Africa: Preserving progress at a time of global crisis

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AFRICA PROGRESS PANEL

EXECUTIVE SUMMARY

Over the last decade, Africa has made commendable progress in many fields. With the help of the international community and through the hard work of its peoples it has achieved impressive economic growth rates, significant improvements in financial and political accountability, successes in the battle against hunger and poverty, as well as positive results in combating illiteracy, disease and gender inequality. The current global economic and financial crisis, however, puts much of this progress at risk. It is now more important than ever that Africa's partners honor their commitments to the continent's development and continue to invest in the fulfillment of its enormous potential.

Africa`s medium to long term prospects are better now than at any time since independence. The continent abounds in natural and human resources and the FAO estimates that there are over 800 million hectares of untapped cultivable land that could provide the basis for a green revolution in food production. The enormous increases in foreign investments, notably from China, underline Africa's growing geo-strategic importance. Remittances, aid flows and income from trade and economic activity have also been steadily increasing. At the same time, evidence suggests that the quality of governance and accountability is improving across the continent.

There are, however, some glaring exceptions – of authoritarian rule, abuse of human rights, complicity in resource-based conflicts, and corrupt practice – that continue to tarnish Africa`s Renaissance. If they are serious about the continent's self-regard and reputation as well as their peoples' futures, Africa's leaders need to take more concerted and purposeful action to prevent and end conflict and to address despotic behavior. Failure to do so is bound to set back, if not reverse, the prospects of growth and human development that have arisen over the last decade.

At the same time, it is important that the international community maintains its financial and aid commitments to the continent. Investment opportunities in Africa remain, despite the credit crunch, and it is in both the private sector's as well as Africa's interest that they be seized. While the global crisis has revealed the commitment of African leaders to maintaining macro-economic discipline, growth and investment in the Millennium Development Goals, they cannot do it alone. Governments need access to trade finance and support to strengthen revenue collection and investment promotion. Resources are needed to maintain basic public services such as health and education and to meet urgent humanitarian needs. Without sustained and reliable efforts by all of us, those least able to withstand its woes will have to bear the brunt of the global economic crisis.

INTRODUCTION

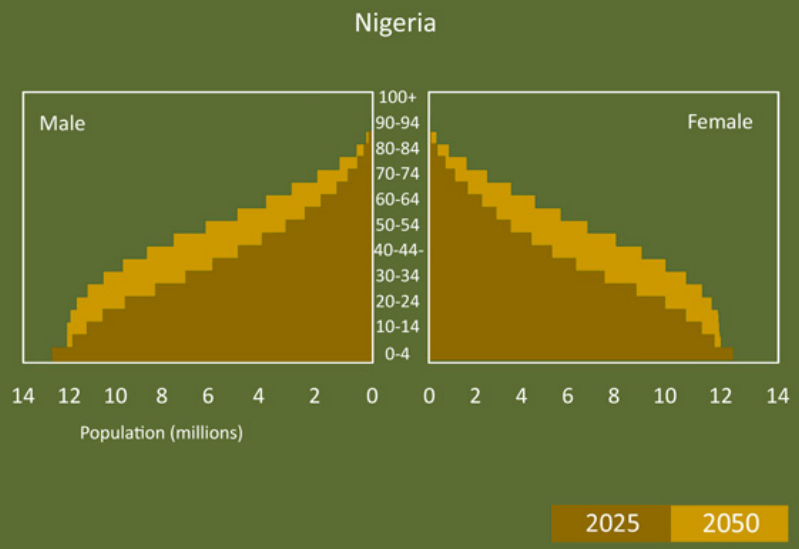
Africa is extraordinarily diverse. Its 53 countries are widely different in terms of culture, topography, resource wealth and population size. Some are predominantly urban, with a growing middle class, others overwhelmingly rural, precariously dependent upon rainfall and agriculture. Some have enjoyed decades of peace and stability, others are wracked by conflict and chronic humanitarian crisis. Variations in education, health, wealth, opportunity and standards of living are enormous. Other than the rapid growth and youthfulness of its population (see Box 1), Africa thus defies generalization.

At the same time, Africans share a number of aspirations common to most of humanity: The chance to be educated, to have a job, to raise healthy children and to live in a peaceful and stable society. While the richness and diversity of Africa's natural and human resources provides an ample basis to realize these aspirations through economic growth and social development, progress will continue to depend on the sustained commitments of its trading, business and donor partners for some time.

This issue is particularly acute at a time of global economic contraction. Facing a host of associated domestic problems, Africa's partners must withstand the temptation to retract on their pledges or divert their investments. Instead, they should continue to build on the successes of the past decade and take advantage of the multitude of opportunities and chances that abound across the continent. For without their continued engagement, Africa will not be able to unlock its enormous potential and thereby contribute solutions to global economic problems.

Box 1
Africa's youthfulness

Much of Africa has a very young population, which will reach working age in the next few decades. Take the case of Nigeria (Right). For the next four decades at least, the majority of Nigeria's population will be below 40 years of age. The capacity to generate jobs in Nigeria and elsewhere will depend critically on a good business environment, including an adequate supply of power and roads. These are also critical to the supply of education and healthcare and for the delivery of food supplies to urban markets.



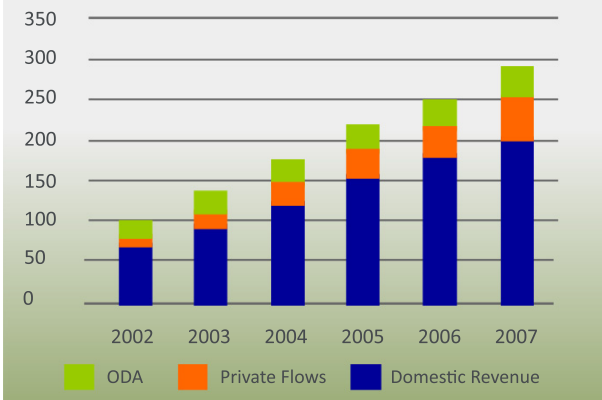
Data Source: US Census Bureau, International Data Base

THE STORY OF PROGRESS

News coverage of Africa continues to be dominated by conflict and humanitarian crises, be they in the Democratic Republic of Congo, the Horn, Darfur or Zimbabwe. There is, however, another side to the African story for, contrary to the public image, Africa has never been in a better position than today. Not only are there more democratic countries than ever before on the continent (more than half, as opposed to merely five at the end of the Cold War) and less civil wars (three as opposed to thirteen a decade and a half ago), but most countries have also been able to record real progress, both economically and in terms of governance, over the past decade.

Economically, macro-economic reforms have begun to produce significant results in terms of growth and stability, and the level of inflation is under control almost everywhere. In 2007, 25 African countries recorded growth rates over five percent bringing the aggregate rate up to 5.7 percent – a rate expected to have been maintained broadly in 2008. While some of this growth is due to rising global demand and higher prices of primary commodities including oil, African countries are also increasingly reaping the benefits of better macroeconomic management, the improvement of conditions for the private sector (see Box 2) and the emergence of a technocratic class of policymakers who are transforming the way business is conducted.

Figure 1:
Domestic Revenue as Share of Total Revenue

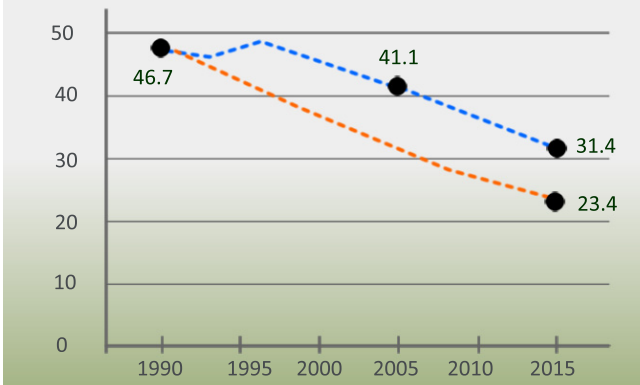


Source: IMF, World Bank & OECD as published in ' Development Finance in Africa ' prepared by the Africa Partnership Forum, 2008

As a result of these positive economic trends, African governments have not only been able to increase their domestic revenue base (see Figure 1), but also to use more of these resources to meet the costs of economic development (OECD-DAC, 2007).

Coupled with substantial increases in health and education expenditures, this has led to significant social gains across the continent. The number of people living in poverty, for example, has leveled off over the past few years, and sub-Saharan Africa's poverty rate has declined by almost six percentage points since 2000 (see Figure 2). There have also been significant improvements in health and education. Primary school enrollment has increased by 36 percentage points between 1999 and 2005 and infant and child mortality have declined in many parts of the continent (OECD-DAC, 2008).

Figure 2:
Poverty in Sub-Saharan Africa (in % of population)



Source: World Bank (2008)

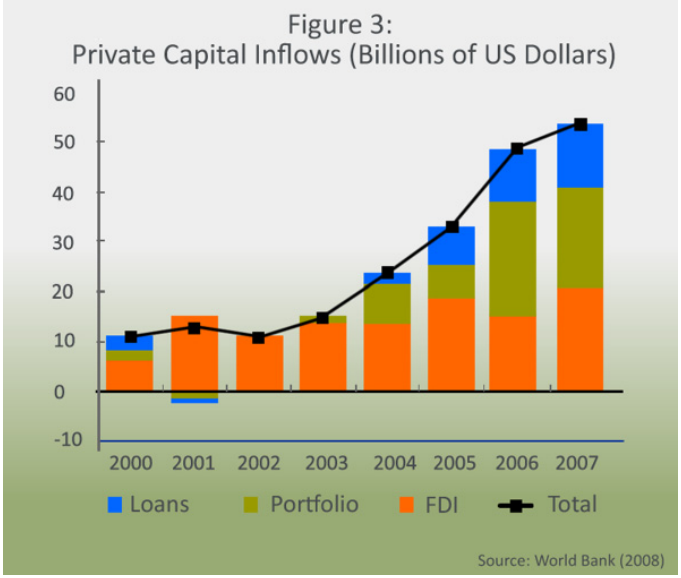
These favorable economic and social trends have taken place in a generally improving political environment. The 2008 Ibrahim Index, for example, found improvements in governance performance in almost two thirds of sub-Saharan African countries (31 out of 48). On the sixtieth anniversary of the Universal Declaration of Human Rights, it is notable that the largest improvements are in the categories of political participation and human rights. Complementing intergovernmental initiatives like the African Peer Review Mechanism (APRM), Africa's burgeoning civil society is playing an increasingly important role in holding governments accountable. 29 countries have demonstrated improvement in this area – with many having shown increased scores around civil and political rights, and others demonstrating improved participation in free and fair elections. In some countries such as Liberia, the change has been transformational.

Box 2
Private sector conditions are improving across Africa

Continued progress in Africa depends upon a vibrant and broad-based private sector. Several countries have undertaken successful reforms of their regulatory and business environments with this in mind. The World Bank's Doing Business project captures some good examples. Angola improved the long and cumbersome process of starting a business, thanks to its one-stop shop, the Guichet Unico da Empresa, reducing the time required by two months. To ease the process of getting construction permits in Luanda, the provincial government is now in charge of organizing and distributing the documents relating to construction projects to the agencies involved in water and electricity inspections. Mali increased its volume of trade by implementing an electronic data interchange system and risk-based inspections and improving border cooperation. The time to export fell by 6 days and the time to import from 65 days to 42 --a 35 percent reduction. Rwanda introduced major reforms in several areas. It streamlined the issuance of construction permits by combining the applications for location clearance and building permits in a single form and by introducing a single application form for water, sewerage, and electricity connections. This reduced both the number of procedures and the time required for dealing with construction permits. The time and cost to register a property also fell. A new fixed registration fee was introduced, and centralization of the tax service reduced the time to obtain a certificate of good standing. Rwanda also extended the operating hours of its customs border offices, implemented an electronic data interchange system, and introduced better inspections procedures. Together with growth in the transport sector, this reduced the time to export by 5 days and the time to import by 27 days – a 40 percent reduction. Finally, commercial courts began operating in three locations, in Kigali and in the Northern and Southern Provinces, making it easier to enforce contracts. Reforms have been undertaken by several other countries across the African continent (Doing Business, 2008). Zambia has simplified the process of business registration. It has reorganized and computerized its one-stop shop for business registration and improved the operation of the Zambia Revenue Authority by creating a customer service center. Improvements at the Land Registry office have cut the time to register property by almost 50 percent. Amendments have been made to the Income Tax Act and Value Added Tax Act to update, strengthen, and remove ambiguities in these laws and to enhance the effectiveness of tax administration. In addition, the withholding tax on savings and deposit accounts has been reduced from 25 percent to 15 percent.

THE IMPACT OF THE ECONOMIC CRISIS

Much of this progress, however, is now put at risk by the global financial and economic crisis which has both direct and indirect effects on the African continent. For a start, the crisis has already begun to reverse the substantial increase in foreign capital inflows shown in Figure 3 –including foreign direct investment, portfolio investments and loans (World Bank, 2008). A decline in capital flows has caused stock markets in Nigeria, Kenya and South Africa to lose value over the past few months. Most countries in Africa have been using capital inflows to finance urgently-needed infrastructure investments; many of these projects have now been put on hold. New data from the International Finance Corporation shows that 450 investment commitments in infrastructure projects were canceled in 2008; another 392 have been delayed between August and November of 2008 (IFC, 2008).

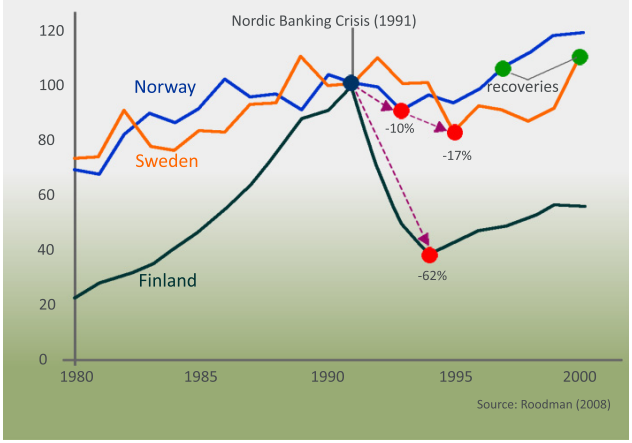


Apart from capital inflows, sub-Saharan Africa receives around $12 billion in remittances annually (World Bank, 2008). While Nigeria, Kenya, Sudan, Senegal, Uganda and South Africa receive the highest volume of remittances, their impact is often far more significant in smaller countries where they can represent as much as 25 percent of GDP. The current crisis has led to a drop in remittances as the recession in the rich countries is increasingly hurting the capacity of migrants to send money home.

Most importantly, however, the economic crisis directly affects the level of investment in and aid to the countries of Africa. As richer governments

pour out trillions of dollars, euros and yuan to stabilize their financial and economic systems, their willingness and ability to maintain their commitments to the continent is bound to suffer. Despite their promises to the contrary, evidence from similar events in the past shows that developed countries have generally reduced the level of aid in the aftermath of a financial crisis. Japan's aid levels, for example, fell dramatically after its real estate and stock bubbles burst in 1990 and Finland, Norway, and Sweden's aid to poor countries declined after their shared crisis in 1991 (see Figure 4).

Figure 4:
Foreign Aid from Nordic Countries



The impact of these shocks is profound, and for too many, life threatening. In the first six months of 2008, the World Bank estimated that tens of millions were pushed back into poverty due to high food prices. Over the past year, malnutrition and disease have taken an especially heavy toll. While food prices have fallen to some extent, they have not returned to 2004 levels.

THE WAY AHEAD

African leaders, ministers of finance and central bankers face a huge challenge. Macro-economic discipline needs to be sustained, policies implemented to maintain jobs and economic activity, and economies diversified in a way that reduces vulnerability to external shocks, whether economic, price or climate related. New partners, such as China and India, have invested in Africa, particularly in the areas of infrastructure, development finance, and trade. These investments must be maintained during these tough economic times. Official aid is important as well – to help build management and delivery capacity to facilitate trade and in vestment and to meet urgent social and humanitarian needs.

Box 3
Poor infrastructure: investment impediment and opportunity

Poor road, rail and communication infrastructure is slowing the emergence of a vibrant and competitive business sector in Africa. A steady and reliable supply of electricity, for example, is lacking in many countries (see Figure A). While Africa accounts for over a sixth of the world's population, it generates only four percent of global electricity. For businesses in Africa, energy as a share of total cost is as high as ten percent; in China, it is only three percent for comparable businesses (see Figure B). While large businesses can purchase generators, most small and medium-sized businesses cannot afford this extra cost and must suffer a loss of production every time the power grid fails. However, while this lack of infrastructure is a major impediment, it also presents enormous investment opportunities

Figure A:
Number of Days on which Businesses suffer at least one Power Outage

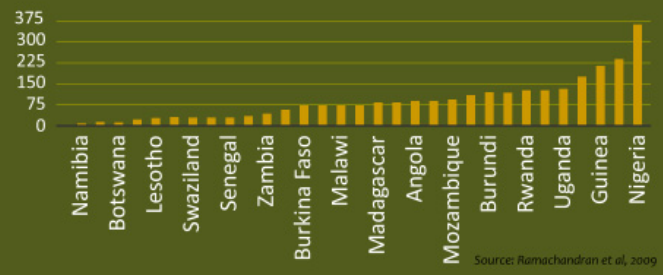
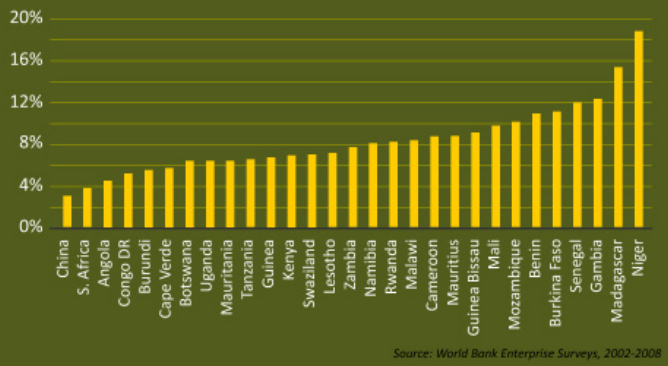


Figure B:
Energy as Share of Total Cost



The potential for domestic investment in Africa needs to be encouraged. One option could be to make available more broadly some of the programs that have been used to encourage foreign investment. Partial risk guarantees from the World Bank and its soft loan window have on average catalyzed ten times as much private capital. In such operations, aid can be used to enhance credit quality by providing a "first loss" reserve that enables private insurers to provide cover at lower cost. These guarantees could also be broadened to include "service guarantees," which also would be available to domestic and foreign investors on an equal basis. Under such an approach, countries implementing reforms in key areas such as power, customs, licensing, and so on, would commit themselves to service standards. Firms could purchase insurance against service failures, perhaps not on an individual basis (since that would invite moral hazard) but on the basis of overall performance. These contracts would be underwritten by risk guarantee programs, funded by rich countries through international financial institution programs. This would not only compensate firms for lost business, but would also enable the issue of service standards in terms of infrastructure and other public services to become a priority topic of discussion among policymakers (see Box 3).

Africa-focused Trade and Climate Change Deals

In 2009, there is a fresh momentum for the impasses on trade and climate change to be broken and for new deals to be reached. Africa must be a central focus of these deals, not an afterthought.

Rich country governments and institutions must lend strong support to address the problems of climate change, by investing in adaptation and in the prevention of deforestation, and by increasing funding for renewable energy in Africa. Renewable energy, such as solar, wind and geothermal, are very viable in Africa and every effort must be made to move away from coal-based projects towards these sources (see Box 4). New resources such as the World Bank's Clean Technology Fund must be made available to Africa as well as to countries such as India and China. Adaptive agriculture, urban relocation and micro-insurance coverage should also be the focus of assistance in severely-threatened countries in Africa. Existing work in health and agriculture can also incorporate adaptation assistance with the right amount of political will and leadership from both African governments and partner countries financing these efforts.

There has been no progress on multilateral trade negotiations since 2005. While pressing for the impasse post-Doha to be broken, an early harvesting of gains in trade liberalization for Africa is needed. The delivery of promises on aid for trade must not be held hostage to trade deals. Bio-fuel subsidies and export controls on food-grains are not currently the focus of multilateral trade negotiations but must be addressed as part of an overall strategy to liberalize agricultural production. Policies on grain storage and buffer stocks of basic food commodities must also be reviewed. Indeed, every effort must also be made to stabilize the quantity of food on international markets, so that the World Food Program, relief organizations, and individual governments are able to purchase food as needed to meet the needs of the poorest and most vulnerable citizens. At the same time, Africa's own potential for a green revolution in food production must be realized. Environment friendly technologies and farm practices that could boost the continent's crop yields significantly do exist. What is required is technical and financial support as well as additional investments in rural infrastructure to insure farmers' access to inputs and market outlets.

Maintaining Aid Levels

Clearly aid is not the sole driver of growth in Africa, and it is not even the main driver. While dependence on it varies widely across the continent, it is a measure of political commitment of Africa's partners and can play a major role in assisting African governments with their ongoing efforts to reform the business environment and promote growth. Like oil that ensures the smooth running and long-term performance of an engine, aid is needed to lubricate the continent's economic development.

The G8 and OECD countries have made significant pledges to increase development assistance to Africa at the Gleneagles, St Petersburg and Heiligendamm summits, with the overall goal of doubling aid to Africa between 2004 and 2010. While several countries, including the United States, have already suggested that the crisis might affect their pledges to increase aid, it is essential that they meet their commitments. This requires political leadership along with sustained efforts to communicate the benefits of nternational development.

In addition, attention to the quality and effectiveness of aid is needed. The volatility of aid disbursements, for example, has not received the attention it deserves (Kharas, 2008). Donors should make funding sources and timetables available in a transparent manner, along with stated pledges. This will reduce the volatility of aid – providing information on forthcoming aid disbursements in a timely manner will help to reduce uncertainty, as will commitments that are made over a multi-year time horizon. The proportion of aid that is tied should be clearly identified by every donor country, and should

be decreased over time. Rich countries can also link aid to outcomes in order to reduce the burden on African governments and improve aid effectiveness (Birdsall et al, 2008). Taking note of the successful examples provided by the Brazilian/French UNITAID initiative or the International Financial Facility for Immunization of the Global Alliance for Vaccines and Immunization (GAVI), the G8 and other donors should also reinvigorate discussions of innovative long-term financing mechanisms for providing resources to poor countries.

Strengthening governance

Progress towards good governance in Africa is often overshadowed by four "hotspots" whose problems seem to only be getting worse. The conflicts in Darfur, Eastern Congo and Somalia have together claimed millions of lives and resulted in economic devastation. These must remain at the center of international and regional efforts. In this context, it is important that Africa's institutional capacities, particularly those of the African Union (AU) and its seven regional partner organizations, are further strengthened to enable the continent's states to prevent and solve such conflicts in the future.

The crisis in Zimbabwe is man-made, unnecessary and only getting worse. The recent cholera outbreak that has taken thousands of innocent lives is only the latest sign of the collapse of a once thriving nation. Responsibility for this calamity falls squarely on the shoulders of Zimbabwe's leaders who have shown great callousness toward their own people and nothing but contempt for the exercise of their political voice and freedoms. Zimbabwe's neighbours, the AU and regional bodies such as SADC need to act more purposefully to bring about political change and facilitate recovery and reconstruction.

Finally, the issue of global governance is on the mind of many policymakers. The current financial crisis has revealed the shortcomings of the present architecture and has renewed the calls for more effective and representative forms of global governance. Unfortunately, Africa's poorest people did not have a voice at the G20 summit in Washington DC or in other venues where the crisis was being discussed. Yet they are likely to suffer greatly from its consequences. As Bob Geldof, a member of the Africa Progress Panel, wrote about the recently-held G20 summit:

> *The world cannot afford to disenfranchise 900m potential producers and consumers. Of course the Bretton Woods institutions need reform, but this cannot simply come in the form of a different carve-up between countries that have newly acquired more power and those that have always had it. Investing in Africa through effective aid and trade may seem counterintuitive at a time of hardship, but is a necessity. Globalization has been a boon for many, but has not benefited everyone. Reform of the global economy will not work until all are connected and involved. (Financial Times, November 13, 2008).*

A real partnership between Africa and her supporters is the only way for progress to be achieved. To this end, global governance reforms must include means by which Africans are represented in a legitimate and effective manner.

CONCLUSION

While overshadowed by the terrible news coming from a number of conflicts and humanitarian crises, the larger, but less publicized, African story is one of measurable progress. It is all the more remarkable given the many disadvantages faced by the continent's people, and its vulnerability to external economic and climatic shocks.

The global crisis, however, could arrest and even reverse steady, and in some cases dramatic, gains that have been made over the last decade, whether measured in terms of economic growth, poverty reduction, human development or political accountability. A collapse in governments' ability to mobilize domestic revenues, create jobs and maintain public services for their young and growing population will increase social and political tensions and result in widespread deprivation and suffering.

Conflict, authoritarian rule, abuse of human rights, corruption and an unregulated exploitation of resources remain a reality in far too many parts of the continent. Africans want their leaders to take more concerted political action to address them, not just for the sake of the millions, particularly women and children, who are directly affected, but because they serve as a brake on the continent's broader progress, on Africans' self esteem and reputation.

Africa's trading and donor partners can play a decisive role in both governance and growth. They can support her leaders to strengthen conflict prevention capacities and to minimize the impact of the global meltdown. The scope for investment in Africa is vast, and the returns can be of great benefit to her people if responsibly managed. Africa can be an important part in a global economic stimulus plan. Aid is needed more than ever to help governments strengthen their capacity to mobilize revenues, maintain trade and investment, and to deliver results.

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The APP promotes Africa's development by tracking progress, drawing attention to opportunities and blockages and catalyzing action.

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