# Can Africa Claim the 21st Century?

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# Foreword

*Our central message is: Yes, Africa can claim the new century*

THIS REPORT IS THE PRODUCT OF A COLLABORATIVE EFFORT THAT began in October 1998, when representatives of several institutions—including the African Development Bank, African Economic Research Consortium, Global Coalition for Africa, United Nations Economic Commission for Africa, and World Bank—met to initiate a study on Sub-Saharan Africa's prospects for economic and social development in the $21^{st}$ century.

The question of whether Sub-Saharan Africa (Africa) can claim the $21^{st}$ century is complex and provocative. This report does not pretend to address all the issues facing Africa or to offer definitive solutions to all the challenges in the region's future. Our central message is: Yes, Africa can claim the new century. But this is a qualified yes, conditional on Africa's ability—aided by its development partners—to overcome the development traps that kept it confined to a vicious cycle of underdevelopment, conflict, and untold human suffering for most of the $20^{th}$ century.

The new century provides unique opportunities for Africa, and three emerging positive factors. The first is increasing political participation in Africa, opening the way to greater accountability and a new development discourse. Second, the end of the Cold War can help change Africa from a strategic and ideological battleground to a new business address for trade and development. Third, globalization and information and communications technology offer enormous opportunities for Africa to leapfrog stages of development.

This report proposes strategies for ushering in self-reinforcing processes of economic, political, and social development. Progress is crucial on four fronts:

- Improving governance and resolving conflict.
- Investing in people.
- Increasing competitiveness and diversifying economies.
- Reducing aid dependence and strengthening partnerships.

Africa is a diverse region. Some countries are caught in poverty and conflict—and where nation-building is failing, the prospects are cloudy.

Other countries, having implemented significant macroeconomic reforms, are ready to move forward with more comprehensive programs. Yet others are still grappling with basic reforms. There is no simple formula, but in facing enormous challenges, countries can draw on many positive examples. All countries, however, must commit to a coherent and comprehensive vision of development and nation-building.

Any "business plan" for putting in place this vision of development should be conceived, owned, and implemented by accountable governments, anchored in broad national consensus and supported by Africa's development partners. Claiming the future involves enormous challenges—not least of which is resolving the problems of the past. Much of Africa's recent economic history can be seen as a process of marginalization—first of people, then of governments. Reversing this process requires better accountability, balanced by economic empowerment of civic society—including women and the poor—and firms relative to governments, and of aid recipients relative to donors. Without this shift in power and accountability, it will be difficult to offer the incentives Africa needs to accelerate development and break free of poverty.

***All countries must commit to a coherent and comprehensive vision of development and nation-building***

Members of the Steering Committee

Ali A.G. Ali, United Nations Economic Commission for Africa
Tesfaye Dinka, Global Coalition for Africa
Ibrahim Ahmed Elbadawi, World Bank
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# Acknowledgments

This report is the joint product of five collaborating institutions, represented by a Steering Committee coordinated by Alan Gelb (World Bank) and composed of Ali A.G. Ali (United Nations Economic Commission for Africa), Tesfaye Dinka (Global Coalition for Africa), Ibrahim Ahmed Elbadawi (World Bank), Augustin Fosu (African Economic Research Consortium), and Kupukile Mlambo (African Development Bank). Under the supervision of the Steering Committee, the report was put together by a team headed by Alan Gelb and composed of Ali A.G. Ali, Tesfaye Dinka, Ibrahim Elbadawi, Charles Soludo, and Gene Tidrick. Ibrahim Elbadawi, assisted by John Randa and Charles Soludo, coordinated the project and acted as a secretary to the Steering Committee. Further support to the Steering Committee was provided by its associate members: Paul Collier, Guy Darlan, Beno Ndulu, Tchetche N'guessan (who also represented Centre Ivoirien de Recherches Economiques et Sociales), Waheed Oshikoya, Ademola Oyejide, Delphine Rwegasira, Neeta Sirur, Charles Soludo, and Gene Tidrick. Lishan Adam, Melvin Ayogu, Hans Binswanger, Nicholas Burnett, Michael Chege, Lionel Demery, Carol Lancaster, Brian Levy, Aileen Marshall, Robert Townsend, and Tshikala Bulalu Tsibaka contributed to the chapters.

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As inputs to the chapters, 15 background papers were prepared and presented at a July 1999 research workshop in Abidjan, Côte d'Ivoire, hosted by the African Development Bank. The papers were written by Lishan Adam, Ali A.G. Ali, Ernest Aryeetey, Jean-Paul Azam, Hans Binswanger, Nicholas Burnett, Michael Chege, Paul Collier, Lionel Demery, Lual Deng, Stephen Devereux, Augustin Fosu, Alan Gelb, Martin Greeley, Afeikhena Jerome, Carol Lancaster, Brian Levy, Taye Mengistae, Kupukile Mlambo, Njuguna Ndung'u, Waheed Oshikoya, Ademola Oyejide, Catherine Pattillo, Lemma Senbet, Robert Townsend, Tshikala Bulalu Tshibaka, and Howard White. Useful comments were provided by Shimeles Abebe, Regina O. Adutwum, Nick Amin, Alexander Amuah, Patrick Asea, Melvin Ayougu, M.J. Balogun, Tesfaye Dinka, Josue Dione, Abdul-Ganiyu Garba, Abdalla Hamdock, Jeffrey Herbst, Gerard Kambou, Louis Austin Kasekende, Kamran Kousari, Patience Bongiwe Kunene, Tundu Antiphas Lissu, Hailu Mekonnen, Sipho S. Moyo, Keith Muhakanizi, Harris Mule, Andrew K. Mullei, Tchetche N'guessan, Delphin Rwegasira, Affiong Southey, John Strauss, Gabre Michael Woldu, and Kelly Zidana.

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Catherine Gwin, Kim Jaycox, Massoud Karshenas, Nicholas Minot, Machiko Nissanke, Howard Pack, Jim Tybout, Adrian Wood, and William Zartman led discussions at an Africa seminar series—organized by Shantanaya Devarajan and Ibrahim Elbadawi—in support of the project during its early stages. Other colleagues in the collaborating institutions contributed to these discussions and provided input. Many other colleagues, not mentioned here, have made valuable contributions and given support and encouragement.

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The responsibility for this report remains with the Steering Committee of this project. Although the collaborating institutions endorse the main messages of the report, it does not necessarily reflect the official views of these institutions or of their boards of directors or affiliated institutions.

# Summary

***Major changes are needed if Africans—and their children—are to claim the 21st century***

Despite gains in the second half of the 1990s, Sub-Saharan Africa (Africa) enters the 21st century with many of the world's poorest countries. Average income per capita is lower than at the end of the 1960s. Incomes, assets, and access to essential services are unequally distributed. And the region contains a growing share of the world's absolute poor, who have little power to influence the allocation of resources.

Moreover, many development problems have become largely confined to Africa. They include lagging primary school enrollments, high child mortality, and endemic diseases—including malaria and HIV/AIDS—that impose costs on Africa at least twice those in any other developing region. One African in five lives in countries severely disrupted by conflict.

Making matters worse, Africa's place in the global economy has been eroded, with declining export shares in traditional primary products, little diversification into new lines of business, and massive capital flight and loss of skills to other regions. Now the region stands in danger of being excluded from the information revolution.

Many countries have made important economic reforms, improving macroeconomic management, liberalizing markets and trade, and widening the space for private sector activity. Where these reforms have been sustained—and underpinned by civil peace—they have raised growth and incomes and reduced poverty. Even as parts of the region are making headlines with wars and natural disasters, other parts are making headway with rising interest from domestic and foreign businesses and higher investment.

But the response has not been sufficient to overcome years of falling income or to reverse other adverse legacies from the long period of economic decline—including deteriorated capacity, weakened institutions, and inadequate infrastructure. Major changes are needed if Africans—and their children—are to claim the 21st century. With the region's rapidly growing population, 5 percent annual growth is needed simply to keep the number of poor from rising. Halving severe poverty by 2015 will require annual growth of more than 7 percent, along with a more equitable distribution of income.

***Improving governance and resolving conflict is perhaps the most basic requirement for faster development***

Moreover, Africa will not be able to sustain rapid growth without investing in its people. Many lack the health, education, and access to inputs needed to contribute to—and benefit from—high growth. Women are one of Africa's hidden growth reserves, providing most of the region's labor, but their productivity is hampered by widespread inequality in education and access. Thus gender equality can be a potent force for accelerated poverty reduction. And HIV/AIDS looms as a new menace, threatening to cut life expectancy by 20 years and undermine savings, growth, and the social fabric in many countries.

Africa thus faces an immense, multifaceted development challenge. But the new century offers a window of opportunity to reverse the marginalization of Africa's people—and of Africa's governments, relative to donors, in the development agenda. Political participation has increased sharply in the past decade, paving the way for more accountable government, and there is greater consensus on the need to move away from the failed models of the past. With the end of the Cold War, Africa is no longer an ideological and strategic battleground where "trusted allies" receive foreign assistance regardless of their record on governance and development. Globalization and new technology, especially information technology, offer great potential for Africa, historically a sparsely populated, isolated region. Though these factors also pose risks, including that of being left further behind, these are far outweighed by the potential benefits.

Making these benefits materialize will require a "business plan" conceived and owned by Africans, and supported by donors through coordinated, long-term partnerships. African countries differ widely, so there is no universal formula for success. But many countries face similar issues, and can draw on positive African examples of how to address them.

*Improving governance and resolving conflict* is perhaps the most basic requirement for faster development. Widespread civil conflicts impose enormous costs, including on neighboring countries. Contrary to popular belief, Africa's conflicts do not stem from ethnic diversity. Rather, in a pattern found around the world, conflicts are driven by poverty, underdevelopment, and lack of economic diversification, as well as by political systems that marginalize large parts of the population. But conflicts perpetuate poverty, creating a vicious circle that can be reversed only through special development efforts—including long-run peacebuilding and political reforms. With success in these areas, countries can grow rapidly, and flight capital can return.

Countries that have made the greatest gains in political participation are also those with better economic management. Again, this conforms to a global pattern that suggests multiethnic states can grow as fast as homogeneous ones—if they sustain participatory political systems. Many countries need to develop political models that facilitate consensus building and include marginalized groups.

***Investing in people is also essential for accelerated poverty reduction***

Development programs need to be win-win, improving the management and distribution of economic resources and contributing to more effective states. Programs should empower citizens to hold governments accountable, enable governments to respond to new demands, and enforce compliance with the economic and political rules of the game. Development efforts are starting to move in this direction, with greater beneficiary involvement in the delivery of services and more emphasis on results. But far more needs to be done to strengthen Africa's institutions—including ensuring that representative institutions, such as parliaments, play their proper role in economic and budgetary oversight.

*Investing in people* is also essential for accelerated poverty reduction. Many countries are caught in a trap of high fertility and mortality, low education (especially of women—less than one-quarter of poor rural girls attend primary school), high dependency ratios, and low savings. In addition, greater political commitment is urgently needed to fight HIV/AIDS.

While the resources available for education and health are inadequate in some countries, many need to translate their existing commitment to human development into effective programs for delivering essential services and increasing gender equality. Africa has some of the world's strongest communities, yet services are usually provided through weak, centralized institutions that are seen as remote and ineffective by those they are supposed to serve. Deconcentrated service delivery through local communities, supported by capacity building at local levels and effective governance to ensure transparency and empower recipients, could have a major impact. With effective regional cooperation and donor support through coordinated, long-term partnerships—including for international public goods such as new vaccines—Africa could solve its human development crisis in one generation.

***Increasing competitiveness and diversifying economies must be a third area of focus if Africa is to claim the new century***

*Increasing competitiveness and diversifying economies* must be a third area of focus if Africa is to claim the new century. Job creation is slow not because of labor market rigidities (though there are exceptions) but because of the high perceived risks and costs of doing business in Africa. These need to be lowered by locking in reforms and delivering business services more efficiently—with less corruption, better infrastructure and financial services, and increased access to the information economy. Africa trails the world on every dimension of these essentials. Lowering these barriers requires new approaches, including more participation by the private sector and by local communities, a more regional approach to overcome the problems posed by small African economies, and a central government shift to regulating and facilitating services rather than providing them.

Though Africa's agriculture has responded to limited reforms, it remains backward and undercapitalized, the result of centuries of extractive policies. Recapitalizing the sector will require maintaining and improving price incentives (including by encouraging competitive input markets), channeling more public spending and foreign aid to rural communities (including for local infrastructure), and tapping into the savings potential of farmers. These changes are also needed to create incentives to reverse severe environmental degradation. Public-private partnerships can make a contribution, including in agricultural research and extension, where a regional approach would also help. And wider access to OECD markets for agricultural products would make a big difference—at some $300 billion, subsidies to OECD agriculture are equal to Africa's GDP.

Since the late 1960s Africa's loss of world trade has cost it almost $70 billion a year, reflecting a failure to diversify into new, dynamic products as well as a falling market share for traditional goods. Africa's trade reforms have mostly been negotiated with donors as part of adjustment programs. Reforms still need to be embedded in a development strategy that is export oriented, anchored on competitive and stable real exchange rates, and enables exporters to access imported inputs at world prices. Governments need to increase consultations with business, working to develop world-class service standards. Here again a regional approach is vital, not only to encourage intra-African trade flows but perhaps more important, to provide a wider platform to encourage investment. And African countries need to work together to participate in the global negotiations that shape the world trading system. The capacity requirements for this are too great for small, poor countries.

*Reducing aid dependence and strengthening partnerships* will have to be a fourth component of Africa's development strategy. Africa is the world's most aid-dependent and indebted region. Concessional assistance is essential if Africa is to grow rapidly while also increasing consumption to reduce poverty. Excluding private inflows, the savings gap for a typical country is about 17 percent of GDP, and other regions show that private flows cannot be sustained at more than 5 percent of GDP without risk of crisis. But aid, particularly when delivered in a weak institutional environment by large numbers of donors with fragmented projects and requirements, can weaken institutional capacity and undermine accountability.

**Reducing aid dependence and strengthening partnerships will have to be a fourth component of Africa's development strategy**

High debt and debt service add to the problem, deterring private investment and absorbing core budget resources, making governments ever more "cash poor" but "project rich," with a development agenda increasingly perceived as being shaped by donors. Lack of selectivity compounds the problem, channeling a lot of aid to countries with poor development policies. And with few exceptions, aid has largely been confined to national boundaries rather than used to stimulate regional and international public goods.

These problems are widely recognized, and a consensus has emerged that the primary goal of aid should be to reduce poverty. But paradoxically, aid transfers are declining just when many of the problems are being addressed. Africa enters the new century in the midst of intense debate on aid, including what could be a watershed change in its relationship with the World Bank and International Monetary Fund, as well as important changes in development cooperation with the European Union and an enhanced program of debt relief. New aid relationships are being implemented in a number of countries—relationships that emphasize a holistic, country-driven approach supported by donors on the basis of long-term partnerships, and with greater beneficiary participation and empowerment over the use of resources.

The change is in the right direction, but there is a long way to go. In a typical poor country aid transfers might equal 10 percent of GDP, yet the poorest fifth of the population disposes of only about 4 percent of GDP. It remains to be seen how well partnerships can resolve the tensions between the objectives of recipients and individual donors, and how far the behavior of donors will change to facilitate African ownership of its development agenda. It also remains to be seen how far partnerships can extend beyond assistance, to include enhanced opening of world markets to African products and services.