness. In 1998, the government established a joint commission to steer the implementation of the aid reform process<sup>37</sup>. Its first review, released in 1999, indicated a lack of aid co-ordination and lack of aid effectiveness. Progress has been evident since then, and largely due to the adoption of the PRSP approach<sup>38</sup>.

19 As part of the PRSP process, the government holds regular meetings with major donors under the auspices of the Mali-Partners Joint Committee. Bilateral and multilateral donors also co-ordinate activities on a monthly basis. Noteworthy improvements are evident in education and health. For example, in the education sector a mechanism for pooling finance has been set up with the World Bank as lead donor. Although the bulk of donors' assistance is project-based, several donors have started to provide budget support as part of the aid-reform process. In 2004, five bilateral and multilateral donors contributed CFAfr33.4 billion to the Government's budget (EU CFAfr14,5 billion; Holland 5.4; Sweden 3.6; France 2.3; Netherlands 7.6).

### **Conclusion**

20 The pattern of foreign aid to Mali has not changed much since the mid-1990s. On average it has been US\$421 million per year – equivalent to 16 per cent of GDP. Given improvements in policies and institutions, a strong government commitment to reduce poverty and to meet the MDGs, and a shift towards better aid practices recently, Mali is now better poised for a significant increase in assistance. Good progress in implementing the PRSP are further grounds for expecting that increases in aid will be productively utilised. The growing confidence in Mali is reflected in renewed pledges made by donors at the Geneva roundtable meeting in May 2004, which is expected to generate annual ODA inflows of US\$800 million per annum, i.e. roughly double the amount that Mali currently receives.

# Annex 4: Allocating Development Assistance for Poverty Reduction

1 Donors should allocate development assistance to support countries' longer-term poverty reduction strategies and – based on an annual assessment of performance and development potential – allocate resources selectively using varied instruments of support. Although a useful measure of a country's policy and institutional environment, the World Bank's Country Policy and Institutional Assessment (CPIA) needs to ensure its criteria are objective, and that its methodology for scoring countries is clear, fair, and transparent.

2 To ensure that a wider range of African countries receive international assistance, and of the right kind, the AU/NEPAD, and UN agencies should play a bigger role in guiding aid allocation decisions and in recommending better criteria for selecting countries. A mechanism is required for ensuring a broader range of countries receive appropriate levels of aid and the right kind of assistance. This should allow African countries to play a bigger role in shaping aid allocation decisions and in recommending appropriate criteria.

3 In Chapter 9 we recommend creating an annual dialogue between the Development Ministers of the OECD countries and African Finance Ministers, along with representatives of civil society and international organisations to consider aid allocation criteria and to make suggestions for a better distribution. This could provide a regional forum for discussing a range of supporting actions that the international community should take, including the volume and the form of finance. (An extension of the ECA's 'Big Table' meetings could provide a possible model for achieving this).

## Supporting argument and evidence

4 Multilateral and bilateral donors allocate development assistance to low income countries using a variety of criteria: country policy and institutional performance (e.g. World Bank and some bilateral donors); historic links (most bilaterals); prevalence of poverty in country (IDA and bilateral donors); political influence (some bilaterals); and commercial interest (some bilaterals)<sup>39</sup>. In recent years, donors have been shifting the allocation of aid to countries where it can be used more effectively (better policies and institutions) and where poverty can be reduced the most<sup>40</sup>. Multilateral aid agencies have been more successful in making this shift. The US – through its Millennium Challenge Account – has gone the furthest in setting out a transparent set of criteria for qualifying countries.

5 The World Bank's CPIA process, whilst having many merits – in that various performance and institutional criteria are considered in assessing how much World Bank assistance developing countries should receive – has been criticised by developing countries and NGOs for not being inclusive, for its non-transparent process, and for its bias against measuring outputs and outcomes<sup>41</sup>.

6 While welcome for being less arbitrary, the emphasis on strong institutions and good policies in the allocation of aid, has in practice tended to under-provide assistance to countries that have weaker and less stable institutions (including post-conflict), of which the bulk are in Africa<sup>42</sup>. Compared to the average range of developing countries, countries with weaker and less stable institutions also face bigger development challenges, notably in health, sanitation, child immunisation, malaria, and access to drinking water.

7 Analysis undertaken for the OECD/DAC shows that countries with weaker and less stable institutions are: (a) recipients of comparatively less aid; (b) more neglected than

others, even within the same group; and (c) recipients of relatively more volatile aid flows. The current aid architecture seems to favour some countries – the donor 'darlings' – and to neglect others, the donor 'orphans'. Given that countries with weak capacity require external assistance for a longer period of time (owing to longer maturation times for producing results and for generating net-positive income streams), the relative under-financing of donor 'orphans' requires urgent correction.

8 Assistance to countries should not only take account of past performance in strengthening policies and institutions, but also consider development prospects. This call came strongly from the meeting of African Finance Ministers in Abuja in November 2004<sup>13</sup>. As discussed elsewhere in our report, there are many interventions that can be implemented in the short-term (and through various providers), which would help to improve the lives of poor people across a range of situations in Africa.

9 In order to ensure a fair and better-informed process for allocating assistance in Africa, key representatives of African countries should have a bigger role in the aid allocation process. As Chapter 10 shows, the present aid architecture allows very little space for African countries to shape aid allocation patterns and to influence the activities of the IFIs in Africa. A forum, in which senior representatives of the AU/NEPAD, African governments, civil society, international organisations and OECD/DAC donors participate, should go a long way towards correcting the current bias. This process might build on the 'Big Table' meetings initiated by the ECA.

10 Country selectivity should be influenced by clear transparent criteria and be endorsed broadly by international donors, the UN, and receiving countries. Financing priorities for countries should vary: for some, it will mean more emphasis on ensuring enduring peace and security; for others it will mean trying to achieve a quick turnaround in prospects and preparing better the conditions for receiving more longer-term development finance; and for others still, it will mean providing harmonised finance that is better aligned to budgets and in support of strong poverty reduction strategies.

## Annex 5: Detailed Breakdown of the Commission's Recommendations

1 Table A9.5.1 shows what it would cost to implement all of the Commission's recommendations. This is a more detailed version of Table 9.2a in Chapter 9, and provides a breakdown of costs by sub-sector.

2 It should be noted that these estimates of costs are calculated for the year 2010, the last year of our proposed stage one. Whereas new priorities will undoubtedly emerge by then, we also anticipate some savings. For example, the Polio Eradication programme has an expected funding gap of US\$0.6 billion over the next four years. If this is filled, and a programme is subsequently implemented, then the chances are that polio could be eradicated by 2008. In this case, the required amount of finance for this programme in 2010 will be nil (hence, in the table below, we show a US\$0 billion entry against polio eradication).

3 Most estimates are drawn from publications, and/or discussions held with individuals from specialist institutions, and which have undertaken comprehensive assessments of specific costs; for example, by the AU/NEPAD, the World Bank, UNICEF, the ILO, WHO, UNAIDS, etc.

4 We should emphasise that the recommendations, and the detailed sectoral breakdown of costs shown in the table below, should be regarded as an indication of what might be implemented. They are not firm estimates of sectoral plans for Africa. Actual programmes and projects will be generated from country and regional strategies and initiatives. However, there is a logic to our recommendations; for if implemented as an integrated whole, the package should deliver progress on an accelerated basis, which would not be possible if implementation was piecemeal. From this perspective, Table A9.5.1 allows an overall estimate of expenditure to be formed.



Table A9.5.1: **Costings of the Commission's Recommendations – Taking No Account of Constraints of Absorptive Capacity\***

|   | Resource Estimates<br>for 2010 (US\$ billion) |
|---|---|
| <b>Governance (Chapter 4)</b>   | <b>2.6</b>                                    |
| - APRM trust fund   | 0.01  |
| - AU Institutional Transformation Program   | 0.02  |
| - Programme costs for AU (excl. Peace & Security)   | 0.02  |
| - Improve statistical systems   | 0.06  |
| - Higher education  | 0.50  |
| - Science & technology (Centres of Excellence)  | 2.00  |
| <b>Peace and Security (Chapter 5)**</b>   | <b>1.7</b>                                    |
| - Arms control  | 0.04  |
| - UN peacebuilding fund   | 0.25  |
| - Expand World Bank Post-Conflict Reconstruction Trust Fund   | 0.06  |
| - Clearing arrears for post-conflict countries  | 1.00  |
| - AU Peace Fund   | 0.30  |
| <b>HIV and AIDS (Chapter 6)</b>   | <b>10.0</b>                                   |
| <b>Education (Chapter 6)</b>  | <b>7.5</b>                                    |
| - Primary education (incl. through FTI)   | 3.75  |
| - Secondary education   | 3.75  |
| - Extra for curriculum development  | 0.04  |
| <b>Health (Chapter 6)</b>   | <b>19.6</b>                                   |
| - WHO/NEPAD health systems strengthening  | 1.50  |
| - Human resources   | 5.00  |
| - GAVI  | 0.50  |
| - Polio eradication   | 0.00  |
| - Malaria and HIV and AIDS vaccine development  | 1.00  |
| - Sexual and reproductive health services   | 0.29  |
| - Programmes against parasitic and infectious debilitating and blinding diseases and micronutrients | 0.30  |
| - 'Tuberculosis and HIV and AIDS linkages' program  | 0.25  |
| - Commission for Macroeconomics and Health basic health package                                     | 10.58   |
| - Protection against vitamin and mineral deficiency   | 0.14  |
| <b>Social Inclusion (Chapter 6)</b>   | <b>4.0</b>                                    |
| <b>Growth (Chapter 7)</b>   | <b>20.1</b>                                   |
| - Infrastructure (incl. irrigation, water, sanitation, slum upgrading, transport, power)            | 20.00   |
| - Investment Climate Facility   | 0.08  |
| - MIGA  | 0.02  |
| - Africa Enterprise Challenge Fund  | 0.01  |
| - Youth Employment Network  | 0.01  |
| - Growing Sustainable Business Initiative   | 0.004   |
| <b>Environment (Chapter 7)</b>  | <b>0.01</b>                                   |
| <b>Trade (Chapter 8)</b>  | <b>0.1</b>                                    |
| - Meeting sanitary and phytosanitary standards  | 0.07  |
| - Improve productive capacity   | 0.02  |
| - Trade facilitation (inc. customs reform)  | 0.004   |
| <b>Mitigation of Shocks (Chapter 9)</b>   | <b>3.8</b>                                    |
| <b>Contingency Funding</b>  | <b>5.6</b>                                    |
| <b>TOTAL</b>  | <b>75.0</b>                                   |

\* It should be noted that certain sectoral external financing exercises already make some assumptions on domestic resources.

\*\* Peace & Security estimates are examples of possible activities and are NOT based on a 'full sector needs assessment'

Source: Commission's estimates

# Annex 6: The Productive Absorption of Additional Aid to Africa

## The definition and determinants of aid absorption and effectiveness

1 Despite glaring needs across Africa, there is a limit to the number of roads, dams, schools, and clinics that can be built and serviced effectively in any one year. For example, the required number of technical experts and managers to plan and budget extra finance may not be available to make productive use of the resources.

2 The extent to which resources can be productively absorbed into economies is circumscribed by macro-economic, institutional, physical, human, social, cultural and political factors. As shown in Table A9.6.1, their interaction at different levels of the country context could either constrain resource absorption, or lift it, depending on policy and the behaviour of key actors, notably recipient-country governments and external donors<sup>44</sup>. Thus at any one moment, increases in aid will yield diminishing returns as the limits of capacity constraints make their effects felt.

Table A9.6.1: **Constraints to Absorption of Additional External Resources**

|  | Macro   | Institutional  | Physical and human  | Social/cultural/political   |
|--|---|--|---|---|
| <b>Macro/National government</b>             | Fiscal and debt sustainability, competitiveness, Dutch disease. | Monetary and fiscal policy instruments. Exchange rate management.  | Administrative, management, and planning skills, trained technicians, sector specialists. | Stable national political institutions, power-sharing mechanisms, social stability. |
| <b>Allocative instruments and mechanisms</b> | Inter-governmental fiscal relations.                            | Public expenditure management (PEM) (budget preparation/execution, accounting, treasury, audit, etc.). Administrative capacity. Legal framework. | Sector management skills. Connectivity and communications networks.                       | Power sharing mechanisms and institutions.  |
| <b>Service delivery/ Local government</b>    |   | Local government institutions, private sector capacity.  | Road accessibility, water control, geography. Local government skills and capacity.       | Cultural norms, ethnic, caste, class, and household demand. Local power structures. |

Source: reproduced from World Bank, 2004:25

3 The term 'absorptive capacity' is generally used as short-hand to capture this issue, which – all other things being equal – is especially acute in very poor countries. Depending on the policy and institutional environment, recent literature shows aid can be effective in contributing to growth and poverty reduction, and in helping countries to address evident capacity constraints<sup>45</sup>.

4 The efficiency and effectiveness of aid to poor countries depends on three key factors: how much is provided; how well it is delivered by donors, and in what form; and how productively it is used in the recipient country in pursuit of human development, economic growth and poverty reduction. There is evidence showing that the effectiveness of aid has increased in recent years. This is because, unlike 15-20 years ago, policies and governance in African countries have improved. An increasing proportion of aid has also been going to countries where poverty is relatively high and where prospects for economic development are better (based on assessing the quality of the policy and institutional environment). The switch in assistance to areas where it is more effective is more pronounced within IDA than it is among bilateral donors<sup>46</sup>. There have also been improvements in the quality of aid.

5 Evidence suggests that there is a virtuous circle of mutually reinforcing actions which donors and governments can take in making aid more efficient and effective. This requires donors to provide better quality aid, which in practice means adjusting donor procedures and processes to suit recipient-country circumstances better. It also requires aid-receiving governments to create a more conducive governance and institutional environment for attracting more resources for public and private investment.

6 Based on current knowledge (see below) it seems that aid works best if:

(a) it is targeted to suit circumstance, reduce poverty and meet specific needs, thus:

- i. promoting peace and security, and delivering essential services to communities emerging from conflict and/or years of neglect;
- ii. supporting countries with more and better quality assistance, where governance and public accountability demonstrably show signs of improvement;

(b) its quality is improved in ways that:

- i. reduce recipient countries' burdens in managing aid relationships;
- ii. advance alignment with national priorities and support the upgrading of existing systems;
- iii. improve predictability and flexibility to resource-constrained governments and enable them to push ahead with key reforms and raise public expenditure;

(c) it is provided to support change:

- i. enabling recipient-governments to implement reforms that improve governance and accountability systems (e.g. better budgeting, public sector management and procurement, service delivery, monitoring and reporting); and
- ii. encouraging investment and reducing business risks, promoting human development and increasing poverty-reducing public expenditure.

### **Evidence suggests that with improving country conditions aid absorption can be much higher**

7 Recent work shows that aid is effective in a range of situations. Absorption of larger quantities of aid is more likely where policy environments are better and/or improving. In such situations, an extra one percentage point's worth of aid (relative to GDP) would on average increase the rate of economic growth in one year by 0.6 percentage points. In policy environments that are neither exceptionally good nor bad, a marginal increase in aid can generate 0.4 per cent of extra economic growth; and in worse policy environments, the same effect is possible, although its impact is less strong as it generates an additional 0.2 per cent of growth<sup>47</sup>.

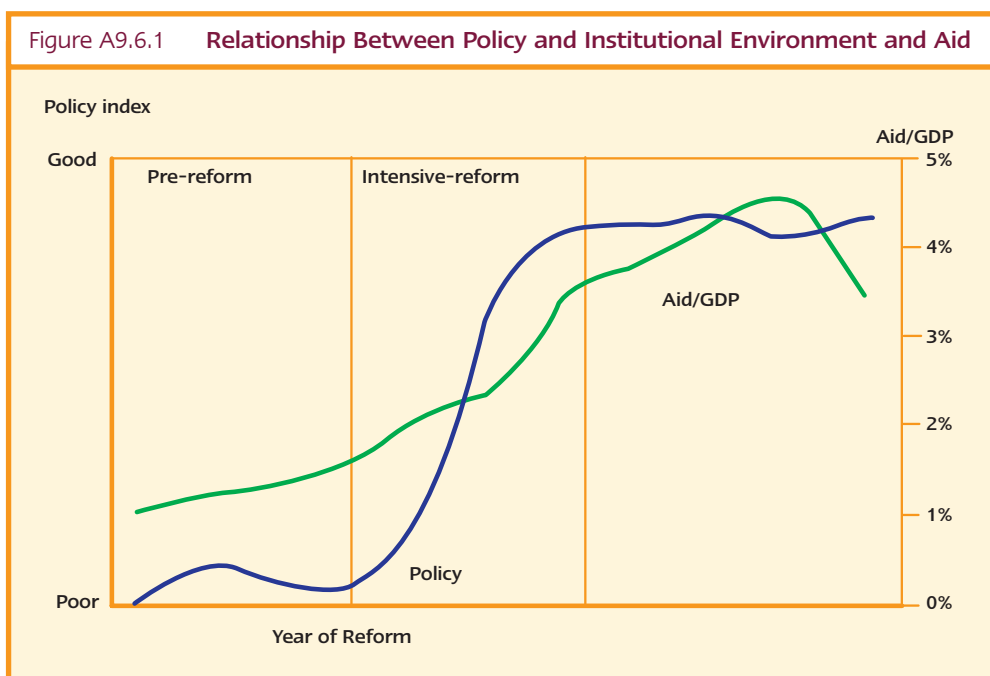
8 While research shows that aid is effective in all policy environments, it seems there are diminishing marginal returns to aid. This implies that the productive absorption of aid is not boundless. Beyond a certain proportion of GDP, depending on context, diminishing returns will set in as aid flows are increased, and will eventually generate negative returns<sup>48</sup>.

9 Recent work by Clemens, Radelet and Bhavnani (henceforth CRB) of the Centre for Global Development, distinguishes the effects of different types of aid on economic growth<sup>49</sup>. The growth-enhancing effects of some types of assistance (which CRB term 'short-impact aid' because its effects on growth materialise over four to five years), is found to be much higher than is observed with other forms of aid (e.g. long-term Technical Assistance). 'Short-impact aid' (SIA) includes: balance of payments and budget support, and aid investments in public utilities, roads, transport, finance, energy, agriculture and industry. These and other forms of aid benefit human development directly by allowing governments to improve the level and quality of public services – in education, health, and social protection.

10 Within the range of CRB's estimation there is a positive but declining effect on the growth rate. The strong effect on growth is evident throughout the range of observations. As CRB indicate, however, the quality of policies and institutions affect the strength of the link between short-impact aid and growth, although the relationship is less sensitive than what other studies have found.

11 Beyond considerations of economic growth, aid to resource-constrained governments is provided to improve health, education and social outcomes, and for alleviating poverty directly. As Table A9.6.1 indicates, while the absorption of aid for improving human development outcomes can be constrained by many factors, in the short term, institutional and technical factors are more likely to inhibit rapid increases. With improvements in governance and the investment climate, a sustained and significant scaling up in aid across African countries should be possible.

12 The relationship between the policy and institutional environment and aid is complex, as shown in Figure A9.6.1, which maps the link between the amount of aid provided in three countries that have implemented reforms successfully: Vietnam, Ghana, and Uganda<sup>50</sup>. The figure shows when country conditions were weaker, donors provided relatively small amounts of assistance. Once reforms got under way, the amount of external assistance increased in support of these, which also served to demonstrate to citizens the benefits of implementing reforms.



Source: Collier and Dollar, 2004<sup>50</sup>

13 In many African countries, sharply scaled up programmatic assistance has followed moments when relatively small amounts of aid were provided by donors in the form of technical assistance and policy advice. A rapid rise in assistance to a range of countries, and in the form of sector and general programme aid and budget support, only became possible once governments committed themselves to implementing a sweeping programme of reforms. In countries where governance and public accountability is weak, where there might be differences in policy perspectives, and where conditions are less propitious for receiving large amounts of programmatic aid, recent work shows donors can ramp up assistance and provide it in ways which promote sustainable development (see below).

#### **Evidence suggests that with improved donor actions the absorption and effectiveness of aid can increase**

14 The terms and conditions by which donors provide aid makes a big difference to how well aid is absorbed and used. Better quality aid is aid that is: (a) aligned to country policies and strategies for reducing poverty; (b) making use of and supporting national systems; (c) co-ordinated and harmonised with other donors; (d) provided predictably over the longer term, and (e) not disruptive of annual budgeting practices.

15 Research shows that the better the quality of aid provided, the more likely it is that it will go towards supporting effective policy-making and promote better governance and accountability to domestic citizens. In turn, resulting shifts in the institutional environment will make it more possible for additional aid to be absorbed. Better quality aid allows virtuous circles to develop in countries: initially more (and better) aid is supplied; this is then absorbed productively; and eventually, reliance on aid declines as sustained growth kicks in and internally-generated revenues displace external assistance (e.g. as is demonstrated by Botswana's successful management of its natural-resource advantage).

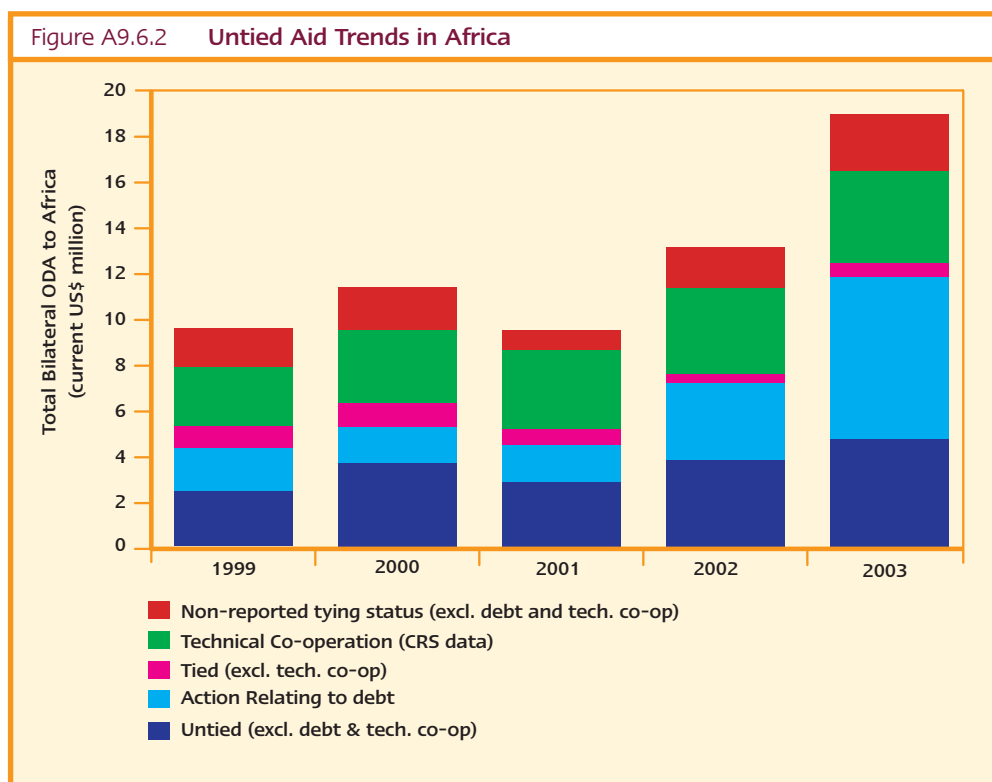
16 Without aid practices improving significantly from what they currently are, it would not be advisable to increase aid flows substantially. Relative to other regions of the world, sub-Saharan Africa receives much lower quality aid, and has done so for almost thirty years. According to Elbadawi and Gelb (2003:53), if the quality of aid to sub-Saharan Africa were to improve to levels common in other developing regions (a step improvement of 24 per cent), per capita GDP growth in sub-Saharan Africa would rise by about 1.8 per cent per annum. Enhanced absorption of aid would be possible if better quality aid reduced the burden of transactions costs on governments, if it reduced significantly levels of public debt and provided flexible on-budget programme resources, and if it substituted for Technical Assistance which – relative to other developing country regions – is supplied in higher proportions to sub-Saharan Africa<sup>51</sup>.

17 Studies show that aid is especially effective when it backs national priorities and endeavours, and in ways that: (a) enhance the use of local knowledge; (b) strengthen existing systems (such as budgeting, monitoring and accounting, procurement, auditing); (c) enable authorities to make better policy decisions, and; (d) promote accountability to citizens<sup>52</sup>. Good practice guidelines on aid effectiveness produced by the OECD therefore recommend that donors should: (a) reduce the burden of transactions they place on already stretched governments; (b) channel assistance in ways that do not undermine public decision-making; (c) strengthen local systems, and; (d) conduct business so that government accountability to citizens is promoted.

18 When aid is 'tied', it comes with the instruction to recipient countries that the assistance provided is used for purchasing goods and services from the donating country. Since the 1960s, the OECD/DAC has declared aid tying to be ineffective and inefficient, because it constrains recipient governments to following priorities that are set by donors and requires them to purchase goods and services from donor countries supplying the assistance at prices that are often above those prevailing in world markets. Tied aid undermines national ownership. As Chapter 4 suggests, tied aid weakens decision-making, by-passes local governance and accountability systems and delays public-sector reforms. Thus, the extent to which aid is tied is commonly regarded as a key indicator of aid effectiveness. Developing countries have consistently opposed the tying of aid, and have recently renewed their call for untying<sup>53</sup>.

19 Recent estimates show the tying of aid raises average costs to recipients by 15 - 30 per cent, and more than 40 per cent in the case of food aid. Assuming average costs of aid tying are in the range of 20-30 per cent, the OECD estimate that in 2002, tied aid reduced the actual value of bilateral oda to Africa by US\$0.7 to US\$1.3 billion. This is a conservative approximation, as the indirect costs of aid tying are not considered, i.e. those arising from higher transactions costs through parallel procurement and monitoring and evaluation procedures stipulated by donors. The benefits of untying aid are not just limited to issues of capacity development and performance improvements in the public sector. Studies show aid untying stimulates the private sector by enhancing competition. It also allows more technical choices to be made that are more suitable to the countries' resource endowments and levels of technological development.

20 Although the benefits of untying are known, progress by donors in reforming practice is still slow. As Figure A9.6.2 shows, while untied aid to Africa increased between 1999 and 2003, both in value and as a share of total aid, the change towards untying is more apparent because of the inclusion of debt relief, which is not tied. Moreover, the tying status of between 30-50 per cent of aid to Africa is not known because of unclear and inconsistent reporting by donors<sup>54</sup>.



Source: ECA and OECD/DAC, 2005

21 Evidence commissioned by the OECD/DAC shows that in countries where states are perceived as being fragile, of which many are in sub-Saharan Africa, donors provided as much as 43 per cent less aid between 1992 and 2002 than the level that these countries' performance ratings (CPIA) suggested might have been possible to absorb<sup>55</sup>. In this sense, these countries have been significantly under-aided, which could be corrected if donors adopted more innovative approaches in supporting reforms in such environments (including better co-ordination). Analysis also shows that aid receipts by fragile states are twice as volatile as those to other low-income countries. The relative neglect of these countries by the international community is costly, not least because it is estimated that countries neighbouring fragile states bear annual losses in the order of 1.6 per cent of GDP<sup>56</sup>. Countries with weaker and less stable institutions, for example those emerging from conflict, also face bigger development challenges, notably in health and sanitation, child immunisation, malaria, and access to drinking water.

22 Sweeping and substantial changes in donor practices would enable more aid to be absorbed, and more effectively. For poor countries the benefits of better aid are considerable. Improvements could lead to:

- stronger country ownership of development policies and programmes and backed by donors;
- a rise in per capita GDP growth, by about 1.8 per cent if Africa were to receive the same quality of aid as that supplied to other developing regions;
- reduced donor fragmentation leading to less transactions costs to recipients by eliminating bad practices (e.g. of numerous parallel donor procedures and practices, multiple and unco-ordinated missions, unpredictable disbursements);

- (d) increases in the value of aid to recipients by 20-30 per cent on average from untying aid (which in 2002 would have amounted to roughly US\$0.7-1.3 billion as extra oda to Africa);
- (e) changing the emphasis in accountability towards citizens in aid-receiving countries, rather than primarily to donors; and
- (f) a better global allocation of aid so that currently 'under-aided' countries can receive the assistance required to turn fortunes around strongly and to make better economic and social progress, and thus reduce spill over costs on neighbouring countries.

## **Practices in Africa are improving but progress could be accelerated**

23 Recent experience shows that partner countries and donors can work together better towards increasing aid levels, improving the effectiveness of donor assistance, and implementing poverty reduction strategies more effectively. In many countries aid practices are changing. Recent examples include: Burkina Faso, Mali, Uganda, Mozambique, Ghana, Tanzania and Ethiopia. In these countries donors are working together to come more firmly behind national efforts. Donors are also responding by increasing aid levels. For example, between 1997-2002, total net oda to Ethiopia grew by 138 per cent in real terms, to Mozambique by 126 per cent, to Ghana by 40 per cent and to Tanzania by 39 per cent<sup>57</sup>. In all instances, and as the examples of Ghana and Ethiopia show (see Annex 1 and Annex 2), more and better aid has gone hand-in-hand.

24 The enhanced HIPC initiative has made it possible for donors to begin a shift away from bad aid delivery practices. There is a greater readiness now in providing programmatic assistance in support of national poverty reduction strategies<sup>58</sup>. Annual HIPC progress reports (presented to the Boards of the World Bank and IMF), and recent work by the OECD/DAC and the Strategic Partnership with Africa (SPA), shows that programmatic support by the international community to PRSPs is helping to improve the quality of aid, although progress is not as rapid as it might be<sup>59</sup>. Recent studies show more donors are co-ordinating efforts in helping countries to improve their public financial management systems. Increasing attention is being given to improving the predictability of aid, and in many instances, this is being done through the activities and actions of a number of multi-donor budget support arrangements which have formed across Africa, e.g. in Ghana, Tanzania, Ethiopia, Mozambique, Burkina Faso, Benin and Rwanda. Donors made more use of local systems when channelling aid. And, there is a gradual, albeit slow, shift towards accounting for aid through results. Compared with the past, these changes imply improvements in the productivity of aid, as is being confirmed by recent reviews of studies examining the impact of aid<sup>60</sup>. There is considerable scope for raising productivity further by making more determined changes in donor behaviour, as the recent comprehensive paper produced by the OECD/DAC makes clear<sup>61</sup>.

25 While higher aid flows would undoubtedly bring many benefits to aid-recipient countries, the assistance could be misused if authorities do not manage the impact of the inflows very well. A common problem arising from higher aid inflows is the appreciation of the real exchange rate. Recent evidence indicates that the economic effects of an aid-induced appreciation in the real exchange rate can be managed well. To ensure that the use of the aid does not cause macro-economic problems, governments should ensure that the aid is invested to expand productive capacity. Monetary authorities should intervene to help stabilise the volatility stemming from short-term exchange rate and interest rate fluctuations<sup>62</sup>. As Chapter 9 shows, the more aid is used for purchasing imports, and/or for boosting foreign reserves (as and when necessary), the less will be its impact in appreciating the real exchange rate. (For if fewer units of foreign currency are



sold and converted into domestic currency, it will dampen the demand created for goods and services produced locally. In turn, given tight domestic supplies in the short run, this will put less pressure on prices to rise.) As investments in better infrastructure increase, it should be possible for firms' production and distribution costs to be lowered, which will improve export competitiveness and facilitate further rounds of economic growth.

26 With more resources now, it should be possible to make interventions at various levels of the government and the economy. It is important to recognise that investing in the MDGs today (and intensifying efforts to combat the incidence of HIV and AIDS and the impact of tropical diseases) sub-Saharan Africa's future capacity to accelerate development will expand. Africa will have more skilled people to design and build the necessary infrastructure, to deliver services, and to provide the managerial know-how for planning, organising, and implementing activities. To increase absorptive capacity, sub-Saharan African countries should use the aid provided so as to improve the efficiency of the public sector, ensuring that appropriate investments are made towards training managers, building technical expertise, and expanding the quantity and quality of infrastructure.

27 For more effectiveness, it is crucial that the predictability of future aid flows improves, as this will allow donors and recipients to plan and manage financial flows much better. Given that external concessionary resources account for a large part of the budgetary income of African countries, it will not be possible for governments to scale up social sector expenditure for say health and education without having regular, and assured, disbursements from donors. The likelihood of the next generation of PRSPs incorporating scenarios for reaching the MDGs should also help to identify critical institutional bottlenecks for realising more ambitious plans. Donors should urgently implement measures that provide aid-recipient countries with predictable finance over the longer term.

28 What about increasing levels of aid to countries where states and governments are fragile, because of conflict, the lack of peace, poor public-sector management, corruption, and where the absorption of increased aid presents special challenges?

29 Although it is more complex, donors can ramp up aid levels to such countries and help to reduce poverty. Donors are giving increasing attention to these issues in recognition of the fact that without greater attention to such countries, poverty reduction and collective security goals will not be achieved. A recent High Level Forum meeting of OECD/DAC Ministers in London (14-15 January 2005), concluded that the risk of inaction was far greater than donors not taking any action at all. At this meeting, Draft Principles of Good International Engagement were adopted – see Annex 7 for details. Where conditions are less robust, for example in countries where states are fragile, and where donors and governments disagree on policy priorities, it should still be possible for donors to provide adequate and effective aid in ways that do not undermine national systems, and/or long-term sustainability<sup>63</sup>. These include:

- (a) ensuring transparent information on aid flows to countries regarded as having fragile states and/or governments;
- (b) making aid more effective at reducing conflict, improving the understanding and analysis of risk factors, and being willing to provide better responses to risk, for example by addressing issues of inequality and human security (see Chapter 5);
- (c) sustaining a commitment to reducing poverty in difficult environments and developing more innovative ways of being effective;
- (d) engaging in countries over the longer term, and providing less volatile and more predictable funding, even when threatened by temporary setbacks;
- (e) increasing funding by about 40 per cent, which should be possible without damaging the norms of efficient aid allocation, as suggested by Collier and Dollar (2004); and

- (f) investing in those interventions that recent research suggests can help countries with weaker and less stable institutions to experience rapid turnaround. The benefits of these interventions can be as high US\$80 billion<sup>64</sup>.

**Conclusion: Africa can effectively absorb double the current amount of aid**

30 After reviewing the capacity of sub-Saharan African countries to absorb more aid, by considering the varied policy, economic and institutional environments, the Commission's analysis suggests a strong and determined increase in aid levels is possible. Our assessment indicates that over the next three to five years aid levels could be doubled and used productively. Higher absorption of aid should be possible with: (a) continuing policy and governance improvements within Africa; (b) better allocation so that a broader range of countries can receive assistance, and through appropriate channels; (c) better quality assistance.<sup>65</sup>

## Annex 7: Draft Principles for Good International Engagement in Fragile States<sup>66</sup>

- 1 The long-term vision for international engagement in fragile states is to build legitimate, effective and resilient state institutions. States are fragile when governments and state structures lack capacity – and in some cases, the political leadership – to deliver public safety and security, good governance and poverty reduction to their citizens. Civil society structures are also important for long-term governance and may play a critical transitional role in providing services, but the long-term focus of international support must be to work to ensure that the core functions of the state operate in an effective and legitimate manner.
- 2 Fragile states share a common vulnerability but face very different combinations of problems. With concentrated and co-ordinated attention it is possible to create the basis for positive change. International engagement and analysis must be calibrated to particular country circumstances, recognizing different constraints of capacity, political will, and conflict, and the different needs of countries undergoing an early transition from conflict or political crisis in comparison to those facing declining governance environments.
- 3 The interdependence of political, security, economic and social activities should be recognized, and international actors should move to support unified planning frameworks for political, security, humanitarian, economic and development activities at a country level. PRS principles of national ownership and participation apply in fragile states but need to be adapted to environments of weak capacity, immediate pressures to improve delivery and, in many cases, the central importance of political and security issues. The use of simple integrated planning tools in fragile states, such as the transitional results matrix, can help set and monitor realistic priorities and improve the coherence of international support across the political, security, economic, development and humanitarian arenas.
- 4 The interconnected nature of issues and responses also requires policy coherence within the administration of each international actor. What is necessary is a whole of government approach, involving those responsible for security, political and economic affairs, as well as those responsible for development aid and humanitarian assistance, while respecting the mandates of each.
- 5 Harmonisation is a strategic priority for all international actors working in fragile states, and can occur even in the absence of strong government leadership. The principles and practice of harmonization apply in fragile states, although we may need to work through tools and approaches that are tailored to the circumstances of these states. In these fragile contexts, it is important to emphasize the need for upstream harmonization on analysis; joint assessments; joint strategies; co-ordination of political engagement; and practical initiatives such as the establishment of joint donor offices.
- 6 Where traditional alignment behind government-led strategies is not possible due to particularly weak governance, donors should nevertheless seek to align differently: broaden the range of national actors involved in setting priorities and seek opportunities for partial alignment and harmonization at the sectoral or regional level. Another approach is to use 'shadow alignment', so that donor programs comply as far as possible with government procedures and systems even if operating in territories beyond the government's effective jurisdiction.

7 International actors should especially seek to avoid activities which undermine national institution-building, such as bypassing national budget processes or setting high salaries for local staff which undermine recruitment and retention in national institutions.

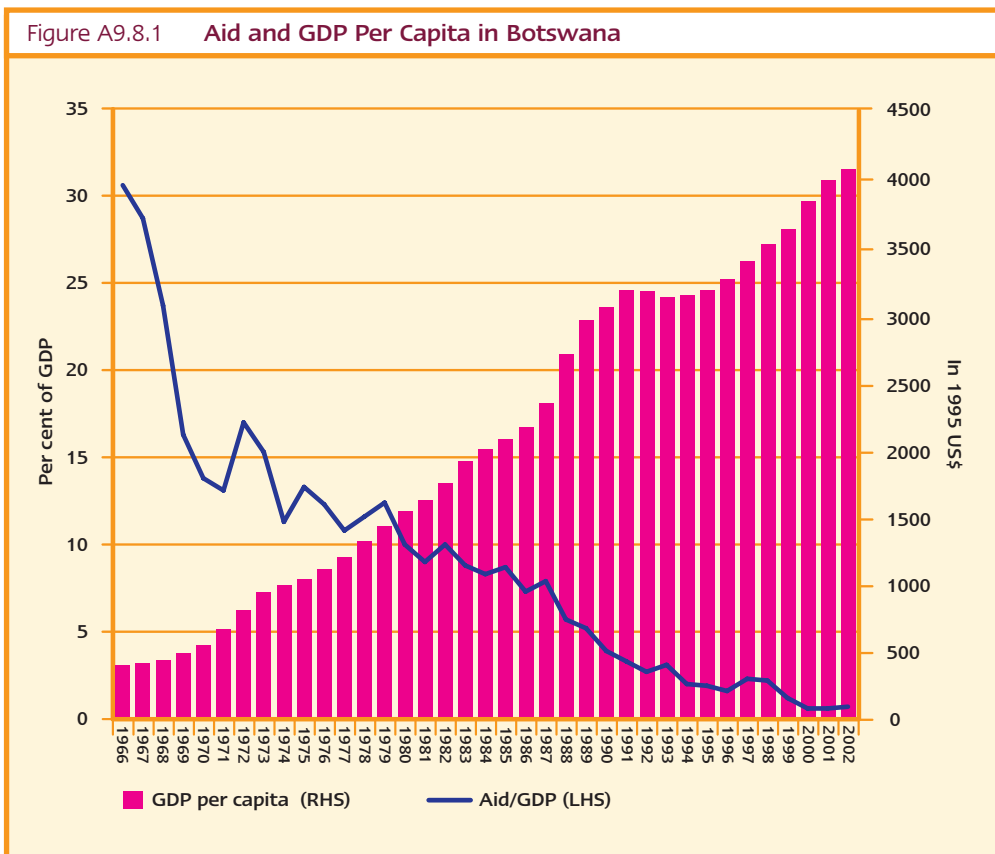
8 Fragile states require a mix of aid instruments, including, in particular for countries in promising but high-risk transitions, instruments to support recurrent financing. Instruments to provide long-term support to health, education and other basic services are needed in countries facing stalled or deteriorating governance. Close attention to the sequencing and mix of instruments is particularly important in fragile states.

9 International engagement in fragile states needs to address the problems of 'aid orphans' and aid volatility. Since volatility of engagement (including aid volumes, as well as diplomatic engagement and field presence) is potentially destabilizing for fragile states, donors should agree to regular analysis of aid flows to fragile states as well as commit to developing a system of mutual consultation and co-ordination prior to a significant reduction in programming.

10 Given low capacity and the extent of the challenges facing fragile states, investments in aid, diplomatic and security engagement may need to be of longer-duration than in other low-income countries. Assistance to fragile states should therefore be based on long-term partnerships, but capable of flexibility at short notice to take advantage of windows of opportunity and respond to changing conditions on the ground.

# Annex 8: Botswana Graduating From Aid

1. "Botswana is a unique case study of aid dependence in Africa. It has gone from being one of the poorest, most aid dependent countries to a middle-income country no longer in need of significant amounts of external assistance and where aid donors have begun to phase out that assistance"<sup>67</sup>.
2. Botswana for almost 30 years has been one of fastest growing developing countries. Its story is one in which aid and high economic growth have gone hand-in-hand (Figure A9.8.1).
3. Botswana has managed to use aid inflows exceptionally well. Through determined effort by the government, aid has been integrated into national strategies. If development assistance was not seen to fit with national policies and priorities, government has been willing to reject it. In the immediate years after independence, as only few students had completed secondary school, external assistance played a key role in building capacity. Much needed Technical Assistance helped to fund the geological exploration which eventually led to the identification of potentially rich mineral resources<sup>68</sup>.



Sources: World Bank World Development Indicators, 2004 and OECD/DAC International Development Statistics Online

4 The government of Botswana managed the economy extremely well after independence. The large revenue inflows which accrued to government from extracting minerals were carefully accounted for and expenditure was managed sensibly. A positive investment climate for private sector development was established.

5 The government has consistently left most development to the private sector, which has been nurtured by a number of measures:

- (a) maintaining macroeconomic stability;
- (b) sustaining a constant real exchange rate against the country's main trading partners;
- (c) managing labour relations;
- (d) retaining membership to the Southern African Customs Union (SACU) and agreeing free trade agreements with the EU and the USA;
- (e) investing in institutions promoting private sector interests;
- (f) avoiding extending government ownership other than to the main utilities (resulting in few parastatals);
- (g) channelling most credit to the private sector;
- (h) having few import controls and eliminating exchange controls gradually; and
- (i) sustaining the lowest level of corruption in Africa (as recorded by Transparency International).

6 Investors approaching the investment promotion agency do not consider tax incentives and government subsidies as being critical deciding factors. Rather, Botswana is chosen as a destination for investment because of the generally-favourable investment climate that is maintained.

7 Over time, Botswana's policies have proved successful. The ratio of imports to GDP has halved, and non-traditional exports have grown rapidly, despite firms facing fierce competition from South Africa. In turn, employment has grown and poverty has been reduced.

8 As the diamond industry only employs about two per cent of formal sector employees in Botswana, the main channel by which proceeds from the diamond industry benefit the economy is the public sector. A combination of fast economic growth, expansion of formal sector employment, and efficient government targeting, reduced the population living in poverty from 49 per cent in 1986 to 38 per cent in 1994. What's more, it was the population living in extreme poverty that was reduced the most.

9 Even though Botswana's mineral wealth has undoubtedly contributed, it is the quality of political leadership and stress on maintaining good governance that makes it a real success story<sup>69</sup>.

## Annex 9: Possible Actions for Further Debt Relief

### Action 1: 100 per cent Debt Service Cancellation 2015

1 100 per cent cancellation of all debt service for all HIPCs and other severely indebted low-income countries through to the year 2015. For HIPCs, this would include:

- (a) 100 per cent cancellation of debt service falling due before decision point. The service paid would be put 'into trust' for each country to receive back on reaching decision point, in order to kick-start MDG-related spending;
- (b) cancellation of 100 per cent debt service falling due between decision and completion point; and
- (c) cancellation of 100 per cent service falling due from completion point to 2015.

2 For non-HIPCs, funds could be put into trust until such time as they establish a track record of design and implementation of interim Poverty Reduction Strategies equivalent to that of HIPCs. Moral hazard of countries falling off track while receiving relief would be avoided by the fact that the countries would have aid and IMF programmes suspended.

3 The option to cancel 100 per cent debt service is preferable to 100 per cent up-front stock cancellation for two main reasons:

- (a) because African governments see the liquidity burden of their debt as a more critical barrier to development than that of the debt overhang; and
- (b) because it is the most cost-effective use of funds in the context of limited resources, making the maximum contribution to financing the MDGs. Even if sufficient money were available to cancel 100 per cent of debt up front, it would not be the most desirable option for Africa, as it would mean diverting funds away from funding the MDGs in other countries, in order to cancel 100 per cent debt service which does not fall due for more than 10 years.

### Action 2: Relief on all Dangerous Debt

4 It is important to address the 'precarious' component of HIPCs' debt which is causing African governments to pay out large sums up-front and reducing funds for the MDGs. This is debt owed to non-OECD bilateral and commercial creditors which are not participating in the HIPC Initiative. It is increasingly becoming a target for lawsuits by the original creditors, and disreputable speculators. Two urgent measures are required:

- (a) establishing a trust fund to help finance relief on debts owed by HIPCs to other debt-distressed developing countries. As discussed above, this could use a sliding scale of discount based on their degree of debt distress; and
- (b) establishing a rapid response legal technical assistance facility, independent of the BWIs, to help African countries pre-empt and avoid lawsuits, and change national debt relief laws.

5 These measures would not be very costly, but would leverage large debt relief, and might ideally also be extended to other African (and non-African) low-income debt distressed countries which apply for debt relief.

# Chapter 10

## Making it Happen

### Summary

Effective and sustained action that can deliver results will come only if African countries and institutions and Africa's external partners make and deliver on commitments. There are a number of complementary ingredients that are key to stronger implementation and delivery of results:

- Building a **global partnership** around **African leadership**;
- Setting out a clear **programme of action**, with responsibilities and timetables, based on sound evidence about what works and what does not;
- Strengthening **institutions**, both inside and outside Africa, so that they are **capable of delivery**. This must include reorienting the international financial institutions so that they give higher priority to accelerating African development and are more accountable, including to their clients and partners;
- Ensuring a **stronger African voice** in the multilateral organisations;
- Putting in place **effective independent mechanisms to monitor** and report on progress on implementation;
- Generating and sustaining strong commitment to Africa's development by the people and civil society of the developed countries, as well as Africa, to keep the **pressure on political leaders** to deliver.

A full list of the Commission's recommendations on Making it Happen can be found at the end of this chapter.

### 10.1 Introduction: commitment and delivery

1 Our Report can, in itself, change nothing. Results will come only if politicians both make commitments on the basis of our recommendations and deliver sound, effective and sustained action. The past has seen yawning gulfs between commitments and delivery. We see this whether we look at declarations of intent to improve accountability, transparency and governance by poor and developed countries alike, or commitments to more efficient and effective donor practices and requirements. One result, as the monitoring of the MDGs and actions to implement them is showing, is that, as a world, and particularly in Africa, we are in grave danger of falling far short of meeting the goals declared at the Millennium Summit and reaffirmed in Monterrey in 2002. These were commitments solemnly made. Failure to deliver on them is wholly unacceptable. We, as a development community, must now generate the effective and sustained action that will deliver results.

2 There are six key, complementary ingredients. First, African leadership supported by effective world partnership. Second, a clear programme with specific, linked and time-



bound actions that has a sound basis in evidence. Third, the means of delivery, through capable institutions inside and outside Africa. Fourth, a stronger African voice within these multilateral organisations. Fifth, effective mechanisms for scrutiny, measurement and accountability. And sixth, the political commitment, in both Africa and developed countries, to take decisions then stay the course. We consider each in turn, but we should recognise at the outset that this is essentially about political will.

## 10.2 African leadership and world partnership

3 Africa's development must be shaped by Africans. History has shown us that development cannot and does not work if policies are shaped and forced by outsiders. It is Africa's actions and leadership that will be the most important determinant of progress in generating a resurgence in Africa, advancing living standards and taking forward the fight against poverty. The more effective the action taken by Africa itself, the stronger the case for support from outside Africa. Partnership must be constructed around Africa's leadership. This is what AU/NEPAD is all about.

4 Effectiveness in fighting poverty will require a focused and coherent package of actions to address the obstacles that have held back Africa's development over the last few decades. Effective action means working together not only with African partners but also with other donors and policy makers from outside Africa. The depth of the suffering in Africa requires action that is not only targeted and coherent but also substantial and urgent.

5 Creating a partnership of this kind in support of African leadership is not easy but Africa has recently been moving forward in ways which make success much more likely. We have seen strong progress in governance in many African countries, and the African Peer Review Mechanism is a potentially powerful tool for maintaining momentum. The African Union (AU) and African regional organisations are acting to reduce and control conflict. Where there is good governance with peace and security, growth and development can take root. This progress has provided the foundation for reinvigorated external support as manifested, for example, in the renewed financing for development commitments made at Monterrey and Kananaskis in 2002. The history of the last few years clearly demonstrates the possibility of action within Africa and that such action provides a strong centre around which external assistance can mobilise. We must be very clear however that the grip of weak governance, corruption and conflict in many parts of Africa is still strong. It can and must be loosened and overcome.

6 The action of the last few years, however, both within Africa and outside, has seriously lacked the scope, scale and urgency required to get anywhere near the targets of the MDGs or the kind of growth and development that the desperate poverty of Africa requires. A successful big push is required. That will not happen by 'waiting and seeing' how Africa gets on and then doing a bit more as conditions seem to improve. The success in promoting an African resurgence and fighting poverty that we believe can come from the package of proposals set out in this Report will not materialise without large-scale, credible, urgent and sustainable commitments by the international community. Development is a long haul. Success requires mutual confidence. Difficult as they are, the conditions for success have not been better for thirty years. If the opportunity is not to be lost, the time for commitment is now.

7 This partnership is not just about the relationship between Africa and the developed countries. We welcome the increasing focus on south-south co-operation. Together, developing countries can press more effectively for changes (for example, expanded trading opportunities and better harmonised donor assistance) that will benefit them all. The countries of South and South-East Asia have a great deal of valuable experience that could be shared more systematically. Examples of this are the 'green revolution' that has

been a basis of growth in a number of Asian countries; the potential for the provision of direct support for the development of tertiary and technical education in Africa; and the possibilities of sharing technologies (for example, in drugs or irrigation). Developed countries should be ready to promote and provide financial support for increased technical co-operation between African and other developing countries.

### 10.3 Clarity of action and basis in evidence

8 In our consultations there were many who told us: “We know what to do, why don't we just get on with it?” There is a great deal of good sense in that question, but there are also challenges in taking it forward. We have to agree on what we know and we have to agree on how to get on with it. Meeting those challenges has been a primary purpose of the Commission.

9 The development community has indeed learned much about what works and what does not, from the successes and failures of development in Africa and elsewhere in the last few decades. That learning, and its evidence basis, has been behind the proposals in this Report. We do not claim to know everything. Development is a learning process. But the evidence is now strong enough for us to argue that the programme of actions proposed here can be effective in fighting poverty in Africa.

10 To break out of the vicious circles which have shackled its development Africa requires a coherent package with mutually reinforcing action in a number of key areas. Development will fail in the absence of sound governance and of peace and security. AU/NEPAD has played an effective role in setting out policies to improve governance in Africa, and the analysis and actions proposed here in terms of capacity, accountability and transparency show what the developed countries can do in support of these policies. We are also learning not only much more about the causes of conflict and thus how it can be prevented, but also how conflict can be resolved. The AU has replaced the ‘non-interference’ of the OAU by ‘non-indifference’ and is beginning to show how involvement can be effective. Again the scope for support from the international community is clear.

11 What is required for effective action, in combination with good governance and a peaceful environment, are the resources and delivery systems to make development happen. Such action requires not only steps taken within countries, but long-term sustained resources from outside, supplied in ways that do not place further heavy burdens of administration on already over-loaded systems.

12 The programme we put forward here does constitute the comprehensive and coherent package that Africa's development demands. It is based on sound analytical and practical arguments and evidence, including substantial contributions from our consultations. Through written submissions, as well as country and regional consultations and events, we heard the voices of civil society, business, thinkers and governments in all regions of Africa and in developed countries. The resulting proposals for action are sufficiently specific, clear, and time-bound to be monitorable and for commitments to be credible. We return to mechanisms of monitoring of actions and results below. It is our firm view that setting out our Report in this way will remove lack of clarity as a reason for failing to act.

13 2005 is a crucial year for implementation. Decisions on trade must be taken before the Hong Kong ministerial meeting in December 2005. Commitments on aid and debt relief should be taken at the G8 summit in July, if doubling of aid is to be achieved in the next three to five years and the problem of debt is to be cleared out of the way. On peace and security, the recommendations of the UN High Level Panel will be considered at the Millennium Summit in September. In this chapter we will recommend that the global

institutions prepare strategies for reform, for presentation this year. Our proposals for action are not only clear, but purposive and time bound. The year of decision is 2005; action must be determined and sustained.

## **10.4 Institutions for delivery**

14 There are many national and transnational institutions for development in Africa. And there are many bilateral and multilateral institutions outside. We have taken care to be parsimonious in our recommendations for new institutions. By and large the development community does not need new institutions for development. As times and circumstances change, institutions should be challenged to justify their existence. And existing institutions must work much better, both within Africa and outside. Their starting point should be support for Africa's vision of its own development and African leadership, whether set out in country poverty reduction strategies or the broader priorities being defined increasingly by the regional economic communities (RECs) and the AU/NEPAD.

15 Institutions for development start within Africa itself. That is indeed in large measure what many of the chapters have been about, including those on governance, peace and security, and human development and inclusion. As we have argued, the issues concerning the improvement of institutions are in large measure about capacity and accountability. Where external support is required, it should be provided in ways that develop rather than undermine the processes of institutional strengthening in Africa. Thus, for example and of special importance, it should support the building of transparent budgetary processes, accountable to parliaments and people, and solid and properly streamlined RECs.

16 Where financial support is provided, the most effective way of ensuring that it is genuinely behind Africa's vision, whether at a country, regional or pan-African level, is to provide it in the form of direct budget support. This requires mutual confidence of the sort described earlier in this chapter. Where internal processes are not yet sufficiently strong to make this appropriate, support should contribute to, not disrupt, their development. One example could be to help countries build their own project design and procurement procedures for infrastructure, rather than putting in place alternative mechanisms. Similarly, care should be taken that initiatives on individual diseases should contribute to and not distract from building sound health delivery systems. Development initiatives that do not create lasting institutions are not sustainable.

### **10.4.1 Multilateral African institutions**

17 Multilateral institutions, both global and African, matter greatly for Africa. Many of the actions recommended in this report refer to various ways in which developed countries can give strong support to the AU and regional institutions. We also recommend strong support for two further key multilateral African institutions: the African Development Bank (ADB) and the Economic Commission for Africa (ECA).

#### **The African Development Bank**

18 The African Development Bank is 40 years old, but it is just now starting to establish a role that is as significant in its region as the role that the Inter-American Development Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development have carved out in their respective regions. And during the first part of the 1990s, the ADB's performance and resources declined on most dimensions. In recent years management and financial discipline have improved strongly, and the 10th Replenishment of its African Development Fund (the 'soft loan' and grant facility) reflected an important

increase in support from shareholders. The time has now come for the ADB to move strongly towards becoming the pre-eminent financier of development in Africa. This will require a clear vision, with strong emphasis on six areas: governance; peace and stability; HIV and AIDS; agriculture; private sector growth; and regional integration and infrastructure. It will need inspiring leadership, management, and sustained support. A new President is to be appointed in 2005, creating an opportunity.

### **The Economic Commission for Africa**

19 The Economic Commission for Africa focuses on policy rather than operations. It has recently played an outstanding role in providing thorough, clear, and pioneering analyses of Africa's challenges; developing policy; and convening key players in different sectors. Its governance is through Africa's Ministries of Finance, Planning, and Economic Affairs. It is a well-established pan-African institution, which has played an influential role in forming policy in Africa and guiding interaction with international bodies such as the World Trade Organisation (WTO). It demonstrates clearly that strong and effective policy institutions can be built in Africa. Given the success of ECA in the past, it should be given the resources and support necessary to allow it to play a still more prominent role in the future in providing analysis and leading policy debate within Africa.

**Recommendation: (i) Shareholders of the African Development Bank should aim to make the African Development Bank the pre-eminent financing institution in Africa within 10 years. Proposals should be put forward by the new president within six months of taking office. Shareholders should provide strong support for their implementation. (ii) Strong support should be provided for the further enhancement of the role of the Economic Commission for Africa.**

## **10.4.2 The global institutions**

20 The international financial institutions (IFIs) – the World Bank and the International Monetary Fund – the World Trade Organization and the United Nations, are fulcrums on which much of the organisation of global action for development balance. Given the depth of poverty in Africa and the projections for future evolution of poverty there, these institutions must give much higher priority to accelerating African development. This requires considerable reorientation of their missions and approaches to development. We must be very clear that our recommendation for a big push and the central role these institutions must play in that story does not mean more of the same, only bigger. It means changes in these institutions.

### **World Bank**

21 The World Bank is the world's largest source of development finance. It is in Africa that its actions carry the greatest weight, because aid makes up a much larger share of economies in Africa than it does elsewhere – total aid as a percentage of GDP in Africa has been around six per cent (2002), compared with one per cent for South Asia and 0.3 per cent for Latin America and the Caribbean. And yet too much of the World Bank's own resources and effort have been spent outside Africa, including on largely middle-income regions like Eastern Europe, East Asia, and Latin America. This does not mean that action in these other regions should be discouraged. But it is a question of balance, given that the crisis of world poverty is now in Africa and that, unless strong action is taken, Africa will continue to grow much more slowly than other regions in the developing world. Furthermore, when the World Bank does operate in Africa, its approach is often seen as harmfully prescriptive, and as contributing to the debt burden of poor countries, with limited impact on their development. Whatever the accuracy of this view, the perception itself is of great importance. For these reasons, it is essential that the World Bank

reorient itself toward Africa and change its ways of doing business. Our call for a doubling of aid to sub-Saharan Africa within 3 to 5 years, together with our backing for strengthening institutions rather than inventing new ones, means that we recommend at least a doubling of IDA (the World Bank's International Development Association, which provides interest-free loans and grants to the poorest countries), with a high proportion of the increase being allocated to Africa, beyond its present share. The effective and timely delivery by the World Bank of this doubling will require a radical change of its ways. Some of these are embodied in the specific recommendations below. The World Bank must also examine its working processes carefully and reform them so that it can scale up and rise to the challenge. It is for the World Bank itself to work out how to do so but its shareholders must indicate in 2005 that they require it, if the results are to come in the next three years. Specifically, we recommend that the World Bank:

- **Increase its use of grants:** The World Bank should continue its moves toward greater use of grants for poor countries. Many relatively poor and highly indebted developing countries simply cannot afford to take on more loans, even when they are highly subsidised. Where debt sustainability calculations suggest the contrary, this is often because they are based on over-optimistic projections, and because those calculations have the objective of managing debt and improving repayment probabilities rather than making room for development. Instead, these poorer countries should receive their assistance entirely or almost entirely as grants. The World Bank has made strong moves in this direction in recent years. As a result of decisions in the IDA14 replenishment, around 30 per cent of total IDA support in the coming three years will be on grant terms. We believe that this movement should be accelerated and deepened, and should be focused on development criteria rather than banking ratios. For the poorest African countries, those with income per capita below US\$250 per year, the grant element should be 100 per cent. Above that, there should be a sliding scale, with no less than 50 per cent of aid in grants for countries below US\$400 per year, and the target adjusted to circumstances such as post-conflict. The move to grants must be accompanied by extra funds that allow for the higher resource costs of grants relative to loans. Further, the World Bank should take steps to ensure that it makes effective use of the greater flexibility provided by grants, which do not require a sovereign guarantee and so can be given to non-government organisations.
- **Support transparency and accountability through the use and allocation of aid:** The World Bank should provide assistance on the basis of two key prerequisites – whether the recipient has a track record or demonstrable commitment to development, and whether it is sufficiently transparent and accountable to its people in the use of aid and of resources more generally. Aid conditionality has had a bad reputation in the past. The IFIs have tried to specify in detail the policies that recipient countries must adopt, even when these conditions have been ill-suited to the local political, economic, and social context and have been unlikely to be implemented. The Commission believes that it is far more productive to focus on transparency and accountability. This approach allows the recipient country to choose its own course for development – an approach that history shows is most effective – while at the same time increasing the probability that the choice is one made by society as a whole, rather than a few leaders. Shared development strategies and policies are more likely to be stable and predictable, contributing to a better investment climate. That has been the sensible rationale behind the approach of the Poverty Reduction Strategies that provide a foundation for external support.
- **Increase predictability of flows:** With this approach to accountability and transparency, the World Bank should make longer-term aid commitments, increasing

the predictability of aid flows. Currently, uncertainty about future aid disbursements reduces recipient governments' ability to commit to longer-term investments. The World Bank has acknowledged this problem and moved to improve matters but it must do much more. The risk is that, after a recipient country receives a commitment, it adopts policies or practices that the World Bank believes are inimical to development. But this risk will be reduced by two factors: transparency and accountability, and the recipient country's knowledge that it may want to return to the World Bank for future aid. While some risk is unavoidable, we see this risk as small relative to the benefits of greater predictability, and relative also to the alternative risk of rendering aid unproductive through heavy conditionality. Longer-term commitments will have the great benefit of signalling trust and strengthening partnerships within which policy discussion may be particularly productive.

- **Strengthen its focus on Africa:** We recommend that the World Bank make a major shift of aid resources, operational budget, and staff to its Africa department. This recommendation may seem parochial, coming as it does from a Commission for Africa, but it is thoroughly justified by hard analysis. While South Asia continues to have more people living in absolute poverty, Africa is the region where the largest share of people (46 per cent) live in poverty, where the numbers in poverty are growing rapidly, and where the MDGs will likely be missed by the widest margin. Clearly it is the region that most needs assistance, yet the incentives in the World Bank still favour staff for working on high-profile middle-income countries outside Africa. This must change, and one way to change it is through a transfer of budgets. Doing so may also help improve the relationship between the World Bank and its clients. We have heard that World Bank staff can come across as impatient and unwilling to listen to their clients. To some extent the cause may be time pressures on staff, who are in a hurry to push through projects and programmes. A shift in budget and staff resources towards Africa could relieve some of these time pressures on individuals and help reduce the perceived impatience and rigidity of which we have heard so much.
- **Focus more staff resources on fragile states:** Where states have weak or unstable institutions it may not be possible or appropriate to provide large financial injections. However, there is scope to help build the effectiveness of the state through increased investment of human resources, for example through provision of direct and collegial support and expertise. Preparing loans and grants is likely to be more resource intensive and to take longer than it would in states with strong institutions. We therefore recommend that the World Bank shift more staff resources and supporting budgets to work on fragile states. It is simple to say this briefly but we must emphasise strongly the importance of this recommendation. It is derelict simply to wait until fragile states get less fragile. It is a duty to work to support that process.
- **Co-ordinate procedures with development partners:** Finally, the World Bank needs to do a better job of co-ordinating its procedures and conditions with other donors, including UN agencies, ideally under the recipient government's leadership. Calls for 'aid harmonisation' are a perennial feature of aid documents, yet progress has been limited. While donors are content for others to harmonise round their procedures, they are less willing to change their own to match others. An interim solution to this impasse might be mutual recognition of each other's procedures. This approach has worked well within the European Union, where member nations have accepted each other's procedures as valid without necessarily requiring harmonisation around a single model. This means, for example, they will work from each other's reports and so reduce the reporting burden on developing countries. As the largest player in development, the World Bank should take the lead in adopting this model and showing flexibility in its procedures.

## International Monetary Fund

22 Like the World Bank, the International Monetary Fund (IMF) has played a major role in the lives of Africans over the past quarter-century. While it has often been called into the most difficult economic situations imaginable, all too often it has been viewed as rigid, dogmatic and too prescriptive. We believe it is possible for the IMF to map out a new relationship with Africa, one based on flexibility and constructive engagement rather than directive conditionality. Doing so would give African countries more useful guidance on managing their economies, and greater room for manoeuvre in investing in growth and development. To achieve this, we recommend that the IMF:

- **Strengthen its focus on codes and standards for fiscal transparency:** One of the ways that the Fund can be most helpful to developing countries is by assessing and publicising information about the state of their fiscal governance and accounts. It currently does this in a detailed fashion for countries that are covered by an IMF programme, but not for other countries. By increasing the transparency of government finances, in a way that allowed comparisons with other countries, such reporting would strengthen the ability of citizens to hold their governments accountable. The IMF already does this (through its Article IV reports), but not with sufficient detail. More frequent reporting of macro-economic information is required, possibly on a quarterly basis, to enable national authorities and external donors to take more informed, and better, financing decisions. The IMF has a strong comparative advantage in this area, relative to other institutions, and if it developed this side of its work, it would not only advance internal accountability within the country but also external assessments. Once a solid track record was established, a new form of 'enhanced surveillance' could be instituted which could be considered by creditors as a sufficient basis for debt renegotiations, instead of full fledged IMF programmes. At the same time the IMF should intensify its efforts to help countries meet codes and standards for fiscal transparency and foster processes which can deliver these objectives.
- **Promote a better allocation of grants to poor countries:** The IMF should be charged with analysing and reporting regularly on the composition of aid flows going to developing countries, and assessing the appropriateness of that composition. In our view, the grant composition of assistance should, for very poor countries, start out very high – 100 per cent, for the poorest – and begin to taper off only as countries become able to afford to take on debt. At the other end of the income spectrum, it is appropriate for donors to cease providing grants to many middle-income countries, particularly those with good access to international capital. Taken together, this means that the grant share of overall aid should fall from 100 per cent to zero as the recipients' income levels rise. This is something that we do not see in today's overall aid patterns, where grants, for example from the EU, go to middle-income countries while many very poor countries still have to take out loans. For each country, the IMF should analyse whether aggregate aid flows from donors reflect the appropriate composition, and should be required to report regularly to donors, for example at consultative group meetings. Such regular reporting would be aimed at helping donors to co-ordinate on improving aid composition. All too often donors' meetings focus on volumes required for 'gap filling' rather than the composition of the flows and structure of liabilities of a recipient country.
- **Treat grant aid and the projects it finances 'above the line':** Macroeconomic stability, which is essential to creating a good investment climate and to safeguarding the livelihoods of poor people, depends heavily on sound budget policies. But there are



real issues involved in how to define sound budget policies, and in particular how to assess whether a given deficit is excessively large. In dealing with aid flows, the IMF has tended to require that the projects financed by aid be counted on the expenditure side of the ledger, where it would add to a deficit, but has been reluctant to count aid as government revenue, to offset any deficit. The rationale has been that aid is uncertain and lies outside the country's control, so the country should not be allowed to count on it as it draws up its budget. But the evidence suggests that, even as currently provided, aid is not significantly less predictable than the government's own revenues, and excluding it from government resources greatly constrains the development investments that the recipient country is able to make. Taken to the extreme, this approach, if combined with a strict view on target deficits, means that a country would be forced to put extra aid into its reserves and thus be prevented from spending it. Provided donor countries are more specific about the terms and conditions of their grant contributions, we recommend that the IMF change its policies, to allow both the aid itself and the aid-financed expenditures to appear 'above the line'. The IMF has sometimes argued in the past that it takes account of aid in specifying allowable deficits. But that process can be very judgmental. The procedure we propose is more transparent and does less damage to the accountability of a government to its people.

- **Create more fiscal space for developing countries:** Developing-country governments must have room in their budgets to make investments necessary for development, and they must have the room to adjust to shocks. Reality places some constraints on what governments can do: over the long run, governments cannot spend much more than they are taking in (including aid). But the IMF should not tighten this common-sense, indeed fundamental, constraint further by applying analytically unfounded fiscal rules. Changes are needed in two key areas. First, the IMF should treat current and capital expenditures differently: capital expenditures are an investment that should yield future payoffs, and hence offset indebtedness taken on to finance them. Second, the IMF should adjust its permitted deficit limits for shocks and business-cycle effects. Deficit ceilings that are perfectly sensible when an economy is growing well cause unnecessary pain when they are applied rigidly in the midst of a cyclical recession or after a temporary shock. The IMF should allow for shocks and use cyclically adjusted budgets when it makes its assessment of country fiscal performance.
- **Change its corporate culture to show greater flexibility:** African government officials and civil society have long complained about the corporate culture of the IMF, arguing that the institution projects arrogance and shows insufficient understanding of the country's situation. It is also undeniable that the IMF's mandate requires it to involve itself in crisis situations that often require tough and unpopular decisions. We have heard many complaints of rigidity and intransigence. Precisely because difficult decisions must be taken, the IMF must strive to make its culture as respectful and participatory as possible, and also to show greater flexibility in its approaches. It is for the IMF to work out how to move forward but its Board should require an explicit and frank examination of the issue.

### World Trade Organization

23 For Africa to reverse its decline in share of world trade – crucial to its future growth and poverty reduction – the WTO must also reorient itself to become more supportive of African development. As we have argued in Chapter 8, Africa's success will be shaped largely by access to the markets of developed countries and rapidly growing developing countries, as well as the region's own capacity to trade. Key to market access will be the WTO and its 'Doha Development Round' of negotiations that began in 2001. It is much better that trade issues be resolved multilaterally in the WTO than in a plethora of



confusing and often contradictory bilateral agreements. Where these bilateral agreements exist, they should be kept simple with minimal requirements for policy action from poor African countries (see Chapter 8). Membership of the WTO should be greatly simplified for poor countries that are not yet members. All too often the strong and understandable desire for a poor country to join is used as a device to foist on it a whole plethora of conditions which may not be central to its immediate problems and which can be diversionary or burdensome in the work of an already strained system of government. And there should be further investment in capacity to engage in the analyses necessary for complex negotiations, and support for Africa to take forward legal cases in the WTO, such as on cotton. All too often government officials do not have time, training or experience to handle the very detailed issues that are involved. The higher education initiatives described in Chapter 4 would add greatly to this capacity. And we should recognise the important advances that have taken place, including through the work of ECA and the African Economic Research Consortium.

24 We have recommended a number of ways in which the IMF and World Bank must change their methods of doing business. Reforms in the methods of working of the WTO and in the behaviour of its developed country members are also crucial if market access is to be expanded. The WTO is a very different body in its way of working from the IMF and World Bank. The WTO has a small administrative staff, and its work is carried out largely through negotiations between 'ambassadors' of member countries. There are two crucial issues: first, how these negotiations are carried out and what is required of parties in these negotiations; and second, membership. African countries suffer on both fronts. We believe that:

- In WTO negotiations, developed countries should seek only minimal reciprocity from African and other poor countries, allowing greater policy flexibility. This will require Special and Differential Treatment to work better, by making legal recourse to disputes conditional on applying a 'development test'. At the Ministerial meeting at the end of this year, they should make a declaration to this effect and act on it.
- Membership of the WTO should not be conditional on acceptance of a plethora of complex arrangements such as TRIPS or detailed agreement on financial and other services. There should be simple and standard terms for membership of small countries, which should be agreed at the WTO Ministerial this year.

### **United Nations**

25 The operational UN agencies have a strong role to play, particularly in the development of capacity. The Millennium Project argues that, while much of the technical support needed to help developing countries achieve the MDGs is housed in the operational UN agencies such as WHO, FAO, UNDP, UN-HABITAT, UNICEF and UNFPA, incoherent approaches and competitive behaviour among them reduces their impact on the ground. Unless these agencies are well linked to the IFIs and to bilateral donors at country level, the contribution they can make will be weakened.

26 Reforms are needed both in the way the UN operates and in the way donors provide financial support to it. The UN must align its programmes better with national development plans. It must make a greater commitment to challenging governments, where there is evidence of human rights abuses or exclusion of groups from development on grounds of gender, religion or ethnicity. It must do more to harmonise and co-ordinate each individual UN agency programme with other parts of the UN and with other development partners. Chapter 5 discusses co-ordination to make humanitarian assistance more effective. And the UN must increase accountability for its performance at the country level.

27 In return for measurable improvements in country level effectiveness, donors should provide adequate, stable and predictable core funding to UN agencies. Stronger links between effectiveness and resource allocation should underpin this. IFIs and bilateral donors must also commit themselves to improve dialogue with the UN.

**Recommendation: The management of the World Bank, the IMF, and the WTO should give greater priority to accelerating Africa's development. Proposals to do so should be presented to the Boards of Governors of the World Bank and IMF (preferably at the 2005 Annual Meetings of the two institutions, but certainly no later than the 2006 Spring Meetings) and the WTO's 2005 Ministerial.**

In line with the resolution on the UN's operational activities for development passed by the 59th UN General Assembly, **we recommend that the UN Secretary General and the UN Development Group should strengthen the co-ordination of UN agencies, funds and programmes at country level, to improve their impact.**

## 10.5 A stronger African voice in the multilateral organisations

28 Of fundamental importance is the extent to which the multilateral organisations genuinely fall in behind African leadership and Africa's vision of its own development. We believe they must be subject to greater accountability from their peers and clients. There are two key areas for action: assessing, guiding and changing their actions at the country level; and in decision-making at Board level. Both are important. At the moment, the lack of accountability at the country-level means that there is no hindrance to, or redress for, arbitrary or unco-operative behaviour. We recommend further implementation of mechanisms such as a joint (government and donor) or independent monitoring group to assess the quality of donor assistance and co-ordination, as has been tried with substantial success in Tanzania.

29 But a strong advance in African voice and representation in the decision-making processes at the Board level of these organisations, each of which has its own governance arrangements, is also crucial for increasing responsiveness. It will also increase the chances of adoption of reforms advocated above. The EU has a relatively well-balanced governance structure in its dealings with Africa, with a joint donor-recipient Council of Ministers under the Cotonou Agreement. Decisions in the IFIs are in most cases taken by their Boards. The extent of African influence in these varies considerably. In the ADB, African countries hold 60 per cent of the shares and have 12 of the 18 seats on the Board. Africans can feel it is their development bank in the same way that Latin Americans feel that the Inter American Development Bank is their Bank. Constituencies are of a comparatively manageable size – on average about six countries. By contrast, in the World Bank and IMF, African countries hold only about four per cent of the shareholding and only two of 24 constituencies, each of which have more than 20 members. Global funds and non-government organisations have various governance structures, but generally are donor-dominated.

30 Over the last few years, a number of proposals have been made for strengthening African representation in the Executive Boards of the World Bank and the IMF, ranging from improving capacity within African Directors' offices to reallocating basic votes, to adding to the number of Board seats. As the rules for representation on the Boards are based on economic criteria, it is not likely that African representation will exceed two chairs out of 24 in the short term. However, a decision could be taken by consensus to allow the creation, on a temporary basis (for the entire period up to 2015), of two supplementary positions of Executive Director for Africa, each backed by an Alternate Director, in each Board. This would ease the task of the directors in this critical period for Africa's development.

31 In addition, major strategic decisions could be transferred to a 'Council' for each institution (a decision adopted for the IMF in the amendment of its Articles in 1976, but not put in place). This would be a decision-making body, consisting of political representatives of member countries, that would replace the existing, consultative, International Monetary and Financial Committee (IMFC) and Development Committee, and have among its purposes 'to review developments in the transfer of real resources to developing countries'. This would give the governing body of each institution a political, rather than a technocratic nature. The two temporary African chairs would also participate in these bodies.

32 There have been calls to open up the appointment of the heads of the World Bank and IMF (and other international institutions) done, by convention, on the basis of regional allocation rather than by international open competition. We support these calls. These opportunities involve jobs of great importance and should go to the best available person regardless of nationality.

33. A more representative UN Security Council would be more responsive to and more credible in the eyes of those regions, such as Africa, which are not currently represented in the permanent membership. The UN High Level Panel has developed two options for expansion, both of which would involve six seats for each region of the world, including Africa. One involves the creation of new permanent seats, whereas the other creates renewable rather than permanent seats.

**Recommendations: (i) African countries should be given a greater voice in the multilateral institutions, most notably through greater representation on the boards of the World Bank and IMF; (ii) strategic leadership and decision-making in the IMF and World Bank must be the responsibility of the political leadership of member countries. To this end, a decision making Council, consisting of political representatives of member countries, should be established for each institution; (iii) appointment of the heads of international institutions should be decided upon by open competition which looks for the best candidate, rather than by traditions which limit these appointments by nationality; and (iv) in each recipient country, the government and donors should set up monitoring groups to assess the quality of donor assistance and co-ordination; (v) the UN Security Council should be expanded to include greater African representation.**

34 In advance of any structural change, there is some practical scope for increasing African influence within the current structure of the IMF and World Bank. As the experience of the ADB shows, representation alone is not enough, but must be accompanied by capacity for effective representation. Strong individual Executive Directors, with good technical backup, particularly from their capitals, are likely to have an impact, as effective personal alliance building and networking can help to set the agenda and drive policy. The case for further technical support, such as for policy analysis, or for translation of documents into the languages used in constituency capitals, is strong. Some elements of a support package could be provided from the institutions' core administrative budget, while for others the model of a Trust Fund to support analytical work, as currently established by a number of donors at the World Bank and IMF, is appropriate.

## 10.6 Scrutiny, measurement and accountability

35 Management requires measurement and monitoring. If citizens around the world are to hold their governments accountable and partners in development are to be mutually accountable, they must have reliable and reasonably objective ways of monitoring actions and outcomes. Such measurement is often technically quite difficult and will in itself involve resources. It is important that development partners support such objective monitoring. This monitoring is vital not only for informing political accountability and basic management of delivery, but also for learning from experience and adjusting to changing circumstances.

36 We examine briefly some of the mechanisms for monitoring which already exist. These have tended to focus on donors monitoring compliance by recipient countries (though the APRM and ECA's economic and governance reviews are welcome examples of systems being developed by Africa to monitor its own performance). The concept of mutual accountability requires that mechanisms – are also put in place, and capacity is developed, to allow recipient countries to monitor how donors perform against their own commitments.

37 The Global Monitoring Report (GMR), prepared jointly by the World Bank and IMF in close collaboration with other multilateral agencies and first published in 2004, reviews the implementation of policies and actions for achieving the MDGs and related development outcomes. It aims to inform the international community about progress on the development policy agenda and priorities for action in the light of emerging results. It assesses prospects for attaining the MDGs on current trends; evaluates policies in developing countries; reviews the policies of developed countries; and looks at the role of multilateral agencies.

38 The GMR is a valuable tool, but does not focus specifically on Africa and is not written jointly with African governments. It does not tie donors to specific individual commitments, which tend in any case to focus only on development assistance, rather than the full range of relevant donor policies, and tend not to be sufficiently specific to be monitored easily. It is also the case that many countries have not yet fully embraced the idea of international and mutual, as well as national, accountability.

39 However, thinking is changing. Mutual accountability lies at the centre of the AU/NEPAD – G8 partnership. On the one hand, African countries have undertaken to improve governance and policies for poverty reduction and on the other, the G8 have promised to give more assistance, more coherently and in a way which supports Africa's efforts and progress. The aim of mutual accountability is not to apportion blame when things go wrong, but to consider jointly what needs to be done and how to keep or get efforts on track.

40 A number of processes that do review donor performance exist. Some are long-standing, such as the Strategic Partnership for Africa, which has an increasing focus on aid effectiveness and has produced a mechanism for monitoring donor behaviour; and donor peer reviews through the DAC. These are discussed and published, but lack close African involvement or real teeth to implement findings. More recently, the Africa Partners Forum provides a forum for dialogue between AU/NEPAD and the G8. In 2002 AU/NEPAD Heads of Government asked the OECD and ECA to develop a joint proposal for a Mutual Review of Development Effectiveness, whose first report is due to be presented in spring 2005. And the AU/NEPAD Secretariat has recently made proposals for a regular review of the performance of key external partners against commitments and agreements made.

41 All of these have a valuable role to play, but some rationalisation should take place. An institutionalised mechanism emanating from Africa for comprehensive monitoring of

donors' commitments would make a strong contribution to holding donors to account. It is for Africa to take the lead in establishing such a mechanism.

42 But none of the existing mechanisms capture the whole story. They do not generally measure donor performance against clear, time-bound and quantifiable commitments. It is for donors to ensure that their commitments are transparent, clear and measurable. And there are no teeth to enforce or encourage delivery: most currently depend for impact on donor willingness to take account of their results. What is needed is something that builds on existing work but is more enforceable. That enforceability must lie in strong and clear commitments whose implementation or lack of it is measured and publicised in a very clear way so that the parliaments and people in Africa and outside can see whether these commitments are being met and react accordingly.

**Recommendation: To add extra momentum to the delivery of the Commission's recommendations, an independent mechanism, which reflects the consultative approach of the Commission, should be established to monitor and report on progress. This could, for example, be led by two distinguished and influential figures who carry weight in the international community, one African and one from the donor community, who could produce a short annual report. They should be supported by a small unit within an existing African or international institution.**

43 The supporting unit should be able to draw on information from existing mutual reviews and from national and internationally available data. There is a great deal of such material available and it can be readily assembled and structured. The report should include a plan for addressing any failings, and should be made public. Although the report would, necessarily, deal with the 'big picture', it should be supplemented by bilateral discussions with individual donor and African governments on the steps they need to take. The life of the supporting unit could be limited to five years, in which time short to medium-term actions should have been implemented and directions set for the longer term. If donors found it a useful tool with potential for wider application, it would be possible to extend or build on this.

## 10.7 Political will

44 There will be no progress on these issues in the absence of real political will, in Africa and internationally. Strong and sustained action from developed countries in support of Africa's development requires action for Africa to be a domestic political issue in developed countries. That, in turn, requires both political leadership and political support. This can come from parliamentarians, the electorates, the media, the private sector and civil society as a whole. Whilst all these sources of pressure are inter-related, they all have their individual roles to play. It was political leadership prompted by civil society and development campaigners that led to the foundation of the Commission for Africa. The media have also played a strong role working, for example, with charitable aid agencies and government in generating support for communities stricken by the earthquake and tsunami of December 2004.

45 All these mechanisms are more effective if they link with individuals and organisations in Africa and elsewhere. For example, the insights and effectiveness of parliamentarians pressing for co-ordinated action in developed countries are likely to be more powerful if they are informed by interactions with parliamentarians in Africa. Private sector pressure on trade, transparency or HIV and AIDS has much greater strength if it is born of doing business in, and in partnership with, Africa. Partnership is not simply between governments.

46 The Commission received contributions from an enormous range of individuals and groups 'linking' Africa and the rest of the world. These partnerships ranged from

individual charitable initiatives to exchanges between cultural organisations ranging from sport to museums; from community or school twinning to more institutionalised exchanges between professional associations or unions. The ILO's Global Social Trust for example, is piloting a programme in which members of trade unions in Luxembourg contribute to the financing of health insurance contributions for the poor in Ghana. The possibilities are almost limitless.

47 Links usually require relatively small amounts of funding and yet can make substantial differences to people's lives both inside and outside Africa. We call on people to explore the possibilities, with creativity and mutual respect. One very promising idea put to us was a 'grey corps' of skilled and experienced people in developed countries who would wish to put some of their experience to work. And there should be further encouragement of young people in developed countries to work and study in Africa. We look forward to the EU Commission's initiative on the creation of a European framework to this end, as well as including African countries in its Youth programme, with a view to facilitating this kind of voluntary service in Africa and recognising it in student curricula.

48 Through their huge creative energy and commitment, civil society organisations can change ideas and beliefs. They can spread good practice across a wide net, linking with the private sector. Above all, individual voices and grassroots mass action can make a profound difference. That is why the Global Call for Action against Poverty campaign for action on development in 2005 is so important. History shows that this type of action can be very effective. For example, Jubilee 2000, started by two individuals, inspired a petition signed by over 20 million people, a million people on the streets worldwide demanding poor countries' debt be dropped, and led to commitments by developed country governments to write off US\$100 billion worth of debt. Many groups are very enthusiastic to share their experience and skills in all areas, ranging from science and engineering to establishing and running an efficient and dynamic taxi company.

49 The African diaspora have also long influenced the development and politics of their countries of origin. Their engagement has been widespread in nature, and has included advocacy, participation in conflict resolution and holding African governments to account. The diaspora have the potential to make extremely valuable contributions, including cultural awareness and long-term commitment. Their important role is reflected in the growing number of diaspora organisations and their increasingly collaborative relationships with African governments and the AU. Some governments for example are exploring dual nationality for second and third generation emigrants and the extension of voting rights for expatriates.

50 The success of individual or grassroots action is not limited to developed countries. For example, locally designed service delivery surveys (to determine the efficiency of government services) have been crucial in Ghana, Kenya, Tanzania, Uganda and Zimbabwe in sending strong messages to government and have resulted in specific strategies to improve service delivery. Civil society in Zambia was a strong part of the anti-third term campaign in 2001, and has continued to lobby the current government on constitutional reform and anti-corruption issues, with some success.

51 A great many people, both individuals and organisations, have given their time and energy to share their ideas with the Commission, whether through participation in the series of consultation events or through written submissions. We have carefully considered these views in drafting our Report. We urge all those who have contributed to continue to apply the enthusiasm they have shown to encourage politicians and business leaders to keep Africa at the top of their agenda and to work with them in support of its development.

52 We have argued both that African development will be driven first and foremost by actions within Africa and that support from outside will make a tremendous difference. Success will depend on trust between partners, and particularly on Africa's being able to rely on its partners to sustain steady support over the long haul. There will, however, be no court of law in which developed countries can be forced to deliver on their promises. That will come only through strong political leadership and equally strong support from their electorates. This is action that goes way beyond reaction to a particular famine or tragedy. Civil society in developed countries demanding long-term action will also have to sustain its own support and advocacy.

53 One of the advantages of developing a political consensus in the developed countries is that the machinery of national government as a whole can be encouraged to rise to the challenge of action on a bigger and more coherent scale. Many of the decisions by developed countries that affect developing countries inevitably cut across ministries of development, finance, trade and industry, agriculture, foreign affairs, defence and security. Coherence of policy and action across these ministries is crucial but often they appear to follow separate agendas. It is heads of government that can demand the necessary coherence. Thus the Summits of the G8 and EU in 2005, with Africa at the centre of the agenda, provide a special opportunity to galvanise national administrations into taking the strong and coherent measures that a big push for Africa requires.

54 Coherence across countries does not, of course, mean that everyone has to do the same thing. Individual countries have their own strengths, historical connections and responsibilities and constraints. They will vary in political pressures and imperatives. Some countries will have constitutional or administrative requirements that prevent them from participating in certain kinds of initiative. Others will have, from their industrial structure, greater knowledge or strength in, say, agriculture or pharmaceuticals. Still others will have strong experience in water or transport infrastructure. A coherent plan of action will draw on the strength of the different institutions and skills of each country. Coherence does not mean a rigid template or a single route. Some countries will want to participate in a big push in a largely multilateral way. Others will want to lean more strongly on their own institutions. The key point is that the developed countries should produce the required resources and organise related policies and activities in a complementary and coherent way. And the best way to do this is by explicitly and systematically getting behind the efforts of African countries and institutions.

55 Ultimately it is the people of Africa and their fellow citizens in the rest of the world who must insist on action; action which is based on their shared goals and on the solidarity that is rooted in a common humanity. We as Commissioners have great faith in the power of that solidarity and common humanity. We have seen it so strongly in our work together and in our interactions and consultations both within Africa and outside. That power will provide the energy and commitment that will force the changing of ways that is fundamental to Africa's resurgence.



# Recommendations on How to Make All This Happen

If Africa is to take responsibility for its own development, it must be given greater influence in decision-making which affects it most directly. It must have a stronger voice in international forums. And it must be able to exert much greater pressure on the rich world to honour its commitments to the poor people of Africa. An independent monitoring system must be established to make sure this happens.

## Strengthening the African multilateral institutions

- Shareholders of the African Development Bank should aim to make the African Development Bank the pre-eminent financing institution in Africa within 10 years. Proposals should be put forward by the new president within six months of taking office. Shareholders should provide strong support for their implementation.
- Strong support should be provided for the further enhancement of the role of the Economic Commission for Africa.

## Changing the multilateral organisations

### Strategy

- The management of the World Bank, the IMF, and the WTO should give greater priority to accelerating Africa's development. Proposals to do so should be presented to the Boards of Governors of the World Bank and IMF (preferably at the 2005 Annual Meetings of the two institutions, but certainly no later than the 2006 Spring Meetings) and the WTO's 2005 Ministerial.
- The UN Secretary General and the UN Development Group should strengthen the coordination of UN agencies, funds and programmes at country level, to improve their impact.

### Voice

- African countries should be given a greater voice in the multilateral institutions, most notably through greater representation on the boards of the World Bank and IMF.
- Strategic leadership and decision-making in the IMF and World Bank must be the responsibility of the political leadership of member countries. To this end, a decision-making Council, consisting of political representatives of member countries, should be established for each institution.
- Appointments of the heads of international institutions should be decided upon by open competition which looks for the best candidate rather than by traditions which limit these appointments by nationality.
- In each recipient country, the government and donors should set up monitoring groups to assess the quality of donor assistance and co-ordination.
- The UN Security Council should be expanded to include greater African representation.



## **Putting in place effective independent monitoring mechanisms**

- To add extra momentum to delivery of the Commission's recommendations, an independent mechanism, which reflects the consultative approach of the Commission, should be established to monitor and report on progress. This could be led by two distinguished and influential figures who carry weight in the international community, one African and one from the donor community, who could produce a short annual report. They should be supported by a small unit within an existing African or international institution.

# Glossary

## **3x5**

WHO initiative to achieve anti-retroviral treatment of three million people by the end of 2005.

## **0.7 per cent**

The level of Gross National Income (GNI) that rich countries should make available for Official Development Assistance (oda) to developing countries, as recommended by the Pearson Commission in 1970. By 2003, only five donors had reached that target: Denmark, Luxembourg, Netherlands, Norway and Sweden. Recently, Finland, Spain, the UK, France and Belgium announced timetables to reach this target.

## **ACP countries**

Group of African, Caribbean and Pacific countries whose partnership with the EU has been defined in a series of agreements, from the Lome Convention (1975) to the Cotonou Agreement (2000).

## **African Development Bank (ADB)**

A regional multilateral development bank, engaged in promoting the economic development and social progress of its Regional Member Countries in Africa. Its shareholders are 53 countries in Africa as well as 24 countries in the Americas, Europe, and Asia. It was established in 1964 with headquarters in Abidjan, Cote d'Ivoire, although it currently operates out of Tunis due to instability in Cote d'Ivoire.

## **African Development Fund (ADF)**

The African Development Fund provides development finance on concessional terms to low-income Regional Member Countries of the African Development Bank. Its sources of funds are mainly contributions and periodic replenishments by State Participants. The Fund finances projects, technical assistance and studies, with the aim of promoting poverty reduction.

## **African Forest Law Enforcement, Governance and Trade (AFLEG)**

Process aimed at increasing international commitment towards combating illegal logging and corruption in the forest sector, recognising that producing and consuming countries have shared responsibilities in reducing illegal logging and its associated trade. The process was formally launched in Yaoundé, Cameroon, in October 2003, when representatives from 39 countries signed a joint declaration setting out their commitment to address illegal logging (the AFLEG Declaration).

## **African Governance Report (AGR)**

This is the first major continent-wide study to measure and monitor 'Progress towards Good Governance in Africa' undertaken by the Economic Commission for Africa (ECA). The study conducted surveys and desk research in 28 project countries. A synopsis of report was prepared for the 4th African Development Forum convened by the ECA in Addis Ababa on 11-15 October 2004. The full results and analysis of the study are to be published in 2005.

## **African Peer Review Mechanism (APRM)**

A voluntary system launched in 2002 and open to all members of the African Union (see below), designed to promote the adoption of agreed governance standards. To accede to the APRM, a state must sign the 2002 NEPAD (see below) Declaration on Democracy, Political, Economic and Corporate Governance, and undertake to submit to periodic peer reviews. The first four reviews are underway.

## **African Union (AU)**

The successor organisation to the Organisation for African Unity (OAU), the AU was established in 2002. The AU works to promote African economic, social and political integration as well as peace and security. Its headquarters are in Addis Ababa, Ethiopia. When fully realised, the AU will have a General Assembly, Executive Council, Pan-African Parliament (established in 2004), African Central Bank (and eventual common currency), African Monetary Fund, and other organs and agencies.

## **Agricultural extension**

The public or private provision of new technologies and practices, information and knowledge, to meet the needs of farmers, and improve agricultural productivity and incomes.

## **Arms brokering**

The arrangement and facilitation of arms transfers between suppliers and purchasers who may be, but are not necessarily, outside the country. Arms brokering can cover a range of activities from setting up deals to arranging transport facilities and cargo clearance for arms. Arms brokers will typically benefit materially without necessarily taking possession or ownership of the goods they are involved in transferring.<sup>1</sup>

## **Assessed contribution**

Non-voluntary financial contribution to the core budget of the UN (or other international organisation), required from each member state and calculated on the basis of GNP. Distinct from voluntary, non-core funding, that member states may choose to provide for particular agencies or activities.

## **Basic education**

UNESCO (2004) defines basic education as the 'whole range of educational activities, taking place in various settings, that aim to meet basic learning needs as defined in the World Declaration on Education for All [Jomtien, Thailand, 1990]. According to the International Standard Classification of Education (ISCED), basic education comprises primary education [first stage of basic education] and lower secondary education [second stage]. It also covers a wide variety of non-formal and informal public and private activities intended to meet the basic learning needs of people of all ages. AU/NEPAD defines basic education as a nine-year cycle.'

## **Booty futures**

Advance rights to extract resources in areas that rebels hope to capture during war. Rebels sell these rights to raise finance to fund their offensive. Unique to Africa, booty futures have been used to initiate at least one, and prolong at least three armed struggles.<sup>2</sup>

## **Brandt Commission**

An independent commission on international development set up in 1977 by World Bank president Robert McNamara. Headed by former German Chancellor Willy Brandt, the Commission's purpose was to influence public opinion to help change government attitudes, as well as to make proposals for revitalising negotiations between the countries of the North (rich countries) and the South around global development. It produced two influential reports, *North-South* (1980) and *Common Crisis* (1983).

## **Bretton Woods Institutions**

The Bretton Woods institutions are the International Bank for Reconstruction and Development (known as the 'World Bank') and the International Monetary Fund (IMF) which were set up at a meeting of 43 countries in Bretton Woods, New Hampshire, USA in July 1944.

### **Business Contact Group**

A group of leading investors in Africa, set up following a business meeting chaired by UK Chancellor Gordon Brown in London on 20 July 2004, to inform the work of the Commission for Africa. The group produced analysis on a range of areas: governance and transparency, infrastructure, investment climates, small enterprises, leadership and capacity building, customs reform, trade, and HIV and AIDS. Discussions on these areas were held across Africa and in the US. The papers were submitted to the Commission in December 2004, and published on the Commission for Africa website.

### **Capacity**

The ability of individuals, organisations and societies to perform functions, solve problems and set and achieve their own objectives. In a development context, 'capacity development' refers to investment in people, institutions, and practices that will, together, enable that country to achieve its development objectives (World Bank, 1997).

### **Cash transfers**

Childcare grants, disability allowances, pensions, and other direct transfers of cash from the state to certain groups to reduce poverty.

### **Challenge Fund**

A challenge fund is a public financing mechanism that allocates grant funding through a competitive process. Challenge funds are set up to meet specific objectives – such as extending financial services to poor people. It is up to bidders to propose innovative ways of achieving the fund's objectives. Bids are assessed against transparent criteria, and successful bidders must match (or more than match) the grant amount. In this way, the public sector shares some of the initial risks associated with investments.

### **Civil society**

All those social organisations outside the state, the family and the market: business associations, employers' associations, trades unions, charities, community groups, professional associations, women's organisations, advocacy groups, church and faith groups, trade associations, self-help groups, recreational groups, media, academia and so on.

### **Coltan**

Coltan (short for Colombite-Tantalite) is a metallic ore, which is found mainly in the Eastern Democratic Republic of Congo. When it is refined, coltan produces metallic tantalum, which can store high electric charges and is therefore used in capacitors. These are commonly used, for example, in mobile telephones.

### **Comparative advantage**

The ability to produce a good at lower cost, relative to other goods, compared to another country.

### **Compulsory license**

Authorisation by a government for a government or company to make and sell a product (such as a drug) without the permission of the patent holder. Compulsory licenses are generally issued on the basis of public interest, such as for reasons of public health or defence.

### **Conditional transfers**

Grants conditional on using a specific service such as school and health clinic attendance. These have had big impacts in Latin America increasing school attendance, reducing illness and malnutrition.

## **Convention on Combating Bribery of Foreign Public Officials in International Business Transactions**

Commonly referred to as the OECD Bribery Convention, this international treaty signed in 1997 and in force since 1999, commits developed countries to criminalise bribery by their companies operating overseas. All OECD countries have ratified the convention, as have five others (Argentina, Brazil, Bulgaria, Chile and Slovenia). A system of peer reviews monitors compliance with the terms of the convention.

## **Cotonou Agreement**

Partnership agreement between the EU and the ACP countries signed in June 2000 in Cotonou, Benin. Replaces the Lomé Convention. Its main objective is poverty reduction, "to be achieved through political dialogue, development aid and closer economic and trade cooperation."

## **Country Policy and Institutional Assessment (CPIA)**

The Country Policy and Institutional Assessment (CPIA) annually assesses the quality of policy and institutional performance of borrowers from the World Bank in areas relevant to economic growth and poverty reduction. Country assessments began in the World Bank in the late 1970s to help guide the allocation of lending resources.

## **Debt service**

The sum of principal repayments and interest actually paid in foreign currency, goods or services on long-term debt, plus interest paid on short-term debt (i.e. debt which is due within 1 year).

## **Development Assistance Committee (DAC)**

The committee of the Organisation for Economic Co-operation and Development (OECD) which deals with development co-operation matters.

## **Donor orphans**

Countries that receive disproportionately little donor support.

## **Dual criminality**

The principle whereby a specific crime is recognised in the legal system of two separate jurisdictions. For example, one country may recognise 'Abuse of Privilege' as an offence in its own right, whereas another might consider this a disciplinary matter, but not a criminal act.

## **Economic Commission for Africa (ECA)**

Established in 1958, one of five regional commissions under the administrative direction of United Nations (UN) headquarters, mandated to support the economic and social development of its 53 member States, foster regional integration, and promote international cooperation for Africa's development.

## **Economic growth**

The annual increase in a nation's total output of goods and services or the annual increase in the nation's total income.

## **Education for All**

Education for All dates to the Jomtien Conference in 1990. In 2000 countries reiterated their commitment and set six goals in the Dakar Framework for Action (2000) on early childhood care and education, youth and adult learning, gender, universal primary education, literacy and quality.

## **European Investment Bank (EIB)**

The EIB, the European Union's financing institution, contributes to the integration, balanced development and economic and social cohesion of the Member Countries. Outside the Union the EIB implements the financial components of agreements concluded under European development aid and co-operation policies.

**European Union (EU)**

The European Union is made up of 25 member states. Common institutions, including the Council of the European Union, the European Parliament and the European Commission, take decisions on and manage specific matters of joint interest at European level.

**EU Forest Law Enforcement, Governance and Trade (FLEGT) voluntary partnership scheme**

A plan of action through which the EU will tackle illegal logging. At its core is a proposal to set up voluntary partnerships with timber producing countries, under which the EU will provide development assistance to improve governance in producer countries' forestry sectors. This will include setting up a licensing scheme to verify the legality of timber for export. The EU will further support this process by excluding timber from partner countries from its market unless accompanied by a legality licence – thereby removing unfair competition from the illegal sector.

**Everything But Arms (EBA)**

A 2001 EU initiative to grant least developed countries duty- and quota-free access for their exports.

**Exclusion**

Denial of entitlements or access to decision-making processes and services, including the justice system for certain groups. Exclusion is often on the basis of a person's identity, for example, as a woman or as a part of an ethnic group.

**Extraterritorial arms brokering**

Arms brokers operating from outside their country of residence or nationality.

**Fast-track Initiative (FTI)**

Launched in June 2002 as a practical response to the commitment to Education for All to mobilise increased and better co-ordinated resources for those low-income countries making serious efforts to improve primary education. Designed on the principles of the Monterrey Consensus, the FTI is built on mutual accountability whereby increased donor support for primary education is based on a country's policy performance and accountability for results.

**Financial Action Task Force (FATF)**

The Financial Action Task Force (FATF) is an inter-governmental body established in 1989, under the auspices of the G7 and with affiliations to the OECD, whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. Several regional bodies have been set up on the model of the FATF, including in Africa.

**Foreign direct investment (FDI)**

A corporation's acquisition abroad of physical assets, such as plants and equipment, with operating control residing in the parent corporation outside the country where the acquisition occurs. Also includes mergers and acquisitions of corporations in one country with or by those in another country.

**G7**

A group of seven major industrialised countries – Canada, France, Germany, Italy, Japan, the UK and the US.

**G8**

The G7 plus the Russian Federation.

**General Agreement on Tariffs and Trade (GATT)**

The GATT is the founding basis of the WTO and covers regulation related to trade in goods. The GATT is the overriding framework within which other agreements – such as agriculture and SPS etc. – fit. GATT came into being in 1947.

### **Generalized System of Preferences (GSP)**

A system through which industrialised high income countries grant preferential access to their markets to developing countries.

### **Gender parity**

Achieving equal access for both sexes. A classic example is enrolment in education where frequently fewer girls than boys are enrolled.

### **Global Health Partnerships**

International coalitions to tackle a single disease or group of diseases.

### **Gross Domestic Product (GDP)**

Total value of new goods and services produced in a given year within the borders of a country, regardless of by whom.

### **Gross enrolment ratio (GER)**

Total enrolment in a specific level of education, regardless of age, expressed as a percentage of the population in the official age group corresponding to this level of education. The GER can exceed 100 per cent due to late entry and/or repetition (UNESCO, 2004).

### **Gross National Income (GNI)**

Total income earned by domestic citizens, regardless of the country in which they operate. GNI is the monetary equivalent of GDP plus income earned by domestic residents through foreign investments minus the income earned by foreign investors in the domestic market.

### **Heavily Indebted Poor Countries (HIPC)**

The HIPC Initiative was first launched in 1996 by the IMF and World Bank. Its aim is to reduce the excessive debt burdens faced by the world's poorest nations. The Initiative entails co-ordinated action by the international financial community, including multilateral organisations and governments, to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries. The HIPC Initiative currently identifies 38 countries, 32 of them in sub-Saharan Africa, as potentially eligible to receive debt relief.

### **Heavily Indebted Poor Countries Country Assessment and Action Plan (HIPC AAP)**

The HIPC Assessment and Action Plan assesses the quality and capacity of public expenditure systems in HIPC countries and formulates action plans to strengthen those systems.

### **Humanitarian assistance**

Temporary assistance designed to rapidly reduce human suffering, including 'objects indispensable to the survival of the civilian population (including food supplies, crops, livestock, water, water installations and irrigation works, medicine, objects necessary for religious worship, clothing, beddings, and shelter)<sup>3</sup>.

### **Human security**

People-centred "human security becomes an all-encompassing condition in which individual citizens live in freedom, peace and safety and participate fully in the process of governance. They enjoy the protection of fundamental rights, have access to resources and the basic necessities of life, including health and education, and inhabit an environment that is not injurious to their health and well-being."<sup>4</sup>

**Informal economy**

Conceptually, the informal economy stands in opposition to the 'formal' economy, i.e. that part of the economy whose activities are recorded in national accounts and operate under rules and regulations imposed by the government. By contrast, economic activities in the informal sector are not recorded in national accounts (hence often called 'invisible') and are not subject to formal rules of contract, licensing, labour laws, reporting and taxation (ILO, 1984). The quality of information about the size, magnitude and composition of the informal economy in Africa is generally very poor.

**Infrastructure**

Economic infrastructure including energy, transport, information and communication technology, water supply and sanitation and other water resource infrastructure and social infrastructure, such as schools and health centres.

**Investment Climate**

The investment climate consists of the local factors that shape the opportunities and incentives for firms to invest productively, create jobs and expand. Government policies and behaviours play a critical role by affecting the costs, risk and barriers to competition faced by firms. Important issues identified in studies and business surveys include: policy predictability; macroeconomic stability; good provision of health, education and infrastructure services; the quality and accountability of public financial management systems; the predictability and transparency of taxation; the nature of business regulation; the level of corruption; an effective and fair judiciary; well-implemented competition laws; efficient financial markets; and political instability, conflict and crime.

**Interhamwe**

A Hutu militia that led to genocidal violence in Rwanda in 1994, parts of which fled to the DRC after the genocide.

**International Bank for Reconstruction and Development**

See 'World Bank (Group)'.

**International Development Association (IDA)**

Part of the World Bank Group, established in 1960. Provides interest free credit and grants to the poorest countries.

**IDA 14**

The largest source of IDA resources is new contributions from donor countries, next to internal resources. Donors make pledges as to how much they will contribute to IDA for three year period. The latest replenishment round (for the three year period between July 2005 and June 2008), IDA 14, was concluded in February 2005 and saw the biggest increase in IDA resources for two decades.

**International Finance Facility (IFF)**

Launched in January 2003 by the UK's HM Treasury and DFID, the IFF is a financing mechanism designed to substantially increase development financing in the short run. It would leverage in additional money from the international capital markets by issuing bonds, based on legally-binding long-term donor commitments. Participating donor countries would be responsible for repaying bondholders using future donor aid streams.

**International Monetary Fund**

The IMF has 184 members and works to foster global monetary co-operation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty.



## **Kimberley Process**

An initiative in which governments, industry and NGOs joined together to stem the flow of so called 'conflict diamonds' – rough diamonds that have been used to finance wars and that have mostly been obtained or traded illicitly. The Kimberley Process Certification Scheme is a voluntary system that imposes extensive requirements on participants to certify that shipments of rough diamonds are free from conflict diamonds. It accounts for approximately 98 per cent of the world trade in rough diamonds<sup>5</sup>.

## **Least Developed Countries (LDCs)**

Countries which have been designated as such by the United Nations based on three criteria including low income, economic vulnerability and a human resource weakness criterion (based on indicators on nutrition, education and adult literacy). At 31 March 2004, the total number of LDCs was 50 (of which 33 are in sub-Saharan Africa).

## **Market linkages**

Market linkages are those factors that enable people to access market opportunities. They include finance, business know-how and information, infrastructure and technology. So for example, farmers need roads to transport their products to market. Entrepreneurs need finance to start up and grow new businesses. Through their trading relationships with small enterprises, larger domestic and foreign firms can play an important role in enabling them to overcome weak market linkages. They clearly open new market opportunities by involving them as suppliers or distributors of their products, but many also provide financial assistance, technological upgrading and business skills development.

## **Microfinance**

The provision of financial services to poor people, including small-scale credit, savings, deposits, insurance services and pro-poor mortgage mechanisms.

## **Millennium Development Goals (MDGs)**

At the UN General Assembly in 2000, governments committed to achieving the following goals by 2015: eradicating extreme poverty and hunger, achieving primary education, promoting gender equality and empowering women, reducing child mortality, improving maternal health, combating HIV and AIDS, malaria, and other disease, ensuring environmental sustainability, and developing a global partnership for development.

## **Multilateral aid**

Aid channelled through international bodies, for example the UN agencies, or the World Bank.

## **Multilateral Investment Guarantee Agency (MIGA)**

MIGA, part of the World Bank Group, is a global insurer to private investors and adviser to countries on foreign investment. It aims to promote foreign direct investment into developing countries in support of growth and poverty reduction.

## **Mutual Legal Assistance (MLA)**

When the authorities of one country are investigating an offence, part of which took place overseas, or for which some of the evidence is only available overseas (such as details of the suspect's bank account), they apply to the second country for assistance in carrying out their investigation.

## **The New Partnership for Africa's Development (NEPAD)**

NEPAD is a programme of the AU and was adopted at the 37th session of the Assembly of Heads of State and Government in July 2001. It seeks to strengthen peace, security, economic and political governance, and regional integration.

**Non-governmental organisation (NGO)**

An organisation that is not part of a government. NGOs are usually not-for-profit organisations. See also 'civil society'.

**Official Development Assistance (oda)**

Disbursement of loans made on concessional terms (i.e. interest to be paid is lower than the interest rate that would be charged by the financial markets) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions and by non-DAC countries to promote economic development and welfare in countries and territories in developing countries (defined as part I of the DAC list of aid recipients). It includes loans with a grant element of at least 25% (calculated at a rate of discount of 10%).

**Open source early warning system**

Publicly-shared (available) early warning system as opposed to a closed one, which is solely used by one organisation.

**Operations Evaluation Department (OED)**

An independent unit within the World Bank which reports directly to the World Bank's board of Executive Directors. OED assesses what works, what does not; how a borrower plans to run and maintain a project; and the lasting contribution of the World Bank to a country's overall development.

**Organisation for African Unity (OAU)**

The Organisation of African Unity (OAU) was established in May 1963. It aimed to promote the unity and solidarity of the African States and act as a collective voice for the continent. It was succeeded in July 2002 by the African Union.

**Organisation for Economic Co-operation and Development (OECD)**

A group of major industrial countries promoting growth and high employment among its members, fostering international trade and contributing to global economic development.

**Panel of the Wise**

The African Union's proposed independent panel of eminent persons to support the efforts of the Peace and Security Council, particularly in respect of conflict prevention and peacebuilding.

**Paris Club**

An informal group of official bilateral creditors whose role is to find co-ordinated and sustainable solutions to the payment difficulties experienced by debtor nations. Paris Club creditors can agree to reschedule debts due to them. Rescheduling is a means of providing a country with debt relief through a postponement and/or a reduction in debt service obligations.

**PARIS 21**

An international network of statisticians, policy makers and development agencies, established in November 1999, which aims to improve evidence-based policy making. It works through raising the profile of statistics, promoting cross-country lesson-learning, and developing and implementing best practice.

**Peacebuilding**

"Activities that are focused on long-term support to, and establishment of, viable political, socio-economic and cultural institutions capable of addressing the root causes of conflicts and mediating social conflict, as well as other initiatives aimed at creating the necessary conditions for sustained peace and stability. These activities also seek to promote the integration of competing or marginalized groups within mainstream society, through providing equitable access to political decision-making, social networks, economic resources and information and can be implemented in all phases of conflict"<sup>6</sup>.

### **Peacekeeping (peace support operations)**

The UN 'Agenda for Peace' defines peacekeeping as the deployment of a United Nations presence in the field, hitherto with the consent of all the parties concerned, normally involving United Nations military and/or police personnel and frequently civilians as well. Peacekeeping is a technique that expands the possibilities for both the prevention of conflict and the making of peace<sup>7</sup>. For the purpose of this report we use peacekeeping as a generic term that encompasses the whole range of military and civilian deployment into a conflict zone with or without the consent of all the parties including peacekeeping, peace enforcement, peace building/making and preventive diplomacy. Some countries/organisations also use the term 'peace support operations'.

### **Political Risk Insurance (PRI)**

Insurance against the risks that arise from the unforeseen actions of governments, such as breach of contract; expropriation of assets; government action that impedes currency transfers; or war and civil disturbance.

### **Post-Harvest Infrastructure**

The storage, processing and distribution infrastructure for agriculture, between production and final consumption.

### **Poverty Reduction Strategy (PRS)**

Initiated by the boards of the World Bank and International Monetary Fund (IMF), a poverty reduction strategy should describe a country's macroeconomic, structural and social policies and programmes to promote growth and reduce poverty, as well as associated external financing needs. PRSs are expected to be prepared by governments through a participatory process involving civil society and development partners, including the World Bank and IMF, and are required for countries seeking to obtain concessional lending and debt relief under the enhance Heavily Indebted Poor Countries (HIPC) initiative.

### **Poverty and Social Impact Analysis (PSIA)**

Poverty and social impact analysis (PSIA) involves an analysis of the impact of policy reforms on the well-being or welfare of different stakeholder groups, with particular focus on the poor and vulnerable. PSIA has an important role in the elaboration and implementation of poverty reduction strategies in developing countries. It promotes evidence-based policy and fosters debate on policy reform options.

### **Poverty Reduction and Growth Facility (PRGF)**

The Poverty Reduction and Growth Facility (PRGF) is the IMF's low-interest lending facility for low-income countries. PRGF-supported programs are underpinned by comprehensive country-owned poverty reduction strategies.

### **Project Implementation Units (PIUs)**

Project Implementation Units are often autonomous units that administer development assistance programmes. They have been set up when existing civil service staff either do not have the capacity to take on additional tasks, or do not have the technical skills to administer such programmes.

### **Purchasing Power Parity (PPP)**

A rate of exchange that accounts for price differences across countries, allowing international comparisons of real output and incomes. At the PPP US\$ rate, PPP US\$1 has the same purchasing power in the domestic economy as in the United States.

### **Quad (group of countries)**

The participants in the so-called Quadrilateral meetings, involving the trade ministers of the US, Canada, EU, and Japan, which discuss trade policy issues.

**Regional Economic Communities (RECs)**

Multilateral African organisations which each serve one or more of Africa's regions: North Africa, East Africa, West Africa, Central Africa and Southern Africa.

**Remittances**

Money transfers by migrants who are employed or intend to remain employed in another economy in which they consider themselves residents.

**Small Arms and Light Weapons (SALW)**

Small arms "are weapons designed for personal use, and light weapons which are designed for use by several persons serving as a crew. The category of small arms includes: revolvers and self loading pistols, rifles and carbines, assault rifles, sub-machine guns and light machine guns. Light weapons include heavy machine guns, handheld underbarrel and mounted grenade launchers, portable anti-tank and anti-aircraft guns, recoilless rifles, portable launchers of anti-tank and anti-aircraft missiles and mortars of calibres less than 100mm. The ammunition and explosives are considered to form an integral part of the small arms and light weapons...."<sup>8</sup>

**Subsidiarity**

The subsidiarity principle is intended to ensure that decisions are taken as close as possible to the citizen and that constant checks are made as to whether action at the international/multilateral level is justified in the light of the possibilities available at national, regional or local level.

**Sector Wide Approach (SWAP)**

A SWAP synthesises all policy perspectives within a sector, presents a co-ordinated policy for all the sector activities and guides all spending in the sector (Government, donor, private and NGOs) through one strategy.

**Special Drawing Rights (SDRs)**

The SDR is an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account of the IMF and some other international organizations. Its value is based on a basket of key international currencies.

**Tariff**

A tax imposed on imports by a government. A tariff may be either a fixed charge per unit of product imported (specific tariff) or a fixed percentage of value (ad valorem tariff).

**Three Ones**

Policy championed by UNAIDS for one coordinating agency, one strategy and one monitoring framework to tackle HIV and AIDS.

**Trade liberalisation**

Reduction of tariffs and removal or relaxation of non-tariff barriers.

**Trade Related aspects of Intellectual Property Rights (TRIPS)**

The TRIPS agreement provides a framework requiring all WTO member countries to have minimum legislation in order to give protection to the main categories of intellectual property.

**UN Convention Against Corruption (UNCAC)**

An international treaty negotiated between 2001 and 2003, and opened for signature in December 2003, under the auspices of the United Nations Office on Drugs and Crime, setting global standards for governments in combating corruption. The principal sections cover preventive measures; the offences that should be criminalised; international co-operation, including on repatriation of stolen assets; technical assistance, and follow-up.

## UN-HABITAT

The United Nations Human Settlements Programme. The mission of UN-HABITAT is to promote sustainable urbanisation through policy formulation, institutional reform, capacity-building, technical co-operation and advocacy, and to monitor and improve the state of human settlements worldwide.

### User fees

A fee charged to those using public goods or services such as health, education, water and other infrastructure services.

### Vocational education

Programmes designed mainly to prepare students for direct entry into a particular occupation or trade (UNESCO, 2004).

### Vulnerability

Susceptibility to poverty, hunger, and destitution as a consequence of crisis, because of inability to access services or call on informal support.

### World Bank (Group)

Frequently used shorthand for the International Bank for Reconstruction and Development (IBRD), one of the original Bretton Woods institutions. The World Bank group consists of the IBRD, as well as the International Development Association (IDA); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for the Settlement of Investment Disputes (ICSID).

### World Trade Organization (WTO)

Established on 1 January 1995, as a result of the Uruguay Round, the WTO replaced GATT as the legal and institutional foundation of the multilateral trading system of member countries. It sets forth the principal contractual obligations determining how governments frame and implement domestic trade legislation and regulations. It is also the platform on which trade relations among countries evolve through collective debate and negotiation.

## Glossary: References

- 1 Adapted from a definition supplied by Amnesty International UK: Amnesty International UK (2005) Arms Brokering, accessed via <http://www.amnesty.org.uk/action/camp/arms/broker.shtml>. Note: in terms of a legal definition, arms brokering is country and context specific. Therefore, the practice and its legality varies.
- 2 Ross, M (2003) *Natural Resources and Civil War: An Overview*, report for conference on "The Governance of Natural Resources Revenues", World Bank/PFD, Paris, December 9-10, 2002, accessed via <http://www.polisci.ucla.edu/faculty/ross/WBpaper.pdf>; Collier, P et.al. (2003) *Breaking the Conflict Trap: Civil War and Development Policy*, World Bank report, Oxford: Oxford University Press.
- 3 Geneva Conventions IV, Article 23, Protocol I Article 54, Protocol II Articles 14 and 18, Protocol I, Article 69; cited after: Bouchet-Saulnier, F, (2002) *The Practical Guide to Humanitarian Law*, Lanham, Boulder, New York, Oxford: Rowman and Littlefield: 332.
- 4 Commission on Human Security, Human Security, accessed via <http://www.humansecurity.chs.org/finalreport/FinalReport.pdf>
- 5 Definition drawn from the World Bank (2004), *World Development Report 2005: A better Investment Climate for Everyone*, Washington DC: World Bank.
- 6 The Government of Canada (2003) Kimberley Process For Rough Diamonds – Background, accessed via [http://mmsd1.mms.nrcan.gc.ca/kimberleyprocess/intro\\_e.asp](http://mmsd1.mms.nrcan.gc.ca/kimberleyprocess/intro_e.asp)
- 7 OECD Development Assistance Committee (DAC) (2001) *The DAC Guidelines: Helping Prevent Violent Conflict*, accessed via [http://www.oecd.org/document/45/0,2340,en\\_2649\\_33721\\_1886125\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/45/0,2340,en_2649_33721_1886125_1_1_1_1,00.html) Paris: OECD.
- 8 United Nations Secretary General Boutros Boutros Ghali (17 June 1992) *An Agenda for Peace, A/47/277 - S/24111*, accessed via <http://www.un.org/Docs/SG/agpeace.html>
- 9 Saferworld (2005) *What are small arms and light weapons?*, accessed via <http://www.saferworld.co.uk/whatsalw.htm>

# Notes and References

## Chapter 2: Notes

- 1 Narayan et al, 2001.
- 2 Chronic Poverty Report (CPRC), 2004/5.
- 3 CPRC, 2004.
- 4 Barrientos and De Jong, 2004.
- 5 See Chapter 6.
- 6 Quite literally; malnourished girls are more likely to give birth to low birth weight babies, *ibid*.
- 7 Two thirds of child deaths are related to malnutrition. FAO, 2002.
- 8 In Zimbabwe, the drought in 2000 resulted in a loss of 7-12 per cent of lifetime earnings for the children who were malnourished in that time. Alderman et al, 2003.
- 9 World Bank, World Development Indicators Online.
- 10 UNICEF and WHO, 2004.
- 11 Both the proportion and absolute number, measured in purchasing power parity at 1993 prices.
- 12 Ravallion and Chen, 2004. Indeed, there are many who argue that in India the fall has been much faster than is indicated by World Bank figures.
- 13 Whilst the differences are smaller when we replace standard exchange rates by purchasing power parity to compare incomes across countries (in some ways more appropriate although there are difficulties with data and measurement) they are still very large.
- 14 Africa has seen an increase in absolute numbers in poverty between 1981 and 2000, from 163.6 million to 312.7million (41.6 per cent to 46.6 per cent of the population), Ravallion and Chen, 2004.
- 15 Nine countries in Africa have populations under one million, whereas others such as Ethiopia (with 67 million) have large populations. Some have low population densities (e.g. Namibia), others have high population densities (e.g. Rwanda). Some have plentiful natural resources (e.g. Nigeria), others have fewer endowments (e.g. Burkina Faso).
- 16 Note that these income figures are adjusted for purchasing-power parity (PPP), meaning that the conversions of national-currency incomes into dollars take into account the typically lower costs of living in poor economies. If instead we use market exchange rates to make the conversion, Africa's poorest economies look poorer still. Zambia's per capita income comes to only US\$160; Ethiopia's, just US\$100.
- 17 2002/03 figures. Appleton, 2003.
- 18 Data obtained from POVCALNET <http://iresearch.worldbank.org/PovcalNet>. The percentage of the population living below the commonly used international \$1 a day standard, measured in 1993 international prices and adjusted for local currency using purchasing power parities.
- 19 World Bank Indicators Online, 2004.
- 20 The result on the strong correlation between growth and poverty reduction is reflected in most econometric studies.
- 21 World Bank, 2004a.
- 22 Stern et al, 2005.
- 23 World Bank, 1999 and 2001.
- 24 These statistics are not easy to interpret. The numbers serve more to rank countries and regions than to show, in percentage terms, how much better the governance is in one than in another. In other words, an improvement from 2.9 to 3.1 on the scale need not mean the same degree of improvement as a change from 3.1 to 3.3. But the fact that Africa's scores have improved steadily is encouraging, as the indicators of better governance from other institutions (including the Economic Commission for Africa), have shown.
- 25 Herbst, 2001.
- 26 International Rescue Committee, 2003. There are 13 million internally displaced people and 3.5 million refugees, more than twice the absolute number in Asia, which has five times the population of Africa (Norwegian Refugee Council, 2003 and World Bank, 2003a).
- 27 See Chapter 5.
- 28 Many children are recruited, often by force, into armed groups as child soldiers, porters or sex slaves. Women are often subjected to sexual violence.
- 29 International Rescue Committee, 2003.
- 30 UNDP, 2003.
- 31 World Bank, 2004b.
- 32 World Bank, 2004b: 14.
- 33 The World Bank *Doing Business in 2004* report highlights the fact that cumbersome business regulation matters especially for poor people. The report finds that poor countries regulate business the most.
- 34 Loup, 2000.
- 35 UNCTAD, 1999; Asiedu, 2002; Jenkins and Thomas, 2002.
- 36 From 1980 to 2000, world prices for 18 major export commodities fell by 25% in real terms.

- 37 Khor, 2004.
- 38 UNCTAD, 2003.
- 39 Though Chile and Botswana have shown that a medium-term development strategy in which natural resources play a strong role can have some success.
- 40 Limao and Venables, 2001.
- 41 World Development Indicators, 2004.
- 42 Tibajuka, 2005.
- 43 4.87 per cent compared to 2.5 per cent annual growth. Tibajuka, 2005.
- 44 Tibajuka, 2005.
- 45 Collier, Hoeffler and Patillo, 2001.
- 46 World Bank, 2003b.
- 47 OECD DAC database.
- 48 World Bank, 2002.
- 49 Of merchandise exports only 2003 figures WTO, 2004.
- 50 Total GDP for sub-Saharan Africa is a little over US\$300 billion.
- 51 The IOM (International Organisation for Migration) uses the term "Brain drain" to describe the cross-border movement of highly skilled persons who stay abroad for a long period of time; in other words, those who possess or are in the process of acquiring a tertiary qualification. By contrast the term "human capital flight" also includes migration of less-skilled persons.

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- World Bank (2004a) *World Development Indicators 2004*, Washington DC: World Bank.
- World Bank (2004b) *Government of Mozambique Review of the Economic and Social Plan for 2003*.



PovertyNet, Washington DC: World Bank, accessed via [http://poverty.worldbank.org/files/BPES\\_2003\\_Incls\\_FMI.pdf](http://poverty.worldbank.org/files/BPES_2003_Incls_FMI.pdf)

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## Chapter 3: Notes

- 1 See Rao and Walton, 2004 for discussion of definitions of culture.
- 2 Walton, 2004.
- 3 Huntington (2000), Landes (2000), and Harrison (2000) differentiate between societies that observe traditional as opposed to modern cultures, concluding that "societies steeped in traditional cultures are unsuited to market-oriented development and are, thus, fundamentally hampered in their pursuit of growth" (cited in Rao and Walton, 2004:10).
- 4 See Sen, 2004.
- 5 UNDP, 2004.
- 6 Smith, A (1776) *An inquiry into the nature and causes of the wealth of nations*, cited by Sen, 2004.
- 7 Independent Commission on International Development Issues, 1980:24.
- 8 World Commission on Culture and Development, 1996:8-14.
- 9 Paragraph 5 of the Declaration (UN, 2002). Chapter VII of the Plan focussed on Africa, including objectives on science and technology, protection and application of indigenous knowledge, sustainable tourism respecting local culture and traditions, and sustainable urbanisation and human settlements.
- 10 Sen, 2004.
- 11 See for example: The Commission's e-forum (over 200 contributions) in November-December 2004; surveys of African opinion for the Commission by VSO in October 2004; and Globescan; in 2005; all available on [www.commissionforafrica.org](http://www.commissionforafrica.org); BBC World Service on-line and broadcast debates, and the BBC's own Pulse of Africa survey (2004).
- 12 See Chang (2002) for an outline of this argument.
- 13 For discussions of this see Rao and Walton (2004:9), Sen (2004:37); and Moncrieffe (2004).
- 14 Ellis and ter Haar, 2004a.
- 15 Those who saw a Protestant ethic as the explanation for the success of early capitalism in Northern Europe were forced to then extend the notion to all Christianity when Catholic Europe took off, then in varying degrees to Japanese culture, Asian values and so on as different societies enjoyed success, as Amartya Sen argues (2004:48).
- 16 Statistics from Tibaijuka, 2005.
- 17 Scott et al, 2004.
- 18 Moncrieffe, 2004.
- 19 Karugire (1980:13), describing Uganda, cited by Moncrieffe, 2004:4.
- 20 Surveys of popular opinion reinforce this. Afrobarometer (2004) reported a strong bias towards hope among Africans, including on economic prospects. BBC World Service (2004) found 90 per cent of respondents reporting pride in Africa and a majority seeing their countries as places that can be looked up to.
- 21 <http://www.maryknollafrika.org/Facts.htm>
- 22 The differences between rural and urban areas are often particularly marked, a point that is reflected in Chapter 7.
- 23 UNDP (2004: 33 and 63) estimates 2,500 languages, with 85 per cent of Africans speaking 15 core African languages as a first, second or third language. For the challenge of Nigerian linguistic diversity, see Ngozi Okonjo-Iweala, Nigerian Finance Minister, writing in the British Guardian newspaper, 31 January 2005.
- 24 Evidence from Mali, Niger, Nigeria and Zambia shows bilingual schools can be more effective than monolingual schools, for strengthening community continuity and interactions, as well as enhancing the standing of both languages. UNDP (2004:61).
- 25 Microsoft's Local Language Programme is developing packages for several African languages, including Kiswahili and Amharic. BBC World Service website 17 June 2004, <http://www.bbc.co.uk/worldservice/index.shtml>
- 26 IDEA (2005) shows that voter turnout has been in decline in Africa since the early 1980s.
- 27 Though, of course, members of a clan group may be loyal to a political leader or elite who happens to come from their own tribe.
- 28 The Committee on African Studies, 2004. Although the experience of small businesses not outliving their founder is an African one, cross-regional data on analogous trends in other parts of the world would be necessary to show how distinctive this is to Africa.
- 29 The idea to "optimise anarchy" was expressed at Bob Geldof's New Thinking Seminar in Rome, October 2004. [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 30 Ellis and ter Haar (eds), 2004a and 2004b. The same authors explore characteristics of a range of elite and secret societies, including how politicians may use such bodies not only to smooth their relations with other elites and access systems of patronage, but also to search for arcane knowledge of a religious nature (2004a:8).
- 31 Published statistics suggest that of Africa's population of around 700 to 800 million, there are roughly 350 million Muslims, 400 million Christians and some 100 million followers of indigenous religions (Encyclopædia Britannica (2004), cited by Stanford University Library, accessed via <http://www-sul.stanford.edu/depts/ssrg/africa/religion.html>).
- 32 The Committee on African Studies, 2004.
- 33 Ellis and ter Haar, 2004b.
- 34 Cheikh Anta Baboui, "Brotherhood solidarity, education and migration: the role of the Dahiras among the Murid Muslim community of New York", *African Affairs*, 101, 4003 (2002) p 151-70; cited in Ellis and ter Haar, 2004a.
- 35 The Committee on African Studies, 2004.
- 36 Research in North of Nigeria indicated that Shari'a, if it is applied properly, is seen as offering greater protections for women than provided by the civil courts. Most notably in the area of support for children, protection during pregnancy, and better

divorce outcomes. FOMWAN, the Federation of Muslim Women's Organisations of Nigeria, have highlighted this in their campaigning, Linden (2004): Guest (2004) notes the initial popularity of Shari'a courts when introduced in northern Nigeria, as well as some of the associated tensions and challenges for national governance, including a constitutional challenge to a sentence to stoning to death.

- 37 An example cited by Meles Zenawi, Prime Minister of Ethiopia, during the Commission's deliberations.
- 38 Gbodossou, 2003.
- 39 Kelly, 2003.
- 40 World Health Organisation, 2002.
- 41 The president of the World Bank, James Wolfensohn has set up The World Faiths Development Dialogue.
- 42 Ellis and ter Haar, 2004b.
- 43 Guest 2004: 239.
- 44 Definition of witchcraft used by Ellis and ter Haar, 2004a:149.
- 45 Witch villages reported by Ellis and ter Haar, op cit p.151; DR Congo's child witches and 'witch' murders in Tanzania and Mozambique accessed via BBC World Service website, 17 January 2003, 29 October and 3 July 2002 <http://www.bbc.co.uk/worldservice/index.shtml>
- 46 Walton, 2004.
- 47 For example, at the 2004 Athens Olympics, African runners took all the first seven places in the men's 10,000 metres.
- 48 For an Ugandan example see UNFPA, 2004:34.
- 49 The Committee on African Studies, 2004.
- 50 Policy Sciences Center, 2004. The World Bank has also reported planned rollout in Ghana, Mali and Cape Verde (World Bank Group, 2003).
- 51 See submissions from UK Sport (2004) and Alive and Kicking (2005) which describe schemes that place health messages on footballs and other equipment.
- 52 UNESCO Sub-regional discussion workshops (Cuba, Thailand, Zimbabwe) 1999, accessed via [http://portal.unesco.org/en/ev.php-URL\\_ID=3315&URL\\_++DO=DO\\_TOPIC&URL\\_SECTION=201.html](http://portal.unesco.org/en/ev.php-URL_ID=3315&URL_++DO=DO_TOPIC&URL_SECTION=201.html)
- 53 Walton, 2004.
- 54 Harragin, 2004.
- 55 Linden, 2004.

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# Chapter 4: Notes

- 1 Kaufmann, 2003: 14.
- 2 Economic Commission for Africa, 2004: iii.
- 3 See proposal submitted at Commission for Africa Regional Consultation with Civil Society, Nairobi, 6-8 December 2004. Other international instruments on women's rights include the Beijing and Dakar Platforms for action, the ICPD Programme of Action and the protocol to the African Charter on Human and People's Rights on the rights of women in Africa.
- 4 Similar conclusions are reached by the Global Monitoring Report 2004, which notes that performance varies widely, that reform needs to be accelerated and deepened in many countries, and that most serious shortcomings are in transparency, accountability and control of corruption. World Bank, 2004b: xvii - xviii.
- 5 World Bank, 2004b: xviii.
- 6 The primary purpose of the APRM is to foster the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development and accelerated sub-regional and continental economic integration through sharing of experiences and reinforcement of successful and best practice, including identifying deficiencies and assessing the needs for capacity-building.
- 7 The first four countries to be reviewed are Ghana, Rwanda, Mauritius and Kenya. The first country review is expected to be undertaken within eighteen months of a country becoming a member of the APRM process, and then, except in exceptional circumstances, a periodic review will take place every two to four years. The APRM process from start to finish should take between six and nine months. It consists of five stages: careful analysis of the governance and development environment in the country to be reviewed; country review visit of the APR team; preparation of the mission findings and discussions of the draft report with representatives of the government; discussion and consideration of the country review findings by the participating Heads of State and Government; and, formal and public tabling of peer review reports.
- 8 Member countries are the main source of finance, and it is not possible to put a figure to the likely level of donor funding required. As capacity grows, institutions may expand their operational activities, and funding requirements may grow. Given the importance of the increasing role of the pan-African and regional institutions, pre-commitment to provide funds would be valuable.
- 9 The HIV and AIDS crisis has compounded staff shortages by increasing pressures on staff, and by infecting and killing them. In Malawi, 25 per cent of nurses are lost every year, roughly a third of these falling ill and dying of AIDS. In Zambia despite renewed efforts in teacher training, teachers are dying faster than they can be trained. See submission from Africa All Party Parliamentary Group, November 2004.
- 10 In July 2003 the AU's programme for Capacity Development for Governance of Public Administration in Africa was endorsed as a priority component of the overall NEPAD programme.
- 11 26 per cent of bilateral overseas development assistance to sub-Saharan Africa, excluding South Africa, was spent on technical cooperation in 2002, see [www.oecd.org/dac/stats/idsonline](http://www.oecd.org/dac/stats/idsonline).
- 12 Boesen, N and O Therikildsen, 2004; Boesen, N., 2004.
- 13 Tanzania, for example, prepares about 200 reports of different kinds and has received more than a thousand donor delegations each year. World Bank, 2004c: 207.
- 14 ECA/OECD-DAC (2005).
- 15 Levy, Brian and Sahr Kpundeh, 2004.
- 16 The State of the Ghanaian Economy Report, 2002.
- 17 Ndulu, 2004: 2
- 18 Sawyerr, 2004: 27
- 19 Sawyerr, 2004: 18
- 20 UNESCO Institute of Statistics, 2004: 3
- 21 World Bank, 2000: 6
- 22 Calculated on an average of \$10 million per annum for each of the thirty centres. In practice funding would vary by centre and over time, depending on absorptive capacity and requirements.
- 23 The programme should also tie in with the objectives and networks of the new African Leadership Council. The Nelson Mandela Foundation and the Mandela Rhodes Foundation could also have an important role to play.
- 24 World Bank, cited in International Organization on Migration, 2003.
- 25 World Bank, 2002 in International Development Select Committee, 2004.
- 26 Bennell, P, 2004.
- 27 A UNDP/UNICEF expert group calculated that, for Mozambique, a shift of around US\$100 million per year from provision of technical assistance workers (around US\$350 million per year total) to national salaries would allow salaries to double on average and finance an incentive scheme.
- 28 E-governance refers to the use of information and communications technology to improve the performance of public institutions and make them more transparent and responsive.
- 29 Article 13.2. The African Charter for Human and Peoples' Rights was adopted in June 1981 and entered into force in October 1986.
- 30 This was thought necessary to enhance implementation of development projects and give 'teeth' to the President. This paved the way for autocratic rule by Presidents for life under one party states. Moreover, in cultures that revere elders and ceremonial obligations, an Executive President may not be the best model. There are a number of possible models for change, ranging from a ceremonial President with an Executive Prime Minister who oversees day-to-day conduct of government business, to a constitution that balances power between the President and the Prime Minister.
- 31 Economic Commission for Africa, 2004:4.
- 32 The highest percentage of women in public office is in Rwanda at over 45 per cent, see proposals submitted at the Commission for African Regional Consultation with Civil Society, Alexandria, 14-16 December 2004.

- 33 World Bank, 2001: 95.
- 34 British Council, 'Women in Politics and Leadership,' 2003 cited in Helen Jackson MP et. al., 2004.
- 35 See submission from Parliamentary Labour Party International Development Committee 2004.
- 36 The African Charter on Human and Peoples' Rights; Article 9: 1. Every individual shall have the right to receive information. 2. Every individual shall have the right to express and disseminate his opinions within the law.
- 37 See submission from OSI-AfriMAP, 2004.
- 38 Economic Commission for Africa, 2004: 11.
- 39 World Bank, 2002: 10.
- 40 See submission from M. Myers, 2004.
- 41 Potentially including pan-African broadcasters or news channels. See submission from Moeletsi Mbeki, 2005.
- 42 For example see BBC World Service Trust submission, 2005.
- 43 This should include supporting AU/NEPAD's media department to build on its ongoing work.
- 44 See submission from Royal African Society, 2004.
- 45 In particular: training and accreditation of training programmes through regional networks; equipment resources; stimulation of African indigenous programming; development of public service broadcasting and provision of information to rural areas, women and youth; support for community radio and local language media; regulatory and legal reform; provision of digital skills for diversified content through internet access; and the generation of market and audience research in order to provide the data required to increase relevance of content as well targeted marketing and advertising revenue.
- 46 See submission from Sally-Ann Wilson, 2005.
- 47 For example, in Angola it takes over a thousand days and 47 procedures to enforce a contract, compared with 27 days and 14 procedures in Tunisia. (Economic Commission for Africa, 2004:20).
- 48 Estimate of the State Counsel in the Law Officers Department in Freetown as of November 2003 cited in Open Society Justice Initiatives, 2004: 57.
- 49 Economic Commission for Africa, 2004: 5.
- 50 A report by the World Bank about Uganda's Poverty Reduction Strategy (PRS) indicates that "*Decentralization helped expedite the implementation of equalization grants to enable districts to meet locally identified poverty priorities*" cited in Local Government International Bureau submission.
- 51 Economic Commission for Africa, 2004:10.
- 52 IDASA (not dated). See <http://www.idasa.org.za/>
- 53 Poor governance is not the only reason why resource-rich countries remain poor. In the abundant literature on this subject, several other explanations are offered for the phenomenon known as the "resource curse", including a long-term decline in terms of trade; revenue volatility; Dutch disease; crowding out effects; an increase in the role of the state; and certain socio-cultural and political effects associated with resource dependency. See, for example, Sachs and Warner, 1995; Auty, 2001; Ross, 2003. For an overview of the literature, see Stevens, 2003.
- 54 Gary, I and TL Karl, CRS, 2003; see also Ross, 2001.
- 55 G8 Declaration on Fighting Corruption and Improving Transparency, Evian 2003, accessible via [http://www.g8.fr/evian/english/navigation/2003\\_g8\\_summit/summit\\_documents/fighting\\_corruption\\_and\\_improving\\_transparency\\_-\\_a\\_g8\\_declaration.html](http://www.g8.fr/evian/english/navigation/2003_g8_summit/summit_documents/fighting_corruption_and_improving_transparency_-_a_g8_declaration.html). Section six deals with the extractives industry in particular.
- 56 For more information about the Transparency Directive, see [http://europa.eu.int/comm/internal\\_market/securities/transparency/index\\_en.htm](http://europa.eu.int/comm/internal_market/securities/transparency/index_en.htm). Extractive industry companies are dealt with in paragraph 14 of the Directive.
- 57 The countries are Georgia, Peru, Nicaragua and Nigeria. For details of the compacts, see <http://www.g8usa.gov/documents.htm>.
- 58 Some of the better-known examples include the action taken against Shell Oil about the sinking of the decommissioned Brent Spar oil platform in the North Sea, and action against Barclays for its support of South Africa's apartheid regime.
- 59 The other five countries where EITI is being implemented are Azerbaijan, the Kyrgyz Republic, Trinidad and Tobago, Peru and Timor Leste.
- 60 For more information on EITI, see its official web site at [www.eitransparency.org](http://www.eitransparency.org)
- 61 The need for capacity-building among civil society was highlighted in a letter to the Commission for Africa from the Publish What You Pay coalition, 10 December 2004.
- 62 For example, in Burundi up to 90 per cent of export income during 1990-1999 came from coffee, tea and sugar; Ethiopia derived 80 per cent of export revenue from coffee, hides and skins and sesame seed over the same period; while São Tomé and Príncipe, slated to become a major oil producer over the next few years, relied on cocoa, fisheries and coffee to generate 81 per cent of total exports during the previous decade. UNCTAD, 2003.
- 63 UNCTAD, 2003.
- 64 Barrett, 2004.
- 65 In October 2001 ministers from 31 African nations, meeting in Yaoundé, signed the African Forest Law Enforcement, Governance and Trade (AFLEG) declaration. Designed to fit within the umbrella of the NEPAD, it aims to galvanise international commitment at high political levels to strengthen the continent's capacity to enforce forest law throughout Africa, with particular regard to illegal logging and the trade in illicit timber and wildlife resources. AFLEG Ministerial Declaration, 2003. <http://www.illegal.logging.info>
- 66 Experience from developing a timber procurement policy in the UK indicates that buying only legal timber could initially raise procurement costs by between 0 and 20 per cent, with premiums varying from product to product, but the increase is expected to be temporary and will fall away as the percentage of legally sourced timber on the world market increases.
- 67 AFLEG Ministerial Declaration, 2003.
- 68 For a discussion, please see Chapter 7.

- 69 See, for example, the 2004 UN General Assembly Resolution A/59/L.23, available at <http://daccessdds.un.org/doc/UNDOC/LTD/N04/594/63/PDF/N0459463.pdf?OpenElement>
- 70 Royalty agreements for EU boats to fish in Africa are estimated to be worth €0.6bn. DEFRA, 2004.
- 71 For example, African coastal states should consider using their right under international law to licence and control fishing in their waters to recover the full cost of administering and enforcing regulations for sustainable fishing, as well as generating revenue for development and other goals. This is the exercise of the "sovereign right of the sovereign state" in their exclusive economic zone (EEZ) as provided for in the articles 61 and 62 of the United Nations Convention on the Law of the Sea, 1982.
- 72 To date, 28 institutions, including the European Investment Bank and the Danish Export Credit Agency, have adopted the Equator Principles. For details, see <http://www.equator-principles.com>. The Principles have been welcomed but a number of signatory banks have been criticised for continuing to finance projects that are environmentally and socially controversial. For more information, see [www.banktrack.org](http://www.banktrack.org)
- 73 In 2004 the Bank announced that, in response to the findings of the Extractive Industries Review, it would begin requiring disclosure of revenue figures for new major extractive industries projects immediately, and that this requirement would become retrospectively effective within two years. It also endorsed the EITI, and committed to use explicit governance indicators - such as the quality of fiscal management, transparency, and anti-corruption policies - in determining whether to engage in extractive industries projects. World Bank, 2004a.
- 74 Comments have been invited on a draft version of the IMF's Guide on Resource Revenue Transparency - see <http://imf.org/external/np/sec/pr/2004/pr04274.htm>
- 75 Transparency International, 2002.
- 76 Transparency International, 2004.
- 77 For a fuller discussion of these and other guidelines, see section 7.3.3 in Chapter 7.
- 78 Publish What You Pay, accessed via <http://www.publishwhatyoupay.org/english/objectives/ecas.shtml>
- 79 There are exceptions; for example, the Danish Export Credit Agency EKF has signed up to the Equator Principles - see note 72.
- 80 See [www.thecornerhouse.org.uk](http://www.thecornerhouse.org.uk). For more NGO views of ECAs, see also [www.eca-watch.org](http://www.eca-watch.org), [www.environmentaldefense.org](http://www.environmentaldefense.org)
- 81 Adopted by the OECD Council in December 2003, the Recommendation sets out common approaches for identifying and evaluating the environmental impact of projects they support, including the impact of involuntary resettlement, indigenous peoples and cultural property. For more detail, see <http://www.oecd.org/dataoecd/26/33/21684464.pdf>
- 82 Agreed in November 2000 by the members of the OECD Working Party on Export Credits and Credit Guarantees, OECD 2000.
- 83 For a definition, refer to the Glossary.
- 84 For more detail on the Working Party's activities, see [http://www.oecd.org/department/0,2688,en\\_2649\\_34181\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/department/0,2688,en_2649_34181_1_1_1_1_1,00.html)
- 85 Commission of the European Communities, EU Africa Dialogue, 2003: 7. As an indication of the amount that could be repatriated if financial centres implemented all the actions below, the government of Switzerland, which has taken the necessary steps, has recently completed repatriation of around US\$700 million of Abacha funds to the government of Nigeria.
- 86 G8 Africa Action Plan, June 2002, Section 2.6: "We commit to... intensifying international co-operation to recover illicitly acquired financial assets."
- 87 In October 2001, the Financial Action Task Force drew up eight special recommendations on combating the financing of terrorism to supplement the existing 40 recommendations setting the global standards on combating money laundering. A Plan of Action was also agreed to ensure global compliance with these recommendations.
- 88 Goredema, Institute of Security Studies, Republic of South Africa 2003.
- 89 Institutions like the World Bank and UN provide assistance of this kind; but to date most focus has been on countries like Kenya and Nigeria that are regional financial hubs, major oil or diamond producers, or where terrorism is perceived to be a threat. There is therefore a gap in other African countries.
- 90 Some countries have already taken appropriate steps. In Switzerland, for example, it is now possible to freeze an account when there is reasonable suspicion to suggest this course of action; the suspicion can be based on information passed in a telephone call.
- 91 See Glossary.
- 92 In Switzerland, for example, the number of possible appeals has been reduced to one, which comes at the end of the process.
- 93 See inter alia Transparency International's Global Corruption Report, 2004: 89-91.
- 94 In Zambia, for example, the Supreme Court upheld a parliamentary vote to remove immunity from former President Chiluba in February 2003.
- 95 A contract determining the terms for returning funds can be agreed between the returning and recipient states. A trust fund, as set up by Peru, can be established for the sole purpose of receiving returned stolen assets.
- 96 UN Convention Against Corruption, accessed via [http://www.unodc.org/pdf/crime/convention\\_corruption/signing/Convention-e.pdf](http://www.unodc.org/pdf/crime/convention_corruption/signing/Convention-e.pdf)
- 97 See also recommendations from the regional consultation event in Nairobi.
- 98 These include PARIS21, an international network of statisticians, policy makers and development agencies that aims to improve evidence based policy making. It works through raising the profile of statistics, promoting cross-country lesson-learning and developing and implementing best practice; the World Bank Trust Fund for Statistical Capacity Building, which provides seed money to help countries develop and implement strategic plans for statistical systems; STATCAP, which provides funds for statistics programmes after countries have developed statistical strategic plans; and the IMF's General Data Dissemination System, which provides a framework for assessment.
- 99 The Marrakech Action Plan for Statistics (MAPS).
- 100 National needs: mainstream strategic planning for statistical systems and prepare national statistical development strategies for all low-income countries by 2006; begin preparations for the 2010 census round; increase financing for statistical capacity building. International responsibilities: set up an international Household Survey Network; undertake urgent improvements needed for MDG monitoring by 2005; increase accountability of the international statistical system.

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## Chapter 5: Notes

- 1 "Everyone has the right to life, liberty and security of person." Article 3, Universal Declaration of Human Rights, adopted and proclaimed by the UN General Assembly resolution 217 A (III) of 10 December 1948.
- 2 As well as the many events organised and submissions received by the Commission or on its behalf, the peace and security theme conducted a fieldtrip, led by Senator Nancy Baker, to the Democratic Republic of Congo and Uganda to look into particular conflict issues. The University of Bradford's Africa Centre for Peace and Conflict Studies also organised an expert seminar for the peace and security theme in London. The discussions at that seminar helped develop many of the proposals contained in this chapter.
- 3 The UNHLP was set up by the UN Secretary General in September 2003 to examine how to make the UN more relevant to the human and global security challenges presented by the 21st century. It reported in December 2004. Its conclusions will be taken forward in 2005 and it will be a key input into the UN Millennium Review Summit in September 2005.
- 4 Carnegie Commission on the Prevention of Deadly Conflict, 1997.
- 5 Figures from Norwegian Refugee Council, 2004, on displacement in Africa and Asia, and World Bank population statistics.
- 6 International Rescue Committee, July 2004.
- 7 *Ibid.*
- 8 Institute for Peace and Conflict Resolution (IPCR) (Federal Government of Nigeria), 2003.
- 9 For a powerful description of the impact of violent conflict on poverty and human rights in the context of South Kivu, DRC, see Bernard Kitambala in Tegera, 2003.
- 10 Collier, 2004.
- 11 See, for example, Stewart, 2001.
- 12 See Chalmers and Willets, 2003: 9 and Collier, 2003.
- 13 For an overview of HIV and AIDS issues relating to peace and security see Noack, 2004.
- 14 Kinshasa has grown from a population of about 50,000 in 1940 to almost 10 million today.
- 15 Collier, 2004: 2.
- 16 UNHLP, 2004b: 3.
- 17 This includes a number of operations for which a budget for only 3-4 months has been approved, rather than the full year. United Nations Department of Public Information, 2004.
- 18 Development Initiatives, 2003.
- 19 See Chalmers and Willett, 2003.
- 20 *Ibid.*
- 21 Schnabel, 2002.
- 22 UNHLP, 2004a. This figure is for global conflict rather than just Africa.
- 23 Chalmers and Willetts, 2003.
- 24 United Nations Security Council, 2000b.
- 25 United Nations Secretary General Kofi Annan, 1998.
- 26 Collier et. al., 2003: 58.
- 27 See Richards, 2005: "At the core of Liberia's conflict lies a class of marginal young people who currently lack faith in any kind of institutions. They consider that family, marriage, education, markets and the administration of justice have all failed them. Many have preferred to take their chances with various militia groups. Successful peacebuilding, and reconstruction through community empowerment will, to a large extent, depend upon the dismantling of these institutionally embedded distinctions between citizens and subjects. A genuinely inclusive, appropriately targeted community-driven development (CDD) process could play a crucial role in shaping a different kind of society, but only if it incorporates marginalised and socially-excluded groups in the rebuilding process."
- 28 See, for example, Stewart and Fitzgerald, 2001.
- 29 According to Collier et. al., 2003, "ethnic dominance" - where the largest ethnic group is between 45 and 90 per cent of the population - increases the risk of conflict by 50 per cent. Collier et. al., 2003: 58.
- 30 Ross, 2003: 13.
- 31 For an overview and critical discussion of the evidence see Le Roux, 2004.
- 32 See glossary.
- 33 In a number of cases, rebels have been known to sell advance rights to resources that they are hoping to capture during war, using the money raised this way to finance their offensive. These advance rights to yet-to-be-captured resources are known as "booty futures". They have been used to initiate at least one, and prolong at least three armed struggles in Africa (Ross, 2003). Another form of financing using natural resources is the resource-backed loan, where future resource revenues are used as collateral for large loans to the state. For more information about booty futures and resource-backed loans, see Ross, 2003 and Collier et. al., 2003.
- 34 Ross, 2003.
- 35 For overviews of the relevant literature see Stevens, 2003; Bannon and Collier, 2003; Ross, 2003.
- 36 US State Department's Bureau of Intelligence and Research, 1999. "In some countries it is easier and cheaper to buy an AK-47 than to attend a movie or provide a decent meal".
- 37 Cross, Flew and McLean, 2004: 6.
- 38 Graduate Institute of International Studies, 2003. South Africa, for example, has an annual rate of 30 firearms homicides per 100,000 (Graduate Institute of International Studies, 2004: 192-193).

- 39 See, for example, UN Secretary General, 1998; Collier, 2003.
- 40 Commission for Africa fieldtrip to Uganda and the Democratic Republic of Congo.
- 41 See, for example, Nathan, 2004, and Joseph, 1999.
- 42 See Gurr et. al., 2003.
- 43 In the case of the World Bank, this recommendation could be implemented through revision of its operational policies. The World Bank's current operational policy on conflict (number 2.30) deals with responding to the presence of violent conflict and post-conflict reconstruction and not with the mainstreaming of conflict prevention into Bank policies. EU member states should support the revival and improved implementation of the EU Conflict Prevention Strategy (European Union Council, 2001), particularly aspects on improving the impact of development assistance in reducing violent conflict.
- 44 See Piron and McKay, 2004, and Uvin, 1998.
- 45 See, for example, IPCR, 2003.
- 46 The criteria for Official Development Assistance (oda) have been reviewed accordingly. In 2004, the criteria for oda eligibility were changed to allow for expenditure on programmes on civilian oversight of security expenditure; enhancing civil society's scrutiny of the security system, and assistance to child soldiers. Further proposed changes would allow support to security sector reform, enhancing civilian capacity in peacebuilding, and programmes on small arms and light weapons.
- 47 See World Bank, 2003.
- 48 These reforms include: the creation of a Committee on the Social and Economic Aspects of Security Threats under the auspices of the UN's Economic and Social Council (ECOSOC); and the inclusion of international financial institutions (IFIs) and ECOSOC in the membership of the Peacebuilding Commission. UNHLP, 2004b.
- 49 The proposed Framework Convention (drawn up by international lawyers and supported predominantly by international NGOs) on International Arms Transfers focuses on commitments of states in respect of the international transfer of arms (all arms not just SALW). It brings together states' existing obligations under international law. It proceeds on the basis that important related issues such as brokering, licensed production and end-use monitoring will be addressed in subsequent protocols. The principles laid down in the ATT are to be applied as a minimum and do not prejudice the application of more stringent national, regional or international rules. See Draft Framework Convention on International Arms Transfers, 2004. Alternatively, the ATT could be envisaged as a comprehensive legal regime on the arms trade, also addressing broader arms trade related issues.
- 50 Refer to Glossary.
- 51 Cross, Flew and McLean, 2004: 10.
- 52 For example in Southern Africa the SADC Protocol and in Eastern Africa the Nairobi Protocol.
- 53 The government of Finland has played a pivotal role in driving this process forward. Other supporting countries include Tanzania, Kenya, the United Kingdom, and many others.
- 54 All Party Parliamentary Group on the Great Lakes Region, 2004.
- 55 The Kimberley Process Certification Scheme now covers around 98 per cent of world diamond trade. Government of Canada, 2003.
- 56 Submission to Commission for Africa received from Global Witness, July 2004.
- 57 See [www.kimberleyprocess.com](http://www.kimberleyprocess.com)
- 58 An example of a possible definition has been proposed by one international NGO: "Conflict resources are natural resources whose use or trade provokes, sustains or fuels armed conflicts which threaten national, regional or international security." Global Witness submission to the Commission for Africa, September 2004.
- 59 For example, a UN Expert Panel set up to investigate the alleged role of local and multinational companies in the conflict in the Democratic Republic of the Congo found that as many as 85 companies were guilty of violating the OECD Guidelines on Multinational Enterprises. However, in the two years since the Panel's report was released, follow-up action has been initiated against only a small handful of these. See RAID, 2004. For the Expert Panel's final report, see United Nations Security Council, 2001. See also APPG, February 2005 For an assessment of follow-up on the Expert Panel's Report.
- 60 The UNHLP suggestions build on recommendations proposed at key meetings that took place as part of the Interlaken, Bonn/Berlin, and Stockholm processes. For details, see Government of Sweden, 2003.
- 61 Submission to Commission for Africa received from Global Witness, July 2004.
- 62 Submission to Commission for Africa received from Global Witness, December 2004.
- 63 See, for example, IPCR, 2003: 23. During the Commission's fieldtrip to DRC, we heard accounts of companies hiring Interhamwe (armed militias responsible for the Rwandan genocide) to enforce claims to resource exploitation rights.
- 64 IPCR, 2003.
- 65 For details of such activities in the Democratic Republic of the Congo, see the United Nations Security Council, 2001.
- 66 Bribery of an official, for example, is illegal in many countries, while acts such as forced displacement of people could constitute crimes against humanity or, in certain circumstances, war crimes. Lunde et. al., 2004.
- 67 For a discussion of these and other guidelines for corporate behaviour, see Chapter 7.
- 68 Taylor, 2003; Lunde et. al., 2004.
- 69 G8, 2002.
- 70 Submission to Commission for Africa received from Rights and Accountability in Development (RAID), July 2004.
- 71 For a detailed analysis of problems with interpretation of the OECD Guidelines, see OECD Watch, 2004
- 72 For a summary of EU, NATO and OSCE's contributions to preventing conflict in Macedonia see German Embassy Washington DC: accessed via [www.germany-info.org/relaunch/info/archives/background/kosovo.html](http://www.germany-info.org/relaunch/info/archives/background/kosovo.html)
- 73 The Common African Defence and Security Policy adopted in Sirte in February 2004 summarises the various permanent elements of the African peace and security architecture.
- 74 See, for example, reference to human rights abuses by ECOMOG troops in Sierra Leone in Amnesty International, 2000, and the obstacles and constraints to regional interventions in Schümer, 2004 and IPA, 2001 and 2002.

- 75 The Commission for Africa commissioned a survey of views in various African countries that showed clear support for the UN in supporting peace and security on the continent. GlobeScan, 2005.
- 76 For a summary of these issues see Schümer, 2004.
- 77 Early warning systems have received growing attention in recent years. On the ground there have been attempts to develop practical "early warning systems", including in Eastern Africa, under IGAD, and West Africa, under ECOWAS. And various academics have been exploring the types of indicators such systems might best employ. (For an overview of early warning systems, see Bloomfield, 2004). The evidence suggests that speed is of the essence. The faster and greater the flow of information, the more likely that the risk of conflict can be detected early (Submission to Commission for Africa received from Laurie Nathan, 2004: 6).
- 78 European Platform for Conflict Prevention and Transformation, 1999.
- 79 UNHLP, 2004a: 2.
- 80 UNHLP, 2004a.
- 81 *Ibid.*
- 82 Nathan, 2004. See also the recommendations of the UNHLP. A number of submissions, for example from the Institute for Security Studies (ISS) in South Africa, have referred to the creation of an Africa Peace Centre in Durban, a NEPAD-approved project aimed at providing training for AU, REC and member state officials as well as direct conflict management services and support to the creation of systems and structures for the implementation of conflict management strategies.
- 83 As recommended by the "Brahimi Report", (United Nations, 2000a).
- 84 UNHLP, 2004b.
- 85 EU Battlegroups are meant to be a rapidly deployable preventive or stabilising mechanism to areas at risk of instability or threatened by state failure. They could be used in a wide range of roles theoretically at Africa's request, including short rapid deployments to stabilise hot spots (e.g. Eastern Congo); providing enhanced peacekeeping capacity by operating alongside AU Forces on UN/AU mandated missions; providing high level local security leading up to elections; over the horizon reserve forces, and more. They are thought to provide a significant multiplier effect and operational impact on the ground, sending a clear message to potential peace process spoilers.
- 86 Benn, 2004 and 2005.
- 87 The Panel of the Wise is a mechanism proposed under the Protocol establishing the AU's Peace and Security Council, and would consist of a small number of eminent Africans charged with providing independent advice and guidance on peace and security in Africa.
- 88 Some have suggested that the creation of a specialised mediation unit to support the Peace and Security Council and the Panel of the Wise, could also help strengthen the AU's mediation capacity. See submission to Commission for Africa received from Laurie Nathan, 2004.
- 89 Assessed contributions are non-voluntary contributions to the UN's budget by every member state, calculated on the basis on their GNP. Such funds are used to finance UN peacekeeping operations, but are not currently available to other organisations.
- 90 See Submission to Commission for Africa received from the ISS, December 2004.
- 91 Francis (ed.), 2005: 22.
- 92 UNHLP, 2004b: 53-58.
- 93 International Commission on Intervention and State Sovereignty, 2001.
- 94 UNHLP, 2004b: 58-9.
- 95 Collier, 2004: 2.
- 96 For a review of the challenges and experience of post-conflict reconstruction and peacebuilding see, for example, the background paper written for the Commission for Africa's second meeting by ISS (Cilliers, 2004a). Also, Collier and Hoeffler, 2002, and Addison, 2003. Many of these issues were observed first hand during the Commission for Africa fieldtrip to DRC and Uganda.
- 97 Without dismantling the war economy, spoilers, such as warlords and entrepreneurs who benefited from the war economy, remain a threat to the peace and reconstruction process.
- 98 For example, security forces and paramilitaries (identified as a high-risk group of HIV infection to themselves and to others) should be targeted in treatment and prevention programmes.
- 99 See, UNICEF, 2004: 51 on the participation of youth in truth and reconciliation initiatives in Sierra Leone as an example of their inclusion in peace processes.
- 100 Alexander, 2003.
- 101 For example, gacaca in Rwanda and customary reconciliation ceremonies in Northern Uganda.
- 102 The Commission's fieldtrip to Uganda and DRC showed that views on international mechanisms, such as the ICC, differed considerably in the two countries. This was very much linked to the differing nature of the two conflicts and local views on justice and reconciliation. Commission for Africa, 2004.
- 103 See Overseas Development Institute, 2005.
- 104 Rugumamu and Gbla, 2003: 19.
- 105 See, for example, the account of the Commission for Africa fieldtrip to Uganda and the Democratic Republic of Congo. Commission for Africa, 2004.
- 106 The Transitional Results-based Framework is "a planning tool that integrates political, economic, security and social dimensions of recovery". It aims to promote donor coordination behind government-agreed priorities in fragile or post-conflict environments where there is no single government-led development strategy, such as a Poverty Reduction Strategy.
- 107 See Cilliers, 2004a.
- 108 Under current proposals for future International Development Association financing, most post-conflict countries will gain access to 100 per cent grant financing under new proposals to link grant financing to "debt distress". International Development Association, 2004.
- 109 As recommended by the UNHLP, 2004b.
- 110 Four to seven years after the end of the conflict according to Collier and Hoeffler, 2002.

# Chapter 5: References

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# Chapter 6: Notes

- 1 Ogata and Sen, 2003.
- 2 UNDP, 2003.
- 3 2.3 million deaths and 3.1 million infections. UNAIDS, 2004b.
- 4 Submission to the Commission for Africa, received from Medicines for Malaria Venture, 2004.
- 5 Set out in the 1948 UN Declaration of Human Rights, Article 26, and reiterated in the African Charter on the Rights and Welfare of the Child (1990), entered into force November 1999.
- 6 Abu-Ghaida and Klassen, 2004.
- 7 World Bank, 2002a.
- 8 Dollar and Gatti, A 1999 World Bank study of a hundred countries has shown that increasing the number of women with a secondary education by one per cent boosts annual per capital income growth by 0.3 per cent (*ibid*).
- 9 Although the returns to primary education are much higher for boys (20 per cent) than girls (13 per cent), women experience higher returns to secondary education (18 per cent) than men (14 per cent) (Psacharopoulos and Patrinos, 2002).
- 10 UNESCO, 2000.
- 11 The commitment to universal primary completion has been reiterated in the second Millennium Development Goal.
- 12 The third Millennium Development Goal on gender equity and empowerment again reiterates this target, aiming to eliminate all disparity in primary and secondary education by 2005, and in all levels of education by 2015.
- 13 UNESCO, 2000.
- 14 [www1.worldbank.org/education/efaft](http://www1.worldbank.org/education/efaft)
- 15 Together with Ethiopia, The Gambia, Guinea, Malawi, Mali, Mozambique and Togo these countries have experienced increases in their primary completion rates of more than 3.5 per cent, well above the median 1.5 per cent annual rate of improvement for low-income countries as a whole (UN Millennium Project, 2005).
- 16 UNESCO, 2004. Overall primary enrolment in sub-Saharan Africa increased from 62 million in 1990 to 92 million in 2001; with the growth in the school age population over this period, the impact on net enrolment rates has been less dramatic, from 55 per cent to 63 per cent. The gender gap remains important, but continues to decrease slowly. In 1990, the ratio of female to male gross enrolment rate was 0.83, compared to 0.86 in 2001.
- 17 In Zambia rural children are three times as likely to start late (UNESCO, 2004) and rates of primary school completion for rural girls are less than 15 per cent in Benin, Burkina Faso, Guinea, Madagascar, Mozambique and Niger (UN Millennium Project, 2005).
- 18 Kane, 2004, UN Millennium Project, 2005.
- 19 UNESCO, 2004.
- 20 *ibid*.
- 21 For example, in Uganda the elimination of primary school fees resulted in the dramatic increase in enrolments to nearly 90 per cent for girls and boys (Kane, 2004). Primary school leavers are increasing from 400, 000 to over 1 million (Lewin, 2004). Despite increases in the numbers of school leavers aspiring for further education, secondary school net enrolment was only 21.3 per cent in 2001, the rate being lower for girls at 19.4 per cent (UNESCO, 2004).
- 22 Lewin, 2004.
- 23 UN Millennium Project 2005. Mothers trained in basic literacy and numeracy in an SOS Sahel programme, were able to run micro-financed projects, the income from which was used to send their daughters to school (pers. comm with Baroness Whittaker, Member of the House of Lords, UK). Also Submission to the Commission for Africa received from Action Aid, 2004.
- 24 Investing in all levels of education was strongly supported through our consultations (Tanzanian National Dialogue September 2004, North Africa Regional Consultation December 2004) and submissions (Council for Education in the Commonwealth November 2004, UNESCO December 2005).
- 25 NEPAD, 2002. According to UNESCO (2004) basic education is defined as "the whole range of educational activities, taking place in various settings, that aim to meet basic learning needs as defined in the World Declaration on Education for All (Jomtien, Thailand, 1990.) "Basic education comprises primary and lower secondary education, as well as informal activities to teach basic skills to people of all ages.
- 26 UN Millennium Project, 2005.
- 27 Bruns et al., 2003. Global estimates on education have been made - UNESCO estimates that an additional US\$5.6 billion per year is required to achieve universal primary education and eliminate gender disparities (UNESCO 2004). The UN Millennium Project (2005) shows global estimates ranging from US\$ 7-17 billion for putting all children into quality schooling. Estimates assume that countries will finance a significant share from domestic resources, some 80 per cent of total costs for universal primary education (Bruns et al 2003).
- 28 Lewin, 2004.
- 29 Cited in the communiqué of the 4th High-level group meeting on EFA in Brazil (8th-10th Nov 2004).
- 30 This would assist the funding of countries who already have endorsed plans - Burkina Faso, Guinea, Niger (endorsed in 2002), The Gambia, Mozambique (endorsed 2003), and Ghana (endorsed 2004). It will also contribute to the expansion of the FTI in 2005. Potential countries in Africa include Benin, Cameroon, Chad, Djibouti, Kenya, Republic of Congo, Lesotho, Madagascar, Malawi, Rwanda, São Tomé & Príncipe, Senegal, Tanzania, Uganda and Zambia (these countries have yet to have their plans endorsed). Funding for the FTI will need to increase incrementally as the countries included expand.
- 31 The Catalytic fund, a multi-donor trust fund, has been set up to provide these countries with transitional funding for two to three years until more donors come on board (FTI, 2004). This fund in particular needs stronger support.

- 32 The Education Program Development Fund (EPDF) has been set up to provide the technical expertise required to prepare a plan (FTI, 2004). Funding for sub-Saharan Africa currently comes from the Norwegian Education Trust Fund (NETF). This limited fund should be merged with the EPDF (which is modelled on the principles of the NETF) to enable the agglomeration of funds available for sub-Saharan Africa.
- 33 In Rwanda, for example, 37 per cent of the total education recurrent budget in 2003 was spent on 12,000 government-funded students in higher education (consultation with DFID Rwanda, 2004), despite being 'seriously-off track' for universal primary education according to World Bank analysis. This contrasts with the situation in Uganda outlined above.
- 34 At present OECD/DAC worldwide donor spending on higher education is 61 per cent, secondary is 10 per cent and primary is 29 per cent (UNESCO, 2004). This allocation of funds does not necessarily reflect national priorities.
- 35 Girls with primary education had HIV prevalence rates less than half of girls with no education, and girls who completed secondary school had infection rates less than one-quarter of girls without formal education. (Submission to the Commission for Africa received from Global AIDS Alliance, Dec 2004).
- 36 Evidence strongly supports the pattern that mother's education is a consistent determinant of their children's school enrolment and attainment (UN Millennium Project, 2005).
- 37 Submissions to the Commission for Africa received from the UK Parliamentarians, from SARPN and SADC Youth Movement and from Save the Children, October 2004; Policy consultation with FAWE on 'What works in girls education', June 2004; UN Millennium Project, 2005.
- 38 In 1998/99, enrolment rates were 86 per cent for boys and 72 per cent for girls as compared to, respectively, 91 per cent and 78 per cent in 2001/02 (UNESCO, 2004).
- 39 For example, the United Nations Girls' Education Initiative (UNGEI) and the Forum for African Women Educationalists (FAWE).
- 40 The Bolsa Escola program in Brazil, which provides cash transfers contingent on attendance, has reduced drop-outs and brought a third of previously un-enrolled children into school (Hertz and Sperling, 2004).
- 41 A study in 1998 in South Africa showed 33 per cent of child rape was by teachers (Jeukes, Levin, Mbananga and Bradshaw, 2002).
- 42 pers. comm. Prime Minister of Niger to Commission for Africa, 2005.
- 43 Lewin, and Stewart, 2003.
- 44 Bennell, 2004.
- 45 Kelly, 2000.
- 46 pers. comm. Minister of Education for Burkina Faso, 2005.
- 47 Lewin and Stewart, 2003.
- 48 Rose, 2002.
- 49 Crawford, 2004.
- 50 Commission for Africa North Africa Regional Consultation December 2004, Tanzanian National Dialogue September 2004, submissions received from the Council for Education in the Commonwealth, November, 2004, and Michaelowa and Ehler, July, 2004. Partian and Dasgupta, 2004.
- 51 ILO, 2004a. In South Africa employers' platforms have successfully involved youth and employers in curriculum development and in identifying internships (Jackson, 2004).
- 52 UNICEF, 2005.
- 53 The elderly, for example, are often excluded from HIV and AIDS education, and yet they play a critical role as principal carer (and therefore teacher) of many children (Submission to the Commission for Africa received from HelpAge International, December 2004).
- 54 Fentiman, 2003. Programme run in collaboration with Africa Education Trust and BBC World Service Trust.
- 55 This figure is derived from an Association for the Development of Education in Africa estimation for curricula development, at all levels, within the framework of EFA in sub-Saharan Africa.
- 56 Universities, research centres, NGO links, networks (both south-south and north-south), private sector, community-based organisations, international partnerships with schools.
- 57 Partnerships should be sustained over the long term and based upon mutual exchange (Submission to the Commission for Africa received from VOICE International, November 2004).
- 58 Including teacher training materials, on-line journals, archives of research. In Sierra Leone the Knowledge Aid project is designed to give better access by school students and teachers to high quality education materials available on the web (Submission to the Commission for Africa received by the Council for Education in the Commonwealth, November 2004).
- 59 The NEPAD e-schools initiative has been designed to equip 600,000 African primary and secondary schools over the next 10 years with ICT infrastructure.
- 60 Child mortality rates at 175 deaths per 1000 live births in sub-Saharan Africa compare to the worldwide rate of 80 deaths per 1000 live births and the developed region rate of 6 per 1000 (UNICEF 2005).
- 61 For example, measles, hepatitis B, yellow fever, diphtheria. Each year, 600,000 children die from diseases for which vaccines are available, and 900,000 die from those for which vaccines will soon be available. (The Vaccine Fund (pers. comm. 2005) GAVI (2004) estimates an extra US\$500 million a year for Africa could save over five million children's lives over 10 years.
- 62 Copenhagen Consensus, 2004.
- 63 Miguel and Kremer, 2003.
- 64 Submission to Commission for Africa received from Alex Owino, December 2004.
- 65 Health systems need an integrated fleet of vehicles (e.g. motorcycles; trucks; side-car ambulances) and proper maintenance training for health workers. Where such programmes have been implemented, mortality rates and mobility costs have dropped. (Submission to the Commission for Africa received from Riders for Health, 2005).
- 66 "The poorest and most remote people and those displaced by war and other emergencies are especially vulnerable (to disease... and have) limited access to health services, health workers and financing mechanisms" (NEPAD, 2003).

- 67 The AU/NEPAD Health Strategy was adopted by the first meeting of Ministers' of Health of the AU in April 2003 in Tripoli and by the AU in July 2003 in Maputo. It comprises an overall set of strategic directions for health and health systems and 35 projects in an Initial Programme of Action to lay the foundations for achievement of the medium term strategy. Countries and RECs, as the implementers of NEPAD, have a responsibility to take this forward. Their performance against the Strategy will be part of the Peer Review process.
- 68 For example, controlling parasitic infections - Lymphatic filariasis (Elephantiasis), Schistosomiasis (Bilharzia), Intestinal helminths (worms), onchocerciasis (River Blindness) and Trachoma (severe conjunctivitis) and vaccine preventable infections - measles, diphtheria, whooping cough, tetanus, TB, poliomyelitis.
- 69 There have also been declarations by African Heads of State in Abuja and Maputo making commitments on HIV and AIDS, TB and malaria. See Abuja Declaration and Plan of Action on Roll Back Malaria (2000); Abuja Declaration and Plan of Action on HIV/AIDS, Tuberculosis and Other Related Infectious Diseases (2001); Maputo declaration on Malaria, HIV/AIDS, Tuberculosis and Other related Infectious Diseases (2003) Maputo decision on Polio Eradication (2003).
- 70 These countries' health budgets increased by over 20 per cent and reached above 10 per cent of overall government spending (WHO, World Health Report 2005), forthcoming.
- 71 Public expenditure as per cent of GDP 1995-2000. World Development Report (2004).
- 72 World Development Report, 2004.
- 73 UN Millennium Project, 2005.
- 74 Uganda National Consultation on the Commission For Africa, January 2005.
- 75 Submission to the Commission for Africa received from the London School of Hygiene and Tropical Medicine, December 2004.
- 76 Submission to the Commission for Africa received from Foresight, 2005.
- 77 An average 61 per cent of spending on health care in sub-Saharan Africa is private-sources include direct household expenditure, companies on behalf of employees, and private health insurance plans. (pers. comm., WHO/National Health Accounts Unit, 2004).
- 78 The Report of the Commission on Macroeconomics and Health, (WHO, 2001).
- 79 pers. comm., National Health Accounts Unit, WHO.
- 80 *Ibid.*
- 81 Pal et al., 2004.
- 82 Hongoro and McPake, 2004.
- 83 African Union, 2003 (cited by Joint Learning Initiative, 2004). 27,000 highly qualified African health workers including doctors emigrated between 1960 and 1975, an average of 1,800 per year. This annual rate had increased to 8,000 per year by 1987, and to 20,000/year during the 1990s. (Hongoro and McPake) There is variance between countries-for example, of a cohort of Ugandan medical graduates in 1984, only 30 per cent work outside the country compared with 60 per cent of a cohort of Ghanaian medical graduating between 1986 and 1995 (Dambisya, 2004). Other countries, such as Kenya, have an excess of trained health professionals yet public sector employment ceilings prevent their recruitment (Consultation with Ministry of Health, Kenya, 2004).
- 84 These include an increased perception of risk in service due to HIV and AIDS, inadequate training capacity, incentive environments that fail to reward high performing health workers, regulations that prevent cadres of health workers performing tasks they can safely perform, and inappropriate emphasis on specialist professional skills in the mix of health workers. (Hongoro and McPake) In addition, dysfunctional systems lacking resources do not attract or retain highly-skilled professionals.
- 85 WHO, 2003, as discussed by Task Force on Health Systems Research, 2004.
- 86 Geldof seminar on ICT, January 2005.
- 87 The TEHIP project in Morogoro (IDRC, 2003).
- 88 Pers. comm., NEPAD and Submission to the Commission for Africa received from Save the Children.
- 89 WHO, 2004.
- 90 DFID 2004a.
- 91 Report of the Commission on Macroeconomics and Health.
- 92 Advanced purchasing agreements guarantee the size of the market, providing an incentive to pharmaceutical companies to produce drugs. For Malaria, the market size needed to deliver the malaria vaccine is \$3 billion (CGD, 2004).
- 93 The target set in the MDGs is 2 per cent of domestic budget and 5 per cent of foreign aid (Kimanani, 2004).
- 94 Support would be directed for product development by Public Private Partnerships.
- 95 The 2001 Doha Declaration on Trade Related Aspects of Intellectual Property Rights (TRIPS) and Public Health.
- 96 Compulsory licenses allow someone else to manufacture and sell a patented product, thereby limiting the exclusive rights of a patent holder.
- 97 Originally, TRIPS required that copies of drugs produced under compulsory licensing, had to be used predominantly in the domestic market. Countries with no, or insufficient, capacity in their pharmaceutical industry, were unable to make use of compulsory licenses, and therefore unable to rely on cheap copies from countries that had issued compulsory licenses. This country would issue it's own compulsory license with the objective of exporting the drugs produced to countries with insufficient capacity.
- 98 DFID, 2002.
- 99 Joint Learning Initiative, 2004.
- 100 A consortium of governments from Africa, regional institutions, non governmental organisations and donors have set out a call for action (Oslo, 2005) which emerged from the High Level Forum on health in Abuja (2004). Africa's leaders have recognised the critical importance of Human Resources for Health in a number of decisions and actions. These include the Decision on the Development of Human Resources for Health, made at the Durban Summit in 2002; the agreement to hold an AU Extra-ordinary Summit on this issue and the declaration of 2005 as the year for Development of Human Resources. (Assembly of the African Union, Fourth Ordinary Session, 30-31 January, 2005).

- 101 The World Bank and WHO are currently exploring the costs for an additional one million workers, and first estimates suggest that a steady infusion of around US\$500 million per year is needed initially. We estimate that as approaches are developed and capacity in Africa grows, this will increase to at least US\$6 billion per year.
- 102 For example, having clusters of multi-purpose clinic staff, all able to diagnose, refer and do basic care but each with a specialisation to support peers. These staff would be given broad-based training with in service training slowly raising level of accreditation.
- 103 In Senegal, to achieve these levels of health funding they would have had to spend 8.2 per cent of government expenditure in 2004. By 2034 it would be 14.3 per cent with population increases. In Tanzania, spending would go from 18.5 per cent to 20.5 per cent by 2034. (Pal et al, 2004).
- 104 Yates, 2004.
- 105 Submission to the Commission for Africa, received from HakiElimu, December 2004.
- 106 The gap in 2005 is US\$ 900 million and in 2007 it will be US\$ 3.2 billion, about 60 per cent of which is for Africa (Global Fund estimate as of February 2005).
- 107 Where possible, donor funding should be channelled through the International Financing Facility for Immunisation (IFFIm) to maximise the benefits of long-term investment.
- 108 Adult deaths would be from hepatitis B related liver disease (GAVI, 2004).
- 109 International Crisis Group, 2004. HIV prevalence in Angolan and Congo armies run between 40 and 60 per cent, (Nelufule, 2004).
- 110 Submission to the Commission for Africa received from Care, December 2004.
- 111 Expanding TB control contributes to and benefits from action to meet other targets, in particular those relating to poverty, gender, HIV and AIDS, and access to essential medicines.
- 112 Submission to Commission for Africa received from Medicines for Malaria Venture.
- 113 Recent studies suggest that worm-free children have significantly reduced frequency of malaria, while the absence of *Ascaris* (roundworm) reduces the likelihood of cerebral malaria by 50 per cent. (Speigel et al, 2003 and Le Hesran et al, 2004).
- 114 Intestinal worms account for 11-12 per cent of the total disease burden for children aged between five and 14, and damage the liver, intestine, and urinary tract, as well as worsening the effects of malaria and HIV. (The Lancet, 2004).
- 115 Engels and Savioli, 2004.
- 116 This is the current cost of the drug. (Fenwick et al., 2005).
- 117 Beaton et al, 1993.
- 118 (1) Lymphatic filariasis, (2) Schistosomiasis, (3) Intestinal helminths, (4) Onchocerciasis, (5) Trachoma.
- 119 Micronutrient Initiative, pers. comm. 2005.
- 120 (WHO, 2004), <http://www.who.int/en/>
- 121 Thonneau, 2001.
- 122 In 1994, 179 countries became signatories to a 20 year Programme of Action of the International Conference on Population and Development (ICPD) in Cairo. Cairo was a significant milestone because the concept of family planning gave way to the much broader concept of reproductive health and rights. ICPD recognised that people's sexual and reproductive health needs are rights that they are entitled to demand.
- 123 Consultation with NEPAD, November 2004.
- 124 The New York Call to Commitment: Linking HIV/AIDS and Sexual and Reproductive Health was made at a high-level global consultation convened by UNFPA and UNAIDS in New York on 7 June 2004. Linking HIV and AIDS and Sexual and Reproductive Health services means, for example, that development partners should work with countries to work towards 3x5 goals, and ensure universal access to MTCT programmes, paediatric ART and related services, confidential VCT especially for young people, immediate scaling up of male and female condom provision, incentives for vaccine and microbicide development and public information campaigns about sexual and reproductive health and rights and HIV and AIDS.
- 125 The legal status of abortion has relatively little impact on the extent to which it is used to stop pregnancy. For example, in some countries where abortion is not permitted, abortion rates are up to twice as high as in many of the countries where abortion is allowed. However, the legal status of abortion does have a major impact on levels of injury and death as a result of abortion. These are much worse where abortion is not permitted and therefore carried out in clandestine and unsafe conditions. Conversely, where abortion has been legalised there have been significant declines in abortion-related maternal deaths. Legal abortion services aligned with post abortion counselling or family planning can help prevent future unwanted pregnancies (DFID, 2004c).
- 126 UN Committee on Economic, Social and Cultural Rights, November 2002. General Comment No 15.
- 127 World Bank Water and Sanitation Programme, 2003.
- 128 Only 12 per cent of total aid to the water sector in 2000-2001 went to those countries in most need – where less than 60 per cent of the population has access to an improved water source. These include most African countries. OECD/DAC, 2004.
- 129 Financing Water For All, World Panel on Financing Water Infrastructure, March 2003.
- 130 WHO, 2003.
- 131 Hutton and Haller, 2004.
- 132 For example, the EU Water Initiative, the Africa Water Facility, the Rural Water Supply and Sanitation Initiative, the Water for African Cities Programme etc.
- 133 The Government of Uganda has set water as a PRSP priority, adopting a sector wide approach. It is characterised by harmonised donor operating guidelines, participatory approaches to setting sector priorities, clear investment plans which are universally known to all stakeholders and regular and transparent monitoring of sector performance. The Government has initiated strong local government reform and encouraged the private sector to deliver services. Their annual investment has increased from US\$ 30million to US\$ 100million.

- 134 In Zimbabwe, 72 per cent of carers were over 60 and 74 per cent were women and in South Africa, older people head one in three households and 66 per cent of these households care for children. Submission to Commission For Africa, received from HelpAge International, (April 2004) and HelpAge International, ( 2004).
- 135 UNAIDS, 2004b.
- 136 *ibid.*
- 137 The other regions' 15-24 year olds represent 18 per cent South and South East Asia, 7 per cent Latin America and the Caribbean, 6 per cent Eastern Europe and Central Asia, 3 per cent East Asia and the Pacific, 1 per cent North Africa and the Middle East, and 2 per cent in industrialised countries. *ibid.*
- 138 *ibid.*
- 139 *ibid.*
- 140 *ibid.*
- 141 ILO, 2004b.
- 142 Rosen, 2003 and Kwaramba P, 1997.
- 143 ODI, 2003.
- 144 Bell et al, 2003.
- 145 Ellis, 2003.
- 146 CHGA, 2004b.
- 147 Government of Zambia, 2004.
- 148 In Zambia 71 per cent child prostitutes are orphans, 56 per cent street children are orphans in Lusaka and 78 per cent child domestic workers are orphans in Ethiopia (Clarke, 2004). In Congo, a fifth of orphans suffer psychosocial problems (UNICEF, 2003).
- 149 Public presentation by Peter Piot, London, 8 Feb 2005.
- 150 US\$2-6 billion between 2001 and 2004. Also, in 2004 the US committed US\$15 billion over 5 years and UK committed £1.5 billion over three years.
- 151 Submission to Commission for Africa received from *Michael Walton*, December 2004.
- 152 UNGASS, 2001.
- 153 Including UN agencies, pan-African organisations, the World Bank, EC, donor governments and the Global Fund to Fight AIDS, Tuberculosis and Malaria
- 154 These are estimates are based on working papers that will be finalised for the 9th March meeting.
- 155 A proportion of the costs estimated by UNICEF for orphans and vulnerable children are included, but UNAIDS excluded broader welfare support. In the section below on social protection, the focus is on this broad support to mitigate the impacts of HIV and AIDS, conflict and other major shocks.
- 156 UNAIDS, 2004c.
- 157 G7 Finance Ministers Conclusions on Development, London 4-5th February 2005. Found at [www.hm-treasury.gov.uk/otherhmtsites/g7/news](http://www.hm-treasury.gov.uk/otherhmtsites/g7/news)
- 158 Prevention, treatment and care must be conceptualised and communicated as a right. HIV and AIDS Submissions to Commission For Africa received from Treatment Action Campaign, UK Consortium on AIDS and International Development and Christian Aid.
- 159 Submission to the Commission For Africa, received from SARPN and SADC Youth Movement 'Youth Caucus of the Commission For Africa Consultation document'.
- 160 See detail in the submission to Commission For Africa received from Treatment Action Campaign, December 2004.
- 161 Known as voluntary counselling and testing (VCT).
- 162 With the lower amount of financing by 2007, only 71 percent of those people needing treatment would receive it.
- 163 Submission to Commission For Africa received from Treatment Action Campaign, December 2004.
- 164 CHGA, 2004a.
- 165 Submissions to the Commission For Africa, received from Christian Aid, CARE and GADN and WomanKind.
- 166 The UNESCO and UNAIDS project 'A Cultural Approach to HIV/AIDS Prevention' offers some useful insights that should be taken to scale. The UN-HABITAT programme to educate local authority officials on how to manage the pandemic and the rapid increase in orphans also offers some insights as to how to bring all actors into the response.
- 167 Including uniformed services, mobile populations, sex workers, injecting drug users and prisoners.
- 168 CHGA, [www.uneca.org/CHGA](http://www.uneca.org/CHGA).
- 169 Submission to Commission For Africa from UK Consortium on HIV and AIDS and International Development.
- 170 Tackling HIV and AIDS was highlighted as a key priority in our consultations with our business contact group – and HIV and AIDS workplace programmes were one of many recommendations as well as the requirement for large businesses to report on implementation.
- 171 CPRC, 2004.
- 172 Stewart, 2004.
- 173 UNICEF, 2003.
- 174 CHGA Interactive, September, 2004.
- 175 For example, recent studies suggest that if vulnerable children are not adequately integrated into society, they will become tools in conflict and cause an increase in opportunistic crime, (Nelufule, 2004). Social protection targeted at supporting extended families with orphans will reduce the need to provide orphanages that are expensive and fail to meet children's emotional and psychological needs (UNAIDS, UNICEF and USAID, 2004).
- 176 Heyzer, (2003) in Submission to Commission For Africa, received from GADN and WomanKind.

- 177 ECA, 2004a.
- 178 Luttrell and Moser, 2004.
- 179 Agarwal, 2005.
- 180 Duflo, 2000.
- 181 ECA, 2004b.
- 182 Africa on the move: an urban crisis in the making. Submission to the Commission For Africa received from UN HABITAT, December 2004.
- 183 Clarke, 2004.
- 184 UNAIDS, UNICEF and USAID, 2004.
- 185 UNAIDS, 2004b.
- 186 Submission to the Commission for Africa received from HelpAge International, December 2004.
- 187 Submission to Commission for Africa, received from Inclusion International, October 2004.
- 188 Submission to Commission For Africa, received from World Bank, February 2005.
- 189 Tanzanian Participatory Poverty Assessment, 2002/3.
- 190 Devereux et al, 2002.
- 191 The Government of Zambia is working with GTZ and other donors to scale up cash transfers to 10 per cent of the population at US\$6 a month. This programme costs just US\$19 million a year for 200,000 households, i.e. US\$100 per household. World Food Programme has called for US\$45 million for food aid in 2005 to support 180,000 and with a total value per household below that of the US\$6 a month.
- 192 58 per cent of people in Tanzania who did not visit a health facility when sick said that they could not because of cost (Women's Dignity Project, 2003).
- 193 Barrientos, 2004 and Ellis, 2003.
- 194 Crowding in informal strategies that are constructive and transformative of gender and power relations, whilst crowding out those that contribute to exclusion or greater burdens to women.
- 195 Kaori, 2004.
- 196 Ellis, 2003.
- 197 UN-HABITAT (2002)
- 198 Submission to the Commission For Africa, received from GADN and Womankind August 2004.
- 199 Submission to the Commission For Africa received from Treatment Action Campaign December, 2004.
- 200 The clear entitlements ensured that when there was a covariant shock, increased demand for work was met (Piron, 2004).
- 201 Project d'Appui aux Initiatives in Mali has emphasised community institution strengthening as an objective as well as to maintain infrastructure (Marcus et al, 2004).
- 202 A programme looking at reducing vulnerability due to food insecurity and HIV and AIDS in Zambia is linking transfers with providing skills, knowledge of rights and HIV and AIDS awareness. (Marcus et al. 2004).
- 203 ENDA Jeunesse Action. <http://www.enda.sn/eja/>
- 204 Submission to the Commission for Africa received from HelpAge International, December 2004.
- 205 For example, Brazil's child labour eradication programme, PETI, offers transfers to households with children attending school 85 per cent of the time. PROGRESA, which gives transfers for attendance at school and health clinics, has been attributed with having reduced the poverty gap by 36 per cent, improving school attendance by 0.72 years for girls, reducing stunting in children 12-36 months and decreasing illness by 19-25 per cent in children under five. (Barrientos et al., 2004).
- 206 Barrientos, 2003.
- 207 Removing user fees in primary schools increased enrolment for the poorest quintile of girls from 46 per cent to 82 per cent Herz and Sperling, 2004.
- 208 To stimulate the local market and to ensure highest nutrient value.
- 209 UNICEF 2003; submissions to Commission For Africa, received from HomeStart International, September 2004 and GADN and WomenKind, August 2004.
- 210 Submission to the Commission for Africa, received from African European Parliamentarians for Africa (AWEPA), December 2004.
- 211 UNICEF and SCF's social protection study, the Human Rights based approach being developed for the UN Development Assistance Framework, the work on human security and on social budgeting by the International Labour Organisation (ILO), lessons emerging from WB, UNDESA, SADC and in many donor agencies as well as the Framework for the Protection, Care and Support of Orphans and Vulnerable Children Living in a World with HIV and AIDS.
- 212 However a disability grant for all the estimated disabled – 50 million – of an equivalent value would be US\$3.6 billion.
- 213 Stover et al, 2005.
- 214 UNICEF estimate from the Global Partners meeting on Orphans and Children made Vulnerable by HIV and AIDS, December 2004.
- 215 Commission on Macroeconomics and Health, Working Group 5: Improving Health Outcomes of the Poor, (Co-Chairs: Dr Prahbat Jha and Professor Anne Mills).
- 216 Hutton and Haller, 2004.

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# Chapter 7: Notes

- 1 [www.africa-union.org/EMPLOYMENT/EMPLOYMENT.htm](http://www.africa-union.org/EMPLOYMENT/EMPLOYMENT.htm)
- 2 AU/NEPAD-Commission for Africa Workshop, 14 November 2004.
- 3 [www.africa-union.org/EMPLOYMENT/EMPLOYMENT.htm](http://www.africa-union.org/EMPLOYMENT/EMPLOYMENT.htm)
- 4 AU/NEPAD-Commission for Africa Workshop, 14 November 2004.
- 5 World Bank, 2004f.
- 6 46.4 per cent of the population in sub-Saharan Africa were living in households with incomes per person of less than US\$1 a day in 2001 (Chen and Ravallion, 2004). This compared to 31.3 per cent in South Asia, 14.9 per cent in East Asia, 9.5 per cent in Latin America and the Caribbean, 3.6 per cent in Eastern Europe and Central Asia, 2.4 per cent in Middle East and North Africa. In terms of absolute numbers, India had more poor people than all sub-Saharan African countries put together (358.6 million compared to 312.7 million). However, it is projected that by 2015, sub-Saharan Africa will have the largest number of poor people (366 million below US\$1 a day), and will be the region with the highest proportion of poor people (42.3 per cent) (World Bank, 2004e).
- 7 GDP growth 1993 - 2002 (World Bank, 2004c).
- 8 The following had average growth rates of around 7 per cent or over: Equatorial Guinea, Mozambique and Uganda. The following have had average growth rates of between around 5 and 7 per cent: Cape Verde, Ethiopia, Sudan, Mauritius, Eritrea, Benin and Botswana. The following countries had growth rates of between around 4 per cent and 5 per cent: Mauritania, Guinea, Ghana, Mali, Burkina Faso and Tanzania (World Bank, 2004c). It should be noted that these averages mask large variations over time for some countries.
- 9 Fafchamps et. al., 2001; Rodrik, 2003b.
- 10 World Bank, 2000b: 2.
- 11 Stern et. al., 2005; Rodrik, 2000; Dollar and Kraay, 2002; Bourguignon, 2000; Adams, 2002; World Bank, 1989; World Bank, 1999.
- 12 Ravallion and Chen, 1997; Adams, 2002; Ravallion, 2004.
- 13 A so-called "growth elasticity of poverty" that gives the percentage change in the proportion of people below the poverty line for each 1 per cent change in GDP per capita. Estimates range from an elasticity of around -3 (Ravallion and Chen, 1997) to around -2.5 (Adams, 2002) and -2 (Ravallion, 2004; UNDP, 2003).
- 14 Stern et. al., 2005; World Bank, 2000b.
- 15 Overseas Development Institute, 2004.
- 16 This is based on comparisons between a country's "Human Development Index" ranking (based on life expectancy at birth, adult literacy, combined enrolment for primary, secondary and tertiary schools, and GDP per capita) and its GDP per capita ranking (UNDP, 2004).
- 17 Ravallion, 2004; Bourguignon, 2000; Adams, 2002.
- 18 This is based on the "Gini Index" which measures inequality of income or consumption. A value of 0 represents perfect equality, and a value of 100 perfect inequality. In 2002, in Namibia the index is 70.7, in Lesotho 63.2, in Botswana 63, in Sierra Leone 62.9, in the Central African Republic 61.3, in Swaziland 60.9 and in South Africa 59.3 (UNDP, 2004).
- 19 Overseas Development Institute, 2004.
- 20 Stern et al, 2005.
- 21 World Bank, 1999; World Bank, 2001.
- 22 Overseas Development Institute, 2004.
- 23 World Bank, 2001; Wood, 2002; O'Connell and Ndulu, 2000; Collier and Gunning, 1998.
- 24 Institutions are the "rules of the game" in society (North, 1990) and can be either formal or informal. Formal institutions cover economic rules (such as property rights, the economic policy framework and market structure), political and judicial rules (such as governance, laws and constitutions), and contracts, while informal institutions include unwritten codes of conduct and norms of behaviour (such as trust in private property rights, and social relations based on race, ethnicity, kinship, religion, class or gender). The quality of the broader institutional environment - particularly a stable and predictable macroeconomic framework with clear and effective property rights, effectively functioning financial markets and a regulatory framework that promotes competition - is recognised as a primary determinant of long-term growth (World Bank, 2004a; World Bank, 2001; Rodrik, 2003b; North and Thomas, 1973). While there is a consensus that economic institutions matter, there are debates over what these should look like in practice (for example, Rodrik, 2003a; Rodrik, et. al., 2002; Chang, 2003).
- 25 The evidence on the importance of governance for growth is overwhelming (see for example, Stern et. al., 2005; Kaufmann et. al., 1999; Acemoglu et. al., 2004; Hall and Jones, 1999). The developing countries that have grown the fastest and that have the highest incomes have the strongest governance indicators whether one looks within all developing countries or within Africa. Kaufmann et. al. (1999) review empirical evidence and find that "a one-standard deviation increase in any one of [the] governance indicators causes between a 2.5-fold (in the case of "voice and accountability") and four-fold increase ("political instability and violence")...in per capita incomes".
- 26 Africa's climate (combined with poor irrigation infrastructure) contributes to low productivity and high volatility of agricultural output on which the majority of the population depend; Africa is more prone to devastating strains of malaria, estimated by Bloom and Sachs (1998) to lower growth rates by over 1 per cent a year; and Africa's geographical history has meant that it has many landlocked states, with one estimate by Collier and Gunning (1999) suggesting that being landlocked can reduce annual growth rates by around 0.5 percentage points. The region's largely land-locked geography, low population density, large rural population and low share of people living near the coast or an ocean-navigable river, make infrastructure provision costly, particularly transport, communications and electricity (World Bank, 2000b; Wood, 2002). Further, dependency on primary commodities has led, via falling terms of trade, to a lower growth rate relative to other developing countries of more than 0.7 per cent per year (Collier and Gunning, 1998).

- 27 Effective growth, socio-economic development and diversification have a vital peacebuilding function, just as much as the absence of which is a root cause of conflict. The relationship between growth and peace and security is discussed in greater detail in Chapter 5.
- 28 Ndulu, 2004.
- 29 UNDP, 2004.
- 30 Collier and O'Connell, 2005.
- 31 Doward et. al., 2004a, Fafchamps et. al., 2001.
- 32 Fafchamps, 2002.
- 33 Collier, 2002.
- 34 Bonaglia and Fukasaku, 2002.
- 35 [www.agoa.gov](http://www.agoa.gov)
- 36 Heaney, A. and Williamson, B. (2004) "Reaping the Telecoms Dividend" cited in *Financial Times* 18 Feb 2004.
- 37 Te Velde, 2004.
- 38 Shisana and Letlape, 2004.
- 39 See Business Contact Group submission on HIV and AIDS. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 40 UNDP, 2004.
- 41 Bell et. al., 2003.
- 42 *Ibid.*
- 43 Based on submission to the Commission for Africa from UN-HABITAT, 2004.
- 44 UN-HABITAT, 2004, submission to the Commission for Africa.
- 45 "Bankable" refers to projects that banks would consider commercially viable, able to repay the loan, and to which they would therefore be willing to lend money.
- 46 Submission from the Business Contact Group on business regulation and investment climate reform. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 47 ECA (2004a) finds that a number of African countries have seen an improvement in their overall trade competitiveness over the last two decades, with competitiveness gains driven by improvement in the level and quality of infrastructure, the economic and political environment and/or the availability of labour and land inputs. Mauritius, South Africa and Namibia are among the most competitive countries assessed by the ECA study of 30 countries in sub-Saharan Africa, with Mauritius comparing favourably to countries in other regions.
- 48 World Bank, 2004a.
- 49 World Bank, 2003a; UNCTAD, 2003. However, as noted in Chapter 2, as proportion of their GDP, FDI flows are in line with, and remittances above, those for other developing country regions. In addition, remittances are heavily underreported: only a third of Sub-Saharan African countries collect data on remittances, masking their true scale.
- 50 Collier, Hoeffler and Patillo, 2001.
- 51 In 2003, domestic investment represented 96 per cent of the total in South Africa, 89 per cent in Nigeria, 82 per cent in Sudan and 80 per cent in Mozambique (World Bank, 2004f).
- 52 [www.g8.gc.ca/2002Kananaskis/afraction-en.asp](http://www.g8.gc.ca/2002Kananaskis/afraction-en.asp)
- 53 World Bank, 2004a. Other important recent studies include work by AU/NEPAD and the Development Bank of Southern Africa, 'Development Report 2003, Financing Africa's Development, Enhancing the role of private finance', the 2004 Martin and Zedillo UNDP report, 'Unleashing Entrepreneurship: Making Business Work for the Poor', the World Bank's Doing Business Reports and Investment Climate Assessments, and Stern et. al., 2005.
- 54 World Bank, 2004f.
- 55 World Bank, 2004a.
- 56 Overseas Development Institute, 2004.
- 57 World Bank, 2004c.
- 58 DFID/Bannock study in 2002. Other countries were Hungary, Latvia and Poland; World Development Report, 2004a.
- 59 World Bank, 2003d: 16.
- 60 World Bank, 2004a.
- 61 Fortune, P in World Development Report 2005.
- 62 Shulpen et. al., 2001; Velde, 2002.
- 63 Submission from Business Contact Group on governance and transparency, and from Regional Business Consultations. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 64 World Bank, 2004a.
- 65 *Ibid.*
- 66 Velde, 2002.
- 67 World Bank, 2004a.
- 68 *Ibid.*
- 69 Loup, 2000.
- 70 Rodrik, 2003b; Chang, 2002.
- 71 Rodrik, 2003a.
- 72 Asiedu, 2001.
- 73 World Bank, 2004a.

- 74 De Soto, 2001.
- 75 Wood, 2002.
- 76 UN-HABITAT, 2004, submission to Commission for Africa.
- 77 The facility should remain flexible based on progress reviews.
- 78 Regional Business consultations and Business Contact Group submission on investment climates. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 79 Business Contact Group submission on capacity planning. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 80 CFA/Chatham House Business Conference, London, 21 October 2004.
- 81 Finscope is an initiative, already under way in Southern Africa, which comprehensively surveys the financial service market needs and usage in South Africa and other Southern African countries. Finscope is currently underwritten and coordinated by Finmark Trust, a DFID programme, with additional sponsorship from the private sector.
- 82 Sovereign credit ratings assess a country's ability and willingness to service debt and are also a good proxy for investment climate. Official ratings can serve as an important signal to investors and enable access to international capital markets.
- 83 Africa Sovereign Credit Rating Initiative (launched April 2002).
- 84 Sovereign Credit Ratings Program (launched April 2003).
- 85 Angola, Burundi, Central African Republic, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Eritrea, Guinea-Bissau, Nigeria, Liberia, Rwanda, Sierra Leone, Somalia, Sudan, Uganda, Comoros.
- 86 The focus is economic infrastructure including energy, transport, information and communication technology, water supply and sanitation and other water resource infrastructure. Social infrastructure, such as schools and health centres, is not included here.
- 87 Ndulu, 2004; World Bank, 2004c; ADB, 1999. Submission by Business Contact Group on infrastructure. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 88 Milner, et. al., 2000.
- 89 For sweet potatoes, plantain, tomatoes, bananas and citrus fruit (IAC, 2004).
- 90 WaterAid, 2004.
- 91 Based on submission to the Commission for Africa from UN-HABITAT (2004).
- 92 The World Bank suggests that on average a 1 per cent increase in infrastructure stock is associated with a 1 per cent increase in the level of GDP (World Bank, 1993), but estimates range from 0.14 to 1.12 per cent (Global Monitoring Report, 2004).
- 93 See <http://www.bhpbilliton.com/bbContentRepository/Presentations/RNivenSMEELP23Apr03.pdf>
- 94 The World Development Report 2005 notes that unreliable infrastructure features at the top of investor surveys as a source of costs (World Bank, 2004a). For example, unreliable electricity supply means firms need to invest in generators: equivalent to over a third of capital formation in one study of Ugandan firms (Reinikka and Svensson, 1998).
- 95 ILO, 2003.
- 96 Meeting of a Group of African Finance Ministers to Deliberate on the Africa Commission Consultation Documentation held on November 23rd, 2004 at the Nicon Hilton Hotel, Abuja.
- 97 The second phase of the World Summit on Information Society (WSIS) will take place in November 2005. The objective is to facilitate the effective growth of the information society, to help bridge the digital divide, and assist the meeting of the MDGs. See [www.itu.int/wsiv/](http://www.itu.int/wsiv/)
- 98 Connecting Sub-Saharan Africa, Global Information and Communication Technologies Dept, World Bank.
- 99 AU/NEPAD's e-schools project aims to develop a sustainable knowledge-based society in Africa by bringing ICT skills to a large number of primary and secondary schools in Africa. The plan is to convert nearly 600,000 African schools into AU/NEPAD e-schools.
- 100 Vodafone's Socio-Economic Impact of Mobile Programme. Presentation at Commission for Africa Business Conference. See [www.chathamhouse.org.uk/pdf/conferences/coyle.ppt](http://www.chathamhouse.org.uk/pdf/conferences/coyle.ppt)
- 101 IFPRI, 2004; Vodafone's Socio-Economic Impact of Mobile Programme. Presentation at Commission for Africa Business Conference. See [www.chathamhouse.org.uk/pdf/conferences/coyle.ppt](http://www.chathamhouse.org.uk/pdf/conferences/coyle.ppt)
- 102 Commission for Africa Seminar on Technology Communications and Infrastructure, London, 26 January. Costs vary widely, but in one study current costs of 12 per cent could fall to around 4-6 per cent.
- 103 Ndulu, 2004.
- 104 Hesselberth, 2004.
- 105 Estache and Yepes (2004) estimate that between 1984 and 2002, the private sector accounted for 10 to 15 per cent (around US\$26 billion) of total infrastructure investment commitments in Africa. They note that the share of countries in sub-Saharan Africa that have been able to attract some private sector finance in infrastructure has been below the figure for developing countries as a whole. Moreover, the number and total value of investments have been very low: only 213 projects over 20 years, with average project size less than half that for developing countries as a whole.
- 106 Ndulu, 2004.
- 107 Plummer, 2002.
- 108 This is based on what would be needed to meet expected demand at a 6 per cent economic growth rate. Also includes amounts needed to meet the MDG on water and sanitation.
- 109 These estimates are based on best practice unit costs. The figure reflects the amount that would be needed to meet demand at a growth rate of 6 per cent, and to meet the MDG on water and sanitation. At this level of growth, Estache and Yepes (2004) estimate a financing gap for investment of around US\$9 billion a year and suggest operation and maintenance needs will add close to the same amount.
- 110 Doubling of investment expenditure on the basis of current investment levels at around US\$10 billion (Estache and Yepes, 2004). Given the importance of operations and maintenance costs, some of the total increase should be used for this purpose.

- 111 An indicative profile of capital spending is used with funding building up to US\$10 billion by 2008, and to US\$20 billion by 2013. It is assumed that 60 per cent of the total will be spent on capital and that this will add to the stock of capital each year, which in 2005 is assumed to be US\$640 billion. The World Bank suggests that on average a one per cent increase in infrastructure stock is associated with a one per cent increase in the level of GDP (for World Bank, 1993), but estimates range from a 0.14 to 1.12 per cent (Global Monitoring Report, 2004). A figure of 0.6 is used to estimate the levels of GDP each year with and without the extra infrastructure investment (it is assumed that annual GDP growth rates in the absence of the additional investment would be three per cent). On this basis, it is estimated that with the extra annual infrastructure investment the level of GDP would be around 4.5 per cent higher in 2015 than it would otherwise be. Studies suggest that for a one per cent rise in GDP per capita, the poverty rate should fall by between two and three per cent (Ravallion and Chen, 1997; Adams, 2002; Ravallion, 2004; UNDP, 2003). An estimate of two per cent is used, along with a population growth rate of 2.1 per cent, to derive the impact of the annual increases in the level of GDP per capita on poverty rates, with and without the additional infrastructure investment. It is estimated that with the extra annual infrastructure investment, the poverty rate would be around 2.5 percentage points lower in 2015 than it would otherwise have been, equivalent to around 20 million people (assuming a poverty rate in 2005 of 34 per cent and a population level in 2005 of 730 million).
- 112 AU/NEPAD's Short Term Action Plan (STAP) focuses on regional infrastructure development and consists of 124 projects selected by the regional economic communities (RECs) to kick-start the AU/NEPAD infrastructure programme. They include 18 capacity building, 52 facilitation, and 36 investment projects, as well as 18 technical studies. The total estimated cost is US\$8.13 billion. AU/NEPAD and the African Development Bank developed the STAP in consultation with the RECs and development partners, including the World Bank and European Union. The STAP gave an overview of the state of infrastructure in the different regions of the continent and proposed a number of facilitation initiatives consisting of policy and institutional measures, capacity building measures, and investment stimulation measures necessary to ensure the efficiency of existing and planned regional infrastructure assets in the continent. The Bank is also preparing the Medium-Long Term Strategic Framework (MLTSF).
- 113 Commission for Africa Seminar on Technology Communications and Infrastructure, London, 26 January.
- 114 Assumes total disbursement will reach US\$10 billion by 2008, and US\$20 billion by 2013. Assumes 60 per cent of the total fund will be spent on capital. Assumes 1/3 will be spent of regional infrastructure, 2/3 on national. The following sector breakdown of donor funding is used: Electricity: 20 per cent; Rail: two per cent; Roads: 38 per cent; Sanitation: 10 per cent; Water: six per cent; Irrigation: 14 per cent; Telecommunications: eight per cent; Slum Upgrading Facility: two per cent. Private sector finance is assumed to be leveraged at the following rates (as a proportion of donor funds): Electricity: 250 per cent; Rail: 150 per cent; Roads: 25 per cent; Sanitation: 20 per cent; Water: 20 per cent; Irrigation: 20 per cent; Telecommunications: 300 per cent; Slum Upgrading Facility: 20 per cent. The following best-practice unit costs are assumed: Electricity: US\$2,280 per connection; Rail: US\$900,000 per kilometre; Roads: US\$160,000 per kilometre; Sanitation: US\$80 per capita; Water: US\$45 per capita; Irrigation: costing set out in Section 7.3.3; Telecommunications: US\$270 per capital per line. SUF costings based on UN-HABITAT estimates. Irrigation costings from Westby et al, 2004.
- 115 The World Bank Research Paper estimates exclude irrigation, gas, airports, ports and urban transport, and are therefore certainly an underestimate of total need. It is also important to note that the figures reflect the levels of investment required to meet demand at predicted future growth levels, rather than the cost of fully clearing the infrastructure backlog on a sector-by-sector basis. Aggregating sectoral estimates would lead to a far higher figure: UN-HABITAT (2004) cite the cost of meeting MDG Goal 7 Target 11 of improving the lives of 100 million slum dwellers by 2020 as ranging from a total of US\$70 billion to over US\$100 billion over seven years (including all urban energy and water-sanitation needs). The infrastructure estimates based on growth estimates go nowhere near fully tackling the human suffering of those living in slum households. AU/NEPAD's STAP, which focuses on regional infrastructure, identifies much larger per annum expenditures: around US\$64 billion a year for ten to 15 years (AU/NEPAD, 2002). The World Bank estimates that the MDG water supply and sanitation targets in Africa – to extend services to 350 million rural and urban people by 2015 – would be in the order of a total of US\$20 billion for water and US\$10 billion for sanitation over 12 years. These represent a five-fold increase in present investment levels. The World Bank (2004) estimates to meet water storage investment requirements are as high as US\$67 billion in Nigeria alone, US\$46 billion in Ethiopia and US\$27 billion in Tanzania.
- 116 UN-HABITAT, 2004.
- 117 [www.unhabitat.org/amchud/documents/mdg.pdf](http://www.unhabitat.org/amchud/documents/mdg.pdf)
- 118 Submission by ECA to Commission for Africa.
- 119 Ndulu, 2004.
- 120 See for example report by Transparency International on corruption in the construction and engineering industry: [www.transparency.org.uk/CEldocs/TI.REPORT%20FOUR.BUSINESS%20RISK.pdf](http://www.transparency.org.uk/CEldocs/TI.REPORT%20FOUR.BUSINESS%20RISK.pdf).
- 121 For example, the Southern African Institute for Environmental Assessment (SAIEA) is undertaking a project, called Calabash, to increase civil society's capacity to participate more equally in environmental governance in the SADC region. The programme, supported by the World Bank and CIDA, has developed a suite of practical civil society engagement tools that can be used by regulators, civil society, practitioners and the private sector to plan and implement development programmes (<http://www.saiea.com>).
- 122 ILO studies and programmes have shown how application of labour-based technologies in conjunction with new contracting procedures and training for SME development in the construction sector can increase the employment content of such projects from roughly 10 per cent to 60 per cent of investment resources without compromising quality of execution (ILO 2003).
- 123 Where user fees are considered appropriate, subsidies are used at the point of delivery to ensure access. This should build on the work of the Global Partnership for Output Based Aid, a World Bank programme set up to develop, demonstrate and disseminate output-based approaches to supporting the sustainable delivery of basic infrastructure services. The facility includes a Challenge Fund to help develop subsidy approaches. There have also been a number of successful applications of "Output Based Aid" such as rural electrification projects in Uganda, Mozambique and Senegal.
- 124 PPIAF is a multi-donor facility that works with developing country governments at central and municipal levels to improve the enabling environment for private sector involvement in infrastructure services. PPIAF currently has 14 contributing donors and undertakes a broad range of activities, including the development of legislation and regulatory systems, sector reform strategies, the training of regulators and assistance with facilitating transactions.
- 125 [www.miiu.org.za](http://www.miiu.org.za)



- 126 The PIDG focuses on private sector participation, brings together DFID, Swedish International Development Cooperation Agency (SIDA), the Netherlands (DGIS), Switzerland (SECO), and the World Bank.
- 127 Submission by the Africa Business Round Table on the Commission for Africa and submission by the Business Contact Group on infrastructure. Both available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 128 The NEPAD-IPPF, proposed and elaborated by the African Development Bank and highlighted at the 2002 G8 in Kananaskis, was established to facilitate the preparation of projects in the AU/NEPAD's STAP to a bankable level in order to attract investment and to estimate more accurately their cost for implementation. The IPPF is currently operating on the CAN\$10m start-up funding provided by the Government of Canada. The NEPAD-IPPF is to be transformed into a multi-donor facility, to which Denmark has already made a contribution of US\$500,000.
- 129 For example, the Project Development Facility (DevCo) and Infrastructure Development Company (InfraCo). DevCo was set up in 2003 by PIDG to augment an existing IFC facility to give greater emphasis to the development of projects for private sector investment in the poorer developing countries. The Infrastructure Development Company (InfraCo) is a private sector developer, established in late 2004 by the PIDG, to take on the entrepreneurial risk of developing a project and then selling this on the market to an implementation company.
- 130 The ADB is the only institution of its kind in Africa delivering development assistance, and has been specifically mandated by the Heads of State and Government Implementation Committee with taking forward AU/NEPAD infrastructure projects. It is now a strong institution capable of being highly effective in promoting development in Africa and is financially sound (restored AAA rating). It is genuinely African owned. It has developed a plan of action for further internal capacity strengthening.
- 131 For example, African Union Assembly, Maputo, July 2003; AU/NEPAD, 2004; and Meeting of a Group of African Finance Ministers to Deliberate on the Africa Commission Consultation Documentation held on November 23rd, 2004 at the Nicon Hilton Hotel, Abuja.
- 132 IAC, 2004.
- 133 Abalu and Hassan, 1998.
- 134 Fafchamps et. al., 2001; Doward et. al., 2004:a.
- 135 Wiggins and Proctor, 2001; Farm Africa, 2004.
- 136 IAC, 2004; FAO, 1995.
- 137 ADB, 1998, Eicher, 1999; Kydd and Doward, 2001.
- 138 Toulmin and Quan, 2000.
- 139 Eicher, 2003.
- 140 Barret et al, 1999.
- 141 Gabre-Madhin and Haggblade, 2004.
- 142 Developed by scientists at the West Africa Rice Development Association (WARDA).
- 143 AU/NEPAD, 2003.
- 144 *Ibid.*
- 145 Hussain, I. and Hanjra, M. A, 2004.
- 146 Frequency of harvests in a given year.
- 147 The emphasis should be on both small-scale irrigation, and developing micro-irrigation for small-scale producers. Micro-irrigation refers to the use of low technology, such as treadle pumps. Small-scale irrigation refers to the size of operation e.g. irrigation based on a small community dam, water from lying wetlands, rivers and boreholes rather than big scale dams. Small scale can be micro-scale in the technology used as well but this is not always the case.
- 148 Based on Westby et. al., 2004 and submissions to the Commission for Africa.
- 149 Westby et. al., 2004; IAC, 2004.
- 150 Westby et. al., 2004: A conservative estimate of readily avoidable losses for maize in sub-Saharan Africa is of the order of 10 percent, or approximately US\$420 million a year.
- 151 Extension services in the agricultural sector refer the public or private provision of new technologies and practices, information and knowledge, to meet the needs of farmers, and improve agricultural productivity and incomes.
- 152 Eicher, 1999; InterAcademy Council, 2004; Farm Africa, 2004; Eicher and Rukuni, 2003.
- 153 AU/NEPAD, 2003.
- 154 Eicher and Rukuni, 2003.
- 155 IAC, 2004.
- 156 UN-HABITAT, 2004, Submission to Commission for Africa.
- 157 World Bank, 2004a.
- 158 Home and Lim, 2004.
- 159 UN Commission on the Private Sector and Development, 2004.
- 160 Conceptually, the informal economy stands in opposition to that part of the economy that is regulated, i.e. that operates under some accepted rules and regulations imposed by the government. Economic activities in the informal sector are not recorded in national accounts (hence often called "invisible") and are not subject to formal rules of contract, licensing, labour laws, reporting and taxation (ILO definition). Yet, the dichotomy between the formal and informal sector is largely conceptual. As pointed out by Snodgrass (2004), economic informality goes beyond micro-enterprises and "operates at all levels of the economy, including micro and large firms, in response to lax enforcement, political expediency, corruption, and avoidance of onerous tax regimes, inspections, and government red tape".
- 161 Chen M A, as quoted in Xaba J, 2002.
- 162 F Schneider, 2002.



- 163 Palmade, 2003.
- 164 African governments and their bilateral and multilateral development partners have long tackled the informal economy as ad hoc to policy making. In fact, by providing a "safety valve" for many individual firms and workers, the informal sector came to alleviate to a considerable extent governments' responsibility for the provision of employment and social welfare (Vishwanath, 2001). Structural adjustment reforms, including privatisation, in the 1980s and 1990s, also contributed to the expansion of the informal economy, as dismissed civil servants came to grow the ranks of the self-employed.
- 165 World Bank, 2004a.
- 166 African governments, notably in Burkina Faso, are now working more closely with organisations in the informal sector, including women's associations, many of which were involved in the preparation of the PRSP.
- 167 Becker (2004) has drawn specific recommendations for donors and governments on how best to approach the informal sector.
- 168 Millennium Project, 2005.
- 169 N Heyzer, quoted in GADB and Womankind, 2004.
- 170 See the African Charter of Human and People's Rights and the Beijing Platform for Action.
- 171 AU Declaration on Employment and Poverty Reduction (2004), in support of the implementation of the Declaration on Gender Equality in Africa adopted by the Fifth Ordinary Session of the AU Executive Council (2004) and Third Ordinary Session of the Assembly of Heads of State and Government.
- 172 *Susus* and *tontines* are examples of associations in the informal sector that run a wide range of savings and credit schemes in urban and in rural areas in developing countries. For latest analysis on Microfinance in Africa see Basu et al, 2004.
- 173 A good example is Tanzania, where the Household Budget Survey in 2001/02 recorded that only six per cent of the population operates a saving/current account. This is one third of 18 per cent who accessed these services in 1991/92. Only 0.6 per cent took a loan. Similarly, according to DFID fact-finding missions, in Zambia, only five per cent of the population have bank accounts, while in Nigeria, there are just under 5 million individual clients in the banking sector as a whole, which constitutes less than 10 per cent of the adult population.
- 174 [www.yearofmicrocredit.org](http://www.yearofmicrocredit.org)
- 175 See endnote 187.
- 176 The gap in middle-range financial services (notably equity and venture capital markets) for Africa's fast growing enterprises also calls for an integrated approach to financial markets (see Section 7.3.1 and Applegarth, 2004).
- 177 This includes for farmers, different forms of financing such as inventory credit mechanisms and innovative schemes like the warehouse receipt systems, as used in Zambia.
- 178 Basu et al, 2004.
- 179 For example, large deposit taking institutions should be prudentially regulated, with adjustments for microfinance. Yet, legal limits on microcredit rates should be avoided because they tend to restrict the supply of credit to poor people. Consumer protection rules, including fair disclosure of interest rates, can be a better approach to protecting poor borrowers.
- 180 IFPRI, 2004; Vodafone's Socio-Economic Impact of Mobile Programme. Presentation at Commission for Africa Business Conference. See [www.chathamhouse.org.uk/pdf/conferences/coyle.ppt](http://www.chathamhouse.org.uk/pdf/conferences/coyle.ppt)
- 181 The UN Commission on the Private Sector and Development identifies the promotion of networks and linkages as one of the most compelling ways to help private sector development. This also includes networks in the informal sector. Small enterprises can help each other to overcome weak market linkages. For example, co-operating to purchase inputs, or to produce goods at the volumes and with the regularity of supply and quality demanded by larger companies (UNIDO, 2001).
- 182 The International Business Leaders Forum (IBLF, 2004) set out interesting examples of business linkages involving multinational companies that have helped to improve local enterprises' access to markets, technology, capital and/or services.
- 183 Deloitte, 2004. The UN Global Compact is the largest voluntary CSR initiative in the world (RIIA, 2004) and provides a useful high-level overall framework. Launched in 2000 by the UN Secretary-General, Kofi Annan, the Compact involves UNDP, UNEP, ILO and UN Commissioner on Human Rights as well as the global NGOs and business associations. [www.unglobalcompact.org](http://www.unglobalcompact.org)
- 184 The proposal is articulated around three key elements: establishing a system of basic business training resulting in the award of a certificate of confidence known as SME passport; improving the interface between SMEs and lenders, by inviting one or more banks and venture capital providers to join the SME passport scheme; developing an integrated approach to build SME clusters around major public and private sector investment projects.
- 185 A challenge fund is a public financing mechanism that allocates grant funding through a competitive process. Challenge funds are set up to meet specific objectives – in this case small enterprise development. It is up to bidders to propose innovative ways of achieving the fund's objectives. Bids are assessed against transparent and clearly defined criteria, and successful bidders must match (or more than match) the grant amount. In this way, the public sector shares some of the initial risks associated with investments. The appointment of an independent panel of experts to assess proposals and select projects against approved criteria helps ensure transparent use of public money.
- 186 The Forum for the Future and Shell Foundation (2004) recently highlighted in a workshop the supporting role that the global commercial finance sector can play in reducing the risk from operating in developing countries, especially Africa.
- 187 In response to the UN Commission on the Private Sector and Development report, G8 countries in Sea Island (2004) agreed on a set of actions to "encourage and support national policies and programs that promote private sector-led development to help alleviate poverty". These are: facilitating remittances to help families and small businesses; improving the business climate for entrepreneurs and investors; providing housing and clean water by supporting the development of local financial markets; expanding access to microfinance for entrepreneurs. See [www.g8usa.gov/d\\_060904a.htm](http://www.g8usa.gov/d_060904a.htm)
- 188 Long-term benefits to multinational corporations' engagement in small enterprise development are explored in Deloitte (2004). These include increasing local supply, reducing costs, improving quality control; complying with government requirements; branding benefits; increased customers database; and building markets for the future.
- 189 The UK Department for International Development has set up two challenge funds to engage the private sector in pro-poor projects. The Financial Deepening Challenge Fund (FDCF) was set up in 2000 to improve access to financial services for poor people in selected countries; the Business Linkage Challenge Fund (BLCF) was launched in 2001 to support demand-led

- business linkages from "for profit" private sector companies. The FDCF has fully allocated its funds and BLCF is completing its last round of funding in early 2005. Both funds have attracted substantial response from the private sector in Africa and include a wide range of actors, partnerships and products. [www.challengefunds.org](http://www.challengefunds.org)
- 190 Including the World Bank private sector arm, International Finance Corporation (IFC), and UNIDO SME Programme.
  - 191 The principle of commercial viability, or profitability, is key in guaranteeing private sector -led projects are outcome-focused and will be sustained in the long run.
  - 192 By being demand-led, challenge funds minimise the risk of "picking private sector winners" and introducing distorting incentives. Careful selection, the relatively short-term grant support (three years maximum) and the need to address issues of commercial sustainability from the outset ensure that long-term subsidy is not a feature of supported projects.
  - 193 World Bank, 2004b.
  - 194 African Union, 2004.
  - 195 ILO Technical meeting on Youth Employment, Geneva, Switzerland, 14-15 October 2004, and Social Partners Forum of the African Union Summit on Employment and Poverty Alleviation (September 2004), North Africa Regional Consultation for the Commission for Africa, Submission to the Commission for Africa received from Michaelowa and Ehler, July 2004.
  - 196 The four "E's" concept was developed by ILO as part of its "decent work" agenda for developing countries and further developed under the Youth Employment Network initiative (see below).
  - 197 ILO, 2004.
  - 198 *Ibid.*
  - 199 *Ibid.*
  - 200 Kanyenze, 2000.
  - 201 Report of the UN Security Council mission to West Africa, 26 June-5 July 2003 (S/2003/688).  
*Paragraph 76.* "In every country visited, the mission heard about the problem of unemployment, especially among young people, and how this was a perennial source of instability in West Africa. The mission hopes that the Office of the Special Representative of the Secretary-General for West Africa will undertake a major collaborative effort with the peace-building and peacekeeping operations as well as the rest of the United Nations system and its partners in the sub-region, to devise a practical and concerted regional approach to this pressing problem."
  - 202 The Millennium Declaration notably commits Governments to "develop and implement strategies that give young people everywhere a chance to find decent and productive work" (MDG16). The African Union Summit on Employment and Poverty Alleviation (September 2004) reinforced this commitment.
  - 203 Kofi Annan launched the UN / ILO / World Bank Youth Employment Network to support MDG 16. A High Level Panel identified four priority areas or the four "E's": *Employability, Equal opportunities, Entrepreneurship, and Employment creation*. Roadmaps have been developed for each area. (For details, see [www.ilo.org/public/english/employment/strat/yen/publ/recomm.htm#1](http://www.ilo.org/public/english/employment/strat/yen/publ/recomm.htm#1)). There have been two UN General Assembly Resolutions: a December 2002 Resolution on promoting youth employment and a January 2004 Resolution concerning policies and programmes involving youth. These Resolutions call on countries to prepare National Action Plans (NAPs) on youth employment. Eleven countries (Azerbaijan, Brazil, Egypt, Indonesia, Iran, Namibia, Nigeria, Mali, Rwanda, Senegal and Sri Lanka) have volunteered to be Lead Countries. It is planned that governments in the lead countries will prepare NAPs in time for the five-year review of the MDGs in 2005.
  - 204 Presentation on the Senegalese National Action Plan given at the ILO Technical meeting on Youth Employment, Geneva, Switzerland, 14-15 October 2004.
  - 205 ECA, 2004b.
  - 206 [www.africa-union.org/EMPLOYMENT/Conclusion%20Social%20partners%20en.pdf](http://www.africa-union.org/EMPLOYMENT/Conclusion%20Social%20partners%20en.pdf)
  - 207 In South Africa, "employers platforms" have been successful forums for gathering employers in key growth sectors, young people and youth agencies to provide information on job placements and input into curriculum development (cited in Jackson). The National Open Apprenticeship Scheme (NOAS) in Nigeria attempts to link education with the workplace through practical training under master craftsmen in key industries such as docking and railways. Since its inception in 1992 over 600,000 young people have been trained in over 80 trades, 400,000 of which have started their own micro enterprises (Haftendorn and Salzano, 2004). Entrepreneurial skills should be integrated within the school curriculum as, for example, the applied technology module introduced in Malian secondary schools (Haftendorn and Salzano, 2004).
  - 208 Submission by the Business Contact Group on capacity building. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
  - 209 Youth Business International (YBI), a unit of The Prince of Wales International Business Leaders Forum (IBLF), has been set up to facilitate this, operating in 20 countries globally including South Africa and Nigeria. YBI is a world-wide network of youth business programmes providing mentoring and access to start-up funding to help disadvantaged young people become entrepreneurs. YBI brings together people in the corporate sector, civil society and government, who make their skills, expertise and facilities available on young people's behalf to provide access to finance, business mentoring and support to young entrepreneurs during the start-up and early development of their businesses. To date more than 50,000 young people have been set up in business by twenty YBI programmes around the world; and over 60 per cent of these young people are still successfully in business in their third year. For more information see [www.youth-business.org](http://www.youth-business.org) (Chambers and Lake, 2002). YBI is a partner organisation to the Youth Employment Network.
  - 210 Burkina Faso, September 2004. The AU declaration on employment and poverty alleviation in Africa, 2004 (8b) refers to "developing and implementing strategies that gives young people in Africa a real chance to find decent and productive work and encourage African member states to support and adapt the Youth Employment Network (YEN) Initiative and implement its recommendations therein with the support of the UN, ILO, the World Bank and other competent agencies as well as development partners".
  - 211 Support will be directed in the first year to lead YEN countries that have demonstrated high-level political commitment. Over three years, the regional capacity of the YEN Secretariat and its partnership between the ILO, World Bank and United Nations will be reinforced to support formulation and implementation of NAPs in a total of twenty-five sub-Saharan

- African countries. An estimated US\$4.7 million will be allocated for the organization of national consultative processes and peer review around the preparation of a National Action Plan. This will also involve the dissemination of guidelines, good practice and technical support materials, an African Social Partners initiative to consult with trades unions and civil society and participation of African youth. Start-up funding totalling US\$20 million will be allocated for activities with the potential to be scaled-up in the future. US\$4 million would be allocated to core support for the YEN over three years to support this process and to organize peer review and exchange of experience amongst participating countries.
- 212 The Business Contact Group and regional business consultations highlighted the key role that the business community can play in promoting African development, ranging from supporting SMEs to working more closely with governments on national development priorities. A full set of submissions is available on the Commission for Africa website ([www.commissionforafrica.org](http://www.commissionforafrica.org)).
- 213 [www.weforum.org/pdf/Africa\\_2002/NEPADEndorsement.pdf](http://www.weforum.org/pdf/Africa_2002/NEPADEndorsement.pdf)
- 214 [www.weforum.org/site/homepublic.nsf/Content/Annual+Meeting+2005](http://www.weforum.org/site/homepublic.nsf/Content/Annual+Meeting+2005)
- 215 At the international level, philanthropic activities include the US\$1 billion committed over ten years by Ted Turner to United Nations and which has supported the establishment of the United Nations Foundation and the United Nations Fund for International Partnerships. Donations by the Bill and Melinda Gates Foundation have helped leverage millions of dollars of public and private funding into health, including the Vaccine Fund. Meanwhile, a wide range of medical product donations have been made by pharmaceutical companies to UN agencies such as the WHO, UNFPA, UNICEF and the World Bank (UNDP, 2002).
- 216 Recent OECD DAC work on pro-poor growth highlights the fact that the transmission of growth benefits to poor people is sector-specific (EME, 2002; EME, 2004). For example, while the extractives sector has a large impact on growth, its main impact on poverty is indirect, via taxation and royalty payments to the state, which can then be used to fund social sector spending and infrastructure investment. In contrast, labour intensive industry has a large direct impact on the pro-poor nature of growth, but a smaller impact on growth.
- 217 Workers organisations and trades unions play an important role in increasing the bargaining power of the most disadvantaged labour market participants and ensuring that core labour standards are adhered to (Submission from the Trades Union Congress, January, 2005).
- 218 DFID, 2004.
- 219 The World Commission on the Social Dimension of Globalization, 2004.
- 220 Submission by the Business Contact Group on capacity building. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 221 Submission by the Business Contact Group on SMEs. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 222 IBLF, 2002; UNIDO, 2002; Feachem and Gambon, 2003.
- 223 IBLF, 2002.
- 224 UN Commission on the Private Sector and Development, 2004.
- 225 CFA/Chatham House Business Conference, London, 21 October 2004.
- 226 See submission from Business Contact Group on HIV and AIDS. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 227 The Business Contact Group set out a number of recommendations on this area (see submission from Business Contact Group on HIV and AIDS. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)), including: taking forward Shell/UNAIDS pan-African scenario work on the impact of HIV and AIDS; public (including donor) investment to support effective healthcare systems, education programmes, the development of vaccines and the development and distribution of microbicides; and actions to spread workplace best practice, including a proposal for major companies operating in Africa to have an HIV policy and publicly report on their implementation.
- 228 See submission from Business Contact Groups on governance and transparency. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 229 OECD DAC, 2004.
- 230 Overseas Development Institute, 2004.
- 231 Overseas Development Institute, 2004.
- 232 See submission by the Business Contact Group on capacity building. Available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 233 "Business and the Millennium Development Goals: A Framework for Action" available at [www.iblf/csr/csrwebassist.nsf/content/f1d2b3aad4.html](http://www.iblf/csr/csrwebassist.nsf/content/f1d2b3aad4.html)
- 234 [www.businessfightsaids.org/site/pp.asp?c=nmK0LaP6E&b=89994](http://www.businessfightsaids.org/site/pp.asp?c=nmK0LaP6E&b=89994)
- 235 [www.bsr.org](http://www.bsr.org)
- 236 [www.wbcds.ch](http://www.wbcds.ch)
- 237 Strengthening the implementation of these initiatives was raised strongly in our regional consultations and, in the case of the OECD Guidelines on Multinational Enterprises, could involve extending the current network of "National Contact Points" into sub-Saharan Africa. Chapter 5 sets out our proposals to incorporate into them, *guidelines for operating in situations of (or at risk of) armed conflict*.
- 238 [www.unglobalcompact.org](http://www.unglobalcompact.org); See also at this site. McKinsey & Company report, Assessing the Global Compact's Impact.
- 239 [www.oecd.org/document/28/0,2340,en\\_2649\\_34889\\_2397532\\_1\\_1\\_1\\_37461,00.html](http://www.oecd.org/document/28/0,2340,en_2649_34889_2397532_1_1_1_37461,00.html)
- 240 [www.globalreporting.org](http://www.globalreporting.org)
- 241 [www.ilo.org/public/english/standards/norm/sources/mne.htm](http://www.ilo.org/public/english/standards/norm/sources/mne.htm)
- 242 [www.oecd.org/document/21/0,2340,en\\_2649\\_34855\\_2017813\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/21/0,2340,en_2649_34855_2017813_1_1_1_1,00.html)
- 243 UN Commission on the Private Sector and Development (2004).
- 244 [www.undp.org/business/gsb/](http://www.undp.org/business/gsb/)
- 245 A forum for business, government and civil society to discuss and act on corporate sustainability policy and practice. (See [www.aiccafrica.com/african%20corporate%20sustainability%20forum1.htm](http://www.aiccafrica.com/african%20corporate%20sustainability%20forum1.htm)).
- 246 Submission by the Africa Business Round Table on the Commission for Africa. Available on [www.commissionforafrica.org](http://www.commissionforafrica.org)

- 247 Brockelsby & Hinshelwood, 2001.
- 248 UNEP, 2003b.
- 249 Africa accounted for 56 per cent of global deforestation between 1990 and 2000 (44 per cent in Sudan, Zambia and DRC alone) (FAO, 2003).
- 250 World Bank 2004a.
- 251 Convery Rank and Kwadwo, 1991.
- 252 Kundzevicz et al, 2001.
- 253 World Development Indicators, 2003, and Mozambique's PRSP ([http://poverty.worldbank.org/files/Mozambique\\_PRSP.pdf](http://poverty.worldbank.org/files/Mozambique_PRSP.pdf)).
- 254 UN Commission on Sustainable Development, 2004.
- 255 The need to consider both growth and environmental protection is reflected in the international commitments on protecting and managing the natural resource base of economic and social development agreed at the World Summit for Sustainable Development (WSSD) in Johannesburg in 2002 (WSSD Plan of Implementation).
- 256 The Action Plan of the AU/NEPAD Environment Initiative covers land degradation, drought and desertification, wetlands, invasive species, marine and coastal resources, cross-border conservation of natural resources and climate change, and is closely linked to issues of pollution, forests, fresh water, capacity building and technology transfer.
- 257 Hulme, 2001.
- 258 Intergovernmental panel on climate change (IPCC) Third Assessment Report, 2001.
- 259 UNEP, 2003a.
- 260 Parry et al, 1999.
- 261 Nyong, 2005.
- 262 World Resource Institute Climate Analysis Indicators Tool (CAIT) ([www.cait.wri.org](http://www.cait.wri.org))
- 263 For example, the Marrakech-Bonn agreements agreed under the UNFCCC.
- 264 ADB Vision Statement 1999 and Strategic Plan 2003-2007.
- 265 Since the ADB commenced lending operations in 1967 to the end of 2004, its Boards of Directors have approved a total of Units of Account 12,530 million – equivalent to roughly US\$18,795 million at January 2005 exchange rates – which is almost 33 per cent of overall Bank Group approvals over that period, for transport, communications, water supply and sanitation, and energy and power in 52 African countries (not including Libya, a non-borrowing member). This does not include approvals for infrastructure components in operations in support of agriculture and rural development, education and health.
- 266 Around 600 million Units of Account, equivalent to around US\$920 million.
- 267 Hesselbarth, 2004.

# Chapter 7: References

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# Chapter 8: Notes

- 1 World Bank, 2003a.
- 2 World Bank, 2004a.
- 3 World Bank, 2002.
- 4 This is partly the point of extra exports and aid.
- 5 Chang, 2003.
- 6 SDT for developing countries has three main aspects: exemptions from specific WTO rules, including freedom to protect markets; provision of technical assistance to help countries implement rules, and increased aid to help build supply side capacity.
- 7 Limao and Venables, 2001.
- 8 World Bank, WDI on-line, 2004.
- 9 World Bank, WDI on-line, 2004.
- 10 ECA, 2004a.
- 11 Estache, 2004.
- 12 ECA, 2004e.
- 13 Kripali Manek, personal communication.
- 14 World Bank, 2003c.
- 15 Adopted on 3 July 1991 by 48 Member States of the OAU at its 27th summit. The Abuja Treaty builds on the philosophy of the 1980 Lagos Plan, and came into effect in May 1994.
- 16 Out of 53 countries, 26 are members of 2 Regional Economic Communities, 20 are members of 3, 1 belongs to 4, and only 6 belong to 1.
- 17 ECA, 2004g.
- 18 World Bank, 2005b.
- 19 Helena McCloud, personal communication.
- 20 Orden et al, 2004.
- 21 This includes staples such as livestock and livestock products, cereals, roots and tubers, and peas and beans.
- 22 This has already taken place within SADC and COMESA.
- 23 Based on *Resolution CM/464* of the Twenty-Sixth OAU council of Ministers, the Abuja Treaty breaks the continent into five regional communities: North Africa, West Africa, Central Africa, East Africa and Southern Africa. Following these regional divisions two definitions of rationalisation have been proposed: Strong form - defined as the absorption and mergers of regional institutions and communities, so as to be synchronised with the five regional communities proposed under the Abuja Treaty. Weak form - defined as the absorption and mergers of the programmes of the communities. This form sets a lower threshold for the integration process and may not lead to a successful achievement of the goals of the Abuja Treaty. ECA, 2004a.
- 24 Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.
- 25 Agreements based on open regionalism have low barriers to trade, non-restrictive rules of origin, liberalised service markets and a strong focus on reducing transaction costs at borders. This principle is a way of making regional agreements complementary to a non-discriminatory multi-lateral system. The CBI has an outward orientation and is based on a flexible design, based on the cooperation between countries to jointly implement specific projects (World Bank, 2004a).
- 26 ECOWAS and WAEMU signed a cooperation agreement for regional integration in May 2004. Consultations between the two regional organizations entail plans of action to harmonize their sector activities (including agriculture, transport and energy); accelerate the convergence of economic and financial policies of member states through multilateral surveillance mechanism; and create a West African custom union.
- 27 Amjadi and Yeats, 1995.
- 28 UNCTAD, 2001.
- 29 CBC Consultations for the Commission For Africa available at [www.commissionforafrica.org](http://www.commissionforafrica.org)
- 30 OECD, 2003b.
- 31 The overall gains from improved trade facilitation, vary widely depending on conditions. Singapore implemented an electronic declaration system for traders that generated savings estimated at one per cent of GDP, with an expectation that the cost would be covered within 3 years (UNDP, 2003).
- 32 It was intended that Ministers would agree negotiating modalities at Cancun in September 2003, but this meeting broke up with no agreement. The two main stumbling blocks for developing countries, including those in Africa, were the lack of serious progress on agriculture, and the insistence of the EU and others on including additional issues - so-called "Singapore Issues" since they were mandated at the 1996 Singapore Ministerial - of investment, competition policy, transparency in government procurement and trade facilitation - of lower priority to developing countries. Lack of progress at Cancun threatened to undermine multilateral trade negotiations, but recent progress has been made, with agreement on a framework achieved in July 2004 in Geneva which allows multilateral negotiations of the Doha Round to continue.
- 33 Tabled at the Shanghai Ministerial of October 2001.
- 34 At 1997 prices, Australian Foreign Affairs and Trade, 2002.
- 35 APEC, 2002.
- 36 ECA, 2004b.

- 37 Business Contact Group Consultation with Commission For Africa, November 2004.
- 38 Dunn and Bradstreet Country Report for Mozambique, January 2003 in Crown Agents 2003
- 39 Crown Agents, 2003.
- 40 WTO, 2004.
- 41 Wilson et al, 2002.
- 42 The LRA is a statutory body that incorporates the functions of the Income Tax, the Customs and Excise and VAT Divisions. Its primary function is to assess, collect and account for the tax revenues on behalf of the Government and to promote voluntary compliance.
- 43 SSA data-points are for Zimbabwe, South Africa, Nigeria, Mauritius.
- 44 UNCTAD, 2003c, estimates.
- 45 Amjadi and Yeats, 1995.
- 46 The decision accelerated the liberalisation of access to the air transport market in Africa, prompted reforms aimed at boosting competition and allowed multiple airlines to operate on specific routes and deregulates traffic. The decision did not address aviation outside of Africa, since it was seen as necessary to clean up the situation within Africa. 23 states agreed to liberalise air transport in Africa in over two years. It received strong support from donors, with CEMAC, ECOWAS, COMESA, SADC, and WAMEU the main beneficiaries.
- 47 Allowing all airlines to fly on all routes between two countries without any ex ante controls on capacity.
- 48 WTO, 2004.
- 49 UNDP, 2003.
- 50 WTO members pledged US\$18 million to the Doha Development Trust Fund, which is almost twice the amount requested by the WTO secretariat in its 2002 Technical Assistance Plan.
- 51 Between 1996-2003 US\$68 million was committed to 13 World Bank trade facilitation projects in 22 SSA countries. For FY 2004-2006, \$374 million has been approved and projected for 24 projects in 29 SSA countries.
- 52 In Nigeria, poor customs and border controls attracted a lot of smuggling in the import market. Counterfeiting was estimated to be about 25 per cent of the market at the beginning of 2002. Due to the significance of the market, BAT built a major manufacturing plant and provided extensive support and training to customs which led to increased revenue yield for the government. A consumer and retailer awareness campaign "Be Correct", was also launched. By Dec 2002 the incidence of counterfeit BAT brands had dropped to 10 per cent. BAT signed an MOU with Nigerian customs at a high profile ministerial meeting on 17th December 2004.
- 53 Within the Integrated Framework, ongoing trade facilitation related diagnostic work is done through Diagnostic Trade Integration Studies, and Trade and Transport Facilitation Audits are carried out. The Audits aim to identify procedural and operational constraints to external trade and international transportation services. An action plan is the most important output of the Integration Study and lists the key priorities that need to be addressed to improve the national trading climate. In 2004 the Audits were carried out in Benin, Chad, Malawi, Mozambique, and Zambia. Donors have generally failed to fund these action plans
- 54 14 African HIPC countries generate more than 90 per cent of their export earnings from a few primary commodities. Seventeen out of twenty most important non-fuel exports are in primary commodities and resource-based manufactures, with manufactures only increasing share of total exports by 10 per cent in the past 20 years, to 30 per cent. The value of manufactures has only grown at six per cent annually over this period, compared to twice that in Latin America and Asia (UNCTAD, 2004a).
- 55 UNCTAD, 2003a.
- 56 UNCTAD, 2003a.
- 57 The fisheries sector is of increasingly high value and potential to Africa, particularly due to rising world demand. Export fisheries provide more regular income than agriculture in many countries, where low prices in traditional commodities and increased fish exports mean that net revenues received from the fish trade now exceed revenues from coffee, tea, cocoa and rice combined. In Uganda fish is as important for foreign exchange earnings as coffee and in Senegal fish has overtaken groundnuts as the country's primary export. Although niche markets in non-traditional export sectors (e.g. fresh vegetables, cut flowers and fish) have proved a successful growth strategy for countries like Kenya, Zimbabwe and Zambia, these markets are highly specialised, competitive and have rigorous quality standards. *Product differentiation* (e.g. in coffee) could potentially, but not significantly, increase income from traditional incomes.
- 58 Primary Commodities, unless otherwise specified, means total non-fuel primary commodities – the sum of agricultural primary commodities and mineral commodities (UNCTAD definition).
- 59 UNCTAD Commodity Yearbook, Online.
- 60 IMF, 2000.
- 61 There are estimated to be between 20 and 25 million rural coffee growers in Africa. 10 million workers are directly employed in cocoa production and 15 million in the cotton sector.
- 62 IMF study reference. Common Fund For Commodities Consultation with Commission For Africa, at the Secretariat of the African Union, New York, 19 October 2004.
- 63 Page and Hewitt, 2001.
- 64 Oil exporters are Nigeria, Angola, Congo-Brazzaville, Gabon, Equatorial Guinea, Cameroon, Chad, DRC and Sudan. Exploration licenses have been issued in Sao Tome and Principe, Mauritania and Madagascar.
- 65 AFR estimates in IMF, 2003.
- 66 Changing market conditions, lack of contribution to the stabilisation funds and International Commodity Agreements etc.
- 67 ICAs aimed at achieving the two simultaneous goals of (1) reducing the variability in prices (2) raising depressed price levels. They were designed to protect both producers and consumers.
- 68 The European Commission outlined its vision for support to CDDCs, in a proposal for a joint 'EU Action Plan on Agricultural

Commodity Chains, Dependence and Poverty and a specific action for cotton'. The specific action was a EU-Africa partnership on cotton. This was adopted by EU ministers in April 2004.

- 69 Outcome of the 2004 UNCTAD XI Sao Paolo Consensus. Member states agreed to launch a partnership on commodities, the 'International Task Force on Commodities' (consisting of interested stakeholders from the public and private sector, NGOs and international organisations). The Report of the Meeting of Eminent Persons on Commodity Issues identified a series of practical proposals (UNCTAD 2003b).
- 70 Address to the Twenty-Second Summit of the Heads of State of Africa and France on 20 February 2003.
- 71 UNCTAD, 2004a.
- 72 Dorward et al., 2004:7.
- 73 Diao and Hazell, 2004.
- 74 There are 24 International Commodity Bodies which cover most of the commodities of interest to Developing Countries.
- 75 The Common Fund for Commodities (CFC) is an autonomous intergovernmental financial institution established within the framework of the United Nations. The Agreement Establishing the Common Fund for Commodities was negotiated in the United Nations Conference on Trade and Development (UNCTAD) from 1976 to 1980 and became effective in 1989.
- 76 The International Coffee Council (of the International Coffee Organisation) adopted Resolution number 407 in February 2002. This aims to improve marketable standards and divert lower grades to alternative users, as a means of raising overall quality to encourage consumption and contribute to a more balanced market (ICO 2003).
- 77 Coffee represents 75 per cent of the total exports of Burundi, 62 per cent of Ethiopia, 54 per cent of Uganda and 43 per cent of Rwanda (Source: Common Fund For Commodities).
- 78 FAO, 2004.
- 79 In September 2001, the leading European distributors and retailers, as members of EUREP (EUro REtailers Practice), introduced the EUREPGAP standard, a quality management system for agricultural production.
- 80 DFID and IIED, 2004.
- 81 These will set traceability requirements through all stages of production, processing and distribution for all fruit and vegetables coming into the EU.
- 82 DFID, 2004.
- 83 Musoke, et al. 2004; Kleih et al, 2004.
- 84 Private conversation with Stephen Haggblade, IFPRI, Lusaka, Zambia.
- 85 Existing exchanges in Africa - Maize, Wheat, seeds and Soya beans traded on SAFEX; maize contracts on ACE (Zambia Agricultural Commodity Exchange) and ZIMACE (Zimbabwe Agricultural Exchange); cereal, dairy products and cotton on KACE (Kenya Agricultural Commodity Exchange).
- 86 The idea of an African Commodity Exchange, which aims to protect the prices of export commodities on the international market, is being explored by the AU and Common Fund For Commodities.
- 87 A pilot project on Price Risk Management in Eastern Africa for the coffee and cotton sectors has been developed by the Common Fund For Commodities in cooperation with the World Bank.
- 88 Preferences are more limited in the case of Japan. Although LDC preferences are the most generous of Japanese schemes, they only provide limited access to the food sector in Japan. Items of African interests affected are cocoa, coffee and hides and skins.
- 89 Brenton and Ikezuki, 2004.
- 90 However, this is hindered by the lack of capacity to process and complicated by the fact that only a handful of multinationals dominate the roasting process.
- 91 Africa has had some success in value-adding in the cocoa sector, as exports in their processed form represent 22 per cent of the exports of cocoa beans. The market for cocoa butter has been weakened further by competition from "cocoa butter equivalent", when the EU relaxed its regulations on the use of fats derived from other sources to replace some of the cocoa butter in chocolates. Although, Côte d'Ivoire and Ghana (two of the most important cocoa exporters) are not LDCs, hence ineligible for Everything-But-Arms duty- and quota-free access to the EU market when the beans undergo further processing, they benefit from Cotonou preferences.
- 92 In the EU, this can range from 7-10 per cent in later stages. In the US, cocoa paste, butter and powder (unsweetened) can enter at zero rates.
- 93 Multinationals like Nestle, Cadbury, Starbucks, and Unilever dominate the trade of leading commodities such as cocoa, coffee and tea. Small-scale farmers who grow the bulk of the world's coffee, remain at the bottom rung of a multi-billion dollar business. The four major coffee roaster companies - Kraft, Sara Lee, Nestle and Procter & Gamble, each have coffee brands worth US\$1 billion or more in annual sales. The value of retail sales is US\$70 billion, but coffee producing countries receive only 8 per cent, some US\$5.5bn. 10 years ago producer-country exports captured one-third of the value of the coffee market.
- 94 UNCTAD XI advocates the creation of a new International Diversification Fund, which would help countries to move away from excessive dependence and focus on developing private sector capacity (long-term). This includes developing strong producer associations, key infrastructure and stimulating investment. This could be funded through the second account of the Common Fund For Commodities. The Commonwealth Secretariat proposes a Joint Diversification Fund (JDF) which would make additional grant transfers to enable them to diversify their exports and enable structural change. The JDF could be funded annually by OECD donors in a multi-lateral framework.
- 95 This was endorsed by the African Union in July 2004. It has the buy-in from various African governments, many of whom have made initial voluntary contributions to demonstrate ownership. Main report available at <http://exchange.unido.org/pdf/mainpage/fulldraft.pdf>
- 96 Priority sectors such as food processing, textiles and garments, mineral products, including metals, wood and wood products, automobile equipment and assembly, pharmaceuticals and building materials.
- 97 New plant and equipment (at least US\$50 million), upgrading of present equipment (at least US\$10 million) and hiring food technologists (at least 25) and specialist production engineers (at least 10) (UNIDO, 2003).

- 98 Calculated with the assistance of UNIDO.
- 99 The Joint Integrated Technical Assistance Programme (JITAP) of the WTO, UNCTAD and ITC (International Trade Centre) provides support in this area, and could be expanded.
- 100 For a handful of countries that are not yet WTO members, entry should be made easier, so that all of Africa can engage in trade negotiations. Current observers - Cape Verde, Equatorial Guinea, Ethiopia, Somalia, Sao Tome & Principe, Seychelles, Sudan; others - not members - Comoros, Eritrea, Somalia and Liberia.
- 101 World Bank, 2003b.
- 102 Anderson and Martin in World Bank (2005c, Global Monitoring Report, forthcoming). 2 per cent of HS6 tariff lines in developed countries, and 4 per cent in developing countries.
- 103 <http://www.goldentianjin.net.cn/EN/news/01.asp?sele=1310>
- 104 UNCTAD 2004b.
- 105 The 11th session of the United Nations Conference on Trade and Development (UNCTAD XI) on 14 June 2004 in Sao Paulo opened with a call by leaders of developing countries to build a 'new geography of trade' which stresses the role of South-South trade and cooperation in a globalising world. Making the call, Brazilian President Luiz Lula da Silva said a 50 per cent reduction in tariffs among developing countries could generate an increase of US\$18 billion of trade for them. (UNCTAD, 2004b)
- 106 ECA 2004d.
- 107 IAC, 2004.
- 108 OECD, 2004b, PSE/CSE database.
- 109 World Bank, 2005a.
- 110 Messerlin, 2004.
- 111 HMT/DTI, 2004. UK£800 for a family of four.
- 112 Charged at a given sum per unit quantity, e.g. Euro 303.4/100kg for beef imported into the EU (Stevens, 2003). Such duties increase protection when commodity prices fall, at just the moment when developing countries would benefit from increased exports.
- 113 US Farm Security and Rural Investment Act, May 2002. The Act will last until 2007. The previous act was the 1996 Federal Agricultural Improvement and Reform Act.
- 114 OECD, 2002.
- 115 Watkins, 2003.
- 116 Reidl (2004) notes that US farmers have higher incomes than non-farmers, with 136,000 households with annual farm sales over US\$250,000 having incomes 2 times average incomes. These farmers also receive the largest subsidies, with the top 10 per cent of recipients receiving 65 per cent of all subsidies in 2002, and where 80 per cent of recipients received only 19 per cent of subsidies.
- 117 Gresser, 2002.
- 118 Producer Support Estimate (PSE), OECD definition: the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm-gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income. It includes market price support and budgetary payments, i.e. gross transfers from taxpayers to agricultural producers arising from policy measures based on: current output, area planted/animal numbers, historical entitlements, input use, input constraints, and overall farming income. The % PSE measures the transfers as a share of gross farm receipts.
- 119 Through increased EU exports (increasing supply), and by denying developing countries access to the EU market (reducing demand) (Stevens, 2004a).
- 120 By insulating a large proportion of the world's consumers and producers from the full effect of market forces, world prices can become unstable.
- 121 Oxfam, 2002.
- 122 Agenda 2000 continued the agricultural reforms of 1988 and 1992, with increased focus on the environment, food quality and rural development. It also included preparations for EU enlargement.
- 123 Producer Support will remain at around 36 per cent. (OECD, 2003a).
- 124 Thurston, 2002.
- 125 World Bank, 2005a.
- 126 *Ibid.*
- 127 According to the International Cotton Advisory Committee (UNCTAD, 2004).
- 128 WTO Ref: WT/DS267/R.
- 129 Sugar is a good example of how subsidies can benefit some developing countries through preferential access to higher priced markets whilst discriminating against others. ACP preferential access to the EU sugar market has led a range of countries to specialise in sugar production. Key African producers include Congo, Cote d'Ivoire, Madagascar, Malawi, Mauritius, Swaziland, Tanzania, Zambia and Zimbabwe; some could be competitive at world prices, others cannot.
- 130 Agricultural Trade Reform: The Role of Economic Analysis, Remarks by Anne O. Krueger, First Deputy Managing Director, International Monetary Fund. To Conference Organized by the Department of Foreign Affairs and the Australian Bureau of Agricultural Research, Canberra, November 3-4, 2004.
- 131 Krueger, 2004.
- 132 LMC & OPM, 2003.
- 133 For African LDCs seafood exports are worth US\$570 million - Senegal 28 per cent, Tanzania 19 per cent, Mozambique 12 per cent, Uganda 11 per cent Angola 6 per cent (ref)
- 134 Mutume, 2002.
- 135 Anderson et al, 2005.

- 136 Cline, 2004.
- 137 FAO, 2005.
- 138 Achterbosch et al, 2004; ECA 2004c.
- 139 Achterbosch et al, 2004.
- 140 Stevens, 2003.
- 141 FAO STAT agriculture and food trade database and Diao, X and P Hazell, 2004.
- 142 Walmsley and Winters, 2003.
- 143 Although countries have worker programmes for low skilled workers e.g. seasonal workers and tourism workers, these have not been not been included in any WTO member country's commitment under the GATS.
- 144 Wilson et al, 2003.
- 145 <http://www.standardsfacility.org/>
- 146 World Bank, 2003d.
- 147 Personal communication from Martin Doherty, SPS expert, CEREX.
- 148 NEPAD, 2001.
- 149 AU/NEPAD has particularly focused on issues of intellectual property protection in the field of indigenous knowledge, which is not currently covered in the TRIPs agreement, although AU/NEPAD are working with the World Intellectual Property Organisation in the hope of achieving suitable legislative frameworks. They also support African cultural industries and have particularly stressed the importance of African music and film industries and African publishers. The AU intends to establish an African Union Publishing House in the near future.
- 150 World Bank, 2003e.
- 151 Many of the ACP countries are poor or vulnerable and have very limited capacity to handle the significant adjustments that trade liberalisation may bring. Some ACP industries may not be competitive with their competitors in neighbouring countries, and in particular in the EU, and many ACP countries derive a considerable proportion of their government revenue from tariffs. The World Bank estimates that removing all tariffs from EU exports would reduce sub-Saharan African government revenues by up to 10 per cent, and reduce GDP around 1 per cent in the short term, generating significant short-term losses. The ACP countries will need considerable support to restructure their government revenue base and to adapt to a more open trading environment.
- 152 ECA, 2004g.
- 153 WTO, [http://www.wto.org/english/docs\\_e/legal\\_e/enabling1979\\_e.htm](http://www.wto.org/english/docs_e/legal_e/enabling1979_e.htm)
- 154 Hoekman, 2004.
- 155 Doha Ministerial Declaration, para. 44. [http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/minded\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/minded_e.htm) .
- 156 WTO, [http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm)
- 157 Following the 2003 triennial UN review, Cape Verde became a non-LDC.
- 158 Brenton (2004) observes only seven countries really benefit from AGOA (accounting for 96 per cent of exports to US under the scheme), and mainly in oil, e.g. Nigeria and Gabon.
- 159 Ianchovichina et al (2001) calculate that fully unrestricted access to all the Quad countries would provide substantial gains for sub-Saharan Africa, an overall growth in exports of US\$2.5 billion, boosting real incomes by around one per cent - some US\$1.8 billion. Unfortunately this model did not factor in the benefits of current preferences. Their model shows gains coming from EU and Japanese markets, especially the heavily protected market in Japan for meat and cereal grains. They note one concern, as do others below, that Africa may specialise in goods in which it does not have comparative advantage, where future erosion of preferences could lead to adjustment costs.
- 160 Ben Hammouda et al (2004). Early work from the ECA on Unrestricted Access to Quad markets, using the latest Global Trade Analysis Project (GTAP) model, provides important findings. Exports from sub-Saharan Africa would grow by US\$1.9 billion, with substantial income gains, particularly for unskilled labour, of up to US\$4 billion.
- 161 Fugazza and Peters, 2005.
- 162 These models are quite limited in their use, and also have not modelled dynamic gains - gains from reinvestment and increased supply side capacity - which if factored in would show substantially increased gains.
- 163 The policy was promised by the Chinese Premier Wen Jiabao at the second ministerial meeting of the Sino-African Co-operation Forum held at the end of 2003.
- 164 See for example, the EU 'list rules' for fisheries:"1. The following shall be considered as wholly obtained in a beneficiary country or in the Community: (f) products of sea fishing and other products taken from the sea outside its territorial waters by its vessels;(g) products made on board its factory ships exclusively from the products referred to in (f); 2. The terms 'its vessels' and 'its factory ships' in paragraph 1(f) and (g) shall apply only to vessels and factory ships: which are registered or recorded in the beneficiary country or in a Member State; which sail under the flag of a beneficiary country or of a Member State; which are at least 50 per cent owned by nationals of the beneficiary country or of Member States or by a company having its head office in that country or in one of those Member States, of which the manager or managers, Chairman of the Board of Directors or of the Supervisory Board, and the majority of the members of such boards are nationals of that beneficiary country or of the Member States and of which, in addition, in the case of companies, at least half the capital belongs to that beneficiary country or to the Member States or to public bodies or nationals of that beneficiary country or of the Member States; of which the master and officers are nationals of the beneficiary country or of the Member States, and of which at least 75 per cent of the crew are nationals of the beneficiary country or of the Member States."
- 165 Numerous studies, by the World Bank (Brenton, 2004), UNCTAD (2003) and others, such as the US Commission on Capital Flows to Africa (2003); Matoo et al (2003) and Stevens et al (2004b) all highlight the barriers caused by restrictive and unnecessary rules of origin. Rules of origin can tie African producers into expensive sources of raw materials in order to qualify for preferences, again hindering their competitiveness.
- 166 Brenton, 2004a.
- 167 Brenton, 2004b.

- 168 US Commission on Capital Flows to Africa, 2003.
- 169 Such revenue makes up around 2 per cent of GDP in the median SSA country, some 15 per cent of total government revenue, for some countries up to 25 per cent of government revenue (Hinkle, 2004).
- 170 Commonwealth Secretariat, 2004.
- 171 IMF, 2004.
- 172 HMT/DTI, 2004.
- 173 World Bank, 2004b; Capra, 2003.
- 174 The Integrated Framework for Trade-Related Technical Assistance now has seventeen bilateral donors (including Canada, the EU, Japan and the USA); and the USA chairs donor co-ordination. Given the demand by LDC countries a small IF secretariat has recently been established funded by the EU, Denmark, Switzerland and Sweden. A small trust fund (US\$20 million) finances the trade assessments and small scale technical assistance arising from the action matrices. The larger identified and prioritised trade capacity building plans are presented within the context of the consultative group meetings and round tables associated with the PRSP process. However, against an aid resource constrained environment, prioritised trade action plans have had to compete, justifiably with other priority sectors namely health, education, and to date implementation on the ground in these prioritised areas has been limited (World Bank, 2004b and 2004c).



## Chapter 8: References

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# Chapter 9: Notes

- 1 Guidolin and La Ferrara, 2004.
- 2 World Bank, 2004a.
- 3 Collier, Hoeffler and Pattillo, 2001, 2004.
- 4 World Bank, 2004b.
- 5 Loayza, Schmidt-Hebbel and Serven, 2000.
- 6 Ogaki, Ostry and Reinhart, 1997. For a clear argument showing that higher savings follow economic growth and increases in per capita income, see also Elbadawi and Mwega, 2000.
- 7 See for example evidence in Kelly and Mavrotas, 2004.
- 8 In 2000, the share of military expenditure in GDP was 1.9 per cent for sub-Saharan Africa compared with 3.2 per cent for Europe and Central Asia; 6.2 per cent for North Africa and the Middle East; 2.5 per cent for South Asia; 1.9 for East Asia and the Pacific; and 1.2 for Latin America and the Caribbean (World Bank, 2004b). These averages mask differences between countries and do not necessarily imply that military spending in some countries may be regarded as being high.
- 9 Figures taken from World Bank, 2004c and do not include South Africa.
- 10 Teera and Hudson, 2004.
- 11 The estimate for sub-Saharan Africa includes South Africa. The tax-to-GDP ratio for sub-Saharan Africa excluding South Africa was on average 15.7 per cent between 1993 and 2002 (see also Table 9.2).
- 12 With increased trade liberalisation, Africa's current reliance on trade taxes should diminish, and the gap in public resources will need to be filled by other means - i.e. aid and/or other taxes.
- 13 There is considerable scope for increasing tax revenues by ensuring greater compliance from eligible taxpayers. More stringent measures against corruption, both among tax collectors and among tax evaders, should also be implemented. Successful examples of the latter include Uganda and Ghana - see Annex 9.1.
- 14 Since the 1970s, Africa has been the only region to have experienced a decline in real exports per capita in dollar terms. According to Alan Gelb, "the erosion of Africa's world trade share in current prices between 1970 and 1993 represents a staggering annual income loss of \$68 billion-or 21% of GDP" (Gelb, 1999:10; and World Bank, 2000:208). A substantial portion of aid to Africa has gone towards compensating Africa for these terms of trade losses, thus leaving insufficient amounts for channelling into productive investments in agriculture, infrastructure, health and education.
- 15 This is for a sub-set of projects in the more quantifiable sectors, e.g. infrastructure (OED, 2004a).
- 16 Other aid agencies have also reported high returns to the projects they are funding in developing countries, including in sub-Saharan Africa (see for example the evidence cited in Foster, 2003).
- 17 Daima Associates Limited and ODI, 2004.
- 18 Oxfam, 2004.
- 19 OED, 2004b.
- 20 Government of Ethiopia, 2003.
- 21 Kane, 2004.
- 22 Government of Uganda, 2004.
- 23 WHO and UNICEF, 2003.
- 24 Government of Zambia, 2004.
- 25 HMT/DFID, 2004. More detailed examples are provided in Chapter 6.
- 26 Aid to Mozambique increased in 2002 and 2003.
- 27 Data for Mozambique taken from Republic of Mozambique, 2004.
- 28 Data for Uganda taken from Government of Uganda and UNDP, 2003.
- 29 Data for Ghana taken from Government of Ghana, 2004.
- 30 Government of Rwanda, 2004.
- 31 See McGillivray, 2004, for a survey.
- 32 Clemens, Radelet and Bhavnani, 2004a.
- 33 The main recent 'outlier' paper is by a team from the Center for Global Development (Easterly, Levine and Roodman, 2003.) but the work of Clemens et al. which reaches a radically different conclusion is a more recent contribution by a team from the same Center. Application of their approach for sub-Saharan Africa shows that an above-average amount of short-impact aid in sub-Saharan Africa (5.3 per cent of GDP) compared to the world average of 2.8 per cent of GDP had the effect of raising growth rates by an extra 1.2 per cent (Clemens, Radelet and Bhavnani, 2004b).
- 34 Collier, Hoeffler and Pattillo, 2004.
- 35 Chauvet and Collier, 2005.
- 36 Miguel, Satyanath and Sergenti, 2004, and Collier and Hoeffler, 2004a.
- 37 Collier and Hoeffler, 2004b.
- 38 Collier et al, 2003.
- 39 Recall that on average, during civil wars GDP per capita only falls at an annual rate of 2.2 per cent. In Rwanda in 1994, the corresponding figure was 24 per cent (Collier et al, 2003).
- 40 Demekas, McHugh and Kosmax, 2002.
- 41 Chauvet and Guillaumont, 2004; and Collier and Dehn, 2001.
- 42 Gunning, 2004.

- 43 A summary reporting a recent discussion of African Finance Ministers stated: "Ministers noted that resource flows must be predictable for the scaling up of spending. If expenditures are increased on the basis of grants, then there must be binding agreements between donors and grant recipients for predictability to be maintained." They also noted "Ministers agreed that if Africans demand predictability of resource flows from partners then they must develop coherent and predictable policies themselves." (Group of African Finance Ministers, 2004).
- 44 Johnson, Martin and Bargawi, 2004.
- 45 Elbadawi and Gelb 2003:53 cite a rigorous study by Elbadawi and Randa, 2003.
- 46 A move towards more grants within IDA will imply a loss to IDA in the longer term from reflows arising out of loan repayments. In order to ensure IDA's long-term survival as a key development finance institution, compensation for the loss of reflow income might best be achieved through periodic replenishments by shareholders at the regular three-yearly replenishment meetings.
- 47 SPA, 2003 and ECA and OECD/DAC, 2005.
- 48 OECD/DAC, 2005.
- 49 Birdsall, 2004.
- 50 Birdsall, 2004.
- 51 Miguel, Satyanath and Sergenti, 2004.
- 52 Collier and Dehn, 2001.
- 53 This is based on combining an IMF (2004:34) estimation of the occurrence of natural disasters every 2.5 years (with an average impact of five per cent of GDP), and commodity-related shocks every 3.3 years (with an average impact of 3.5 per cent of GDP). Assuming independently occurring shocks, and a combined probability of 70 per cent in a given year, Martin and Bargawi, 2004, deduce such shocks would strike in low income countries every 1.4 years. This excludes the occurrence of other types of shocks, notably from aid shortfalls and conflict.
- 54 Gunning, 2004; World Bank, 2002; Chauvet and Guillaumont, 2004; Collier and Dehn, 2001.
- 55 The cost figures have been extrapolated by Martin and Bargawi (2004) from assumptions and analysis made by the IMF (2004:34) regarding the incidence of shocks in LICs, i.e., not only in Africa. In reality the incidence and frequency of shocks may differ from the average noted for all low income countries. The cost estimates are calculated as follows: for all IDA-only countries, the cost of a shocks facility would be US\$49 billion for a commodity shock and US\$89 billion for a natural disaster shock. Over an 11 year period this would amount to US\$12.4 billion per annum (US\$4.3 billion and US\$8.1 billion for commodity and natural disaster shocks respectively). Less than half (US\$23 billion and US\$40 billion respectively) would be for African IDA-only countries. Over an eleven-year period (i.e., to 2015) a total of US\$5.6 billion per annum would compensate countries by one hundred per cent for shocks-related annual GDP losses - US\$2 billion for commodity-related shocks and US\$3.6 billion for natural disaster shocks.
- 56 The proposed Shocks Facility might be financed in a number of ways, from: a reallocation of existing ODA; additional ODA; new finance from the International Finance Facility; Special Drawing Rights; funds raised from voluntary or compulsory international taxes.
- 57 Foster 2003, Annex 3 for an extended discussion.
- 58 This is included as contingencies in Table 9.2a.
- 59 Note this excludes South Africa as indicated in the notes to Table 9.2b.
- 60 This assumes a five per cent real annual growth rate. If, as the commission expects, growth rates increase to seven per cent in sub-Saharan Africa, and in response new investments from higher resource inflows, the share of domestic contribution could rise further.
- 61 This assumes aid to sub-Saharan Africa would be about 25 billion in 2005.
- 62 It should be noted, however, that a considerable proportion of the nominal increase in global aid since 2001 (including to Africa) can be accounted for by inflation in donor countries and large exchange rate changes, especially against the US\$ (World Bank, 2004a:32, estimates these factors account for more than half of the nominal increases in aid).
- 63 Without being unduly pessimistic, it should be noted that in the past, disbursed aid flows have almost always been less than what had been committed. This underscores the importance of donors delivering on the commitments they have announced publicly. (According to the OECD/DAC database, for the 1994-2003 period, average gross aid disbursements from all donors to all developing countries amounted to 92% of commitments - OECD/DAC, 2005:Table 1).
- 64 If the 2004 amount were to be doubled by 2010, an extra US\$15.4 billion (i.e, above projected amounts) would be required. These are own estimates based on a revision of OECD/DAC projections (OECD/DAC, 2004), taking into account changes announced by Spain and Ireland in their timetables for reaching the 0.7 ODA/GNI target. The projections assume a similar rate of expansion for bilateral and multilateral ODA. The final increase announced for IDA-14 is therefore not included in our estimates.
- 65 Many countries (especially in Francophone Africa) are receiving less assistance than they should for tackling growth and development problems (Levin and Dollar, 2005). If one compares aid flows to post HIPC-completion point countries in Africa as a per cent of GNI, francophone countries got 11%, compared to non-francophone countries getting 19% (OECD/DAC, 2005).
- 66 Chauvet and Collier, 2005.
- 67 See for example suggestions made in Christiansen, Lockhart and Coyle, 2005.
- 68 Chauvet and Collier, 2005.
- 69 Channelling aid through non-state actors can make a real difference at grass-roots level, but by definition cannot help create the capacity within Government to improve its governance or fulfil its role in supporting economic growth, both of which are prerequisites for long-term, sustainable development.
- 70 NEPAD, 2003.
- 71 The Collaborative Africa Budget Reform Initiative (CABRI) was initiated in early December 2004 in Pretoria, South Africa, at a seminar hosted by the National Treasury of South Africa in collaboration with the Ministries of Finance and Planning of Uganda and Mozambique. The meeting was attended by Senior officials from 16 African countries.
- 72 See Economic Commission for Africa, 2004, for a synopsis of the forthcoming governance report.
- 73 IDA and IMF (2005). The 2004 survey considered various benchmarks for 16 key indicators of public expenditure management, covering budget formulation, execution, and reporting, and public procurement. Countries were deemed as

- requiring 'little or no upgrading' if at least 11 indicators were met; requiring 'some upgrading' if between eight to 10 indicators were met; and requiring 'substantial upgrading' if less than seven indicators were met.
- 74 See IDA and IMF, 2005:15.
  - 75 IDA and IMF, 2005:14.
  - 76 Osei et al, 2003:25.
  - 77 Fagernas and Roberts, 2004: 28.
  - 78 Fagernas and Roberts, 2004: 30.
  - 79 Fagernas and Roberts, 2004: 32.
  - 80 World Bank, 2003.
  - 81 Stronger growth achieved through various measures: more and better quality aid; higher public and private investment in infrastructure; better mitigation and management of shocks (saving up to three per cent of GDP annually in affected countries); stronger changes in human development.
  - 82 This would provide total projected benefits of US\$35.2 billion after 10 years for a total investment of US\$193 billion (see reference in Chapter 7).
  - 83 This would substantially reduce the number of children (currently 400-500 million) who are affected by malaria each year.
  - 84 UNAIDS, 2005:4 (see Chapter 6 for reference).
  - 85 UNICEF, 2004 (see Chapter 6 for reference).
  - 86 African Finance Ministers gave this high priority during consultation meetings in Abuja (23 November 2004) and Cape Town (16-17 January 2005).
  - 87 According to Charles McPherson: "Evidence of the (Dutch) disease has been subsequently identified in almost all countries where petroleum exports play a major economic role. Nigeria again provides an example. The arrival of oil devastated all three of Nigeria's traditional agricultural export industries. Cocoa exports dropped by 30 percent over the last five years; ground nuts exports by 95 percent; and palm oil exports, once a major export, have disappeared." (McPherson, 2003).
  - 88 African Development Bank, 1999.
  - 89 For Uganda see Nkusu, 2004, for the period 1991/92 to 2001/02; and for Ghana, see Sackey 2001, for the period 1964-1996.
  - 90 See for example Adam and Bevan, 2004; Agenor, 2004.
  - 91 Excluding South Africa, the aid-to-GDP would fall from 14.5 per cent in 2015 to 10.5 per cent in 2020. The equivalent numbers by including South Africa, however, would be 9.0 and 6.5 per cent respectively.
  - 92 This inconsistency was noted by African Finance Ministers at a recent meeting: "The present methodologies, especially the so called debt sustainability analysis are woefully inadequate because they fail to take into account the particularities of the African economies, especially external shocks, domestic debt, pensions and other arrears, and a fragile revenue base." (Group of African Finance Ministers, 2004).
  - 93 If paid, this would come at a cost, for it be at the expense of indebted countries diverting expenditure away from that needed for achieving the MDGs.
  - 94 World Bank, 2004a.
  - 95 Of this US\$4.2 billion, half was paid by South Africa.
  - 96 These figures exclude Nigeria and Zimbabwe. Estimates done by Commission for Africa Secretariat based on information from World Bank, ADB and IMF.
  - 97 Details regarding the relative importance, and significance, of debt service (and stock) relief are provided in a background paper commissioned by the Commission for Africa Secretariat - Martin et al (2004).
  - 98 Clemens, Radelet, and Bhavnani, 2004a.
  - 99 Elbadawi, Ndulu and Ndung'u, 1997.
  - 100 Collier, Hoeffler and Pattillo, 2001.
  - 101 Martin et al, 2004.
  - 102 Clements, Bhattacharya, and Nguyen, 2003.
  - 103 Martin et al, 2004.
  - 104 By aid we mean all forms of concessional finance (i.e. at zero, or below market, interest rates) provided to recipient countries by multilateral (World Bank, Regional Development Banks, the International Monetary Fund, the European Commission, and UN agencies) and bilateral organisations.
  - 105 World Bank, 2004d.
  - 106 Collier and Dollar, 2002.
  - 107 See Clemens, Kenny and Moss, 2004, for a discussion of various estimates of costs for reaching the MDGs. US\$50 billion is generally considered to be at the lower end of the range of estimated costs.
  - 108 Atkinson, 2003.
  - 109 Landau et al, 2004.
  - 110 For an extended discussion of financing modalities and the viability of alternative options, see the following important texts: Reisen (2004), Mavrotas (2003), UK HM Treasury-DFID (2003), World Bank (2003), (2004d), (2004e), Landau (2004) and Technical Group on Innovative Financing Mechanisms (2004).
  - 111 At a recent meeting of African Finance Ministers, there was a call: "to commence the implementation of the IFF with a 'coalition of countries that are willing'". They also noted: "The frontloading component of the IFF is extremely critical for the predictability of resources." (Group of African Finance Ministers, 2004).



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# Annex 9: Notes

- 1 Standard deviation of 5.82 (1966-1983) compared to 1.82 (1984-2003).
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- 7 The IMF (2001) calculated the loss in foreign exchange for the Ghanaian economy due to this terms of trade shock: US\$308 million (4 per cent of GDP) in 1999, US\$597 million (12 per cent of GDP) in 2000 and US\$680 million (14 per cent of GDP) in 2001. For 2001-2002 this is more or less equivalent to the amount of aid flowing into Ghana. "Hence, at the margin, donor financing is basically plugging the hole in Ghana's BoP position" (Foster et al,2003)
- 8 Recent reports laud the improvements in the management of Ghana's economy. For example HIPC completion point document, 2004, ECA (2003) Economic Report on Africa 2003 – Chapter 5: Ghana, ECA: Addis Ababa or OECD and ADB (2004) African Economic Outlook – Ghana, OECD and ADB: Paris and Tunis.
- 9 For example, in 1992 a budgeted surplus of 1.6 per cent turned into a 8.2 per cent deficit; in 1996 a 0.5 per cent surplus became a 9.6 per cent deficit; and in 2000 a 7.1 per cent projected deficit increased to 9.7 per cent.
- 10 Standard deviation 0.9 (1966-1983) vs. 2.6 (1984-2002).
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- 16 Data are for 2002 and taken from African Development Indicators, 2004.
- 17 IMF (2004a) Staff report for the 2004 Article IV Consultation and Sixth Review Under the 3-year Arrangement Under the PRGF, August 18, 2004 accessed via [www.imf.org](http://www.imf.org).
- 18 Government of Ethiopia (2001) Sustainable Development and Poverty Reduction Programme, MOFED: Addis Ababa and World Bank (2003) Risk and Vulnerability Assessment, June 2003, World Bank: Addis Ababa. It should be noted that the poverty headcount ratio did not alter significantly between 1995/96 and 1999/2000 (according to the main household surveys). However, per capita adult equivalent expenditure increased at a rate of 1.14 per cent during the last five years. Also, "income, as a core indicator of well-being in the Ethiopian context, is not that effective in tracking changes", implying the need to track also non-monetary and non-marketable assets. (see MOFED and UN Country Team (2004) MDGs report: Challenges and Prospects for Ethiopia, March 2004: Addis Ababa).
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- 21 It should be noted that the 2002 aid level of 21.6 per cent of GDP, does not correspond to the aid level required to meet the SDPRP targets, as a lot of the current aid is not aligned with the SDPRP. Also, in the light of the drought, emergency assistant grants in 2002/03 were 5 per cent of GDP (See OECD and ADB (2004) African Economic Outlook 2004 – Ethiopia, OECD and ADB: Paris and Tunis).
- 22 Source: African Development Indicators, 2004.
- 23 Again, it should be noted that doubling here means doubling from 11 per cent of GDP in 2003/04 as that is the current amount of on-budget receipts of foreign grants.
- 24 See for example the assessment in IMF (2004b) IMF and the World Bank Support Ethiopia's Completion Point and Approve Topping-Up of Debt Relief Under the Enhanced HIPC Initiative, Press Release No.04/82 April 22, 2004: Washington D.C.
- 25 This is the conclusion of a recent study modelling the future effects of increased aid, and in which the beneficial effects of aid-induced public investments override exchange rate effects. See Agenor, PR, K El Aynaoui and N Bayraktar (2005) Roads Out of Poverty? Assessing the Links between Aid, Public Investment, Growth, and Poverty Reduction, Working Paper No.3490, Washington DC: World Bank.
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- 27 DFID (2004) Fiduciary Risk Assessment, October 2004, DFID: London and Addis Ababa.
- 28 The debt stock/exports ratio is expected to be above the 150 per cent HIPC target until 2022.
- 29 Allaying negative weather and Terms of Trade shocks is another area where donors can provide support – see the proposed shocks facility.
- 30 IMF (2004b)
- 31 Foster et al (2003).
- 32 Banque de France (2004) Rapport Annuel de la Zone Franc, accessed via [www.banque-france.fr](http://www.banque-france.fr).
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- 35 See the IMF's June 2004 PRGF renewal.
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- 41 See recent paper by Ravi Kanbur for a trenchant critique. Kanbur, R (2004) Reforming the Formula: A Modest proposal for Introducing Development Outcomes in IDA Allocation Procedures, Paper presented at the AFD-EUDN Conference 25-27 November, 2004, Paris. Accessed via [www.people.cornell.edu/pages/sk145](http://www.people.cornell.edu/pages/sk145), First draft: October 2004.
- 42 See draft summary papers prepared for OECD/DAC's Learning and Advisory Process on Difficult Partnerships (accessed via [http://www.oecd.org/document/15/0,2340,en\\_2649\\_33721\\_34407567\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/15/0,2340,en_2649_33721_34407567_1_1_1_1,00.html)). Defining characteristics of Difficult Partnership Countries (DPCs) are those with (a) low incomes (by World Bank classification), and (b) weak institutions (based on World Bank's bottom two quintiles of the CPIA).
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- 55 Many countries (especially in Francophone Africa) are receiving less assistance than they should for tackling growth and development problems (Levin, V and D Dollar (2005) The Forgotten States: Aid Volumes and Volatility in Difficult Partnership Countries (1992-2002), paper presented at the OECD/DAC Senior Level Forum on Development Effectiveness in Fragile States, 13/14 January 2005, London). If one compares aid flows to post HIPC-completion point countries in Africa as a per cent of GNI, francophone countries received 11 per cent compared to non-francophone countries which received 19 per cent (OECD/DAC International Development Statistics, accessed via <http://www.oecd.org/dataoecd/50/17/5037721.htm>).
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- 65 Channelling aid through non-state actors can make a real difference at grass-roots level, but by definition cannot help create the capacity within Government to improve its governance or fulfil its role in supporting economic growth, both of which are prerequisites for long-term, sustainable development.
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The objectives of the Commission are:

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- To help deliver implementation of existing international commitment towards Africa;
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